Lloyds TSB | Corporate Markets

FX Technical Strategy - Weekly

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Has Yen strength ruined the fun(ding)?

Market overview

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Was the unwinding of the carry trades a just temporary scenario caused by short term panic in the financial system and ultimately a chance for sidelined investors to join the fray? or is this a whole new trend that is likely to drive the direction of the markets into next year? From a technical perspective, the latter scenario seems more plausible at this stage and analysis of theYen crosses shows major patterns developing which imply a new bout of yen strength could be close by.

Key resistance in Sterling Yen is at 235. This should hold for a move back towards 225 and 220 as part of a possible head and shoulders reversal. Euro Yen sees a number of resistance points meet at 159.50 and potential exists for a large reversal pattern with targets at 155 and 150 over the coming months.

Sterling US Dollar, it could be argued, has been caught in the cross fire, but trading above 2.00 should be a short lived scenario and targets at 1.96 and below remain. Similarly, the New Zealand Dollar and Australian Dollars have rebounded into sell zones which question the commodity market trends and imply a new direction for the remainder of 2007.

Naturally the equity markets will play a major part in driving sentiment across the financial system and the strong bounce in US stocks will underpin the views of those who see this a revaluation of market prices to more sustainable levels. However, investor sentiment remains nervous and its should be noted that despite the current stability, the recent equity rallies can still be placed in the context of bigger picture technical reversals. US Bond futures remain strong and confidence in the equity markets could evaporate very quickly, upsetting the carry trades once again. Indeed, whilst some emerging market currencies have managed to trade back to their pre-crunch levels, others are still vulnerable to further declines. The Chinese stock market and currency remain oblivious to the turmoil and is seen by some as a reason to view the retracements as a simple buying opportunity. It will be interesting to see how global equities react to a correction in the Shenzen, but ultimately a decline there is not contingent on a bear phase in US and European Equities.

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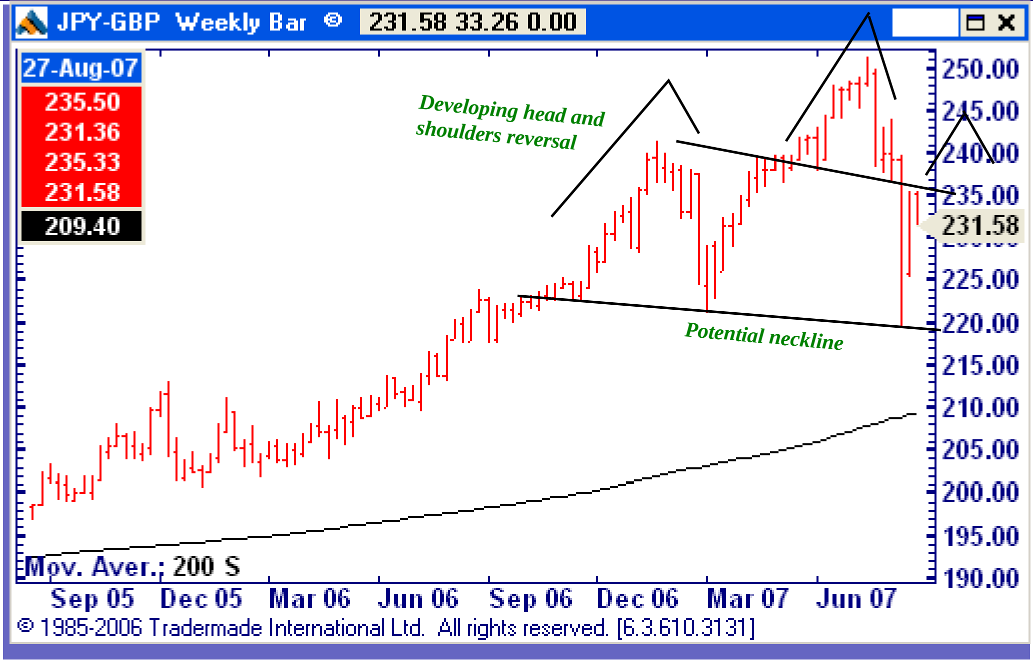
Sterling/Japanese yen:
The rebound here is seen in the context of a major head and shoulders reversal. 240 is the upper limit of this rebound. Long term bias is for Y220, but we could well range trade here as volatility eases back towards more sustainable levels. 235 is the 50% retracement from 219.41 August low and 251.20 July high and has been a solid resistance zone.



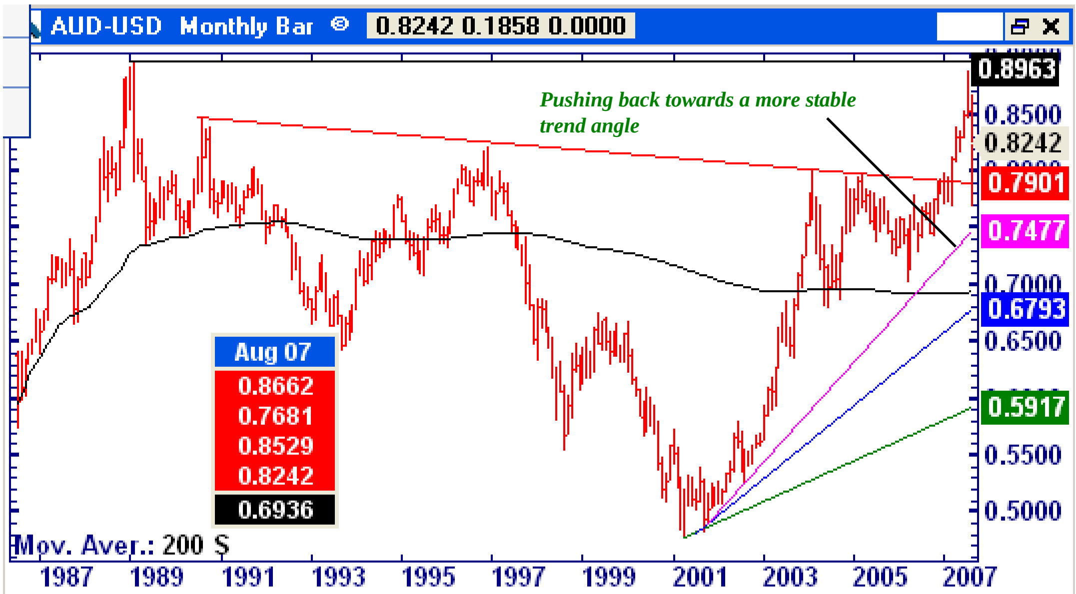
Euro/Japanese yen:
A smilar reversal set-up to Sterling Yen. Interestingly we have a range of levels in the same zone. 200 day m.a. at 159.65 and the 50% retracement of the July high and the August low together with the 'left shoulder' high resistance at 159.64.

US Dollar Japanese yen:
A weak rebound in US Dollar Yen. Risk for a sideways market before a return to 111.00 long term targets. Above 117.88 would negate this view.

Technical strategy - AUD/USD, AUD/CHF, EUR/USD

Australian dollar/US dollar:

The Australian currency was a key commodity play and the question raised by the recent market volatility is- How will this impact commodity price demand? The CRB index has moved into a range with commodity trades coming off the boil. At the very least a consolidation is required in the Australian and New Zealand dollars, the latter being the weaker of the two currencies.Initial objectives are at 0.8100 and 0.6900 against the US Dollar respectively.



Australian dollar/Swiss franc:

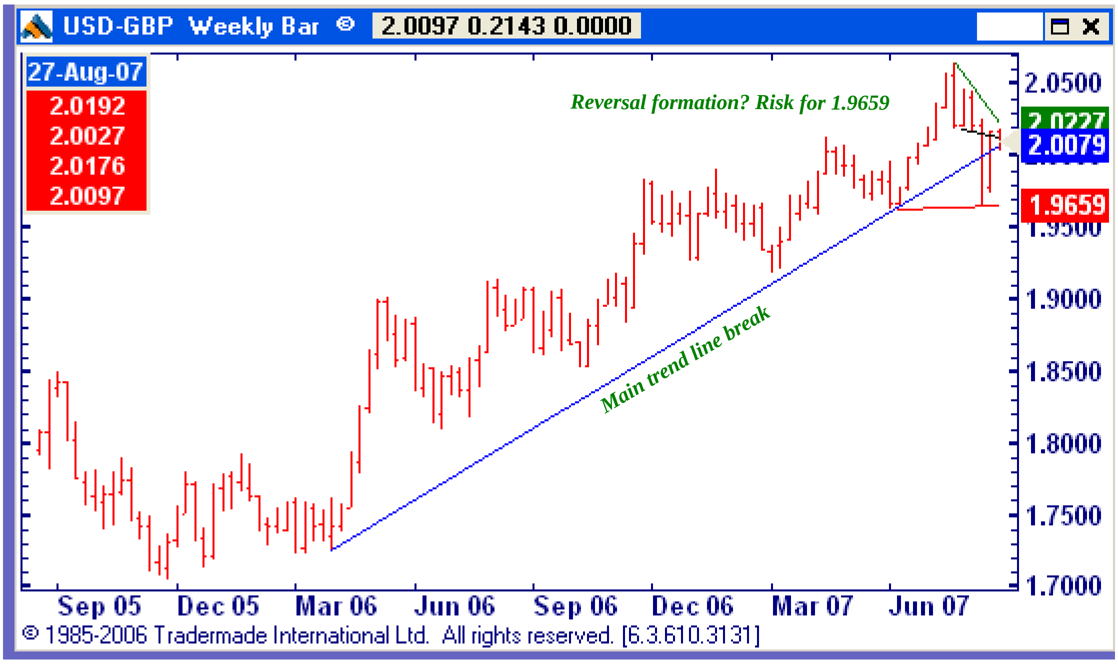
The support zone at 1.00/ 1.01 was so key that the recent break triggered a raft of stop losses. This zone is being revisted in the form of resistance. The psychological 1.00 level is also a logical barrier and an Australian dollar sell zone.

Euro/US Dollar:

Although volatile, the main action has been seen in the yen related markets. Euro dollar triggered a short term double top and the rebound has taken it back to this key trigger at 1.3600. 1.3683 is strong resistance from the March high. Break of this 1.3683 would place the emphasis back on 1.40+, but for now we look for a weaker euro as this sort of volatility is normally associated with a change in trend.

Technical Strategy - GBP/USD, USD/MYR

Sterling/US dollar :
Major support / resistance in the 2.01/2.02 zone. This should cap rallies for sterling for the time being. Longer term targets are at 1.9659 support and will remain in place whilst below 2.0270. This market could well be forming a major head and shoulders reversal pattern that implies 1.90 into year end.



US dollar/Malaysian ringitt:
Emerging market currencies have clearly moved aggresively. However, whilst it is business as usual in respect of some carry trades, not all have settled back into their pre-crunch trends. The chart here of US Dollar Malaysian ringitt shows a potential reversal formation which should see 3.45 support against 3.52 resistance - a break of which puts 3.60 into play. The Czech and Slovak currencies look strong set against weakness in the Colombian peso, Indonesian rupiah, Thai bhat and Chilean peso. More volatility looks likely.