

CHARTING EUROPE: GBP/USD On Course For Weakness To \$1.5385

By Francis Bray, CFTe MSTA
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LONDON (Dow Jones)--Sterling is beginning to show a bit of vulnerability against the U.S. dollar, and risk is growing for a more incisive downside move towards \$1.5500 and \$1.5385.

Concerns that the uptrend in GBP/USD was running out of steam began with the bear hammer reversal candle at \$1.6104 on Oct. 15. Realisation that a push above the psychologically-important \$1.6000 level is unsustainable has sunk in, leaving the \$1.6104 peak as a significant bull trap and prompting a sharp setback to \$1.5649.

A period of lateral consolidation has ensued, but with upside scope limited to the \$1.5877/\$1.5900 area, support at \$1.5649 is expected to come under a barrage of fresh, more substantial bear pressure. See the GBP/USD daily chart for details.

<http://www.dowjoneswebservices.com/chart/view/4820>

Bear momentum is expected to be significant enough to force a break below \$1.5649, and the \$1.5500/\$1.5530 support area will be the immediate port of call.

But a downwave equality target projected off the Oct. 20 high at \$1.5877 highlights the \$1.5415 area, which lies close to the 38.2% Fibonacci retracement level of the effective five-month \$1.4229/\$1.6104 rally, at \$1.5385.

And with the key Sept. 7 higher reaction low at \$1.5297 lying so close to this \$1.5385/\$1.5415 projected target area, there is potential that a large, orderly head-and-shoulders top is forming.

Failure to limit bears to \$1.5385 would leave the \$1.5297 reaction low vulnerable, and risk extension to the 50% retracement level at \$1.5165. This level coincides with a 1.618 Fibonacci extension target, and is close to the July 21 reaction low at \$1.5126.

Only a sustained break above \$1.5900 would negate the bearish outlook, opening \$1.6000. However, only above \$1.6000 would bring the \$1.6104 reaction high back into the picture.

At 0840 GMT, GBP/USD was at \$1.5847.

(Francis Bray is Dow Jones' chief technical analyst for Europe, and has worked as a technical analyst and trader for 20 years in London, Barcelona and Guernsey. He can be reached at +44 (0)20 7842 9249; or by email: francis.bray@dowjones.com)

For more technical analysis see: Dow Jones Newswires, N/DJTA; Bloomberg, NI DJTA; and Reuters key word search "INSI-DJN"

To watch a series of short videos explaining the basics of technical analysis, click on this link: <http://link>.

Data provided by CQG International Ltd.