

AUDCAD Friday, 6th of March 2015



In order to understand this cross chart, we need to refer to AUDUSD and USDCAD to see the correlation and COT positions. It is important to remember that COT data is released for currency futures and on cross pairs we do not see where the traders lose money.

(1) CAD shorts spiked up, trying to push the trend further up. On UC it is easy to see that the price did not honor those position and trapped traders in losses, forcing them to start bailing out on the next bar – a strong signal that the price is not able to go any higher for fundamental reasons. On this cross, however, AUD longs started pushing up around the same time, while AUD shorts started decreased resulting in 2 currencies pushing the pair in different directions. It would be an aggressive bet to trade against AUD, assuming that CAD will win the battle.

(1)-(2) The price was slowly moving down with one considerable retracement from green EMA. AUD longs continued increasing, but as we look on AU chart, we see that the price stalled at yearly pivot, unable to break it despite all bullish pressure. It seemed that the price is ready to collapse at any moment and it is held in place only by aggressive buying from the speculators. It could not go on forever, sooner or later whether the price would break up or the longs would start accepting their heavy losses, resulting in a huge break down. After such build up a big break is always expected (see AU for details).

(2) CAD shorts have been decreasing and CAD longs increasing until their reached a crossing point – CAD became net long. However, on the same week the price reverses its direction, trapping the traders in losses.

(3) AUD longs increased yet again, reaching the previous levels, trying to push the price up. The week closes extremely bearish, finally breaking the range (see AU). It seems that if AUD buying could not reverse the trend up at (2), the same amount of buying again will not be enough a couple weeks later at (3). With CAD being more or less neutral, this was the first opportunity to take action after the first bearish week.

(4)-(5) The price did not manage to break through the pivot on the first attempt and was rejected. CAD shorts rapidly increasing helped to move the price up. However, the price met resistance at 100 and 200 EMAs and traded sideways for a couple weeks.

(5) With CAD pushing the pair up, the bias now is only slightly bearish for AC and bumpy trend is expected.

(6) The trend reverses once again, this time favoring CAD speculators. On UC we can see that the price goes up in a strong trend, pushing AC also up. On AU, however, we saw only a small correction on the same bars. In other words, even though AUD and CAD speculators are pulling AC cross in different directions, both are in profit and the trend on AC is defined by the relative strength of each currency.