

07 December 2009

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## Today's Highlights

*Friday's labour market data releases and the subsequent rise in U.S. 2 year yields were significant and were also the trigger for a decent USD rally which should continue over the coming days/weeks. The USD Index closed above the 55 day moving average and should test the 200 day moving average at 76.89. EURUSD has not yet closed below the 55 day though is trading significantly below. A continuation of this short term dynamic seems likely and we would not be surprised to see a stronger USD across G10.*

**Fixed Income and Foreign Exchange** – *The USD is at risk of rallying over a period of weeks. This does not change the long term trend (months)*

**USD Index:** Closed above the 55 day moving average and should now rally over a period of weeks. A test of the 200 day moving average at 79.87 seems likely now which is 5% above current levels.

**EURUSD:** While the pair did not close below the 55 day moving average, it is significantly below this morning and should continue lower. A close below there (likely) would open the way for a test of the 200 day moving average which is just below 1.41. Note, we would consider this to be a very good correction down. It does not however change the overall longer term up trend in EURUSD.

**U.S. 2 year yields:** Started to move aggressively higher following Friday's developments. This continues to look like the basing pattern seen at the cycle lows in 1993 when a double bottom like pattern was formed. Higher yields from here would not be surprising.

**U.S. 10 year – 2 year yield spread:** Interestingly the spread has moved lower in the very short term though overall on the medium term charts it is still in the range. We may have formed a short term double top at 2.65% and focus is on the neckline at 2.52%. A breach of that level would argue for the spread to move lower still.

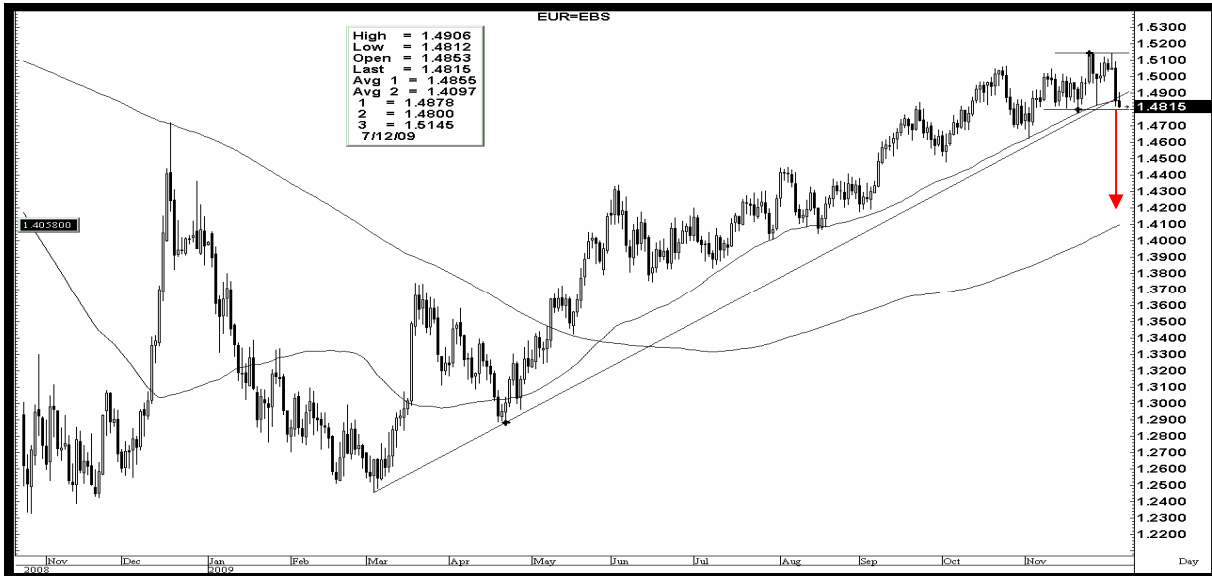
**Gold:** With positive labour market data, higher 2 year yields and a flatter curve (at least in the short term) Gold is not expected to perform well here and the correction down should test support levels. Short term weakness would not be surprising.

**GBPUSD:** Forming a head and shoulders top? The neckline is at 1.6277 and a breach of that would open the way for a test of 1.5662 with interim support at 1.5708.

**USDCHF:** Rallied through the top of the wedge pattern and a close above the 55 day moving average at 1.0178 would open the way for a test of the 200 day moving average at 1.00767.

## Today's Highlights

### EURUSD



- Trading significantly below the 55 day moving average following Friday's developments.
- A close below there (which was not posted on Friday) would be a bearish development that would open the way for a test of the 200 day moving average which currently comes in at 1.4097
- Near term support levels are at 1.4720 (Dec 2008 high) and 1.4626.
- Note that it was this time last year that EURUSD closed the large 55-200 day moving average gap.

*We are concerned that the weeks ahead will likely see a serious USD rally of approximately 5%. It appears as though Friday's improved labour market data has turned out to be a significant development that has led to a strong rise in U.S. 2 year yields and a USD rally. This dynamic looks set to continue for now.*

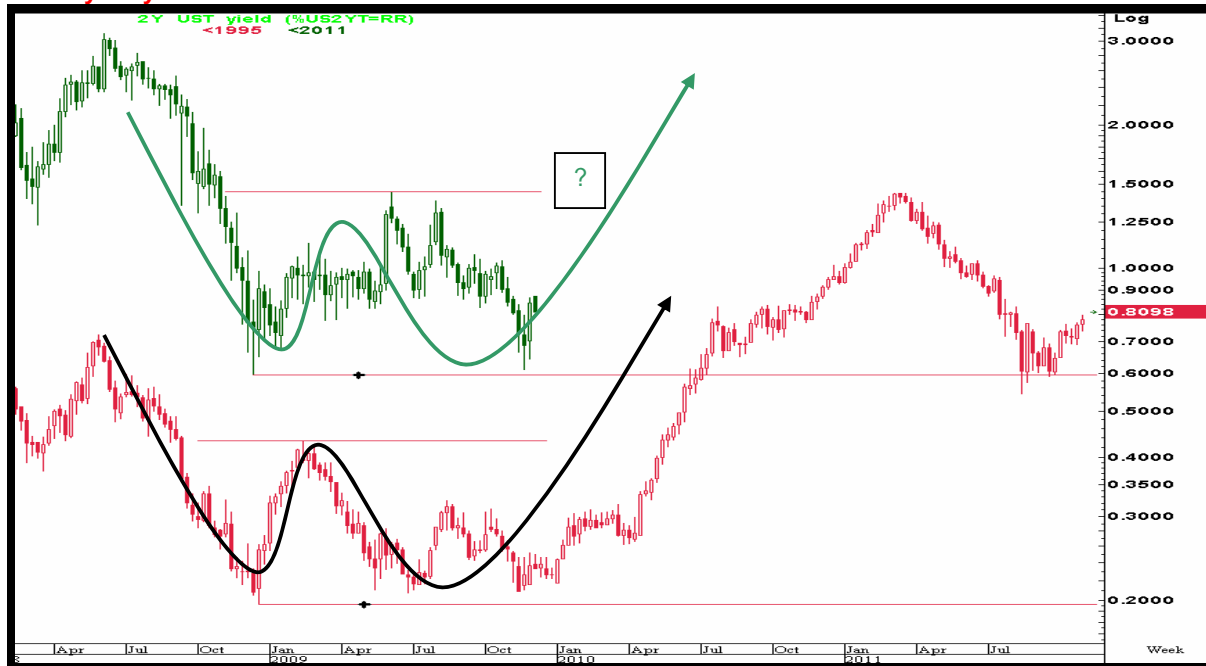
### USD Index



- Closed above the 55 day moving average on Friday and has breached important resistance levels that all converge just below 76 (55 day moving average, trend resistance, horizontal resistance level).
- This strongly suggests a rally up to the 200 day moving average over the coming days / weeks. It is currently at 79.86 which is 5% above current levels.

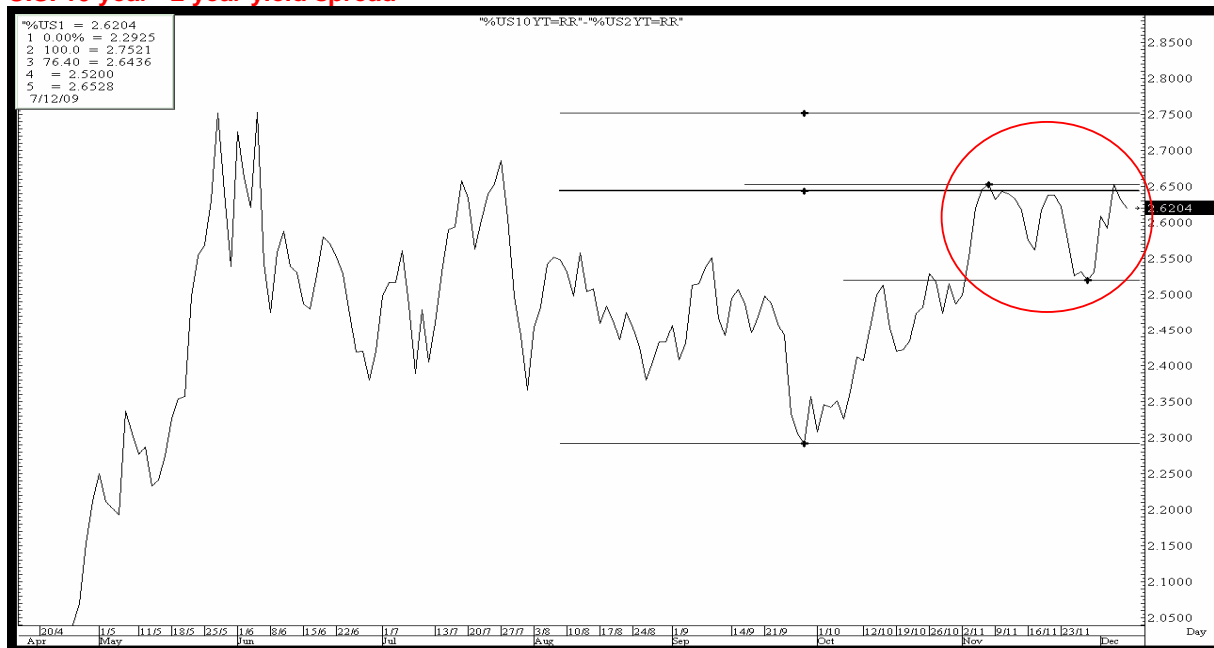
### Market Commentary

## U.S. 2 year yields



- Similar to the cycle lows in 1993?
- A double bottom pattern appears to be forming that will likely take 2 year yields up from here.
- Near term resistance is in the 1.06% area and a breach of that would open the way for a test of 1.44% again.

## U.S. 10 year– 2 year yield spread



- Appears to be turning down from the resistance level at 2.65% and could be forming a short term double top pattern on the daily chart.
- Note this is just above the 76.4% Fibonacci retracement of the move down from the high in June this year.
- The neckline is at 2.52% and a breach of that could suggest a test of 2.39%
- Should this occur with a rise in U.S. 2 year yields (which looks likely for now) then it will likely further support the USD move higher).

## Gold



- In an environment of rising U.S. 2 year yields following good labour market data and the curve flattening, one would not expect gold to perform well. Indeed it has come off in the short term and should test support levels.
- The 55 day moving average comes in at \$1,084 and horizontal support is at \$1,070.
- Beyond that the trend support comes in at \$1,046 (and is rising)
- Overall Gold should correct lower and we shall re-assess the dynamics at work over the days and weeks ahead. This does not change the longer term bullish bias.

## GBPUSD



- Head and shoulders neckline comes in at 1.6277 and a breach of that will open the way for a test of 1.5662 with interim support at 1.5708 (October low). Overall a bearish setup here.

## Market Commentary

## USDCHF



- Rallied through the top of the wedge pattern and the 55 day moving average (1.0178).
- A close above the 55 day would confirm the break and would open the way for the 200 day moving average at 1.07+
- Interim resistance levels come in at 1.0453 and 1.0592.

## Daily Grid

Source: Aspen Graphics / Reuters

Targets/Support/Resistance for USD currency pairs			Intraday Chart of the Day		
CCY Pair	View	Comment	Target	Support	Resistance
<a href="#">EURUSD</a>	ST	Bearish on close below 55 day	1.41 (200 dma)	1.4720 + 1.4626	1.5049 + 1.5064
	LT	Bullish	1.60+	1.4480/48	1.5145 + 1.5285
EURUSD is trading significantly below the 55 day moving average and a close below there would suggest a very significant squeeze down to the 200 day moving average just below 1.41. Following Friday's developments, a bearish bias will be in place on a close below the 55 day which is at 1.4854.					
<a href="#">USDJPY</a>	ST	Neutral	-----	88.01 + 84	91.34 + 91.73
	LT	Bearish	84	81.88 + 79.78	92.33
Significant rally seen on Friday which has led to a close above the 55 day and trend resistance which converge at 89.70. It appears as though the pair have stabilised at least for the short term.					
<a href="#">GBPUSD</a>	ST	Bearish on breach of 1.6277	1.5662	1.6277 + 1.6251	1.7045/50
	LT	Bullish	1.77	1.5983 + 1.5708	1.7445/80
Head and shoulders neckline comes in at 1.6277 and a breach of that will open the way for a test of 1.5662 with interim support at 1.5708 (October low)					
<a href="#">USDCHF</a>	ST	Bullish on close above the 55 day	1.07+ (200 dma)	1.00	1.0338 + 1.0453
	LT	Neutral	-----	0.9870	1.0592 + 1.0767
Rallied through the top of the wedge pattern and should stretch further over the coming days and weeks.					
<a href="#">USD Index (DXY)</a>	ST	Bullish	79.86 (200 dma)	74.17	76.81 + 77.47
	LT	Bearish	Sub 72	72.13 + 71.31	78.33
Closed above the 55 day which opens the way for a test of the 200 day moving average currently at 79.86					
<a href="#">USDCAD</a>	ST	Neutral	-----	1.0406 + 1.0207	1.0750 + 1.0871
	LT	Bearish	1.00	1.00	1.1050 + 1.1126
Choppy market in the short term. Remains in the range. Watch 1.0750 resistance as a rally through there will lead to further gains.					
<a href="#">AUDUSD</a>	ST	Bearish on close below the neckline	Possibly 0.8480	0.8959 + 0.89069	0.9324 + 0.9401-07
	LT	Bullish	0.9850	0.8863 + 0.8520	0.95 area
A close below the head and shoulders neckline at 0.8959 will be a bearish development that will suggest a test of 0.8480					
<a href="#">NZDUSD</a>	ST	Bearish on breach of 0.7014	Possibly 0.6510 (200 dma)	0.7018	0.7332 /68
	LT	Neutral	-----	0.6950 area	0.7526 + 0.7635
Failed at the 55 day moving average resistance which is now at 0.7311. Near term focus is on the support level at 0.7014 and a breach of that would open the way for a move down to 0.6510+ (200 day moving average).					

Targets/Support/Resistance for major cross markets			<a href="#">Return to Front Page</a>		
CCY Pair	View	Comment	Target	Support	Resistance
<a href="#">EURCHF</a>	ST	Neutral	-----	1.5093	1.5180 + 1.52
	LT	Neutral	---	1.5000	1.5240 + 1.5364
	Choppy overall				
<a href="#">EURGBP</a>	ST	Bullish	0.9240	0.9066-82 + 0.8840	0.9240
	LT	Neutral	-----	0.8786 + 0.8637	0.9413 + 0.9491
	Choppy market though overall the dominant short term trend still looks to be up.				
<a href="#">EURJPY</a>	ST	Neutral	-----	131.76 + 131	134 + 135.40-76
	LT	Bullish	139+	129	138.70 + 139.26
	Choppy in the short term				
<a href="#">EURSEK</a>	ST	Neutral	-----	10.15	10.59
	LT	Neutral	-----	10.00	10.53 + 10.66/68
	Choppy market – nothing to add				
<a href="#">EURNOK</a>	ST	Neutral	-----	8.34 + 8.31	8.56 + 8.70/2
	LT	Neutral	-----	8.24	8.86
	Neutral outlook. Watch the support level (double top neckline) at 8.30				
<a href="#">AUDJPY</a>	ST	Neutral	-----	80.57 + 79.43	84.22
	LT	Bullish	85.50-86	76.30	85.32
	Neutral short term outlook for now				
<a href="#">NZDJPY</a>	ST	Neutral	-----	63.17 + 61.15	65.86
	LT	Neutral	-----	59.85	69.73
	Bounced back from the 200 day moving average which is now at 61.15. A choppy market in the short term				
<a href="#">GBPJPY</a>	ST	Neutral	-----	145.76 +	151.61
	LT	Neutral	-----	139.27	153.22
	Neutral for now				

Source: Aspen Graphics / Reuters  
Data as at 7<sup>th</sup> December 2009

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**Portfolio Updates** - We run a portfolio on the back of our ideas/views and as such send e-mails detailing changes to positions (targets/stops etc.) in relation to this.



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#### Market Commentary

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