Market Trends

Issue 13

Week ending 8th January 2016

Market futures unless indicated (Contract month)	Weekly Closing Price	Price / % Change from last week	Short-term trend	Long-term trend	Short-term price target	Long-term price target	Position Bias
EURUSD (Mar '16)	1.0920	+0.0034 / +0.31%	→↓	→↓	-	0.9794, 0.9520	short
GBPUSD (Mar '16)	1.4517	-0.0217 / -1.47%	↓	↓	-	1.4375, 1.4078	short
EURGBP cash	0.7523	+0.0158 / +2.14%	↑	→↓	0.7687	-	-
Crude WTI (Feb '16)	33.16	-3.88 / -10.47%	↓	↓	**35.44**, 31.60, 31.37, 29.64	19.48	short
S&P500 (Mar '16)	1911.50	-124 / -6.09%	↓	↓	-	1896.50, 1889.25, 1855.75	short
Gold (Feb '2016)	1097.90	+37.70 / +3.55%	→↓	↓	-	1042.40	-
30-year Bond (Mar '16)	156 12/32	+2 20/32 / + 1.70%	↓	→↑	-	-	-

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EURUSD: This market is trying to find its equilibrium. From a trend perspective we remain southbound.

GBPUSD: *see Case Study*

EURGBP: With GBP selling off, the short-term trend is dominating. We've now had 7 consecutive weeks of higher closes. The quality of this bull will be judged in the next sell-off. Only then we'll be able to determine its proper health.

Crude WTI: Another 10% down week and we comfortably ripped through our 35.44 target. I'm still being asked when is it time to buy and I keep saying "when the trend turns up". (see Issue #9 case study). All I can say at the moment is that we're at a most critical juncture. If oil doesn't find an equilibrium around the 30 area any time soon, we could see much lower numbers quicker than we think.

S&P500: A significant amount of structural damage had been done. The quality of this damage makes me very cautious about the future. We're arguably overdone on the selling. If you can't be short, at least be out and let this mess settle. I can't help but think that this is very similar to January 2008.

Gold: We've now broken above 1090. The picture is totally messed-up so best to abstain.

30-year bond: The picture remains conflicting.

Market Trends – Case Study: GBPUSD

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GBPUSD: There just seems to be no end to this sell-off. We've been short all the way from issue #1 where we had closed at 1.5453. From a certain perspective the sell-off might be overdone however the weight of the evidence is overwhelmingly to the downside to an extent that we may see an acceleration. We have 1.4375 and 1.4078 ahead of us and these may be achieved faster than expected. That said, when a market enters such a state, it becomes quite more difficult to trade. Under no circumstances one should be attempting to pick a bottom.

General Comment: Even though I've been doing this for a very long time, it never ceases to amaze me how a trend persists and rips through price levels previously thought of as simply out of reach.

Market Trends - Appendix

How to read the table

Market futures unless indicated (Contract month)	Weekly Closing Price (1)	Change from last week (2)	Short-term trend (3)	Long-term trend (4)	Short-term price target (5)	Long-term price target (6)	Position Bias (7)
EURUSD (Dec '15)	1.1241	+0.0038	→↑	→↓	1.1713, 1.1748, 1.1870	1.1713	-

1. Weekly price close
2. Change from last week
3. Short-term trend
4. Long-term trend
5. Short-term price target
6. Long-term price target
7. This is not a recommendation to enter the market per se but rather a bias on the direction from which to enter if an appropriate trading/investment opportunity presents itself

    - When "long", we're thinking of entering from the long side
    - When "short", we're thinking of entering from the short side or at the very least we're out
    - When "-", then we're not thinking about this market

So looking at the above table we know that:

1. EURUSD Dec 2015 future closed at 1.1241
2. On a closing basis, EURUSD rallied 0.0038
3. The short-term trend is side-up
4. The long-term trend is side-down
5. We have short-term price targets of 1.1713, 1.1748 and 1.1870
6. We have long-term price targets of 1.1713
7. We have no bias as to where this market is heading, hence we're not thinking about entering

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How to benefit from the analysis

"The presumed positive relationship between risk and return is predicated on the assumption that there's no such thing as investment skill and value-added decision making. If markets are efficient and there's no skill, it's reasonable to believe that higher returns can be attained only through the bearing of increased risk. But if outstanding skill is present, there's no reason to think that it can't be used to create portfolios with low risk and high return potential." Howard Marks, Oaktree Capital Management L.P.

Making money in the markets is not easy and requires second-level thinking. The main purpose of the analysis is to help one's decision process by being properly positioned in a market to avoid a big hit. "Staying in the game" is an absolute prerequisite for long term success and it's mostly overlooked by the public. Results will ultimately depend on execution, managing one's risk and emotions and the use of common sense.

<u>What it does</u>

The analysis is based on a quantitative method. The sole purpose is to detect the trend – or lack of it – and to produce price targets (PT). What you read in the table is purely a quantitative output. However, the decision to trade/invest also depends on qualitative inputs, which is not the purpose of this write-up. At all times, remember that a market is in either of the 3 states below:

1. Uptrend
2. Downtrend
3. Undecided

<u>Basic principles</u>

1. In an uptrend we're either out, long or looking to enter from the long side
2. In a downtrend we're either out, short or looking to enter from the short side
3. When there is no trend, we simply wait until the market tells us where it wants to go

When a market is in trend, then we get signals that produce PT. In an uptrend, the PT is higher than current price. In a downtrend, lower. The PT is in effect until achieved or negated.