Market Trends

Issue 17

Week ending 5th February2016

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)	1.1155	+0.0316 / +3.76%	↑	→↓	-	0.9794, 0.9520	-
GBPUSD (Mar '16)	1.4499	+0.0257 / +1.80%	→↓	↓	1.3824	1.4078	short
EURGBP cash	0.7689	+0.0085 / +1.12%	→↑	↑	0.7804	-	long
Crude WTI (Mar '16)	30.89	-2.73/ -8.12%	↓	↓	23.96, 23.13, 22.90	19.48	short
S&P500 (Mar '16)	1875.25	-54.75/ -2.84%	↓	↓	1774.50, 1713.50	*1855.75*	short
Gold (Apr '2016)	1157.70	+41.30 / +3.70%	↑	↓	-	-	-
30-year Bond (Mar '16)	163 8/32	+2 7/32 / +1.38%	↑	↑	**161 6/32**	-	long

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EURUSD: *"Looking at this pair from a purely quantitative (trend) perspective, it is now officially in confusion."* This is what I wrote two weeks ago. The longer term targets remain intact but you must remember that they're the last ones to be negated when a market turns decisively in the other direction. For now, rest assured that confusion in both directions will prevail. Best to abstain.

GBPUSD: Another market trying to find its equilibrium, although it does have a clear trend. For now, the short side remains the "right" side.

EURGBP: Looking at this pair it is very clear that the EUR has the upper hand. We're approaching critical levels which should determine how real the rally since December has been.

Crude WTI: "*Can't stand prosperity*". This is an expression I borrowed from a mentor. Every time oil attempts to rally, gravity pulls it back down. It certainly looks like there will be another attempt at its previous low and given the way it's set up, I'd say there's a very good chance it will trade lower than in the last sell-off. We also have plenty of targets now in the low 20s, so this is the next price area to focus on.

S&P500: This market is broken and everything points lower. Beware of bottom-fishing. Previous lows are very likely to be attempted.

Gold: Gold awakes and the momentum in definitely higher in the short-term. However, from a trend perspective, the picture remains muddled and I continue to believe it's best to abstain. From the markets we cover, this market has been one of the most indecisive ones.

30-year bond: Our 161 target has been achieved comfortably on close. This market is set-up to "explode"....and don't forget what the interest rate implications are. Pick your risk carefully.

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.

What it does

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

Basic principles

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.