Market Trends

Issue 23

Week ending 18th March2016

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 (Jun '16)	1.1296	+0.0108 / +0.96%	↑	→↓	1.1462, 1.1472	-	-
GBPUSD (Jun '16)	1.4480	+0.0090 / +0.63%	→↓	↓	1.3829	-	short
EURGBP cash	0.7779	+0.0032 / +0.41%	→↑	↑	0.7924, 0.8082	-	long
Crude WTI (May '16)	41.14	+1.18/ +2.95%	↑	↓	42.92	25.30	-
S&P500 (Jun '16)	2037.25	+26.75/ +1.33%	↑	↓	2049	1855.75	-
Gold (Apr '2016)	1254.30	-5.10/ -0.40%	→↑	↑	1376.60, 1404, 1428.60	-	long
30-year Bond (Jun '16)	163 7/32	+2 / +1.24%	→↑	↑	170-5, 171-22	168-21	long

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EURUSD: *(we have rolled into the Jun. '16 contract – price targets have been adjusted accordingly)* This market did attempt our previous 1.0823 target and rejected it quite violently. That together with the action in the last couple of months have marked some sort of bottom. The picture right now is one of confusion and it's best to be out. Having said that, I can say that the chances of seeing parity before the end of the year have now dropped significantly below 50%. Keep an eye on the short-term price targets.

GBPUSD: *(we have rolled into the Jun. '16 contract – price targets have been adjusted accordingly)* In spite of the wider fx market volatility the GBP is still trying to stabilize but the sell-off doesn't look like it is done.

EURGBP: Two weeks ago we wrote: **"***Even though from a quantitative perspective the trend remains up, price action in the last week or so is increasingly showing signs of "fatigue".* This fatigue is persisting. This currency cross has certain "predictive" powers as far as its individual components are concerned versus the USD so keep an eye on it for clues.

Crude WTI: *(we have rolled into the May '16 contract – price targets have been adjusted accordingly)* Two weeks ago we wrote: *"This market is getting crazy. ….In these situations, I prefer to be out of the market".* Stay out and keep an eye on the price targets for which trend will prevail.

S&P500: *(we have rolled into the May '16 contract – price targets have been adjusted accordingly)* If you've been following from Issue #1 you'd have noticed that this is one of the least trending markets. The situation at the moment cannot be more conflicting. From a short term perspective it's a long, yet from a long term perspective it's a big short.

Gold: For the moment, this market is not acting like it should and I consider this a red flag. Manage risk carefully.

30-year bond: Two weeks ago we wrote: "*The rally is stalling and we're retreating towards the 160 area. Those with good memories will recall that this was the approximate level we broke out from. The way things look, it is likely that previous so-called "resistance", will turn into "support".* Bingo! Keep an eye in the 168-16 to 169 area. It's our next price target and also the area where the previous rally stopped in February

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.