# Market Trends

Issue 11

Week ending 25th December 2015

| 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) | 1.0976 | +0.0085/ +0.78% | →↓ | ↓ | - | 0.9794, 0.9520 | short |
| GBPUSD (Mar '16) | 1.4931 | +0.0016/ +0.11% | ↓ | ↓ | **1.4992, 1.4893** | **1.4996, 1.4957,** 1.4375 1.4078 | short |
| EURGBP cash | 0.7351 | +0.0059 / +0.81% | ↑ | →↓ | - | - | - |
| Crude WTI (Feb '16) | 38.10 | +2.04 /+5.66% | ↓ | ↓ | *35.44,* 29.01 | 19.48 | short |
| S&P500 (Mar '16) | 2051.25 | +59.25/ +2.97% | →↑ | ↑ | 2113, 2137.50, 2247 | - | long |
| Gold (Feb '16) | 1075.90 | +10.90/ +1.02% | →↓ | ↓ | 955.60 | 1042.40 | short |
| 30-year Bond (Mar '16) | 155 2/32 | -1 10/32 /+0.84% | ↑ | ↓ | - | - | - |

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**EURUSD:** This currency pair is trying to adjust to its new post-ECB levels. The technical picture is bearish for sure but one can no longer be as bearish as before. The period between Christmas and New Year is usually rather dull so one has to wait until the first week of January for the market to show its real intentions.

**GBPUSD:** The sell-off continues and our targets continue to be achieved on a closing basis. Since our last issue a couple of weeks ago, 1.4996, 1.4002, 1.4957 and 1.4893 have all been met.

**EURGBP:** The short term trend is up and the long term is side-down. Best to stay out.

**Crude WTI:** This is the second week we hit our 35.44 price target but fail to close at or below it. It's increasingly clear that the market is finding an equilibrium at these levels as buyers keep coming in. Arguably, this has the signs of a short term bottom. Looking at both trends, the overall picture remains gloomy. There also remains room for a rally to the 40-41 area without any change to the trend. The problem with oil is that due its volatility it remains tough to position for the shorter-term moves as the risk of whipsaw remains large.

**S&P500:** Another week where the move counters the previous week's move. While from a quantitative perspective both trends have turned up, from experience I'd say it's best to wait for the first week of January to better understand where this market wants to go.

**Gold:** The longer term trend remains solidly down. In the shorter term however this market will frustrate. It is now caught in the 1050-1090 range and only a convincing close outside either of those levels will give us a better understanding of the shape of things to come. Until then, patience is best.

**30-year bond:** We're in the middle of that 150-160 range I've highlighted before. Conflicting signals abound, therefore best to stay out.

## 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.