Market Trends

Issue 35

Week ending 10th June 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 (Sep '16)	1.1298	-0.0189/ -1.66%	↑	→↑	1.1130	-	long
GBPUSD (Sep '16)	1.4269	-0.0256 / -1.76%	↓	→↓	-	1.3255, 1.3249	short
EURGBP cash	0.7885	+0.0060 / +0.77%	↑	↑	-	-	long
Crude WTI (Jul'16)	49.07	-0.45/ -0.93%	↑	→↓	-	-	-
S&P500 (Sep '16)	2087.25	-0.50/ -0.00%	↑	→↑	-	-	long
Gold (Aug '2016)	1275.90	+33.00/ +2.66%	→↓	↑	-	-	-
30-year Bond (Sep '16)	168 11/32	+1 24/32 / +1.05%	↑	↑	-	169-17, 175-21	long

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EURUSD: The ECB meeting was indeed a catalyst and this week we have FOMC. The post-ECB rally did restore the uptrends from a quantitative perspective but I wouldn't get too excited, yet. Conflicting signals persist and it's also worth noting that in the last 65 weeks, more than 95% of the weekly price closes have been inside the 1.1492 – 1.0562 range.

GBPUSD: This market really couldn't stand prosperity and the picture all of a sudden darkens again. The quality of the downtrend in this currency is much better than the quality of the uptrend in the EURUSD. It is definitely time to look at the short side again. This market is looking ahead and what it sees is not pretty. With a referendum ahead, expect heightened volatility at the very least.

EURGBP: Two weeks ago we said: **"***This market whipsaws back into a downtrend with conviction. It's best to be on the sidelines for now. Given the damage inflicted, it will be a while before all trends are in sync again."* Well, another crazy whipsaw and the trends are back in sync. Having said that, I prefer to stay away from a market when there's too much "excitement".

Crude WTI: Having rallied to new yearly highs we now seem to be reversing. It will be interesting to see where this sell-off will stop and how soon the rally will resume. The overall picture remains very mixed and one where positioning is quite difficult. Aggressive players could definitely look for trades.

S&P500: Very much like crude, we rally to new highs and seem to be reversing. Unlike crude, the overall quantitative picture is a lot more in sync. Having said that, it's not easy to pick entries for the moment.

Gold: Two weeks ago I declared the rally over. Since then we've rallied circa $70 (6%). There's a lot of craziness in this market too and I'm inclined to stay on the sidelines. There are times to focus on making money and times to focus on keeping it. Guess which one we're in.

30-year bond: This market breaks-out of the 160-166 trading range established since February. Trends are now solidly up.

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Market Trends - Appendix

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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

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.

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