# Market Trends

Issue 49

Week ending 16th September 2016

| Market (Futures 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 (Dec '16) | 1.1193 | -0.0080/ -0.71% | ↑ | ↓ | 1.1458 | 1.0977, 1.0918 | - |
| GBPUSD (Dec '16) | 1.3022 | -0.0272 / -2.05% | →↓ | ↓ | 1.2806 | - | short |
| USDJPY (Dec '16) | 0.9802 | +0.0023/ +0.24% | →↑ | ↑ | - | 1.0355 | long |
| Crude WTI (Nov'16) | 43.64 | -2.87/ -6.17% | ↓ | →↓ | - | - | short |
| S&P500 (Dec '16) | 2132.50 | +16.50/ +0.78% | →↑ | ↑ | - | - | - |
| Gold (Dec '2016) | 1310.20 | -24.30/ -1.82% | ↓ | ↑ | 1308.40, 1303.40 | - | - |
| 30-year Bond (Dec '16) | 165 21/32 | -1 6/32 / -0.71% | ↓ | →↑ | - | - | - |

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**EURUSD:** Last week we wrote: *"The last few weeks I've mentioned how we're stuck in a range. We've seen all sorts of news tilting the market in favour of both bulls and bears yet the rallies fail to "stick" and the sell-offs have no follow-through. The weight of the evidence is now evenly balanced. Until we convincingly break out of the 1.14-1.09 range, the picture will likely remain muddled."* No change.

**GBPUSD:** This market resumes its downtrend with a particularly ugly close on Friday. When a market is this hurt, it's only a matter of time before the major trend reasserts itself. Think of it as a wet paper-bag; sooner or later it will give. The 1.28 lows should be tested. If successful, we will enter a new phase of GBP bearishness taking the currency to well below 1.25.

**USDJPY** *(n.b.: futures are quoted inversely to cash so when futures are rising the JPY is <u>rising</u> in value):* As is so often the case, the longer term trend resumes once we're trading at important technical levels and the shorter term trend fails. Time to think about the long side again. Manage risk carefully.

**Crude WTI:** The astounding volatility continues and with this week's sell-off we can no longer ignore the bearish picture of this market. Hold on to your hats.

**S&P500:** This market is transitioning. The beauty of the work we do is above all that it helps us quantify risk and assign probabilities. Trend identification and price targets are simply a bonus. No position is a position.

**Gold:** Last week we wrote: *"We have new price targets pointing lower. Until 1308.40 is met on close or another signal that we may be resolving higher, it is best to stand aside. No position is a position."* We're very close to our first price target of 1308.20.

**30-year bond:** Bonds have sold off quite a bit the last few weeks. That said, the weight of the evidence remains rather balanced and as such it is best to stay out for now.

# 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.