Market Trends

Issue 51

Week ending 30th 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)	1.1277	+0.0005/ +0.05%	→↑	↑	1.1458	1.0977, 1.0918	long
GBPUSD (Dec '16)	1.2997	+0.0016 / +0.12%	↓	↓	1.2806, 1.2729	-	short
USDJPY (Dec '16)	0.9891	-0.0038/ -0.38%	↑	↑	-	1.0355	long
Crude WTI (Nov'16)	48.24	+3.76/ +8.45%	↑	→↓	-	52.84	-
S&P500 (Dec '16)	2160.50	+2.50/ +0.12%	→↑	↑	-	-	long
Gold (Dec '2016)	1317.10	-24.60/ -1.83%	↓	↑	1308.40, 1303.40	-	-
30-year Bond (Dec '16)	168 5/32	+ 11/32 / +0.20%	↓	→↑	164-06, 164	-	-

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EURUSD: Following Friday's close our quantitative trend indicators turned up. However we're still stuck in a variety of progressively tighter ranges as energy is being compressed. Whatever move comes will be explosive. The ranges are as follows: a) an 82-week range 1.16-1.07, a 15-week range of 1.15-1.10 and a 7-week range of 1.1422-1.1164.

GBPUSD: Sterling is sick. We continue to trade at the lower end of the 1.35-1.28 range. Once we start violating the lower range convincingly, the door will be open for 1.20. It sounds crazy right now but not as crazy as Foreign Minister Johnson's latest non sequitur "We're Pro-secco but by no means anti-pasto" http://tinyurl.com/zhmtyr9

USDJPY *(n.b.: futures are quoted inversely to cash so when futures are rising the JPY is rising in value):* My favorite trending currency remains the JPY. We're in a strong uptrend and pullbacks should be used for long entries according to one's risk/reward protocols.

Crude WTI: I keep sounding like a broken record when I say this volatility is absolutely insane. Best to stay out until the dust settles. Aggressive accounts should certainly be thinking about the long side.

S&P500: This is the second month in a row that we close almost unchanged. On a more relevant note, our trends have turned up as we enter what is wrongly perceived as the weakest month of the year. Of all the markets we've been covering for the last 12 months, this remains the most frustrating to position oneself.

Gold: The tug of war between the bulls and the bears continues. Our recommendation to stay out remains.

30-year bond: Bonds from a trend perspective remain very mixed as the weight of the evidence is very contradictory. It's best to keep out. No position, is a position.

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.