Market Trends

Issue 52

Week ending 7th October 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)	1.1211	-0.0067/ -0.59%	→↑	↑	1.1458	1.0977, 1.0918	-
GBPUSD (Dec '16)	1.2445	-0.0552 / -4.25%	↓	↓	**1.2806, 1.2729**	-	short
USDJPY (Dec '16)	0.9728	-0.0163/ -1.65%	↓	↑	-	1.0355	-
Crude WTI (Nov'16)	49.81	+1.57/ +3.25%	↑	→↓	-	52.84	-
S&P500 (Dec '16)	2146.50	-14.00/ -0.65%	→↑	↑	2112.50	-	-
Gold (Dec '2016)	1251.90	-65.20/ -4.95%	↓	↑	**1308.40, 1303.40**	-	-
30-year Bond (Dec '16)	164 29/32	-3 8/32 / -1.93%	↓	→↑	164-06, 164	-	-

Constantine Theodossiou
ct@newcoll.com

New College Capital Ltd
39-40 St. James's Place
London SW1A 1NS
Tel + 44 20 7495 8720
Fax + 44 20 7495 8668

www.newcoll.com

EURUSD: We've alluded to this market's 3 progressively tighter ranges in the past: 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. This past week we traded for the first time outside the third range as we ventured as low as 1.1136. It's early days but the weight of the evidence is tilted to a more evenly balanced picture. Staying out is best.

GBPUSD: (We're Pro-secco but by no means anti-pasto) + (Calls for UK companies to reveal foreign workers) = FLASH CRASH. In case you're still not familiar, the first is a direct quote by Foreign Minister Johnson and the second is a proposal put forward by Home Secretary Rudd. We printed as low as 1.19 and in fact some systems printed < 1.15. We've been warning about this (see issues 49, 50 and 51) but had no idea it would unravel so quickly. All our targets were hit and the picture remains very gloomy. For an excellent insight into what goes on at a big bank's fx trading desk when a currency pair goes through a Minsky moment, read this.

USDJPY *(n.b.: futures are quoted inversely to cash so when futures are rising the JPY is rising in value):* Last week we said: *"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."* Clearly that's out of the question now. It takes an enormous amount of intellectual flexibility and honesty to preserve capital.

Crude WTI: This market seems to have found a bottom for now. Two things will determine the strength and quality of this potential uptrend: 1) Our PT of 52.84 being achieved on a weekly closing basis and b) a sell-off holding the 47 area (November basis).

S&P500: From a quantitative perspective it's clear the trends are up. Having said that, the quality of these trends is poor. Best to watch from the sidelines.

Gold: This market simply collapsed, ripping through our previous price targets. Given the violence of the move, it will take a while for this market to find its equilibrium.

30-year bond: Bonds sold-off big this week. We traded as low as 164-08, 2 ticks away from our first PT. Aggressive accounts who followed our short recommendation back in issue 50 have made some good money. The more conservative, miss nothing by staying out for now.

Market Trends - Appendix

Constantine Theodossiou
ct@newcoll.com

New College Capital Ltd
39-40 St. James's Place
London SW1A 1NS
Tel + 44 20 7495 8720
Fax + 44 20 7495 8668

www.newcoll.com

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.