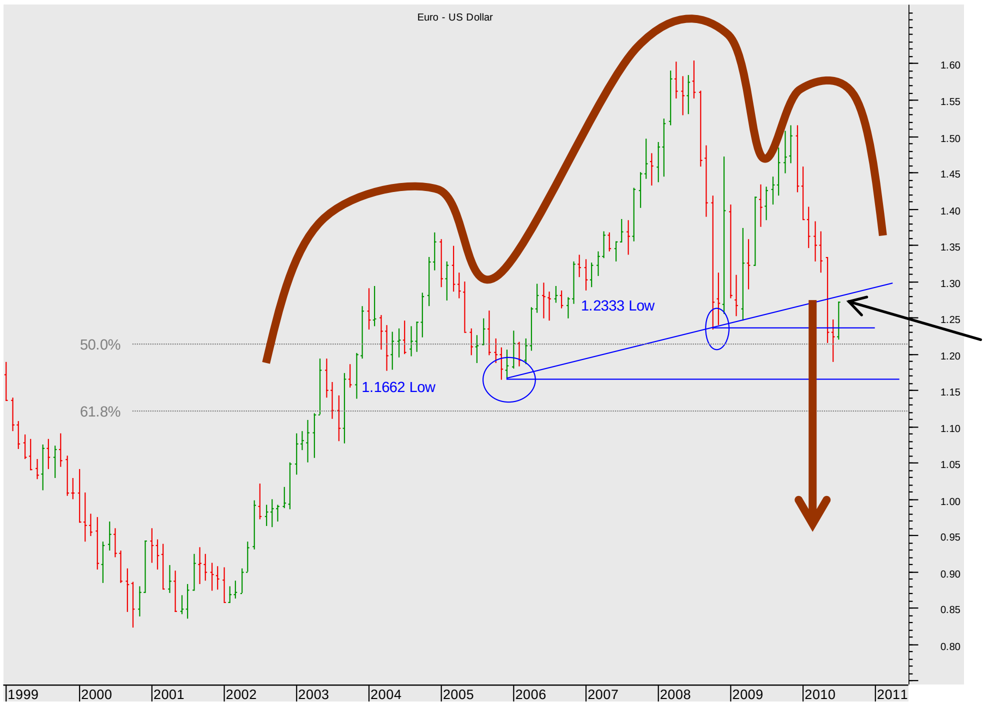
Our Guides - the **Technical Trader's Guide** and the **Macro Trader's Guide** both deal with these and many other markets in much more detail over multiple time- frames. **Key Trades Bulletins** subscribers receive a detailed report on every trade we enter for our Key Trades Portfolio. More details about all these products: CLICK HERE

Market Update 9th July 2010

Is the squeeze over in the Dollar Euro?

The Technical Trader's view:



MONTHLY CHART

The long-term chart is a Head and Shoulders Top suggesting very much lower.

The rally back to the Neckline is taking place after the initial completion.

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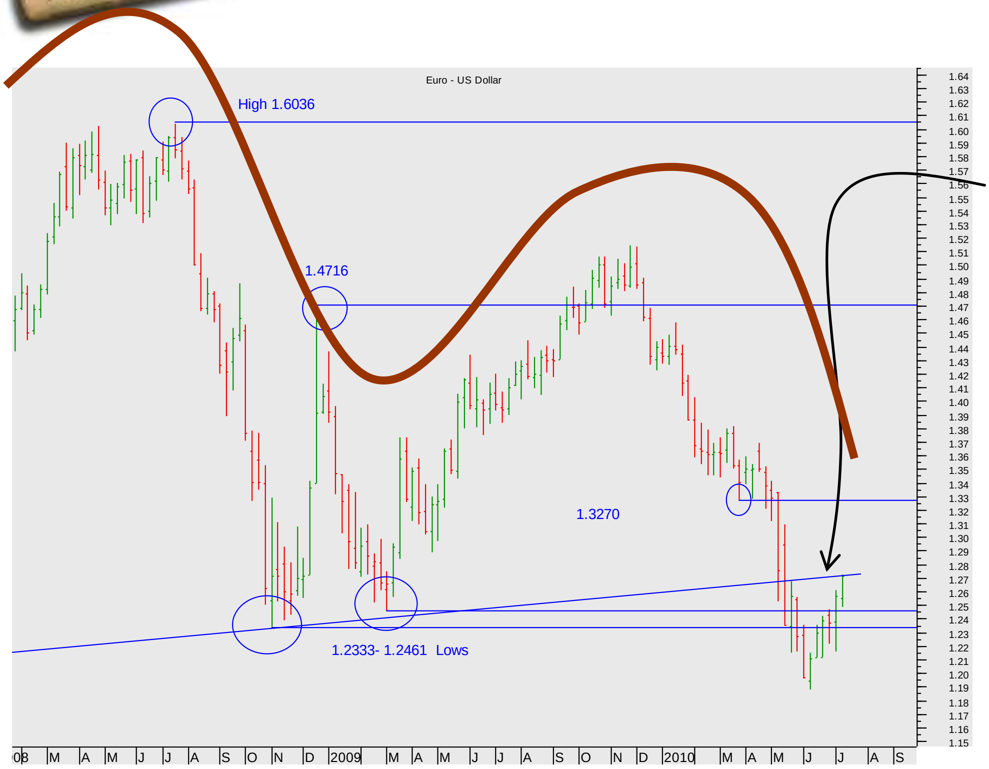
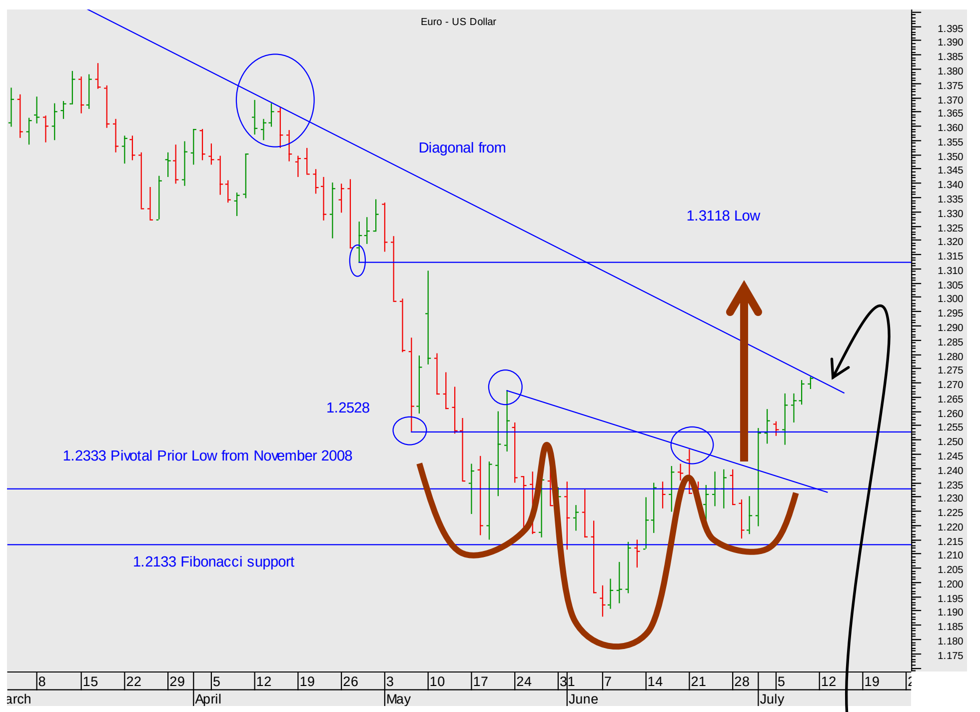


WEEK CHART

The rally back to the Neckline is clearer here.

There should be good resistance there at 1.2730 or thereabouts…<u>though the scale of the pattern allows some short and medium-term repenetration without prejudicing the whole</u>….



DAILY CHART

Here is the short-term catalyst for the rally.

A completed bull Head and Shoulders reversal opposed to the bear longer-term H&S

Note the minimum move…up as far as 1.30 or so.

But remember the opposing medium and long term resistance at 1.2730, and in the very short term, note the diagonal resistance, today at 1.2722. **<u>The coincidence is powerful</u>**

A break up through there will lead to a surge of fresh short-term buying.

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The Macro Trader's view:

Despite the Dollar's recent weakness against the Euro, we sense the market is undergoing a correction rather than a trend reversal. The situation in the Euro zone remains delicate. Indeed, the only thing that has changed in recent weeks is that the endless stream of negative commentary about the Euro zone has virtually dried up.

This has allowed traders to recast their focus and right now the hot news is the surprise miss firing of the US economic recovery. Recent data has remained soft with this week's release of a below consensus ISM non-manufacturing survey just the latest piece of disappointing news.

But why, if the Euro zone's problems persist, are traders now buying the Euro?

Currency trading is a function of relative, rather than absolute, strengths and weaknesses, so while in absolute terms the under lying fundamentals of the Euro remain flawed, in relative terms it is the Dollar that is currently suffering from relative weakness due to fears about the US economic recovery.

But the 2nd quarter US corporate profit reporting season is about to start and if the news from the leading Banks and corporates beats market expectation, the Dollar could well recover and throw the spot light back onto the Euro zone.

Moreover, with the Euro zone pledging to release the results of stress tests on leading Euro zone Banks the Euro could quickly come under selling pressure once again. The fear was the Euro zone Banks, especially in Germany and France are heavily exposed to the Sovereign debt of several of the peripheral Euro zone economies that have been heavily downgraded. Since the fear of Sovereign debt default is still very much alive with Greek sovereign debt ranked as the second worst in the world, those stress test results may cause some difficulty for the Banks and the authorities.

On the other hand, we judge the Dollar to be long-term bullish. Although the US fiscal landscape is challenging to put it politely, and US interest rates cannot go any lower, the Fed could still act to help support the flagging recovery.

It could buy Treasuries, thereby relieving some of the potential funding worries the administration might have if they go for a 2nd stimulus. The Fed could also buy corporate

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Bonds, either in the secondary market or at point of issue, thereby side stepping the Banks and getting money out directly to 'Main street' in a direct effort to spur growth.

But however you view the situation, in the long term we judge the Euro to be flawed and in its current incarnation will struggle to survive. Decision making in the Euro zone needs to be centralized both politically and fiscally and we do not think the political will exists to bring that about.

So patience is needed (and long Stops too), if the current correction is going to be ridden by the Dollar Bulls.

Mark Sturdy

John Lewis

Seven Days Ahead

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