the technical analyst AWARDS 2011 FINALIST

3rd November 2011

Market Update:

Watch the Dollar Euro

UPDATE
Technical
Fundamental

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WEEKLY CHART

The market’s fluctuations over recent weeks have been difficult to understand.

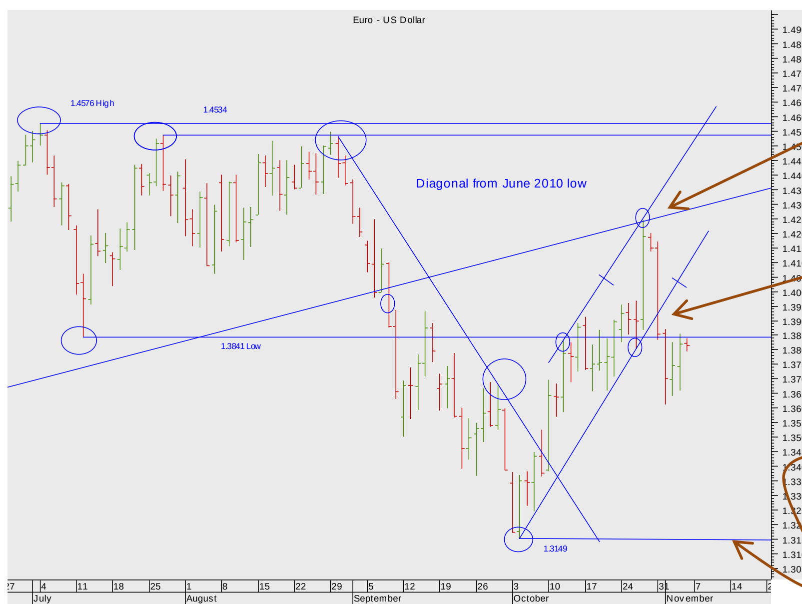
The breakdown through the double diagonal support at 1.3950 looked very poor.

And so too did the failure of 1.3841.

But the violence of the rally of last week drove the market up to the diagonal resistance at 1.42.

<u>And then it failed.</u>

Look closer.



DAILY CHART

The detail of the pull-back from the diagonal resistance at 1.5250.

See how the rising wedge from the beginning of October has completed…

And for the last two day the market has paused.

The bear momentum as far as the recent low of 1.3149 looks likely to be maintained

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FUNDAMENTALS:

The ink on the rescue deal billed as the cure for the Euro zone's problems, was barely dry when the Greek Prime minister shocked his Euro zone partners and the wider world, by announcing earlier this week he would stage a referendum to give the Greek people the right to decide.

At stake is no less than Greece's continued membership of the Euro zone. How big a deal is that for the Euro?

When the deal was announced last week, markets reacted mainly positively to it with the Euro rallying along with stocks, but as soon as the referendum was announced markets convulsed:

1. Stocks sold off,
2. Bonds rallied,
3. The Euro sold off against the Dollar and other major currencies.

The French and German leaders clearly angry that the deal that took so much to put together was now on the verge of being blown apart, summoned the Greek PM, an elected leader of a Sovereign state, to a meeting to explain himself.

We think his rationale is clear. The Greek people are angry about the austerity measures being forced through as a condition of the deal. Additionally the markets speculate that Greece may eventually default and leave the Euro zone anyway, a referendum would give the people a chance to decide. If they voted for the deal, the Greek government would have the mandate to push through the measures required and the markets would likely accept the Greeks were determined to see the pain through..

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FUNDAMENTALS: CONTINUED

If they voted against the deal, then Greece would default and leave the Euro. In theory the referendum offers a great deal of clarity, once the vote is held, but in the interim, the situation has become very less clear, no one can be sure how they would vote.

The ECB obviously believes the Euro zone economy is heading towards recession and today cut interest rates, despite CPI standing at 3.0%, well above the 2.0% target. The view of policy makers appears to be what ever the Greeks do, a recession is unavoidable, the Euro sold off.

But what does all this mean for the Euro going forward?

Clearly short term it is bearish. Either way, the topic will be whether Greece should accept the deal and its austerity or default and take her chances outside of the Euro. Clearly the situation has just become yet more uncertain.

Medium/Long term once the referendum or general election is out of the way, what then for the Euro?

There are two scenarios:

A. Greece votes to accept the deal and the Euro zone remains as is, or
B. Greece votes against and the 17 nation Bloc shrinks to 16.

Under scenario A, we are back to where we were late last week. The deal is back in play, but it isn't a cure-all, more a firewall and doesn't deal with the fundamental root cause of the debt crisis, so after an initial period of strength, the Euro would probably come back under downward pressure.

Under scenario B, the strengthening effect of a weak nation leaving would be more than offset by the weakening effects of a renewed struggle to keep others in the Euro zone.

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SEVEN DAYS AHEAD
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