Flash Report EURUSD

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"Quantitative approach for asymmetric results"

EURUSD: this is not a chart, it is encyclopedia of technical analysis

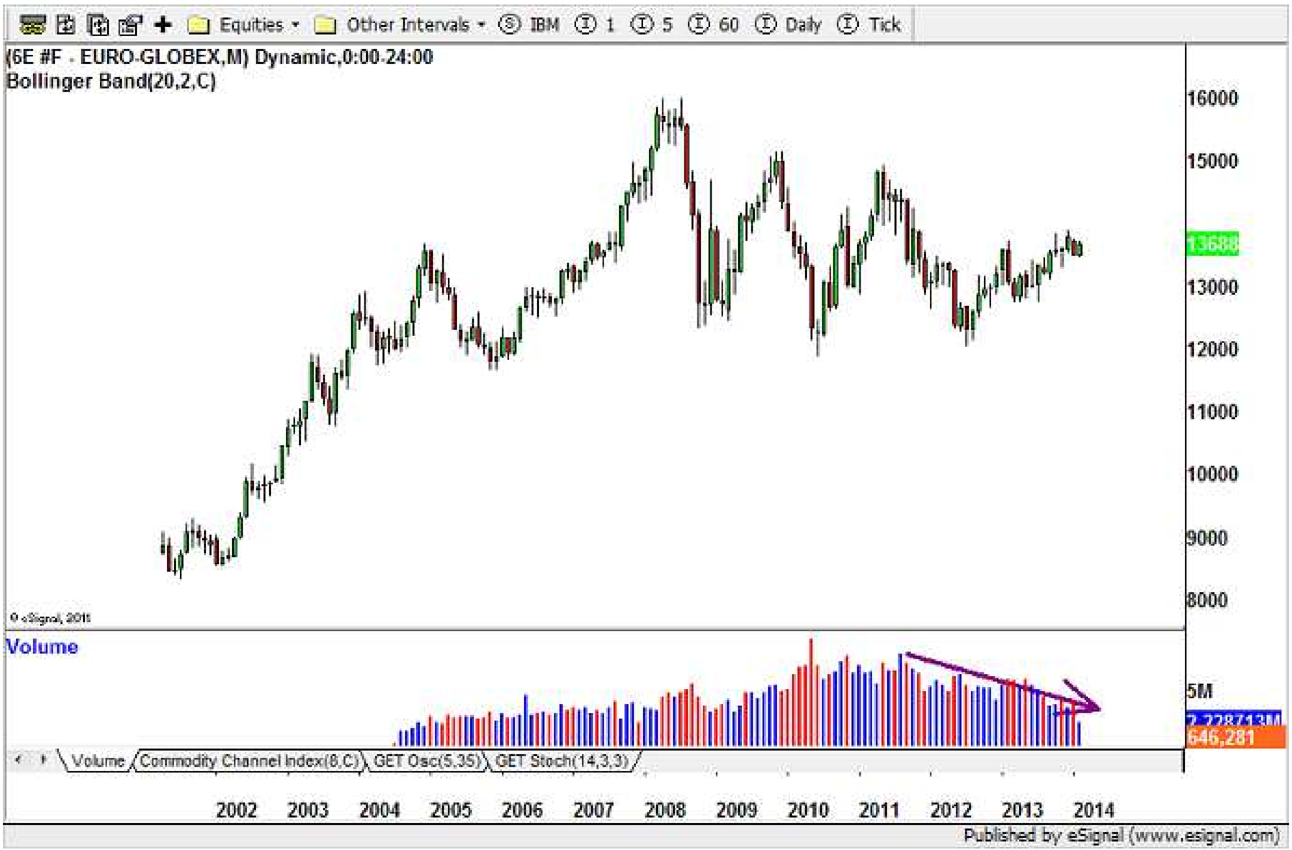


Figure 1: EURUSD monthly chart

The above is the monthly chart for one of the major exchange rate, the EURUSD. As stated in previous reports, this is more of a financial exchange rate, rather than a commercial one. Its moves are mainly driven by interest rates and geopolitical scenarios, while the typical commercial exchange rate is the USDJPY.

This chart and the studies presented are a good workout for those who do not have yet "the technical analysis eye" and wish to improve their abilties to spot figures or patterns. This report is indeed a sort of abridged encyclopedia of technical analysis with interesting consideratons on where most probably the exchange rate is headed to.

Below you will find the chart with my studies so that you can compare that one to the "naked" one:

Figure 2: EURUSD monthly chart updated with my studies

1. **Elliott Wave analysis:**

From the very beginning of the EUR back in 2000 and until 2008 the movement of this exchange rate has been an impulsive one. Impulsive means the major trend. While from 2008 what we have been witnessing is a corrective trend that in the Elliott methodology follows an impulsive one.

The two different structures can be easily seen as are divided in two separate boxes. Interesting to note **how different structures (impulsive vs. corrective) have different time and price correlations implications, harmonic patterns and easyness in trading**.

You can see that the **left hand side box has a more harmonic set of waves**, almost as if you can draw them with your hand in the air, like timing a song. It looks like in the correlation, time is a constant while it is the price aspect that tends to get wider.

On the other hand **the box on the right clearly show a more confused set of waves** with less armonic behaviour and both wider time and price swings, which makes it more difficult to trade. That is the best example of a corrective pattern.

Going back to the 2000-2008 period, the impulsive 5 waves structure is pretty easy to be spotted.

What it is worth noting are the Fibonacci Extensions taken from wave 1-2 that still today represent important supports or resistances for the exchange rate. Even the all time high at 1.60 and 6 years later, is one of the widest extension at 685% of the same starting wave set. The maginot line for the exchange rate is 1.27 which is 425% extension: every time the rate fell below it, it has been immediately taken and brought it above. It will important to see if in case of a new dip, it will be rescued again and so swiftly.

After 2008 the rate entered in a complex corrective structure characterized by lower highs signalling stronger selling pressure.

After a first ABC corrective structure, another one seems to be happening, the two divided by a lone wave called X. If the whole strucutre is correct, then we should experience a new bearish leg which should at least violates the previous low at 1.20. Using Fibonacci Extensions to find duable targets, the 100% extension of the latest bearish AB move is exactly 1.1120 which overlaps with the 261.8% bullish extension (brown line). In the chart above the bearish extensions are not drawn to avoid confusion. However I wrote the letter "C" to show a possible end target of such wave.

161.8% bearish extension will fall at 0.9536 which is very close to the bullish 61.8% extension (green line).

So it is clear that **a geometric structure of the exchange rate** and some "Fibo Zones" (zones where different fibonacci extensions or retracements overlap) have been discovered.

The idea that it is expected a bearish and deep wave C (and therefore the whole ABC corrective structure) will be dismissed only in case of a higher low from which a new bullish trend will be starting. **The most probable scenario for me will be a sideways movement for the exchange rate for some time, and then a bearish break down.**

2. **Traditional technical analysis:**

Let's consider here just the post 2008 so the box on the right side of the chart. The exchange rate is inserted in a **bearish channel limited by the purple trendlines**. It is only with the higher (than 2010) low in 2013 that it broke the consolidated pattern of hitting both trendlines.

However as of today it resulted merely in avoiding to hit the lower trendline since it actually hit the bullish one at 1.38 and at that point inverted its direction.

The exchange rate is right now in a very crucial moment, being close to the dynamic resistance with te purple trendline and the black line which supports the whole movement started with the 2012 low. It is actually a wedge and we will know which direction it will take once the wedge will be broken.

Typically **wedges tend to be broken violently, so this sort of behaviour is to be expected.**

On a larger scale the rate has been also inserted in a **bearish rectangular triangle** defined by blue lines. It is true that the rate violated the triangle upwards which should call already for bullish targets. However the breaking is not happening with increased velocity or increased volume signalling that there is no partecipation in the market for this hypotetical bullish break. Actually volume is lowering giving the opposite signal.

If this breaking will result in a mere bull trap, expect then the rate to go south and targets will be

- 1.27 euros which is 425% fibo ext. of previous bullish trend and recent support for most part of 2013;

- 1.21 euros or the horizontal blue line (61.8% of bearish A-B wave as discussed in the Elliott Wave analysis).

If the horizontal blue line will be violated than the natural target is the height of the rectangual triangle, shown with the yellow line. **Final target will be then at 0.93 the Fibo Zone previously discovered with the Elliott Wave analysis.**

In situations where a target is so far out again Fibonacci or in this case also WD Gann can come handy and it is possible **to find multiple intermediate targets** using Fibonacci retracement numbers or Gann percentiles to divide the distance in smaller targets. A violation of the purple upper trendline will probably call for a new approach on this instrument or at least a pause in order to re-evaluate the overall picture, similar to what happened with the bullish violation of the triangle.

Final note on the Commodity Channel Index here set at 20 periods, below in the chart. **The CCI is divergent with the previous 2011 high and also is in a similar overbought condition as in 2008** (black circles). This also may give indication that lower values for the exchange rate at least temporaly should be expected.

Looking at the chart it is also possible to quickly note that the post 2008 price action is a true correction (to the limit of a trend inversion on this timeframe) because there is a **different time and price correlation**. In the pre-2008 price was wider than time while moving upwards: in the post 2008 action, price moves wider (down) or equal for each unit of time.

3. Time and Price cylce analysis:

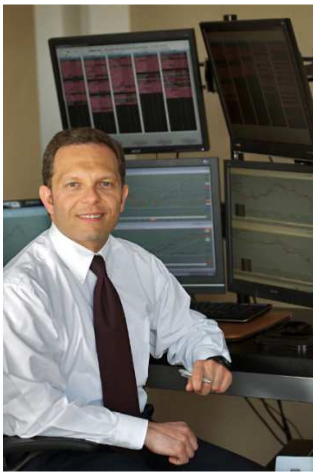
Dividgin the whole movement in two boxes what it is easy to note is a highly likely geometric correspondence well represented by the two main light blue trendlines, a bullish one and a bearish one that both have the 2008 top as common point.

Difficult to predict if such geometric relationship is going to be respected more in intermediate periods, therefore I prefer to concentrate on that relationship on the whole 87 months structure of each leg. Natural consequence of such approach is that my bias when looking at this exchange rate is a bearish one from the 2008 high to the next 87 months, up until September 2015.

That approach will change when recent highs might be violated and therefore this study, at lease this part, will have to be reconsidered, but until that moment each move up should be consider a valuable short entry for this rate, as it is right now the case: or for traditional investors those moments as well as now are perfect moments where it is convenient to deliver Euros and collect US Dollar.

Each study I prepare is a stand alone one meaning that it is not prepared after an intermarket analysis, so that a view on an instrument does not affect another one: it is interesting to note and brings additional confirmation when studies on different instruments bring similar conclusions.

That is the case with this general bearish long term bias towards the EURUSD that **is in line perfectly with other long term studies of mine, the one called "Secular Outlook"** (http://www.francescomaggioni.com/secular_outlook.php) and another one still a work in progess as of today on the **German Government Bond, the Bund.**



Mr. Maggioni has been working in the financial markets for the last 13 years covering different roles and working in tier 1 consulting companies and banks worldwide.

In recent years his studies have been focused on the psycho-emotional aspects of trading and how those aspects have an impact on traders' behavior.
Before starting this venture, he was head of a hedge fund desk at HSBC Private Bank in Monaco and before that he was employed at Credit Suisse Asset Management (CSAM) in Zurich covering the in-house single manager hedge funds.

Most of his experience in hedge funds was gained while working in a Swiss family office where he was in charge of the research and analysis as well as due diligence for US and European hedge funds. He also performed quantitative analysis and portfolio construction for several funds advised by the family office.

Prior to that he worked as an external consultant for KPMG Financial Services in the Milan office. In 2002 he has been hired by Ernst & Young LLP, San Francisco as auditor for hedge funds, auditing large single funds and fund of funds. In 2000 he joined Ernst & Young in Milan as an auditor for mid-sized companies.

Mr. Maggioni holds an MBA from IUM and a Portfolio Management degree from the University of Chicago GSB.

Useful Links:

European Central Bank:	www.ecb.int
Bank for International Settlements:	www.bis.org
International Monetary Fund:	www.imf.org
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