

Quantitative Trading & Research, LLC

Weekly Observations

Week: December 19, 2005

Disclaimer:

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Overview

This past week was a rather volatile one. With a breakout on December 12, 2005 marked the advance of the EURUSD rate above the 1.2000. The move started almost immediately at the Sydney open and was fueled in both the Japanese and European opens which showed that the move was sustainable. The spread between the open close ranges to the high low ranges was 83.42%, significantly high which yet again shows the sustainability of the move, at least for the short term. The rest of the week on the other hand was relatively mundane with small movements on both directions. A bullish Euro move did take place on Friday due to the economic numbers released on the day.

The breakout of the EURUSD from its lows has significant implications as several key technical levels were breached. These levels were also supported later in the week which shows the price is supported at those levels. Several fundamental factors can also be noted for these moves as presented later in this report.

Note: Historically this week is marked by low volume, and choppy market conditions that isn't conducive of profitable trading. This is due to the end of year holidays. QTR suggests reducing size and being conservative with trades.

Technical Picture: Macro

As seen in the technical macro picture presented below the EURUSD is still retracing from the downtrend that started early 2005. The key level to look out for will be the 1.2060-1.2070 region which is a significant resistance level. After that the key resistance level for the EURUSD is 1.2170-1.2180 level where the weekly 100 EMA resides. If these levels are breached a potential bearish USD trend can occur.

Price is supported at this present level by a variety of factors. The 61.8% retracement exists in the 1.1570-1.1580 level. The 200 EMA also exists in the 1.1700-1.1710 region which provides a support base for the price.



Figure 1.0: EURUSD Weekly Timeframe
Red=10 EMA, Light Blue=20 EMA, Green=100EMA, Dark Blue=200 EMA

Technical Picture: Intermediate

As seen from the technical picture below on Dec 19th the EURUSD broke the significant resistance level at 1.1890-1.1900 level with considerable strength. Several tests of the trend line were made on Wednesday and Thursday although it closed below it both times. However, Friday the level was breached and the close was above the trend line which is a bullish sign.

The EURUSD also broke the 100 EMA level on the daily timeframe which lies in the 1.1982 level with considerable strength. This is a bullish proposition for the EURUSD price. The 10 and 20 EMAs also made a steep bullish cross which indicates strong momentum in price. The 200 EMA lies in the 1.2162 region.

The only red flag that can be noticed is the fact that from Dec 14th lower highs and lower lows were made which is a bearish price action.

Bullish Proposition

Next week if price closes above the trend line (1.2020 or above) the key level to look for will be the high made on Dec. 14th which happens to fall on a long term resistance level at the 1.2060-1.2070 region. If a close above this region is made, it signals the next stage of the bearish USD level this week.

Keep an eye out for the 1.2110-1.2115 region which is the 50% retracement level on the daily timeframe. This may prove to be a resistance level for the price.

Bearish Proposition

If a close below the trend line at 1.2020 is made then it signals choppy action to occur for much of the week as price is “sandwiched” by two opposing trend line between 1.2020 and 1.1900. However, if a breach of the 1.1900-1.1890 level occurs that signals a bullish USD stance for the week vs. the EUR.

Keep an eye out for the 1.1860-1.1850 region which is the area of the 23.6% retracement level on the daily timeframe. This may prove to be a support level for the price.



Figure 1.0: EURUSD Daily Timeframe

Red=10EMA, Light Blue=20 EMA, Green=100 EMA, Dark Blue=200EMA

Fundamental Picture:

This week marked several key developments in the economics landscape that justifies a bearish USD proposition on the macro timeframe. Development in both the US and in Europe marks several indicators and statements from officials that can be used to formulate a bearish USD fundamental landscape.

This week the Fed increased the overnight lending rate yet another 0.25% to 4.25%. However, it was noted that the statement released by the Fed wasn't customarily cautious in nature which hinted that the Fed is reaching closer to the rate hikes. This supports the USD bear proposition as much of the gains in the USD could be noted to the increase in interest rates by the Fed vs. the Euro. The ECB raised interest rates by 0.25% on Dec. 1st and has said that rates still are relatively hinting there may be further rate hikes. This will further justify a bullish EUR vs. USD position as the yield of the EUR increases to that provided by the USD. The USD yields 2% more compared to the EUR.

The Ifo Institutes' business confidence index rose to 99.6 from 97.8 showing signs of investor confidence in Europe. As the overall economic picture improves in Europe an increase in capital flow into Europe may be expected. This will result in a bullish EUR move vs. the USD.

Key Economic Releases

<u>Date</u>	<u>Time (GMT)</u>	<u>Release</u>
19 Dec.	10:00	EUR Industrial Production
20 Dec.	09:30 13:30	EUR Trade Balance USD PPI Core
21 Dec.	13:30	USD GDP
23 Dec.	12:00	GER CPI Prel.