Flash report EURUSD

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"Quantitative approach for asymmetric results"

As equity markets tend to be more difficult to predict in this inflated and manipuleted (for our own good, bear in mind!) environment, there are places where such intrusion is less powerful and therefore enables a better understanding of where markets may be headed to.

One instrument is the exchange rate between EURO and the USD. To many insiders of financial markets, this is more a financial rate of exchange, unlike the USDJPY which is more of a commercial rate of exchange, even though a bit influenced by the still "alive and kicking" carry trade (the same one that helped the 2007 financial crises to be so powerful and devastating).

Above you can see a monthly chart of the exchange rate since its beginning, in 2002.

There are two main scenarios that I can foresee as of now: both have an ABC pattern from the Elliott Wave theory, both also share the top of 2008 as top of wave A.

The first scenario takes into account that the whole movement started from the top of 2008 is a rectangular triangle, typical classic techincal analysis formation. In this case the triangle is a bearish one, since the longer horizontal side is on the bottom. The bullish one would have had such longer side on the top.

If finally the low around 1.20 will be violated it is possible that the bearish target will be the width of the triangle, showed by the orange vertical line.

Interesting enough, such line would bring the exchange rate almost to print a double bottom, around 0.90 to the dollar. As a time target, that level could be reached in a quite fast manner, around June 2014. That should not be a surprise, since the previous movement, from top to bottom lasted in fact four months only (July to October 2008). That would be in line with those who are predicting a new (and in some aspects much worse) financial crises. In fact, bearish movements during crises tend to be as much sudden as powerful.

However from that low, which will be the completion of wave B the exchange rate would start a new bullish trend, the missing wave C, which typically is equal to wave A in time and price. If that will be the case, we will witness a double top or a new all time high of the exchange rate, violating the 1.60 briefly. Time target here is around October 2020.

<u>The second scenario</u> is much less dramatic, which might also mean a less complicated future for equities from now on.

This scenario is based on the fact that from top of wave A in 2008 has been unfolding an inverted head and shoulder, now fully completed. Left shoulder is the August 2008 low, then the head is the June 2010 and right shoulder is the July 2012 low.

The inverted head and shoulder is a bullish formation: currently in order to have a long signal triggered, the exchange rate should violated the horizontal resistance (purple horizontal line). It is true that such line is above the neckline which is the real trigger level, but in order to avoid at least major false signals, I would prefer to wait that horizontal line to be violated to consider the formation and the signal triggered.

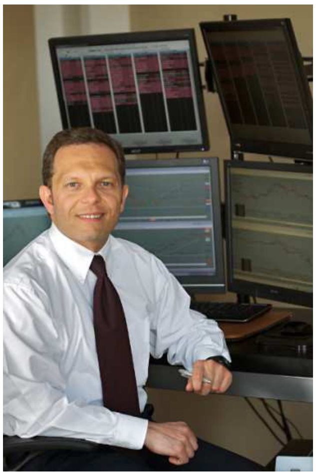
If that will happen, the typical target of this bullish formation is the trasposition of the width of the head from the point of violation of the neckline (blue line called C').

Again, we see as a possible price target a double top around 1.59 or the breaking of 1.60.

To find a possible time target, the angle of the blue line from a 90 degree one has been lowered to match the angle of the previous movement, wave A. Since in the Elliott wave theory wave C equals wave A, that is a correct approach. The result is a time target of June 2016.

It is true that the two scenarios are quite different with different price and time targets. Personally I find more comforting the search for multiple scenarios in order to be prepared for almost, any circumstance.

In the next few months we will see the evolution of this exchange rate, and subsequently the one of the equity markets.



Mr. Maggioni has been working in the financial markets for the last 11 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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