FOREX CRUNCH

Presents

Forex Outlook Q4 2011

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Introduction

Welcome to the first quarterly forex outlook from Forex Crunch. This report was born out of various requests that I've received recently. The length of this report makes it unsuitable for the site, thus this mini eBook format is a better fit.

The essay begins with a summary of the Q3 2011, which was a highly volatile quarter. It then continues with a deep analysis of the main market themes that have an impact on all currencies.

Specific currency outlooks follow. Each currency outlook consists of two parts: a fundamental overview and a high time-frame technical analysis.

A timetable of key events in Q4 and some extra additional notes for forex traders wrap up the report.

As this is the first report of its kind, it is still somewhat experimental and future versions may include significant changes. Feedback is more than welcome. I'd love to hear your comments at yohay@forexcrunch.com.

Disclaimer

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Summary of Q3

The third quarter of 2011 was one of the most volatile quarters seen in quite some time. The pace of events was rapid, and so was the volatility in currencies.

July – Sowing the Seeds

It didn't begin so fast though: July was a month of more leg dragging, that had implications on the following months and will have implications in Q4.

Optimism about strong US growth in H2 2011 was still high, at least at the Federal Reserve. In Europe, ECB President Jean-Claude Trichet was still wary of rising prices (though driven mostly by external factors such as commodity prices) and decided to raise the rates. This came despite early signs of economic slowdown and the end of QE2 in the US at the end of Q2 2011. Also the European stress tests have shown that everything is great, although given their failure in 2010 concerning Ireland, there was enough room for doubt.

The EU summit on July 21st still has an impact on markets today. The leaders introduced new powers to the European bailout fund, the EFSF. This included an ability to buy bonds in the secondary markets in order to prevent contagion to Italy and Spain. Both countries saw their yields touch unsustainable levels (above 6%), and both countries are "too big to bail" in the current framework.

Sarkozy, Merkel and other leaders also introduced a second bailout program for Greece (€109 billion) as it became clear that Greece could not return to the markets. The plan introduced a Private Sector Involvement (PSI) for Greece. The translation is a restructuring of Greek debt with bondholders taking a 21% voluntary haircut. This move will prevent triggering of CDS but does not convince everyone that Greek debt will become sustainable under this program. An announcement of a "Marshall Plan" for Greece was also declared with fanfare.

The July 21 decisions have not been fully approved at the time of writing, and meanwhile conditions have deteriorated and the shadow of this agreement still looms over Europe.

Another drag legging event was the raise of the US debt ceiling. Politicians in Washington made a lot of noise and eventually reached an agreement at the last moment. This agreement had an immediate effect in August and is likely to make a comeback in Q4.

August – Canary in the Coalmine

Normally, markets are slow during this month, when many go on vacation. This time it was totally different and currencies began to go wild.

The implications of the US leg dragging resulted in a historic downgrade of the American credit rating by S&P. This move, made over the weekend, ignited a global crash in stocks as fear took over. The result of fear was the opposite of what you would expect from a credit rating downgrade: US bonds became the hot stock. Also the dollar began to find a bottom.

Two major attempts to stabilize the markets happened: the ECB announced significant bond buying of Italian and Spanish bonds. This move was very successful: it not only sent yields lower in the secondary markets but also helped both countries raise cash more easily in the primary markets. But, European banks began to show signs of weakness, mostly due to the Greek crisis. Their shares fell, building up for the fall of the euro afterwards.

A second move was seen on the other side of the Atlantic: Ben Bernanke introduced a conditional pledge to keep rates at a low level until mid-2013.

But this is as far as Bernanke would go. At the Jackson Hole Symposium he did not provide any hint of QE3, what the stock markets, commodity markets and risk currencies were waiting for. The big statement that did come out of that conference in Wyoming was a stark warning by IMF Managing Director Christine Lagarde about the situation of the banks and the world was entering a "dangerous phase". She was snubbed, but her warnings are high on the agenda in Q4.

The dollar remained relatively stable, but the Swiss franc gained more ground on safe haven flows.

September – The Meltdown

When everybody indeed returned from their vacations, the moves were huge. It began with the Swiss National Bank, which finally had a successful intervention in the markets. They sent the franc 10% lower, placing a floor under EUR/CHF at 1.20. The floor is moving up and the move had and still has strong implications on the dollar.

In Europe, the ECB finally acknowledged that the tables were turning and significantly lowered forecasts. This gave a push higher to the dollar across the board. In the US, weakness was confirmed with a report of no job gains in August. This was revised later on, but the worries remain.

And Greece – the debt struck country missed its targets once again in the recurring crisis: every quarter and its Greek crisis. The EU / ECB / IMF troika left the country. Greece introduced more austerity measures but admitted that it will not reach its targets. At the IMF meetings in Washington, reports talked about taking a different approach, and preparing for a Greek default at the beginning of November. There are many signs that point to this direction.

Despite the hints, Bernanke did not introduce a third QE plan in the US, but only "Operation Twist", a move to lower long term interest rates, even though they are already very low. The disappointment, though unjustified, was huge. Stocks crashed and the dollar soared against almost every currency. The exception is the yen – the only safe haven standing.

Global Themes

Most of the themes seen in Q3 are relevant in Q4 as well with another major theme emerging.

European Debt Crisis

For a long time, it is not only Greece. Ireland and Portugal have also received bailouts. Spain and Italy have received help from the ECB. European banks, exposed to indebted countries, are about to get bailouts from the governments. Dexia was probably only the first.

The official line is that Greek will continue to adjust its budget and meet the goals of the bailout program, as agreed in the July 21 summit. Greece is still awaiting the upcoming tranche of aid, €8 billion, according to the first plan. Even if Greece indeed receives this tranche to get it along in the meantime, this will probably be the last one before the default.

The theory of an **orderly Greek default at the beginning of November** (6 weeks from the IMF meetings) has the highest chances. And here's why:

Signs Leading to an Orderly Solution

- **Austerity doesn't work for Greece**: Some blame the government in Athens is incapable of delivering on its promises. Others say that the austerity imposed by the EU and the IMF was too harsh, and placed Greece in a spiral of lower growth, lower taxes, higher debt, more loans, more austerity, rinse, repeat. There is some truth to both sides of the story. Bottom line: if adjustments are needed each quarter, the program doesn't work.
- **The Greek people cannot take it anymore**: Protests in Athens are becoming louder and louder. The government is finding it harder and harder to pass new measures in parliament. The Greek Prime Minister reportedly considered resigning. Greeks were ready to sacrifice when they saw the light at the end of the tunnel. But the tunnel provides only more sacrifice. Where is Greek growth? Where is the Marshall plan that was discussed on July 21st?

- **Global conditions have deteriorated**: It is not only the financial markets. The whole world is slowing down. This includes Europe, the US and China (detailed later on). Can Greece grow its way out of the crisis? The debt is only rising and the GDP is falling. Sustainability is too far out of the tunnel.
- **PSI Fading Away**: The voluntary haircut that bondholders were supposed to take on Greek debt isn't finding volunteers. 90% participation was expected, and this hasn't been reached. This is another sign that the plan is falling apart.
- **European leaders are focusing on the banks**: After the Franco-Belgian bank Dexia became the first bank domino to fall among European banks, the focus shifted to the banks. But it is not only Dexia: there were lots of warning signs about other banks. The shift to the banks fit perfectly well with the concept of a Greek default at the beginning of November. So does the revelation that Greece has money until that period of time, after mid-October was the drop dead date.

4 Scenarios for the Greek Crisis

The timing is around the G-20 meetings and coincides with the aforementioned reports that came out of IMF meeting. This scenario has a high probability due to all the factors mentioned above. It will require a double ring-fencing. The leaders of the world, not only Europe, will need to help with preventing a default contagion to Portugal, and more importantly to prevent deterioration in the situation in Spain and Italy. In addition, they will need to be serious about shoring up the banks. This will cost a lot of money that Europe finds it hard to find. We'll start with two options for an orderly default, and continue with more options.

1. **Elegant Orderly Default**: The Slovaks still need to approve the new EFSF powers, but let's be optimistic. Assuming that the EFSF has enough powers by then, it can handle part of the weight, and the rest will fall on the ECB and perhaps international aid. Such coordinated action will have a very positive effect on a comprehensive solution to the European debt crisis. In addition, the ECB will avoid diving into QE. So, the dollar is likely to fall across the board, and the euro will run free. The world will cheer such a

solution. The yen will the only currency to fall, and this will be received with delight by the Japanese as well. Chances aren't high for this "too good to be true" scenario.

2. **Non-elegant Orderly Default**: Global coordination is hard to find these days and it may be quite limited. Even if the EFSF is ready by then, the ECB will still have to carry most of the weight. It is the only body that had powers to stop the contagion to Italy and Spain, and can print euros to stabilize the system now. Up to now, the ECB avoided printing money, an American / British style QE program, even though the euro-zone needed it most. If it will find itself holding the dam in the domino effect that will start, the ECB will have to print money. In such a case, the dollar and yen will still likely drop after a solution would be found, but the euro would not ride. Printing money means a weaker currency.
3. **More leg dragging**: As aforementioned, there are many signs that leaders are moving towards a solution, but given the past, this scenario has good chances as well. Greece will get the next tranche of aid, but nothing will be solved. Procrastination at its best. Applying the same failed policies again and again? The outcome will not be different. Distrust will prevail, the dollar and yen will probably gain and the euro will continue to fall, continuing the trends seen leading up to this quarter.
4. **Disorderly default**: This has low chances, but markets are usually moving faster than politicians. Only some of the dominos are known. One of the biggest "known unknowns" is Credit Default Swaps (CDS). The severe situation in European banks is being revealed too slowly. A disorderly default of Greece could lead to a disorderly bankruptcy of one or more major European banks. A move to save the banks by the national governments, as we've seen in Dexia, will likely lead to a credit rating downgrade of major countries such as France. Also Germany's AAA rating is endangered. US banks may not be immune. This is the "Lehman moment" that is the worst case scenario, even if it's in slow motion. In such a scary sequence of events, the euro will crash, the dollar will leap across the board and the yen might stabilize only after a big intervention by the BOJ.

The assumption is that Greece will not leave the euro-zone, at least not in Q4, although there are many reasons to believe why leaving the euro-zone will help the country. Why? The euro zone does not have an exit mechanism. Arranging a Greek exit will take too much time.

In addition, the political will of keeping everybody together is very strong. In many cases, it is stronger than any logical straightforward economic thinking. This political will is likely to keep the euro zone from breaking apart in the long run. In any case, if Greece eventually leaves the zone, Q4 is too early.

Chinese Landing

The question of Chinese growth will probably see more focus and have a stronger impact on currencies in Q4.

Background

China has been growing at a rapid pace for many years. The financial crisis of 2008 just strengthened its role as a global superpower, and it is now positioned as the world's second largest economy after the US. As Europe slowly sinks, Asia, more power is moving to Asia, led by China.

However, sustainability is the key here, as it is with the Greek debt. China is the manufacturing house of the world and leans heavily on exports. These exports require demand overseas. What happens when that demand falls? Many experts say that the economy should change, and lean more towards domestic consumption. Sounds nice in theory, but even for a very centralized country with tight control over the population, making such a shift in a huge country with a huge economy is quite hard.

China hasn't done it, but it still expected to contribute a large portion of global growth in the future and carry the whole world on its back. This doesn't seem possible. In Q3, initial signs of Chinese contraction in the manufacturing sector have appeared, reflecting a drop in global demand.

Unfortunately, other things in China aren't much better. Although the level of transparency is lower in the economic giant, reports are emerging about trouble

that the West has already experienced: a real estate bust. Houses and offices were built at a rapid pace, but the demand within China is not high enough. Demographic control is only one part of the story.

Another part of the story comes from supply partially ignited from stimulus plans. These may have helped save China from the crisis, but have caused unwanted side effects. The result is of a credit crunch. There are reports about high indebted people that have disappeared or committed suicide.

I do not expect the whole country to collapse. A “hard landing” or a “Chinese Crash” will probably be avoided by smoothing action from the government. But also a “soft landing” meaning a significant slowdown or even contraction will have strong implications on the global economy and on currencies.

This process is long, but we will probably be getting more and more reports about the landing of the Chinese economy and analysis of this will be more frequent

Landing Scenarios

1. **Soft Landing**: This means slower growth rates, but still much higher than Western growth at its best. The Australian dollar is not likely to ditch this landing, even if it is feather-soft. Australia is very dependent on China, especially with commodity exports, such as iron ore and copper. With less building in China and less exports of Chinese goods, the Australian economy is likely to take a blow. This is the most sensitive currency. The New Zealand dollar is likely to partially follow the path in such a scenario. The general impact will remain the same: bad news from China means risk averse trading, while better news, if believed to, means risk appetite.
2. **Medium Landing**: This means Western growth at its best, but nothing more. Apart from the Australian dollar that will be beaten, the kiwi will find it hard to hide as well. This may have a counter-effect as well: the pressure in the US for action against China as a currency manipulator is likely to drop. Less tension on that front means some more global stability. The European hopes for Chinese aid in the debt crisis will fade in this scenario and the euro will feel it in a stronger manner.

3. **Medium-hard landing**: A drop to a low growth rate and a significant domestic real estate crisis are not likely in Q4. If they do occur, this can trigger talk about another global shift: back from Asia to the US. The yen will not remain a safe haven currency, at least not as strong. In addition, the world will lean back on the US to guide the globe to the next recovery, even if it will not be so close. So, a stronger greenback is likely, especially against the Aussie and kiwi, but even against the yen.

A hard landing, with an official recession in China, seems off the cards for this quarter. But as aforementioned, signs about the character of the economic change in China are likely to gain more traction now.

US Recession

Even with a soft landing in China, the economic situation in the US will continue to dominate the headlines and all currencies.

The world entered Q4 with a deep gloom and doom mood. But a recession in the US isn't a done deal. The economy still managed to grow in Q2 and probably grew in Q3. The Q3 GDP releases and also the Non-Farm Payrolls reports throughout Q4 will have a very strong impact not only on the direction of currencies but also on the character of trading.

Escaping Recession Scenario for Currencies

The current mode is the "risk mode", whereas negative US figures push the dollar higher on risk averse trading, and positive figures weaken the dollar on risk appetite. A reasonable annual growth rate, of 1.5% or more, and a continuation of job gains, even if they are small, can tip the character of trading towards a "normal behavior": dollar gains on positive figures and dollar weakness on negative ones.

GDP is far from reflecting the real economic situation in the US. For anyone looking for a job, also the official unemployment rate of 9.1% is far from reflecting reality. The "real unemployment rate" (U-6) which also counts people that are too

discouraged and too desperate to look for a job, has soared to 16.5%. Gains in Non-Farm Payrolls are hard to quantify in reality and tend to undergo significant revisions. Nevertheless, a big gain of above 200K jobs in the initial read (even if revised downwards at a later date) can make a shift in the current patterns of reactions to news.

Deeper Gloom Scenario

On the other hand, the risk averse trading can intensify if Q3 falls below 1%. A first contraction in Q3 after 2 official years of recovery will likely push the dollar and the yen higher in a stronger manner than we've seen so far.

One of the things that can accelerate these moves is another leg down in the price of oil. Prices have deteriorated in the past months, but still haven't fallen to low levels seen back at peak of the 2008 financial crisis. A drop under $60 in WTI Crude Oil will contribute a lot to a stronger dollar.

QE3 Still on the Cards?

If the this economic depression is extremely strong, it can turn against the dollar. How? With a third round of Quantitative Easing. One of the official goals of QE2 was to prevent the US from falling into a deflation spiral. In this scenario, prices are falling, and people are not buying, awaiting another drop in prices, something that winds the economy down with no escape doors.

One of the main reasons not to embark on QE3 was that the goal of preventing deflation was achieved. QE2 caused a rise in global commodity prices, but also caused a rise in other US prices. The Federal Reserve eyes "Core CPI" and this is also on the rise.

But a significant depression can tip prices back down and the Federal Reserve might return to expanding its balance sheet with more buying of bonds. As yields are already extremely low, this will not help lending, as previous rounds failed to ignite this part of the economic process. But a fight against the demon of deflation can be enough for the doves to convince the hawks at the Fed to "do something", especially as the government's actions are limited (detailed later).

The chances of an announcement of a QE3 program in Q4 remain very low, yet a fast deterioration in the situation may cause the Bernanke or his colleagues to speak or hint about this option, and this could be dollar negative.

Political Noise Level

In the current situation, there is little that the Federal Reserve can do to help the economy. Bernanke already admitted that monetary policy is a powerful tool, but no panacea. He is repeating hints about needed government action many times in recent months.

US President Barack Obama presented a program to get America back to work. This includes infrastructure works that directly provide jobs and ignite spending. Other measures are indirect and will not necessarily yield any immediate movement in the economy. In any case, there are significant doubts if these plans can pass through Congress. Even If this does happen in Q4, this will probably be a watered down version. Obama will also try to push a tax on the wealthy. And also here, opposition will be strong.

Another theme is the debt ceiling, which is due to return to the agenda. The bipartisan committee is supposed to lay out a program to cut $1.5 trillion of deficit reduction by late November. A failure to reach an agreement and to pass it as is through Congress will trigger automatic cuts across government. This includes a cut in the defense budget.

A failure to reach an agreement according to the debt ceiling deal might not necessarily be bad for the dollar or for the economy. With the US army spread all over the world, a cut in the defense budget and a reduction of the US debt might be cheered by the markets, even if achieved by disagreement rather than by an agreement.

The difference for the dollar will be in the amount of noise produced.

If headlines of political bickering take over the global business news, the US will be seen as unable to deal with its own economy. Is decision making hard in the

European Union? It isn't that smooth in the US. Another credit downgrade, by S&P or by another agency cannot be totally ruled out.

On the other hand, a non-agreement can be reached in much more quiet manner. Politicians may accept (without admitting) that the automatic cuts are the desired path, and will just let it happen without too much noise. In addition, there are other things going on in the world. Less time for US politicians in the limelight will probably result in a stronger dollar.

The same goes for Obama's plans. A passage of the plans will show that the US is doing something, and no approval, especially with significant political bickering will show that America is somewhat lost. But if things are quietly delayed, the result may be quite positive for the dollar in the global storm.

The Bigger Debt Problem

Government debt isn't the worst problem in the US. Mortgage debt is a much bigger problem. Many people struggling to pay their mortgages that are larger than the value of their homes. Refinancing is hard to do and will only cut part of the burden. With no jobs or with jobs that pay little, consumption is depressed.

A serious solution for the US economy needs some kind of radical debt restructuring for the housing sector. What cannot be paid needs to be acknowledged, exactly like with Greece.

The big question is how. And like with Greece, the banks that gave these mortgages need to be handled carefully.

Such a radical solution isn't likely in Q4, and probably not at all.

Currency Outlooks

This section consists of a fundamental country specific outlook and a high time frame technical analysis for each currency against the US dollar. The situation in the US has already been discussed, so the first part concerning the US dollar is only technical, referring to the US Dollar Index.

- All the charts are weekly charts.
- A description on the lines follows each section.
- For shorter term outlooks, please follow the weekly outlooks on Forex Crunch, linked in every section.
- If you prefer to view the charts on a web page, just click on the image.

US Dollar Index

After trading sideways for quite some time, the US dollar Index leaped higher and already made more than 100% of the previous range in gains.

The index is rising in a steep channel and has returned to levels seen at the beginning of the year. The steepness of this channel means that a breakout will occur sooner than later.

Lines

85 is a round number that provided some support when the index was trading at a high level during 2010. 83.50 was the peak of an upwards move in the middle of 2010, before QE2 became reality.

81.30 served as peak at the beginning of 2009, at the beginning of 2010 and at the end of 2010 / beginning of 2011. This is a very strong resistance line.

The round number of 80 also served as a bottom twice in 2010 and is the next big resistance line. 77.50 is the next big support line. It worked as both support and resistance in 2009.

76 capped the long range trading of the pair in 2011 and is strong support. 73.50 was the bottom border of that range. The year to date low of 72.69 is the last line.

For the major market movers, see the Forex Weekly Outlook.

Euro

Recession in the euro-zone

The debt crisis, discussed in depth earlier, is weighing heavily on the economies in the euro-zone, but is not the only factor. Here are two more factors that will weigh on the common currency, when the debt crisis takes a break from the headlines.

Recession

Q2 saw a very low level of growth: 0.2%. Germany grew by only 0.1% and the economy in France stalled. There were further signs of slowdown throughout Q3: purchasing managers’ indices, business confidence, consumer confidence, consumer spending and almost any economic indicator pointed to the downside. This leads to a report about contraction in Q3 spilling into Q4 and turning into an official recession.

Rate Cuts

The relatively high headline inflation caused the stubborn ECB to raise the rates and leave them high. This also hurt growth. The ECB already acknowledged it but hasn't acted yet. Mario Draghi's first unfortunate task will be to lower rates. This move will likely be frowned upon by the inflation hawks in Germany, that will see an Italian executing loose policy, but at the current situation, there is little choice. A rate cut will also weigh on the euro.

EUR/USD Technical Outlook

The very wide channel that begins in 2008 is trending down, and the pair is in the middle of it. Uptrend support which accompanied the pair since mid 2010 was also broken recently to the downside. So was the downtrend during 2011, although this channel is less distinct. All in all, channels points lower.

Lines

The post crisis peak of 1.5144 is the top line in the current horizon. The 2011 peak of 1.4940 is a significant line as well.

1.4282 was the peak of the surge in November 2010 but is more of a pivotal line than real resistance now. The swing low of 1.3838 seen in mid 2010 was also of important at the beginning of 2010 as a cap and as a separator back in 2008.

The 1.3430 was also an important separator and the failure to recapture this line recently is another bearish sign. The round number of 1.30 isn't of technical importance, but will be closely watched.

1.2873 was the trough of 2011 and is significant support. 1.2587 is important support below.

The first post crisis bottom at 1.2330 is becoming old, but still worth mentioning. Below 1.20, the 1.1876 bottom seen in 2010 is a very strong line.

The last line is symbolic: 1.17. This the launch price of the euro in 1999.

For more on the euro, see the **EUR/USD Weekly Outlook**.

British Pound

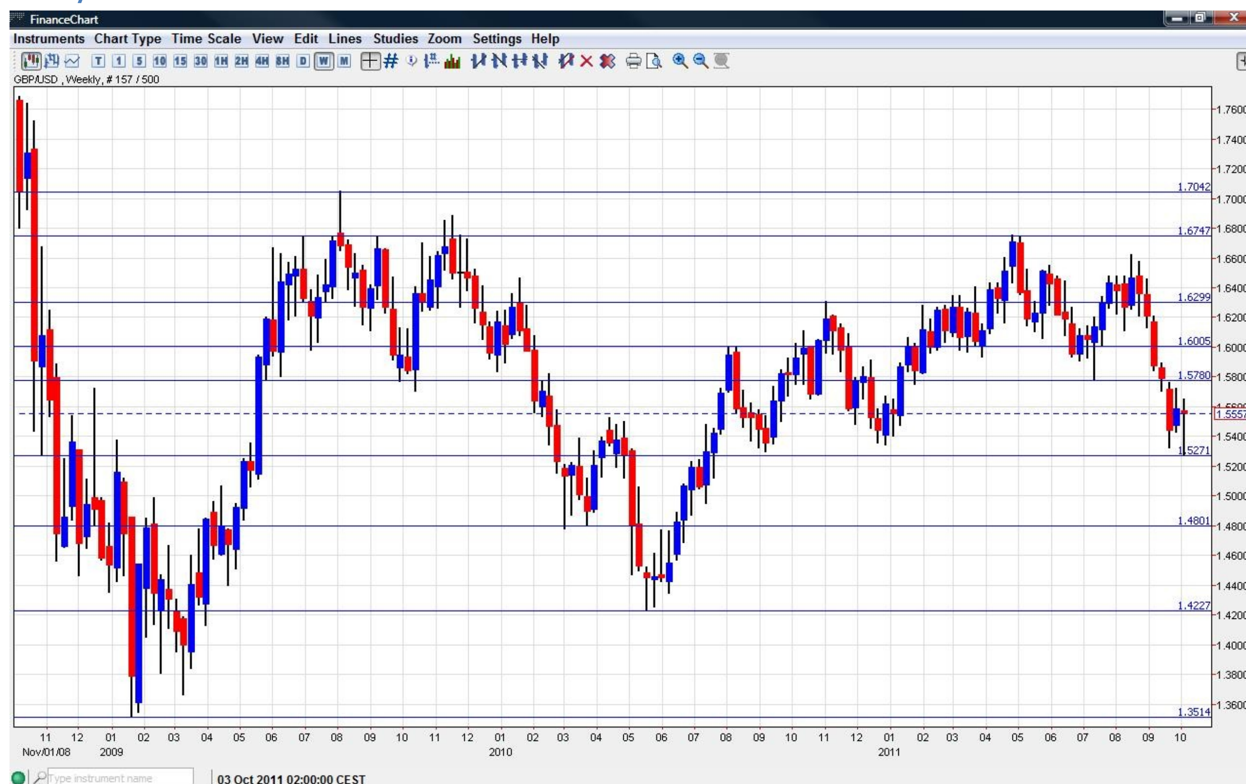
Easing in a Quantitative Manner

The BOE decided to expand the Asset Purchase Facility (QE program) by a large sum of 75 billion pounds, more than the most dovish member, Adam Posen, had voted for during many months. The decision still was announced, but the full effect is still to be felt.

Similar to the US, there is little that the central bank can do at this stage. Yields are already low, and austerity measures are hurting the British economy. The only positive result will be for British exporters, which will likely enjoy a weaker pound.

The overall situation in the economy isn't good: Q2 growth was only 0.1%. Unemployment is on the rise, and PMIs are on the verge of contraction. A British recession is not imminent, but there are high chances of this happening. Even without a recession, the QE program and the struggling economy will likely take their toll on the pound.

GBP/USD Technical Outlook



Pound/dollar tended to trade in ranges for long periods of time. It is now out of its comfort zone.

1.7042 is the post crisis peak reached during 2009 and never sought again. It is right above the round number of 1.70. Below, 1.6750 was the peak of 2011 and also had a similar role during 2009.

1.63 was a peak in 2010 and later worked as a pivotal line. The round number of 1.60 also had a significant role and a recapture of this line can be a bullish sign.

The trough of 1.5780 was of high importance in 2011 and also in 2009. The recent bottom of 1.5270 is just below a similar bottom seen in 2010.

Below the round number of 1.50, we find 1.48, which provided an important cushion at the beginning of 2010. The bottom of 2010 at 1.4227 is significant on a big downfall. Last but least, we find the post crisis low of 1.3514.

For more on the pound, see the **GBP/USD Weekly Outlook**.

Japanese Yen

Safe Haven Trap

Japan is contracting since Q4 2010. The devastating March 11 catastrophe is still felt in the country. While supply chains have been restored, growth is hard to find. In addition, the strength of the Japanese yen makes exports less competitive.

The authorities in Japan have staged quite a few interventions to weaken the yen. The coordinated move in March had longer lasting effects, but the end result was a stronger yen once again.

Why? The yen is a safe haven currency and without justification. Yields are indeed low and no "hot money" is attracted, but the huge debt of the government and the squeezing economy don't justify such strength.

After the Swiss authorities managed to execute a successful intervention, the Swiss franc not only weakened and kept its new value, but also lost its safe haven status, putting more pressure on the yen.

Two things can lift the pressure from the yen:

1. A comprehensive solution to the European debt crisis: Only a very impressing and coordinated deal can shift money enough money to risk currencies and away from Japan.
2. A Swiss style intervention: If the Japanese follow their Swiss counterparts with a pledge to "not tolerate" the excessive strength of currency and to allocate unlimited amounts of cash, the yen can rise.

A scenario where markets realize that Japan isn't so attractive isn't unlikely in Q4

USD/JPY Technical Outlook

Dollar/yen is in a long term descent that began many years ago. Yet its current trading is very flat and very stable. Could this be the bottom? Previous zones have proven wrong.

Lines

88 was a double bottom back in 2010 and looks very high. 85.50 was the peak in 2011 after the coordinated intervention.

82.87 was the line where the BOJ intervened in September 2010 and it played a role afterwards as well. The round number of 80 was strongly guarded for some time and remains of psychological importance.

78.20 is an important hurdle in the shorter term. 75.95 is the current all time low.

The round number of 75, in uncharted territory might test the patience of the BOJ. A failure to guard this line has a potential of throwing the pair towards 70.

For more on the yen, see the **USD/JPY Weekly Outlook**.

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Swiss Franc

Just another European Currency?

As aforementioned, the huge intervention to weaken the franc not only changed the course of the franc, but also relieved it of its safe haven status. The SNB has now even more appetite, and is reportedly considering lifting the official floor under EUR/CHF above 1.20. The already higher levels of the pair indicate that it is already acting. A move to lift the floor to 1.30 or even to a greedy 1.40 cannot be ruled out. In such a case, USD/CHF will also enjoy these moves.

In addition, the Swiss economy is also feeling the global slowdown. This also points to a lower Swiss franc against the greenback.

On the other hand, it is important to remember that the franc can reclaim the safe haven status as it happened in the past, and its economy can bounce with the effects of a weaker franc.

So all in all, the direction is for a weaker franc, but the scale will likely be more limited.

USD/CHF Technical Outlook

The steep downtrend channel that the pair encountered during 2011 was broken and replaced by an even steeper uptrend channel, which casts doubts about its sustainability. Volatility is extreme.

Lines

High in the sky, 1.17 was a stubborn peak in mid 2010. Given the strong intervention and high volatility, it is worth mentioning. 1.09 capped the pair during 2010 and provided support beforehand.

1.0435 was support in 2010 and an area of struggle. Just above parity, 1.0066 was an important attempt to recover, and the beginning of the downfall.

0.9783 was a double top and provides strong resistance. The round number of 0.95 worked as support and has psychological importance as well.

The round number of 0.90 has a similar role, just on the downside. 0.8650 is worth mentioning on the downside. It served as support before the collapse and afterwards.

Further below, 0.8330 was a strong line of support. 0.7820 is the final frontier before the big plunge to the all time low at 0.7066.

For more on the Swiss franc, see the **USD/CHF Weekly Outlook**.

Canadian Dollar

Hope for the Loonie

The Canadian dollar is in a more interesting situation, with factors pulling in opposite directions, but the tendency is for a stronger currency.

- **High dependency on the US**: The Canadian economy moves with its largest neighbor. Higher demand from the US means a stronger economy and a stronger Canadian dollar, while a US recession will take the loonie down with it. This is a much stronger factor than oil.
- **Positive economic signs**: The excellent employment report for September and the GDP growth in July 2011 are nice signs in a world of doom and gloom. The chances of Canada entering a recession are lower than other countries. This is a positive for the C$.
- **Falling price of oil**: While less significant than the US demand, the Chinese landing may significantly lower the price of oil and weigh on the Canadian dollar.
- **Rate cuts?** The global slowdown may cause the Bank of Canada to lower interest rates from the 1% level. A level of 0.25% already seen earlier during the financial crisis is certainly an option. Positive economic signs may delay this decision, but it may come as part of a coordinated global action.

All in all, the prospects for the Canadian dollar are quite good, although the situation is complicated.

USD/CAD Technical Outlook

The Canadian dollar was trading at a higher value than the greenback during a large part of 2011, but things have changed now. Apart from parity, there are quite a few other important areas to watch.

Lines

1.1124 was a stubborn area of resistance during 2009 and is still far. 1.0850 capped the pair in 2009 and 2010 and remains of high importance.

1.0677 also worked as strong resistance for many days, and was tackled again recently. The round number of 1.05 is an area of struggle.

The 2009 trough of 1.02 is still of importance on the downside, on the way to parity. Below the obvious line of parity, 0.9930 was a bottom in 2010 and its region is to be noted now.

0.9667 is a pivotal line on the way down, after working as support. 0.9406 was the lowest post crisis level, and is the ultimate support line.

For more on the Canadian dollar, see the **USD/CAD Weekly Outlook**.

Australian Dollar

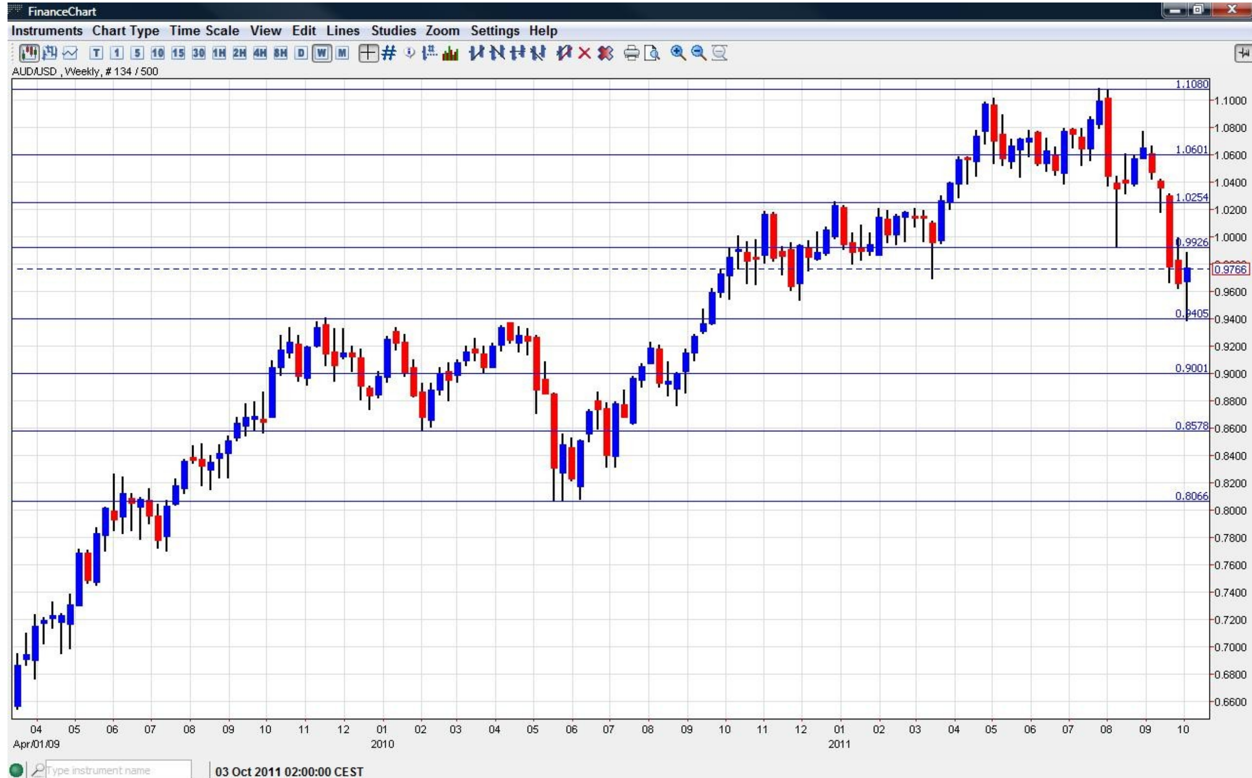
Landing with China

The Australian dollar excels in volatility, but its performance is questionable given the global slowdown. It has room for more falls.

- **Australia is highly dependent on China** and is sometimes perceived as proxy for trading China. The Chinese landing, no matter how soft or hard, already has an impact on Australia, and will likely be the main factor influencing the price of A$.
- **Commodity prices are falling**: China has an important role in demand for commodities, but it's not only the economic giant. Demand for copper, iron ore and also gold that Australia mines is not sustainable.
- **High interest rate**: This used to be an advantage for Australia, drawing money looking for high yields and the carry trade. But when the tables turn, this also means that rates have a lot of room for falls. Rate cuts can happen as early as Q4 2011 and may be large: 0.50% instead of the standard 0.25% moves. Lower rates will also weigh on the Aussie.
- **Housing bubble**: There is a heated debate of whether Australia has experienced a housing bubble. The fact that prices were rising during a period where house prices crashed in other parts of the world, and the low level of AIG's construction index point to a bust now. Even without a bust, dropping house prices do not support the economy.

All in all, the Australian dollar faces strong headwinds.

AUD/USD Technical Outlook



With the high volatility of the Aussie, there are many lines to pick from. The Aussie fell off a cliff, but is now bouncing in the air.

Lines

The float-era high of 1.1080 is the ultimate line high in the sky. It wasn't a swing high but rather a significant hurdle. 1.06 was a pivotal line in the range and an area where the downfall began.

The peak of 2010, 1.0254 is of high importance if parity is recaptured. Below parity, 0.9926 was a swing low and also a stepping stone on the way up.

Below the recent range, 0.94 is a recent trough and also the cap of a long term range that lasted in 2009-2010. The round number of 0.90 will is of psychological importance.

0.8578 was the bottom border of the aforementioned long term range and a very distinct line. 0.8066 was a very distinct cushion in 2010.

For more on the Aussie, see the **AUD/USD Weekly Outlook**.

New Zealand Dollar

Kiwi flying low

Within commodity currencies, the kiwi is somewhere in the middle between the relative strength of the loonie and the weakness of the Aussie. New Zealand managed to overcome two painful earthquakes in Christchurch and its economy is doing OK.

- **Commodities**: Similar to its neighbor Australia, New Zealand is dependent on demand for commodities from Asia. But contrary to Australia, a big part of exports are of agricultural products. A slowdown hurts demand for these products at a lower scale than the demand for metals. People still need to eat!
- **Tourism**: This is an important sector as well, and may suffer from the global situation. This factor weighs against the kiwi.
- **Interest rates**: After the RBNZ lowered the interest rates to 2.5% following the last earthquake, the economy improved and there were prospects of a rate hike. With the current turn of events, the chances are lower. There are higher chances for no policy changes. A still high rate of 2.5% on the backdrop of rate cuts in Australia can help the kiwi.

All in all, the New Zealand dollar is unlikely to escape the global headwinds, but will likely weather the situation quite well.

NZD/USD Technical Outlook

After falling below 0.50 in the aftermath of the financial crisis, the kiwi made a long and steady recovery. Has it lost the uptrend channel? This depends on where you draw the uptrend support from.

Lines

The float-era high of 0.8842 is the ultimate resistance line. 0.8573 was the last recovery attempt before the recent downfall.

0.8330 capped the pair on the way up and also on the way down. 0.7975 was the highest level in 2010 and it later worked as support. 0.7634 was a peak in 2009 and a line of struggle now. 0.7346 is of high importance on the downside, serving as both support and resistance in recent years.

The round number of 0.71 was a swing low earlier in the year and a break lower would be a bearish signal. Far below, 0.6560 is the low of 2010.

For more on the kiwi, see the **NZD/USD Weekly Outlook**.

Key Events

Here are the key events that are set to impact currencies all over the world, larger than the scope of any individual country. The first week of November is the most crowded one in terms of important events.

- October 14-15: G-20 meetings of finance ministers. European debt crisis to be discussed. The chances of a solution at this event are low.
- October 18th: Chinese GDP for Q3. This will give direction about the landing.
- October 25th: UK GDP, first release for Q3.
- October 27th: US GDP, first release for Q3. This has the strongest impact and will shed light on the recession talks.
- **November 2nd: FOMC Decision. Ben Bernanke will meet the press after a long time and will provide updated forecasts. No new policy measures are expected, but the timing, at the beginning of a critical week and the press conference will probably make it a very meaningful event.**
- **November 3-4: G-20 Summit at Cannes, France. This is summit of heads of state, not only finance ministers. Will the fate of the Greek crisis be decided here?**
- **November 3rd: First rate decision of the new ECB president Mario Draghi. A rate cut is on the cards, after two rates hikes. The decision is likely to have an impact on the whole world.**
- **November 4th: First Non-Farm Payrolls report for Q3 (October). This week, the first in the month, also includes many more key events.**
- November 14th: Japanese GDP, first release for Q3. Japan already experiences three quarters of contraction.
- November 15th: Euro-zone GDP, first release for Q3. After hardly growing in Q2, did the euro-zone and especially Germany and France, dive into contraction?
- November 22nd: US GDP, second release. This is already more broad based data.
- End of November: Deadline for bipartisan deficit cut spending. The noise will begin before the end of the month and will continue afterwards.

- December 2nd: US Non-Farm Payrolls for November.
- December 8th: Rate decisions in the euro-zone and in the UK.
- December 13th: US Rate decision. This is the last one for 2011 and will not include a press conference. It is the last major economic event before the markets unwind towards the end of the year.
- December 22nd: US GDP, final version for Q3, just before the holidays.

Sources for this report:

- Forex Factory Calendar
- FX Street Calendar (available on Forex Crunch).

Additional Notes For Forex Traders

Here are some additional notes for forex trading during this quarter.

High Volatility

The sharp movements seen in currencies during recent months will likely be seen now as well. Choppy trading is likely to reach a peak in the first week of November and will likely unwind from mid-December. Yet it is important to note that unknown events can surprise us anytime, also during the most boring hours of the day.

Trade with care! High volatility with high leverage and wide stops can be disastrous to your trading account. When volatility is higher, reduce position sizes and minimize your risk. Don't gamble.

There are still some traders who widen their stop loss points when the trade is open. Having success with such a move can lead to more dangerous actions later on and is only more dangerous. So stop moving your stops!

Choosing a More Predictable Pair

Some pairs follow the rules of technical analysis in a better way, while others are quite unpredictable. This depends a lot on your trading system and on your style

and these patterns change all the time. Nevertheless, here is an updated list of the **5 most predictable currency pairs for Q4**.

Resources

General Articles

- **5 Points on When to Go Pro** – Successful at forex trading and considering of doing it full time? There are a few steps on the way.
- **How to Choose a Forex Broker in 2011** – There are quite a few tools you can use before making this important decision.
- **How About Investing in Forex?** – Foreign exchange doesn't necessarily have to involve active trading, but can be
- **Risk Factor Explained** – A deeper explanation about why the dollar falls on good figures and vice versa and under what conditions this will end.
- **Trading in Range or Catching Breakouts?** – What is your style? And what to look out for.

Recommended Sites:

- **TradingNrg** – For all you need to know about gold, oil and other commodities.
- **BO Crunch** – All you need to know about trading binary options.

That's it! As I've mentioned at the beginning, I welcome feedback, comments, suggestions, complaints and anything you wish to tell me about this report. Please send any feedback to yohay@forexcrunch.com.

Happy forex trading!