Forex Outlook December 2012

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Introduction

Welcome to December monthly report from Forex Crunch. November was a relatively busy month that saw more volatility around the US elections and the Greek crisis, yet apart from the yen, final movements were limited. December will witness a more important rate decision in the US, and the holiday season could also be busy with the fiscal cliff negotiations. Europe always provides action, as significant solutions are not in abundance. These are among the main global themes.

Specific currency outlooks follow. Each currency outlook consists of two parts: a fundamental overview and a high time-frame technical analysis. In addition, the relative strength index tries to predict how major currencies will rank during November. A timetable of key events and some extra additional notes for forex traders end the report.

As always, feedback is more than welcome. I'd love to hear your comments at yohay@forexcrunch.com. The plan is to continue with monthly reports.

Disclaimer

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Global Themes

US Approaching the Cliff, Ben is Ready to Act

Talks in Washington regarding a resolution to the "fiscal cliff" will probably dominate the news throughout December. As discussed in the November outlook, Obama's victory in the race for the White House, coupled with a Republican house, is not that positive for a resolution of the cliff.

In the immediate aftermath of the elections, both sides released optimistic comments that gave the impression that a solution could be found for the biggest issue: tax hikes. At one point, it seemed that the White House was willing to accept the closure of loopholes rather than tax hikes. At another point, it seemed that Republicans were ready to enable tax hikes.

However, the smiles faded away relatively fast, and it seems that Democrats and Republicans are playing the "blame game" once again, passing the ball to the other side's court and also saying that a failure to reach a resolution would be "owned" by the other side.

During December, comments from politicians, government officials and their aides will continue to impact currencies. So far, the movement has been related to the risk factor: optimism triggers risk appetite and a weaker dollar, while pessimism triggers risk aversion and dollar buying.

However, the impact changes from currency to currency:

- **CAD**: The Canadian dollar is more vulnerable, as Canada depends on US demand and its economy is showing signs of weakness.
- **JPY**: The yen is impacted, but in the opposite manner: as the **yen is still a safe haven currency**, pessimism helps the yen against the dollar, while optimism boosts USD/JPY.
- **EUR**: As the situation in Europe remains problematic, also the euro is sensitive. The impact is stronger when it goes with the trend: optimism in the US together with optimism in Europe has a greater positive impact on EUR/USD, while bad news from the US coupled with worries regarding

Greece have a greater negative impact on the pair. Other combinations have a weaker impact.

- **GBP**: To a lesser extent than the euro, the pound also needs US strength. Also here, the impact depends on the trend.
- **NZD**: The kiwi is more vulnerable to US news than the Aussie, but in general, Asia Pacific news has more impact.
- **AUD**: The Australian dollar moves more by news from Asia Pacific. So, the Aussie is less impacted by less important politicians and more from Chinese statements. However, strong comments from Obama or Boehner still move the A$.

So what will happen with the cliff?

Many market participants see the cliff as already having a negative impact on the US economy: the uncertainty regarding taxes, investment and other laws deters companies from making decisions. This uncertainty will end somehow.

Here are 4 scenarios:

1. **A last minute medium term solution**: This is the most likely outcome, if we learn from recent history. Eventually, the parties will reach some agreement that will enable each side to declare victory – some kind of compromise that will not provide long term solutions, but will still provide clear policy for 2013. The expected market reaction will be a relief rally, albeit limited. Such a deal could trigger another credit rating downgrade, and this could aid the US dollar.
2. **An early solution**: If both sides manage to resolve the tax issues, the road to resolving everything else should be easy and politicians will hurry to their vacations. While going on vacation should not be ignored as a factor, this scenario is unlikely, as the politicians tend to make decisions only in the last minute, and the last minute is 23:59 on December 31st. Also in such an optimistic scenario, the long term impact depends on the quality of the deal: long term or medium term only. In case of a limited early deal, the US

dollar will fall on a risk rally, and could strengthen again only after the holidays.

3. **A comprehensive deal**: Similar to the early solution scenario, chances are low for a convincing deal for the long term. Nevertheless, this is also an option. If politicians get really serious, we could actually see a better tone from rating agencies, no more downgrades and a stock market rally. In this case, the dollar will fall at first on a risk rally, but rise after a few months.
4. **The US Falls Off the Cliff**: This is supposed to be the worst case scenario, but it isn't necessarily so. While there are better chances for a last minute solution, a prolonged stalemate could result in missing the deadline. In this case, markets are expected to fall on the failure to reach an agreement, but the actual outcome for the US economy might not be so bad. Missing the deadline could actually result in some more serious thinking about the impact of the changes that the fiscal cliff includes on the economy. After an immediate surge of the dollar on risk aversion, the reaction could change thanks to an intervention by Ben Bernanke: more money printing, en masse, in order to "do something", could change the fate of the US dollar and send it down.

Fed Decision

Before the fiscal fully dominates the news towards the end of the year, the Fed meets to make its decision on December 12th. The previous meeting was held after the decision on QE3 and just before the elections, turning it into a complete non-event. In addition, there was no press conference.

This time it will be totally different.

Assuming there is no instant deal regarding the fiscal cliff, we can expect more action from the Fed now that the elections are over. The FOMC is likely to introduce more monetary stimulus as the extension of Operation Twist nears its end.

This could take a form of more outright monthly purchases of Treasuries (QE4 or QE-Infinity 2) in a scale of $30-40 billion per month, in addition to the current program of purchasing MBS at the scale of $40 billion per month (QE3 or QE Infinity). Operation Twist will likely be retired.

Some members would probably prefer more twist, but the program already ran its course, was extended, and is now reaching its end. Lowering rates at all levels, without a limit neither in the amount of money nor in the amount of time has higher chances now, as recent comments have shown.

Fed Sees the Empty Half of the Glass

The current dovish composition of the Fed can easily find negative signs concerning the US economy, and can ignore the positive signs. Here are a few examples:

- **Weak manufacturing**: Manufacturing sector remains weak, despite talks of "re-shoring" – bringing home industry that was previously "off-shored" to emerging markets.
- **GDP** for Q3 was revised to the upside, 2.7% (annualized), yet the components of this growth are certainly worrying. **Here are 4 reasons to be worried about US growth**.
- **Unemployment**: Officials are not satisfied with the employment situation: the participation rate is still low, and the unemployment rate including discouraged workers remains high, despite some improvements in the report for October. One good report is certainly not enough, and November's report will likely be mixed, even if it is only due to "Sandy".
- **Housing**: This is the strongest sector of the economy, but not all the indicators are perfect: while prices are rising, pending home sales are rising and building permits are on the move as well, the recent new home sales figure disappointed. With the dovish view of the Fed, this is enough to show that housing is still weak, and that it needs more support, in order to create a wealth effect – more spending.

Critics say that when the Fed talks about the wealth effect regarding the housing market and the stock market, it is actually thinking only about Wall Street, but that is a different argument.

While the impact of more monetary easing at this point is questionable, the Fed would probably prefer to do something when it has a chance. The end of Operation Twist provides a chance.

Guidance Likely to Remain Unchanged

A change in the forward guidance has little chances now, as not enough time has passed since the previous decision to extend the guidance regarding low rates until mid-2015. This will probably wait for the next meeting, which will already be voted by the new FOMC composition.

Fed officials have discussed tying the guidance regarding low rates to economic parameters such as inflation and unemployment, and some have even suggested a few numbers, such as low rates until unemployment falls below 7% and as long as inflation is under 3%. It seems that each participant has his own numbers.

An introduction of economic indicators instead of some distant date in the future would certainly be refreshing and would add some more long term certainty. However, the different views and the short time that passed since the recent extension (just two meeting ago, in September), gives this option low probability.

Impact

The impact on the dollar could be negative at first. **Afterwards, we could see a "buy the rumor, sell the fact" reaction**.

Greece Ends a Bad Year

November saw a new agreement for Greece – a deal which will let it muddle along for some more time, but without a real long term solution.

During December, Greece is expected to pass a few more austerity measures in parliament, to complete the bond buyback program and receive the next tranche of aid just before the holidays. There are reasons to be worried in the short term and in the long term.

Optimistic plans

The debt-to-GDP goal for 2020 has been reset to 124%. This conclusion is supposed to satisfy the IMF, which wanted to see a sustainable trajectory for Greece's debt.

However, in the past few years, we have seen the economy deteriorating much faster than predicted, tax revenue falling short, and most forecasts go down the drain. If the troika is always optimistic and cannot see where the economy is going in the next 3 months, how can it have a reliable projection for 2020?

In a quarter or two, when Greece reports more economic contraction, worse unemployment (already reached 25%) and less tax revenue, new programs will need to be set.

Buyback Problems

Buyback is another PSI: One of the pillars of the buyback program is a program where Greece buys back some of its bonds at market prices, which are heavily discounted, and then retires them. This would decrease the debt load. However, this is actually another haircut for the private sector – these bonds are the new, lower debt, after the haircut of around 74% imposed "voluntarily" on private bondholders only in March 2012.

Greek banks have already expressed their opposition, and they have another good reason: the previous haircut already resulted in recapitalization needs. Another one will have the same result.

So, Greece will lend money to cut its debt, and will then need more money in order to recapitalize the banks. This does not make sense.

Perhaps we will see another revolving doors trick from the ECB: it can lend money to Greek banks in order to buy more government bonds and then pledge this as collateral with the ECB. This already happened in August, and can happen perpetually, forever. Any tricks are possible.

The IMF made it clear that without the buyback, it will not approve the release of money to Greece on December 13th. During November, there were signs that the

[IMF could withdraw from the program](). Some northern countries said that without the IMF, they will also withdraw.

So far, this mess has been avoided. This will likely be the case during December, but the tension remains.

Day or Reckoning is Near

Despite all these tricks, the day of reckoning may be getting closer: Germany and other countries will have to accept losses on loans to Greece. If they don't accept these losses voluntarily, Greece could leave the euro-zone, these losses would be even harsher, and happen in a disorderly fashion.

The current program will not work. Greece's debt is not sustainable. The IMF already said it out loud. Others are ignoring it.

Needless to say, accepting losses is very hard politically: Merkel promised the public that current programs are only loans, guaranteed by Germany, that are safe and will make profits. She would like to waste time until the general elections in September 2013, but that is too far.

One option is to bring forward the elections. Another one is to get it over with as soon as possible. **Merkel already sent a trial balloon by not ruling out this option under some conditions in the future**. The public reaction to this statement will be tested.

No change in policy towards Greece is expected during December. The bond buyback program will probably result in some income, and the rest will probably be received somehow, with all kinds of tricks.

However, there is always a chance the something big will happen while markets are asleep during the holidays. A Grexit can never be ruled out on a long Christmas or New Year's weekend.

In any case, **here is how to trade the Grexit with EUR/USD**.

Once in Generation Shift in the Yen?

The downfall of the Japanese yen was the big story of November in currencies. The yen retreated across the board and moved more than any other major currency.

The main reason is the much stronger rhetoric from politicians towards the elections. Japan holds elections in December 16th and this could start a year of even greater downfalls for the currency. Let's see why:

So far, the Bank of Japan had an inflation target of 1%, but was unable to achieve it. Recent figures show that Japan is still suffering from deflation: a situation where prices are falling, consumers are reluctant to buy, prices keep falling, etc.

Pressure on the BOJ has grown due to this failure and also due to a political struggle within Japan. The BOJ is fighting for its independence. The current government led by Yoshihiko Noda (formerly a finance minister) and his DPJ found itself calling early elections, despite trailing in the polls.

The leading candidate to replace Noda is former PMI Shinzo Abe, leader of the LDP. Abe presented a very ambitious plan. This includes an inflation target of 2-3% and more importantly, he suggested a massive reconstruction program to rebuild Japan. How would that be financed? By having the BOJ buy these construction bonds. Abe has since backtracked on this, saying that he would not tell the BOJ exactly how to reach its targets, but he did stick to the 2-3% inflation target.

There are other open issues that weigh on the yen:

- **Energy Shift**: Following the catastrophic earthquake, tsunami and nuclear disaster of March 11th 2011, Japan closed nuclear installations, at least temporarily. Without too many natural resources, the country now imports energy and this changed its once favorable trade balance: from a surplus to a deficit. For quite a while, the wider Current Account figure remained positive. Yet for the first time in decades, Japan reported a current account deficit in October. This is big news, as it reflects a big shift in were money is going.

- **Islands Dispute**: While the world media moved on from the dispute between China and Japan on the islands, there is no resolution in the horizon. Sino-Japanese trade has been hurt and uncertainty looms. This is damaging for Japan, China, and the entire world. For our case, it hurts Japan's export oriented economy. Abe might take a tougher stance on the islands dispute.
- **Mountain of debt**: Japan has a debt-to-GDP ratio of more than 200%. Yes, worse than Greece. However, contrary to most countries, most of Japan's debt is held at home: by Japanese individuals and institutions. With the ageing population, pension funds have to sell Japanese bonds in order to pay pensioners. This is gradually causing a shift, though very slowly.

Abe has a significant lead in the polls. If he is indeed elected on December 16th, it will be important to follow his statements and how he acts as PM. Jim O'Neill from Goldman Sachs already said that the yen is on the verge of the biggest shift in direction since 1985 – since the Plaza Accord.

It is still hard to tell if a weaker yen, which Japanese officials wish for, will happen so fast. However, given the current situation, we could see the yen bears finally taking over.

If this is the scenario, which currencies will gain?

- **AUD and NZD**: Buying these currencies and selling the yen was the classic carry trade up to the financial crisis, as these countries had very high interest rates: New Zealand had a rate of over 8% at one points. Both countries still maintain an above 0% interest rate (AUD: 3%, NZD: 2.5%), but their prospects aren't that promising. They would rise nicely against the yen if the global economy, and especially China, were producing convincing growth.
- **CAD**: Long CAD/JPY was eventually the best trade of November. Assuming ongoing growth in the US, but without any sparks, the yen could lose more

against the loonie than against the dollar: Canada needs a stable, growing US for its demand.

- **EUR, GBP, CHF**: These European currencies would gain against the yen as long as the global economy is stable, yet to a lesser extent that the Canadian dollar in case of modest growth, and less than the Aussie and kiwi in case of strong growth.
- **USD**: In case of more sluggish global growth or in case of a US recession, the yen would still be sought after as a "safe haven" currency, slowing its fall especially against the risk currencies. In this case, the US dollar would be a better trade against the yen, as it also carries the safe haven currency status.

It's important to note that not all is bad in Japan: unemployment remains very low and industrial output showed a surprising rise recently. Despite the high level of debt, the talk about two lost decade and all the aforementioned problems, Japan offers a very high quality of life for its citizens.

A drop in the value of the yen would help Japanese exports, yet these stronger exports aren't likely to produce a quick counter effect against the rise of the yen.

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 first part concerning the US dollar is only technical, referring to the US Dollar Index. For the yen, a special coverage is available in the themes section, so the coverage is only technical below. Also for Europe, see the in-depth fundamental coverage for analysis.

- 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 – Trading Sideways and Looking to Recover

During November, the US dollar index rose above resistance, but eventually reversed its course and dropped back to the range. Note that downtrend resistance has formed.

Lines

89.62 is the post financial crisis high and is the final frontier on top. 88.70 is another peak, seen in May 2010, when the Greece received the first bailout.

86.87 is a minor line, serving twice as resistance in the early stages of the crisis. 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. The line was challenged in August, but the index couldn't settle above this line. 81.80 served as support in 2010 and as resistance in early 2012 and now returns to working as resistance. The index failed to reach this level in the surge of November 2012.

The range: 80.32 serves as the top border of a tighter range. The bottom border of this range is 78.60, which was a cushion in April and also in January. This line worked perfectly well during September 2012 and will be tested if the index resumes its downfall. In between, 79.50 serves as an important pivotal line within this range.

77.50 is the next big support line. It worked as both support and resistance in 2009.

76 capped the long range trading of this index in 2011 and is strong support. 73.50 was the bottom border of that range.

The last line on the bottom is 72.70. For the major market movers, see the **Forex Weekly Outlook**.

Euro – Core Countries Continue Sliding

The recent round of the Greek crisis took over the news during November. The other "star of the crisis, Spain, isn't doing much better in terms of its economy, but at least the bond yields are falling.

Here is the current state of Europe's 4 major economies:

- **Spain**: The fourth largest economy is reluctant to take a bailout, as **bond yields have fallen**. Spain managed to raise all the money it needed for 2012, and with no new bond auctions, yields began falling. However, the situation remains bad: the country expects the fourth quarter to be the worst. The economy's downwards move became worse due to the rise in VAT in September, and the ongoing tension with Catalonia: pro-independence parties won a majority in parliament, and there appears to be a political deadlock. In addition, the number of unemployed people continues rising. In December, the usual Christmas shopping period, stores will receive another blow after the VAT raise: many end of year bonuses have been cancelled, leaving less money for shopping. The data will only be evident in January, but the deterioration is clear to see.
- **Italy**: The euro-zone's third largest economy continues to squeeze, and unemployment remains high. The Retail PMI for this country is below 40, showing rapid deterioration. In addition, there is political uncertainty in

Italy: it is unclear if former PM Silvio Berlusconi will return to the scene, and it is unclear if the socialist party can win the elections. In the meantime, the 5 Star Movement of Beppe Grillo is gaining traction and it already reached the second place in opinion polls. While elections are planned only for the spring, they could certainly be brought forward. The future of current PM Mario Monti is unclear.

- **France**: Europe's second largest economy is seeing the highest unemployment level in 14 years, as the current Hollande administration is losing support quickly. Labor and tax policy came under scrutiny as the president zigzagged about policy. Many market participants have fear for France, which recently saw another credit rating downgrade. In Q3, France saw some growth after two flat quarters, but there is still a danger of a recession.
- **Germany**: The euro-zone's locomotive, Germany also saw drops in retail sales and a warning from Mario Draghi: that this large country might begin feeling the pain, and that it is not immune. Unemployment, while still at low levels, is already on the rise in Germany. Also here, the economy is still growing, but at a slow rate and with unimpressive future prospects, as PMIs show.

All in all, the euro-zone officially entered a recession in Q3, and all indicators point to an even worse situation in Q4. Is it darkest before dawn? Or will it take Europe a long time to recover? The high value of the euro doesn't help.

EUR/USD Technical Outlook

The pair dropped out of the range during November, but made an impressing comeback.

At current levels, we can see that the steep downtrend resistance is being broken. A confirmation of this break is still waiting. This line began in early 2011, when the pair hit 1.4940.

On the downside, there is steady uptrend support line dating from mid-2010, which is too low at the moment.

Looking at the bigger picture, euro/dollar is still in the wide downtrend channel that began just before the financial crisis. This is the higher black line.

Lines

The 2011 peak of 1.4940 is a significant line as well on the upside. 1.4282 was the peak of the surge in November 2010.

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. 1.34 is the top border of the sideways range and remains strong despite a temporary breach early in the year, up to 1.3486.

The peak of 1.3170 is becoming more important as time passes by – it is the top of the trading range. It was also a swing low in late 2011. The round number of 1.30 is not only a psychological line but also used to be strong resistance. It was strong support and its break triggered a big fall. It remains a pivotal line.

On the other side of the range sits 1.2805 – this line was tackled in the second half of 2012. 1.2587 is now a pivotal line that was seen in August and served as a stepping stone in September. It provided support during 2010.

The first post crisis bottom at 1.2330 is now left behind after a struggle. It worked well as support. Despite being an old line, it is of importance. 1.2150 played an important role in May 2010 as a clear separator. It also worked as resistance back in 2006. It worked as a separator very nicely in August 2012 as well.

1.20 returns to play an important role after the pair got close to it in July 2012. Below 1.20, the 1.1876 bottom seen in 2010 is a very strong line.

The next line is symbolic: 1.17. This the launch price of the euro in 1999. It is closely followed by 1.1670, which was a trough in the middle of the 2000s.

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

British Pound – Carney Against all the Rest

The economic situation in the UK isn't impressive in Q4, after an excellent Q3. All signs released during November point to a danger of a triple-dip recession.

Nevertheless, the pound enjoyed the appointment of Mark Carney as the governor of the BOE. Will the pair challenge high resistance?

Mark Carney currently heads the Bank of Canada and will cross the Atlantic only in the summer of 2013. Nevertheless, Carney is considered a very hawkish central banker, and this is very different from the current dovish policy of the BOE.

The Bank of England maintains a very high level of QE in comparison to other countries that launched such a policy. In Canada, the BOC had the chance to raise the rates since the crisis.

However, it isn’t only a difference between the personalities in the central banks: the economies are quite different.

In the UK, we have seen some negative signs:

- **Instable PMIs** that don’t support further growth: for example: a drop of the all-important services PMI to 50.6 points – very slow growth.
- **Another rise jobless claims** which began after the Olympics: 10.1K in October.
- **Unconvincing figures in manufacturing and housing**: such as a drop of 0.7% in the Halifax HPI and ongoing contraction in manufacturing PMI, 47.5 points for October and 49.1 in November.
- A big drop in retail sales: 0.8% in October.

In addition, the level of inflation refuses to fall, surprising with a rise to 2.7% in headline CPI. This makes monetary policy more complicated: how can more easing be announced when prices are rising? Many talk about stagflation in the UK.

No change in rates is expected, but an expansion of the QE program cannot be ruled out after one member already voted for it in November. Recent economic data hasn't been too favorable and it seems that Q3 was the (Olympic) exception rather than the norm. The pound seems to enjoy future monetary prospects: a more hawkish policy under Carney. For December's meeting, no change in policy will likely result in any big change in GBP/USD, while more QE could send the pound initially lower, but without a long lasting effect. QE has a much more significant effect in the US than the UK. The decision might be somewhat overshadowed by the Chancellor's Autumn Statement.

The only good thing expected in December is a confirmation of the 1% growth rate in Q3, something that will not return so quickly.

GBP/USD Technical Outlook

GBP/USD dropped during November, but the uptrend support line worked perfectly well in supporting the pair, and it eventually returned to the higher range, above 1.60.

1.7440 was a stepping stone on the way down during the peak of the crisis. 1.7042 is the post crisis peak reached during 2009 and never sought since. 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. For the second time in 2012, the pair flirted with the line but could not break higher. It began a slow retreat upon arrival.

The round number of 1.60 also had a significant role in the past, and now plays the role of important support. The trough of 1.5780 was of high importance in 2011 and also in 2009. It proved its strength as resistance in June 2012.

Quite close by, 1.56 had an important role as a support line in 2012, and it now works as a pivotal line in the current range. The double bottom of 1.5270 seen at the end of 2011 and the beginning of 2012 is the lowest points since 2010 and remains strong.

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**.

USD/JPY Technical Outlook – Bulls Taking Over

Dollar/yen extended the rise made in October into November, yet found resistance at the historical line of 82.87.

Lines

Far above, 88 was resistance back in 2010. 85.50 was the peak in 2011 after the coordinated intervention.

84.20 capped the pair back in March 2012. 82.87 was the line where the BOJ intervened in September 2010 and it played a role afterwards as well. It is currently a minor resistance line.

The 80.60 line is becoming more notable on the weekly chars, just above the round number of 80. It served in both directions during 2012. The round number of 80 was strongly guarded for some time and remains of psychological importance. It is now a line of struggle.

78 proved to be strong in the month of September despite the temporary dips. Minor support is at 76.60, which worked as support early in 2012.

76 was a previous all-time low and is now support in the range. The round number of 75, in uncharted territory might test the patience of the BOJ and the low of 75.57. 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**.

Swiss Franc – No Chance of Lifting the Peg

The Swiss franc has recently shown more signs of life: EUR/CHF doesn't cling that closely to 1.20, but has some breathing space. This makes USD/CHF a bit more interesting, especially as USD/CHF trades in a clear range.

During December, the SNB will make its quarterly rate decision. No change is expected in the decision to keep the 1.20 EUR/CHF floor and allocate "unlimited amounts" of currency buys. Thomas Jordan and his colleagues have good reasons to continue with the peg.

- Inflation remains low: CPI for the month of October was lower than expected – a rise of only 0.1%, lower than 0.3% that was expected. PPI actually dropped by 0.1%.
- Manufacturing is contracting: While the SVME PMI rose from the low of 43.6 points, it is still under 50 points, with only 46.1 in October and 48.5 in November.

On the other hand, there have also been positive reports:

- GDP in Q3 rose by 0.6% after contracting in Q2. This more than exceeded the low expectations of a gain of 0.2%.

- Strong trade balance surplus: Switzerland's trade surplus rose from under 2 billion to 2.82, also better than expected.

Despite the better news, recent comments from the SNB have shown that the peg is here to stay for a long time, at least until prices begin rising.

One of the tools proposed keep the franc down was negative interest rates. If Swiss banks and / or the SNB move in this direction, we could see further weakening of the franc. This also depends a lot on the situation in the euro-zone: an improvement there will certainly allow the franc to trade lower against the euro, and have more space against the dollar.

However, it is important to note that nothing lasts forever and that the [levee could break](). The SNB was lonely on the big for many months.

USD/CHF Technical Outlook

USD/CHF made a move higher during November, reaching the round and strong 0.95 line. This line worked perfectly well and the pair returned to the bottom of the range: 0.9240.

Lines

1.09 capped the pair during 2010 and provided support beforehand. 1.0435 was support in 2010 and an area of struggle.

The round number of parity returns to the scene. It is backed by 1.0066. 0.9783 was a double top and provides strong resistance. It showed character in August 2012.

The round number of 0.95 worked as support and has psychological importance as well. After the breakdown, this line capped recovery attempts in September and in November 2012. It remains the top of the range.

0.9240 is the bottom of the current range, working quite well in October and November. It also provided some support back in March 2011. 0.89, is another significant support line that proved its strength early in the year and also back in 2011.

0.8567 is worth mentioning on the downside. It served as support on the way down and then switched to resistance. 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.

Canadian Dollar – Parity is a Magnet

The Canadian dollar was the strongest gainer in November, but not by a big margin. We are seeing that the loonie is becoming more and more dependent on the situation in the US.

So far, this has helped the Canadian dollar, as internal figures haven't been so good. Will this continue?

The strongest evidence of the loonie's dependence on the US was seen in the simultaneous release of jobs data from the US and Canada: Canada printed a weak report and the US a good one. A weaker Canadian dollar against a stronger US dollar could be expected, but the opposite happened.

Why? Because Canada depends on US demand, more than anything else: more than internal figures, and more than oil.

Internal figures still matter though, and they weren't so good:

- **GDP disappointed again**: After dropping in August, the Canadian economy remained flat in September, the last month of Q3. Just before Christmas, Canada will release GDP for October, the first month of Q4, and this will have an impact on the currency as liquidity slides.
- **Building Permits plunge**: While this is a volatile figure, the drop of 13.2% reported during November was a bit of a shocker, especially as it adds to the claim that Canada is now seeing the bust of a housing bubble. If prices fall quickly, this could bring the whole economy down. Also housing starts disappointed by standing at only 204K.
- **Retail sales are weak**: the headline figure rose by only 0.1% while the core figure remained flat. This points to a slowdown.
- **Jobs**: Canada gained only 1.8K jobs in October, after a strong September. The release for November will be closely watched.
- **Carney's departure**: The outgoing governor of the Bank of Canada is considered a hawk. While he will only depart at the end of May 2013, his heir is expected to be more dovish. This also weakens the loonie.

The price of oil hasn't gone too far during the weeklong Gaza conflict. Now that a ceasefire has been restored, the price of oil isn't high enough to boost the loonie.

One internal thing that could positively impact the loonie positively during December is a potential approval of big acquisitions of Canadian companies by Asian companies. Canadian regulators are examining the acquisition proposals of Nexen and Progress Energy. If both deals are approved, it could boost the loonie.

The Canadian dollar therefore needs a strong US and especially a good resolution of the fiscal cliff in order to remain strong. It currently enjoys some optimism around the world, but this needs to be backed by facts.

USD/CAD Technical Outlook

USD/CAD made a significant move upwards, reaching parity. As shown on the chart, the pair is within a narrowing channel, close to the middle. Without extraordinary events, the pair could trade within this channel for now.

Lines

1.1130 is an old line dating from 2009. It is still high. 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 in Q3 2011. The round number of 1.05 is now a top in the range and can be challenged in the near future.

The round number of 1.03 was a battle line, and it seems that the pair overcame it. The 2009 low of 1.02, another round number, returns to the limelight.

The ultimate line of USD/CAD parity has a major role as the pair approaches this line from below. 0.98 returns to serve as an important cushion on the downside, where the pair bottomed out, despite the break lower.

0.9667 is a pivotal line on the way down, after working as support. The swing down to 0.9632 isn't significant at the moment. 0.9406 was the lowest post crisis level, and is the ultimate support line.

The 2007 of 0.9056 is way down.

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

Australian Dollar – Chinese Stability vs. All the Rest

The Australian dollar became less volatile than normal and more stable – somewhat similar to what is recently seen in the Chinese economy, that seems to have stabilized.

Nevertheless, the undercurrents in Australia aren't that positive.

- **"Australia is like Greece"** – This is a quote of an Australian millionaire, that warned about the impact of the cooling mining boom. The debate about the "end of the mining boom" is still going on in Australia, and the pessimists are gradually winning the argument, as more projects are cancelled. The comparison to Greece is of course ridiculous.
- **Rates are back to crisis lows**: Glenn Stevens and his colleagues lowered the interest rate back down to 3% - the trough of the crisis. The RBA did raise the rates in between, but the recent series of cuts sent it back down once again. The statement was relatively optimistic and the next rate decision is only in February, so this is already behind us for the time being.
- **Housing Sector Slump**: Like other countries, Australia enjoyed a housing boost, and many fear it will see a bust, or is already experiencing such a bust. The fresh building approvals number, that showed a drop of 7.6% is a clear warning sign. AIG's construction index stands at 35.8 points – very deep in contraction territory.
- **Consumers are slow**: While Australia printed a rise of 0.5% in retail sales during October, November was already flat. Spending is not picking up.

During December, Chinese data will be followed as always. The economic giant has a tendency of pushing through interesting policy moves around Christmas / New Year's.

In addition, the employment data and the GDP release in Australia will have a significant impact.

AUD/USD Technical Outlook

The Aussie traded in a narrower range throughout November, and ticked higher. It is now getting closer to the upper end of the narrowing channel.

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. 1.0850 was a double top at the beginning of the year and is now resistance on strong upside moves.

The round number of 1.06 worked as support during two periods when the Aussie was trading higher. A second move towards this line didn't succeed, creating a double top that is very important now. 1.05 capped the pair in November 2012 and also work as support during 2011.

1.0150 worked as support during September and October 2012 and is the bottom of the range. Breaking below this line will open the road to parity.

AUD/USD Parity is an important psychological line, although not so strong. 0.98 supported the pair at the end of 2010 and is minor support now.

0.96 provided an important cushion in September 2011 and also in June 2012. 0.94 is an important 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.

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

New Zealand Dollar – Found its Equilibrium

The kiwi is usually a sensitive currency to “risk on / risk off” moves. However, in November is proved to be more stable.

Recent figures point to signs of weakness, but this could reverse during December, when the RBNZ convenes for a rate decision and GDP is release.

- **Bad employment report**: New Zealand publishes employment data only once per quarter. The report for Q3 was a big disappointment: a drop of 0.4% in employment and leap of the unemployment rate from 6.8% to 7.3%. This hurt the New Zealand dollar.
- **Weak retail sales**: Also here, the quarterly report was a big disappointment - -0.4% in sales and -0.3% in core sales, much worse than expected.
- **Bigger trade deficit**: New Zealand’s trade balance deficit didn’t drop as expected but remained high, at 718 million.
- **No oil in the sea**: there were attempts to find oil in deep sea near New Zealand. However, the company that drilled, Brazil’s Petrobras, pulled out of the drills and surrendered its permit off the Raukumara Basin.

Nevertheless, the central bank is not expected to cut the interest rates as the economy is still doing well and as the Chinese economy partially depends, has stabilized. The new head of the RBNZ, Graeme Wheeler doesn’t seem to be very different from his predecessor Alan Bollard.

Without a rate cut, it is hard to see how much the kiwi could fall. NZD could strengthen during this month after the past disappointment.

A lot depends on the GDP report: lower expectations are already priced in, so if there isn't a huge disappointment, we could see it rise.

The only thing that could hurt the kiwi is further talk of intervention to weaken the currency. While this remains a very distant option, previous complaints by the central bank about the strength of the kiwi had an impact.

NZD/USD Technical Outlook

NZD/USD traded in a more narrow range, closer to downtrend resistance. Downtrend resistance, which began early in the year, remains important. Also note the long uptrend support line, which began in early 2011.

Lines

The round number of 0.90 is in uncharted territory. The float-era high of 0.8842 is the ultimate resistance line.

0.8470 was the peak in 2012 and remains key resistance. 0.8360 was a very impressive cap to the pair during September 2012 and is a key line on the upside.

0.8175 worked well as support during September 2012 and is only minor now. 0.81 is the bottom of the current range, after working as such several times in recent months and also at the beginning of the year.

0.7975, which was a veteran peak back in 2010 returns to play a significant role as the pair stabilizes above the line. A loss would open the door for bigger falls. The round number of 0.78 worked as support in early 2011 and also in mid-2012 and is the next line.

0.7650 capped the pair on recovery attempts and also worked as resistance in 2009. 0.7450 was a stubborn bottom in May 2012 and was also a swing low in the fall of 2011.

0.7350 is significant on the downside. The pair got close to this line during Q4. The round number of 0.71 was a swing low in 2011 and a break lower would be a bearish signal. Under the round number of 0.70, the next line of support is 0.6815, which worked as such in early 2010.

Relative Strength Index

November Revisited

1. CAD – USD/CAD dropped 0.6%.
2. EUR – EUR/USD rose 0.5%
3. AUD – AUD/USD rose 0.5%.
4. CHF – USD/CHF dropped 0.4%
5. GBP – GBP/USD rose 0.1%.
6. USD
7. NZD – NZD/USD dropped 0.3%.
8. JPY – USD/JPY rose 3.3%

The predictions for November were quite off the mark. It’s important to note that the yen was the big loser of the month, while other currencies ended the month with limited changes.

1. **USD** – Assuming a victory for Obama in the US Presidential Elections and issues with resolving the fiscal cliff, the dollar could enjoy safe haven flows. – Obama won, but some optimism about the cliff and some positive US data pushed the dollar a bit lower against most currencies.
2. **JPY** – Going with the same assumption above, the yen's weakness could find limits and also enjoy safe haven flows, though at a smaller scale than the US dollar. – the yen continued to deteriorate.
3. **NZD** – The kiwi has room for stability and even gains after sliding in range during the previous month. – the kiwi was indeed stable, and lost a bit to the greenback.
4. **GBP** – While the pound could enjoy safe haven flows from Europe, there is a growing notion that Q3 growth was the exception and not the norm. – yet again, the pound was in the middle.
5. **CAD** – With the change of heart at the BOC and with more worries from all over the world, the loonie is vulnerable – outside USD/JPY, USD/CAD made the biggest move, 0.6%, and in favor of the loonie.
6. **AUD** – A worse mood in the market can weaken the Aussie, although it mind find it hard to break below range – the pair traded in range and eventually rose.
7. **CHF** – Assuming problems in Europe, EUR/CHF will slide towards 1.20 – the franc would gain against the euro but remain very close. – EUR/CHF did slide lower, but as the euro gained, so did the Swiss franc.
8. **EUR** – With less appetite for risk and growing problems with Greece, the euro could be at the bottom of the list – Greece's problems are far from being solved, but the market ignores for now.

Predictions for December

1. NZD – After sliding a bit, the kiwi could rise back up, assuming no big disaster happens anywhere.
2. EUR – With markets not in a rush to dump the euro after the unconvincing Greek deal, and with stabilization in Spain (for now), the euro has potential to end the month higher than the greenback.

3. CHF – the franc is set to trade in tandem with the euro –there is a very low chance that the peg will be changed or broken.
4. GBP – the pound could make minor gains against the greenback this time.
5. USD – without any disaster, the greenback is likely to be stable.
6. CAD – With the departure of Carney and weak Canadian data, USD/CAD could be on the rise.
7. JPY – Japan's elections could further weaken the yen, but probably not as much as seen beforehand.
8. AUD – The Aussie has too many things playing against it, and after rising in range, it could fall in range.

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.

- 4th Australian rate decision – rate cut on the cards.
- 4th Canadian rate decision – first after Carney's departure
- 5th Australian GDP
- 5th New Zealand rate decision – no change expected.
- 6th Australian employment data
- 6th UK rate decision.
- 6th Euro-zone rate decision
- 7th US Non-Farm Payrolls – data could be "Sandy".
- 7th Canadian employment data
- **12th Fed decision – QE4?**
- 13th Swiss rate decision.
- 16th Elections in Japan – yen could further weaken.
- 19th New Zealand GDP
- 20th Japanese rate decision
- 20th US Final Q3 GDP
- 21th Canadian GDP

- December 22nd to January 2nd – Christmas / New Year's vacation that could be disrupted by fiscal cliff negotiations.

Sources for this report:

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

Additional Notes for Forex Traders

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

Volatility Winding Down

November already saw a drop in volatility, apart from the yen that woke up. December traditionally sees slower market movements. While the fiscal cliff negotiations could still impact currencies strongly, this doesn't necessarily have to happen.

Trade with care! High leverage and wide stops can be disastrous to your trading account. When volatility is higher, reduce position sizes and minimize your risk. When volatility is lower, you can take a bit more risk, but don't gamble!

Apart from looking how to win in trading, it's important to limit your risk. Here are three basic methods for this.

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 a fresh list of the **5 Most Predictable Currency Pairs – Q4 2012**. A fresh report will be published towards Q1 2013.

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** – There are quite a few tools you can use before making this important decision.
- **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.
- **ForexStreet.Net** – A great forex social site where you can interact with others.
- **Forex Live** – For the fastest updates on the web.

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!