Forex Outlook November 2012

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Introduction

Welcome to November monthly report from Forex Crunch. October saw significantly slower markets in the aftermath of QE3, and as no major breakthroughs were seen in Spain and for Greece. November will probably be different – very different. If no solution is found for Greece, it will run out of money quite soon. The situation in Spain is also shaky – how long will markets be forgiving? And of course, the US presidential elections will probably rock the markets also well after the event, as negotiations regarding the US fiscal cliff will likely accelerate. These are the main themes in the first section.

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.

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Global Themes

US Elections Could Complicate the Fiscal Cliff

For a change, politicians take center stage and the Federal Reserve will be in the shadows. The US Presidential Elections are important not only for the political direction of the US, but also for currencies, especially as the "fiscal cliff" is getting closer.

Without any intervention, the US will encounter a package of spending cuts and tax hike in 2013. This might work to balance the budget quickly, too quickly, hurting the economy and shaving off a few percentage points of GDP.

Ben Bernanke already said that the tools the Fed has are not enough to counter the effects of the full effect of the fiscal cliff. The market expects a deal to be made after the elections, in order to reach a compromise between the Democrats and the Republicans – a compromise that will end with less damage to the US economy.

Once the identity of the new president is known, and before he is sworn in, Congress has nearly two months of a "lame duck" session to sort things out. This assumption certainly makes sense – politicians will only move forward when they have no other options. In the meantime, the uncertainty about the future is holding back some companies and individuals, and is already causing some damage to the economy.

The question is: what type of compromise will the parties reach**? Will it be a wise, through and long term one? Or will it be just a short term "can kicking" exercise**, similar to the actions of politicians in Europe?

In the debt ceiling debacle of the summer of 2011, the two parties reached an agreement, but it wasn't a long term one (as we encounter similar issues now), and it came only in the last moment, prompting S&P to downgrade the credit rating of the US, for the first time in history.

Credit rating agencies will also be closely watching the negotiations regarding the fiscal cliff and the outcome of these talks. A repeat of a split between the Senate and the House seems likely. It will take a major surprise to see a change in the Democrat control of the Senate and Republican control of the house.

So, it comes down to the president: Obama and House Republicans didn't get along too well, to say the least, so this is a less favorable result. Romney, which is considered market friendly, could theoretically better bridge between the parties and reach a better resolution of the cliff. In his capacity as governor of Massachusetts, he managed to work quite well with a majority of Democrats.

In the preview towards the elections: **How to Trade the US Elections with EUR/USD**, there are 4 scenarios for the outcome of the elections and different market reactions. In general, a favorable result will be "risk on" – a weaker dollar and yen, while a less favorable result will boost the greenback. This is due to the gloomy economic outlook for the world, and especially the situation in Europe.

Here is quick repeat of the scenarios, with some small updates according to recent polls.

1. **One party sweep**: Low probability, as aforementioned. Polls continue showing a clear split. If this does happen, the dollar will likely plunge and stocks will rise.
2. **Romney wins**: Medium probability. This is the favorable result for the markets, as there are expectations for a faster and better resolution of the fiscal cliff. In this scenario, the dollar will likely fall.
3. **Obama wins (including popular vote)**: Medium probability. The Sandy storm and the way Obama is dealing with it seems to help him, also in the national level, but the race is very close. This is a less favorable result for the markets, as expectations are for a less convincing and slower solution on the fiscal cliff. In this scenario, the dollar is likely to rise.
4. **Obama wins without popular vote**: Low-Medium probability – the winner of the elections usually wins the popular vote as well. However, some polls show that Obama could win enough states to win a majority of electors, but not have an outright majority with American voters. The chances are a bit higher after the Sandy storm: in some northeastern "blue states", turnout

could be lower than usual, especially as electricity is out for many people. They have more urgent issues to deal with. But, Obama is still expected to win there easily. If Obama wins without the popular vote, there is a chance that Republicans will be more demanding in the negotiations. What could happen is a repeat of the debt ceiling debacle – a very unsatisfactory short term compromise that could result in more credit rating downgrades. In this scenario, the dollar will likely skyrocket.

The last scenario, cannot be ruled out, **and this is the most complicated outcome** for resolving the fiscal cliff. A split between the victor and the popular vote, with a split in Congress and a split America in general doesn't bode well for the US and the global economy.

Immediately after the elections, negotiations will start, and politicians like to make quite a few headlines – progress on resolution is likely to hurt the dollar and the yen and to trigger "risk on", while news about no progress can aid the safe haven dollar and yen. See more about risk on / risk off.

The Fed is Watching

News from politicians will likely dominate the headlines throughout November. Nevertheless, it will be interesting to follow Federal Reserve officials during this month. There is a shift within policymakers: the Fed currently has a time target – interest rates are expected to remain low until 2015.

More and more FOMC members are now suggesting quantitative targets: moving the rates and removing QE depending on the unemployment rate or on the level of inflation.

For example, Rosengren, suggested to continue asset purchases until the unemployment rate falls below 7.25% and to keep rates near zero until that rate falls below 6.25%.

Another member, James Bullard, also said that he would prefer qualitative benchmarks, not dates. In the same speech, he also mentioned that the unemployment rate imperfect metric for labor market. This follows up on

Bernanke's important comments from the QE3-presser – the Fed is looking at the big picture of unemployment – the participation rate in employment, and employment to population. So, the fall of unemployment is taken with a grain of salt, also from the institution mandated to achieve maximum employment. The Fed convenes only in mid-December, and will have too more NFP reports by then.

As politics take center stage, the NFP on November 2nd, is likely to have a limited impact, unless it totally moves out of the norm seen in recent months. Also regarding the elections, the impact will likely be limited.

Greece – The End of the autumn

October has been wasted in the Greek crisis: tentative deadlines were missed and the debt struck country is entering November without an agreement on the disbursement of the much need tranche of 31.5 billion euros. The head of the Eurogroup, Jean-Claude Juncker, said he sees Greece staying in the euro-zone at least until the end of the autumn, and even beyond. Will Greece see the winter inside the euro-zone?

Without external aid, Greece is set to run out of money during November. Some estimates stand on November 16th, while Greek PM Samaras sees empty coffers by the end of November.

The exact date is unclear. In the past, deadlines regarding running out of money proved to be relatively flexible. What is clear, is that time is running out. Disagreements run deep and wide:

Labor reforms: This seems like the main issue. The EU / ECB / IMF troika wants Greece to ease labor rules. Basically, Greek PM Antonis Samaras tends to agree, but he faces opposition:

- From his coalition partner **Democratic Left**: Fotis Kouvelis, the leader of this small party, made unambiguous statements opposing the reforms. Passing these reforms without this party could still leave the coalition intact, but would decrease its legitimacy.

- Potentially from **PASOK**: Up to now, the second largest party in the coalition, center-left PASOK, has been the most pro-austerity party. However, some hints from the socialist party led by former finance minister Evangelos Venizelos, say that the party may oppose the legislation. Without PASOK, there is no government.
- From the **Greek unions**, which plan a strike for November 6-7th: The atmosphere is heated in Greece, and protests could become ugly again. The neo-Nazi Golden Dawn party is making gains in opinion polls and it is rumored to have wide support from within the police. The party recently adopted the Nazi-salute.
- From the **constitution**: a court in Greece said that the labor and pension reforms may be unconstitutional. Changing the constitution would not only take time, but it seems impossible in the current political environment.

If Greece says no to the troika, all the progress that was made would be thrown away.

The IMF Woke Up

Disagreements are also visible inside the troika: the International Monetary Fund has recently acknowledged that the price of austerity is higher than originally thought – the multiplier is **between 0.9 to 1.7, instead of only 0.5**. For every euro in austerity, the economy was expected to squeeze by only half a euro. The new conclusion shows that the price is at least 0.9 if not 1.7 – austerity is causing much more damage according to the IMF.

The IMF also conceded that under current conditions, Greece will not reach a debt to GDP ratio of 120.5% in 2020, but rather 136%, and under an optimistic scenario.

So what is the solution according to the IMF? **Debt restructuring**. And who shall pay the price? Euro-zone government, who will take losses on loans made to Greece via the EFSF. In nicer words, this is called Official Sector Involvement (OSI).

After private bondholders already took a "voluntary" haircut of over 70% in March, most of Greece's debt is held by the Official sector: the IMF, the EU (through the EFSF) and the ECB, via its SMP bond buys, that were exempt from the spring haircut.

Otherwise, **self-defeating austerity** will continue sending the Greek economy downwards, without any hope of getting out of the pit. Greece is already suffering from an unemployment rate of 25%, its GDP is below targets and government revenues continue shrinking.

Decision Time for Germany

Needless to say, Germany strictly opposes taking a loss on its loans. So far, the euro-zone's locomotive has only guaranteed EFSF money, but didn't pay out a cent from its national budget. Merkel emphasized this point, and it would be hard to justify cuts for the German public due to losses on Greece.

This is exactly the "Transferunion" that was feared all the time.

The preferred solution is the usual "extend and pretend" or "can kicking" – lending more money, demanding more austerity and hoping that the situation will improve somehow.

But with each can kicking exercise, **the road becomes steeper and the can keeps bouncing back faster**. It is hard to say if November will be the month for tough decision making, but it can certainly be said that finding some kind of solution is becoming harder and harder.

Currently, Greece seems to reach its limits, and democracy may be at stake if more austerity is undertaken.

Keeping Greece inside the euro-zone could incur losses if the IMF path is chosen – Germany would have to pay. Having Greece leave the euro-zone would also incur losses, as Greece would undoubtedly default on its debt with a devalued currency.

So will November see the Grexit? This cannot be ruled out.

There is another factor that should be considered, yet with a grain of salt: there was some talk that the Obama administration wanted to see stability in Greece until after the elections on November 6th. A bigger crisis in Europe would hurt his re-election campaign, as it would uncertainty to the already fragile state of the economy.

As aforementioned, this theory should be taken with a grain of salt – the Greek crisis is mostly a European issue – two thirds of the troika are actually EU bodies. Yet even if this theory is dismissed, **European leaders could perhaps wait with big decision until after the elections, just to know who deal with in the US in coordinating a Greek exit**. This makes more sense than the aforementioned theory.

In any case, this article is now much relevant: **Here is how to trade the Grexit with EUR/USD**.

Spain – No Bailout, but Catalonia Wants to Bail Out

3 months have passed since Mario Draghi first announced a program to buy bonds by the ECB. Deploying the program requires the country in need to ask for a bailout. Yet Spain, which was in the mind of policymakers, hasn't budged.

Spain has a few good reasons not to ask for a bailout, but this makes markets nervous. In the meantime, Spain's issues aren't going away, yet its rich northeastern region of Catalonia is taking another step, in November, to move away.

Why doesn't Spain ask for a bailout?

Lower yields: Why undertake new austerity from outside while market conditions are more favorable? Both Spain and Italy have enjoyed better bond auctions and are already looking towards 2013. As long as funding remains feasible, there is no rush in Madrid to ask for a bailout.

However, market conditions could flip at any time – it could be either due to a big event such as a Greek exit or due to a change in market flows.

No external help for banks: In the June EU Summit, leaders pledged to break the vicious circle between banks and sovereigns, but left some details vague. Spain's debt-to-GDP isn't horrible: around 85%, similar to Germany's. However, the banks are still suffering from the boom and bust of the housing sector. The EU discussed direct aid from the ESM bailout fund to banks, skipping the sovereign and not adding to the latter's debt – not following the Irish precedent.

Nevertheless, in a meeting later on in the year, Germany, the Netherlands and Finland declared that such aid isn't relevant to "legacy" issues. In addition, the EU Summit of October practically postponed the suggestion of a banking union to somewhere in 2013. A banking union, or supervision, is necessary in order to transfer money to the banks.

So, after Spain already thought that the EU would help out with the banks, Spain is left on its own with the banks.

Another option is to let the banks fall, but perhaps the hour is late for that, especially in the example of Bankia. Bankia is a new bank made out of small savings banks ("cajas"), some were weaker than others. They were merged to create one big entity that would presumably be stronger. This turned into one big entity which is too big to fail, and the Spanish government later decided to nationalize the bank and inject a lot of money, while cutting in other fields. This angered many Spaniards.

Greece: Spain does not want the "Men in Black" from the IMF and the EU to sit in the ministry office in Madrid and dictate economic policy. Spain already receives guidance from the European Commission regarding the size of the budget deficit, and such a loss of sovereignty is something nobody wants. More importantly, the results of "conditionality" are clearly seen – more economic depression. Greece is certainly in the worst situation, but Portugal is not far behind. Even in Ireland, the poster child for the success of austerity, economic growth hasn't been coupled with lower unemployment: Ireland has an unemployment rate of 14.8%.

So, the situation is bad without a bailout, and will not necessarily improve with one.

Catalonia holds elections – one step before a referendum on independence

While Spanish yields remain OK, Spanish issues continue brewing. The northeastern region of Catalonia is holding elections on November 25th, and pro-independence parties are expected to win an overwhelming majority.

Support for independence rose in the past year, as Catalonia found itself making cuts, still losing market access, and having to ask the central government for aid. This comes after years of transfers from Catalonia to other regions.

A rally held on September 11th, Catalonia's national day, saw between half a million and 2 million people calling for independence. The Catalan president Artur Mas flew to Madrid and asked for a different economic model, once again: a model where Catalonia collects its own taxes and only pays the central government for the services it receives. This model exists in other northern regions: the Basque Country and Navarre.

After Rajoy gave a clear No, Mas declared general elections in order to increase the control of his party (CiU) in the Catalan parliament and also to get a mandate for moving towards independence.

The events in Catalonia have already angered some factions in the military, which talked about "defending the Spanish unity" with arms. A European member of parliament already talked about deploying the Guardia Civil in order to tackle Catalan aspirations. The Spanish civil war of 1936-39 and the Franco dictatorship that followed up to 1975 are still open wounds in Spanish society.

This new move towards independence is therefore very flammable and could become scarier if not handled with care by politicians. The worsening economic situation, 25% unemployment and no hope of recovery anytime soon, can push people to the extremes also in Spain, not only in Greece.

Aspirations for independence aren't unique to Catalonia: also the Basque Country saw a victory for nationalistic parties in the recent regional elections. The region enjoys relative prosperity (thanks to the fiscal autonomy, among other reasons), but would also like to part ways.

The agreement on a referendum on the future of Scotland in 2014 has also fueled such aspirations. Interesting times are awaiting Europe.

Euro Zone– Worsening Situation Opens Door for Rate Cut and Direct QE

Worrying signs about Germany and France were already seen beforehand. They now seem more serious and not a onetime event.

During November, Europe will release the GDP numbers, which will likely place the whole euro-zone in an official recession.

German and French recession coming

Of important note is Germany – the largest economy and the core of the core. Purchasing managers' indices did not improve, and no change is expected now. In addition, the traditionally optimistic IFO Business Climate figure continued to disappoint and fell to exactly 100 points. Another drop means a psychological loss of one digit and inflict more damage.

The most worrying indicator comes from the labor market, where unemployment began moving in the wrong direction. With an unemployment rate of only 6.9%, many other European countries can envy Germany. However, the consistent rise in the number of unemployed people, last time by a whopping 20K, shows that Germany is not immune.

In France, PMIs have improved, but the second largest economy does suffer from other issues: President François Hollande has ended his grace period and the new taxes on the rich and on entrepreneurs have failed to raise praises. While France isn't officially in recession, its economy is not growing – 0% during two quarters.

It is likely that both core countries saw their economies contract in Q3, and Q4 doesn't look better.

Another Rate Cut?

The ECB has been focusing on the debt crisis of late, announcing and then detailing about the OMT program, which is awaiting a Spanish bailout request. However, it is important to remember that the central bank's official single mandate ("needle in the compass") is price stability – setting interest rates to maintain inflation

In that context, Draghi has recently made an interesting statement about the downside risks of prices – deflation. When prices are falling, consumers anticipate lower prices and refrain from buying. This pushes prices even lower and in turn makes consumers even more reluctant to spend. Such a deflation spiral is also bad for debt – it is harder to lower debt levels when GDP is falling.

The remark comes despite official inflation actually sitting above the ECB's 2% target. However, the central bank sees inflation falling in 2013, and with more signs of a deeper recession, it might be pro—active.

Draghi already showed in various occasions that he is not conservative as his predecessor Jean-Claude Trichet. This was seen in the LTRO, OMT, and also in a rate cut earlier in the year - a move that sent the lending rate to 0.75% and the deposit rate to 0%. The cut of the lending rate below 1% was not seen earlier. Throughout the crisis, Trichet kept the rate at 1% and even raised it twice in 2011. 1% was a floor, and Draghi already broke it.

So, in the November 8th meeting, there is a good chance that Draghi will take one step further and cut the rate from 0.75% to 0.50%, leaving the deposit rate unchanged.

Such a move could hit the euro. It is important to remember that the cut to 0.75% was widely expected, but it still hurt the euro - it –as not a "buy the rumor, sell the fact" event.

No No LTRO – Yes Yes SMP?

More support for a rate cut comes from the fear that a credit crunch is coming. Banks are lending less money and this limits the prospects of any recovery. A similar situation happened towards the end of 2011, and Draghi then announced the LTRO – lending cheap money to banks, in order to ignite economic activity and to lower sovereign bond yields.

Using two rounds of 3 year loans that reached 1 trillion euros, banks lent cheap money from the ECB, bought sovereign bonds of their respective countries (often with leverage) and pledged them as collateral with the ECB.

When fears about stability rose once again, the banks saw leveraged losses on their buys of bonds, and they are in debt to the ECB. In addition, governments became even more dependent on their banks – exactly the opposite of the bold declarations made in the June EU Summit.

All in all, the **LTRO backfired** and would probably not be used again as a tool of monetary easing. Cutting the interest rates therefore seems like the preferred option.

There is one more option left: using the **legacy SMP program** – the ECB already bought sovereign debt directly, beginning in May 2010. Around 200 billion euros of peripheral debt was accumulated without "conditionality" as Draghi said about the new OMT program, which requires a bailout. It is easy to read the criticism that Draghi had about his predecessor Trichet.

Yet while the SMP is currently dormant, it could still be reawakened. It would be a total U-turn for Draghi and his credibility, but it could ease market pressure at a time that economies are contracting, money is in danger of contracting and the while the OMT is still waiting.

As aforementioned, Draghi has shown ability to make bold moves. This would be a move he wouldn't like to do, but if Greece leaves the euro-zone, the SMP is one of the tools in the shed.

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 and Europe has already been discussed in greater details, so the first part concerning the US dollar is only technical, referring to the US Dollar Index. Also for Europe, see the in-depth fundamental coverage for analysis, and this month's currency outlook is only technical. For all the other 6 currencies, the fundamental outlook is here.

- 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 October, the US Dollar Index traded sideways in a very specific range. The index fell to this range after breaking below the wide uptrend channel that accompanied it since the middle of 2011. It is now ranging between

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 range: 80.32 serves as the top border of a tighter range. This line was tested during October, but wasn't broken. Will it be broken in November? 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.

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**.

EUR/USD Technical Outlook – Time to Break Out of Range

The pair eventually closed the month a bit higher, but it didn't go too far. The 1.28-1.3170 is dominant and ranges are narrowing.

At current levels, we can see that the steep downtrend resistance line is getting closer now. 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 – Olympic GDP Doesn't Help

As discussed in the October outlook, the UK exited the recession. According to the first release, it left the recession with a bang: 1% growth in Q3. This number will be revised during November, and we might get hints to whether this was merely an "Olympic jump" – a one-time leap that is related to the successful London Olympics and Paralympics.

Nevertheless, there are some positive signs in the UK, especially from unemployment, which has continued dropping. This includes fresh data regarding jobless claims as well as the unemployment rate which fell under 8%.

- More positive signs came from retail sales, which continued rising once again, and from housing, which has shown more mortgage approvals (50K), and an improvement in the RICS House Price Balance (-15%). The negative number hints that not all is well yet in this sector: both Nationwide and the Halifax HPIs have shown new drops in prices.

- Another weak part of the economy is manufacturing, which printed a fifth negative month in the PMI, and manufacturing production, which fell by 1.1%.
- Construction isn't doing much better, but the vast majority of the economy is in services, which continues to show modest growth: 52.2 points in the PMI (a score above 50 reflects expansion).

The upcoming decision of the Bank of England will likely be different than the previous ones, as the question of more QE remains wide open. Various members of the Monetary Policy Committee haven't ruled out an expansion of the current Asset Purchase Facility Program (AFP), which currently stands at 375 billion pounds.

An expansion of an additional 50 billion pounds is on the cards. This depends on the situation in Europe as well as on fresh PMIs published towards the meeting.

As we've seen in the past, **new QE in the UK doesn't necessarily weaken the pound on the longer run**: it will likely hit the pound for a short time, before it recovers. QE is much more destructive for the US dollar, and also this already has its limits.

If the BOE announces more QE, this will be an indicator for the whole world that the situation isn't good.

In case the BOE refrains from action in early November, the focus will shift to the release of the Inflation Report later in the month – the report also reflects updated economic forecasts about growth and unemployment, as well as potential hints about future policy.

All in all, cable is relatively stable in range. The failure to capitalize on the excellent GDP report means that if it would break out of range during November, there is more potential on the downside.

GBP/USD Technical Outlook

Cable is still in the wide range, but seems to stick to the lower side, closer to 1.60. The former downtrend resistance line has been broken more than once and is not relevant any more. Uptrend support remains important, yet it isn't too close now.

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**.

Japanese Yen – Only the First Leg in its move down?

The yen has finally moved downwards, and also the BOJ made a relatively powerful move after pressure mounted from all directions, but the pair found it hard to conquer the 80 line.

During November, the US elections and their aftermath will have a significant on the pair, as it is quite sensitive to US events. In addition, there is reason to believe that Japanese authorities will be busy also during this month, as nothing has really changed yet:

- The dispute between China and Japan hasn't been resolved – it's just on the backburner and trade is still impacted by the lack of a full solution.
- Japan's trade balance continues to weigh on the economy and oil imports might rise as the weather gets colder. Japan largely shifted from nuclear energy to imported oil and coal after the Fukishima disaster.
- Political pressure remains fierce: The governor of Tokyo joined the political race, adding pressure on the BOJ to further act. Contrary to many other central banks, the BOJ is not so independent.
- Forecasts are lower: The BOJ did lower inflation forecasts, indicating it will not achieve the modest 1% inflation target. So, will additional stimulus be needed?

In its October 30th meeting, the BOJ announced an additional 12 trillion yen of quantitative easing. Officially only 10 trillion was expected, but whispers about 20 trillion triggered a disappointment – a stronger yen.

The central bank convenes again on November 20th, and another announcement could be made in order to try and stimulate the economy, stimulate prices and lower the value of the yen.

If USD/JPY remains around 80, there is a lower chance of direct forex intervention to weaken the yen. But if a new slide will begin, all the aforementioned pressures remain very relevant.

USD/JPY Technical Outlook

Dollar/yen made a move in October, moving to trade around the 80 line. It needs to overcome 80.60 in order to show that the bulls are really in control.

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 – Calm as Long as the Euro is Calm

With a very stable EUR/USD came a very stable EUR/CHF and USD a USD/CHF. The Swiss National has been able to diversify away from euros using this calm: the holdings of euros fell from 60% to 48% according to the most recent report.

As long as Europe remains stable, the Swiss franc will float in a relatively wide range against the euro. In turn, USD/CHF maintains the same range of 0.92 to 0.9450.

In Switzerland, inflation remains too low for the SNB: prices rose by only 0.3% last month, and on a yearly basis, Switzerland suffers from deflation: prices fell 0.4% year over year.

And while the country enjoys an extremely low unemployment rate of 2.9%, the forward looking SVME PMI continues to point to contraction for a sixth consecutive month. The fall to only 43.6 points show a faster contraction.

Also the ZEW Economic Expectations indicator continues pointing to depressed activity: -28.9 points – also for the 6th straight month.

In the current environment, and with the current state of the Swiss economy, the SNB is in no rush to make any changes.

Of note during November are the consumer climate indicator, the updated ZEW indicator and most importantly the trade balance figure, which still shows a nice surplus so far.

In case something happens in Europe or the SNB isn't on guard, we could see another attack of EUR/CHF on 1.20. So far, the central bank has been very successful at maintaining the floor, for 14 months so far.

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 traded in the lower part of the range during October, and a temporary dip under 0.9240 didn't have a follow through. The de-facto euro-peg limits the movements.

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. It remains the top of the range.

0.9240 is the bottom of the current range, working quite well in October. 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 – More Room on Downside After Parity

The tables have turned on the loonie, and no improvement is likely anytime soon. As discussed in the October outlook, USD/CAD did indeed reach parity.

The loonie bears have gathered more ammunition, and the Canadian dollar can continue retreating also in November.

- **Not so Hawkish central bank**: This is what caused the biggest shift in the value of the Canadian dollar. The BOC was relatively hawkish while other central banks were looking for new loosening options. Despite a still hawkish rate statement, BOC governor Mark Carney has changed his tone, especially when he clarified that a rate hike is not imminent.
- **Inflation is low**: Supporting Carney's new direction is a lower than expected rise in prices: only 0.2% in both headline and core CPI figures.
- **Squeezing economy**: After 5 months of solid growth, Canada's economy shrank in August. This isn't necessarily the beginning of a trend, but it is a warning sign.

- **Unemployment remains mixed**: Canada reported a big gain in jobs, but a rise in the unemployment rate. As mentioned in the past, the employment numbers weren't so stable. The report for October, published in early November, is expected to have a strong impact on the C$.
- **Housing Bubble**: As 2012 nears its end, it is becoming more and more clear that Canada's home prices went too far, and not only in Toronto (as the central bank once mentioned). Household debt is at a high of 163% of average income, higher than levels seen in both Canada's southern neighbor and the UK before the big crash. What happens next?
- **Mediocre US Growth**: Trade with the US is vital for the Canadian economy. And while the world's No. 1 economy continues growing, it still isn't going anywhere fast. Without serious growth in the US, Canadian growth is limited.
- **Oil**: As an exporter of oil, global prices have a significant impact on the loonie, and now they have a negative one. WTI Crude Oil peaked above $100 in September and ends October around $86. Another slide to $75 cannot be ruled out as signs of economic slowdown are seen worldwide. A large and sustained fall in prices could also impact future drilling projects.

All in all, the Canadian economy is still in a good situation if looking at employment levels for example. However, worries are mounting from inside and from outside. November could see another rise in USD/CAD.

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 – Teflon Forever?

Despite having almost everything going against Australia, the Australian dollar has been quite resilient during October.

The A$ owes its strength to some improvement at home and also to some flows – the Aussie still offers a non-zero interest rate and Australian bonds are rock solid AAA. But not all is going up down under.

- **Big trade deficit**: Australia trade balance fell to deficit of over $2 billion, way below expectations. The best way to rebalance the trade balance is currency devaluation.
- **China and mining**: Nothing has materially changed since the recent debate about the "end of the mining boom" and the lower Chinese demand. The projects have still been cancelled and China is not picking up steam so fast – this issue just isn't news anymore. However, with less demand for commodities from China, the Aussie faces downside risks.
- **Intervention on the cards**: The RBA has occasionally complained about the high value of the A$ but intervention in currencies never seemed to be on the cards. But now, after having let allowed its foreign holdings to grow, there is some speculation (from a former RBA member) that the central bank might intervene to weaken the Aussie. Even without real intervention, speculation could also weigh on the currency.
- **Less Swiss Demand**: The last report from the SNB has shown that the Swiss National Bank managed to diversify away from euros – the Aussie probably benefited from this diversification, but it may be over now. Without the Swiss bid, the Aussie has less support on the downside.

What does strengthen the Aussie apart from its AAA rating?

- **Higher inflation**: the recent quarterly CPI report was surprisingly strong: +1.4% instead of an expected +0.9%. With such rises in prices, the RBA may be reluctant to cut the rates in its November meeting. Markets aren't pricing a rate cut (from 3.25%) as a certainty anymore, although it could still happen and weaken the Aussie.
- **Healthy job market**: Australia saw nice gains in jobs in the recent report for September: +14.5K. The unemployment rate is higher, 5.4%, but still excellent in absolute terms.
- **Jumping Building Approvals**: While this is a relatively volatile figure, leaps of 8.8% and 7.8% are somewhat encouraging after the housing sector wasn't doing too well for quite some time.

All in all, there are fewer threats on the Aussie than beforehand, and AUD/USD sticks nicely to its wide trade band of 1.02 to 1.06.

Another rate cut or threats of intervention could push it lower, yet a lot also depends on employment numbers and how smooth the regime change goes for China.

AUD/USD Technical Outlook

The Aussie defied gravity and remained within the wide range, which is gradually narrowing. A narrowing range engulfs the pair: both downtrend resistance and uptrend support began in mid-2011. AUD/USD is now closer to the upper part of this range.

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. 1.04 is a pivotal line in the middle of the range. It provides support in mid-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 – Ready for a New Flight or Intervention

The New Zealand dollar consolidated some gains and even dropped a bit, as expected in the October outlook. During November, the kiwi faces key quarterly reports, and could remain stable, or tick upwards.

Here are some factors to look out for regarding NZD:

- The new governor of the RBNZ, Graeme Wheeler made his first decision, and it resulted in a relative positive statement. New Zealand is less sensitive to commodity prices, and demand for food remains good.
- The most important indicator released in November is the quarterly employment report – New Zealand differs from many countries – it publishes the report only once per quarter. New Zealand enjoys a relatively low unemployment rate of 6.8%. Any rise above 7% will weigh on the pair, but stability or even a drop in these turbulent times could boost the kiwi.
- It is also important to note the quarterly PPI report and quarterly retail sales. The rise of 1.3% in sales (accompanied by a rise of 1% in core sales) in Q2 was significant for the NZD.
- The kiwi didn’t suffer too much from the QE3 Aftermath – some other currencies retreated against the US dollar despite dollar printing. This makes the kiwi well positioned for some gains.

Intervention?

Intervention: Each time NZD/USD rises, the RBNZ releases a complaint about the high value hurting the economy. This is usually disregarded by the markets. For a change, and with some correlation with their Australian counterparts, it seems that policymakers might be considering an intervention.

Many large countries either intervene directly in the value of their currencies (China, Brazil, Switzerland and Japan) or indirectly by various forms of QE: the US and the UK, as well as the ECB in a limited form. Intervention in foreign exchange markets is far from imminent, but is not ruled out anymore. This development is very interesting. The benchmark for intervention still remains very high, but it is out there – something that didn't exist beforehand.

So, this talk could also influence the value of NZD/USD, but it is still hard to imagine an intervention with current values. A rise above 0.90 could make it more serious.

NZD/USD Technical Outlook

NZD/USD traded within the lower part of the range, in a month that saw a retreat. 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

October Revisited

This is how currencies moved in October:

1. CHF – USD/CHF dropped 1.3%
2. EUR – EUR/USD rose 1.2%
3. AUD – AUD/USD rose 0.2%.
4. GBP – GBP/USD rose 0.1%.
5. USD
6. NZD – NZD/USD dropped 0.7%.
7. CAD – USD/CAD rose 1.5%.
8. JPY – USD/JPY rose 2.4%

After quite some success in September, the predictions for October were not so close.

1. **GBP**: Without too much negative attention of late, the pound could find itself in the top spot, thanks to the improving situation in the UK and more European flows. – Not so close - the UK situation improved, but the pound didn't rise too much against the dollar.
2. **USD**: After QE3 is behind us, Bernanke is expected to stay quiet before the presidential elections and not supply new policy hints for his moves at year end. – Close – Indeed, Bernanke remained silent, but this only helped the greenback gain against some currencies, but at the end it lost to the Aussie and the pound with a small margin.
3. **CAD**: Some positive signs of from the US plus stable oil prices and the recent fall in the CAD could lead to new relative strength – Big miss – the loonie lost a lot of ground as the BOC made a significant shift in policy. Also oil didn't keep up.
4. **NZD**: The strong value of the kiwi could trigger some backlash, or at least stability. – Right - Indeed, the kiwi suffered some backlash.
5. **CHF**: Assuming new worries in Europe, the franc could strength against the euro, with EUR/CHF getting closer to the peg. – Wrong – Europe managed to avoid a big crisis, and the franc even gained on top of the euro.
6. **EUR**: It seems that a Spanish bailout is already priced in, and if not, a rally would be short lived as trouble continues to develop everywhere you look. It's not only Greece. – Wrong - The trouble wasn't enough to move the euro out of the range, and eventually it moved up.
7. **JPY**: Intervention rhetoric is reaching a boiling point that could turn into action, more likely in the last days of October. Right – the Japanese yen suffered badly in October, just through the talks of more QE (a form of intervention).
8. **AUD**: So many things play against the Aussie, that it is more likely to move towards the lower end of the wide range – and there's a lot of way to go. – Wrong – the Aussie wasn't that strong (almost balanced with the greenback), but certainly not the last.

November Predictions

It's important to stress that this outlook is not a trade recommendation, but just commentary. This will be revisited in the next monthly outlook.

Note that this month has big unknown events, and the predictions here are made on assumptions that may go in the other direction.

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.
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.
3. **NZD** – The kiwi has room for stability and even gains after sliding in range during the previous month.
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.
5. **CAD** – With the change of heart at the BOC and with more worries from all over the world, the loonie is vulnerable.
6. **AUD** – A worse mood in the market can weaken the Aussie, although it mind find it hard to break below range.
7. **CHF** – Assuming problems in Europe, EUR/CHF will slide towards 1.20 – the franc would gain against the euro but remain very close.
8. **EUR** – With less appetite for risk and growing problems with Greece, the euro could be at the bottom of the list.

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.

- November 2nd: US Non-Farm Payrolls – last one before the elections.
- 2nd Canadian employment data.
- 6th Australian rate decision.

- **6th US Elections**
- 7th New Zealand employment data (quarterly)
- 8th Australian employment data (quarterly).
- 8th UK Rate decision
- 8th ECB Rate decision – rate cut coming?
- 11th Japanese GDP
- 12th-13th: Eurogroup meetings.
- 14th UK employment data
- 15th Euro-zone Q3 GDP
- **16th Greece theoretically runs out of money.**
- 20th Japanese rate decision
- 22nd Euro-zone Flash PMIs
- 25th – Elections in Catalonia
- 22nd Spanish bond auction
- 26th UK Revised GDP – Was it so good?
- 29th US Revised GDP
- Canadian GDP.

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.

Crunch Time for Volatility

October saw a return of low volatility, which was more similar to the summer months than the exciting first two weeks of September. In November, US elections and decision time for Greece will likely push volatility higher. Volatility is in a narrowing range, and it could burst now.

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. 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**.

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!