Forex Outlook January 2013

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FOREX CRUNCH

Introduction

Welcome to January 2013 monthly report from Forex Crunch. December was not that quiet, thanks to the fiscal cliff, QE4 and the Japanese elections. In January, volatility is expected to rise. None of the major issues has been resolved: Greece's debt remains unsustainable, Europe is still struggling and even the fiscal cliff deal is probably just a "ledge" before the next round. The first part of the report covers the main themes as well as a look back at 2012.

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 January. 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.

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Global Themes

3 things that did NOT happen in 2012

Before we move forward into 2013 (that already began with a storm), let's see what did not happen in 2012, a year that saw big events, but also the lack of them - a lack of major disasters that resulted in a lack of volatility.

Will they happen in 2012? Or will growth replace crises and create volatility driven by positive things?

1) Greece did NOT leave the euro-zone

The debt struck country muddled through the biggest debt restructuring in history (PSI), saw two consecutive rounds of elections and an ongoing crisis before it received the tranches of aid. Greek citizens suffered badly, with unemployment reaching 26%, and the recession turning into a de-facto depression.

Will Greece leave the euro-zone in 2013? It depends on mostly on Germany - the political will to keep Greece in the zone surprised many, but the next stage will require the political will to turn into direct cash: the next debt forgiveness of from Greece will come from loans made to it from the European Union. Only few people believe that Greece will not require more debt forgiveness. This means that money lent from Germany will be actually transferred to Greece. This political hurdle is huge.

2) Spain did NOT ask for a bailout

Spanish yields reached "bailout levels" but retreated. Spain can thank Mario Draghi for this: his words in July changed the picture. He committed the ECB to do everything to preserve the euro, "and believe me, it will be enough". Since then, Draghi backed up his words with the OMT: a program to buy bonds, based on an approved bailout request.

Spain hesitated to be chained to the austerity path and the "Men in Black". So far, this tactic has proved itself: the OMT served as a big bazooka and wasn't used so far. Spanish yields continue falling. Spain is far from being saved, with an ongoing banking crisis and an unemployment rate of over 25%. Nevertheless, the crisis in

the financial markets is currently distant, and a bailout is far – Low yields = no bailout.

What will happen in 2013 with Spain? Without growth, Spain could still drag the euro down. Hopefully, the bleeding will stop and Spain will see bond yields drop thanks to growth and not thanks to bazookas.

3) Bernanke Did Not Pause Near the Printing Press

Does more quantitative easing really help the economy? This doubt was cast by many, including in this corner. Buying more bonds when yields are already very low didn't make any sense. How can it encourage lending? Nevertheless, as the unemployment rate fell only slowly and as the Fed wanted to create a "wealth effect", Bernanke did it again.

In September, the Fed announced QE3, or "QE-Infinity", an open ended monthly program to buy Mortgage Based Securities. After a pause before the elections, the Fed took much bigger steps in December: open ended monthly buys of treasuries (QE4). $85 billion are printed each month. Contrary to QE1, QE2, Operation Twist 1 and 2, the current policy is **totally open ended**.

Also the guideline for low interest rates, first introduced in 2011, has been changed to an open ended one: the time limit has been removed, and instead, lower rates depend on a lower unemployment rate and contained inflation.

Given the political problems in Washington, Bernanke's urge to act seems understandable.

Fiscal Cliff – Just a Ledge

US politicians did it again: they reached a temporary solution in the last minute, or actually after the last minute.

While the fiscal cliff was averted, a significant part of the problems were just pushed back to the end of February. Perhaps this time, can they reach solutions before the deadline?

The 113th Congress has a bigger majority for Democrats in the Senate and a smaller majority for Republicans in the House. Nevertheless, the two chambers are still split. Also the Republican Party seems split: the fiscal cliff deal passed the House with only a minority of Republicans voting for it.

Obama and the Republicans did reach a deal on taxes, by extending the Bush era tax cuts for most Americans, while raising them for the more wealthy ones. There were also agreements on the estate and dividend taxes.

So, everything tax related is behind us. However, the spending issues are still here. Republicans want cuts in welfare, while Democrats prefer to avert them, and preferably cut more in defense. As part of the fiscal cliff deal, automatic cuts have been postponed by two months. The so-called "sequester" has been pushed back to the end of February.

The end of February is also when the debt ceiling is expected to be reached. This combination could be more dangerous than the fiscal cliff. We have already seen politicians scramble in the summer of 2011 to tackle the debt ceiling. The debacle resulted in a credit rating downgrade from S&P.

Republicans want a dollar cut in spending for every dollar raised in the debt ceiling. Democrats prefer to raise the ceiling more than the cuts in spending.

What we are likely to see in January is time wasting: slow negotiations and a blame game between the two parties. If a deal will be reached during January, it will be a positive surprise and will likely lead to a "risk on" behavior – a drop for the safe haven dollar and Japanese yen in the short term.

In the longer term, the reaction depends on the contents of the deal. The best deal would be more stimuli now with a clear long term plan to curb the debt. **Such an outcome is probably too much to ask**, and we will probably get some medium term compromise that offers little stimulus now and no clarity for the future.

If, as expected, nothing happens during January, the focus will shift away from US politics during this month.

Currency Wars Intensify

Various countries want to have weaker currencies in order to boost their exports. The term "currency wars" was already coined in 2010 by Brazil's finance minister, but has intensified since then.

An escalation in these currency wars was seen in December, and is likely to continue in January.

A debate about labeling China as a currency manipulator was seen before the US presidential elections, yet many other countries are busier in debasing their currencies.

- **Japan**: The Japanese authorities have intervened over and over again in currency markets, with little success. Verbal intervention failed, until the recent political round. Towards the December 16th elections and also afterwards, the yen has been free-falling in huge shift of direction. PM Shinzo Abe continues to battle the strength of the yen. In addition, he hasn't backed from his demand to pursue the 2% inflation target more actively, and he leaves the BOJ governor Shirakawa little options: comply or be replaced. Also the ambitious spending plans hurt the yen. Will the vertical plunge of the yen continue or will we see a pullback. It currently seems that any pullback will be limited. The first BOJ rate decision under the new government happens in mid-January, and will be closely watched.
- **US**: As mentioned earlier, the nature of the Fed's programs is **open-ended**. Even if some members of the Fed want to see an easing in easing by the end of 2013, the Fed currently continues to push $85 billion of ammunition into the currency wars. The Fed has another rate decision in late January, in which it will have the chance to clarify how determined it is regarding monetary easing – we will likely see something more dovish than the meeting minutes.
- **UK**: The Bank of England launched one of the more aggressive QE programs when comparing to the nation's GDP. Despite the appointment of Mark Carney to BOE Governor (which will happen in the summer), the BOE is still open to more pound printing. A triple-dip recession in the UK will justify

such a move, on top of the 375 billion pounds already allocated to the Asset Purchase Facility. The BOE will likely pause in January, but this isn't 100% certain.

- **Euro-zone**: The ECB never launched official QE and "lost in currency wars", but has lent around 1 trillion euros to euro-zone banks via the LTRO program. In addition, the central bank already lowered the deposit rate to 0% and is "technically ready" to push rates to the negative zone. Such a move will certainly weaken the euro. The ECB will not easily use this option, but the gun is on the table. A cut in the interest rate cannot be ruled out.
- **Switzerland**: The floor of 1.20 under EUR/USD is with us since September 2011, and there's no sign it will go anywhere, as deflation still looms over the country which attracted safe haven flows. This is an explicit participation in a currency war. If the ECB goes negative, the peg will be endangered.
- **Australia**: There has been some talk about "passive intervention" to weaken the Australian dollar. This is a complex topic. How can intervention be passive? Well, it's clear that the RBA is not pleased with the high value of the Australian dollar, as the country's economy outside the mining sector is not thriving.
- **New Zealand**: The big shifts in the value of the kiwi aren't positive for New Zealand, and the central bank often complains about the strength of the NZD. It did mention an intervention as a distant option. In January's rate decision, the RBNZ will have a chance to mention this again.
- **Canada**: Also in Canada, the high value of the C$ has been mentioned, but intervention is a very distant option. Will Canada also up its tone? This depends on the loonie, which didn't strengthen that much. A move away from parity could trigger more complaints.

All in all, everybody wants a weak currency, but not everyone can get it, as currencies are relative. Without any type of international coordination, the currency wars will likely continue and be omnipresent also in January.

It’s important to note that having a strong currency also provides advantages, especially low inflation. In a world where inflation is too low, the advantages are hard to see.

A shift in currency wars is likely only when inflation picks up, and this isn’t likely anytime soon.

European Focus Moving from Debt Crisis to Core Economies

Towards the end of 2012, Greece finally received some aid and another reduction of debt. European leaders, led by Germany, preferred to avoid the politically sensitive question of writing off loans to Greece. Many see this as inevitable, and Angela Merkel even raised this option in a trial balloon.

However, she prefers pushing this back beyond the German elections in September. It is unclear if this can be pushed so far into the future, but it can certainly be pushed back beyond the first quarter.

The financial situation of Spain has also eased: **benchmark 10 year bond yields are back around 5%** - high yet bearable levels. The spreads between Spanish and German bonds dropped 182 basis points since June 2012. One of the reasons is the big bazooka: the ECB’s commitment to buy bonds in the secondary markets assuming the country in question asks for and receives a bailout. Spain didn’t ask for a bailout nor saw an improvement in its economy, but still enjoyed relief in the financial markets.

Spain’s unemployment rate already reached 25% and house price falls accelerated in 2012. Was the bazooka the only reason? Another reason is that **Spain tapped into its Social Security Reserve Fund for buying bonds**. This also helped in pushing yields lower. Spanish issues are therefore on the backburner as well.

Italy, the euro-zone’s third largest economy, is suffering from a high debt-to-GDP ratio and political uncertainty. Nevertheless, the elections are only in late February and are probably overhyped – no big change is expected in policy.

Core issues

With all these problems sidelined for now, why is the euro still under pressure? It's the core countries. First and foremost, the German locomotive is moving slowly: Germany's economy has slowed down in Q3, and recent PMIs also show weakness. Germany has an export-oriented economy, and **Merkel stated that manufacturing is all-important**. Manufacturing PMIs have pointed to the downside.

In addition, consumers are somewhat more worried: retail PMIs in Germany, France and Italy are contracting, and this holiday season was somewhat less festive.

In France, there are also worries about the tax policy: while the French constitutional court has rejected the current top tax rate of 75%, the backlash against this move continues. The French economy hardly moved in 2012, and unemployment reached levels last seen in the 90s.

Many doubt if France is still a core country or belongs to Club Med. It is still Europe's second largest economy (bigger than the UK) and is still important.

Why are core countries slowing? They are not immune to the struggling economies in the south of Europe, and they are not immune to slowdowns elsewhere. **While there is no contagion in the financial markets, there is contagion to the real economies**.

For investors that see the euro as a new Deutschmark or a currency representing core countries, the euro seems less attractive at the moment.

The official recession in the euro-zone comes against a steadily growing US and a stabilizing China. On this background, the euro is set to weaken, even if the worst of the European debt crisis is behind us.

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 euro, a special coverage is available in the themes section, so the coverage is only technical below. 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 – Broke Above Downtrend Resistance

During December, the dollar slid lower but didn't reach the bottom of the range: 78.60. It then recovered and began pushing higher, breaking again above 80 and above downtrend resistance (the black line).

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.

84.1 was the peak in 2012, from where the downtrend resistance line begins. 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. 80.32 served 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, the 79.50 line 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**.

EUR/USD Technical Outlook – Recovery LTD.

The pair made nice gains during the month of December 2012, but found a clear peak at 1.33. The pair confirmed the break above the steep downtrend resistance line which began in early 2011, from the high line of 1.4940.

A line that wasn't broken is the uptrend support line that began in mid-2012. The recent slide challenges this line.

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 2012, up to 1.3486.

1.33 was a stubborn peak at the end of 2012 and is key resistance. The peak of 1.3170 is is now weaker after being broken, – it is the top of the trading range and served as a cushion when the pair traded higher. 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. 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 – Triple Dip and Triple Top

More signs of an economic deterioration were seen in the UK during December. If there is no huge surprise, the initial GDP report for Q4, published at the end of January, will show that the economy contracted once again – the beginning of a third recession since the financial crisis began in 2008.

The British economy enjoyed an Olympic leap in Q3, growing an impressive 0.9% (originally reported +1%) and exiting the recession. This wasn't sustained.

Let's start with some positive signs:

- **The number of jobless claims** actually dropped according to the latest report: the drop was small but still meaningful: 3K. It joined a smaller-than-expected drop beforehand. Also the unemployment rate ticked down from 7.9% to 7.8%. These could be green shoots.
- **Manufacturing** returned to growth: the Manufacturing PMI for December jumped from 49.2 to 51.4 points – back to growth after 7 months of scores under 50. While encouraging, the manufacturing sector is small.

There are more important notes on the downside:

- **Services sliding**: For the first time in 2 years, this sector is contracting: services are 75% of the British economy, so this is very worrying.
- **Housing is going anywhere**: recent HPIs are pointing to stability or slides, mortgage approvals disappointed and the construction PMI was below 50 points.
- **Inflation isn't falling**: a level of 2.7% (annual) makes the task of the government and the BOE more complicated.
- **Retail sales flat**: For the month of November, sales remained unchanged. There is great concern about the holiday season: did Brits buy enough goods?

In addition, the austerity policy of the British government is not so effective in curbing Britain's debt, as PSNB refuses to fall. On this background, the government is pressured to adopt a "Plan B".

The Bank of England could expand the current QE program, but this seems ineffective: there are doubts about how much it helps the economy (apart from lowering borrowing costs for the government).

The immediate effect of QE (currently at 375 billion) on the pound is already minor: each announcement results in a temporary drop followed by a recovery.

However, in the longer run, the pound is certainly capped and fails to break higher against the greenback.

During January, we could see a weaker pound due to more signs of economic weakness, but these losses could be limited.

GBP/USD Technical Outlook

GBP/USD made a third attempt to break above 1.63 and failed once again. Also the break above downtrend resistance proved to be false. In early January, the pair made a bigger move that reached 1.6380, but also this proved to be a very nasty false break, with the pair eventually retreating to support at 1.60.

Uptrend support seems more reliable at this moment: the line beginning in mid-2012 continues accompanying the pair.

Lines

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. 1.6475 capped the pair several times in 2011 and is relevant is the pair succeeds in conquering 1.63.

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 – Bears Remain Energetic

The once in a generation shift in the yen has really happened: the weakening of the Japanese yen worsened after the elections: not only did Shinzo Abe's LDP party win an absolute majority, but he also commands a two thirds majority together with a coalition partner.

In addition, the new government has not retreated on election promises and continued to verbally battle the yen. The BOJ joined in with more QE in its first post-election decision. During January, the BOJ will make another decision, the first after the new government took office.

Abe left the head of the BOJ two options: either get 2% inflation or be replaced when his term ends. Recent musings from the BOJ already show that the central bank is willing to comply. The government not only wants a higher inflation

target, but also wishes to achieve it: the current 1% target was not achieved, to say the least.

Deflation is still very present in Japan, even though the economy is not always doing so badly: the Tokyo Core CPI dropped by 0.5%.

After the stratospheric leap of USD/JPY and the general collapse of the yen, many are asking: when will this stop? The current drop in the yen helps exporters and boosts the Japanese stock exchange. So far, Japanese bonds yields have remained at low levels.

The danger is that money will shift from bonds to stocks, raising the bond yields. Japan has a debt worth 235% of GDP – far worse than Greece. A quarter of the budget currently goes to pay this debt, which is mostly held in domestic hands (contrary to most nations).

Japan has an aging population, and pension funds need to sell bonds in order to pay pensions. Together with shifting energy consumption and rising stocks, bond yields could be sold off and make Japan's refunding more problematic.

Apart from the all-important BOJ meeting on January 22nd, it is worth following the current account release: after a historic current account deficit in September, Japan returned to a surplus. Another deficit could be very worrying.

USD/JPY Technical Outlook

Dollar/yen had an incredible month, moving upwards in a vertical move and not stopping to breath. The pair left behind various downtrend resistance lines.

Lines

101.44 is the highest line here – it was a peak in early 2009 and serves as the beginning of a broken resistance line. The line is followed by the very round number of 100.

97.80 capped the pair in late 2009 and is the last important line of defense before the pair regains an extra digit. A very important line is 94.70 - which capped the pair for long months in early 2010.

92.12 worked in both direction in 2009 and 2010. These are still in the distance at the moment. The ultimate resistance line in the shorter term is 90 - a target marked by many analysts and a round number.

Below, 89.10 was a peak in the summer of 2010, before the pair began descending. 88 was resistance back in 2010 and weakens now.

85.50 was the peak in 2011 after the coordinated intervention and is now support. 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 – Despite the Peg, USD/CHF Looks Good Technically

The Swiss National Bank maintained the peg of the franc to the euro in the quarterly meeting. The expected move came despite a surprising rise in employment and an even more surprising rise in growth: the economy grew by 0.6% in Q3, triple the early expectations.

Nevertheless, the SNB found a justification for the rise via another drop in prices: fighting deflation enabled the move that is already 16 months old. Despite a relatively flat EUR/CHF (just above 1.20), USD/CHF has improved its technical “behavior”.

During January, the peg might be challenged due to a weaker euro. As aforementioned, the weakness of the single currency could come from the weakness of the core rather than from the debt crisis. In addition, the ECB could join the currency wars.

For any sign of a change in future policy, it is important to note the CPI release on January 11th. Without a rise in prices, the SNB is likely to leave its policy unchanged – a policy that has been very successful.

The release of the foreign currency reserves report will also shed some light on the situation at the central bank, but these figures are more important for other currencies – the diversification of the of the SNB from euros to other currencies has a significant impact on them, but not on the franc.

Another release worth following is the retail sales report on January 16th, which will show how the economy is doing.

As always, 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

During December, USD/CHF made a downwards move, breaking below the 0.9240 line. As aforementioned, this pair has become more technically friendly, trading in clear ranges. The new break in early January is still pending confirmation.

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. 0.9080, which was a trough recently, is also worth watching. Note that this line defends 0.90.

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 – Has a Potential to Leap

The Canadian dollar didn't go anywhere fast in December, but managed to make some gains against the greenback.

After support held nicely over and over again, USD/CAD has a potential to fall.

- **QE**: Even if QE-infinity is not really forever, the Fed is still printing $85 billion every month. This money goes into bonds, and then continues into stocks and commodities. As a commodity currency, the Canadian dollar benefits from QE.
- **Strong employment data**: After a few unstable months and drops in GDP, Canada posted two consecutive excellent reports: full time jobs are on the

rise and the unemployment rate is on the fall. The internal strength of the Canadian economy is clear to see.

- **No recession in the US**: The most important factor for the Canadian economy is demand from the US. While the US recovery is frustrating, it is still steady: jobs are growing, PMIs are on the rise and the fears of recession are weaker. A stronger US economy means a stronger Canadian dollar.
- **Stayed behind fellow commodity currencies**: The kiwi and the Aussie have performed somewhat better than the loonie in recent months, with the kiwi leading. C$ could close the gap.
- **Less hawkish BOC statement already digested by the markets**. One of the things that hurt C$ was a notion that the Bank of Canada has become less hawkish and isn't really on the guard against potential inflation. This has already been digested by the markets. With an improving economy, the statements can return to hawkishness.

During January, the Canadian dollar could therefore make gains. The only ongoing issue is the housing sector. So far, the issue seems to be contained.

Apart from the rate decision, retail sales could provide a boost for the loonie: they have risen nicely in November, and the report for December could also be positive.

USD/CAD Technical Outlook

USD/CAD traded under parity throughout December, and was also contained on the downside by 0.98. The narrowing channel is still far, but the pair is a bit closer to the downside.

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 – Sailing High – Eyes on China

The Australian dollar traded in a limited yet high range during December, sticking to the high end of the wide range. Signs of improvement from China have helped the Aussie, as well as a strong jobs report at home.

During January, China will have a strong impact on A$. The economic giant and Australia's main trade partner will release GDP figures for Q4, before any other major economy. In addition, the RBA does not hold a meeting during this month, so speculation will have to wait to the next one.

The drop of the unemployment rate from 5.4% to 5.2% was a very pleasant surprise, and countered the rate cut seen in early in December. The report shows that the situation of the Australian economy, also outside the mining sector, is not that bad, despite the weak PMIs.

The employment report and building approvals are of high importance. The housing sector has already seen better days and some improvement is needed in this sector.

Another thing to note is that the Swiss National Bank has moved its focus from Australia and is now putting its eyes on the UK. Diversifying away from euros into A$ has pushed the latter higher, but there was some "hangover" afterwards.

The RBA does not like the strength of the Aussie and has supposedly performed some sort of "passive intervention". It is unclear if there was any effect on the Aussie.

All in all, the Aussie could see a good month in January, but it is unclear if it can break above the tough 1.06 line.

AUD/USD Technical Outlook

The Aussie challenged the all-important 1.06 hurdle in December, but couldn't break higher. This resulted in a pullback that was rather limited. Also note that the peek above downtrend resistance was a false break. Downtrend resistance (which began in 2011) will likely be challenged again during January.

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 third move towards this line didn't succeed, creating a triple top that is very important now. 1.05 capped the pair in November 2012 and also worked as support during 2011.

1.0350 was support during December and is notable now, 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 – Weaker Economy Limits Gains

During December, the kiwi reached levels last seen in 2011, but was unable to sustain them. NZD/JPY is the currency pair of the year. On one hand, a relatively hawkish statement by the RBNZ pushed the pair higher, but a weak GDP figure and a big current account deficit kept the pair from rising.

During January, the important figures to watch are the release of CPI in the middle of the month and the rate decision at the end of the month.

New Zealand enjoys a non-zero interest rate of 2.5%, and it seems unlikely that the RBNZ will lower this rate anytime soon. The recent statement did express some dissatisfaction by the value of NZD but had a generally positive outlook for the local and global economies.

In addition, New Zealand enjoyed the announcement about QE4 in the US: more USD that flows into risk currencies and commodities is certainly positive for the kiwi. And even if "QE Infinity" is not really going to infinity and perhaps not even up to 2014, this will likely continue boosting NZD, even as the US economy improves.

The economy probably improved in Q4, as Q3 was weak: the economy grew by only 0.2%, half the early expectations. In addition, Q2 growth was revised to the downside.

CPI is of high importance now as it will impact the next rate decision: CPI is released only once per quarter in New Zealand. Any uptick in inflation will make the tone more hawkish.

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NZD/USD Technical Outlook

NZD/USD broke above the 0.8360 line and peaked at 0.8476 – a level last seen in the summer of 2011. It also broke above the 0.8470 line and downtrend resistance. However, the gains didn't hold and the pair fell sharply. Another challenge of downtrend resistance could be more successful in January.

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. The pair temporarily breached this line, but didn't go too far. 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

December Revisited

1. EUR – EUR/USD rose 1.6%
2. GBP – GBP/USD rose 1.4%.
3. CHF – USD/CHF dropped 1.3%
4. NZD – NZD/USD rose 1%.
5. CAD – USD/CAD dropped 0.1%.
6. USD
7. AUD – AUD/USD dropped 0.3%.
8. JPY – USD/JPY rose 5.2%

The predictions for were quite good, with the general direction of currencies forecasted very well, especially the strength of the euro, kiwi and franc. A slide in the yen's value was expected, but not the downfall that eventually happened.

1. NZD – After sliding a bit, the kiwi could rise back up, assuming no big disaster happens anywhere – Not on top, but certainly a winner. The kiwi continued gaining in 2013.
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. – Correct - The euro certainly enjoyed the stabilization in Europe.

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. – Correct, the franc ended third, following the euro's lead. No change in policy was recorded.
4. GBP – the pound could make minor gains against the greenback this time. – the pound recorded more than minor gains.
5. USD – without any disaster, the greenback is likely to be stable. The greenback was certainly stable, and actually switched positions with CAD.
6. CAD – With the departure of Carney and weak Canadian data, USD/CAD could be on the rise. – Dollar/CAD hardly changed.
7. JPY – Japan's elections could further weaken the yen, but probably not as much as seen beforehand. – Right direction, but the downfall was massive – the elections pushed the yen lower.
8. AUD – The Aussie has too many things playing against it, and after rising in range, it could fall in range. – Correct, the Aussie lost to all currencies, apart from the yen.

Predictions for January

1. CAD – The Canadian dollar could benefit from the fiscal cliff deal and "catch up" with other currencies.
2. NZD – The kiwi could continue moving higher, enjoying internal stability. It hasn't reached a limit yet.
3. AUD – The Aussie remains under pressure, but could recover against the dollar and compete against its peer commodity currencies.
4. USD – The dollar could recover from QE4 as the US economy is improving.
5. CHF – The franc could beat the euro in the peg race.
6. EUR – With Germany slowing down and Greece never really getting out of the woods, the euro's rise could be somewhat reversed.
7. GBP – After the failure to break higher, also the pound could reverse and slide in range.

8. JPY – While another 5% is unlikely, the yen could certainly end January as the weakest currency once again.

It's important to remember that these are merely speculations and not trade recommendations.

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.

- January 4th: US Non-Farm Payrolls – last report for 2012 – within expectations
- 10th: UK rate decision
- 10th: ECB rate decision – rate cut? A negative deposit rate?
- 17th: Australian employment data
- 18th: Chinese GDP – the first major GDP report
- 22nd: Japanese rate decision – first under the new government. Will the BOJ surrender?
- 23rd: Euro-zone initial PMIs
- 23rd: UK employment data and meeting minutes
- 23rd: Canadian rate decision
- 25th: UK GDP (first release) – triple dip?
- 30th: US GDP (first release) – could be "Sandy"
- 30th: Fed decision – first after QE4
- 30th: New Zealand rate decision
- 31st: Canadian GDP.
- February 1st: US Non-Farm Payrolls, without any preliminary hints

Sources for this report:

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

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Additional Notes for Forex Traders

Here are some additional notes for Forex trading during this month.

Volatility on the rise again

It began with sharper moves in USD/JPY and yen crosses, but a rise in volatility is now seen everywhere. Assuming this trend will continue, it's important to 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 – 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!