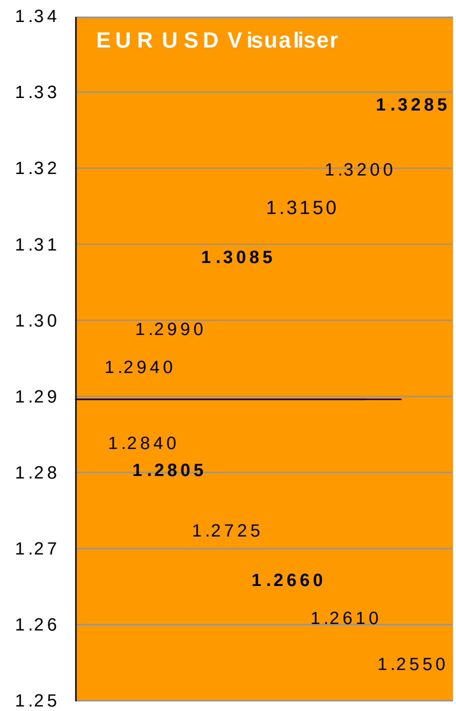
Daily Forex Outlook

Renewed worries about Greece

23rd January 2012

EUR USD (1.2965) Snippets of information trickling from meetings gave an impression on Friday that Greece and the IIF were converging towards a deal. As a result the euro gained a little momentum. Later however, reports indicated that for the IMF and the European Commission had not approved the deal; the minimum haircut and the coupon on the new Greek bonds needed to offset the incremental costs of Greek debt would have to be keener than that agreed in the negotiations. For the banks and hedge funds on the other side of the table, the terms might prove unacceptable; already at the weekend, it was reported that the private sector had already made its best offer. As today's eurozone Finance Minister's meeting starts without a clear cut deal on Greece, the sentiment for the euro looks more subdued. The issue of Greece has turned the cautious optimism of last week into renewed worry.

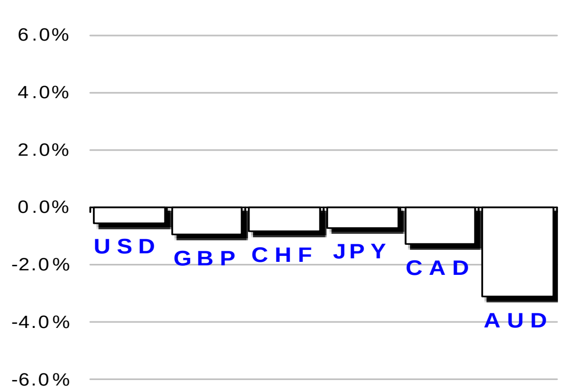
Although the news environment for the euro has turned relatively sombre, we reckon that recent stabilisation has given the euro the opportunity to climb further to **1.3085** and then to **1.3285**. The Market Bias, which reached neutrality on Friday, also suggests that leftover longs have also had the opportunity to exit and so should no longer be burdensome for the single-currency. Hence we embark on an immediate bullish strategy, whose objective will be the higher of those two upside points. The risk-limit is set at **1.2840**.



Market Bias Index™

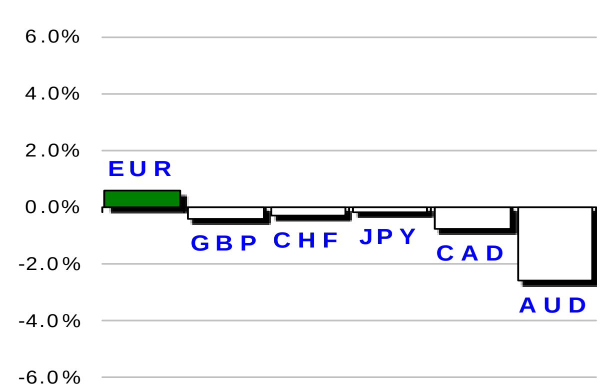
Almost all currency pairs are perceived as fair-valued including the EUR/USD, which recently reached its break-even point. The AUD continues to be perceived as overvalued.

Base currency: **EUR** 08:00 CET



Source: Cognitrend

Base currency: **USD** 08:00 CET



Source: Cognitrend

The Cognitrend Market Bias Index seeks to measure the extent of the perceived over-/under-valuation of the given base currency against other major currencies. This is important for estimating the behaviour of the losers as this is also the inverse of the price change that must be recorded for their breakeven to be reached. The greater the loss, the greater will be the bias. To exploit it, one should favour a base currency position when the bias is positive and vice versa.

USD JPY (77.05) A BoJ loan survey revealed that corporate demand for bank loans dropped in the last quarter of 2011. The index is calculated by subtracting the number of banks reporting a decline in lending from the number reporting an increase. So while the index may not signal the real volume of loans, it nevertheless suggests a decline in investment activity in Japan. For now, the dollar remains weak while below the **78.30** stabilisation point. We still see a risk for a drift back to **75.30**. Interim resistance is at **77.65**.

EUR JPY (99.35) On Friday the euro touched our stability point at **100.30** before turning again. If it overtakes the resistance, we would expect it to recover to **102.00**. For now, however, the downside risk of a drift back to **96.50** remains. An earlier support is now at **98.80**.

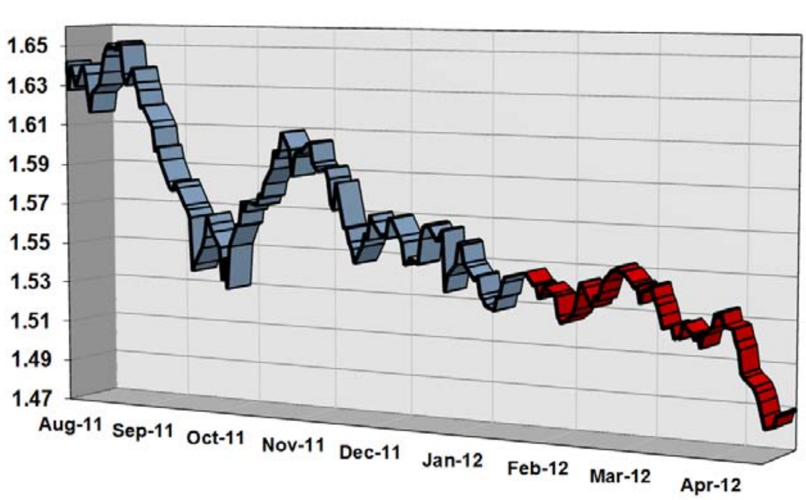
GBP USD (1.5550) Cable continued its climb during Friday's NY session, finally ending in one of its best weekly performances since last October. Many attributed the strength to upbeat comments by the BoE's Ben Broadbent. In an interview with *Market News International*, the MPC member's hinted that market expectations for more QE as early as next month might have been too aggressive. His generally more upbeat economic outlook, within which he saw a pickup in growth in the second half of the year, contrasted with the market's current preoccupation with possibly negative growth in the present. Broadbent also hinted that the ECB's actions, by reducing the downside risks to growth have had the effect of reducing the need for UK QE. The pound's gains have been unsurprising so far. However, to stabilise durably it still has to overtake **1.5640/60** (slightly lower) which will, be more difficult. To the downside, we now look for good support as early as **1.5470**. Any break there would be the first sign of renewed weakness. A broader downside risk remains to **1.4970**.

AUD USD (1.0490) The A$ is on its way to **1.0530**. Beyond there, it could even climb to **1.0700**. Interim resistance is at **1.0605**. The neutrality point is now at **1.0370/80** with additional support at **1.0290.**

All price levels mentioned in this report require a 10-pip break to be invalidated

	USD CHF	USD CAD	NZD USD	EUR CHF	EUR GBP	EUR SEK	EUR NOK
Supply	0.9450	1.0280	0.8185	1.2180	0.8440	8.8700	7.7700
	0.9395	1.0180	0.8080	1.2140	0.8375	8.8100	7.7200
Demand	0.9305	1.0050	0.7990	1.2060	0.8210	8.7150	7.6200
	0.9240	0.9965	0.7925	1.2000	0.8125	8.6700	7.5800

Pattern Recognition Forecast Model



GBP USD
Goodness-of-fit* = 91%
(Best results above 90%)

** Closest representation of the last six months of activity in the historical database. The price forecast is the actual historical outcome adjusted for volatility.*

The objective of this model is to explore the possible future developments by basing a forecast on past movements in a purely mechanical way. The outcomes are therefore unrelated to the analysis otherwise contained in this document.

Risks to Foreign Exchange Transactions

Foreign exchange transactions carry risk and may not be appropriate for all clients. Participants in foreign exchange transactions may incur risks arising from several factors, including the following: 1) foreign exchange rates can be volatile and are subject to large fluctuations, 2) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and bond markets and changes in interest rates and 3) currencies may be subject to devaluation or government imposed exchange controls which could negatively affect the value of the currency. Clients are encouraged to make their own informed investment and/or trading decisions. Past performance is not necessarily indicative of future results.