

FX

TRADER MAGAZINE


RETAIL FOREX
MARKET WATCH

SWISS
BROKERS
INTERVIEWS

MID YEAR
FUNDAMENTAL
ANALYSIS

EURO/USD
OUTLOOK

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THE FINANCIALIZATION OF COMMODITIES
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Dodd-Frank new rules for FX and commodities

In his comprehensive article on commodities, Alessandro Balsotti underlines the contiguity between the commodities and the FX markets. And as we dedicate an important part of this edition to the evolution of the retail FX industry and the commodities sector, new rules from the Dodd-Frank financial reforms are starting to affect both markets.

The nearly one-year old reform, also known as the Wall Street Reform and Consumer Protection Act, mandates tighter restrictions throughout the financial world and requires the various regulatory agencies to issue their own rules. For retail currency trading, a handful of regulators, including most recently the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, have announced rules that mirror those issued by the Commodity Futures Trading Commission (CFTC).

New rules for the over-the-counter derivatives market won't just hit big banks and firms, but also retail investors who buy short-term

derivatives contracts to bet on the price movements of gold and silver. "We were seeing a lot of fraud in this area, and we felt that it needed to be regulated," said NFA spokesman Larry Dyekman. Some firms such as Forex.com have stopped offering over-the-counter gold and silver products to retail investors in the U.S.,



Senator Chris Dodd and Representative Barney Frank

others, such as Oanda, have chosen to continue offering those contracts but without leverage, so that they can be in compliance with the new law when it takes effect on July 16.

Another important consequence of the new law for retail traders is that they might soon have the possibility to trade currencies through big US banks that have deposits insured by

the FDIC. And as confirmed by Drew Niv, chief executive of FXCM "the biggest issue in retail FX is the lack of safety of customer funds". So when big banks enter the retail FX space, this might give them a competitive advantage over brokers.

In Switzerland, where FINMA (the Swiss Financial Market Supervisory Authority) requests that forex brokers have a full banking license, the market went from a few hundreds of brokers to only a few authorized ones. In this edition we've interviewed Marc Bürki, CEO of Swissquote Bank, and Alain Broyon, CEO of Dukascopy Bank, who define the Swiss banking environment as secure and stable. The acquisition of ACM by Swissquote Bank and the banking license that Dukascopy obtained from FINMA give further protection to their clients and show that the Swiss regulator has now joined the U.S. CFTC and NFA, the U.K. FSA and the Australian ASIC in being an efficient force in the regulation of the Forex market in Switzerland.

Emmanuelle Girodet

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2011

Forex Mid Year Review

The currency landscape continues to be spattered by nervous, trend-absent trading as various and fluctuating levels of uncertainty continue in all major regions.

In no particular order or relevance, FX markets have so far contended with ecological disasters like Japanese nuclear meltdowns, two bouts of earthquakes in NZ, tornadoes and wildfires in the US and flooding in Australia.

Additionally, deteriorating economic situations such as mounting burdens of US & EU debt, widespread risks of corporate and municipal defaults, mulling of QE3 by the Fed, a growing perception of flip-flopping to its previously hawkish stance by the ECB, leadership chaos at the IMF, Bank of England grappling with inflation above target despite soggy GDP, risk of default by PIIGS based on associated ratings downgrades, implications of Swiss National bank losses caused by Franc strength, mixed signals from RBA indicating a disconnect in transparency and most recently some potentially significant topping patterns

in global equity and commodity prices, caused by a combination of the above, amid the prospect of China pausing for breath in its lengthy expansion.

Conspicuously absent from dramatic or potentially negative headlines and ticking over nicely have been Brazil, Norway, Sweden and Singapore. Maybe short EUR/NOK or EUR/SGD are the 'no-brainer' trades, but it's never that simple, is it?

That all sounds more like a review of the year than six short months and despite everything so far FX markets have been surprisingly sanguine in dealing with these events and issues both singularly and collectively, evidenced by relatively narrow ranges in most currency pairs, despite the sensationalism of some headlines.

IMF

As we go to print, a new Managing Director of the IMF has finally been appointed, congratulations to Christine Lagarde of France. The institution itself was portrayed

as being in shock by mainstream media after recent events, yet Lagarde beat out several heavyweight lobbying attempts by senior politicians from around the world to the MD post, including Stanley Fischer of Israel and Agustin Carstens of Mexico, who one must imagine all see the prospect of better times ahead at the IMF. It's a fairly sure bet that no viable candidate was simply attracted to the job by the accompanying 320,000 GBP/350,000 EUR/500,000 USD tax-free annual salary.

Interestingly and perhaps in a reflection of our fast-changing times, Lagarde's appointment has broken one of the main traditions by becoming the first female chief since the IMF's creation in 1945. However the other breach of tradition previously on the cards remains intact, a non-European appointee remaining something for the future.

Given the far-reaching implications of the recent global crises and an accompanying rise in prominence of non-European monetary powers, it was certainly rational that the choice of IMF head may not have

automatically deferred to a European candidate. It is the IMF, not the EMF, after all. In much the same way that governments have for years been urging a need for transparency, communication, cooperation and global awareness in monetary policy and exchange of goods and services between members, the same arguments were valid when leadership deliberations were underway. Such an outcome would perhaps have been an overdue nod to the fact that the world has changed much recently and will likely continue on this path. That said, the European power structure and Western influence controls most of the votes on the board and the grapevine's initial chatter that prevailing powers would ultimately back France's Lagarde was accurate. Her

participation and positive input in spearheading and rallying for financial aid to Greece were omnipresent during one of the most challenging financial eras ever when French finance minister and surely played a huge part in her appointment. Critics may say a larger question now arises, namely whether qualifications and successful longevity in her previous position will be enough to satisfy the future broader sphere and more diverse demands on her skill-set that will likely be encountered when dealing with a vaster array of issues and problems that will be found at the IMF.

The IMF is evidently not yet ready for an 'outsider', not least due to the lack of consensus among the rising influence of BRICS, Africa and Arabic countries who, although entitled to be represented by a voice closer to respective homes, could not narrow the field down significantly enough to make a single and collectively popular choice, although to be fair Lagarde is an advocate for greater allocation of

initial intervention; we have often seen how quickly currency markets run out of patience and then punish weakness.

Positively, Lagarde has a great opportunity here and sticking to her known qualities of independent thinking, forthrightness and policy initiatives could enable her tenure at the IMF to be even more successful than that as French FM, especially if the contentious issues of debt restructuring and perceived bias to allocating IMF resources for European usage are dealt with efficiently.

Theoretically, establishment of the most positive credentials of legitimate leadership may be achieved by an ironic twist of fate: in its role as what some might call a lender of last resort, the IMF is bound to



Christine Lagarde elected new managing director of the IMF

voting shares and therefore greater representation at board level for these 'emerging market' nations.

After the inevitable honeymoon period and potential for a small rally in the Euro, some very interesting times and topics are still ahead, not least because the IMF has provided around 100 billion EUR or approximately 30% of Greek aid to date. What happens if the wheels come off in Greece and bondholders take a haircut? If mishandled, Lagarde could easily become at best unpopular and at worst a scapegoat, given her heavy

enforce its loan conditions on nations that have made use of the facility.

By drawing attention to certain inefficiencies (standing up to other European leaders) from a greater position of power, Lagarde at the IMF's helm could, if necessary, authorise withdrawal of funding to nations that do not adhere to repayment schedules and/or fiscal discipline, which although a long-shot, is definitely a possibility based on austerity riots, already happening on the streets of Greece - and we're only at the beginning of the process.

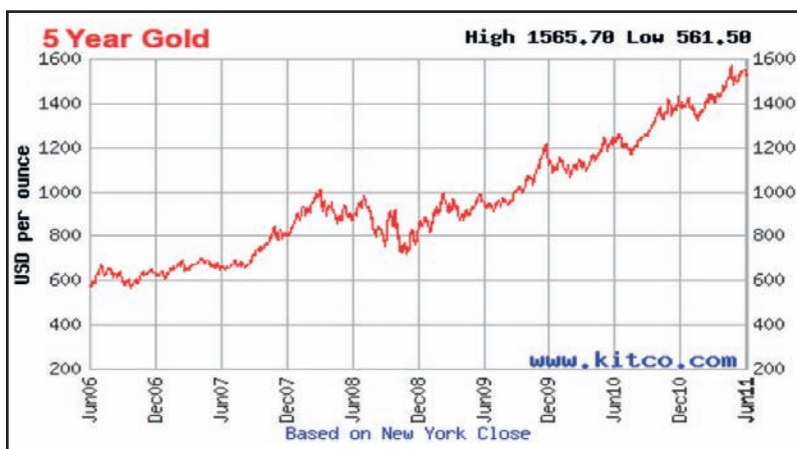
GOLD

Currently at \$1526, below its best levels of around \$1566 earlier this year, with anecdotal yet somewhat ironic evidence in some depressed cities reflecting that the few people doing well happen to be the semi-permanent yet perhaps ultimately transitory retail buyers of the precious yellow metal. Given the 300% or so rise from \$561 in the past 5 years the numeric appreciation of this boom is somewhat reminiscent of the tech-stock bubble circa 2000 with a cycle that was bid on every dip and on the whole trending higher. That market seemed too good to be true at the time and eventually this proved to be the case, but it sure had a good run and squeezed the shorts before fundamentals finally realigned with a sharp fall in prices, never yet regaining those lofty heights.

Who is to say what will happen next in the gold market and what constitutes a bubble anyway? Some arguments suggest it's simply a combination of the bigger fool theory that can then become embedded and fed by a lack of credible information/ignorance, coupled with voracious appetite/greed of buyers. Once started, an increase in a bubble's size is inevitable, especially since buying downside insurance using liquid and efficient options markets has not really been economically practical until relatively recently, which made it difficult to express a viable bearish view on certain commodities.

The bottom line is that gold may have been in a bubble for several thousand years so why should it stop now? One reason that gives credence to this argument is the apparent discovery that almost \$7 billion of US Dollar bills that were sent to Iraq and intended to be distributed, ensuring the post-Saddam economy got off to a good start, have gone missing, and on a worst case, potentially stolen. Not so easy to heist gold in that way so as a store of value it definitely makes sense from that standpoint. On the other side of this equation we have the simplistic yet true example that even if one buys gold and the price of the base metal rises, once costs

once habits become embedded. We have often seen the expensive theoretical cost of fighting market trends but gold is certainly an enigmatic puzzle and although the theory behind a gradual yet sharp rise in valuations is relatively easy to grasp, the fact remains that gold as a means of speculation to preserve capital or generate wealth might be best left alone at these relatively elevated levels, particularly as supply and demand are the driving fundamentals in any valuation and these two key criteria with respect to their direct effect on bullion prices are extremely unknown, when all is said and done.



We touched previously on the prospect of a remote yet still possible chance of a 'super-revaluation' of gold, for example an ounce of gold could be allocated a new worth or value of a huge multiple vs. its current rate, enabling owners of gold to cash the metal in for larger quantities of the currency in concern

of carry, insurance, commissions, capital gains and sales taxes are accounted for, it would be amazing if most participants ever actually made a profit from owning the metal, timing would almost have to be perfect, which in itself would be a precious and rare commodity in FX or any market.

In times of uncertainty people flock to their comfort zone, where they feel safe and with who or what they know. Misery loves company and history tells us that in times of angst, gold prices rise and human behaviour is very hard to change

thereby allowing holders to pay creditors in effectively devalued paper currencies. This is a reach but anything is possible in currency and commodity markets. In the same article we also suggested a theme that we think is more realistic, in that food, irrigation and arable land may eventually turn out to be the new 'gold' or stores of value as the global population rises and implementation of more efficient methods of food production become necessary amid scarce resources like water, crops and effects of unpredictable and indiscriminate weather patterns.

2011 final six months

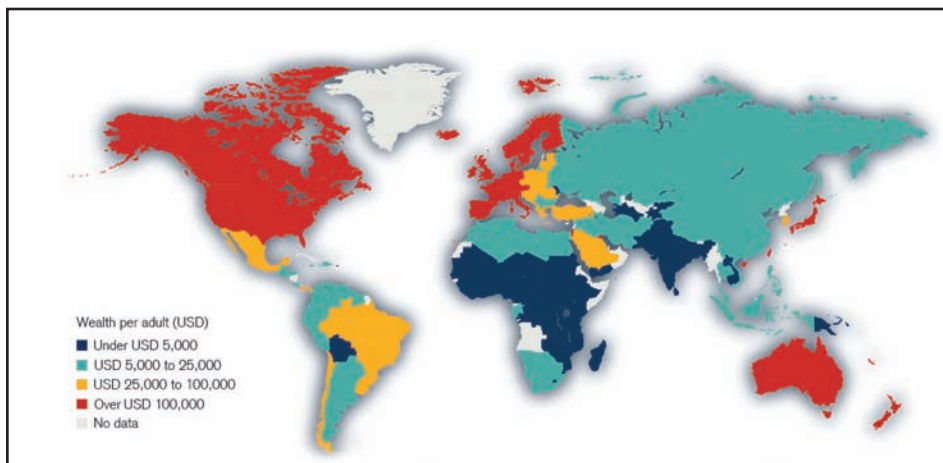
Other issues that may come into play during the second half of 2011 and beyond can be found in discussions on the subject of wealth transference; we have had several conversations in which sources claim that despite protestations from society's elite, the top one percent of the globally wealthy have seen their combined and collective global net worth increase from around 10% in 1980 to around 25% in 2011.

in check, could lead to some further or even escalated social unrest, as already seen in Europe on the back of imposition of austerity measures. There's only so much people will stand for.

Given the muddled waters and backdrop discussed here, without being seen as harbingers of doom we do realistically see the current optimism expressed via 'risk-on' FX

rates as expressed by forward interest rate differentials may indicate that rates are high now as a payoff for the likely future and lower valuation of the currency. Until now the carry trade has largely been a case of having one's cake and eating it but as with the theory on gold, the days of easy money in what is a very tight and still vulnerable global economy are surely over.

We do not think the Fed will enter QE3 and we do think the ECB will not embark on a hiking cycle despite its (outdated) mandate to blindly maintain price stability at the expense of everything else. If correct the Dollar will strengthen against the Euro anyway, even before any accounting for damage that will surely be wreaked upon the European states once bondholders of nations like Greece, who as a nation are struggling having lost ability to devalue their currency, take the seemingly inevitable haircuts.



World Wealth Levels - Source: Credit Suisse Global Wealth Databook

This figure is astonishing given the general rise in population, borderline and abject poverty in some countries and stubbornness of widespread unemployment.

There is a latent danger of a tipping point approaching that at best will hopefully see a leveling of the playing field and redistribution of this wealth to significantly assist the majority of the world's population and at worst if not kept

trades such as long AUD, long NZD and even long EUR as having huge potential to be misguided, The RBA is out of touch with its audience and the NZD seems grossly overpriced at best, importantly the markets seem comfortable sitting long despite both currencies being around 60% or better above their 2008 lows.

If this theory were true we would expect a return to more traditional FX valuations where high interest

A good example of why the Euro is overvalued besides the current potential domino effect of default combined with Eastern European states rolling back plans to join is to also look at where the Greek Drachma entered the Euro in 2002 in terms of US Dollars and where those rates would be today if Greece left the union at that same rate:

The Euro replaced the Drachma in 2002 at 340.75 to the Euro, or around 365.62 to the USD (conversion 1EUR=0.932 USD).



Today's implied rate with the Euro at 1.430 would generate a rate of approximately 238.28 Drachma to the Dollar, (1EUR=1.43 USD, 340.75/1.43). Appreciation seems at best outrageous given the likely imminent impact of Greek debt rescheduling, whatever details may eventuate and in reality is simply ridiculous.

As we go to print, stark warnings from the ratings agencies include a possible downgrade of French banks by Moody's and of Greek banks by S&P. These two further components of a perfect storm started last week by Trichet's 'flexible' comment may turn out to be the ultimate catalysts in sending the Euro on a downward spiral and if Greece is forced to leave, the systemic risk aversion could push Euro down to its recent lows at around \$1.18.

To continue on the theme of Dollar strength we have learned of talks between various US officials that may result in the adoption of one of Ben Bernanke's preferred 'toolkit' options, namely an inflation-target strategy by

Fed officials to assist in their future efforts to spur growth and reduce unemployment without fueling higher prices.

The fact that an inflation target is being mulled at this early juncture might have a three-fold effect, one of injecting confidence as economic expectations rise as a direct consequence of anticipation of better times ahead, two of deflecting or disarming criticism of recent monetary stimulus that many commentators have said would lead to out of control inflation and perhaps more importantly three setting a realistic level of expectations in the future as the country emerges from this slump. There may be a few hurdles to clear first in terms of needing better data; we therefore expect an announcement close to the end of Q3 2011, which would still keep the Fed ahead of the curve.

Yen may also weaken for its own domestic and mainly demographic reasons, the US population is younger than Japan's and replaces itself at a faster rate whereas Japan's birth rate is not enough to stop the current spiral—any flight to quality or risk aversion

that includes purchasing Yen would also seem to have capacity to end in tears for the buyers and although this projection might seem ludicrous given present valuations, we would expect momentum to build over the next year or so for a substantial devaluation of the Yen, say to around 120 to the Dollar.

The Swiss Franc seems overvalued despite much fanfare over safe haven status, again it is a very crowded trade and all good news looks priced-in, especially with the increased regulatory aspects and transparency in Switzerland and an impending vote by authorities on raising capital requirements of the banks, which if passed would also deter the rush of hot money into the country.



Perhaps better long-term value can be found amongst currencies that are stealthily appreciating such as BRL, SGD and NOK which we feel should not be ignored in the macro picture given their superior ratings, GDP, surpluses and higher interest rates.

Kevin Sollitt

Weekly updates @ Blog <http://greatlakesforex.wordpress.com/>



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RETAIL FX INDUSTRY WATCH

"For the first time we may have a situation with Forex that retail traders can have the same opportunities as large market players such as banks and Hedge Funds"



RETAIL FOREX:

EVOLUTION, REGULATION, AND CURRENT TRENDS

The retail Forex market has evolved quickly, from being nearly non-existent 20 years ago, to being a major Forex liquidity provider (about 5% of Forex volume is retail traders). Unlike other more established financial markets, such as the Stock, Commodity, and Bond markets, Forex trading didn't start until the early 1970's and the retail Forex market didn't begin until the early 1990's. With the retail offering of forex brokers such as Oanda, Saxo Bank, and others, retail traders had the same access as banks and other large institutions. So retail Forex can be examined and defined by brokers offering retail trading, because without this market access, the retail Forex market would never have evolved.

Also, because Forex was an unregulated market, it allowed for many unethical practices and outright fraud. This has been approached by the regulator, the National Futures Association, although not explicitly a Forex regulator, they became the de-facto global Forex regulation model.

DEFINING RETAIL

Even the definition of what 'retail' is has evolved. Retail used to be a 100,000 minimum, now at some brokers retail is 100. Generally, retail is considered to be individual traders opening accounts with relatively small deposits. The NFA defines retail as anyone who isn't a QEP (Qualified Eligible Person)ⁱ. However, reading the regulatory definition precisely, one notes several categories that although QEP's, would by industry standards be considered retail: "non-United

States persons" and "Knowledgeable Employees". The thinking here is that the NFA doesn't regulate foreign persons and foreign markets, which is correct. However most would consider a non-US person from India with a \$500 deposit retail.

Retail traders are - almost by definition - undercapitalized. Thus they are subject to the problem of gambler's ruin. In a "Fair Game" (one with no information advantages) between two players that continues until one trader

goes bankrupt, the player with the lower amount of capital has a higher probability of going bankrupt first. Since the retail speculator is effectively playing against the market as a whole - which has nearly infinite capital - he will almost certainly go bankrupt. The retail trader always pays the bid/ask spread which makes his odds of winning less than those of a fair game. Additional costs may include margin interest, or if a spot position is kept open for more than one day the trade may be "resettled" each day, each time costing the full bid/ask spread.

DEFINING FOREX INDUSTRY

The Forex industry didn't exist when Forex first started. Banks traded currencies on behalf of their customers and that was it. Now there are companies that specialize in providing services to Forex companies, such as technical services as provided by companies such as FX System Hosting, who offers dedicated servers and domain names specific to Forex companies. The Forex Industry can be defined as the growing number of companies offering Forex specific products and services, and service providers to those companies. There is now a specific registration category in the NFA called RFED, or Registered Foreign Exchange Dealerⁱⁱ. This is a new category that didn't exist 5 years ago.

PROBLEM OBTAINING DATA

Since Forex data is available on a survey & voluntary basis, data is difficult to analyze. For example, even for the entire Forex market, official BIS data used commonly "4 Trillion per day" is a mere survey. While most accept that it is accurate, the data is obtained by banks volunteering this information to the survey, which is unaudited.

Retail Forex is even harder to quantify. Many brokers are private companies or based offshore. As no reporting of financial or customer data is required, it leaves researchers to only speculate. FXCM can provide a good model because they are considered to be the largest retail broker in the world, and as they are a public company they submit customer and financial

data. According to Google Finance, FXCM has 165,000 customersⁱⁱⁱ.

FXCM releases monthly metrics of their trading volumes on their Investor Relations website.

The National Futures Association became the de-facto global Forex regulation model



See their latest release:

May 2011

Retail Trading Metrics:

- Retail customer trading volume of \$328 billion in May 2011, 12% higher than April 2011 and 5% higher than May 2010.
- Average retail customer trading volume per day of \$14.9 billion in May 2011, 7% higher than April 2011 and no change from May 2010.

- An average of 363,579 retail client trades per day in May 2011, 13% higher than April 2011 and 8% lower than May 2010.

- Active accounts of 155,592 as of May 31, 2011, a decrease of 2,410 or 2% from April 2011, and an increase of 26,465 or 20% from May 2010.

- Tradeable accounts of 167,844 as of May 31, 2011, an increase of 1,696 or 1% from April 2011, and an increase of 6,635 or 4% from May 2010.

Institutional Trading Metrics:

- Institutional customer trading volume of \$80 billion in May 2011, 28% higher than April 2011 and 4% higher than May 2010.

- Average institutional trading volume per day of \$3.6 billion in May 2011, 22% higher than April 2011 and no change from May 2010.

- An average of 8,694 institutional client trades per day in May 2011, 28% higher than April 2011 and 95% higher than May 2010.

More information, including historical results for each of the above metrics, can be found on the investor relations page of the Company's corporate web site^{iv}.

WHITE LABELING

Another phenomenon in Forex is the proliferation of White Labeling^v. Private Labels exist in all industries, however in Forex it is very common. There are a few companies offering platforms and trading strategies, and 10x more who white label that product and market it as their own. For example, Citibank uses a white label of Saxo Bank for their retail business.



Since Forex data is available on a survey & voluntary basis, data is difficult to analyze. Retail Forex is even harder to quantify

The problem with this when analyzing data is that it is difficult to determine how many unique platforms or strategies there are in existence, compared to how many are simply a white label of another.

FOREX ATTRACTS CRIMINALS

Since Forex was unregulated, the Forex market attracted a white collar criminal element that used Forex as a story to steal money from people. Unlike the rather sophisticated Madoff operation, many of these criminals simply take money from customers and spend it on lavish lifestyles, sometimes not even trading 1 contract. Another factor is that Forex is unknown to many, and rather complex for someone

who doesn't have a mathematical or financial background. Thus when the criminals explain how big banks trade currencies and make billions, to the average person it sounds exciting.

A good example is provided by the case of Joel N. Ward, currently serving a prison sentence for his crimes which he was convicted^{vi}.

Over his trading career, 110 people trusted Ward with \$15 million of their money, with over \$1 million was taken in the final weeks of the scheme. Ward and his employees traded only \$2 million of this money, losing \$1.84 million. Twenty-two of the 24 accounts traded incurred losses, with the profits in the other

two accounts, amounting to less than \$1,000 total. Ward used the rest of the money to pay himself a \$180,000 annual salary, support his trading school business, stay at 5-star hotels at his "trading retreats," and pay out \$3.7 million in "lulling payments" to investors who demanded money from their supposedly profitable trades. He also created fictitious Merrill Lynch account statements to show that one investor had an account balance of \$9.5 million. In August 2006, Washington Mutual Bank contacted the authorities with suspicions about Ward's banking activities. In November 2006 Ward emailed his investors, "There are no funds left in JNF as all monies have been misappropriated." In a handwritten confession that Ward gave his wife and that was later given to the FBI, Ward wrote of much personal distress and even the possibility of taking his own life over his guilt. In that context, he wrote that he "felt like a financial serial killer" and "just another scumbag con artist bilking old people out of their retirement money." He was later divorced. In August 2007, Ward pleaded guilty to nine felony counts, including fraud and money laundering. The U.S. Attorney's office claimed that Ward defrauded more than 100 clients out of more than \$11 million. Separately, Ward is alleged to have defrauded investors in a Mississippi real estate project.

These criminals have given Forex a bad reputation, as explained in the Wikipedia page Forex Scams^{vii}.

FOREX SEO

What made Forex very popular on the internet is a group of international internet marketers who picked up on Forex as something to promote. The reasons that Forex is one of the best product types for these marketers to promote is because it is purely electronic, meaning that your customer could be anyone with a computer and an internet connection (compared with something like automobiles, which can only easily be purchased within a 50-100 mile range). Also there is a high profit margin on many forex products, and the 'pitch pages' usually have wild claims with high rates of return.

Most of these are false claims, however the internet marketers can use Forex to create a compelling argument to 'make a lot of money'. Since many of these individuals are located online, they can live in any country and are not subject to regulations. In the future it may be an issue because while Forex has now become regulated, the internet still is not, so it is difficult to enforce regulations on domains registered private, who are domiciled in foreign countries.

Propelled by the SEO community, Forex became viral. Forums such as Forex Factory, Forex-TSD, FX Street, and others, saw their memberships skyrocket. Retail investors searching for answers

started posting large amounts of questions in the forums and engaging in heated threaded debates. Since anyone can register for a forum, while moderated, the responses were questionably accurate. Most Forex professionals would not spend time answering questions in forums unless they were paid to do so. As there isn't any official Forex knowledgebase, the average client is left to decide on his own of the accuracy of statements.

Having noted the above, the overall

What made Forex very popular on the internet is a group of international internet marketers who picked up on Forex as something to promote

community is self-moderating and education and knowledge has been increasing. That means over time, the forums have become more accurate, and wild claims such as making 50% / month with no risk, have been filtered out as false. What the forums did accomplish is popularizing Forex on the internet and giving retail customers a means of communicating with other retail customers. Now many brokers offer their own Forums to keep customers from using these uncontrolled, 3rd party forums.

2005 - 2007 ERA

With the release of Meta Trader 4^{viii}, retail Forex went viral globally. Since Meta Trader 4 was free and possible for anyone to download, develop and

test a rule based automated trading system, millions downloaded the software. Tradestation, the industry standard for automated trading systems development, failed to adapt to Forex quickly enough to provide a growing number of hobby developers free development tools. To this day, Tradestation doesn't offer a free downloadable software development environment, although it is still considered by many to be the only software to use when developing quantitative systems.

Brokers at the time such as Alpari and Interbank FX received a flood of clients who wanted to trade MQL based

systems they had developed live in the Forex market, most of which had relatively small deposits. Also, many of these hobby developers began selling their systems for use, as well as forming trading groups where they would exchange development ideas and improvements on their own trading strategies. The financial success of Forex brokerages such as Interbank FX and Oanda caught the attention of investors. In the case of Interbank FX, this resulted in a \$40 Million investment in 2007 by venture group Spectrum Equity Investors. Oanda received \$100 Million in investment capital in September, 2007^{ix}. Earlier that year, State Street purchased institutional trading platform Currenex for an astonishing \$564 Million^x.

While this was going on, the NFA was raising the Net Capital Requirements for brokers, which meant that smaller firms were forced either to be acquired by larger ones or cease to exist. Forum threads called “Dealer Dead Pool^{xi}” and “NFA Capital Requirements^{xii}” were proliferated on forums, where users speculated on the fate of these firms. Subsequently, a number of firms that existed in 2006 did not exist in 2008.

DEAD FIRMS WALKING

Out of the following short list of US firms in trouble, only FXDD survived:

One World Capital (\$1,105,000), Velocity4X (\$1,587,000), Direct Forex LLC (\$1,523,000), FiniFX (\$1,464,000), GFS Futures & Forex (\$3,074,000), Nations Investments (\$1,699,000), Royal Forex Trading (\$1,102,000), SNC Investments (\$1,565,000), FXOD (\$78,000), I Trade FX (-\$3,039,000! Close to Bankruptcy!) Money Garden (\$3,399,844), United Global Markets (Bankrupt).

In some cases, as with Velocity4x, which was shut down and customers were acquired by Forex.com – customers had to move their accounts but no losses occurred. In other cases, such as One World Capital, customers’ capital was wiped out. One World Capital was finally determined to be a fraud^{xiii}.

INDUSTRY CONSOLIDATION & REGULATION

While the US is not the only



The financial success of Forex brokerages such as Interbank FX and Oanda caught the attention of investors

regulatory environment in the world, and there are many Forex firms registered offshore, the US has always provided a framework for foreign regulators. In the case of retail Forex, many believe that regulation is needed. The argument may be different for Hedge Funds for example, where you have professional traders meeting sophisticated QEP investors who understand the complexities of Finance. The retail Forex investor may not be sophisticated (although many of them will spend hundreds of hours researching before opening their \$1,000 account). Also fraud and unethical practices have been

abundant in Forex. Of the major US based FCM's/FDM's offering Forex, only a few have escaped NFA complaints (Most notably, Oanda, GFT, and FXDD). Regulation is an important part of the discussion of retail Forex, because Forex by itself doesn't have any official framework or standards. Each broker handles rollover charges differently, although many follow some rules established by common practice. In fact, Forex regulation without considering retail market is nearly irrelevant, as most participants in Forex on an institutional basis have already been regulated and mostly work with other institutions or QEP's as they are defined by the CFTC.

It should also be noted that most of the problems plaguing the Forex industry were mostly on a retail level. Dealing Desks common in a retail environment are nearly unheard of in an institutional environment, such as Deutsche Bank's Autobahn^{xiv}.

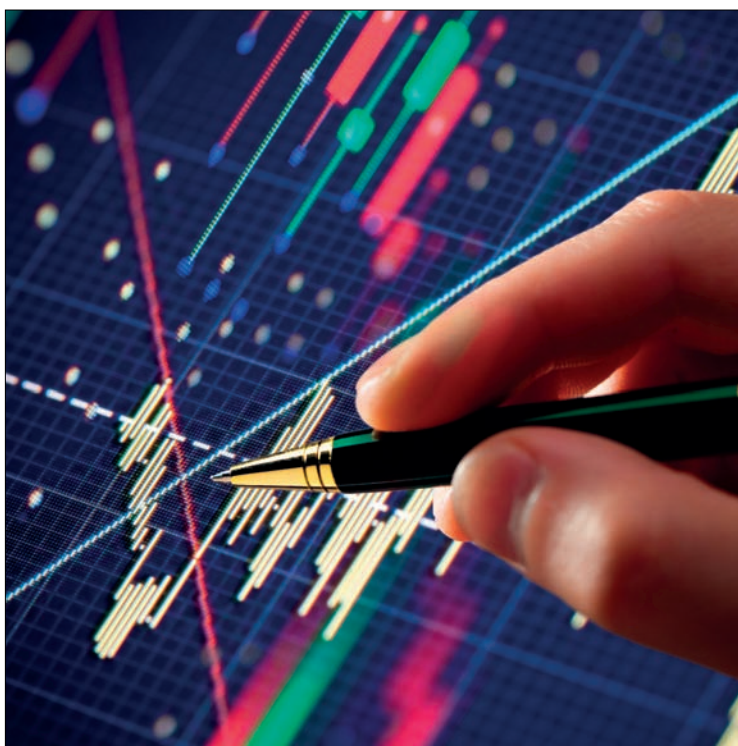
DEVELOPMENT TRENDS

Expert development as Advisor proliferated by the MetaQuotes platform created a large global community of traders developing their own automated trading systems. These systems were initially simplistic, some relying on simple indicator signals such as Moving Average crosses and RSI. Others called "Grid Trading" systems, simply bought and sold above and below the current price – while EUR/GBP was in a trading range, the system never lost money. As soon as EUR/GBP began trending, many accounts had severe losses. Now, strategies are becoming increasingly more complex and robust. Some tools allow for the importing and exporting of data between MT4 and other platforms such as Tradestation, MatLabs, and Microsoft Excel.

Also, new platforms on the

market are now competing with MetaQuotes. While it is unlikely that any will replace MetaQuotes due to their wide proliferation, it is important to note the amount of new platforms that have been recently launched, catering to a growing number of automated Forex developers. Also, manual

Forex strategies are becoming increasingly more complex and robust



traders have discovered the use of automated tools. While many still trade manually (by deciding themselves when to buy and sell) they heavily use automated assistants, such as opening order scripts, dynamic indicators, and account monitors.

CURRENT STATE OF RETAIL FOREX

The Forex industry is in a different state than it was years ago. A few trends that have emerged:

- Many traders are now aware of games brokers play, and are demanding real, instant execution
- The demographic of retail Forex has expanded beyond the hobbyist, and now includes many non-FX money managers (such as stock or bond traders), corporations, and high net worth individuals
- Brokers are more capitalized
- While the number of brokers due to consolidation has possibly decreased, the number of well capitalized brokers has increased, allowing more choices
- Brokers have become more competitive
- Ability to trade smaller lot sizes such as Micros
- Brokers offering more services, such as VPS included with accounts
- Established brokers such as Oanda have started offering Managed Accounts
- Plethora of 3rd party tools such as ZuluTrade and Currensee.

One trend is the rebate is becoming smaller or even non-existent. Some CTA companies now offer an interbank feed with spreads as low as

.4 EUR/USD to retail traders^{xv}, with an LOD with 5% performance fee. While this may sound strange, why would a client pay a % of his profits to the CTA, you actually are always paying the spread when you enter a trade, and if the broker has slippage, 5 pips is \$50 on a 100,000 unit position. Also with the performance based model, if the account is negative there is no fee, so over time they believe this will equal lower trading costs and provide a fairer, transparent trading environment. In initial testing, systems show greater profitability with the reduced spread and instant ECN style execution.

Of course as with many of these changes, these are things that should have existed in the first place. It's

not fair that dealers pray on retail customers that don't have sophisticated knowledge of the markets. So for the first time we may have a situation with Forex that retail traders can have the same opportunities as large market players such as banks and Hedge Funds. As the Forex markets themselves become more complicated, and as Central Banks engage in competitive devaluation of their respective currencies, retail Forex may become a new asset class in its own right: retail investors doing their own currency investing with the use of provided tools such as analysis, automated systems, and custom indicators.

Elite Forex Training

- i <http://www.investopedia.com>
- ii <http://www.nfa.futures.org>
- iii <http://www.google.com>
- iv <http://www.fxcm.com/>
- v <http://www.saxobank.com>
- vi <http://en.wikipedia.org>
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- viii <http://www.ibfx.com>
- ix <http://www.oanda.com>
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SOLUTION FOCUSSED TRADING



GETTING THE BIGGEST BANG FOR YOUR BUCK

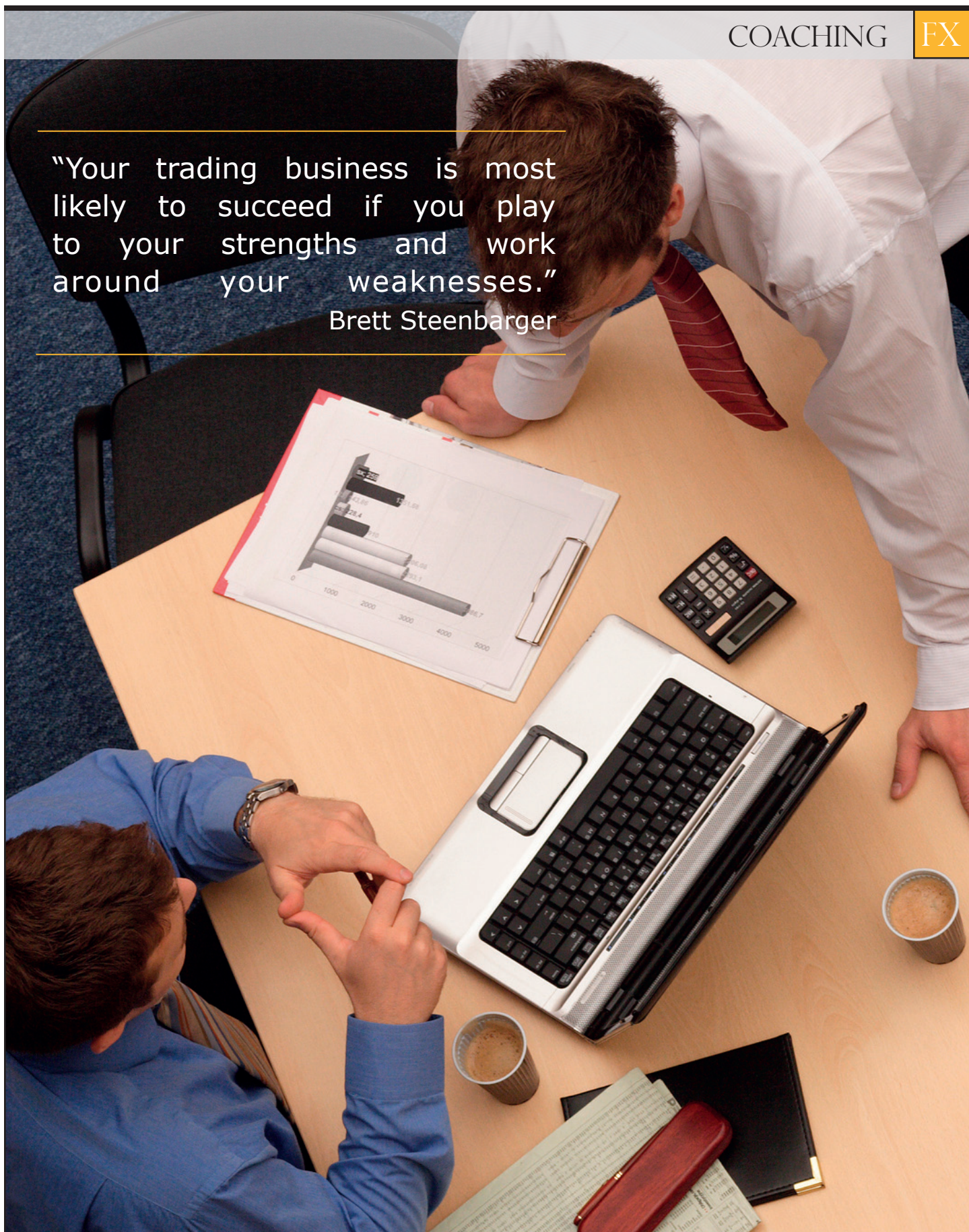
Sean was a trader who was very capable but who's P&L returns did not seem to be reflective of this. I remember sitting down with him in one of our early coaching sessions and conducting some analysis of his trading looking at where he tended to make money and where he tended to lose money, where he traded well (made good decisions) and where he traded not so well. As we went through this process it soon became evident that Sean's profits and best trading decisions were centred around market events such as economic releases, announcements, speeches and higher volatility conditions. Where he tended to lose a disproportionate amount of money was in trading markets that were less event-driven, less volatile and more range bound.

What were the options for Sean going forward?

- Stay the same.
- Work on developing his trading in range bound conditions.
- Look to maximise his opportunities in the volatile markets he thrives in.

One of the key underlying principles of my coaching practise is what is called a solution focussed approach essentially helping clients to build on their strengths and successes to enhance their performance. This is somewhat paradoxical when you consider that the majority of self-referring clients come for coaching because they believe they have a problem. However traders, as with people in sports, business and any performance activity, are most likely to succeed where they play to their strengths, and so starting coaching from this perspective is a very effective approach, and where people ultimately get the biggest bang for their buck.

"Your trading business is most likely to succeed if you play to your strengths and work around your weaknesses."
Brett Steenbarger



There are three key phases to adopting this solution focussed approach:

1. Identify your strengths
2. Utilise your strengths
3. Focus on, and build on your strengths

But what about my weaknesses I hear you ask? When tennis legend Steffi Graf was a junior she had a very strong forehand and a not so strong back hand. The coaches had a decision to make – develop the backhand or develop her game to enable her to play to her natural strength – the forehand. The proviso was that the back hand had to be good enough that it did not become a weak link in her game. Over the years the coaches harnessed Graf's forehand into a phenomenal force which was assisted by playing to another of her strengths her extreme athletic ability which enabled her to 'run around' the shot to hit the forehand, and they developed a backhand that kept her in the game and wasn't adversely 'hurting' her performance. What would have been the case had she worked and devoted time and effort to developing a good backhand at the expense of having the 'killer' forehand? We will never know, but without the legendary forehand she would have certainly have been a different player.

The same is true for your trading. Develop and play to your strengths first and foremost, then notice what happens, what is left over in terms of 'weaknesses' and then decide to what level they need to be developed, if at all, so that they are not 'hurting you'.

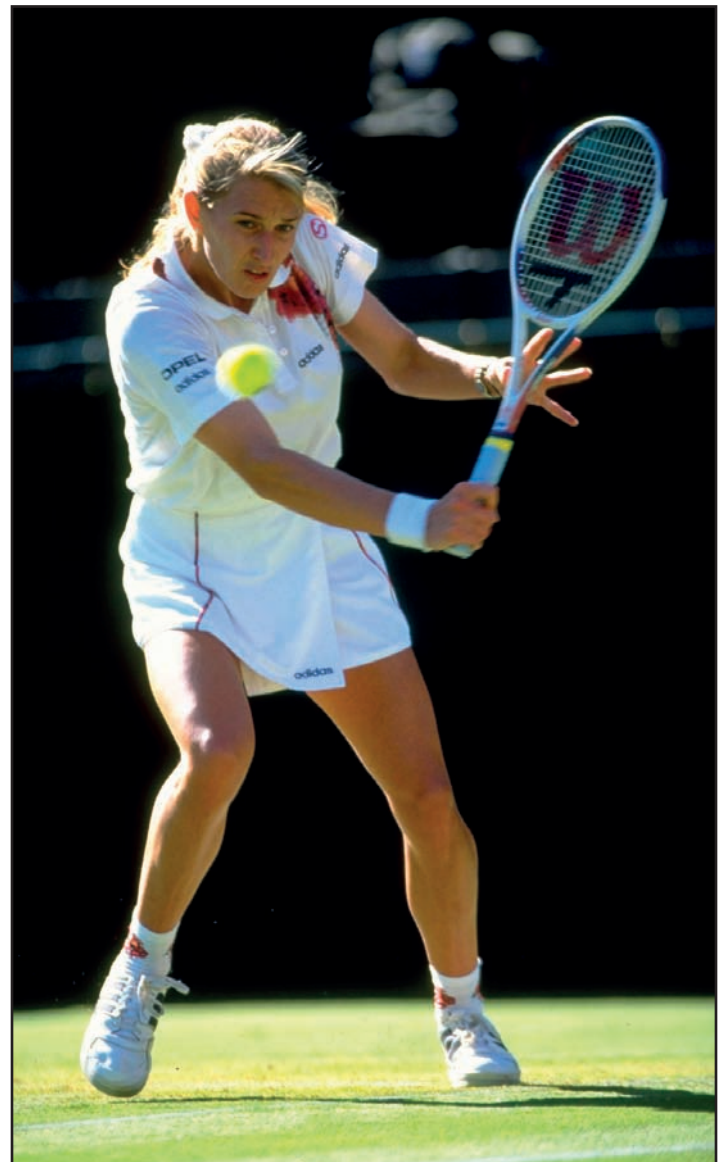
IDENTIFYING STRENGTHS

In my experience as a coach one of the most difficult questions for people to answer with sufficient depth seems to be 'What are your strengths?'. This is even more interesting in comparison with the ease at which people can answer the question 'What are your weaknesses?'. One of the reasons behind this is our biological conditioning and bias towards negativity as a survival mechanism, helping us to assess risk and worst case

scenarios, another maybe cultural conditioning where self-deprecation of our character is often seen as more acceptable than 'blowing our own trumpet'.

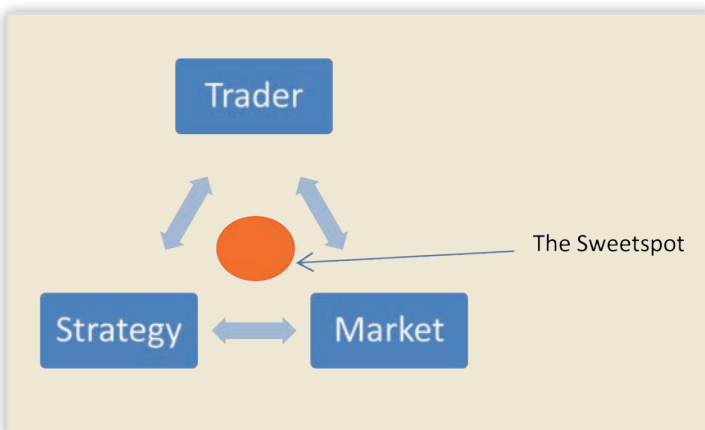
So how then can we effectively elicit our trading strengths? The answer lies in recent developments in

As a junior, Steffi Graf had a very strong forehand and a not so strong backhand



the world of interviewing which has seen a move away from traditional style interview questions such as 'what are your strengths?' and towards an approach known as behaviour based interviewing where you ask questions that are focussed on actual experiences and then elicit the answers you are looking for from it. For example in trading instead of asking 'What are your strengths?' we would ask, 'Tell me specifically and in as much details as possible about a time when you traded really well or made a great trading decision (regardless of the outcome)', and then listen to the reply for evidence of what strengths enabled that success/decision. I have noticed significant differences in both the quantity and the quality of information that I have been able to elicit from clients using this approach. Try it for yourself.

Think back to three great trades, trading days or trading decisions (these could be times when you have reduced losses or been disciplined as much as the times when you made big money) that you have made. Recall the events in as much detail as possible. What do you notice? What were you thinking, feeling, doing? What helped you to achieve those successes? Is there anything in common? What do those experiences say about you as a trader? Write down your responses and insights.



UTILISING STRENGTHS

Once you have identified your key strengths the next stage is to ensure that you are fully utilising them and leveraging them. One important way of doing this is to ensure that they are reflected in your trading, that you are where possible hitting the sweetspot, trading at the centre of your own personality and strengths and the markets and strategies that are most inline and supported by them.

Here are some questions to ask yourself to help you to identify your trading sweetspot:

- What are your strengths?
- What do you enjoy doing?
- What are you most

interested in, and motivated to do?

- What do you do best in the markets?
- Where have you been most profitable?

Of course the market conditions, your strategies and indeed even yourself will not remain constant over time, and so staying in the sweetspot, or close to it, becomes a dynamic process. One of the keys to longevity in the market is the ability to be able to stretch and flex, both in the short term and in the long term, to be able to adapt to changing conditions and keep performing.

FOCUSING ON AND BUILDING ON STRENGTHS

Like any good performance behaviour repetition of it is the key to making a habit and an integral part of your trading. It is all too easy to drift away from a focus on trading to your strengths and becoming overly focussed on areas of perceived weakness, so here are a few key questions that you can ask yourself on a daily/regular basis to help you to continue to build on your best performances.

Pre-Trading:

'How will I utilise my strengths and be at my best today?'

Post Trade:



‘What went well with that trade?’

End of Day:

‘What did I do well today that I can build on tomorrow?’

Asking yourself these questions may feel strange to begin with as they are run counter to most of our natural responses which tend to be little evaluation when things have gone well, and delving into more significant analysis and introspection when our performance is not going as well as we would like. Adopting any new behaviour can leave us with that uncomfortable (i.e. unfamiliar) feeling, and our natural response is often to head back to the comfort of our old ways, however persisting with these questions and indeed with the solution focussed approach can have a very positive impact on your trading

performance and profitability.

WHAT ABOUT SEAN?

The outcome of the meeting with Sean was that he decided to focus on increasing position sizing around his core strengths and strategies, and focus his efforts and energies on making sure that he was optimising his returns in these event driven more volatile conditions, and that he would still trade the quieter markets but would work on developing different strategies and approaches to do so and would take less risk with these trades enabling him to maintain a feel for the markets, develop his trading abilities and minimise his losses.

Steve Ward

Marc Bürki

CEO Swissquote Bank

Marc Bürki tells FX Trader Magazine about the recent acquisition of ACM by Swissquote Bank and how this transaction benefits all parties. He also talks about the company's current growth and the impact that the merger will have on ACM's future expansion.

INTERVIEW



FXTM: Could you tell us about your professional background and since when did you join Swissquote Bank?

MB: I graduated from the Swiss Federal Institute of Technology in Lausanne. I am the co-founder of Swissquote Group Holding and Swissquote Bank.

FXTM: ACM (Advanced Currency Markets) is one of Switzerland's largest forex trading companies and a leading international forex broker. When was it created and what are the main reasons for the international success of ACM?

MB: The success of ACM, which has been acquired by Swissquote in October 2010, is for sure the sophisticated trading platform with guaranteed order execution,

lowest spreads and attractive conditions.

FXTM: What revenues did the company achieve in 2010, and in the first quarter of 2011?

MB: Revenues and Profit for 2010 were: CHF 104.6 million (Profit: CHF 21.1 million) for the 1st Quarter 2011 revenues were: CHF 36.4 million, (Profit: CHF 10.7 million)


FXTM: Last October, ACM was acquired by Swissquote Bank. After ACM's efforts to obtain a banking license by FINMA - the Swiss Financial Market Regulatory Authority - was this a way to solve the problem and continue doing business under the new Swiss regulation?

MB: Yes absolutely. ACM is now

merged with Swissquote Bank and all operations are conducted under our banking license. For Swissquote Bank it was a good opportunity to grow in a sector where we have been active for two years already. The combination of our strength as a solid Swiss bank and the technology of ACM is a perfect match, and a transaction that benefits all parties concerned. Moreover it brings a real value to all ACM clients. Their assets are now deposited with the largest online bank in Switzerland.

FXTM: Swissquote is listed on the SIX Swiss Exchange. Which regulatory body/bodies currently control Swissquote Bank? And did FINMA give its final approval to the companies integration?

MB: As a Swiss bank, Swissquote is supervised by FINMA. FINMA approved the takeover and



"The combination of our strength as a solid Swiss bank and the technology of ACM is a perfect match. Moreover it brings a real value to all ACM clients. Their assets are now deposited with the largest online bank in Switzerland."

Marc Bürki
CEO
Swissquote Bank

monitored the integration.

FXTM: How is this merger going to change Swissquote Bank's FX strategy?

MB: It is a volume booster and an opportunity for us to expand into the institutional FX business. ACM has the technology and a strong client base. Globally the FX business will represent in 2011 about 40% of total earnings.

FXTM: Will ACM keep its brand name, or will the merger include a re-branding of ACM's business under Swissquote Bank's name?

MB: ACM has legally been merged with Swissquote. We will however keep the brand name for the moment and, most important for our client, keep the trading platform.

FXTM: What are the services currently offered by ACM to forex traders?

MB: ACM provides clients the ability to trade 58 currency pairs as well as gold and silver over a choice of 5 different platform solutions (including MT4). As well as offering spreads as low as 0.9 pips and WYCIWYG execution, ACM also provides 24-hour customer support and produces high quality research from its in-house strategy desk.

In addition ACM clients may also access the complete services offered by Swissquote Bank, namely all types of tradable securities via our trading

platform or through our e-Private Banking, a platform geared to clients who are interested in an electronic, easy-access means of private banking. We also offer Savings and the newly added online mortgages.

FXTM: ACM produces its proprietary news service called "FX Insider". Can you tell us more about this service?

MB: FX Insider is a live news window built into the ACM platform which provides direct access to breaking news and analysis from our in-house strategy team. It allows clients to see constant technical analysis commentary and information on what is moving the market, all in real-time.

FXTM: Compared to other FX brokers, what are the other main benefits that ACM offers to online traders?

MB: Guaranteed order execution, lowest spreads with attractive conditions. Compatible with any operating system, including Mac technology.

FXTM: Are you targeting both the retail and institutional markets? How is your current client based structured and how do you see it evolve in the future?

MB: We target Institutional and retail markets where legally permitted. Today we offer customized solutions for both our retail and institutional

clients. In the future we will continue as technology progress.

FXTM: What are the main advantages that Switzerland offers today for a forex trader?

MB: Regarding Swissquote, we are an established bank offering traders a variety of other banking services. Traders are able to take advantage of Switzerland's banking confidentiality as well as bank-client transparency which falls in line with FINMA's requirements.

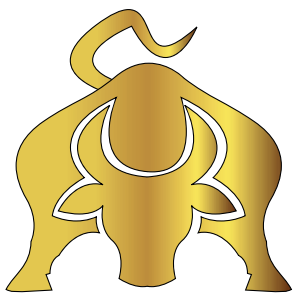
FXTM: Would you say that the FINMA has now joined the U.S. CFTC and NFA, the U.K. FSA and the Australian ASIC in being an efficient force in the regulation of the forex market in Switzerland? And how do you expect the Swiss regulatory environment to evolve in the future?

MB: We support certain regulatory measures but we can not evaluate its impact of the forex market at this stage.

FXTM: About the new US regulation: will ACM /Swissquote still be able to accept clients who are resident in the US from July onwards?

MB: This is an important question – we are still evaluating the situation in order to find a solution which fits best to all involved parties.

For more information regarding Swissquote Bank, visit: www.swissquote.ch



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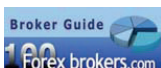
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Alain Broyon

CEO Dukascopy Bank

In this exclusive interview for FX Trader Magazine Alain Broyon talks about Dukascopy's dealing model and explains what are the advantages offered by the Swiss Forex Marketplace. He talks about the company's growth and future strategy and how US clients will be able to continue using Dukascopy Bank's technology from July 16 onward.

INTERVIEW



FXTM: Since when did you join Dukascopy Bank? Could you tell us about your previous professional background?

AB: I joined Dukascopy in 2005. My previous experience in the stock market arbitrage as an equity trader has inspired me to enter the FX market.

FXTM: Dukascopy Bank founded the Swiss FX Marketplace (SWFX). Can you explain what is SWFX and which advantages does it offer to Forex traders?

AB: The Swiss Forex Marketplace is a trading technology which was developed based on two main principles: Equal trading rights – meaning that all clients have equal possibilities to provide

and consume liquidity within the trading environment (this is a marketplace business model); Transparent pricing environment, where all clients have access to the same liquidity at equal prices through a single datafeed. This ECN – Marketplace represents the advanced generation of liquidity aggregator in the industry.

FXTM: What is the correct way to define the company's dealing model: ECN, ECN/STP?

AB: Dukascopy Bank has a unique ECN-Marketplace business model. Based on this model all market participants including institutional and individual clients are able to provide and/or consume liquidity at the same time

in a transparent pricing environment.

FXTM: During the last Moscow ForexExpo, Dukascopy Bank was awarded the price of the Best Forex broker in Europe. Why do you believe many Forex traders chose Dukascopy Bank?

AB: The stability of being a Swiss bank and our unique technology is definitely an advantage. At the same time the transparency that we provide is also very appreciated by our clients, as I mentioned in your previous question.

FXTM: Are you targeting both the retail and institutional markets? How is your current client base structured and how do you see it evolve in the future?



"Dukascopy Bank has a unique ECN-Marketplace business model. Based on this model all market participants including institutional and individual clients are able to provide and/or consume liquidity at the same time in a transparent pricing environment."

Alain Broyon

CEO

Dukascopy Bank

AB: After mainly targeting institutional clients for a few years, we have opened up to retail clients as well based upon market demands. Our platform is ideal for clients of both sectors; we are currently overseeing a lot of growth.

FXTM: Although Dukascopy Bank's name is usually associated with big trading accounts, the minimum deposit has been reduced to 1.000 dollars (from 10.000 dollars) and the company also offers micro lot trading. Are you planning to continue reducing the minimum trading requirements?

AB: We are always trying to do our best to fit the needs of our clients. At the moment we are staying with what we have; let's see if there would be changes along with the future growth.

FXTM: How about accepting credit card payments, is this something you are planning to implement in the future?

AB: This could be something to be considered when we have even smaller account opening requests, for example 1 USD.

FXTM: Among the various platforms that Dukascopy Bank provides, which is the most widely used by your clients?

AB: Dukascopy Bank provides

Jforex, Java, Web, iPhone/iPad platforms. Among these platforms, the Jforex platform is the most widely used one. It is based on Java language. It allows clients to trade both manually and automatically via the same interface. The platform has gained big success encouraging many clients to switch from other platforms to Jforex.

FXTM: Which regulatory body currently controls Dukascopy Bank?

AB: The FINMA - Swiss Financial Market Supervisory Authority is the local regulatory body.

FXTM: What are the advantages that Switzerland can offer today to a Forex trader?

AB: The country itself has the reputation for security and stability, the same goes for the financial industry. Personalized services and high standards in technology also confirm Switzerland's leading position in the international financial industry.

FXTM: Would you say that the FINMA has now joined the U.S. CFTC and NFA, the U.K. FSA and the Australian ASIC in being an efficient force in the regulation of the Forex market in Switzerland? And how do you expect the Swiss regulatory environment to evolve

in the future?

AB: There have been very constructive changes in the Swiss Forex market, where Finma has shown its efficiency in regulating the market. A couple of years ago the market had a few hundreds of brokers, and now we are only a few competing in the market. This protects the interests of clients which is our interest.

FXTM: Following the recent US regulations, will Dukascopy Bank still be able to accept US clients from 16 July onwards?

AB: Pursuant to a change in US regulation, Dukascopy Bank has decided to provide its technology in the USA via US Brokers with effect after 15th of July 2011. To satisfy its clients, Dukascopy Bank is developing partnerships with some of the most famous and reputable US Brokers, in order to allow clients to continue trading with Dukascopy Bank's technology.

FXTM: Where do you see the future of Dukascopy Bank?

AB: Dukascopy Bank wants to be close to its clients everywhere. Thus we will continue developing our retail market while keeping our concentration on the White Label Program.

For more information regarding Dukascopy Bank, visit: www.dukascopy.com

COMMODITIES

a real diversifier?
and beware of regulators

“There’s just one real issue, the biggest single challenge in the history of Mankind is how we turn on the lights of China and India without destroying our planet.”
(Anonymous Stanford’s professor)



The increasing financialization of commodities and the growing attention of regulators to this phenomenon.



Commodities for Dummies: a synthetic guide for FX traders open to cross-markets considerations.



Commodities and FX have always been markets (or asset classes) quite contiguous. A clear link among them usually follows two channels: US Dollar phases of strengths and weaknesses (since all commodities are priced in US Dollars in their reference market) and the cause-effect between currencies of exporters and importers of a certain commodity and the commodity price itself. Consequently there have always been good reasons for players in an arena (either FX or Commodities) to follow closely what was happening next door.

The two worlds have had their ties

reinforced from a similar general behavior in terms of volatility and liquidity (even if we can say that most commodity markets are more volatile and less liquid at least than G10 currency pairs) and from the fact that quite often in global banks FX and Commodities departments were kept under the same hat.

Overall it seems quite reasonable to assert that many FX players should better keep their eyes wide open whenever something is boiling in the commodities price action. Which, these days, happens more often than not.

In this article I will try to draw FX Trader Magazine readers' attention to a couple of trends that have been emerging quite clearly in the last few months/years and that all commodity bulls should better keep in the back of their mind: the increasing financialization of commodities and the growing attention of regulators to this phenomenon. A recent monthly newsletter from Absolute Return Partners LLP, of which I am a constant and happy reader, has been a good source of inspiration on this side.

For the occasion I also added, as a kind of appendix, a synthetic guide to the commodity world (a bit like

a "commodities for dummies"), which I think could be useful to the FX traders open to cross-markets considerations.

A 'Black May' for commodities

- Silver plunged more than 10 percent on Thursday, its biggest one-day drop in dollar terms since the Hunt Brothers price squeeze, dragging gold over 3 percent lower as panic selling snowballed across the commodities sector.

- Silver has now lost 30 percent this week, well above the conventional criteria of 20 percent for a bear market, since it surged to a record high near \$50 an ounce last Thursday.

- Silver's plunge for a fifth day led the decline in commodities.

- The Reuters/Jefferies CRB index was set for its biggest weekly fall since late 2008 and U.S. crude oil fell below \$100 a barrel.

- Speculators in the silver futures market were forced to liquidate positions after the CME Group raised margins five times in under

two weeks, an 84 percent rise in trading costs that has helped provoke a nearly unprecedented sell-off.

- The Reuters-Jefferies CRB index, a global benchmark for commodities prices, dropped 4.9 percent on Thursday. It has lost about 8 percent so far this week, on course for its biggest weekly fall since July 2008.

- The Standard & Poor GSCI index of 24 commodities sank 6.5 percent at 4:32 p.m. in New York and has lost 9.9 percent this week. Oil tumbled

8.6 percent, the most in two years, to \$99.80 a barrel. Silver dropped 8 percent, extending the biggest four-day slump since 1983 to 25 percent.

These and similar headlines were

quite common the first week of May, especially on Thursday 5th and Friday 6th when, without a proper fundamental driver (as it was the case in the deep global slowdown after Lehman collapse in Q4 2008 an Q1 2009), most commodities suffered a nasty reversal of the last few months gains. Either the death of Bin Laden or raising of margin

"FX players should keep their eyes wide open whenever something is boiling in the commodities price action"

requirements on silver futures market, cited from media sources, cannot justify by themselves such a move.

The increase in volatility without deep changes in the macro picture

points to the increasing role of financial players in the commodities arena.

Falling in love with the 'Commodity Asset Class'

For sure in the last few years the financial community has started to follow more closely this asset class. There are some rational reasons why investors have been increasing their interest and adding exposure to commodities, long before such a tendency could be defined as a 'mania':

- They are considered an effective hedge against inflation. This is particularly true in the post crisis environment where, with the massive monetary stimulus pursued in Western economies, we are witnessing a diminishing faith in paper currencies as store of value: commodities are seen as the ultimate 'real' investment in a hard asset

- They are perceived to be an excellent diversifier in a traditional portfolio due to the low historical correlation with bond and equity returns

- They are seen as a play on the growing dominance of emerging market economies. In particular EM demographics and their per-capita income growth potential are considered a clear driver for a multi-decade turbo-cycle in commodities demand.

GRAB CLIENTS

ComdyGLCO

Global Commodity Prices & Data						
	Last				Ticker	YTD
	Value	Net Chg	% Chg	Time	Symbol	% Chg
1) Energy						
4) NYMX WTI Crude Oil Active Month	102.70	-6.54	-5.99%	16:30	CLM1	+9.55
5) ICE Brent Crude Active Month	114.27	-6.92	-5.71%	16:30	COM1	+20.18
6) Nymex Natural Gas Active Month	4.32	-.25	-5.55%	16:30	NGM1	-3.42
7) Nymex Gasoline Active Month	318.33	-13.92	-4.19%	16:30	XBM1	+25.97
8) Nymex Heating Oil Active Month	296.37	-17.93	-5.70%	16:30	HOM1	+16.56
9) ICE Gasoil Active Month	941.25	-60.50	-6.04%	16:30	QSM1	+20.75
2) Metals						
10) Gold Spot	1492.32	-23.89	-1.58%	16:40	XAU	+4.98
11) Silver Spot	36.76	-2.58	-6.55%	16:40	XAG	+18.89
12) Platinum Spot	1783.70	-39.95	-2.19%	16:40	XPT	+.77
13) Palladium Spot	710.29	-37.48	-5.01%	16:40	XPD	-11.44
14) LME 3 Month Aluminum	2752.00	-45.00	-1.61%	05/04	LMAHDS03	+11.42
15) LME 3 Month Copper	9124.00	-226.00	-2.42%	05/04	LMCADS03	-4.96
3) Agriculture						
16) CBOT Corn Active Month	712.00	-17.50	-2.40%	16:40	C N1	+11.25
17) CBOT Wheat Active Month	758.75	-13.25	-1.72%	16:40	W N1	-8.89
18) CBOT Soybean Active Month	1320.50	-31.50	-2.33%	16:40	S N1	-6.45
19) NYBOT Sugar #11 Active Month	20.66	-.69	-3.23%	16:30	SBN1	-21.15
20) ICE Cotton #2 Active Month	144.51	-7.00	-4.62%	16:29	CTN1	+11.76

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Not nice for many looking at such a Bloomberg page..... (May 5th 2011)

Not nice for many looking at such a Bloomberg page..... (May 5th 2011)

Are commodities a real diversifier (in this cycle)?

In my viewpoint number 1 and number 3 are very difficult to deny, at least as secular trends. I am more interested in debating if a (long) commodities investment is really likely to prove a good diversifier in a typical equities/bonds portfolio.

The following chart shows how recently commodity prices have become quite correlated to equities.

We could argue that this has happened after the commodity sector has stopped being mostly a market where commercial demand and supply were setting the price, even with a small minority of very specialized players (dedicated hedge funds) searching for 'alpha' with an absolute return approach (either long or short commodities). In the last few years the sector of

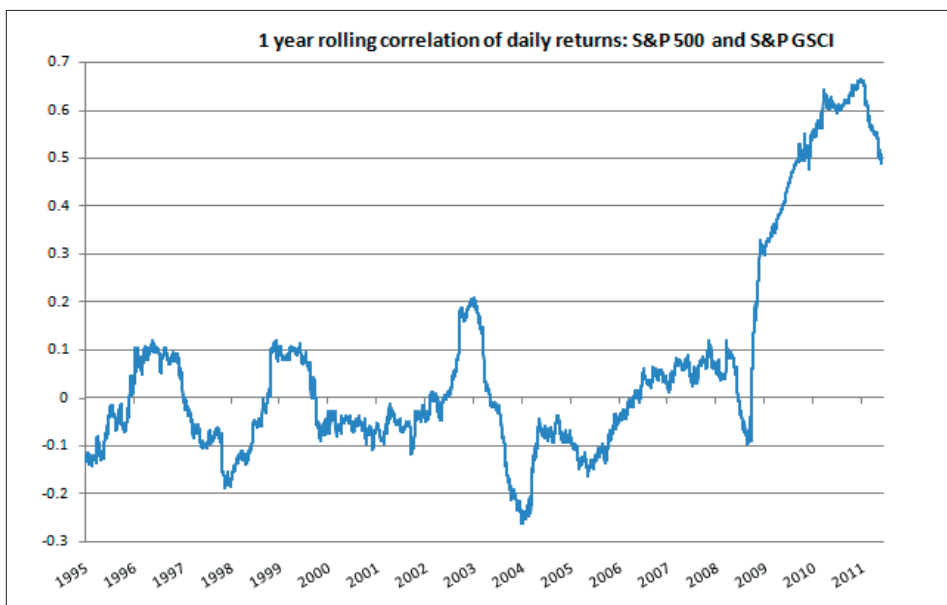


Speculative hands (photo AP)

mutual funds, ETF and similar investment vehicles has been growingly offering exposure to the long commodity trade, initially to institutional investors but very soon to the retail class as well. It is very possible that the popularity of the trade itself has become an obstacle to the de-correlation of

the asset class as the 2008-2009 financial crisis has clearly shown. With the trade getting again very crowded after Mr. Bernanke launched QE2 after the Jackson Hole 2010 summit and maybe even more after the MENA (Middle East and North Africa) tensions of the 'Arab Spring', the recent May collapse can be considered another indicator of such a situation.

From the WSJ on April 27th: "Trading got so heated during the past two days that shares traded in the iShares Silver Trust, the biggest exchange-traded fund tracking the price of silver, topped that of the SPDR S&P 500 ETF, usually one of the most actively traded securities in the world." That was happening on April 25th and 26th when silver price was approaching 50 Dollars per ounce after a parabolic rise. Only to plunge back below 35 Dollars in less than 10 days.



Source: JW Partners

Regulators awakening

The sparkle initiating the Arab spring (Tunisia and later on Egypt, see my article in the previous edition of FX Trader Magazine) has been the unbearable increase in food prices (soft commodities, like wheat, in this case). The Fed and its ultra-accommodative monetary stance has been often blamed and considered at least partially responsible for this. Whether you subscribe to this theory or not, fast raising commodities prices, especially in the energy and grains sectors, will always risk having heavy geopolitical consequences. It shouldn't surprise anybody then that policymakers are already increasing their focus on commodity prices and the factors influencing them.

"Leaders from US President

Barack Obama to France's President Sarkozy have expressed deep concern about the influence of speculation on oil spikes, since the price has soared to its highest level since before the crisis", as recently reported by The Telegraph, is the kind of headline we are going to see more and more often on our screens (typically Bloombergers or iPads).

From a recent article on the WSJ: "The Commodity Futures Trading Commission is moving to increase oversight of the growing number of mutual funds that make speculative bets on gold, oil and other commodities through offshore subsidiaries.

Officials at the federal agency are concerned that a proliferation of non-U.S. subsidiaries set up by mutual funds beyond the reach of current regulations

could expose investors to volatile swings in commodities prices and potentially huge losses, but the mutual-fund industry is fighting the move."

ETFs (Exchange Traded Funds) started almost 20 years ago and for many years afterwards they were of the 'plain vanilla' variety: replicating the reference basket of major equity indexes. Recently some of them are moving away from that simple model, starting to venture into different asset classes (as commodities and credits) and becoming 'synthetic' instead of 'physical', i.e. using derivatives and leverage to get exposure instead of simply replicating the underlying target investment. A recent paper from the Financial Stability Board has express concern in terms of not perceived risks, unintended consequences, lack of transparency and conflict of interests eventually descending from these evolutions: www.financialstabilityboard.org/publications/r_110412b.pdf

Financial excesses like we have witnessed in the run up to the 2008 crisis (and causing the crisis itself) are likely to be repeated, obviously in a different form. Still it is to be expected that the total laissez-faire environment the financial industry enjoyed in the decade following the abrogation of the Glass-Steagall act in 1998 will not repeat itself. The commodity world has all the characteristics to be under augmented scrutiny from regulators in years to come.



Gary Gensler, chairman of the US Commodity Futures Trading Commission



COMMODITIES

A Dummy's Guide for FX traders



Commodities are a fascinating and diversified world, even more than FX. I recently received a spectacular research paper from Deutsche Bank: “A User Guide to Commodities”. 135 pages (!). With such a powerful source of data and information at my disposal I have tried to highlight some basic facts as a starting point. Whoever would like to go deeper in understanding these markets should find this reading interesting.

After putting down a map of different commodity classes and their brief description, we've decided to show some tables for main exporters and importers in most relevant markets. This should be relevant in judging term of trade impact from change in prices that usually affects currencies levels. For such a scope export / import

Commodity Sectors: a summary table			Industrial Metals	Minor Metals	Magnesium
COMMODITY SECTORS	SUB-SECTORS	MOST KNOWN COMMODITIES			Manganese
					Molybdenum
Energy Products		Crude Oil			Titanium
		Natural Gas			Tungsten
		Coal			Vanadium
		Uranium			
		Ethanol			
Precious Metals		Gold	Rare Earth Metals	Cerium	
		Silver	Lanthanum		
		Platinum	Yttrium		
		Palladium	Ytterbium		
Industrial Metals	Non-Ferrous Metals	Aluminum	Grains	Corn	
		Copper		Wheat	
		Nickel		Rice	
		Zinc	Oils and Oilseeds	Palm Oil	
		Lead		Soybeans	
		Tin		Other Soft Commodities	Cocoa
	Ferrous Metals	Iron Ore	Coffee		
		Steel	Cotton		
	Minor Metals	Cobalt	Rubber		
		Lithium	Sugar		
			Livestock Products		Live Cattle
				Pork Bellies	

CRUDE OIL

Exporters (million USD)		Importers (million USD)	
ex Soviet Union	336.359	US	425.256
Saudi Arabia	257.621	China	191.220
Iran	88.897	Japan	159.652
UAE	81.640	India	89.623
Nigeria	78.012	Germany	87.446
Norway	70.755	South Korea	80.915
Kuwait	67.852	France	64.587
Venezuela	62.772	Spain	52.250
Iraq	59.870	Italy	50.799
Qatar	56.604	Taiwan	40.639
WORLD	1.956.831	WORLD	1.956.831

NATURAL GAS

Exporters (million USD)		Importers (million USD)	
Russia	22.257	Germany	10.628
Norway	16.033	Italy	10.361
Qatar	11.012	US	8.592
Canada	10.761	Ukraine	4.471
Algeria	8.843	UK	4.338
Other main exporters: Indonesia, Malaysia, Nederland, Egypt, Australia		Other main importers: India, Mexico, UAE, Poland, Brazil	
WORLD	1.956.831	WORLD	1.956.831

rankings are a better info than producers/consumers rankings. In precious metals case (gold and silver) only this second set of data was available but for these kind commodities ranking should not be significantly different.

Data are quite recent (2010) and volumes data have been converted in US Dollars amounts (using June 14th futures closing prices on relevant markets) to give a better idea of relative importance of different commodities flows: crude oil is definitely a league of its own in terms of size.

Energy Products

Global energy consumption has

increased by nearly 60% over the last 25 years and is likely to rise another 35-40% in the next 25. Oil provides approximately 35% of total primary energy consumption that is primary fuels that are commercially traded. Despite the implications for global warming and the environment, coal accounts for 26% of total energy use followed by natural gas, which meets 23% of energy demand. Nuclear energy currently provides 6% of the total and renewable, including hydropower, account for approximately 10%.

Looking ahead, DB expects that it will require the development and expansion of all economic energy sources to meet rapid population growth, economic expansion, urbanization, and the improvement in living standards underway in many parts of the developing world. Even allowing for rapid growth in alternative energy, the world economy will remain heavily dependent on fossil fuels, including coal, oil and natural gas, over the next two to three decades.

GOLD

Producers (million USD)		Consumers (million USD)	
China	16.703	India	46.058
US	13.945	China	28.394
Australia	12.739	Europe ex CIS	13.097
South Africa	9.398	Middle East	11.661
Russia	9.055	US	11.431
Peru'	8.006	Germany	6.218
Indonesia	5.140	Turkey	5.615
Ghana	4.552	Switzerland	4.493
Canada	4.434	Saudi Arabia	4.287
Uzbekistan	3.587	Vietnam	3.988
WORLD	124.945	WORLD	149.688

SILVER

Producers (million USD)		Consumers (million USD)	
Mexico	4.550	US	6.708
Peru'	4.108	China	4.500
China	3.510	Japan	3.612
Australia	2.119	India	3.329
Chile	1.451	Germany	1.401
Other main producers: Bolivia, US, Poland, Russia, Argentina		Other main consumers: Italy, Thailand, South Korea, UK & Ireland, Belgium	
WORLD	26.036	WORLD	31.099

Precious Metals

Precious metals production ranges from nearly 22,800 tons for silver to a mere 7.8 tons for iridium.

One of the major distinguishing features of the gold market

compared to other commodities is that annual mine production for gold is less than 10% of total above ground stocks. This tends to mean that the gold forward curve is always in contango and level of

COPPER

Exporters (million USD)		Importers (million USD)	
Chile	28.242	China	26.023
Zambia	6.711	Germany	5.971
Japan	4.706	US	5.196
Russia	3.957	Italy	4.697
Peru	3.244	Taiwan	4.429
Other main exporters: Australia, Kazakhstan, Poland, Canada, Belgium		Other main importers: South Korea, Turkey, Brazil, Thailand, France	
WORLD	70.146	WORLD	66.822

IRON ORE

Exporters (million USD)		Importers (million USD)	
Australia	72.903	China	106.431
Brazil	49.003	Japan	23.040
India	17.022	South Korea	8.597
CIS	11.692	Germany	7.393
South Africa	6.534	Middle East	3.095
Other main exporters: Canada, Sweden, Middle East		Other main importers: France, Taiwan, Italy	
WORLD	177.786	WORLD	179.454

volatility tends to be lower than other commodity markets where inventories are significantly lower compared to annual demand and supply.

Gold held by central banks amounted to just over 30,500 tons as of the end of March 2011. The lion's share of these holdings is held by the United States, Germany, Italy and France. These countries' gold holdings are equivalent to around two-thirds of their total reserves, compared to a world average of just over 11%. Gold to total reserve ratios are significantly lower in Asia and the Middle East and in some circumstances below 3% of total reserves. The performance of the gold price has been closely linked to the course of the US dollar and the level of real interest rates in the United States.

Industrial Metals

The benchmark contracts of this sector are listed on the London Metal Exchange (LME). The LME was founded in 1877 and much of the business is still conducted through open outcry trading in the 'Ring.' Volume on the LME is dominated by aluminum, copper and zinc contracts, which combined represent around 85% of all turnover on the exchange. The LME is a highly liquid market and in 2010 turnover reached a new record of 120 million lots, equivalent to USD11.6 trillion. During 2010 the LME increased the number of listed futures contracts with, for example, cobalt and molybdenum.

One of the most important trends

CORN

Exporters (million USD)		Importers (million USD)	
US	13.357	Japan	4.342
Argentina	3.910	Mexico	2.427
Brazil	2.292	South Korea	2.157
Ukraine	1.483	EU-27	1.753
India	674	Egypt	1.456
Other main exporters: South Africa, Paraguay, Serbia, Canada, EU-27		Other main importers: Taiwan, Colombia, Iran, Malaysia, Algeria	
WORLD	24.485	WORLD	24.729

WHEAT

Exporters (mio USD)		Importers (mio USD)	
US	9.716	Egypt	2.800
EU-27	6.160	Brazil	1.820
Canada	4.760	Indonesia	1.568
Australia	4.060	Algeria	1.484
Argentina	2.380	Japan	1.456
Other main exporters: Kazakhstan, Russia, Ukraine, Turkey, Brazil		Other main importers: EU-27, South Korea, Morocco, Nigeria, Mexico	
WORLD	34.762	WORLD	34.347

during the past decade had been China's voracious appetite for industrial raw materials, which has accelerated since the country joined the World Trade Organization in 2001. This has led the country's share of world consumption of not only industrial metals, but all major raw materials to increase substantially.

Agricultural Products

By 2050, the United Nations estimates that the world's population will reach 9.5 billion people compared to approximately 6.5 billion today. India will represent 20% of this growth compared to 4% for China.

The rise in population levels will lead to an additional 1 billion tons of soft grain consumption either directly as food or indirectly as a feedstock for cattle.

Consequently, DB estimates that just over one third of the total growth in soft grains consumption between now and 2050 will be driven by demographics. Rising per capita incomes across the developing world will also lead to an improvement in dietary intake such that protein demand between now and 2050 will be more than double. This will be another powerful source of boosting grain demand going forward.

The challenge will be to raise

agricultural production given the constraints of land and water at the same time that urbanization rates are rising. Urbanization has been partly responsible for the steady decline in land dedicated to agricultural production globally. In fact since the 1960s, the size of agricultural land per capita globally has been cut by half. To a large degree this has been offset by a significant improvement in agricultural yields in certain parts of the world. Even so, we expect significant challenges lie ahead not least given the scarcity of water resources, particularly across Asia.

Livestock Products

Of the five broad commodity sectors, livestock is one of the smallest in terms of production, world trade and futures turnover. The United States is the world's largest producer of beef followed by Brazil and the EU-27 countries. However, the global trade in meat products is small compared to world production. Today Brazil is the world's leading exporter of beef. Although per capita consumption of beef and veal is low in China compared to other developed and developing countries, the country is the world's largest producer and consumer of pork. Indeed the country's per capita consumption of pork exceeds that of the US and Japan.

The livestock industry has had to contend with a significant increase in feedstock prices such as grains over the past few years.

Alessandro Balsotti



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WHICH DIRECTION FOR THE EUR/USD?

the recovery may remain unusually slow for a sustained period. However, it seems that the problems within the European Union have the potential to dwarf those of the United States, even while concerns over the budget deficit and debt ceiling continue to intensify.

The issues surrounding Greek debt are only the tip of the iceberg as other EuroZone members including Portugal and Ireland are also having a difficult time with austerity measures to rein in budget deficits. Fundamentally, a default or restructuring of any sovereign nation debt will be a bad thing, not only for the corresponding nation, but for the entire global financial system. Such a credit event will without a doubt lead to an increase in the default risk premium for other member states, requiring a higher yield from private investors. Countries such as Ireland and Portugal may require further financing from the ECB if they're unable to afford selling debt in the public market at much higher interest rates. With all the bailouts the ECB is involved in already, it puts itself at risk for major losses.

As investors' concerns continue to grow about the health of the global economy, where will money go during such uncertainty? The U.S. dollar has been the worst performing currency during the first 6 months

Though it may be too early to call the recent dollar strength a rally, we see this as a correction that will lead into a much desired and long awaited rally that may see the EUR/USD down to the 1.35 figure over the next three months and the 1.20 level over the course of the next twelve months.

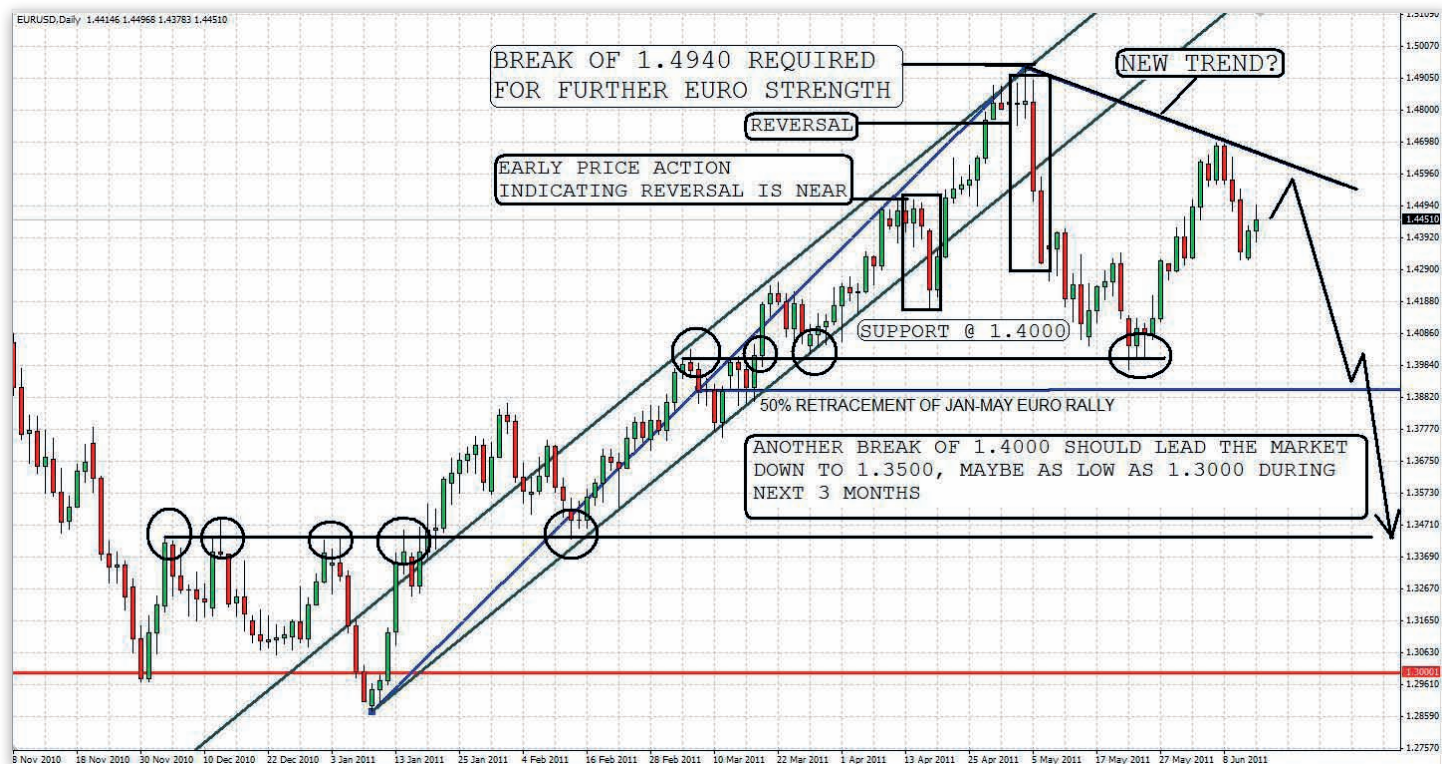
We're not the only ones that have been wondering if the turn in the dollar is going to last. Why should it? There's nothing fundamentally positive about the economic recovery; instead, the recovery has been sluggish and very inconsistent throughout the last several years and even Federal Reserve officials have publicly said that

of the year, primarily due to continuing monetary easing by the Federal Reserve that has left interest at record lows along with a stimulus program known as Quantitative Easing that has flooded the market with a record amount of dollars. Now that the program comes to an end on June 30th, we are anticipating a renewed strength of the buck. We are already seeing price action that is indicative of a reversal, all we need now is a fundamental justification to support the technical analysis, though that remains in question as data continues to be mixed.

There remain many economic issues on both sides of the Atlantic and during times of uncertainty we tend to rely more on technical analysis than fundamental, as price action tends to deviate from reality. Our trading decisions, driven by a constant change in news and market expectations, are always based on technical analysis in conjunction with fundamental analysis as our experience has taught us that fundamental reasons will always catch up with market at some point in the future.

Taking into account all the global uncertainty, we should find that risk will be the main driving force for the coming months.

Technically, price action in mid April showed that the market wasn't ready to bear the high price of the euro as a breach of the upwards sloping trend-line accelerated losses to previous weeks' levels; however, as the market typically pushes prices to extreme levels prior to an eventual turnaround, we saw excessive gains in the euro in the following days, rallying more than 700 pips to set a 18 month high just below the 1.50 level. As we expected, the fundamental reasons didn't support such a high price, traders turned against the trend and a heavy correction ensued. Price action during the month of May was impulsive and we see this as the start of a longer term dollar rally. Only a break above 1.4950 delays our outlook. Still, it is too early to call this a reversal as longer term uptrend near 1.4200 remains. A break of this figure will be necessary to see an additional move below 1.3965, which is currently the most recent daily pivot low.





The Euro was unable to rally following ECB President Trichet's hawkish comments on June 9th in which he used the term "strong vigilance".

The most recent price action seen during the end of May and beginning of June is corrective, though it was a bit stronger than we expected, it too was followed by a dollar rally that is currently testing the 50% retracement level and mid May resistance levels. We're nearing a very important time in which the market must decide direction of the euro. Supporting our view for a stronger dollar is that the euro was unable to rally following ECB President Trichet's hawkish comments on June 9th in which he used the term "strong vigilance", implying that a rate hike during the next ECB meeting was likely. Knowing that market participants dissect each and every word of his statement, he continued to say that the ECB is never pre-committed. This was the turning point at which most realized that the risks within the EuroZone are now too much to bear, even an increase in interest rates wasn't enough to justify a bullish outlook on the euro as it was now becoming uncertain due to the slow economic progress of some

of the EZ member states.

Being a good trader means one must accept when an analysis is wrong (or early) and adapt to the trading environment. We too, have a scenario in which the euro may find an opportunity to form a last ditch effort rally. First, a break of the June 8th pivot high will be necessary to retest the 1.4950 level set 4th of May. Once this level is reached, a daily close above the figure should continue to test the 1.50s and maybe even the summer of 2008 highs near the 1.60 level. This should only be possible if Greece avoids a debt restructuring while making good on the promises to cut the budget deficit using further austerity measures; all of this must coincide with a global economic recovery. We don't see this as a likely scenario and will remain in the risk-averse camp until we see real change.

Alex Kazmarck

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Ulf J. Lindahl

CEO & CIO of A.G. Bisset & Co., Inc.

interviewed by JW Partners for FX Trader Magazine

Ulf Lindhal directs and oversees AG Bisset & Co's currency overlay and alpha programs. He produces and publishes the firm's investment research "Review of Emerging Trends."

Ulf joined AG Bisset & Co since its inception and developed the core currency models used in the overlay and alpha programs. He explains how both the firm's model-driven strategy - designed in 1983 - and trading process have remained stable at the

core; how it has been adapted over the years and includes built-in risk management rules. He defines how AG Bisset & Co's current research focuses on designing integrated programs for investors that need to have their exposures actively hedged, blending active hedging, passive hedging and currency alpha in various proportions. Ulf gives specific details about the firm's trading strategy such as the way position sizes are determined, the use of timeframes, leverage and emerging currencies.



JW

How long have you been trading foreign exchange for and what first attracted you to this industry? Tell us about your career evolution?

UL

I joined the firm at its inception and at the beginning of my career, having arrived to the US after completing my degree at Stockholm School of Economics. I was responsible for developing the firm's currency models, attracted by the opportunity to work in the financial industry in New York.

A.G. BISSET & CO., INC

<i>Manager</i>	<i>A. G. Bisset & Co., Inc.</i>
<i>Strategy</i>	<i>Systematic Trend-following</i>
<i>Location</i>	<i>Rowayton, CT, USA</i>
<i>Assets Under Management</i>	<i>USD 2.2 billion</i>
<i>Type</i>	<i>Institutional</i>
<i>Style</i>	<i>Model-driven</i>
<i>Instruments</i>	<i>Forwards</i>
<i>Traded Currencies</i>	<i>Majors</i>

The firm began as a provider of currency hedging advice for corporate clients worldwide in 1981 and began to manage currency hedging programs for pension funds in 1988, followed

by the introduction of the firm's currency alpha strategy in 2002.

JW

What do you particularly like about your job?

UL

I enjoy the challenge of applying the output of the models to produce the firm's monthly research report, Review of Emerging Trends, in which we assist our clients in anticipating turning points in medium- and long-term trends in currencies, interest rates, and equity markets.

JW

In which way is trading currencies unique and different from trading other financial instruments?

UL

I believe it is only "unique" in its unparalleled liquidity. Prices trend and the distribution of price-changes is largely bell-

shaped as in other markets, permitting the firm's models to exploit mean-reversion in shorter-term trends around longer-term trends.

JW

When and how was A. G. Bisset & Co. born?

UL

The firm was founded in

in creating earnings in overseas markets in an environment in which currencies had begun to float freely in the mid-1970s and the demand for reliable currency advice was at a premium.

JW

How is A. G. Bisset & Co. structured today in terms of head-counts and offices?

UL

Bisset has its main office in Rowayton, Connecticut, an hour north of NYC, and an office in London, with a combined head-count of nine.

JW

What do you consider as being the key positions in an FX Management company?

UL

Clearly, the role of the CIO and

the Director of Research are important, whether trading ideas are generated by models or through traditional fundamental research.



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JW

Which authorities regulate A. G. Bisset & Co.?

UL

The parent company in the US is registered with the SEC as an Investment Adviser, while the UK subsidiary is authorized by the FSA. The parent is also a CTA member of the NFA, although inactive in the futures markets.

JW

You are in charge of the currency program at A. G. Bisset & Co. How do you describe your investment strategy?

UL

The strategy is model-driven using models that identify price-trends of 2-4 months in duration, exploiting the fact that shorter-term price-trends mean-revert around longer-term trends. The strategy uses momentum models to identify when a currency is over-bought or over-sold relative to the longer-term trend and, as a result, signals when mean-reversion is likely to begin.

JW

How did you create and develop your current FX management strategy? Has it changed over time, and if yes, what made you decide to change it?

UL

The strategy was developed in 1983 and has been adapted over

the years to include additional factors such as a shorter-term model that provides a level of confidence along with rule-based factors that actively scales positions (adds leverage or scales down to use less than the notional amount). These factors were specifically designed to reduced volatility and downside risk in the alpha strategy, now in its 9th year.

JW

How do you manage risk in the company?

UL

Risk management is built into the strategy in the sense that the models generate trigger levels that are closely monitored and lead to actions to close out or initiate positions in individual currencies. Risk is further reduced by assessing a set of cross-rate signals to determine a currency's relative strength and hence the size of a long or short position. The positions are then managed with the firm's shorter-term confidence models adjusting the positions up and down in line with shorter-term price-fluctuations, leading to smoother entries and exits in individual currencies. Leverage is also managed actively and is driven by the number of buy and sell signals in place.

JW

Is there a type of trade that you

might have used in the past but that you would not repeat today?

UL

The strategy and trading process has remained stable at the core, but the use of leverage has been modified. The current strategy will use up to 2.5 times, but averages 1.3 times resulting in returns 1.8 times those that are achieved with no leverage at all.

JW

Do you use a blend of strategies or one only?

UL

We apply our models exclusively with no over-ride.

JW

What are the market conditions that you consider ideal, and which ones are the most challenging for the performance of your strategy?

UL

Trending markets are preferred while the few times that currencies are tightly range-bound are the least favorable; there is little opportunity for profit at those times, while the risk of loss is elevated since "whip-saws" can occur.

JW

Can you give us an example of a recent unique winning decision?

UL

The currency alpha strategy

is not designed to accumulate returns from unique situations, but to consistently exploit trends of 2-4 months to generate profits over time.

JW

Do you use Emerging Markets currencies? And do you think individual traders should use them, considering they don't have to worry so much about liquidity issues?

UL

We do not employ emerging market currencies in our alpha strategy, but do hedge them actively for clients with investments in those markets to the extent that there are liquid instruments that can be used. As to the alpha strategy we achieve our return and volatility objectives without using emerging market currencies and exposing investors to their particular risks – illiquidity at times, intervention, trading halts, “a run for the door” by investors, etc.

JW

When developing a strategy do you give a higher priority to building entry signals, exit signals or money management rules?

UL

Our current research is focused on designing integrated programs for investors that need to have their exposures actively hedged, blending active hedging, passive

hedging and currency alpha in various proportions, and by currency, as the longer-term cycles of 3-5 years unfold in currencies to provide protection against losses,



participation in gains, while reducing the risk of negative cash flows stemming from the hedging process.

JW

Do you think that every strategy loses its accuracy sooner or later, or do you believe in long lasting market rules? Have you ever found a strategy, which became profitable again after a long negative phase?

UL

Clearly there are strategies that are period-dependent, such as carry. However, we have found that price-changes in currencies and other markets have a roughly bell-shaped distribution that has persisted for long times (over a century in equities). As a result, mean-reversion is a persistent phenomenon that keeps repeating and makes trend-following strategies time-less and likely to continue to be successful in the future, but with losses from time to time.

JW

Do you use any form of optimization? If so, how do you make sure it doesn't create curve fitting and confirms robustness of the model?

UL

We do not use optimization in the traditional sense that we use correlations or similar methods. However, the sizes of our positions are determined by the number of buy and sell signals we have for a currency and its cross-rates. A currency with several buy signals is inherently in a stronger trend and hence a larger position is warranted. A change in one of those signals to a neutral or a sell would reduce the size of the position even if the trend has not yet reversed.

JW

Do you favor any particular time

frame in your strategies? What is your average trade duration and trading frequency?

UL

Our models operate in the 2-4 month time-frame in which mean-reversion gives rise to many profitable trends. That horizon also permits the trading activity to be rather limited compared to high frequency trading exploiting shorter-term factors.

JW

What is the average leverage that you normally use? and the maximum leverage?

UL

Maximum leverage is 2.5 times, minimum is 0.5 times; both are used about 25% of the time with portfolios using no leveraged 50% of the time, resulting in an average leverage of 1.3 times – a factor that has been steady over the past 17 years when our historical model-signals are examined.

JW

How many execution brokers do you use? How do you split execution between electronic and voice?

UL

Trading is by voice and we utilize around 15 counter-parties with several of them tied to specific clients in the active hedging program since clients must have dedicated FX credit lines that we

utilized to place and remove hedges in their name acting as an agent.

JW

Which historical data do you use when developing your strategies? How important is that?

UL

Price-data has been the only input and is the only input in the models.

JW

Which software do you use in the research, risk and reconciliation functions?

UL

Our programs have been developed in-house to match how our models and strategies operate.

JW

How does liquidity impact the efficiency of your strategies? Have you already explored to what AUM limit the strategies would allow you to grow to?

UL

Since our currency alpha program is designed around the G-4 currencies, the \$4 trillion in daily turnover, of which 70% or so is in the G-4, means that the strategy can accommodate billions in AUM, particularly since the strategy adjusts positions on average once a week.

JW

What is the biggest strength of

your team?

UL

Team-members have been with the firm for many years and are extremely well versed in the firm's strategy and in implementing the model output. The increased automation of the signal generation and trading processes has been beneficial over time.

JW

Can you give us your feeling about the move of the EurUsd in the next 6/12 months?

UL

As trend-followers, we reserve the right to change our forecast at any time as a trend reverses, but as of end of May 2011, our models are indicating that the euro most likely has peaked against the dollar after rising in the first part of 2011. The dollar is poised to move higher in the months ahead, potentially by a significant percentage.

JW

What's the main advice you would give to traders who want to enter the FX fund management industry?

UL

Carefully examine potential firms as to what their future growth might be in terms of AUM, what strategies they employ, and what long-term risk those strategies may have.

Carol Harmer

Interviewed by Maud Gilson

"Most of the newer technical analysts today who base their analysis on algorithmic or mathematical models have never traded on a market," says Carol Harmer, founder of Charmercharts. "I am sure they would not be able to trade in today's markets using the tools we had when T/A first became popular..."

With a career spanning 29 years and ranging from trading in the pits of the London Futures Exchange, to helping set up the technical analysis operation on the dealing room floor for Midland bank, to heading the Nomura Technical Analysis Trading desk, Carol has undoubtedly become one of the most respected and established technical analysts in the UK.

She was one of the first Bank T/A traders to join the Society of Technical Analysis back in the mid 80's when Technical Analysis was still "a new budding flower in the City's bank dealing rooms," says Carol. She has since created her own website in answer to widespread demand for her forecasts.

"Even to this day, when I look at a chart," says Carol, "In my mind's eye I still see those bond pit traders all bellowing and shoving each other in their struggle to get out of the wrong way positions."

In this "Women in Forex" exclusive interview series from FXstreet.com, Carol Harmer talks about insights market movements, trader behaviors, being a woman in the banking culture, and the charts behind them all.



Charts are there to make us money, you shouldn't need a doctorate to understand them

MG: You started trading on the London International Financial Futures Exchange (LIFFE) one year before it opened. How did you find the job and what was it like to be a part of LIFFE at that moment?

CH: I saw a situations vacant advert in the Evening Standard news paper about recruiting staff for a brand new market opening in September 1982. They wanted VDU/Computer Operators with a minimum of 5 years experience. I was newly separated with 2 very young children and needed to work full time... I applied, got an interview and got the job on the spot!

That first year was just a whirl of activity and fun. We really had no idea what was in store for us. My first responsibility was to don a hard hat, skintight white jeans and show prospective clients/traders around the building site which was eventually to become the home of LIFFE.

The training trading sessions were amazing. No one really had a clue what to do and most who attended only had to attend three sessions which was enough to give them a silver trading badge...after all, LIFFE could hardly open with no traders.

We were helped by some amazing American traders who were brought in

from Chicago to show us Londoners "how it was done." We just all had a ball! Every stage of completion was cause for a celebration in the Mithras Wine bar around the corner from the Royal Exchange, and there were more than a few celebrations. I joked around with the traders-to-be; I gave back as good as I got but everything was said in fun, and never once did I get offended.

MG: You made a name for yourself at LIFFE, but not for your hard hat tours, I'm sure. What really piqued your interest about the work?

CH: Well finally, after 18 months

I just never experienced the problems that I heard in stories about other women traders. I was basically one of the boys (although prettier, ha!)

of planning, building, testing, training we went live, and on that first day when the bell went off, our lives changed forever. I was hooked. I can't describe that feeling!

I was approached 3 months after we went live to become a trainee trader. It was half my salary for longer working hours, but I grabbed the chance. I became a yellow jacket and then a red jacket within 3 months. I felt I'd arrived, but I wanted to learn more;

LIFFE was a stepping stone for me.

MG: How did it feel to be a woman working with ostensibly mostly men in what was one of the largest open outcry trading pits in existence?

CH: To be fair, I never really thought about it. I'd already worked there for 18 months by the time the pit opened; I had time to become familiar with the guys and to what life at LIFFE was all about. It wasn't like I turned up for work to be met by this mass of sweaty men eager to flex their muscles and mouth off at me; that might have been daunting.

I was treated with the utmost respect by the guys, and it was because I was not a shrinking violet type. I just never experienced the problems that I heard in stories about other women traders. I was basically one of the boys (although prettier, ha!).

I do have one claim to fame though on the floor. They had a dress code for men, but not women traders. I used to toddle into the trading pit in pink jeans, pink high heels and a tight t-shirt. LIFFE then had to come up with a dress code for women because of my Joan Collins-type style. My shoulder pads just didn't fit into the red jackets!

MG: Was that how you got the

Charmer name that you've used for your chart forecasts since 1996?

CH: Well, as a young red jacket back in 1983, your badge had your company name on it (in my case, MID for Midland bank) and just above it was your name (C.Harmer). Thus was born the Charmer nickname that stuck with me most of my time on the LIFFE floor and beyond.

I left LIFFE 5 years later to work for the banks, but after 10 years in major bank dealing rooms, I realized the banking world was not for me. I hated the politics and the bureaucracy of the banks. Traders were bogged down with reports. I was becoming a paper churner. I decided to return to my first love, the LIFFE floor, which had since left the Royal Exchange and grown 10 fold at Cannon Bridge. But while the building moved, I realized the LIFFE traders had not. Most of the traders did not use any chart points and levels at all, and had little idea how these charts could really help the day trader on the floor. Banks had moved forward by that time, and there were Technical Analysis desks in most of the major city banks.

There had been an explosion of LIFFE locals who knew nothing about charts, levels, supports/resistances, so I did a few charts for friends, and before I knew it I was

under siege at the opening bell for levels and pearls of wisdom. I was busier than I'd ever been at the banks. Thus, CharmerCharts was born.

MG: How did technical analysis enter your life? Tell us about your first big win, your "ah-ha!" moment.

CH: As a junior Treasury Bond trader, I would sit with the other T. Bond traders in the coffee lounge before the market open and listen to all these clever, intelligent men discussing things that completely went over my head. Yet, every bloody day, like clockwork, the market rallied while all my otherwise brilliant colleagues spent day after day selling

The man offered me a look at a T Bond chart and it was like a million lightbulbs flashed before my eyes. I felt I'd found the holy grail

into the market and scrambling just before the close to buy bonds back at a loss. I could not get my head round that. I did mention this to my boss one day, and was told in no uncertain terms Bonds were going down.

One Thursday, when I stayed behind on the floor whilst my boss went home (bemoaning his losses

on another day of bond rallies), I wandered behind the booths and saw a man looking at a screen of charts. I'd never seen or heard of charts before. This man offered me a look at a T Bond chart and it was like a million lightbulbs flashed before my eyes. I felt I'd found the holy grail. I swear I could have cried. I must have stayed by that screen for 3 hours.

The bond market had in fact been in a downtrend since 1977. Bonds then went sideways for years, and, in the past few months, had broken their base formation and were on their way higher, possibly back to the 1977 high which was 10524 (I will never forget that level). I was amazed...The problem was our new young traders had only ever traded Bonds from the sell side of view. It had worked for 5 years, but the trend had changed, and they had not yet spotted that.... another million lightbulbs went off in my head.

MG: When did you decide to act on your new-found knowledge?

CH: The very next day! I gathered up my support and resistance levels, worked out my daily pivots, waltzed into the pit, and started buying bonds to the (friendly) boos and hisses of my fellow traders. It closed 30 points higher.

Sadly this did not help my boss,

whose tendency to sell bonds in the 100's of lots had lost the company a great deal of money, and within 3 weeks we were all made redundant. I had already secured a job at Midland Bank, which had the biggest presence and most volume on our trading floor. I loved every minute, and was soon on the phones advising clients of chart points, Fibonacci retracements and everything to do with charts. I did not just read books on the subject, but spent hours, days, months with screens, working out these levels for myself.

I also started making money trading bonds, something the Midland Treasury department noticed. They invited me to help start up a technical (T/A) trading desk. It was a wrench leaving LIFFE after 5 years, but I knew that bigger and better things awaited me.

MG: What aspects of Technical Analysis are the most appealing to you? Is it the visual aspect of price patterns or the crowd behavior behind it?

CH: Well, price patterns reflect crowd behavior and the best lesson was seeing it in the flesh on the floor. You knew by looking at the scuffle and behavior of the pit traders whether the market just moved 10 pips. To me, it was something obvious which has stayed with me for all these years. Even to this day, when I look at a

chart, in my mind's eye I still see those bond pit traders all bellowing and shoving each other in their struggle to get out of the wrong way positions.

MG: Can you tell us when and how you came to have students/followers? Can you recall a particular one who really impressed you?

CH: In my early days of trading and helping set up technical analysis

If I needed to recruit a trader I would definitely go for a woman rather than a man

desks in banks, I remember my boss pointing me to a young, be-speckled lad who had not done well on the Forex trading desk. I was told my group were his last hope of staying in the dealing room.

I spent many hours, weeks, months with this young lad before he finally got it and, I have to say, he progressed to become head of research at a major bank. Every time I see him on CNBC I feel a burst of pride at how far he's come from that young shy awkward boy all those years ago.

But I have worked with and trained a lot of the most fantastic technical analysis of today. I am proud of every one of them and I feel I contributed to at least a part of their love of charts.

MG: How do you feel forecasting currency movements as opposed to the kind of price movements in futures contracts that you used to begin your career?

CH: A chart is a chart is a chart, as far as I am concerned. Every market has its own little ways, but I am as happy charting currencies as I am oil futures.

MG: What are your favorite technical indicators? Have you kept the same favorites throughout your career or have they changed over time?

CH: Obviously in my business there are different flavors of the month... every other month. I have always kept abreast of all the T/A theories, new and old. I learned Candlestick charts at Nomura bank in 1987, then later Elliot Wave, Dow Theory, Market Profile, you name it. I have always returned to my favorite theory - KISS, Keep it Simple and Stupid. Charts are there to make us money, you shouldn't need a doctorate to understand them.

Markets retrace from significant points, so Fibonacci levels are a must. Markets go from bullish to bearish in a short time so stochastics are useful. And moving averages, just because I like them. Those are the 3 I use. I have

discarded everything else over the 29 years I have been doing my job.

Nothing else I have learned over the years gives me as much insight to what the price is going to do the next day as a daily and/or 60 min bar chart, Fibonacci levels and stochastics. Most recent technical analysts in banks who use these new-fangled systems don't actually trade and, frankly, I am not sure that they would know how to. Trading is most likely not part of their job anyway these days.

I have found my trading background was an incredible asset to my ability to produce T/A reports. I know how traders feel. I am one at heart, and this is why I base Charmercharts from the eyes of a trader who uses charts to make profitable trading decisions.

MG: Did you ever need to face the stereotype of women being more risk adverse than men? Do you agree with it?

CH: To be fair, because I have been doing this so long the female stereotypes never really applied to me. I was never the aggressive type because I never needed to be. I was in this market from the beginning. Have come up against being stereotyped by men? No. By women, yes...

Some women over the years have

been a disgrace and I am ashamed of them. I'm referring to those who claim to want to work in this wonderful business and then scream sexual harassment because a trader has farted. I say fart back or smile knowingly. I have never been insulted by male colleagues. Even though I have held some senior rank in the Banks. If I heard some comment aimed at me on the floor or in the dealing room, I always fired back a quick retort. It was all taken in fun however, even on the most stressful times in the market. I have never found the need to burn my bra.

MG: So you believe women can do their way through this man's world...

CH: The genders are not so skewed in the big banks anymore, but (in the retail market) I believe very few women actually trade their own money in comparison to men. This should change as women make great traders if given the opportunity.

What I will say is that in my 29 years of experience on the LIFFE floor and with various major bank dealing rooms, women were then and are now by far the better trader when given the opportunity, and if I needed to recruit a trader I would definitely go for a woman rather than a man.

I must admit that women traders are better than men because they do not have egos. They can change their minds quickly if they are wrong, and

are patient if they are right.

Men have egos. A position becomes their position and they guard it jealously, sometimes to the detriment of the position. Once they have taken a view, they do not like to lose face and reverse a wrong position. "It will come eventually" is a phrase I have heard over and over again. Sadly, sometimes a position does not pan out and has to be closed.

Women are different. They tend to go into a trade with a profit and a stop order in mind. They clearly define that they have entered a trade at a good level, and if that level is wrong, they quickly reverse their trade and do not hold onto a losing position. They have no egos, the trade is not personal to them. They know when they are wrong.

Patience is a virtue has always been my other favorite saying.

PROFILE: Carol Harmer

- Current Job: Founder of CharmerCharts.com
- Career: 30 years in the FX Market spent at the London Futures Exchange, in banks and as a traders coach.
- Age: 54

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Raghee Horner

Interviewed by Maud Gilson

"Quality of life comes from the understanding of when I should and should not be at my desk." Raghee Horner was 17 years old when she started trading. She has managed to balance private life and work through a well-studied schedule discipline. Involved in the financial markets since the early 90's, Raghee has seen how Internet changed everything for the retail traders: "I think a lot of traders forget that before 1996 we had to draw our charts manually! [...] More than anything Internet created a community that we enjoy today, not to mention the knowledge and the information that's available freely."

In this "Women in Forex" exclusive interview series from FXstreet.com, Raghee Horner explains that teaching is one of her passions because students push her to be better. She however admits that putting your ideas and your trades under public scrutiny "is not for the thin-skinned but then neither is trading."

Raghee thinks the market really does not care about her gender, but she nevertheless sees differences between men and women that can affect their trading. The routine discipline is more of a female tendency, and that lends itself very well to being a trader. "I will agree however that men tend to have higher risk aversion so their winners will be bigger as well as their losers."



Markets don't care I'm
a woman: men see the
same price that I do

MG: How did you start trading?

RH: I started when I was 17 and it was really by accident. My mother had let me get a job in high school but part of the bargain was that I would give her 25% of my weekly checks and she would invest them. Still being a kid and a “know it all” I decided that I would track the price of the mutual fund that she was investing in with the idea in mind that if it began losing money I could say to her “see mom it’s not working I don’t have to give you 25%...”

Over the course of about 3-4 months it was actually increasing in value so I had put in whatever amount it was and the value of the fund was growing. I realized that this is really going to be something I need to learn more about: my money was making money for me while I slept.

MG: When did you start to trade for a living?

RH: I graduated college in 93 and decided not to attend law school. It was a tough sell to my mother because I had gone to college with that thought in mind. I was somewhat actively trading and investing in college

and I really began to fall in love with the whole process and law school became less and less interesting to me.

Being self-employed was something I always wanted to be and being a trader is being an entrepreneur.

MG: How and why did you decide to add Forex into your trading portfolio?

RH: I had actively traded the dollar, Dow, crude oil, gold and how they related back to the Forex market so I added Forex to my overall trading approach but still included futures. What

Frankly I’m kind of thankful that I didn’t have the Internet when I first started trading

attracted me to Forex initially was the fact that I felt it was a logical extension of the active futures trading.

Also, back in late 1999 to early 2000, the regulations began to take hold here in the US and the Forex market really began to get more of the spotlight.

MG: What about Forex in particular do you find interesting, as opposed to the other markets you trade, like

stocks and futures?

RH: Forex is a 24-hour market which obviously offers me a lot of flexibility: the market is open Sunday through Friday versus the futures and stocks markets that open and close daily. I can choose which financial centers to trade. Also news and events are discounted into the market in a more organized and timely manner.

The best edge in my opinion is that Forex offers true risk management. The reason I stay “true” is related to different factors: the continuity in Forex which makes my order execution more effective; the lack of gaps; a smoother price action that comes from a liquid 24-hour market; and

a clean technical analysis via indicators. All these aspects represent an edge for me.

Another advantage of Forex is the very high liquidity throughout more of the day as opposed to the other markets I trade.

MG: By starting to trade in the early 90’s, you witnessed how Internet modified the entire face of individual investing and trading. How has

it transformed your trading?

RH: I think a lot of traders forget that before 1996 we had to draw our charts manually. What most traders did was plot a market on the daily chart by getting the closing price by broker and plotting a momentum or simple moving average study. I believe that traders who were trading before the Internet and before we had the luxury of more complex indicators relied on price predominately - price action, price patterns. It's a very different way of looking at the market than through the interpretation of technical indicators and probably because of that that my reliance on technical indicators is more a secondary confirmation to what I see in price.

With the Internet everything changed - everything from order execution, accessibility, information, and more than anything it created a community that we enjoy today, not to mention the knowledge and the information that's available freely on the Internet. Before the Internet I probably had a half dozen books that I read, most of them written in the

early 1900s. I still find those the books that shaped me the most and this may sound off but frankly I'm kind of thankful that I didn't have the Internet when I first started trading.

MG: How have you managed to separate your work from your personal life?

RH: Except for about two

Trading is about freedom: I think there are plenty of ways to make a living that might be easier and more stable than trading...

years that I spent in a trading office, my entire career has been based out of a spare bedroom which I endearingly called a "home office". I realize some people do need to get out of the house and trade from somewhere else and I think really it's a matter of knowing yourself.

I kind of liken it to people who are willing to exercise from home and those of us who like to actually go and workout at the gym. It is easier to be distracted or skip the workout from home but once you've gone to the gym there is a certain commitment: you are there and

it's time to work. I like to trade from home in the morning and then get out of the house. I go to the gym and workout with my husband who is home with me, I kickbox twice a week with my best friend, I take my ma out to lunch... whatever it is - it shouldn't be trading related.

Obviously trading is an avenue for homeworking, as would be investing. But I think a lot of people underestimate how hard this is to do for a living and the fact that it's easy to be interrupted at home and those interruptions can cost you a lot of money. To me trading is about freedom: I think there are plenty of ways to make a living that might be easier and more stable than trading...

MG: What would be your advice for a private trader to find success in Forex and at the same time a good quality of life?

RH: I love this question because it's what I have been striving for probably for the last 5-6 years. A trading day for Forex trader virtually becomes Sunday evening to Friday evening as it's a 24h market! I personally soon realized I had

to focus myself on the markets during times where I've felt it was the best and highest likelihood for price movement.

The Autochartist power stats tool allows me to analyze the last six, three or one month of price action and determine the volatility and when it will increase and decrease. I have learned that my primetime trading hours are from 8 a.m. to noon Eastern Time and I can walk away from the market between noon and 6 p.m. Eastern Time. Essentially that turns into winding down my morning trading session when London closes and if I choose to trade Asia I'll begin when Sydney and Tokyo overlap.

For me the quality of life comes from the understanding of when I should and should not be at my desk when it's going to be what I call a doldrum time.

MG: Trading is a lonely profession... How do you feel about this lack of human contact during the day?

RH: I like that I don't really communicate that much with other traders during the day but I think being human we need friendship and that feeling that

we're not alone especially after a bad day. That's where for me teaching fills that emotional gap: it wasn't that I needed necessarily more things to do in the day but I felt like I needed to talk to other like-minded traders about this career that I loved. The communication is something we desire as long as we can turn it on and off.

MG: You've said that the teaching is a "win-win" relationship. Why?

RH: It's a simple answer really: teaching and being

Men tend to be Cowboys and want to blaze their own trails

public makes you walk your talk because you put yourself out there in many ways for other people to learn from and to judge. It can be hard on the ego to have your ideas and your trades held for public scrutiny. It's not for the thin-skinned but then again neither is trading.

Students push me to be better and I want to be better for them - so I push them to learn they push me to teach more clearly, to have effective

strategies... so in that whole process we make each other better.

MG: After teaching so many students, have you noticed difference in how men and women trade and analyze the Forex Market?

RH: The first difference I see between men and women in any environment (not only trading), and I will say a stereotype, but men tend to be Cowboys and want to blaze their own trails. Women, if they trust the source or the teacher, they will follow direction much better than men. I think this is hardwired into men and women. Men are the explorers, right? And women are perceived as homemakers. While

this is no longer the case in this day and age, there is a certain routine discipline that is required to be a homemaker and that lends itself very well to being a trader.

I will agree however that men tend to have higher risk aversion so their winners will be bigger as well as their losers. I myself find I am more gun shy than trigger happy.

I've never really thought of myself as a "women trader". I think I happen to be a woman

that trades and furthermore I think that the market doesn't care that I'm a woman, young, or old... it's a more level playing field where a man is seeing the same price that I am.

MG: The "three R's" rule is part of your teaching. Can you explain it?

RH: My 3Rs began as a sticky note on my desktop to remind me that the process of trading was to recognize, react and repeat.

"Recognize" is my trading setup: What is the wave angle? What time is it? What are the economic indicators that may be released soon? Is there chart pattern? These are many of the setup cues that I would be looking for.

"React" comes from when I have enough confidence in what I have seen -- or recognized! -- to want to set the trade up. Reacting and confidence are a product of recognition, recognition is a product of study and time.

Finally "repeat": when you find something that works, keep doing it as often as you can recognize it. To me that's key to success for anything.

MG: Besides coaching, you are now working for Interbank

FX. How did you get the job?

RH: I do work with a number of brokerages through my work with Autochartist as their Chief Market Analyst where I write daily about index, futures, forex, stocks... but earlier this year InterbankFX did offer me the Chief Currency Analyst position and that was a huge honor and something I was hoping to do later in my career. I had worked with them for five or six years and I really believed in their philosophy of business and the tools they offer to their clients and their emphasis on education.

So even though the position is formalized now with the title I feel that I've been working with them for some time.

MG: What is your function there?

RH: My job is to educate - and these are my words - and show some transparency in my setups. In other words, I teach how I view the market.

MG: What do you find fulfilling in your job at IBFX compared to your private coaching and trading?

RH: I enjoy the position with InterbankFX because it's something different than

my normal teaching and mentoring. It's probably as fulfilling because I get to reach such a huge - and this is the key for me - actively trading audience.

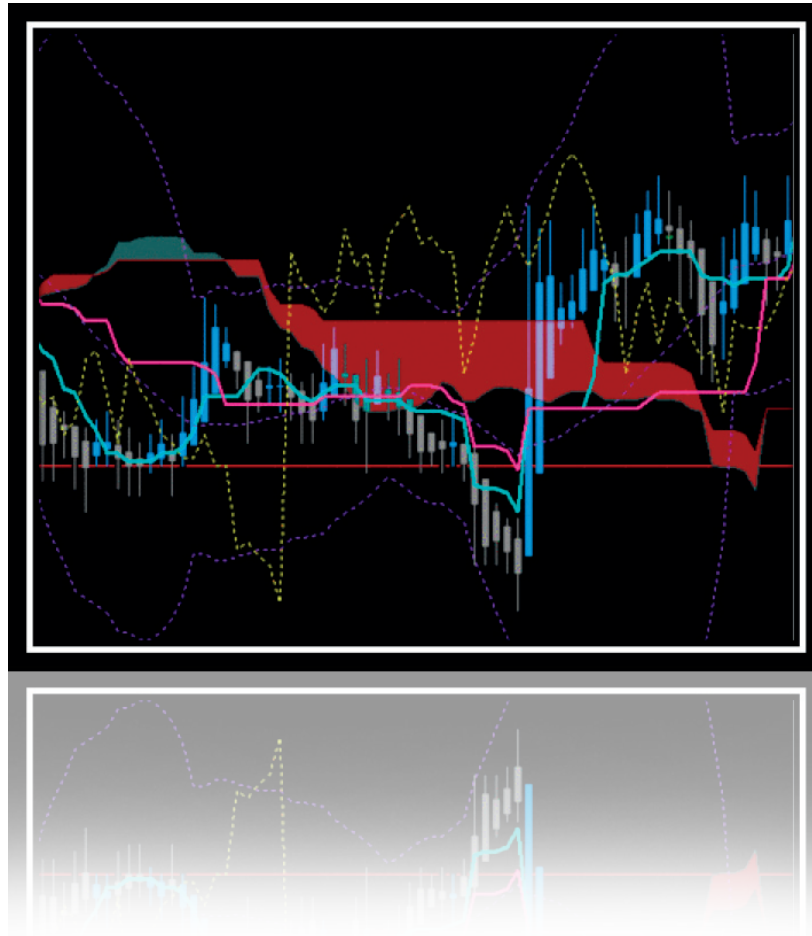
My private coaching is actually going to wind down this year by September which is the other reason I accepted the Interbank FX offer: I'm going to be doing much more writing, conducting webinars, and traveling on behalf of interbank FX. The position with interbank FX also lets me go back to something I've been missing since 2003 that is to simply close my office door and trade. I don't want to compare three different aspects of my career (trader, teacher and chief currency/market Analyst) because they came to me at the right time and reflect my need for challenging myself.

PROFILE: Raghee Horner

- Current Job: Trader and Author at RagheeHorner.com; Chief Currency Analyst at InterbankFX
- Career: 15 years in financial markets: Futures since 1996 and Forex since 2000
- Age: 38

FXSTREET.COM
The forex market

Majors Analysis with Ichimoku Kinko Hyo



During the last few months the previously prognosticated, well-predictable movements clearly happened on the major currency pairs. Let's review these spectacular moves along with the prospect analysis of the majors.

For a better understanding of Ichimoku Kinko Hyo analysis, please refer to the author's introductory article in the October 2010 edition of FX Trader Magazine "The Art of the Chart".

EURUSD Retrospect

In the April edition of FX Trader Magazine I've prognosticated that if the price was going to close

above the Senkou Span A level on the Monthly chart, it would mean that a fully confirmed bullish Kumo breakout would happen and that would indicate

future up movements on the lower timeframes too. Finally this breakout happened in April on the Monthly EURUSD chart. The price broke out from the Kumo and the Chikou Span confirmed the move too with straightly crossing up the price. As it was a fully confirmed bullish Kumo breakout, it was a very determinative happening. If the price is above the Kumo it means bullish trend on its own. The last time the price was residing above the Kumo was in January 2010, while the last fully confirmed bullish Kumo breakout happened in December 2003 followed by a more than 3.300 pips bullish run.

On the Weekly EURUSD chart the price moved clearly up in April till May, when it left behind Kijun-Sen too far so Kijun-Sen turned flat and attracted the price back. This back move happened during May, while in June the equilibrium was finally created and the price could continue its way up with the confirmation of all other Ichimoku components.

If we observe the Daily EURUSD chart too we can see that the back bounce, which happened on the Weekly chart during May, was caught up and supported clearly by the Senkou Span B line of the Daily Kumo. Furthermore this level nearly coincided with the Monthly Senkou Span B line too. It means that this support level was extremely strong so the up bounce was well predictable.



Figure 1: EURUSD Monthly



Figure 2: EURUSD Daily



Figure 3: EURUSD Weekly

EURUSD Prospect

On the Weekly and Monthly EURUSD charts the picture is clearly bullish. On the Weekly

chart all Ichimoku components are pointing into the same direction. The price is above the Kumo, and also above Kijun-Sen and Tenkan-Sen; Chikou Span is above the price

and above all other components, the Kijun-Sen and Tenkan-Sen lines are also above the Kumo, furthermore the Tenkan-Sen has already crossed up the Kijun-Sen, and the future Kumo is bullish too.

On the Monthly chart the picture is nearly the same, but a bit weaker, as the future Kumo is not bullish yet but bearish, and the Kijun-Sen is below the Kumo cloud, furthermore it is flat. It means that the price is a bit undecided on the higher timeframes, but the confirmed Kumo breakout indicates that up movements have more possibilities.

On the Daily chart the price is currently in a consolidation phase as it just bounced up from the bottom of the Kumo. If the Chikou-Span crosses up the price and the future Kumo changes to bullish, it would create a clear and strong bullish sentiment on the Daily EURUSD chart.

GBPUSD Retrospect

On the Monthly GBPUSD chart the price has been consolidating during the last three months. In spite of bouncing up from the Kijun-Sen after a weak Tenkan/Kijun cross, the price was still moving clearly below the strong resistance Kumo cloud. The Chikou Span was in a ranging zone too as it crossed up the price, but stayed still below Kijun-Sen and also below the Kumo cloud. On the Weekly GBPUSD chart the picture was much clearer.



Figure 4: GBPUSD Monthly



Figure 5: GBPUSD Daily



Figure 6: GBPUSD Weekly

However no high-volume movements happened, but the price marched up consistently with the support of Kijun-Sen above the Kumo cloud. The Kijun-Sen represents a very important and strong support line here as the price bounced up from it several times during the last few months. The Chikou Span was also supporting the movement along with the Kumo future.

On the daily EURUSD chart April started with a strong bullish Tenkan/Kijun cross. As the price was above both the Kumo and the Tenkan-Sen Kijun-Sen lines, the future Kumo was bullish and the Chikou Span was supporting the move too. Moving above the price, it was a fully supported and confirmed entry point. After this, the Kijun-Sen turned flat and it attracted the price back a bit. Finally, the equilibrium was created and the price continued its way up. From the confirmed entry point till the end of April it marched up about 400 pips and reached a new yearly high at 1.6746. Then it fell down to the strong Kumo support level and after that it started to range in the body of the Kumo cloud.

GBPUSD Prospect

There is a very significant conflict between the Monthly and Weekly GBPUSD charts. While the Monthly chart is a bit mixed but still bearish, the Weekly chart is purely bullish. This conflict will be

solved if the price breaks the strong Monthly Senkou Span B resistance level at 1.7331, or if it continues its way down, breaking the bottom of the Weekly Kumo at 1.5264. If the price marches in the body of the Kumo on the Monthly chart, this will indicate that the direction of the price is still undecided and further unpredictable ranging periods could happen.

USDCHF Retrospect

The previously predicted down movements took place during the last three months on the

USDCHF currency pair. On the USDCHF Monthly chart the price was moving below the Kumo, the Tenkan Sen and Kijun-Sen. The Chikou Span was also below all other Ichimoku components, the Tenkan-Sen was below Kijun-Sen and the future Kumo was bearish too.

On the Weekly USDCHF the picture was exactly the same: clearly bullish with the support and confirmation of all Ichimoku components.

On the Daily USDCHF chart a strong bearish Tenkan/Kijun cross happened on the 14th of



Figure 7: USDCHF Monthly



Figure 8: USDCHF Daily



Figure 9: USDCHF Weekly

April. As the price was below the Kumo and Kijun-Sen, the Chikou Span was also confirming the move and the Kumo future was supporting the move too, so it was a strong and safe possible entry point. The future down movements were well-predictable because the higher timeframes were clearly supporting the



Figure 10: USDJPY Monthly



Figure 11: USDJPY Daily

direction and all of the Ichimoku components were pointing into the same direction too. Finally the price moved down more than 600 pips till June with reaching a new all time low at 0.8326.

USDCHF Prospect

As the picture is clearly bearish on all higher timeframes, future down movements are most probable. On the Daily timeframe currently the Kijun-Sen turned flat, so it is possible that the price will move back a bit before it continues its way down. The next most important resistance levels are the Kijun-Sen levels on the Daily, Weekly and Monthly timeframes.

USDJPY Retrospect

On the Monthly USDJPY chart the Kijun-Sen supported the down movements during the last few months. The picture was clearly bearish as the price was below all Ichimoku components in accordance with the Chikou Span, and the Kumo future was bearish too.

On the Weekly chart the picture was also bearish. However the price reached the Senkou Span A level in April, it was bounced back from the bottom of the Kumo and after crossing the Kijun-Sen line the price continued its way down in the direction of the main trend.



Figure 12: USDJPY Weekly

On the Daily charts it is very spectacular to see that the down movement was not only caused and supported by the Weekly Senkou Span A level, but also

the Daily Kijun-Sen turned flat when the price left it extremely far behind and it attracted the price back strongly to its original direction.



Figure 13: USDX Daily



Figure 14: USDX Weekly

USDJPY Prospect

Future down movements are well-supported on the higher timeframes. The next strong resistance level is the Kijun-Sen line and the bottom of the Kumo cloud on the Weekly and Monthly charts.

USDX Retrospect

On the Weekly USDX chart the down movements have been supported by the Kijun-Sen line. In April the price was moving between the Tenkan-Sen and Kijun-Sen lines, but in May the price finally confirmed the trend continuation by crossing the Tenkan-Sen line in the direction of the main bearish trend.

On the Daily USDX chart the movements were supported by the top of the Kumo cloud. After April's clear down movements, the price moved back and tried to reach the Senkou Span B level in May, but it failed to break that important resistance level and it was turned down by the Kumo top at the end of May. Finally in June a bearish Tenkan/Kijun cross happened and the Kumo future turned bearish again.

USDX Prospect

As all Ichimoku components are clearly bearish on the higher timeframes, the down movement has still more chance. The most important resistance level is the Weekly Kijun-Sen line at 77.00.

Gabor Kovacs

MAJORS REPORT



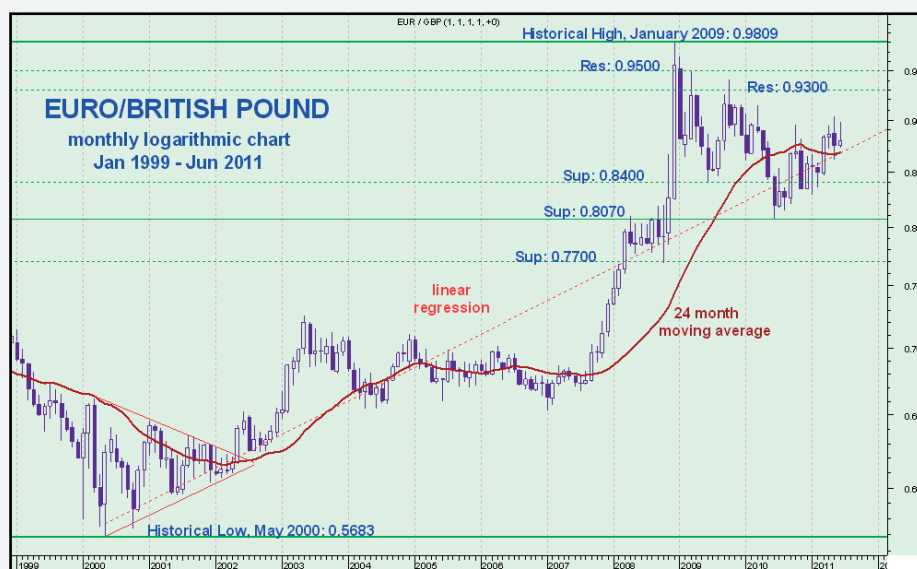
TREND EURO, US DOLLAR, YEN, BRITISH POUND

SPOT PRICE	17/06/2011	01/01/2011	Δ%	01/01/2010	Δ%
EURUSD	1.4289	1.3366	6.9%	1.4331	-0.3%
USDJPY	80.19	81.19	-1.2%	93.14	-13.9%
EURJPY	114.54	108.64	5.4%	133.22	-14.0%
EURGBP	0.8837	0.8575	3.1%	0.8858	-0.2%

EURO/GBP

The cross euro/gbp was first traded in January 1999, at around 0.7100, and fell to a historical low at 0.5683 in May 2000. From the bottom, the euro began moving upwards, entering progressively a major up-trend, and reaching a historical high at 0.9809 on January 1st, 2009 (+72.6% vs. the May 2000 low). From that peak a strong correction drew the cross down to a low at 0.8070 in June 2010. From

that level a rally pushed the cross, in the last months, in the 0.9000-0.9040 area. A break above 0.9160 would signal a prosecution of the rally in the coming months, targeting 0.9300, with extensions towards the key resistance at 0.9500. Loss of momentum below 0.8600 and new weakness below 0.8400, for a test of 0.8285. A break of this support (premature) would provide a bearish signal for the months to come.



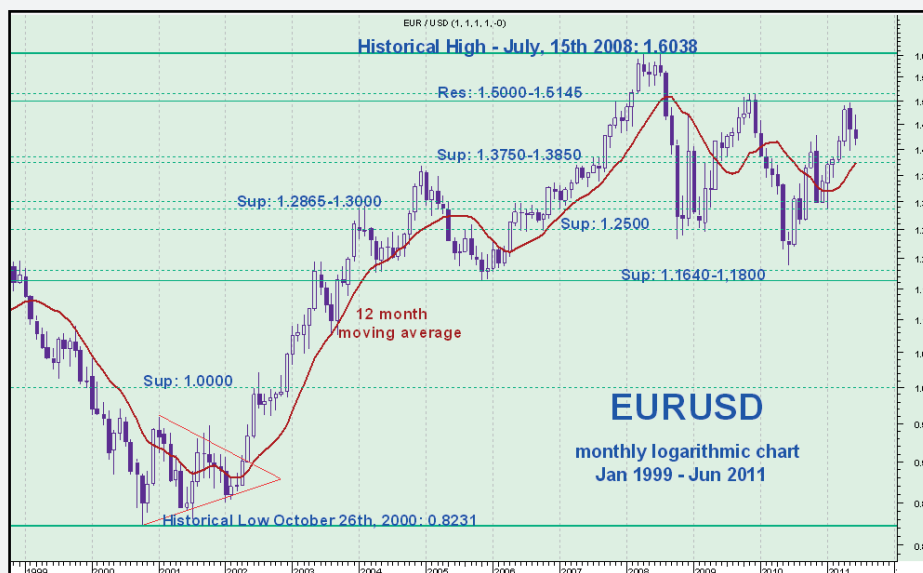
TREND		SUPPORTS		SPOT PRICE	RESISTANCES	
Trend 3-6 months	up/side	S1	0.8600	0.8837	R3	0.9500++
Trend 6-12 months	side	S2	0.8400		R2	0.9300+
Trend 12-18 months	side	S3	0.8285+		R1	0.9160

EUR/USD

Euro/dollar was first traded in January 1999, at around 1.1800-1.1900 and fell to a historical low at 0.8231 on October 26th, 2000. From that bottom, the euro began accumulating and – since summer 2002 – moving upwards, entering progressively a major up-trend and reaching a top at 1.6038 on July 15th, 2008 (+95% vs. the historical low). The fall below the strong support at 1.5275 on August 8th, 2008 (level that had supported the pair in the period April-July) caused a major reversal, with a strong decline and a new bottom at 1.2330 at the end of October, 2008 (during the worsening of the financial crisis). Since March 2009 the euro tried to recover and reached a peak at 1.5145 at the end of November 2009. From that level the pair started to decline again, with a sell-off at the break of 1.3000 and a new low at 1.1876 on June 7th 2010, on the levels of beginning 2006. Then the euro started rising again, with a top at 1.4282 on November 4th, 2010. The following correction exhausted at 1.2867 on January 10th, 2011. From that level, a new rally brought the pair to a peak at 1.4940 on May 4th; the euro then went back to 1.4000. From a chart point of view, as long as the pair trades below the 1.4700 resistance the mood remains bearish, and it would get even more negative at the break of 1.4000, with a

first important target around the strong support at 1.3750-1.3850. The break of that support (premature) would trigger a downward acceleration towards 1.3300-1.3400. Below 1.3300-1.3400 there would be strong signals of tension, with a new wave of speculative attacks against the European currency, peripheral debt and banking system. Should the pair overcome 1.4700 (non very likely) there would be a new test of the strong resistance in the 1.4940-1.5000 area, where the sellers should prevail.

Last 2 years' market action reflects a sort of stabilization of the pair euro/dollar, due to the influence of two antagonistic drivers: on one side, the structural weakness of the US dollar, worsened by Fed' quantitative easing 1 and 2; on the other side, the euro area's intrinsic fragility due to the peripheral countries' debt problems. The consequence is a sort of impasse, an unstable equilibrium between the two currencies, that remain both very weak in comparison with the major world currencies. Considering the "political" impossibility for the Fed to start the Qe3 (that would trigger out of control inflation and the retaliation risk from the trade partners, especially China together with the worsening of the tensions in the euro area's peripheral countries), in the coming months the downward pressure should be prevailing.



TREND		SUPPORTS		SPOT PRICE	RESISTANCES	
Trend 3-6 months	side/down	S1	1.4075	1.4289	R3	1.4700++
Trend 6-12 months	side/down	S2	1.3970-1,4000+		R2	1.4500+
Trend 12-18 months	side	S3	1.3750-1,3850++		R1	1.4360

EUR/JPY

The cross euro/yen was first traded in January 1999, at around 132.50-135.50, and fell to a historical low at 88.96 in October 2000. From the bottom, the euro began moving upwards, entering progressively a major up-trend, and reaching a historical high at 169.95 in July 2008 (+91% vs. the October 2000 bottom). The strong depreciation of the yen during the years 2002 – 2007 has been mainly caused by the so called “carry trade”, i.e. the funding in low-yield currencies like the Japanese yen with the contextual reinvestment in asset classes in other currencies (i.e. stocks and bonds in euro, Australian and American dollars, etc.). After the burst of the real estate and financial bubble – begun in the 2007 summer, with an acceleration after September 2008 – a progressive strong disinvestment from Stock Exchanges around the world led to massive yen buying in order to square up carry trade positions. That provoked a crash of euro vs. yen, driven by a double source: the fall of euro against the US dollar and, at the same time, the decline of the US dollar versus the yen. After the break of 156 in September 2008 – in

correspondence with the trendline that sustained the major up trend), the cross collapsed to a low at 112.11 in January 2009: the following bounce ran out of steam in the 138.50-139.20 area, during summer 2009; then the cross started going down again, with a bottom at 105.44 in August 2010 (-38% from the historical high). From the bottom at 106.84, touched on January 10th 2011, a strong rally – interrupted by the sell-off after the earthquake that brought the cross back to the January lows (March 17th low: 106.81) – pushed the cross to a peak at 123.32 on April 11th. In the last two months the cross declined towards 113.50-114.

The technical outlooks remains quite confuse: a bounce to 118.30 can't be ruled out (extensions towards 120) but as long as the cross remains below 120 the downward risk remains prevailing, with possible falls (at the break of 113.50-114) towards the strong 110.60 support. A break below 110.60 (premature) would trigger a new test of the March 17th lows at 106.80, where the selling pressure should run out of steam.



TREND		SUPPORTS		SPOT PRICE	RESISTANCES	
Trend 3-6 months	down	S1	113.50-114+	114.54	R3	123.35++
Trend 6-12 months	down-side	S2	110.60+		R2	120+
Trend 12-18 months	down	S3	106.80++		R1	118+

USD/JPY

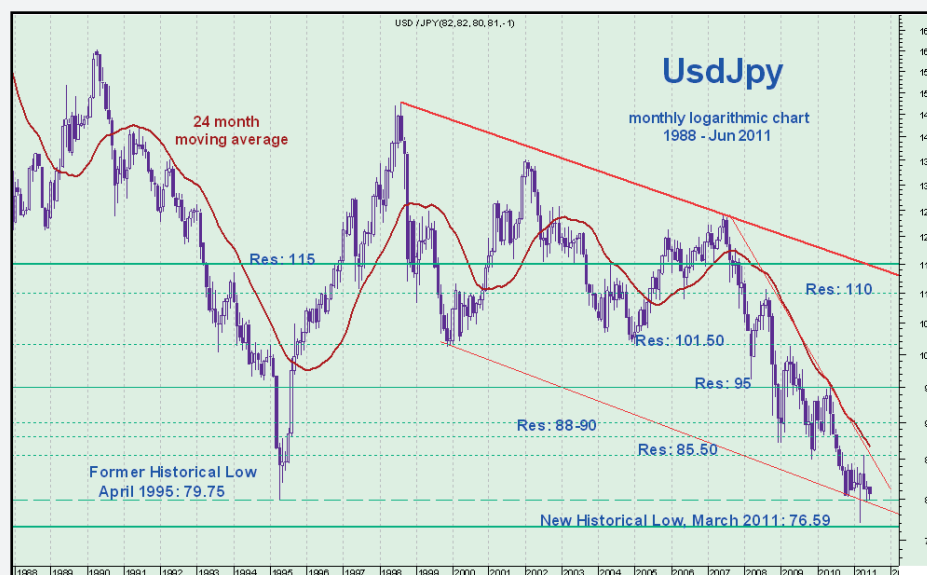
Dollar/yen has been moving in a major down-trend for several decades: at the beginning of the seventies it was trading at around 350, since the mid-eighties it went stably below 175. After having collapsed to a historical low at 79.75 in April 1995, the dollar started a strong reversal, reaching a top at 147.65 in August 1998. From that level, the major down-trend resumed, with a series of falling highs and “raids” below the key support at 115 (a level repeatedly supported by the Bank of Japan’s interventions). The dollar reached a bottom at around 101.35/85 at the end of 1999, support tested again at the end of 2004. The break of that support during 2008 caused a new sell-off, that led the dollar to a new bottom at 84.83 at the end of November 2009. Afterwards the pair started moving sideways below the resistance at 95; since September 2010 the downtrend resumed to a bottom at 80.22 on November 1st, 2010. Since the beginning of November till mid-march 2011 the pair traded side-ways in the 80.22 - 84.51 trading-range.

The break through the bottoms at mid-March – after the natural catastrophe that hit Japan – provoked a panic-selling reaction that pushed the pair to a new historical low at 76.59,

on March 17th (below the former bottom at 79.75 reached in April, 1995). After a joint intervention of the leading Central Banks to avoid an excessive yen appreciation (event that would hinder the country’s reconstruction) the pair rose very quickly to the pre-earthquake’s levels, reaching a top at 85.53 on April 6th. Then the pair started heading south again, declining to the 79.50-80 support area. The feeling is that the pair major trend remains firmly bearish but that there may be a “political” willingness to control its decline: that should support the greenback avoiding too strong a rise of the yen, being the Japanese currency pushed upwards by the capital repatriation to face the country reconstruction.

As long as the pair trades below 82.20-83 the mood remains gloomy: a break below the 79.50-80 support area (currently under attack) would trigger new downward pressure targeting the historical low at 76.59 touched on March 17th, 2011 (next relevant support is at 75.50). A break above 85.50 (not very likely) is necessary in order to have a recovery signal, targeting 88-90.

Maurizio Milano



TREND		SUPPORTS		SPOT PRICE	RESISTANCES	
Trend 3-6 months	side	S1	79,50-80++	80.19	R3	85.50++
Trend 6-12 months	down	S2	78.80		R2	84.00+
Trend 12-18 months	down	S3	76.59+++		R1	82.20-83



TECHNICAL OUTLOOK

SELECTED ASIAN FX RATES – FEATURED MARKET – USD/SGD

USD/SGD has headed steadily lower from the 1.5577 recovery peak established in March 2009, this being close to the (blue) falling 260 week (5 year) moving average. The August 2010 breakdown through the July 2008 extreme low at 1.3452 has triggered a move in the direction of the base of the (purple) long-term bearish channel, with a (brown) shorter-term bearish channel having also worked well since the 1.5577 lower top. 1.2215 has so far been reached and although a potential short-term base is now being traced out, which could set up a recovery towards former support

at the November 2010 low of 1.2818, possibly overshooting towards 1.3036 (the mid-point of the 1.2818-1.3254 rally), at this stage MACD remains firmly bearish. We see the risk of a subsequent resumption of underlying losses to yet new lows. 1.1966 is the next major downside projection, marking 100% of the 1.7063-1.3452 decline measured from the 1.5577 lower top. The base of the (purple) long-term bear channel is set to coincide with 1.1966 in mid August. A clean break beneath 1.1966 may trigger an accelerated decline, with the possibility of parity if current trends persist until the end of 2012.



MAJOR TRENDS AND TARGETS FOR SELECTED ASIAN FX RATES

As at 14 June	Current level	Major trend	Major target	Trend change level
USD/IDR	8538	Down	8000 & 7500	9090
USD/SGD	1.2325	Down	1.1966 & 1.0000	1.3254
USD/MYR	3.033	Down	2.7550 & 2.5076	3.17
USD/THB	30.455	Down	29.325 & 25.000	31.2
AUD/CAD	1.037	Up	1.1316 & 1.2000	0.9641
AUD/NZD	1.3015	Up	1.4684 & 1.5000	1.2642
EUR/AUD	1.357	Down	1.1500 & .9859	1.5456
EUR/NZD	1.7665	Down	1.6342 & 1.5000	1.9568

MAJOR US DOLLAR RATES - FEATURED MARKET – GBP/USD

GBP/USD extended losses from the November 2007 peak at 2.1158 (the highest level since the reversal from the November 1980 peak at 2.4546) to form a double bottom at 1.3500 / 1.3659 in January / March 2009. This set up a retracement of between 38.2% and 50% of the entire 2.1158-1.3500 decline, topping out at 1.7041 in August 2009, just under former key support at 1.7052, the November 2005 low. A deep retreat to 1.4234 in May 2010 briefly / slightly overshoot the 76.4% retracement of the 1.3500-1.7041 recovery (at 1.4336), from where a renewed recovery phase commenced and has now lasted a full year, reaching a peak of 1.6745 so far. This is close to the centre of a potential 2 ½ year bull channel, and with the (red) 13 week

and (green) 52 week moving averages aligned and rising, accompanied by a potentially constructive MACD indicator, this bodes well for a continued recovery over coming months. However, a potential multi-week top pattern is being traced out and this could produce a setback towards former resistance / support at 1.5522 / 1.5708, where a higher low is ideally sought above last December's one at 1.5346, to keep the overall recovery phase intact. 1.7041 is the next major overhead barrier above 1.6745, with a move through there likely to open the key 1.7329 level (50% retracement of 2.1158-1.3500), which in three to four months time will have coincided with the long-term (blue) 260 week (5 year) moving average (now at 1.7469).



MAJOR TRENDS AND TARGETS FOR US DOLLAR MAJORS

As at 14 June	Current level	Major trend	Major target	Trend change level
EUR/USD	1.445	Up	1.5144 & 1.6039	1.3428
GBP/USD	1.6405	Sideways		1.4783 / 1.7041
USD/JPY	80.25	Down	70.00 & 60.00	85.53
USD/CHF	0.8385	Down	.8108 & .7005	1.0066
USD/CAD	0.974	Down	.9061 & .7500	1.0854
AUD/USD	1.0645	Up	1.1460 & 1.2024	0.9404

FX EMERGING MARKETS – FEATURED MARKET – EUR/RON

EUR/RON extended the recovery from the 3.0941 extreme low recorded in July 2007 to reach a peak of 4.3510 in January 2009, before undergoing a two-legged retreat to 4.1165 & 4.0565, interrupted by a lower top at 4.3269. Fresh attempts to move higher commenced from 4.0565, but there was only a brief break-out to a new high in June 2010, reaching 4.3892 before immediately reversing to leave a potential higher low at 4.2174. The subsequent emergence of a lower top at 4.3276 has produced a deeper retreat through the (orange) 3 ½ year uptrend line connecting 3.0941 & 3.5015 to reach a low so far at 4.0647. This is just over the March 2010 key low at 4.0565, and a rally is now under way. With the long-term (blue) 260 week (5 year) moving average still rising at a steady rate and

the market remaining above it, the past 2 ½ years' price action retains potential to be a prolonged consolidation phase ahead of an eventual resumption of the primary uptrend, targeted towards the 4.64-4.72 region. This marks a 50% advance from the 2007 low and a 100% upside projection from the 2 ½ year trading range. However, the immediate risk is for the current bounce off 4.0647 to leave a lower top below 4.3276, possibly near former support at 4.2174, and be followed by a deeper retreat in the direction of former highs at 3.9714 & 3.8354. Ahead of there, the aforementioned (blue) 260 week (5 year) moving average currently intersects at close to the psychological 4.0000 line, and successfully leaving a higher low above there will be encouraging.



MAJOR TRENDS AND TARGETS FOR FX EMERGING MARKETS

As at 14 June	Current level	Major trend	Major target	Trend change level
EUR/CZK	24.12	Down	23.711 & 22.925	25.387
EUR/HUF	264.6	Sideways		260.96 / 291.97
EUR/PLN	3.93	Sideways		3.8238 / 4.2454
EUR/RON	4.172	Sideways		3.8354 / 4.3892
USD/ILS	3.396	Down	3.2043 & 2.7358	3.7484
USD/RUR	27.88	Down	26.251 & 24.196	30.896
USD/TRL	1.579	Sideways		1.3874 / 1.6293
USD/ZAR	6.7535	Down	6.4318 & 5.9563	7.3478

MAJOR CROSS-RATES - FEATURED MARKET - EUR/CHF

EUR/CHF recorded an all-time traded high at 1.6828 in October 2007, then completed a top pattern and began to retrace the rise from the September 2001 all-time traded low at 1.4401. The base of the (brown) 6 year bull channel (drawn off higher lows at 1.4502 & 1.5454) was cleanly breached in February 2008, initially reaching 1.5350 before recovering to leave a lower double top at 1.6376 / 1.6369. From there the downtrend gathered pace, accelerating through 1.5350 & 1.4401 to reach an initial new all-time traded low at 1.4322 in October 2008, before correcting to 1.5881. From there a succession of new all-time lows has been recorded with price action being contained within an (orange) bearish channel. Attempts to develop a double bottom at 1.2405 / 1.2421 were ended a

few weeks ago and already the base of the (orange) bearish channel is under attack. Although the (red) 13 week, (green) 52 week and long-term (blue) 260 week (5 year) are bearishly aligned and falling, bullish divergence is noted on the MACD indicator. But for now the risk remains for a bounce to leave a lower top below the recent 1.3203 / 1.3239 double top (and ideally by former support at 1.2875-1.3074) ahead of an additional retreat towards 1.1810 (100% of 1.3834-1.2405 decline measured from 1.3239 and possibly the 1.1571-1.1607 region, this target area being generated by several downside projections from the recent 1.2405-1.2421 to 1.3203-1.3239 range.

Steve Jarvis



MAJOR TRENDS AND TARGETS FOR MAJOR CROSS-RATES

As at 14 June	Current level	Major trend	Major target	Trend change level
EUR/GBP	0.8805	Sideways		.8286 / .9411
GBP/JPY	131.7	Down	118.92 & 100	145.93
EUR/JPY	115.95	Sideways		105.46 / 127.92
EUR/CHF	1.2115	Down	1.1571 & 1.0400	1.3239
EUR/NOK	7.8	Down	7.2500 & 7.1000	8.2551
EUR/SEK	9.1175	Down	8.2500 & 8.0000	9.4253



FX SPOT MONITOR

Country	Flag	USD Spot	Last vs USD	% Ch 3M	% Ch 12M	12mth High	12mth Low
Eurozone		EUR=	1.3176	-7.2%	6.4%	1.4826	1.2179
UK		GBP=	1.5509	-5.2%	4.6%	1.6701	1.4747
Japan		JPY=	83.59	3.2%	-8.1%	91	78.13
Switzerland		CHF=	0.9574	6.0%	-13.9%	1.112	0.8332
Australia		AUD=	0.9985	-1.2%	15.0%	1.0965	0.8397
Canada		CAD=	1.0182	3.8%	-0.9%	1.0642	0.9444
New Zealand		NZD=	0.7457	0.7%	5.7%	0.8255	0.6845
Sweden		SEK=	6.8146	8.0%	-11.8%	7.8052	6.007
Norway		NOK=	5.9704	7.4%	-6.2%	6.51	5.242
Iceland		ISK=	116.93	2.8%	-7.5%	128.38	108.49
Israel		ILS=	3.6	2.0%	-5.9%	3.902	3.3562
South Africa		ZAR=	6.8126	-1.2%	-9.4%	7.747	6.5656
Egypt		EGP=	5.808	-2.3%	2.3%	5.9665	5.691
Saudi Arabia		SAR=	3.7503	0.0%	0.0%	3.7505	3.7485
Czech Rep.		CZK=	19.18	11.7%	-7.6%	21.153	16.262
Poland		PLN=	3.0281	6.7%	-7.9%	3.4133	2.6443
Hungary		HUF=	209.32	10.0%	-7.4%	235.93	177.74
Russia		RUB=	30.752	9.0%	-0.6%	31.5316	27.33
Turkey		TRY=	1.554	-0.4%	-0.4%	1.6192	1.3936
China		CNY=	6.6589	1.6%	-2.5%	6.829	6.4746
Hong Kong		HKD=	7.7744	-0.3%	-0.1%	7.8027	7.75
Singapore		SGD=	1.3129	4.0%	-5.7%	1.4023	1.2223
Taiwan		TWD=	29.855	1.1%	-7.3%	32.27	28.5
India		INR=	45.18	0.7%	-2.2%	47.25	43.9
South Korea		KRW=	1152.15	2.9%	-5.0%	1228.65	1065.5
Thailand		THB=	30.18	0.0%	-6.8%	32.45	29.48
Malaysia		MYR=	3.137	3.6%	-3.7%	3.2575	2.961
Indonesia		IDR=	9047	3.7%	-1.1%	9148	8505
Philippines		PHP=	44.4	2.5%	-3.8%	46.55	42.34
Mexico		MXN=	12.3709	3.2%	-1.7%	13.186	11.496
Brazil		BRL=	1.6968	2.3%	-4.7%	1.8116	1.5614
Chile		CLP=	468.8	-2.5%	-11.6%	545.8	460.3
Venezuela		VEB=	2150	0.3%	0.3%	2144.6	2144.6
Colombia		COP=	1932.3	3.6%	1.6%	2033	1762

Levels Date:20-Jun-11

Source: Thomson Reuters



THOMSON REUTERS

CENTRAL BANKS

Country	Flag	Central Bank	Rate Name	Actual	Previous
USA		FED	Fed funds	0.25	0.25
Eurozone		ECB	Refi	1.25	1.00
UK		BOE	Bank Repo	0.50	0.50
Japan		BOJ	O/N Call	0.10	0.10
Switzerland		SNB	3 mth Libor	0.25	0.25
Australia		RBA	Cash	4.75	4.75
Canada		BOC	O/N Funding	1.00	1.00
New Zealand		RBNZ	Cash	2.50	3.00
Sweden		Riksbank	Repo	1.75	1.25
Norway		Norges Bank	Depo	2.25	2.00
Iceland		CBI	Policy	4.25	4.50
Israel		BOI	Short Term Lending	3.25	2.00
South Africa		Reserve Bank	Repurchase	5.50	5.50
Egypt		CBE	O/N Depo	9.75	9.75
Czech Rep.		CNB	2 Week Repo	0.75	0.75
Poland		NBP	28 Day Intervention	4.50	3.50
Hungary		MNB	2 Week Depo	6.00	5.75
Russia		CBR	Refinancing	8.25	7.75
Turkey		TCMB	O/N Borrowing	6.25	6.50
China		PBC	1 Year Lending	6.31	5.56
Taiwan		CBC	Discount	3.00	2.00
India		RBI	Repo	7.50	6.30
South Korea		BOK	O/N Call	3.26	2.49
Thailand		BOT	Repo	6.25	6.25
Indonesia		BI	BI	6.75	6.50
Philippines		BSP	Repo	4.50	4.00
Mexico		BDM	Target	4.50	4.50
Brazil		BCB	Selic	12.25	10.75
Chile		CBC	MPR	5.25	3.25

Levels Date: 20-Jun-11

Source: Thomson Reuters



ECONOMIC DATA

	GDP	CPI	Industrial Production	Unemployment
	y-o-y	y-o-y	y-o-y	level
USA	1.90	3.60	0.10	9.10
Eurozone	2.50	2.70	0.20	9.90
UK	1.80	4.50	-1.70	7.70
Japan	-0.90	0.60	1.00	4.70
Switzerland	2.40	0.40		3.00
Australia	1.00	3.30		4.90
Canada	3.90	3.30		7.40
New Zealand (participation)	0.80	4.50		68.70 (participation)
Sweden	6.40	3.30	-0.70	7.90
Norway	-0.40	1.60	-1.10	2.50
South Africa	3.60	4.20	0.40	25.00
Czech Rep.	2.80	2.00	4.70	8.20
Poland	4.40	5.00	6.60	12.60
Hungary	2.50	3.90	6.90	11.40
Russia	3.30	0.50	4.10	7.20
China	9.70	5.50	13.30	
India	8.50		6.30	
Mexico	4.60	0.18	1.40	5.10
Brazil	4.20	0.47	-1.30	6.40

Levels Date: 20-Jun-11

Source: Thomson Reuters

FX POLL

3 Month	Days since Poll	Poll Median	Poll Min	Poll Max	Poll Mean	Std Deviation	Spot@Poll Date
EurUsd	10	1.435	1.34	1.52	1.431	0.049	1.4575
GbpUsd	10	1.63	1.5	1.72	1.627	0.044	1.6355
AudUsd	10	1.062	0.95	1.11	1.054	0.038	1.0722
UsdJpy	10	83	65	90	83	3.5	80.08
UsdChf	10	0.88	0.81	0.99	0.883	0.042	0.8347
UsdCad	10	0.97	0.913	1.05	0.969	0.027	0.9803
EurJpy	10	120	105.3	129	119.2	4.5	116.76
EurChf	10	1.261	1.131	1.368	1.264	0.042	1.2169
EurGbp	10	0.88	0.833	0.921	0.88	0.024	0.891
GbpJpy	10	135.7	107.3	144.5	135.1	5.7	130.98
1 Year	Days since Poll	Poll Median	Poll Min	Poll Max	Poll Mean	Std Deviation	Spot@Poll Date
EurUsd	10	1.375	1.22	1.61	1.376	0.084	1.4575
GbpUsd	10	1.63	1.46	1.8	1.632	0.079	1.6355
AudUsd	10	1.004	0.85	1.155	1.007	0.068	1.0722
UsdJpy	10	90	65	100	89.1	5.5	80.08
UsdChf	10	0.94	0.75	1.116	0.952	0.081	0.8347
UsdCad	10	1	0.91	1.1	0.994	0.044	0.9803
EurJpy	10	122.6	105	161	123.3	8.2	116.76
EurChf	10	1.312	1.125	1.436	1.31	0.062	1.2169
EurGbp	10	0.844	0.752	0.925	0.843	0.036	0.891
GbpJpy	10	145.7	102.7	174	145.5	10	130.98

Levels Date: 20-Jun-11

Source: Thomson Reuters



THOMSON REUTERS

MARKETS VIEW

Stock Indices	Last	% Ch 6M	% Ch 12M
MSCI World	1273.45	0%	14%
Dow Jones Ind.	11961.52	3%	14%
S&P 500	1267.64	1%	13%
Nasdaq 100	0	-2%	15%
Eurostoxx 50	2725.17	-6%	-1%
UK FTSE 100	5679.16	-6%	8%
Dax	7092.17	0%	14%
Cac 40	3775.66	-4%	2%
FT MIB	19871.68	-5%	-5%
Swiss SMI	6126.48	-7%	-5%
Nikkei 225	9351.4	-10%	-6%
Australia AORD	4551.1	-7%	-1%
HK Hang Seng	21695.26	-6%	7%
Shanghai Comp.	2642.8182	-8%	5%
Singapore StraitT.	3005.28	-4%	6%
India BSE30	17919.34	-11%	2%
Brazil Bovespa	0	-11%	-6%
Russia RTSI	1878.07	6%	33%

Levels Date: 20-Jun-11

Commodities	Last	% Ch 6M	% Ch 12M
Gold	1525.19	10%	21%
Silver	35.14	20%	83%
Brent DTD	114.42	22%	49%
WTI	94.93	6%	23%

Bonds	Last	% Ch 6M	% Ch 12M
5Y Euro	2.112	11%	32%
10Y Euro	2.937	-1%	8%
10Y US Treasury	2.926	-13%	-9%
30Y US Treasury	4.169	-6%	1%
10Y UK Gilt	3.181	-9%	-10%
10Y CH Govt Bond	1.661	-2%	3%

Money Markets	Last	% Ch 6M	% Ch 12M
US 6M Depo	0.3950	-14%	-47%
EUR 6M Depo	1.7520	40%	73%
GBP 6M Depo	1.1025	5%	8%
CHF 6M Depo	0.2417	1%	18%
JPY 6M Depo	0.3416	-2%	-23%

Source: Thomson Reuters

FX

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JULY, AUGUST, SEPTEMBER 2011

GMT London Time

July			
4 Mon	4:30am	GBP	Construction PMI
	6:00pm	NZD	NZIER Business Confidence
	9:30pm	AUD	Trade Balance
5 Tue	12:30am	AUD	Cash Rate
	12:30am	AUD	RBA Rate Statement
	4:30am	GBP	Services PMI
	10:00am	USD	ISM Non-Manufacturing PMI
6 Wed	8:30am	CAD	Building Permits m/m
	9:30pm	AUD	Employment Change
	9:30pm	AUD	Unemployment Rate
7 Thu	4:30am	GBP	Manufacturing Production m/m
	-	GBP	Asset Purchase Facility
	-	GBP	MPC Rate Statement
	7:00am	GBP	Official Bank Rate
	7:45am	EUR	Minimum Bid Rate
	8:15am	CAD	Housing Starts
	8:30am	EUR	ECB Press Conference
	8:30am	USD	Unemployment Claims
	10:00am	CAD	Ivey PMI
8 Fri	4:30am	GBP	PPI Input m/m
	7:00am	CAD	Employment Change
	7:00am	CAD	Unemployment Rate
10 Sun	9:30pm	AUD	Home Loans m/m
	10:00pm	CNY	CPI y/y
11 Mon	-	CNY	Trade Balance
	10:00am	CAD	BOC Business Outlook Survey
	6:45pm	NZD	CPI q/q
	-	JPY	Monetary Policy Statement
	-	JPY	Overnight Call Rate
12 Tue	-	JPY	BOJ Press Conference
	4:30am	GBP	CPI y/y
	8:30am	CAD	Trade Balance
	8:30am	USD	Trade Balance
13 Wed	4:30am	GBP	Claimant Count Change
	2:00pm	USD	FOMC Meeting Minutes
14 Thu	3:15am	CHF	Retail Sales y/y
	8:30am	USD	Core Retail Sales m/m
	8:30am	USD	PPI m/m
	8:30am	USD	Retail Sales m/m
	8:30am	USD	Unemployment Claims

15 Fri	8:30am	USD	Core CPI m/m
	9:55am	USD	Prelim UoM Consumer Sentiment
18 Mon	9:00am	USD	TIC Long-Term Purchases
	9:30pm	AUD	Monetary Policy Meeting Minutes
19 Tue	5:00am	EUR	German ZEW Economic Sentiment
	8:30am	USD	Building Permits
	9:00am	CAD	BOC Rate Statement
	9:00am	CAD	Overnight Rate
20 Wed	4:30am	GBP	MPC Meeting Minutes
	4:30am	GBP	Public Sector Net Borrowing
	9:30am	CAD	BOC Monetary Policy Report
	10:00am	USD	Existing Home Sales
	10:15am	CAD	BOC Press Conference
21 Thu	10:00pm	CNY	GDP q/y
	4:30am	GBP	Retail Sales m/m
	7:00am	CAD	Core CPI m/m
	8:30am	USD	Unemployment Claims
22 Fri	10:00am	USD	Philly Fed Manufacturing Index
	4:00am	EUR	German Ifo Business Climate
24 Sun	8:30am	CAD	Core Retail Sales m/m
	9:30pm	AUD	PPI q/q
26 Tue	-	GBP	Nationwide HPI m/m
	4:30am	GBP	Prelim GDP q/q
	10:00am	USD	CB Consumer Confidence
	10:00am	USD	New Home Sales
	9:00pm	NZD	NBNZ Business Confidence
27 Wed	9:30pm	AUD	CPI q/q
	5:30am	CHF	KOF Economic Barometer
	8:30am	USD	Core Durable Goods Orders m/m
	5:00pm	NZD	Official Cash Rate
28 Thu	5:00pm	NZD	RBNZ Rate Statement
	8:30am	USD	Unemployment Claims
	10:00am	USD	Pending Home Sales m/m
29 Fri	6:45pm	NZD	Building Consents m/m
	8:30am	CAD	GDP m/m
31 Sun	8:30am	USD	Advance GDP q/q
	9:00pm	CNY	Manufacturing PMI
August			
1 Mon	4:30am	GBP	Manufacturing PMI
	10:00am	USD	ISM Manufacturing PMI
	6:45pm	NZD	Labor Cost Index q/q

1 Mon	9:30pm	AUD	Building Approvals m/m
2 Tue	12:30am	AUD	Cash Rate
	12:30am	AUD	RBA Rate Statement
	-	GBP	Halifax HPI m/m
	4:30am	GBP	Construction PMI
	9:30pm	AUD	Retail Sales m/m
	9:30pm	AUD	Trade Balance
3 Wed	4:30am	GBP	Services PMI
	8:15am	USD	ADP Non-Farm Employment Change
	10:00am	USD	ISM Non-Manufacturing PMI
	6:45pm	NZD	Employment Change q/q
	6:45pm	NZD	Unemployment Rate
4 Thu	-	GBP	Asset Purchase Facility
	-	GBP	MPC Rate Statement
	7:00am	GBP	Official Bank Rate
	7:45am	EUR	Minimum Bid Rate
	8:30am	EUR	ECB Press Conference
	8:30am	USD	Unemployment Claims
	10:00am	CAD	Ivey PMI
	9:30pm	AUD	RBA Monetary Policy Statement
	-	JPY	Monetary Policy Statement
	-	JPY	Overnight Call Rate
5 Fri	-	JPY	BOJ Press Conference
	4:30am	GBP	PPI Input m/m
	7:00am	CAD	Employment Change
	7:00am	CAD	Unemployment Rate
	8:15am	CAD	Housing Starts
	8:30am	CAD	Building Permits m/m
	8:30am	USD	Non-Farm Employment Change
	8:30am	USD	Unemployment Rate
8 Mon	9:30pm	AUD	Home Loans m/m
9 Tue	4:30am	GBP	Manufacturing Production m/m
	2:15pm	USD	FOMC Statement
	2:15pm	USD	Federal Funds Rate
10 Wed	5:30am	GBP	BOE Gov King Speaks
	5:30am	GBP	BOE Inflation Report
	9:30pm	AUD	Employment Change
	9:30pm	AUD	Unemployment Rate
	10:00pm	CNY	CPI y/y
11 Thu	12:00am	CNY	Trade Balance
	8:30am	CAD	Trade Balance
	8:30am	USD	Trade Balance
	8:30am	USD	Unemployment Claims

11 Thu	6:45pm	NZD	Core Retail Sales q/q
12 Fri	3:15am	CHF	Retail Sales y/y
	8:30am	USD	Core Retail Sales m/m
	8:30am	USD	Retail Sales m/m
	9:55am	USD	Prelim UoM Consumer Sentiment
15 Mon	9:00am	USD	TIC Long-Term Purchases
	7:50pm	JPY	Prelim GDP q/q
	9:30pm	AUD	Monetary Policy Meeting Minutes
16 Tue	4:30am	GBP	CPI y/y
	-	GBP	BOE Inflation Letter
	8:30am	USD	Building Permits
17 Wed	4:30am	GBP	Claimant Count Change
	4:30am	GBP	MPC Meeting Minutes
	8:30am	USD	PPI m/m
	6:45pm	NZD	PPI Input q/q
18 Thu	4:30am	GBP	Retail Sales m/m
	8:30am	USD	Core CPI m/m
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	10:00am	USD	Existing Home Sales
	10:00am	USD	Philly Fed Manufacturing Index
19 Fri	4:30am	GBP	Public Sector Net Borrowing
	8:30am	CAD	Core Retail Sales m/m
22 Mon	7:00am	CAD	Core CPI m/m
	11:00pm	NZD	Inflation Expectations q/q
23 Tue	5:00am	EUR	German ZEW Economic Sentiment
	10:00am	USD	New Home Sales
24 Wed	-	GBP	Nationwide HPI m/m
	4:00am	EUR	German Ifo Business Climate
	5:00am	GBP	Inflation Report Hearings
	8:30am	USD	Core Durable Goods Orders m/m
	9:30pm	AUD	Private Capital Expenditure q/q
25 Thu	8:30am	USD	Unemployment Claims
26 Fri	4:30am	GBP	Revised GDP q/q
	8:30am	USD	Prelim GDP q/q
28 Sun	6:45pm	NZD	Building Consents m/m
29 Mon	5:30am	CHF	KOF Economic Barometer
	10:00am	USD	Pending Home Sales m/m
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30 Tue	10:00am	USD	CB Consumer Confidence
	2:00pm	USD	FOMC Meeting Minutes
	9:00pm	NZD	NBNZ Business Confidence
31 Wed	8:15am	USD	ADP Non-Farm Employment Change
	8:30am	CAD	GDP m/m

31 Wed	9:00pm	CNY	Manufacturing PMI
	9:30pm	AUD	Retail Sales m/m
September			
1 Thu	1:45am	CHF	GDP q/q
	4:30am	GBP	Manufacturing PMI
	8:30am	USD	Unemployment Claims
	10:00am	USD	ISM Manufacturing PMI
2 Fri	-	GBP	Halifax HPI m/m
	4:30am	GBP	Construction PMI
	8:30am	USD	Non-Farm Employment Change
	8:30am	USD	Unemployment Rate
5 Mon	4:30am	GBP	Services PMI
	10:00am	USD	ISM Non-Manufacturing PMI
6 Tue	12:30am	AUD	Cash Rate
	12:30am	AUD	RBA Rate Statement
	10:00am	CAD	Ivey PMI
	9:30pm	AUD	GDP q/q
	9:30pm	AUD	Home Loans m/m
	-	JPY	Monetary Policy Statement
	-	JPY	Overnight Call Rate
7 Wed	-	JPY	BOJ Press Conference
	4:30am	GBP	Manufacturing Production m/m
	8:15am	CAD	Housing Starts
	9:00am	CAD	BOC Rate Statement
	9:00am	CAD	Overnight Rate
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	7:00am	GBP	MPC Rate Statement
	7:00am	GBP	Official Bank Rate
	7:45am	EUR	Minimum Bid Rate
	8:30am	CAD	Building Permits m/m
	8:30am	CAD	Trade Balance
	8:30am	EUR	ECB Press Conference
	8:30am	USD	Trade Balance
	8:30am	USD	Unemployment Claims
9 Fri	4:30am	GBP	PPI Input m/m
	7:00am	CAD	Employment Change
	7:00am	CAD	Unemployment Rate
	9:55am	USD	Prelim UoM Consumer Sentiment
11 Sun	10:00pm	CNY	CPI y/y
12 Mon	12:00am	CNY	Trade Balance

13 Tue	4:30am	GBP	CPI y/y
	3:15am	CHF	Retail Sales y/y
14 Wed	4:30am	GBP	Claimant Count Change
	8:30am	USD	Core Retail Sales m/m
	8:30am	USD	PPI m/m
	8:30am	USD	Retail Sales m/m
	5:00pm	NZD	Official Cash Rate
	5:00pm	NZD	RBNZ Press Conference
	5:00pm	NZD	RBNZ Rate Statement
15 Thu	4:30am	GBP	Retail Sales m/m
	8:00am	CHF	Libor Rate
	8:00am	CHF	SNB Monetary Policy Assessment
	8:30am	USD	Core CPI m/m
	8:30am	USD	Unemployment Claims
16 Fri	10:00am	USD	Philly Fed Manufacturing Index
	9:00am	USD	TIC Long-Term Purchases
19 Mon	4:00am	EUR	German Ifo Business Climate
	9:30pm	AUD	Monetary Policy Meeting Minutes
20 Tue	4:30am	GBP	Public Sector Net Borrowing
	5:00am	EUR	German ZEW Economic Sentiment
	8:30am	USD	Building Permits
	2:15pm	USD	FOMC Statement
	2:15pm	USD	Federal Funds Rate
	6:45pm	NZD	Current Account
21 Wed	4:30am	GBP	MPC Meeting Minutes
	10:00am	USD	Existing Home Sales
	6:45pm	NZD	GDP q/q
22 Thu	7:00am	CAD	Core CPI m/m
	8:30am	USD	Unemployment Claims
23 Fri	8:30am	CAD	Core Retail Sales m/m
26 Mon	-	GBP	Nationwide HPI m/m
	10:00am	USD	New Home Sales
27 Tue	5:00am	CHF	KOF Economic Barometer
	10:30am	USD	CB Consumer Confidence
28 Wed	8:30am	USD	Core Durable Goods Orders m/m
	5:45pm	NZD	Building Consents m/m
29 Thu	8:30am	USD	Unemployment Claims
	10:00am	USD	Pending Home Sales m/m
	7:50pm	JPY	Tankan Manufacturing Index
	9:00pm	NZD	NBNZ Business Confidence
30 Fri	4:30am	GBP	Current Account
	8:30am	CAD	GDP m/m

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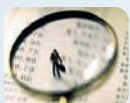
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