SG Capital Research
Global Market Insights

Research Note – Currency Analysis (B) – STRATEGY & PROP ANALYSIS (SP)

Currency Analysis (B)

- ## Coverage

- **GOLD**
- **DXY**
- **EUR/USD**
- **GBP/USD**
- **JPY/USD**
- **AUD/USD**

- **Attached, the Chart list & specific Charts (below). *We have selected charts that has some distinct characteristics*:**
- **Selected Currency have up to (3) Analytic Charts as Titled below**
  1. **MA / PATTERN/ OSCILLATOR Analysis**
  2. **Poly Trend Analysis (If Applicable)**
  3. **Correlation Ratio Analysis USD v/s SPX, GLD**
  4. **PEC Analysis. (If Applicable)**
  5. **Sentiments (if Extreme character)**
- **Appendix - OBJECTIVE , HISTORY of past Signals & POM Key Criteria**

SPX – " Special Situation"

- *Market is in Correction Mode as expected fueled by move in USD moving towards its BULLISH TOP*

- *Having proved its merit , POM 14 – CZ (1226-1255) as announced to accumulate HEDGES . POM 14 regime on SPX mandates " Fully Hedged Position" on Positions that were taken at POM 12 earlier at 1080*

- *POM's & its CZ areas are best places to make decision to achieve for most favorable Risk / Reward rather than participating in middle of the trend.*

- *Our final price target of this current Oscillation remain well in tact to the target @ 1125(as stated in our Previous Reports) . At 1125 we will cover our remaining HEDGES .*

- *And then beyond that look for Trigger POM 12 for NET LONG*

- *Current Alert – 11/22 – Triggered POM 13 @ 1189 . Our POM 13 call is Risk Management call (Usually completion of 1st ABC down into CZ) is Applicable mostly for positions taken at POM 14. Areas to Rebalance Beta & Net Exposures based on individual Portfolio Objectives). For us it mean partial Covering of Hedges on positions taken at POM 14 .*

- *Market having jumped the POM 13 – CZ (ice) needs to come back quickly into the CZ . IF NOT, it runs into the Risk of Running into our POM12 Target 1125. AND then will need quite a bit of force to go back above CZ 1195-1200 on rally attempt*

- *RISK MANAGEMNT - For Positions " Not in Sync with previous POM"s or its CZ with its entry or exits , Especially the NEW FRESH Overweight LONG Position, the best Risk management Stop could be @ 1178 (to cover all Risk of market volatility)*

- *For all details refer to our Monday's A # 1 MS release - SPX has been following the " Price Path" within POM"s and CZ. Correction has been as expected*

Alert – For E # 2 – Growth Equity

● **This Portfolio is currently HEDGED Under Risk Management – We announce this AM @ open to I close (½ Position on that SPX Hedge)**

● **The 2nd Half position will closed either when our Target 1125 SPX is reached or Close above 1200 (whichever comes first)**

• Objective

Focus is on the short term and Intermediate term turning points of the Currencies via Integrated Methodologies of POM's and PEC's overlay. It utilizes multiple input signal from PEC derived with ABCD Price projections, where D price point to be validated via Price Oscillation Model (POM) . POM's price & Quality volumes (PQV) , patterns conclusions is derived to overlay POM /PEC gives a Confluence Price Zone " around D Zone" (within +/- 1.5% variation). This is ACTIONABLE ZONE, on scaled in entry with stops if required on other side of confluence) with margin for volatility & Risk tolerance. This is supplementary Analytics to add value to RA/ RI Framework for Risk Management.

- **All CZ / PEC D / POM's – Marked on charts (in color) below has been Announced on Real time in our Previous Reports prior to Price shifts.**

  - **Stops always on other side of CZ @ value based on Portfolio's Objectives & Risk tolerance.**

  - **POM / PEC D Conclusions to be cross verified by other methods prior to final decision**

  - **For Maximum utilization of POM / PEC –D Process for Risk Management. *Refer to the Appendix below for guidelines on maximization of Market Observation***

- **In Some Charts, there may be possibility of 1- 2 days of delayed chart data due to processing and preparation time involved prior to release**

- **Currency – " Signals & Projections"**

  - **Trading & Investment Conclusions (update)**

 (2) Groups of Currencies below - (Refer to the Charts for CZ & PEC –D for ACTIONABLE AREAS)-
 (within +/- 1.5% variation) with stops around CZ- Confluence Zone for risk management

  - *PRICE PATH - Our Mid term Triggers are stated (below) However Risk management within Bullish / Bearish Trading moves around CZ to CZ are indicated on charts. Stop - Loss around these areas are critical for Risk Management & sudden volatility*

  - *GR – (1) – DXY, EURO & GBP -*

1. DXY **–**   *Triggered CZ – 71 -73 - Stop below 71*

2 EUR/USD **–**   *Triggered PEC D @ 1.45, still intact - Stop 1.49*

3. BGP/USD **–**   *Triggered. PEC D @ 1.63, still intact - Stop 1.69*

  - *GR – (2) - AUD & JPY –*

1. JPY/USD - *Trigger. PEC D   @ 76 / Stop 74.5*

   AUD/USD -   *Triggered. PEC D @ 1.09 still intact – Stop 1.11*

GR – (3) - GOLD

- ## STRATEGY – Insights

- Last Alert – 11/09 in B # Currency Report , We re – initiate the Trigger back @ 1785 – ALERT at the same price we were stopped out of our Hedges earlier . We rather protect our profits on position initiated at 1603 entry then chase the upside move on GLD which we are not sure . Dealing in probabilities is the nature of this business.

- As we had indicated, the move above 1785 would be false break upside (proved its merit) similar to Sept move from 1850 to 1950. Gold tends to extend in both directions.

- Earlier Alert – In our B # Currency Report dated 10/13 – GOLD Triggered POM14 when it reached in CZ – 1680 - 1740.(Mean CZ price 1710 , - 3 positions)   This is Risk Management signal for Hedging the positions (based on Bull Market Regime) For the position that was entered at 1603 – POM 13 - NET LONG on 9/26. Resulted in rally of 107 points . As Indicated in C # Commodity Report protection we were STOPPED out on Hedges @ 1785 was Triggered) for 3 – Position - 1/3rd each at 1680,1710,1740 @ Mean CZ- 1710 from 1603.

- Our Next Signal on the pullback to previous POM 13 to enter back based on SP's RA / RI risk management

- ➢ GOLD Signals are still within the norms of Bull market POM's for Investment conclusions, POM 14 is for partial Hedging based on Portfolio's objectives especially applicable to positions taken at POM 13 entry)

- Like any other Model, it is not perfect but Risk Management is the First objective (Generate Alpha @ 1/2 to 1/3 Market Risk from POM to POM – CZ 's as reference points of the Price oscillation).
- Focus   - POM's are better actionable areas for us to produce Highest Reward for the Risk where the " Back is against the Wall" as compared to entering positions in between the moves of POM

Currency – Insights

GOLD – Insights

- **On the Short term** – Since our Trigger POM 14 @ (1680-1740) it experienced immense volatility. Selling off immediately and bouncing back again . _We would not be surprised to see it Re test the POM 14 once again_

- It still appears the upside move does not have enough energy for meaningful ABC up to break CZ of POM 14 . We think some work needs to be done on downside back into 1600-1550 to test the previous POM 13 area.

- **On the Mid term**, The recent parabolic top in _Gold at 1900 was formed with Bullish Top_ by our Mathematical process , which suggest after the pull back (or nasty correction) . Gold should go back to test those highs again at 1950 . There are ways to negate this but indicators that we monitor for POM / CZ does not have evidence of it

- **On Longer term** - GOLD within the confines of Bull Market, POM Projection by our Mathematical _process has 2400 Target which is intact_ . Oscillation within the price moves are very healthy for next leg up only after re balancing the retracements
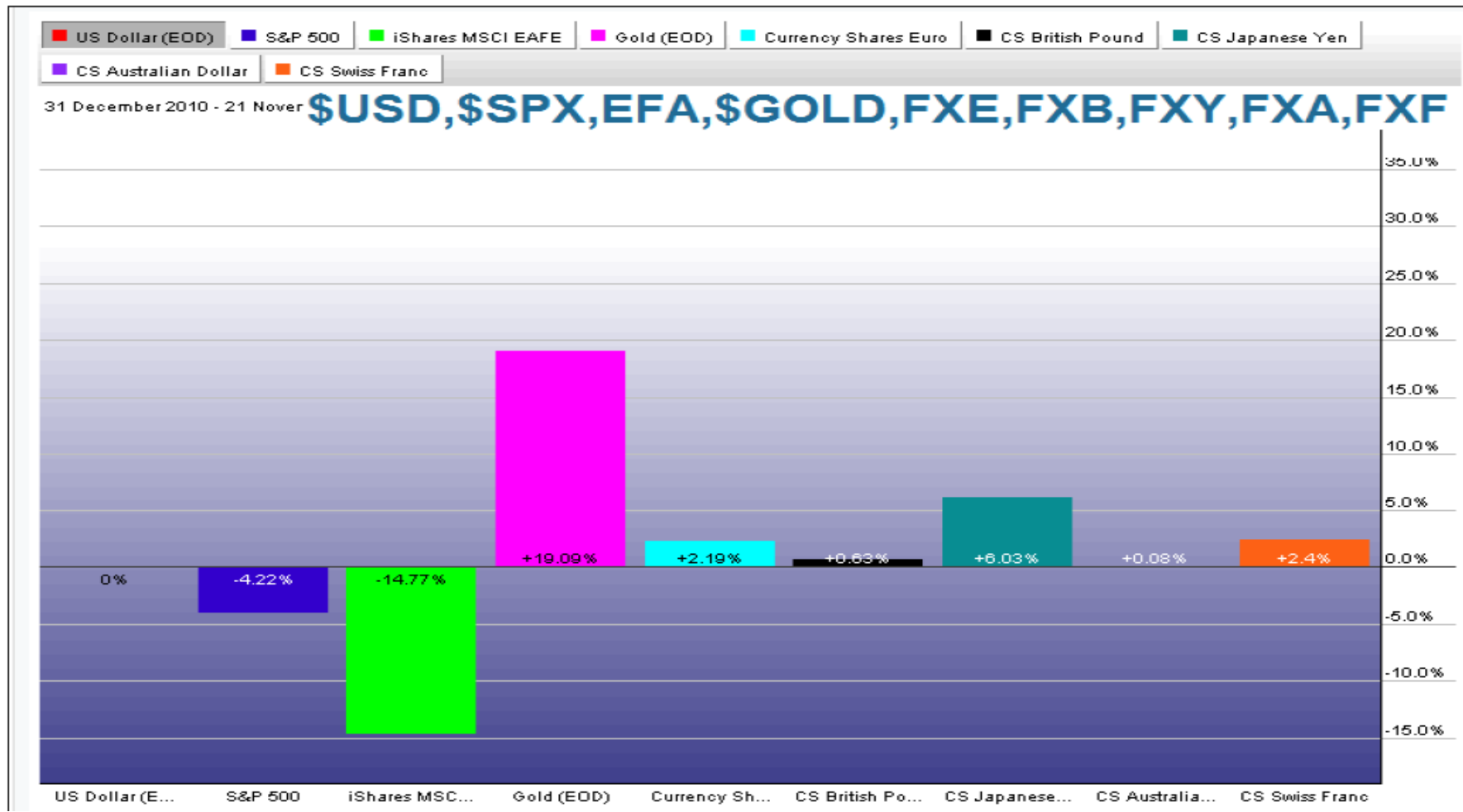
CURRENCY

USD is under its 2nd ABC up move towards the Bullish Top . This is energizing another panic in the market.

AOM – All one market theme is driven by King Dollar

• YTD - SPX, EFA, GOLD, Currency ETF's performance v/s USD

Since our last Report – We see due to decline in Dollar every instrument below has rallied on Ratio basis. In our Inter market Analysis Model Chart below shows Ratio Relative performance with respect to USD.

Just to indicate how US Portfolios & Foreign currency denominated EFA- Portfolios are Hedged via Currency ETF's & their relative performances .


$USD,$SPX,EFA,$GOLD,FXE,FXB,FXY,FXA,FXF

31 December 2010 - 21 Nover

Legend: ■ US Dollar (EOD) ■ S&P 500 ■ iShares MSCI EAFE ■ Gold (EOD) ■ Currency Shares Euro ■ CS British Pound ■ CS Japanese Yen ■ CS Australian Dollar ■ CS Swiss Franc

Values: 0% (US Dollar), -4.22% (S&P 500), -14.77% (iShares MSCI EAFE), +19.09% (Gold EOD), +2.19% (Currency Shares Euro), +0.63% (CS British Pound), +6.03% (CS Japanese Yen), +0.08% (CS Australian Dollar), +2.4% (CS Swiss Franc)

GOLD Analysis – = GOLD continuous contract.

The chart below reviews the DMA , Trend Analysis with Oscillator.

GOLD – Gave another false break beyond our POM 14 CZ and came right back down as expected . We think it requires quite bit of energy to stay above CZ & continue.

We think there will another attempt to test the upside into CZ – POM 14. Volatility does increase in the CZ Banging between the TOP HEAVY (POM 14) and BOTTOM HEAVY (POM 13). Consolidation. (notes within the chart)

The first rally of the bottom after the Crash was meaningful, we got 110 points out of it). POM 13 area below 1600-1550 is still bottom heavy still needs a test by this Method for better Risk Reward

Gold Futures   GC
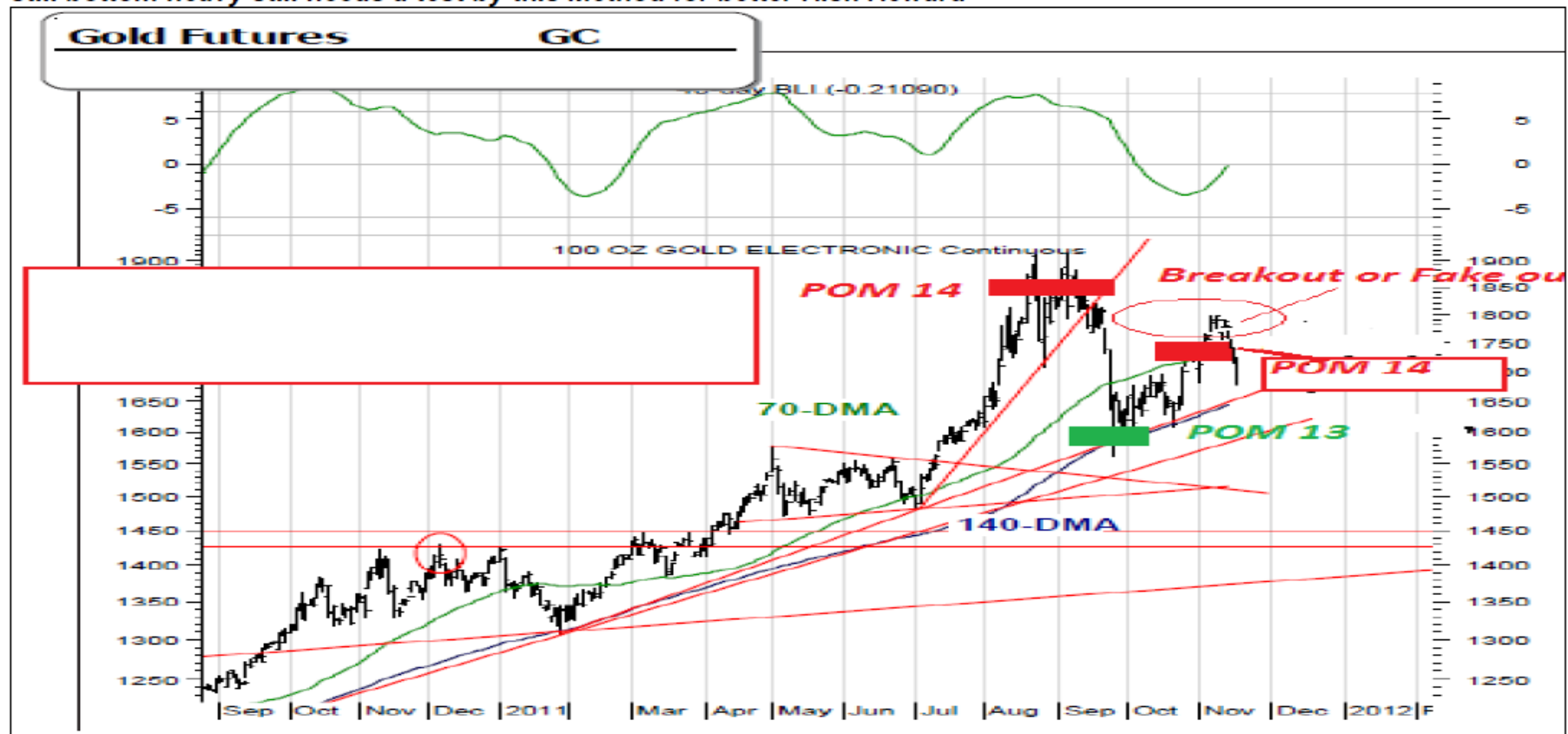
GOLD - PEC –D Analysis

GOLD @ 1770 - PEC –D as a 618 expansion & 786 level PROVED Its merit .

At the bottom - 786 & 618 Convergence very much coincided with POM 13.(1570) exact

GOLD - Pattern Analysis

The Wave Pattern which we showed in last commentary @ point " g" proved its merit and Gold dropped to 1670 before bouncing back. (refer notes within charts).

Wave Patterns lines up well for turns when the market internals numerical with the Mathematically the indicators line up as well.

GOLD - CZ Analysis

The false break over POM 14 proved its merit . However POM – RA/RI the focus is on POM 13 @ 1570 to POM 14 as indicated . Rest is all noise and fights between Bulls & Bears

CCI is breaking down as well. **We think there will another attempt to test the upside into CZ – POM 14**

- # EXTREAME Sentiment Analysis (3rd Party Data)

- ## SENTIMENTS - GOLD – PUBLIC OPINION

  Comments – NO EXTREMES

  In spite of huge rally still sentiments are not extremes – Suggests after retracement, the rally has more to go

- ## SENTIMENTS - RYDEX CASH FLOW

  Comments – NO EXTREMES

  In spite of huge rally Rydex Flow has not changed much – Suggests after retracement, the rally has more to go
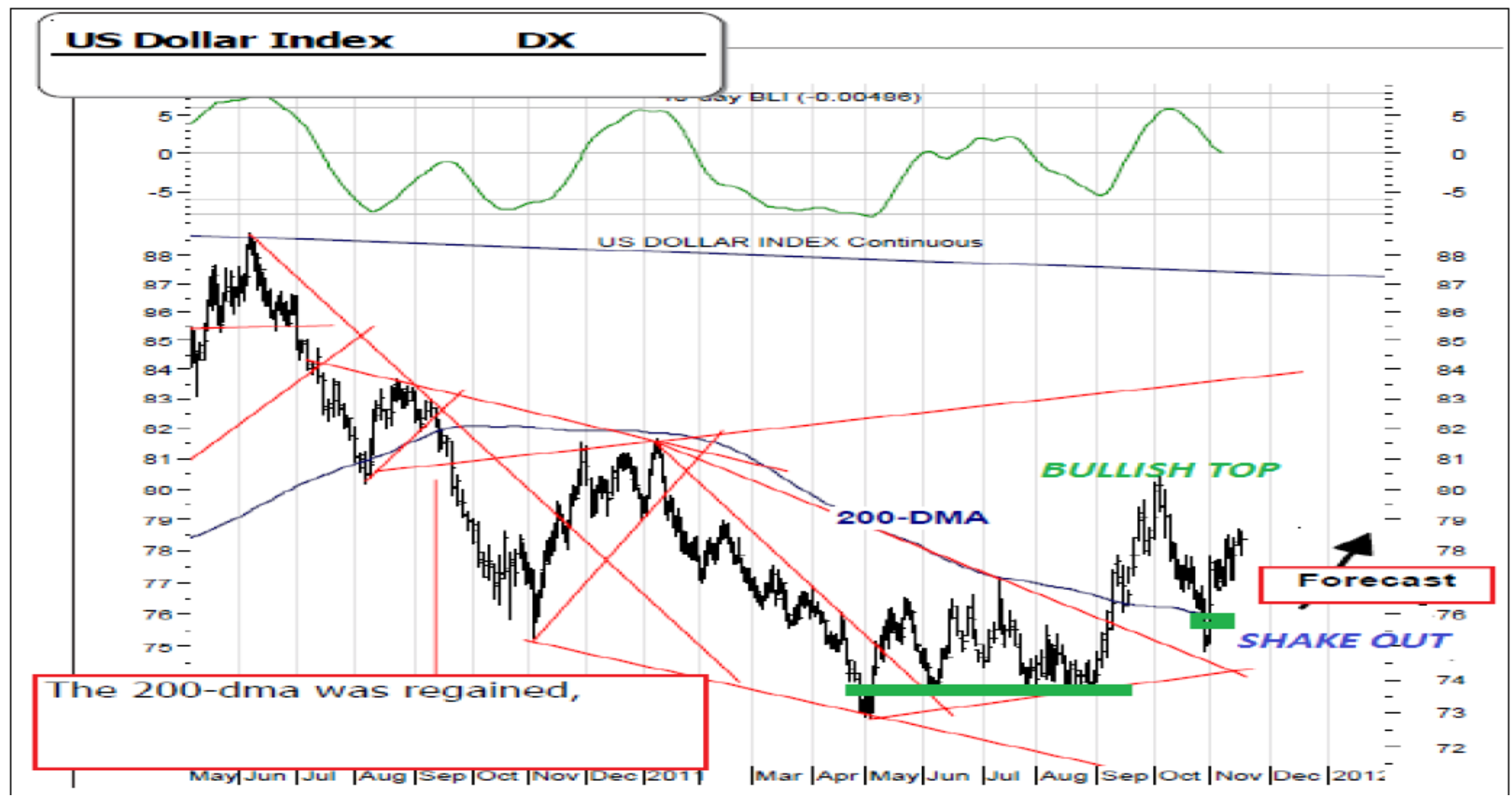
- ## SENTIMENTS - GOLD – COT

  Comments – NO EXTREMES

DXY - with Pattern & Oscillator Analysis

DXY is in in rally mode towards the Bullish Top . (after a massive shake out move) . This rally has put lot of pressure in the market past 2 weeks and damaged the markets as evident from our SPX signal @ PKM 14

In very Short term, currently DXY may take a breather and this may give SPX some chance to rally soon from our POM 13 .

DXY finished its ABC up 80 . USD Trigger @ 72-73 (stated in B # Currency Report. Subsequently in our C # REPORT 09/07

US Dollar Index   DX

US DOLLAR INDEX Continuous

BULLISH TOP

200-DMA

Forecast

SHAKE OUT

The 200-dma was regained,

DXY - with Pattern & Oscillator Analysis

Declining Bullish Wedge is powerful . We suspect that the long term will see the Dollar Index goes towards the under poly tern line (in red) . DXY will move higher on flight to safely once the market realizes there is no escape from the debt crisis.

Weekly Cash U.S. Dollar Index

Decling bearish wedge initiated under poy Trend has tremendous elastic effect back t poly Trend

2 - USD – PEC D

Short term another retracement and then next target could go to 83 .

Earlier USD - pattern at the 80 PEC –D

Longer term we think the dollar will remain strong versus the other currencies.

- ## CORRELATION RATIO ANALYSIS

Inter market Analysis – USD v/s SPX

Inverse Correlation to continue

Comments – NO CHNAGE

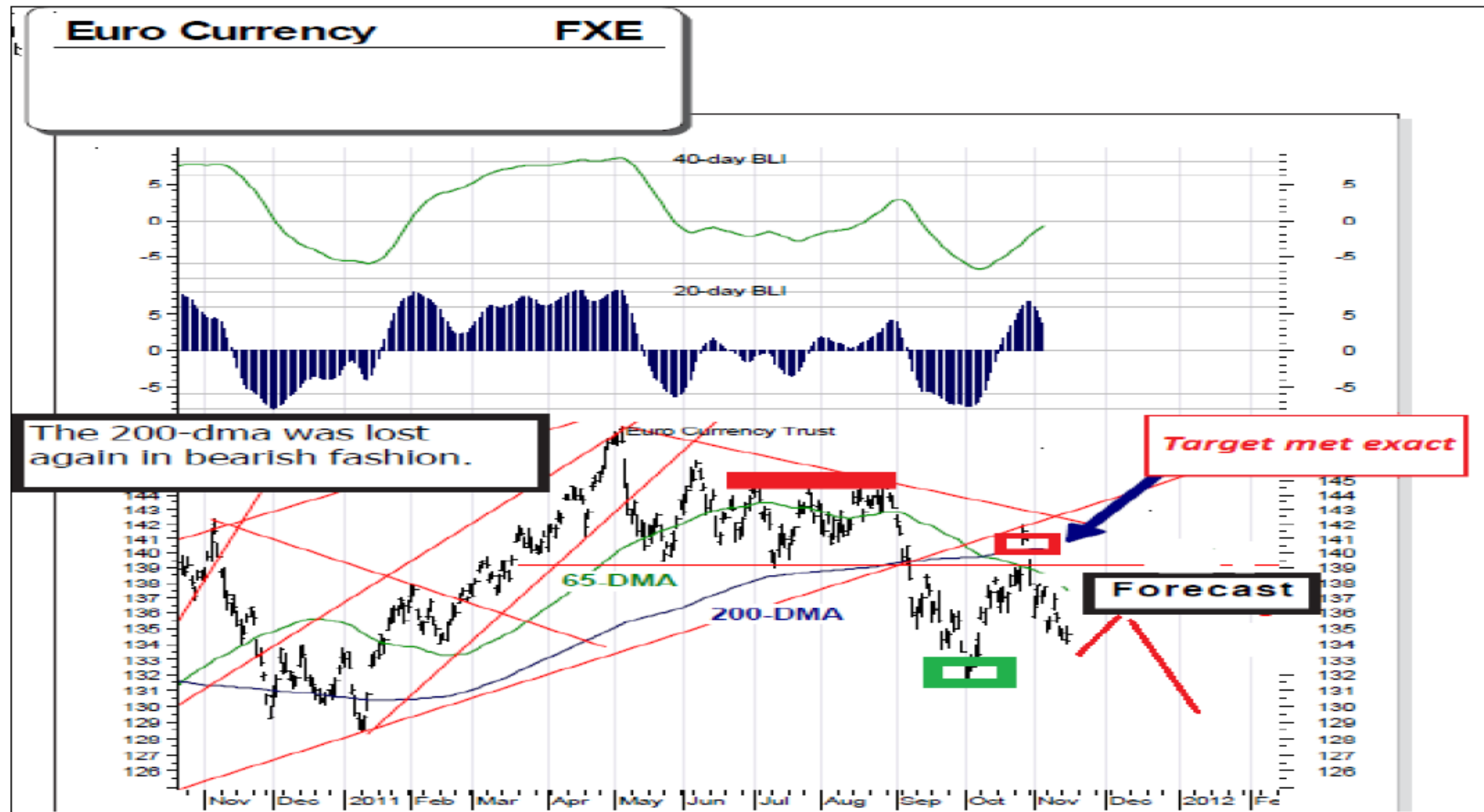## Inter market Analysis – USD v/s GOLD

Inverse Correlation to continue

Comments – NO CHANGE

EURO / USD - with Pattern & Oscillator Analysis

Our Target towards 1.39 was met & slightly exceeded to 1.41 and EURO was sold of soon after that.

Now we should see another bounce from 1.335-1.325 , once the bounce is complete it has a texture to create a next ABC down

Euro Currency   FXE

40-day BLI

20-day BLI

The 200-dma was lost again in bearish fashion.

Target met exact

Euro Currency Trust

65-DMA

200-DMA

Forecast

EURO / USD – PEC Analysis - Intermediate term

Bounce from 1.335-1.325 . The long-term weekly chart in the Euro/US Dollar is showing that prices are poised to go lower

By PEC- D Method 618 Price projection for bounce is 1.41 EXACT & then was sold off.

Our Main PEC –D Trigger of 1.45 .Stop above 1.49, for risks management - The distribution in Euro along our CZ resulted in massive mark down on Trigger from debt crises will continue

3 - GBP / USD – PEC Analysis - Intermediate term –

Although on Short term we expect a bounce in GBP, the Mid term charts has had three lower highs, 618/786 for lower levels.

By PEC- D Method 618 Price projection for bounce is 1.61 (Exact)

Our Main PEC –D Trigger of 1.63 .Stop above 1.69, for risks management.

GBP/USD FOREX   WEEKLY

YEN / USD - PEC Analysis

JPY has initiated the move after BOJ intervention with Sign of Strength. It was ready to move regardless. Earlier it made new lows into our CZ and got strength. The odds were in favor of a rally.

Earlier YEN / USD spiked below 76 with new lows, but they didn't stay there very long. @ 76 Trigger good entry point (as indicated in Green). Stops below the lows 74.5 for risks management is still in tact.

USD/JPY DAILY FOREX
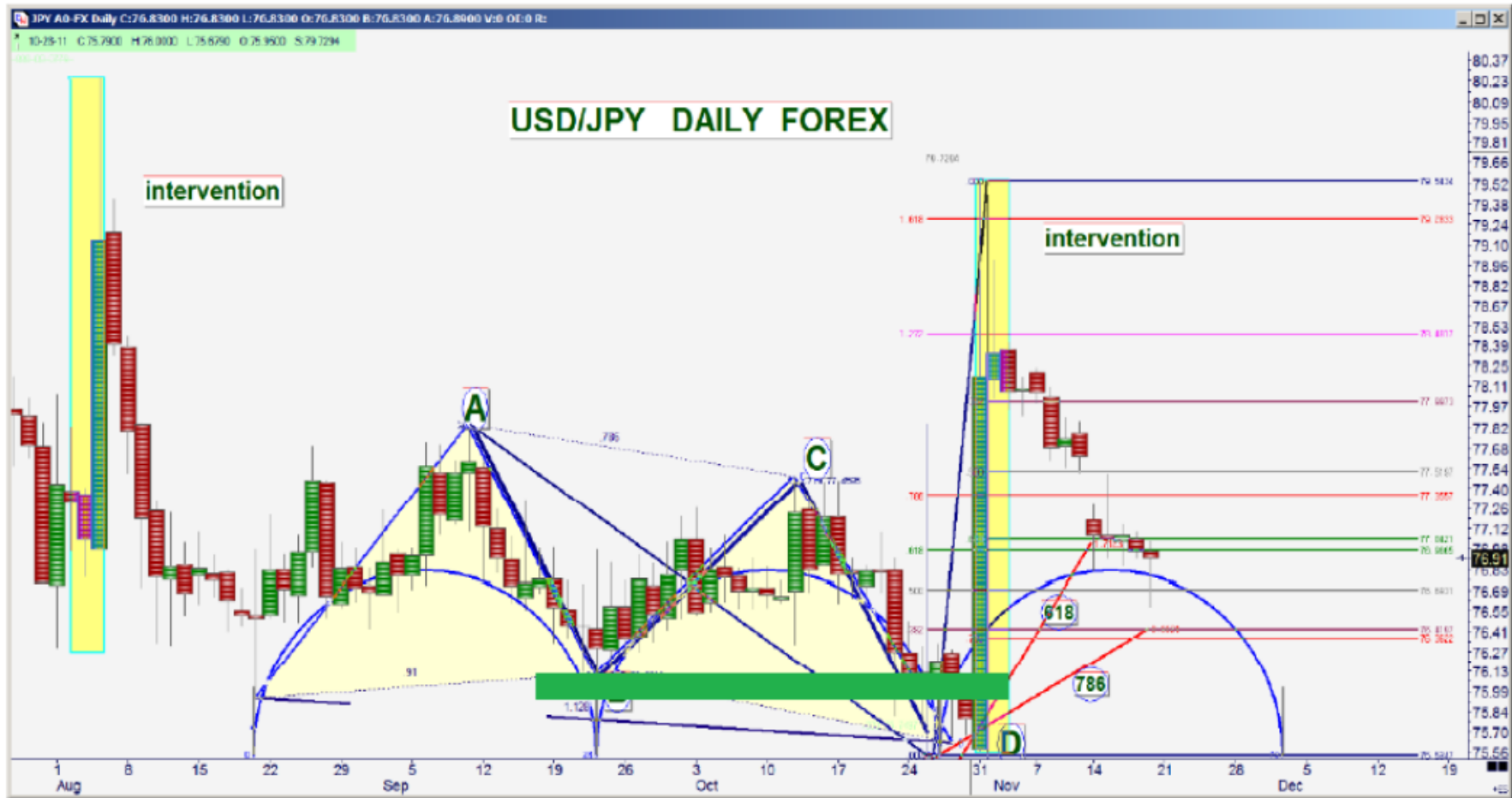
AUD/USD – Poly Trend & Osc Analysis

AUD topped out at 1.07 @ Bearish Wedge trend line as indicated in last Report and decline massively.   It could target the Top of Poly Trend @ 97.5

AUD -   5/10 Trigger 1.09 (in red) , forming long term top. Stops above 1.11 for risks management.

AUD/USD - PEC –D Analysis

No PEC –D yet but high probability 786/618 Should come in at 97 . We will wait and see.

Earlier - PEC –D Pattern was completed @ 618 /786 suggests the bounce might be over @ 1.07 <u>EXACT</u> Proved it merit

Appendix

➤ *Key Points for Full utilization of SP- Reports*

- ***Maximum Utilization of various POM's , CZ's & ABC's – for Risk Management & full enhancements on CZ pricing & CZ-PQV Timeliness***

- ➤ *At Top down Level* – *Triggers around POM's -Mid term & CZ's - Short term – (CZ's happens in between the POM's) . Critical component for Clean execution is to maintain ongoing updated data base spreadsheet of CZ's Pre announced in SP releases prior to price shifts. These inputs when Computerized Daily Monitoring, Triggers, Timely PQV validations, Price projections Alerts on real time should warn in timely manner to take action. .*

- ➤ *Rebalancing Pre Planned procedure at Triggers – " Rebalancing % of Overall Position Sizing" , Beta & , Net Exposures sizing depending on each Portfolio's Objective & Risks Tolerances for either Recycling of Capital or Fresh capital.*

- ➤ *Key points for Risk Management*

- ➤ *Hard Stops around CZ's*
- ➤ *STOP SELL- " early warning Alerts" in fast moving markets, Over night Day / Night (IST) time delay Risks.*
- ➤ *Cross verification by Other Methods*
     Computerized Daily Monitoring, CZ Triggers, Timely PQV validations

- ➤ ***2. CZ – Tracking***

  - ➤ *Programing - "Time/ Price Displacement, Supply / demand Activity Bar Analysis" –*

  - *At "Institutional Grade - Price , Volume with Time Integration*
  - *Supply / Demand Activity bar Analysis – Real time.*
  - *Candlestick – Price displacement Algo Programing experience at CZ Validation for Triggers*
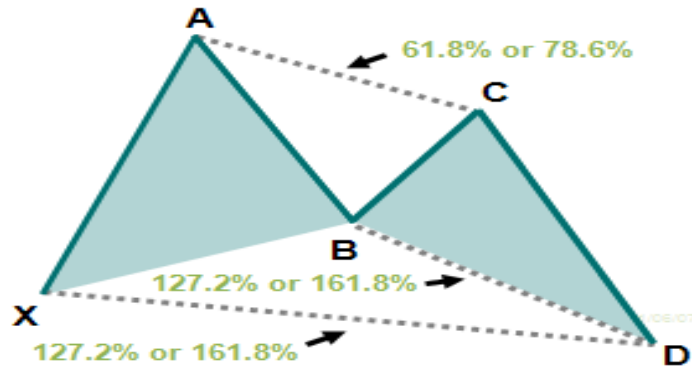
Pythagoras Expansion / Contraction – (PEC) Model

- PEC Model is a 2th Derivative Timing Tool utilized on core currencies which identifies the turning point, for Tops and Bottoms on "Short & Intermediate term" Trend in the currency market.

- Methodology is based on Mathematical Pattern Recognition with Symmetrical Pythagoras Triangular expansion and contraction (PEC) in concert with Price Oscillation (POM). This has a high probability for greater accuracy on Price projections at confluence when Integrated together.

- Once our POM analysis is complete, it will overlay PEC. The input signals are from tracking rolling Arithmetic Numerical series of Regression utilizing Fibonacci to Identify Triangular patterns of Expansion / Contraction. Triangular pattern completes at the convergence of 2 separate Fibonacci extension levels and overlay Price Oscillation Model.

- Since the Currency has 2 dimensional pairs, PEC is critical to analyze with 2x2 Fibonacci steams to achieve confluence point D coinciding with POM

PYTHAGORAS EXPANSION / CONTRACTION –(PEC) Model

The output signal of ABCD price moves preceded by a swing high or low (XA) generates projection point D, which is actionable point derived from 2 connecting triangles with convergence ratio. As with all geometric patterns, a Buy or Sell signal occurs as the pattern completes at point D

Buy Pattern (bullish)

Sell Pattern (bearish)