



Forex Outlook October 2012

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Introduction

Welcome to October monthly report from [Forex Crunch](#). September was a very stormy month that saw big events and movements with the announcement of QE3 being central. October also promises quite a bit of action as decision making becomes more urgent in Europe. For the US dollar it should also be exciting also in the aftermath of QE3. What's next for the Fed? In addition, the upcoming US elections will also have an impact and have a dedicated chapter.

Specific currency outlooks follow. Each currency outlook consists of two parts: a fundamental overview and a high time-frame technical analysis. In addition, the relative strength index tries to predict how major currencies will rank during October. A timetable of key events and some extra additional notes for forex traders end the report.

As always, feedback is more than welcome. I'd love to hear your comments at yohay@forexcrunch.com. The plan is to continue with monthly reports.

Disclaimer

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Global Themes

Greek Crisis: Systemic Can Kicking

Endless negotiations between the IMF / EU / ECB troika and the Greek government are expected to conclude during October. Or are they?

A lot of can kicking has been done over the last few months, and this exercise could continue once again.

A Precedent is Dangerous

It remains unclear what Germany wants: Chancellor Angela Merkel is playing the good cop, repeating the message that she wants Greece in the euro-zone. At the same time, finance minister [Wolfgang Schäuble returned to his old passive aggressive mode](#).

Merkel has reportedly leaned towards letting go of the “bottomless pit” as her finance minister once said, and then totally changed her mind and is ready to aid Greece at all costs.

Greece’s share in the euro-zone’s GDP is minor, and banks are much more prepared than 15 months ago, [when the debt restructuring idea was initially announced](#). However, the precedent of a member leaving the currency union opens the door for other countries to leave. A Spanish exit for example, would already severely endanger German banks and the German economy.

The current level of trust in the EU’s announcements is low. So, if Greece leaves and leaders bring forward a united message that this is a unique case, many will ignore such a statement in disbelief.

Why Not in October

- **Previous can kicking:** On August 20th, Greece had a bond payment to the ECB that it didn’t have the money to pay. What happened is that the ECB bended its ruled, lent money to Greek banks, and these banks bought 3 month Greek bills that the Greek government auctioned just for them. The banks then used these bills as collateral. The Greek government used the

money to pay the ECB and to avoid a default. This [revolving door trick](#) seemed to have worked well, and might be copied once again.

- **Current Can Kicking:** During September, the troika took its time Greece, entering and exiting negotiations and not rushing to declare deadlines. There is a Eurogroup meeting on October 8th, and an EU summit on October 18-19th. This doesn't necessitate decision making: Greece could be taken off the official agenda until negotiations materialize. This could be pushed back as far as leaders want to.
- **Juncker:** Another reason to believe that the Greek exit will not happen now is what the head of the Eurogroup, Jean-Claude Juncker said: he doesn't believe that Greece will leave the zone [at the end of autumn](#) and probably not afterwards either. October is at the beginning of the autumn.
- **US elections:** There were unconfirmed reports that Obama doesn't want a major economic shock from Europe before the US Presidential Elections on November 6th. Most if not all European leaders, from all parties, would prefer seeing Obama rather than Romney in the White House. It's unclear what role the US has in the Greek crisis, but it is clear that negotiations are endless.

What is the solution?

Greece says it only wants more time and not more money. As time is money, this claim is somewhat awkward. Nevertheless, many European countries and the German opposition have adopted this approach, and officially seek to slightly loosen the conditions.

The troika wants Greece to make more efforts in balancing the budget, hopefully reaching a primary surplus in 2013 – wishful thinking. So far, the measures that Greece took just worsened the economic situation that can be better described as a depression. The various Greek governments also had their share in the situation.

The prescription, as always, is more austerity. It's quite hard to understand how failed solutions are adopted over and over again by the Greek government and by the troika.

Greek Anger

The Greek public doesn't like it at all. Protests in Athens resumed after a relatively calm period. After a bitter election campaign in June, center right, pro austerity New Democracy [won the elections](#) and continued taking more austerity measures. In the meantime, this party and the center left socialist PASOK party continue losing ground in the polls.

The main opposition party, SYRIZA, led by Alexis Tsipras, is gaining traction. So is the neo-Nazi Golden Dawn party, which was almost erased in 2009 and could now win the third place.

No new elections are planned in Greece, and the current three party coalition politicians would not want to risk losing their seats. However, if the troika goes too far, either PASOK or the Democratic Left parties could decide to quit the government and to say enough is enough.

Such a scenario isn't likely in October: the troika and the Greek government are likely to continue taking their time, without rocking the boat too much – the troika isn't expected to make impossible demands, but also isn't likely to compromise on soft measures.

If we do get a surprise breakdown in negotiations and a Greek exit of the euro-zone, [here is how to trade the Grexit with EUR/USD](#).

Spanish Flames

As [highlighted in September's outlook](#), the tensions between Catalonia and Spain significantly worsened. The independence aspirations of the rich region joined Spain's endless issues.

Nevertheless, Spain hasn't officially asked for a bailout from the EU, even after the [ECB prepared its OMT program especially for Spain](#). Without a Spanish aid

request, the ECB will not buy Spanish bonds, and the Spain's debt crisis will intensify. Will it happen in October? There are better chances now.

Why hasn't Spain asked for a bailout?

- **Improving market conditions:** Since Draghi said he would “everything to save the euro”, and especially after the OMT was presented in early September, yields on Spanish bonds, both the OMT range of 1-3 years and also at longer maturities (including the benchmark 10 year bonds) have fallen. Spain [managed to raise money at the markets at more favorable rates](#). Lower rates mean less urgency to ask for aid.
- **Regional elections:** Spanish PM Mariano Rajoy is from the northwestern region of Galicia. His ruling PP party currently controls the region, but it isn't doing so well in the polls towards the elections on October 21st. [Rajoy is reportedly delaying the request until after the elections](#), in order to increase the chances of victory.
- **Understanding the conditions:** This is the official stance of the Spanish government, and it makes a lot of sense: Spain doesn't want to submit a request and eventually finding itself with the “Men in Black”, aka the troika that will add even more cuts to the current austerity policy. If conditions are pre-negotiated, it will be easier to swallow for both the government and the public.
- **Dealing with one issue at a time:** Rajoy made a U-turn in policy by raising the VAT: the medium level was upped from 8% to 10% and the higher one from 18% to 21%. In addition, many products moved to the higher level, making the jump 13%. Together with other cuts, this caused outrage that attracted many people to the streets of Madrid. Asking for a bailout is another policy shift and the public outrage could be too much. With the situation in Catalonia also very tense, Rajoy might prefer to wait with the bad news to a more convenient time.
- **German calculations:** German finance minister Schäuble surprised by discouraging Spain to take a bailout while France, other countries and the markets do expect to see such a move. According to some reports,

Germany doesn't want to bring the actual usage of the ESM with the Spanish bailout to the parliament, as the topic of bailouts is sensitive also in Germany.

Why could Spain ask for aid in late October? Basically, all the issues that caused a delay would be removed.

- Market conditions will become less favorable for Spain – they are gradually worsening.
- Internal elections will be over
- Background negotiations between Spain and EU peers will have materialized.
- The Spanish public will be ready.
- Germany will be ready.

The main thing to watch is Spanish yields: if they soar once again, Spain will make a move sooner than later. Making a move under pressure means less favorable conditions, but this is what happened with other countries as well.

Focus on Catalonia

Catalonia's national day ("Diada") on September 11th attracted an audience of between half a million to 2 million people, in a region of around 7.5 million. No matter who you believe, the call for independence was loud and clear.

Catalonia's president Artur Mas, upped his rhetoric which was quite unclear. He went to Madrid to meet Rajoy, and [received a clear NO for a better fiscal pact](#). Catalans currently pay taxes to the Spanish government, which redistributes the money. Not all the money that Catalans pay returns to the region. While the exact fiscal deficit figures are disputed, it is clear that if Catalonia would have collected its own taxes and paid Spain only for the services it receives, it would not have found itself asking for aid from the central government.

The idea of collecting the taxes isn't a precedent: this is the deal that the Basque Country and Navarre (also partially Basque) already have. Politicians in the Basque

Country also raised the old demands for independence after seeing Catalonia's awakening. This will be a heated topic in the regional elections there.

Back to Catalonia: When Mas returned to Barcelona after receiving a rejection from Rajoy, thousands awaited him with independence flags. The next move was to bring forward regional elections and to hold them on November 25th – a move that was approved by a vast majority in the Barcelona based parliament.

This way, his ruling CiU party asks for a mandate to go ahead with a referendum for independence, a move that Madrid clearly objects. The Catalan parliament also approved another motion regarding this referendum.

Apart from the Spanish rejection, also the Spanish King called for unity and angered many Catalans. Even worse, scary voices from the past have also been heard: [an ex general threatened military intervention to crush Catalan independence](#). Spain emerged from Franco's dictatorship and switched to a democratic regime in the late 70s, and democracy is still somewhat fragile.

It is quite surprising that Rajoy didn't calm down Catalonia's aspirations by opening the door to endless negotiations for a new fiscal pact. Such negotiations would let time calm down everybody and perhaps he would be able to concede some ground when the economic situation improves.

Taking the time with the bailout allows Spain to raise money in favorable terms so far. Why not apply this policy in internal matters?

The dollar in the QE-Infinity Era

[Ben Bernanke finally announced QE3](#). Given the new style of the program, an open ended one, some call it QE-infinity. The Fed will create money to buy Mortgage Based Securities for as long as needed.

While it is hard to make the connection between unemployment and dollar printing, the markets expected this move. The result was some kind of "sell the fact" effect afterwards. Where is the dollar headed now, as elections approach?

The Fed has another rate meeting towards the end of October, but no press conference is planned. After the big announcement in September, Bernanke isn't likely to announce anything new, especially as the elections are right behind the corner.

Markets will be looking for hints towards decisions at the end of the year, when the current phase of Operation Twist ends, and when the intense discussions regarding the fiscal cliff reach "money time". The fiscal cliff negotiations will happen only after the elections, but the Fed might still hint if it plans to extend its easing programs or not.

This depends on data that will be released during October, and especially the Non-Farm Payrolls. Figures published in September were somewhat mixed:

- Jobless claims slid back: After reaching higher ground, claims slid to around 370K.
- Trade balance deficit falls: the recent reports of \$41.9 billion and \$42 billion are the lowest since 2010. While it doesn't bode well for global growth, it is better for the greenback.
- Retail Sales rose again: the rise of 0.9% in sales and 0.8% in core sales exceeded expectations. This goes hand in hand with a rising consumer confidence: 78.3 points according to the University of Michigan and 70.3 according to CB.
- On the negative side, we have a plunge of 13.2% in durable goods orders and a [downwards revision of Q2 growth](#) to only 1.3% (annualized).
- Purchasing managers indicators improved, with [manufacturing returning to growth territory](#) and services rising ([despite a slide in the employment component](#)).

What does the Fed care about?

[In the press conference](#), Bernanke provided two interesting notes to look forward to:

1. **The unemployment rate doesn't matter:** It might matter for politics, but the Fed is looking at the bigger picture, and specifically at the participation rate. If the unemployment rate falls with the participation rate, this is not the desired outcome – the Fed wants more workers – more economic activity.
2. **Wealth effect:** QE1 was intended to lower long term interest rates. QE2 was triggered by the fear of deflation. QE3 (or infinity) aspires to create a wealth effect: higher stock prices and higher home prices are supposed to make Americans more confident, and cause them to spend, thus stirring the economy. The saying that “Bernanke works for the stock market” looks more real after this statement. So, it is important to follow stocks and consumer spending.

US Elections and the Dollar

October is a critical month for the US Presidential Elections. In general, Obama can lose the presidency because of the state of the economy, although it is debatable how much he is to blame. However, challenger Romney isn't as charismatic as Obama and appeals to less Americans than the president.

Now, the question is: how do the elections affect the dollar?

What's more important than the person in the White House is the overall picture: if the president has control over both the Senate and the House, there is a better chance to do something. [As we've seen in the past year and a half](#), a Republican House and a Democratic Senate and White House didn't work well together.

During October, it will be hard to get the full picture through the polls. In addition, there is wide notion that no change will be seen in the chambers.

The polls can predict the situation regarding the presidency. Generally speaking, markets prefer a Republican in the White House, as such a president would be more pro-market than a Democrat one. History shows a mixed record with presidents on both sides, but the short term reactions to debates and polls shift currencies, and that's what matters for now.

So, a higher chance of Obama winning will have a negative impact on stock markets and a positive effect on the US dollar. Better prospects for Romney will boost stock markets and weaken the dollar.

Looking at presidents in the near and distant past, [there is clear correlation between the party and the state of the dollar](#): the dollar performs better under democrats than under Republicans. This is valid when comparing Obama and his predecessor George W. Bush. But yet again, in the scope of the polls, the immediate market reaction will be different.

So, significant polls favoring Romney could weaken the dollar, while those favoring Obama will strengthen it.

Currency Outlooks

This section consists of a fundamental country specific outlook and a high time frame technical analysis for each currency against the US dollar. The situation in the US has already been discussed, so the first part concerning the US dollar is only technical, referring to the US Dollar Index. Also for Europe, see the in-depth fundamental coverage for more.

- All the charts are weekly charts.
- A description on the lines follows each section.
- For shorter term outlooks, please follow the weekly outlooks on Forex Crunch, linked in every section.
- If you prefer to view the charts on a web page, just click on the image.

US Dollar Index – Breaks Below Downtrend Channel



During September, the US Dollar Index lost the wide uptrend channel that accompanied it since the middle of 2011. After the breakdown, the index recovered gradually, and is now facing resistance.

Lines

89.62 is the post financial crisis high and is the final frontier on top. 88.70 is another peak, seen in May 2010, when the Greece received the first bailout.

86.87 is a minor line, serving twice as resistance in the early stages of the crisis. 85 is a round number that provided some support when the index was trading at a high level during 2010.

83.68 was the peak of an upwards move in the middle of 2010, before QE2 became reality. The line was challenged in August, but the index couldn't settle above this line. 81.80 served as support in 2010 and as resistance in early 2012 and now returns to working as resistance.

81.12 provided support in June 2012 and August 2012. It also had a minor role as resistance in the past. Above the round number of 80, 80.23 is another important

support line that was tackled twice in the spring of 2012, serving as the top border of a tighter range. During October, this line will stand to a test.

The bottom border of this range is 78.59, which was a cushion in April and also in January. This line worked perfectly well during September 2012 and will be tested if the index resumes its downfall. 77.50 is the next big support line. It worked as both support and resistance in 2009.

76 capped the long range trading of this index in 2011 and is strong support. 73.50 was the bottom border of that range.

For the major market movers, see the [Forex Weekly Outlook](#).

Euro – Recession Looks Deeper in the Core

Outside the countries that are in the limelight due to the crisis, the picture isn't encouraging. This can be clearly seen in PMIs and business sentiment indicators.

Without any GDP releases in October, these major figures will have a relatively strong impact outside the nonstop debt crisis news.

France, Europe's second largest economy, has seen its [purchasing managers' indices plunge](#). Manufacturing took a plunge from 46 to 42.7 points, indicating a faster contraction of activity.

These levels haven't been seen since the peak of the crisis. Also the services sector, that was doing OK so far, saw a free fall from 49.2 to 45 points – from almost break even to significant contraction.

In addition, there is growing discontent about the government's policy: François Hollande rejected austerity but is now finding himself doing it in his own style. The proposed budget for 2013 and the accompanying measures triggered some public anger.

PMI numbers are forward looking figures: if they are below 50 for a long time, this implies recession. France has seen flat GDP for three quarters. This is not an official recession, but this is not enough, given the fact that France carries a significant burden in aiding other countries.

Germany's PMIs are better than France: 47.4 in manufacturing and 49.7 in services. The manufacturing sector saw a rebound from multiple year lows, but is still in contraction. The services sector is not showing convincing growth.

The German business sentiment indicators remain in negative ground as well: ZEW has improved, but only to -18.2 points. The IFO figure fell for a third consecutive month, and reached 101.4 points.

Also Italy that has currently moved away from the spotlight is not doing well. The euro-zone's third largest country is not suffering flat growth or a mild recession but from a [hard recession](#). High contraction rates each quarter (-0.7% and -0.8%) plus continuing drops in retail sales and industrial production weigh on the country.

Italy continues to hide behind Spain. A solution for Spain will make things easier for Italy, while a worsening situation in Spain makes things harder for Italy.

So, if investing in the euro is like investing in the core countries, the value is certainly dropping.

EUR/USD Technical Outlook



The positive trend continued and the pair broke above the downtrend channel. It also broke above the all-important 1.30 line. However, this didn't last and the pair returned to lower ground.

Looking at the bigger picture, euro/dollar is still in the wide downtrend channel that began just before the financial crisis.

Lines

The 2011 peak of 1.4940 is a significant line as well on the upside. 1.4282 was the peak of the surge in November 2010.

The swing low of 1.3838 seen in mid-2010 was also of important at the beginning of 2010 as a cap and as a separator back in 2008. 1.34 is the top border of the sideways range and remains strong despite a temporary breach early in the year.

The round number of 1.30 is not only a psychological line but also strong resistance. It was strong support and its break triggered a big fall. The break above this line didn't last too long and the recent top of 1.3170 isn't important yet.

1.2587 is now a pivotal line that was seen in August and served as a stepping stone in September. It provided support during 2010. The first post crisis bottom at 1.2330 is now left behind after a struggle. It worked well as support. Despite being an old line, it is of importance.

1.2150 played an important role in May 2010 as a clear separator. It also worked as resistance back in 2006. It worked as a separator very nicely in August 2012 as well. 1.20 returns to play an important role after the pair got close to it in July 2012.

Below 1.20, the 1.1876 bottom seen in 2010 is a very strong line. The next line is symbolic: 1.17. This the launch price of the euro in 1999. It is closely followed by 1.1670, which was a trough in the middle of the 2000s.

For more on the euro, see the [EUR/USD Weekly Outlook](#).

British Pound – Exiting the Recession?

The British economy is contracting for three consecutive quarters. The initial news of a big downfall in Q2 was later trimmed down from -0.7% to -0.4%.

There are some signs of improvement during Q3 – a preliminary report for this quarter will be published at the end of October and is likely to draw a lot of attention. The pound continues enjoying flows out of the euro-zone.

The strong spot in the British economy remains the services sector. With its continued growth, it partially compensates for all the rest. Manufacturing is slumping and hasn't seen growth since April. Prices of homes, that were quite solid thanks to [high demand in London](#), are on the fall again, alongside construction which isn't really going anywhere.

So where does the hope come from?

- A surprising drop in jobless claims: Claimant Count Change dropped for two consecutive months, beating expectations, big time and after seeing mixed results beforehand.
- Trade deficit stabilized: after a few worrying months, Britain's trade deficit narrowed down to 7.1 billion, within the normal figures seen beforehand.
- Government borrowing a bit better: While the British government didn't enjoy a second month of surplus, the deficit was better than predicted.
- Retail sales stabilized: Also here, the volume of sales dropped, but only by 0.2%.

It's important to stress that the UK isn't doing well, just not as bad as in Q2, and that's already something.

The Bank of England isn't expected to act during this month. Speculation about rate cuts came to an end when [Mervyn King ruled that out](#). This can return to the agenda only if inflation gets too close to the 1% target, but at current levels, this doesn't seem likely.

Another round of QE cannot be ruled out until the end of the year, but not at this moment, as there is some hope of stabilization.

GBP/USD Technical Outlook



The classic range trading pair reached the top of the range and retreated. Also note that it broke above uptrend resistance in the narrowing channel, but is now struggling to hold on to the breakout, and may fall back.

1.7440 was a stepping stone on the way down during the peak of the crisis. 1.7042 is the post crisis peak reached during 2009 and never sought since. It is right above the round number of 1.70.

Below, 1.6750 was the peak of 2011 and also had a similar role during 2009. 1.63 was a peak in 2010 and later worked as a pivotal line. For the second time in 2012, the pair flirted with the line but could not break higher. It began a slow retreat upon arrival.

The round number of 1.60 also had a significant role in the past, and now plays the role of important support. The trough of 1.5780 was of high importance in 2011 and also in 2009. It proved its strength as resistance in June 2012.

Quite close by, 1.56 had an important role as a support line in 2012, and it now works as a pivotal line in the current range. The double bottom of 1.5270 seen at

the end of 2011 and the beginning of 2012 is the lowest points since 2010 and remains strong.

Below the round number of 1.50, we find 1.48, which provided an important cushion at the beginning of 2010. The bottom of 2010 at 1.4227 is significant on a big downfall. Last but not least, we find the post crisis low of 1.3514.

For more on the pound, see the [GBP/USD Weekly Outlook](#).

Japanese Yen – Threats Don’t Work. Not Yet.

Dollar/yen moved lower but didn’t go very far. At these levels, Japanese officials are very nervous. Japan replaced its finance minister, and the new chief is intensifying the rhetoric heard from his predecessor.

- **The prospect of elections** might be behind the stronger tone that now includes also threats about the independence of the central bank. The BOJ already significantly increased its QE program, but this hasn’t stopped the yen’s strength.
- **Threats also come from outside:** Tensions between China and Japan over the disputed islands already halted production at several Japanese factories in mainland China. The ongoing issue might hurt Japanese exports and further weigh on Japan’s vulnerable trade balance.
- **Trade balance deficit worsens:** The devastating March 11th 2011 tragedy in Japan had a horrible human cost and also flipped the country’s trade balance: Japan traditionally enjoyed surpluses, which contributed to the yen’s strength. The closure of nuclear facilities made the country import a lot of oil. The recent deficit of 0.47 trillion yen was worse than expected.
- **Low growth:** After a strong first quarter, Japan’s growth fell back to 0.2% according to the final number. A drop back to recession is likely in Q3.
- **Deflation:** The fight against deflation [is not fruitful](#). Japan suffered from a third consecutive drop in prices. Dropping prices might be good in the short run, but afterwards they curb consumer spending, which hurts prices, curbs spending, etc.

The Federal Reserve's decision on QE3 definitely hurt USD/JPY, but the upwards pressure on the yen might become too much. It is not supported by Japanese fundamentals and is definitely not supported by the authorities, which could intervene during the month of October.

In 2011, an [intervention was seen at the end of October](#) – this had a short lived effect, and could have been seen as an attempt to help Japanese exporters when they converted money at the end of the month.

Will this happen again now?

USD/JPY Technical Outlook



Dollar/yen continued grinding lower, with narrowing stronger moves not lasting too long. The dips below 78 were limited.

Lines

85.50 was the peak in 2011 after the coordinated intervention. 84.20 is the peak reached and challenged in March 2012.

82.87 was the line where the BOJ intervened in September 2010 and it played a role afterwards as well. It is currently a minor resistance line. The 80.60 line is

becoming more notable on the weekly charts, just above the round number of 80. It served in both directions during 2012.

The round number of 80 was strongly guarded for some time and remains of psychological importance. The break below is significant. 78 proved to be strong in the month of September despite the temporary dips.

Minor support is at 76.60, which worked as support early in 2012. 76 was a previous all-time low and is now support in the range.

The round number of 75, in uncharted territory might test the patience of the BOJ and the low of 75.57. A failure to guard this line has a potential of throwing the pair towards 70.

For more on the yen, see the [USD/JPY Weekly Outlook](#).

Swiss Franc – Finding Some Life of its Own

The improvement in the European debt crisis was also felt in the Swiss franc – EUR/CHF moved to a safer distance from the 1.20 peg. So, also USD/CHF began trading somewhat independently of EUR/USD.

While this renewed life is nice for traders, it isn't nice for the franc, which lost ground. With fresh worries from Europe, the franc could return to trade in tandem with the euro. Swiss fundamentals support a continued peg.

- Recession coming: The Swiss economy didn't contract since mid-2009. This changed with the report for Q2 2012 that showed contraction of 0.1%. One more quarter, and Switzerland is in recession.
- Prices are not rising: The last time that Switzerland saw price rises was back in April. One of the SNB's goals was to fight deflation. There is still a long way to achieve that.
- Retail sales slow: the result of falling prices is less consumption, with the annual level of falling to 3.2%.

In September's quarterly rate decision, the SNB did not alter its policy. Some had speculated that the SNB would raise the peg. Raising the peg is quite hard with an uncertain environment in all the countries that surround Switzerland.

In October, EUR/CHF could settle back closer to the 1.20 line, depending on the European debt crisis. Only a very big event such as an immediate Greek exit or something sudden regarding Spain could challenge the SNB's peg, that worked very well so far.

However, it is important to note that nothing lasts forever and that the [levee could break](#). The SNB was lonely on the big for many months.

USD/CHF Technical Outlook



Despite the new independence of the franc, USD/CHF dropped thanks to a weaker US dollar and found a double bottom at 0.9240 that can be clearly seen on the chart.

Lines

1.17 was an important and stubborn peak in 2010 and remains an important cap above. 1.11 worked as support at the end of 2007 and also a cap in 2009 and 2010.

1.09 capped the pair during 2010 and provided support beforehand. 1.0435 was support in 2010 and an area of struggle.

The round number of parity returns to the scene. It is backed by 1.0066. 0.9783 was a double top and provides strong resistance. It showed character in August 2012.

The round number of 0.95 worked as support and has psychological importance as well. After the breakdown, this line capped recovery attempts in September. 0.9315 worked as support in 2011 and as resistance in 2012.

0.9240 joins the chart after serving as a double bottom in September 2012. It also provided some support back in March 2011.

0.89, very close by is another significant support line that proved its strength early in the year and also back in 2011. 0.8567 is worth mentioning on the downside. It served as support on the way down and then switched to resistance.

Further below, 0.8330 was a strong line of support. 0.7820 is the final frontier before the big plunge to the all-time low at 0.7066.

For more on the Swiss franc, see the [USD/CHF Weekly Outlook](#).

Canadian Dollar – Reached its Peak?

The Canadian dollar reached a 14 month high against the greenback during September with USD/CAD bottoming out at 0.9632. But later on, things changed against the loonie.

The forces moving the currency have somewhat shuffled:

- **Oil:** C\$ has shown much more sensitivity to the [price of oil](#) – Middle East tensions on one hand and fears about global growth on the other hand

rocked the price of the black gold and the loonie felt it more than beforehand.

- **Central Bank Still Hawkish:** The Bank of Canada [remained relatively hawkish](#) despite the global slowdown, but it has less impact on CAD than beforehand.
- **QE3 Backlash:** The Canadian dollar was one of the clearest examples of “buy the rumor, sell the fact” regarding the Fed’s long awaited QE3 announcement. After the initial ride, C\$ saw a significant selloff.
- **Unstable employment:** The Canadian job market corrected very nicely in August and saw a [tremendous gain of 34.3K](#), more than the losses beforehand. Nevertheless, another convincing figure is necessary to show the resilience of the Canadian job market, especially as the unemployment rate didn’t move.
- **International Trade Falling:** This can be seen in a worse than expected trade deficit of 2.3 billion and in the Foreign Securities Purchases figure that disappointed. Canada needs strong exports to the US and to other trade partners. The global slowdown hurts the loonie.
- **Strong internal demand:** The nice rise in retail sales and a [better than expected GDP](#) result show that Canada is still doing well. Worries about the housing bubble remain, but they are somewhat on the backburner.

All in all, the Canadian economy is still doing well, but it is more vulnerable to external shocks, and so is the loonie.

A challenge of parity cannot be ruled out in October.

USD/CAD Technical Outlook



USD/CAD fell and broke below downtrend support within the channel. This was short lived and the pair bounced higher, now sitting above the middle of the channel.

Lines

1.1130 is an old line dating from 2009. It is still high. 1.0850 capped the pair in 2009 and 2010 and remains of high importance.

1.0677 also worked as strong resistance for many days, and was tackled again in Q3 2011. The round number of 1.05 is now a top in the range and can be challenged in the near future.

The round number of 1.03 was a battle line, and it seems that the pair overcame it. The 2009 low of 1.02, another round number, returns to the limelight.

The ultimate line of USD/CAD parity has a major role as the pair approaches this line from below. 0.98 returns to serve as an important cushion on the downside, where the pair bottomed out, despite the break lower.

0.9667 is a pivotal line on the way down, after working as support. The swing down to 0.9632 isn't significant at the moment. 0.9406 was the lowest post crisis level, and is the ultimate support line.

The 2007 of 0.9056 is way down.

For more on the Canadian dollar, see the [USD/CAD Weekly Outlook](#).

Australian Dollar – Parity Could be Challenged Soon

Everything is going against the Australian dollar. The list is getting longer and longer and the Aussie, that was somewhat resilient, is beginning to feel the pressure.

QE3 in the US provided the much needed boost for the Aussie, [but the failure to break to higher ground](#) can certainly be justified:

There are quite a few reasons for a downwards move:

- **Mining not shining:** It's hard to be 100% sure that Chinese demand is nose-diving, but there are better signs that there is overcapacity in mining. Both reasons cause a plunge in commodity prices. The price of iron ore exports from Australia to China has plunged 38% in the past year. Coking coal fell by a quarter. This is joined by the cancellation of projects and the still ongoing discussion about the "end of the mining boom".
- **Retail sales fall:** The last recorded drop of 0.8% fell very short of expectations. This is another sign that outside the mining sector, Australia's economy is not at its best.
- **Jobs drop:** Also here, expectations for a rise were met with a drop of [8.8K](#) with a downwards revision of previous data.
- **Trade balance deficit grows:** The latest trade balance report for August shows a deficit of 2.03 billion, the worst since September 2011. Less global demand for Australian goods also hurts the economy.
- **Rate cuts:** The RBA didn't hesitate and cut the rate to 3.25% at the wake of October. Not everybody expected this, but it couldn't have been ruled out after everything aforementioned. Australia attracts funds thanks to a

perfect AAA rating and a relatively high yield. This yield became lower and the prospects for more cuts will weigh on the Aussie later on.

- **China:** One of the most highly regarded indicators, is showing a continued slowdown in China. The HSBC / Markit manufacturing PMI remains in contraction zone: 47.9 points. Add the tension between China and Japan and the uncertainty regarding the regime change, and you get worries for Australia as well. China is Australia's main trade partner and every piece of economic news from the economic giant moves the Aussie. China releases GDP figures in October. These have a significant impact despite the [doubts about the accuracy](#). A drop below a growth rate of 7.5% could deal a blow to the A\$.

In general, the Australian economy still enjoys the past, but the present is worse and the future is full with too much uncertainty. There is a lot of room for the downside.

AUD/USD Technical Outlook



The Aussie fell off from the uptrend, widening channel, highlighted in the chart, but managed to rebound and remain in a wide range, trading with great volatility. A break of the 1.0230 support will open the road to parity.

Lines

The float-era high of 1.1080 is the ultimate line high in the sky. It wasn't a swing high but rather a significant hurdle. 1.0850 was a double top at the beginning of the year and is now resistance on strong upside moves.

The round number of 1.06 worked as support during two periods when the Aussie was trading higher. A second move towards this line didn't succeed, creating a double top that is very important now. 1.0480 provided support during 2011 and it is only minor resistance at the moment.

1.0230 proved to be a critical separator, working as support earlier in the year, as resistance later on and now critical support, backed by 1.02.

AUD/USD Parity is an important psychological line, although not so strong. 0.96 provided an important cushion in September 2011 and also in June 2012.

0.94 is an important trough and also the cap of a long term range that lasted in 2009-2010. The round number of 0.90 will be of psychological importance.

For more on the Aussie, see the [AUD/USD Weekly Outlook](#).

New Zealand Dollar – Becomes Very Technical Friendly

The New Zealand dollar remained relatively strong during September. It enjoyed various factors and became very interesting for technical traders.

Will this strength continue in October? It could remain stronger than the Aussie, but isn't likely to print outstanding performance.

What pushes the kiwi?

- **QE3:** [The move by Big Ben](#) hurt the dollar at first, but then saw a backlash. In the case of the kiwi, this backlash was limited.

- **Food prices:** While Australia suffers from lower prices of metals, food prices aren't doing so badly. As an exporter of food (especially dairy products), the US drought has been favorable to the kiwi.
- **Strong GDP:** New Zealand reported a stronger than expected GDP growth in Q2: 0.6%. Despite the downwards revision of Q1, New Zealand's economy is doing very well in comparison to other countries.

During October, the RBNZ will make a rate decision. No move is expected on the rate, so the focus will be on the text: the central bank might acknowledge the good situation but isn't likely to celebrate this. The RBNZ is quite cautious and could point to global uncertainty.

In addition, the RBNZ and the New Zealand economy is sensitive to the high value of the kiwi: at these high and sustained levels, the economy could be hurt and the central bank will likely complain about it.

So, all in all we can expect the upwards move to stall if not reverse during October.

NZD/USD Technical Outlook



NZD/USD reached uptrend resistance in the uptrend channel and retreated. The peak around 0.8360 was later tested again and again, drawing a very clear line. On the downside, we also have a very clear bottom at 0.8175. Will uptrend support help the pair or will we see a breakdown?

Lines

The round number of 0.90 is in uncharted territory. The float-era high of 0.8842 is the ultimate resistance line.

0.8470 was the peak in 2012 and remains key resistance. 0.8360 was a very impressive cap to the pair during September 2012 and is a key line on the upside.

0.8175 worked well as support during September 2012 and is key support now.

0.7975, which was a veteran peak back in 2010 returns to play a major role as the pair stabilizes above the line. A loss would open the door for bigger falls. The round number of 0.78 worked as support in early 2011 and also in mid-2012 and is the next line.

0.7650 capped the pair on recovery attempts and also worked as resistance in 2009. 0.7450 was a stubborn bottom in May 2012 and was also a swing low in the fall of 2011.

0.7350 is significant on the downside. The pair got close to this line during Q4. The round number of 0.71 was a swing low in 2011 and a break lower would be a bearish signal. Under the round number of 0.70, the next line of support is 0.6815, which worked as such in early 2010.

For more on the kiwi, see the [NZD/USD Weekly Outlook](#).

Relative Strength Index

September Revisited

This is how currencies moved in September:

1. NZD – NZD/USD rose 3.1%.
2. EUR – EUR/USD rose 2.1%.

3. GBP – GBP/USD rose 1.6%.
4. CHF – USD/CHF dropped 1.4%
5. JPY – USD/JPY dropped 0.4%
6. AUD – AUD/USD dropped 0.4%.
7. CAD – USD/CAD dropped 0.2%.
8. USD

1. **EUR** – I'm betting on a positive outcome from the German constitutional court and a Spanish bailout request that will finally happen and will enable bond buying. – **Close enough – EUR/USD was No. 2 as the court indeed approved the ESM, and despite no Spanish bailout.**
2. **CHF** – Unless the German court rejects the ESM, the SNB will have no problem maintaining the EUR/CHF peg. – **Close enough – the franc only partially rose with the euro, and got a (negative) life of its own.**
3. **USD** – I'm betting that QE3 will not be announced and that the dollar will recover from the QE3 expectations. – **Wrong – QE3 was announced and the dollar came out last. However, the recovery continues nicely.**
4. **GBP** – Improving conditions in the UK could push the pound higher. – **Close enough – the pound was relatively resilient and even outperformed.**
5. **JPY** – With USD/JPY at the lower end of the range, the yen could slide to the other side. Spot on – **while the yen actually strengthened against the dollar, it hit the 5th place.**
6. **CAD** – There is room for some reversal of the strong gains the loonie had, but these could be limited. – **Close enough – the loonie's gains were limited against the dollar.**
7. **AUD** – The Aussie still has room for falls – Close enough – the Aussie was 7th while CAD was 6th. The Aussie suffered.
8. **NZD** – The kiwi was surprisingly strong and could now fall faster. – **Very wrong – the strength continued for another month.**

October Predictions

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

1. **GBP:** Without too much negative attention of late, the pound could find itself in the top spot, thanks to the improving situation in the UK and more European flows.
2. **USD:** After QE3 is behind us, Bernanke is expected to stay quiet before the presidential elections and not supply new policy hints for his moves at year end.
3. **CAD:** Some positive signs of from the US plus stable oil prices and the recent fall in the CAD could lead to new relative strength.
4. **NZD:** The strong value of the kiwi could trigger some backlash, or at least stability.
5. **CHF:** Assuming new worries in Europe, the franc could strength against the euro, with EUR/CHF getting closer to the peg.
6. **EUR:** It seems that a Spanish bailout is already priced in, and if not, a rally would be short lived as trouble continues to develop everywhere you look. It's not only Greece.
7. **JPY:** Intervention rhetoric is reaching a boiling point that could turn into action, more likely in the last days of October.
8. **AUD:** So many things play against the Aussie, that it is more likely to move towards the lower end of the wide range – and there's a lot of way to go.

So, is long GBP/AUD the preferred trade? These predictions will be reviewed at the end of the month.

Key Events

Here are the key events that are set to impact currencies all over the world, larger than the scope of any individual country.

- October 2nd Australian rate decision: RBA cuts to 3.25% - this shows a lot about global growth.
- 4th UK rate decision
- 4th ECB rate decision
- 5th – Japanese rate decision
- 5th US Non-Farm Payrolls. Note that the unemployment rate became less important.
- 5th Canadian employment report.
- 8th Eurogroup meetings
- 11th Australian employment report.
- 16th Spanish bond auction
- 18th Chinese GDP – a drop under 7.5% will trigger risk averse trading in all currencies.
- 23rd Canadian rate decision
- 24th US rate decision (no press conference from Bernanke this time)
- 24th New Zealand rate decision
- 26th UK Q3 GDP (first release)
- 26th US Q3 GDP (first release)
- 30th Japanese rate decision
- 31st Canadian GDP
- November 2nd Non-Farm Payrolls

Sources for this report:

- [FX Street](#) Calendar ([available on Forex Crunch](#)).
- [Forex Factory Calendar](#)

Additional Notes for Forex Traders

Here are some additional notes for forex trading during this quarter.

Volatility Could Rise Again

As expected, September saw huge volatility, but it somewhat waned off towards the end of the month. With so much at stake in Europe, there is potential for a

new rise in volatility, even if the moves seen in the first half of September are not likely.

Trade with care! High leverage and wide stops can be disastrous to your trading account. When volatility is higher, reduce position sizes and minimize your risk. Don't gamble.

Apart from looking how to win in trading, it's important to limit your risk. [Here are three basic methods for this.](#)

Choosing a More Predictable Pair

Some pairs follow the rules of technical analysis in a better way, while others are quite unpredictable. This depends a lot on your trading system and on your style and these patterns change all the time. Nevertheless, here is a fresh list of the [5 Most Predictable Currency Pairs – Q4 2012](#).

Resources

General Articles

- [5 Points on When to Go Pro](#) – Successful at forex trading and considering of doing it full time? There are a few steps on the way.
- [How to Choose a Forex Broker](#) – There are quite a few tools you can use before making this important decision.
- [Risk Factor Explained](#) – A deeper explanation about why the dollar falls on good figures and vice versa and under what conditions this will end.
- [Trading in Range or Catching Breakouts?](#) – What is your style? And what to look out for.

Recommended Sites:

- [TradingNrg](#) – For all you need to know about gold, oil and other commodities.
- [BO Crunch](#) – All you need to know about trading binary options.
- [ForexStreet.Net](#) – A great forex social site where you can interact with others.
- [Forex Live](#) – For the fastest updates on the web.



That's it! As I've mentioned at the beginning, I welcome feedback, comments, suggestions, complaints and anything you wish to tell me about this report. Please send any feedback to yohay@forexcrunch.com.

Happy forex trading!