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Global Strategy and Investment Trends by David Fuller

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Renewed US dollar weakness has lifted the euro to its highest level since July.

The euro could be completing its first step above the base against the greenback. The US dollar is weakening, even against the yen. However the most watched trade is euro/dollar, and after finding support above its August/September lows, the single currency has pushed above initial resistance at \$1.00. If it can now consolidate near or above this level, correcting a short-term overbought condition, it should take out the July peak at \$1.0212 before long. Tactically, for those who trade euro/dollar, I have favoured core longs and some Baby Steps buy-low-sell-high within the range, to lower average purchase costs and harvest some of the sideways activity. Given the dollar's overall weakness, further illustrated by this chart of Australian dollar/US dollar, I would retain and/or open euro/dollar longs, or the equivalent against other viable currencies where interest rate differentials are also favourable. Subscribers with large core positions, who want some protection should the euro encounter resistance here and retest prior support near \$0.96, might consider a stop in the \$0.9950 to \$0.99 region. My long-standing euro/dollar target is \$1.10 to \$1.15, with the possibility of a temporary overshoot

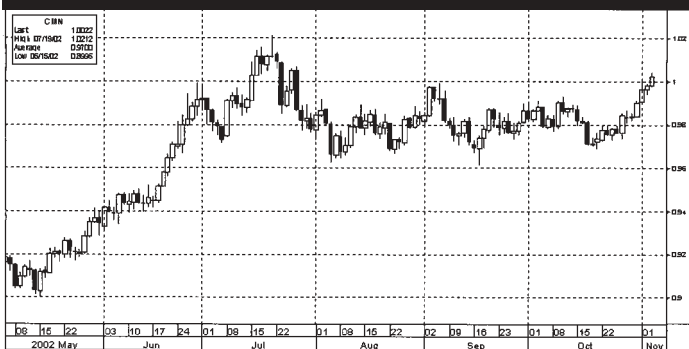
before the ECB is successful in talking the single currency back down.

Implications for other markets if the US dollar continues to weaken - We would probably see further strength in the dollar price of many commodities, including gold and silver. A weaker dollar would be positive for US multinational companies previously suffering from the strong dollar headwind. Conversely, it would be negative for non-US companies reliant on exports to the US. A sharply weaker greenback would alarm Japan's MoF, which would then instruct the BoJ to intervene.

My related positions - My biggest currency position by far is euro/yen, protected with a trailing stop. My stop profit in dollar/yen was hit, and I'm hoping for some further weakness, in which case I will commence scale-down buying. I recently opened positions in euro/dollar and sterling/yen near current levels, and I also bought March silver.

Best regards - David Fuller

Euro/Dollar: \$1.022 (Daily)



Euro/Yen: ¥121.94 (Daily)



Australian Dollar/US Dollar: US\$0.563 (Daily)



Silver (Dec/CMX): \$4.505 (Daily)



Charts by Bloomberg

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