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Global Strategy and Investment Trends by David Fuller

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The euro is breaking out against the dollar and strengthening against the yen.

The euro/dollar chart is currently bullish but this trade is in the political zone. This weekly chart shows the euro's overall upward trend resuming, following a very choppy period. Looking at the earlier history, subscribers who have attended The Chart Seminar will recognise the large type-3 base at the lows, clearly delineated by the euro's ability to rise more quickly than it fell from late 2000 onwards. There were three upward legs, ending with acceleration, and the last two of these were capped by downside weekly key reversals. The June to early September reaction was much larger than its predecessors, breaking uptrend consistency and possibly signalling a penultimate top. This correction ended with an upside weekly key reversal. During the last eight month's volatile action, the euro has continued to rally more quickly than it has fallen, confirming that demand remains stronger than supply.

Consequently, on chart action alone, the euro looks likely to move higher, but conditions are much more risky at this level. Consider the following: almost everyone is bearish of the dollar and bullish of the euro, albeit possibly less so than in June. The US's stronger growth favours the dollar, although it is quite possible that this will be more than offset by concern over America's deficits and interest rate differentials. However the all-important wildcard from here on concerns politics, especially within Euroland. In 2002 governments in the US and Europe were delighted with the euro's recovery. Today, we can expect expressions of concern from exporters, politicians and the ECB, although we don't know how vociferous these will be. Needless to say, the higher the euro, the louder jawboning will become.

Euro/yen is less crucial, and therefore may be the more interesting trade. Most forex dealers are bullish of the yen, especially against the dollar. However they face a strong headwind in the form of BoJ intervention, in its effort to prevent the yen from

rising. Japan can continue to intervene as long as it wishes to. Euro/yen has broken its downward trend since June and appears capable of ranging towards this year's earlier highs, provided the chorus of protests from Euroland are not too loud.

How I'll play it. I have opened small long positions in euro/yen and Swiss franc/yen. I'll discuss these trades and the currency charts in much more detail on tonight's Subscriber's Audio. I'll also post a number of charts on my website, so that you can see the technical characteristics and levels discussed more clearly.

Please note: I'm hoping to complete FM234 by the end of next week.

Best regards - David Fuller

Charts by Bloomberg



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