

# CURRENCY TRADER

Volume 3, No. 3



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a step ahead  
of the pundits?*

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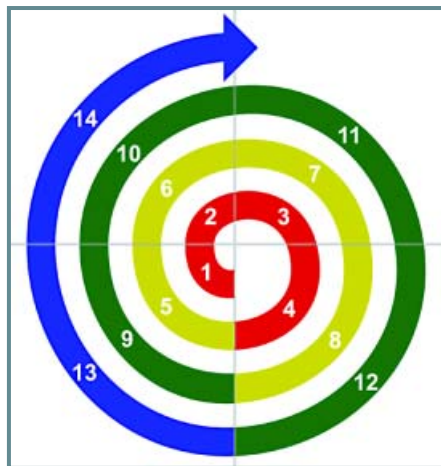
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**Technical Analysis Alerts Candlesticks**




Alerts	Time (GMT+1)	Tick	MM20	MM50	MM20_50	MACD_SL	MACD_0	Bolinger	RSI70	RSI80	Volume	Period
↑	2006/02/15 17:33	USD/JPY									117.39	1 day
↑	2006/02/15 17:33	EUR/GBP									1.74	1 day
→	2006/02/15 17:33	EUR/GBP									1.2	1 day
→	2006/02/15 16:53	USD/GBP									1.3	1 day
→	2006/02/10 17:21	GBP/JPY									117.78	1 day
→	2006/02/10 17:21	GBP/JPY									1.76	1 day
→	2006/02/10 17:20	EUR/GBP									142.4	1 day
→	2006/02/10 17:20	EUR/GBP									141.81	1 day
→	2006/02/09 16:56	GBP/JPY									1.29	1 day

Candlesticks	Time (GMT+1)	Tick	Candlestick	Last	Opinion	Invalidation	Period
↑	2006/02/15 17:28	USD/JPY	Piercing line	117.53	+	117.39	1 day
→	2006/02/15 17:28	GBP/USD	Doji	1.742	→	1.74	1 day
→	2006/02/15 17:27	EUR/USD	Shooting star	1.1895	-	1.2	1 day
→	2006/02/15 17:27	USD/CHF	Hammer	1.3098	+	1.3	1 day
→	2006/02/14 16:58	USD/JPY	Bearish Engulfing	117.38	-	117.78	1 day
→	2006/02/10 17:26	GBP/USD	Shooting star	1.7445	-	1.76	1 day
→	2006/02/10 17:26	EUR/JPY	Bearish engulfing	140.1	-	142.4	1 day
→	2006/02/09 16:53	EUR/JPY	Hammer	141.75	+	141.81	1 day
→	2006/02/09 16:52	USD/CHF	Hammer	1.3022	+	1.29	1 day

Technical Analysis	Time (GMT+1)	Tick	ST	Chg	Mf	Chg	Last
↑	2006/02/16 13:07	EUR/USD intraday update: Buy on expected	→	-	→	→	1.187
→	2006/02/16 13:04	USD/JPY intraday update: Buy on expected	→	-	→	→	118.01
→	2006/02/16 13:09	GBP/USD intraday update: Buy on expected	→	-	→	→	1.7346
→	2006/02/16 16:08	USD/CHF intraday update: Buy on expected	→	-	→	→	1.312

- 
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*No deal — yet — for FXCM*

## Fate of RefcoFX.com still up in air

**C**ustomers of RefcoFX.com who thought a mid-February court decision would finally end their association with bankrupt futures brokerage Refco and free up their account funds recently got an unpleasant surprise.


Instead of approving the \$110 million bid RefcoFX.com received from Forex Capital Markets (FXCM) — the only bid made on RefcoFX.com — bankruptcy judge Robert Drain delayed a ruling until March 10 to give both sides more time to work on the details of the deal and to give other firms another chance to make a bid.

Drain acted on the advice of Refco's creditors, who believed FXCM was submitting too low a price and would soon seek to sell RefcoFX.com's assets at a huge profit. The creditors believe Refco should wind down RefcoFX.com — essentially let its customers transfer their accounts to other brokerages — and sell the 35-percent share it owns of

FXCM (which FXCM was buying back in its bid).

"This move ... is in total disregard of the damaging effects on RefcoFX customers," says Drew Niv, CEO of FXCM. "RefcoFX customers now will continue to face uncertainty over the fate of their money, despite our offer to make them completely whole and to give them full access to their accounts."

In a letter sent to U.S. Bankruptcy Court, FXCM claims the delay is hurting business, as the firm says it lost almost \$14 million in January.

"Our offer has been shown by the auction process to be more than adequate," Niv says. "The process is designed to provide the best value to the bankrupt estate by giving bidders an incentive to pay top dollar. The opposition [to the deal] — without proffering any alternative better bid — will certainly harm the RefcoFX customers without any assured benefit to [Refco]." 

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### Adult education

## NFA, CME offer forex classes

**A**s interest in foreign exchange trading continues to climb, two organizations are trying to help existing and would-be traders understand the forex arena a little better.

The National Futures Association (NFA) and the Chicago Mercantile Exchange (CME) are both offering free online classes. The NFA's program focuses on spot forex, while the CME's is geared toward currency futures.

The NFA's class can be accessed through the Investor Learning Center section on the NFA's Web site ([www.nfa.futures.org](http://www.nfa.futures.org)). The course is interactive and self-directed, so traders can set their own pace. There are six different sections that discuss how forex contracts are traded, the risks involved with forex trading, and the process an individual should go through before opening an account. There is a quiz after each section.

The NFA says the rise in forex trading has been accompanied by a rise in forex fraud, which it hopes the class will help curb by improving trader knowledge.


The NFA has also teamed with the Commodity Futures Trading Commission (CFTC) to produce brochures about

forex fraud. "Trading in the Retail Off-Exchange Foreign Currency Market: What Investors Need to Know" can be downloaded at the NFA's Web site, while "Foreign Currency Fraud" is available at [www.cftc.gov](http://www.cftc.gov).

Meanwhile, the CME is offering a free online class, Dynamics of Foreign Exchange. The eight-part class is geared toward the individual investor and discusses political, economic, and technical factors that affect foreign exchange.

Specifically, the class — which was developed in conjunction with finance professor Carl Luft of DePaul University in Chicago — covers topics such as the history of forex, currency pricing, hedging, technical analysis, and basic trading strategies. The course also covers trading forex futures at the CME.

Students can take the class at their own pace, e-mail questions to the CME, and talk about the class on discussion boards.

To register, [click here](#). Traders looking for a less-intensive presentation can get a free copy of "Trading CME FX Futures," a CD produced by the CME, by e-mailing [info@cme.com](mailto:info@cme.com). 



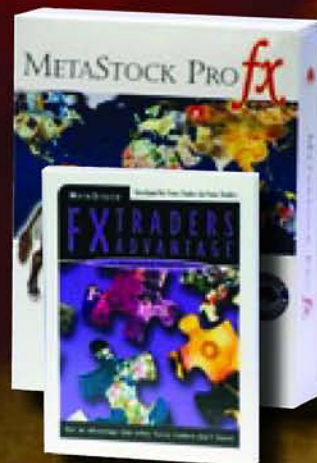
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# Key drivers for the U.S. dollar

Is the U.S. dollar's recent rise against the euro over, or will the chance of more interest-rate hikes keep the greenback bullish?

BY CURRENCY TRADER STAFF

**T**he euro soared to a four-month high vs. the U.S. dollar in late January, but most market watchers are calling that a corrective move in the euro/dollar's (EUR/USD) post-2004 downtrend.

With renewed expectations for additional Fed tightening in the U.S., many analysts see room for additional U.S. dollar gains over the near to intermediate term.

## The longer-term picture

Figure 1 shows how the greenback suffered extensively for four straight years against the euro. From a low around .8300 in 2001, the bearish forces brutally drove the U.S. dollar to 1.3600 vs. the euro in December 2004.

Heading into 2005, negative dollar sentiment remained firmly entrenched in the currency market, and most analysts expected the dollar bear market to continue. However,

the dollar abruptly turned a corner in early 2005, and never looked back. By November 2005 the EUR/USD rate had weakened to 1.16 (Figure 2).

In early 2006, however, euro bulls regained control of the market. Many analysts believed the end of U.S. rate hikes were in sight, while at the same time some analysts had been predicting more dramatic tightening by the European Central Bank (ECB). That opened the door for a rally in the euro/dollar, up to the 1.23 area by late January.

This move, though, has since fallen apart. By late February, the euro/dollar had plunged close to 1.18.

## Bullish dollar technicals intact

Jordan Kotick, global head of technical analysis at Barclays, calls the late 2005/early 2006 EUR/USD rally to \$1.23 "corrective and counter-trend." A look at Figure 1 reinforces that view, as a series of lower lows and lower peaks are evident from the December 2004 high.

Looking at the intermediate-term picture, Kotick believes there is more dollar bullishness to come.

## GDP and interest rates

Analysts point to expectations for more U.S. Fed rate hikes as one of the key factors stalling the recent rally toward the \$1.23 level. While talk had been circulating in late 2005 that the Federal Open Market Committee (FOMC) was close to finishing its current rate hike cycle, a spate of stronger-than-expected economic reports in the first two months of the year have renewed expectations of additional hikes.

"The near-term outlook (for the dollar) is really predicated on bullish interest-rate differentials," says Charmaine Buskas, economist at Moody's Economy.com. "As long as near-term data suggests the Fed will



raise rates through the first quarter, the dollar will continue to see strength.”

U.S. fourth-quarter gross domestic product (GDP) data was slightly below expectations at 1.1 percent. However, economists now believe that was just a temporary blip in an overall solid economic expansion phase. Current forecasts are for first quarter 2006 GDP to be as high as 4.7 percent. That is the forecast from both Credit Suisse and Moody’s Economy.com.

“Coming into the year, the supposition was the Fed had one rate hike left,” explains Jamie Coleman, managing analyst at IFR-Forex Watch. “But, over the last six weeks that perception has really changed. The U.S. economy is growing much stronger than people had expected. We are seeing a vigorous rebound in the first quarter.

“Now, maybe the ECB might have only one rate hike coming up. GDP in the Eurozone in the fourth quarter was soft,” he adds.

The Eurozone’s base interest rate currently stands at 2.50 percent after a 25-basis point increase on March 2. Recent data from the EU’s statistical office revealed that 2005 GDP growth was a tepid 1.3 percent, down from 2.1 percent in 2004. That still lags the U.S. economy, which is seen growing at about 3.5 percent. The next ECB meeting will occur April 6.

Positive interest rate differentials clearly favor the U.S. dollar vs. the euro, as the Fed funds rate currently stands at 4.50 percent, with the next FOMC meeting set for March 28.

While some Fed watchers speculated the U.S. FOMC might pull in the reins on additional tightening at the 4.50-4.75 percent region, some analysts are now forecasting additional hikes to the 5.00-5.50 percent range before this cycle is over.

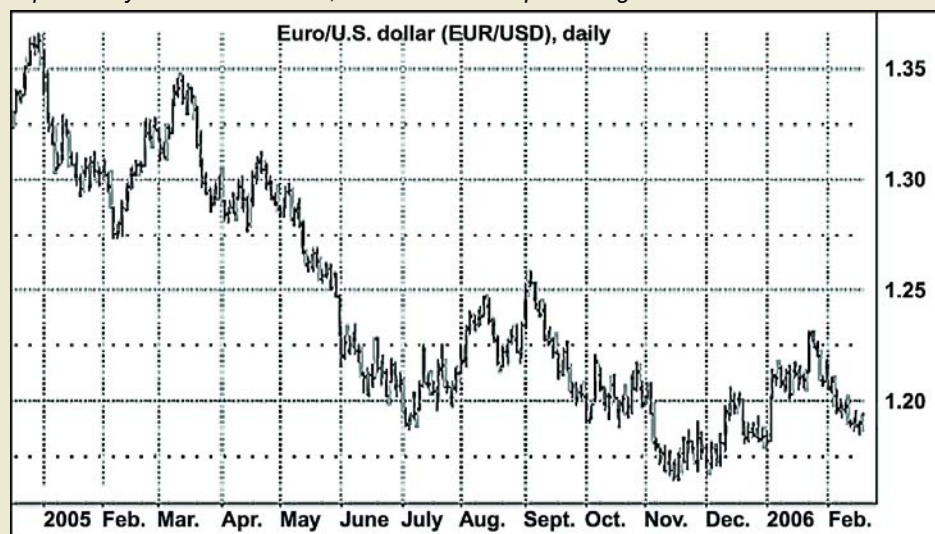
### Other economic signals

First-quarter U.S. economic reports have bolstered the case for additional rate hikes.

“Recent data has been on the upside,” Buskas says. “The January employment report was still fairly strong. Consumer spending is still strong and we have reasonably

**FIGURE 2 — THE GREENBACK RECOVERS**

Sparked by interest-rate hikes, the U.S. dollar improved against the euro in 2005.



Source: eSignal

### EURO/U.S. DOLLAR AT A GLANCE

**Average daily close-to-close range (past 40 days):** .0044  
**Average weekly close-to-close range (past 26 weeks):** .0105  
**52-week high/low:** 1.348/1.1638

	Eurozone		U.S.			
<b>Prevailing interest rates (%):</b>	2.50		4.50			
<b>Next central bank meetings:</b>	April 6		March 28			
<b>GDP:</b>	Q4 2005*		Q3 2005		Q2 2005	
	EUR	U.S.	EUR	U.S.	EUR	U.S.
	0.3	1.1	0.6	4.1	0.4	3.3

\*Estimate

All data as of Feb. 27

well-contained price pressures.”

Pointing to recent consumer activity, “retail sales were off the charts. It is hard to see the Fed taking their foot off the gas,” Coleman says.

The U.S. Commerce Department reported a huge surge in January retail sales — up 2.3 percent, which was more than double the forecast by most economists.

“There is still more growth to come,” says Jonathan Basile, economist at Credit Suisse. “Early indications are that first-quarter business investment will be strong. ISM has been running well into expansion territory.”

The ISM (Institute for Supply Management) data posted a 54.8 reading in January. A reading over 50 percent indicates expansion, while a figure under 50 percent indicates contraction from the prior month in the manufacturing sector of the economy.

Basile also points to recent data in the U.S. industrial production and capacity utilization reports as additional

*continued on p. 12*





fuel for further Fed tightening.

"We continue to see capacity pressures and the unemployment rate falling," he says. "The manufacturing sector continues to run above trend."

The January manufacturing capacity utilization reading was 80.5 percent, which Basile notes, is above the 80.3 percent long-term trend figure for that data series.

The unemployment picture is another key economic piece of the puzzle that could keep the Fed bias toward further rate hikes. January saw an unexpected decline in the overall U.S. unemployment rate to 4.7 percent, the lowest rate since July 2001.

"That could mean inflation pressures," Basile warns. "Tighter labor markets could mean labor costs will go up."

### Looking ahead

While most economists expect growth above 3.5 percent in the first half of the year, some moderation is seen into year-end as the impact of higher U.S. interest rates begins to filter through the economy. Moody's Economy.com forecasts 4.7 percent annualized GDP growth in the first quarter, while the second quarter is estimated at 3.9 percent, the third quarter at 3.7 percent, and the fourth quarter at 3.3 percent.

That compares to Credit Suisse's forecasts of a 4.7 percent Q1 reading, 3.7 percent in Q2, 3.4 percent in Q3, and 3.3 percent for Q4.

### Inflation

Despite the higher price of energy, economists expect the headline inflation picture to moderate into the second half of 2006. Credit Suisse expects the consumer price index to come in at about 4 percent in the first quarter, but to fall toward 2.5 percent in the second half.

### Intermarket dynamics

A wide range of intermarket factors can impact the U.S. dollar, including action in the stock, gold, and interest rate markets.

While "the U.S. stock market is always important to the U.S. dollar, for now the key issue for both equities and the dollar is what happens in the interest-rate markets," says Mike Berg, strategist at 4Cast Inc. "That includes the Fed activity and the bond market's response."

Barclay's Kotick warns investors not to place too much importance on stock or gold market activity when making trading decisions in the currency markets. Kotick says these correlations are not reliable.

"Gold and stocks have been strong for three to four years," Kotick says. "But, in that time, we've seen a huge bearish move in the dollar and a huge bullish move."

However, for those looking for an intermarket "trigger," Kotick suggests monitoring action in U.S. 10-year T-note yields relative to the U.S. dollar.

"Watch if 10-year yields can climb above 5 percent," Kotick says. "That would be bullish for the dollar."

### Risks to the economic picture

Geopolitical tensions and an energy price shock continue to be key risk factors on the horizon for the U.S. economy and the dollar.

"Oil is certainly a potential risk factor," Buskas warns. "If we see a sustained spike in oil, that will certainly be a downside risk for growth."

However, a retreat has been seen in energy prices lately. Nearby NYMEX crude oil futures have plunged sharply lower. After spiking to the \$69 per barrel level, crude has plummeted to the \$58 dollar region in a matter of weeks.

As always, "geopolitics remains an on-going risk," Buskas says. "If we start to see heightened tensions to the extent that it affects the markets, it will be dollar-negative."

Traditional safe-haven buying flows have moved toward U.S. Treasuries, gold, and the Swiss franc during times of geopolitical instability.

### U.S. dollar: Key levels to watch

Over the next several months, Barclay's Kotick expects a "choppy corrective" type of action in the euro/dollar. He pinpoints key chart resistance at the \$1.25/1.28 zone. However, based on bullish Elliott Wave counts and other factors, Kotick remains dollar-bullish. By year-end, he sees potential for dollar gains toward the \$1.10/1.05 region.

Looking at the charts, Phil Roth, chief technical market analyst at Miller Tabak & Co., says the near-term trend of the euro is down. He points to support at \$1.16/1.17.

"If support at \$1.16 doesn't hold, we'll get an extension downward with next support at \$1.10," he says.

### Second-half fade?

However, some analysts warn that while the first half could see dollar bullishness fueled by strengthening interest-rate differentials, the buck could fade in the second half of the year. Structural factors, such as the trade deficit and the current account deficit, could re-emerge as critical factors dominating currency market flows.

"Without any improvement in the trade deficit, we think the market will finally take a good hard look at the unsustainable external factors," Buskas says. She points to the new record trade deficit of \$725.8 billion posted in 2005.

That paints a dour picture for those currency investors examining the larger picture, Buskas warns.

"[The currency markets will see a] rotation of appetite away from the dollar into other high-yielding currencies with a better fundamental picture," Buskas predicts. "It's a case of a slow reversal of drivers. By the end of 2006, we will see some structural matters come to the fore, which will lead the dollar lower." 📌

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# The dollar super-cycle

Traders sometimes ponder the often-convoluted relationship between interest rates and currency movement. Find out if there's evidence of a broad cyclical relationship between the dollar and U.S.-euro interest-rate spreads.

BY MARC CHANDLER AND EZECHIEL COPIC

**T**he regime of floating currencies ushered in by the breakdown of the Bretton Woods agreement and symbolized by President Nixon's decision to sever the dollar's peg to gold turns 35 years old on Aug. 15, 2006.

Despite their current prevalence, floating exchange rates are nearly unprecedented in the past half-millennium of capitalism and, as various officials including former Federal

Reserve Chairman Alan Greenspan have pointed out, predicting their movement is a rogue's game. At best, forecasting currency movements is a Herculean task. At worst, it is a Sisyphusian occupation. Nonetheless, given the importance of currency movements for businesses, investors, and speculators, many people have little choice but to make the effort.

Both interest rates and exchange rates reflect dimensions of the cost of money. This relationship, however, is not necessarily linear, which is what Wall Street economists continually rediscover with their myriad studies that find weak correlations between interest rates and the dollar. Examination of the data suggests a more cyclical relationship.

Specifically, it appears the dollar-euro (and before the euro, the dollar-deutsche mark) has completed three cycles since the late 70s and has begun a fourth. However, what is proposed here is not a grand, unified theory of currency movement. The model and findings are limited to one currency pair, albeit the most actively traded pair in the \$2 trillion a day forex market.

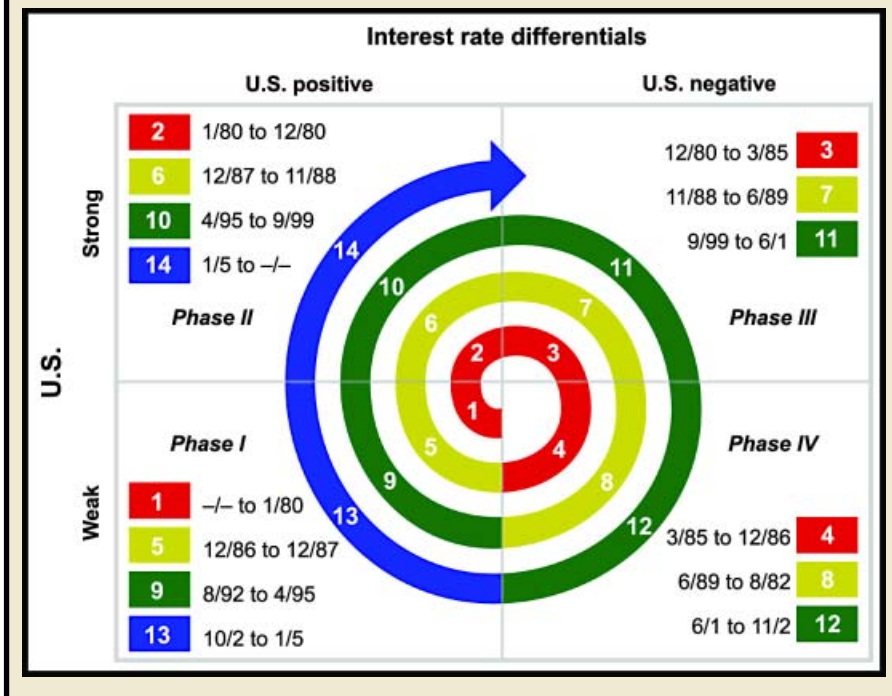
### Keeping it simple

The model is deceptively simple. It incorporates two variables: short-term interest-rate differentials between the U.S. and Germany, and whether the U.S. dollar is rising or falling against the deutsche mark (pre-1999) or the euro.

The interest-rate differential we cal-

**FIGURE 1 — THE DOLLAR SUPER-CYCLE**

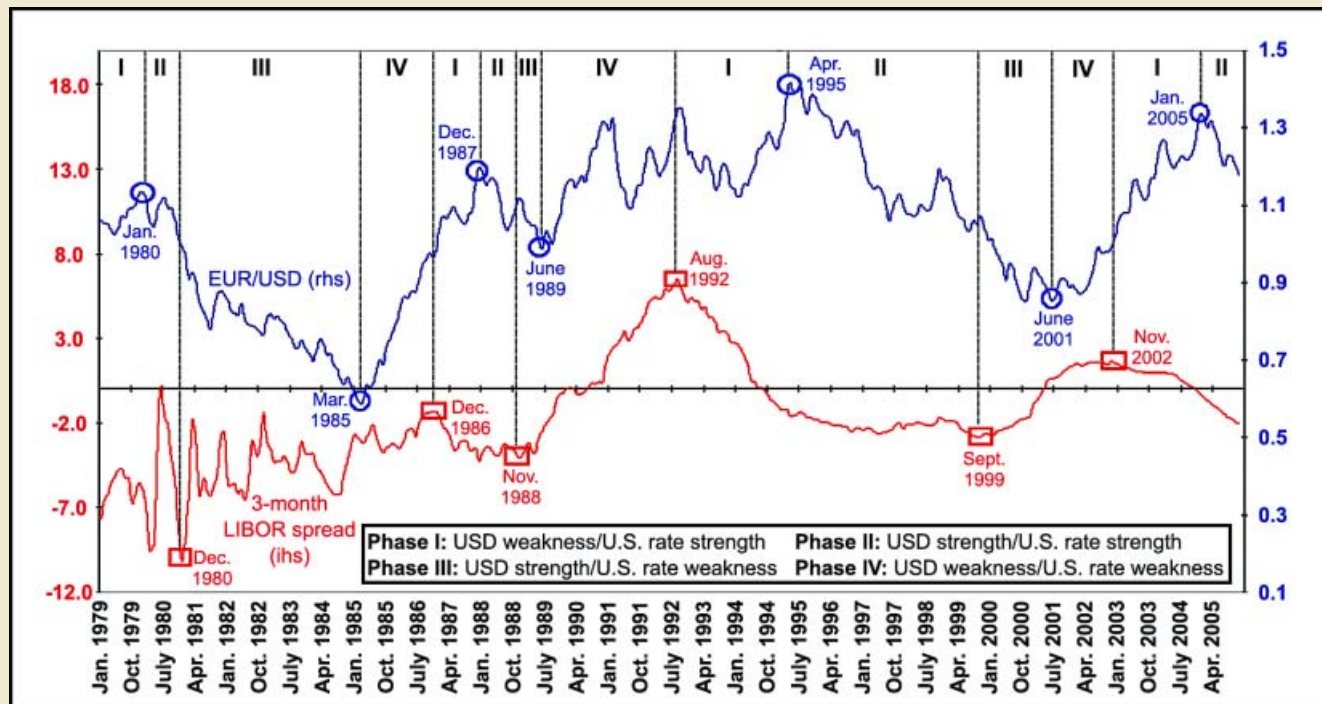
*The dollar has repeatedly moved in succession through four phases since the late 70s. The model indicates the dollar is currently in Phase II of the cycle, when interest-rate differentials are moving in the U.S.'s favor and the dollar is strong.*





**FIGURE 2 — LINEAR VIEW OF THE U.S. DOLLAR CYCLE**

*Rather than signaling the entry into Phase III, the narrowing of the U.S.-euro interest-rate differential from August 2005 through January 2006 appears to be counter-trend in nature — a correction, not a new trend.*



Source: IFS

culated was the difference on three-month Libor and, then when available, the three-month futures contract for Eurodollars and Euribor.

There are four possible combinations of the two variables. The first, which we'll call Phase I, occurs when interest-rate differentials move in favor of the U.S. and the dollar weakens. Phase II arises when the dollar strengthens while interest-rate differentials continue to move in the U.S.'s favor. (We believe the dollar is currently in Phase II.) When rate differentials begin to shift in favor of the Eurozone and the dollar remains strong, the cycle has entered Phase III. The final phase, Phase IV, occurs when the dollar weakens as the interest-rate spread continues to favor the Eurozone.

Figure 1 illustrates the four phases and shows that since the late 70s the dollar has repeatedly moved in succession through these four phases.

### The current cycle

As the Federal Reserve slashed interest rates in 2000 and short-term U.S. interest rates fell below Eurozone rates, the dollar began its cyclical decline (Phase IV), although many observers attributed the drop to worries about the current account deficit. The Fed began a gradual tightening process

in June 2004, and even as interest-rate differentials widened in the second half of that year, the dollar continued to fall, which is typical of Phase I of the dollar's cycle (Figure 2).

However, in the first quarter of 2005, the dollar began to find traction and trended higher as the year progressed and interest-rate differentials continued to trend in the U.S.'s direction. The dollar recorded its high for the year in the fourth quarter as Phase II unfolded.

The last phase of the dollar's cyclical advance — Phase III — takes place as interest-rate differentials narrow against the U.S. The implied interest-rate differential between the June 2006 Euribor futures contract and the June 2006 Eurodollar peaked in mid-August 2005 near 220 basis points. The spread narrowed to the mid-180 basis point area as the market began pricing in the beginning of a tightening phase by the European Central Bank (ECB).

However, in late January the spread began widening again as the pendulum of market sentiment swung in favor of additional rate hikes by the Federal Reserve. By mid-February, the spread had widened again and surpassed the mid-August peak of 220 basis points. Rather than signaling the entry into Phase III, the narrowing of the interest-rate differential from August 2005 through January 2006

*continued on p. 16*



appears to be counter-trend in nature — a correction, not a new trend.

Over the course of the current tightening cycle, many market participants have been repeatedly surprised by the magnitude and duration of the Federal Reserve's action. Several times the market has gotten it into its collective head the Fed was done — including in the immediate aftermath of Hurricane Katrina, or the “one-and-done in 2006” sentiment — only to reverse itself later.

### **Neutrality and beyond**

Pundits will tell us the course of Fed policy under new chairman Ben Bernanke will be data-dependent. However, we can — and do — anticipate economic data. The U.S. economy has grown by 3 percent or more for 10 of the past 11 quarters, and the dip to 1.1 percent in Q4 2005 is subject

The dollar is currently in Phase II of its current cycle, when interest-rate differentials are moving in the U.S.'s favor and the dollar is strong.

to statistically significant upward revisions. More importantly, growth in Q1 2006 is likely to rebound smartly into the 4.5-percent area, if not stronger.

Such growth raises the risk the economy will run out of spare capacity, as the two most recent FOMC statements have warned. Industrial capacity utilization rates were interrupted by the hurricanes, but have since rebounded back above the 80-percent threshold, and slack in the labor market has diminished as the unemployment rate has edged lower to 4.7 percent.

As counterintuitive as it may seem, the actual monthly inflation reports may not be the most critical of all the data potentially influencing the trajectory of Fed policy. Federal Reserve officials, including both the past and current chairman, have indicated a preference for the price deflator of core personal consumption expenditures as a measure of inflation. But this measure clearly trended lower throughout 2005, while the Fed raised the Fed funds target at each of the year's eight FOMC meetings. This measure of inflation peaked a year ago near 2.3 percent year-over-year, and as of December had slipped to 1.9 percent, matching its lowest level since March 2004.

The point is, the Fed needs to be on guard against the risks of inflation, not actual inflation. Given the trajectory of growth and the suspicion that resource constraints are being approached, there is no compelling reason the Fed

has to stop at a neutral stance — and indeed, this has been the message of several Federal Reserve Bank presidents and some members of the FOMC. But even if it does, the guidance from the Fed suggests neutrality to the extent it is a useful concept, represents a range rather than a fixed point, and the upper end of that range extends toward 5.50 percent. The argument that the dollar is still in the second phase of the large cycle is predicated on the idea the market, as it tends to, continues to underestimate the extent and duration of the current tightening cycle.

Meanwhile, the Euribor futures strip has priced in an aggressive ECB — one that could deliver three 25-basis point rate hikes over the course of 2006. In late January through mid-February, ECB officials signaled the market's assessment was reasonable. Consequently, the widening of the interest-rate differential that has taken place in 2006 has thus far happened largely as a result of a shift in expectations of the trajectory of U.S. interest rates, not European rates. If there is a surprise from the Eurozone, it is the risk the economy will disappoint as it has repeatedly in the past, making fewer rate hikes more likely than more.

### **Implications for the dollar**

We make a modest but important claim: Since at least the late 70s the dollar has moved in a cycle against the deutsche mark and then the euro relative to the differential of short-term interest rates.

These findings have a few limitations. First, the analysis says little about time — i.e., the duration of any phase or cycle. Second, this analysis has nothing to say about the magnitude of dollar moves in any phase or cycle.

At this stage, our efforts have been focused more on the direction of the dollar and interest-rate differentials. We also recognize that as other people look at the data, they may date the phases differently. Nevertheless, this approach offers a different way to consider unraveling the knot that connects currency values to interest rates.

The analysis does suggest the U.S. dollar is likely to continue to be well supported and probably has not recorded its cyclical high. For speculators, this implies buying the dollar on pullbacks. For businesses with euro receivables, it means high euro-hedge ratios are still prudent. For investors, it means currency risk on Eurozone exposures may undermine a portfolio's performance unless the euro exposure is neutralized.

Because several currencies, including the Swiss franc, Danish krone, and several northern- and central-European currencies, shadow the euro either formally or informally, this analysis may be applicable to those exposures as well. Finally, the firm dollar environment the analysis implies should also provide a favorable backdrop for emerging markets in general. ☛

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*For information on the author see p. 6.*



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# Demystifying Ichimoku analysis

Ichimoku analysis might sound exotic, but it contains some very familiar analysis tools. Get a handle on what these different chart lines represent — and whether they have any value.

BY CURRENCY TRADER STAFF

It's been around awhile, but Ichimoku analysis seems to have become an increasingly talked-about subject among technicians, especially in the forex market. For better or worse, traders are often attracted to exotic or complex (or complex-sounding) methodologies, presumably under the assumption that something difficult to understand must be useful.

In the case of Ichimoku, a charting technique that com-

bins trend-following and support-resistance components, some exotic terms (to non-Japanese ears, that is) mask common charting tools that are relatively easy to understand and analyze.

The *Ichimoku Kinko Hyo* charting technique was reportedly developed by Goichi Hosoda, a Japanese newspaper writer, prior to World War II, although he did not publish the method until 1968. The phrase loosely translates to “one-

glance balance chart” or “equilibrium chart at-a-glance technique.” Most traders refer to the method simply as “Ichimoku.”

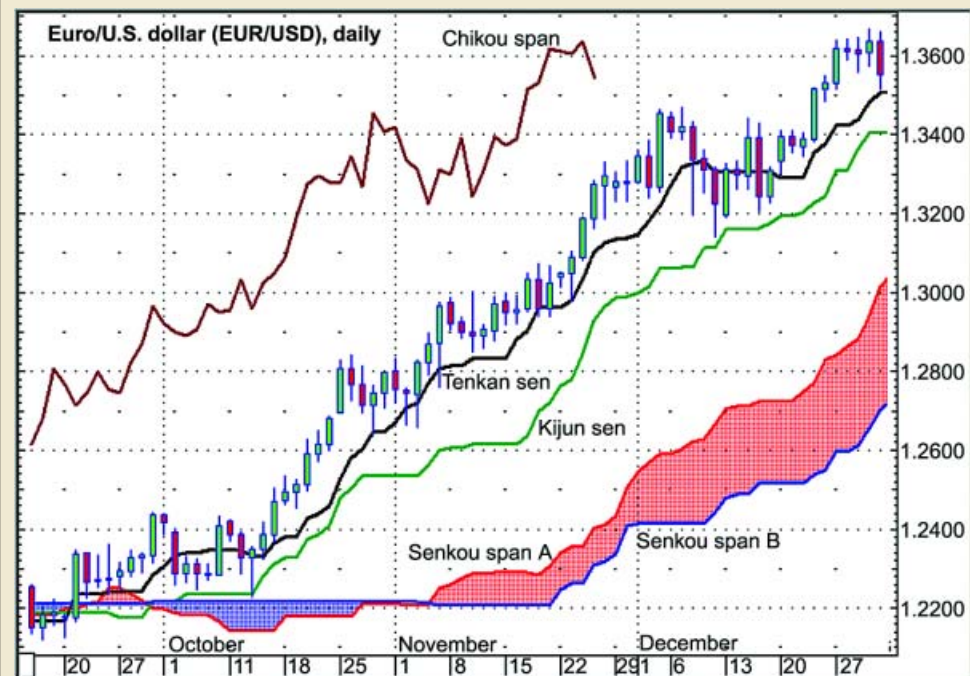
The technique combines trend-following tools similar to moving averages with other calculations that define supposed support and resistance areas. After describing the general precepts of Ichimoku, we will perform some simple tests to better understand how this methodology functions and whether it offers unique benefits.

### Ichimoku components

Figure 1 is a daily chart of the EUR/USD pair with the Ichimoku study, which consists of five lines: tenkan sen (signal line), kijun sen (base line), chikou span (lagging span), senkou span A, and senkou span B. Table 1 provides explanations of each of

FIGURE 1 — ICHIMOKU LINES IN UPTREND

During this strong uptrend, the tenkan sen line is rising and is above the kijun sen line, and both lines are above the “cloud” between the senkou span A and senkou span B lines.



Source: CQGNet

**TABLE 1 — ICHIMOKU LINE CALCULATIONS**

Line name	Color (Figure 1)	Calculation	Comparable to:
Tenkan sen (signal line)	Black	(Highest high of past 9 bars + lowest low of past 9 bars) / 2.	A short-term moving average.
Kijun sen (base line)	Green	(Highest high of past 26 bars + lowest low of past 26 bars) / 2.	A medium-term moving average.
Chikou span (lagging span)	Maroon	Today's closing price plotted 26 bars back.	
Senkou span A	Red	(Tenkan sen + kijun sen) / 2, offset 26 bars ahead.	Forward-adjusted moving average. Upper boundary of support area, lower boundary of resistance area (cloud, or kumo).
Senkou span B	Blue	(Highest high of past 52 bars + lowest low of past 52 bars) / 2, offset 26 bars ahead.	Forward-adjusted moving average. Lower boundary of support area, upper boundary of resistance area (cloud, or kumo).

the lines labeled in Figure 1.

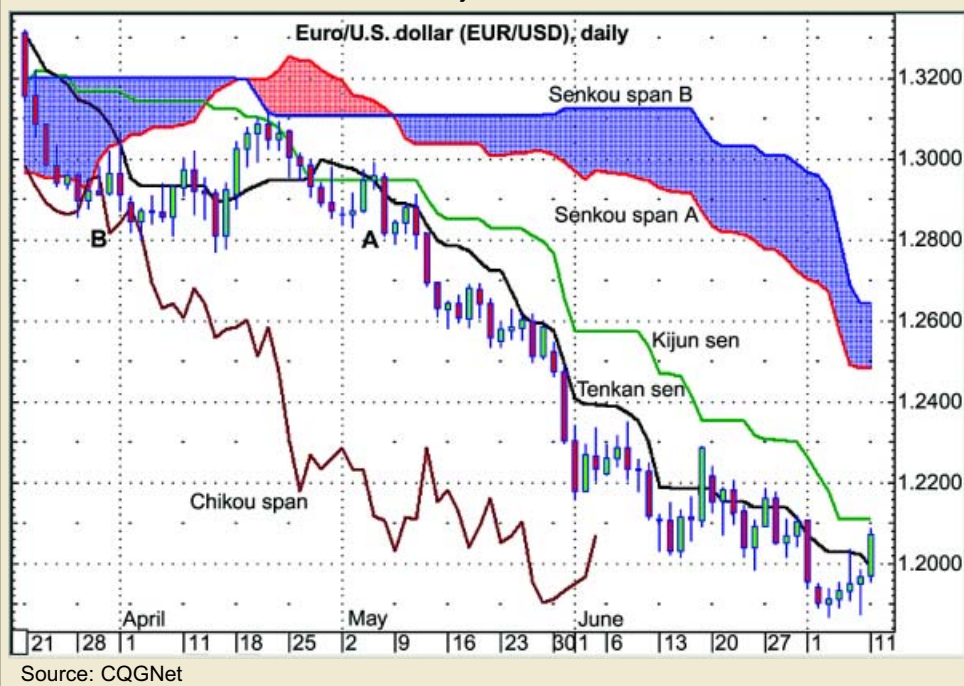
Figure 1 is an example of a strong uptrend. First, the short-term tenkan sen, which is the "signal line," is rising and is above the kijun sen, which is the longer-term "base line." In addition, both these lines are above the shaded cloud area, or *kumo*, that lies between senkou span A and senkou span B. Finally, the chikou span, which is the closing price plotted 26 bars back, is climbing. (The chikou span basically provides a convenient way to contrast today's closing price to the closing price 26 bars ago by comparing the end point of the chikou span to the close of the bar directly above or below it.)

Basically, the tenkan sen represents a short-term moving average, the kijun sen represents an intermediate-term

*continued on p. 20*

**FIGURE 2 — ICHIMOKU LINES IN DOWNTREND**

*During this downtrend, the kumo (which represents a resistance level) is above the market and the tenkan sen is below the kijun sen.*

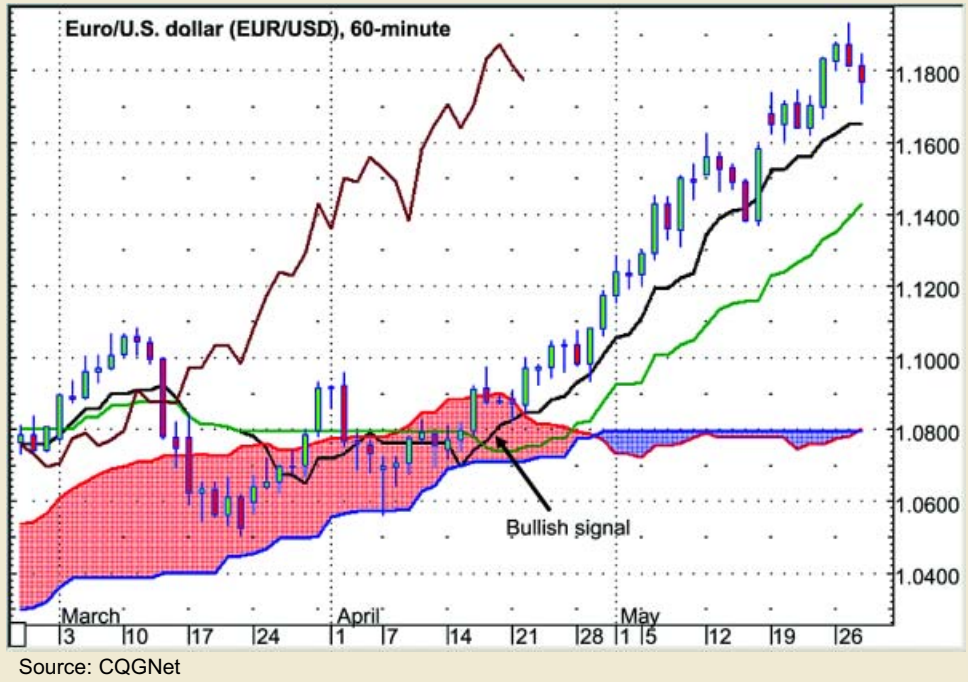


Source: CQGNet



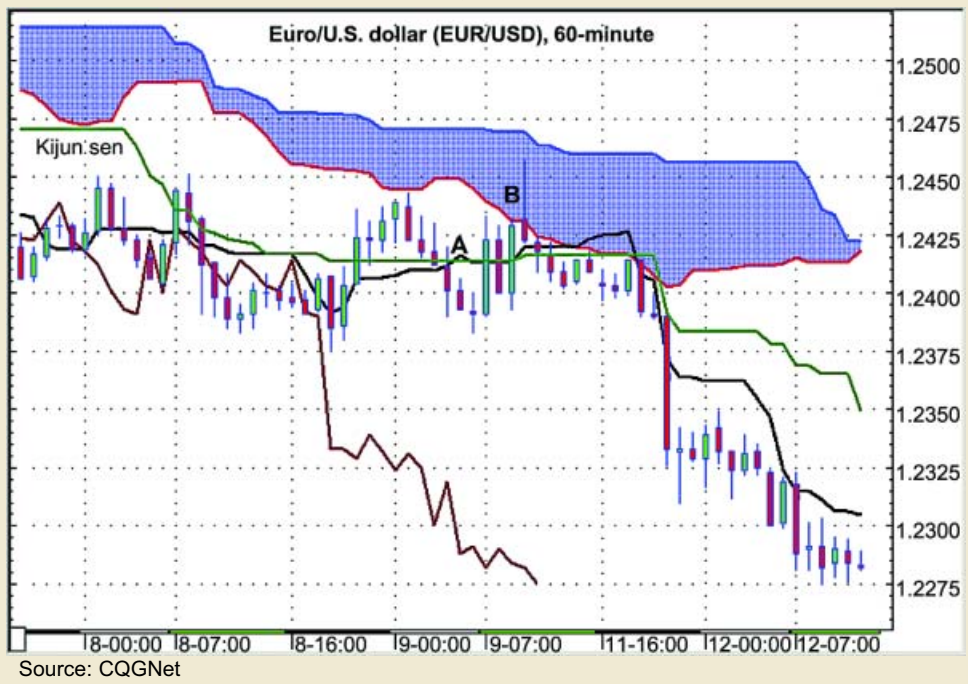
**FIGURE 3 — BULLISH CROSSOVER**

*A basic bullish signal occurs if the price action is supported by the kumo and the tenkan sen crosses above the kijun sen.*



**FIGURE 4 — INTRADAY PERSPECTIVE**

*The kumo is acting as resistance in this chart. At point A, the tenkan sen crossed above the kijun sen, but the market could not rally above the kumo.*



moving average, and the kumo functions as a longer-term moving average, or support-resistance zone.

A downtrend is considered to be in effect when the tenkan sen is below the kijun sen and both lines are below the kumo. In Figure 2, at point A, the tenkan sen crosses below the kijun sen, signaling a downtrend. According to Ichimoku analysis, the significance of this downside crossover was supported by the fact that both lines (and price) were below the kumo. In addition, the chikou span was below the tenkan sen and kijun sen when the crossover occurred (B). Look to the end-point of the chikou span and compare it's placement relative to the closing price directly above/below it on the chart. In other words, the chikou span is comparing today's closing price to the closing price 26 bars ago. If the chikou span is above the closing price 26 bars ago, buyers are in charge. If the chikou span is below the closing price 26-bars ago, sellers are dominating.

The kijun sen can be thought of as the line defining the primary trend monitored by the approach. In Figure 3, the price action crisscrosses the flat kijun sen from mid-March to mid-April and remains mostly within the cloud (kumo). Here, the kumo functions as support. The chart shows how price dipped into the kumo in late March while the kijun sen was moving sideways just above the kumo. The kijun sen and the kumo intersected around the second week of April, but as



price began to advance the tenkan sen crossed above the kijun sen, signaling the beginning of an uptrend.

Figure 4 is a 60-minute chart of the EUR/USD pair. In this example, the kumo acts as resistance. The kijun sen works its way lower across the chart, reflecting the downtrend. The tenkan sen crossed above the kijun sen at point A, but the market could not penetrate the kumo more than once (point B). Price subsequently dropped below the kijun sen, and then the tenkan sen crossed below the kijun sen, signaling the renewed downtrend.

### Analyzing the approach

In reviewing the Ichimoku technique, there are obvious similarities between it and classic moving average crossover techniques, in which trend moves are signaled when either price crosses above or below a moving average or a shorter-term moving average crosses above or below a longer-term moving average. The tenkan sen and kijun sen lines are simply different ways to calculate short- and intermediate-term trend indicators. Instead of using the average price over the past nine and 26 bars, they use the midpoint of the range (highest high minus lowest low) over the past nine and 26 bars, respectively.

Figure 5 is the 60-minute chart of the EUR/USD pair comparing the kijun sen (green line) to a 26-bar simple moving average (red line). At the left side of the chart, price, moving average, and the kijun sen are all declining. At point A the market is moving sideways and both the moving average and the kijun sen turn flat. At point B, the kijun sen turns up one step while the moving average is heading down. The kijun sen moves horizontally after

*continued on p. 22*

**FIGURE 5 — KIJUN SEN AND SMA**

Here the action of the kijun sen line (green) is compared to the 26-bar simple moving average (red). As the market moves sideways, the moving average begins to track each turn.



**TABLE 2 — TENKAN-KIJUN CROSSOVER VS. MOVING AVERAGE CROSSOVER: EURO (EC) FUTURES, 2-9-04 TO 2-9-06**

Using look-back periods of 9 and 26 days, the Ichimoku line crossover and moving average crossover were comparable in terms of the number of trades, winning percentage, and overall profitability.

Tenkan-Kijun	All trades	Long trades	Short trades
Total net profit	(\$8,762.50)	(\$3,600.00)	(\$5,162.50)
Number of trades	21	11	10
Percent profitable	23.81%	18.18%	30.00%
Winning trades	5	2	3
Losing trades	15	9	6
Even trades	1	0	1
Moving average	All trades	Long trades	Short trades
Total net profit	(\$6,987.50)	(\$2,625.00)	(\$4,362.50)
Number of trades	23	12	11
Percent profitable	34.78%	33.33%	36.36%
Winning trades	8	4	4
Losing trades	15	8	7
Even trades	0	0	0



the one upturn, and the moving average turns back up again. Then at point C price turns down, the kijun sen quickly follows, and the moving average rolls over again. In this case, the direction of the steps by the kijun sen appears to be a slightly better representation of the trend than the moving average.

**Testing the lines**

To better understand how the tenkan sen and kijun sen lines compare to moving averages, we tested simple trade signals using both tools. The Ichimoku signals consisted of going long when the tenkan sen line crossed above the kijun sen line and going short when the tenkan sen line crossed below the kijun sen line. Similarly, the moving average strategy went long when a shorter-term average crossed above a longer-term average and went short on the opposite condition.

The first test compared a nine- and 26-day simple moving average crossover to a crossover of the standard (nine-day) tanken sen and (26-day) kijun sen lines in the daily euro currency futures (EC) from Feb. 9, 2004 to Feb. 9, 2006. Table 2 summarizes the results. The two approaches were very similar. The moving average crossover technique produced two more trades overall and higher winning percentages, but the end results were comparable. Figure 6 shows charts with signals from both strategies.

One aspect of the Ichimoku technique is that it uses defined look-back periods — nine and 26 days for the tenkan sen and kijun sen lines. As is the case with any indicator, the choice of look-back period will in large part dictate the results. No one look-back period will work in all conditions or markets. To expand on the first test, a second test was conducted using 20- and 60-day periods for the moving averages and the tenkan sen and kijun sen lines. This time, the strategies were tested on daily U.S. dollar/Japanese yen rate (USD/JPY) prices from Feb. 8, 2001 to Feb. 9, 2006. Figure 7 shows some of these trade signals and the test results are shown in Table 3.

Again, the number of trades is roughly the same and the Ichimoku signals have lower winning percentages (and in this case, lose much more money).

These tests are not intended to prove the relative merit of one technique over the other, but merely to illustrate their similarities. There is no reason to suppose the number of days used in

**FIGURE 6 — CROSSOVER COMPARISON 1**

The nine-day tenkan sen and 26-day kijun sen lines (bottom) appear similar to the 9- and 26-day simple moving averages. The crossover signals triggered in both cases are roughly equivalent, but not precisely the same.



Source: TradeStation

**TABLE 3 — TENKAN-KIJUN CROSSOVER VS. MOVING AVERAGE CROSSOVER: U.S. DOLLAR/JAPANESE YEN, 2-8-01 TO 2-9-06**

Using 20- and 60-day periods for the moving averages and the Ichimoku lines again produce comparable results over a five-year test period.

Tenkan-Kijun	All trades	Long trades	Short trades
Total net profit	(¥3,169,000.00)	(¥1,866,000.00)	(¥1,303,000.00)
Total number of trades	30	15	15
Percent profitable	26.67%	26.67%	26.67%
Winning trades	8	4	4
Losing trades	22	11	11
Moving average	All trades	Long trades	Short trades
Total net profit	(¥975,000.00)	(¥765,000.00)	(¥210,000.00)
Total number of trades	26	13	13
Percent profitable	38.46%	38.46%	38.46%
Winning trades	10	5	5
Losing trades	16	8	8



one technique is directly transferable to the other, although the tests suggest lines using the same number of days are roughly comparable in both techniques. The Ichimoku line crossovers and the moving average crossover have the same function and produce similar results. More comprehensive testing might uncover interesting aspects of the Ichimoku lines, but there is no reason to think of them as anything other than moving average-type signals. Most of the available Ichimoku literature on the Internet consists of generalizations and unsubstantiated claims about the technique's usefulness.

### No need for subjectivity

There's no need to ascribe any special properties or abilities to the Ichimoku lines, and certainly no reason to accept any subjective interpretations of what they represent or how useful they are. (For example, signals are sometimes described as strong, weak, or normal, depending on whether crossovers occur above, below, or within the kumo, among other factors.) Testing should determine that, and the tests here offer a departure point for more analysis. Similar quantification and study could be conducted of the senkou lines, which are the longer-term support-resistance pieces of the Ichimoku puzzle.

Like moving averages and similar tools, the Ichimoku technique is vulnerable to producing repeated false signals in non-trending markets. Traders interested in the technique should first absorb the basic concepts, and then perform historical analysis in the markets and time frames they trade. ☺

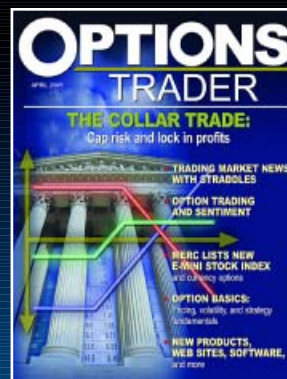
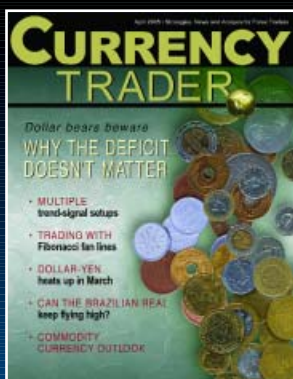
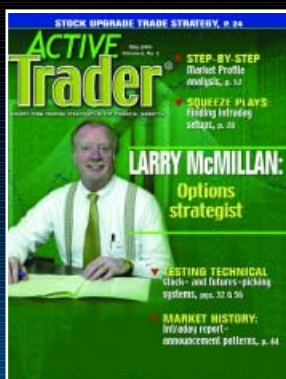
**FIGURE 7 — CROSSOVER COMPARISON 2**

*Longer-term moving average and Ichimoku lines again appear to be similar in shape and function.*



Source: TradeStation

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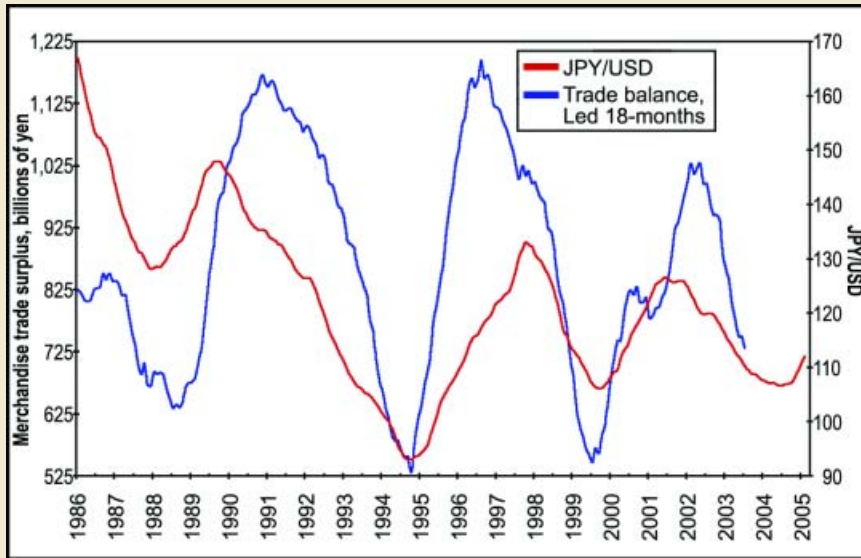
# The yen stands alone

BY HOWARD L. SIMONS

The usual rules of the currency world don't necessarily apply to the Japanese yen. Will that continue to be the case, or is Japan poised to revamp its economic model in a way that will dramatically alter the yen's longstanding dynamics?

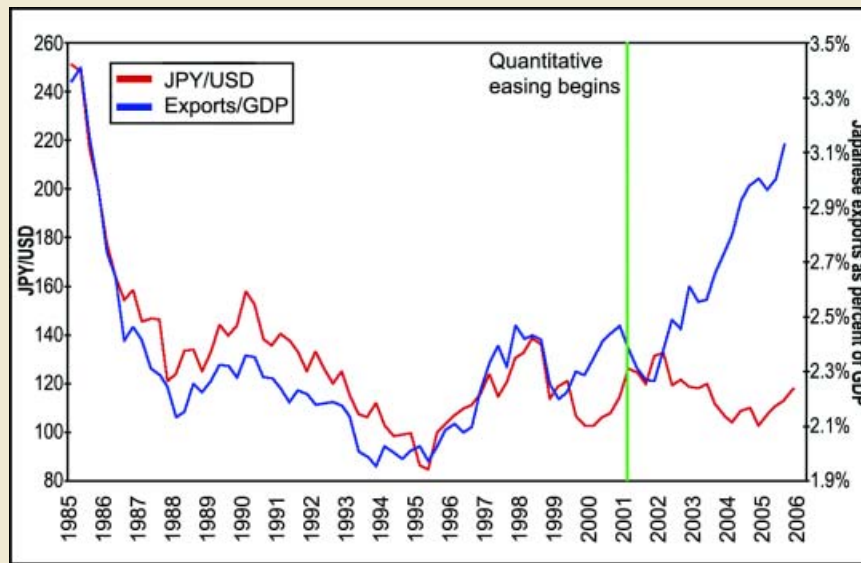
**FIGURE 1 — JAPAN'S TRADE SURPLUS VS. JPY/USD RATE, 12-MONTH ROLLING AVERAGES**

*A stronger yen appears to lead a reduced trade surplus by about 18 months, while the opposite is true for a weaker yen.*



**FIGURE 2 — JAPAN ADJUSTS TO A STRONG YEN**

*Japan's exports as a percentage of GDP and the yen aligned closely between 1985 and 2001, then diverged sharply afterwards. Before the BOJ began its program of quantitative easing in March 2001, a stronger yen reduced exports as a percentage of GDP. After March 2001, the export percentage rose without the yen weakening at all.*



It is fair to note, as the Japanese themselves do, that Japan is one of the more group-oriented societies in the world. An old Japanese proverb warns, "The nail that sticks up will be hammered down." How odd, then, that the Japanese yen — 13.6 percent of the benchmark dollar index (DXY) — is a currency with its own rhythm. It truly marches to the beat of a different drummer.

To an extent casual observers have difficulty believing, most currencies are more or less disconnected from their country's external trade balance (see "What Drives the Dollar Index?" *Currency Trader*, January 2006). Instead, they tend to rise and fall as a function of interest-rate differentials, yield-curve shapes, and returns on assets denominated in that currency.

Japan and the yen (JPY) are an exception for several reasons. First, Japan has a virtually permanent trade surplus with the world as a whole and the U.S. in particular. This means importers of Japanese goods must buy JPY to settle their purchases, regardless of the return on holding yen.

Second, as we shall see in detail, Japan's long experience with deflation and its failed attempts to resuscitate its economy with near zero-percent nominal interest rates made normal covered interest arbitrage impossible and produced some odd effects in the market.

Third, while all governments have

meddled in foreign exchange markets, none have meddled as blatantly as Japan. The country rightfully fears its export markets are going to be captured in large measure by other Asian exporters; China in particular.

Fourth, Japan reacted to trade protectionism in the U.S. and elsewhere with a combination of bloated public works expenditures designed (in vain) to increase consumption, occasional policies favoring a strong yen, and direct investment in customer countries (e.g., the automobiles formerly exported from Yokohama are now made in Tennessee and Ohio).

Finally, even as currencies worldwide and the DXY are increasingly linked to both the long end of their respective national yield curves and stock index performance, the JPY appears unrelated to either of these capital market considerations.

### The yen and trade

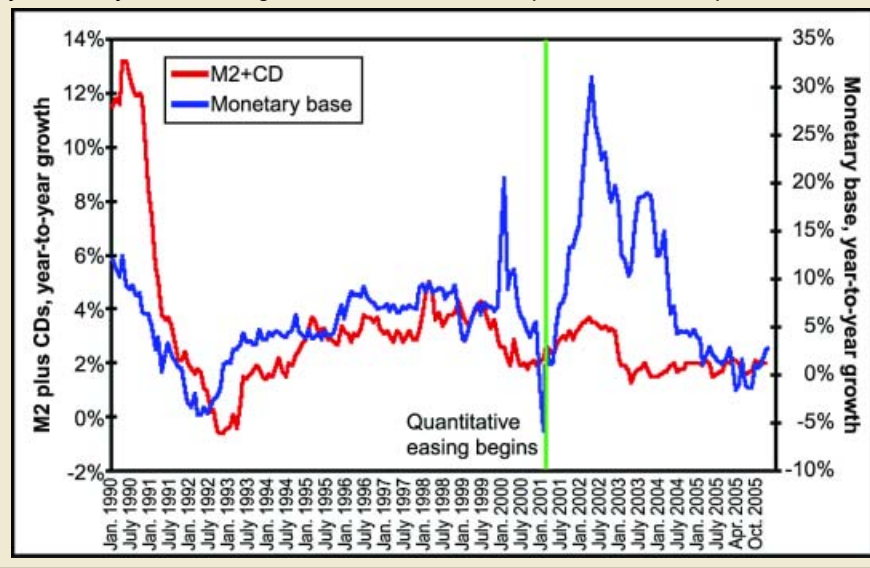
The original theory advanced on behalf of floating exchange rates held they would produce self-correcting trade balances (see "The dollar index and 'firm' exchange rates," *Currency Trader*, December 2005). A trade-deficit nation's currency would depreciate and have less power to purchase goods and services in the world market, while a trade-surplus nation's currency would appreciate with the opposite effect. While this is true for the U.S. dollar (USD) and nearly every other currency of significance, the U.S. trade deficit has been uncorrelated with the DXY for more than 30 years.

However, Japan's merchandise trade surplus does appear to be related to the JPY (Figure 1). If we map a 12-month rolling average of the Japanese trade surplus against a 12-month rolling average of the JPY, we find a stronger yen appears to lead a reduced trade surplus by about 18 months; the opposite is true for a weaker yen. The abrupt strengthening of the yen in the mid-90s reduced the monthly trade surplus on the order of ¥650 billion from peak to trough.

A second way of looking at the same phenomenon is to map Japan's exports as a percentage of its gross domestic product (GDP) against the JPY (Figure 2). The two series align closely between 1985 and 2001, and then diverge sharply afterwards. Before the Bank of Japan began (in March 2001) its program of "quantitative easing," a techni-

**FIGURE 3 — M2 NEVER GREW DURING QUANTITATIVE EASING**

Once quantitative easing began, the monetary base grew as rapidly as 31 percent year-over-year. But M2 growth never exceeded 4 percent over this period.



**FIGURE 4 — ADVENTURES IN MONETARY POLICY**

The historic easing and subsequent tightening engineered by the U.S. Federal Reserve is highly visible in this chart. The JPY LIBOR went under 5 basis points in 2003, an absolute level more than 20 times lower than the USD low-point.



cal term for shoving money down commercial banks' throats, a stronger JPY reduced exports as a percentage of GDP. After quantitative easing began, the export percentage rose without the JPY weakening at all.

### The yen carry trade

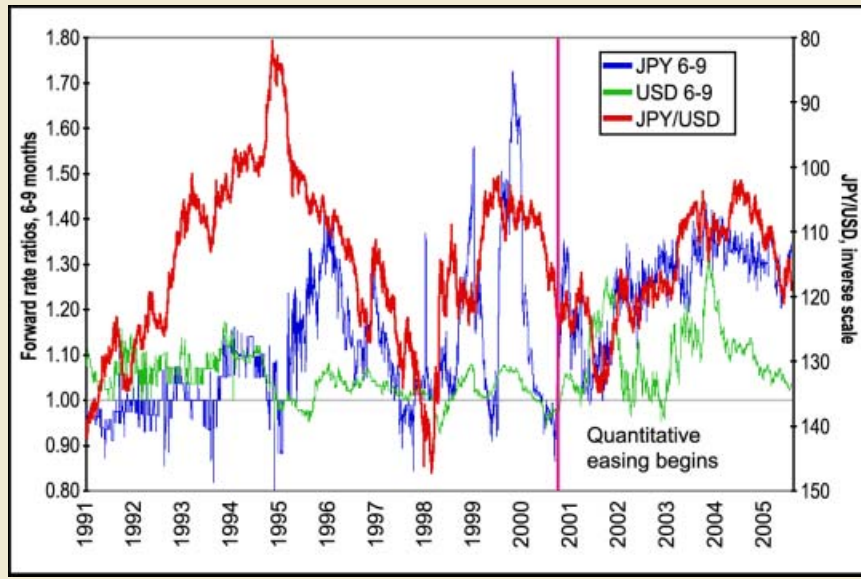
This demands explanation. Logic would dictate the manic creation of yen would make each one worth less. But during this period global borrowers, rather than Japanese borrowers, swooped in to take advantage of the cheap JPY. The colossal purchases of U.S. Treasury securities by official Japanese institutions (read: the Bank of Japan) during this

*continued on p. 26*



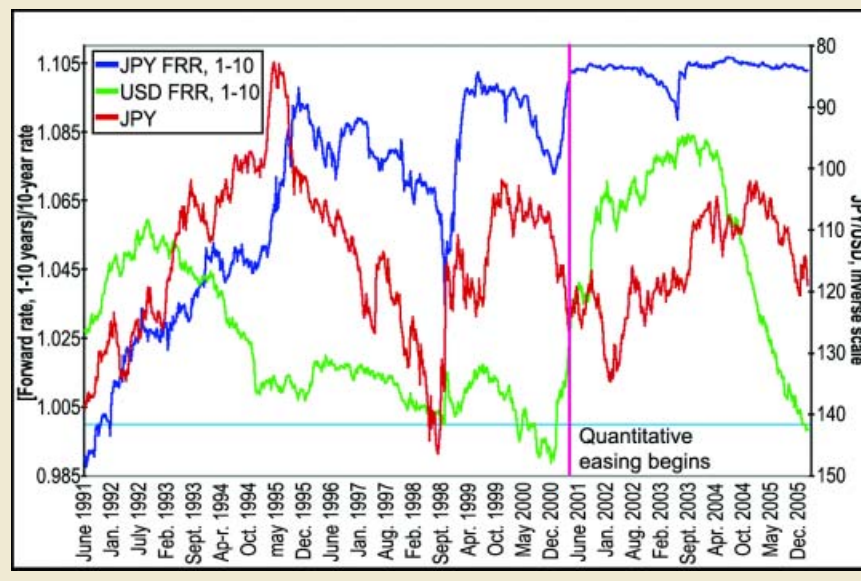
**FIGURE 5 — MADE IN JAPAN: YEN DRIVEN BY JAPANESE MONEY CURVE**

The forward rate ratio (FRR) between six and nine months is calculated by taking the forward rate between six and nine months (the rate at which you can lock in three-month borrowing starting six months from now) and dividing it by the nine-month rate itself. The more the FRR exceeds 1.00, the looser the money policy is.



**FIGURE 6 — THE YEN AND THE YIELD CURVES**

After quantitative easing began in 2001, the yen FRR remained largely frozen at steep levels while the USD FRR steepened and flattened at this horizon. The yen ignored both curves.



period is but one example of what became known as the “yen carry trade.” A non-Japanese borrower would borrow JPY at near-zero percent rates, swap the JPY for their currency and then lend that currency at the higher available rate.

The risk of this trade was JPY appreciation, but as the Bank of Japan’s policy appeared to be to keep the JPY from appreciating, hedgers simply bought barrier call options and other capping devices on the JPY for a relatively cheap

rate at which you can lock in three-month borrowing starting six months from now) and dividing it by the nine-month rate itself. The more the FRR exceeds 1.00, the looser the money policy is. A FRR less than 1.00 indicates an inversion of the money market curve.

The JPY FRR was less than its USD counterpart for long stretches of time in the first half of the 90s, and predictably the JPY soared against the USD in reflection of Japan’s

hedge. The yen carry trade was a form of vendor financing: By financing Japan’s customers, the Bank of Japan was able to support Japan’s export industries in the face of the Chinese onslaught.

There are several ways to illustrate the extent of the yen carry trade. One is to compare the annualized growth of Japan’s monetary base (its currency circulation plus reserve deposits at central banks) against M2 plus certificates of deposit. The former can grow by central bank action; the latter grows by extension of credit domestically.

Once quantitative easing began, monetary base grew as rapidly as 31 percent on a year-over-year basis (Figure 3). M2 growth never exceeded 4 percent over this period. Someone other than Japanese banks had to be taking advantage of the cheap JPY.

**How cheap is cheap?**

The extent of Japan’s monetary easing is difficult to comprehend even in hindsight. Let’s compare the yields on three-month JPY and USD LIBOR on logarithmic scales (JPY LIBOR would be difficult to depict otherwise). The historic easing and subsequent tightening engineered by the Federal Reserve is highly visible in Figure 4. The USD scale goes down to 1 percent. The JPY scale has to go down another two cycles, to .01 percent. Japanese yen LIBOR fell below 5 basis points in 2003, an absolute level more than 20 times lower than the USD low-point.

It is not the level of JPY or USD rates that determine how the non-deliverable forwards will be priced, but rather the reinvestment rates three months from the time of the spot transaction. The best metric for these is the forward rate ratio (FRR) between six and nine months. This is calculated by taking the forward rate between six and nine months (the



*The disconnection between the yen and relative stock index movement is pronounced. After 1998 the Nikkei stock index re-coupled with the world's major stock indices, while the yen remained in a wide trading range, largely between 105 and 125.*



tighter money policies (Figure 5). This changed abruptly after the JPY peaked in March 1995, and then the JPY predictably weakened. However, during the long stretch after quantitative easing began, the JPY rose until late 2004, at which point the Federal Reserve's rate-hike campaign began to firm the USD.

Can we therefore adopt a simple trading strategy — going short the JPY as long as the JPY FRR exceeds its USD counterpart? Absolutely not: Not only is the impending end of the Bank of Japan's quantitative easing program going to put an end to the massive borrowing-and-selling of the JPY, but Japan's customers will need to buy JPY to pay their bills. The JPY may drift lower over time but be interrupted by violent short-covering rallies. Sell and hold will not work.

**No capital connection**

While currencies such as the Canadian dollar (CAD, see "Remember the Forgotten Currency," *Currency Trader*, February 2006) appear driven to a large extent by relative capital market flows, the JPY increasingly has ignored these effects in recent years.

Prior to the onset of quantitative easing, the JPY had a modest correlation with the FRR from one to 10 years in the Japanese market and no relationship with the USD FRR from one to 10 years (Figure 6). After quantitative easing began, the JPY FRR remained largely frozen at steep levels while the USD FRR both steepened and flattened at this horizon. The JPY ignored both curves.

The disconnection between the JPY and relative stock index movement is even more pronounced. Prior to the failure of the hedge fund Long Term Capital Management in fall 1998 — an event that triggered a sudden and massive (11 JPY per USD in one night) revaluation of the JPY — the relative performance of the Nikkei 225 to the broad-based Russell 3000 index declined regardless of the JPY's course (Figure 7).

After 1998, and to an extent largely unappreciated by many investors, the Nikkei re-coupled with the world's major stock indices while the JPY remained in a wide trading range between approximately 105 and 125. True, the Nikkei's 2005 rally occurred while the JPY weakened, but as the opposite relationship of a weakening Nikkei combined with a strengthening JPY never occurred, we cannot posit any causal relationship.

**Old habits die hard**

The long-term track record of competitive currency devaluation and export-led growth has not been a happy one wherever it has been tried. Unfortunately for Japan and the other major East Asian economies of China, South Korea,

and Taiwan, this region appears wedded culturally to the mercantilist model.

As Japan emerges slowly from the deflationary recession cycle it has faced since 1990 and grapples with what is thought to be the oldest society in human history, we can expect them to hew to their export-led model. Consumption in an aged society with government debt in excess of 130 percent of GDP is not the way to grow, so they probably have no choice but to maintain export growth. This means protecting their markets from Chinese and other competition.

As much as Japan might like to end the easy money era, they have not availed themselves the opportunity to do so. The yen carry trade is likely to persist as a form of vendor financing, one that has yet to weaken the JPY. We can expect the JPY to continue its unique path of slow declines and violent rallies as these policies remain in place.

On a chart the JPY will continue to look like no other currency and will insert significant volatility into the DXY. And Japan will continue to be the currency nail everyone else tries to hammer down. ☹

*For information on the author see p. 6.*

**Related reading**

**Other articles by Howard L. Simons:**

**"The dollar index and 'firm' exchange rates"**  
*Currency Trader*, December 2005

**"What drives the dollar index?"**  
*Currency Trader*, January 2006

**"Remember the forgotten currency"**  
*Currency Trader*, February 2006

*You can purchase and download articles at [www.activetradermag.com/purchase\\_articles.htm](http://www.activetradermag.com/purchase_articles.htm).*



## Trend Strength indicator

**Market:** Currencies.

**System concept:** The Trading System Lab in the August 2005 issue of *Active Trader* magazine introduced the Trend Strength indicator, which was designed to define trend strength and direction. The indicator compares the current closing price to several simple moving averages (SMAs). The greater the number of averages below the current closing price, the higher the indicator's value and the stronger the uptrend. The greater the number of averages above the current closing price, the lower the indicator's value and the stronger the downtrend.

The indicator oscillates between +100 (when price is above all the moving averages) and -100 (when price is below all the moving averages). When the indicator value is zero, the closing price is exactly between the averages — i.e., it is above half of them and below the other half. Positive indicator values reflect uptrends and negative values indicate downtrends.

The system tested here uses a Trend Strength indicator based on six SMAs with look-back periods ranging from 10 to 60 days (in steps of 10). The system goes long when the indicator reaches +100 and goes short when it reaches -100. When it crosses the zero line, the system exits the position.

Figure 1 shows a daily chart of Swiss franc futures from February to May 1995 with the six moving averages overlaid on price and the Trend Strength indicator value in the upper window. Notice how the distance from the lowest SMA to the highest SMA changes depending on whether the market's momentum is high (the February-March up swing) or low (the March-May consolidation).

A long trade was initiated on Feb. 15 after the indicator reached 100 the day before. A strong uptrend followed, dur-

ing which the indicator never dropped below zero. On May 10, price dropped below four of the moving averages, resulting in the indicator crossing below the zero line; the system exited the next day, May 11, with a gain of 10.7 points. Because of the sharp price drop, the indicator reached -100, and the system went short the next day.

**FIGURE 1 — SAMPLE TRADES**

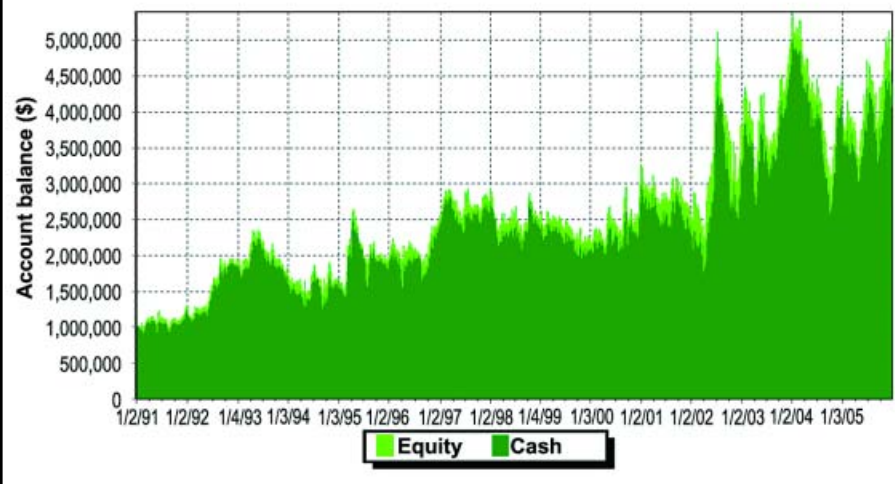
*The system was able to catch an uptrend early (when the Trend Strength indicator hit +100) and exit on a timely basis (when the indicator crossed below zero).*



Source for all figures: Wealth-Lab Inc. ([www.wealth-lab.com](http://www.wealth-lab.com))

**FIGURE 2 — EQUITY CURVE**

*Although the system was profitable overall, the returns were highly volatile, especially in the final three years of the test period.*





## Rules:

1. **Enter long** next day at market when the Trend Strength indicator reaches +100.
2. **Exit long** next day at market when the Trend Strength indicator crosses below zero.
3. **Stop-loss: Exit with a loss** on a move above the highest SMA value at the time of entry.
4. **Enter short** next day at market when the Trend Strength indicator reaches -100.
5. **Exit short** next day at market when the Trend Strength indicator crosses above zero.
6. **Stop-loss: Exit with a loss** on a move above the highest SMA value at the time of entry.

*continued on p. 30*

STRATEGY SUMMARY			
	Long + Short	Long Only	Short Only
Starting capital (\$)	1,000,000.00	1,000,000.00	1,000,000.00
Ending capital (\$)	4,300,282.93	4,365,662.50	934,620.43
Net profit (\$)	3,300,282.93	3,365,662.50	-65,379.57
Net profit (%)	330.03	336.57	-6.54
Annualized gain (%)	10.21	10.32	-0.45
Exposure (%)	7.91	3.96	10.24
Number of trades	592	277	315
Avg profit/loss (\$)	5,574.80	12,150.41	-207.55
Avg profit/loss (%)	0.12	0.24	0.01
Avg bars held	18.79	19.06	18.55
Winning trades	167	77	90
Winning %	28.21	27.80	28.57
Gross profit (\$)	20,800,039.77	11,730,114.71	9,069,925.06
Avg profit (\$)	124,551.14	152,339.15	100,776.95
Avg profit (%)	3.50	3.98	3.09
Avg bars held	45.19	46.61	43.97
Max consecutive	6	7	5
Losing trades	425	200	225
Losing %	71.79	72.20	71.43
Gross loss (\$)	-17,499,756.85	-8,364,452.21	-9,135,304.64
Avg loss (\$)	-41,175.90	-41,822.26	-40,601.35
Avg loss (%)	-1.21	-1.20	-1.22
Avg bars held	8.42	8.46	8.38
Max consecutive	15	23	27
Max drawdown (\$)	-2,553,515.50	-2,160,939.00	-3,666,018.25
Max drawdown (%)	-47.28	-62.75	-144.75
Max drawdown date	10/14/2004	12/30/2005	5/4/2005
Wealth-Lab score	68.07	97.07	-10.74
Profit factor	1.19	1.40	0.99
Recovery factor	1.29	1.56	0.02
Payoff ratio	2.89	3.32	2.53
Sharpe ratio	0.49	0.48	-0.46
Ulcer index	20.63	30.18	54.60
Wealth-Lab error term	9.00	18.40	253.37
Wealth-Lab reward ratio	1.13	0.56	0.00
Luck coefficient	4.69	4.01	5.32
Pessimistic rate of return	1.00	1.06	0.85
Equity drop ratio	0.57	0.63	0.00

LEGEND: Starting capital — Equity at the beginning of the simulation period • Ending capital — Equity at the end of the simulation period • Net profit — Profit at end of test period, less commission • Net profit % — Profit at end of test period in percent of starting equity • Annualized gain % — Compounded annual growth rate • Exposure — The area of the equity curve exposed to long or short positions, as opposed to cash • Number of trades — The total number of round-trip trades plus open positions • Avg profit/loss — The average profit/loss per trade in dollars • Avg profit/loss % — The average percentage profit/loss per trade • Avg bars held — The average number of bars held per trade • Winning trades — The total number of winning trades • Winning % — The percentage of winning trades • Gross profit — The total profit generated by the winning trades, minus commissions and slippage • Avg profit — The average profit per winning trade • Avg profit % — The average percentage profit per winning trade • Avg bars held — The average number of bars held per winning trade • Max consecutive — The maximum number of consecutive winners • Losing trades — The total number of losing trades • Losing % — The percentage of losing trades • Gross loss — The total loss generated by the losing trades, minus commissions and slippage • Avg loss — The average loss per losing trade • Avg loss % — The average percentage loss per losing trade • Avg bars held — The average number of bars held per losing trade • Max consecutive — The maximum number of consecutive losers • Max drawdown — Largest decline in equity in dollars • Max drawdown % — Largest percentage decline in equity • Max drawdown date — Date on which the max drawdown was realized • Wealth-Lab score — an overall measure of profitability, exposure (efficiency), and risk • Profit factor — Gross profit divided by gross loss • Recovery factor — Net profit divided by max. drawdown • Payoff ratio — Average profit of winning trades divided by average loss of losing trades • Sharpe ratio — Annualized average return divided by the annualized standard deviation of returns • Ulcer index — A measure of the portfolio's overall volatility • Wealth-Lab error term — The average of the absolute values of all percentage distances along the equity curve from its linear regression line • Wealth-Lab reward ratio — Annual percentage return divided by the Wealth-Lab error term • Luck coefficient — The percentage profit of the largest winning trade divided by the average percentage profit of all winning trades • Pessimistic rate of return — A statistical adjustment of the wins to losses ratio that estimates the worst-expected return from previous results • Equity drop ratio — The standard deviation of all drops in the equity curve — measured from each equity low to the previous equity high — divided into the annualized return.

Currency System Analysis strategies are tested on a portfolio basis (unless otherwise noted) using Wealth-Lab Inc.'s testing platform. If you have a system you'd like to see tested, please send the trading and money-management rules to [editorial@currencytradermag.com](mailto:editorial@currencytradermag.com).

*Disclaimer: Currency System Analysis is intended for educational purposes only to provide a perspective on different market concepts. It is not meant to recommend or promote any trading system or approach. Traders are advised to do their own research and testing to determine the validity of a trading idea. Past performance does not guarantee future results; historical testing may not reflect a system's behavior in real-time trading.*



**Test period:** January 1991 to December 2005.

**Test data:** The system was tested on ratio-adjusted continuous data in the following currency futures contracts: British pound (BP), euro (EC), Japanese yen (JY), and Swiss franc (SF). Data source: Pinnacle Data Corp. ([www.pinnacledata.com](http://www.pinnacledata.com)).

the entry price and the stop-loss level ( $\$100 - \$99.50 = \$0.50$ ). In this case, a single contract's risk is  $\$625 (\$1250 * .50)$ . The system can risk  $\$30,000$  for this trade, so it buys 48 contracts ( $\$30,000 / 625$ ).

**Test results:** Over 15 years the system had an annualized gain of 10.2 percent, which is a high figure in light of the system's low exposure (7.9 percent). However, although the equity curve (Figure 2) shows an overall increase, it's also highly volatile — especially during the last three years of the simulation period. Figure 3 shows during that time the system suffered its highest drawdowns (up to 47 percent). Such setbacks are difficult for traders to withstand.

Figure 4's annual results graph reveals profits were distributed unevenly. Although individual years produced returns as high as 50 percent, seven of 15 years were losers. It's generally preferable to have smaller but steadier returns.

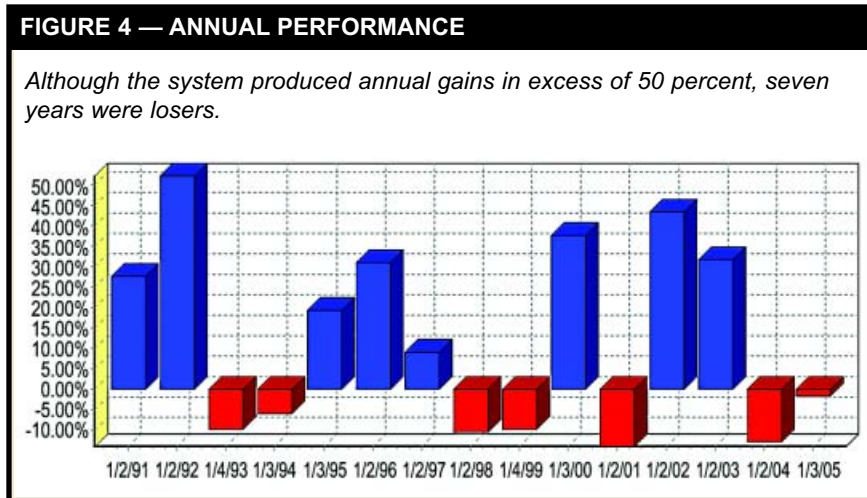
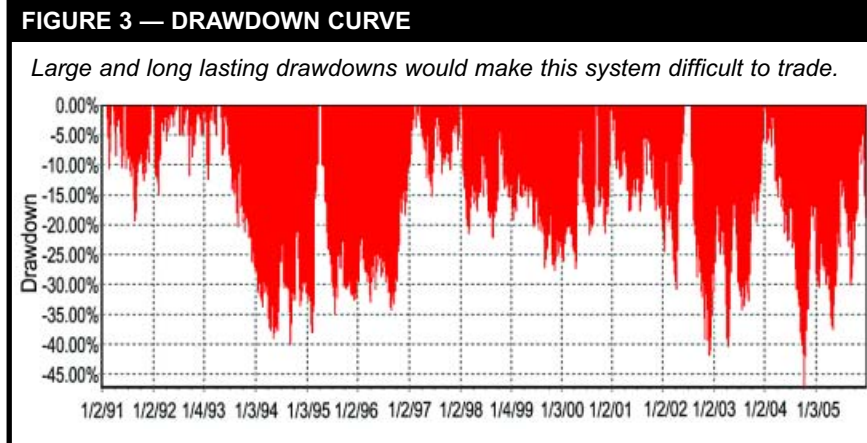
Similar to other trend-following systems, this one has a relatively low percentage of winners combined with a high average profit per trade. The average number of bars per trade is 18.79 days; in case of winning trades, that number increases to 45.19 days. This means the system makes most of its profits out of few trades that catch trends lasting, on average, about two months. The majority of trades are exited quickly (8.42 days on average) with relatively small losses.

Although these characteristics make the system less susceptible to higher slippage and commission costs, they are also the reason for its high volatility and large drawdowns.

Finally, it is interesting the system performs much better on the long side than the short side. More research is necessary to analyze the reasons for this behavior.

**Bottom line:** The test results present a challenge, as they show positive long-term returns but highly volatile returns that would make it difficult for most traders to stick with the approach. Because the system's exposure is very low, however, one might consider using the remaining equity to invest in a different strategy that would help flatten the overall returns.

—José Cruset of Wealth-Lab



**Starting equity:** \$1,000,000. Deduct \$20 commission per round-trip trade per contract. Apply two ticks of slippage per stop order.

**Money management:** Risk a maximum of two percent of account equity per trade. The number of contracts is calculated using the entry price, the stop-loss level, and the dollar value of a one-point move.

For example, assume the system goes long at 100 in a contract in which a one-point move has a value of \$1,250. The stop-loss is at \$99.50. To determine the trade's dollar risk, multiply the point value (\$1,250) by the difference between





## 2006 off to sluggish start for FX managers

**D**espite a brisk start for commodity trading advisors (CTAs) in general this year, forex currency fund managers in January extended last year's slide.

According to the Barclay Group ([www.barclaygrp.com](http://www.barclaygrp.com)), the managed futures industry was up 1 percent in January — and hedge funds were up 3.7 percent — while currency CTAs posted a -0.09 percent return for the first month of the year.

The larger currency fund managers didn't seem to be faring especially well. Barclay's BTOP FX Index, which tracks the performance of the 50 largest currency CTAs, was down -2.01 percent on the year as of Feb. 27.

Currencies have been stagnating in the early part of the year, with many of the major currencies wandering in trading ranges as of late February after small moves early in the year.

### CURRENCY FUTURES SNAPSHOT as of 2/27/06

The information does NOT constitute trade signals. It is intended only to provide a brief synopsis of each market's liquidity, direction, and levels of momentum and volatility. See the legend for explanations of the different fields.

Contract	Pit sym	Elec sym	Exch	Vol	OI	10-day move	% rank	20-day move	% rank	60-day move	% rank	Volatility ratio/% rank
Eurocurrency	EC	6E	CME	142.3	138.8	-0.53%	24%	-2.23%	79%	0.53%	20%	.14 / 2%
Japanese yen	JY	6J	CME	58.2	164.6	1.35%	80%	0.61%	23%	2.86%	100%	.34 / 67%
British pound	BP	6B	CME	51.6	91.7	-0.25%	14%	-1.57%	62%	1.19%	73%	.23 / 20%
Swiss franc	SF	6S	CME	39.2	93.6	-1.30%	37%	-3.23%	84%	-0.76%	18%	.28 / 25%
Canadian dollar	CD	6C	CME	32.7	108.8	1.18%	67%	0.76%	31%	2.44%	49%	.36 / 42%
Australian dollar	AD	6A	CME	21.0	64.7	0.04%	29%	-1.85%	83%	-0.05%	3%	.14 / 7%
Mexican peso	MP	6M	CME	10.1	85.8	0.53%	36%	-0.05%	5%	1.22%	23%	.20 / 23%
U.S. dollar index	DX		NYBOT	4.0	26.0	0.14%	11%	1.58%	50%	-1.08%	55%	.09 / 2%
Euro / Japanese yen	EJ		NYBOT	1.8	24.3	-1.76%	70%	-2.82%	82%	-2.23%	100%	.62 / 85%
Euro / Swiss franc	RZ		NYBOT	0.3	8.9	0.88%	100%	1.06%	100%	1.37%	100%	.55 / 40%

Note: Average volume and open interest data includes both pit and side-by-side electronic contracts (where applicable). Price activity is based on pit-traded contracts.

#### LEGEND:

**Sym:** Ticker symbol.

**Vol:** 30-day average daily volume, in thousands.

**OI:** 30-day open interest, in thousands.

**10-day move:** The percentage price move from the close 10 days ago to today's close.

**20-day move:** The percentage price move from the close 20 days ago to today's close.

**60-day move:** The percentage price move from the close 60 days ago to today's close.

The "% rank" fields for each time window (10-day moves, 20-day moves, etc.) show the percentile rank of the most recent move to a certain number of the previous moves of the same size and in the same direction. For example, the % rank for 10-day move shows how the most recent 10-day move compares to the past twenty 10-day moves; for the 20-day move, the % rank field shows how the most recent 20-day move compares to the past sixty 20-day moves; for the 60-day move, the % rank field shows how the most recent 60-day move compares to the past one-hundred-twenty 60-day moves. A reading of 100% means the current reading is larger than all the past readings, while a reading of 0% means the current reading is lower than the previous readings. These figures provide perspective for determining how relatively large or small the most recent price move is compared to past price moves.

**Volatility ratio/% rank:** The ratio is the short-term volatility (10-day standard deviation of prices) divided by the long-term volatility (100-day standard deviation of prices). The % rank is the percentile rank of the volatility ratio over the past 60 days.

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## Understanding the Interbank

The forex Interbank system has unique characteristics that distinguish it from other markets.

Learn how it functions and how it has become more accessible to retail traders.

BY CURRENCY TRADER STAFF

**A** concern among some traders is the ongoing “fragmentation” of the stock market. Shares of IBM list on the New York Stock Exchange, but if you buy them, the actual purchase might occur on the NYSE, the Nasdaq, an ECN, or a regional exchange, all of whom might be showing a different price.

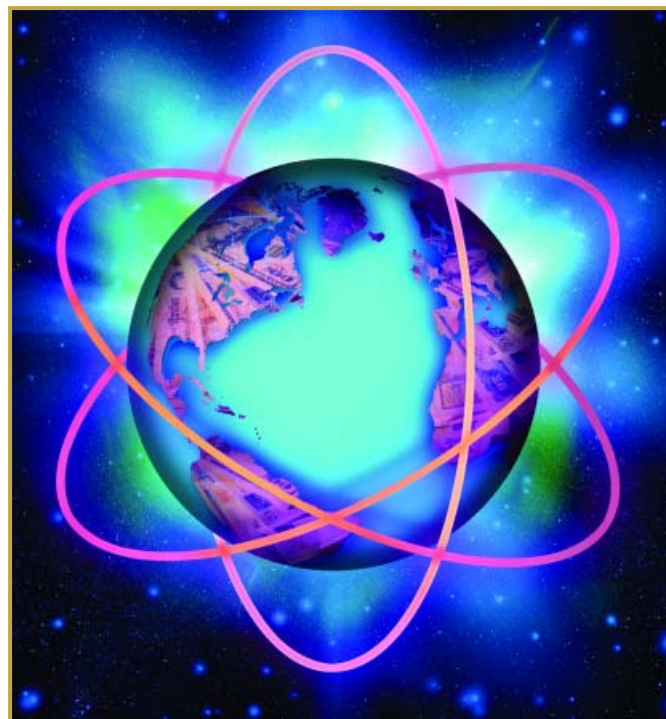
However, stock market execution is rather simple compared to the way foreign exchange trades occur. There is no central exchange for spot forex; most trading is done via something called the “Interbank” system, which consists of institutions around the globe that trade foreign currencies on a regular basis and thus have a large supply on hand — banks, obviously, but also insurance companies and other large firms that do business internationally. For companies in the Interbank, trading forex is necessary as a way to hedge against fluctuations in foreign currency prices, as well as to speculate on currency values.

Unlike the U.S. stock market, the Interbank is very loosely organized and minimally regulated. Firms from across the world are part of the Interbank, and the system operates virtually 24 hours a day, every weekday (except for the two hours or so each day between the closing of U.S. West coast businesses and the opening of Australian firms).

Large U.S. banks such as Credit Suisse First Boston, Chase Manhattan, and J.P. Morgan are part of the Interbank, as are large foreign institutions such as Dresdner Bank, Lloyds, and the Industrial Bank of Japan.

### How the Interbank works

For many years, the Interbank was inaccessible to retail traders because the minimum trade size and financial



requirements were too onerous for individuals. However, as the interest in forex trading increased (thanks in large part to the Internet, which gave the Interbank a place to display its data), retail forex brokerages sprouted up, essentially becoming “market makers” for the Interbank firms.

In some cases, these brokerages display prices from multiple Interbank firms. However, unlike the equity world, these prices are not necessarily “firm,” meaning the price you see is not always the price you get.

In fact, since many of the brokerages are essentially acting as a middleman, they are paying the price shown on the screen and will execute the trade only after they have marked up the price so they can make a profit.

Alternately, they will have a large reserve and take the other side of the trade. In this instance, the brokerage is acting as the counter party, and their profit depends on how much of the spread they can earn. In fact, many (if not most) retail forex brokerage firms forego fixed commission charges in favor of assessing fees in the form of the spread traders will pay to get in and out of trades.

Most of the time retail forex traders are not actually participating in the actual Interbank market; they are trading with (or within) a forex brokerage firm that may (or may not) be trading with members of the Interbank system.

There is no central exchange for spot forex; most trading is done via something called the “Interbank” system, which consists of institutions around the globe that trade foreign currencies on a regular basis and thus have a large supply on hand.

In addition to typical retail forex brokerages, there are a handful of currency brokerages that tout themselves as “currency ECNs.” These firms attempt to mimic equity ECNs, where customer orders are executed against each other, eliminating the need to send them to an exchange.

Currency ECNs promise that orders will be executed without any human intervention, although they need to rely on other groups — banks, other brokerages, institutions — besides their customer base to provide adequate liquidity.

Some of the banks are members of the Interbank, so from that standpoint, the ECN model doesn’t actually replace the Interbank — it merely makes it more accessible.

### **The big dog eats**

Because of the unique manner in which forex trades, it’s not always a fair game for everybody. In the equity world, even if brokerage A sends millions of shares per day to an exchange, they are no more or less likely to get a better price than brokerage B, which does half the volume.

However, that’s not the case in the forex arena. Because Interbank members are essentially free to set their own prices, the brokerages that provide Interbank firms with the most business are the ones that will get the best prices.

This adds another layer of complexity to trading forex. The forex boom has created dozens of new brokers, all of

whom might be charging different prices. Unfortunately, other than doing a great deal of research, there is no good way to determine which brokerage is cheapest.

### **Regulation**

Because the Interbank is spread out among numerous firms and across many countries, it is virtually impossible to enforce any kind of centralized, standard regulation. While a group such as the Commodity Futures Trading Commission (CFTC) can attempt to monitor U.S. companies participating in the Interbank market (and its authority in that arena is being challenged), the CFTC would have no authority over foreign firms. (Currency futures, which are distinct from the spot forex market, trade in the U.S. on regulated exchanges such as the Chicago Mercantile

Exchange and New York Board of Trade.)

Nonetheless, because the Interbank consists of large, global companies with reputations to uphold and business connections to maintain, it is difficult for them to take part in fraudulent trading activity with fellow Interbank members. The same, unfortunately, cannot be said of some forex brokers. Because of the lack of regulation, there have been numerous cases of unscrupulous pseudo-brokers bilking unsuspecting traders of their funds.

However, many U.S. forex firms have voluntarily registered as futures clearing merchants (FCMs) with the CFTC to solidify their credentials and provide evidence of their financial solvency and professionalism. At any rate, any potential forex trader needs to perform due diligence when selecting a brokerage by checking the firm’s reserve funds, outside affiliations, account protection, and other factors before depositing money.

### **All roads lead to Interbank**

The global nature of forex trading necessitates a conglomeration such as the Interbank. While the Internet and an increasingly demanding customer base have made it easier for retail traders to access the forex market, how (and how much) they do varies from brokerage to brokerage. Ultimately, the Interbank is still the genesis of all forex transactions. ☹





Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
		<b>1</b> U.S.: ISM Japan: Account balances Australia: Index of commodity prices	<b>2</b> ECB: Governing council meeting Japan: Monetary base Germany: Retail turnover	<b>3</b>	<b>4</b>
<b>6</b>	<b>7</b> Germany: Orders received and manufacturing turnover Canada: Interest rate announcement Australia: Reserve bank meeting and official reserve assets	<b>8</b> Japan: Monetary policy meeting Great Britain: Monetary policy committee meeting Germany: Bankruptcies	<b>9</b> U.S.: Trade balance Japan: Monetary policy meeting Great Britain: Monetary policy committee meeting Germany: Production index New Zealand: Reserve bank meeting	<b>10</b> U.S.: Unemployment and wholesale inventories Germany: Foreign trade Japan: Corporate goods price index	
<b>13</b> Great Britain: PPI Japan: Balance of payments	<b>14</b> U.S.: Retail sales Japan: Monetary survey Germany: CPI Italy: Balance of payments	<b>15</b>	<b>16</b> U.S.: CPI ECB: Governing council and General council meeting	<b>17</b>	<b>18</b>
<b>20</b> U.S.: Leading indicators Great Britain: Capital issues Germany: PPI	<b>21</b> U.S.: PPI	<b>22</b>	<b>23</b>	<b>24</b> U.S.: Durable goods	<b>25</b>
<b>27</b> Japan: Corporate service price index	<b>28</b> U.S.: FOMC meeting	<b>29</b> Canada: Unemployment	<b>30</b> U.S.: GDP Germany: Unemployment	<b>31</b> Germany: Retail turnover Australia: International reserves and foreign currency liquidity Italy: International reserves and foreign currency liquidity	<b>1</b>
<b>3</b> U.S.: ISM Japan: Account balances Australia: Index of commodity prices	<b>4</b> Japan: Monetary base Australia: Reserve bank meeting	<b>5</b> Great Britain: Monetary policy committee meeting	<b>Legend</b> CPI: Consumer Price Index      ISM: Institute for Supply Management ECB: European Central Bank      FOMC: Federal Open Market Committee GDP: Gross domestic product      PPI: Producer Price Index		

The information on this page is subject to change. Currency Trader is not responsible for the accuracy of calendar dates beyond press time.



## EUROPE



▼ **France's fourth-quarter economy** grew 0.2 percent, a disappointing figure after strong third-quarter growth. Economic expansion in 2005 was at 1.4 percent, below economists' forecasts of between 1.5 and 2 percent.

▼ **Germany's January CPI** of 109.1 represented a 0.5-percent drop from the previous month and a 2.1-percent increase on the same month in 2005. **Germany's January PPI** was 114.1, a 1.2-percent gain on the previous month and a 5.6-percent gain on January 2005.

▼ **The UK's jobless rate** from October to December increased 0.1 percent to 5.1 percent compared to the previous three-month period. The rate was 0.4-percent higher than the same period in 2004.

## ASIA & THE SOUTH PACIFIC



▼ **Australia's unemployment rate** increased to 5.3 percent in January, a gain of 0.1 percent from the previous month and 0.2 percent from January 2005. The country's **official reserve assets** for January decreased by 740 million Australian dollars, or 1.3 percent, compared to the previous month.

▼ Preliminary figures show **Hong Kong's GDP** grew 0.6 percent in the fourth quarter and increased 7.6 percent compared to Q4 2004.

According to the Census and Statistics Department of Hong Kong, "Overall, GDP is expected to attain still solid growth of 4 to 5 percent in real terms this year, more commensurate with the trend growth at 3.9 percent in the past 10 years."

▼ **Hong Kong's unemployment rate** for the October-to-December period fell 0.1 percent to 5.2 percent, the lowest level in more than four years.

▼ **Japan's preliminary GDP** for the fourth quarter increased 1.4 percent over the previous quarter and 4.2 percent compared to the same quarter in 2004. The country's current **account surplus** decreased 5.1 percent in January compared to the same month in 2005, according to preliminary figures.

▼ **Singapore's unemployment rate** for the fourth quarter dropped 0.8 percent to 2.5 percent compared to Q3, according to preliminary data. The country's **economy** for the fourth quarter grew 8.7 percent from the previous quarter and increased 7.6 percent on Q4 2004.

According to Singapore's Ministry of Trade and Industry, "In view of the positive developments in the external economic environment and domestic demand, the 2006 GDP growth forecast has been raised from between 3 and 5 percent to between 4 and 6 percent."

## AMERICAS



▼ **Brazil's GDP** for the fourth quarter rose just 0.8 percent compared to the previous quarter, and year-over-year growth was 2.3 percent — less than half the 2004 figure.

▼ **Canada's unemployment rate** grew 0.1 percent in January to 6.6 percent compared to the previous month, as the manufacturing sector lost ground even though more adult women worked full-time. The country's **January CPI** grew 0.5 percent from the previous month, bolstered by increases in shelter, transportation, food, household operations and furnishings, and alcoholic beverages and tobacco products.

## GLOBAL INTEREST RATES

Country	Interest rate	Rate	Last change	Aug. 2005	March 2005
U. S.	Fed Funds Rate	4.5	.25 (Jan. 06)	3.5	2.75
Japan	Overnight call rate	0	—	0	0
Eurozone	Refi rate	2.25	.25 (Dec. 05)	2	2
England	Repo rate	4.5	.25 (Aug. 05)	4.5	4.75
Canada	Overnight funding rate	3.5	.25 (Jan. 06)	2.5	2.5
Switzerland	3-month Swiss Libor	1	.25 (Dec. 05)	0.75	0.75
Australia	Cash rate	5.5	.25 (March 05)	5.5	5.5
New Zealand	Cash rate	7.25	.25 (Dec. 05)	6.75	6.75
Brazil	Selic rate	17.25	0.75 (Jan. 06)	19.75	19.25
Korea	Overnight call rate	4	.25 (Feb. 06)	3.25	3.25
Taiwan	Discount rate	2.25	.125 (Dec. 05)	2	1.875
India	Reverse repo rate	5.5	.25 (Jan. 05)	5	4.75
South Africa	Repurchase rate	7	0.5 (May 05)	7	7.5



## FOREX (vs. U.S. DOLLAR)

Rank*	Country	Currency	Current price vs. U.S. dollar	1-month gain/loss	3-month gain/loss	6-month gain/loss	52-week high	52-week low	Previous rank
1		Brazilian real	0.4676	4.58%	4.21%	10.69%	0.4751	0.3596	1
2		Canada dollar	0.8711	0.29%	1.80%	3.73%	0.8788	0.7851	13
3		Hong Kong dollar	0.1289	0.00%	-0.08%	0.16%	0.1291	0.128	15
4		Singapore dollar	0.6161	-0.13%	4.12%	2.89%	0.6186	0.5858	9
5		Thai baht	0.02549	-0.16%	4.79%	4.43%	0.02616	0.02362	2
6		Indian rupee	0.02258	-0.49%	3.14%	-1.68%	0.02317	0.02152	8
7		South African rand	0.165	-0.67%	6.61%	6.06%	0.1744	0.1427	4
8		Russian rouble	0.03548	-0.85%	2.09%	0.99%	0.03643	0.03447	7
9		Japanese yen	0.008559	-1.52%	2.30%	-6.16%	0.00965	0.00824	16
10		Taiwanese dollar	0.03083	-1.59%	3.21%	-0.65%	0.03253	0.02955	5
11		Australian dollar	0.7399	-1.74%	0.53%	-2.66%	0.7988	0.7233	6
12		British pound	1.7462	-2.27%	1.82%	-3.26%	1.9324	1.7048	12
13		New Zealand dollar	0.6633	-3.17%	-5.07%	-5.28%	0.7464	0.656	14
14		Euro	1.1882	-3.32%	1.30%	-3.54%	1.348	1.1638	11
15		Swiss franc	0.7595	-4.36%	0.16%	-4.79%	0.8717	0.7525	10
16		Swedish krona	0.1263	-4.83%	2.06%	-4.43%	0.1487	0.1206	3

As of Feb. 26 \*based on one-month gain/loss

## GLOBAL BOND RATES

Rank	Country	Rate	Feb. 26	1-month	3-month	6-month	Previous
1	Australia	3-year bonds	94.78	0.12%	0.19%	-0.12%	3
2	Germany	BUND	120.36	0.08%	-0.12%	-2.54%	5
3	UK	Short sterling	95.43	0.01%	-0.06%	-0.12%	2
4	U.S.	10-year T-note	107.26	-0.85%	-1.70%	-3.66%	4
5	Japan	Government Bond	135.68	-1.21%	-2.00%	-2.37%	1



## NON-U.S. DOLLAR FOREX CROSS RATES

Rank	Currency pair	Symbol	Feb. 26	1-month gain/loss	3-month gain/loss	6-month gain/loss	52-week high	52-week low	Previous
1	Real / Euro	BRL/EUR	0.3939	7.72%	3.00%	13.79%	0.3976	0.2753	4
2	Real / Aussie \$	BRL/AUD	0.6328	6.31%	3.76%	13.07%	0.6407	0.4635	7
3	Real / Yen	BRL/JPY	54.6818	6.08%	2.01%	15.92%	55.8704	38.5017	1
4	Real / Canada \$	BRL/CAD	0.5373	4.36%	2.49%	7.28%	0.5517	0.441	2
5	Canada \$ / Euro	CAD/EUR	0.7337	3.56%	0.56%	7.06%	0.7352	0.6096	20
6	Aussie \$ / Franc	AUD/CHF	0.975	2.57%	0.42%	2.07%	0.9945	0.9107	15
7	Canada \$ / Pound	CAN/GBP	0.4991	2.54%	0.02%	6.79%	0.5	0.4162	19
8	Real / Pound	BRL/GBP	0.2679	2.46%	2.46%	13.51%	0.2721	0.1914	3
9	Canada \$ / Yen	CAD/JPY	101.859	1.85%	-0.45%	9.37%	104.635	83.2354	10
10	Pound / Euro	GBP/EUR	1.4708	1.75%	0.56%	0.32%	1.5124	1.4102	18
11	Aussie \$ / Euro	AUD/EUR	0.6232	1.60%	-0.74%	0.88%	0.6424	0.5884	13
12	Aussie \$ / Pound	AUD/GBP	0.424	0.57%	-1.27%	0.61%	0.4398	0.4022	12
13	Aussie \$ / Yen	AUD/JPY	86.5068	-0.11%	-1.77%	3.35%	91.34	80.63	5
14	Pound / Yen	GBP/JPY	204.15	-0.71%	-0.46%	2.78%	213.03	192.62	9
15	Franc / Euro	CHF/EUR	0.6394	-0.99%	-1.14%	-1.20%	0.6542	0.6382	17
16	Euro / Yen	EUR/JPY	138.864	-1.76%	-1.01%	2.49%	143.605	130.6	8
17	Aussie \$ / Canada \$	AUD/CAD	0.8501	-1.98%	-1.27%	-6.60%	0.9837	0.8471	11
18	Franc / Pound	CHF/GBP	0.4351	-2.02%	-1.65%	-1.47%	0.4523	0.4289	16
19	Franc / Yen	CHF/JPY	88.815	-2.73%	-2.13%	1.35%	93.14	85.1568	6
20	Franc / Canada \$	CHF/CAD	0.8726	-4.61%	-1.65%	-8.81%	1.0668	0.8726	14

## GLOBAL STOCK INDICES

Rank	Country	Index	Feb. 26	1-month gain/loss	3-month gain/loss	6-month gain/loss	52-week high	52-week low	Previous
1	Germany	Xetra Dax	5,870.79	5.48%	11.52%	18.52%	5,884.22	4,157.51	8
2	India	BSE 30	10,200.76	5.05%	13.21%	24.71%	10,304.88	6,118.42	4
3	Italy	MIBTel	29,040	4.65%	10.01%	12.53%	29,053	23,450	9
4	France	CAC 40	5,073.95	3.89%	9.33%	14.41%	5,073.95	3,882.42	7
5	Singapore	Straits Times	2,453.62	2.67%	6.43%	6.81%	2,456.72	2,107.87	11
6	Switzerland	Swiss Market	7,954.3	2.58%	5.73%	18.97%	8,048.2	5,820	14
7	UK	FTSE 100	5,860.5	2.35%	5.75%	10.79%	5,888	4,773.7	12
8	Hong Kong	Hang Seng	15,856.05	2.12%	4.89%	5.51%	15,875.33	13,337.44	6
9	Brazil	Bovespa	38,610	1.54%	17.33%	29.82%	38,978	23,680	2
10	Japan	Nikkei 225	16,101.91	1.31%	8.18%	22.75%	16,777.37	10,770.58	15
11	U.S.	S&P 500	1,289.43	1.21%	1.64%	6.54%	1,294.9	1,136.15	13
12	Australia	All ordinaries	4,849.4	0.77%	5.30%	8.87%	4,926.8	3,886	10
13	Canada	S&P/TSX composite	11,810.55	0.62%	6.84%	11.23%	12,080.53	9,246.28	5
14	Mexico	IPC	19,100.89	-0.61%	11.63%	24.38%	19,447.62	11,727.51	3
15	Egypt	CMA	2,381.62	-8.18%	13.82%	25.37%	2,653.25	1,522.69	1

## ACCOUNT BALANCE

Rank	Country	2005	Ratio*	2004	2006 <sup>+</sup>	Rank	Country	2005	Ratio*	2004	2006 <sup>+</sup>
1	Hong Kong	17.808	10.3	16.119	18.678	9	UK	-40.981	-1.9	-42.086	-40.118
2	Taiwan	14.369	4.3	18.606	16.26	10	Spain	-69.382	-6.2	-55.266	-80.067
3	Japan	153.101	3.3	172.07	140.484	11	U.S.	-759.018	-6.1	-668.082	-805.179
4	Germany	121.064	4.3	103.828	121.937	12	New Zealand	-7.946	-7.4	-6.141	-8.34
5	Canada	16.689	1.5	22.159	19.529	13	Australia	-38.765	-5.7	-39.797	-35.419
6	Denmark	4.797	1.9	6.001	5.468	<i>Totals in billions of U.S. dollars</i>					
7	France	-27.253	-1.3	-8.396	-31.022	<i>*Account balance in percent of GDP <sup>+</sup> Estimate</i>					
8	Italy	-29.877	-1.7	-14.963	-24.394	<i>Source: International Monetary Fund, World Economic Outlook Database, September 2005</i>					



**Event:** 22nd Annual Risk Management Conference

**Date:** March 5-8

**Location:** Hyatt Regency Coconut Point Resort & Spa, Bonita Springs, Fla.

**For more information:** [www.cboe.com/rmc](http://www.cboe.com/rmc)

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**Event:** Technical Analysis Expo

**Date:** March 24-26

**Location:** Espace Pierre Cardin, Paris, France

**For more information:** Visit [www.salonAT.com](http://www.salonAT.com)

•

**Event:** The Wealth Expo

**For more information:** [www.thewealthexpo.com](http://www.thewealthexpo.com)

**Date:** March 30-April 1

**Location:** Anaheim, Calif.

**Date:** May 4-6

**Location:** Atlanta, Ga.

**Date:** Sept. 7-9

**Location:** Dallas, Texas

•

**Event:** Forex Trading Expo

**Date:** March 31-April 1

**Location:** Broward County Convention Center, Ft. Lauderdale, Fla.

**For more information:** [www.forextradingexpo.com](http://www.forextradingexpo.com)

•

**Event:** Operations Conference for Securities, Brokerage & Trust

**Date:** April 2-4

**Location:** Omni Orlando Resort at ChampionsGate, Orlando, Fla.

**To Register:** [www.fwfinancial.org](http://www.fwfinancial.org)

**Event:** American Association of Professional Technical Analysts' Second Annual Conference

**Date:** April 20-23

**Location:** Caribe Royale Resort, Orlando, Fla.

**For more information:** [www.aapta.us](http://www.aapta.us)

•

**Event:** National Association of Active Investment Managers (NAAIM) Annual Conference

**Date:** April 30-May 3

**Location:** The Ritz Carlton, Phoenix, Ariz.

**For more information:** E-mail Susan Truesdale at [naaim@mindspring.com](mailto:naaim@mindspring.com) or call (888) 261-0787

•

**Event:** optionsXpress Inaugural optionsXpo

**Date:** May 4-5 (pre-events on May 3)

**Location:** Sheraton Chicago Hotel & Towers

**For more information:** [www.optionsxpo.com](http://www.optionsxpo.com)

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**Event:** The Traders Expo Ft. Lauderdale

**Date:** June 7-10

**Location:** Broward County Convention Center, Ft. Lauderdale, Fla.

**For more information:** Call (800) 970-4355 or visit [www.tradersexpo.com](http://www.tradersexpo.com)

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**Event:** Expo Trader Brazil 2006

Third Annual International Traders Conference

**Date:** June 7-8

**Location:** São Paulo, Brazil

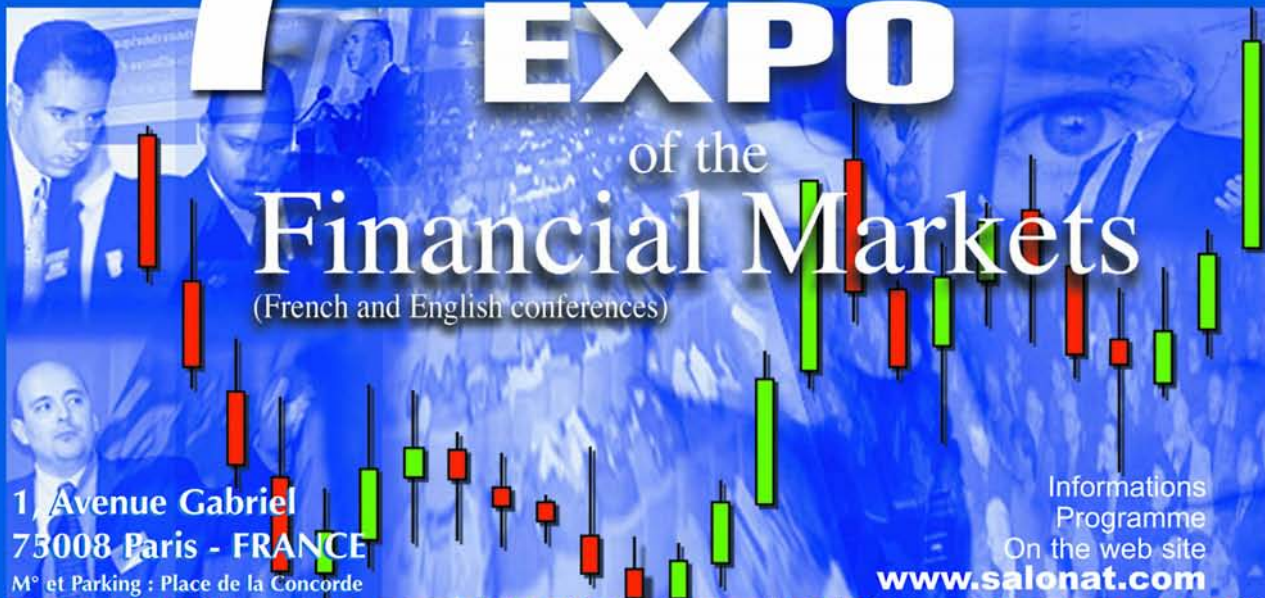
**For more information:** Call +55 21 2232 5133 or visit [www.traderbrasil.com](http://www.traderbrasil.com)



March 24 - 25 : 2006 ESPACE CARDIN - PARIS

# The 7<sup>th</sup> Annual Technical Analysis EXPO

9:00 am - 9:30 pm



1 Avenue Gabriel  
75008 Paris - FRANCE  
M° et Parking : Place de la Concorde

Informations  
Programme  
On the web site  
[www.salonat.com](http://www.salonat.com)

## PROGRAMME

*FREE admission to the workshops*

**FRIDAY MARCH 24 . 2006 09H00am – 09H30pm**

### • THEATER Pierre CARDIN

- 9:30am : Open and presentation about 6th TA-Expo with the organization committee – Agence IAT : Valérie Cornélius and André Malpel
- 09:45am – 10:30am : "Money Management: Les bases du succès" (In French) with André Malpel – société LIST et agence IAT
- 11:30am – 12:30am : "Les peurs du marché, vos peurs et leurs conséquences. L'éclairage des Chandeliers Japonais" par Michel Grollemund – Chandeliersjaponais.com (In French)
- 2:00pm – 3:00pm : "Forex made Easy" with James Dicks – PremiereTrade (In French and English)
- 4:00pm – 5:00pm : "Trading with Foundational Analysis" with David Nassar – MarketWise.com (In French and English)
- 5:30pm – 6:30pm : Etude des Valeurs de la cote – Analyse Technique / Analyse Fondamentale avec Laurence Allard (LeFigaro), Philippe Cahen (ATDMF), André Malpel (LIST) (In French)
- 7:15pm – 8:30pm : "Introduction to Bollinger Bands" with John Bollinger – BollingerBands.com (In French and English)
- AUDITORIUM : Level +1
- 09:30am – 10:30am : "Critique trading systems using the Performance Analysis Process" with David Stendahl – Landmark Asset Management (In French and English)
- 11:00am – 12:00am : "Learn the ETF Success Secrets, for active Swing-traders, Day-traders and Investors" Part 1 – with Deron Wagner – Morpheus Trading Group (In French and English)
- 1:00pm – 2:00pm : "Options et Analyse Technique : initiation" with Pierre Geay - ABS (In French)
- 3:00pm – 4:30pm : "La Revanche, ou Quelle type de trading doit-on privilégier : Discretionnaire ou Systématique" with Philippe Erb – CoachTrading.com et Titanium Funds / Pierre Orphelin – SaphirX (In French)
- 5:00pm – 6:00pm : "Opter pour la stratégie gagnante" with Marie Buckwell – BNP ParibasWarrants (In French)
- 6:30pm – 7:30pm : "Why is Money Management essential ?" with Dr K. Van Tharp - Van Tharp Institute (itm.com) (In French and English)
- CINEMA : Level -1
- 12:30am – 1:30pm : "How Candlestick Charts Can Help Your Currency Trading" with Cornelius Luca for RealTimeForex (In French and English)
- 2:00pm – 3:00pm : "BAREM Calyon : Investissez en souplesse et simplicité sur les indices". with Julien Vanlerberghé – Calyon et avec la participation de CPR online (In French)
- 3:30pm – 4:30pm : "30 trucs et astuces pour bien commencer l'investissement en warrants" with Thibaud Renault – CommerzBank (In French)
- 5:00pm – 6:00pm : "Futures for small speculators" with Noble Drakoln - liverpoolgroup.com (In French and English)

### WORKSHOPS : level -1 (near Theater)

- 9:30am – 12:30am : "Mes Techniques de Trading / prises de positions en Direct et explications" (3 heures) **PAID SEMINAR : 180 €** with Sylvain Duport / Dioup : Trophées Capital 2004 winner with +3034% in 6 months, with real money. (In French)
- 3:30pm – 7:30pm : "Avez-vous peur d'être à contre-courant ?" (3 heures) **PAID SEMINAR : 180 €** with Michel Grollemund – Chandeliersjaponais.com (In French)

**SATURDAY MARCH 25 . 2006 09H00am – 09H30pm**

### • THEATRE Pierre CARDIN

- 9:30am – 10:30am : "Forex made Easy" with James Dicks – PremiereTrade (In French and English)
- 1:15pm – 2:45pm : "Traders Secrets" with Adrienne Toghraie – TradingOnTarget.com (In French and English)
- 3:30pm – 4:30pm : "Using Moving Averages and Oscillators for FX Trading" with Cornelius Luca for RealTimeForex (In French and English)
- 5:30pm – 6:30pm : "Place intelligent stops using Maximum Adverse Excursion" with David Stendahl – Landmark Asset Management (In French and English)
- 7:00pm – 7:45pm : "Les apports de l'ATDMF à l'Analyse Technique" (In French) with Philippe Cahen - ATDMF
- 7:45pm – 8:45pm : "Bollinger Bands Around the World" with John Bollinger – BollingerBands.com (In French and English)
- AUDITORIUM : Level +1
- 9:00am – 1h00pm : "Trading with Bollinger Bands" (In French and English) (4 heures) **PAID SEMINAR : 250 €** (on web site) with John Bollinger – BollingerBands.com
- 1:30pm – 2:30pm : "Forex, CFD's, Futures. Le TradingFloor de Synthesis Bank des nouvelles opportunités d'investissements online" with Jean-Marc Schneebeli - Synthesis Bank (In French and English)
- 3:30pm – 4:30pm : "Options et Analyse Technique : initiation" with Pierre Geay - ABS (In French)
- CINEMA : Level -1
- 9:30am – 10:30am : "Les Outils de Trading sous Excel" with Alain Traon/ CyberPapy: perso.wanadoo.fr/cyberpapy/ (In French)
- 12:30am – 1:30pm : "Learn the ETF Success Secrets, for active Swing-traders, Days-traders and Investors" Part 2 with Deron Wagner – Morpheus Trading Group (In French and English)
- 2:00pm – 3h00pm : "Forex for small speculators" with Noble Drakoln - liverpoolgroup.com (In French and English)
- 3:30pm – 4:30pm : "Trading on Warrants" with Christophe Grosset - Trading Lab (In French)

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An intraday signal is used to take a short position in the Aussie dollar.

## TRADE

**Date:** Friday, Feb. 24.

**Entry:** Short the Australian dollar/U.S. dollar rate (AUD/USD) at .7409.

**Reason(s) for trade/setup:** See "Trading intraday FX swings" (*Currency Trader*, January 2006) and "Long swings, short swings" (*Currency Trader*, February 2006). The version of the trade signal used here is to go short when the high of the most recent 10-minute bar (during U.S. trading-session hours) is at least 1.25 times the five-bar range above the high of the previous bar.

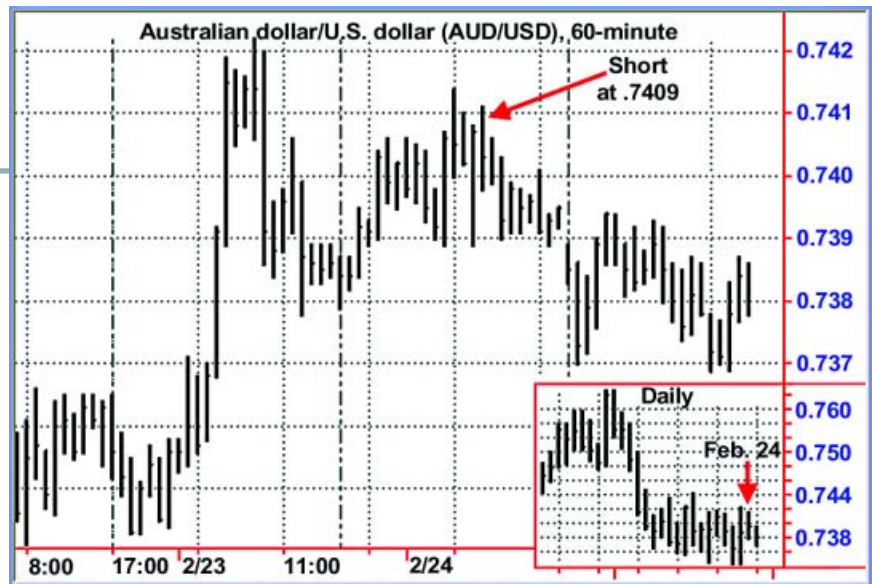
This approach had been more successful lately on the short side of the market than the long side: nearly 65 percent of short trades (46 of 71 trades; four trades broke even) during February were winners when exiting with a profit of .0050 points or after 10 (10-minute) bars.

On the daily time frame (see chart inset), the market has been in a consolidation after selling off in early February. So, we decided to wait for a short signal to occur after price had moved into the upper portion of the daily trading range. After the market moved sharply higher on Feb. 23, we took the signal that occurred in the morning on Feb. 24. (Sixty-minute bars are shown instead of 10-minute bars to include more price action.)

By adding discretionary interpretation to a mechanical signal, we hope to enter the market at a point that offers limited, well-defined risk on a very short-term time horizon (the upper end of the daily trading range), with the potential to ride part of the position on the longer timeframe if price breaks down below the lower boundary of the range.

**Initial stop:** .7438, which is .0016 above the Feb. 23 high.

**Initial target:** .7350, which is toward the lower boundary



Source: TradeStation

(.7341-.7343) of the current daily trading range. Take profits on half the position at this point and lower the stop to protect the remainder of the position.

## RESULT

**Exit:** Position still open as of 2 p.m. ET on Feb 27. Marked-to-market (MTM) at .7378.

**Profit/loss:** +.0031 (.04 percent), MTM.

**Trade executed according to plan?** Yes.

**Outcome:** Early on, the trade has been the equivalent of watching paint dry. However, price is moving in the trade's direction, and considering the congestion the market has been in, beggars can't be choosers.

So far, price has moved only five ticks against the entry price vs. moving favorably a maximum of 40 ticks (to .7369, 19 ticks short of the initial price target). The challenge now is to stick to the game plan in the face of more sluggishness.

Check back next month for this trade's outcome. ☺

## TRADE SUMMARY

Date	Currency	Entry	Initial stop	Initial target	IRR	Exit	Date	P/L	LOP	LOL	Trade length
2/24/06	AUD/USD	.7409	.7438	.7350	2.03	.7378 (MTM)	2/27/06	+.0031 (.04%)	.0040	.0005	2 days

Legend: IRR — initial reward/risk ratio (initial target amount/initial stop amount); LOP — largest open profit (maximum available profit during lifetime of trade); LOL — largest open loss (maximum potential loss during life of trade); MTM: marked-to-market — open profit or loss at a given time.



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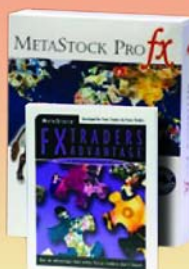
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