

# International Currency Relationships



## CURRENCIES

# AROUND THE WORLD

The euro and Pound Sterling are near the end of year-and-a-half consolidations. Expect large moves this summer.

During April, the euro will enjoy a final little fling, followed closely by the Swiss Franc, which will then hold up much better when they both start to fall. Ideally the British Pound will also push a little higher relative to the U.S. dollar. Remaining at the tail end of the pack is the Japanese Yen.

This Currencies section presents the same long-term analyses that we include and continuously update as part of our daily and intraday on-line service, the *International Currency Outlook*. This is a “snapshot” of our long-term opinions on the day before *GMP* publication. Be advised that these opinions can change intramonth, in which case we make them instantly in the *Outlook*.

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## OVERVIEW

It has been a year since we forecast in the April 2001 *Global Market Perspective* that the euro would go nowhere in a hurry:

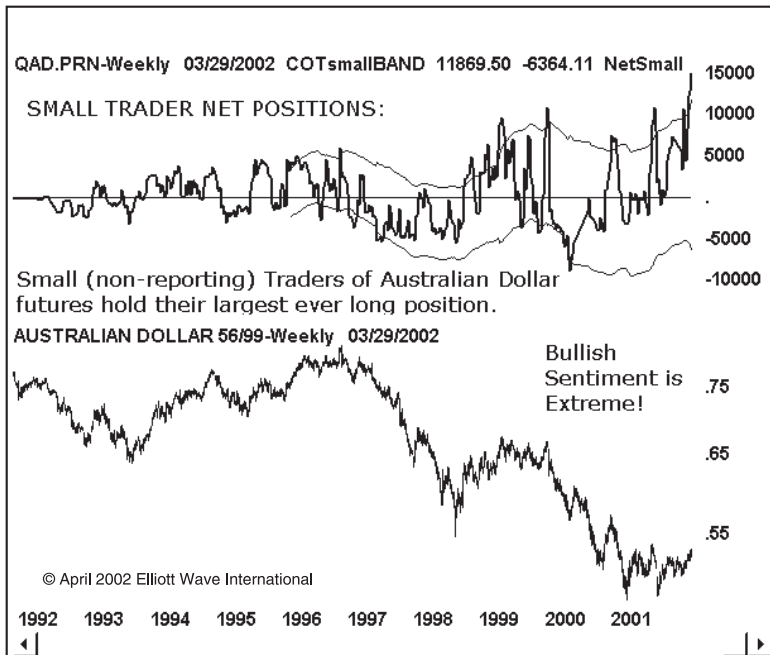
In the best tradition of frustrating the largest number of participants, this market will likely stagger sideways in a treacherous, choppy trading range for most of this year. Wave (4) up from last year's low will probably develop as a contracting triangle....

And in the best tradition of extrapolating recent price action, now that the euro has coiled in a tightening range for over a year, most observers expect it to **continue** trading sideways. In a Financial Times survey published on March 28<sup>th</sup>, only one out of 13 six-month forecasts projected the euro outside of the past 18-months' trading range. A Reuters poll on March 6<sup>th</sup> showed only 7 out of 48 analysts venturing a six-month forecast above or below the 8228/9595 fourth wave boundaries. Analysts are also very split on the direction of any move or breakout. The mid-range six-month forecast is 88.00 cents, which is within 5 pips of where the euro is trading as I write.

This collective acceptance of the current price going forward tells us that a fourth wave triangle has thoroughly consolidated the 1998/2000 third wave plunge. Since that pattern also shows a very nearly completed internal wave structure, the odds are high that we will soon see moves beyond one, and eventually both recent extremes. The euro might actually be back within the 82/96 range six months from now, but it will very likely poke to a new all-time low in the meantime, **and** then eventually exceed last year's 9595 high. Tension is building beneath the surface for big moves. During this April rally, we will be watching closely for the burst of bullish conviction that would typically coincide with the end of such a well-formed triangle trading range.

One currency that already shows extreme sentiment is the Australian dollar: The Small (non-reporting) traders had been increasing their IMM Australian Dollar futures net longs in fits and starts for two years. Then during March, in a display of wild enthusiasm,

they tripled their collective long to 15023 contracts, 39% above the previous record. Commercial interests sold 28,000 contracts over the past six weeks, and now hold their third heaviest net short ever. Even the Large Speculators, who have not taken big positions since June 2000, suddenly piled in on the long side—to hold 12,260 contracts (the highest total since their buying spree into the June 2000 top). This data warns that tension is high and a large move due, but does not tell us which of the two radically opposing wave counts is operative. Extreme bullish sentiment occurs at tops, but **also** at the third of third wave point of recognition, when all the participants suddenly realize that a sustained ascent is underway. Fortunately, a nearby critical resistance level represents a stark dividing line between the very bullish and temporarily bearish scenarios illustrated for the Australian Dollar.



## **THE U.S. DOLLAR**

### **In the coming Weeks: Down to 115-114**

Was the February/March decline all of an unusually small wave E retreat? It did carry to within 4 pips of the point at which wave E would have been a Fibonacci 38% of last summer's wave C slump. But the more typical distance is 62% of the corresponding wave C, which projects down to 114.44. I suspect we will yet see a more complex final decline that carries closer to that target/support. Then, or if, 119 is overcome, the dollar index will mount its terminal wave (5) rally into the 120-130 range.

### **Analysis**

The Wave E decline from late January is developing as a double zigzag, with the March rebound counting as the central wave (x). Both zigzags would be equal at 115.08.

### **Alternate**

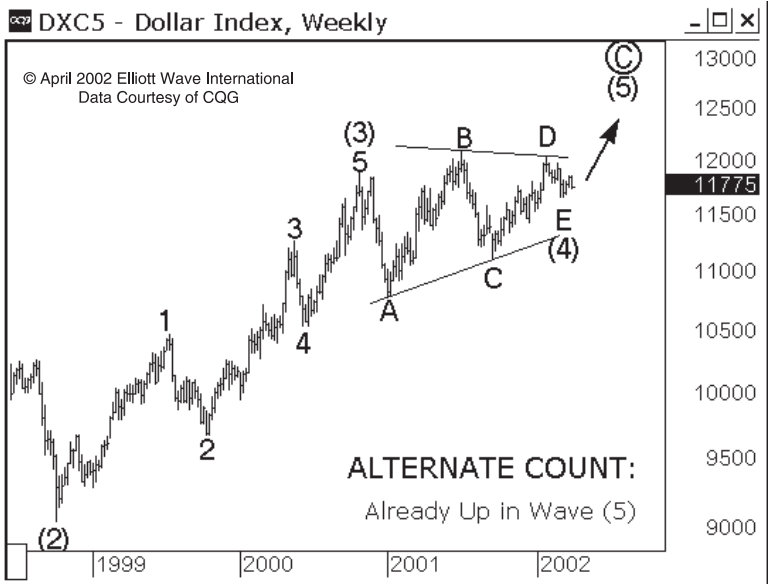
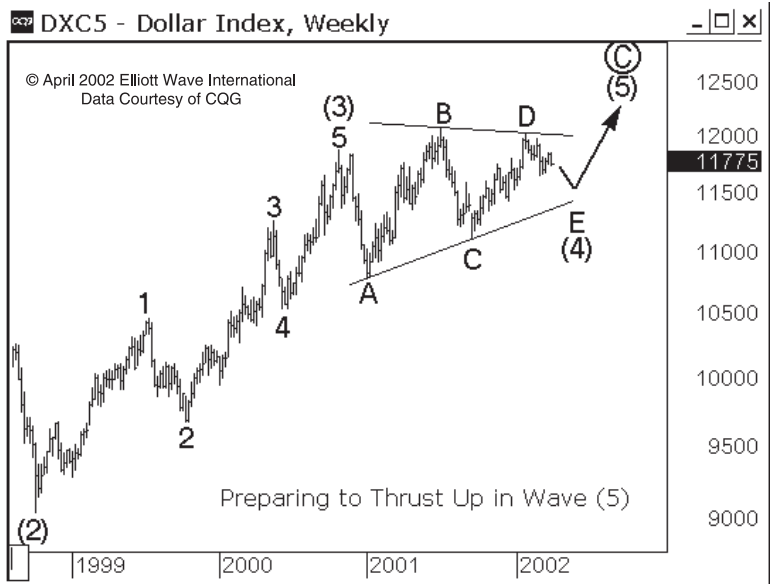
Since the March 7th 116.76 low, the dollar has been heading higher in the early stages of a larger wave (5) uptrend toward 123-128. Treat 117.15 as critical to such a bullish stance.

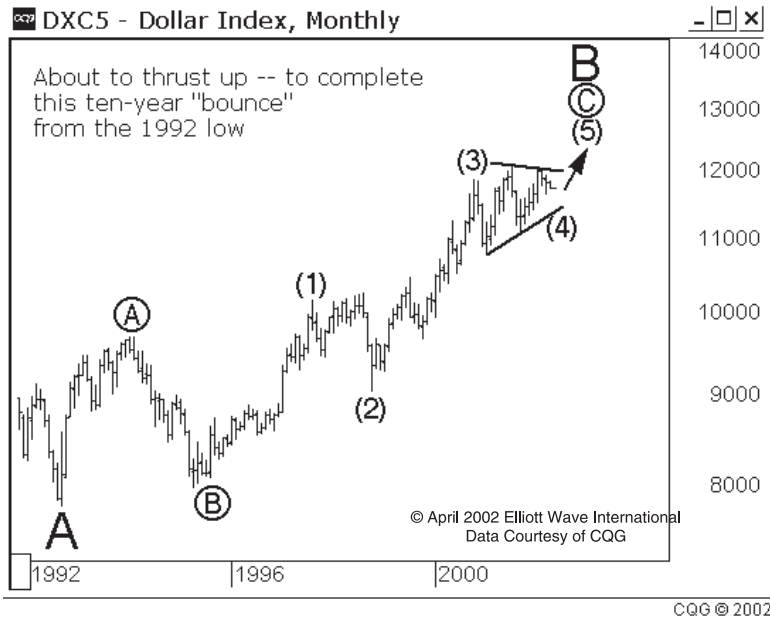
### **In the coming Months: Preparing to Thrust Up One Last Time**

No change: The developing wave (4) triangle trading range from October 2000 is setting the stage for a final thrust up in 2002. Upside targets for wave (5) will range from a conservative 1.23 up to the measured projection at 1.28.

### **In the coming Years: Peaking Higher**

Once wave © up from 1995 is completed, the dollar will become vulnerable to a total retracement of the three-wave advance from the 1992 low. In other words, the dollar index will fall back under 78.19 later this decade.





## DOLLAR RATES

### EUR\$ Dollars per EURO

#### In the coming Weeks: Up to 90-92 cents — Temporarily

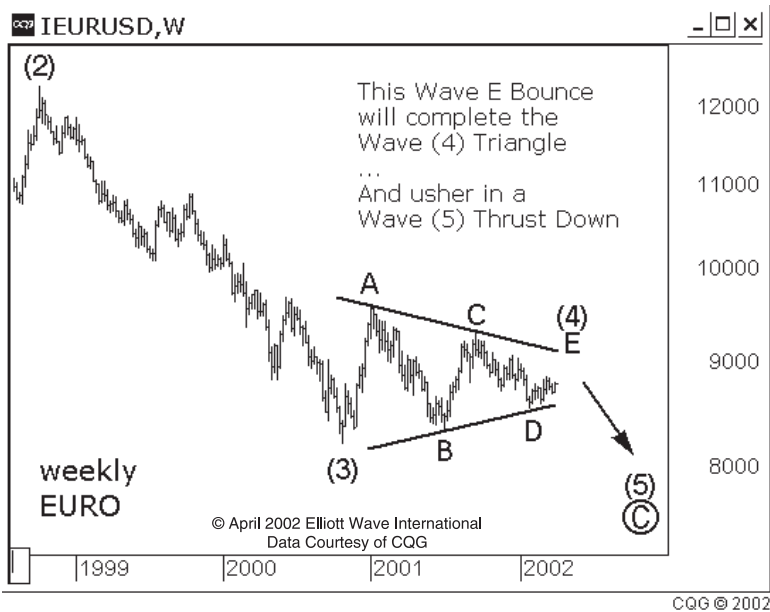
The odds favor another rally within this complex wave E advance from the February 1st low. Upside projections center on 8960-9000 and 9125-9170. As noted previously, the initial three-wave rally from 8564 reinforces the idea that we are seeing only a terminal, countertrend bounce that will complete an eighteen-month trading range and give way to a wave (5) thrust to new all-time lows.

#### Analysis

9170 is the level at which this wave E bounce from 8564 would have carried an ideal 62% of the July/September wave C advance.

#### Alternate

The stunted February/March wave E bounce completed the past 17-months' wave (4) triangle. 7605 is the point at which this wave (5) thrust would equal the width of that triangle trading range.



### **In the coming Months: Preparing to Thrust Under 82 cents — to an Important Low**

No change: The euro is in the last leg of the contracting triangle from October 2000. After an important top, ideally at 91-92 cents, it will likely thrust under the .8228 all-time low in a fifth wave. One downside target on the quarterly chart is .8090, the 62% retracement of the 1984/1995 advance (basis the D-Mark derived synthetic euro).

9331 represents starkly defined critical resistance for this clean bearish count.

### **In the coming Years: Bottoming Lower**

No change: The five-wave decline from March 1995 is almost over. Even just a correction of that seven-year downtrend would provide a multi-year respite for the euro. Since that decline counts acceptably as the last leg of a 14-year expanded flat correction from the December 1987 peak, this impending turn may well turn out to be far more important and long-lasting.

## **\$CHF SWISS FRANCS per Dollar**

### **In the coming Weeks: Probing for a Low before Grinding Higher**

Patterns on the weekly chart remain bullish in that the advance from 1995 appears incomplete, and the setback from 1.8305 looks corrective. We should still see a fifth wave rally above that October 2000 high. The seemingly corrective structure of the past six months' advance implies that this fifth wave will develop as a diagonal triangle, in which the future gains remain labored and choppy.

### **Severe Alternate**

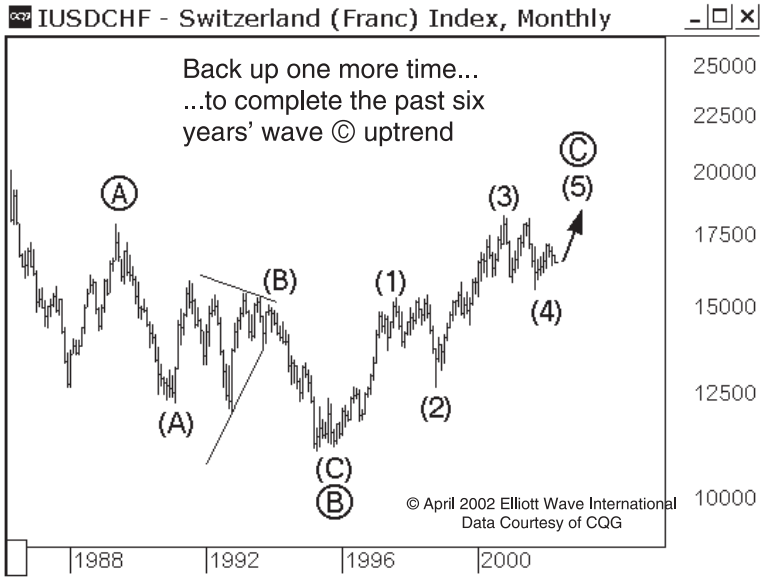
Down in wave (3)! A complex wave (2) bounce from 1.5675 stalled near typical resistance at 1.7205, the 62% retracement of last summer's dive. A six-year wave (C) uptrend ended when the January/July wave (5) stalled shy of taking out last winter's wave (3) peak. Such a failure inversely reflects the similar truncated fifth wave that completed the 1993/1995 decline in October 1995, about one Franc above the third wave low established in April of that year.

### **In the coming Months: Mounting a final move above 1.83**

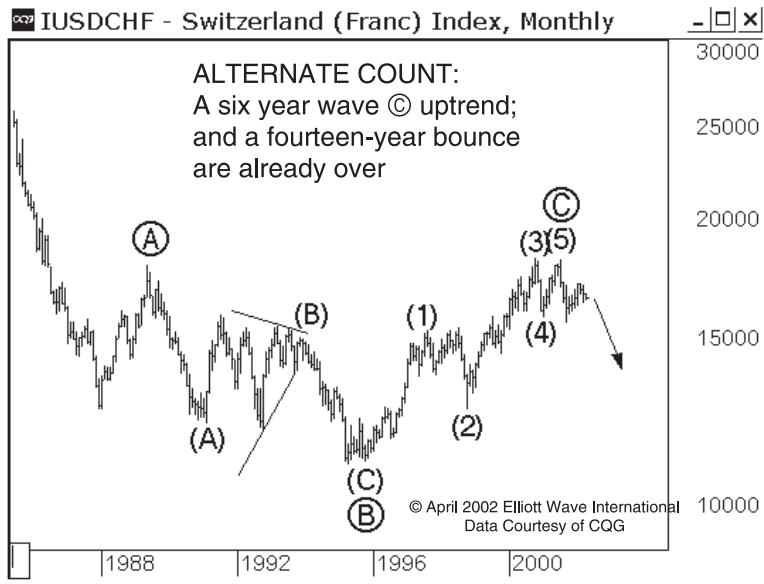
While the internal structure of the past six months' advance leaves a lot to be desired in terms of wave clarity and trend-confirming impulsiveness, the preceding distinctly corrective October 2000 / September 2001 decline and subsequent rebound from above the critical August 1997 wave (1) high keep the larger outlook bullish. As noted previously, 1.9165 is the level at which wave (5) would have carried a Fibonacci 62% of the corresponding 1995/1997 wave (1), and 1.9455 marks the point at which the past seven years' wave (C) would be a typical 162% of the corresponding wave (A) rebound during 1988/1989.

### **Alternate**

With the dollar/Swiss lagging so far behind the dollar index and the euro relative to the October 2000 extreme, and showing such a



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suspect wave structure up from 1.5675, we do need to keep in mind the 40% possibility that the dollar/Swiss is about to accelerate lower within a new long-term downtrend from a failed fifth wave top last July.

### In the coming Year: Peaking—probably higher

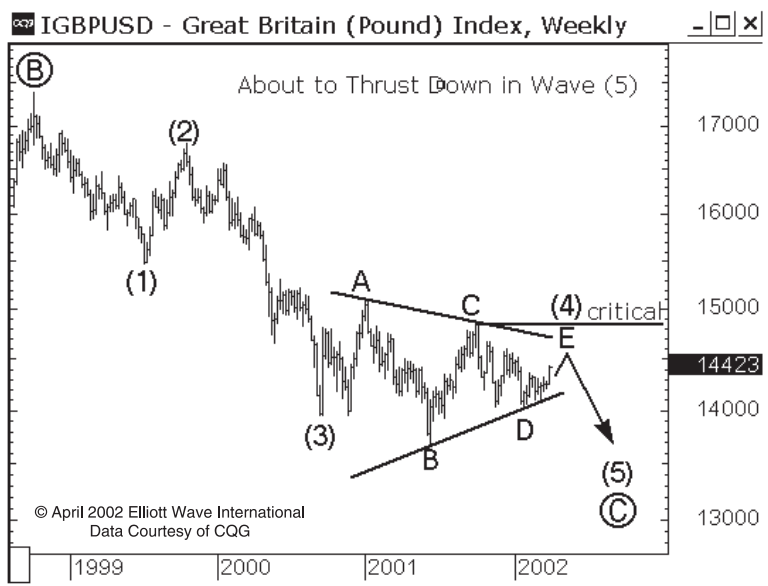
No change: The wave © uptrend from the 1995 low is completing a flat upward correction from 1987 and will soon leave the dollar/Swiss vulnerable to a downtrend of the same order of magnitude as that of 1985/1987, i.e. a 56% drop in relative value.

### GBP\$ Dollars per BRITISH POUND

#### In the coming Weeks: Topping in the 1.44-1.48 range

A final wave E bounce from the end of January shows a nearly completed complex internal wave structure, and has carried into 1.4410-1.4765 target/resistance. Watch for an important top to form during April.

Trading under 1.4275 would suggest that a multi-month thrust down to new sixteen year lows was already underway.



## Analysis

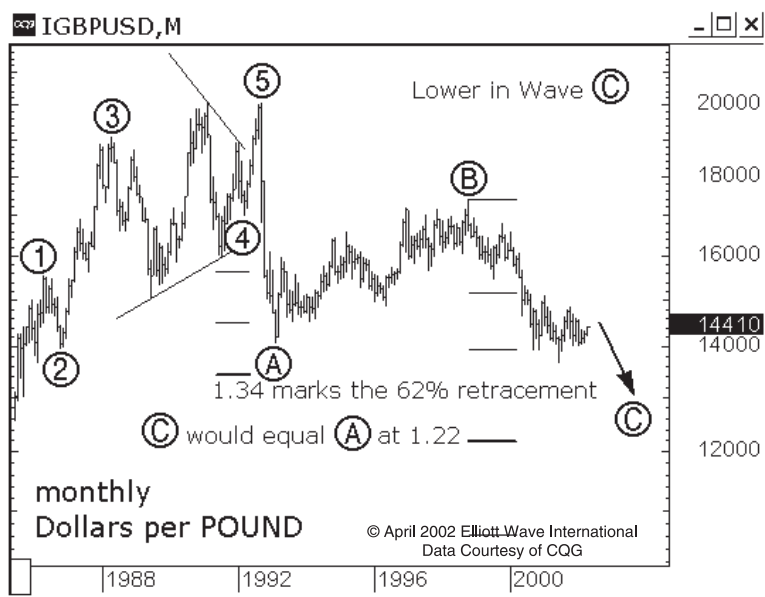
Within the larger wave (4) triangle from September 2000, this wave E bounce from late-January has upside targets that range from 1.4410, the point at which both zigzags up from 1.4043 were equal, to 1.4765, the level at which wave E would have carried a typical 62% of last summer's wave C rally.

## Alternate

From the current 1.4429 high, 1.3070 is the level at which a wave (5) thrust would have equaled the width of the nineteen month wave (4) triangle.

## In the coming Months: Preparing to Thrust Down toward 1.34

Eighteen months of choppy sideways swings since the October 1999/September 2000 third wave plunge represent a 'fourth wave triangle.' Once it is complete, and it may already be, Sterling will thrust down toward 1.34-1.32 in a final fifth wave within the larger degree wave (C) downtrend from late 1998.



### In the coming Years: Completing a Ten-Year Decline

No change: We are seeing the final stages of a decade-long, three-wave decline from the \$2.01 high of September 1992. As noted previously: Ideal downside projections for wave (C) stretch from 1.34, the 62% retracement of the 1980s advance, to 1.22, at which point it would equal wave (A).

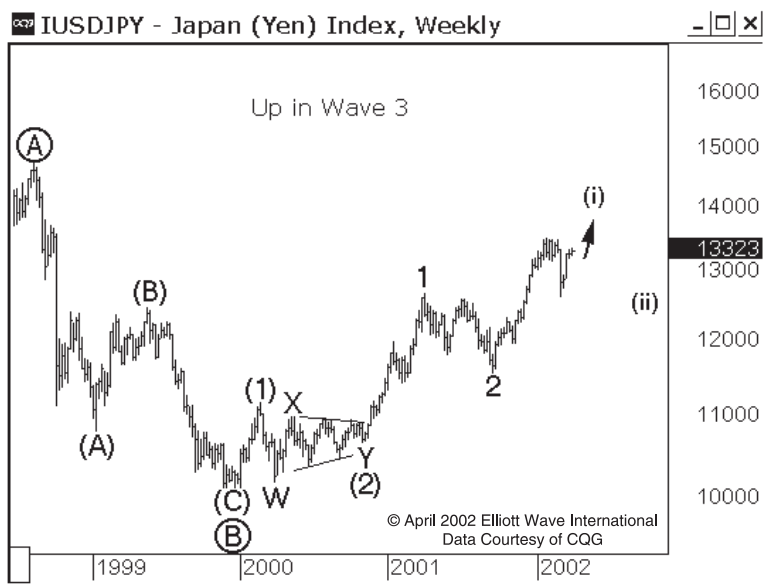
### \$JPY JAPANESE YEN per Dollar

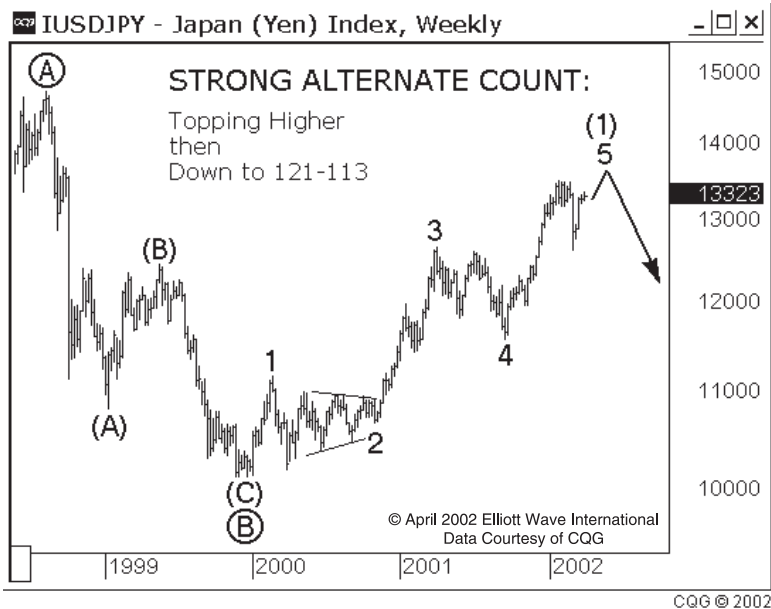
#### In the coming Weeks: Up past 135

A slightly wild, flat fourth wave correction during February and March set the stage for this developing fifth wave up in the sequence from last September. The minimum objective is a push above 135, and ideal projections stretch into the 137-142 range.

#### Analysis

This wave v rally from 126.36 will complete the wave (i) from last September, and lead to a brief, shallow wave (ii) correction.





At one degree larger: 152.80 is the point at which wave 3 from September 20th would have carried a conservative 162% of the November/April wave 1 advance.

### Strong Alternate

Wave 5 up from 115.82 will end after this next push above 135. Since it will also complete wave (1) from the late 1999 low a subsequent wave (2) correction will likely retest last September's low, within a larger wave © uptrend.

### In the coming Months: Topping Temporarily up at 137-140

No change: The developing uptrend from November 1999 is approaching the point at which the preferred and alternate counts will diverge radically. Under the aggressive 'third of third' wave scenario favored over the past year, any setbacks will be short and shallow, likely finding solid support in the 130-126 range. Under the strong second-best count, an impending top in the 137-140 area will complete an initial uptrend from 101, and leave this pair to stagger back toward 116 in the coming year.

**Analysis**

Last summer's wave 2 decline to 115.82 set the stage for this wave 3 rally within a larger wave (3) advance from the September 2000 low.

**Strong Alternate**

After a new high, this wave 5 rally from 115.82 will likely be totally retraced in a wave (2) correction of the initial uptrend from late 1999.

**In the coming Years: Up to 160**

No change: The 1982/1995 wave III downtrend is being corrected by a wave IV bounce. A clear three-wave retreat from the 1998 high at 1.48 should be totally retraced. The best upside projections center on the 160 previous fourth wave high of April 1990.

**AUD [Dollars per AUSTRALIAN DOLLAR****In the coming Weeks: Nearby 5391 is critical****Analysis Preferred Count**

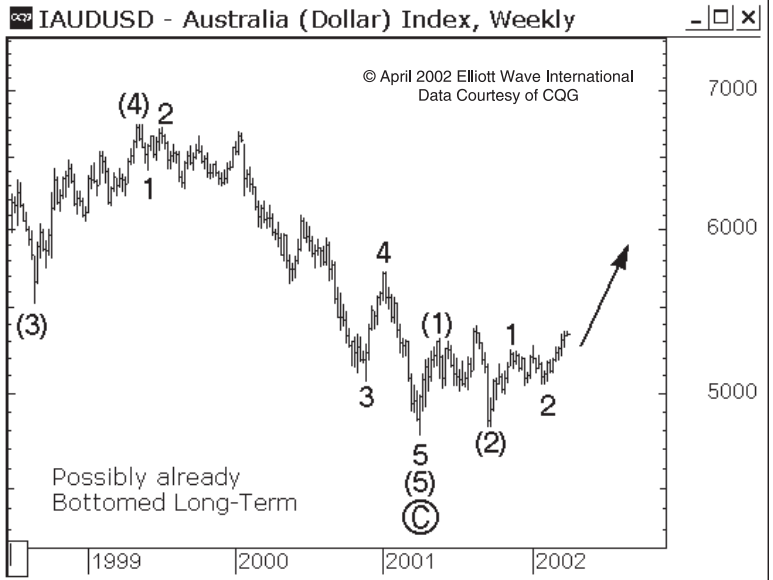
After an expanded flat wave (2) from May through September last year, and a skewed double three wave 2 during December and January, the Aussie is poised to soar in wave 3 of (3). While very bullish, this count will be of low confidence until the 5391 August high is exceeded. (The larger declining pattern would have looked better with another probe under last year's low.)

**Strong Alternate**

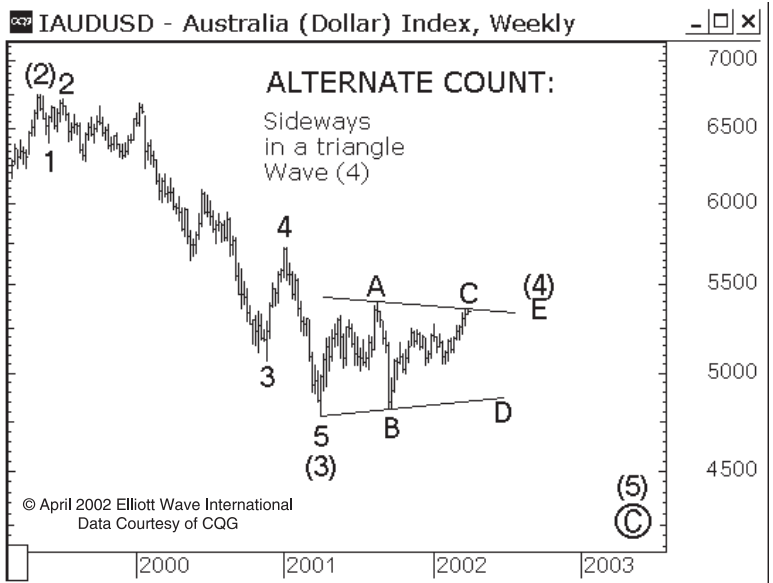
Within the larger wave (4) triangle from the April 2001 low, a developing D-wave decline from .5359 has ideal target/support at fifty cents even.

**In the coming Months: 5390 and 5070 are critical**

Some ambiguity within the wave X bounce from 1986 keeps two competing long-term wave counts operative.



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### Slightly Preferred

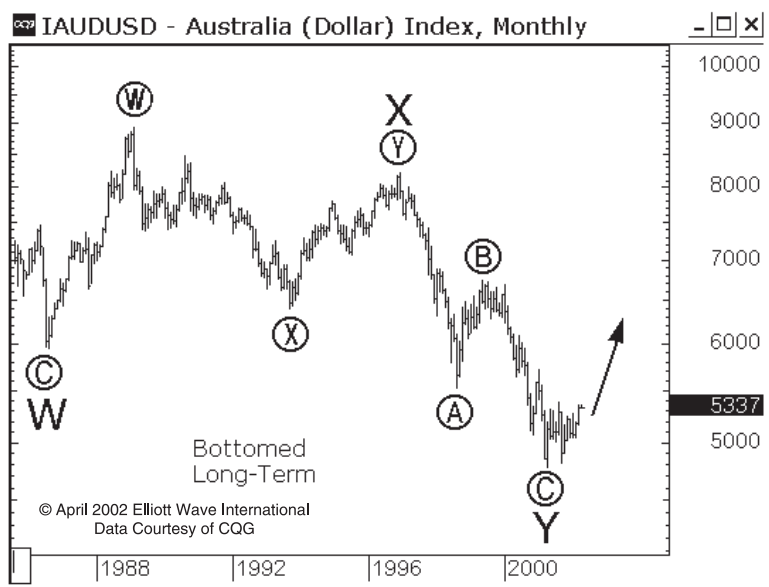
If wave X ended at the end of 1996 in a wide failure, then you can count a completed decline in place at the 4850 low of last year. Trading above the August 2001 high at .5391 would make this interpretation dominant.

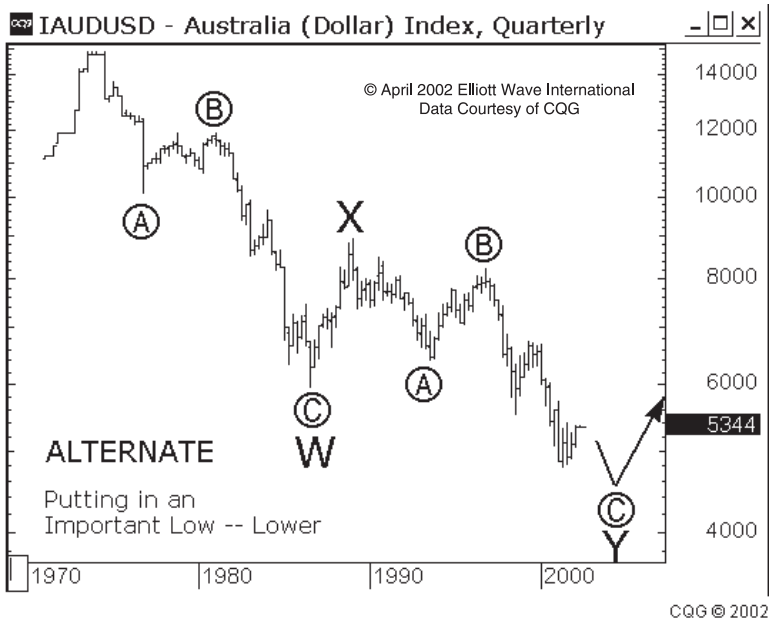
### Strong Alternate

The larger pattern would look better to me if we treat the January 1989 high as the end of wave X, with a sloppy wave (B) bounce ending in 1996. Under this scenario, the Australian Dollar still needs to fall to one more low to complete wave (C) down from 8212.

### In the coming Year: Bottoming/Bottomed

In either case, since a complex double zigzag disintegration from the 1.4900 peak of 1973/1974 appears complete or nearly so, the potential for a long-lasting low is great.





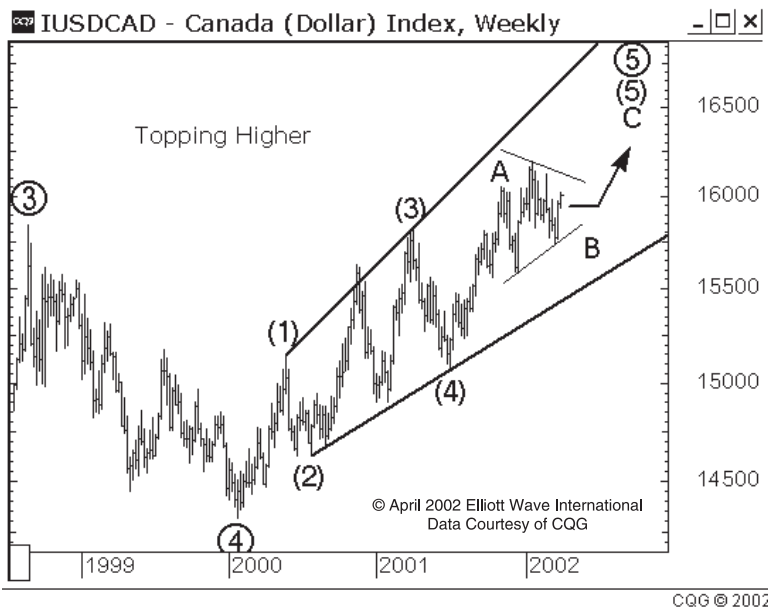
## SCAD Canadian Dollars per dollar

**In the coming Weeks: Choppy Sideways for another few months**

### Analysis

Since this final advance from the 1.5069 low last July is part of a larger diagonal triangle from early 2000, it should develop a three-wave structure. The second of those waves, i.e. wave B, appears to be unfolding as a contracting triangle, with two more sideways swings due before the wave C thrust up to new all-time highs.

From a larger perspective: There is a lot of variability within an expanding diagonal triangle such as this one from the January 2000 low, and upside targets stretch from 1.6235 to 1.6565. 1.6473 is the measured projection for a thrust up from the February 19th low.



### Alternate

Wave ④ ended in early 2000, and an already completed expanded diagonal triangle wave ⑤ advance finished the uptrend from November 1991, thus also ending the Canadian Dollar's three-decade decline.

### In the coming Months: Topping Long Term

No change: The very fact that the past two years' move up from 1.4320 has been so choppy relative to the earlier rallies over the past decade speaks in favor of the idea that a trend-change is underway. While the decade-long wave C advance from 1.1190 contains an unusually compacted central wave, it does show five internal swings complete with the classic momentum pattern for a completed trend, i.e. peak momentum during the third wave and waning momentum on the last move upward. With the past two years' advance counting best as a very rare expanding diagonal triangle fifth wave, this pair is likely putting in a long-term top here in the 1.60s.

Critical resistance is well defined by 1.7110, the point at which the ostensible 1996/1998 third wave would become the shortest.

## **EURO RATES**

### **EUR CHF SWISS FRANCS per EURO**

#### **In the coming Weeks: Thrusting under 1.44**

No change: “A well-formed contracting triangle fourth wave from the September low appears complete, and leaves this pair to thrust down to 1.4320.

1.4895 is Very Critical to this immediate bearish count.”

#### **Analysis**

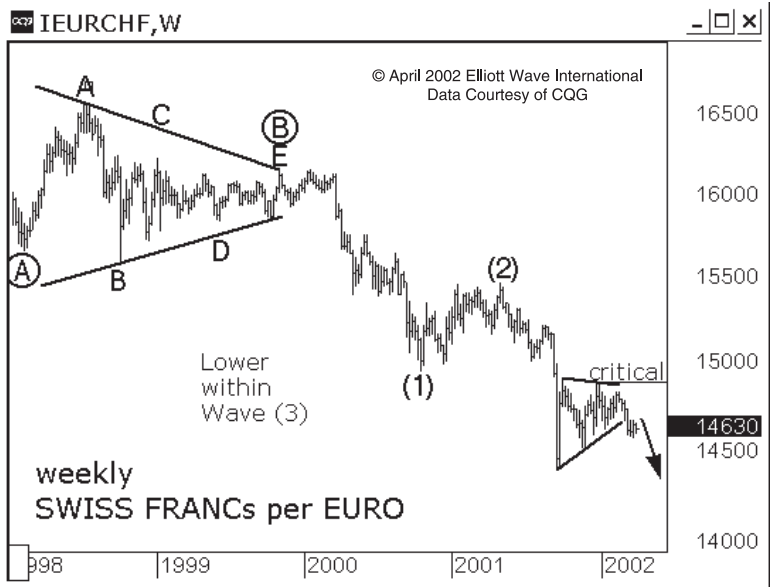
1.4320 is the level at which this wave (v) thrust from 1.4840 would equal the width of the five-month wave (iv) triangle.

#### **Alternate**

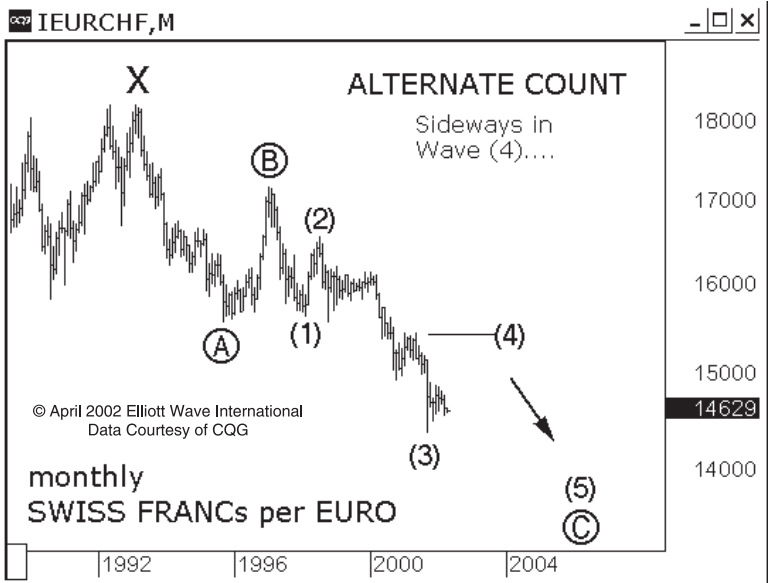
It is 35% Probable that last year’s dive from 1.5472 was a terminal wave 5 within wave (3) down from the July 1998 high, i.e. wave (3) within an eight-year wave (A) downtrend from January 1997. Under this second-best scenario, the developing wave (4) bounce from 1.4403 will probably challenge the 38% retracement at 1.52 in the coming months.

#### **In the coming Months: Thrusting under 1.40**

This thrust down out of the 1978/1997 triangle trading range shows an incomplete internal structure and so will very likely continue lower. 1.34 is the measured downside projection, i.e. the point at which this developing decline from 1.7186 will have equaled the width of that 19-year wave X triangle.



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## EUR JPY YEN per EURO

### In the coming Weeks: Up beyond 120

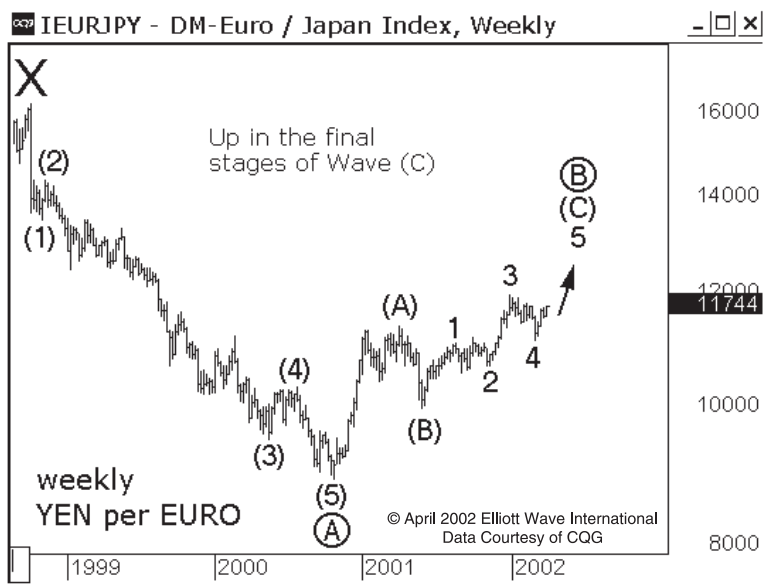
After an unusually deep wave 4 correction in early March, the EuroYen is making good progress in its wave 5 rally to new highs.

### Analysis

123.35 is the point at which wave 5 from 111.30 will have equaled wave 1 from the 99.85 low. Since waves 1 and 3 were nearly equal it would not be surprising to see wave 5 extend, and target/resistance in the larger timeframes points higher, so keep in mind the potential for wave 5 to stretch up to 128-129.

### In the coming Months: Topping/Higher

This developing wave 5 rally above 111 will complete wave (C) of a counter-trend (A)-(B)-(C) bounce from the 2000 low. Ideal target projections for wave (C) cluster at 128-129, which includes the point at which wave (A) and (C) will be equal along with the 62% retracement of the 1998/2000 downtrend.



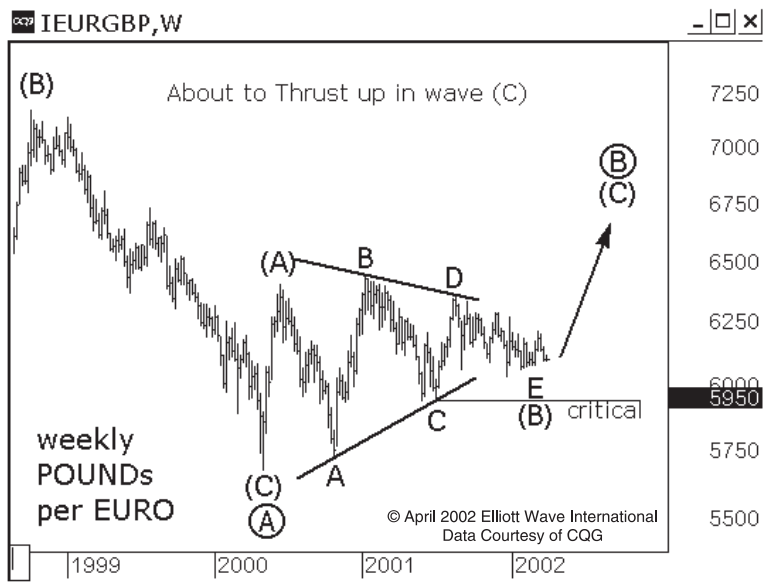
## EUR GBP POUNDS per EURO

### In the coming Weeks: Bottoming

EuroSterling is building a solid foundation for a powerful Wave (C) thrust up. The decline from last summer's .6363 high counts as a complex wave E within a wave (B) triangle trading range from the June 2000 high. While this bullish picture is technically valid as long as last summer's .5952 low holds, moves under .6070 and especially .6040 would make it less than 50% Probable.

### Analysis

Within a triple three wave E down from .6363, a triangle down from January 2nd will end after another two small contracting sideways swings. Then we should see a wave (C) thrust up of the same order of magnitude as the May/June 2000 wave (A) advance. .6781 marks the 38% retracement of the 1995/2000 downtrend.



**Alternate**

Within a bearish triangle up from the May 2000 low, the final wave E up from December 24th will develop another two small swings before a thrust down.

**In the coming Months: Up toward 68-74 pence — if .5952 holds**

Within the larger wave (B) advance from May 2000, we should soon see a wave (C) thrust up out of the wave (B) triangle from the June 2000 high. Upside projections begin at .6780 and stretch easily up toward 74 pence.

The July 2001 low at .5952 is critical to this bullish (B)-wave triangle interpretation.

**In the coming Years: Sideways between 90p and 59p**

Waves I through III carried from the early 1970s into the 1995 high, and this subsequent wave IV correction shows early signs of wanting to play out as a contracting triangle trading range with a wave (B) bounce currently underway.

## STERLING RATES

### GBP CHF SWISS FRANCS per POUND

**In the coming Weeks: Putting in an Important Top in the 2.42-2.46 range**

The slump from April 2000 appears to be developing as a pair of zigzags, with the intervening wave (X) triangle from January 2001 in its final stages. The rally since mid-March counts as a terminal wave E bounce, and as long as it ends under the 2.46 Christmas peak, we should then see a year-long A - B - C decline similar to that from April 2000 through January 2001. 2.10-2.07 is a good downside objective to bear in mind.

