

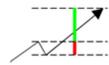
# Flash Report AUDJPY

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*“Quantitative approach for asymmetric results”*



AUDJPY gives hints to those who look for them



Figure 1: AUDJPY monthly chart

The AUDJPY seems to be behaving in a similar fashion to the 2005 – 2007 period.

Basically back then and since 2010 to these days, the pair has been inserted in a considerably wide sideways movement between 0.75 – 0.90 and only recently it has broken on the upside.

If similarities continue, this recent upward movement (and the next one that should be coming soon) should be interpreted as the final stage of the current bull market; this finds confirmations also in a general market cycle pattern, where commodities (and the Australian dollar is a good proxy) tend to perform at their best (see Figure 2).

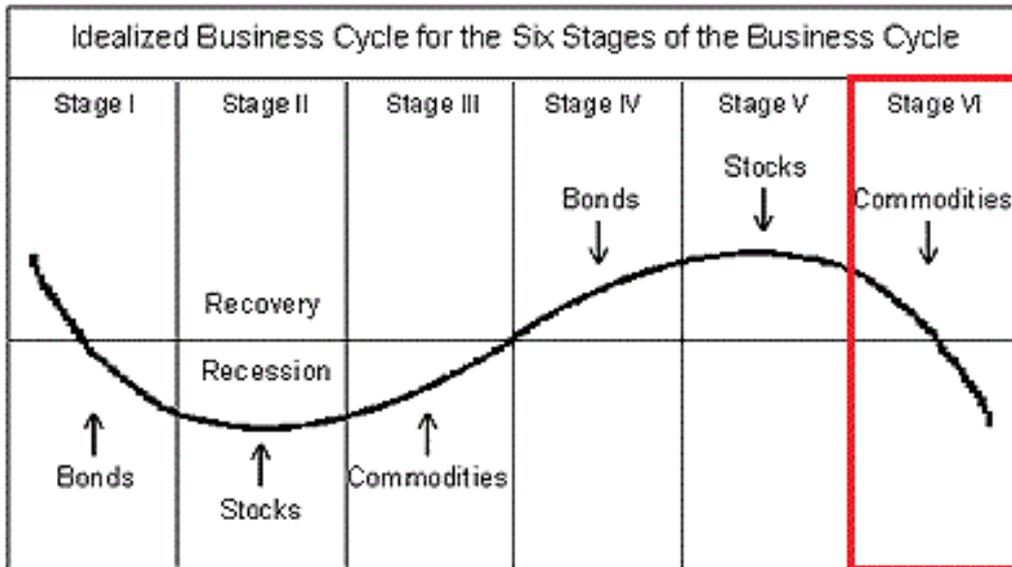


Figure 2: Market cycle pattern

This is generally true, but if we compared the pair to the commodities, I think we get even more interesting information on the macro situation we are currently in, see Figure 3 here below.

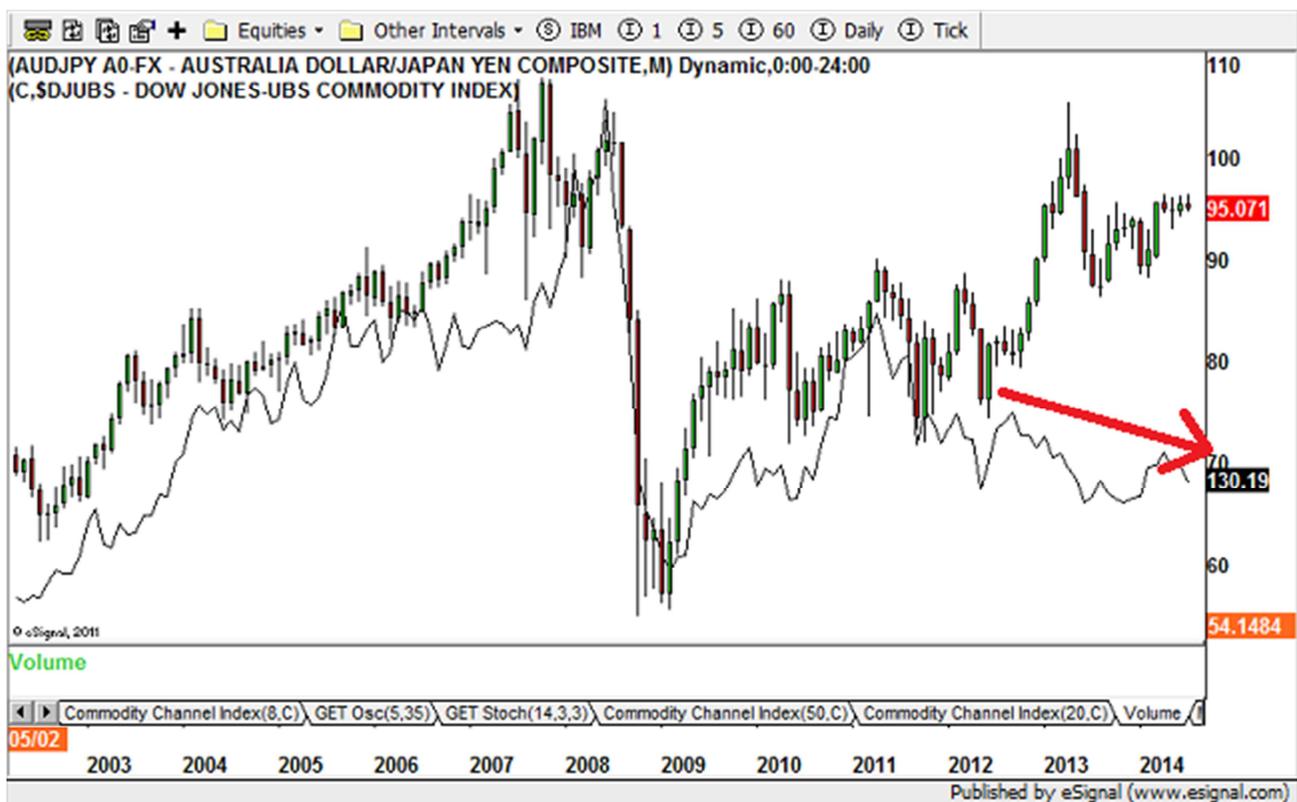


Figure 3: AUDJPY and DJ UBS commodity index monthlychart

In fact it seems that the pair is performing much better than the real commodities which may suggest we are already in the euphoria stage in financial markets, as the business cycle that commodities are suggesting is a slowing, not an accelerating one.

However, short term the behaviour of the pair both on the monthly and the daily charts are calling for short term strength, therefore I expect the pair to arrive around 0.9770 from now to late August.

Main reason for this can be found on the daily chart, in which a bullish head and shoulders can be found in the price action going from the beginning of April to these days. We will have the final confirmation that this pattern is working only at the violation of the neckline at 0.956.

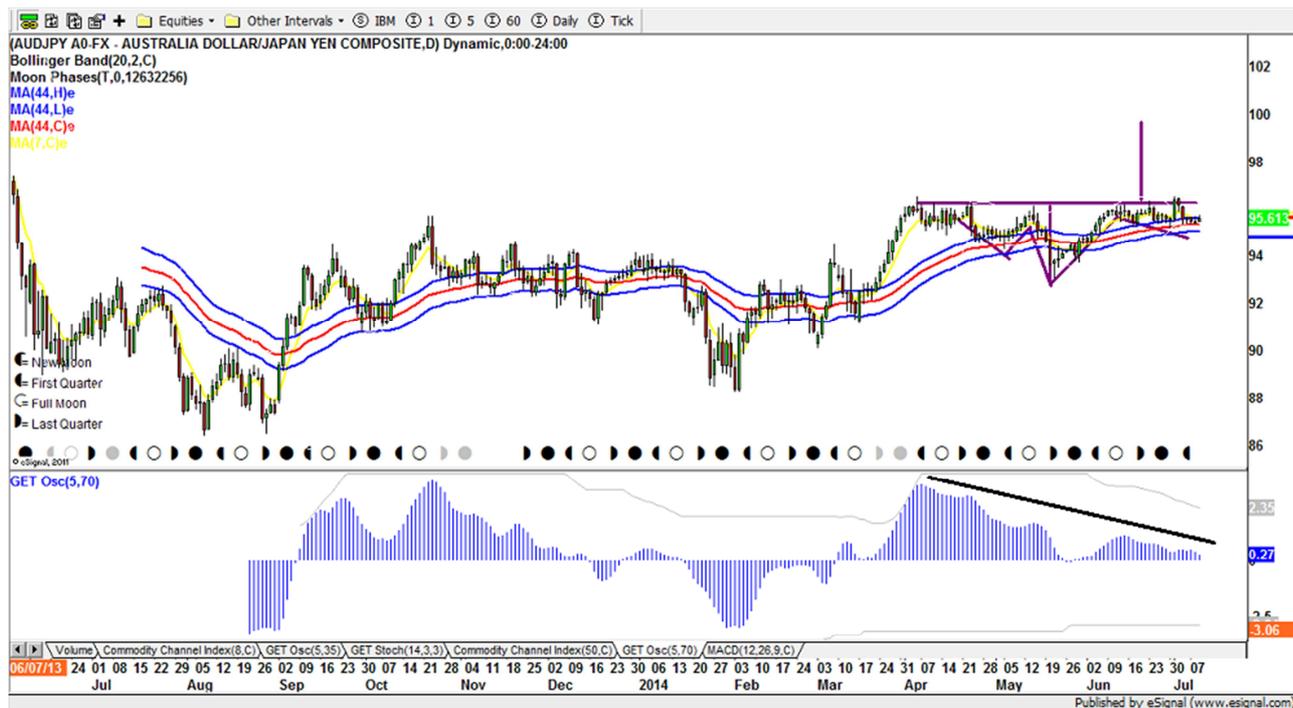


Figure 4: AUDJPY daily chart

After this short term renewed bullish movement there could be the chance that an inversion will materialize. This is well explained on Figure 3 where the Oscillator (the indicator below the chart) is much weaker (smaller) than the April-May period: this means that this new upward movement is happening with no strength at all, typical of an ending pattern (you can see on the same Figure 3 the previous October-December movement).

The overall movement that started from the 2009 looks like more of a bullish but corrective structure rather than a healthier bullish impulsive structure: to better understand what I am talking about, you can see below (Figure 4) how different the pair behaved from 2001 to 2007 compared to the 2009 to today. If that proves to be correct, then the real trend is downward and therefore I would expect the pair to at least enter again the usual 0.75 – 0.90 channel.

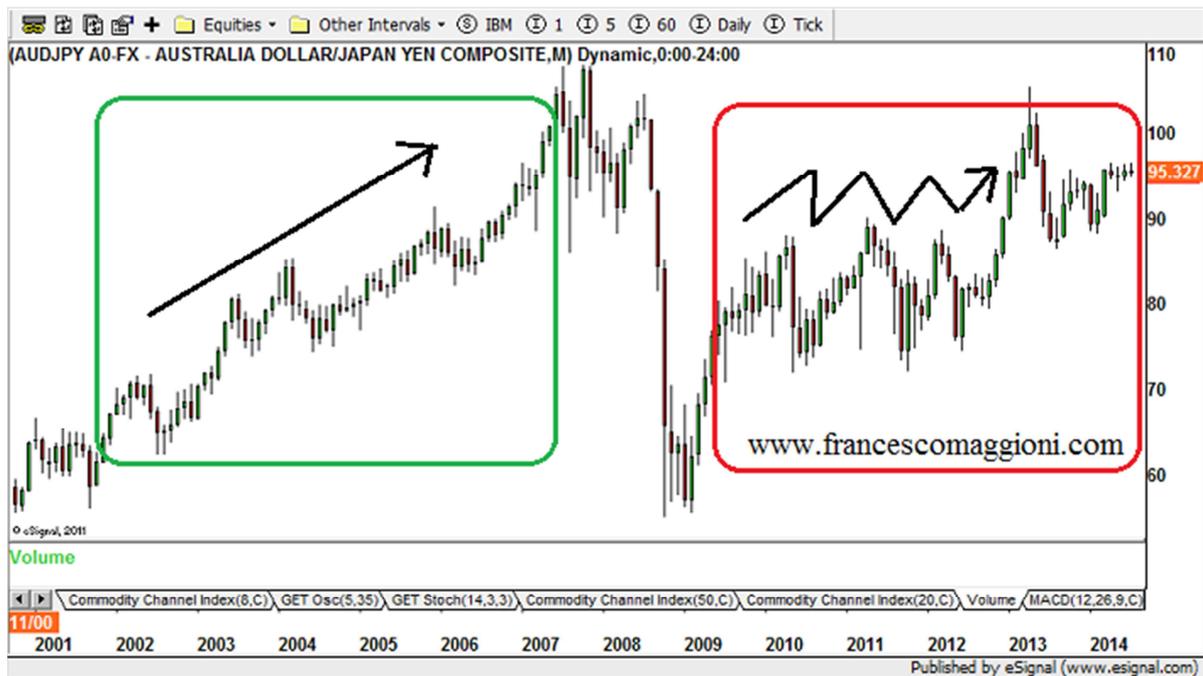


Figure 4: AUDJPY monthly chart

Concerning the other side of the pair, the Japanese Yen could see a further devaluation due to two main factors:

1. first one, the behavior of the currency due to the massive quantitative easing put in place by the Bank of Japan

AND

2. since the Japanese yen is also a safe heaven currency, a renewed interest for risky assets should trigger some selling pressure on safe assets, Yen included.

It is important to have a plan A but also a plan B. In this case my plan A is what I just wrote above.

However the overall structure may change if the pair will break the previous high set at 1.05: in this case a complete new analysis should be performed and the plan B should call for renewed strength to higher figures and most likely postponing and resizing the next downward leg both in terms of time (months) and price (depth).

On the other hand if selling pressure should materialize almost immediately with the breaking of the May low set at 0.9347, then again I wouldn't consider the reaching of the 1.05 level but would be set to profit from a possible wider downward movement.



Mr. Maggioni has been working in the financial markets for the last 15 years covering different roles and working in tier 1 consulting companies and banks worldwide.

In recent years his studies have been focused on the psycho-emotional aspects of trading and how those aspects have an impact on traders' behavior.

Before starting this venture, he was head of a hedge fund desk at HSBC Private Bank in Monaco and before that he was employed at Credit Suisse Asset Management (CSAM) in Zurich covering the in-house single manager hedge funds.

Most of his experience in hedge funds was gained while working in a Swiss family office where he was in charge of the research and analysis as well as due diligence for US and European hedge funds. He also performed quantitative analysis and portfolio construction for several funds advised by the family office.

Prior to that he worked as an external consultant for KPMG Financial Services in the Milan office. In 2002 he has been hired by Ernst & Young LLP, San Francisco as auditor for hedge funds, auditing large single funds and fund of funds. In 2000 he joined Ernst & Young in Milan as an auditor for mid-sized companies.

Mr. Maggioni holds an MBA from IUM and a Portfolio Management degree from the University of Chicago GSB.

#### **Useful Links:**

European Central Bank:	<a href="http://www.ecb.int">www.ecb.int</a>
Bank for International Settlements:	<a href="http://www.bis.org">www.bis.org</a>
International Monetary Fund:	<a href="http://www.imf.org">www.imf.org</a>
Federal Reserve:	<a href="http://www.federalreserve.gov">www.federalreserve.gov</a>
US CFTC	<a href="http://www.cftc.gov">www.cftc.gov</a>

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