GS Techs: The Charts That Matter Next Week

Thursday 3rd February 2011

John Noyce

John.Noyce@gs.com

+44 20 7774 2915

Global FX Sales Strategy

Macro Structuring & Strategy

Goldman Sachs Sales & Trading

EURUSD moves marginally beyond pivot resistance…

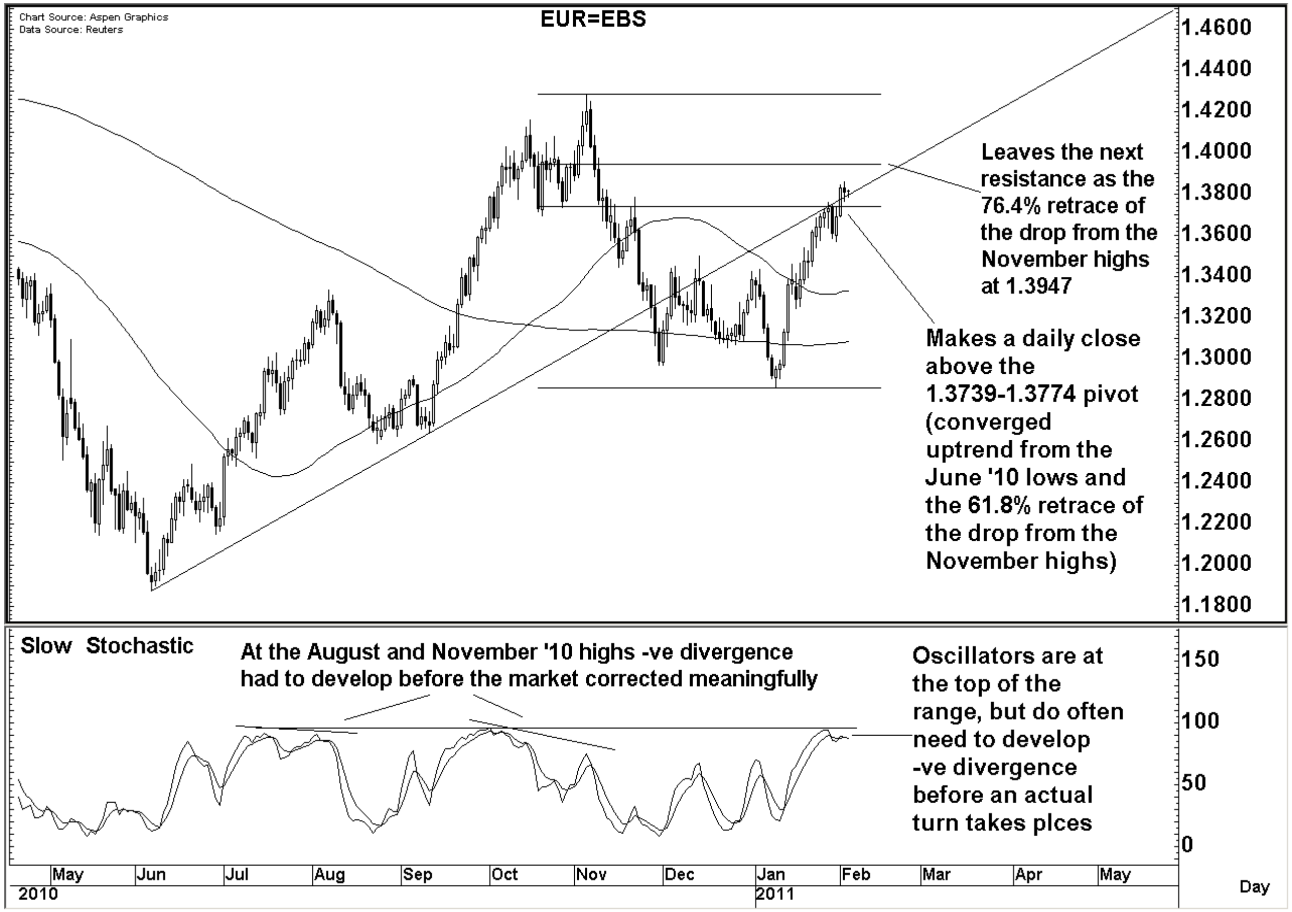

Chart Source: Aspen Graphics   Data: Reuters

On Tuesday the market closed above the pivot point which at the time was centred on 1.3739-1.3774 (the old uptrend from the June '10 low and the 61.8% retrace of the drop from the November highs being converged there)

- While not in itself indicating a change to an underlying bullish picture from these levels this development does open further recovery. The next notable resistance is the 76.4% retrace of the drop from the November highs which stands at 1.3947.
- If bullish and thinking about a trading strategy from here - "long with a very tight stop" seems to be the right way to categorise the situation. The reason for this is the oscillator setup which we currently have in place – the market's already significantly over-bought for the first time since October last year. While this development alone isn't a reason for the market to turn lower it does create the risk of negative oscillator divergence developing if the market makes another un-sustained marginal new high as it did in July/August and October/November last year.
- Bottom line some further upside does look possible, with resistance at 1.3947, but a *"gung ho"* aggressive approach from here doesn't look the right idea.

Yields still appear to be playing an important role…

2-year EUR swaps continue to tick up, breaking above the Jan. '10 high

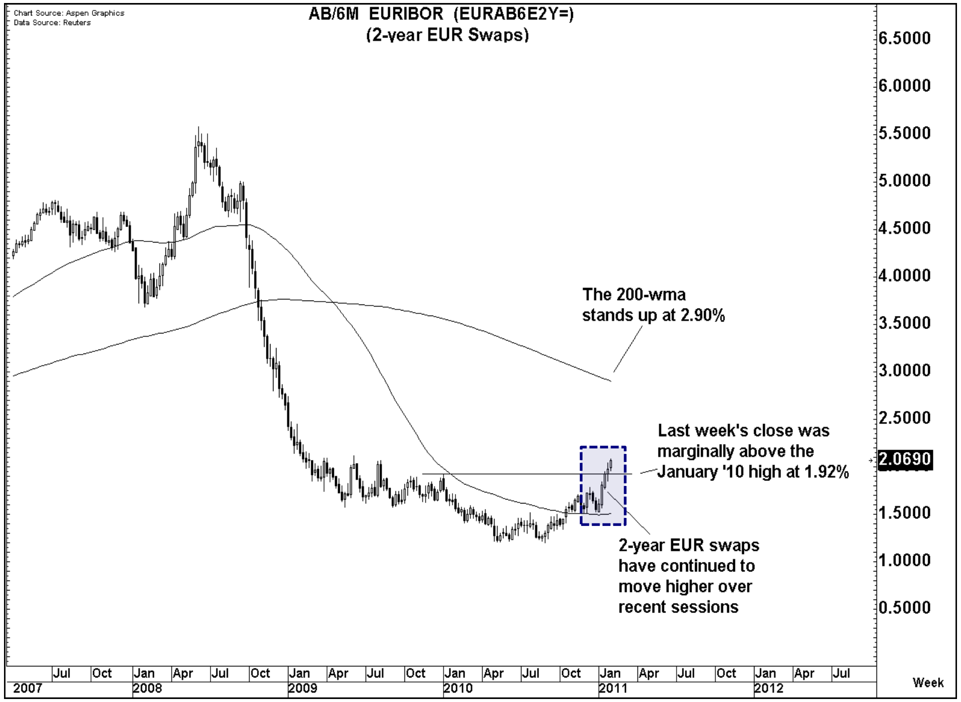

Chart Source: Aspen Graphics Data: Reuters

- This is a repeat of the chart we've shown over the last couple of weeks – EUR 2-year swaps looking back to late'07.
- Over the past four weeks 2-year EUR swaps have been moving gradually higher and last week achieved a close above the prior interim high from January '10 at 1.92%. While the move needn't be in a straight line an eventual extension to the 200-wma which stands up at 2.9% seems likely (a further 80+ bps above current levels).

EURUSD still looks quite "under-valued" versus spreads

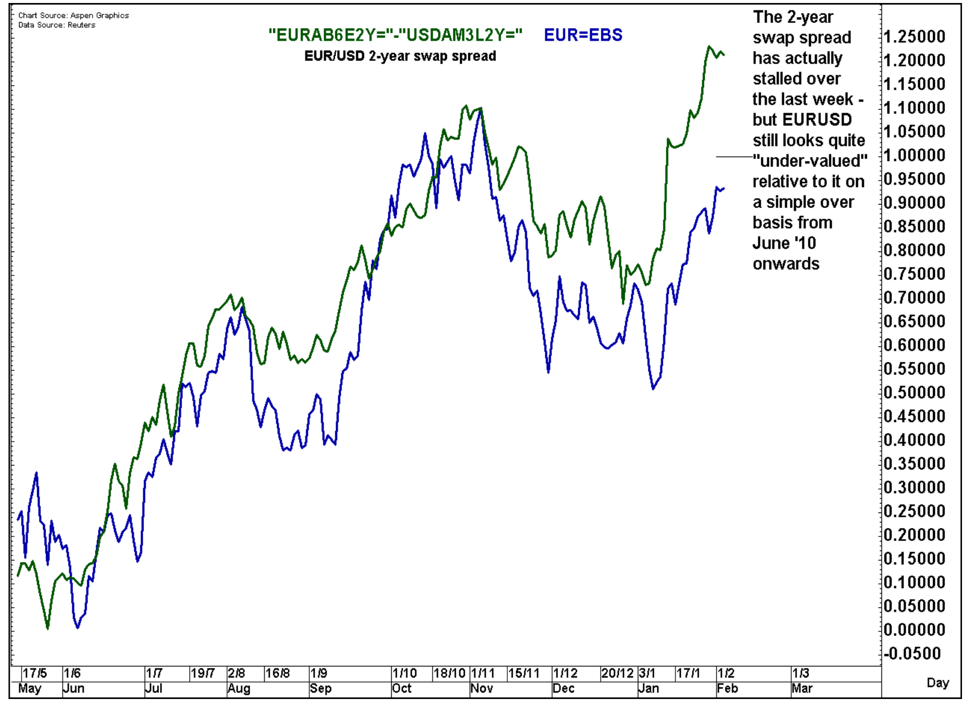

Chart Source: Aspen Graphics Data: Reuters

- This chart shows the EUR/USD 2-year swap spread in green and EURUSD spot in blue. Although the uptrend in the swap spread has stalled over the last week (EUR 2-year swaps have continued higher, but USD 2-year swaps have also bounced within their recent range), in simple overlay terms beginning in June '10 EURUSD at current levels still looks quite undervalued versus the swap spread. Until we actually see USD 2-year swaps break higher this is likely to keep some upward pressure on EURUSD from a correlated markets perspective.

2-year USD swaps now come into focus, with 0.89% a MAJOR pivot…

The market has been below the 55-wma since July '07, now at 0.89%

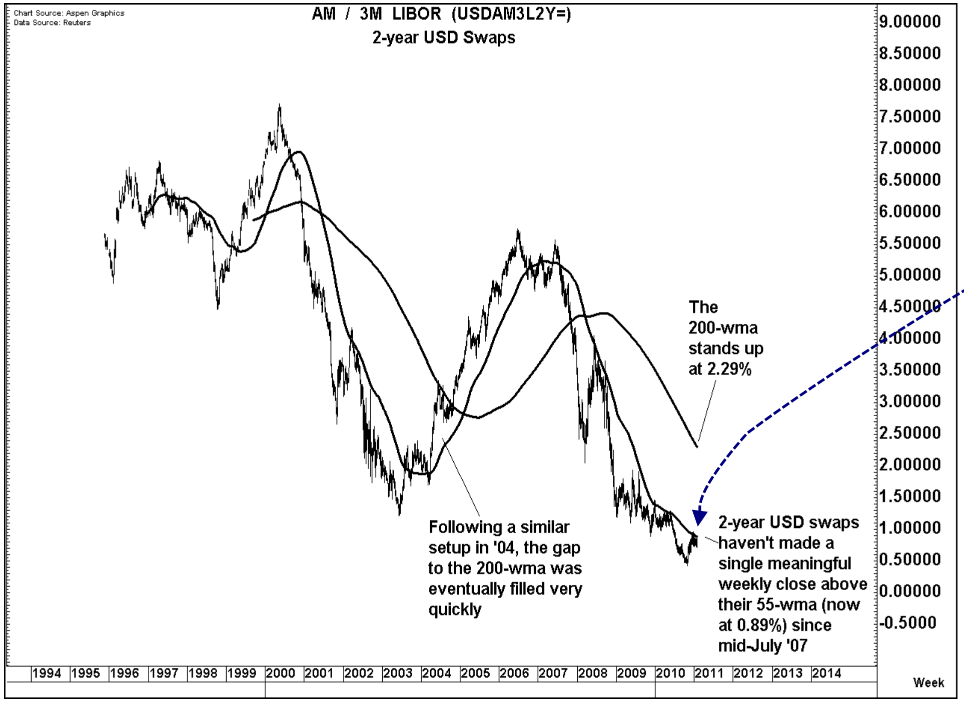

Chart Source: Aspen Graphics Data: Reuters

- USD 2-year swaps haven't made a meaningful weekly close above their 55-wma since mid-July '07, an extreme near 3.5-year period below this particular moving average (we normally work on a rule that 3-years+ above/below the 55-wma makes markets susceptible to a sudden turn in trend).
- The 55-wma now stands at 0.89%, a weekly close above if it could be achieved would seem very significant. The 200-wma stands all the way up at 2.29% (140bps above).

The top of the current triangle like consolidation also stands at 0.89%

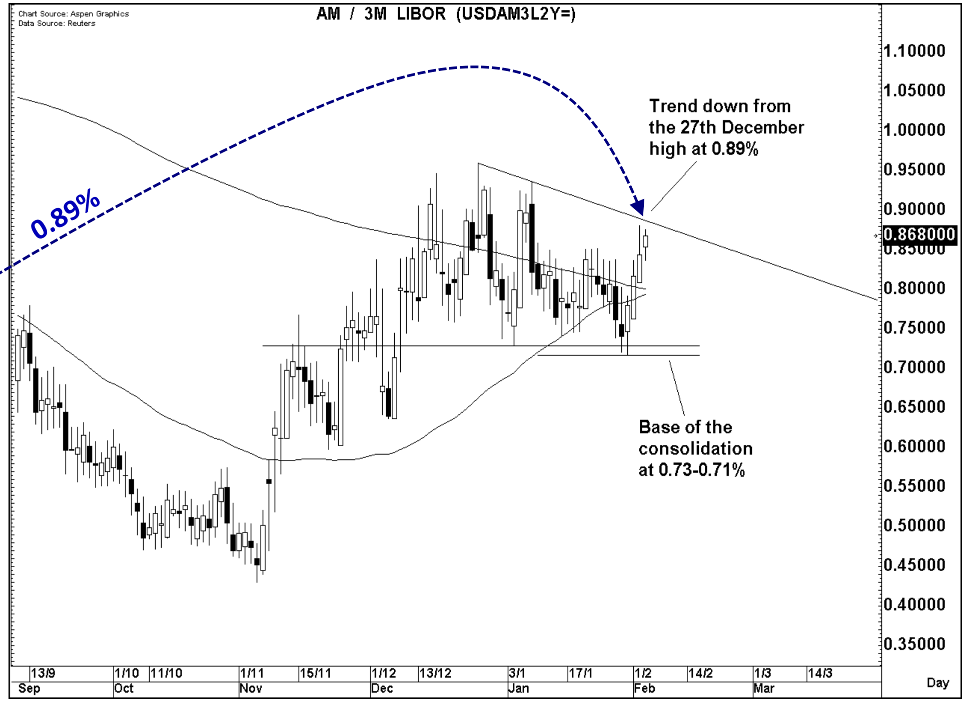

Chart Source: Aspen Graphics Data: Reuters

- Interestingly 0.89% is also currently an important pivot on the daily chart. It being the level of the trend across the highs of the recent triangle/bull flag like consolidation. If the market made a break through the highs of this pattern the extension target would be approximately 1.1%. It's also worth noting the tight clustering of the 55- and 200-day moving averages, which are currently less than 1bp apart, classically this argues the market is in a "trend ready" state.

10-year USD swaps are also again testing important levels…

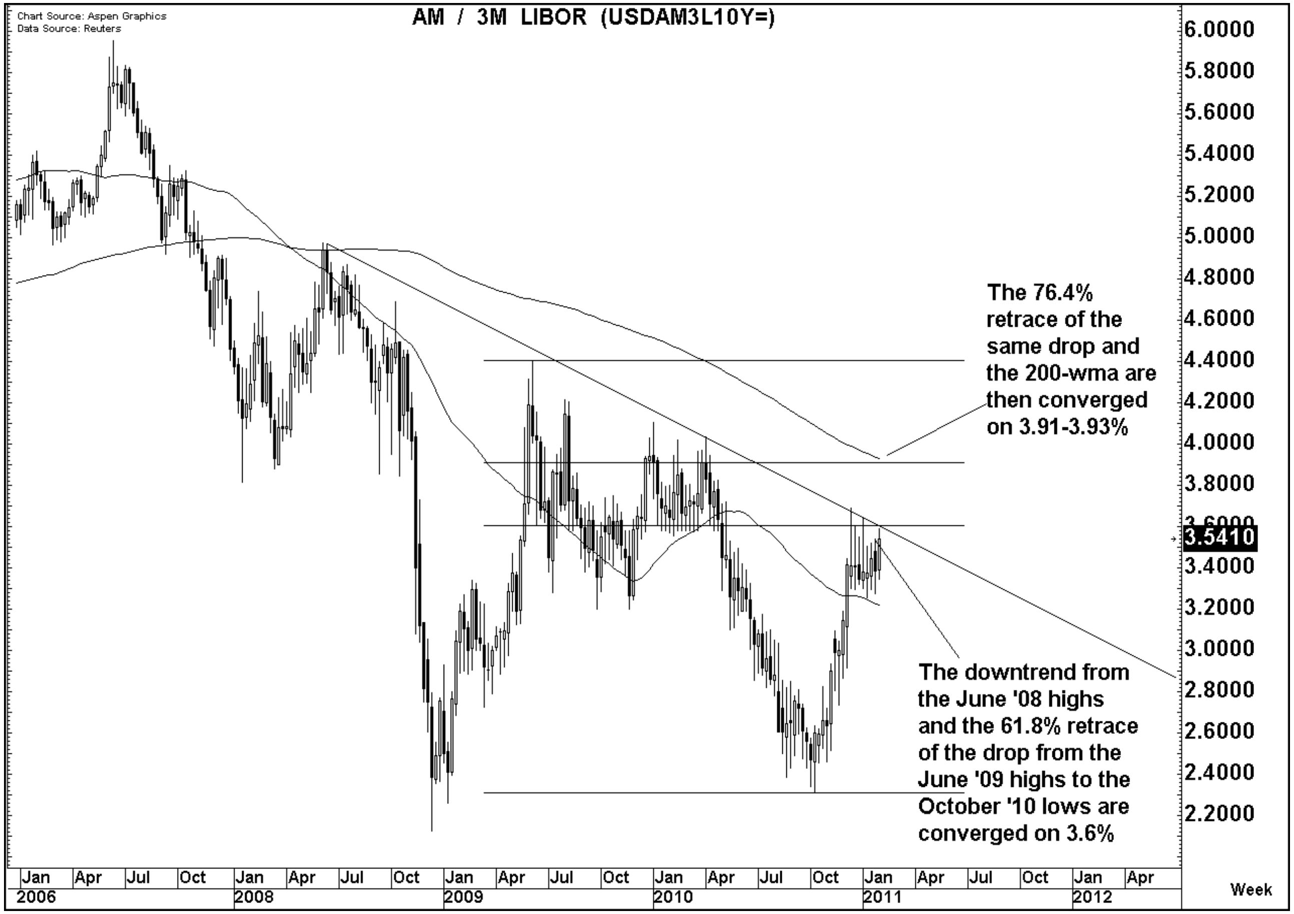

Chart Source: Aspen Graphics   *Data: Reuters*

The downtrend from the June '08 highs and the 61.8% retrace of the drop from the June '09 highs to the October '10 lows are converged on 3.6%

- A break above this region would be significant, but the weekly moving average setup is nothing like as aggressive as that on the 2-year (here the 200-wma only stands a further ~35bps above current levels).

It therefore seems to fit that the 10-year/2-year curve is at the "highs"…

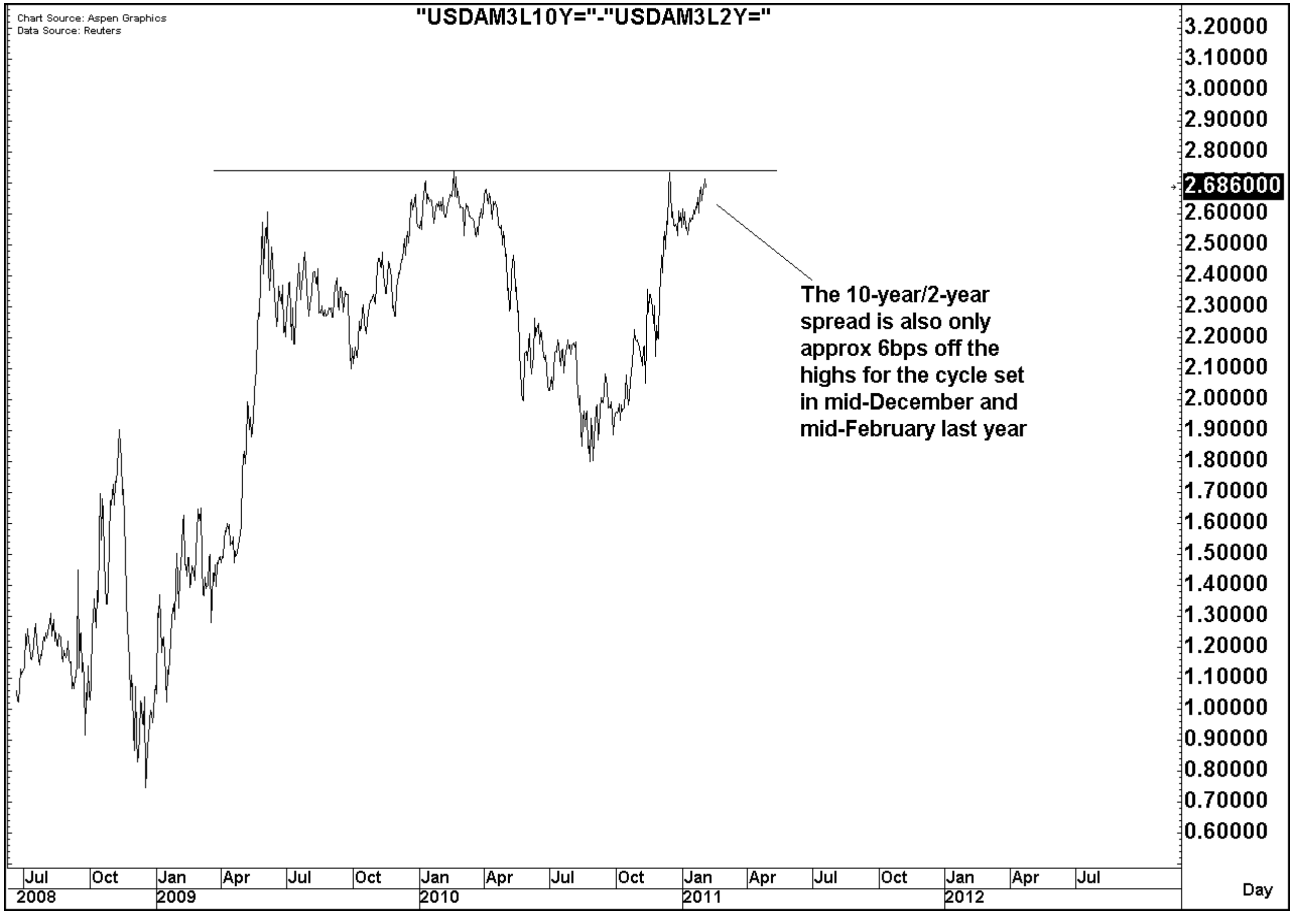

Chart Source: Aspen Graphics   Data: Reuters

This would be a pretty natural place for the curve to begin flattening again

- The spread between 10-year and 2-year USD swaps currently stands at 268bps, very close to the prior cycle highs from 15th December/18th February '10 at 273-274bps.
- In terms of structure the setup isn't that clear, but given the curve began to flatten from just above current levels on two occasions over the past year it seems very reasonable to watch for signs of another similar move beginning.
- **Putting all the pieces together; the aggressive weekly moving average setup and triangle like consolidation on 2-year swaps, the relatively less aggressive weekly moving average setup on 10-year swaps and the current extreme level of the 10-year/2-year curve, it seems the market is at a juncture where a break higher in short-end yields would be very significant both in specific yield related terms and also due to the USD's +ve correlation to short-end U.S. yields in a number of currency pairs.**

Our GBP/Broad Index(*) now stands above pre-GDP release levels…

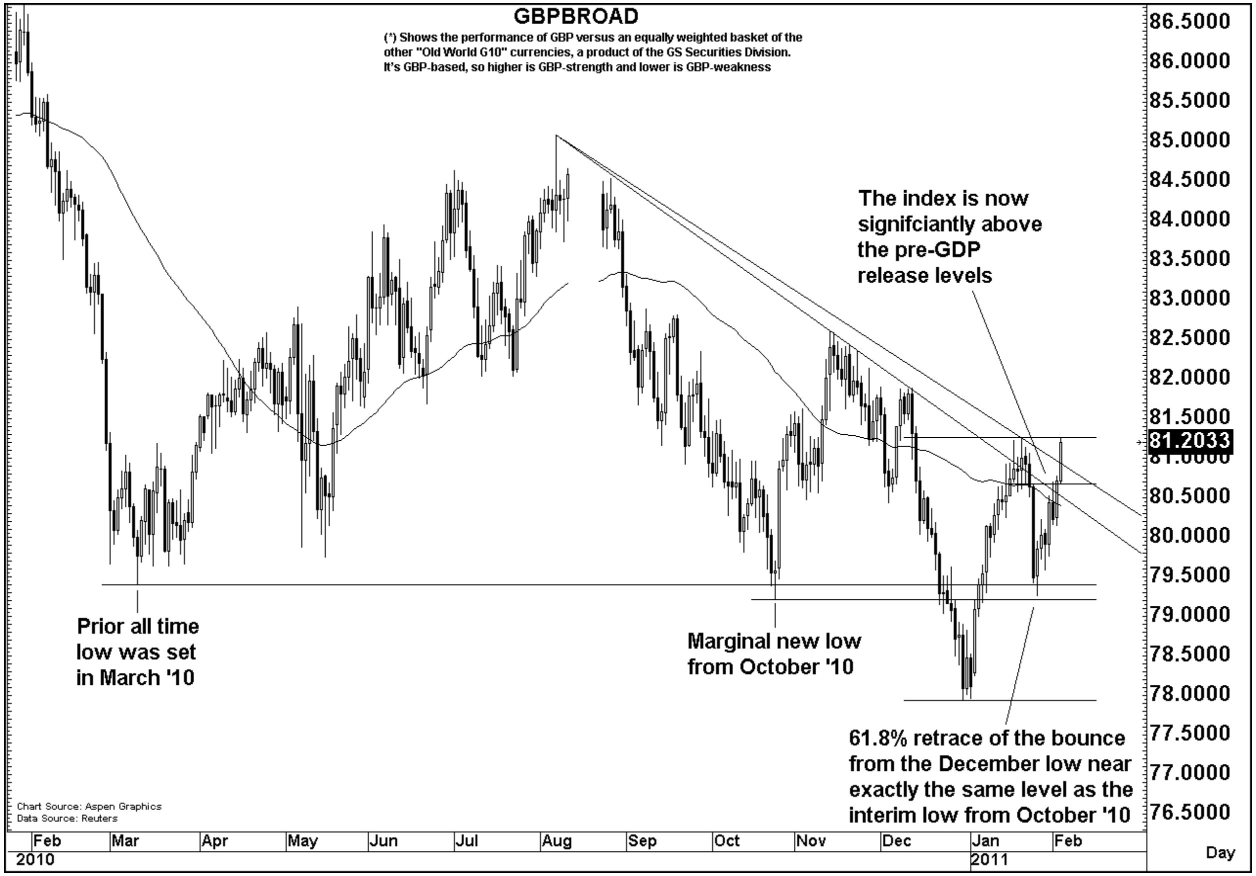

Chart Source: Aspen Graphics Data: Reuters

The Index is now also pushing meaningfully above the downtrends from the August '10 highs

- While there are still some significant resistance levels to deal with, notably the prior recovery high from 20th January which stands right at current levels, the underlying picture is looking increasingly constructive. The late-December drop below the prior all time lows from October/March '10 looking like an unsustainable move.
- *(*) A product of the GS Securities Division which shows the performance of GBP versus an equally weighted basket of the other "Old World G10" currencies, It's GBP-based, so higher is GBP-strength and lower is GBP-weakness.*

Past performance is not an indicator of future results. Future returns are not guaranteed, and a loss of original investment may occur.

GBP yields have also begun to rise again…

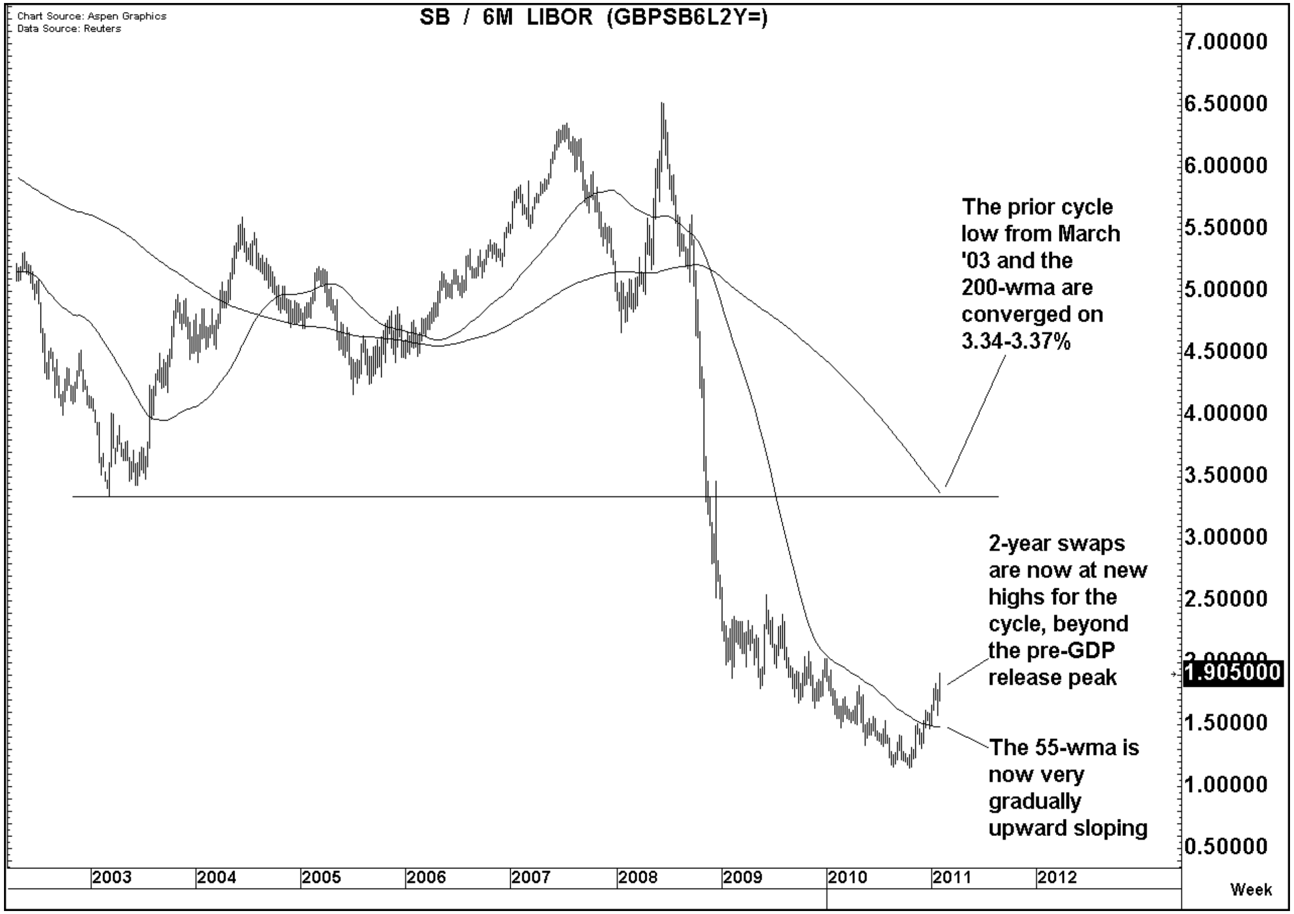

Chart Source: Aspen Graphics *Data: Reuters*

2-year GBP swaps have retraced all of their post-GDP release drop and stand at new highs for the cycle

- The underlying weekly moving average setup here is very similar to that in place on EUR 2-year swaps; extended trend below the 55-wma allowing a large gap to the 200-wma to develop.
- Now that the market has moved above the 55-wma (which is also gradually upward sloping for the first time since June '08) a multi-month move towards the converged cycle low from March '03 and the 200-wma; 3.34-3.37% appears likely.

This could be the beginning of a cyclical flattening of the UK curve…

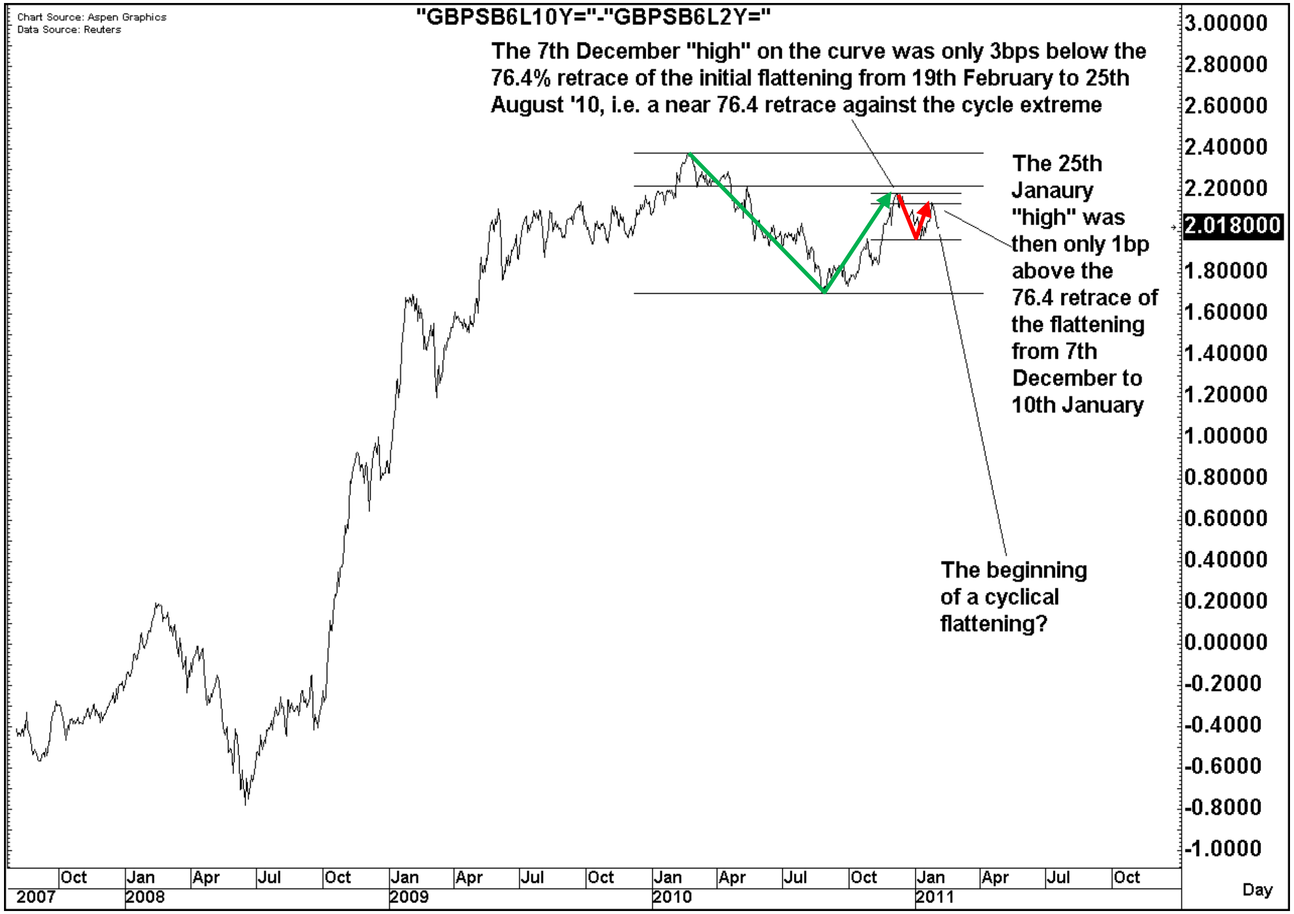

Chart Source: Aspen Graphics   Data: Reuters

The market has posted a series of two near perfect 76.4 retraces against the extreme wide which was set in February '10. This is often a signal that a significant turn in trend is developing

- Combined with the setup on 2-year swaps, which *tend over time* to be the main driver of the spread, a significant flattening trend could well begin from here.

Past performance is not an indicator of future results. Future returns are not guaranteed, and a loss of original investment may occur.

Looking at some specific GBP/Crosses…

GBPCHF is now moving toward an important pivot on the daily chart

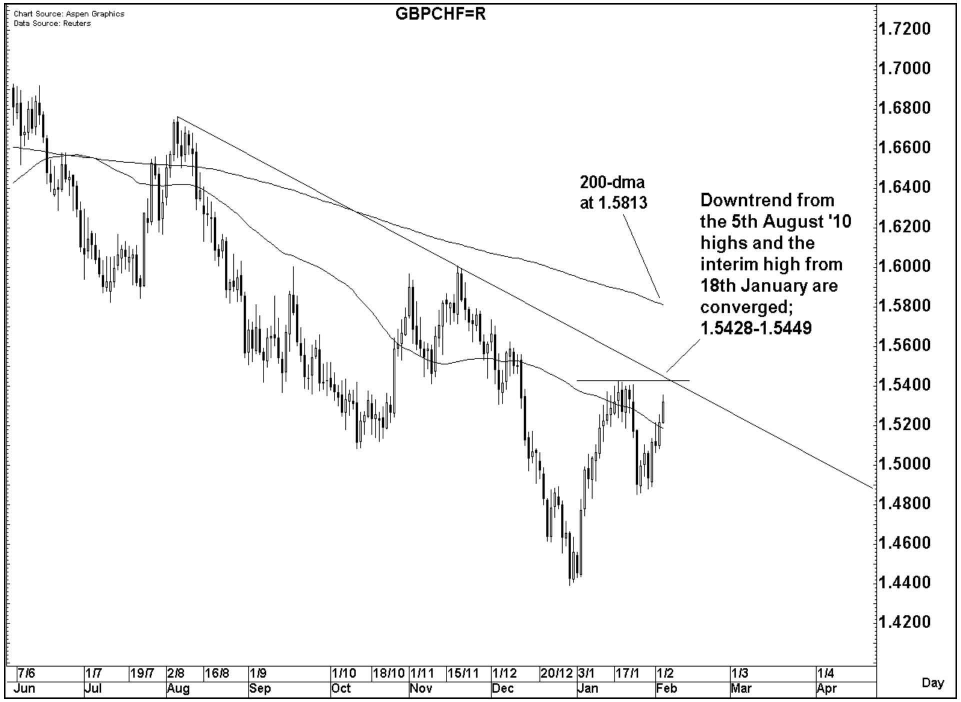

Chart Source: Aspen Graphics Data: Reuters

- The interim high from 18th January and the downtrend from the 5th August '10 highs are converged on 1.5428-1.5449.
- A break above this point would be further evidence of a ST base in place leaving the 200-dma up at 1.5813 as the next level to watch.

The weekly moving average setup remains similar to '95/'96

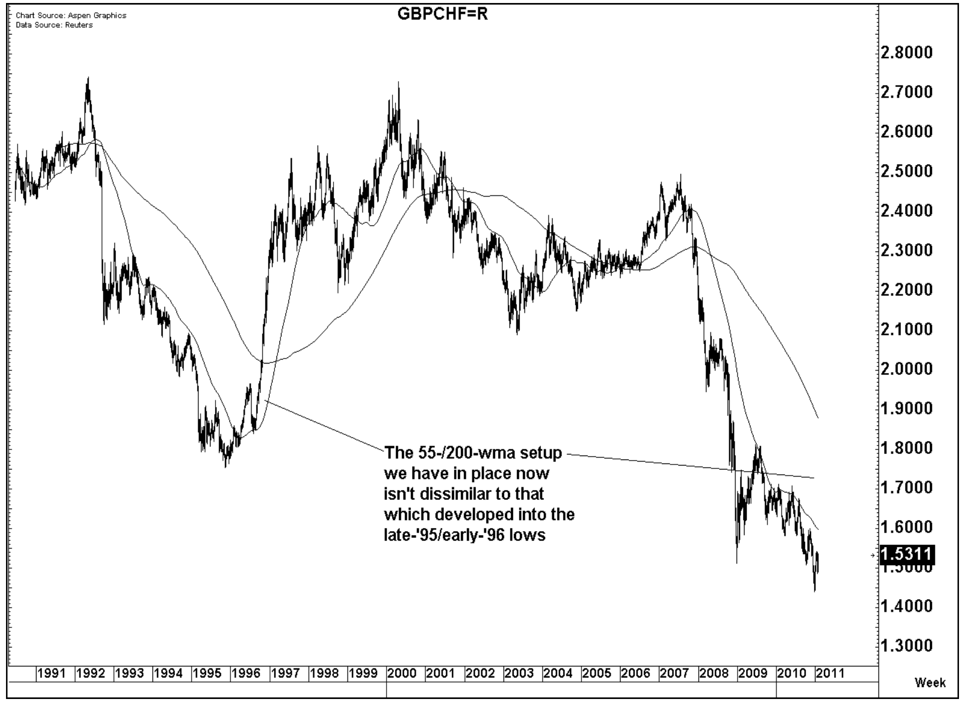

Chart Source: Aspen Graphics Data: Reuters

- This is the weekly chart of GBPCHF looking back to the early-'90s.
- It highlights how similar the current moving average setup is to that which developed into the late-'95/early-'96 lows. Following that, admittedly after a period of consolidation, the market began a very sharp recovery which saw GBP strengthen significantly, rapidly filling the gap between the two weekly moving averages and then actually continuing further over time.

GBPJPY is the other cross which warrants close attention…

It's now above the downtrends from the October '07 and August '09 highs

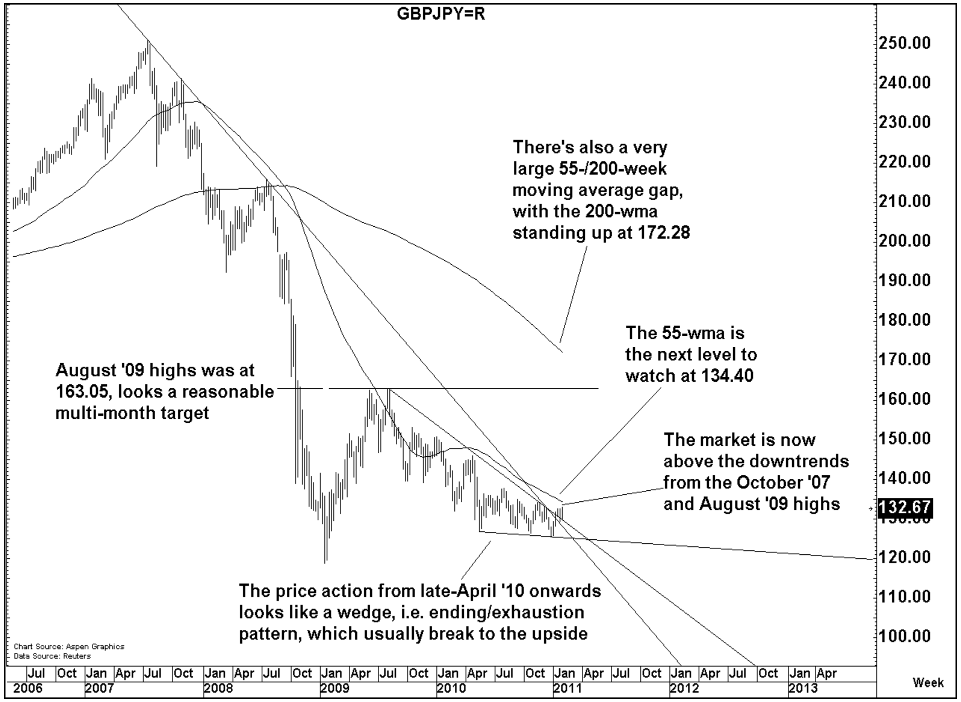

Chart Source: Aspen Graphics Data: Reuters

- The next notable pivot is the 55-wma which stands at 134.40.
- While the moving average setup here isn't as clear as that on GBPCHF as the market has made a number of material, but false, closes above the average over the past two years, it is still worth watching given the wedge like move into the lows and the fact that the two material downtrends from the October '07 and August '09 highs have been broken.

The market is also attempting to push above the 200-dma at 132.16

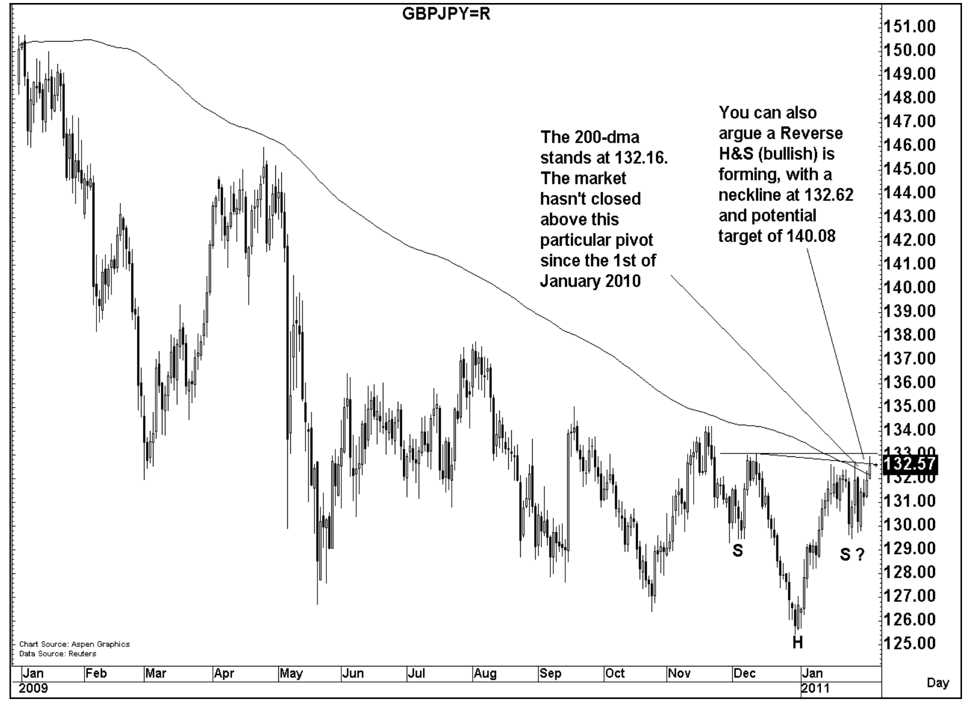

Chart Source: Aspen Graphics Data: Reuters

- The last time a close above this particular moving average was achieved was on 1st January 2010. Really seems quite an important level to watch given the increased focus the 200-dma has received across FX markets over recent months.
- You can also argue that a Reverse Head and Shoulders (bullish) is forming with a neckline at 132.62 and a potential extension target of 140.08 if the market closes above the pivot today.

Looking at other CHF crosses, USDCHF looks ripe for a bounce…

A double bottom against the December lows?

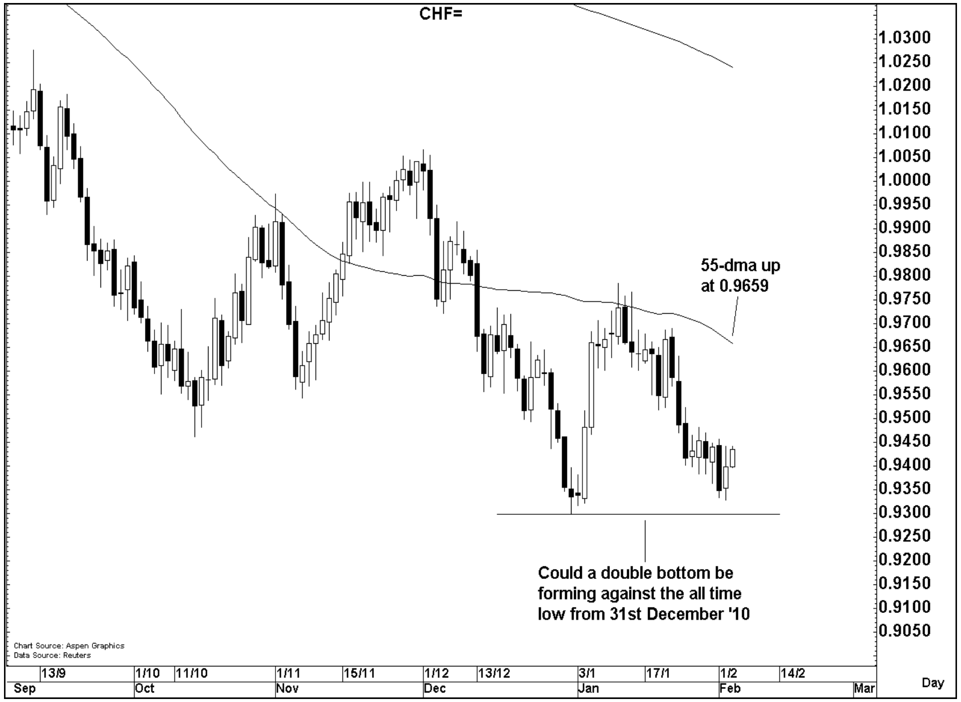

Chart Source: Aspen Graphics   Data: Reuters

- This week's low at 0.9329 was only fractionally above the all time low from 31st December last year at 0.9298.
- This could therefore be viewed as a double bottom in the process of forming.
- The first real pivot above is the 55-dma which stands up at 0.9659.

The market also based near the trend across the lows from Dec '08

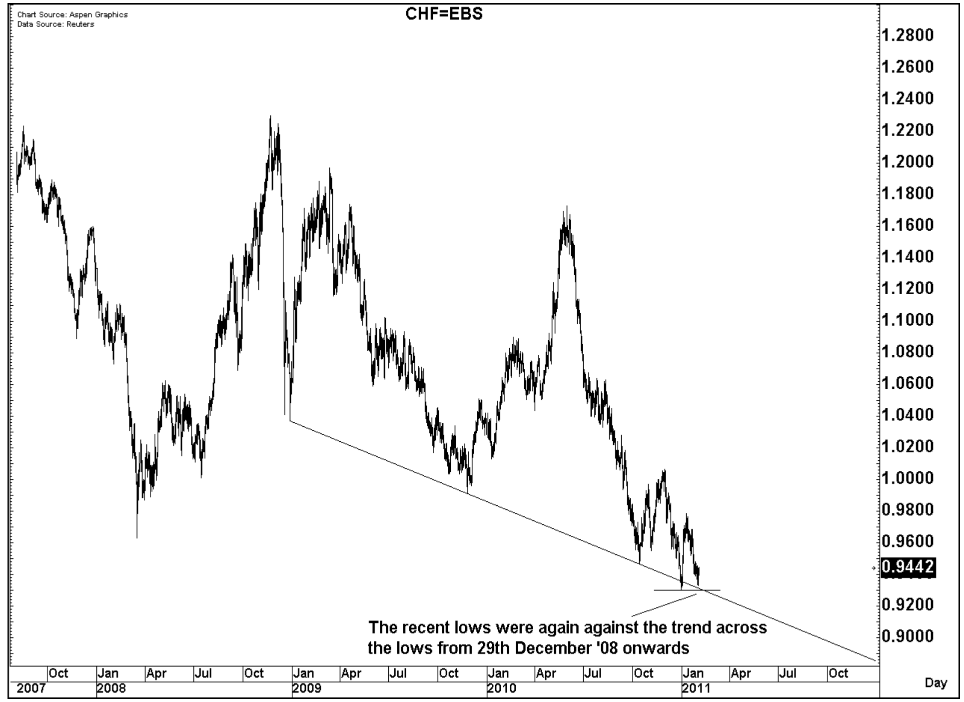

Chart Source: Aspen Graphics   Data: Reuters

- Again, while not one of the standout charts of all time, this does add some weight to the theory of this being a good level from which to see the market bounce.

Past performance is not an indicator of future results. Future returns are not guaranteed, and a loss of original investment may occur.

USDJPY remains in a triangle like consolidation…

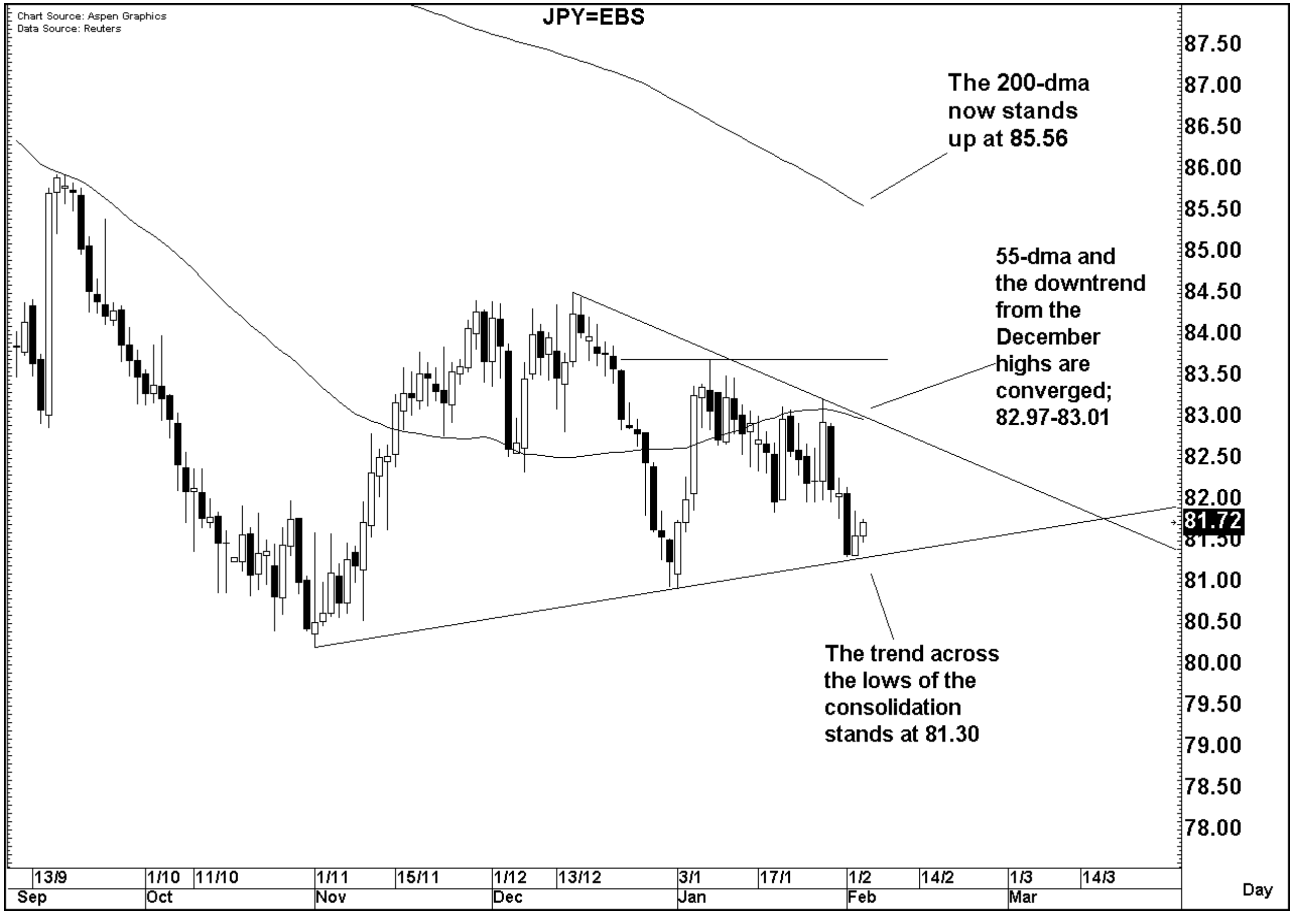

Chart Source: Aspen Graphics *Data: Reuters*

At current level a tactical bullish stance looks most appropriate

- The market has continued to consolidate, unable to break the upside pivot where the 200-dma and trend across the recent highs are converged; 82.97-83.01, and subsequently dropping back to the base of the consolidation where support currently stands at 81.30.
- Ultimately our bias is for the JPY to under-perform in the crosses, but USDJPY remains quite unclear at this stage. A close basis break either way from the current consolidation would be a notable development.

Our Broad/JPY Index (*) very disappointingly fails to sustain the break…

Chart Source: Aspen Graphics   Data: Reuters

Late last week our Broad/JPY Index broke higher from its extended triangle like consolidation, but has so far been unable to sustain the break higher

- We do still have a bias for the index to push higher over time given the setup on a number of its components and correlated markets, but this is certainly not the type of price action you want to see as a market attempts to break in either direction from a multi-month range.
- *(*) A product of the GS Securities Division which shows the performance of the JPY versus an equally weighted basket of the other "Old World G10" currencies, it's JPY-termed so higher is JPY-weakness.*

USDZAR is now putting pressure on the major pivot at 7.18-7.23…

Chart Source: Aspen Graphics   Data: Reuters

Given the underlying setup here and on a number of the other G10/ZAR crosses our bias is for an eventual upside break

- ZAR generally looks like it could become a significant under-performer going forward.

Past performance is not an indicator of future results. Future returns are not guaranteed, and a loss of original investment may occur.

There are some other interesting developments in EM space…

Chart Source: Aspen Graphics   Data: Reuters

EURHUF has broken lower from its extended triangle like consolidation, moving substantially below the uptrend from the July '08 low

- The next interim support/pivot is very close to current levels; the prior low from October last year at 268.70. However, ultimately a test of the March '10 low at 260.93 seems likely.

CHFHUF is another cross with what appears a clear setup…

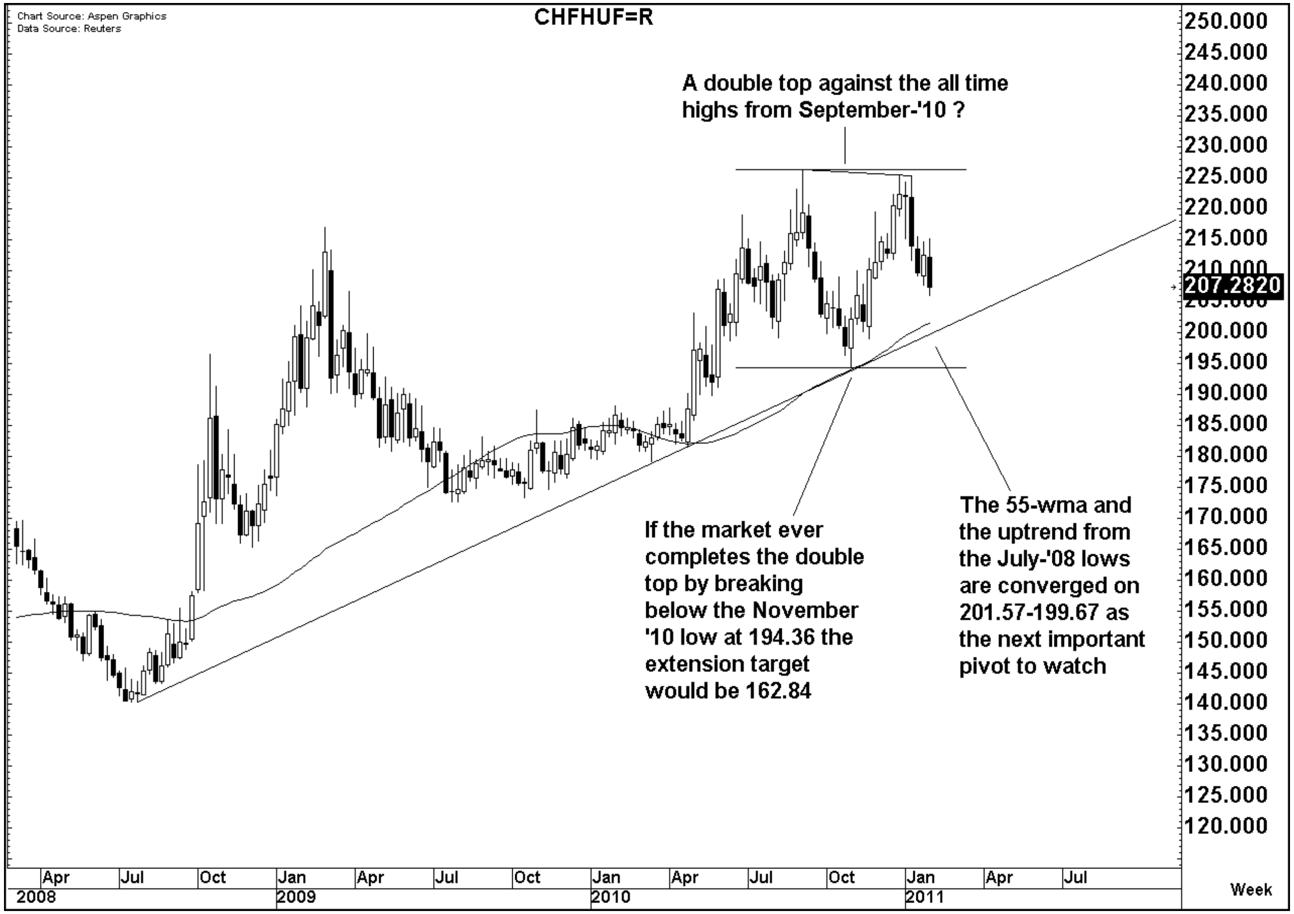

Chart Source: Aspen Graphics *Data: Reuters*

The market is attempting to form a large double top against the all-time highs from Sep. '10

- The most important pivot to watch below here is the converged 55-wma and uptrend from the July '08 lows; 201.57-199.67. Beyond there the neckline of the potential double top stands at 194.36 (the November '10 low), a weekly close below that point would complete the pattern giving an extension target of 162.84.

Over the past week there's been renewed focus on Asian appreciation…

Chart Source: Aspen Graphics   Data: Reuters

USDKRW has a setup that is worth keeping a close eye on

- The market has been forming a contracting triangle like consolidation over recent months.
- The base of the pattern stands at 1,104-1,102 where the interim lows from April to November '10 are converged.
- A weekly close below this region, if and when it is achieved, would likely be very significant.

Goldman Sachs

Finally, could NOKSEK be an interesting "risk-off" hedge?..

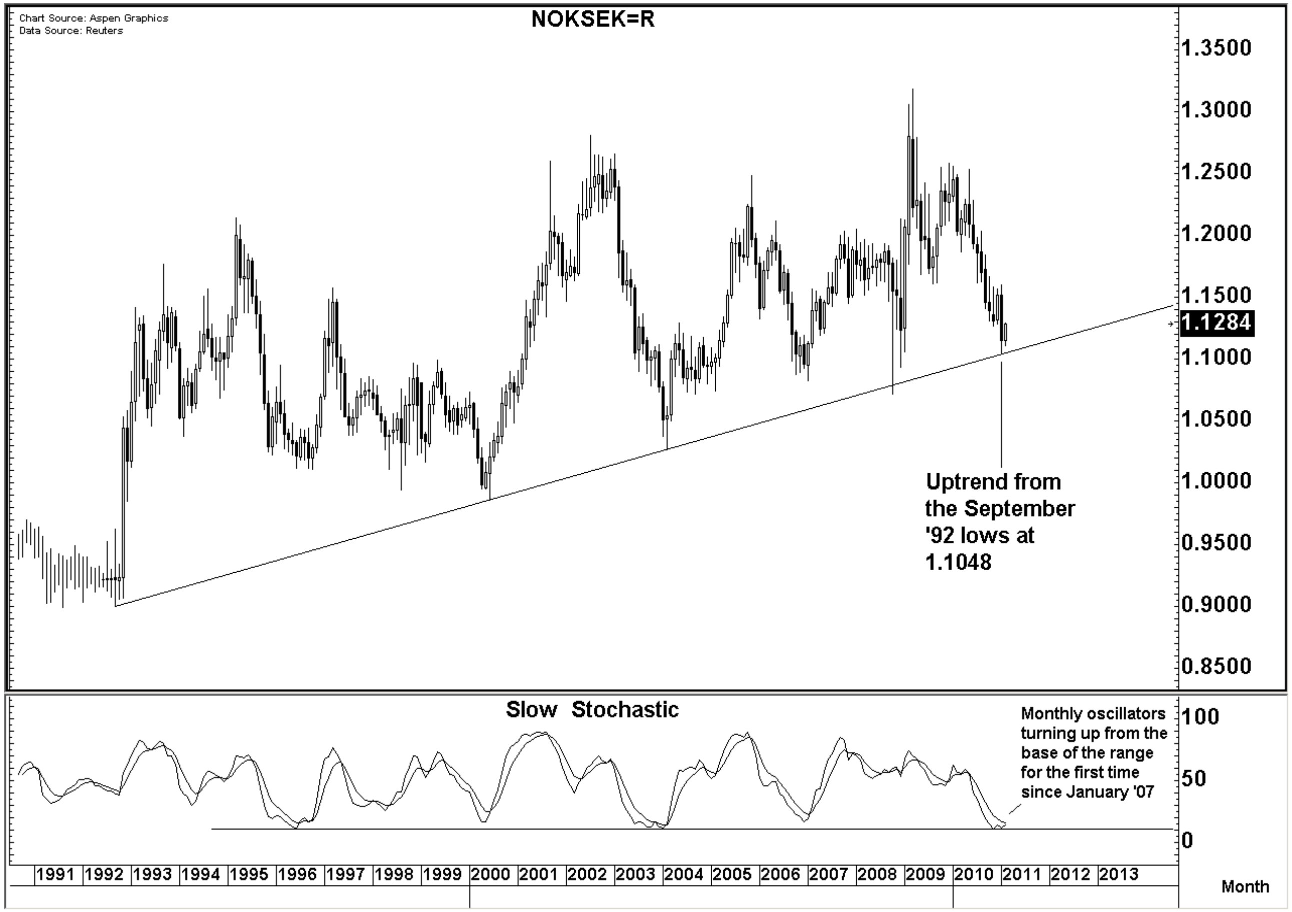

Chart Source: Aspen Graphics   Data: Reuters

The market is just beginning to bounce from the uptrend formed off the September '92 low (allowing for the very slight over-shoot in October '08, which seems fair given the extreme volatility at that time)

- Monthly oscillators are also attempting to turn higher from the base of the range for the first time since January '07.
- A significant bounce in this particular cross looks very possible, and with particular reference to the short-SEK leg it's likely quite anti-consensus.

Disclaimer for clients based in Japan

Product Specific Risk Disclosure

The ideas detailed in this presentation may involve the purchase of options, in this case the premium paid may be lost if favourable market movement for the structure concerned does not take place.

< 特定投資家用資料>
本資料は、特定投資家のお客さまのみを対象に作成されたものです。 本資料における金融商品は特定投資家のお客さまのみがお取引可能であり、特定投資家以外のお客さまからのご注文等はお受けできませんので、ご注意ください。

商号等/ゴールドマン・サックス証券株式会社 金融商品取引業者　関東財務局長（金商）第６９号
加入協会/　日本証券業協会、（社）金融先物取引業協会

本資料は投資調査部門により作成されたものではなく、Goldman Sachs International FX Technical Strategist のコメントにもとづき外国為替営業部により作成されたものです。本資料は情報の提供を目的としており、本資料による何らかの行動を勧誘するものではありません。また、かかる売却・購入が違法となるような法域での有価証券その他の売却もしくは購入を勧めるものでもありません。ゴールドマン・サックスは本資料内の取引またはストラクチャーの勧誘を行うものではございません。これらの取引またはストラクチャーは、社内及び法規制等の承認等次第で実際にはご提供できない場合がございます。
先物、オプション、高利回り証券に関係する取引は大きなリスクを被る恐れがあり、すべての投資家に適切な取引ではありません。本資料は信頼できると思われる情報に基づいて作成されていますが、当社はその正確性、完全性に関する責任を負いません。ご利用に際しては、ご自身7判断にてお願いします。ここに示した意見は、本資料作成日現在の当社の意見を示すのみです。当社は、本資料中の情報を合理的な範囲で更新するようにしていますが、法令上の理由などにより、これをできない場合があります. 当社および当社の関連会社、役員、社員その他本資料の作成に携わった関係者が本資料に記された企業の証券または（オプションなどの）派生商品の買い持ちや売り持ち、および売買を時として行うことがあり得ます。ゴールドマン・サックスは会計、税務、法務上の具体的なアドバイスを提供致しません。そのような事項についてはお客様独自に選任されたアドバイザーないし顧問弁護士とご検討頂くようお願いします。本資料の一部または全部を、(Ⅰ)複写、写真複写、あるいはその他いかなる手段において複製すること、(Ⅱ)当社の書面による許可なく再配布することを禁じます。本資料に記載された証券、先物、オプション等に関するより詳細な情報については外国為替営業部までご連絡下さい。

Disclaimer for clients based in Australia

Product Specific Risk Disclosure

The ideas detailed in this presentation may involve the purchase of options, in this case the premium paid may be lost if favourable market movement for the structure concerned does not take place.

This message has been prepared by personnel in the Equities or Fixed Income, Currency and Commodities Sales/Trading Departments of one or more affiliates of The Goldman Sachs Group, Inc. ("Goldman Sachs") and is not the product of the Global Investment Research Department or Fixed Income Research. It is not a research report and is not intended as such.

In Australia, this document, and any access to it, is intended only for a person that has first satisfied Goldman Sachs that:

- The person is a Sophisticated or Professional Investor for the purposes of section 708 of the Corporations Act of Australia; and
- The person is a wholesale client for the purpose of section 761G of the Corporations Act of Australia.

To the extent that Goldman Sachs International (GSI) is providing a financial service in Australia, GSI is exempt from the requirement to hold an Australian financial services license for the financial services it provides in Australia. GSI is regulated by the UK Financial Services Authority under UK laws, which differ from Australian laws.

Disclaimer for all clients not based in Japan or Australia

Product Specific Risk Disclosure

The ideas detailed in this presentation may involve the purchase of options, in this case the premium paid may be lost if favourable market movement for the structure concerned does not take place.

Disclaimer for all clients not based in Japan or Australia

ETFs are redeemable only in Creation Unit size aggregations and may not be individually redeemed; are redeemable only though Authorized Participants; and are redeemable on an "in-kind" basis. The public trading price of a redeemable lot of the ETFs may be different from its net asset value. These ETFs can trade at a discount or premium to the net asset value. There is always a fundamental risk of declining stock prices, which can cause losses to your investment.

Most leveraged and inverse ETFs “reset” daily, meaning that they are designed to achieve their stated objectives on a daily basis. Due to the effect of compounding, their performance over longer periods of time can differ significantly from the performance (or inverse of the performance) of their underlying index or benchmark during the same period of time and as such are not meant to be held for the long term. This effect can be magnified in volatile markets. Prior to entering into a transaction in leveraged or inverse ETFs, you should be aware of the general risks associated with such transactions. You should not enter into leveraged or inverse ETFs transactions unless you understand the nature and extent of your risk exposure. You should also be satisfied that the leveraged or inverse ETFs transaction is appropriate for you in light of your circumstances and financial condition.

Order Handling Practices for Listed and Over-the-Counter Derivatives: While the firm is holding your derivative (e.g. options, convertible bonds, warrants or preferred shares) order, the firm or its clients may engage in trading activity in the same or related products, including transactions in the underlying securities. While such trading activity is unrelated to your order, it may coincidentally impact the price of the derivative that you are buying or selling.

Not a Valuation: Values herein are not customer valuations and should not be used in lieu of a customer valuation statement or account statement. These values may not reflect the value of the positions carried on the books and records of Goldman Sachs or its affiliates and should not be relied upon for the maintenance of your books and records or for any tax, accounting, legal or other purposes. The information provided herein does not supersede any customer statements, confirmations or other similar notifications.

Conflict of Interest Disclosure: We are a full-service, integrated investment banking, investment management, and brokerage firm. The professionals who prepared this material are paid in part based on the profitability of The Goldman Sachs Group, Inc., which includes earnings from the firm's trading, capital markets, investment banking and other business. They, along with other salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein or the opinions expressed in research reports issued by our Research Departments, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the views expressed herein. In addition, the professionals who prepared this material may also produce material for, and from time to time, may advise or otherwise be part of our trading desks that trade as principal in the securities mentioned in this material. This material is therefore not independent from our proprietary interests, which may conflict with your interests. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives (including options) thereof in, and act as market maker or specialist in, and serve as a director of, companies mentioned in this material. In addition, we may have served as manager or co manager of a public offering of securities by any such company within the past three years.

Legal Entities Disseminating this Material: This material is disseminated in Australia by Goldman Sachs JBWere Pty Ltd (ABN 21 006 797 897) on behalf of Goldman Sachs; in Canada by Goldman, Sachs & Co. (or when expressly noted as such, by Goldman Sachs Execution & Clearing, L.P.); in Hong Kong by Goldman Sachs (Asia) L.L.C.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs JBWere (NZ) Limited on behalf of Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); in India by Goldman Sachs (India) Securities Private Limited, Mumbai Branch; in Europe by Goldman Sachs International (unless stated otherwise); in France by Goldman Sachs Paris Inc. et Cie and/or Goldman Sachs International; in Germany by Goldman Sachs International and/or Goldman, Sachs & Co. oHG; in Brazil by Goldman Sachs do Brasil Banco Múltiplo S.A.; and in the United States of America by Goldman Sachs Execution & Clearing, L.P. (or when expressly noted as such, by Goldman, Sachs & Co.) (both of which are members of FINRA, NYSE and SIPC). You may obtain information about SIPC, including the SIPC brochure, by contacting SIPC (website: http://www.sipc.org/; phone: 202-371-8300). Goldman Sachs International, which is authorized and regulated by the Financial Services Authority, has approved this material in connection with its distribution in the United Kingdom and European Union. Unless governing law permits otherwise, you must contact a Goldman Sachs entity in your home jurisdiction if you want to use our services in effecting a transaction in the securities mentioned in this material.

Disclaimer for all clients <u>not based in Japan or Australia</u>

Reproduction and Re-Distribution: No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without our prior written consent. Notwithstanding anything herein to the contrary, and except as required to enable compliance with applicable securities law, you (and each of your employees, representatives and other agents) may disclose to any and all persons the U.S. federal income and state tax treatment and tax structure of the transaction and all materials of any kind (including tax opinions and other tax analyses) that are provided to you relating to such tax treatment and tax structure, without Goldman Sachs imposing any limitation of any kind.

Information Not for Further Dissemination. To the extent this communication contains Goldman, Sachs & Co. or its affiliates ("Goldman Sachs") pricing information, such pricing information is proprietary and/or confidential and is provided solely for the internal use of the intended recipient(s). You are notified that any unauthorized use, dissemination, distribution or copying of this communication or its contents, including pricing information, in whole or in part, is strictly prohibited. Further, unless prohibited by local law, any use, review or acceptance of this information is subject to and manifests your agreement with Goldman Sachs to use such information only in accordance with the terms set forth above. Goldman Sachs has caused its proprietary information to be delivered to you in reliance upon such agreement.