

Euro Didn't Rally Because of Bernanke

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| Pair | Bias | Objective/Comments | Key Resistance | Key Support |
|---------|------|---|----------------|-------------|
| EUR/USD | ↓ | Break toward short term 1.3385 target | 1.3290 | 1.3200 |
| USD/JPY | ↓ | 50 day moving average resistance close by | 77.29 | 76.03 |
| GBP/USD | ↓ | 200 day MA tested, consolidates around 1.58 now | 1.5937 | 1.5730 |
| AUD/USD | ↓ | New multi-decade highs look like they're close by | 1.0850 | 1.0760 |
| USD/CAD | ↑ | Downtrend firmly in place, looking to test 0.9909 | 1.0020 | 0.9960 |
| USD/CHF | ↑ | Consolidates around 0.92 | 0.9263 | 0.9126 |

Headlines

- Ben Bernanke repeats earlier FOMC statement
- A market short of Euro triggered stops above 1.3250, may proceed to squeeze higher to 1.3385
- Europe now seen crying wolf when it comes to a Greek deal
- Deutsche Bank's Mayer says Greece has 3 days to avoid default

Summary

There wasn't one iota of difference between the Fed's Jan. 25 FOMC statement and Bernanke's testimony in front of Congress yesterday. Yet, we're led to believe that it was something special that was said that caused the US Dollar Index to sell off.

We've already sounded the alarm that a market hugely short of Euro was in danger of squeezing past 1.32 even on no news. The options market showed a large hedging of upside risk *before* Euro broke out of its downtrend.

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Key Economic Events

- 07:00 – US MBA Mortg. Apps., **7.5%** vs. -2.9% prior
- 08:15 – CA Housing Starts, **197.9K** vs. 194K cons.
- 16:45 – NZ Unemp. Rate, 6.5% cons.
- 2/9 08:30 – US Initial Jobless Claims, 370K cons.

There wasn't one iota of difference between the Fed's Jan. 25 FOMC statement and Bernanke's testimony in front of Congress yesterday. Yet, we're led to believe that it was something special that was said that caused the US Dollar Index to sell off to new 2012 lows and Euro to rally past 1.3250.

We've already sounded the alarm that a market hugely short of Euro was in danger of squeezing past 1.32 even on no news. The options market showed a large hedging of upside risk *before* Euro broke out of a downtrend that took it down to the 1.26 handle.

January 25th's Fed meeting spooked US Dollar bulls further because of the pledge to keep rates low until 2014, and the extremely positive Nonfarm Payrolls on February 3rd further pushed money into risky assets. Let's just say that the market didn't get it's fill of risk taking on all of this US Dollar-bearish news and it did what it had to yesterday. It wasn't some revelation that Bernanke extolled on Tuesday.

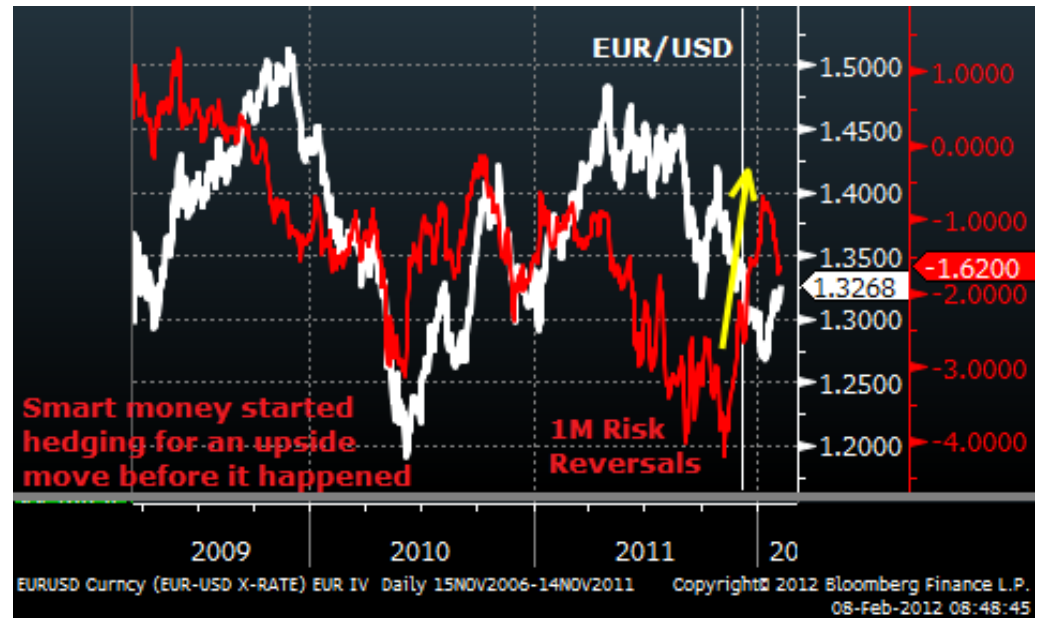


Figure 1: EUR/USD Daily and 1-Month 25-Delta Risk Reversals

Source: Bloomberg and FX Club Research

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Last Friday's news from the CFTC finally showed that large speculators backed off of their record short positioning in Euro FX futures. Last Friday's COT report showed 157,000 contracts short, down from 171,000 the week prior.

This is a sign of capitulation on the part of shorts that came under higher pressure as Euro rallied over 600 pips.

While we are above 1.3250, 1.3385 looks like a decent target.

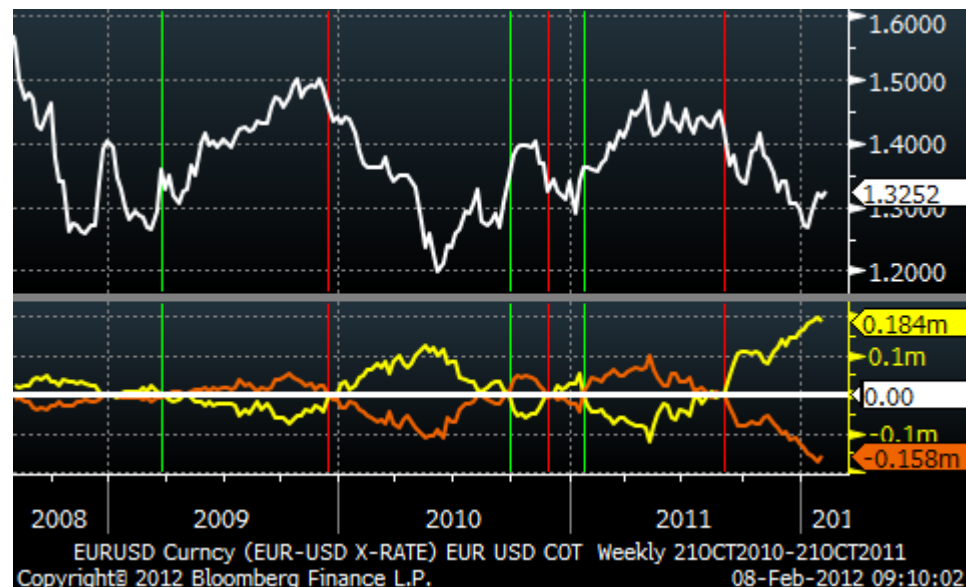


Figure 2 (above): EUR/USD (white) with net speculative positions in orange and net commercials in yellow. Figure 3 (left): EUR/USD daily chart with volume distribution. Source: FX Club Research and Bloomberg

We are still not Euro-bulls for the long term because of the poor fundamental state of the Euro-zone, but before we move lower there is probably a need to shake out weak shorts and let new sellers take the currency down.

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