

20th September 2006

U.S. Dollar vs Canadian Dollar – Long Term Outlook

The picture in all three time frames are consistent with cycles lows due at this time, bullish divergences in all three and once a trend resistance line is broken around 1.1294 there should be a good movement higher in price. The trend indicators used – the Pivot Cloud and Trailing Stop have been following the weekly and monthly downtrend with this current recovery beginning to threaten a move above the Cloud.

However, we need be a little cautious with this since from the wave count and the position of the monthly cycles, this rally should only be a correction. Indeed this recovery or at least correction appears as if it could continue for 2-3 years and this leads to a little caution in how the corrective wave structure develops. Price is currently at 1.1290 having seen an early peak at 1.1456. However, at the most we can only justify a move as high as 1.1643 -1.1970 and if this occurs within (say) a six month period, we still have 1 ½ - 2 ½ years for the correction to continue. This does tend to suggest that the pattern may well develop in a complex manner – possibly as a flat correction or maybe even a triangle.

Thus it will be prudent to take this correction step by step and not to get carried away with holding a position for too long, taking note of the key support and resistance. For now we await the break of the downtrend line which should allow the upside to display a solid move higher. Once we finish this wave higher then the need to trade with caution will heighten.

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Monthly Chart



Points to note on the monthly chart:

- The blue cycle is at a high but due to turn lower
- We have just seen an intermediate cycle low of both yellow and green cycles
- The yellow and green cycles should cause price to rally for approximately 2 – 3 years
- There is a mild bullish divergence in FXS-RSI
- Price has held below the Pivot Cloud since January 2003
- Note the last prior low to the 1.0927 low at 1.1716

To summarize the monthly chart the general impression is one of a recovery after over three years of losses indicated by the two shorter cycles now rising while there is a mild bullish divergence. At this point the rally looks more as if it should develop into a correction rather than a reversal in the trend. This should mean that any recovery will remain below the last major peak at 1.2731. We will expect to see price begin to trade around the Pivot Cloud.

Weekly Chart

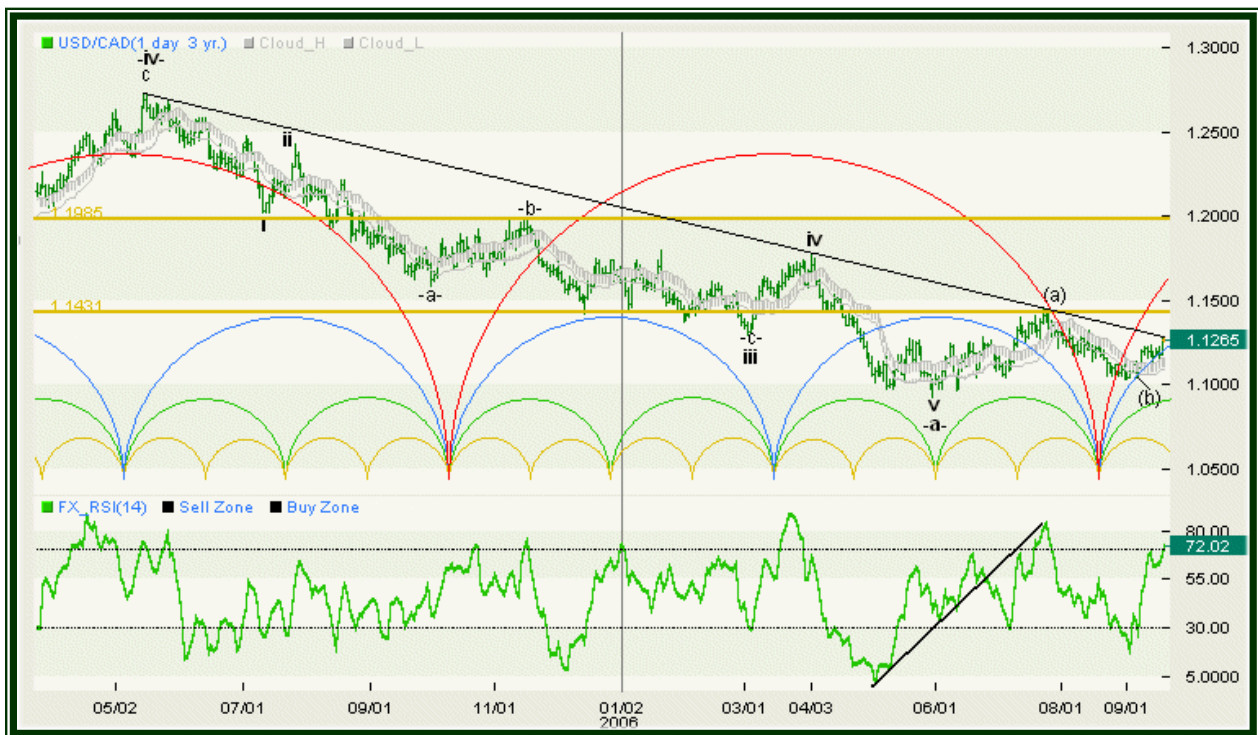


Points to note on the weekly chart:

- There has been a recent major cycle low of all four cycles
- The main cyclic pressure is now higher
- There is a bullish divergence in FXS-RSI
- Price is retesting a downward trend resistance line
- Price is pushing back to the top of the Pivot Cloud and towards the Trailing Stop line which broadly matches with the downtrend line
- The Elliott Wave count appears to imply that Wave -v- is not yet complete and the recent 1.0927 low represented only Wave -a- of Wave -v-
- A 50% retracement in Wave -b- would imply a Wave -b- high at 1.1829
- A 61.8% retracement in Wave -b- would imply a Wave -b- high at 1.2042

To summarize, the weekly cycles confirm the monthly cycles and imply a lengthy period of correction that could easily rally to the 1.1829-1.2042 area. Being a Wave -b- the structure could develop in any number of patterns and we shall need to establish what this may be. A break above the Pivot Cloud and Trailing Stop would add weight to the bullish argument and we need then look for indications of potential stalling points below 1.1829.

Daily Chart



Points to note on the daily chart:

- The daily cycles appear to have seen a major low
- These daily cycles appear to be a little late compared to the weekly cycles
- Price is retesting a major downtrend line at 1.1285 (previously touched at 1.1456)
- The 1.1456 peak in Wave (a) marks a pivot resistance area
- Price has broken and the Pivot Cloud
- FXS-RSI is overbought but still has room to rise
- Wave iv was at 1.1771
- If Wave (c) has wave equality with Wave (a) then the target implied is at 1.1643
- If Wave (c) extends by 138.2% of Wave (a) then the target implied is at 1.1845
- If Wave (c) extends by 161.8% of Wave (a) then the target implied is at 1.1970

To summarize the daily chart the daily cycles appear to confirm the weekly and monthly cycles though are a little later to find a low. There was a bullish divergence at 1.0927 which led to a recovery to 1.1456 from where we have seen a long correction lower to 1.1114. The rally from this point has broken above the Pivot Cloud and is retesting the downtrend line. Breach should confirm gains towards the targets mentioned above.