

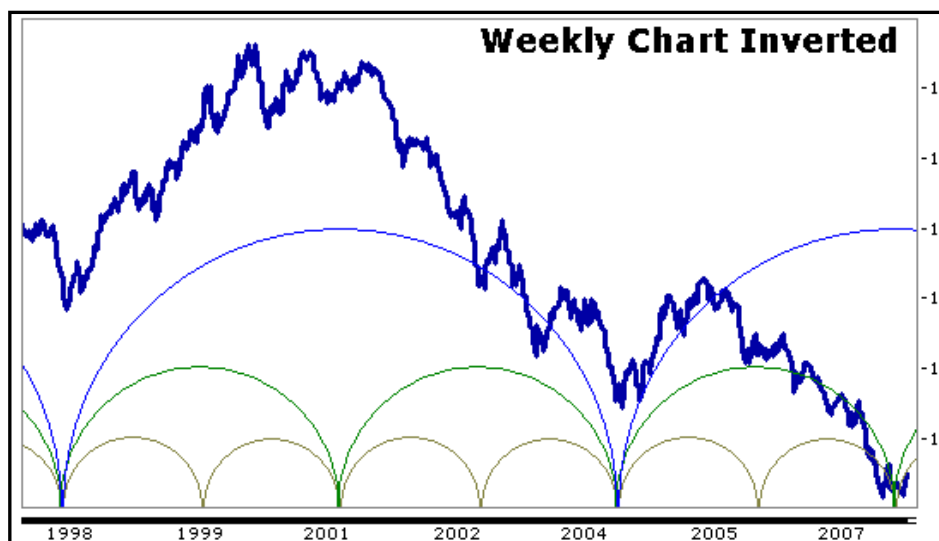
15th February 2007

Euro vs U.S. Dollar – Long Term Outlook

In my last report in October last year I identified that weekly cycles were due to find a high around the end of the year to give way to a more bullish Dollar picture for 2008. I identified a target somewhere between 1.4800 and 1.5000.

The Euro saw a high of 1.4966 on the 23rd November and from there we have seen a sideways consolidation.

Let's just recap on the cyclic position. Please note these charts are inverted and thus cycles lows actually represent price highs.

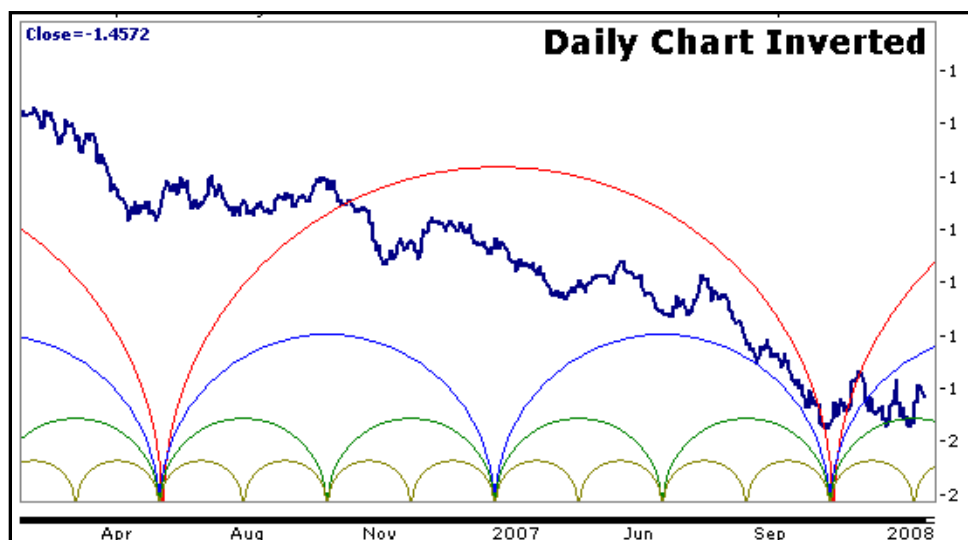


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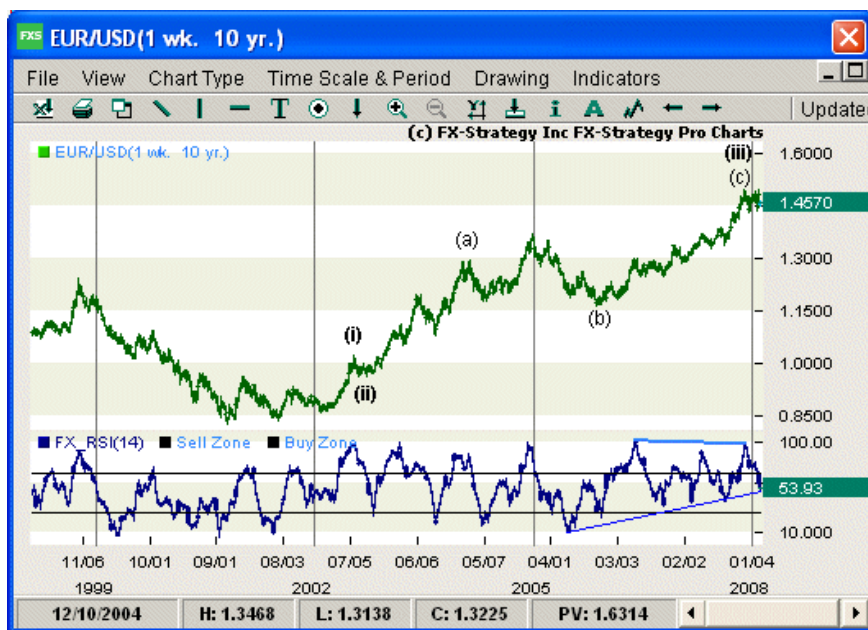
It can be seen that the low came in right around the predicted time frame, maybe just a few weeks earlier than anticipated but this was identified in the Pro Commentary daily report on the 24th November.

Since then we have seen a rather choppy sideways move but this has also performed according to the daily cycles:



Note how the recent price high at 1.4953 came right on cue with the first daily cycle high following the November weekly cycle high. It does suggest that there is risk of further losses to price.

The weekly cycle suggest quite a sustained pullback that should last for the majority of this year. It is a little difficult to identify cycle lows in the Euro and for that we shall have to judge through the structure of the decline.



The weekly chart shows that we have reached a peak in Wave (iii) and thus we should be talking about a decline in Wave (iv). There is a rather stretched bearish divergence but as yet the move lower has not really confirmed a price reversal.

However, note how the RSI has dropped below its support line which normally forewarns of a price break.

Potential targets for the Wave (iv) decline are at:

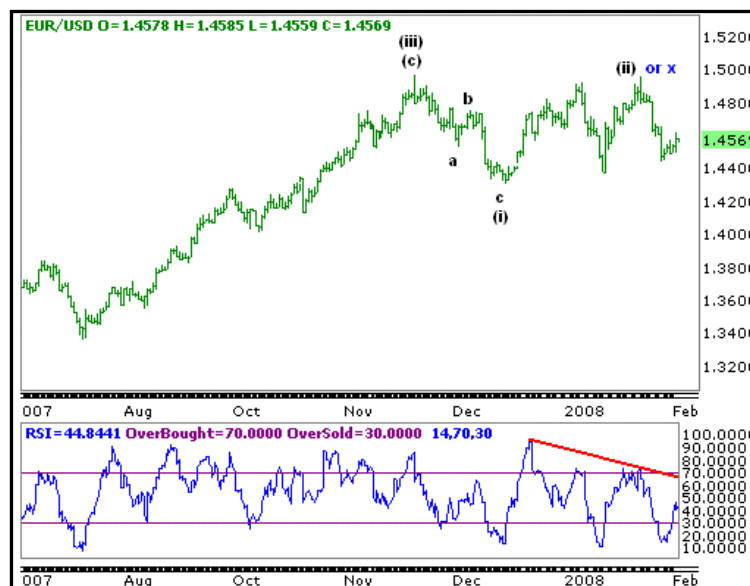
- 38.2% => 1.2919
- 41.4% => 1.2747
- 50.0% => 1.2287

Given the Wave (b) of Wave (iii) was a deep complex correction it would tend to suggest that Wave (iv) should be quite shallow so I think we're probably talking about either the 38.2% retracement at 1.2919 or the 41.4% at 1.2747. Indeed, this falls into the area of the Wave (b) consolidation between 1.25 and 1.30.

Next we need to consider how this decline may develop.



Note in the daily chart how the 1.4966 peak was accompanied by a bearish divergence and confirmed once price broke below the steep uptrend line marked in orange. The pullback to 1.4953 also saw the RSI move back to retest the divergence line.



The problem with corrections is that they can develop in several different ways and this is the challenge over the year. I have included an 8 hour chart on this occasion to show how the first move lower developed in three waves.

Now this rules out a complex correction since the decline has been very shallow. It will imply one of two scenarios. The first is that we're seeing an initial Wave (a) made up of five waves which will then be followed by a Wave (b) and finally a Wave (c).

The second scenario would be a multiple ABC pattern. If this is the case then we have seen the first and thus the high at 1.4953 can be labeled as an intermediate Wave x and thus we should see a further ABC decline followed by a second Wave x to be followed by a final ABC pattern.

The second scenario is not impossible but given the time frame of 8-12 months of a correction it is difficult to envisage two more of these ABC patterns taking that much time to develop.

Therefore the most likely pattern appears to be a straight ABC pattern in which we are in the midst of Wave (iii) of Wave (a).

Wave (i) was at the initial 1.4309 low and Wave (ii) at 1.4953.

From this we can derive potential targets for Wave (iii):

138.2% projection implies a target of 1.4045

176.4% projection implies a target of 1.3794

Thus in summary we should see a move in Wave (iii) to one of these targets to be followed by a shorter and shallow Wave (iv) and a final Wave (v) low that should reach the span of the prior Wave -iv- between 1.3450 and 1.3850. This would suggest a probable Wave (iii) low at 1.4045.

I suspect this will complete sometime in April. Following this the Wave (b) could last into the late summer months before moving lower in Wave (c) into the last quarter of the year reaching between 1.2747-1.2919.

Ian Copsy