

5th October 2007

Euro vs U.S. Dollar – Long Term Outlook

In the last report back in April I had forecast a pullback at that time from the 1.3666 area but which would see a correction only before rising into the summer months to around 1.40. This worked quite well although the final high in July was at 1.3851. However, from there I had looked for a decline into the end of the year. Clearly while we did see the sharp reaction lower in August to 1.3359 the subsequent strength has blown the forecast for losses in to the New Year away.

Following a lengthy review of the cyclic position I could not resolve the bearish cycles in Dollar-Swiss with what appeared to be equally bearish cycles in EURUSD. I therefore inverted the chart and came to the conclusion that the Euro cycles need to be measured from peak to peak rather from trough to trough as is normal with cycles.

This inversion created a completely different picture, and actually a much more accurate one in terms of matching cycle lows with (inverted) price lows – that is in reality price highs. These cycles suggest that we should see a price high around the end of the year.

Following this the picture for 2008 looks Dollar bullish and will then match the situation in all the other major currencies which point to the same situation.

There are two possible wave counts to be considered:

The first is what appears to be occurring is that the larger weekly Wave (v) in the complete rally from the October 2000 0.8225 low appears to be developing directly and should find its high within 2-3 months now. I suspect a minimum target of 1.5008 and at most 1.5268 – and the way the rally is shaping up the lower target looks more likely to occur.

The second may well be more suited to seeing a correction higher in the Dollar next year before further losses. This count would suggest that we are merely seeing an extended Wave (iii) higher and that we are in the process of seeing the final stages of Wave (c) of Wave (iii). This would then suggest that next year we see a correction in Wave (iv) before further strength can be seen. The target for Wave (iii) would be around 1.4800.

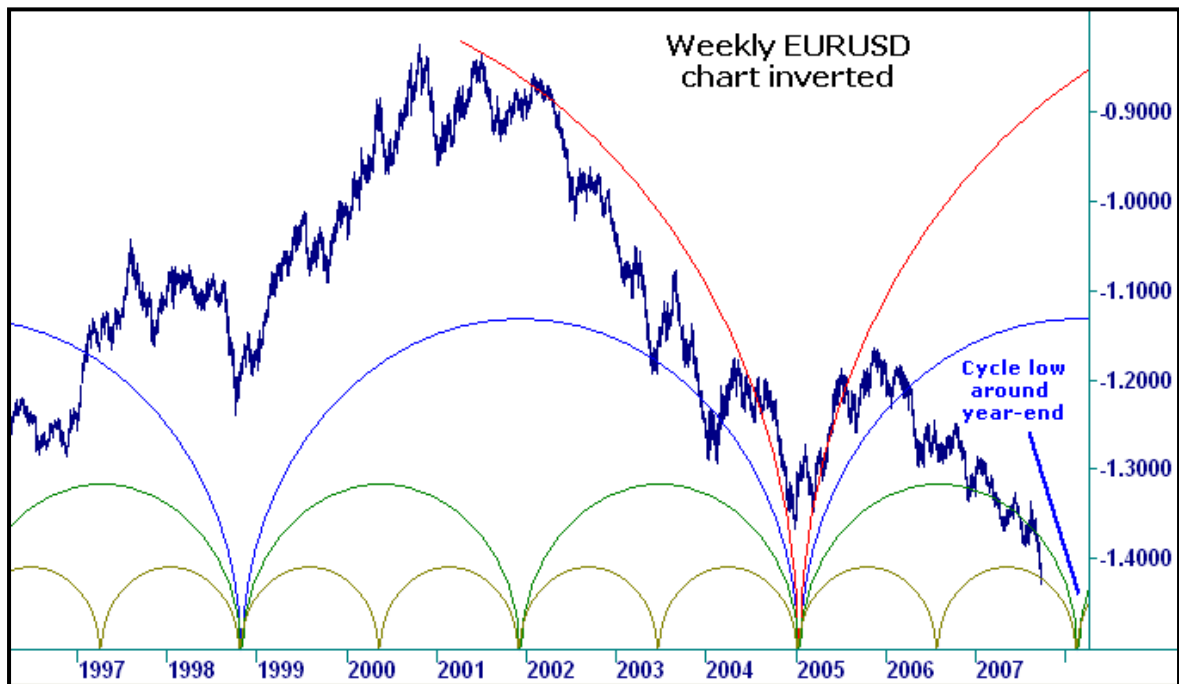
However, for the immediate months to come we should concentrate on the wave structure that would see Euro gains continue through to year-end with the eventual target between 1.48 and 1.50.

Ian Copsey

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Inverted Weekly Chart



Points to note on the inverted weekly chart:

This chart only displays the cyclic position measuring the cycles from price peak to price peak (these now being shown for ease of recognition as price lows in the inverted chart.)

In general the inverted price lows and the cycle lows have a high correlation and it can be seen that both brown and green cycles are due to find a low by around the turn of the year. This should provide a significant reversal in price for at least 7-10 months and possibly even the next peak of the green cycle which will occur by around the middle of 2009.

However, for now we can concentrate on what should be a price peak that should occur around the favored target between 1.48-1.50.

Weekly Chart



Points to note on the weekly chart:

- Considering the wave count in black the end of Wave (iii) does not hold a particularly good relationship with Wave (i).
- However, the retracement in Wave (iv) is a perfect 50%.
- If we project Wave (v) then a 61.8% target rests at 1.5003 and a 66.7% target at 1.5268
- If we consider that the 1.3666 high was only Wave (a) of Wave (iii) then we need to generate a target for the end of Wave (iii)
- A 261.8% projection of Wave (i) would generate a target at 1.4805
- By taking a 76.4% extension in Wave (c) it would imply a target at 1.4740.

Thus we cannot rule out an earlier peak around 1.4740-1.4805.

However, at the most the 1.5003 Wave (v) target looks the next best fit.

Note the potential bearish divergence that is in the process of being formed against RSI.

Daily Chart



Points to note on the daily chart:

I have shown the daily bar chart with the two possible wave counts applied.

If the 1.1640 low is indeed a Wave (iv) and that we are currently mapping out a terminal Wave (v) then this rally we are seeing now is the final Wave -b- of Wave -v- of Wave (c).

As of writing we have seen a pullback from 1.4281 which threatens to reach the 1.3916-1.3968 area in minor Wave iv. Remember that we should expect a final price high at the earliest in December but may extend into early January. If this is the case then at some point we are likely to see a long period of consolidation in this Wave iv. For this to achieve the minimum 1.5003 target it will require a triangle to develop in order for even a 76.4% projection in Wave v to reach the ideal target.

We must also consider the possibility of another new high around 1.4424 over the next few weeks to complete Wave iii. However, even then the Wave iv should be quite long in duration considering that Wave ii lasted only two or three days and was quite shallow.

If we are seeing the alternative count in Wave (c) of a larger weekly Wave (iii) then we are still in the final Wave -c- of Wave -v- and this would have a 76.4% projection targeting the 1.4824 level – very close to the 76.4% projection in Wave (c) of Wave (iii) which has a 261.8% projection at 1.4805.

Again, considering that it looks like the cycle high around the turn of the year should only see a correction rather than a reversal this latter target around 1.4805-25 looks like an attractive selling opportunity.