

**21<sup>st</sup> December 2007**

## **British Pound vs U.S. Dollar – Long Term Outlook**

### **In for penny, in for a pounding**

The astounding rise of the Pound has been one of the year's outstanding performances. It is one of those currencies that either attracts overly bearish sentiment or overly bullish. At each end of the spectrum the moves become extreme and push to almost silly levels of overbought and oversold.

I joined the market just following its ungainly tumble from the lofty heights of 2.4535 in a decline that eventually reached 1.0370 in a space of just over 4 years. That's a fall of 1.4200 ... What would today's central bankers think of this type of move now when they get over excited with a move of 0.1000 these days...

So seeing the Pound break to its highest level since then was quite an event. However, it was silly-overbought...

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## Monthly Chart



You can't say this currency pair doesn't move around!

Just look at the dependability of the long term cycles. In particular the longer term red and blue cycles have a wonderful rhythm. It would be difficult to argue against these in particular and just look at the blue cycle now. Well past its high and is pointing down very hard. We are right at the peak of the green cycle and this will be negative for the coming 16-18 months.

Yes, that's right. The implication is that we have seen a major high at 2.1160 and this will not be exceeded and probably won't even come close for the next 18 months while it declines and then it has to rally back higher again...

Just look at the last occasion where the red cycle was approaching its peak and where the blue cycle declined. That is at the peak which is labeled (i). It fell from the peak at 2.0100 to 1.4063 in the space of just 6 months.

Well, as pointed out, the time frame we're talking about this time is 16-18 months. But just how far can we expect this to fall?

Well, if my wave count is right, we can expect a 50% correction of the rally from the 1.3682 low in June 2001 to the peak at 2.1160 last month. That's a target of 1.7411. That's quite reasonable being just above the 1.7046 corrective low which was probably Wave iv of Wave (a).

Let's see if we can develop some idea of some intermediate targets and time frames.

## Weekly Chart



I have shown the most recent price action from 2000 onwards. The bearish divergence in Rapid RSI is very pronounced and all that is now needed to confirm the reversal on a weekly basis is a breach of the most recent low at 1.9649.

Once this occurs we can expect losses to continue towards the middle of the green cycle. This last found a low in March-April 2007 and is obviously due to find a low around April 2009. Therefore we can expect an intermediate low around April next year.

So very broadly we can expect downward movement into April next year followed by a recovery, possibly into the third or fourth quarter before the final decline into April 2009 to around the 1.7411 area.

Let's now focus on the daily chart:

## Weekly Chart



Here I have basically provided the same time frame as the weekly chart but there is greater detail in the cycles.

Again, at the 2.1160 high there was a severe bearish divergence which has moved its way lower and broken an intermediate support line over the past few days. Now, the green cycle in this chart is currently finding a low and should over the next week or two find a base from where it can recover to retest the prior trend support. This should provide an excellent long term selling opportunity...

In the current decline we have just seen a breach of the corrective low at 1.9877 but should now focus on the next daily corrective low at the Wave -iv- low at 1.9649. Within this range we should find a low by early January at the latest. From there we should see a recovery, as I said to retest the prior trend support which should be at the end of January/beginning of February from where we should see losses into April.

The target for the April decline should be down between the Wave (a) peak (1.9144) and the Wave (b) low (1.8505).

From there I'll have to review.

The market may be bearish Dollars now, but expect this to change. Very clearly we should be more bearish for the Pound...

Ian Copsey