

The FRED Report – Currency Review

Welcome to our first Special Research Report on the currency ETFs. Over the course of 2012 we intend to do several special reports on markets of interest. We will then update as needed, but for now are assuming two reports per year on each “special topic”.

This has been an interesting report to write, because of the position of the European currencies. All of these are oversold enough to rally, which would tend to confirm the indications given by the Swiss Franc that we wrote about in our “year ahead” piece in the Monthly Review for January 2012. Even the FXE could rally from this area, although we would expect the positive relative performance we see in FXF and FXS to continue.

The “commodity economy” currencies we follow, FXA, FXC and FXRU are a mixed picture, as Canada and Australia are in uptrends and should rally, while Russia is range bound. This suggests the worldwide growth rate should remain constant, or even pick up.

Japan should rally along with Europe, but the rally may be weaker and complete a topping formation in the 130 area on FXY. The Japanese are intervening against the Yen as it has been too strong for their liking. China has limited history and is inconclusive.

Current Weighting

Sell
 Hold
 Buy

Buy
 Hold
 Sell
 Hold

Hold
 Hold
 Buy
 Buy

Previous Weighting

Highlight
 Change

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THE FRED REPORT

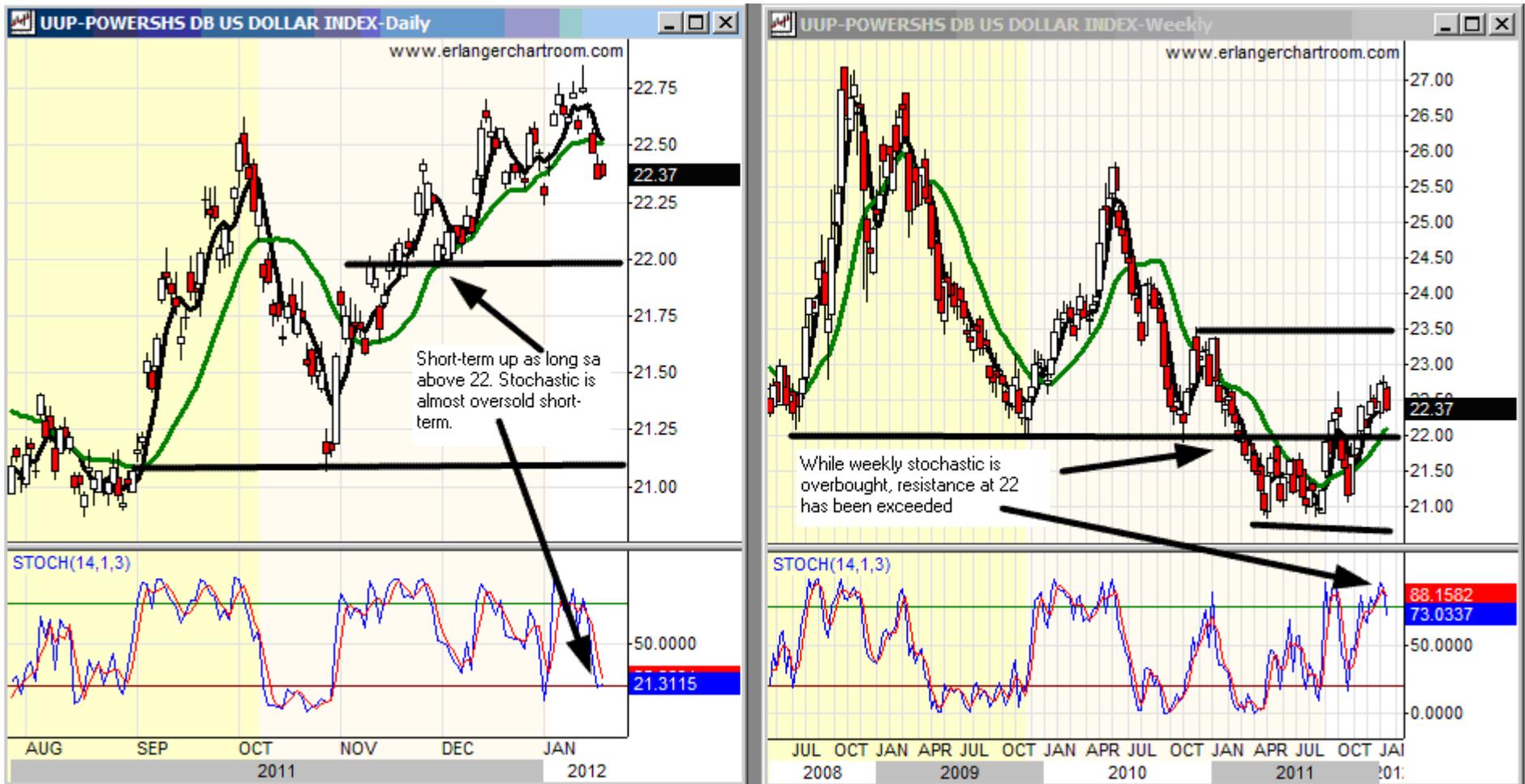
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North America ETF Currency: US Dollar Index (DXY)



The Dollar Index is improving on a long-term basis: The Dollar Index looks to have completed an intermediate-term bottom in 2011. This has happened on terrible sentiment for the buck. We believe you can see an illustration of just how bad sentiment has been on the UUP chart next page, where the UUP made appreciably lower lows in 2011. The DXY will remain positive technically, unless it moves below 77.

North America ETF Currency: PowerShares DB USD Index (UUP)



UUP has broken through the 22-area resistance: The UUP has broken above the 22-area resistance, a positive. However, note that this chart has underperformed the actual cash dollar index substantially in 2011 (see previous page). The discrepancy in performance is probably due more to sentiment than management and other fees involved in creating the ETF – at the bottom bearish sentiment was VERY high. Our first objective for the intermediate rally has been 22.50 to 23.50, and the lower end of that range has been achieved. Some pullback could occur over the next few months to resolve the intermediate overbought condition, but this is not assured.

North America ETF Currency: CurrencyShares Canadian Dollar Trust (FXC)



The Canadian dollar has held intermediate support, as drawn: Canada, as well as Australia, is part of our commodity inflation theme. FXC has held intermediate support in the 92.50 area, and the 97 area is short-term support as well. From late 2011 until now, FXC has been performing a bit less well than FXA. A move above 100 would likely spur some additional buying.

North America ETF Currency: CurrencyShares Mexican Peso Trust (FXM)



The Mexican Peso is completing a bottoming formation: The Peso often trades with oil, but has been weaker than oil this year. Still, a short-term bottom is likely in this area unless FXM moves below 72. Note that the uptrend from 2008 – 2011 has broken, and there is much resistance to be overcome before a revalidation of the uptrend occurs. Should the US dollar weaken mid-year, which we expect, a test of the 77 to 80 area seems likely.

Asia ETF Currency: CurrencyShares Australian Dollar Trust (FXA)



The Australian Dollar has held the intermediate uptrend and has started a new advance: Daily stochastic is overbought, but the weekly has more room on the upside. The FXA is part of one of our long-term themes here at the FRED Report, which is that commodity inflation is alive and well. We also posit that Australia (both the FXA and EWA) are a good but overlooked way to invest in Asian growth over the next decade, as much trade moves through Australia.

Asia ETF Currency: CurrencyShares Chinese Renminbi Trust (FXCH)



Limited chart makes this ETF unreliable and hard to analyze: The Chinese currency is also somewhat controlled by the government, but we include this chart for completeness. So far, the trend is short-term up.

Asia ETF Currency: CurrencyShares Japanese Yen Trust (FXY)



The Japanese Yen remains in a strong long-term uptrend: The strength in FXY has been a surprise during much of 2011, although the intervention we had been expecting finally took place in November. Still, FXY remains stronger than anticipated, as the 124 area support was not actually tested. The primary support is 115 as drawn, and it looks as if a lot of work will be needed to test that level. Still, should the Euro strength in 2012, then the Dollar weaken mid-year, this could occur.

Asia ETF Currency: CurrencyShares Russian Ruble Trust (FXRU)



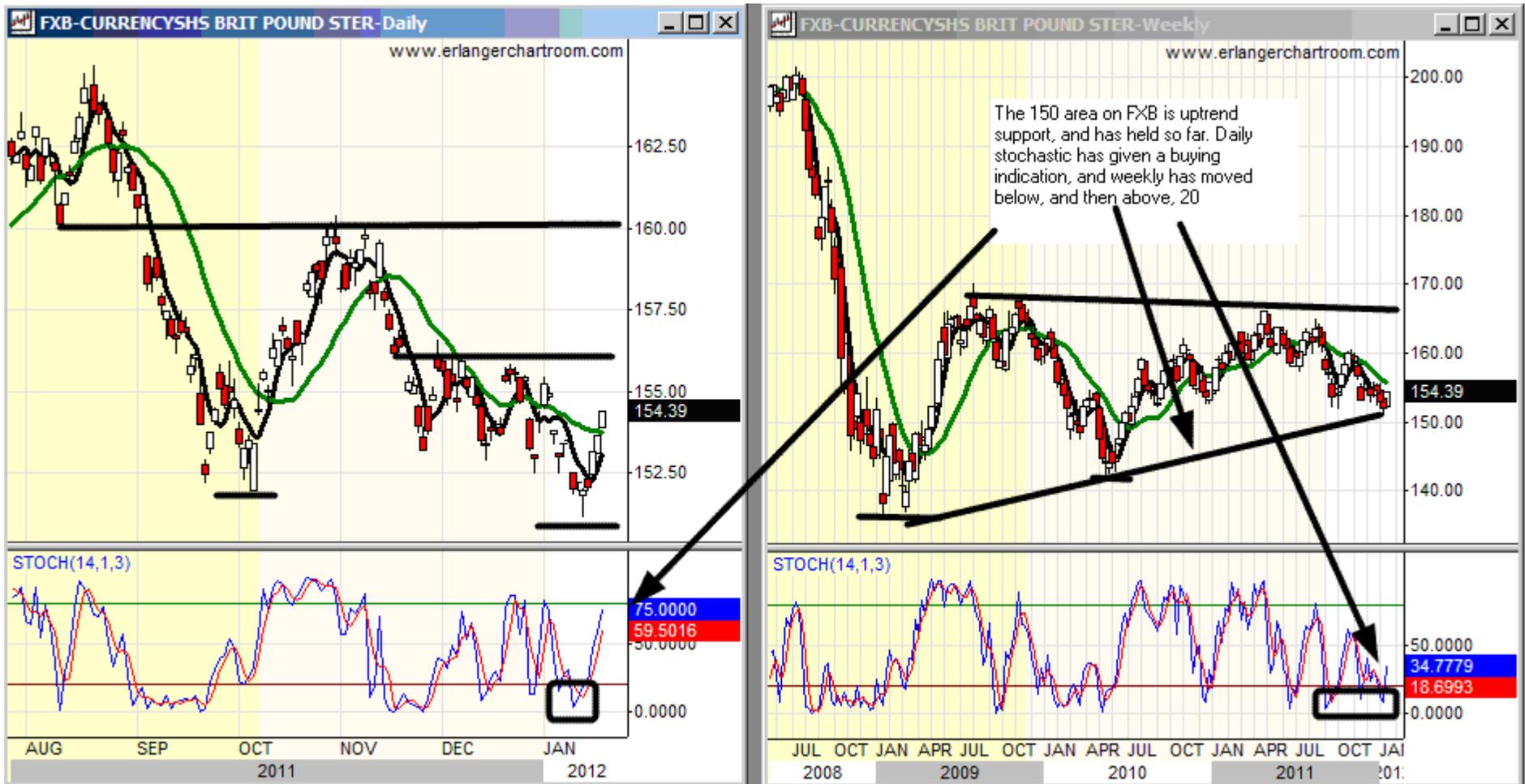
The Russian Ruble is a long-term basing pattern: The Ruble is a long-term basing pattern between 31 and 37, and a short-term base from 31 – 33. The Ruble seems a bit weaker than we would have expected, as oil has rallied and it has remained relatively flat – suggesting any surprise here could occur to the downside.

Europe ETF Currency: CurrencyShares Euro Trust (FXE)



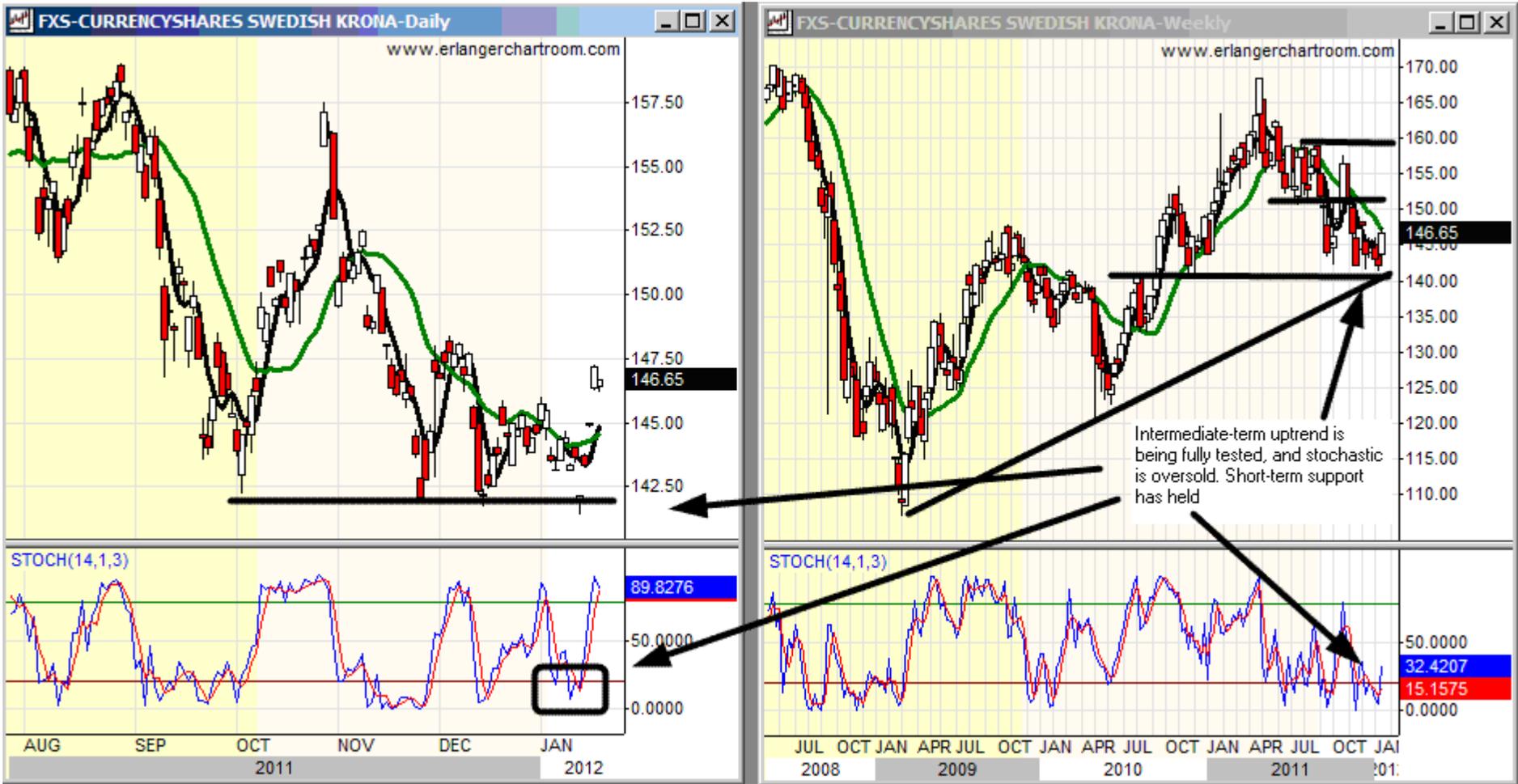
The Euro has weakened since the start of 2012: The FXE has weakened sharply in the new year, breaking short-term support at 130, which is now resistance (actual resistance is 130 – 132). The daily stochastic has moved up enough to suggest FXE could pullback to – say 127.60 – then rally to fully test the resistance. This is interesting because, should this occur, it would likely be the exact opposite of what most market prognosticators are expecting (weakness into the March 20 Greek debt rollover). The technicals support such a scenario, however.

Europe ETF Currency: CurrencyShares British Pound Sterling Trust (FXB)



The Pound has recently made slightly lower lows and is rebounding: Major intermediate support is the 150 area, and short-term support is 152. There are layers of resistance in the 156 – 158 area, and then 160 could be tested on an advance. Moving averages remain negative so far, but this is an improving picture. Advisors should note that, should the Euro remain under pressure, money will likely flow from FXE into FXB and FXF. FXB has improving relative strength on a chart basis.

Europe ETF Currency: CurrencyShares Swedish Krona Trust (FXS)



The Swedish Krona has held short-term support: Sweden has been one of our favorite European markets and currencies for some time. We have recommended advisors that have had to have a position in Europe invest in Sweden or Switzerland (see p.13). Unlike the Euro, FXS remains in a long-term uptrend as long as above 140. A test of the 152 area intermediate resistance could occur over the next few months.

Europe ETF Currency: CurrencyShares Swiss Franc Trust (FXF)



The Swiss Franc is our favorite European currency, and could rally from this area: The Swiss is our favorite European currency, and looks to be setting up a rally soon. The intermediate stochastic is just starting to move through 20, and the daily moving averages appear ready to cross. A rally in the Franc implies a rally in the Euro, which would be a surprise to the markets, we believe. The technical picture suggests a rally could occur. For those advisors who are not familiar with currencies, this chart does illustrate one of the risks of currency trading – that of intervention (as drawn).

Disclaimers:

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