



## **Three Amigos: Australian dollar, Japanese yen, British pound**

March 12, 2008

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Although we trade all active currencies for our clients, currently, we view these three as presenting the best opportunities.

**Australian dollar:** We are looking to get long June Australian dollars, closer to the .8900 level for our clients. Fibonacci levels read at .8912 – 50% and .8805 – 61.8%, assuming the recent high of .9477 and low around Christmas of .8500 as your H/L. Additionally, this is more or less the consolidation area from mid-January and the lower Bollinger band. Seasonal strength is also encouraging with a tendency to see advances from mid-March Into May in recent years. The trend is up and we're going to continue to advise clients to buy on dips. Yes, we are catching a market on the way down, but prices have backed off roughly 4% in the last week or so and we don't see much more in store. As a trader, if you wish to play options as opposed to futures, we recommend buying the 94 call for \$1200. More aggressive traders could, with the same capital outlay, sell the June 85 put for \$700 and buy the 92 call for \$1900. The contract size for the Australian dollar is \$100,000. Whether investing in futures or options we recommend holding, looking for a new contract high, so we may be here for some time. From today these options have 86 days, options expiration is June 6. We remain convinced that Australia's currency should continue to benefit from the secular bull market in commodities, and a central bank that appears poised to raise rates even further from the current 7.25%. As the spread between the US short term rates and the Aussie rates widen, we should see a slow grind towards par.

**Japanese yen:** With interest rates at 0.50% there is no way to go but up, well that is not exactly true, but there is definitely not much lower they can go. The fact that the yen has and should continue to have an inverse relationship to equities, should also be supportive as we don't expect any significant upside in the current marketplace. Although, it would take additional headwinds in the future if there was a shift in risk aversion and we experienced further unwinding of the carry trade, as this could also be supportive. What I am getting at here is: there are enough compelling reasons that exist to get long the yen on pullbacks. Even at an 8 year high against the dollar we feel there is more upside. Currently the yen appears overbought but on a pullback to .9550/.9650 on June, we would advise testing the waters on a long looking to add length on an advance. The options are a bit pricey, but generally that's for a reason; look to buy the 1.0000 June calls for approximately \$2000. The contract size for the yen is \$125,000. This option has plenty of open interest, about 3 months time, and the current delta is 35%. We expect it to become intrinsic; on a move to 1.0000 in the futures, this option should be worth just about \$3300. Historically low's are made in February thru April and there is a gradual rise into the summer highs. Bear in mind that past performance is not indicative of future results.

**British pound:** In comparing other major currencies to the British pound we feel the British pound is grossly over valued. We don't believe the concern over UK financial institutions are fully factored into the pound. Furthermore, we expect additional declines in the housing market, reduced optimism within the consumer sector will increase pressure on the Bank of England to slash interest rates. Something to consider is that, the current interest rate in the UK is 5.25%, when rates were at that level in the United States the dollar index stood at 82.00, as the Fed lowered rates from 5.25% to the current 3.0% the dollar lost 11%. If the Bank of England was to be as vigilant to cutting rates, could the pound react similarly? If so an 11% reduction would take the pound to 1.7700. This may seem farfetched but we were at those levels as recent as April 06' and as low as 1.70000, just 4 months prior to that. Looking at the big picture, the recent high in futures reached the 50% Fibonacci retracement from the lows over the last few months, and the highs back in November. Drilling down to a more defined time frame, the current market appears overbought with a stochastic reading of 90 on the daily chart, with current pricing near the top of the Bollinger bands. Our initial target in June futures is 1.9675/1.9575, which is roughly a \$1700 move per contract from current levels. In terms of options, the contract size is \$62.500 and we would be looking to buy the 195 puts for just shy of \$1200. The current delta is 32%, on a move to 196 in June futures you should pick up roughly 50% and to new lows look to double. If the pound was to remain range bound, move higher or not move low enough you could clearly expire worthless and lose the premium paid.

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