



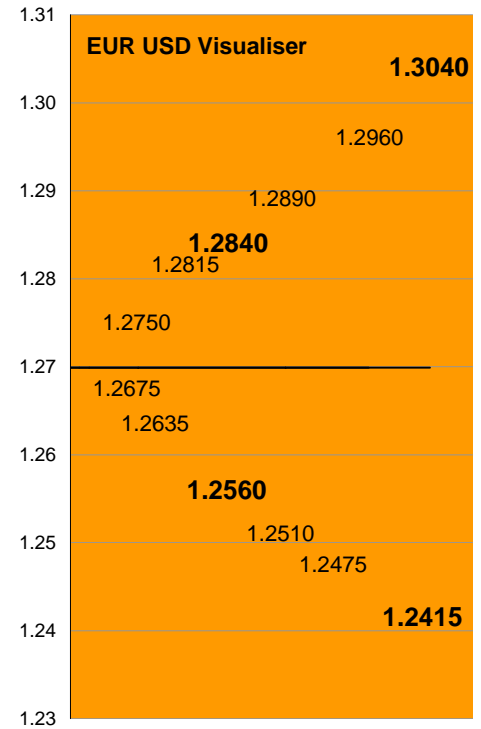
Daily Forex Outlook

EUR/USD: Price driven by short-term crowd

5th October 2006

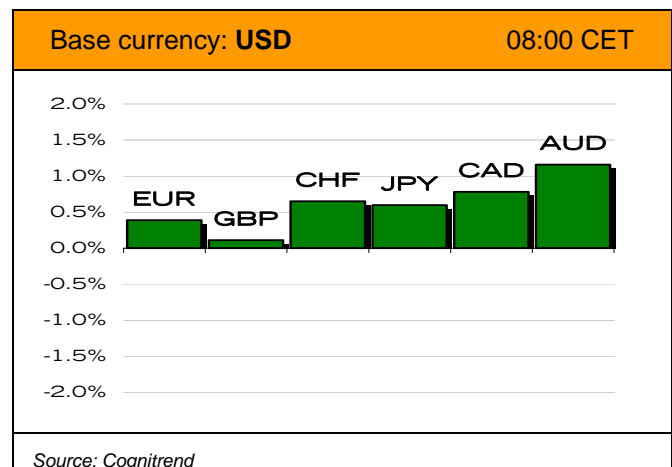
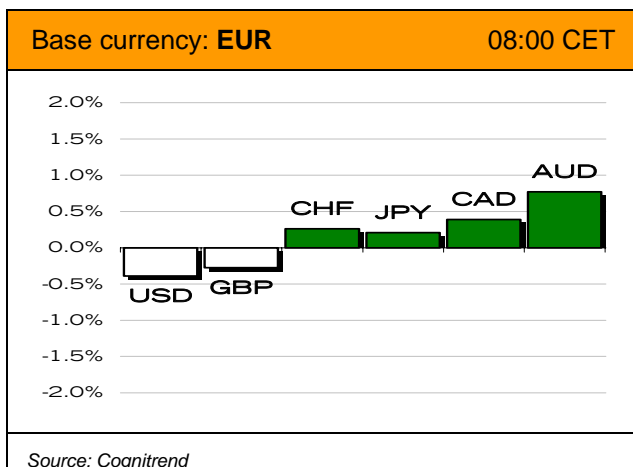
EUR USD (1.2705) The weaker than expected PMI data from the eurozone initially provided some market participants with an argument to sell the euro yesterday. However, the single currency had already been on a steady drift lower before the data was released. Even though some traders admitted that it would not influence the ECB decision today it could not deter them from selling in the morning either, but on the first euro up-tick in the afternoon the ECB's looming rate decision was immediately put forward as the reason behind the turnaround. The dollar initially also appeared rather resilient against the lower estimate for the US ADP employment number as well as the ISM snapshot which came in below forecast. Nevertheless, as traders swiftly brushed this under the carpet they started to focus on the Fed's Hoenig, who said that inflation was 'too high'. Apart from him being a non-voting member of the FOMC, this is really nothing new as he had already said it a week ago. It seemed like yesterday's price movement was largely driven by the short-term activity and the sell-off in the EUR/JPY.

With this in mind it comes as no surprise that the single currency is still moving around in a range. The borders lie at **1.2635** and at **1.2890**. The lower threshold remains vulnerable to a *false break*. This means that a violation would not give a meaningful signal to future price developments.



Market Bias Index™

The dollar is generally perceived as overvalued. However, the Aussie still stands out as the currency where there is the most striking bias.



The Cognitrend Market Bias Index seeks to measure the extent of the perceived over-/under-valuation of the given base currency against other major currencies. This is important for estimating the behaviour of the losers as this is also the inverse of the price change that must be recorded for their breakeven to be reached. The greater the loss, the greater will be the bias. To exploit it, one should favour a base currency position when the bias is positive and vice versa.

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USD JPY (117.60) The focus yesterday was very much on the BoJ Deputy Governor, Muto, whom traders expected to come out rather hawkish on the future of interest rates. However, he could not shed more light than that future hikes would be gradual. We maintain our neutral position and we still reckon with some bullish potential. On a dip down to **117.00**, we would opt for a positive orientation. In this event a 20-pip risk-limit will suffice to the downside. The target for the bullish orientation would stand at **119.20**. Intermediate support comes in at **118.10**.

EUR JPY (149.40) The euro quickly lost its tailwind when the focus shifted from North Korean missile testing to possible intervention in the cross. Despite talk about one central bank in Europe scooping up yen, there was still no mass exodus out of positions as there tend not too be too many wrong positions in the cross. For today we focus on stop-loss selling in the market and we again view

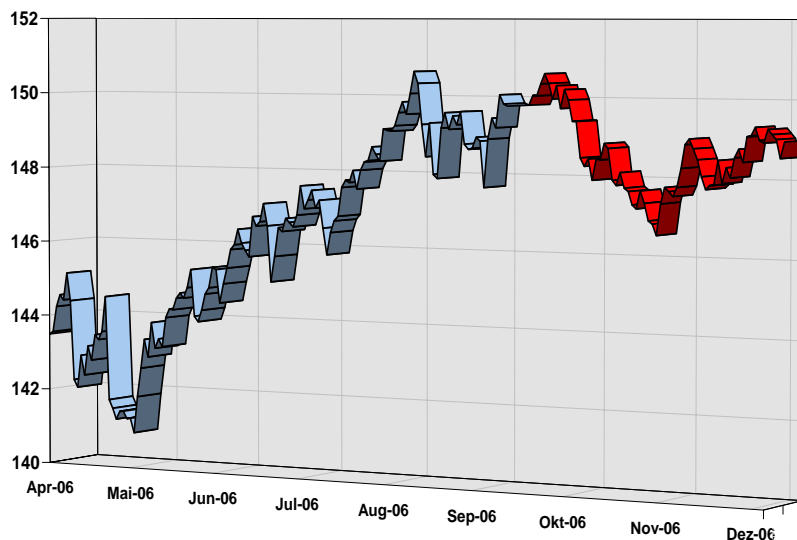
150.40/50 as the trigger for more gains to come. Beyond this resistance, we open **152.40** as target. The risk-limit for an eventual bullish view would be set at **149.75**.

GBP USD (1.8860) Cable dipped in the morning as traders shrugged off the stronger than expected services PMI, but it managed to recover the losses again. We maintain our neutral outlook. To the upside, resistances stand at **1.8920** and at **1.8975**. To the downside, we expect to run into demand at **1.8740** and at **1.8630**.

AUD USD (0.7440) The AUD showed an affinity for the weaker side as traders focussed on commodities. It remains vulnerable to further weakness down to **0.7380** or even to **0.7325**. Overhead, we reckon with hurdles at **0.7475** and at **0.7535**. Only a break of the latter would be treated as a bullish signal.

	USD CHF	USD CAD	NZD USD	EUR CHF	EUR GBP	EUR SEK	EUR NOK
	➔	↗	↗	➔	➔	➔	↗
Supply	1.2625 1.2565	1.1390 1.1330	0.6705 0.6640	1.5970 1.5910	0.6845 0.6795	9.4075 9.3590	8.4850 8.4150
Demand	1.2465 1.2380	1.1225 1.1125	0.6605 0.6550	1.5860 1.5810	0.6725 0.6670	9.2965 9.2710	8.3300 8.2550

Pattern Recognition Forecast Model



EUR JPY
Goodness-of-fit = 96%
(best results above 90%)

* Closest representation of the last six months of activity in the historical database. The price forecast is the actual historical outcome adjusted for volatility.

The objective of this model is to explore the possible future developments by basing a forecast on past movements in a purely mechanical way. The outcomes are therefore unrelated to the analysis otherwise contained in this document.