The Age 1-3-2011 (p.10)

TRADING

$A sends mixed signals but may head higher

TECHNICAL ANALYSIS
ROD MYER

THE futures contract on the Australian dollar, shown in this week's chart, is a contract that banks and investment houses use to hedge, or protect, themselves against any adverse moves in the Aussie against the US dollar.

Along with these dealers in the contract are international and local speculators who try to turn a profit by picking the direction of the currency.

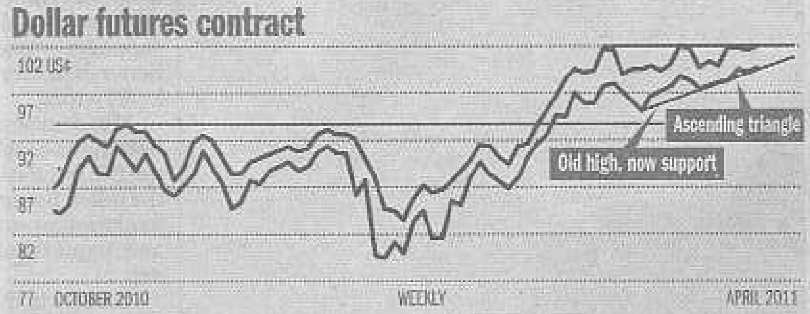
Indeed, so many speculators are drawn into the market that the Aussie is one of the most-traded currencies in the world.

This week's chart represents weekly highs and lows in the currency.

Paul Ash, Victorian president of the Australian Technical Analysts Association, this week takes a look at what the currency chart is telling us.

As the chart shows, the dollar peaked in November 2009 just below US94¢. There were two lower peaks in the months up to April 2010, followed by significant falls that saw the currency trade as low as US81¢ in the middle of year.

Then in September the currency soared, Ash observes, pushing through the horizontal blue line that until then represented a peak, and reaching a price above $US1.01 in early



November. That rally has lasted about six months.

Since then the currency has "triple topped" in charting parlance, each time at levels above $US1.01, with the high in weekly terms being made on the fourth of last month. A further high was reached at the end of last week, raising the possibility of a quadruple top.

Triple and quadruple tops, Ash says, occur when strength in the currency brings out sellers who move in and dominate to drive the price down, only to bring out buyers who push it up again. The level of the these tops becomes a focus for buyers and sellers alike.

The triple (or quadruple) top, Ash says also "can be considered a bearish sign for the Aussie dollar".

Offsetting this bearish signal is the fact that the weekly high and low prices have been forming an ascending triangle. That is a sign that chartists usually see as bullish.

The ascending triangle is formed by the horizontal resistance line along the highs of the triple tops and the rising support line under the lows — shown on the chart.

"Although the triple top can't be ignored, the ascending triangle and the fact that the Aussie has been in an uptrend for six months give the outlook a bullish bias," Ash says.

Chart formation theory gives a possible upside target of $1.14 if the $1.02 level can be broken, he says.