STAR CROSSED PAIR

By Daryl Guppy

FX markets have been roiled by three major influences in the last week: the Scottish referendum, the continued strengthening of the US dollar on the back of interest rate speculation; and the return of the Keys Government in New Zealand. The GBP/NZD pair step into this turmoil and offer an interesting long side trade.

The weekly chart shows a classic up sloping triangle, but its interpretation comes with a word of warning. Chart patterns are particularly reliable in equity markets because they capture the psychology of the market. They are less reliable in FX markets because the structure of the FX market is different. In the FX market the chart pattern is used as a broad measure of potential activity rather than as an exact method to set upside targets.

The up sloping triangle is bullish. The pattern has resistance near 2.01 An early breakout was attempted in November 2013 and January 2014 but this was too early in the pattern to be successful. The lower up sloping trend line uses the lows of September 2013 and March 2014. The base of the triangle is created by 4 weeks of upwards rally in May 2013. The current breakout above 2.01 is confirmed by the behaviour of the Guppy Multiple Moving Average indicator.

In an equity market the base of the triangle is measured and used to project an upside target. Using this method suggests the breakout has an upside target near 2.16. This is above historical resistance near 2.11 and below the longer term historical resistance near 2.26. This suggests the GBP/NZD can move above 2.11 but that it will struggle to reach the pattern projection target of 2.16.

Traders can use the ANTSSYS trading approach to capture the rally move towards 2.11. The importance of the up sloping triangle pattern is that it confirms the bullish pressure on the GBP/NZD cross. Understanding the trend behaviour provides a more effective trading solution than holding out for calculated targets. The fate of this pair lies not in the stars, but in themselves.