

# Market Advance

Weekly analysis, trading and selected writing.  
Issue 7.

[www.Market.Advance.Life/newsletter](http://www.Market.Advance.Life/newsletter)

Monday, 16<sup>th</sup> of March, 2015

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## Personal disclaimer

All the information provided here purely for educational purposes. I do not offer any trading advice publically through this newsletter. Anyone seeking personal advice or consultation should contact me personally and I will try to help to the best of my abilities or provide a reference. All the trades shown or implied in this newsletter are assumed to be made in demo accounts only with virtual money. I do not make any claims of my trading system profitability, nor do I sell my trading system or any parts of it. I personally do not seek nor accept any public funding or investments for trading purposes.

I do accept custom programming orders to help traders automate and test their ideas. I am also available to conduct custom market research, including programming any tools necessary. Anyone interested is welcome to contact me through information provided in this newsletter.

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## US Government required disclaimer

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Commodity Futures Trading Commission Futures and Options **trading has large potential rewards, but also**

**large potential risk.** You must be aware of the risks and be willing to accept them in order to invest in the futures and options markets. **Don't trade with money you can't afford to lose.** This is neither a solicitation nor an offer to Buy/Sell futures or options. No representation is being made that any account will or is likely to achieve profits or losses similar to those discussed on this web site. The past performance of any trading system or methodology is not necessarily indicative of future results.

## List of abbreviations

Any currency can be abbreviated with its first letter:

- U – USD, US Dollar
- E – EUR, Euro
- G – GBP, British Pound
- C – CAD, Canadian Dollar
- H – CHF, Swiss Franc, (because C is already used for Canadian Dollar)
- A – AUD, Australian Dollar
- N – NZD, New Zealand Dollar
- J – JPY, Japanese Yen
- M – MXN, Mexican Peso

Similarly any trading pair can be shortened to 2 letters. Examples:

- EURUSD – EU
- USDMXN – UM
- CHFJPY – HJ

Support and Resistance levels:

- S – Support
- R – Resistance
- SR – Support and Resistance (when referred to in general)
- TL – Trend Line
- Ch – Channel
- PP – Pivot Point

Time frames

- TF – Time Frame of the chart
- MN – Monthly
- W1 – Weekly
- D1 – Daily
- H4 – 4 hours
- H1 – 1 hour

Commitment of Traders

- COT – Commitment of Traders
- NC – Non-Commercial

## Handling complexity

In his book [“The Checklist Manifesto” Atul Gawande](#) shows how very costly mistakes are avoided using simple paper checklists. He provides a very detailed account that we can learn a lot from.

The truth about modern life is that it became way too complex for most people to handle by keeping information in their heads. We cannot account for all the variables of the modern life. The doctor is not able to concentrate on everything anymore, the modern operations are way too complex. The pilot cannot control a modern airplane and keep all the details in his head, no matter how good he is at remembering things.

It is not by accident that all modern pilots are required to go through simple paper checklists. In the midst of all technical complexity of their cockpit, they have to take a simple paper checklist and go through it for virtually every single procedure they are doing. Similarly, a nurse can stop the surgeon before the operation and remind him that some simple check has been missed in a checklist that nowadays is a requirement in most modern hospitals. No matter how good the surgeon is, a simple piece of paper has proven times and times again to be better in avoiding crucial mistakes that cost lives.

In trading we can exercise the power of checklists like never before.

I was always a big proponent of simplicity of trading. I was always

defending the position that a mid to long term trader can simply spend an hour a day checking the entry conditions, taking the trades and then calling it a day. To be fair, the analysis and placement of the orders really does take a couple hours but somehow I was never able to make it to consistency by doing just that. The answer is that I was never a trader and I certainly never managed a trading business. I was an analyst at best, a market hobbyist at worst.

Analyzing the market and then trading your plan are two very important parts that we already discussed before but they are only that - two parts of the whole, only two elements of your trading business. A surgeon who learned the anatomy of human body and how to use the scalpel and stopped right there will never be allowed to work in any hospital. He must understand the management, the paper work, preparing reports, planning the operation, have critical thinking to decide the best course of action.

Whether you make money in trading or lose depends on how you manage your trading business as a whole. That consists of your monthly accounting and review, weekly goals and limits as well as review, daily plan, analysis schedule, trade management, recording all your trades in a diary, gathering statistics for different types of entries, timeframes, pairs, etc. As you can see, the problem is not in the complexity of a particular trading method but in the amount of work that

has to be conducted regularly to maintain trading as a successful business.

More importantly, besides regular daily life of a trader, there is another crucial part to it. Just like in any other business you must advance in order to stay on top. You cannot start an endeavor in any competitive segment of the market and hope to make it, if your knowledge base always stays the same, if you never learn and never improve. Trading, being extremely competitive, is where one must advance every single day.

Do you know the problem areas of your trading business? If you lose money, do you have a clear picture HOW exactly you lose it? Is it a certain mistake you repeat times and times again or a trading timeframe you can never get right? If you are making money with a certain degree of consistency how do you know it will stay the same tomorrow? What can you improve to stay on top of the market even better?

There are stages to development of a trader: you are first oblivious to these questions, then you ask them and then you try to answer. After you find some answers all you've really done is built a theory on how to improve a certain aspect of your trading. The next step is to put that theory to practice and see how well it works in real life.

## The real simplicity of trading

When you created a system of accountability for yourself in form of trading diary, log and various process checklists, you have made a big step towards consistency. If we have no clear idea what to do in our business we can still work hard and stay busy every single day, spending countless hours, but in the end we can only reach consistency by being extremely lucky.

Here is why creating an accountability system is so powerful: it lets you know clearly if you are doing your job or not. In the end of the day you look back and see your diary entries, trading log, start of the day checklist, daily summary checklist and you know what you accomplished today and where you fell short of ideal.

When you have a trading system with clear rules and accountability system with clear rules, all that is left is to follow them every single day. At this point, the trading is still *not easy* because of the amount of work you have to do, but now *it became simple* – in a sense that you clearly know every step that needs to be done every trading day. When you are not satisfied with the results of your trading, you can always look back and analyze what can be improved. You can make a couple changes and then see how well they work after another couple weeks.

One of the main reason why the traders are so rarely reaching consistent success, in my opinion, is that there is little to none consistency in their approach. Some are inconsistent in their life habits: waking up at the same time to start trading

day, analyzing the market at the same time, following healthy sleep regimen to stay alert and concentrated during work hours, eating properly to have enough energy, etc. Others are inconsistent in their trading approach: jumping from one trading system to another, constantly modifying their trading rules, not following the rules in the first place. Finally, I think most traders are not consistent in doing proper accounting of their business: market analysis is not systematically recorded, the trades are not logged and analyzed for mistakes, studying the market may be done sporadically and so on.

Having the discipline in all these areas is extremely important. As I keep stressing, being a trader is, first of all, being a businessman. A business owner is completely accountable for everything he is doing. The problem, however, is that he is accountable only to himself which makes it easy to avoid in the short term, destroying all chances for success in the long term.

## Accountability system

There are 2 elements of accountability system that I think most important to trading success: morning checklist and evening checklist. These simple lists will guide you throughout the day, always making sure that you are on the right track.

Next, I suggest setting up 2 separate journals: Market Diary and Trading Log. I use Market Diary to record any interesting trading pairs, trade setups, trading ideas, etc. The Trading Log is used to record each and every trade that was taken. First of all I write all data about the trade: trading

pair, direction, size, time, price, etc. Then I describe the trade setup – the signal that I used to open this trade. Finally, the most important part of the trading log, is to record my psychological state upon entering the trade. I write if there was any hesitation to pull the trigger, what was my state of mind, any distracting thoughts, etc. I repeat all the same steps when the trade is closed. A screenshot of the chart is also added upon entering the trade and later showing how the trade has been closed.

Now that the basic setup is done, all is left is to make sure that the work is done properly every day:

1. All market analysis and trade setups are recorded in Market Diary
2. Trading Log keeps every single trade that was opened and closed along with psychological analysis

Next, we make sure that we advance in our understanding of the markets:

1. We spend at least 10 minutes a day reading a market related book;
2. Along with current market analysis, at least one historical setup is reviewed to ensure that we learn something new about the market.

We hold ourselves accountable to do this work consistently by following the checklists. In the morning we check:

1. Wake up at the same hour, before everyone else, to create a

- productive and distraction-free start of the day;
2. Re-read Market diary from the previous day to get into the right mindset first thing in the morning;
  3. Review any trades in Trading Log that were taken yesterday and document any trades that were closed since yesterday.

In my opinion getting into the habit of waking up at the same time every single day (including the weekend) is one of the most powerful things we can do to our success. By waking up before everyone else around, you create a distraction free environment that can become the most productive time of the day. When the day has been started with positive action advancing you in life, it will be much easier to keep going in the same fashion for the whole day.

Next, we follow through our market analysis checklist, which is created specifically for our trading system. The main goal is to look for all trading setups of our system on all trading instruments that we watch and record all this information in Market Diary as a clear trading plan.

Now we are ready to go through the Take Action checklist. This list is designed to help us pull the trigger and open the actual trades. Here we check:

1. What trade setups we have available and clearly described in our Market Diary – if there is no plan put on paper, we don't trade;
2. Check our risk allocation for today (following the guidelines discussed in the previous issue);

3. Place the trades according to plan, making sure that we use only allocated risk;
4. Document the trade entry in the Trading Log.

Depending on trading timeframe and trading system, it is possible that market analysis will need to be done more than once daily. In this example we use swing trading on Daily charts, allowing us to analyze and place trades only once a day, thanks to the fact that there is only one new Daily candle available.

In the end of the work hours it is very beneficial to use Daily Summary checklist:

1. Check once again that all analyzed signals were taken and everything was documented;
2. Do all necessary paperwork preparations for the next trading day;
3. Clean the workspace, ensuring that the next day can be started without any distractions.

Of course, we looked only through a very basic example here. It simply provides an idea how one can organize his working day. Every trader should prepare detailed checklists for his particular method of market analysis.

Trading is definitely not easy, but it can and should be made simpler. The checklists help to cut through all the guesswork and instead manage the work each day with absolute clarity, knowing that nothing important is missed.

# Market Analysis

## How to read the charts

Because on Forex we are dealing with trading pairs, not currencies, each trading instrument consists of 2 currencies. COT reports are prepared for currency futures that are quoted in US dollars. Therefore an AUD futures will correspond most closely to AUDUSD trading pair - the difference in their price action is quite small indeed.

However, for trading purposes on Forex market I'd like to analyze both currencies separately, knowing that

either can affect the trading pair in question. Therefore on my charts I will use separate data for the first currency in a trading pair and for the second. Because we will analyze Speculators short and long positions, we will have 4 lines overall. Using AUDUSD as an example, we will analyze AUD Speculators' short, AUD Speculators long, USD Speculators short and USD Speculators long. The most bullish sign for AU would be AUD shorts decreasing, AUD longs increasing, USD shorts increasing and finally USD longs decreasing. Notice the reversed

relation between USD COT positions and AU price action. If we want to place a bullish bet on AU, we want the AUD currency to increase in value and USD currency to decrease in value - this results in the strongest move.

Detailed introduction, as well as indicators to see COT data in MT4, can be found in [Meta COT article](#).

Finally, let's take a look at a picture showing a legend how to read these charts.



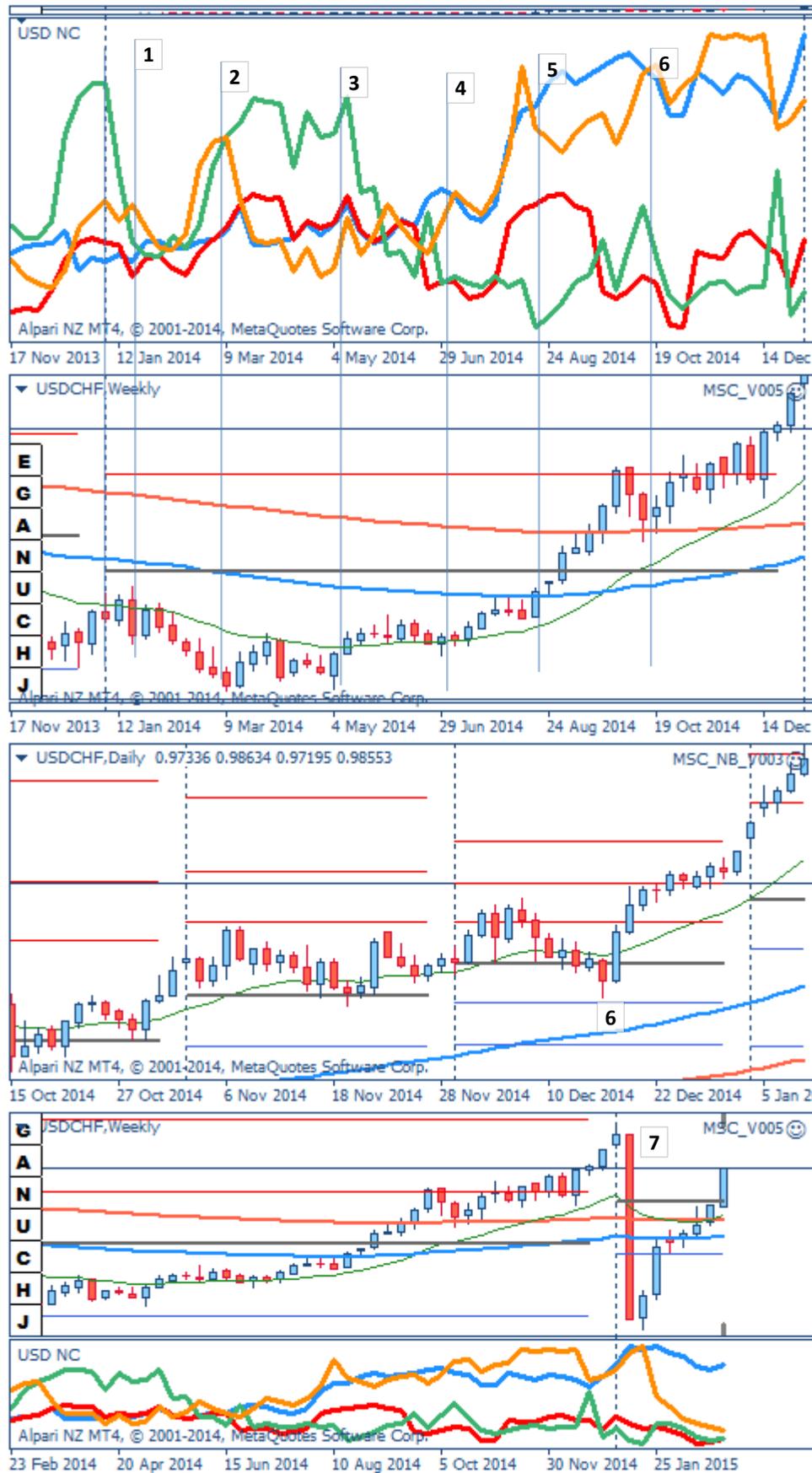
## USDMXN Daily



## Oil Daily



# USDCHF Sunday, 8<sup>th</sup> of March 2015



**(1)** After the spike in CHF buying most traders closed on the first candle in their direction. COT speculators became indecisive on both USD and CHF.

Note price action, however, where the price tried to break 20 EMA but failed on numerous occasions. Aggressive CHF buying (pushing UH down) happened right on the first break of the average. This is a bearish sign – the rejection of the price on the attempt to reverse the trend (break the EMA).

**(2)** The speculators still do not have a strong bias in either direction on either currency. As soon as CHF traders started buying, equal amount of CHF traders started selling. Right after (2) CHF shorts started bailing out, possibly believing that it is their last chance to close without major losses. Their buying led to a strong bounce from the EMA again, showing bearish bias. We would have started looking for shorts there.

**(3)** USD still indecisive, CHF still bullish – overall bias is bearish for UH. We could have sold during the small bearish weekly bars right before (3).

The bar at (3) closes very bullish, trapping breakout traders who sold at the low. We can see that new bulls have entered the market at (3) and now they are in pain. If our position was not stopped out yet, we should have closed it here as the bias is changing to very bullish. The main rule: if the price is not going where it “should” have gone and the traders are trapped in losses, we expect the market to reverse, fueled by the traders bailing out.

**(4)** The price is now above the EMA, stalling in that area. Both USD and CHF speculators are supporting bullish premise on UH. We are looking for buys.

**(5)** Another great opportunity to enter long, as the price was building up below the 100 EMA and finally broke through. Note CHF sellers closing their positions just prior to breakout: the market possibly shaking off weak participants. On the other hand about the same amount of CHF buyers also closed their trades, balancing the overall CHF net position. It can possibly indicate that some speculators are unsure about the further direction of the price and prefer to stay on the sidelines until further clarification – but it is only my opinion and remains to be seen if there is any practical use to it.

**(6)** Finally, another good buying opportunity, as the price corrected back to 200 EMA but was aggressively rejected from it.

**(7)** This picture shows the most recent price action. We can see the huge bearish week during the CHF chaos on 15<sup>th</sup> of January. I removed the candle shadow to make the chart easier to see – the price traded much lower for some time.

We can see that there were A LOT of CHF shorts with very little longs. The shorts increased the next week, pushing the price a bit higher, and that’s when most large traders started bailing out.

# EURCHF Monday, 9th of March 2015



Because of high correlation between EUR and CHF it is difficult to analyze this pair – we can see that EUR and CHF net positions are often on one side, pulling the pair in different directions. There are a couple potentially interesting points worth noting though.

**(1)** The price reached 100 EMA and yearly pivot by the start of 2014 and the week closed rejected. Note high volume of CHF sells on COT data – they closed most positions however, as soon as the price went in their direction (see UH analysis). Combined with price action this is a sign of bearish bias for EH, no matter how weak.

**(2)** This time CHF shorts spiked up, and also bailed out as soon as the price started going in their direction. After CHF shorts closed, longs continued to grow, pushing the EH price down.

**(3)** We can see that UHG longs ultimately failed if we look on UH and see that the longs started closing when had started trending up. From this point EH had started moving down very slowly, most likely based on CHF losing its strength slightly slower than CHF. Compared to the trends in EU and UH during the same period, it would be an obvious decision to skip EH in favor of trading the strong trend on major pairs.

**(4)** CHF longs spiked out creating a temporal imbalance between EUR and CHF – enough to push the price a little bit lower.

**(5)** The big spike in price we can see on Weekly and Daily chart was the result of many traders being sure that it is safe to buy from artificially created boundary at 1.2000. Apparently, there were enough traders pushing being sure that they can push the price back to the bottom.

I don't think that many traders saw what was coming and large speculators lost a lot of money in it as well. The Commercials however, being on the other side, and mostly representing the biggest banks, made a lot of money at the same time.

**(6)** Once again we can see that large traders did not accept the loss right away, pushing the price a little bit higher first with additional short positions on CHF.

# AUDCHF Tuesday, 10<sup>th</sup> of March 2015



**(1)** We are starting in a bearish trend (below EMA) with strong bearish bias on COT data as well: AUD shorts and CHF longs high, while AUD longs and CHF shorts low. After the next bar after (1) closed bearish we would have assumed a bearish bias and started looking for short entries on Daily.

**(2)** By the time we reached a new low on AH cross, most CHF buyers bailed out and CHF became around net zero on COT data. Even more AUD sellers entered the market, and yet the price bounced back (bullish bar at (2)). In such situation we start looking for AUD shorts to bail out in losses as an early signal of changing bias, even before AUD becomes net long.

**(3)** Here we can see many AUD shorts closed their positions. CHF speculators are still around net zero, even though both shorts and longs increased their positions.

If we look at price action, we can see a recognizable head and shoulders pattern, suggesting a bullish bias for AH.

**(4)** AUD longs started increasing their positions around (3) and still growing – AUD became net long. CHF became net long as well, but we can see that the price is failing to go in direction of this currency (the failure is visible on UH pair as well). We expect CHF longs to start closing losing positions, which should fuel the trend on AH to go up with much more strength.

Notice how the price bounced from combined support of 20 EMA and extended neck line 2 bars prior of (4) – great place to look for bullish entries.

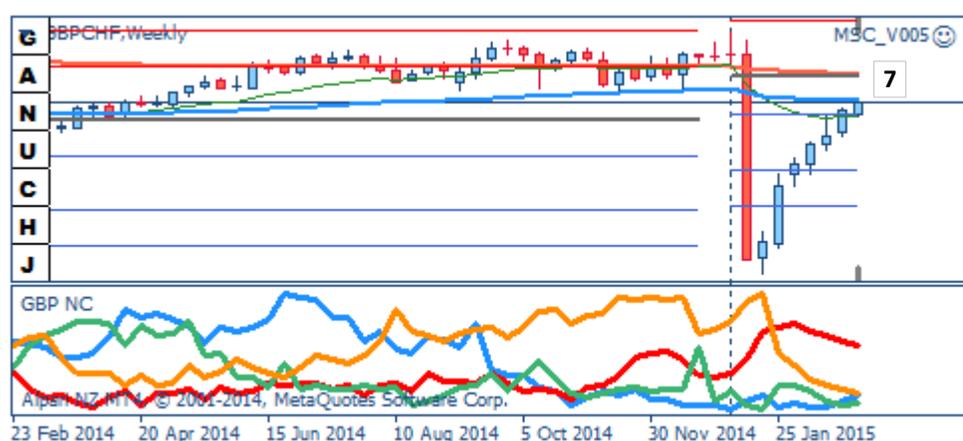
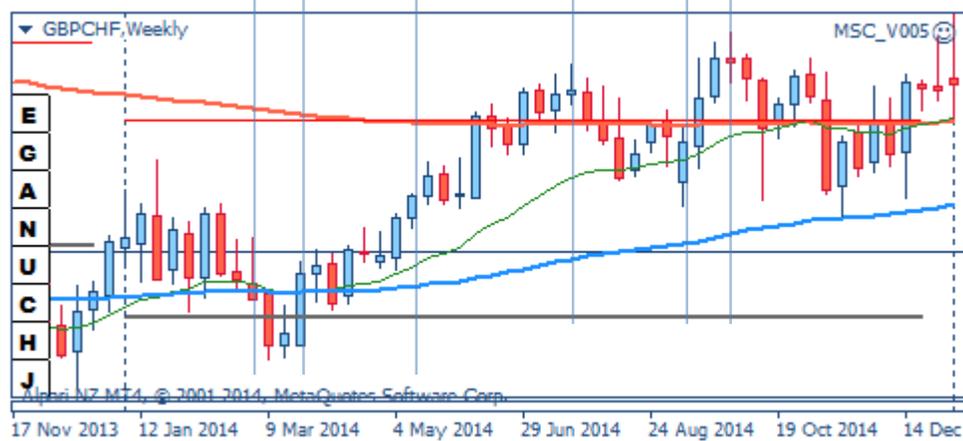
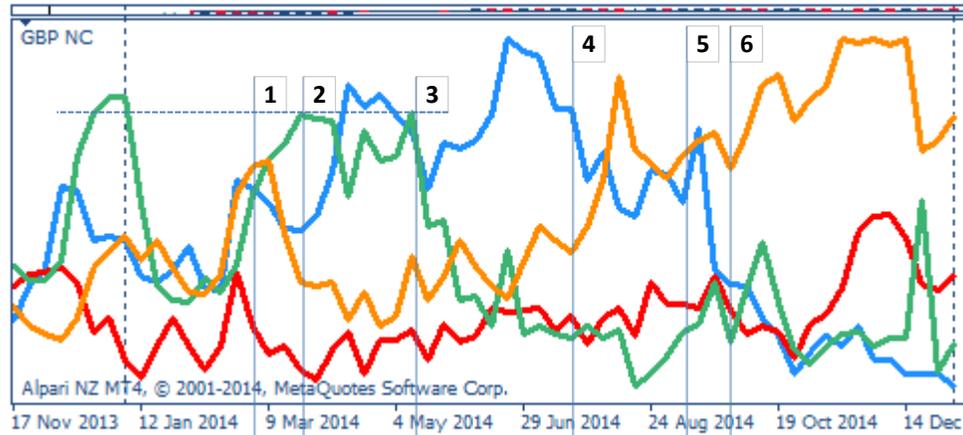
**(5)** After both CHF and AUD COT positions were supporting bullish trend on AH it was unusual to see it continue with slow speed and many sideways pullbacks. As always, it is important to analyze major pairs to see real price action that this COT data is based upon. On AU we can see that the price is stuck below yearly pivot and any attempts to break above are countered with a lot of bearish pressure. Whatever the reason was, AUD longs could not push the price higher, no matter how hard they tried.

Apparently, the trend in AH continued up because of CHF, not because of AUD.

**(6)** The price just broke above yearly pivot and was instantly forced back below, locking a lot of AUD bulls in heavy losses. Analyzing AU and UH will help to see that CHF traders are still doing find, and CHF bias remains bearish, while AU bulls were increasing their positions just prior to collapse and AUD bias now changes to bearish. Because of both currencies aligned in the same direction, we do not expect a strong and consistent trend in cross pair.

**(7)** AUD became even more bearish while the price has been trading sideways around EMA for 10 weeks now. Looking on daily chart we can see price action around November pivot with bears being visibly stronger – both bullish attempts were countered within 1 week. Aggressive short entries are possible as the price closes below pivot at (a) and (b).

# GBPCHF Wednesday, 11<sup>th</sup> of March 2015



**(1)** GBP growing increasingly bullish while CHF is indecisive. At the same time the price is breaking down below 100 EMA and yearly pivot.

**(2)** At the same time CHF also became bullish, so we look at price action to see who is winning and who is losing money. The price is breaking back above pivot and 100 EMA, closing above the previous bearish bar. 2 weeks later there is another bearish attempt to push down, which is instantly reversed the next week. Even though there is a clear struggle, the bias is still bullish.

**(3)** The price continues up even though CHF buying has reached its previous high. CHF was already unable to move past this volume during this year and right now the bulls are clearly trading against the bias (visible on UH as well as it breaks above 20 EMA the same week). GBP longs reduced somewhat, which could be normal profit taking along with the trend. The bias stays bullish for GH cross.

When the next week we can see CHF bulls bailing out in losses, the trend is further strengthened. A small retracement (bearish candle) allowed us to look for buys on Daily.

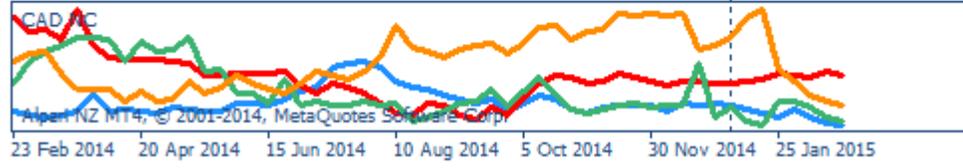
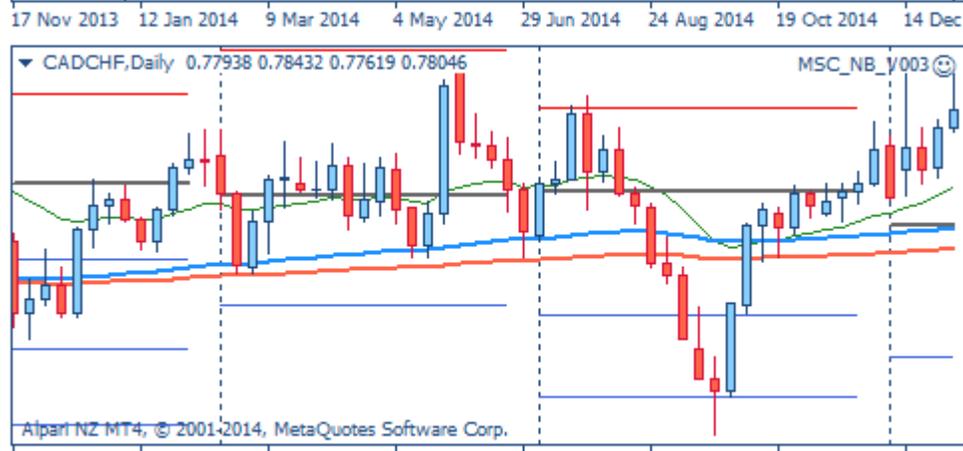
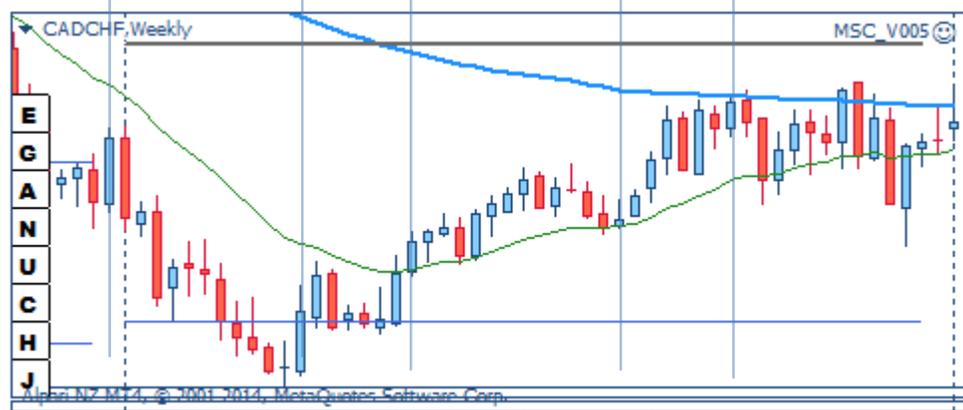
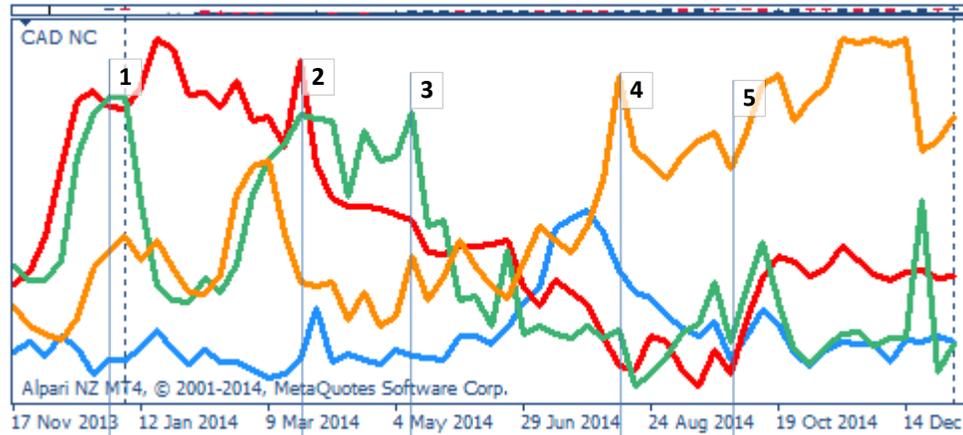
**(4)** By this time GU was already moving down 3 strong weeks in a row, so GBP bulls closing their positions would suggest a changing balance of power for GH cross. CHF bears are increasing their positions, trying to push GH further up – combined with the price trading on R1 and 200 EMA we could expect a choppy market. Note the price being rejected from new highs this and the previous weeks.

**(5)** Check GU: the price reached combined 100 and 200 EMAs and stalled there, hardly being able to correct up against growing USD. On GH cross, however, we have CHF still being net bullish, so the same period turned out to be very bullish (if somewhat choppy). Great correlation signal with major pair.

**(6)** GU breaks lower and pretty much all bulls are gone. GH continues down with big retracements – still opposed by CHF traders.

**(7)** Since 15<sup>th</sup> of January the price was able to reach almost the same levels as before, while CHF sellers use that opportunity to scale out their positions. Note: I removed the lower shadow of the bearish candle to make the chart a little bit more readable.

1.43390  
1.35740  
1.28315  
103011.7  
31012.3



(1) CAD is heavily bearish, CHF longs are also growing. We can see that the price is coming from the top of the chart, resulting in overall bearish between large positions and price action.

The week closes very bullish, breaking through the highs of the previous 4. Immediately we are reviewing the premise – if large traders start bailing out, closing their losses, the volumes will fuel the market to go further up.

The next week, however, closes down, restoring bearish bias for now. Even though CHF longs started closing another week later, CAD shorts increased even further, suggesting that the trend will continue.

(2) CAD shorts were decreasing their positions, scaling out of the trend. As the price closed bullish this week, we saw a large spike in CAD shorts, not quite reaching the previous volume though.

The next week CAD traders bail out, as the market continues higher.

CHF is net bullish, so the change in trend is not confirmed by large traders yet. CAD shorts changing their direction and suggesting that CH cross will go up, but CHF longs are still suggesting that the pair will go further down. Indecisive.

(3) By this time we can see the price breaking further up, above the recent high and 20 EMA – price action is clearly bullish. CAD shorts have been scaling out, closing even more positions, pushing the cross up as well.

An important signal is the double top in CHF long volume that fails to move the price down. The next week when these traders started bailing out we had the same signal as with CAD shorts at (2). Now we have price action and both CAD/CHF traders confirming bullish bias for CH trading pair.

(4) The price has been correcting to 20 EMA during the past 3 weeks. CAD traders are net long, suggesting bullish bias. CHF shorts were increasing their positions all throughout the trend. Our bias is heavily bullish, so we expect a bounce from 20 EMA and look for buys on Daily.

(5) As the price is coming to 100 EMA resistance, CAD traders became indecisive (longs ~ shorts). Even though CHF is still heavily short we expect some kind of reaction around resistance level but do not look to fade the trend.

In the next couple weeks CAD short volumes were growing along with CHF shorts and the price ended up in a wide range between 100 and 20 EMAs.

0.73225  
0.68295  
101668.5  
13810.45



(1) Large traders are bullish for both NZD and CHF so it is difficult to expect any consistent price action. The price started going up but it was certainly not the path of least resistance with all EMAs and yearly pivot on the way. It is better to avoid such market and look at other trading pairs for opportunities.

(2) After almost half a year of struggling up through different resistance levels, the bulls finally making their stand above the pivot. We can see NZD buyers dominating the market after CHF buyers bailed out. The price just retraced to yearly pivot but was instantly rejected providing a first clear opportunity to look for buys on Daily chart.

(3) As on all NZD pairs, the spike in bearish volume suggested a change of bias. NZD bulls hit their previous high volume. We are looking for a possibly bullish failure, combined with heavy bearish volumes, to start shorting NH cross. With the next week closing very bearish such an opportunity presented itself. Notice that CHF traders became net bearish and can possibly slow down the descent for NH.

(4) The price managed to break below all EMAs again and yearly pivot, but now NZD traders are around net zero with CHF heavily bearish. Given the location of the price, it has to work its way through a lot of resistance in order to go up – the same situation as at (1). Avoid.

(5) The price has been struggling up for 11 weeks now with little success. Looking at daily chart we can see a lot of skirmish around 100 and 200 EMAs and December pivot. Because COT traders are still largely bearish for CHF and NZD is taken out of equation (similar volume for both shorts and longs) the bias is very slightly bullish. At (a) we can see an aggressive buying opportunity as the bulls broke through all EMAs and December pivot on their second attempt. At (b) a somewhat more conservative entry was available, with the price now breaking the new high above previous resistance (which now acted as support).

# USDJPY Friday, 13<sup>th</sup> of March 2015



- (1) The price has been trading around 20 EMA for months with USD net zero. JPY shorts are much higher than longs but the price is still unable to go up. Waiting for USD to join on bullish or bearish side.
- (2) USD became net bullish and the price broke above 20 EMA. After a small correction for 2 weeks the new trend was confirmed with the break away from EMA at (a).
- (3) With bias heavily on the bullish side we look for every opportunity to buy with the trend. Rejection of the price from 20 EMA provided such opportunity.
- (4) JPY shorts reached the previous high volume, but the week has closed very bearish. Even though USD is still net bullish and JPY net bearish, we have to review the bias and check further price action before acting.
- (5) The price slowly moved up while USD longs were increasing their volume. This week also closed down, now against both USD buyers and JPY sellers. Changing bias to bullish and looking for sells. Conservative variant is to wait for the price to break the low of the bar after (4). The next bar bounces from support and the next 2 weeks are going nowhere. Finally another week closes up. Avoid until further price action clarification.
- (6) JPY shorts were decreasing their volume every week but USD was still pushing the price higher. Right now we are reaching the high of (4). A rejection of the price from this level will confirm bearish bias and allow us to look for sells.

120.190  
119.080  
118.000  
116.890  
115.780  
121.720  
121.380  
121.240  
120.770  
120.290  
119.820  
119.340