T3 – Trends, Tactics & Timing

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GBP/USD Asymmetric Risk

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Executive Summary

GBP media interview [select link]

- GBP/USD Asymmetric Risk (p.2)
- Rare price-time confluence (p.3)
- GBP/FX Bifurcated performance (p.4)
- GBP/EUR "momentous" breakout above 1.20? (p.5)

Archive Reports	Media Interviews	Educational Material
The Minsky Moment	Is the Big Cycle About to Turn?	Seeking Alpha in a VUCA World
Own Gold, Sell Equities	Gold rise into $2400	Value of TA
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GBP/USD Asymmetric Risk

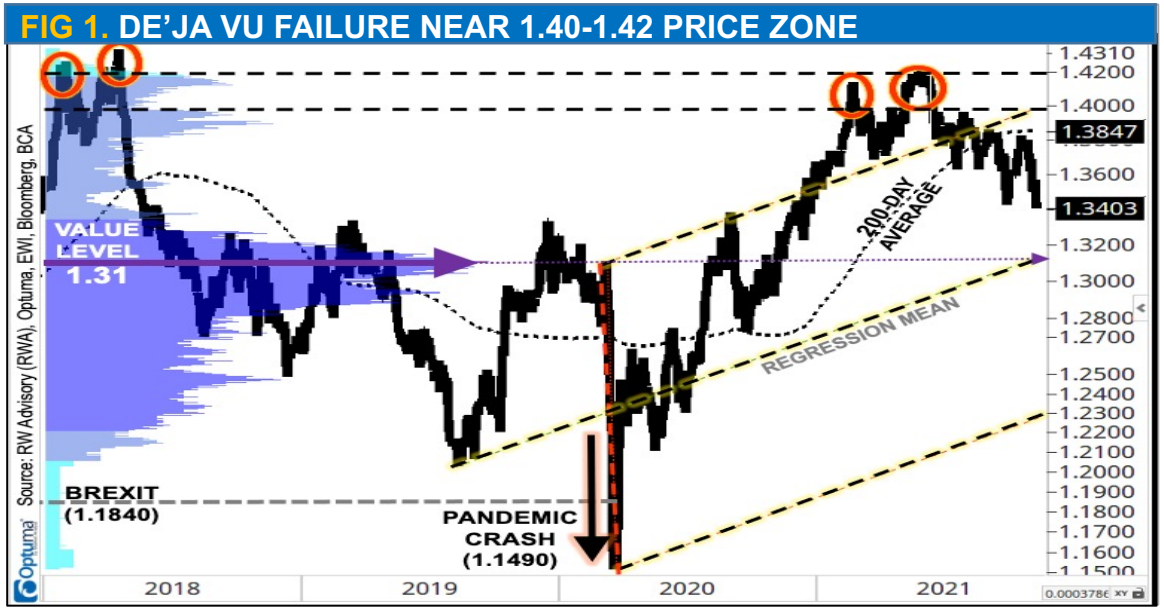

Fig 1. GBP/USD daily line chart, 200-day MA, regression analysis & probability distribution.

Fig 2. GBP/USD Risk-Reversal Sentiment.

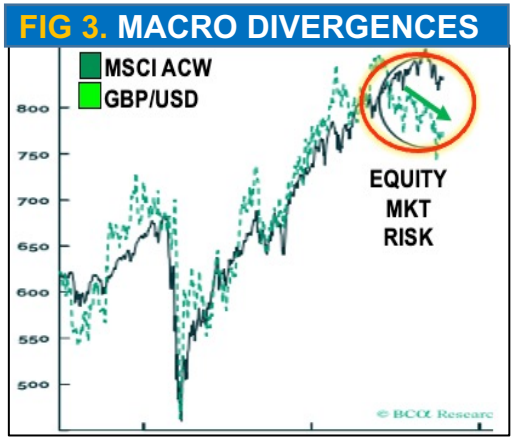

Fig 3. MSCI ACW Index & GBP/USD.

GBP/USD Asymmetric risk, after the **Deja vu failure near 1.40-1.40 price zone.** This echoed a similar bearish sentiment at the 2018 peak, after the Brexit crash lows of 1.1840 *(Figure 1).*

Tactical market proxies also signal growing headwinds *(Figure 2)*. Option market sentiment based on ***"Risk-reversal"* is turning negative,** after flat-lining for almost a year *(Figure 2).*

This indicator tracks the difference between call and put options, showing trader's inclination to make bearish or bullish bets on each currency vs. USD.

Against GBP, bullish USD bets are increasing, while bullish USD demand vs. EUR reached its highest since June 2020. Both risk-reversal trends naturally capture mounting USD bullishness. **Watch the DXY key level at 95 for evidence of further gains.**

Additionally, **GBP is also being pressured by global macro dynamics.** The UK runs a basic balance deficit. This means portfolio inflows, both in equities and bonds are needed to finance the trade deficit. These portfolio flows accelerated this year, but are now relapsing.

The risk is that a correction in global equity markets (MSCI ACW), as predicted by our Roadmap model, **could pressure the divergent trend lower** *(Figure 3)*.

Rare price-time confluence

Rare price and time confluence warns of GBP/USD asymmetric risk ahead. *Figure 4* highlights a **multi-decade line in the sand at $1.40,** which the major rate failed under during early 2021. A greater historical rhyme can be found in the **powerful 8-year cycle** pattern that has coincided with each major low on GBP/USD since the end of Bretton Woods.

It includes 1985 (Plaza Accord), 1992/3 (ERM Crisis), 2000/1 (TMT Crash), 2008/9 (GFC) and 2016 (Brexit). The mid-point anniversary of this cycle also recently **alerted a change of sentiment post-COVID, into 2021.** According to the life-cycle pattern developed by Tony Plummer, *"Sterling is in a Transition Cycle – which is the first cycle of an evolutionary phase. Normally, this means a sell-off that alters belief systems."*

FIG 4. MULTI-DECADE LEVEL AT $1.40, NEAR MID 8-YEAR CYCLE

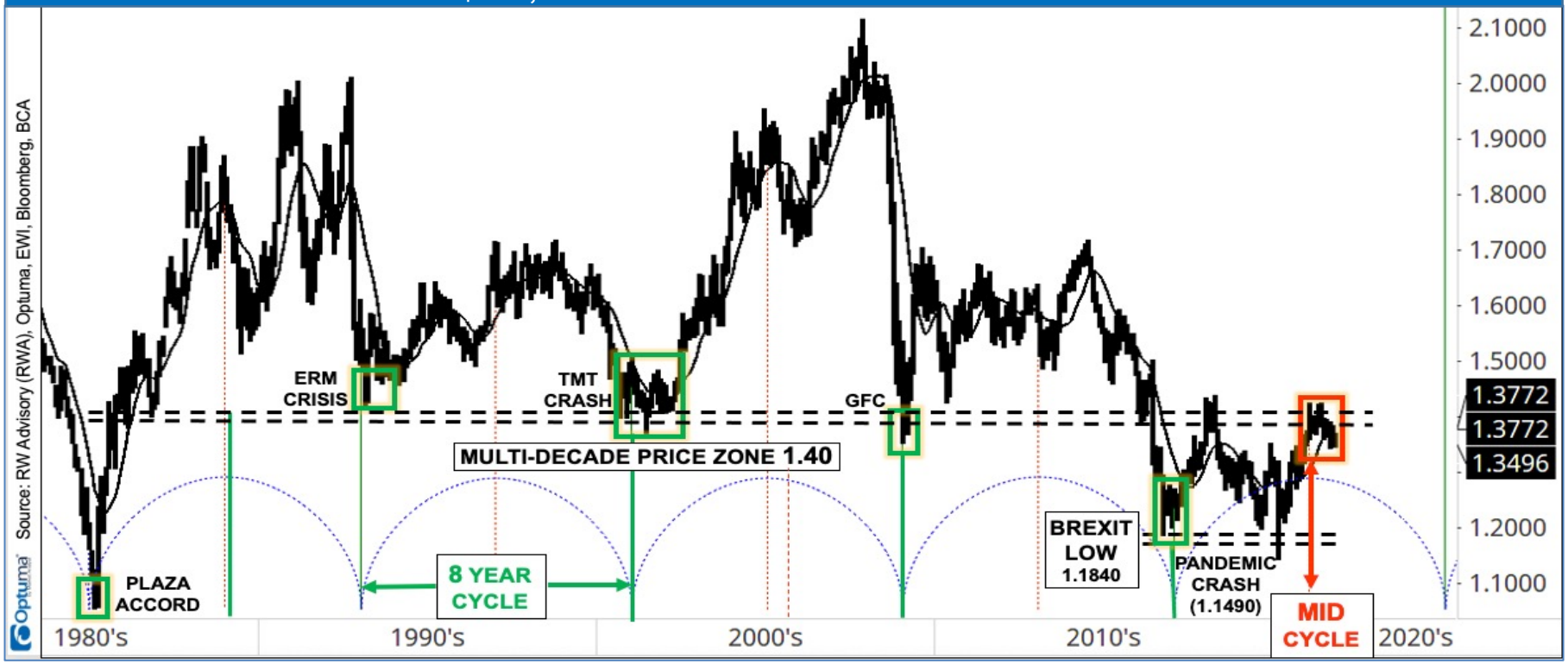

Fig 4. GBP/USD historical chart, multi-decade level at $1.40, near mid-cycle.

GBP/FX Bifurcated performance

In the near-term, **GBP is likely to extend broad weakness vs. other G10 currencies,** with some bifurcated performance. GBP/USD and GBP/CAD already exhibit negative YTD performance, with GBP/AUD, GBP/CHF and GBP/EUR nearby *(Figure 4).*

Figure 5 shows the **technical distinctions vs. 200-day trend average.** GBP/USD, GBP/CHF, GBP/CAD trade below this benchmark, while GBP/EUR, GBP/JPY & GBP/AUD still hold above, with potential upside scope ahead.

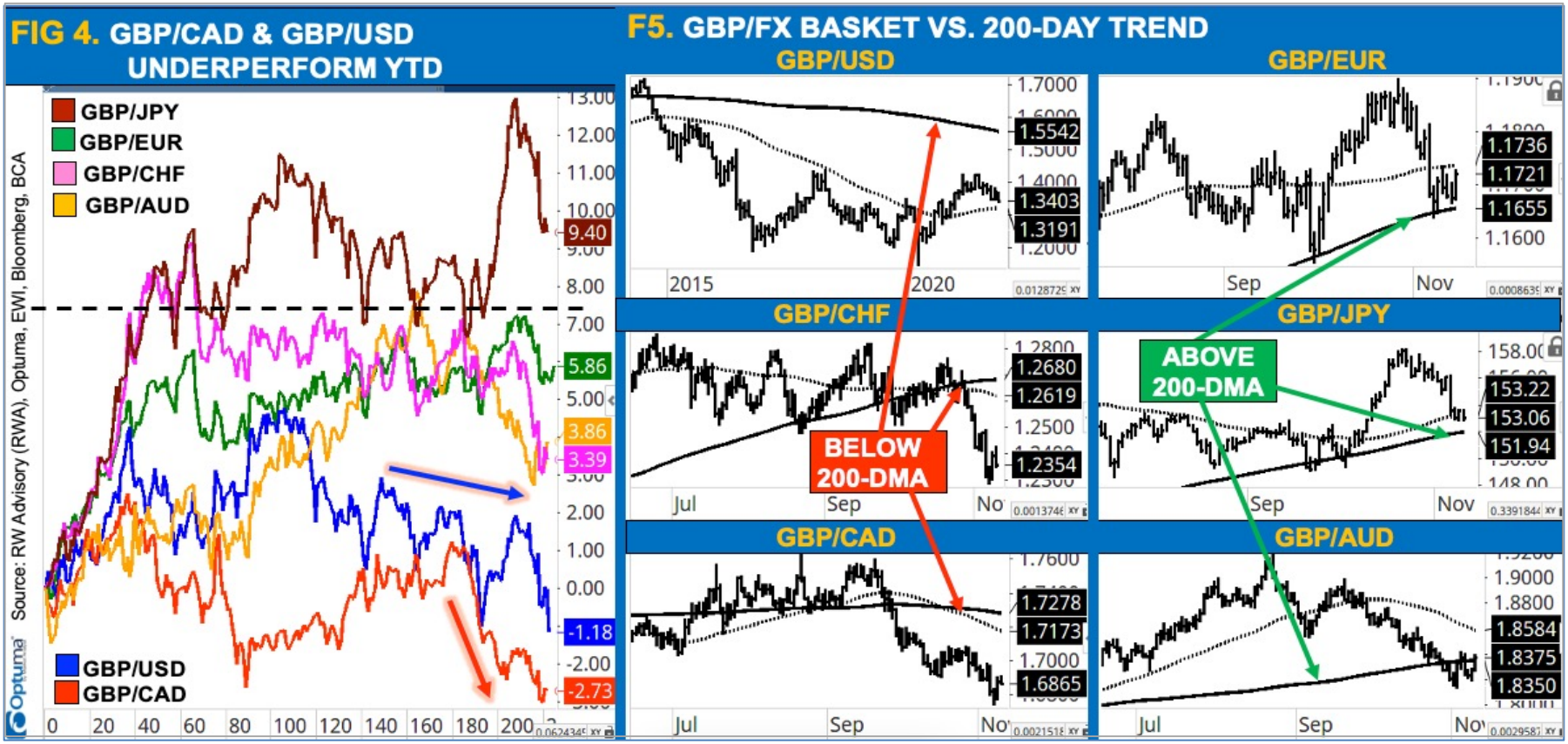

Fig 4. GBP/USD YTD performance & FIG 5. GBP/FX Basket vs. 200-day trend.

GBP/EUR "Momentous" breakout above €1.20?

GBP/EUR serves as a useful sentiment proxy of the UK's Brexit developments. This is particularly important amidst the current rise in geopolitical risk premium and ongoing trade-tensions. Furthermore, interest rate expectations are bombed out in the euro area, relative to the UK. A modest reset in relative rate expectations could ignite the FX rate, with BOE likely hike expected soon.

In technical terms, a price move above €1,19 signals a resumption of the uptrend back into an important **make-or-break zone near €1.2080/90.** A sustained rise would confirm a "momentous" breakout, targeting higher altitudes into €1.32. This projection would be in-line with traditional market geometric behaviour. *"The bigger the base, the higher in space".* **Only below 1.1655 (200-dMA) risks this view.**

FIG 6. GBP/EUR "MOMENTOUS" BREAKOUT ABOVE 1.20?

Fig 6. GBP/EUR multi-year chart, with short-term focus.

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