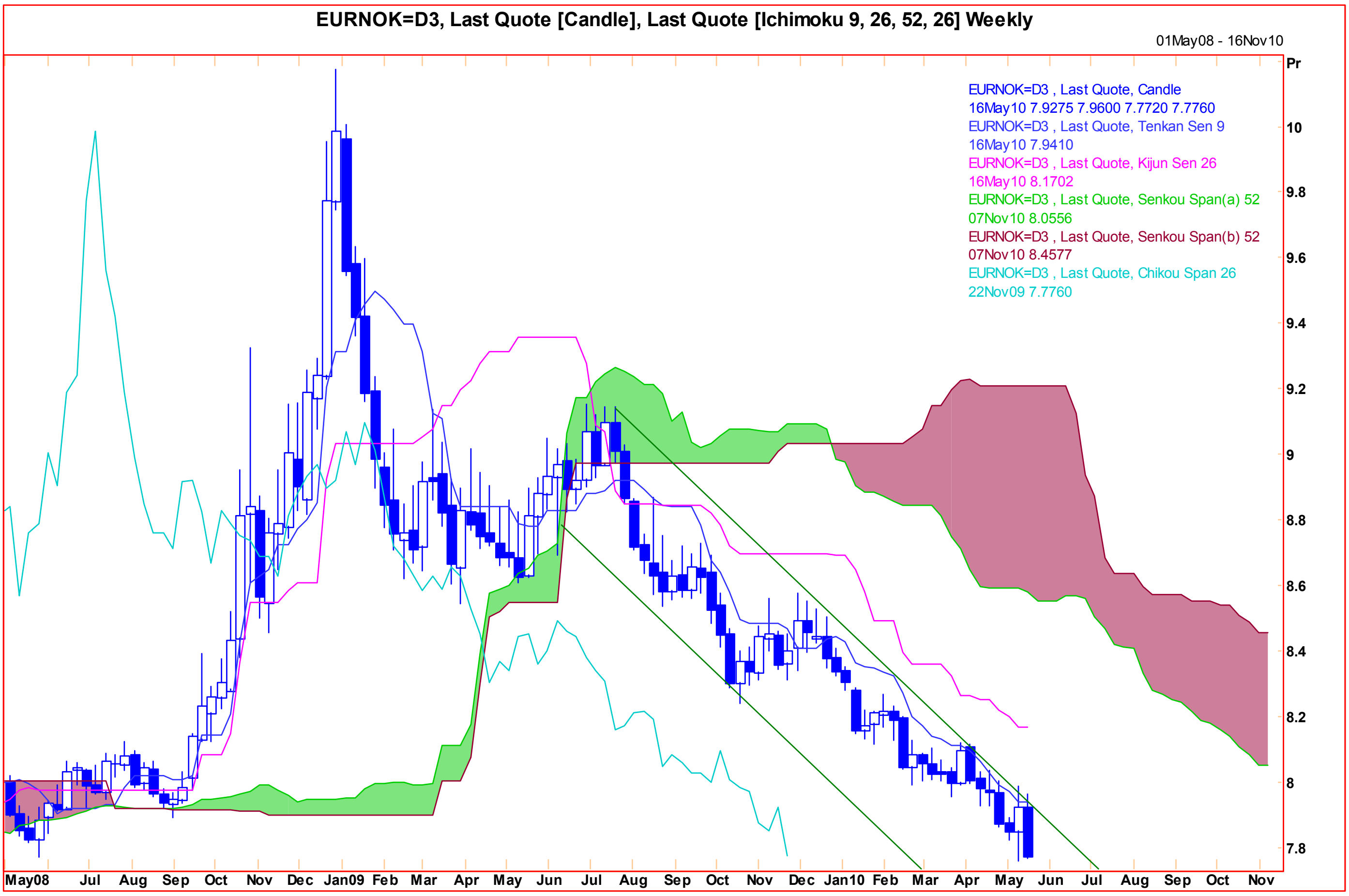
Technical Analysis

12 May 2010
EUR/NOK



Comment: There are many lessons to be learnt from this currency pair over the last two years, not least that fire exits in small markets become very overcrowded on the stampede out. The other is that knee-jerk reactions can throw the baby out with the bathwater – the 'good' thrown lumped together with the 'bad' and the 'ugly'. The relentless 'channel' lower of the last eleven months took us below the very long term calculated mean at 8.0000 as forecast, so we are now at pre-crisis levels is testament to the latter. Likewise one-month at-the-money implied volatility which is back at its long term mean of 7.00%. At 7.7600 it is trading very close to one standard deviation below the mean of the last twenty years (again calculated via the Deutschemark) and in theory ought to stop here. However, because bearish momentum is among the strongest in a decade, we still feel an overshoot is likely. We continue to target the 2007 low at 7.6250, possibly the 7.4000 region, prior to moving broadly sideways in a band.

A weekly close above 8.0000 would postpone all of the above while a monthly one above 8.2000 forces us to review.

Chart Levels:

Support	Resistance	Direction of Trade
7.7600*	**7.9600**	
7.7100*	**7.9850/8.0000***	
7.6250*	**8.1200**	
7.5000	**8.1750**	
7.4000* **7.2170*****	**8.2950*** **8.4000***	

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