ANNUAL GLOBAL CURRENCY, COMMODITY & EQUITY OUTLOOK

Waves Research provides in-depth research on varied asset class like Equities, Commodities, and Currencies & has been publishing these reports on a daily, weekly & monthly basis.

Waves Research publishes Annual Outlook on Equity, Commodity & Currency for the year 2013.

By Vishal Dalvi, CMT

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Wish you a Happy & a Prosperous New Year

As we enter in to the 2013, we have put across our views for the coming year for all Asset classes. While we see Dollar broadly stuck into a big range, a fall at the lower end of the range is our preferred view. This may lead to a rally in Risky asset class like commodities and equities. Within Commodities we may see a sharp recovery in Bullions but we may see some underperformance in Base Metal even though Chinese Market looks like recovering. Crude may also give reasonable upside this year but we expect a dip in the first half of the year followed by a sharp run up.

For Equities we feel while Dow Jones may have a limited upside from these levels but Indian Equity Markets have changed structurally

The report includes charts & views for the following assets

1. Currency
    a. Dollar Index
    b. EURUSD
    c. GBPUSD
    d. USDJPY
    e. USDINR – Indian Rupee

2. Commodities
    a. CRB Index
    b. Gold COMEX
    c. Silver COMEX
    d. Copper COMEX
    e. Nickel LME
    f. Lead LME
    g. Zinc LME
    h. Aluminum LME

3. Equities
    a. SENSEX & NIFTY
    b. Dow Jones
    c. FTSE

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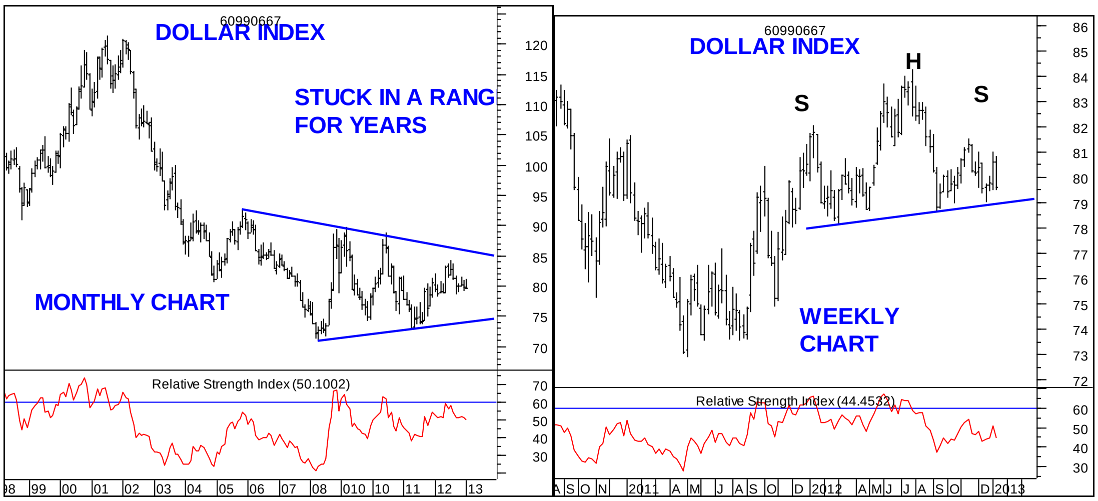
CURRENCY

Dollar Index:



Wave Analysis:

Study of Dollar index is the key to analyze where all risky asset classes like commodities and equities are headed as currency plays a very important role in determining their directions. Though the inverse correlation within dollar Index and Equities is not perfect in smaller time frame, but broadly in the larger picture the inverse correlation does exist.

Since 2008 Dollar index has been stuck in a range of 90-75$ and has not been able to breach either side. On Monthly Chart (Left hand side) the structure looks like a triangle formation and a breach of either side would give hints towards the next directional move and this move should be a steep one.

This sideways structure has played out in other as asset classes as well. For example if you look at COMEX Gold, Silver, Copper, Crude all have formed a triangular formation in this same period with not real direction. For that matter even few equity indices like Indian Markets have been stuck in a range since last 3-4 years.

The right hand side chart is the Weekly Dollar Index chart and we can see an inverse Head & Shoulder Pattern formation. This is a bearish reversal pattern and a break of the neckline at 79-78.5$ would signal some weakness in Dollar Index ahead in the medium term. In the broader perspective this leg down would find support at the Monthly Triangular formation near the 75$ levels.

This expectation of medium term weakness in dollar Index makes us bullish on Commodities and Equities as an asset class but we believe there will be a selective play. While Equities are in an overbought territory we expect a short term correction first which would offer a good buying opportunity. Within Commodities, we feel Bullions may outperform this year while Base Metals may remain sideways to mildly bearish. Crude should also eventually break higher this year.

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EURUSD: *RALLY AHEAD*

A Head & Shoulder pattern in Dollar index implies an inverse Head & Shoulder pattern in EURUSD. Broadly prices are stuck within a triangular pattern within the range of 1.20-1.45.

We expect the Inverse H&S should play out in EURUSD and prices may spend enough time in the range of 1.3500-1.4000.

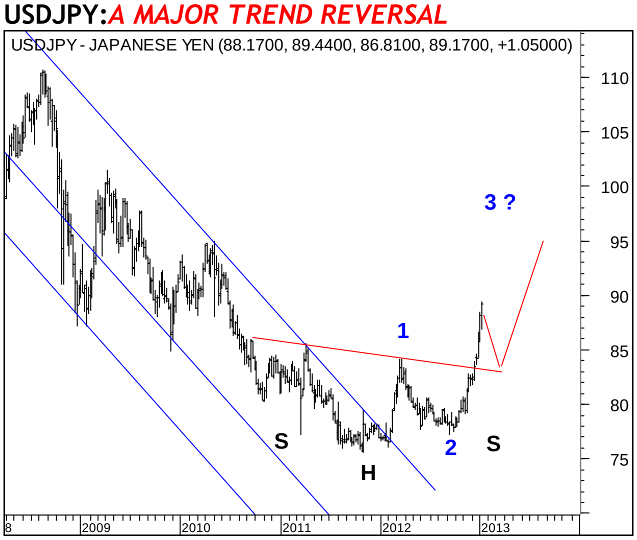
For EURINR we see higher levels of 75-77 INR while supports will be seen near 69.50 INR.

GBPUSD: *TRAINGULAR CONSOLIDATION*

GBPUSD Weekly chart shows a classic symetrical traingle and Wave count doesn't show any bullish implication with this currency pair. Failure to move above 1.65$ may push prices initially towards the lower end of the traingle near 1.55$. A break of 1.55$ may suggests some significant downside in GBPUSD.

GBPINR should see lower levels around 86.50-86.00 INR with stiff resistance at 90 INR.

USDJPY: *A MAJOR TREND REVERSAL*



Prices have reversed significantly and we belive this bullish trend is here to stay for the year. Prices are currently trading in wave 3. We can also see a 2 year long Inverse Head & Shoulder pattern breakout. A dip towards 85$ cannot be ruled out and prices should then head higher towards 95-100$ eventually.

JPYINR could intially see a rise towards 63-64 INR from there it could start the next decline towards 58-57 INR.

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USDINR: *A BORING SIDEWAYS CONSOLIDATION AHEAD*

USDINR has been very challenging to trade last year. We suspect that this year it will get even more challenging as we expect a complex correction in USDINR for this year.

Prices have already formed a zig-zag formation in the form of wave a-b-c. We may see a double zig-zag correction which may go a year long before prices can turn higher again.

INDIAN RUPEE USDINR: WEEKLY CHART

Prices are currently trading in wave b of X and we could see an initial dip towards 53.50-53.00 before the start of wave c of X.

56.00 levelscontinue to be a very strong resistance zone and it would need a very strong reason to break this supply zone. Post a test of 56.00 we may see the start of next zig-zag correction which may eventually take us towards 50.00 or sub 50.00 levels.

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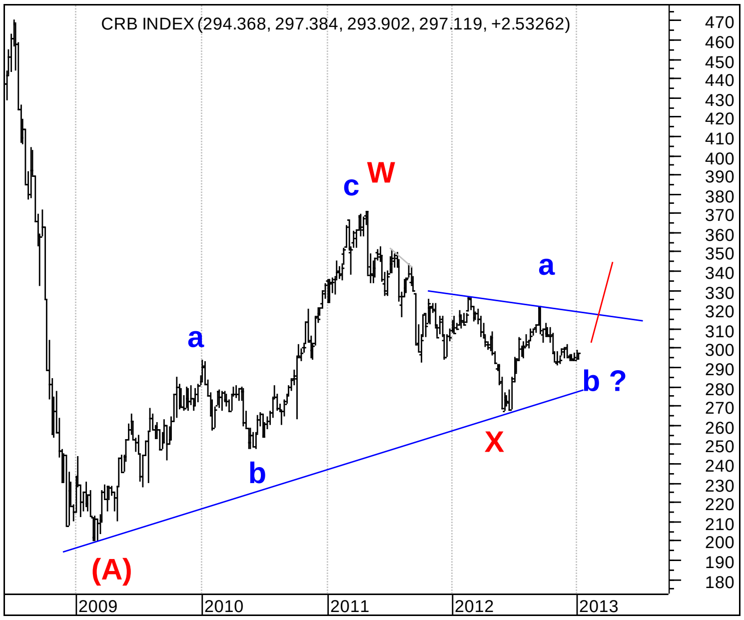
COMMODITIES

CRB INDEX – *ONE LEG HIGHER PENDING*



CRB index is the Commodity Index and gives hints to the overall direction of all Commodities. Wave structure suggests that prices could head higher from here in the form of wave c of Y.

This chart is in line with our bullish view on commodities overall for this year.

GOLD COMEX- *STRUCTURAL BULL MARKET INTACT*

Gold remains in a structural bull market. Though the returns in dollar terms have not been great for last 2-3 years, but the triangle formation in wave iv of 5 explains this sideways consolidation.

As long as 1520-1500 is intact prices should continue in the higher high& higher low formation and head towards 2000$.

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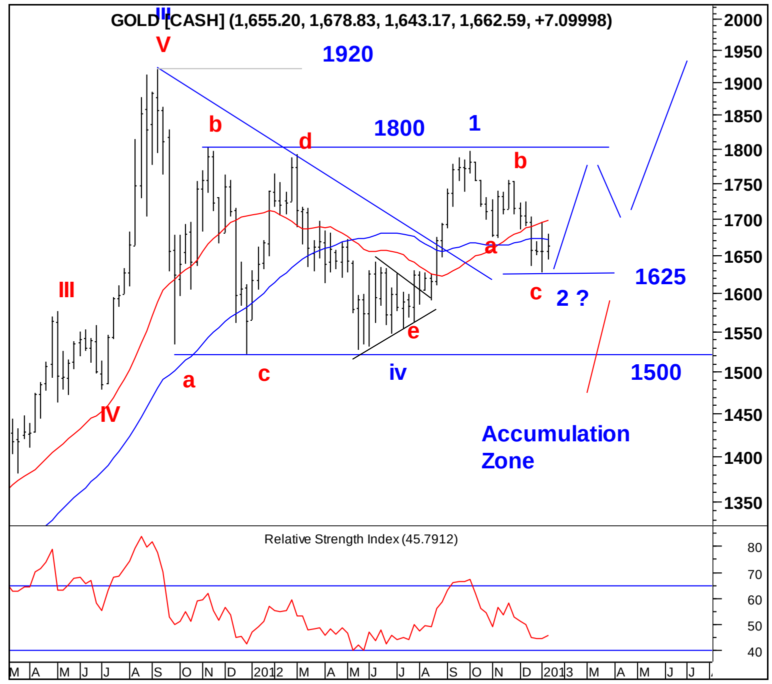
BULLIONS

GOLD & SILVER-*EXPECT TO SHINE THE MOST*

We believe current levels in Gold and Silver are most attractive levels to make long term buying bets.

Current levels from 1625$ till any dips till 1580-1550$ should be used to accumulate long positions as we expect a steep third wave rally to start which will take prices above 1800$.

GOLD WEEKLY CHART



SILVER WEEKLY CHART

Silver too has been forming a triangle type formation in the form of wave (4). Prices have retraced almost 61.8% in the form of wave ii now and are hovering near trend line support.

As long as 26.00$ is held we remains extremely bullish on Silver and any corrections should be used as buying opportunity. Prices should eventually break 35.50$ and head towards 45-50$ levels.

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MCX GOLD & SILVER

MCX GOLD – *CHARTS SHOWS SOME OTHER STORY*

Though COMEX Gold looks like a buy on dips structure, MCX Gold Chart shows an all together different story. Rupee Appreciation has helped here and we can see a double top formation along with the breach of a long term trend line.

Prices have already breach the neckline of 30350 signaling a 2000 points fall from here on towards 28000.

The different structure in MCX & COMEX for Gold makes us neutral for the year expecting a range bound scenario.

MCX SILVER – *CHARTS SHOWS SOME OTHER STORY*

Unlike Gold, MCX Silver usually does not get skewed from the COMEX chart because to rupee movement.

Wave count and structure broadly remains the same as COMEX and we expect the support zone of 55,000 should initially hold and any unexpected from even below these levels should find firm support at 48500. We expect this as the maximum downside for Silver and expect a rally towards 65000-70000 going ahead.

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ENERGY

CRUDE - *LOWER LEVELS WILL HOLD*

Crude could see an initial dip towards 80$ to complete wave X and then head higher towards a new intermediate high of 120$.

Overall structure remains quite bullish for Crude and we recommended buying at lower levels. In MCX 4600 followed by 4450 INR is a strong support zone which should hold for a rally towards 6000 INR.

NATURAL GAS - *LIMITED ROOM FOR UPSIDE*

NG has shown a good recovery last year but weather we have our doubts whether this uptrend will continue this year.

The entire correction has been corrective and over lapping in nature and we see very limited upside from here on. Stiff horizontal resistance is seen neat 3.80-4.00$ and as long as below this level expect a drift towards 3.00 followed by 2.5$.

In MCX levels of 195-200 INR should cap for a decline towards 150 INR.

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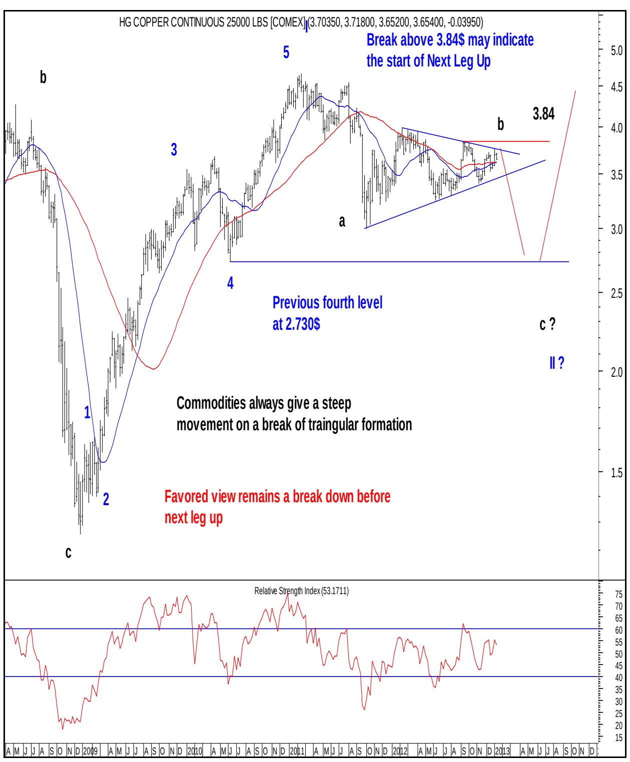
BASE METALS

COPPER – *TIGTHEN YOUR SEAT BEATLS FOR A STEEP SELL OFF*

Copper is near a crucial resistance of the triangle trend line and we expect sharp correction in Copper prices towards 3.00-2.80$ levels near the previous wave 4 in COMEX.

Time cycles also suggests a medium term top in prices. A break above 3.84$ is needed to negate this bearish view and suggest the start of next rally.

Initial support could be seen at the triangle trend line at 3.50$ and a break below this will trigger a sell off towards 2.80-2.70$.



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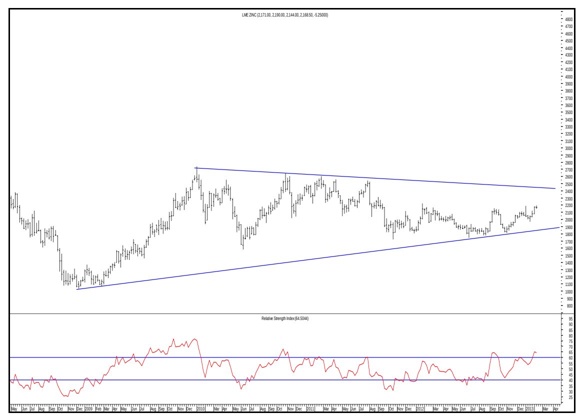
NICKEL

LEAD

ALUMINIUM

ZINC



Other base metals have been stuck in a range for last few years now. Every Metal has a series of resistances at higher levels and we feel all other base metals should follow suit with Copper. We see lower levels in Nickel up to 16500-16000$ in LME while zinc should head towards 1900-1850$.

LME Lead should drag itself towards 2150-2080$ and Aluminum should also fall in the range of 1950$.Broadly prices will remain in a sideways to negative bias and higher levels should be used for shorting.

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EQUITIES

Sensex has seen an above 20% return in the calendar year 2012 while there remained a pessimist outlook around in the economy. If we look at the past 4 years though and post the election gap in 2009 around 13500 levels the Index has really not given any exceptional returns as compared to a Bank FD.

We believe that this era of underperformance and a range bound activity is behind us now and we should continue to outperform in terms of absolutes returns as compared to other any returns in other asset class. Index has given a decent rally from 15500-19500 and a correction cannot be ruled out, but our sense is that the dynamics of this Markets have changed. It's a no going to spend time in a range, where you would want to short after a 10-15% rally and initiate fresh longs when it corrects a bit. Markets are going to remain in a buy on dips mode now.

If we try to forecast Sensex outlook for a year, we believe a correction if any, may not be able to see lower levels than 18000 and this could be a reasonable level for people to initiate longs who haven't participated in this year rally. As per wave count we feel prices have completed the wave (2) at the bottom of 15500 and not the previous bottom of 14500 made in Nov 2012. Post this rally we may be near in completing a five wave advance and may see some exhaustion in the range of 20000-20500.

If this wave count is right we may consolidate till the month of May in a corrective move till 18000 from where a fresh 3rd wave rally should start. This rally will then take us eventually towards a new all time high levels of 24000 by the year end.

Index wise we see outperformance in the sectors like Metals, IT and Energy. We have identified 11 stocks which according to us will be the shining stars of 2013 where we expect at least a conservative target of 25-30% up move. These stocks are in a structural uptrend and some for them may not have a good risk –reward at current market levels but any dips near the levels we have mentioned may fetch spectacular returns for this year.

For Nifty our target are 6560 followed by 7654 with the base level of 5400.

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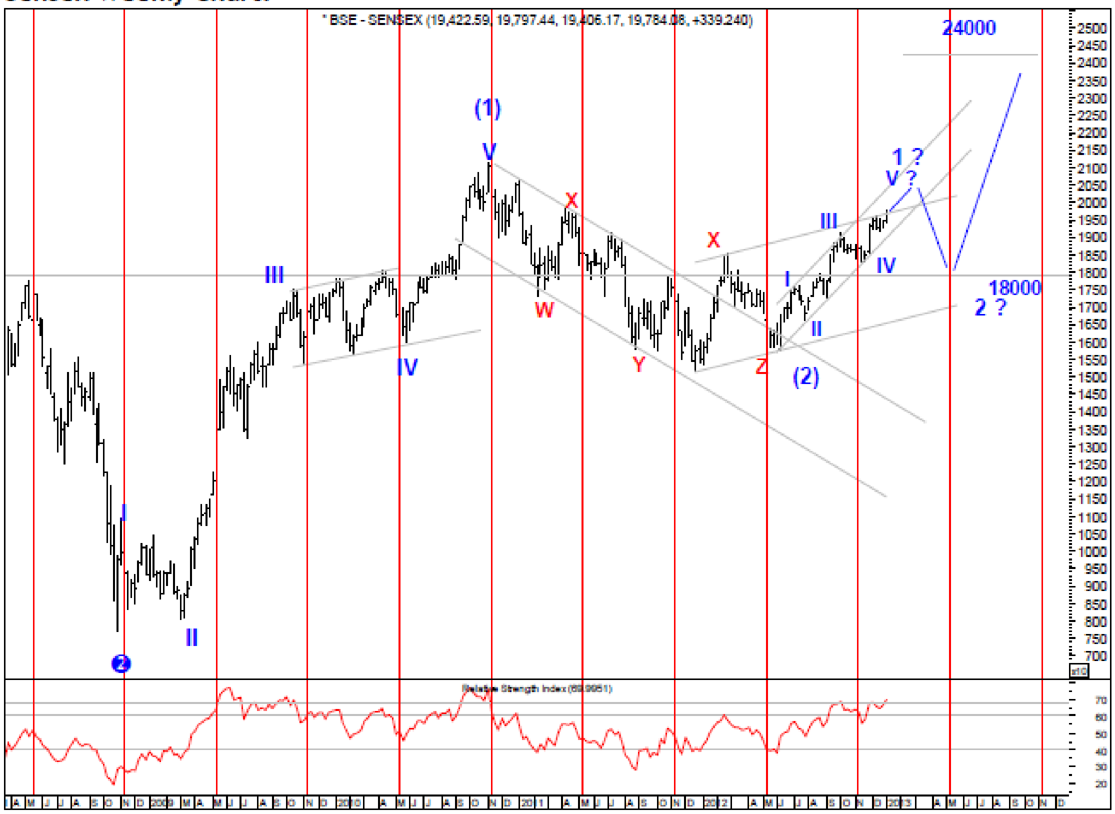
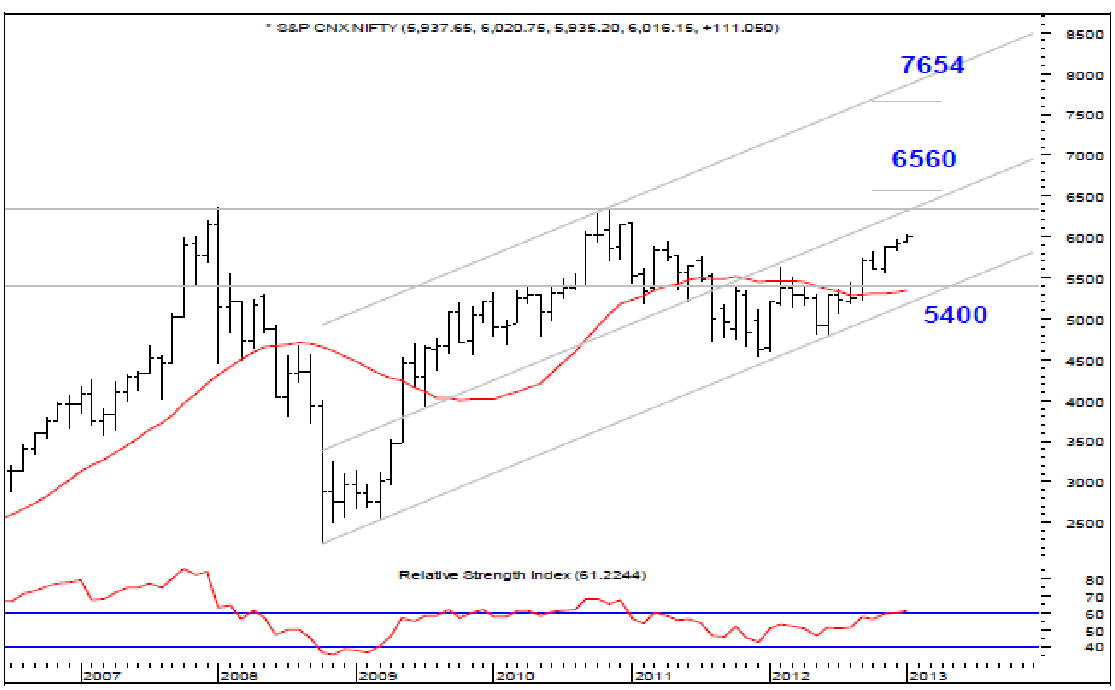
Sensex Weekly Chart:



Nifty Monthly Chart:



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DOW JONES- *ONE LAST LEG UP BEFORE THE NEXT BIG FALL*

Dow Jones Industrial Average Index continues to form a higher high and has been a gainer last year. Wave count suggests that prices are nearing a significant top and we could be in the last leg of the ending diagonal in the corrective wave C.

On the higher side 14,000 could be the levels where upside could be capped. 2008 highs are around 14200. This high should not be taken out for this wave count to be valid. Break of 1290 would suggest start of a larger decline.

We remain underweight on Dow for 2013.

FTSE- *SOME MORE STEAM LEFT*

FTSE chart looks a relatively better one than Dow Jones. Prices are currently trading at the 6100-6150 resistance zone. A breach of this may fetch higher levels of 6300-6500 where wave C could complete.

The rally is still a corrective one in nature and we expect a larger decline to start once wave C is over. Breach of 5800 on the downside may break the rising trend line from 2009 lows and signal a major downside then.

Favored view remains a rally around 6300 followed by a significant correction.

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