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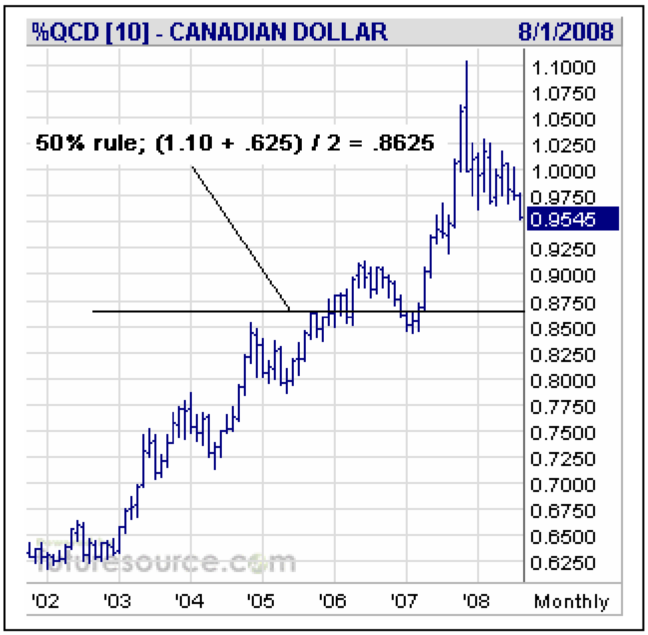
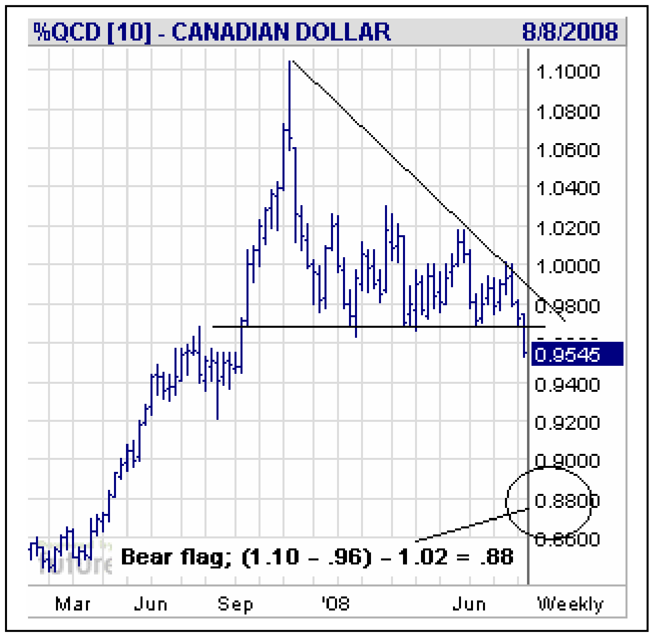
RI Trading Alert
Canadian Dollar

Background…

For readers of The Rational Investor's recent publications the notion of a falling commodities market (as we head into the 2008 US presidential elections) should come as no surprise. Junior Bush's ten-year has seen the US dollar index fall from near 120 to a recent low near 70. At the same time we have seen a three fold increase in many commodity prices. One result of the dramatic fall in the US dollar and rise in commodity prices; countries that are perceived to be commodity rich have seen dramatic rises in their currencies. The Canadian dollar, for example, has rallied from a low near $.625/US to a recent high near $1.10/US. While one should look for the longer term trend in higher commodity prices to continue into 2016-2017, a healthy correction of the recent dramatic move higher ought to be expected. Both a 50% retracement on the Monthly charts and a bearish flag pole formation on the Weekly charts suggest prices want to correct back into the mid eighties vs. the US dollar.





Trading Strategy…

Bear flag poles are hard to trade. Yes the breakdown is at .96 but one has to risk a rally back to parity before your stop is hit (or more than $4,000 US on the CME's futures contract). As well, the daily charts are filled with gaps suggesting there may be a counter trend rally at some point in the not too distant future. For a less risky approach, look to try and buy the March 2009 0.90 Put Option at or below $1.00. If you are filled and the market moves to the suggested target, the options should have an intrinsic value twice what it was bought for. If the target isn't hit the maximum risk on the trade is the purchase price of the option.….