

Review

Our Canadian Dollar (CAD) report dated 17 Dec. 2001 urged buying the CAD into the .6290 - .6260 area with 1.0980 the long term target. From what our clients told me, at the time I was the only analyst bullish on the CAD. The CAD peaked at 1.1043 on 07 Nov 2007. It is once again within striking distance of 1.0980

Top Ten Main Points

1. The first point to note is the extreme precision with which a long term wave count of the CAD was able to predict well in advance both the lows of 2002 and the highs of 2007. Pages 2 and 3
2. Elliott wave analysis also enabled us to nail the ensuing lows. In fact the actual low at .7653 was, as reported at the time, only 25 ticks from the exact midpoint of our targeted support zone. Page 4
3. In this business however there is no resting on laurels. What can Elliott wave analysis do for us today? The page 5 chart identifies 1.0580 - 1.0710 as pivotal resistance - and just below the key 1.0980
4. The page 5 chart also makes clear the downside risk if today's recovery cannot find traction and persist. If the CAD the rally from here it will look like another successful test of the up trend support line.
5. However since the CAD spent the past few weeks just sitting on key support we do not think it is yet safe to assume further new highs. Peg 1.0485 - 1.0515 key near term resistance. See page 6
6. What is the most bullish case for the CAD. What if it breaks above 1.0580, and also above 1.0710, and then also above the 1.0980 level? This is a longer term consideration for a future report.
7. Considerations like this include commodities. The CAD is traded as a resource currency So the fate of the Loonie is deeply linked to the fate of the commodity sector. See pages 7 to 9.
8. This is not a connection where the CAD and the Commodity Sector are largely independent but sometimes align. Compare the monthly, weekly and daily charts. The CAD and Commodities are deeply linked.
9. The last important question to ask is whether the recent 1.0578 high was a bullish enough sentiment extreme to mark a major top. See page 14.
10. The history suggests that 79% bulls is certainly high enough to be a multi-month peak. The only possible minor snag for the bears is the lack of bearish RSI and sentiment divergence at the 1.0578 high.

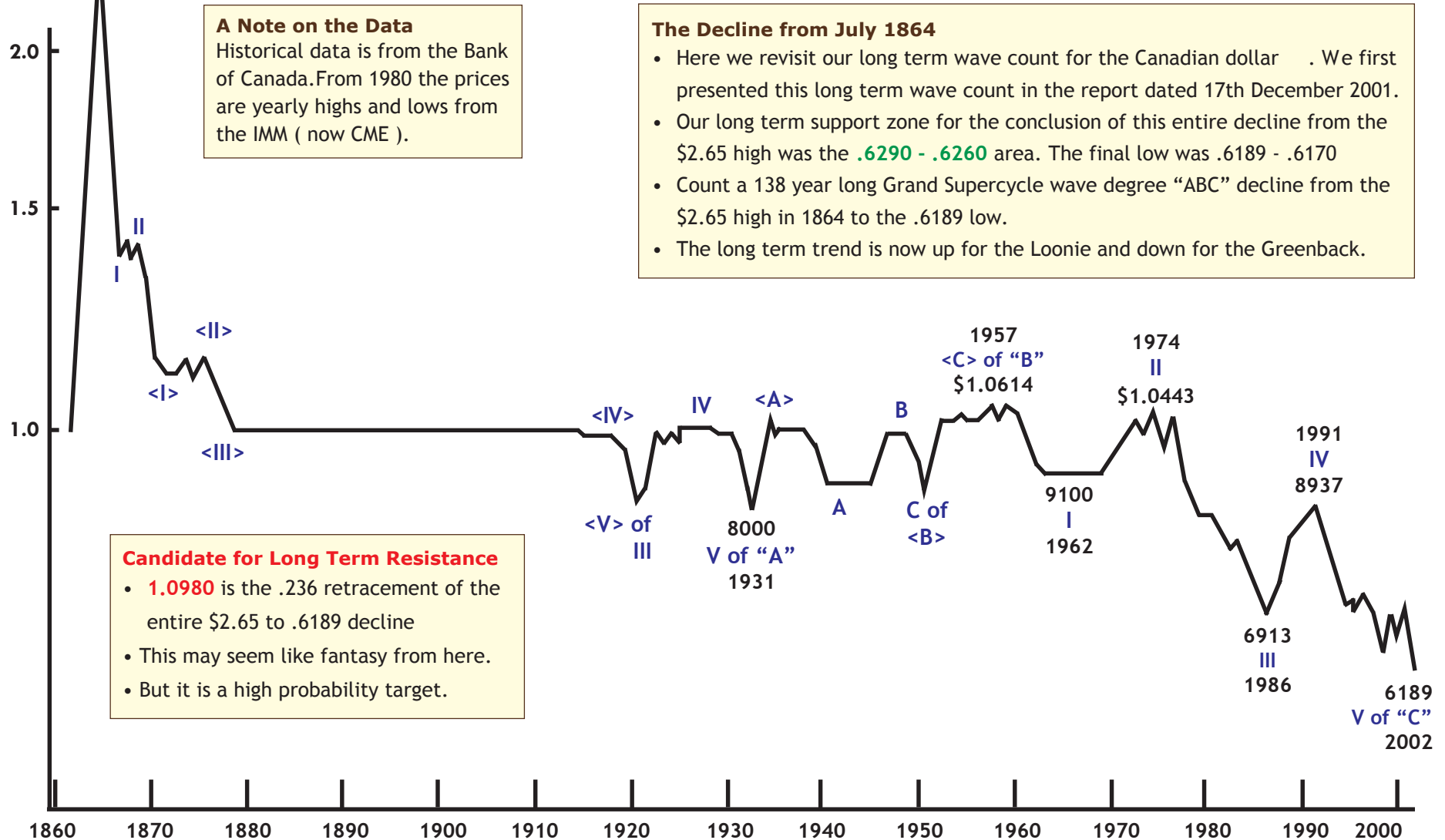
Impulsive	Wave Degree	Corrective
"I" "II"	Grand Supercycle	"A" "B"
I II	Supercycle	A B
<I> <II>	Cycle	<A>
-I- -II-	Primary	-A- -B-
(I) (II)	Intermediate	(A) (B)
"1" "2"	Minor	"a" "b"
1 2	Minute	a b
-1- -2-	Minuette	-a- -b-
(1) (2)	Sub-minuette	(a) (b)
[1] [2]	Micro	[a] [b]

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Can \$1 = US \$2.65
1864

Canadian Dollar in US Dollars, 1858 to 2002, annual average*, logarithmic scale

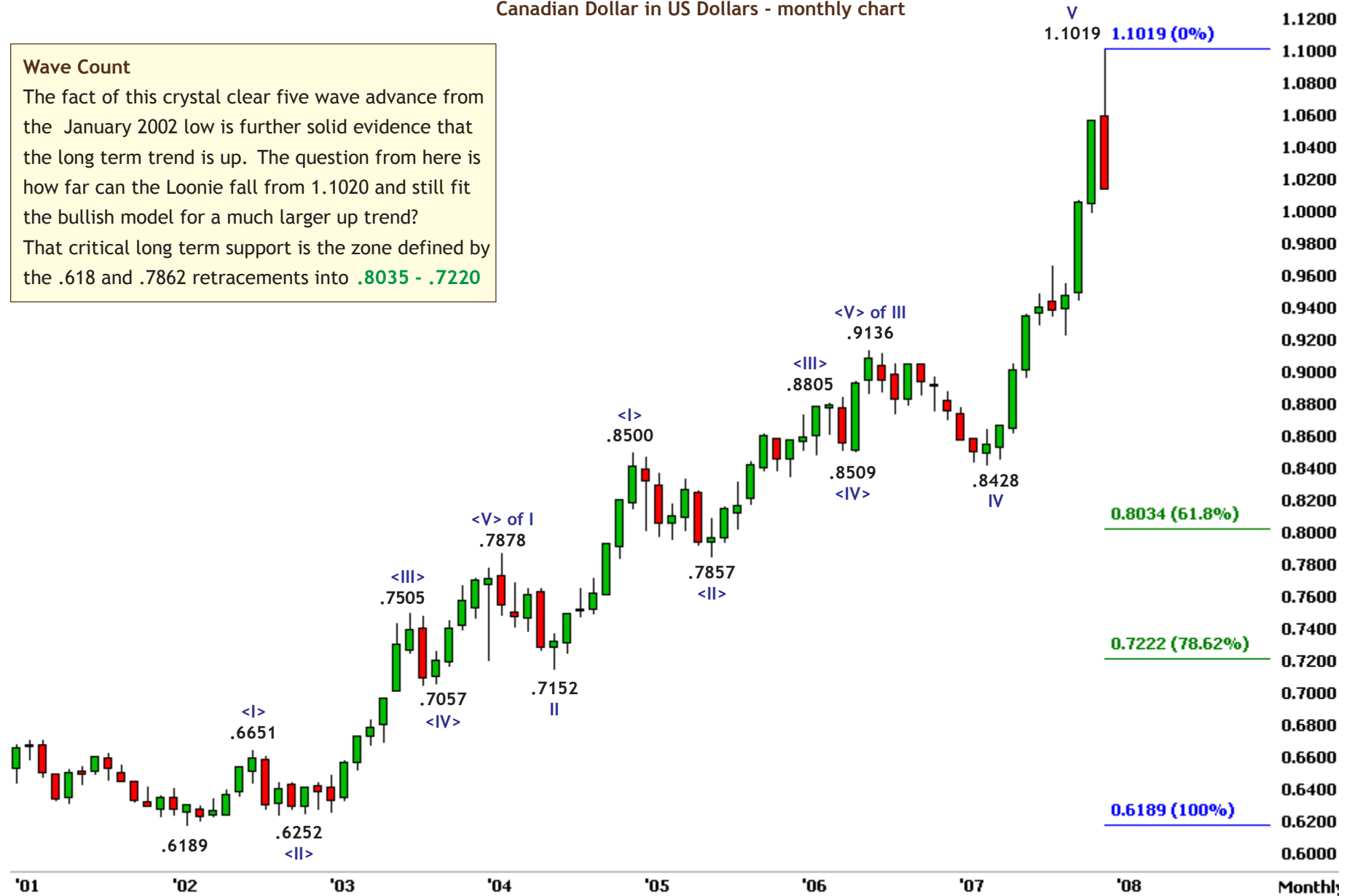


Canadian Dollar in US Dollars - monthly chart

Wave Count

The fact of this crystal clear five wave advance from the January 2002 low is further solid evidence that the long term trend is up. The question from here is how far can the Loonie fall from 1.1020 and still fit the bullish model for a much larger up trend?

That critical long term support is the zone defined by the .618 and .7862 retracements into **.8035 - .7220**



Canadian Dollar in US Dollars - monthly chart

Bearish Wave Count
 In the bearish wave count shown here the 1.1043 to .7653 decline was only the initial A wave down of the continuing ABC "B" wave correction of the .6170 to 1.1043 advance. This bearish case hinges on the key **1.0540** resistance holding. The minimum downside target is the **.8485** level. Peg long term support for the most bearish case to the **.7210 - .7190** zone.



The Double Dip Case
 A CAD retreat to the **.7210 - .7190** zone - or even just to the **.8485** level - this is presumably the case for a double dip. The stock market breaks lower, pulls the commodity markets down with it, and the CAD sinks with commodities.



Rising Wedge - shape shifter
 A rising wedge can alter its shape many times before it breaks down. And rising wedges have been known to occasionally morph into bullish up trend channels. So they can be challenging patterns to trade. In fact you are only certain it was a rising wedge once there is a decisive and sustained break down through the support line.

rising wedge
 resistance line
 from .9798 Oct 09

rising wedge
 support line
 from .7653 Mar 09

Rising Wedge ?
 Sustained break down through the support line? Not yet.

Canadian Dollar in US Dollars - daily chart



1.0620
 1.0600
 1.0580
 1.0560
 1.0540
 1.0520
 1.0500
 1.0480
 1.0460
 1.0440
 1.0420
 1.0400
 1.0380
 1.0360
 1.0340
 1.0320
 1.0300
 1.0280
 1.0260
 1.0240
 1.0220
 1.0200
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 1.0160
 1.0140
 1.0120
 1.0100
 1.0080
 1.0060
 1.0040
 1.0020
 1.0000

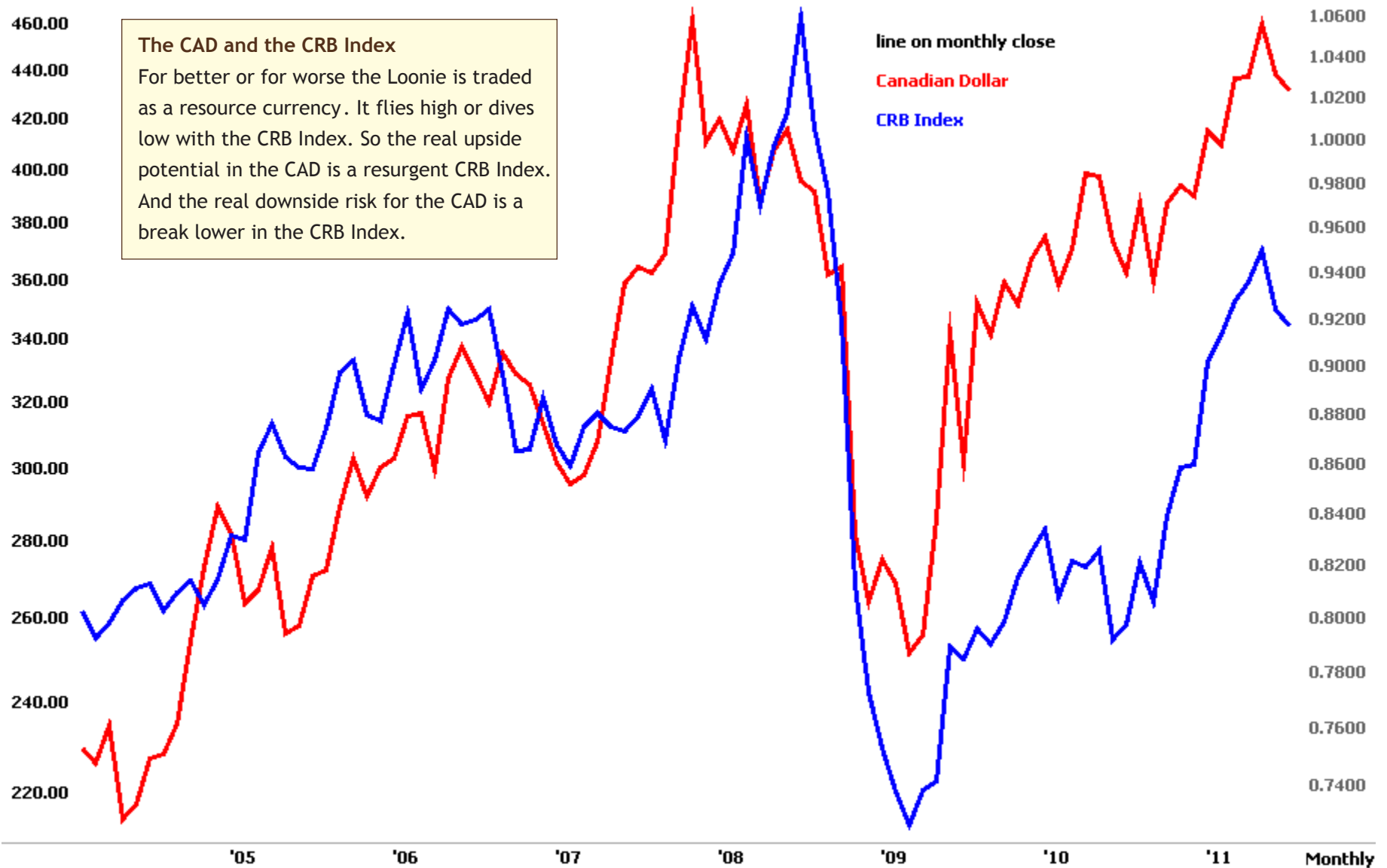
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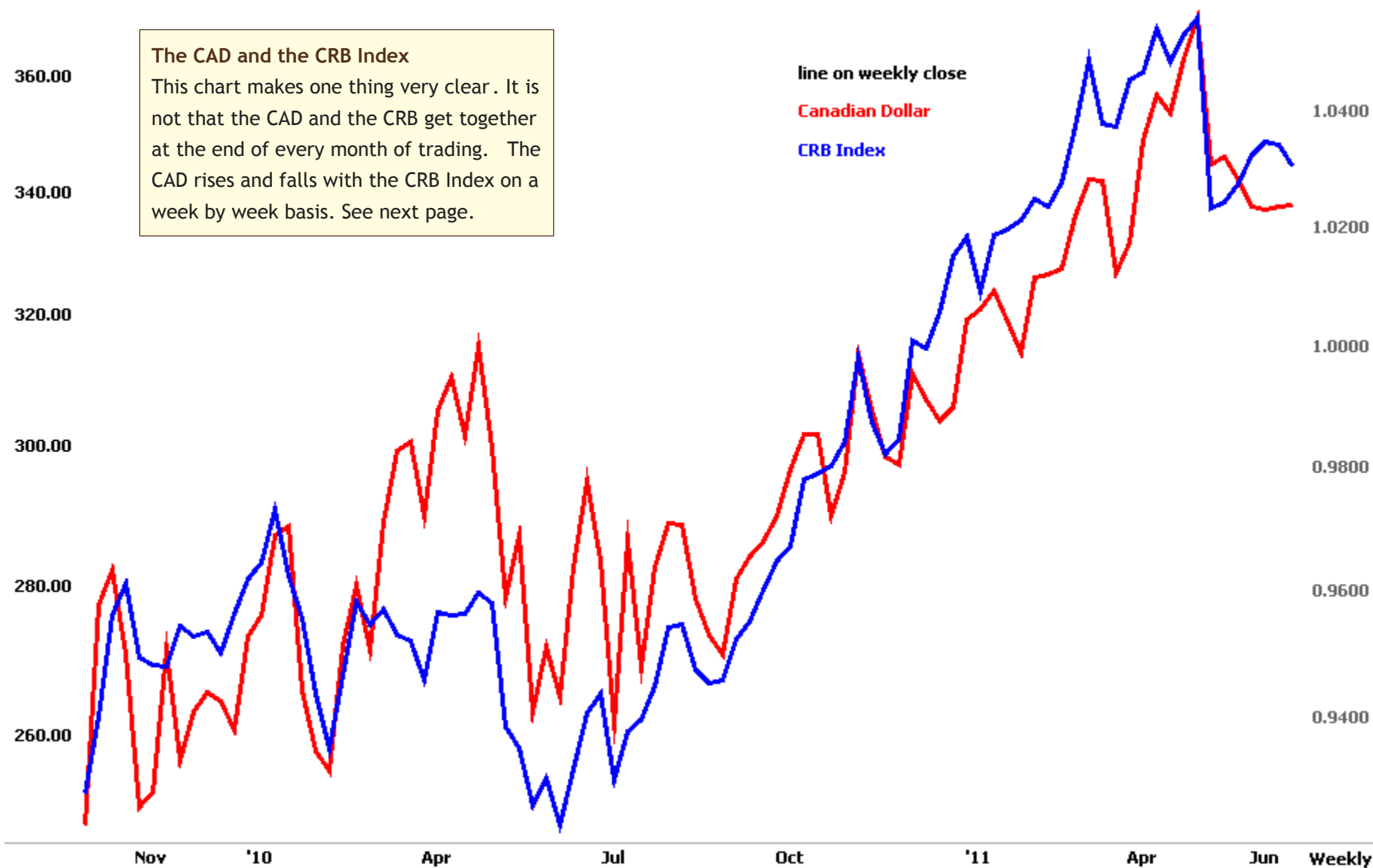
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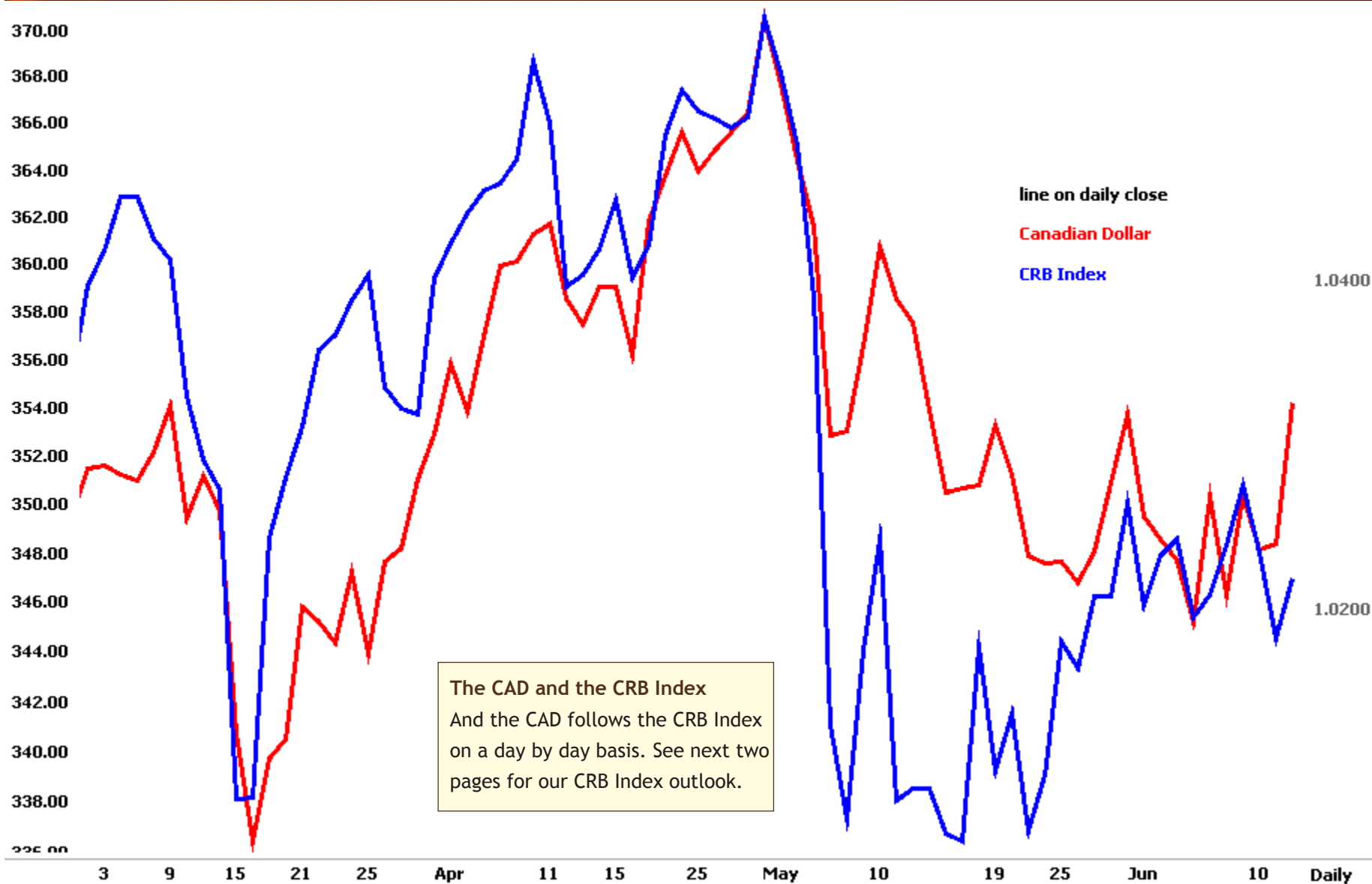
Canadian Dollar
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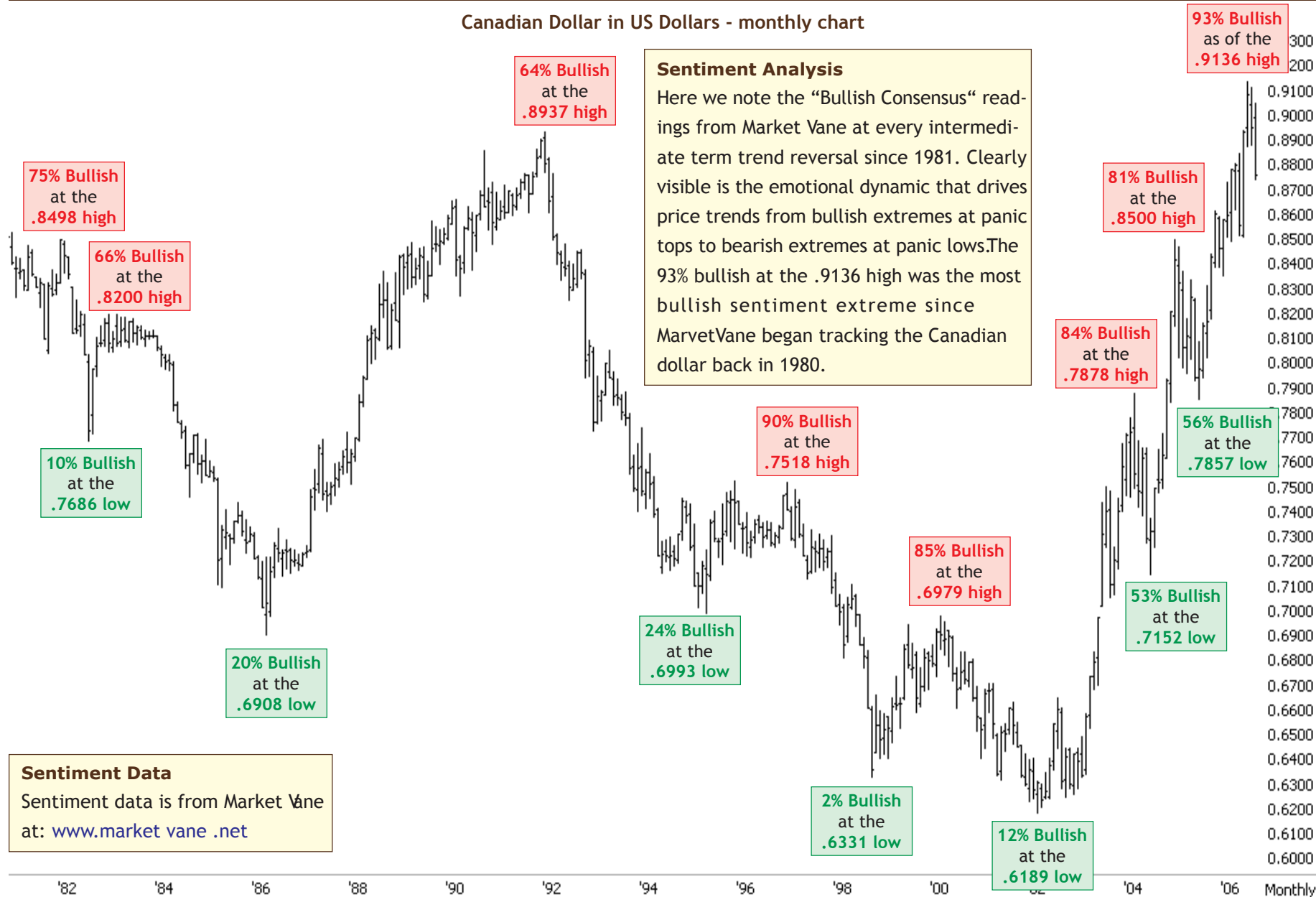


The CAD and the CRB Index
This chart makes one thing very clear. It is not that the CAD and the CRB get together at the end of every month of trading. The CAD rises and falls with the CRB Index on a week by week basis. See next page.





Canadian Dollar in US Dollars - monthly chart



United-ICAP - Canadian Dollar - 05 Sep 07

Canadian Dollar in US Dollars - spot fx - monthly chart

Sentiment Analysis - Update
 Note from this chart and the chart on the previous page that the 95% bullish that accompanied the 1.1019 high into 7th Nov 07 was a new all time high bullish sentiment extreme. A new all time high. We repeat for emphasis. No wonder the dump from there has been so dramatic and unrelenting. Every was caught long. Well, almost everyone. See the 15 Nov 07 reprint on the next page.



Sentiment Data
 Sentiment data is from Market Vane at: www.marketvane.net



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Canadian Dollar
15 Nov 07

With the CAD at 1.1043

At the start of every year we give a year ahead outlook in Calgary to our Canadian clients. In our year ahead outlook back in February of 2002 we detailed our wave count based contention that the Canadian dollar had just completed a 138 year bull market correction against the US Dollar and had just begun a long term up trend that would carry the Loonie to above parity with the Greenback. We find Canadians to be much more polite than Americans. So no one in that audience told me that I was nuts but I did get many comments that I was the only one that was bullish - all other banks and analysts were still very bearish on the Loonie.

The complete opposite case now exists. By late January 2002 there was a compelling technical case for a completed ABC decline from the 2.6500 high back at the year 1864 peak. Into the bottoming action of late 2001 to early 2002 the sentiment in the Canadian dollar fell to a new all time bearish sentiment extreme. From last weeks 1.1019 high the wave count presents a compelling case for a major top. And at that 1.1019 high the Market Vane "Bullish Consensus" for the Canadian dollar reached a new all time high bullish sentiment extreme. So in terms of both Elliott wave analysis and sentiment analysis the 1.1019 high is very much the mirror image opposite of the .6189 low.

Long term down trends only end once all have become bearish and gone short. The selling power is thereby exhausted and the market is then poised for a sustainable recovery. Long term up trends only end once everyone has become bullish and gone long. The buying power is thereby exhausted and the market is then poised for a sustained decline.

In the case of the Canadian Dollar cited at left we can see very clearly the critical role sentiment extremes play at major trend reversals. This is an excellent point to note that the system of fundamental analysis takes no account of market sentiment. Who were those 88 percent bearish (the inverse of the 12% bullish) that were caught short into mid-January 2002 at the .6189 low? They were the fundamental traders. And who were the 95 percent caught bullish and long at the 1.1019 high? It was very likely those same fundamental traders that were caught short at the lows six years earlier.

All this does not mean that we are now long term bullish on the Greenback and long term bearish on the Canadian dollar. However if a major leg up in the Loonie has just finished then a major bull market correction in the Loonie has just begun. And then further implies the .618 replacement of the entire advance in the Loonie from 2002 to 2007 - a return to .8035

Canadian Dollar in US Dollars - weekly chart



Canadian Dollar in US Dollars - weekly chart

