

Fibonacci in the News - 15 June 2010

In our tutorial "Fibonacci Aspects of Consensus" we explored the ubiquity of the .618 ratio in human scale affairs with a focus on polling results. We introduced the .618 ratio as an inherent quality of numbers themselves. From there we cite the .618 structure of DNA, the .618 ratio in the overall dimensions of the human being, the .618 ratio and the major systems of human physiology, the .618 ratio and the structure of musical scales, the significance of .618 structures in the process of price discovery in free markets, and finally the significance of the dominant role that the .618 - .382 structure plays in polling results. To prevent that tutorial from expanding into a full sized book we were forced to omit the role that the .618 ratio plays in fields as disparate as plant physiology and gravity-wave induced galactic scale structures.

More recently the .618 ratio has made dramatic appearances at key turning points in virtually all the major markets. And on Monday 14th June a news story came out that compels us to refresh the role and importance of the .618 ratio in human scale affairs.

To place Monday's news story in its proper context we begin this report by reviewing the appearance of the .618 ratio in recent key reversals. Working from the proverb 'one picture is worth a thousand words, we use price charts. On the basis of that foundation we introduce the content and potential significance of Monday's news story. The listing at right is a guide to the price charts that follow.

The Charts

Page 2: The S&P 500 Index - the .618 is pivotal resistance

Page 3: Ten Year Treasury Interest Rates - the .618 is resistance

Page 4: The US Dollar (DX Index) - the .382 is pivotal resistance

Page 5: RBOB - the .618 is key resistance

Page 6: Petrobras - the .618 is pivotal resistance and key support

Page 7: BP - the .618 was key resistance

Page 8: Walmart - the .618 is pivotal resistance and key support

Page 9: Boeing - the .618 is key resistance

Page 10: Kraft - the .618 is key resistance

Caveat

We selected markets that reacted to their .618 ratios. If it was difficult to find such markets then we could be accused of cherry picking. The reality is that it was difficult to narrow the list down to a few key markets. The point is not to prove that all markets obey the .618 ratio. The point is that the .618 marks a disproportionate share of major reversals.

The Monday 14th June News - See page 11.

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OBSERVATIONS

S&P 500 Index - weekly - log scale

United-ICAP

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OBSERVATIONS

Ten Year Treasury Rates - weekly - log scale

United-ICAP

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OBSERVATIONS

US Dollar (DX) - monthly - log scale

United-ICAP

walterz@united-icap.com



OBSERVATIONS

United-ICAP

RBOB - weekly - log scale

walterz@united-icap.com



OBSERVATIONS

Petrobras - weekly - log scale

United-ICAP

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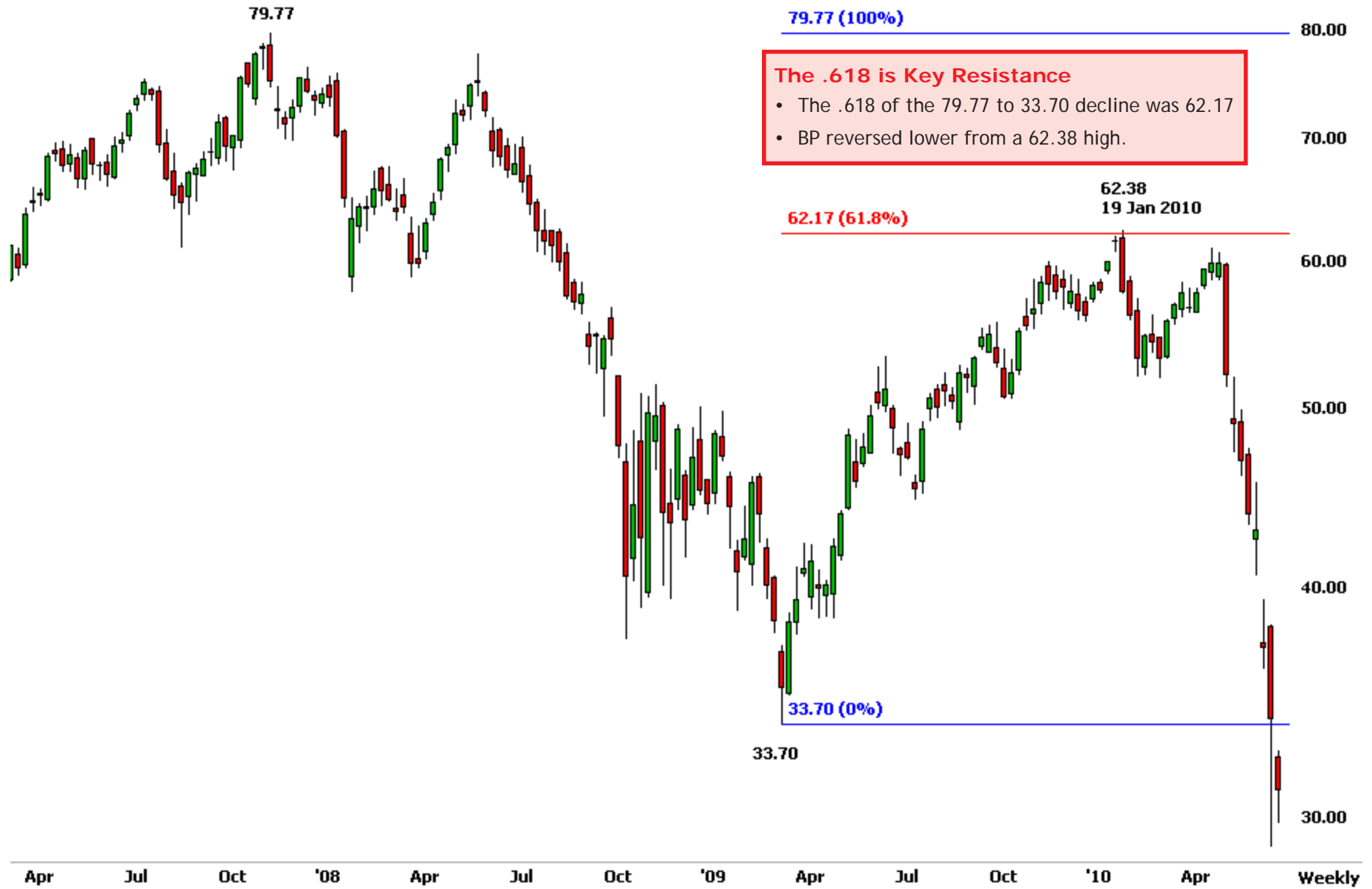


OBSERVATIONS

United-ICAP

BP - weekly - log scale

walterz@united-icap.com



OBSERVATIONS

Walmart - weekly - log scale

United-ICAP

walterz@united-icap.com



The .618 is Key Resistance

- The .618 of the 63.85 to 46.25 decline was 57.13
- Walmart reversed lower from a 56.27 high.

The .618 is Key Support

- The .618 of the 46.25 to 56.27 rally was 50.08
- Walmart held a 50.00 low.

OBSERVATIONS

Boeing - weekly - log scale

United-ICAP

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OBSERVATIONS

United-ICAP

Kraft - weekly - log scale

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OBSERVATIONS

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The Monday 14th June News

From a detailed report by the Bank for International Settlements (BIS) and quoting from a 14th June article in the Wall Street Journal entitled: 'Data Shows Big Exposure for Banks in Euro Zone'

THE WALL STREET JOURNAL

By [NATASHA BRERETON](#)

LONDON—**French and German banks continued to hold the greatest exposure** to euro-zone countries facing market pressures at the end of last year, **underscoring their interest in restoring investor confidence** in the region.

Data released Sunday by the Bank for International Settlements showed that banks based in the 16 countries that use the euro accounted for \$1.58 trillion, or **62%**, of all internationally active banks' exposures to residents **of Greece, Ireland, Portugal and Spain**.

That included \$727 billion of exposure to Spain, \$402 billion to Ireland, \$244 billion to Portugal and \$206 billion to Greece, with about half of the Greek exposure held by France.

By far, **France and Germany held** the greatest exposure to the group, **collectively** carrying **61% of the total euro-area burden**: \$493 billion and \$465 billion, respectively."

Note: the bold red highlights are ours.

Significance

The first point to note is the first phrase highlighted in red.

"French and German banks continued to hold the greatest exposure ... underscoring their interest in restoring investor confidence..."

We are not going get the truth of the problem from Euro zone banks. We are going to hear bankers talking their position, trying to soothe the markets, attempted to allay concerns. What we are going to hear from there banks is a concerted attempt to minimize the problems.

The second point to note is the frequency with which the .618 ratios marks key support and resistance points. For the sake of shareholders in Euro-zone banks one would hope that those banks do not gather more than 62% of the loans from Greece, Ireland, Portugal, and Spain. And yet the Euro zone bailout fund is designed to do just that. So instead of the 62% acting as a resistance point to accumulating further risks, the risk is that the .618 level could act as an accelerant, dramatically increasing exposure to loans that can never be repaid.

The third point is that while Euro-zone banks hold 62% of all Euro-based financial risks, the banks of France and Germany carry 61% of that risk. This is evidently just in case we missed the first .618 ratio.

Our conclusion is that, given the significance of the .618 ratio as a gate keeper of trend reversals, the Euro zone, Euro zone banks, and the Euro-fx are at a crossroads. A recovery from here would mark the retreat from a precipice. A worsening of the situation could spell disaster.