

Trading Journal

Hypothetical #001

AUD/USD

Interest Rate Hike 3rd May 2006

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Note: The BEST way to read this document is by choosing View → Full Screen or by simply pressing CTRL+L



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INTRODUCTION

A hypothetical trading case study trading the AUD/USD currency pair on an interest rate move by the Reserve Bank of Australia (RBA).

Purpose – Why?

The purpose of this case study is to examine how the Australian dollar reacts to an interest rate announcement. The secondary purpose is to examine and monitor my personal emotions during the hypothetical test.

Setup

An economic announcement: Australian Interest Rates

Conclusions

- If you have a view (either bearish or bullish), put some money in play and set your stops. (To avoid the feeling of missing out)
- Analyse your position/view in the quiet time (before the storm).

A condition that voids the above conclusion point:

- If you are ExCiTeD, nervous or just not confident with your analysis, stay out of the trade.

HYPOTHETICAL TRADE COMMENTARY

The story so far...

When you trade forex, you must ensure you have access to an economic calendar that gives you the date and possibly the time for important economic data releases.

I was expecting the Reserve Bank of Australia (RBA) to announce the outcome of their policy meeting at 0930 hours on Wednesday 3rd May 2006. The RBA board had met the previous day to vote on the decision.

The AUD/USD currency pair was trading around 0.7580 to 0.7610 leading up to the announcement.

Commentary from the financial press was mixed. Some were betting interest rates to stay where they were, others were betting on a higher cash rate. What I did find was a news report quoting a few brokers view and what they expect the dollar reaction to be.

One broker thought the interest rate was to stay at 5.50 per cent and said that the dollar would fall to back to 0.7500.

Another broker thought the rate would be bumped up by 25 basis points said the AUD/USD would bump up to 0.7650 on announcement of a rate rise.

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1 yr chart. It is clear that the AUD/USD was trading on a downtrend channel for about a year until the breakout from the trend just a week before this screenshot was taken.

I have also drawn in historic support lines. It is important to note that previous support and resistance prices play a large part in future support and resistance.

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1 month: I like to keep my technical analysis simple. Anything too complicated simply confuses my ability to make a confident decision.

This is a close up of the previous chart. Notice that the AUD/USD is following an uptrend trading channel. Notice how the dollar recently tested the upper resistance of the trading channel on May 1, and bouncing off that resistance. ** Could be of use in future trades?

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2 days, 30 min chart. Examining currency price moves based on forex market time open.

Notice how most of the bullish movement leading up to the interest rate announcement was made after the New York market opened and during the overlap in open times with the London Markets. (NY and London overlaps 4 hours) Note the bearish movement when the Sydney market opened.

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1 day, 1 minute chart: The support trendline drawn here is not the same as the previous trendline on the 1 month chart.

This screenshot was taken a minute before the announcement at 0929 hours.

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A close up of the previous chart. Shows the volatility experienced by the dollar just seconds before open.

When that price started to jump around – I was getting excited, even when I didn't have any money on the trade. The strategy here I think is to not aim to pick bottoms and tops. Simply have a view, enter the trade, set your stops and walk away. Come back after the excitement has died down and exit at your target price. (** Important**)

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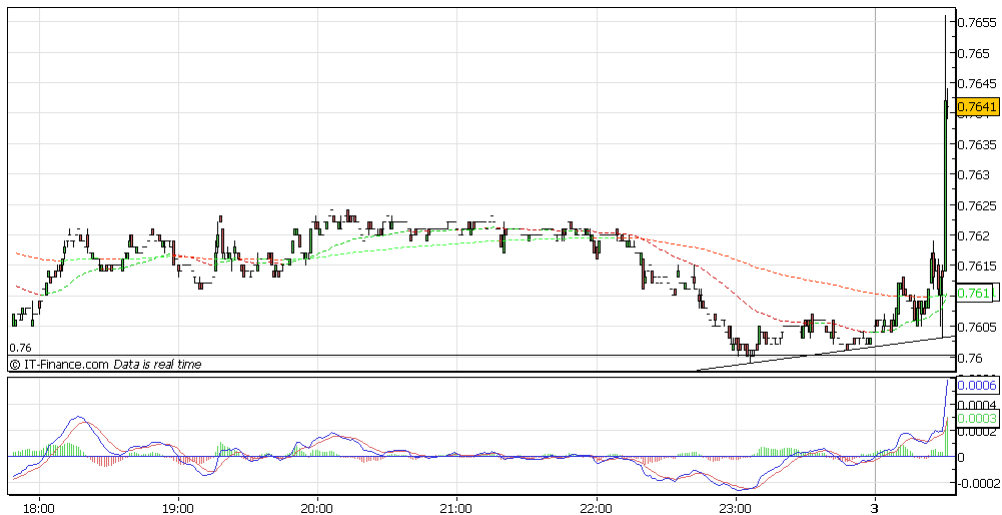
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1 minute chart: I was amazed... when the clock ticked at exactly 0930 hours and 1 second the price of the dollar skyrocketed to 0.7650, then edged up to 0.7665 in the following few seconds.

For about 3-5 minutes the price of Aussie dollar against the US dollar was very volatile.

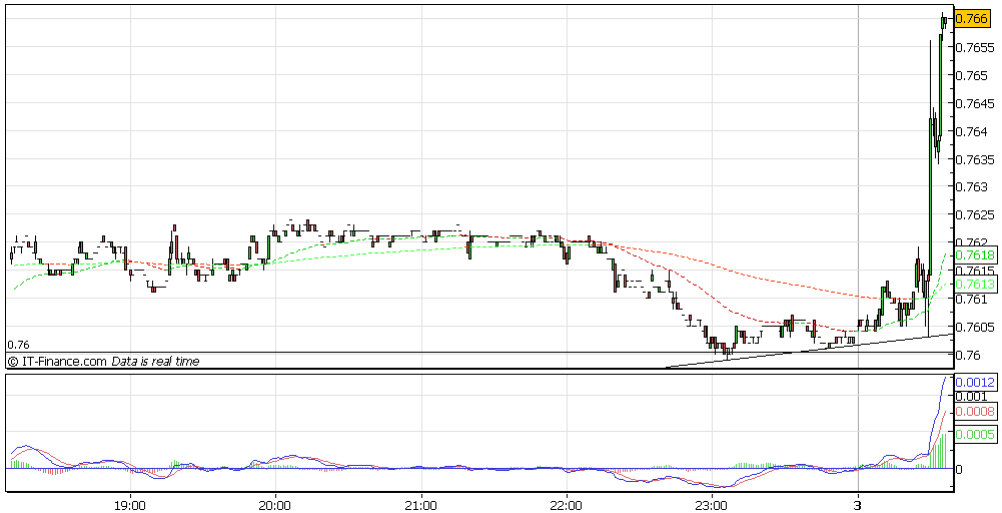
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It was interesting to note that the broker's tip that forecasted the dollar to hit around 0.7650 on an announcement of a rate rise was correct. Although his forecast was a little conservative given that 2 days later the Aussie dollar hit highs of 77 cents – breaking through the uptrend trading channel resistance line.

Note the price of the broker's forecast on the chart, while his forecast was conservative, notice that his price tip was still within the uptrend trading channel.

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Just another view of the the ensuing minutes after the rate rise.

Notice that after the first minute, the dollar took a rest for about 3 minutes then continued the strong bullish uptrend.

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Just another screenshot taken a few more minutes after the previous trading screen. Even though I had no money in the trade, just watching this hypothetical trade eventuate in real time, got me too excited to think analytically or even clearly. The important lesson to learn here is, make your decisions when it's quiet (right before the storm) and set your stops.