LE COIN TECHNIQUE

EURO-CHF may be ready for a big Up move

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After reviewing the US Dollar Index downtrend a month ago, we would now like to focus on a very small FX market, which is quite important for Switzerland: namely the parity of its currency versus the Euro, called Euro-CHF. The monthly chart below highlights this parity over the past 8 years, its upper panel shows the monthly closing line of the Euro versus the $US Is there a correlation between the Euro-CHF and the Euro-$US? Yes, the Euro-CHF tends to go down, when the Euro is declining versus the $US. In other words, investors tend to buy Swiss Francs, when they feel the Euro is weakening versus the $US. Since currencies reflect the relative economic strength between two areas *(as perceived by financial markets)*, the recent appreciation of the Euro versus the $US could hint that Europe should outperform the U.S. A rising parity of Euro vs. CHF could signal that Switzerland might underperform Europe *(economically)*. For the Swiss export industry, this is good news. The chart clearly displays the gap from 1.20 to 1.11 on Jan. 15, 2015, when the Swiss National Bank stopped buying Euros to hold the 1.20 floor. That event created a big widening of the monthly Bollinger Bands just after the Euro-CHF had been stalling below the lower cloud line of the Ichimoku *(in red on the chart)* during the last quarter of 2014. At the same time, the Euro-$US had been moving from 1.35 to 1.15.

From the first quarter of 2015 to the first quarter 2017, the Euro-$US moved sideways while the Euro-CHF developed a contracting triangle, which is about to be broken as the parity climbs above 1.1100. This level is quite significant as the monthly Bollinger Bands had time to narrow to the point that its upper Band is near 1.1140, which is also the lower line of the Ichimoku cloud. Contrary to December 2014 when the Ichimoku cloud was very wide *(1.25-1.41)* and represented a very strong resistance area, the present cloud is much narrower *(1.1140-1.1300)* and should be a much weaker resistance to overcome. Furthermore, if we take the base of the triangle built between 2015 and 2017 and report that base on the breakout point of 1.1100, we get a theoretical target of 1.34, which is near the previous main horizontal resistance area of 1.3100. This might sound quite unbelievable at the moment, but for a Technical Analyst it is not impossible at all: indeed, the Euro-$US has been rising recently and Euro-CHF could keep its correlation with it and may well rise above 1.1300 in a near future. And there is plenty of rising momentum, such as the crossing of the MACD, which still has room on the upside before crossing above the zero line and moving into positive territory. This is a small FX market, but a big move is possibly in the making!

Graph:

EURO-CHF monthly candlestick with Moving Averages 40 months and 20 months, and with Bollinger Bands. The Ichimoku Cloud lines are mapped in red. The black dashed line on the upper panel is representing the Euro $. On the lower panel are located the monthly MACD and RSI, both pointing up. Source: Stockcharts.com

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