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LE COIN TECHNIQUE

A Very Long-Term Chart of the US Dollar Index Looking Bullish

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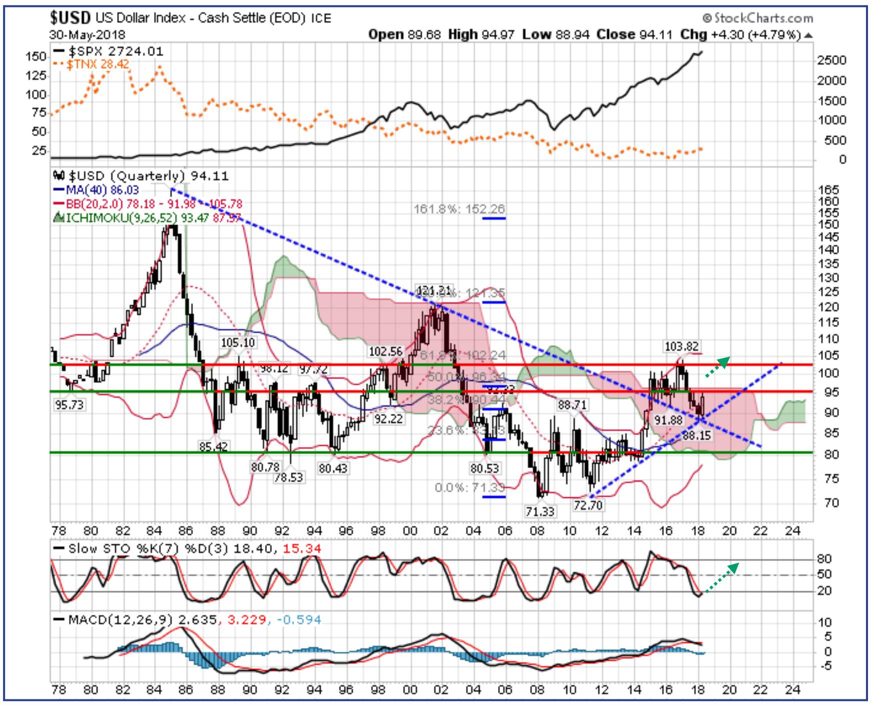
On June 30, 2017, the US Dollar Index was 95.42 and we thought that it could decline toward the 92 area. In fact, it reached 88.15 in February 2018 and since mid-April has reversed up, producing a bullish quarterly reversal, assuming the US Dollar Index remains above 90.50 on June 30, 2018.

This quarterly reversal took place right at the intersection of two trendlines on the logarithmic scale chart below. First, the declining resistance trendline joining the high from 1985 at 164.72 *(yes, near the start of my career in Technical Analysis)* and the high in 2001 of 121.21 was broken in 2015 near the 95 area by the US Dollar Index rising to 103.82 in January 2017. As it declined from there to 88.15 in January 2018, the US Dollar Index rebounded not only on the former broken descending trendline, acting now as support, but also on another rising trendline joining the low of 72.70 in 2011 and the next major higher low in June 2014 near 79.00. A major low occurring at the intersection of two major trendlines is surely a significant technical analysis signal that the uptrend of the dollar which started around 2011 could resume challenging the last high at 103.82. In addition, the momentum on the lower panel displays on the quarterly Stochastic a crossing up signaling a long-term buy signal, reinforced by the still positive quarterly MACD, which had been stalling over the last 12 months.

On the price chart, it can be seen that the Ichimoku Cloud had played the role of resistance in 2001 near 121, but was easily broken in 2015 near 96. Thus, its presence again at 96 at the end of this quarter may not cap the rise of the dollar. On the contrary, once above 96, the bullish technical picture will be increased as the former resistance will then become the support and should open a rise toward the 2017 high. Technical analysts will then monitor the rising support trendline from 2011 near 88-89 during the second half of 2018 as confirmation that the uptrend of the dollar remains viable.

Looking at the upper panel over the last 30 years, the relationship between the dollar direction and the trend of the US 10-year yield is not so obvious at all. In other words, the correlation is far from stable and the rising US yield cannot be seen as a sure cause of a rising US Dollar Index. Even if a rising dollar is impeding the US export industry, the precedent phases of the rising Dollar Index have not impeded the US equity market too much, as represented by the S&P500 on the upper panel. So once again, the US currency has to be seen as a separate asset class and its evolution is probably better monitored with technical analysis tools, like the quarterly flat upper Bollinger Bands *(currently 105.78)*, which may play a role near the end of 2018.



Graph:

US Dollar Index with quarterly candlesticks with moving averages (40 quarters), Bollinger Bands (20 quarters) and Ichimoku Cloud.
On the upper panel, the S&P500 (2724) in black solid line and the orange line representing the 10-year US yield (2.84%).
On the lower panel are the quarterly Stochastic just crossing up and the quarterly MACD still positive, which are bullish for US Dollar Index.

Source: Stockcharts.com