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LE COIN TECHNIQUE

Will the US Dollar be Devalued to Boost Equities?

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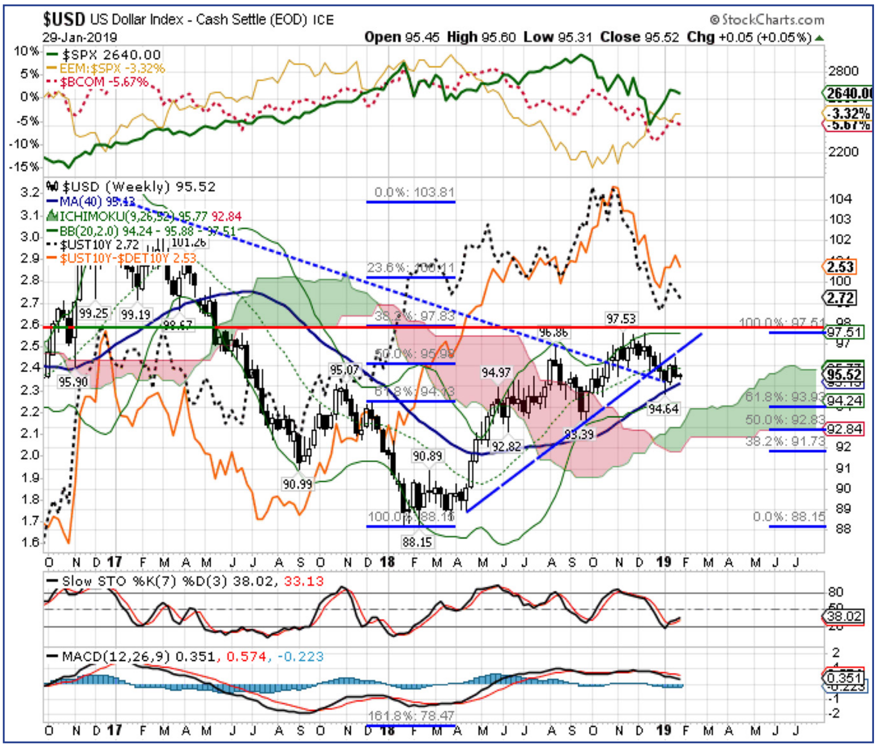
Communication specialists claim you have to entice the reader to read your written word. Well, ZAP right away, if you already know the complex interactions presented in this chart. With this caveat in mind, let's look at the enlightening or "confusing" weekly chart of the US$ Index, with its key financial series, beginning in November 2016.

The rebounding orange solid line, currently at 253 basis points, is the spread between US and German 10-year rate. It correlates with the rebound since the 4th of January 2019 of the US 10-year rate from 2.60% and with the rebound of the Bloomberg Commodity Index *(red dotted line)* on the upper panel. The change of the direction of the spread *(orange line)* seems to correspond with the change of the direction of the US$ Index since August 2018. But the changes of directions of the US$ Index have remained within a relatively narrow range between 93.40 and 97.50 and the last upturn in January 2019 occurred from a higher low at 94.64, as if it was rebounding on its rising 40-week MA. As the weekly STO was crossing up near its oversold area, the rebound of the US$ Index may last for a while and the US$ may at least extend its rise toward 97.50, which is a key resistance area as Fibonacci 62% of the previous 2017s US$ decline. Market analysts will claim that the US$ Index will retain a bull bias as long as it remains above its rising 40-week MA currently at 95.03 and as long as its MACD remains positive on the lower panel.

A stronger US$ could become an issue for global equity markets, especially because a rising $ usually correlates with lower commodities indices and tend to hinder the rise of equities in emerging markets. But so far, the US$ Index has only a minor bull bias within its current 6-month range as the flat Bollinger Bands confirm it. So the rise of the $ is not anymore an issue than it was in the first 6 months of 2018. Beware of a rise above 97.50 though! On the contrary, a lower US$ Index below 94.00 would probably correlate with rising commodities and commodities currencies *(Canadian and Australian dollar)*, which would support emerging market equities and finally also developed market equities. So far, only commodities currencies are staging a rebound within their downtrend and the US$ Index is clearly not yet in BEARISH mode. But the devaluation of currency has often been in the past a last resort policy tool, when "Risk off" sentiment has become too widespread.



Graph:

Chart of US$ Index in weekly candles with Ichimoku cloud and Bollinger Bands and a rising 40-week Moving Average (thick blue line). The yield spread of US 10-year treasuries minus 10-year German Bunds is represented with an orange solid line, correlating quite well with the 10-year rate of US Treasury Bonds (black dotted line) and with the US$ Index candles. On the upper panel are displayed the Relative Strength of Emerging Markets (EEM) versus S&P500 in gold solid line and the Bloomberg Commodity Index (BCOM) in red dash line (in percentage change on left scale). In addition, the green solid line is the S&P500 (SPX) on the right scale. On the lower panel the MACD is declining, but remains positive, while the weekly "Slow STO" is crossing up near the oversold area. The horizontal line at 97.50 represents a 62% retracement of the decline of the $ during 2017 and was a resistance. The rising MA40week (95.03) (thick blue line) is a support above which the US $ has a bull bias. But the flat Bollinger bands suggest a range 97.50-94.15, whose lower level will be strengthened by the Ichimoku cloud in two to three weeks.

Source: Stockcharts.com
Supports line & parameters are provided by BEST

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