LE COIN TECHNIQUE

Risk of extension of slow US$ downtrend!

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Compared to last February, when Technical Analysis supported a rebound on the lower weekly Cloud, the current situation is suggesting a further downdrift for the US$ Index.

After the big swing of March during the Covid-19 crisis, the US$ Index left its range in late May and in a few weeks broke below its 20-wk Moving Average (MA) near 99, then below its 40-wk MA near 98.25 to retest below the Ichimoku Cloud in the lower weekly Bollinger Band near 95.70. The following rebound in June was rather modest as it was capped in June by the 38% Fibonacci ratio and by the weekly Cloud. Since July, it drifts down by half a percent per week and below the psychological support of 96.00. It should extend its decline toward the 93 area at least, where the rising medium-term trendline support is located. But it could easily break this trendline, as there are not many support areas before the 88-89 area. Further, the momentum is turning negative as the weekly MACD is now declining below zero and the declining weekly STO is not displaying any bull divergence as it is just reaching the oversold area.

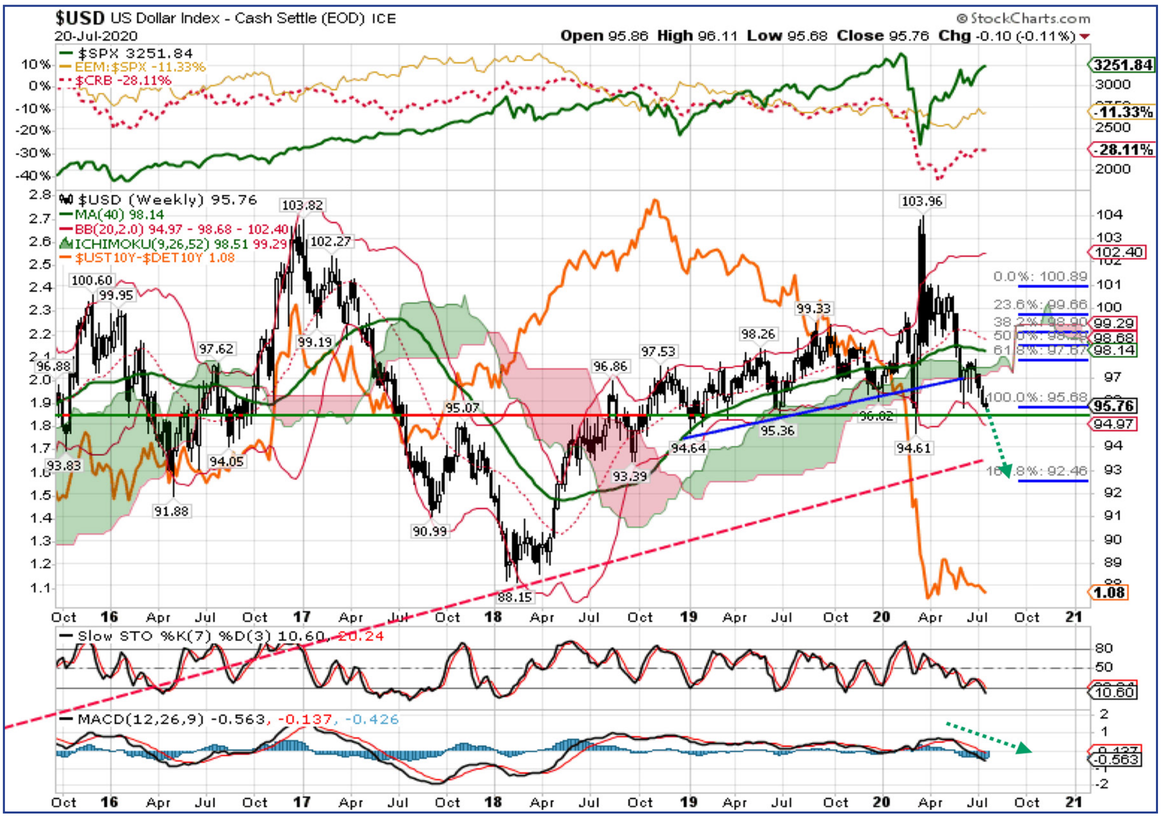
From an Intermarket technical perspective, it is worth noting that when the US$ Index is declining, the CRB Index is usually rising as it is the case since May – thanks to the rebound of oil and the recent rebound of copper. Also, the relative strength of emerging equities versus the S&P500 is rising during the same period as can be seen on the upper panel of the chart. Currently, it also correlates with a rising S&P500, though approaching its former resistance near 3400.

The current intermarket relationship could suggest that the slow downdrift of the US$ Index helps maintain the rising uptrend in US equities as represented by the S&P500 and these trends could extend until the usual seasonal correction period for equities in the Autumn of 2020.

Graph:

*Chart of US$ Index in weekly candles with Ichimoku Cloud, Bollinger Bands, and a declining 40-week Moving Average (thick green line). The yield spread of the 10-year US Treasuries minus 10-year German Bunds is represented with an orange solid line, correlating much less with the direction of US$ Index candles. **On the upper panel** is the rising Relative Strength of Emerging Markets (EEM) versus S&P500 in gold solid line and the rising CRB Commodity Index 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 now negative suggesting the medium-term risk of further downdrift for the US$ Index, while the weekly "Slow STO" is now entering an oversold area. The horizontal line at 95.07 is the last support as the US$ Index which has already moved below the weekly Cloud in early July and is expected to decline at least toward the 93 area, where a long-term rising trend support is located. Last time the US$ Index broke below the Cloud in 2017, the decline was steady, without deep pullbacks.*

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



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