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The US$ Index Turns Down Along the Cloud!

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The US$ Index ($DXY) is at an interesting crossroads. After a decline from the 114 area to the spike low at 100.40 in January, the $DXY rebounded toward 105.85 at the end of February, and it has now drifted down slowly for 4 weeks in a row leaving a spike low at 101.56. This price pattern leaves 2 questions: does this higher spike low suggest that the wide range 105-101 will hold for a while? Does the $DXY run the risk of further decline and to which level? In the short term, the higher spike low at 101.56 suggests that the $DXY will remain in a trading range of 101.56-103.20. Only a rise above 103.20 (which is 38% of the decline of 105.85-101.56) would open a further rebound toward 104.50 and give the Bulls a confirmation that the 105-101 range is still holding.

The weekly chart shows that in February the $DXY stalled at 105.85 near the Fibo retracement of the previous decline of 114-100.40. In March it resumed its decline along declining momentum, shown on the lower panel with crossing-down STO and still-negative MACD. The chart from April 2019 to the present also displays the Ichimoku Cloud shown in green or pink. Crossing the Cloud is significant to define the bearish or bullish price subsequent behaviour. Right now the $DXY closed below the green Cloud at the end of March. This gives confirmation that we should expect a further decline in the coming months as long as the $DXY remains below the green cloud. The next level of support is located at 99.20, the level displayed by the next lower horizontal trendline and also the 62% Fibonacci level of the rise of 89.51-114. But as the weekly STO is only breaking its midline and is far from oversold, the decline of the $DXY could reach the next consolidation area near 96-95. Yes, indeed, the Cloud is an astute technical tool to call a medium-term trend direction.

Chart of US$ Index ($DXY) in weekly candles with Ichimoku Cloud, Bollinger Bands, and a flat 40-wk MA (thick green line). The yield spread of 10-yr US Treasuries minus 10-yr German Bunds (rebounding orange solid line) is recently less correlated with the direction of $DXY candles. .
Upper panel: flat-ranging Relative Strength of Emerging Markets (EEM) v. S&P500 (gold solid line) and the declining CRB Commodity Index (red dash line) - in % change - left scale. S&P500 (SPX) green solid line - right scale.
Lower panel: negative MACD is flat, suggesting decelerated momentum for the $DXY while the weekly "Slow STO" crossed down in early March and keeps declining without being yet oversold. The $DXY stalled at the Fibo 38% and the upper Cloud near 105.50 and now closed now below the Cloud. This opens further downside toward the lower B-Band (101.12) and previous low. The flat 40-wk MA (thick green line) currently near 106.37 should act as resistance as soon as it turns down and serves as a stop loss for a Bearish scenario.

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