THE IFA's Wealth Gram
LA TRIBUNE MENSUELLE DES MEMBRES DU GSCGI
wealthgram@gscgi.ch • www.gscgi.ch
Vol. IX - N° 93 - Février 2020

LE COIN TECHNIQUE

Clear Delay for the US$ Downtrend

...article by Bruno Estier Strategic Technicals - http://bruno.estier.net/ - bruno.estier@bluewin.ch

Having just seen the start of equity pullback, as the China virus pandemic spreads out, it is interesting to note on the chart that since January 2, 2020, the USD Index had started to rebound from the 96 area. It is posting higher weekly closes, while or despite the yield spread between the US and German 10-year yields declining steadily (orange solid line). Indeed, this spread displays a rather good "directional" correlation with the US 10-year yield (black dashed line). Of course, there was some possibly anticipated run to a "safe haven" reflected in the rise of the USD Index as finally, the S&P500 displayed more than a 1% pullback after a rather linear rise since October that some analysts in the last 3 weeks called parabolic.

Technically the USD Index's rebound from the cloud area has recently broken a small down trendline from October 2019 and could extend back toward the upper of the flat Bollinger bands (96.35-98.86) as it rose back above the flat MA 40-week (97.45) and the descending MA 20-week (97.60). The rise reflected by a MACD returning to neutral and by a rising STO is not yet fully in the overbought area. Thus, an extension toward 98.50 is feasible. This rise occurs at the same time as the CRB Commodity Index (red dashed line) is breaking a short-term uptrend on the upper panel and the relative strength of Emerging Market ETF versus S&P500 (solid gold line) is retesting its November low, as a declining $ is hindering the outperformance of equities in emerging markets versus developed markets. It looks like the expected reflation trade with higher commodity prices, rising 10-year US yield and an expected return of inflation signaling a rebound of growth is delayed by a bad virus!

This chart using different lines to display intermarket relationships is worth monitoring regularly as we should remember that a US $ Index near the top of its trading range has the potential to decline and help the S&P500 to rebound in case of a severe correction as the devaluation of a currency has often been a last resort policy tool in the past when "risk-off" sentiment has become too widespread.

Graph:

*The Chart of US$ Index in weekly candles with Ichimoku cloud and Bollinger Bands and a rising 40-week Moving Average (thick green 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) but diverging with the recent direction of 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 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 about flat suggesting medium term ranging activity for the US$ index declining, while the weekly "Slow STO" is rising from oversold area in December. The horizontal line at 95.07 represents a 38% retracement of the rise of the $ from 88.15 in January 2018 to 99.33 last October. It is a key support area together with the cloud (96-97). The US $ index rose again above the about flat MA40week (97.45) (thick green line) re-opening a bullish bias for $. Further the recent break of the down trend line is going to delay the media announced lower $ due to the evaporating reflation trade: the US 10 year yield drifting down back toward its August-October Lows seems to cancel indeed the imminent return of Inflation and the related Reflation trade based on rising Commodity (CRB).*

Source: Stockcharts.com / Support lines & parameters are provided by BEST.

This information is being provided to you solely for your information, as an example of theoretical technical analysis and coaching, and does not constitute a recommendation to purchase or sell any security. Neither this document and its contents, nor any copy of it, may be altered in any way. This document is not directed to, or intended for distribution to, or use by any person or entity of any jurisdiction where such distribution, publication or use would be unlawful.