

DOLLAR STRENGTH \$1.08 TARGET

By Daryl Guppy

President elect Donald Trump might not like to acknowledge it, but the glory days for US dollar strength were under the Clinton Presidency when the dollar rose from \$.80 to a high near \$1.21. There is the potential for the dollar to rise, if not to those lofty levels, but to around \$1.08 in the coming months.

We apply one important caveat to this longer term analysis. The FX market is structured differently from the equity market, so the analysis methods are used as a guide rather than more exact measures. The FX market lacks the psychological drivers that give this analysis method a high level of accuracy in equity markets.

The dominant feature on the weekly Dollar Index chart is the broad trading band between \$0.93 and \$1.005. This trading band has dominated Dollar index behaviour since 2015 January. Support near \$0.93 has been tested 4 times. Resistance near \$1.005 has been directly tested twice. Lower level resistance near \$1.00 has been tested five times. That makes the move above \$1.0005 particularly important because it's a breakout from this prolonged 22 month sideways trading pattern.



The breakout moved to \$1.02 and then retreated and successfully tested the \$1.005 level as a support level. This successful retest of support confirms the strength of the breakout.

Applying classic chart pattern analysis gives a method to set the upside target for dollar strength. The width of the trading band is measured. This value is projected upwards from the \$1.005 resistance level. This gives an upside target near \$1.08. The target is verified against the behaviour of the dollar index on the monthly chart. The \$1.08 level provided a consolidation support level in 2001 January and again in 2002 June to October. There is a reasonable probability that the \$1.08 level will again provide a consolidation resistance point for a rise in the US dollar index.

The chart pattern analysis sets a target level but it is less useful for setting a time frame for this type of move. However it does provide a guide. This is a move of \$0.07 so we look at the time frame for similar moves in recent times.

The rise from \$0.93 to \$1.00 starting in 2015 January took 9 weeks. The rise from \$0.85 to \$0.93 starting in 2014 October took 13 weeks. Using this behaviour as a guide it suggests that the index could rise from \$1.005 to \$1.08 in around 11 weeks after the initial breakout. This is also around the time when Donald Trump will formally step into the oval office so it's not unreasonable to anticipate another dollar rally in this period.

Traders prepare for a fast move breakout continuation. We use the [ANTSSYS](#) trade and analysis method to identify the opportunities as the breakout rally develops above the resistance level. This is traded with a tight stop using a customised ATR indicator.