

DOLLAR INDEX CONSOLIDATION

By Daryl Guppy

The Dollar Index has risen 25% from \$0.80 in July 2014 to above \$1.00 this week. A 25% change in exchange rates imposes real pain to economies that trade with the United States. This is a new currency conflict and Central Banks are forced to act. In countries where the currency is directly linked or pegged to the US dollar the impact of this 25% change is very substantial.

A 25% rise is very unusual so some analysts think the Dollar index will stabilise around \$1.00. Chart analysis suggests there are four key questions. This analysis is best seen on a monthly chart where each candle represents one month of dollar index activity. Question 1. Is the dollar index value at \$1.00 unusually high?

From 1997 to 2000 the dollar index traded in a consolidation band between \$0.99 and \$1.02. The current value near \$1.00 is inside the historical trading band. The dollar index may develop a consolidation pattern between \$0.99 and \$1.00.



Question 2. Can the dollar index go higher and what are the target levels?

In 2001 and in 2002 January the dollar index peaked at \$1.205. It is possible that the dollar index will breakout above \$1.02 and move higher.

Question 3. How sustainable was the breakout above \$1.02?

The breakout above \$1.02 in 2000 January developed into a well-defined and sustainable uptrend. The uptrend was contained in a unsloping trading channel around \$0.10 wide. The key feature is the stability of the uptrend following the breakout above consolidation between \$0.99 and \$1.02.

Question 4. Are there similarities between 1997 and today?

There is a very important difference. In 1995 to 19997 the rise from \$0.80 to \$1.00 was a more stable trend than the rise from 2014 July to today. Fast rises are often followed by substantial retreats. The potential for retreat is the key risk in the current dollar Index environment so investors will carefully watch for consolidation to develop between \$0.99 and \$1.02. A retreat below \$0.99 has the first support target near \$0.89. A breakout above \$1.02 has the first resistance level near \$1.09.

The very fast rise from \$0.80 to \$1.00 suggest a greater potential for market volatility so caution is required.