

DOLLAR STRENGTH HEADS TOWARDS RESISTANCE

By Daryl Guppy

Brexit and Janet Yellens continuing history of indecision have been digested by the market. The prospect of a Trump or Clinton victory do not seem to induce any market jitters with the dollar index.

Brexit is proving to be more difficult and complex than imagined. The dramatic drop in the British pound was evidence that the market was beginning to understand the consequences of Brexit. However the drop in the pound was not matched by a dramatic rise in the dollar index. It was just one factor in the continued rise of the dollar index.

It is inevitable that US interest rates will rise but the timing remains a subject of speculation. Apart from some short term and small gyrations there is no substantial impact from Yellens statements. The real surprise will be when decisiveness overrides indecision but the dollar index chart suggests this is not a high probability in the near future.

The dollar index will continue to trade within a well defined trading band. The first key feature on the weekly chart is the support and resistance levels. The support level is near \$0.93 and was tested multiple times in 2015 and most recently in May 2016. This has been a defining support feature since late 2014. The Dollar Index dipped below this briefly most recently in 2016 May but it rebounded quickly from this support level.

The resistance level is near \$100.50 This level was tested twice in 2015. There is a high probability that this level will again act as a resistance cap on the current rally. However there is also a resistance feature near \$100 and this is a psychological barrier. A breakout above \$100.50 has the potential for the dollar to strengthen considerably.

The dollar index makes sharp and fast move between the support and resistance levels in the trading band. The current rally above \$0.96 has continued for three weeks. This is a strong bullish sentiment in a fast moving rally. This momentum will carry the dollar index to near \$1.00 in the near term.

The trading band limits the potential reaction to a Trump or Clinton victory. A bullish result has a cap near \$1.00. A bearish reaction would see the dollar quickly retreat towards the consolidation area around \$0.96 or fall further to retest support near \$0.93.

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

Currently traders are long as the rally continues. However they will tighten stops and be ready to go short as the index reacts away from the resistance level with a move to retest consolidation support near \$0.96.