DOLLAR IS RELAXED ABOUT BREXIT

By Daryl Guppy

The market has fully digested two events and leaned to live with them. The first event is Janet Yellens history of indecision. It is inevitable that US interest rates will rise but the timing remains a subject of speculation. The only sure thing is that Yellen will continue to be indecisive and the muted market reaction on the dollar Index chart reflects this. 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 second event is Brexit. The damage has already been done no matter what the outcome. Markets have already factored in an exit so when the final result is announced there is unlikely to be a large and lasting impact. Again, the dollar index reflects this and has already baked the exit into the cake.

If Britain decides to stay with the EU it is most likely to be by a narrow margin. However, this in itself indicates a tenuous level of support and any recovery in the relationship will be slow and half hearted. Britain as an unwilling partner is just as devastating as Britain leaving so a stay result has a similar impact on the dollar index to an exit result.

Only a massive and overwhelming support for staying in the EU would be enough to shake currency markets in the long term but this is a very low probability outcome.

The dollar index will continue to trade within a well defined trading band. The first key feature on the 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. The Dollar Index has dipped below this briefly, but usually rebounded quickly from this support level.

The resistance level is near $100.05 This level was tested twice in 2015. It's not a well tested level, so it leaves open the potential for the dollar to strengthen considerably.

The second chart feature is the down sloping trend channel. For most of 2016 the index has moved between these sloping support and resistance lines. It has been a pattern of rally and retreat. The recent rally faced trend line resistance near $0.96 and at 40.955..

The feature of particular interest is the way that any future retreat in the dollar index will first encounter support near $0.93 rather than finding support on the lower trend line of the trading channel.. The index activity between the support level and the upper down sloping trend line is like a compressed spring. This can develop into a rapid and powerful breakout with a move towards $100.05. The trigger could well be a clear cut indication of a Trump victory.

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 ready to go short as the index reacts away from the downtrend line with a move to retest support near $0.93.