

Currencies Special Report – 12/09/09

By Greg Fisher

www.medianlinestudy.com

Is the US Dollar showing early signs of a major reversal and is a rally on the way?

The US Dollar has been in a defensive mode since March of 2009 and recently retreated to levels not seen since August of 2008. Financial headlines and articles continue to talk of the demise of the US Dollar and its impending doom.

Recently another popular point of discussion is the inverse relationship between stocks and the US dollar. Stocks have rallied hard since March and the US dollar has dropped sharply since March. Another common discussion point is that commodities continue to move up as the US dollar retreats.

When you look at a variety of futures and currencies as I do in the weekly reports using technical analysis, you tend to see things from a different perspective. The headlines don't mean much and often give you bit of amusement as you read why the writer thinks a market went up or down – at times I laugh at loud.

So, who cares what the headlines say – what do the charts say?

I don't often chart the US dollar index for some reason I can't explain. However, I decided to draw some trend lines and Median Lines on the US dollar chart and see what I could see.

I also wanted to see if the headlines that we all read have any value or only worth a daily dose of humor.

For that reason I put together the following set of charts and discussion based around the US dollar.

We will start off with a look at a daily chart of the US Dollar Index.



I drew one traditional Median Line (red down sloping), and a green modified Schiff Median Line (up sloping).

The first thing to notice about the down sloping red Median Line is the fact that price has already reached the Median Line and in fact, fell slightly past the line. This Median Line has “done its job”. Now, is a reversal near the Median Line underway?

The green modified Schiff Median Line may be a bit premature, but let me explain why I drew it anyway. Notice the short term black down trend line that price just slightly broke above recently. Also, notice the blue up trend line. Price just found temporary support on the line prior to bouncing up.

I drew this blue up sloping blue trend line in prior to drawing in the green modified Schiff Median Line set. When I drew the green modified Schiff Median Line, the first thing I noticed was that the backward extension of the green lower MLH is the blue trend line, or to put it another way, the blue trend line projected forward is the green lower MLH. I also noticed that the backward extension of the green upper MLH also passes through a previous swing high pivot.

The fact that price has interacted with these lines (support/resistance) gives me added confidence that the green modified Schiff Median Line may come into play and guide price in the near future. The green modified Schiff Median Line set will be considered valid UNLESS price breaks below the green lower MLH (or blue trend line), which be a significant enough change in price behavior to change my view. According to Median Line theory, if the green lower MLH holds, there is a high probability price will reach the green Median Line.

I also noticed a horizontal line drawn at the potential P3 passes through a gap from previous price action. Dr. Andrews wrote about the importance of price gaps and considered them to be “pivots” as well as true price reversals.



Now let's look at the daily chart of the EUR/USD. Obviously when the dollar goes down, the EUR/USD goes up and vice versa – dollar up, EUR/USD down.

I drew a traditional blue Median Line and two sliding parallels. Price has been in a steady uptrend for over a year. Because price dropped below the blue lower MLH, I drew in a sliding parallel underneath the blue lower MLH. I then copied that line and drew an upper sliding parallel equidistant underneath the blue Median Line as the lower sliding parallel is underneath the lower MLH. Notice that price recently met the objective of hitting the upper sliding parallel and has fallen lower each time.

I also drew in a red down sloping modified Schiff Median Line. This line may be a bit premature as well, but I drew it for basically the same reasons I drew a modified Schiff Median Line on the US dollar chart - the backward extension of the red upper Median Line parallel passes through the previous swing high, P1. Potentially this line is the beginning of a new down ward sloped trend line that will resist price on the way down.

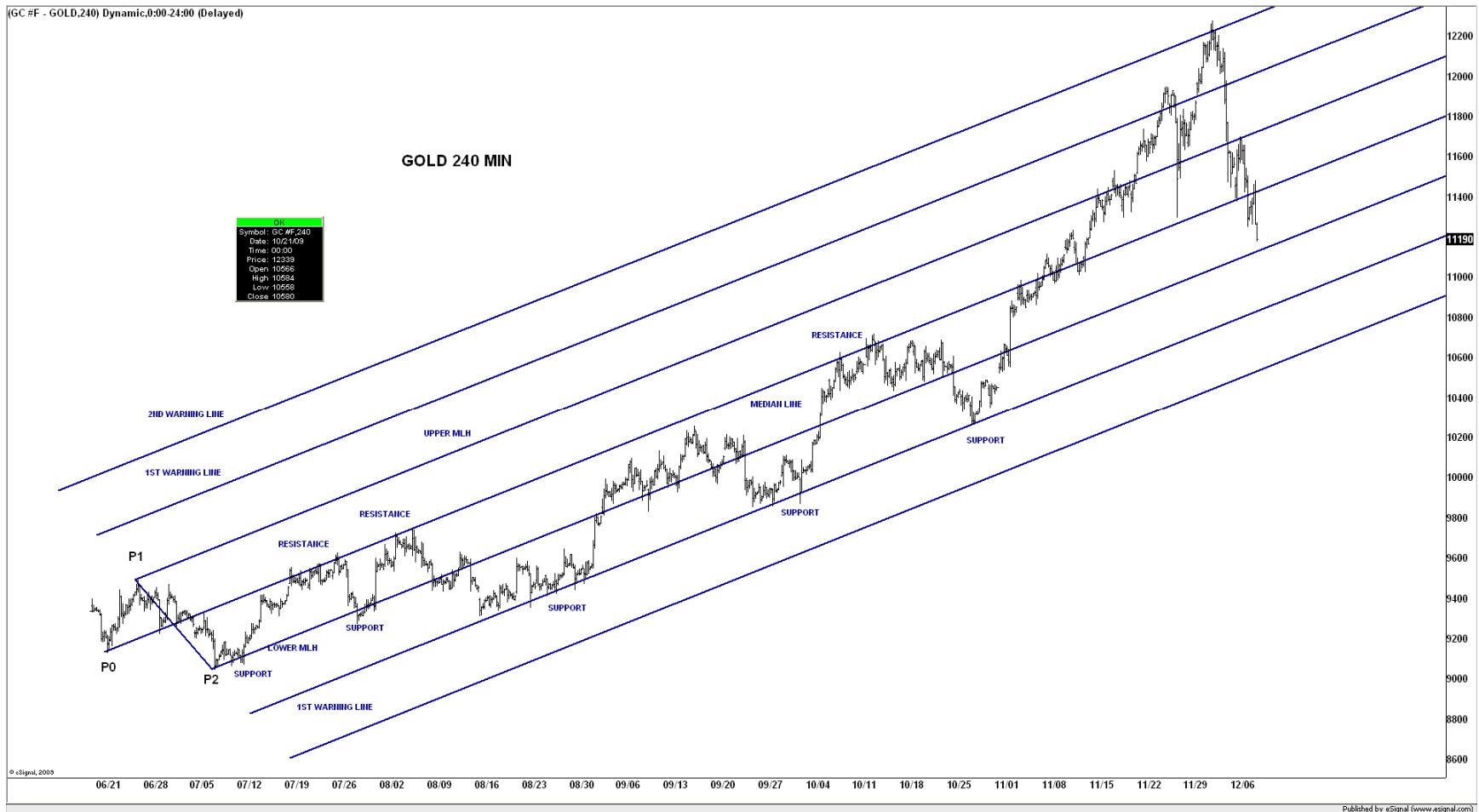
The red modified Schiff Median Line will be invalid IF price breaks above the red upper MLH. Once again, if price does not break above the red upper MLH, Median Line theory suggests price should reach the red Median Line.

OK, so do commodities move up whenever the US dollar drops? Let's look at a chart of oil.



These lines have been drawn on my charts for months. Look at the interaction of price when it reaches the lines (support/resistance). Oil quit moving up at the end of October, the US dollar has NOT been consistently moving up as oil has been consistently moving down.

What about gold?



I have had this blue Median Line set drawn for several months and am continually amazed at how price interacts with the lines over and over again. If you look back further, gold has risen consistently since March until recently before correcting while the US dollar has consistently fallen since March until recently. OK, so maybe there is more of a relationship here.

What about the relationship between stocks and the US dollar?

The chart below is the e-mini S&P 500 with no lines drawn. Clearly stocks have risen consistently since early March 2009 just as the US dollar has fallen from early March 2009.



The relationship since March between stocks and the US dollar has been inverse – stocks up and dollar down.

So, what have we learned? Gold and stocks have consistently gone up since March 2009 as the US dollar retreated in that period. Oil quit going up at the end of October. So, is it wise to believe the financial headlines of the day? Probably not – there is always partial truths in the generalities that are often written in the headlines. Is the US dollar poised to rally in the near future? Perhaps - there is evidence that a reversal could occur. The only way to know is to draw a “line in the sand”. If the line holds, a correction is in order. If the line does not hold, the market isn’t ready. Never forget the market is always right.

One thing I do know is the year 2010 is certainly going to be an interesting year for ALL markets!

Disclaimer:

The information and charts are for educational purposes only. The information is not to be taken as investment advice. YOU are responsible for how the information is used. Past performance is not indicative of future results. All materials within this website are based on information obtained from sources that are believed to be reliable, but cannot be guaranteed. Reading this website constitutes acceptance of this disclaimer and exempts the author from any and all liability or litigation.