

False breakout of the euro v the \$US catches out the bears

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RECENT turbulence in the price of the US dollar against the euro might be creating opportunities for speculators brave enough to wade into the currency markets.

Analysis done by Alan Clement, an international futures and foreign exchange trader and board member of the Australian Technical Analysts Association, shows the euro may have resumed its climb against the \$US — and its upward move could be quick.

In the middle of 2001, the euro hit a low of US84¢. But from there, as the US economy absorbed the shock fallout from the

September 11 terrorist attacks and the political dramas and oil price spikes associated with the invasion of Iraq, the euro gained ground against the greenback, reaching a peak of \$US1.59 in 2007.

After the financial meltdown, a period of consolidation began, with the greenback trading in an ever-narrowing range against the euro in what technical analysts know as a symmetrical triangle.

In May, the euro fell through the bottom of that triangular pattern, reaching a low of \$US1.18. But, in what Clement sees as a sign of hope, it turned up strongly last month and has now gone back

EURO v \$US



through the bottom of the triangle, suggesting the May fall was a phenomenon known as a "false breakout".

Such action spells trouble for speculators who are short the market they are trading. To cut

their losses, they have to exchange their short positions for long positions, and this extra demand amplifies the speed of the upward rise in the euro's value with a whip effect. Clement says that if that is the case

here, "we should see a rise to the upper boundary of the triangle at \$1.43. From there we could see a breakout to the upside, targeting the all-time high at \$1.59" over the next few months.

Interestingly for

investors, he says "the US dollar also shares an inversely correlated relationship with global stockmarkets, so any weakness in the US dollar is likely to be reflected as a rise in global stockmarket values in the short to medium term, and we are starting to see that already with recent strength in the local and overseas markets".

None of this amounts to investment advice from BusinessDay or Mr Clement and would-be punters should seek professional guidance and do their homework before committing funds.

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