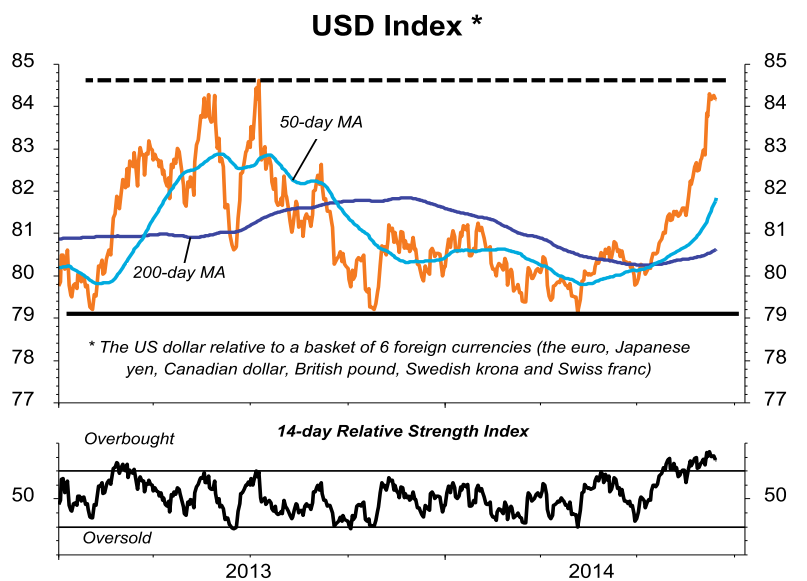




Monday, 15 September 2014

USD Index

The strong rally since early July has left the USD Index vulnerable for a downward correction.

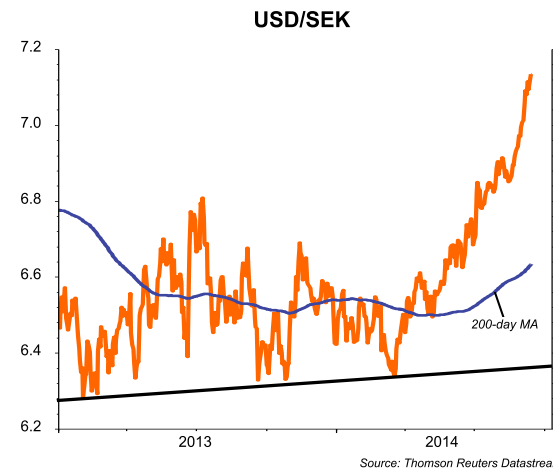
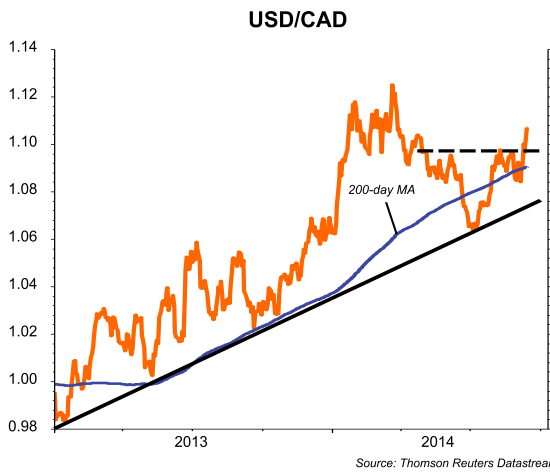
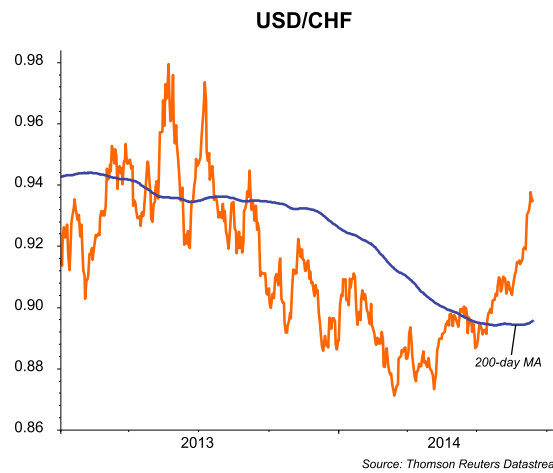
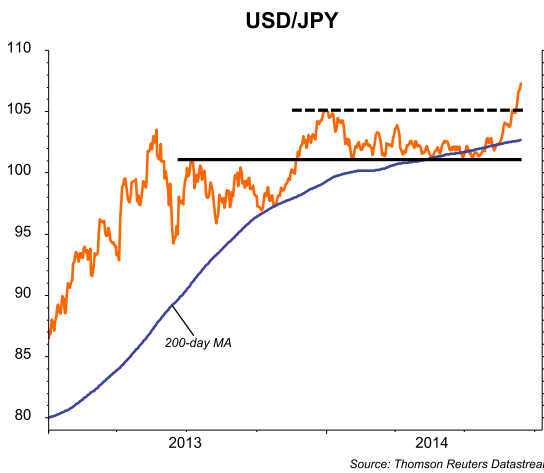
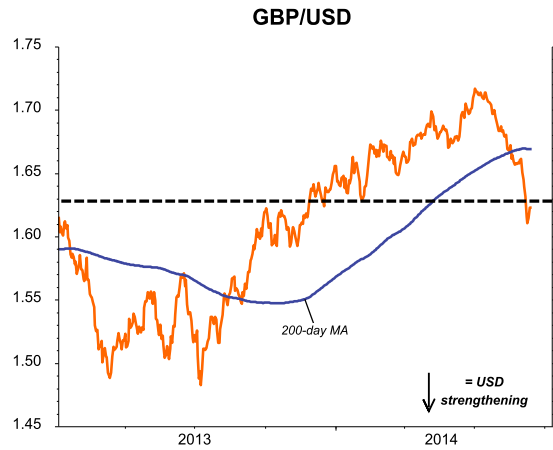
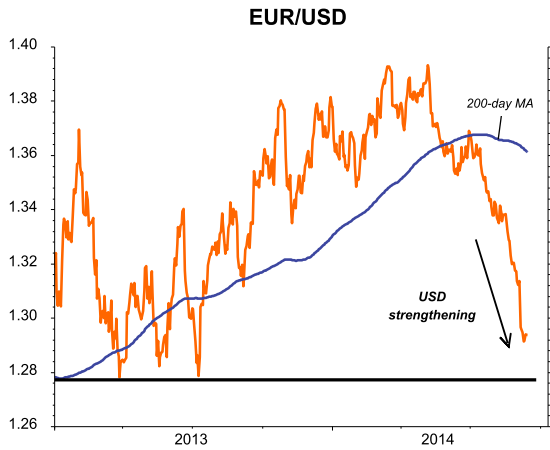


Source: Thomson Reuters Datastream / ECR

Chart-technical

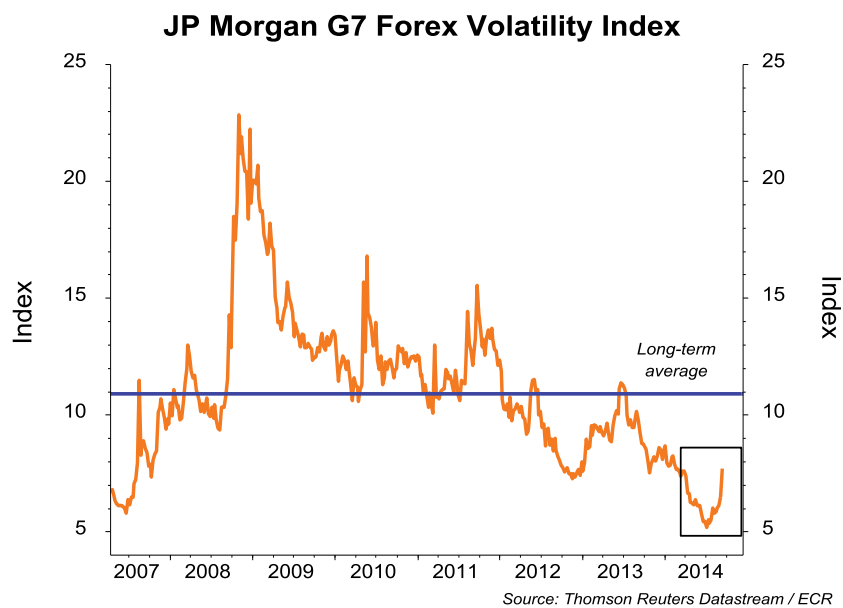
From a chart-technical point of view, the USD Index* has reached the upper end of the price range over the last 2 years (resistance). Based on historic price action during this period and given the fact that the 14-day Relative Strength Index indicates a strongly overbought condition, a (temporary) trend reversal (pullback) could well be in the cards. Also, the overwhelmingly positive sentiment towards the US Dollar (according to the Daily Sentiment Index) should be interpreted contrarily and often indicates an imminent high.

However, if the USD Index finally breaks out above this resistance zone around 85, a further upward move towards 89 (former 2008 – 2010 highs) seems likely. Another argument in favor of this bullish scenario is that the longer-term trend direction (upward pointing 50- and 200-day moving averages) is clearly heading upwards. Also, the USD strength is broad-based as all 6 foreign currencies in the basket are currently weakening relative to the US Dollar (see graphs).



FX Volatility

Finally, the G7 currency volatility index (see graph) has shown a clear expansion of volatility in recent months. Whether or not the period of record low volatility on FX markets has ended, is unclear. As volatility has the important characteristic of reverting to its mean (long-term average), past years 'milder' times could well be followed by (even more) 'wilder' in the months ahead. Therefore, a future expansion of volatility can well coexist with either a large pullback or further breakout in the USD Index.



* The US dollar relative to a basket of 6 foreign currencies (index weightings %): Euro (57.6%), Japanese yen (13.6%), Pound sterling (11.9%), Canadian dollar (9.1%), Swedish krona (4.2%) and Swiss franc (3.6%).

In case you wish to discuss the possible implications for your portfolio, please [contact us](#) to discuss the options.

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