

END OF US\$ INDEX UPTREND ALONG THE USD/JPY REVERSAL

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In the world of foreign exchange, the USD/JPY is famous for its persistence of a long-lasting trend whenever it changes direction in earnest. Of course, using Technical Analysis tools is not done in a vacuum and many recall that parity of dominant world currencies is often being watched by some Big Brothers and their Central Bankers.

While the greenback being above the quarterly Ichimoku Cloud still suggests an uptrend, we draw on 50 years of history of three trendlines: First, the descending line joining the 1985 and 2001 highs, which was broken in 2015 and acted as support in 2017 to confirm a succession of higher highs and lows. This ended the downtrend and switched to an uptrend for the US\$. **Second**, the rising support trendline joining the 2011 and 2020 lows was drawn as the US\$ Index rose decisively above the Cloud to reach the higher high of 114.75. Third, the pivotal zone 100.00-98.50 below which the

US\$ could soon display a pattern of lower highs and lows.

A zoom in on the chart's right makes it clear that the USD/JPY had been going up until mid-2024, while the US\$ Index had already entered a 2-year pause in the narrow range of 106-100. However, during the current third quarter, in the middle of summer, the yen weakness was reversed as the infamous yen carry trade started to unwind. Gaps and the speed of the yen reversal call for much more room on the downside. This should mechanically drag the US\$ Index below the pivotal 100-98 area, transitioning it from a range into a swift downtrend.

Observing the correlation of the US\$/US 10-year Yield, the US\$/S&P500, and the US\$/Agricultural Commodity Index (only since 1994) displayed on the chart's upper panel will be fun. But that is for another story.

Chart: US\$ Index

(Quarterly Candles with Ichimoku Cloud - log scale from 1974). The black dotted line represents the parity USD/JPY (144 yen per \$ on left scale) which recently spiked two years after the spike of the US\$ Index at 114.75. The recent decline of the USD/JPY from 161 by mid-July is the infamous unwinding of the yen carry trade that woke up everyone on August 5, 2024.

Upper panel: US 10-Year Yield (TNX) (green dotted line), S&P500 (SPX) (black solid line), and the S&P GSCI Agricultural Index (GKX) (orange solid line) allowing one to see the correlation with the US\$.

Lower panel: In late August 2024, the momentum is crossing down on the positive quarterly MACD already turned down below 50% on quarterly STO, suggesting the likelihood of the US\$ Index breaking below 100.

Source of data:
Stockcharts.com
Analysis by BEST



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