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TRADING RO

Greenback may be on verge of short-term rally

TECHNICAL ANALYSIS
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AUSTRALIANS, especially those who import, export or like overseas holidays, will be keenly aware of the strength of our local currency against the US dollar.

The shorthand explanation often given for the Aussie's strength is the fact that China's insatiable resources demand has given strength to our economy when the US, along with much of Europe, is still suffering the fallout from the global financial crisis.

But this week international futures trader and Australian Technical Analysts Association member Alan Clement looks more closely at the plight of the greenback and finds it sliding globally.

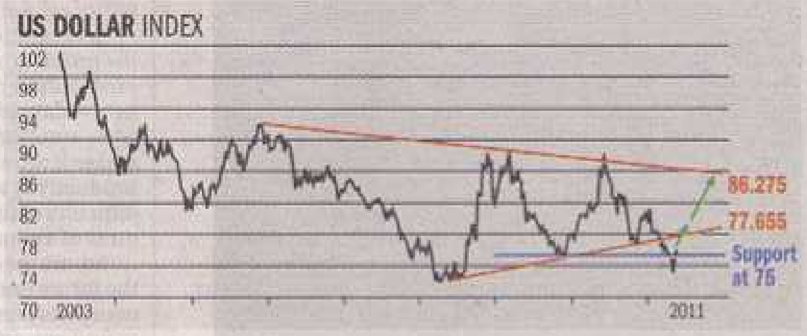
Today's chart, the US Dollar Index, measures the greenback against a basket of currencies. To be precise these are the euro, the yen, the British pound, the Canadian dollar, the Swiss franc and the Swedish krona.

Clement's analysis of the chart shows that while the greenback has been on the skids against the index for much of the past eight years, things might be turning around with the emergence of what he says may be a "powerful medium-term reversal pattern".

After making a high on the index of 92 back in 2005, the greenback dropped to a low point of 72 in 2008.

Since then, Clement observes, it has been "consolidating in a tightening range, producing a symmetrical triangle (the two red lines on the chart).

Earlier this year, the greenback fell through the



bottom of that formation and also a lower support level of 75 points (the blue line) as speculators sold the currency. But recent falls in commodities, which are priced in US dollars, caused the greenback to rise strongly through the 75-point level. (Commodity holders sold and converted their holdings into US dollars, creating demand for the currency.)

Technically speaking, Clement says, the greenback made a "false breakout" when it fell through 75 points, which has trapped traders who had shorted the currency below that.

Those traders will need to cover their short positions, and the resulting demand for the greenback could fuel further increases in its value.

"If the current rally does gather pace, and the index breaks back up into the triangle pattern, this could prompt a sharp rise towards the top trendline at the 85 level," Clement says. A stronger US dollar in the medium term, he says, would be bad news for the value of the Australian dollar and global sharemarkets, both of which share an inverse correlation with the greenback.

But anyone wanting to profit from possible strength in the greenback needs to be quick, as Clement believes "long term, the fundamentals for the US dollar are poor, and we could well see the resumption of the US dollar's long-term downtrend following this rally".

Conversely, he believes the long-term outlook for global sharemarkets and the Aussie are good. So any short-term weakness created by current conditions could set up a great buying opportunity in stocks and the Aussie, he believes.

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