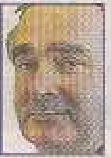
The Age (5-Nov-2011) (p8)

TRADING

Ways to capitalise on greenback's movements



TECHNICAL ANALYSIS ROD MYER

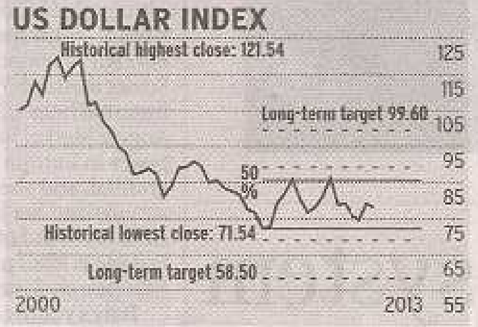
WITH global markets still in turmoil as a result of the growing debt crisis in Europe and the gyrations of the Australian dollar around parity with its US counterpart, it is an opportune time to look at the progress of the US dollar.

Mark Umansky, an IFTA-approved certified financial technician, full-time professional private trader and councillor of the Victorian chapter of the Australian Technical Analysts Association, presents us this week with a quarterly chart of the US dollar index futures December 11 contract.

That index values the greenback against a weighted basket of currencies, including the euro (58.6 per cent), the yen (12.6 per cent), the British pound (11.9 per cent), the Canadian dollar (9.1 per cent), the Swedish krona (4.2 per cent) and the Swiss franc (3.6 per cent).

"By studying the long-term quarterly chart on USD index December 2011 futures contract for the past 10 years, we are able to reason what the future may hold for all major global currencies," Umansky says.

The chart represents the difficult time experienced by the US economy over the past decade. The greenback hit historical highs of 121.21 points on the index in July 2001 then moved lower, only to rally. That rally led to the formation of a double top that we can now see spanned the period from December 2000 to June 2002.



After that the greenback went into major decline, driven by the wash-up of the tech wreck and September 11, 2001, in the US economy, the Iraq and Afghanistan wars and eventually the global financial crisis. The greenback dived ever lower through the decade of the 2000s despite a mild retracement in the last days of the pre-GFC boom.

It hit its historically lowest close of 71.54 during the GFC in April 2008.

Now the greenback has stabilised in a range between 72.165 and 85.859.

This trading range could offer opportunities for those wanting to actively trade the market, Umansky says.

Such people could sell in the region of 85.859 and/or buy when the dollar hits the lower end of its range at around 72.165.

To protect positions from unexpected market moves, Umansky says, stop-losses to minimise potential risk may be placed at just above 86.50 (a sell order) and below 71.50 (a buy order).

If uncertainty diminishes, more proactive traders could adopt an alternative strategy to take advantage of any breakout from the current range.

Bullish positions could be entered on prices closing above 89.20, with stop-losses placed within the current trading range at just below 85.859, the peak of its old trading range. If the currency rises, all or partial profits could be taken around 99.60.

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