



"Sharing real experiences from decades of profitable trading. Focusing on the important factors that lead to trading success."

## The January Forex Effect

December 17, 2016

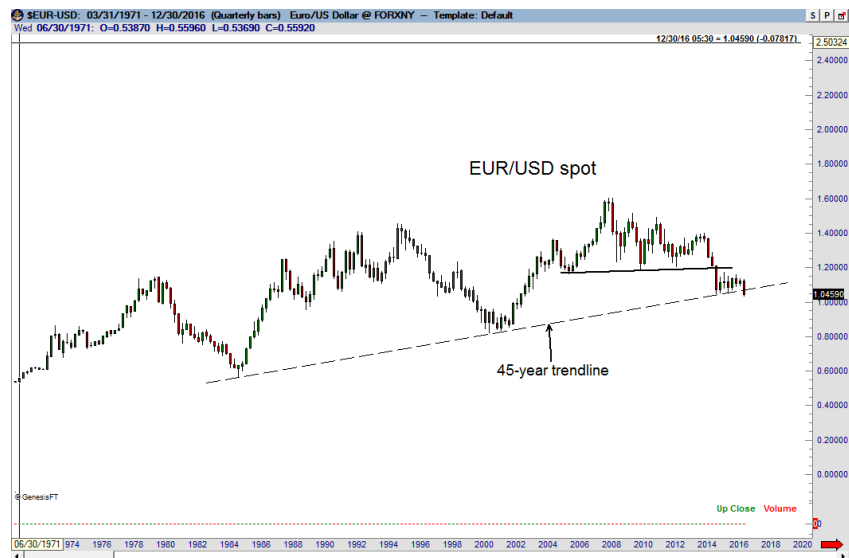
### Preface

The European Currency Unit (ECU) represented a basket of European currencies (weighted) until the Euro (€) became the official currency of the European Union on January 1, 1999. The Euro (and its predecessor, the ECU) has one of the most pronounced seasonal tendencies of all foreign exchange units or commodity futures markets.

### Analysis

The EUR/USD crossrate (€/ \$), including its predecessor the ECU, has a remarkable seasonal tendency to establish an annual low or high in the month of January.

Factor believes that this seasonal high/low pattern is caused by the squaring of EUR/USD exposure from the previous year and the establishing of hedges for the coming year by sovereign and corporate treasury units. Whatever the reason, the seasonal tendency is significant and pronounced.



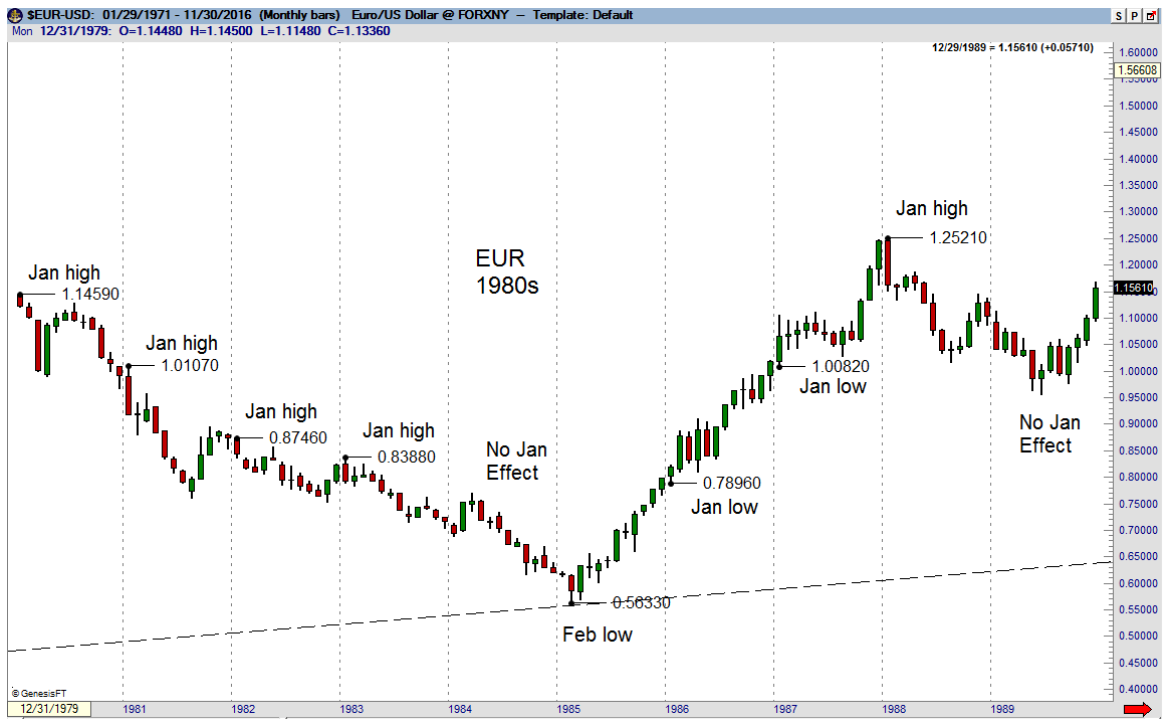
In fact, in 35 of the past 46 years the annual high or low occurred in January – this is 76% of the time. The high low occurred in February early March in another 4 years, or 8.8% of the time.

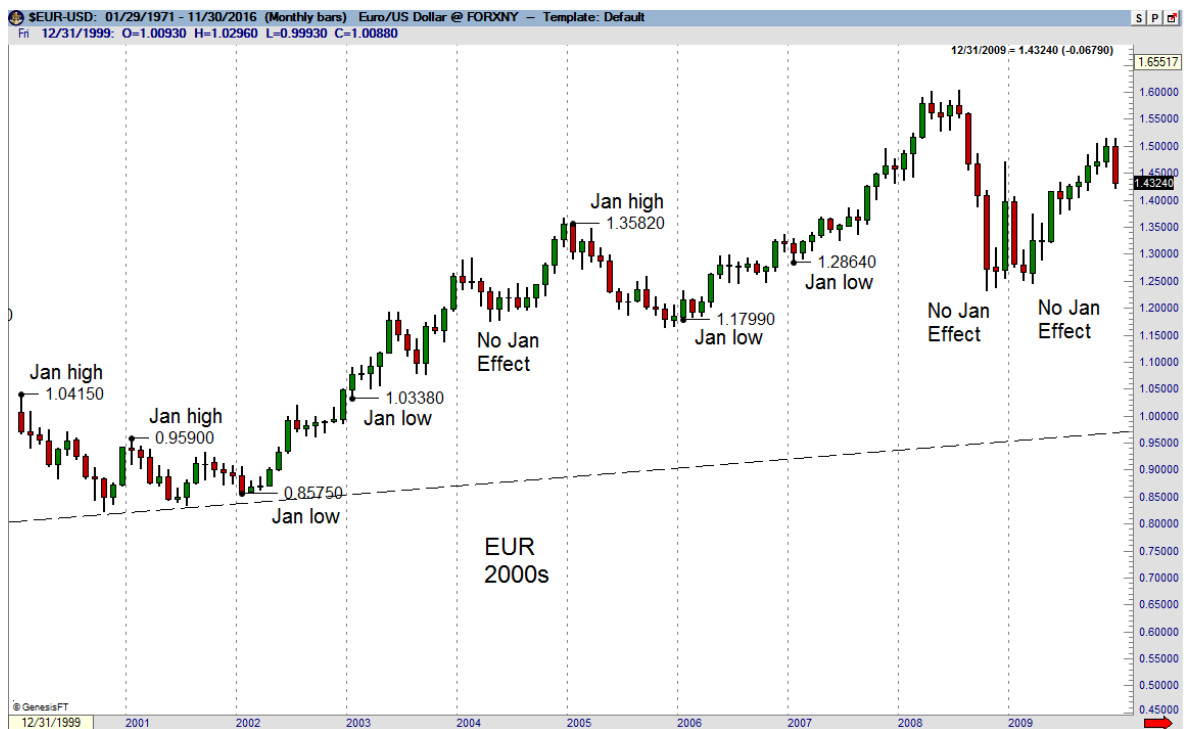
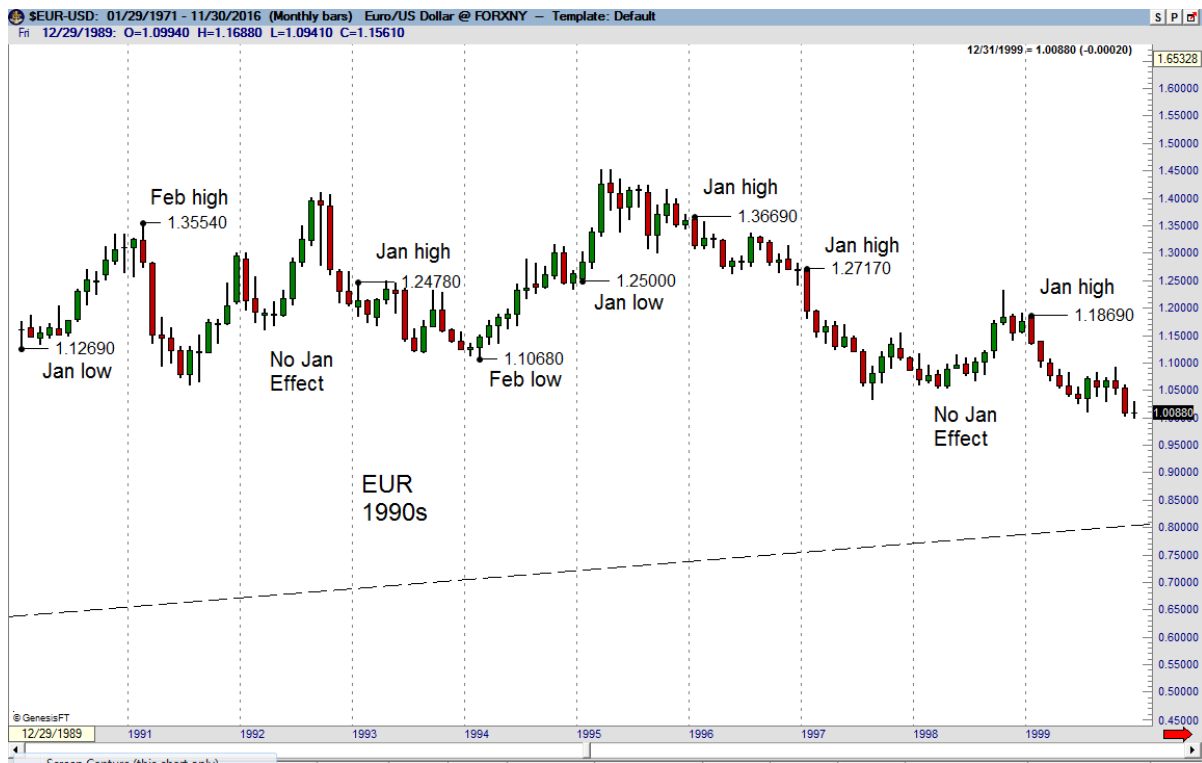
Summary of January Forex Effect (EUR/USD)					
1971 - 2016					
Percentage of years with annual highs or lows in January = 76%					
	EUR up years w/ Jan* bottom	EUR flat/up years	EUR down years	EUR flat/down years	Flat years
Total # years	18	2	17	2	6
100%	40.0%	4.4%	37.8%	4.4%	13.3%
Avg					
Gain/loss	20.50%	19.20%	-15.60%	-16.70%	NA

The average gain in the up years from the January lows was 20.5%. The average decline in the down years from the January highs was 15.6%.

The Factor has retained a negative view of EUR/USD since late summer 2014. Our bias is that the 2017 high will occur in January. Based on EUR/USD crossrate of 1.0500 as of this document, a decline of 15.6% (the average of the 17 years with a January high), would indicate a EUR/USD rate of .8950. We acknowledge that such a decline in 2017 by EUR/USD is highly unlikely without a structural or political breakdown of the Euro Mechanism as presently constituted.

The charts on the following pages show the decade-by-decade price behavior of EUR/USD. The quarterly chart is shown above. An analysis of current chart developments begins on page 5.







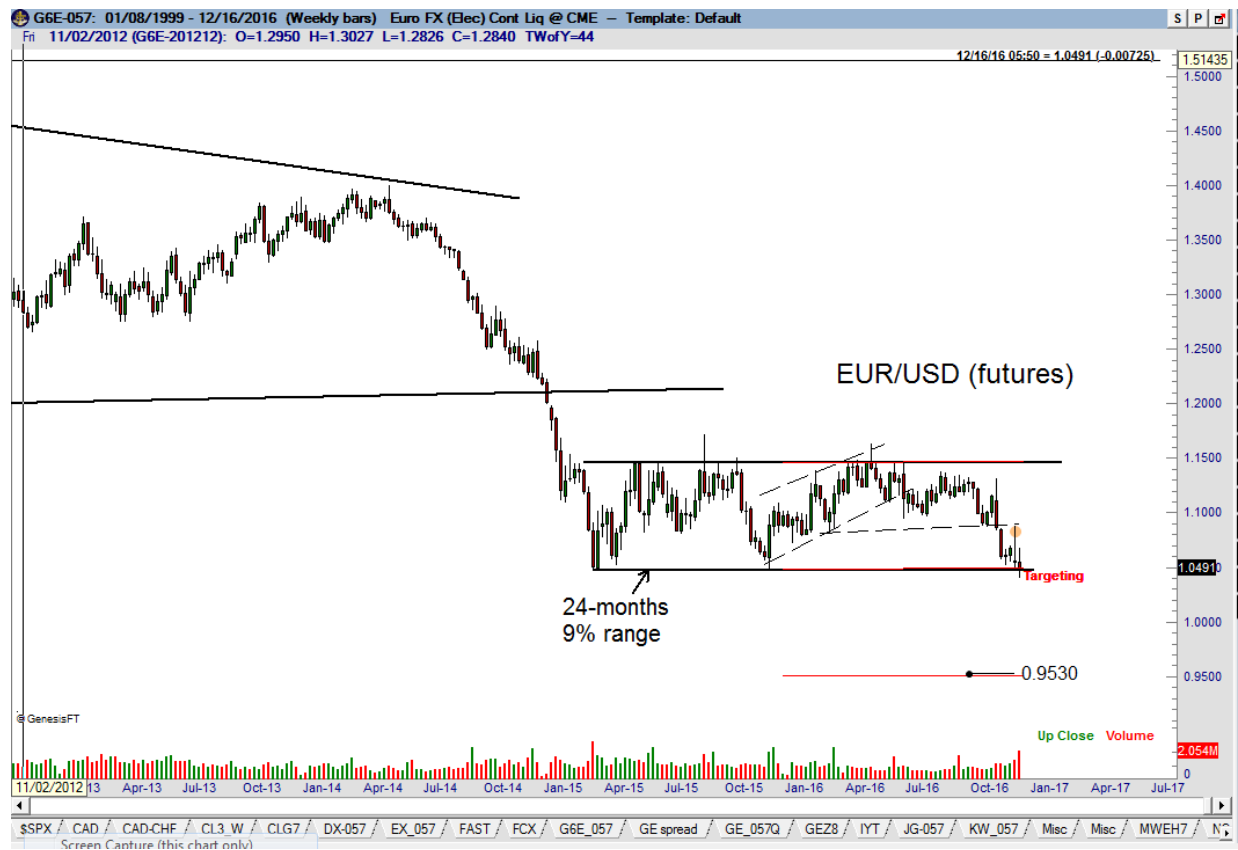
#### Analog-year analysis of periods with lengthy and narrow trading ranges

There is yet another factor coming into play for 2017. EUR/USD has remained in a 24-month trading range of 9.5% low to high. There have been five similarly extensive and narrow trading ranges in the Eurocurrency (and prior ECU) since the early 1970s, including the current period. As indicated, the four extensive and narrow ranges have produced an average subsequent price move of 43%.

Period	Length of range	Height of range	Subsequent trend
Apr 1973 – Aug 1977	53-months	23%	56% advance
Sep 1978 – Nov 1980	27-months	16%	42% decline
Feb 1995 – Mar 1996	13-months	7%	20% decline
Mar 2000 – Jun 2002	26-months	15%	55% advance
Average of the above	30-months	15%	43% change
Jan 2015 – present	24-months	10%	?

These periods are shown in the graphs below and on the next page.





A Factor Special Situation Report on this trading opportunity will be issued at the end of Dec 2016 or early Jan 2017.

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