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26 December 2017

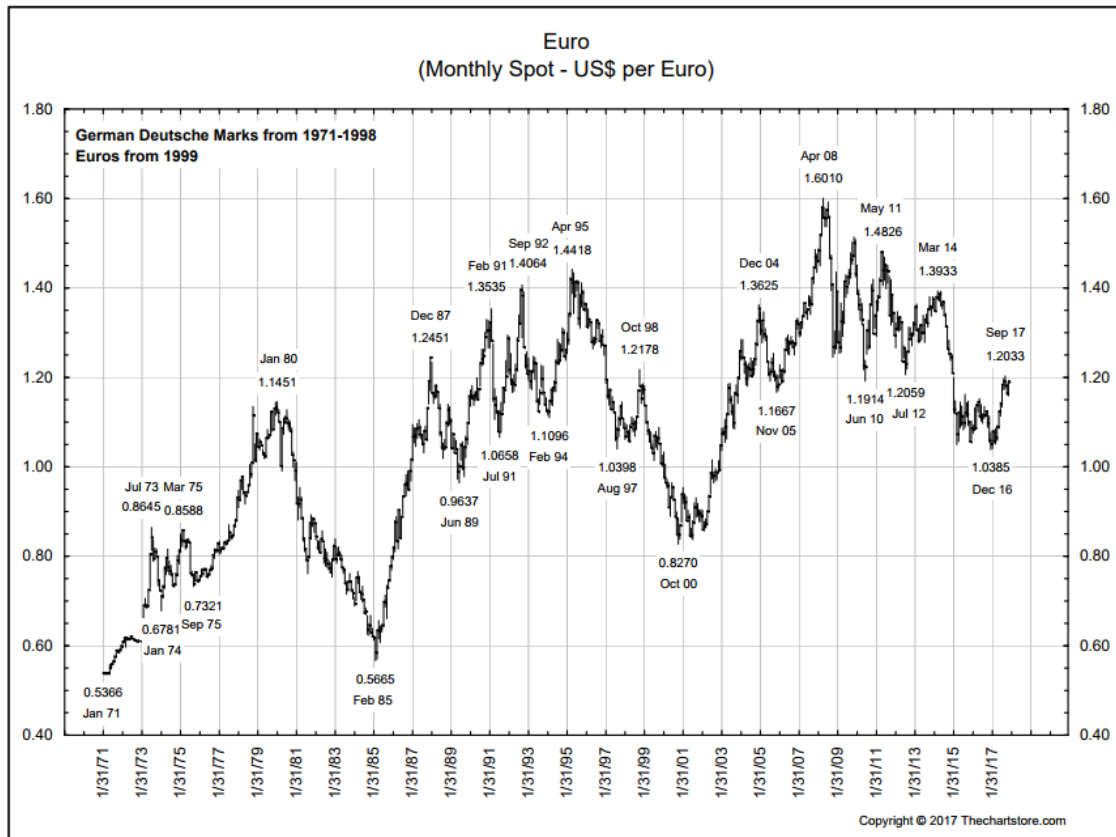
The January EUR/USD Effect

Preface

For a number of years Factor LLC has issued an update of "The January EUR/USD Effect" (previously titled The January FX Effect).

While the effect has been slightly diminished in the past decade, there has been a very strong tendency for the Eurocurrency to establish its annual high or low in the month of January. It is beyond the scope of this document to discuss the reasons for this tendency, but it has to do with annual FX positioning by governments and corporations.

In fact, in 35 of the past 46 years the Eurocurrency has experienced an annual top or bottom in January (actually, in the five of the 25 years the effect occurred during early February). The average subsequent price gain or loss from the January high/low during these years has been 20.1%, not an insignificant amount.



[Note: The Eurocurrency officially became the currency unit of the European Union on January 1, 2002. The price points for the Eurocurrency in this report are based on a pre-2002 trade-weighted basket of European currencies.]

Of course the challenge for traders is to determine whether a newly entered year will mark a low point or high point for the Eurocurrency. Yet, even knowing the probabilities exist for a high or low during a certain time frame can be an enormous edge for sophisticated market speculators. Hopefully, using global macro considerations along with technical factors a trader can make an educated guess early in a new year.

There are some technical considerations we can use to make an educated guess as to whether an annual high or low might occur in January for EUR/USD. Unfortunately not all technical considerations are harmonious, but there is a majority consensus.


Bearish technical considerations

- Commitment of Traders. Commercials currently hold a near-record short position while speculators hold a near record long position. As a general rule I want to be on the side of Commercial interests. A record COT profile is typically resolved in the direction of the Commercials.
- The rally from the Dec 2016 low has bumped up against resistance as represented by the 2010 and 2012 lows.

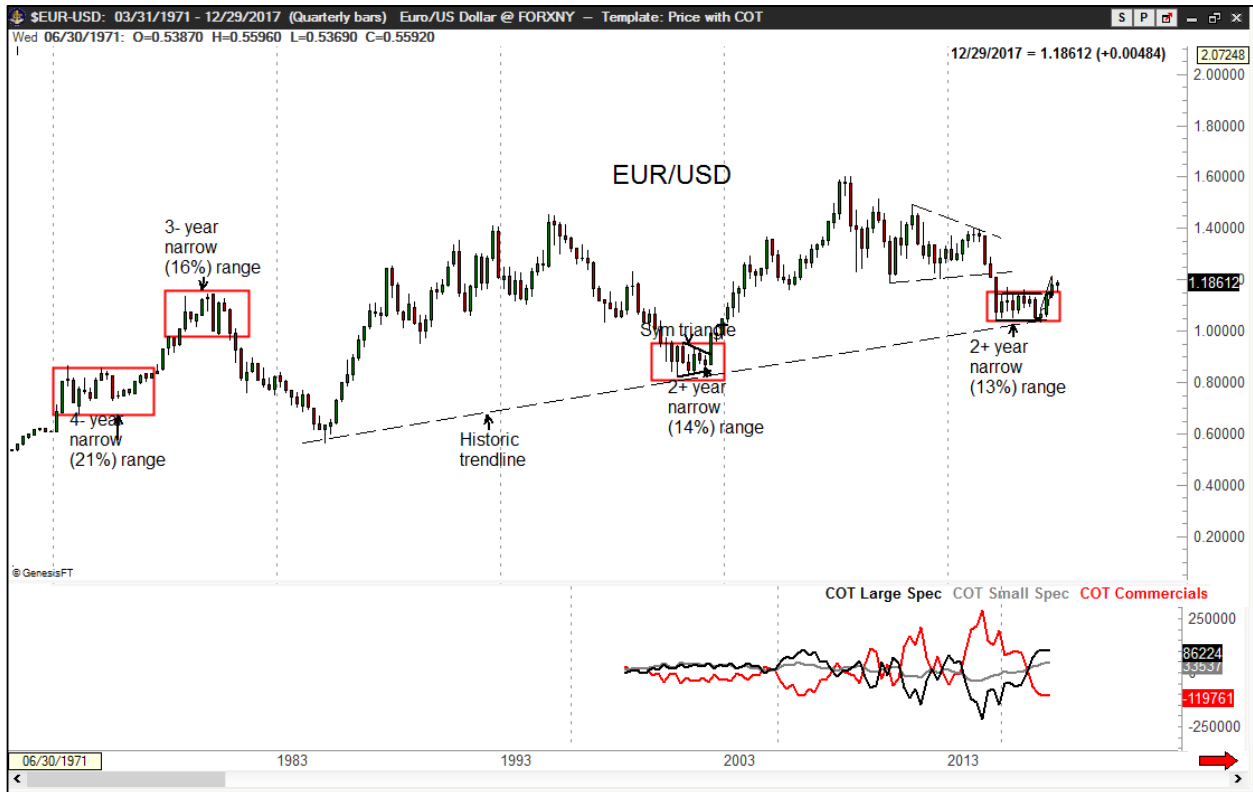
Bullish technical considerations

The bullish technical considerations outweigh the bearish technical considerations.

- Indeed, record/near record Commercial short and Spec long COT profiles generally are resolved in favor of Commercials – but not always. The previous record Commercial short/Spec long COT profile in EUR/USD in 2007 resulted in capitulation by Commercials. From the COT profile peaks in mid-May 2007 EUR/USD advanced 18% during the subsequent 12 months.
- The forex pair found support at and is rallying from a 36-trendline.

					
January FX Effect					
Year	High/Low	Price	Ultimate high/low		% ▲
			Month	Price	
1972	Jan low	0.5975	Jun	0.6219	4.1%
1973	Jan low	0.6085	Jul	0.8644	42.1%
1974	Jan low	0.6773	May	0.8165	20.6%
1975	Jan high	0.8587	Sep	0.7321	17.3%
1976	Jan low	0.7467	Dec	0.8306	11.2%
1977	Jan low	0.8046	Dec	0.9329	15.9%
1978	Jan low	0.9079	Oct	1.1348	25.0%
1979	January Effect was nil				
1980	Jan high	1.1459	Dec	0.9675	18.4%
1981	Jan high	1.0107	Aug	0.7601	33.0%
1982	Jan high	0.8746	Oct	0.7534	16.1%
1983	Jan high	0.8388	Dec	0.7043	19.1%
1984	January Effect was nil				
1985	Feb low	0.5633	Dec	0.7792	38.3%
1986	Jan low	0.7896	Dec	1.0194	29.1%
1987	Jan low	1.0082	Dec	1.2468	23.7%
1988	Jan high	1.2521	Aug	1.0159	23.3%
1989	Jan Effect was nil				
1990	Jan low	1.1269	Nov	1.3343	18.4%
1991	Feb high	1.3554	Jul	1.0603	27.8%
1992	Jan Effect was nil				
1993	Jan high	1.2478	Aug	1.1187	11.5%
1994	Feb low	1.1068	Oct	1.3159	18.9%
1995	Jan low	1.2501	Mar	1.4529	16.2%
1996	Jan high	1.3669	Dec	1.2423	10.0%
1997	Jan high	1.2717	Aug	1.0341	23.0%
1998	Jan Effect was nil				
1999	Jan high	1.1869	Dec	0.9993	18.8%
2000	Jan high	1.0415	Oct	0.8231	26.5%
2001	Jan high	0.9591	Jul	0.8351	14.8%
2002	Jan low	0.8575	Dec	1.0503	22.5%
2003	Jan low	1.0338	Dec	1.2647	22.3%
2004	Jan Effect was nil				
2005	Jan high	1.3582	Nov	1.1637	16.7%
2006	Jan low	1.1789	Dec	1.3369	13.4%
2007	Jan low	1.2864	Nov	1.4967	16.3%
2008	Jan Effect was nil				
2009	Feb low	1.2513	Nov	1.5145	21.0%
2010	Jan high	1.4579	Jun	1.1876	22.8%
2011	Jan Effect was nil				
2012	Feb high	1.3486	Jul	1.2041	12.0%
2013	Jan Effect was nil				
2014	Jan Effect was nil				
2015	Jan high	1.2107	Mar	1.0462	15.7%
2016	Jan Effect was nil				
2017	Jan low	1.0341	Sep	1.2092	16.9%
2018	?	?	?	?	
Average % change 35 of 46 years					20.1%

- Compressed, lengthy and narrow trading zones on charts (all charts) generally produce explosive moves.
- The current advance in EUR/USD was launched from just such a congestion area.
- In the past near-half century there have been only four such congestion zones.



An analysis of trends launched from previous analog periods (extended- and narrow-trading ranges) follows:

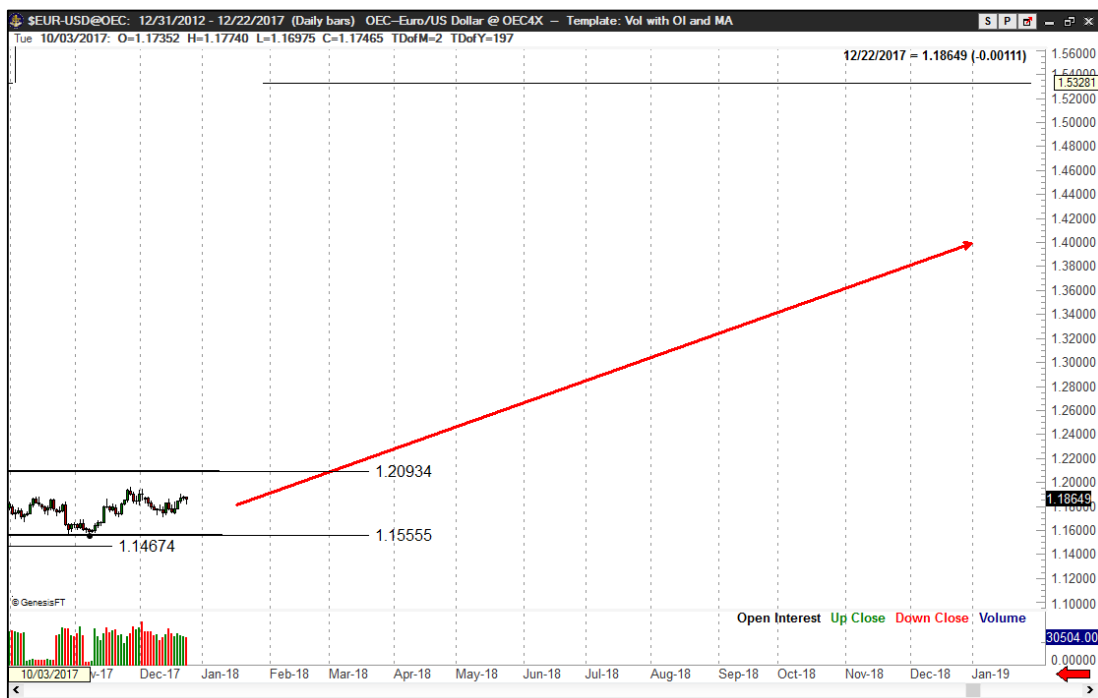
Period	Length	Price extreme within zone	Subsequent high or low	Length of subsequent trend	% Price Movement
4/73 to 6/77	26 months	Low .6773	1.145	30 months	+69%
9/78 to 12/80	50 months	High 1.1460	.5633	51 months	-51%
4/00 to 6/02	30 months	Low .8230	1.5284	72 months	+86%
Avg. of above	35 months	-	-	51 months	▲ 68%
2/15 to 9/17	31 months	Low 1.0340	1.2908	6 months to date	+17% to date

To date, the rally from the underlying narrow range and prolonged congestion zone has been meager and very short lived. History would indicate that the present advance has substantial upside distance to move over a much more prolonged time period. The upside target of this current advance should be \$1.37xx if only half of the average price moves (34%) from previous analog periods is applied.

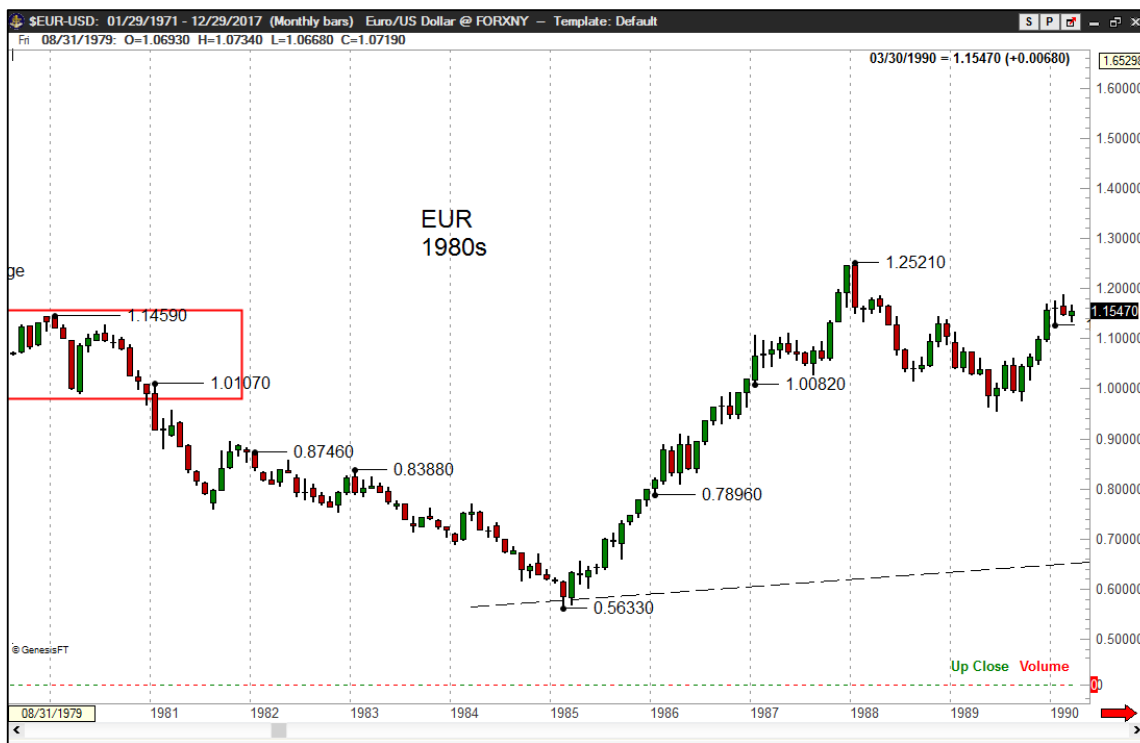
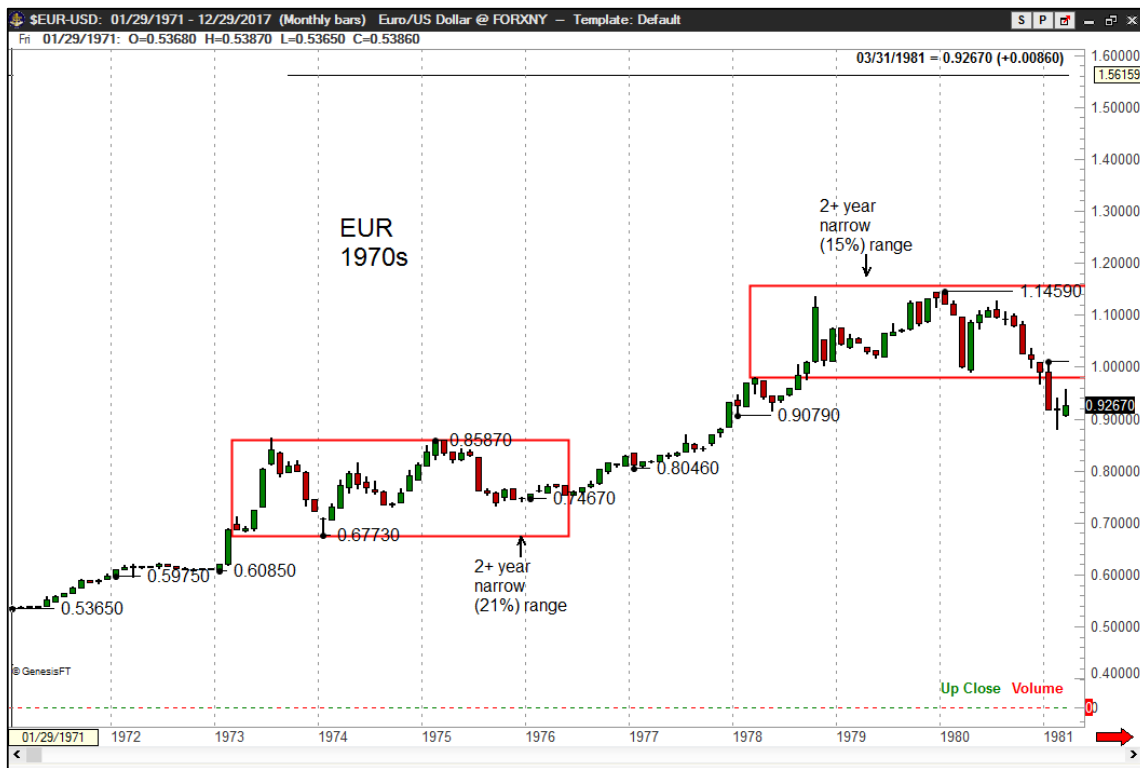
Summary

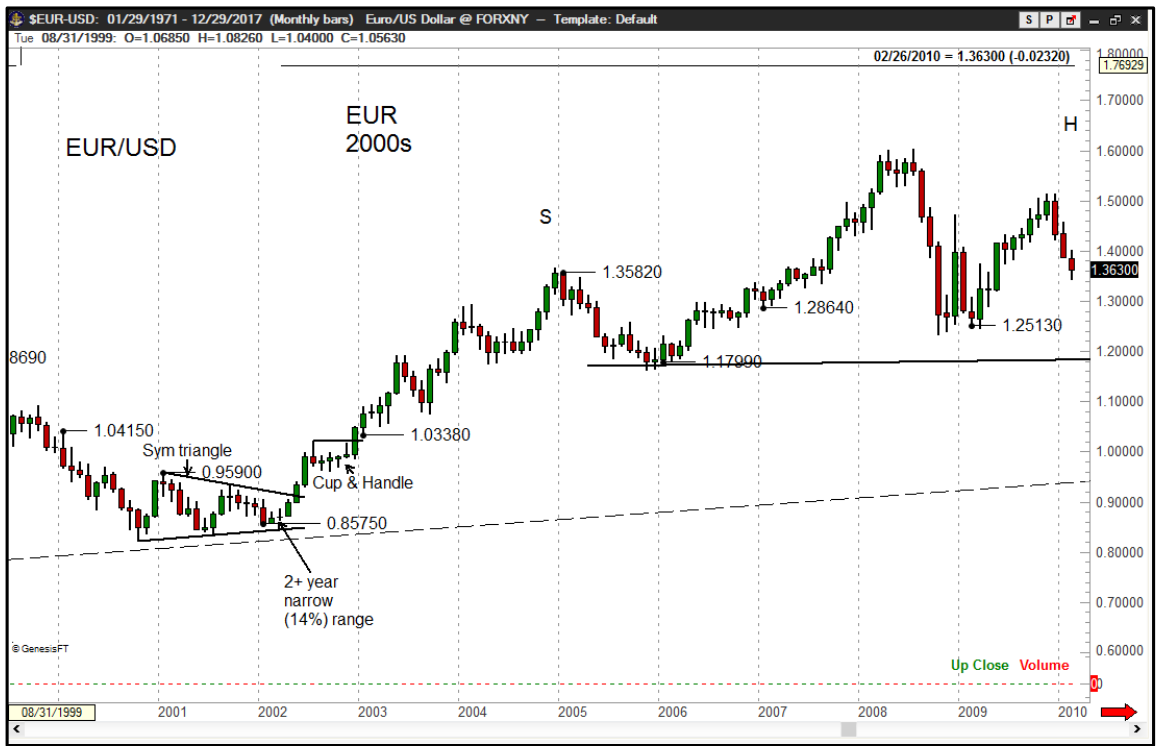
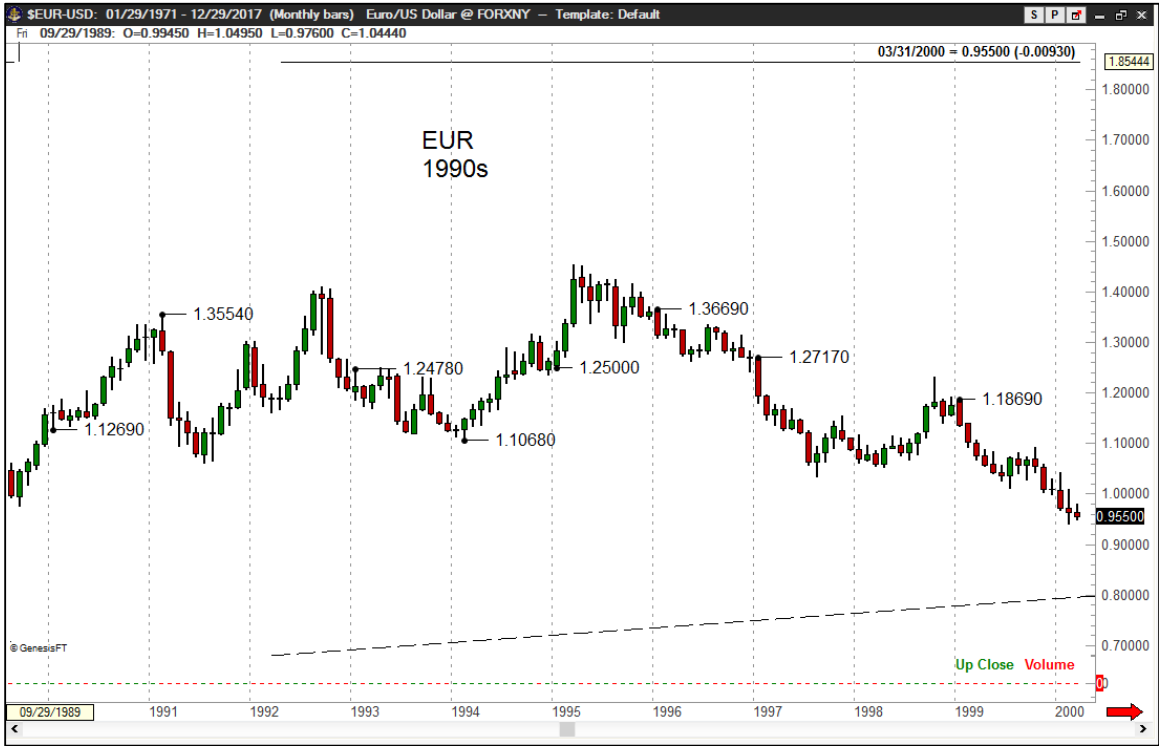
- There is an extremely strong tendency for EUR/USD to establish its annual high or low price in January. In fact, an annual low or high in EUR/USD has occurred in 75% of all years.
- EUR/USD found support at a 46-year trendline in early 2016 and has established an uptrend from that low.
- The advance in July 2017 completed a prolonged 31-month narrow-range trading range.
- Only four prolonged narrow-range trading ranges have occurred in EUR/USD, including the range recently completed. Factor has defined these as analog periods.
- The historical average price move (advance or decline) from the previous three analog periods was 68%.
- A 68% advance applied to the 2016 low would produce a target of \$1.7180. Half that advance (34%) would produce a target of \$1.37.
- The only factor holding this current advance back is the record Commercial short position. Such positioning is typically a bearish factor in speculative markets – but not always.
- The previous period of a record Commercial short position in EUR/USD resulted in capitulation by Commercial interests and an 18% advance. An 18% advance from the current EUR/USD price level would produce a target of \$1.40.

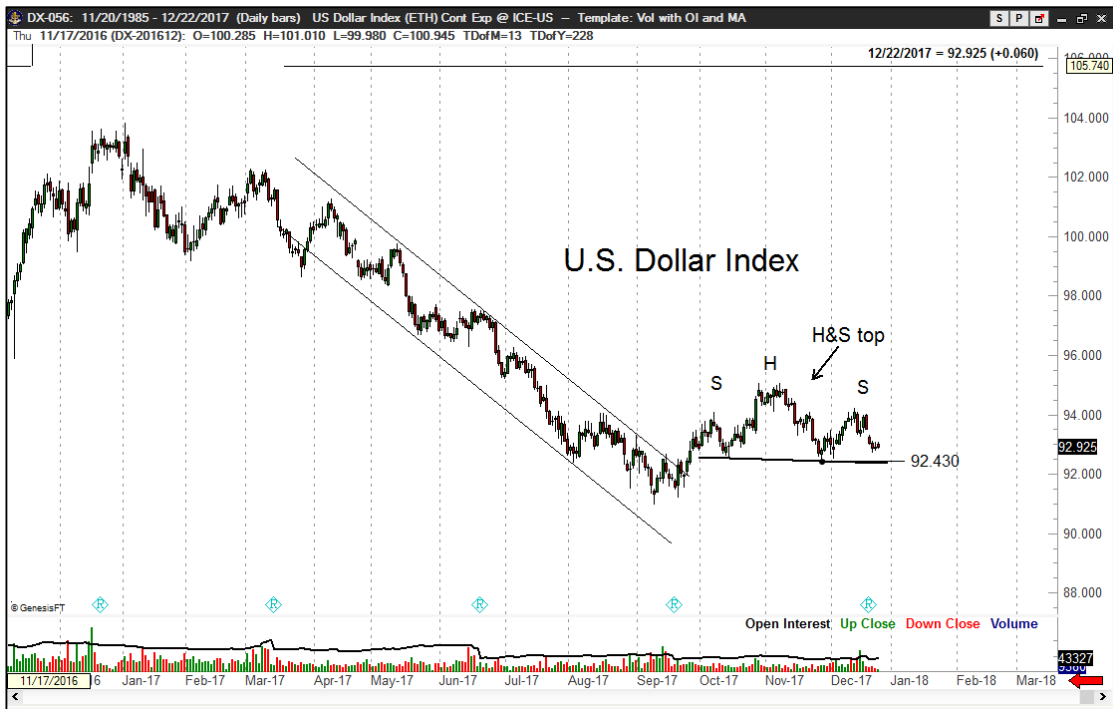
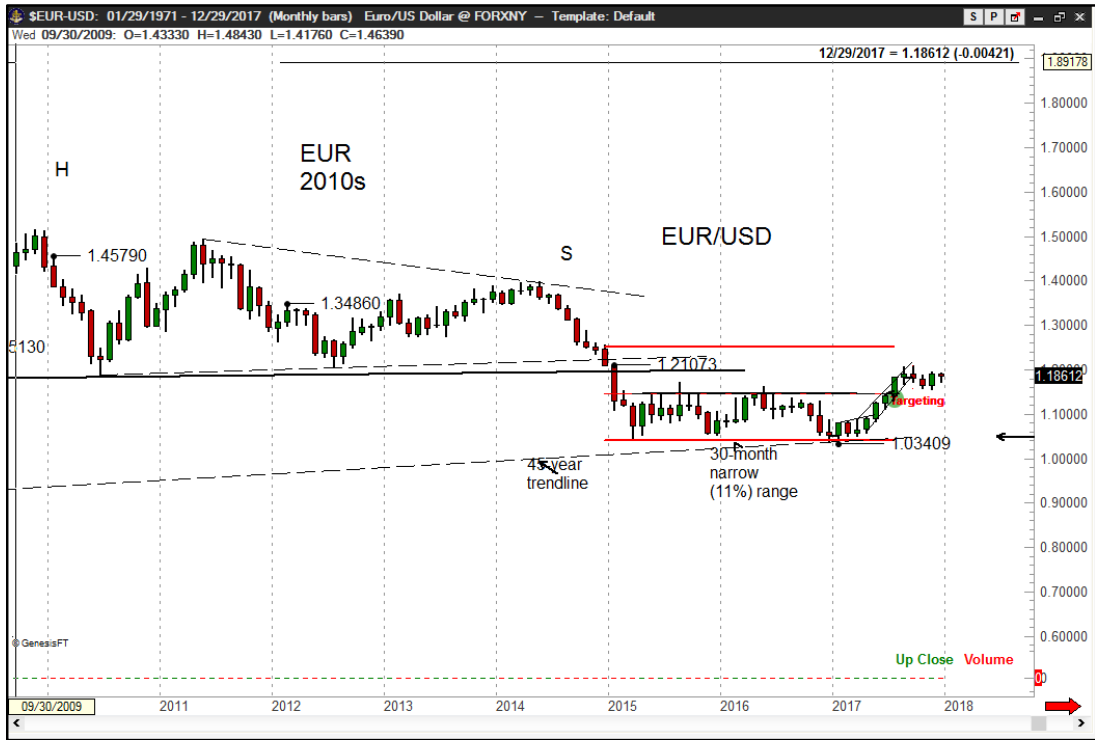
It is my conclusion that a January low is likely occur in EUR/USD in 2018. I will be looking for a January low in the 1.1550 to 1.2100 zone followed by an advance toward 1.39xx in 2018. The daily graph of EUR/USD presently does not provide a clearly defined classical chart patterns by which to establish a long position. However, as shown on the last page, the US Dollar Index daily chart exhibits a continuation H&S top pattern. The U.S. Dollar Index and EUR/USD are highly correlated (on an inverted basis). Short USDX would be a way to express a long EUR/USD position.



Monthly EUR/USD price charts by decade and the daily chart of USDX follow.







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