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

26 December 2023

| | |
|---|---|
| # The January EUR/USD Effect | In cooperation with **REAL** V **ISION** |

Preface

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

There has been an <u>extraordinarily strong</u> historical tendency for the Eurocurrency to establish its annual high or low in the month of January/early February. It is beyond the scope of this document to discuss the reasons for this tendency, but it likely has to do with annual FX positioning by governments and corporations.

In fact, in 40 of the past 52 years (a 77% rate), the Eurocurrency (or European trade-weighted proxy prior to 2002) has experienced an annual top or bottom in January (or early in February). The average subsequent price gain or loss from the January high/low during these years has been 19.1%, not an insignificant amount, especially considering the size of the FX market.



Euro
(Monthly Spot - in US$)
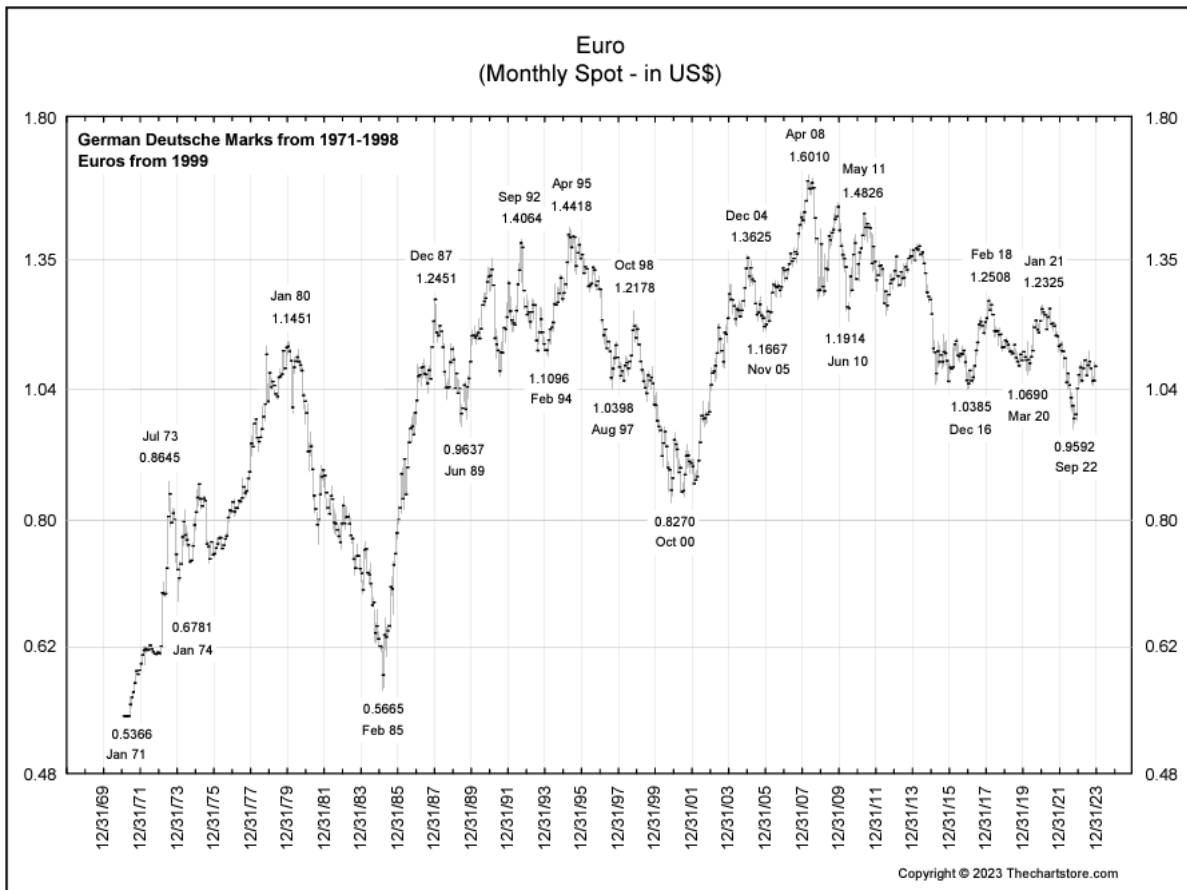
Of course, the challenge for traders is to determine whether January of a newly entered year might mark a low point <u>or</u> high point for the Eurocurrency. Yet, even knowing the probabilities exist for a high or low during a certain time frame can be an enormous edge for sophisticated market speculators. Hopefully, using global macro considerations along with technical factors, a trader might make an educated guess early in a new year.

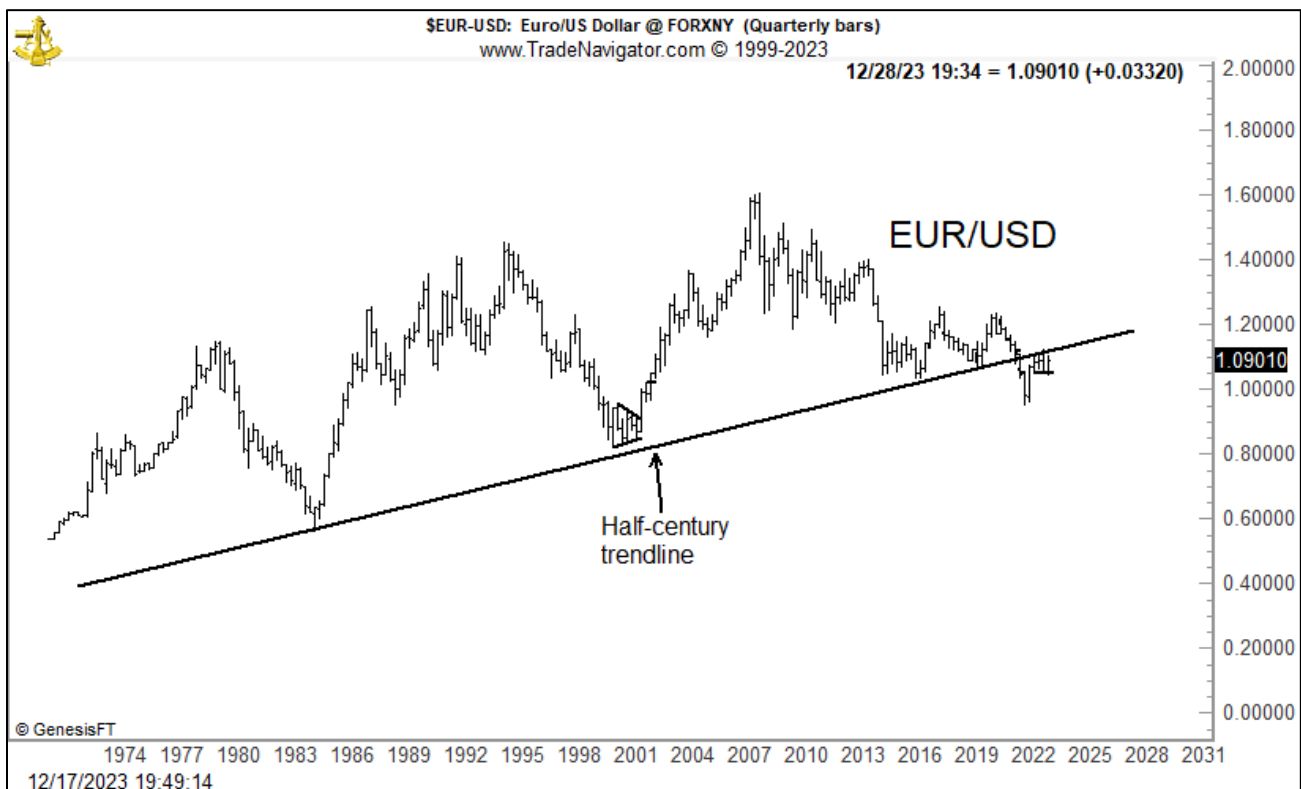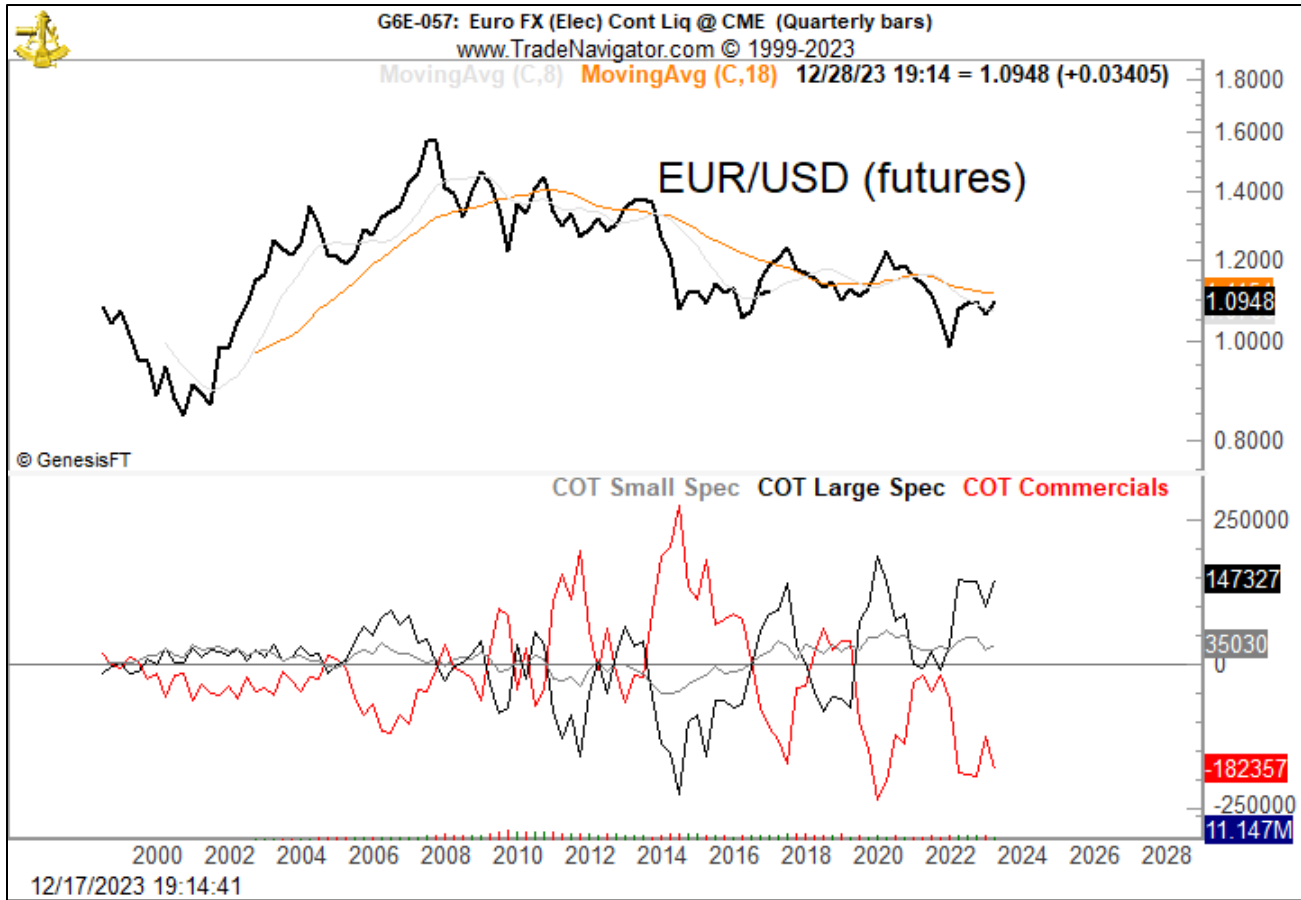There are some factors to be considered as we anticipate 2024.

Bullish USD technical considerations
- The long-term 15-year trend in the EUR-FX from the 2008 high remains down. Trends in currency markets tend to persist longer than expected.
- The rally in the EUR-FX from the Sep 2022 low has simply retest the under belly of a 50-year trendline, broken in Jun 2022 (see chart on bottom of page 3).
- Commercials are holding an historically large short position of -22.8 billion Euros while hedge funds and small specs are historically long. See the COT profile on the chart on the top of page 3. This is the largest commercial short position at the start of a new year in the history of COT data.
- EUR has formed a one-year support level at 1.0450. A close below this level could lead to a downside follow-through with hedge funds and small specs being forced out of their long EUR holdings.
- The one-year trading range is tracing a classic head and shoulders chart pattern (see chart on bottom of page 6).
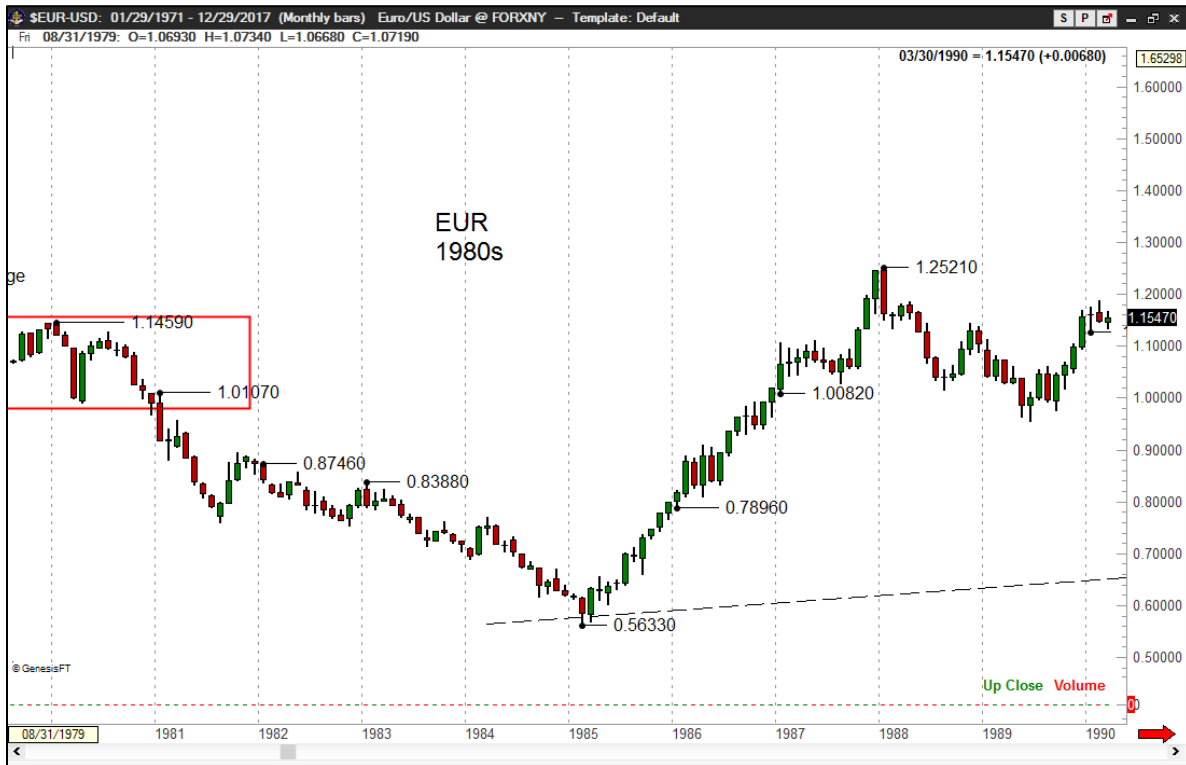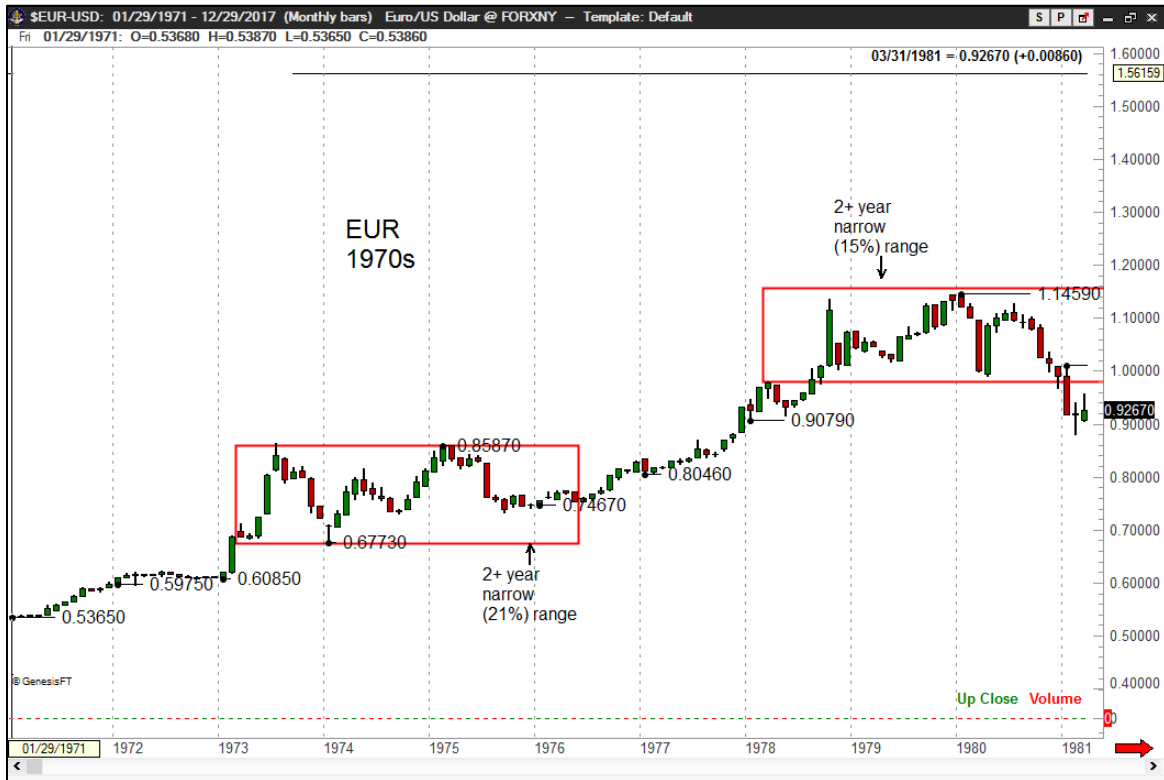
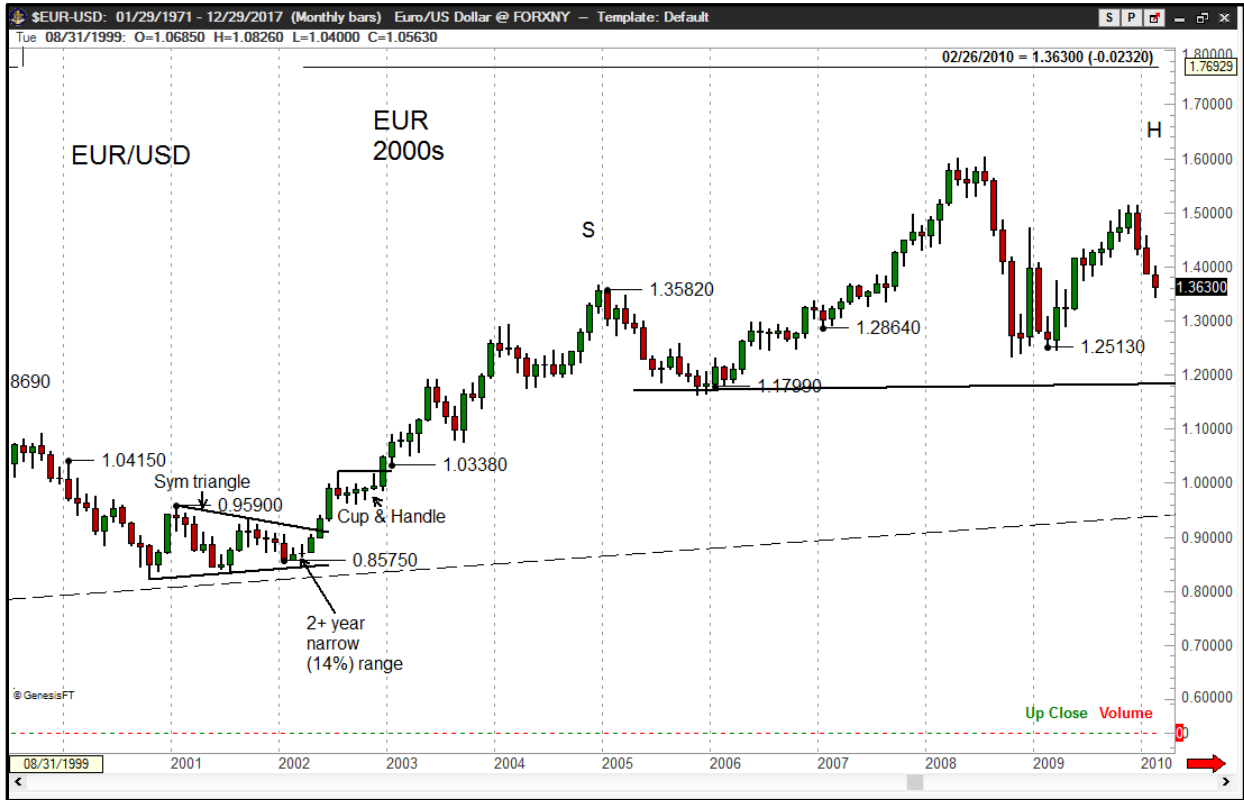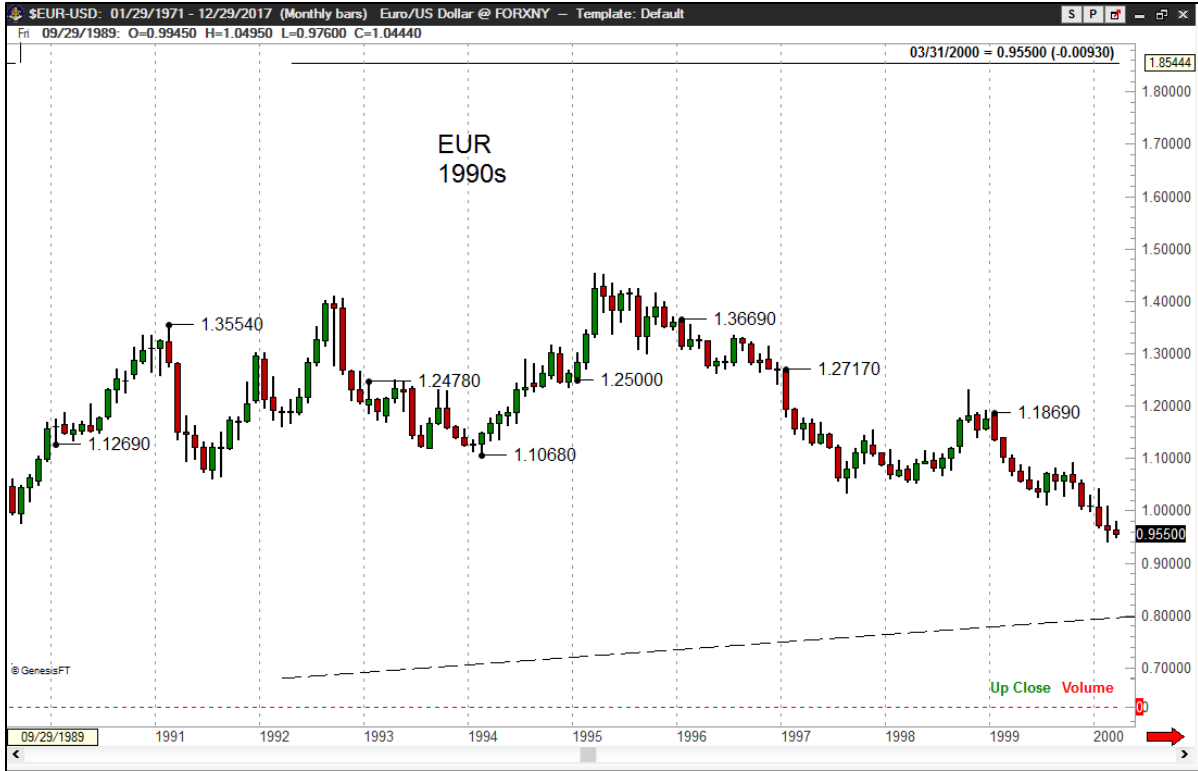Bullish EuroFX technical considerations
- A resolution of the Ukrainian War could provide a spark to the European economies.
- QE policies by the U.S. Fed could put downward pressure on the U.S. Dollar (upward pressure on the Euro-FX). The interest rate differential between the ECB (4.5%) and U.S. (5.5%) slightly favors the U.S. Dollar
- The U.S. debt load is a headwind for the USD.
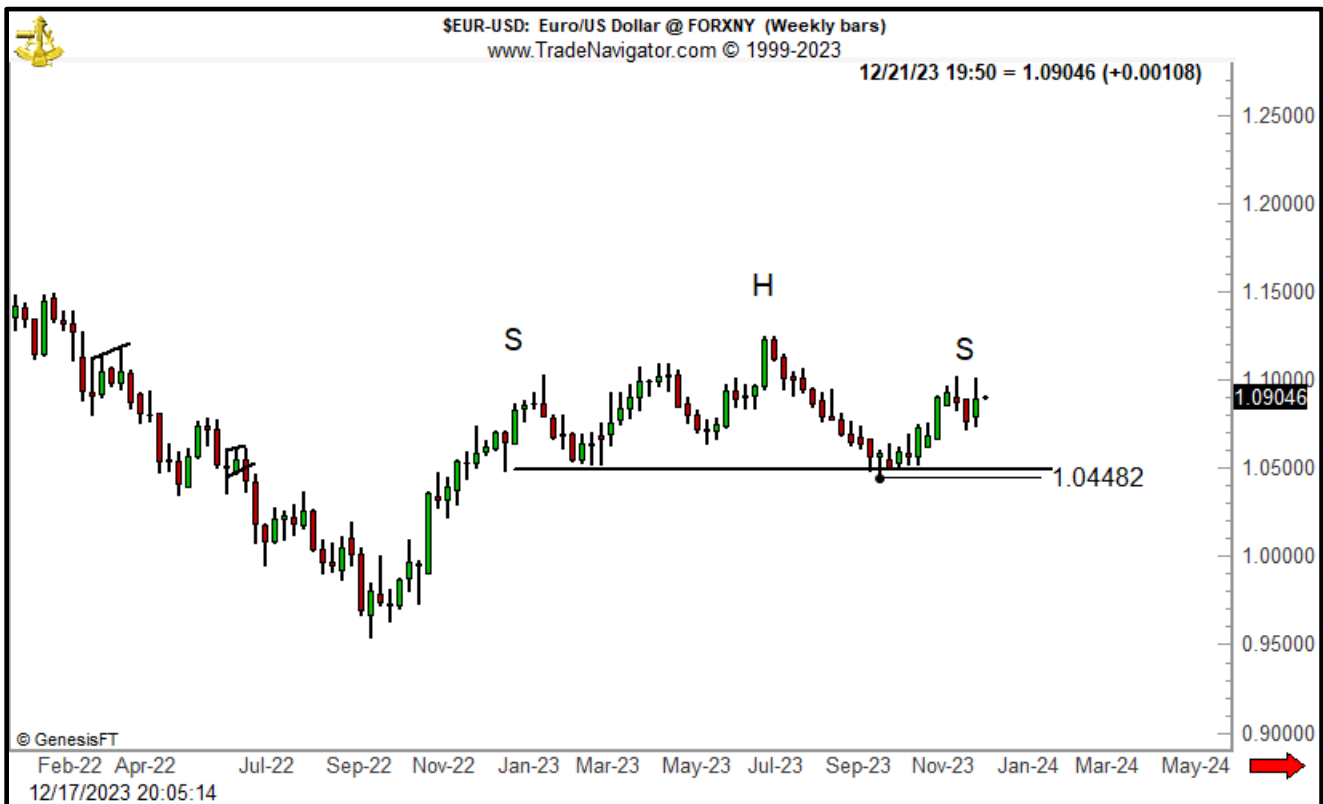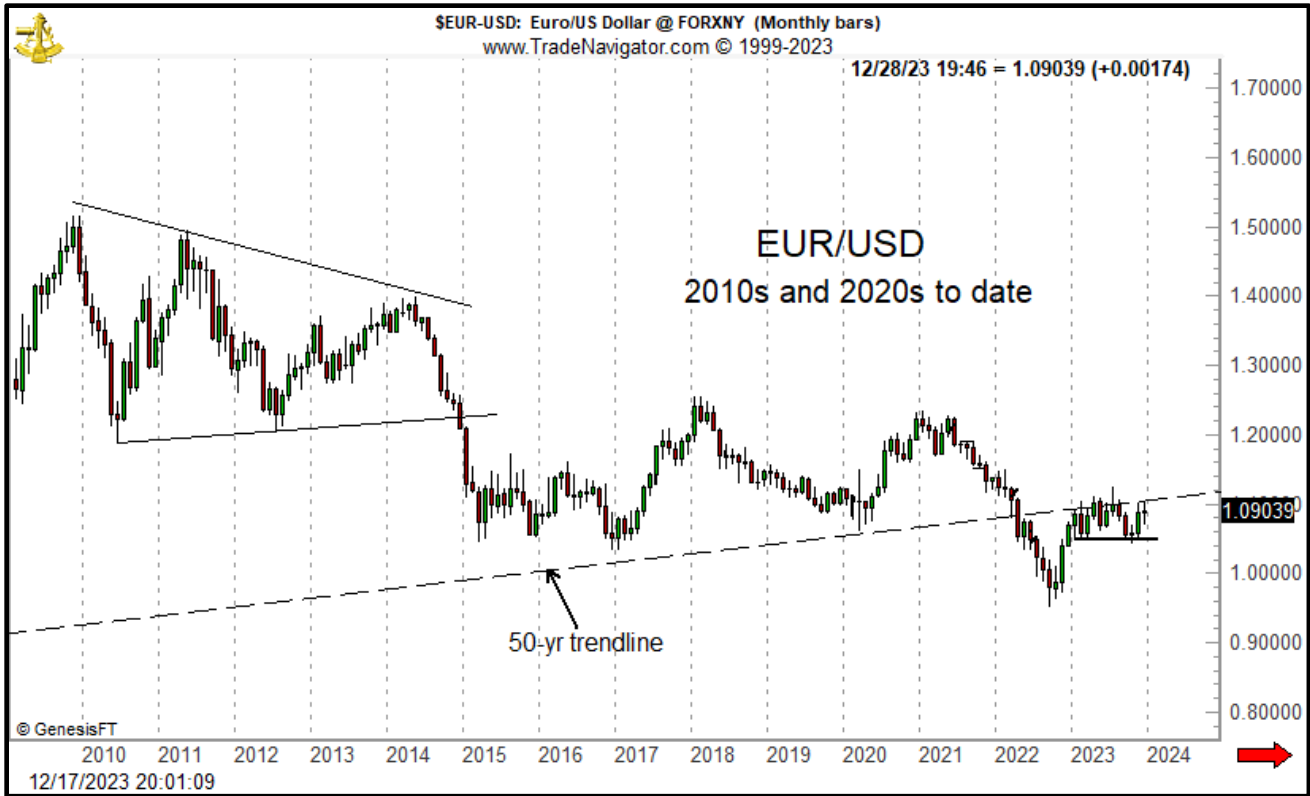- The one-year trading range in EUR could become a continuation pattern to support an advance.

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**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 | | Range bound | | | |
| 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 | | Mar high | | | |
| 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 | | Range bound | | | |
| 1990 | Jan low | 1.1269 | Nov | 1.3343 | 18.4% |
| 1991 | Feb high | 1.3554 | Jul | 1.0603 | 27.8% |
| 1992 | | Range bound | | | |
| 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 | | Range bound | | | |
| 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 | | Range bound | | | |
| 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 | | Range bound | | | |
| 2009 | Feb low | 1.2513 | Nov | 1.5145 | 21.0% |
| 2010 | Jan high | 1.4579 | Jun | 1.1876 | 22.8% |
| 2011 | Jan low | 1.2858 | May | 1.4939 | 16.2% |
| 2012 | Feb high | 1.3486 | Jul | 1.2041 | 12.0% |
| 2013 | | Range bound | | | |
| 2014 | | Range bound | | | |
| 2015 | Jan high | 1.2107 | Mar | 1.0462 | 15.7% |
| 2016 | | Range bound | | | |
| 2017 | Jan low | 1.0341 | Sep | 1.2092 | 16.9% |
| 2018 | Jan high | 1.2537 | Nov | 1.1257 | 11.4% |
| 2019 | Jan high | 1.1569 | Oct | 1.0879 | 5.6% |
| 2020 | Mar low | Mar low, then strong trend, Jan Effect delayed 2 mos | | | |
| 2021 | Jan High | 1.2349 | Nov | 1.1186 | 9.4% |
| 2022 | Jan High | 1.1484 | Sep | 0.9536 | 17.0% |
| 2023 | | Range bound | | | |
| **Average % change 40 Jan Effect years of 52 total years** | | | | | **19.1%** |

## G6E-057: Euro FX (Elec) Cont Liq @ CME (Quarterly bars)

www.TradeNavigator.com © 1999-2023

MovingAvg (C,8)   **MovingAvg (C,18)**   12/28/23 19:14 = 1.0948 (+0.03405)

**EUR/USD (futures)**

1.0948

**COT Small Spec**   **COT Large Spec**   **COT Commercials**

147327

35030

-182357

11.147M

2000 2002 2004 2006 2008 2010 2012 2014 2016 2018 2020 2022 2024 2026 2028

12/17/2023 19:14:41

## $EUR-USD: Euro/US Dollar @ FORXNY  (Quarterly bars)

www.TradeNavigator.com © 1999-2023

12/28/23 19:34 = 1.09010 (+0.03320)

**EUR/USD**

1.09010

Half-century
trendline

1974 1977 1980 1983 1986 1989 1992 1995 1998 2001 2004 2007 2010 2013 2016 2019 2022 2025 2028 2031

12/17/2023 19:49:14

# Monthly EUR/USD price charts by decade

EUR
1990s

$EUR-USD: 01/29/1971 - 12/29/2017 (Monthly bars)   Euro/US Dollar @ FORXNY   — Template: Default

Fri   09/29/1989: O=0.99450  H=1.04950  L=0.97600  C=1.04440

03/31/2000 = 0.95500 (-0.00930)

1.35540
1.12690
1.24780
1.36690
1.25000
1.27170
1.18690
1.10680
0.95500

Up Close   Volume

© GenesisFT



$EUR-USD: 01/29/1971 - 12/29/2017 (Monthly bars)   Euro/US Dollar @ FORXNY   — Template: Default

Tue   08/31/1999: O=1.06850  H=1.08260  L=1.04000  C=1.05630

02/26/2010 = 1.36300 (-0.02320)

EUR
2000s

EUR/USD

H

S

1.35820
1.28640
1.25130
8690
1.17990
1.04150
Sym triangle
0.95900
1.03380
Cup & Handle
0.85750
2+ year
narrow
(14%) range

Up Close   Volume

© GenesisFT

1.36300

$EUR-USD: Euro/US Dollar @ FORXNY (Monthly bars)
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12/28/23 19:46 = 1.09039 (+0.00174)

EUR/USD
2010s and 2020s to date

50-yr trendline

© GenesisFT
12/17/2023 20:01:09



$EUR-USD: Euro/US Dollar @ FORXNY (Weekly bars)
www.TradeNavigator.com © 1999-2023
12/21/23 19:50 = 1.09046 (+0.00108)

H
S        S

1.04482

© GenesisFT
12/17/2023 20:05:14

| Summary of January Forex Effect (EUR/USD) | | | |
|---|---|---|---|
| 1972-2023 | | | |
| Percent of year with annual highs or lows in January = 77% | | | |
| Total # years | EUR up years w/ Jan/Feb bottoms | EUR down years with Jan/Feb tops | Non-Jan top/bottom years |
| 52 | 19 | 21 | 12 |
| 100% | 37% | 40% | 23% |
| Avg Gain/loss | 20.60% | -17.70% | NA |
| Source: Factor Research and Trading, Inc. | | | |

plb
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