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Special Report – 08/18/10

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In early December 2009, I wrote a special report as the US dollar appeared to be breaking out of the down trend that it had been most of 2009. With all the talk at that time about the demise of the US dollar, a dollar rally may have seemed to be out of place. The US dollar did indeed rally from that point and met the first target – the green modified Schiff Median Line. Prices continued to rally through the first part of June but ran into stiff resistance at the horizontal resistance line. Price failed to reach the upper Median Line parallel and retraced.



The US dollar is now showing similar signs that it did back in late 2009. Price recently broke above a steep down sloping channel. This is very similar to price action at the end of 2009. Price broke out of a down sloping channel and marched on to a multi-month rally.

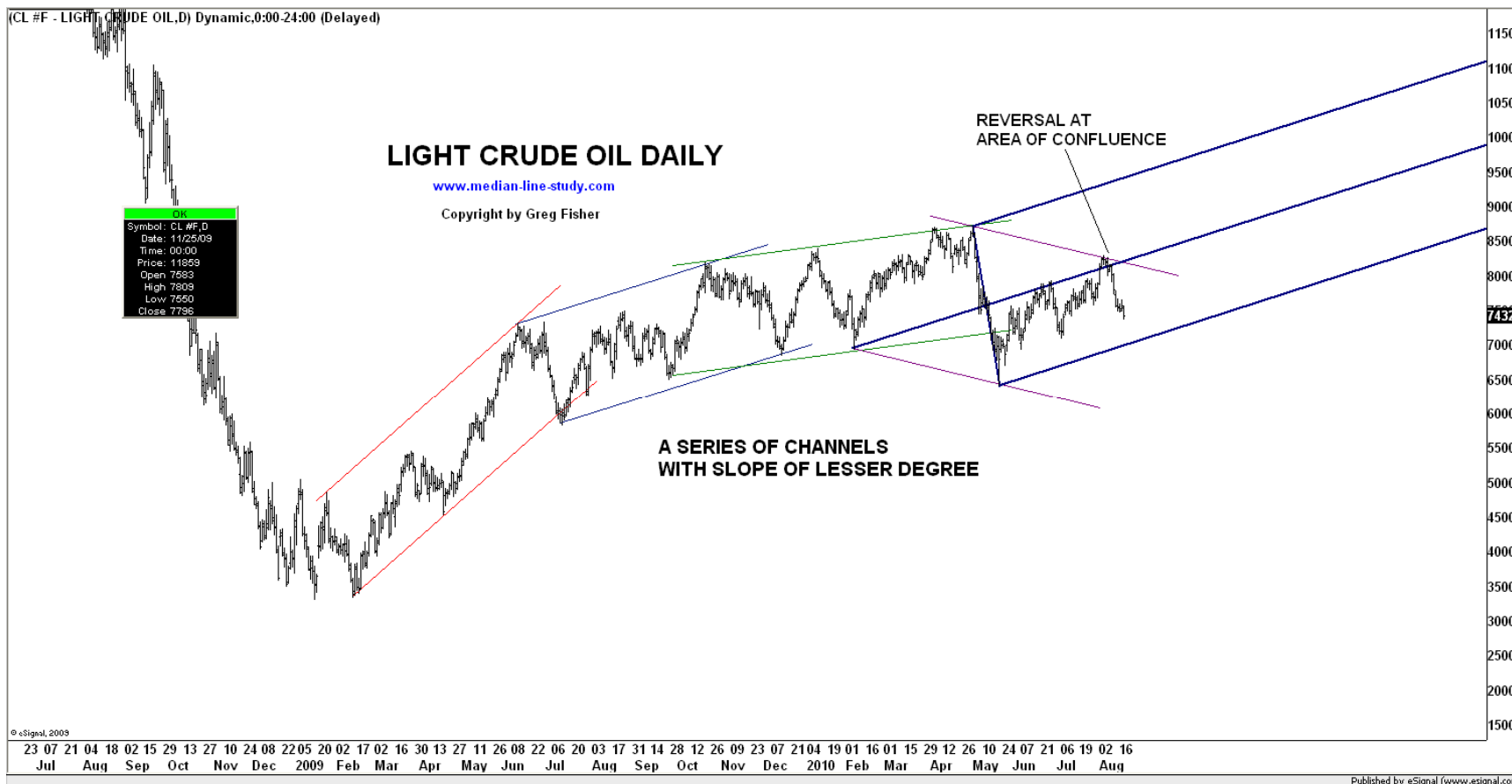
In addition, price recently found support on the blue lower Median Line parallel right near the 61.8% retracement level from the P2 to P3 pivots. This level is also a horizontal support level from price action earlier this year.

Price has retraced after breaking out of the channel. However, if price stays above the blue lower Median Line parallel and the swing low marked, "P4?", a rally is likely underway in the US dollar that will take price back at least to the P3 high if not higher.



Let's look at a couple of other markets. Oil has been moving in a series of channels since early 2009. The slope of the channels has gradually become less and turned from up sloping to down sloping channels. The most recent channel illustrated by the purple lines is the first down sloping channel. The channel lines illustrate how this market has "rolled over" the past several months. Price recently reached the purple upper channel line near the blue Median Line – an area of confluence – where price is expected to do something significant – often reversing or accelerating through the area.

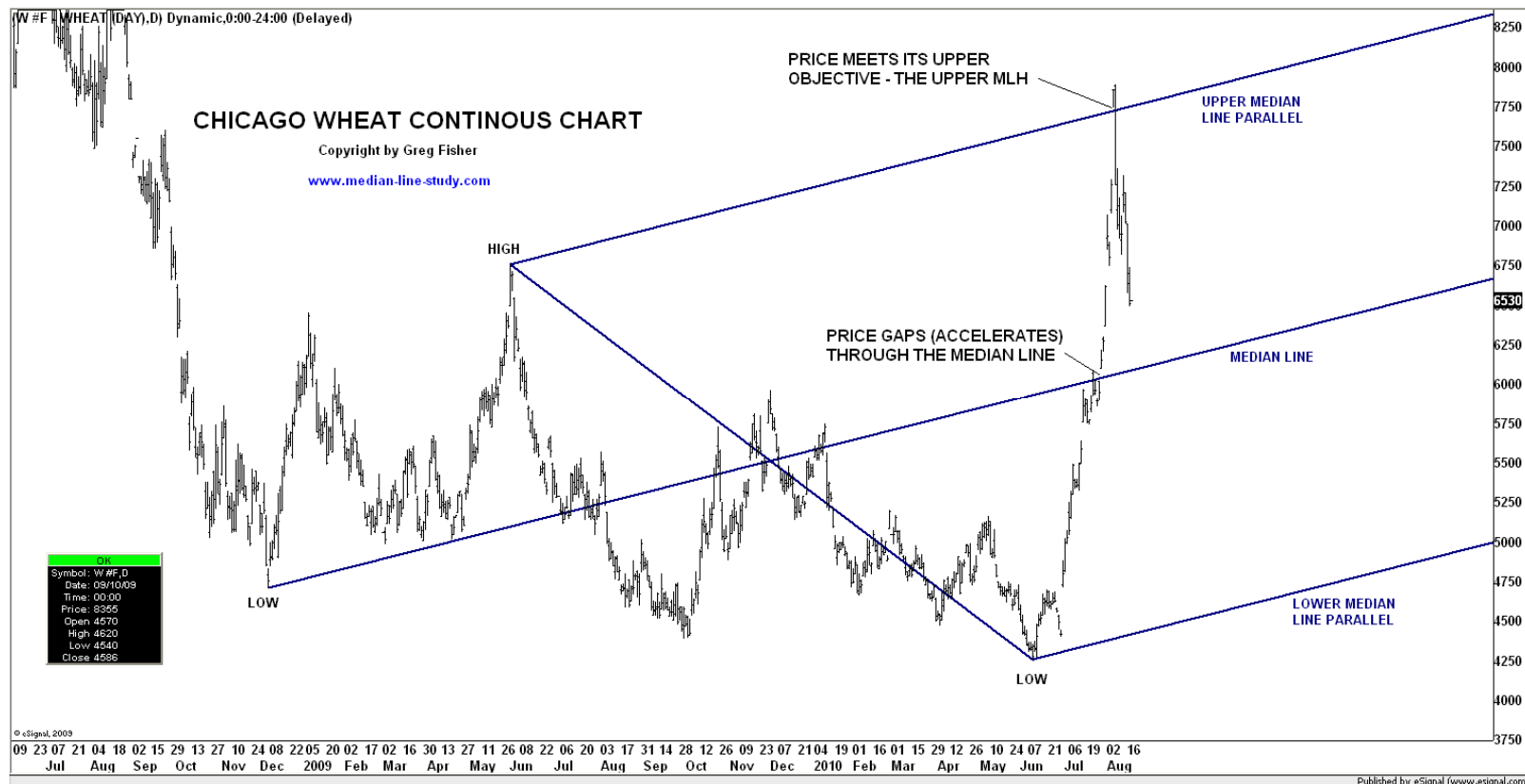
If price follows its prior behavior, a move lower to the lower purple channel line is likely. If the US dollar as at the beginning stages of a rally, this would support the conclusion that weakness in oil lies ahead.



Who cared about wheat until the past month? Well, I for one, as my father raises hard red winter wheat (traded on the Kansas City Board of Trade). Dad and I had several conversations as the “Russian wheat scare” made headlines. Chicago wheat seems to chart better, so I present that below.

It was an interesting journey as we began discussing prices as it reached the blue Median Line. I told him it may be time to start thinking about selling part of the crop as price approached the blue Median Line. As anyone that follows Median Line theory knows, price is expected to reverse or accelerate through the Median Line, but you don’t necessary know which one.

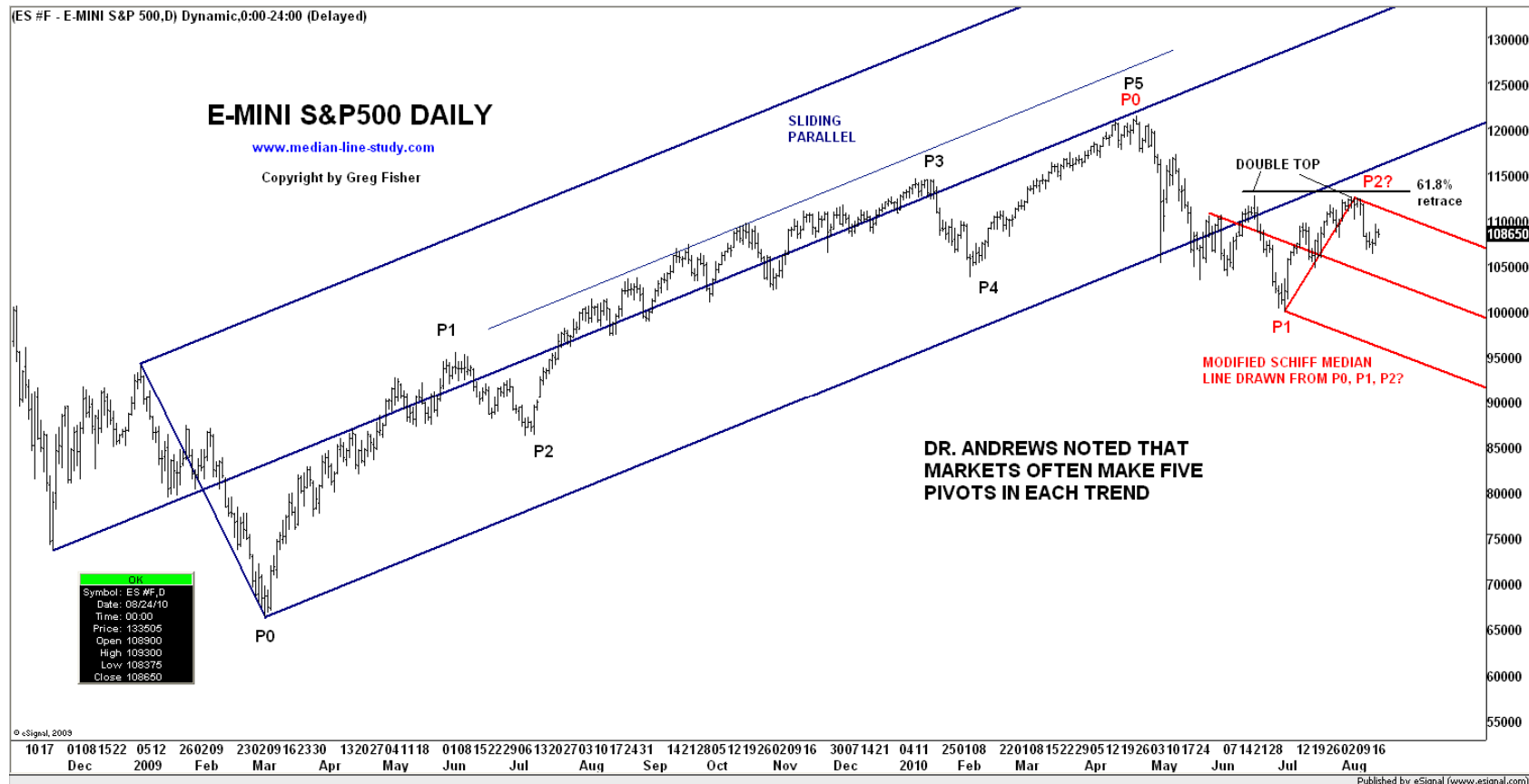
Price looked to be reversing, but quickly turned higher and began a series of extremely strong moves up as the news about the Russian wheat crop broke. I told Dad, “You know it doesn’t hurt to sell a little at a time on the way up – cause when it breaks it will break hard.” There were several horizontal resistance lines along the way that could have stopped price in its tracks, but they didn’t. Median Line theory suggests if price accelerates through the Median Line, it should reach the upper Median Line parallel about 80% of the time. I had the blue Median Line set drawn on the charts for awhile, but I thought, “Can price really make it to the upper Median Line parallel?” I had my doubts. The day Russia announced it would suspend exports price gapped higher and hit the blue upper Median Line. It has dropped considerably since. Lesson learned – trust the lines!



When the US dollar turned in late 2009 and staged a rally, stocks did not turn down as has often been the relationship between the two markets. Stocks marched higher until the end of April. The rally marked out five distinct pivots. Dr. Andrews stated that markets will often make five pivots during a trend before reversing trend. Since the P5 pivot in late April prices have fallen.

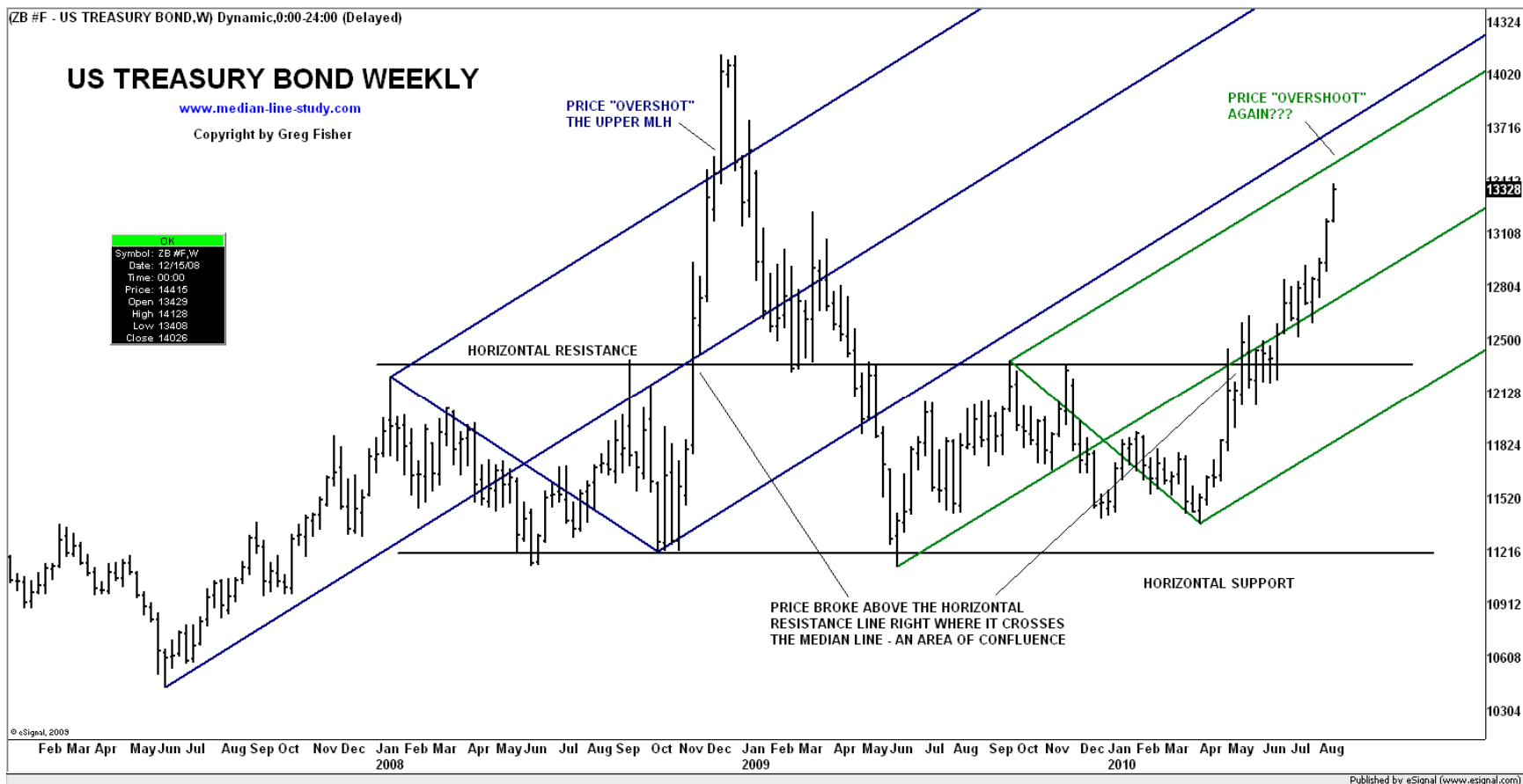
Recent price action suggests that the rally from P1(red) may be ending. Price has recently fallen from what is essentially a double top near the 61.8% retracement from the P0(red) to P1(red) pivot. Assuming P2(red) is in place, price will likely move lower inside the red modified Schiff Median Line set and first move to a P3(red) low that will be lower than the P1(red) swing low – price should drop below 1,000 before forming P3. Assuming price will follow a five pivot structure on the way down, a retracement higher will follow the P3(red) low forming a P4(red) swing high, and then another leg down will take stocks even lower.

A more pessimistic path for price to take is a standard Median Line drawn from P0(red), P1(red), P2(red). This Median Line set has much steeper down sloping lines than the red modified Schiff Median Line set. Price is currently making a move upward. As long as price stays below the “P2?(red)” pivot this downward scenario is the most likely scenario. Will the US dollar and stocks “regain” their prior behavior as an inverse relationship – US dollar up and stocks down?



Price action in the US Treasury bond has had remarkable similarities as the “flight to safety” in 2008. Outside of the sharp move in late 2008 and since May of 2010, price has remained within a horizontal trading range. When price broke above the upper end of the range in 2008 right at the blue Median Line, price rocketed higher right through the blue upper MLH. When price broke through the upper end of the range in May of this year – it once again occurred right near the green Median Line.

Of particular interest is the fact the slope of the lines (blue and green) is nearly identical. The move through the green Median Line has been at a slower rate than in 2008, however, the results may end up being nearly the same. Price rose all the way up to and through the blue upper MLH. Price is nearing the green upper MLH suggesting time may soon be up for the rally in 2010.



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