MSA

September 7, 2022

Dollar Index in time-scale layers: topping process likely underway

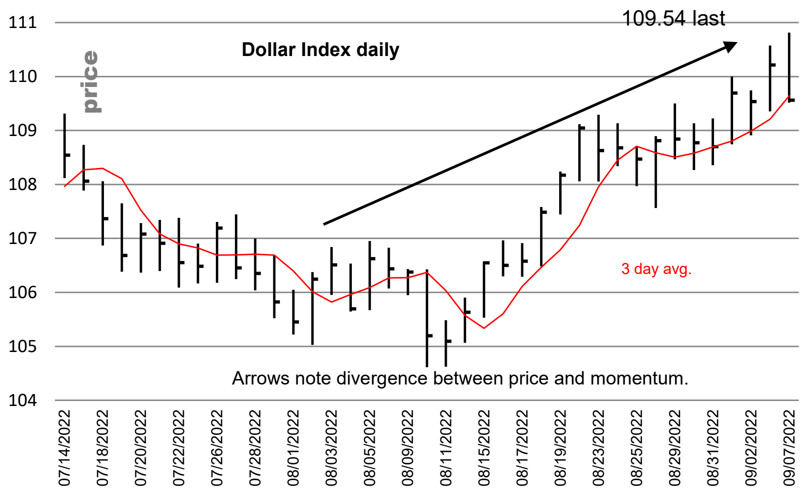
Our primary focus on the Dollar "Index" (over 57% of it is just the Euro—hardly a broad index) is based on our expectations for gold. While in the long run the Dollar's correlation to gold is flimsy, recently we acknowledged that the Dollar's strength relative to other pieces of paper has in fact been inverse to gold's action.

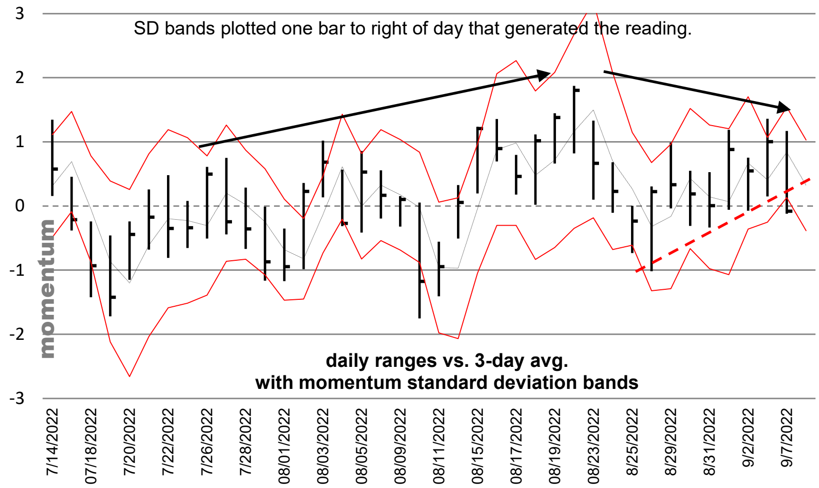
We note that in early May the Dollar Index took out its prior flat range of price chart highs (a narrow percentage range going back to 2015) when it traded up to 104. Over the next four months it has since gained 6.5% (only +5.3% at the time of this report). But during that same time gold refused to take out its clear and flat price range bottom (defined by lows: **$1673.30** in March 2021; **$1674.7** in August 2021; **$1678.4** in July 2022; and **$1689.8** this month). No doubt many traders are confidently short gold in full expectation of a glorious (and they believe sustained) collapse in gold through that floor. After all, the Dollar says so, right? Well, maybe the mob *is* right. But MSA disagrees based on its assessment of long-term technical factors. Even if that floor does finally come out on gold, expect an unsustained outcome.

Also, MSA knows the direction of one piece of fiat paper versus other also *to-be-lost-in-history* scraps of paper doesn't really direct the major moves in gold. As MSA has pointed out, gold made its low monthly bear market close in December 2015 at $1060, doubled by summer 2020, and has since been range bound with only a 12%+ drop from peak monthly close to low monthly close in that two-year-plus range.

Reference where the Dollar Index was at the December 2015 close (98.63), while gold was $1060. Gold doubled in the next four and a half years while the Dollar index wandered sideways in that narrow percentage range from an upper end at 103.8 to a lower end near 88. And when gold posted its highs in summer 2020, the Dollar Index was still loitering in mid-range. The Dollar's actions were hardly a driving factor for the upside in gold. Gold has a broader concern than just what the Dollar is doing. Gold has been money since 550 BC (gold coins were first struck on the order of King Croesus of Lydia, in an area that is now in Turkey). Gold has survived the degradation of many pieces of government-issued, non-backed paper over the centuries and especially over the last one.

If you want a better correlation to gold, get an M2 chart from the St. Louis Fed and you'll see that since gold began trading in the U.S. forty-seven years ago, it has risen from a bear low in 1976 near $100 and advanced twenty-fold over the decades. **The same percentage rise in M2 expansion!** No, not a month-by-month technical match or overlay, but in the long term it's a far better correlation to notice. Anyway, back to the Dollar, next page.





Daily momentum (price vs. the 3-day avg.): short-term metric

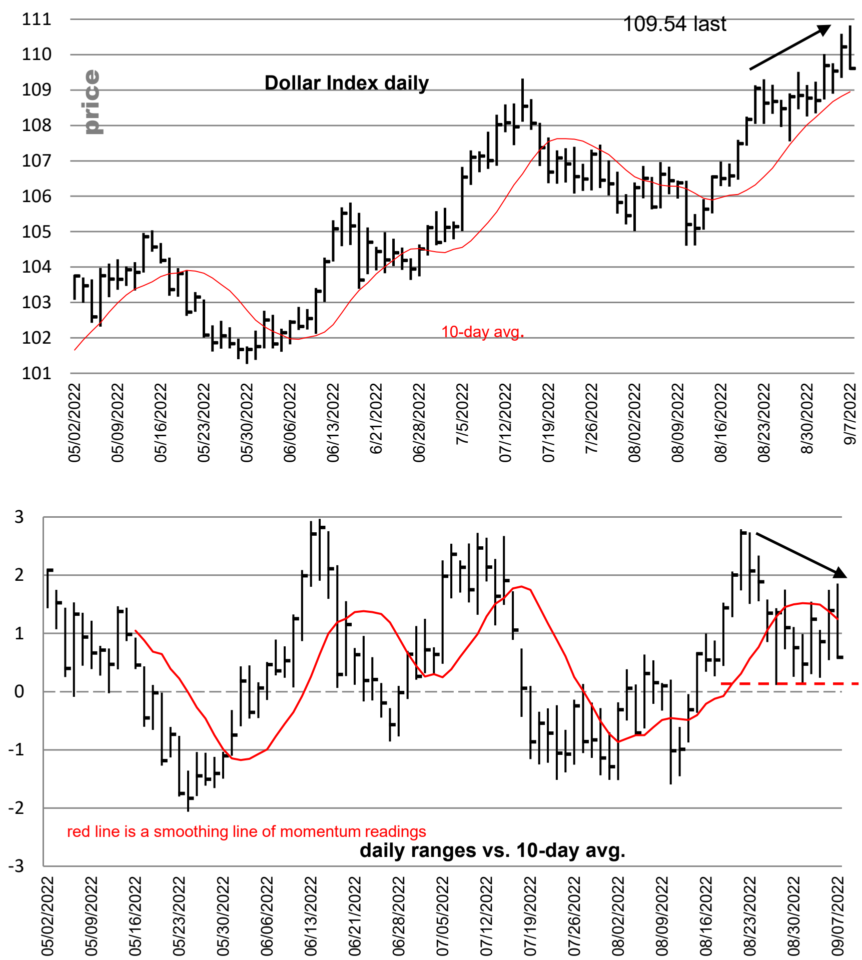
We begin with the short term and work our way to long-term momentum of the Dollar.

Daily momentum has not registered an MSA overbought signal in the past two months, despite strong price upside. Yesterday's close registered an overbought SD band signal (the lower SD band rose above the zero line). That's wake-up time for potential downside.

And today seemed to be respond to the downside. It's now trading more than a full point off the price high.

The structure below on the oscillator has come out as well, in which case expect more short-term downside.

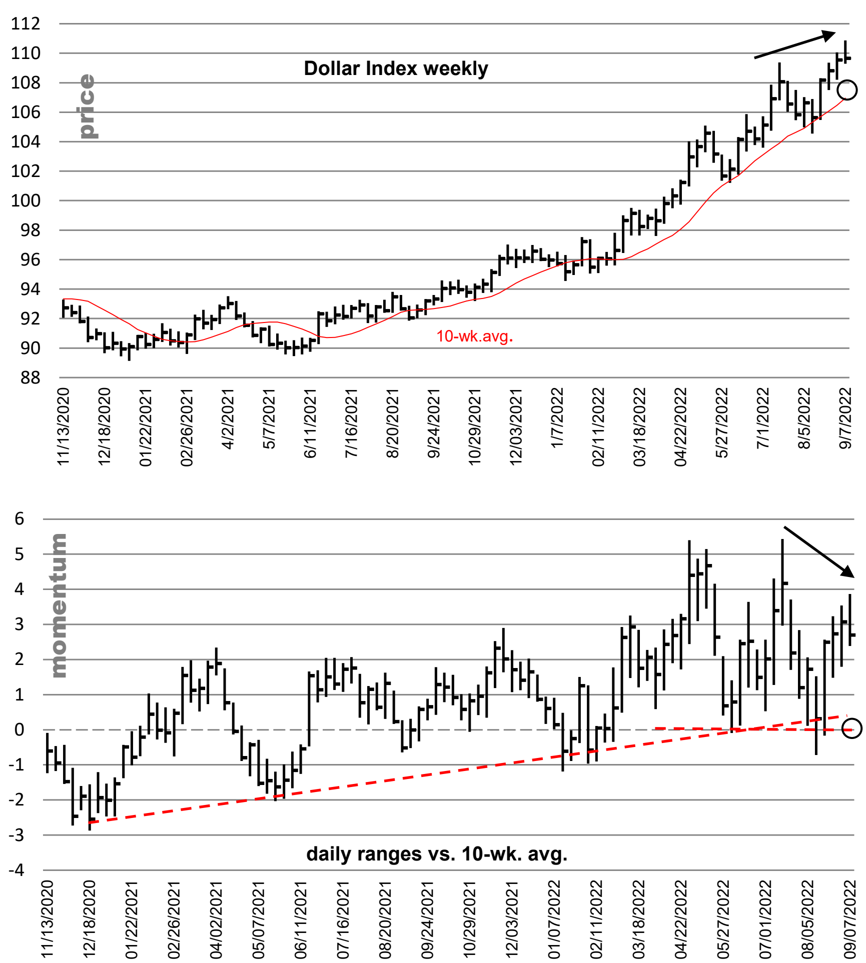
Note also that as price advanced from the June lows it produced higher highs, accompanied by rising highs on daily momentum, until this most recent upside leg. That's a momentum non-confirmation.



Daily momentum (price vs. the 10-day avg.): a larger daily trend metric

Prior surges drove momentum up to near the +3 level. The recent surge of the past week-plus didn't even reach +2. That's non-confirming action by momentum with a structure pending below.

Recent buyers were believers in the 10-day avg., and so they bought for six days in a row just above that average. Well, we'll accept their average now as actually important because they "set" the zero line as a structure below. Close below 10-day avg. and it breaks down, a further sign the Dollar has problems. The 10-day avg. tomorrow is 109.08 and rising daily.



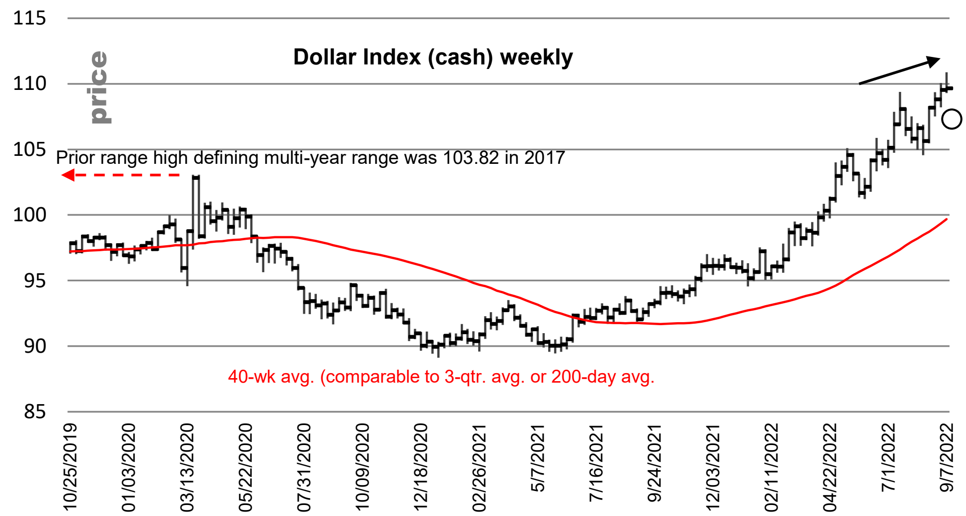
Weekly momentum (price vs. the 10-wk. avg.): intermediate-trend metric

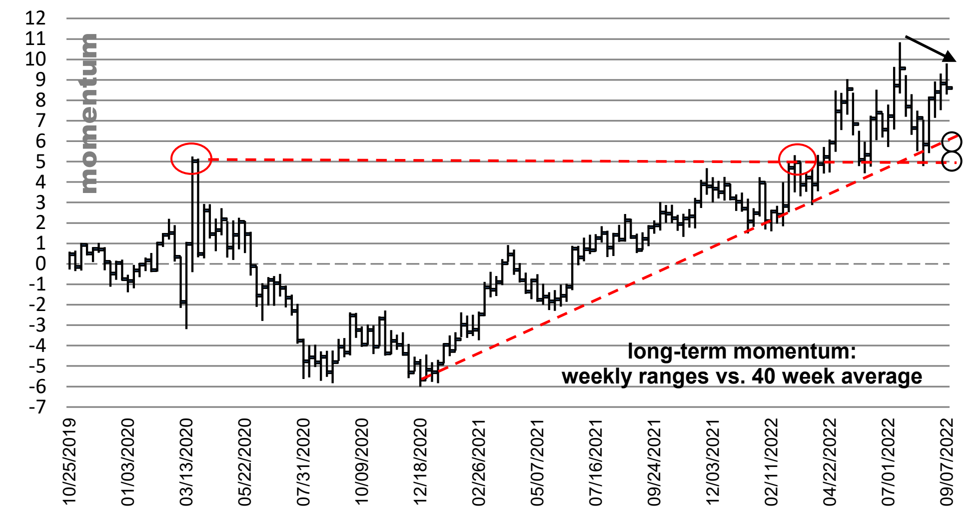
Again, a momentum non-confirmed surge by price. A negative hint.

Meanwhile, there's a massive, aged, and well-defined structure below. You can't blow up the bridge over the river Kwai until the bridge is finally built. And it's built.

Do not revisit the area of the rising 10-wk. avg./zero line again. The recent lows since March have twice used the zero line as a buy point. That level is also intersected by the year-and-a-half uptrend structure going back to late 2020. Lows and low closes define that red uptrend.

Even a weekly close marginally above the zero line will break that uptrend structure. But if you want to wait for the 10-wk. itself to be closed below, then next week that number will rise to an estimated **107.47**, that number adjusting up more than .50 per week.





Long-term momentum (price vs. the 40-wk. avg.)

Again, a momentum non-confirmed (or NC) surge by price. NCs are not necessarily actionable in themselves, but if accompanied by nearby pending trend breakage structures, then they're usually valid hints of a shift underway.

Here there are a massive uptrend structure and a horizontal structure. They're pretty much in synch with each other.

Horizontal: prior closing momentum peaks at +5 broken above and then used twice as support in the past several months. Don't drop back down there again, and especially don't close a week **below the +5** level. In fact, the uptrend structure will break if we see a weekly close around 5.9 over the zero line. 5.9 over the 40-wk. avg. next week equates to a price of **107.29**. A weekly close at **106.34** will be below the +5 level. These trigger numbers adjust up each week by about .35.

The issue of course is whether the lesser trend breakage factors (e.g. the 3-day and 10-day) create enough drop to then engage the next and larger trend factors. A domino toppling into the next one. We suspect there will in fact be a domino effect here due simply to the overripe pending downside breakage structures on these longer-term metrics. Usually once structures on momentum are set so clearly that almost one could identify them (assuming they have such momentum charts), then those structures are used.

If so, we suggest the first consequence (and the first one only, with much more to go on the downside after that) will be a drop by the Dollar back below its all-too-obvious prior range highs just below 104. In which case the price chart believers will then have a negative *abort* situation indicated by their price charts. Range breakout negated by collapse back below the presumed buy level. Much lagged to momentum, but nevertheless a valid technical negative that will upset many.

Personal positions in specific markets mentioned in this report: none