

[Print this Article](#)

[\[Close Window\]](#)

THE EURO & THE DOLLAR - THE CALM BEFORE THE STORM...

originally published March 8th, 2016

We haven't paid much attention to the dollar index or the euro in the recent past, because both have been stuck in a giant trading range that has been going on for over a year now. We can see the range that the euro has been stuck in since early last year on its 2-year chart below, which also allows us to see the severe decline that preceded the development of the trading range.

Europe is in deep trouble and headed either for breakup or for a large scale neutering of its powers as a cohesive trading block, a situation that has been exacerbated by the acute migrant crisis, which is promoting the re-emergence of traditional tribalism and nationalism amongst member states. The effect of all this is likely to be sustained downward pressure on the euro which is expected to break down from its trading range and head steeply lower again – in the future this ill-conceived currency could cease to exist, which is a shame because the banknotes are such lovely colors aren't they?

The euro has been stuck in a rectangular trading range for over a year now, but this standoff won't go on for ever. With conditions in Europe continuing to deteriorate and the re-emergence of traditional tribalism and barriers in the face of a tidal wave of migrants swarming in from the Mid-East, as a result of their countries being reduced to rubble by big power geopolitical adventures, the outlook for the single currency is grim. Before much longer it is expected to break down from this range and head steeply lower again, and although the timing of this breakdown is difficult to determine, it is expected to happen sooner rather than later.

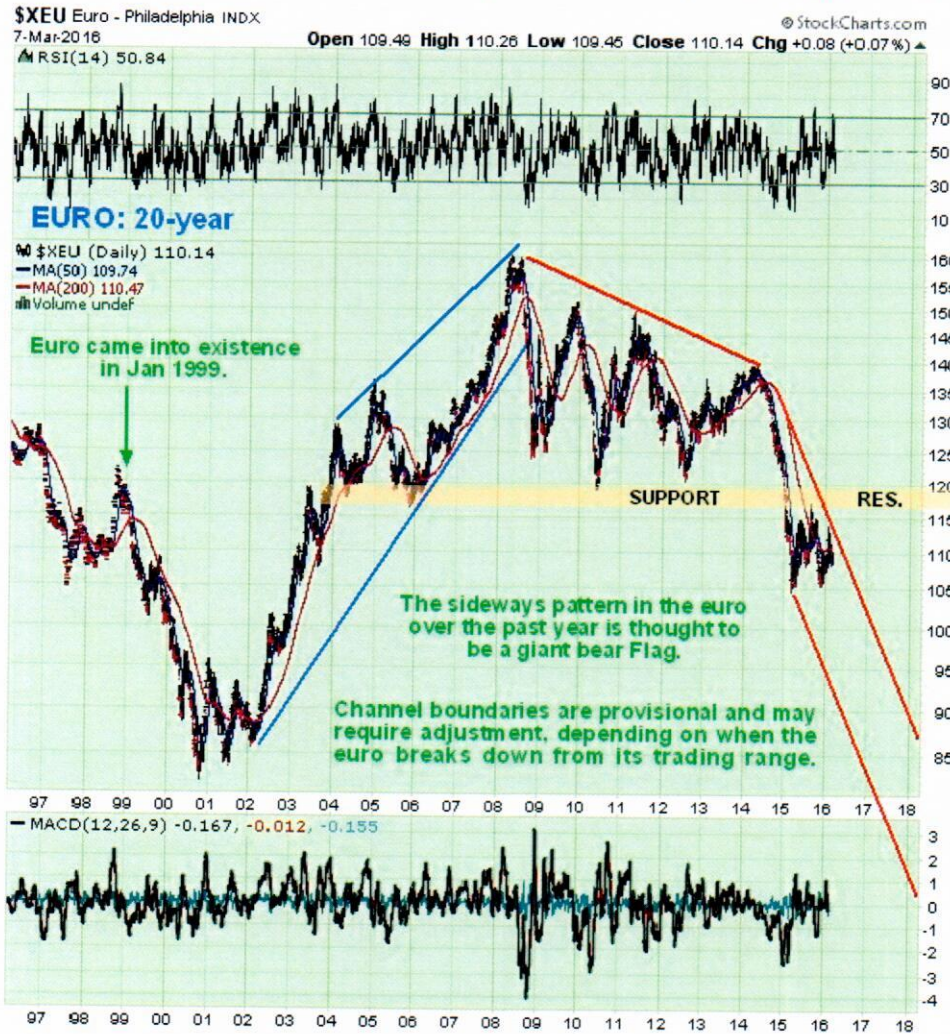


*THE EURO - so sad to see such lovely colored paper go -
but then, maybe it was only ever "Monopoly Money"...*



The 20-year chart for the euro gives us a useful overall perspective. This chart actually shows the entire life of the euro, which came into existence in January 1999. The chart data prior to this date is back projected. On this chart we can appreciate the severity of the decline in 2014 and early 2015, which crashed the support level shown, and of course correlated with a corresponding big rally in the dollar. From the look of this chart the pattern of the past year is unlikely to be a base pattern, especially given the rotten and deteriorating fundamentals in Europe – instead it looks like a big bear Flag that projects another steep decline similar in magnitude and severity to that which preceded it – meaning that the euro could be on course for a whopping decline to the 80 – 85 area. Here we should note that the exact timing of the breakdown from this range is hard to predict at this point, so the provisional trend channel boundaries may require adjusting, but it is expected to happen sooner rather than later.

After a severe decline in 2014 and early 2015, the euro has been stuck in a large trading range for a year now. The future for this ill-conceived currency looks grim with Europe trending towards disintegration and chaos, exacerbated by the massive influx of migrants. The euro is expected to break down from its range and head steeply lower as shown, and although the exact timing of this breakdown is hard to pinpoint, and thus the channel boundaries shown are provisional, it is expected to happen soon.



Needless to say, a decline of this magnitude in the euro is going to send the dollar soaring, especially given that we are likely to see increased capital flight from a troubled world into the US. Because the dollar index is comprised 57% of the euro doesn't take much imagination to realize that a ferocious euro decline of the kind described to the 80 - 85 area is going to drive the dollar steeply higher, with a corresponding uptrend in the dollar index shown on its 20-year chart below, again with provisional trendlines. **Such an upleg would of course take the wind out of gold and silver's sails, and this might be what their latest COTs are signaling.**

The main reason for a big rally in the dollar index would be none other than a big drop in the euro, since the dollar index is made up 57% of the euro, and also continued capital flight into the US. The expected uptrend channel drawn on the chart is provisional since the exact time of the euro breakdown and dollar breakout is hard to predict at this juncture.



So we are going to be on the lookout going forward for this expected euro breakdown and dollar breakout.
End of update.

Posted at 8.20 am EST on 8th March 16.