The Harmonic Trader Report Monthly

March 2015

"Never Trade the Markets the Same Way Again!"

March 28th, 2015

In this report:

- **Eurodollar (EUR_A0-FX)**
- **US Dollar/Japanese Yen (JPY_A0-FX)**
- **Euro/Yen (EURJPY_A0-FX)**
- **Brazilian Real (BRL_A0-FX)**
- **Mexican Peso (MXN_A0-FX)**
- **Canadian Dollar (CAD_A0-FX)**

Going to Extremes

As we close out the first quarter of this year, several significant currency markets have tested extreme technical levels. For FOREX markets paired against the U.S. Dollar, recent price action has been trading into new extreme territory. Many of these markets have moved decidedly to test prices not seen in over a decade. These extreme movements possess significance for the overall state of the global financial markets. In some cases, the recent action has moved to such technical extremes that some degree of time will be required to resolve the overextended nature of the price action. Furthermore, there are a number of significant structural scenarios that are in the process of completing long-term patterns that must be monitored over the next few months.

With the dramatic decline in the Euro, there has been a great deal of discussion regarding the currency impact on global equity markets. Although these fluctuations can affect equity prices, the only scenario that can truly damage the financial markets would be a total meltdown of global currencies. Currently, the US Dollar has rallied sharply, as global currencies have suffered. But, many of the long-term charts show that the current Dollar strength is merely a correction back to the historic average in most currency pairs. In September 2013, I released a monthly report that covered several currency pairs. Specifically, it was a pivotal review of the major Dollar-denominated currencies during a time when these markets were starting to heat up after a ten year decline. I outlined the case for renewed Dollar strength, as several harmonic structures defined remarkable opportunities that have now reached their initial long-term profit objectives.

Please review the report at this link of the September 2013 Report.
http://harmonictrader.com/members/harmonic/markets/htreport09132.pdf

Interestingly enough, many of the long-term price objectives from that report have been reached recently. Other pairs are closing in on some historic extremes, as well. Specifically, the price action in the Euro has been dramatic, trading as low as 1.0450 before snapping back to 1.10. The extremity of the decline suggests that the long-term trend is poised to eventually retest the all -time low. The long-term downtrend continues to trade towards the completion of a distinct harmonic pattern on the weekly chart. Other currency pairs especially in U.S. Dollar-denominated markets such as the Canadian Dollar, the Brazilian Dollar and Mexican Peso have suffered immensely over the past six months but possess similar harmonic patterns that are defining long-term price objectives as in the case for the Euro. Although these are not too threatening to global equity markets at the moment, there have been extreme price moves recently that must be monitored closely.

The most important aspect of these recent currency moves is the clear direction that many of the pairs seem to be headed. The Euro will eventually test the 1.00 level without much fanfare. The predominant trend is still down. On a side note, I do feel that even if the Euro retested its all-time low somewhere around the 90 level that global markets would still function normally. The other currency pairs will signal what to expect after resolving these long-term structural levels but the predominant trend of U.S. Dollar strength continues.

Eurodollar (EUR_A0-FX): Weekly
Bullish AB=CD Patterns

The Euro recently tested the completion point of multiple Bullish AB=CD patterns that possess a general Potential Reversal Zone (PRZ) in the 1.06-1.12 range. These Bullish AB=CD patterns endured a volatile completion, as the price action collapsed sharply into the PRZ. Despite the distinct structures, the extreme price action is an early warning sign that this will require further consolidation to resolve the harmonic support.

Eurodollar (EUR_A0-FX): Weekly
Bullish AB=CD Patterns Potential Reversal Zone (PRZ)

The Euro has been declining steadily for the past year. These patterns offer an initial structural possibility for some type of consolidation within this downtrend. The larger Bullish AB=CD pattern that completed at 1.06 defines the low range of the weekly support at 1.0610. The structures are likely offering only a temporary pause, as the severity of the longer-term downtrend will require more time to resolve itself. Furthermore, the Relative Strength readings within the Potential Reversal Zone are deeply oversold and require more time before offering any constructive reversal signals.

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The recent rally was triggered at the low range of the weekly support. The price action stabilized immediately after completing the large Bullish AB=CD, as measured from the 2008 top. After the Terminal Price Bar was established at the exact low of 1.0450, the price action steadily continued to bounce. At a minimum, this initial reaction will likely test the upper range of the Potential Reversal Zone at 1.14. Although these AB=CD patterns have defined a short-term countertrend within this sharp decline, the real question still remains of whether or not this bear market will continue. For now, the harmonic support at the recent lows around 1.05 should be considered as temporary in nature with the eventual scenario that the all-time low extreme will be tested.

Eurodollar (EUR_A0-FX): Weekly
Bullish Bat Pattern

The interesting aspect of the recent decline has been the formation of a Bullish Bat on the weekly chart. The extreme acceleration of the decline over the past six months has improved the chances immensely that a long-term Bullish Bat pattern - projected to retest the lows from 15 years ago - will complete sooner than later. The price action will require approximately a 12-18 month timeframe to resolve this scenario. Although price action is stabilizing temporarily at the general completion point of two Bullish AB=CD structures in recent sessions, the severity of the decline suggests that more downside is likely before the overall bear market can be terminated. For the Euro, the 1.06 support as defined by the large bullish AB=CD represents a clear line in the sand before an entire retest of the all-time lows in the 0.90 area.

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Euro/Yen (EURJPY_A0-FX): Weekly
Bullish 5-0 Pattern

The Euro versus the Yen has pulled back since the beginning of the year. The price action has formed a Bullish 5-0 Pattern on the weekly chart that defines the 120 level as important support.

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Us Dollar/Japanese Yen (JP Y_A0–FX)
Bearish RSI BAMM Breakout

After an extended run, the Japanese Yen has consolidated for the past few months. I initially discussed this in December, as the long-term resistance defined the 122 level as a pausing point within this uptrend. Now, the price action has broken out to the upside and possesses a distinct RSI BAMM that is projected to complete at the 126 level. Although the possibility for larger gains above this area are likely, the immediate objective still provides a sizable profit target for the ultimate completion of the set up**.**

Brazil Real (BRL_A0-FX): Weekly
1.618 Projection

One of the most extreme markets has been the US dollar against a host of Latin American countries. The Dollar's value has doubled since the 2011 low against the Brazilian Real. This incredible rally has accelerated the past six months to test a long-term 1.618 extension at the 3.30 level. Although this is an extreme move, this still fits within the long-term price range of the currency pair with the previous all-time peak above the 4.10 level. For now, this is an ideal resistance level where the exchange rate should pause to consolidate recent gains but an eventual retest to the 4.10 level could be realized in an extreme capitulation retest of the historic high.

US Dollar/Mexican Peso (MXN_A0-FX): Weekly Bearish AB=CD

The Peso has formed a distinct bearish pattern that is marking critical resistance for the immediate rally. This defines the area just under the 15.50 level, as an important inflection point on the weekly chart. The price action has stalled in this area recently and it should begin to breakdown under the 15 level. This is a situation that must be monitored closely for further confirmation of the harmonic resistance.

US/Canadian Dollar (CAD_A0-FX): Weekly Bearish Retracements

Much like the Japanese Yen in 2014, the Canadian Dollar has continued to make substantial gains and challenge long-term resistance levels. In the report from September 2013, I outlined a bullish argument for the weekly chart. I discussed the historic price ranges for the US Dollar versus the Canadian Dollar in that report and I stressed the importance of the current harmonic support that marked the beginning of a new bullish trend. Although the consolidation required quite a bit of time, the long-term upside targets have now been reached.

Beyond the initial targets, the larger possibilities will become realities as current gains trigger a new breakout above the 1.30 level. This is an important price level to monitor going forward. For now, the long-term bullish trend has reached some important initial profit objectives. Most important, the 50% retracement at 1.26 is in the process of being retested. A breakout above this level would be extremely significant, as it would mark the point of a longer-term continuation. At a minimum, the 61.8% retracement at 1.35 is the next target.

Canadian Dollar (CAD_A0-FX): Daily
Bearish RSI BAMM Breakout

The Canadian Dollar continues to hold above the important harmonic resistance level at 1.26. There are a number of weekly measurements that define this as an important area but the price action is merely pausing. This short-term resistance at the 1.30 level will define a critical make-or-break level for the daily and weekly timeframes. The price action has started to break to the upside and it has triggered a distinct RSI BAMM formation that points to higher levels, as well. At a minimum, immediate action should immediately test the 1.30 level and then see how the price action reacts beyond this area.

March Conclusion

In this month's report, we examined mostly U.S. Dollar denominated currency pairs. Many of these are trading at extreme long-term levels and are poised to test significant harmonic structural signals. Although markets such as the Euro have sustained a great deal of damage, the long-term perspective points to even lower levels that could unfold later this year after a few months of consolidation. The Yen seems to be poised for another move higher after a six-month break. The Dollar/Yen has moved over 50% in the last three years and is about to trigger another bullish continuation above long-term resistance levels. Meanwhile, other currency markets continue to form clear structural signals that confirm the recent extremes.

For the next few weeks, it seems that many of these markets are going to take a breather at the initial structural completion points that have been tested recently. The number of harmonic patterns and other ratio measurements provides further evidence that something special is developing that must not be ignored. For now, the predominant trend still dictates the direction of the Dollar-denominated currency pairs. The Dollar strength will continue to gain momentum over time, especially after recent gains are consolidated.

Although currencies can be volatile and cause problems for international companies, their total effect on global financial markets is only felt when extreme situations unfold. Many of these currency pairs have experienced some sharp action over the past year. But, none of them have exceeded their historic ranges of support/resistance to signal something unusual is happening. Until this happens, most currency developments will continue to nominally impact global financial markets over the long-term.

Please feel free to contact me at HarmonicTrader@HarmonicTrader.com, as I welcome your comments, questions and suggestions. If you are a trial member or wish to receive future reports, please sign up here:

http://harmonictrader.secure-mall.com/item/The-Harmonic-Trader-Monthly-Report-30

Best Regards,

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The Harmonic Trader Report Monthly

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Library of Congress
Cataloging-in-Publication Data

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Printed in the United States of America