

27 December 2021

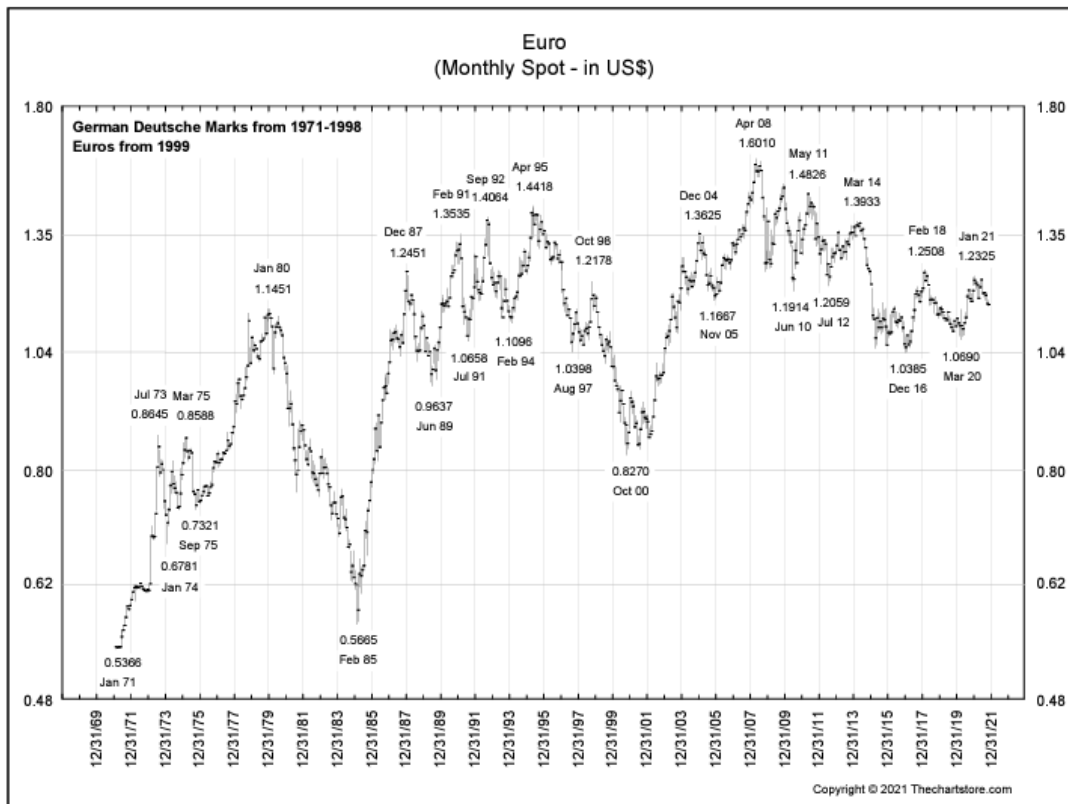
<h1 style="margin: 0;">The January EUR/USD Effect</h1>	<p>In cooperation with REAL VISION</p>
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Preface

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

While the January Effect has been slightly diminished in the past decade, there has been an extraordinarily strong 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 39 of the past 50 years (a 78% 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.



Of course, the challenge for traders is to determine whether the January of a newly entered year might mark a low point or 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 2022.

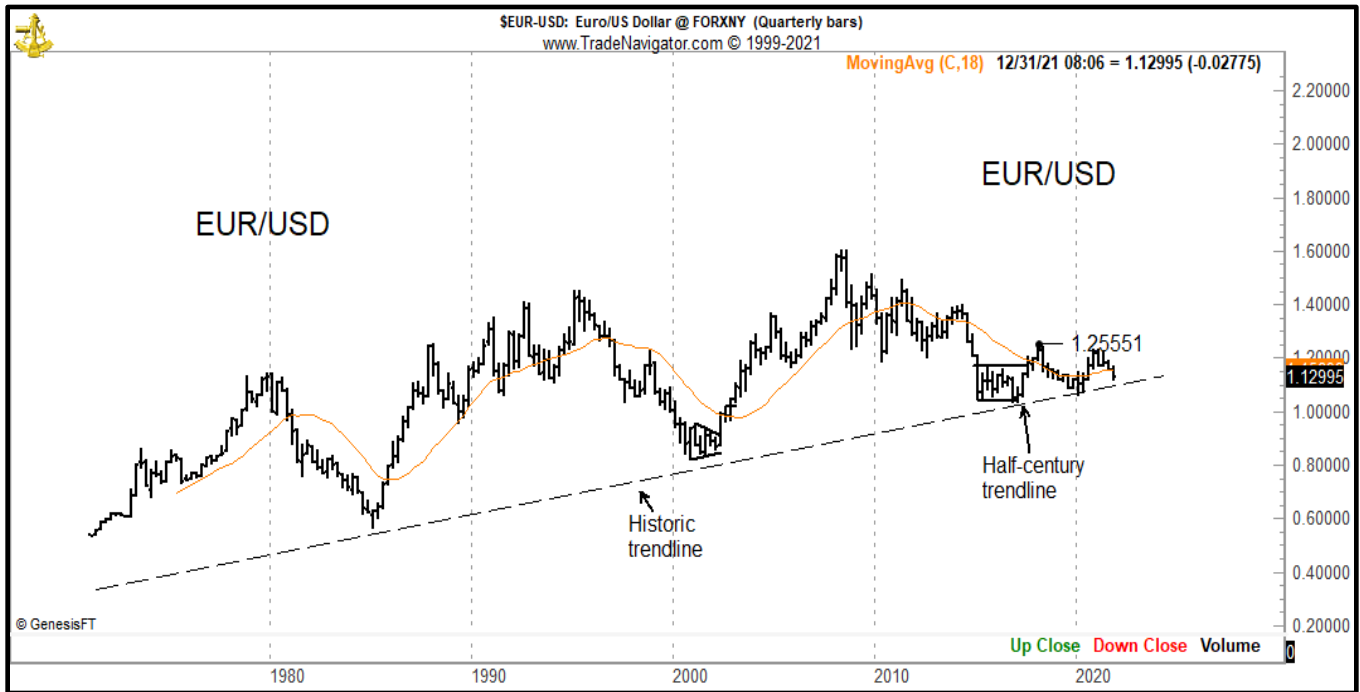
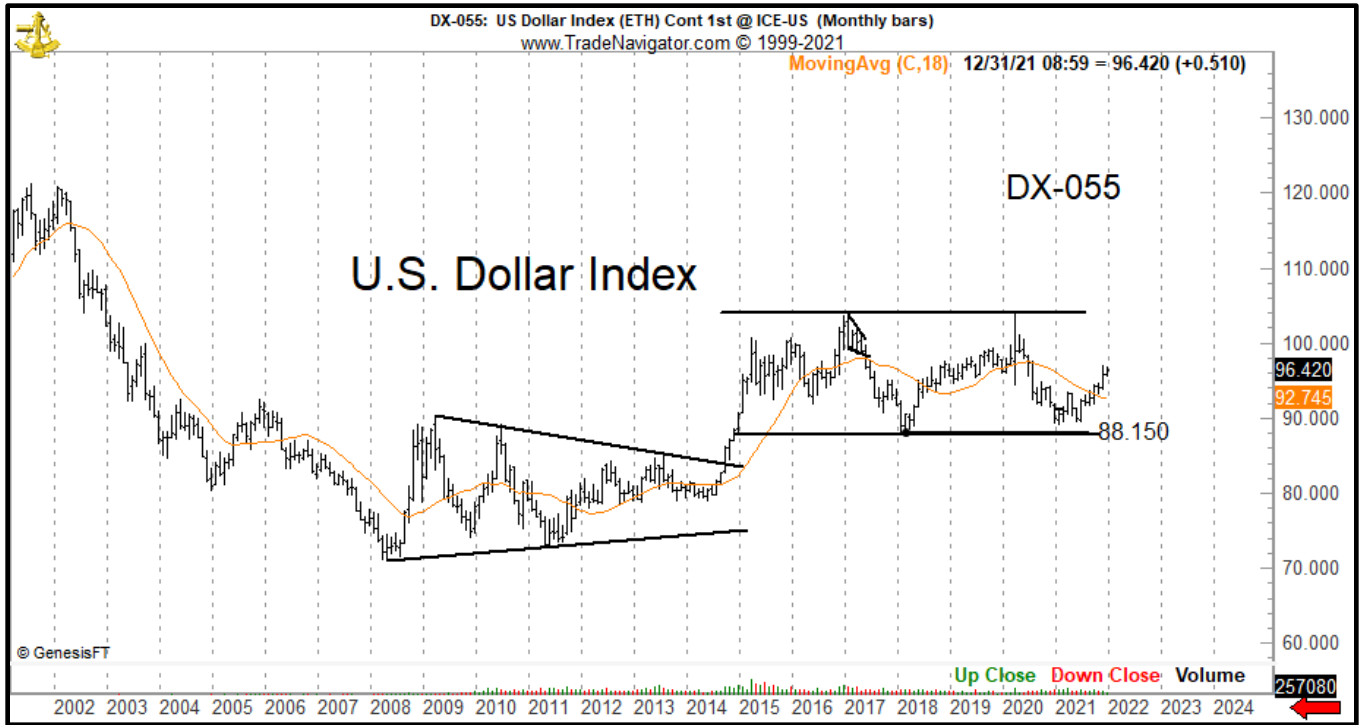
Bullish USD technical considerations

- The global financial system is heavily short USDs via the Eurodollar mechanism, an ingredient for a possible short squeeze [see <https://bit.ly/32jBiVv>]
- The interest rate differential between the ECB (0%) and U.S. (.25%) favors the U.S. Dollar
- The trend in the USD is currently up. Trends in currency markets tend to persist longer than expected. The chart on the next page suggests that the US Dollar Index could advance toward 103 before hitting major resistance

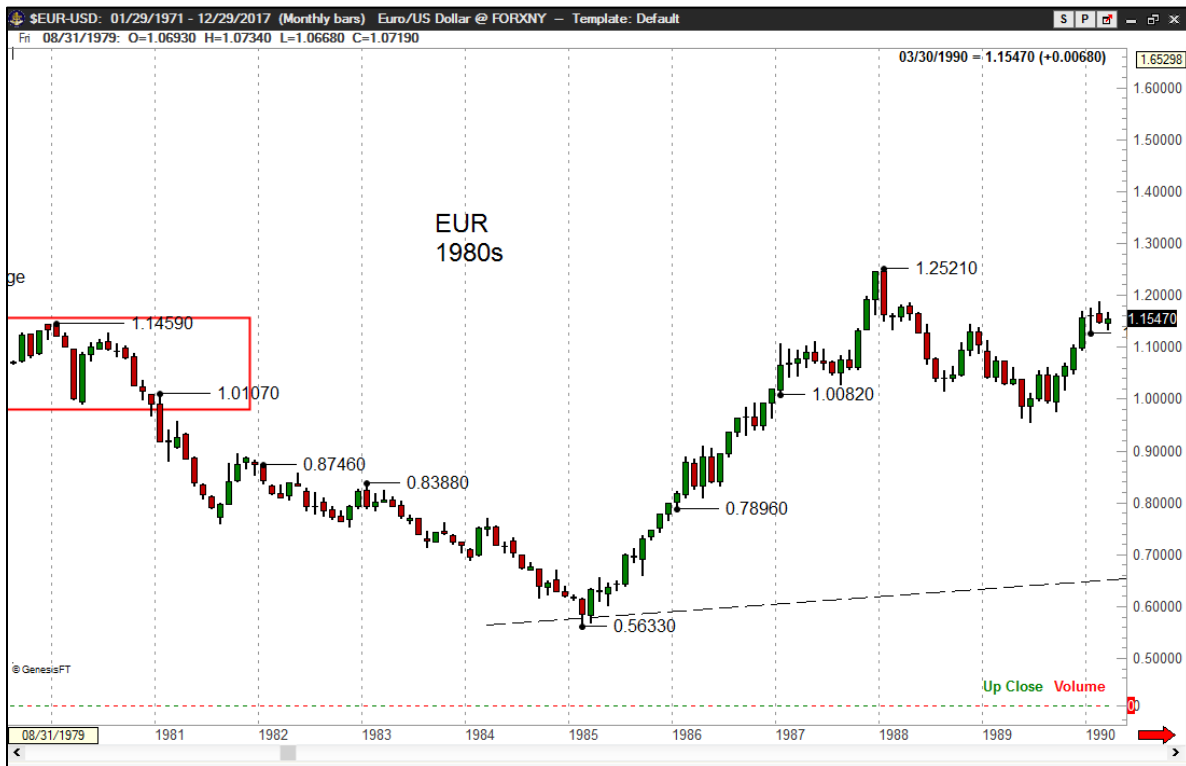
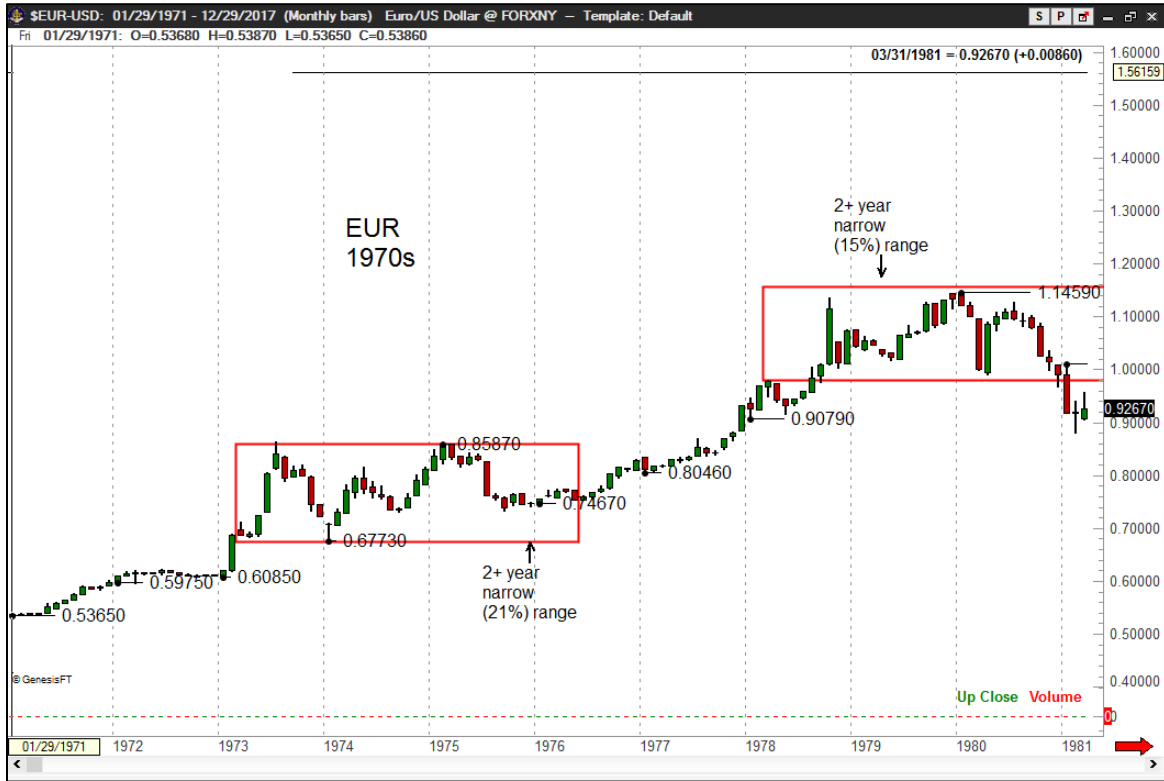
Bullish EuroFX technical considerations

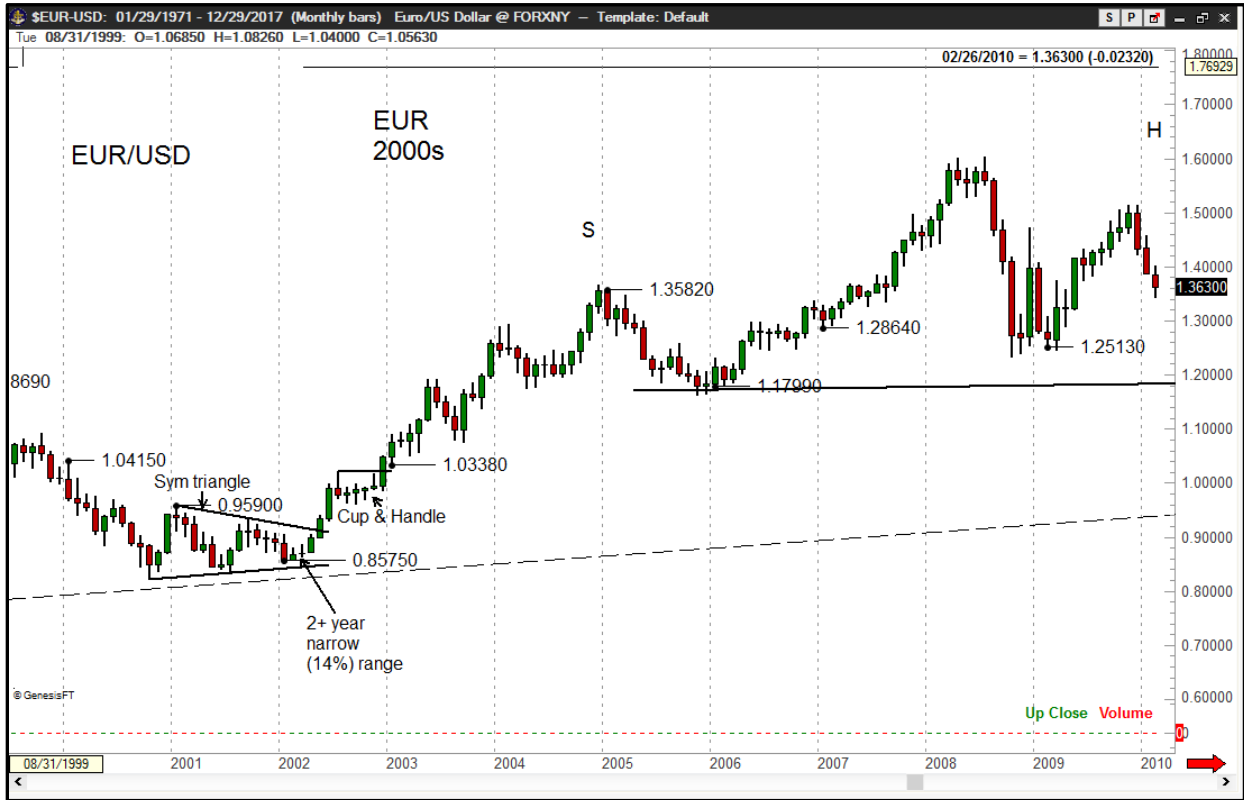
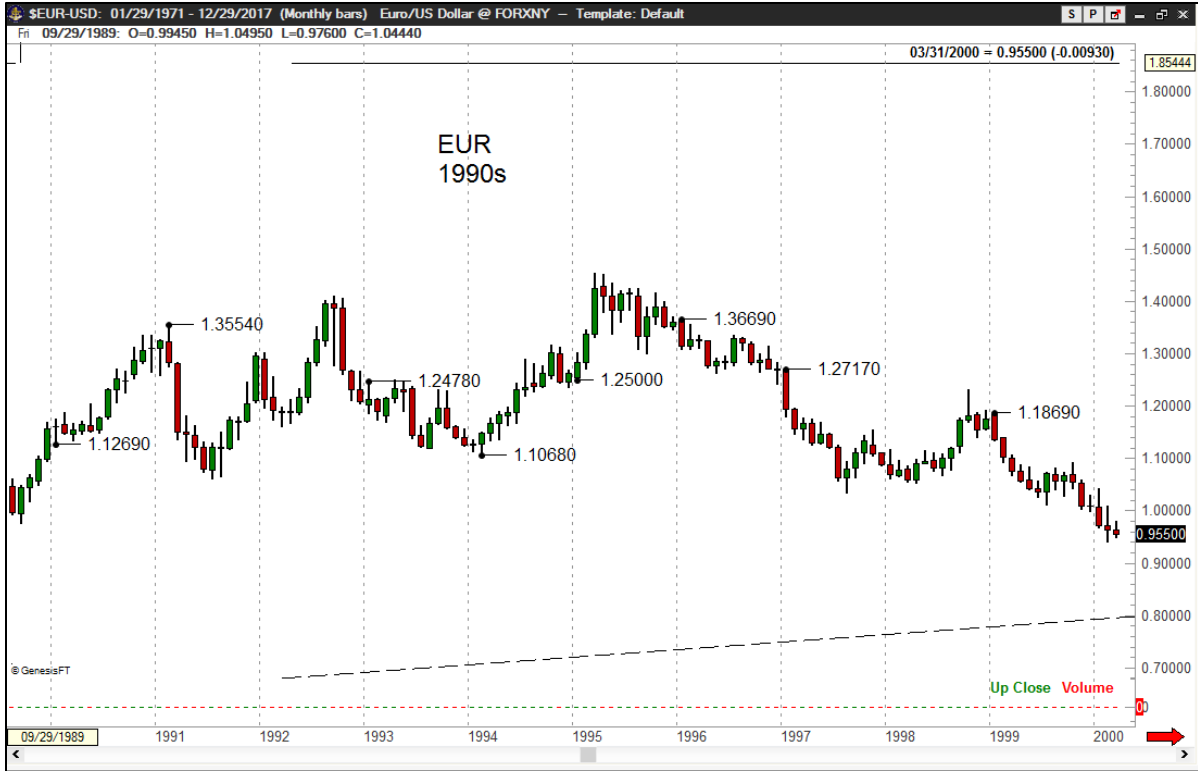
- The composition of open interest in \$USDX futures shows Commercial interests holding a near-record short position and Speculators holding a near-record long position. Historically such a COT profile is associated with price peaks in the U.S. Dollar
- The Eurocurrency declined steadily during 2021 and a counter-trend correction could occur
- The U.S. Fed continues to deflate the USD through the printing press
- EuroFX chart support is heavy below \$1.12. In fact, the Eurocurrency is approaching support as reflected by a 50-year trendline (see chart at bottom of next page)

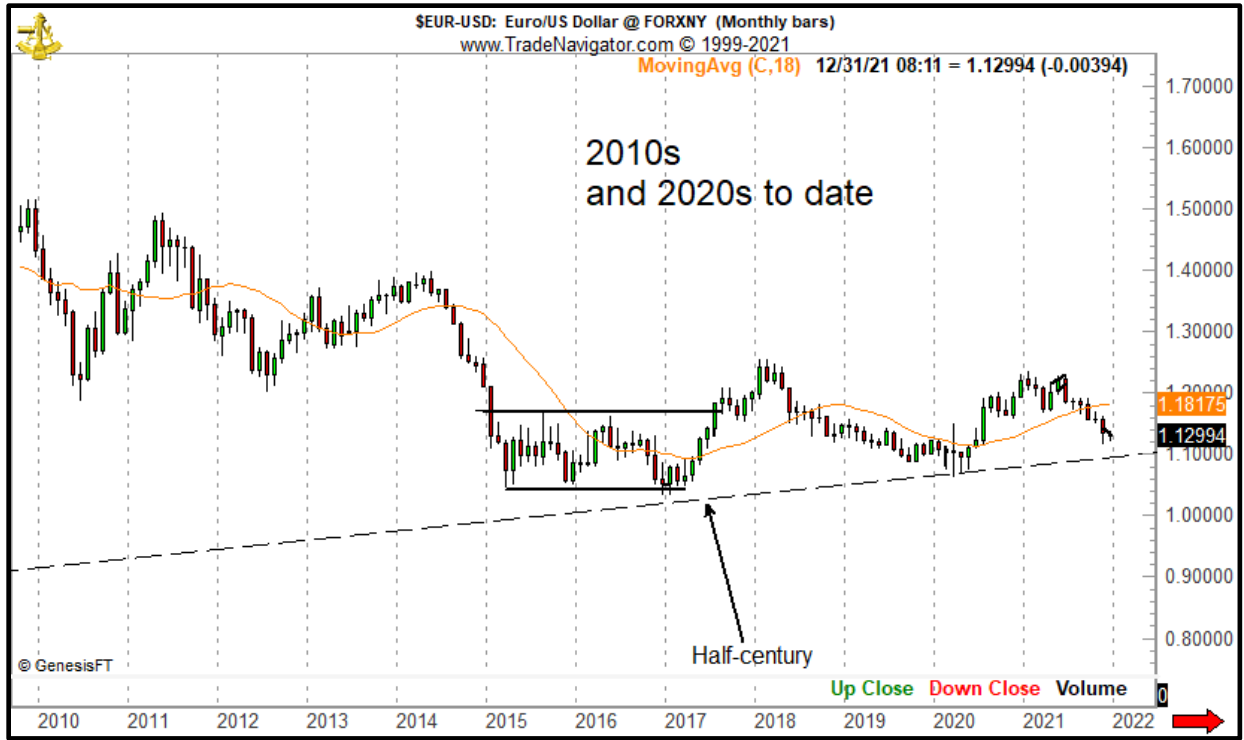
					
January FX Effect					
Year	High/Low	Price	Ultimate high/low		% ▲
			Month	Price	
1972	Jan low	0.5975	Jun	0.6219	4.1%
1973	Jan low	0.6085	Jul	0.8644	42.1%
1974	Jan low	0.6773	May	0.8165	20.6%
1975	Jan high	0.8587	Sep	0.7321	17.3%
1976	Jan low	0.7467	Dec	0.8306	11.2%
1977	Jan low	0.8046	Dec	0.9329	15.9%
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 as of 12/20/21	9.4%
Average % change 39 Jan Effect years of 50 total years					19.1%



Monthly EUR/USD price charts by decade







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