

CHARTING EUROPE: USD/JPY Corrective Rally Limited To Y84.10

By Francis Bray, CFTe MSTA
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LONDON (Dow Jones)--There have been signs of life in the battered U.S. dollar this week, even against the Japanese yen, and belief is growing that a recovery to the Y84.10 area is achievable.

Having set a fresh 15-year low at Y80.21 less than two weeks ago, on Nov. 1, it was surely only a matter of time before the April 1995 all-time low at Y79.75 would be tested.

However, a corrective recovery ensued which marked the Y82.00 level out as significant resistance. And on the back of Tuesday's strong bullish outside day, without any overt assistance from the Bank of Japan, the Y82.00 level is once again facing bull pressure. For details, see the USD/JPY daily chart.

<http://www.dowjoneswebservices.com/chart/view/4910>

Tuesday's push above Y81.25 completed a wedge-like bull continuation pattern at the day's Y80.54 low, and Y81.25 now reverts to key support which needs to cushion the A-B-C correction underway off Tuesday's high at Y81.98.

And from the chart above, the strong bullish divergence highlighted on the daily momentum indicator, combined with a forced break above the critical zero-line into positive territory, suggests there is tangible scope for an extended corrective rally towards Y83.80 and Y84.10.

However, the word "corrective" cannot be over-emphasised here, as the dominant trend is clearly to the downside.

A fresh wave of bull pressure is required to force a break through Y82.00, opening the first resistance hurdle at Y82.85. A six-month bear resistance line lies near Y82.85 on the weekly chart, as does a 1.618 Fibonacci extension target and a former support area that has since reverted to resistance.

Achieving a sustained break above Y82.85 would then pave the way for further corrective strength to Y83.80/Y84.10, where the bottom of the daily Ichimoku cloud lies to provide a significant selling opportunity.

Should Y81.25 fail to cushion Wednesday's setback, question marks will be raised over the optimistic outlook for the U.S. dollar recovery.

A sustained break below Y80.88, the 76.4% Fibonacci retracement level of the Y80.54/Y81.98 bull wave, would expose the Y80.54 low again, and leave the Y80.21 reaction low vulnerable.

At 0956 GMT, USD/JPY traded at Y81.73.

(Francis Bray is Dow Jones' chief technical analyst for Europe, and has worked as a technical analyst and trader for 20 years in London, Barcelona and Guernsey. He can be reached at +44 (0)20 7842 9249; or by email: francis.bray@dowjones.com)

For more technical analysis see: Dow Jones Newswires, N/DJTA; Bloomberg, NI DJTA; and Reuters key word search "INSI-DJN"

To watch a series of short videos explaining the basics of technical analysis, click on this link: <http://link.brightcove.com/services/player/bcpid44283734001>

Data provided by CQG International Ltd.

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