Using horizontal resistance and support as key indicators of the U.S.'s economic recovery

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As the 2004 trading year comes to an end it is important to see if the future US economy will perform much as it did this past year. Leading into 2005, right after the presidential elections, there is a lot of expectation that the US may be on the road to recovery. The clearest indication of the U.S.'s recovery is a fundamental shift in three key markets; dollar, interest rates, and gold - the triumvirate.

Each one of these markets plays off of one another. They are interdependent in a daisy chain fashion. When interest rates go up dollar has a tendency to get stronger. Gold in turn goes down in value as an inflation hedge. This also works in reverse. When interest rates go down the demand for dollars weakens which in turn forces a flight to the safety of gold during inflationary periods.

So the question we asks ourselves as speculators is two-fold. First, when do we know that the US economy is recovering and second, how do we trade what we know. I have included charts for the US dollar index, US 30 year treasury bond, and the NYMEX gold contract. Each chart shows specifically which price levels indicate a recovery for that market. These price levels are based on support and resistance. Any breakout or breakdown, that can sustain themselves, at these levels indicates a fundamental shift in how that market is being viewed.

US Dollar Index

The US dollar, up until now, has always been the representative of the strongest economic engine in the world. With the introduction of the Euro all of that changed. The confidence in the U.S.'s strength was replaced with the European Union's potential strength. This became self evident by the tremendous decline of the dollar against the Euro over the past five months.

In order to feel confident that the US dollar is on the verge of a rebound there are three core prices that it must hit and maintain. First the dollar must exceed 82.50, second 84.00, and lastly 85.50. Each time the dollar market breaks through those points it is an indicator for speculators to buy in. Every time the market fails at these price points it is an opportunity to short. Use these price points as your guide posts and stay flexible. Although the market is expected to recover realize that these price points can also indicate what is going wrong as well as what is going right.

US 30 Year Bond

It is no secret that interest rates will go up. The Feds have stated that they want an increased interest rate. With an increase in interest rates the actual bond prices will go down inversely. As interest rates go up there is the belief, based on past actions, that there will be a surge of foreign investment. This foreign investment will have a bolstering affect on our economy. The goal is to see bond interest rates eventually head back to where they were in April of 2003. While at the same time seeing the overall economy strengthening.

Gold

This market has had a classic role in the dollar-interest rate dance. If all else fails lets buy gold. Gold is treated as an inflationary hedge against a weak economy and it has done its job well. Since April of 2003 until Dec 2004 we have seen gold gain over $130/ounce. In order for the US to feel completely at ease with gold three major price points must be overcome. Once $440 support is broken there is a long fall to the next support at $400. After a breach of $400 there is only one last barrier at the $380 level before gold normalizes.

Piece by piece, as each one of these resistance and support levels are penetrated the US economy will begin to right itself. Use these breakout and breakdown points as ways to get in to these markets for long term trades.