

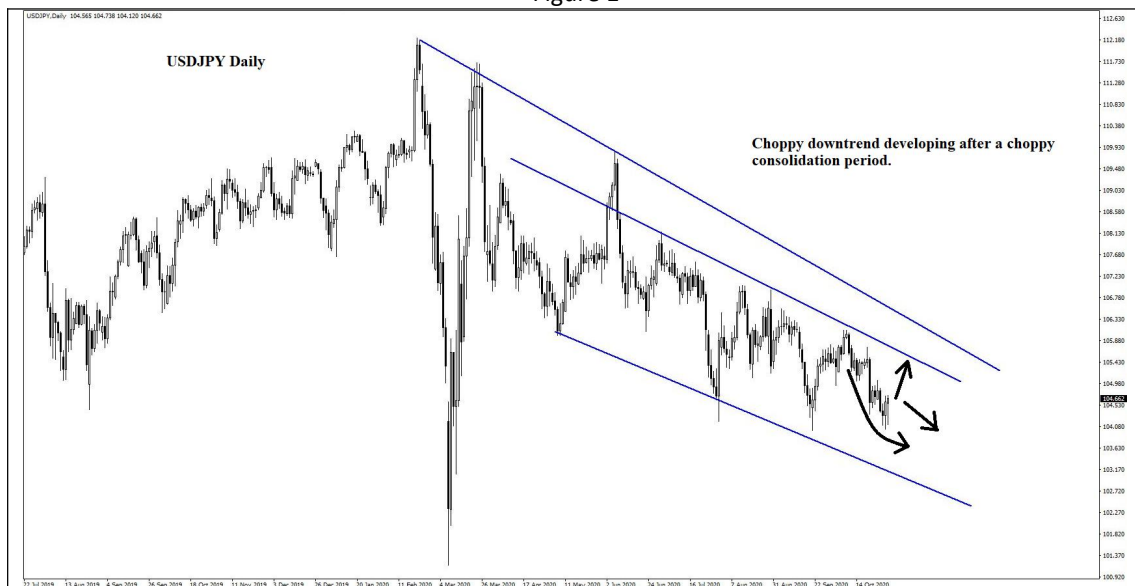
Election 2020: Yen Trades

By Kaye Lee

The Dow and gold setups discussed in previous posts have not triggered their respective Blue Boxes as of this weekend. It is worth emphasising that the setups are valid even if they trigger after election night. The actual results of the election may be delayed for several days, with mail-in ballots being counted. Furthermore, the technical setup is valid regardless.

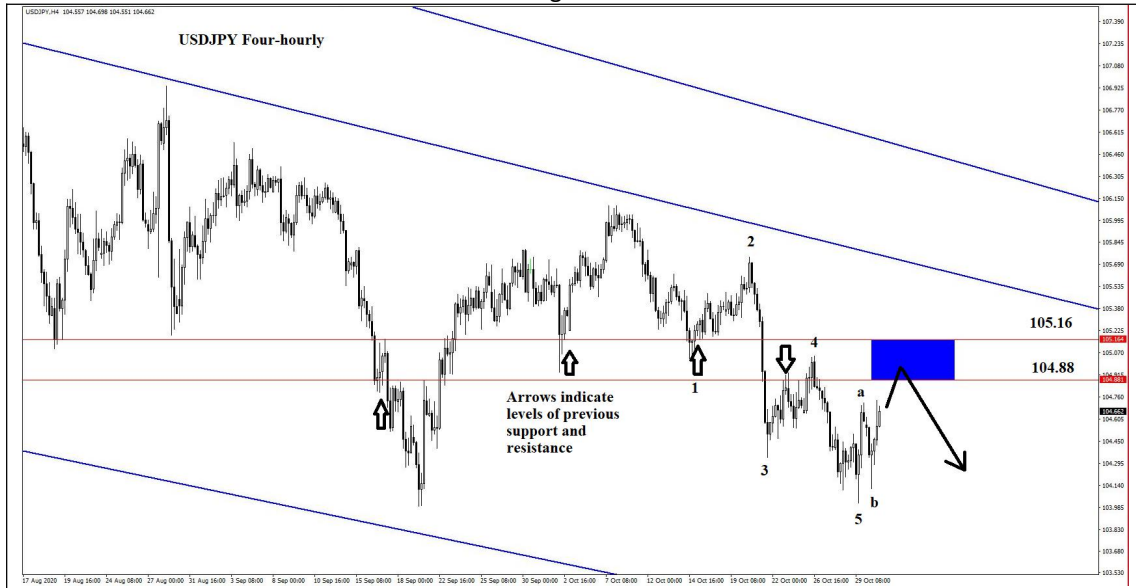
For trades that are more likely to trigger prior to the election, we turn to the lower timeframes. With most currencies in consolidation on the higher timeframes, high probability trades are few. The best setups seem to be occurring in the Yen, and even then only on one or two of the pairs. USDJPY is the logical pair to be looking at, as the USD is a safe haven, but Yen tends to do well in risk-off environments as well. With uncertainty overall rising, it seems likely that this will spark a trend in one or the other (or both) of the risk-off currencies. In each situation, the trading community will tend to prefer one more than the other, but with no apparent hard and fast rule. Thus, technicals come into play.

Figure 1



The USDJPY daily chart (Figure 1) shows a downtrend developing after a choppy consolidation period. The current move down could develop in several ways. One would be to rise to test the high of the channel, as shown by the upward-pointing arrow in Figure 1. However, a manual read of the swing shows that it is still moving down at relatively high speed. Although not an exceptionally great momentum trade, it is sufficient to be valid. Pattern trading-wise, curvature of the bottom currently formed appears to be too sharp to signal a bottom, although that is a value judgement and could easily be proven wrong. Perhaps the most value argument for a potential short here is not in terms of probability, but in terms of potential reward. The current low shows a level that has been tested thrice since July 2020. It is significant that with each bounce, lower highs were formed, and using descending triangle type logic, this suggests that a break of this level will result in a significant move.

Figure 2



The four-hourly chart shows promising developments, with a recent 5-wave Elliott move recently having been completed. Strict Elliott wave traders will note that wave 4 went slightly above the low of wave 1, but for the style practiced here, it has been noted that the penetration is extremely slight, and it is a wick-penetrating-wick situation. Thus, this is an acceptable setup. If the reading is correct, one might expect an a-b-c retracement to a higher zone of resistance, given here as 104.88-105.16, corresponding with previous levels of support and resistance. Thus, we shall be looking for a valid potential entry short from this zone on the hourly chart.

Figure 3

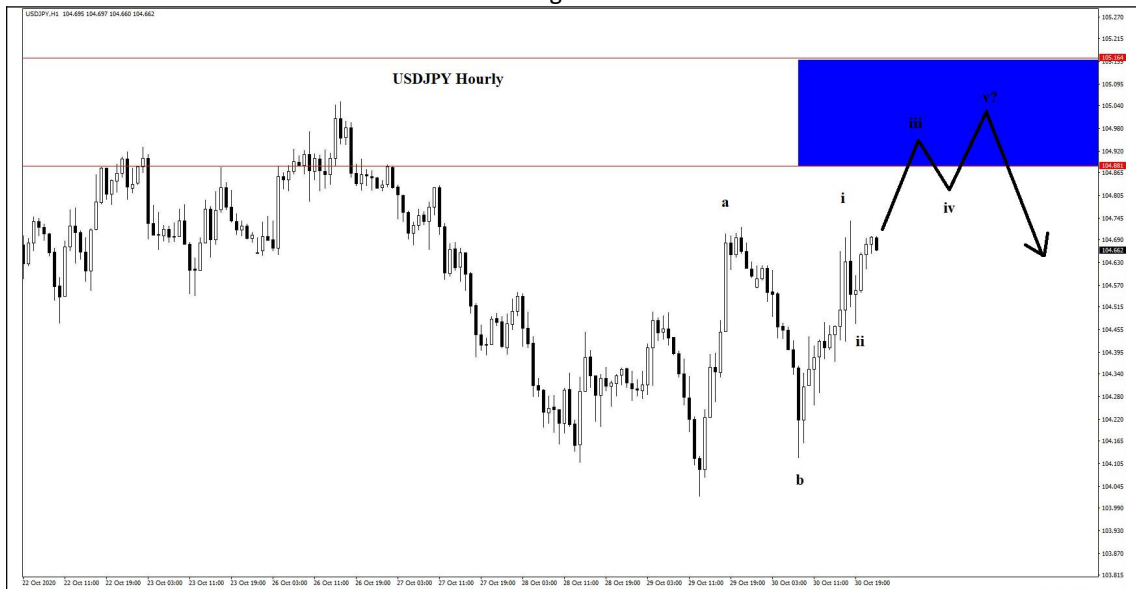


Figure 3 shows the hourly chart of USDJPY. The a and b waves are marked. In line with typical Elliott theory, the c wave can be further decomposed into five smaller waves: i-ii-iii-iv-v. We shall theoretically assume that wave ii has been formed. Wave iii needs to be relatively larger, and as a rule of thumb, we shall assume that it will only be formed once the Blue Box has been activated. Thus, once the Blue Box is touched, we would note any hourly candlestick reversal patterns (bearish engulfing, bearish harami and pin bars are most common). Once these reversals trigger, usually by going below the low of the relevant setup candlesticks (i.e. the first candlestick of of the engulfing and the harami, as well as the low of the pin bar), we will consider wave iii to have formed and wave iv to be in progress.

We would then want another high to form a wave v. With the second set of reversal candlestick patterns to the downside (same as above), we would go short, hoping to ride the beginning of a large potential wave. Given market choppiness, we might be stopped out with the stop just above the candlestick trigger. However, we would be willing to try a second time if the opportunity arose. Attempts are limited to two per Blue Box.

If this triggers, it could provide a nice trend to the downside, with limited risk. Of course, there is a possibility that the market could continue down without even activating the Blue Box or after the first reversal, in which case this trade would likely miss the election trend. There is little that can be done about that, but solace can be drawn from the fact that in that scenario, one of the other setups is likely to be triggered. I wish you all the best with your election trading.