THE JAPANESE YEN

By Ed Carlson, CMT

Let's take a look at what technical analysis tells us about the future of the Japanese yen.

On a daily chart, the first thing I notice is the advancing trendline stretching from last April until mid-January, which has contained the nine-month advance well.

Also each month (except last October), the yen declined into the reporting of nonfarm payrolls (NFP) in the U.S. (first Friday of the month) and bottomed close to that day. Out of nine instances (not including October), the yen made its actual low six times exactly on NFP day.

Looking further in history on a weekly chart (see Figure 1), it is easy to assume that April 1995 was a wave 3 high as the price pattern that follows is an A-B-C-D-E triangle. Triangles are thought to be a penultimate formation leading to the final wave up of a move or wave 5.

Fibonacci projections show that the post-1998 advance will equal 61.8 percent of wave 3 (1982-1995) at 125 (black lines).

FIGURE 1
Weekly Yen Chart

Source: Metastock

Combined with the fact that a move to this area puts the yen within striking distance of the previous high, we have a convincing case that this could be a rational price target. Finally, measuring the triangle at its widest point gives us a target close to the other two.

THE TRADE

It seems the best time to buy the yen is near the first Friday of the month, NFP release day. Extend the advancing trendline to determine a stop-loss point. However, price has made two intraday dips under the trendline only to re-emerge, so make your stops mental—not via order-entry systems. The immediate target is for a minimum move to 121.

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Check January's Trade of the Month status.