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EUR/USD, a falling knife!

By Allan Juste, Head of Forex and Derivatives

"*You will face many defeats in life, but never let yourself be defeated.*" *-Maya Angelou*

A 'falling knife' is a colloquial term often used in the financial market and usually refers to a market's price action, which falls straight down in a dangerous manner. The downward momentum on the price is so strong that it cannot be a one-man show, especially in a liquid market like the euro on the FX market.

On Wednesday, the downtrodden euro plumbed to its lowest level, since early July 2020, at $1.1186 against a roaring U.S dollar on cloudy recovery prospects in the Eurozone. The Forex market has been attributing the free-fall on the euro to a plethora of 'déjà Vu' themes, namely;

- Europe is once again the epicentre of the global pandemic that first prompted lockdowns in March 2020. Austria re-imposed national lockdowns on Monday, while Germany adopted a partial lockdown to stop the fourth wave of coronavirus infections, complicating an already challenging outlook for the bloc's economic recovery.
- The head of the European Central Bank, Christine Lagarde, downplayed prospects for higher interest rates next year even though Eurozone inflation in October 2021 hit its highest level in 13 years and almost double the 2.2% annual estimation of the ECB.
- The likelihood of Further divergence between the U.S Federal, eyeing faster removal of emergency easing measures and a rate hike as soon as mid-2022, and ECB caution about cutting accommodation, particularly with soaring COVID cases in Germany and restrictions returning.
- On Wednesday, Germany's business sentiment worsened for the fifth month as continued supply chain bottlenecks and rising virus cases clouded the growth outlook for Europe's largest economy.

Technical outlook- EUR/USD slipped more than 9% this year. Is it time to catch the falling knife?

The euro carved out a fresh 16-month low of $1.1186 this week, surprisingly already down over 9 % to the U.S dollar this year. Yet, in April 2021, we forewarned a strong bearish sequence that could unfold on the EUR/USD chart in **Q3-Q4 of 2021**.

In early January 2021, on the Daily EUR/USD Chart, it was clear that the impulsive rally from the March 2020 low to the January 2021 high in the EUR/USD pair was a five-wave move to the upside (see figure 1.1). Besides, the rally on the euro was followed by an abrupt reversal to the downside until April 2021. Based on an Elliott wave perspective, knowing that price usually traces five waves in the direction of the trend and then corrects in three waves against the trending, it was apparent that the euro was destined for at least a three-wave corrective setback.

Here is what we wrote on Monday the 19th of April 2021

'The EUR/USD rallied impulsively last year from a low of $1.0636 on March 2020 to reach a high of $1.2350 on the 6th of January 2021, before starting to lose steam. From the Daily chart, there is a clear motive wave structure in 2020 in Waves (1), (2), (3), (4) and (5). According to the Elliot wave principle, the trend usually reverses into three waves (A), (B) and (C) corrective setbacks after an impulsive rally. We suspected that Wave (A) had been completed near $1.17, and a corrective uptrend movement in wave (B) would be unfolding near $1.2210-50 before a strong sell-off again in Wave (C)'.

Figure 1.1

Two months later, we provided the following technical analysis on Friday the 11th of June 2021.

'*Price rallied in wave (B) to a high of $1.2270 before losing steam again to $1.2100 since last Friday (figure 1.2). We are not expecting a movement down in wave (C) with targets as follows;*
1st target @ 1.1602 = previous wave (4) of lesser degree
2nd target @ 1.1200 = 61.8 Fibonacci retracement & fourth wave of lesser degree
3rd target @ 1.0829 = 88.6 Fibonacci retracement'.

Figure 1.2

*On the 24th of November 2021, the EUR/USD bang on to **target 2 zone at $1.1200** before floundering to as low as $1.1186, the lowest level in nearly sixteen months. Figure 1.3 illustrates the steep decline in the EUR/USD that started in the final stage of Q2 until Q4 of 2021.*

Figure 1.3

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Is it time to catch that falling knife?

On the EUR/USD Hourly chart, the decline appears to be running out of steam with many overlapping prices over the last few days, suggesting a possible Ending Diagonal has unfolded lately (figures 1.4). According to the Elliott wave principle, Diagonal forms when market action has moved 'too far, too fast" and represents a trend's exhaustion. However, we will need to see a clear five waves advance from 1.1186 and a break above $1.1270 to confirm a complete reversal to the upside in the near term.

Figure 1.4

On the downside, the EUR/USD may still fall further to target 3 at $1.0829(88.6% Fibonacci retracement of the rally last year) as highlighted in figure 1.3 above).

The use of the Elliott Wave Principle in technical analysis is another method that could help you stack the odds in your favour, well before the news!! ☺