



DOW and EUR/USD

In this article we will discuss about the correlation between DOW and EUR/USD. We will see if this correlation exists. We will try to find if it is true that both markets share the same money and people. We will find that all these are true. Some chart examples will help us understand why.

We will start first with the type of relation between DOW and EUR/USD (directly or indirectly proportional) and with the degree of correlation. We will see how to come up with a strategy valid for both DOW and EUR/USD or for any other pair of currencies. We will see that it is enough to analyze one chart and then know everything about the other charts (to know what price should have any other financial product at a give moment in time). At the end we will of course draw the conclusions.

1. Is there any correlation between DOW and EUR/USD?

Let's look at the next charts:





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The first chart is for Dow in January – August 2007. The second one is for EUR/USD in the same period. Are they correlated?

It doesn't seem to be any correlation when looking at the details. The degree of correlation varies from a period in time to another. When looking at the big picture there seems to be a correlation, right?

First we have a strong increase until May, then a short decrease, then a High in July and an abrupt downward slope in August. This is the same for both charts.

Let's observe an earlier period in the past:



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This is the time period between January and July 2003. Again we can not find a valid correlation between short time spans, but when observing the monthly trend, we can! After the month of January when the charts are different, we see a neutral February trend, a Low in March, an ascending trend until June and a small decrease in July. There is the same big picture on both charts.

Correlation or not?

2. What kind of correlation is there?

The correlation is directly proportional. Every time Dow raises, EUR/USD grows as well. Every time Dow has a period of descending, EUR/USD goes downwards too.

The long time span charts are very clear but they do not offer enough support. More appropriate are the charts on shorter time spans. The intraday charts are the best.

Study the period between 2007 and 2008 with the help of daily charts! When the trend is neutral you will find differences, but when the trend is strong and the money is moving from one financial product to another within seconds, you will find the correct correlation.

3. Is there enough to analyze the evolution of just one financial indicator to know everything else?

We think so! The logic is simple. When Dow is going up it means that American economy is going well. If the economy is rising, it means that the American currency should be stronger. If the currency goes up, then EUR/USD will go down. This is why the intraday charts show an indirect proportionality. Dow and EUR/USD are in direct proportion on medium and long time spans

When, in 2007, the FED began reducing the reference interest, USD became the carry trading currency. That point forward the correlation became directly proportional on short time spans also.

4. Conclusions:

If an intraday analysis of Dow and S&P 500 shows that these indicators will go down, we can assume that EUR/USD parity will also decrease. Having this information and the information provided by other elements of technical analysis you will find the correct signals for entering and leaving the market and for closing in profit.

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