

Watch This Breakout In The U.S. Dollar

After going sideways for five months, the U.S. has recently resumed its rally that started in the spring. On Monday, the U.S. Dollar Index broke above its key 97 resistance level that formed at the index's peak in August. If the index manages to stay above this level, it may signal even more strength ahead. The dollar is strengthening because U.S. interest rates have been rising for the past couple years, which makes the U.S. currency more attractive relative to foreign currencies.



The weekly U.S. Dollar Index charts shows the key longer-term levels and price targets to watch. If today's breakout above 97 holds, the next price target to watch is the 100 resistance level that has acted as a key support and resistance level for the past four years.



Even if you do not trade currencies, the U.S. Dollar Index is very important to watch due to its significant influence on other markets, particularly commodities and emerging market equities. Bullish moves in the U.S. dollar are typically bearish for commodities (including energy and metals) and emerging markets, and vice versa. If the U.S. Dollar Index continues to rise after today's breakout, it would spell even more pain for commodities and EMs. Further, approximately 40% of S&P 500 earnings come from abroad. Needless to say be on the lookout for earnings estimate downgrades over the coming months.