

January 8, 2013

Factor Special Update – The January Forex Effect

I have covered the January Forex Effect several times over the years. This phenomenon can be such a powerful trading edge that it demands emphasis whenever possible.

The January Forex Effect is the historical tendency for the U.S. Dollar to establish at least a half-year high or low during January – a high or low that often becomes the absolute annual high or low. In fact, the EURUSD has made a significant high or low in 29 of the past 40 years (dating back to the commencement of forex futures trading at the IMM).

From a trading perspective this is a vitally important phenomenon because it can define risk.

The January Effect has everything to do with technical analysis. Roy Longstreet was a technical analyst and trader in the early days of commodity trading. He refined a quasi-technical approach called the “Analog Year Concept.” This approach attempts to find seasonal repetition of price behavior. The January Forex Effect analysis herein focuses entirely on past price behavior as an indicator of price expectation. This, in essence, is technical analysis in a very pure form.

The monthly chart below shows the EURUSD dating back to 1993, a period of 20 years. As noted by the red (high) and green (low) arrows, the January effect has worked in this forex cross in 17 of the past 20 years. The same pattern can also be found in the US Dollar Index, USDJPY and USDCHF (not shown)



The January Effect in the forex markets is real and it is substantial. The table to the right shows the % price change produced from the January high or low in the EURUSD. Of course, it is wishful thinking to believe a trader will catch the full price swing implied. Nevertheless, an average price change of 15.5% is significant. There is no way to guarantee that the January Effect will work in 2013. It has failed to work in two of the past four years. Markets have a way of serving up surprises. But this phenomena is something forex traders must be watching for. The present chart is shown below. It may be time to step to the line and place your bets for 2013.

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January Forex Effect				
EURUSD				
Year	Jan. High/Low	Subsequent High/Low		% change
		Price	Month	
2012		Jan effect did not occur		
2011	1.2874	1.4940	May	16.0%
2010	1.4580	1.1877	Jun	-18.5%
2009		Jan effect did not occur		
2008	1.4367	1.6020	Apr	11.5%
2007	1.2876	1.4967	Nov	16.2%
2006	1.1799	1.3369	Dec	13.3%
2005	1.3582	1.1637	Nov	-14.3%
2004	1.2898	1.1759	Apr	-8.8%
2003	1.0338	1.2470	Dec	20.6%
2002	0.8568	1.0441	Dec	21.9%
2001	0.9590	0.8350	Jul	-12.9%
2000	1.0415	0.8230	Oct	-21.0%
1999	1.1869	0.9994	Dec	-15.8%
1998		Jan effect did not occur		
1997	1.2733	1.0341	Aug	-18.8%
1996	1.3669	1.2424	Dec	-9.1%
1995	1.2500	1.4530	Mar	16.2%
1994	1.1136	1.3159	Oct	18.2%
1993	1.2478	1.1187	Aug	-10.3%
Average absolute change				15.51%

