

Case Study: Analyzing a Major Trend Reversal on EUR/USD

Overview

In this case study, we'll walk through the technical and psychological dynamics of a major trend reversal on the EUR/USD currency pair. You'll learn how to identify key signals of trend exhaustion, confirm reversal patterns, and manage entries and exits with clarity.

Market Context

Pair: EUR/USD

Timeframe: Daily (D1)

Period: January to June

Trend: Strong downtrend followed by reversal to an uptrend

Phase 1: Downtrend Conditions

Macro Overview: The USD was strengthening due to rate hike expectations from the Federal Reserve, while the Euro was under pressure from recession fears in the Eurozone.

Chart Behavior:

- Series of Lower Highs and Lower Lows
- Price respecting downward trendline
- RSI consistently below 50
- Bearish candlestick patterns on each pullback (e.g., evening star, bearish engulfing)

Note: This phase presented classic trend-following opportunities. But smart traders monitored for trend fatigue as momentum started to fade.

Phase 2: Signs of Reversal Emerging

Price Behavior:

- Price failed to make a new lower low
- Bullish divergence appeared on RSI and MACD
- Multiple daily candles showing rejection wicks at support (~1.0500 level)

Volume Clue: Decreasing volume on new lows indicating weakening selling pressure

Psychological Cue: Traders began questioning the downtrend, leading to reduced confidence in short positions.

Phase 3: Confirmation of Reversal

- Triggering Pattern: Inverse Head & Shoulders on 4H and Daily charts
- Neckline Break: Clean break above 1.0800 resistance with high volume
- Market Structure Shift:
 - Higher Low (HL) formed
 - Price began forming Higher Highs (HH)

Re-entry Point: After the neckline break, a bullish retest offered a high-probability long setup.

Trade Management Example

- Entry: 1.0820 (after bullish retest)
- Stop Loss: 1.0720 (below right shoulder)
- Target 1: 1.1000 (prior resistance)
- Target 2: 1.1200 (measured move from IHS)
- Result: Trade hit both targets over 3 weeks

Risk-to-Reward: Over 1:3 ratio, making this a high-quality trend reversal trade

Trader Lessons

1. Trend doesn't reverse in one candle. Look for confluence: price action, momentum shifts, and volume.
2. Reversals often fake out retail traders. Waiting for confirmation is crucial.
3. Reversal trades offer large reward opportunities but need patience and discipline.

Summary

Stage | Clue to Watch | Action Taken

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Downtrend | Lower lows, lower highs | Trend-following shorts

Reversal Signals | RSI divergence, failed low, weak volume | Cautious observation

Confirmation | Break of neckline, HH structure | Entered long on retest

Next Step

Review your charts and look for trend reversals on USD/JPY, GBP/USD, or Gold.

Download our Swing Points Checklist Worksheet to practice identifying key reversal zones.