

# Technical Analysis

## Weekly Comment

Global

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05/09/2017

## Still Risk of Corrective Wave C Below 2491

- US Trading:** After the initial down leg into the August 21<sup>st</sup> reaction low at 2417 we expected a bounce into last week before expecting a second pullback leg (wave C) into later Q3 as the setup for starting its next bigger tactical rally leg into year-end, and into Q1, where we continue to expect new index highs. With the SPX and Nasdaq re-testing their late July/early August highs, last week's bounce was somewhat stronger than expected, but as long as the SPX trades below its August 8<sup>th</sup> high of 2491, our short-term trading call/view remains unchanged. The late August bounce has a purely corrective style, and with the uninspiring sector leadership we expect key indices/sectors to post a lower high (Russell-2000, DJT, DRG, BKX, consumer staples, consumer discretionary) for another move down into later Q3, which should weigh on the market (break below 2455 would be negative) and where into deeper/late September we still expect the SPX to re-test and potentially undershoot 2400.
- US Strategy:** Generally, in our cyclical model, the August 8<sup>th</sup> top at 2491 in the SPX represents a multi-month cycle top, which is de-facto our anticipated deeper summer trading top and has therefore a pivotal character. So, as long as we do not see a significant break of 2491 and key sectors such as, the SOX index breaking out, our short-term tactical scenario remains unchanged, where we continue to see the market vulnerable for another corrective down leg (wave C) into deeper/late September, whereas a break of 2491 would be a clear (earlier than expected) tactical game changer as it would trigger a bullish trend continuation buy signal into Q1. So, although we would expect the selectivity to remain high (where late cyclical sector themes, technology and financials should outperform) and we can see pullbacks on the way higher, with a break of the early August all-time high the SPX would remain bullish biased into Q1, which was and remains our preferred time window for an important and major market top of the underlying 2016 wave 5 bull cycle.
- European Trading:** Since the early May Euro Stoxx top, and on the back of our anticipated sharp EUR bull cycle, Europe has been underperforming the US, where last week we finally saw our suggested break of the 2016 relative summer low versus the US. Again, although on a relative basis Europe has been underperforming, in absolute terms, most European headline indices remain in constructive consolidation patterns, where on the one hand we see the risk of a final undershooting into later September/early October, but which we expect to bring us a superb buying opportunity for a Q4 rally on the basis of expecting the EUR to tactically correct into the October/November timeframe. On a short-term basis, our suggested bounce towards best case 3500 is underway but this week and into next week we expect another down-test starting where we still see the risk of undershooting towards 3300 into later September. On the sector front, we have intact long signals in basic resource and financials, whereas most defensives and energy remain weak but where the latter as well as industry and chemicals we see moving into a big tactical late Q3 buying opportunity.
- Inter Market Analysis:** On the FX side, the down trend in the US dollar remains intact, where as long as we do not see a break of 94 we see the risk of a final but selective USD undershooting into later September before starting a multi-week rebound into October. We expect in particular the EUR to pullback significantly (target 1.16), which in the bigger picture we would see as an initial part of a major top building process, which we expect to complete into later 2017/early 2018.
- On the metals side, the mid-August break of \$1273, triggered a new tactical long signal in gold into later September/early October before we can see a somewhat bigger tactical pause/pullback into deeper Q4 but on the way higher into Q1. So, although on a short-term basis we can see pullbacks, with silver breaking its 2016 down trend and gold challenging its 2011 bear trend, we remain bullish biased gold and gold mines where the next bigger target in the yellow metal is the summer 2016 top at \$1375, and where into H1 2018 we expect gold reaching \$1485, which from a macro correlation standpoint remains negative USDJPY and the Nikkei-255, which is challenging its June 2016 bull-trend.
- Asian Corner:** After a short washout into mid-August, the MSCI Emerging Market hit a new reaction high and surprised on the upside. However, the new high was mainly based on the selective strength of China (28% index weight) and Brazil whereas most other Asian/EM markets continue to trade in intact consolidation patterns. With China (and copper) being overbought, the underperformer markets being vulnerable for a corrective wave C, and with the MSCI Emerging Market trading in massive resistance, we expect the MSCI Emerging Market to be vulnerable for another down test/pullback into later September and worst case into October with target 1040/1000, so we would not chase the current new index high.



## US Equity Market Update:

Chart 1.) S&P-500 Daily Chart



Chart 2.) Nasdaq Composite Daily Chart



Chart 3.) Russell-2000 Daily Chart



## Minor Trading Top This Week

It was a tactical key call of our 2017 strategy to expect the SPX moving into a deeper summer top followed by a more significant 5% to 7% pullback into later Q3/early Q4 before starting a final rally leg into year-end and into Q1, which was and remains our preferred time window for an important and major market top of the underlying 2016 wave 5 bull cycle.

Tactically, after the initial down leg from its early August top into the August 21<sup>st</sup> low at 2417, the US market was short-term oversold (particularly the Russell-2000) and we expected a bounce into the late August/early September minor trading top as the basis for more weakness into later September.

With the SPX and Nasdaq re-testing their late July/early August highs, **last week's second bounce leg was somewhat stronger than expected, since the market profited from the bounce in oversold themes and the selective but continued strength/new highs in mega caps.** However, as long as the SPX trades below its pivotal August 8<sup>th</sup> high of 2491, our short-term trading call/view remains unchanged. So far, the shape of the late August bounce has been purely corrective, which, together with expecting most key sectors (DJT, DRG, consumer staples, consumer discretionary) and the Russell-2000 to post a lower high, is the main reason why we see the recent SPX and NDX rebound just as a countertrend wave B, where a final corrective down-leg (wave C) would be missing to complete a larger corrective process. **With our short-term daily momentum work at overbought levels, and the uninspired leadership on the sector front (where we still do not see any real larger rotation, which could justify anticipating a broader breakout campaign) we continue to see the risk of another pullback leg into later September and worst case early October where we still expect the SPX to re-test and potentially undershoot 2400, so we reiterate our last week's call and would not chase the current bounce.**

Again, this call remains intact as long as we do not see the SPX and NDX significantly breaking their all-time highs, whereas a break of 2491 would be a clear (earlier than expected) tactical game changer as it would trigger a bullish trend continuation buy signal into Q1. Although we would expect the selectivity to remain high (where late cyclical sector themes, technology and financials should outperform) and we can see pullbacks on the way higher, with a break of the early August all-time high, the SPX would remain bullish biased into Q1, which was and remains our preferred time window for an important and major market top of the underlying 2016 wave 5 bull cycle.



## US Equity Market Update:

Chart 4.) S&amp;P-500 with 10-Day CBOE Put/Call Ratio



Chart 5.) S&amp;P-500 with NAAIM Exposure Index

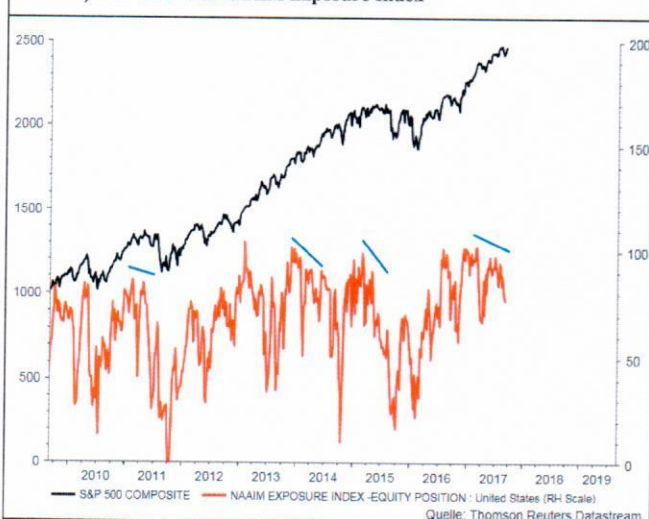
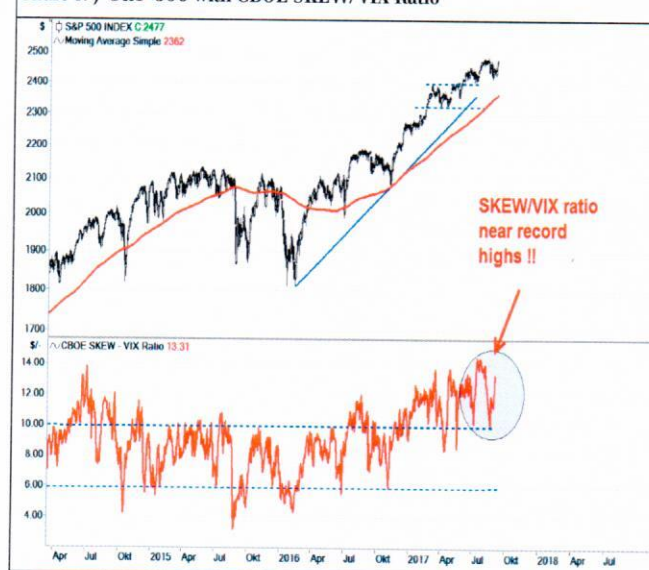


Chart 6.) S&amp;P-500 with CBOE SKEW/VIX Ratio



## Lagging Signals in Key Indicators

Whether it's market breadth or sentiment, with last week's market bounce we have no new findings nor do we get any new impulses out of our broad indicator work.

Last week we discussed the sentiment side and said that without seeing any real fear in the market and in our sentiment studies it is too early to call a contrarian buying opportunity so we think it's unlikely that our suggested summer corrective process is over.

With last week's bounce, the SPX is now re-testing its early August high but the setup on the sentiment side is nonetheless unchanged. Medium-term sentiment studies such as the NAAIM exposure index are still more in a topping phase instead of signaling a contrarian buying opportunity.

On the flow side, the CBOE put/call ratio is still somewhere in no man's land but certainly not at levels where we could say this market is fearful, which is surprising taking into account the geo-political side and the debt ceiling, and the looming central bank meetings on both sides of the Atlantic over the next few weeks. Together with the SKEW/VIX ratio bouncing back near record levels, we do not see the current setup as the basis for a new broader breakout campaign and therefore see a negative risk/reward for long positions at current levels.

**Conclusion:** With expecting the market to head into our projected early September minor trading top we expect the SPX to start another down test this week, so we are reiterating our last week's call and would not chase the current bounce. A re-break below 2455 would be initially bearish and imply a re-test of the 2016 bull trend, which at the end of the day we expect to be broken into later September. Again, a break of the February bull trend would initially imply just a deteriorating bull momentum so this break should not be misinterpreted as the end of the 2016 wave 5 bull cycle!!



## US Equity Market Update:

**No Clear Leadership ... Resource Themes Overbought**

The picture on the sector landscape is unchanged. Last week we saw a bounce and outperformance in oil stocks, technology, biotech and particularly resource themes such as steel and the metals & mining complex, which could profit from the bouncing metals prices and the continued rally in copper.

However, the **resource sectors (as well as copper) are overbought** and with non-confirmations underway we see further upside increasingly limited. **Biotech outperformed and the BTK is on the way of testing its 2015 all-time high but after the vertical bounce the sector also looks overbought as well.** In defensives, we see utilities pulling back, whereas staples and healthcare are bouncing but where the rebound, particularly in the DRG, actually has a corrective shape; as such, we think **the DRG is at risk of posting another low high.** Together with transport and consumer discretionary lagging any positive signals and expecting to post a lower high, as well as **financials trading in neutral stance, we still have problems in seeing any real and sustainable rotation in terms of groups and/or key sectors which would have the potential to push the overall market.**

**Conclusion:** We are sticking to our underlying bullish bias on financials and late cyclical resource themes but short-term the latter sectors are overbought and vulnerable for a pullback. We still see financials at risk for more near-term weakness, which we would nonetheless see as part of a larger wave 4, which means we still expect to see at least one more bull wave 5, so that any potential weakness in BKKX and XBD into later September/early October should be used to buy/add.

Chart 7.) NYSE ARCA Steel Sector (STTL) Daily Chart



Chart 8.) S&amp;P Metals &amp; Miners Daily Chart

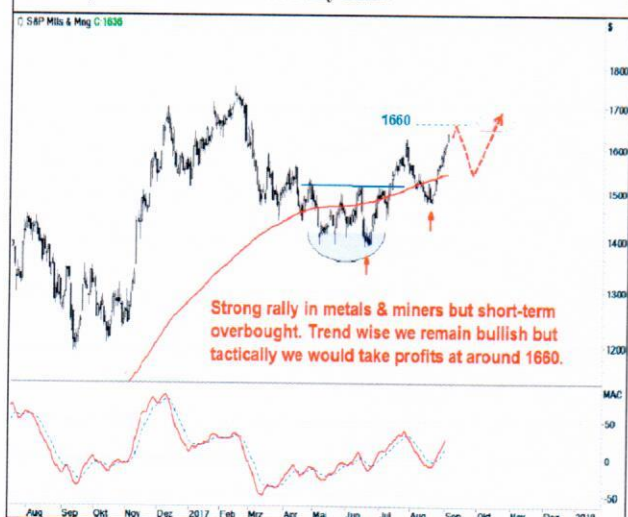


Chart 9.) US Biotech (BTK) Daily Chart

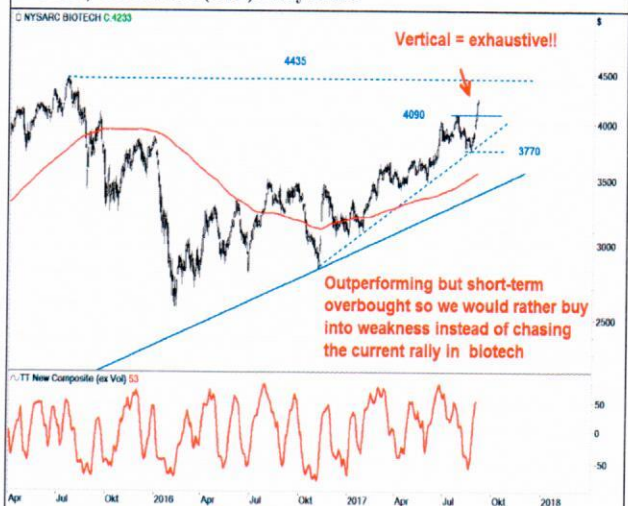


Chart 10.) US Oil Index (XOI) Daily Chart



## US Equity Market Update:

Chart 11.) US Banking Index (BKX) Daily Chart



Banks remain in a neutral stance between 88 and 100! But we would see more weakness into later September as a buying opportunity since we think the final wave 5 bull leg in banks is still missing!

Chart 12.) US Semiconductor Index (SOX) Daily Chart



Semiconductors are bouncing, but as long as we do not see a break of its June high at 1150, we see this key sector in neutral territory where into later Q3/early Q4 we expect to see another litmus test of the 2016 bull trend!!

Chart 13.) US Internet Index (QNET) Daily Chart



Technology bounced stronger than expected last week but with the market expecting to move into a minor trading top near-term we see the internet sector (QNET) heading into a lower high, which trading wise would be negative.



## Inter Market Update:

## Dollar Still Short Biased But Set Up for Q4 Rebound

On the macro side the broader picture and our underlying views have not changed. On the FX side, on a short-term basis, the down trend in the US dollar remains intact, and as long as we do not see a break of 94, we still see the risk of a final but selective US Dollar undershooting into later September, as the basis for starting a multi-week tactical rebound into October/November before we expect a final down cycle starting into year-end/Q1 2018, where we expect a major US dollar bottom forming.

In terms of key pairs, in a potential October/November US dollar rebound we expect in particular the EUR to pullback significantly (target 1.16), where we have a bigger divergence forming versus the German/US interest rate differential, which has not justified the last EUR overshooting. Generally, in the bigger picture, a tactical October/November pullback we would see as just an initial part of a major top building process but where we are sticking to our underlying call that, on the back of the extreme in the EUR long positioning, we have the best of the 2017 EUR bull market behind us. From a macro standpoint a tactical and multi-week EUR pull back would be bullish Europe and particularly exporters. With expecting the AUD to pullback and most Asia/EM pairs tactically basing (INR, SGD, TWD, MXN, TRY) we expect the EM complex to start underperforming in a potential October/November US dollar rebound.

Chart 14.) Trade Weighted Dollar Index (DXY) Daily Chart



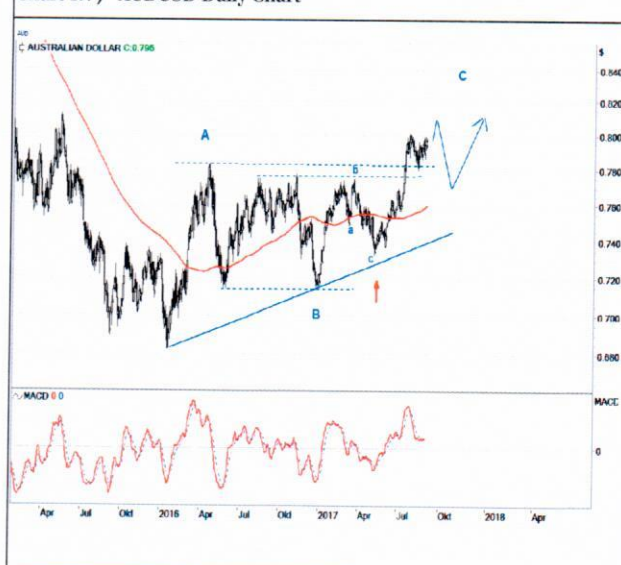
Chart 15.) EURUSD Daily Chart



Chart 16.) EURUSD (inverse) versus US/German Rates Differential



Chart 17.) AUDUSD Daily Chart





## Inter Market Update:

## Further Breakouts in Gold ... Watch Gold Vola!

On the metals side, the mid-August break of the pivotal \$1273 level, triggered a new tactical long signal in our cyclical model, which from a cyclical aspect, suggests higher gold prices into later September/early October before we can see a somewhat bigger tactical pause/pullback into deeper Q4 but on the way higher into Q1, so we are sticking to our underlying bullish gold view into initially 2018.

Tactically, we currently see further breakouts in silver, which is breaking its 2016 downtrend and where also in local currencies we have a triangle breakout in XAUGBP underway, XAEUR has completed a bigger trading bottom, and where also XAUJPY has broken out of a multi-month tight trading range and is now taking aim at its 2013 all-time high. Again, also in US dollar terms gold is moving into a classic breakout set up, where the picture on the volatility side is important too. **With the current price levels, gold is de facto testing its 2011 long-term downtrend, where together with the very low and initially increasing gold volatility we actually have the setup for a potential big trend move.**

**Conclusion:** As we said last week, although short-term gold looks overbought and we can see pullbacks, with silver breaking its 2016 down trend and gold challenging its 2011 bear trend, we remain bullish biased gold and gold mines into later September where the next bigger target in the yellow metal remains the summer 2016 top at \$1375, and where into H1 2018 we expect gold reaching \$1485, which from a macro correlation standpoint remains negative USDJPY and the Nikkei-255, which is challenging its June 2016 bull-trend.

Chart 18.) Gold Daily Chart



Chart 19.) Gold with CBOE Gold Volatility



Chart 20.) XAUGBP Weekly Chart

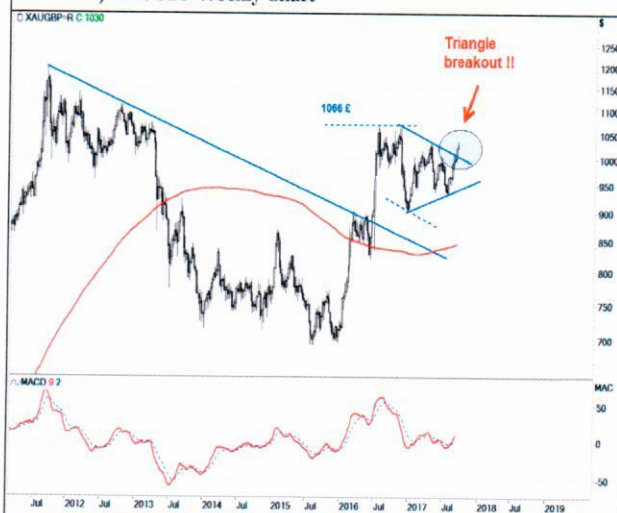
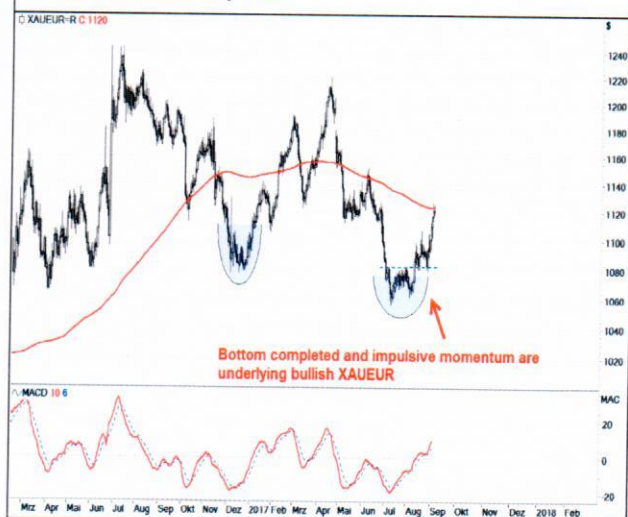


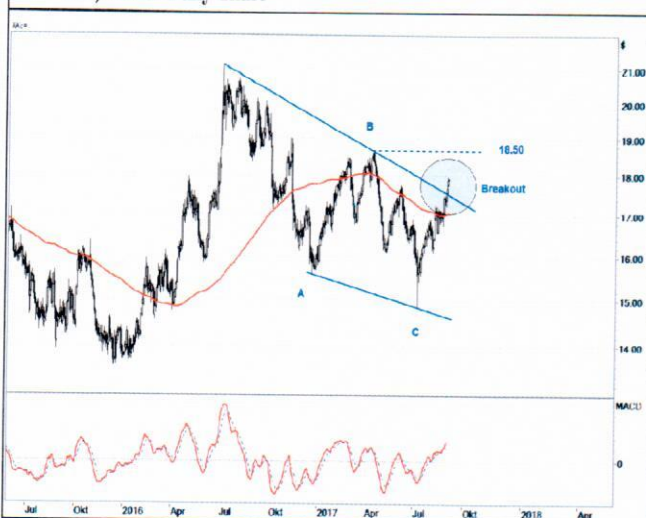
Chart 21.) XAEUR Daily Chart





## Inter Market Update:

Chart 22.) Silver Daily Chart



With silver breaking its 2016 downtrend we see the white metal heading towards 18.50 as next resistance. Again, pattern wise the breakout of a 12 months lasting corrective pattern is actually a very bullish set up for silver into initially 2018!

**Nikkei-225 ...make or break!!**

As we know, on the macro side, correlation wise we have a very close relationship between US interest rates, gold and USDJPY and therefore also the Nikkei-225. With the December low in gold we had in fact the top in USDJPY, which was more or less the relative top of Japan versus the MSCI World. So it is actually not a big surprise that with the underlying gold bull market, Japan has been so far an underperformer and a negative surprise in 2017. **With gold moving into a make or break set up, a potential break of the 2011 down trend in gold would have, at least from a correlation standpoint, huge consequences on USDJPY and therefore also on the Nikkei-225!!** The situation in February 2016 is a very good example of what kind of momentum we can see when we get a pattern breakout. In Q1 2016 the USDJPY completed a larger head & shoulder top, where the break of the neckline support at 116 was the trigger for the Nikkei-225 breaking its 2012 bull trend.

In the current set up, we have a divergence forming in the USDJPY versus gold, which is important since both the USDJPY and the Nikkei-225 are sitting at or near key support levels. **Correlation wise, with the new breakout of gold, and with challenging its 2011 down trend, we should have already seen a break of the obvious key support at 108 in USDJPY.** Temporarily, we can see divergences holding up in the markets but normally it's just a question of time that markets adjust/mean revert. **So either the breakout in gold is not real and therefore a false breakout or USDJPY is at risk of breaking 108, which would imply also a break of the 2016 bull trend in the Nikkei-225.**

**Conclusion:** With our expectation that the current breakout in gold is real we have to take into account the risk of a short-term negative surprise in Japan. A break of the 2016 bull trend and the 23% retracement of the 2016/2017 bull cycle at 19044 would open the door for a correction towards 18225. **Only a big bearish reversal in gold (re-break below \$1300) and the Nikkei-225 breaking its last lower reaction high would negate this pattern set up and be a bullish game changer for Japan.**

Chart 23.) USDJPY versus Gold (inverse)

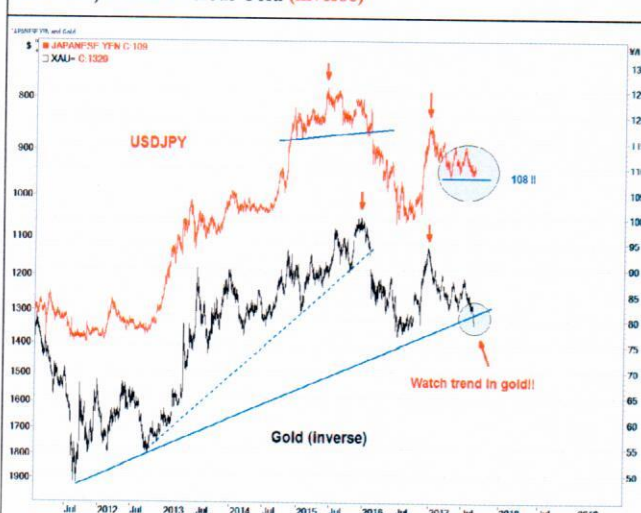


Chart 24.) Nikkei-225 Daily Chart





## Asian Corner Update:

Chart 25.) MSCI Emerging Market Daily Chart

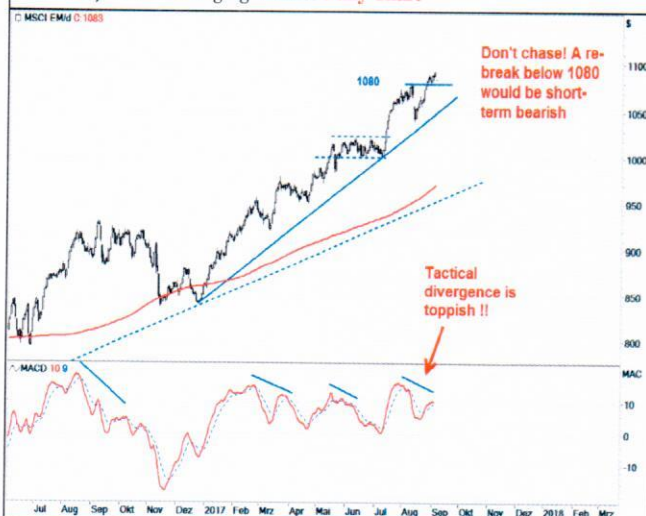
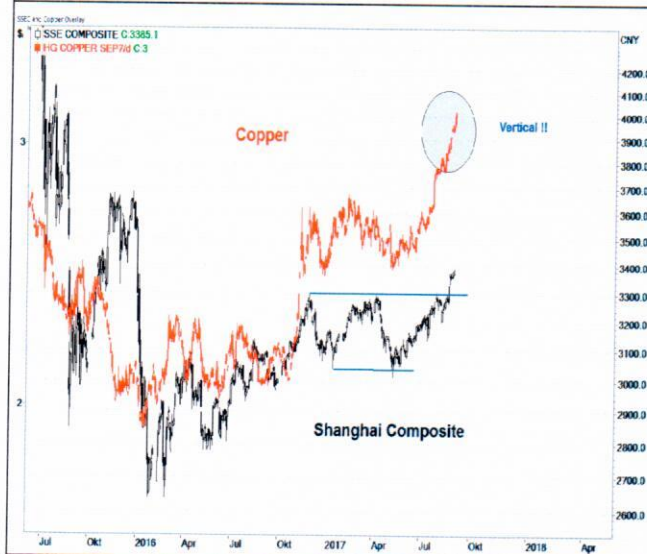


Chart 26.) MSCI Emerging Market Weekly Chart



Chart 27.) Shanghai Composite versus Copper



## Don't Chase EM Breakout

In early August we highlighted the overbought set up in Emerging Markets and together with the overall markets expecting to form our suggested deeper summer top we also saw the EM complex toppish and at risk for undergoing a 10% correction into later Q3/early Q4 before starting its next bigger rally leg.

After just a short washout into mid-August, the MSCI Emerging Market started another bounce and hit a new reaction high and clearly surprised on the upside. However, if we look into the structure of the market it strikes that the new high was mainly based on the selective strength of China (represents 28% of the index) and Brazil whereas most other Asian/EM markets have not hit a new high and are therefore still trading in intact consolidation patterns.

From a macro standpoint the rally in China confirmed the recent strong rally in copper and our underlying bullish view on copper. However, after the nearly vertical rally, copper is clearly overbought and we actually think that the best of the rally in copper is behind us. This would obviously also imply that at least tactically, the rally in China is nearly complete, which would cap the MSCI Emerging Markets. **Together with the underperformer markets being vulnerable for a corrective wave C, and with the MSCI Emerging Market trading in massive resistance, as well as expecting the US dollar to start a bigger rebound, we expect the MSCI Emerging Market to be vulnerable for another down test/pullback into later September and worst case into October with target 1040/1000, so we would not chase the current new index high.**

A daily close below 1080 would be initially negative.



## Asian Corner Update:

Chart 28. ) NIFTY Daily Chart



After the break of the 2016 bull trend, the NIFTY is forming a lower high, which we think is a counter trend bounce. We continue to see more downside into later September and into early October

Chart 29. ) Straits Times Index Daily Chart



Straits Times Index is underperforming as well and has posted a lower high, which is short-term bearish

Chart 30. ) Hang Seng Daily Chart



Together with the SSEC outperforming, the Hang Seng index has hit a new reaction high, which, on the back of a bearish divergence forming in our daily trend work, we would not chase. Key support is at 26860.



## European Equity Market Update:

### Europe Breaking Relative 2016 Summer Bottom ...

Since the early May Euro Stoxx top, and on the back of our anticipated sharp EUR bull cycle, Europe has been underperforming the US, where last week we finally saw our suggested break of the 2016 relative summer low versus the US. Again, although on a relative basis Europe has been underperforming, in absolute terms, most European headline indices remain in constructive consolidation patterns, where on the one hand we see the risk of a final undershooting into later September/early October, but which we expect to bring us a superb buying opportunity for a Q4 rally on the basis of expecting the EUR to tactically correct into the October/November timeframe. On a short-term basis, our suggested bounce towards best case 3500 is underway but this week and into next week we expect another down-test starting where we still see the risk of undershooting towards 3300 into later September. On the sector front, we have intact long signals in basic resource and financials, whereas most defensives and energy remain weak but where the latter as well as industry and chemicals we see moving into a big tactical late Q3 buying opportunity.

Chart 51. ) Euro Stoxx-50 Daily Chart



Chart 52. ) STOXX Europe 600 versus S&P-500



#### Euro Stoxx 50:

On track with our recent call Europe is bouncing and working off its tactical oversold stance. ON a very short-term basis the bounce can still extend towards best case 3500 but all in all we expect this week a new down test starting, where we should minimum see a re-test of the recent low and more likely a temporary undershooting towards 3300/3289, which remains our worst case target for the wave 4 correction process, and which we would see as a clear contrarian buying opportunity for a significant rally and relative comeback into Q4.

#### STOXX Europe 600 vs S&P 500:

Of course, currency adjusted (on the back of the massive EUR rally) Europe outperformed the US in 2017 but this is obviously just a selective FX trade for US investors. **In the global context, and particularly for European investors, the underperformance of Europe versus the US is again imminent and a fact, albeit from our perspective not a big surprise,** since it was a key call of our 2017 strategy to see the risk of a negative surprise in Europe into H2 on the back of our core scenario on the FX side where we had a target of 1.20 for our expected 2017 EUR bull market.

Last week, the STOXX-600 has finally broken its 2016 relative summer bottom. However, as we think the best of the EUR bull market is behind us (keep in mind the extreme high speculative long positioning in the EUR), we effectively see the underperformance of European equities also in a mature stages. **Particularly tactically, with expecting the EUR to move into a later September/early October high and start a corrective pull back into November, we see Europe and export oriented sectors/stocks moving into a contrarian buying opportunity for a rally into deeper Q4!!**



## European Equity Market Update:

Chart 53. ) FTSE-100 Daily Chart



### FTSE-100:

The trading range in the FTSE is intact and last week's bounce held the index above its minor support at 7300. With the daily momentum indicator heading back into slightly overbought territory, another test of support at 7300 remains on the agenda, where a break of this level would imply the risk of a final washout towards the major support at 7100.

The overhead resistance at 7600 is currently not within striking distance and we continue to favor one more test of supports into deeper September, where an extension towards 7100 would offer the next contrarian buying opportunity.

Chart 54. ) DAX-30 Daily Chart



### DAX-30:

Last week's bounce remained capped by the intact short-term downtrend, and makes last week's high at 11191 a short-term key resistance. Timing-wise, an immediate break would come too early given our cycle low projection for later September.

Short-term support is unchanged at 12000/11935, whereas we do label the 38% retracement at 11525 as a worst-case scenario into deeper September and where the DAX would be a strong contrarian buy.

Chart 55. ) Swiss Market Index Daily Chart



### Swiss Market Index:

With the index holding above 8700 last week, the multi-month trading range is intact. While we see signs of stabilization in some cyclical names, banks have not yet re-tested their next lower supports and the defensive heavyweights are sitting shy above their big supports. The latter remain a potential short-term threat for the index given their big index weight. Into later September, we would still favor accumulating weakness in the cyclical and financial camps.

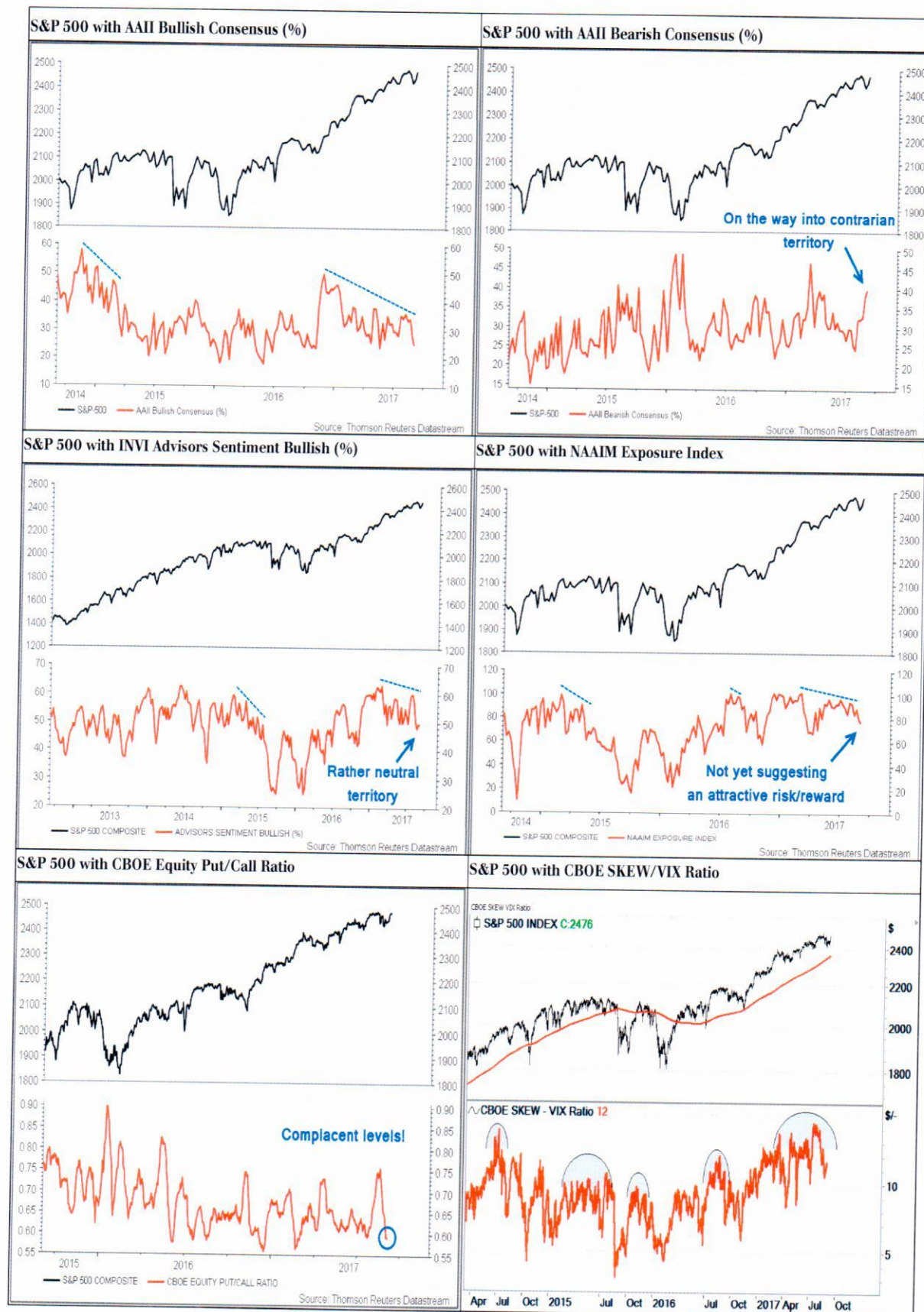


## STOXX Europe 600 Index Sector Overview:

	RIC	Trading at	Trend (weekly MACD)	Rel. Strength according to the spread chart
Basic Resources	SXPP	436.12	↗	Outperforming
Financial Services	SXFP	462.09	↘	Outperforming
Utilities	SX6P	301.3	↘	Outperforming
Banks	SX7P	179.78	↘	Outperforming
Insurance	SXIP	275.1	↘	Outperforming
Technology	SX8P	414.6	↘	Neutral
Personal & Household Goods	SXQP	838.23	↘	Neutral
Industrial Goods & Services	SXNP	502.85	↘	Neutral
Food & Beverage	SX3P	652.34	↘	Neutral
Constructions & Materials	SXOP	449.43	↘	Neutral
Travel & Leisure	SXTP	245.45	↘	Neutral
Chemicals	SX4P	880.96	↘	Neutral
Automobiles & Parts	SXAP	543.13	↘	Neutral
Real Estate	SX86P	168.19	↘	Neutral
Telecommunications	SXKP	285.59	↘	Neutral
Oil & Gas	SXEP	287.02	↘	Neutral
Healthcare	SXDP	730.88	↘	Underperforming
Media	SXMP	259.78	↘	Underperforming
Retail	SXRP	289.41	↘	Underperforming



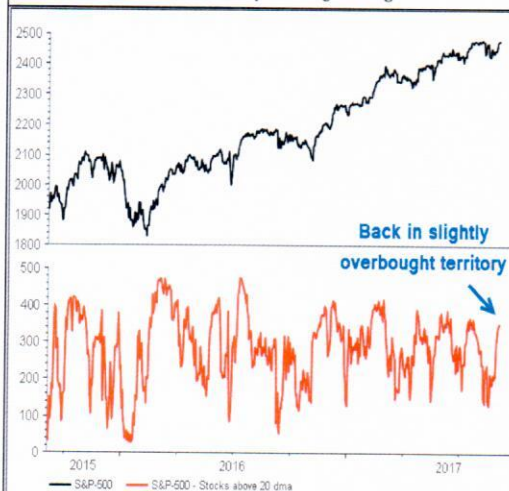
## Weekly Technical Indicators: (Source: Pinnacle Data, Datastream) Charts: Metastock



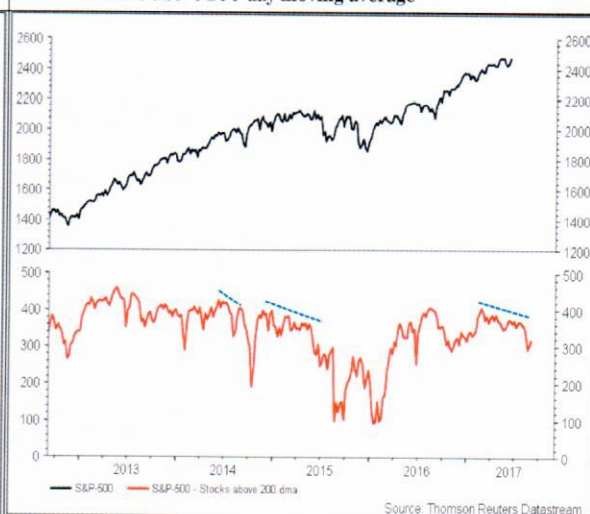


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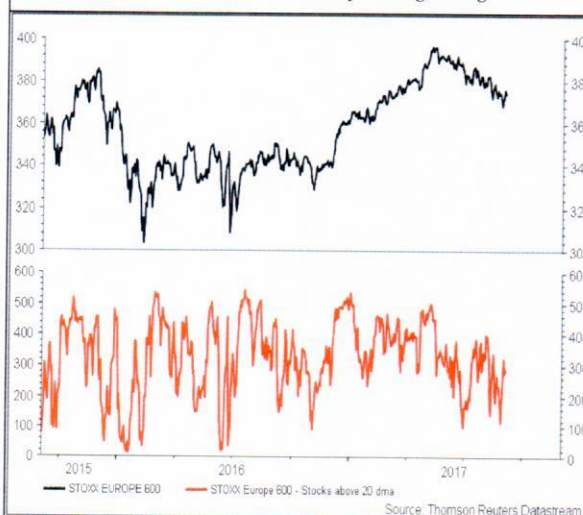
S&amp;P 500 Stocks above 20 day moving average



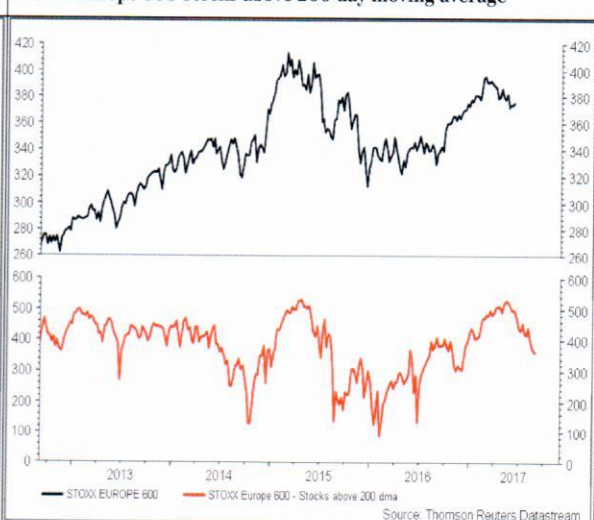
S&amp;P 500 Stocks above 200 day moving average



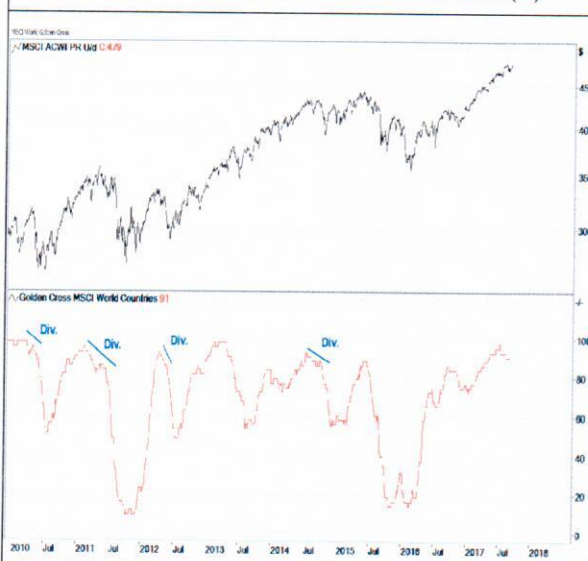
STOXX Europe 600 Stocks above 20 day moving average



STOXX Europe 600 Stocks above 200 day moving average



MSCI World and MSCI World Markets with Golden Cross (%)



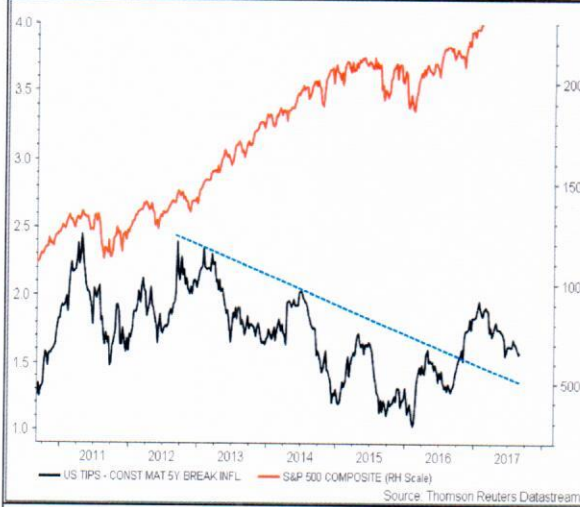
MSCI World Markets New 52-Week Highs



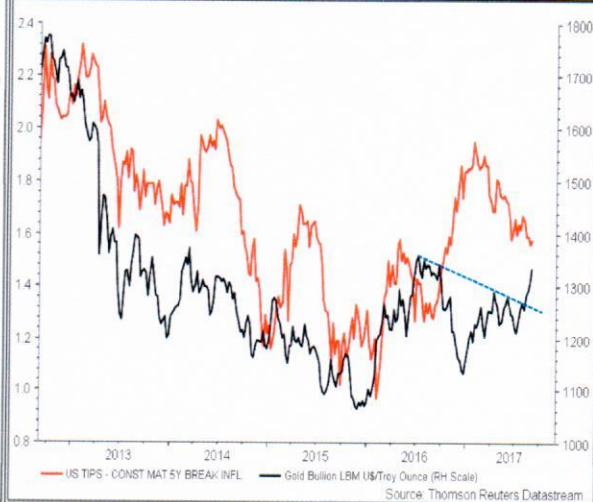


Weekly Technical Indicators: (Source: Pinnacle Data, Datastream) Charts: Metastock

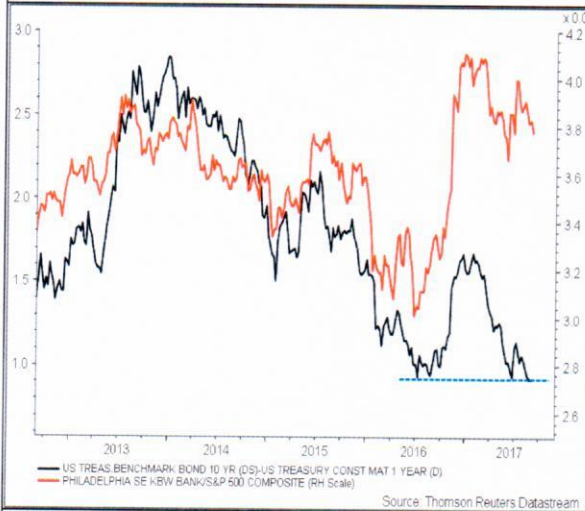
S&P 500 with Break-Even Inflation Rate



Gold with Break-Even Inflation Rate



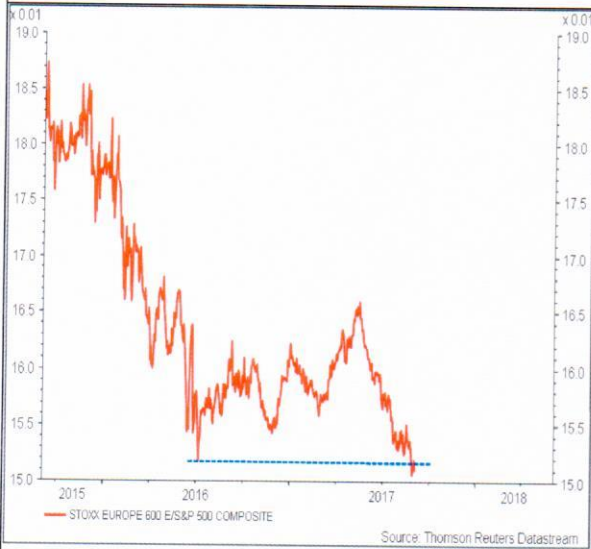
US Yield Curve versus US Bank Index (BKX)/S&P 500



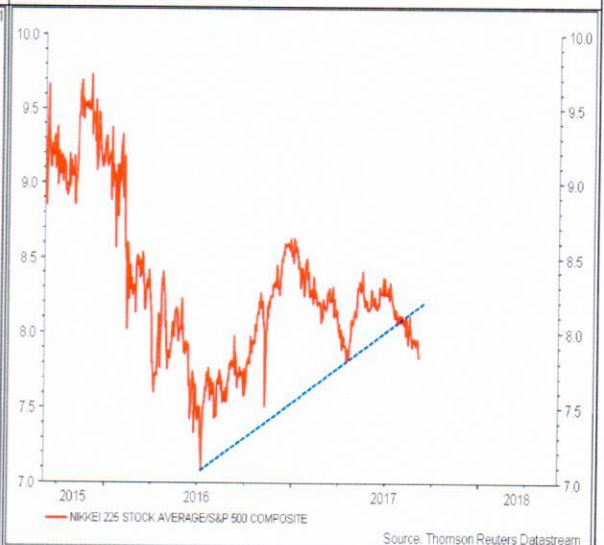
Yield Difference Germany vs USA and EURUSD



Relative Chart STOXX Europe 600 versus S&P 500



Relative Chart Nikkei 225 versus S&P 500





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