

Technical Analysis

Weekly Comment

Global

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Europe Strong Bounce ... DXY On Track For Late Q3 Low!

- **US Trading:** After last week's sideways trading, we saw yesterday a big relief rally. While trading below its early August high at 2491, the SPX remains per definition in a corrective pattern, where ahead of triple witching, we can see further bouncing and a test of its 2480/2491 key resistance. However, even in case of seeing a marginal break of 2491, we would not expect the start of an immediate/broad based breakout campaign. The VIX index is still around its 24-year low, the SKEW/VIX ratio near historical extremes, and with a too low put/call ratio we don't have the sentiment background for a new breakout. The picture on the sector/breadth side has also not changed where, despite the bounce in energy and healthcare, leadership remains very mixed with weak financials, lagging momentum in early cyclical SOX and DJT, and where we continue to expect the Russell-2000, staples, and consumer discretionary to post a lower bounce high into deeper September.
- On a short-term basis, we can see a test and marginal break of 2480/2491. As we said last week, in our cyclical model, a break of 2491 would trigger a bullish trend continuation buy signal with a target in early Q1, which on the one hand confirms our underlying bullish bias but where we nonetheless think that into end September/early October the US market remains vulnerable for another corrective pullback. Having said that, with a short-term positive surprise on the upside (a break of 2491 would imply 2502 as next resistance) the likelihood for an overall flattish summer corrective pattern would clearly increase; thus, a pullback below 2400/2380 would be increasingly unlikely before starting its next broader based breakout campaign.
- **US Strategy:** Generally, in our cyclical model, the August 8th top at 2491 in the SPX represents a multi-month cycle top, which is de-facto our anticipated deeper summer trading top and therefore has a pivotal character. 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 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:** As we said over the last few weeks, despite the (FX driven) underperformance and breaking its relative summer 2016 bottom versus the US, in absolute terms, European headline indices are trading in constructive consolidation patterns, which from a wave perspective we always saw as wave 4 of the larger 2016 wave 5 bull cycle. It suggests that at least one significant bull cycle is missing, preferably into year-end/Q1, before we see a more important top forming in Europe. As we highlighted 2 weeks ago, on a short-term basis, our suggested oversold bounce towards 3500 is underway and may continue into expiration before we expect a new down test starting. However, with the EUR not far from an important medium-term top, and looking at initial breakouts in cyclical sectors, it is increasingly unlikely to see the Euro Stoxx still undershooting (DAX low is already in). With reaching our 3500 bounce target, we would not chase the market short-term, whereas weakness into early October we see as a buying opportunity. We remain bullish basic resource, financials, technology, and export driven industrial/chemicals. In defensives we continue to see headwind from rising rates into later Q4.
- **Inter Market Analysis:** On track with our recent call, the US dollar has hit new reaction lows (EUR new highs) but with the weekly timeframe aggressively oversold, momentum divergences forming on the daily timeframe, and with moving into the window of our late September/early October low projection, we continue to see the US dollar on the way into an important medium-term low as the basis for a multi-week corrective rebound into deeper Q4 before starting another and potential final down cycle. On the macro side, tactically, a multi-week USD bounce suggests a broader rotation in global equities where Europe should outperform the US and where we expect the EM complex to underperform tactically. On the metals side, gold is short-term overbought (and pulling back) but remains on track for testing its \$1375 key resistance into later September/early October before, on the back of the USD rebound, we see gold vulnerable for a somewhat bigger corrective pullback into deeper Q4 within its intact underlying 2016 bull trend. Generally, as long as the early July underlying tactical trends in gold, the DXY, and US 10-year yields remain intact, it is, from a macro standpoint, too early to call a major tactical low in risk!

US Equity Market Update:

Chart 1.) S&P-500 Daily Chart



Chart 2.) Russell-2000 Daily Chart

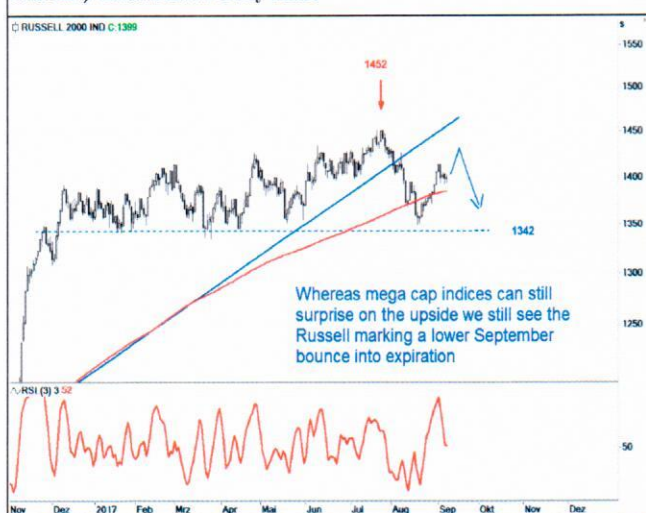
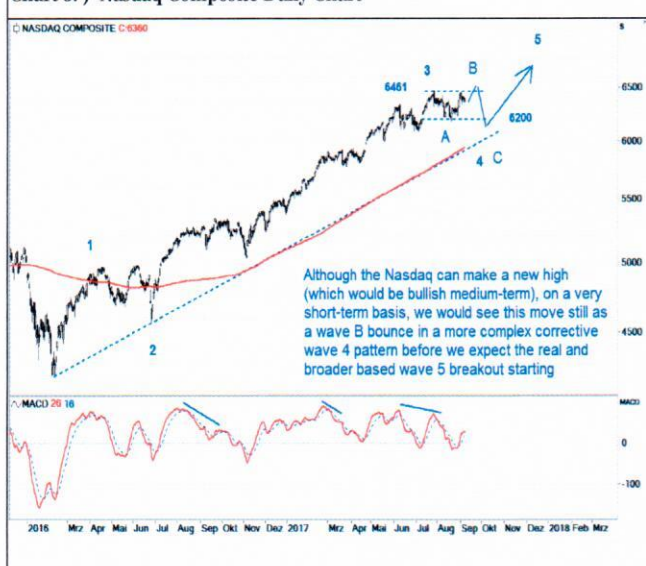


Chart 3.) Nasdaq Composite Daily Chart



Bounce into Expiration Likely

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

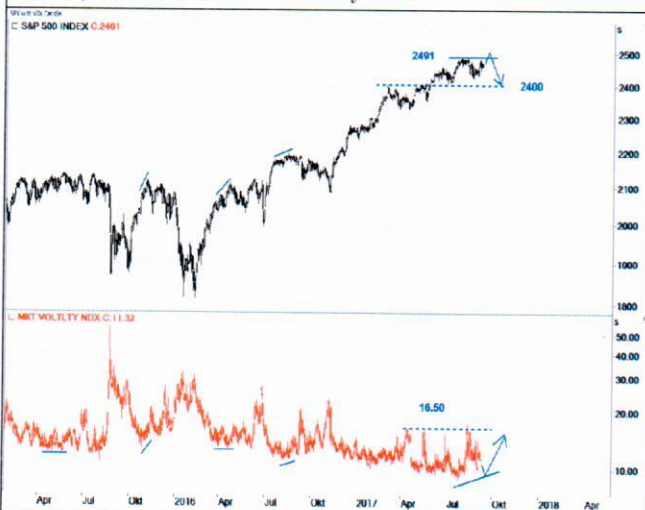
Tactically, the key question is whether, with the August 21st low, we already have a new broader breakout campaign in the US underway, or if the late August bounce into September is just a corrective wave B, which short-term can overshoot but where into early October we still have the risk of another pullback (wave C) to complete the corrective summer pullback pattern before starting its wave 5 rally into year-end and Q1?

On a short-term basis, the size of the September bounce is definitely stronger as we expected but so far the underlying technical picture has not changed. On the volatility side, the VIX index is still around its 24-year low, where a new SPX high would in our view very likely form a divergence versus the VIX. Together with the SKEW/VIX ratio at historical extreme levels, and the CBOE put/call ratio at quite low levels, we have a sentiment background, which from risk/reward aspect we see as negative for long positions. The picture on the sector/breadth side has also not changed where despite the bounce in energy and healthcare, leadership remains poor with weak financials, lagging momentum in early cyclical SOX and DJT, and where we continue to expect the Russell-2000, consumer staples and consumer discretionary to post a lower bounce high into deeper September so where into later this month and into early October we expect a new down test starting.

Conclusion: On a short-term basis, we can see a test and even marginal break of 2480/2491, into expiration as a positive surprise. As we said last week, in our cyclical model, a break of 2491 would trigger a bullish signal with target early Q1, which on the one hand confirms our underlying bullish bias but where we nonetheless think that tactically there is the risk of seeing a second corrective pullback into late September and more likely into early October. Having said that, with a short-term positive surprise on the upside (a break of 2491 would imply 2502 as next resistance), the likelihood for an overall flattish summer corrective pattern would clearly increase, such that a pullback below 2400/2380 would get increasingly unlikely, which means that our suggested summer pullback would be milder than favored.

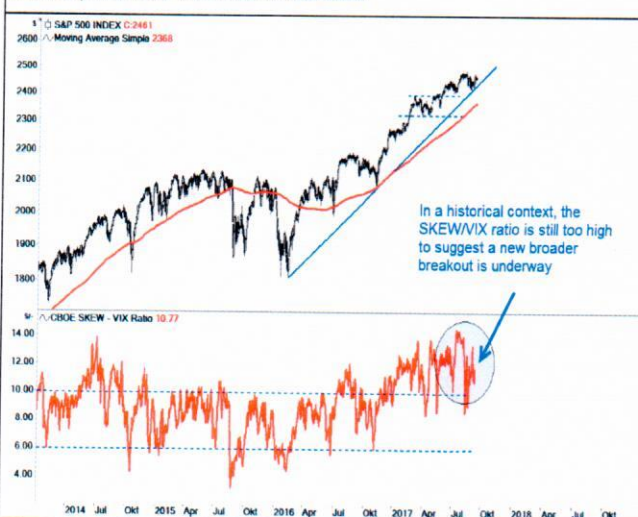
US Equity Market Update:

Chart 4.) S&P-500 with VIX Index Daily Chart



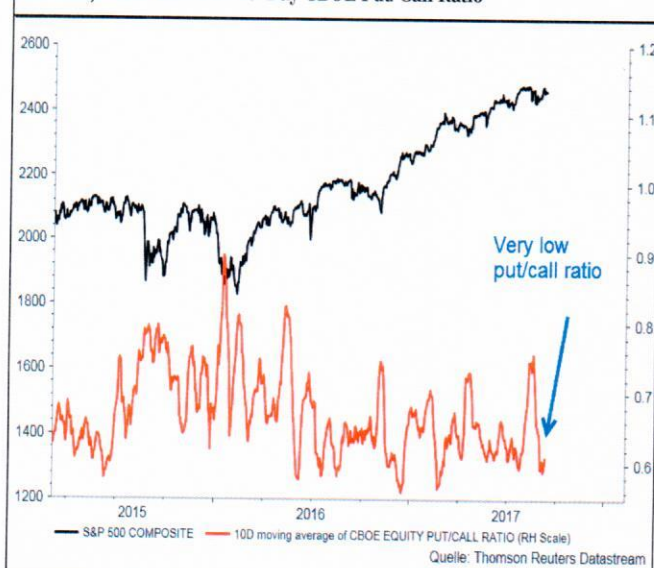
The VIX index is still around its 24-year low, which should cap the market on the upside. More importantly, with a potential marginal new SPX high we would very likely see the VIX index not marking a new low, which would be per definition a divergence, which tactically would be toppish instead of expecting a new broad-based breakout campaign.

Chart 5.) S&P-500 with SKEW/VIX Ratio



On the one hand, the SPX is just a fraction away from hitting a new all-time high but on the other hand we have the quite steep 2016 bull trend setting the market under pressure to further deliver, if not break this trend. Taking into account the very low CBOE put/call ratio and, in the historical context, still quite high SKEW/VIX ratio, we still see a high likelihood for a second corrective pullback into early October; in this case we would see the SPX breaking its 2016 bull trend, which at least short-term would produce some kind of market volatility.

Chart 6.) S&P-500 with 10-Day CBOE Put/Call Ratio



US Equity Market Update:

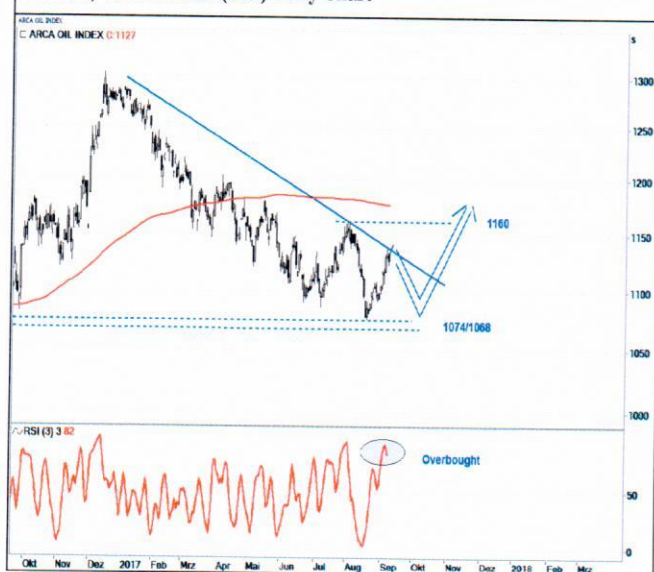
Chart 7.) US Healthcare Index (DRG) Daily Chart



Chart 8.) Dow Jones Transport Daily Chart



Chart 9.) US Oil Index (XOI) Daily Chart



Still Mixed Leadership ...

Over recent weeks we have argued that as long as we do not see a new broader shift in the sector leadership it will be unlikely to see a new broader breakout campaign starting in the US market.

Despite last week's strong bounce in energy and healthcare (which clearly helped the market), the leadership in the US remains very mixed with financials trading in intact short-term downtrends, lagging momentum in early cyclical SOX and DJT, and where we continue to expect lower bounce highs forming in key sectors, such as consumer staples and consumer discretionary. So, at the end of the day it is the continued outperformance and intact bull trend in a handful of mega caps, which together with the bounce in other sectors provides a short-term positive surprise in mega caps. However, if we are correct we see most key sectors posting a lower high into September, it means that any short-term positive surprise in the DJI and/or SPX would nonetheless produce just a marginal new high instead of expecting a new broad-based breakout.

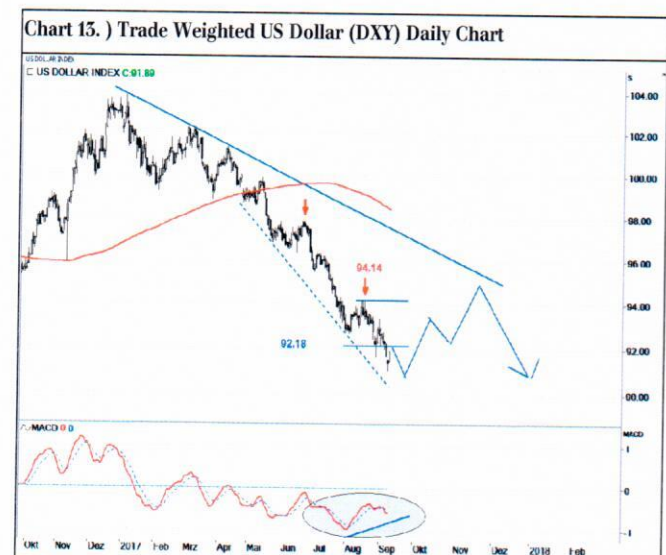
After seeing another negative surprise into the later August low, we highlighted the oversold stance of oil stocks and said that a bounce into September is likely, which in the bigger picture we would see as part of a larger basing process. Oil stocks have been bouncing strongly but our short-term view is unchanged. On a very short-term basis the XOI is increasingly overbought so that a pullback is very likely into early October but which we would clearly use to buy/add.

On the one hand, we need to see renewed bullish momentum and/or breakouts in early cyclical sectors (DJT/SOX) or alternatively we need to see new breakouts in financials, which in both the BKX and XBD would be the break of the early August down trends. As long as this is not the case we think it is too early to call a bottom, which means we see the risk of another but final down leg before starting our suggested wave 5 bull cycle. However, a break of the August downtrend would be a clear bullish game changer and imply that a new broader rally in financials is underway.

Inter Market Analysis::

US Dollar On The Way Into Multi-Week Low

Since early July we have seen strong trends developing in gold, the US dollar and in US 10-year yields, mainly reflecting the latent risk-off sentiment on the macro side. Yesterday we saw big reversals in all these themes. However, the underlying tactical trends in the DXY, gold and also on the US yields side are still intact, which per implies it is actually too early for calling a major tactical low in risk. Nonetheless, this clearly tells us that with US 10-year yields, gold, and the US dollar and/or the EUR we have on the macro side a very good and consistent reality check at which point we can ultimately turn bullish. In the DXY, we need to see the break of 92.50 to get a break of the July downtrend. In gold, any bigger divergence in our trading indicators is still missing and as long as we do not see a re-break below \$1310/1300, the underlying tactical July trend remains intact. Last but not least, we have the bond market - where we need to see the US 10-year yield breaking 2.20% to get further evidence that an important low in US yields is in, which in this case would clearly be bullish risk. Again, it's not that we do not believe in all these breaks/signals, the point is, we think it's too early for these breaks and in this context we still see the risk that after expiration (equities are traditionally strong into expiration) we will see another down test in risk, where example in gold we would expect to see another bounce and new reaction high, which then would form the missing divergence in our momentum work as evidence that a more important tactical top is underway.



On the FX side, on track with our recent call, the US dollar has hit new reaction lows (EUR new highs). With the weekly timeframe aggressively oversold, momentum divergences forming on the daily timeframe and with moving into the window of our late September/early October low projection, we continue to see the US dollar on the way into an important medium-term low as the basis for a multi-week corrective rebound into deeper Q4 before starting another and potential final down cycle.

Generally, a break above 92.18 would be improving but only a break of 92.50 would imply that our anticipated multi-week bottom is in. As long as this is not the case, we see the risk of another and final pullback leg into late September/early October.

After hitting a new high in the EUR, yesterday we saw a massive reversal candle. With a momentum divergence forming in our daily trend work it's just a question of time before we see a more significant reversal and subsequent pullback starting. However, as long as we do not see 1.1850 break it is too early to call a tactical top.

In general, on the macro side, tactically, a multi-week USD bounce suggests a broader rotation in global equities where Europe should outperform the US whereas we expect the EM complex to underperform tactically.

Inter Market Analysis:

Chart 15.) US 10-Year Treasury Yield Daily Chart



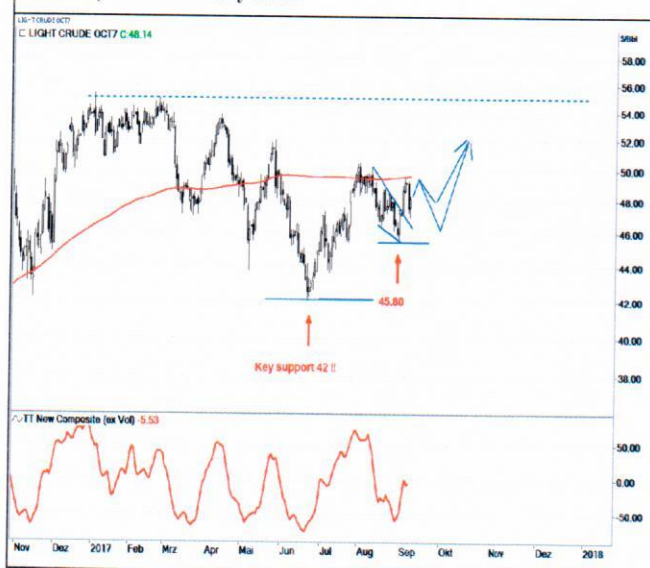
Medium-term, we see the break of the June low as an undershooting and we continue to expect a significant move higher in yields into year-end and into Q1. However, as long as we do not see a break of 2.20% it is too early to call a major higher low in US yields.

Chart 16.) Gold Daily Chart



On the metals side, gold is short-term overbought but without any divergence forming in our fast daily momentum work we see gold still on track for testing its \$1375 key resistance into later September/early October before; on the back of the USD rebound, we see gold vulnerable for a somewhat bigger corrective pullback into deeper Q4 within its intact underlying 2016 bull trend.

Chart 17.) Crude Oil Daily Chart



We highlighted/identified the June low in crude as a major tactical low and we always said that despite the tactical negative surprise into June, we still expect higher crude prices into later H2 and therefore also a comeback of the oversold oil stocks. In this context, \$42.00 and the late August higher low at \$45.80, remain pivotal levels for crude oil. So as long as we do not see \$45.80 breaking, we remain tactically bullish oil and still expect a test of the \$52/\$54 range into later Q4.

European Equity Market Update:

ESTOXX Reaching 3500 ... DAX Low Is In!

As we said over the last few weeks, despite the massive (FX driven) underperformance of Europe and breaking its relative summer 2016 bottom versus the US, in absolute terms, most European headline indices are trading in constructive and corrective consolidation patterns, which from an Elliott wave perspective we saw and continue to see as wave 4 of the larger 2016 wave 5 bull cycle, suggesting that at least one significant bull cycle/wave is missing, preferable into year-end/Q1, before we could see a more important top forming in Europe.

Tactically, and as we highlighted 2 weeks ago, our suggested oversold bounce towards 3500 is underway and may continue into expiration before we expect a new down test to start. However, with the EUR not far from an important medium-term top, and looking at initial breakouts (and relative strength developing) in cyclical sectors, it is increasingly unlikely to see the Euro Stoxx further undershooting (DAX low is already in), which was something we could not rule out until last week. In this context, and with reaching our 3500 bounce target, we would not chase the market short-term, whereas weakness into late September/early October we clearly see as a selective buying opportunity where we remain bullish basic resource, financials and technology, and where we reiterate our recent call and would buy export driven sectors (industrial/chemicals), whereas in defensives we continue to see headwind from rising rates into later Q4.

Chart 18.) Euro Stoxx 50 Daily Chart



Chart 19.) STOXX-200 Small Cap Daily Chart



Euro Stoxx 50:

With relative strength coming in despite a still firm Euro, the Euro Stoxx 50 is already showing clear signs of stabilization, which makes a worst case scenario of undershooting towards 3300/3289 into deeper September/early October obsolete.

However, with the short-term downtrend ahead and our bounce target at 3500 more or less reached, the short-term overbought situation should trigger another minor high this week followed by re-test of support at around 3400 into later September/early October, where the focus remains on accumulating cyclical and financials for the expected Q4 rally.

STOXX-200 Small Cap Daily Chart:

Small and mid-caps have been a boom theme in Europe, and in a bull market we see boom themes normally outperforming until the very end of a bull market. In this context, with expecting at least one more missing bull phase in global/European equities, we think it's just a question of time before we see a new breakout starting in European small and mid-caps, and the key question is whether with the current strong bounce this breakout is already underway? So far, the whole bounce has in our view just a corrective style, where this week we should see wave C completing, on a short-term basis we would not chase the increasingly overbought segment. However, with relative strength coming back into Europe, we would accumulate into weakness, given that into Q1 we still expect to see new highs in the European small and mid-cap segment.

European Equity Market Update:

Chart 20.) FTSE-100 Daily Chart

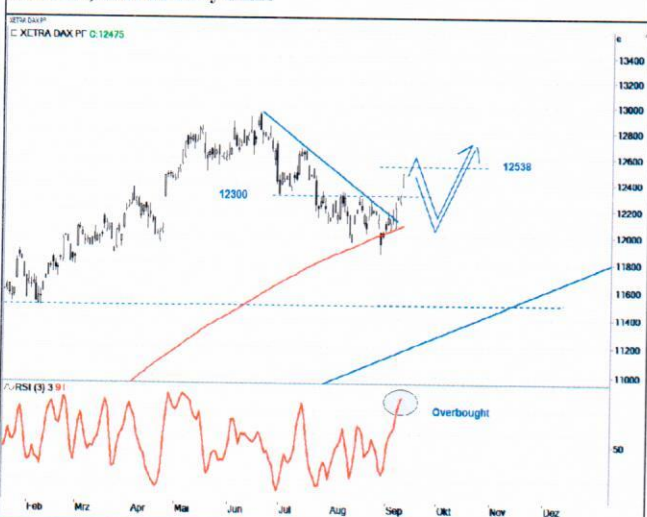


FTSE-100:

Trading support at 7303 remained intact last week and thus, the FTSE remains within its multi-week trading range.

A minor resistance for this week is at 7461, whereas the last significant reaction high at 7600 is out of immediate reach. As long as we continue to see just corrective bounce campaigns off from 7300, the index continues to be at risk to re-test support at 7300 into later September. A break would trigger a probable final extension towards 7100 into late Q3/early Q4 and this would provide an attractive contrarian buying opportunity.

Chart 21.) DAX-30 Daily Chart



DAX-30:

A strong bounce in the auto sector and selectively chemicals pushed the DAX above its June pullback trend line, and the impulsive momentum is clearly bullish, which implies that the likelihood is high that the corrective wave 4 low in the DAX is in. It implies that any further short-term weakness in the DAX into early October will very likely form a higher low as the basis for more upside into later Q4 and into Q1. Short-term resistance is the 61.8% retracement of the June/August correction cycle at 12538. So tactically, instead of chasing strength, we would watch for another pullback developing into late September/early October, where our focus remains on accumulating FX sensitive cyclicals such as autos, chemicals and industrials.

Chart 22.) Swiss Market Index Daily Chart



Swiss Market Index:

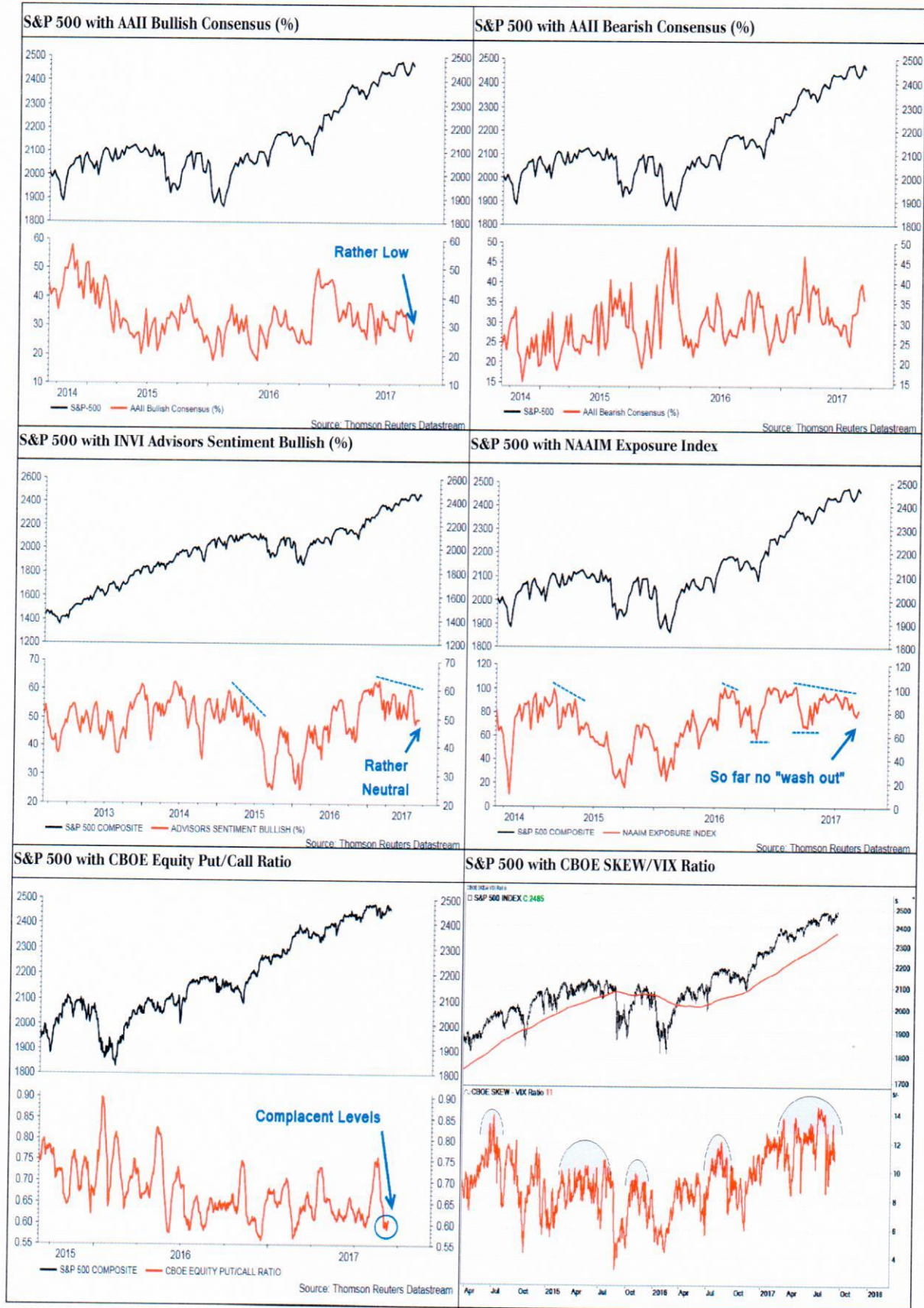
The intact multi-month trading range continues to dominate the technical picture in the SMI. Another attempt to bounce is underway but the overhead resistance zone at 9150/9200 is not within striking distance.

While consolidating, our focus remains on accumulating financials and cyclicals into weakness, where we still expect another pullback leg developing into late September/early October.

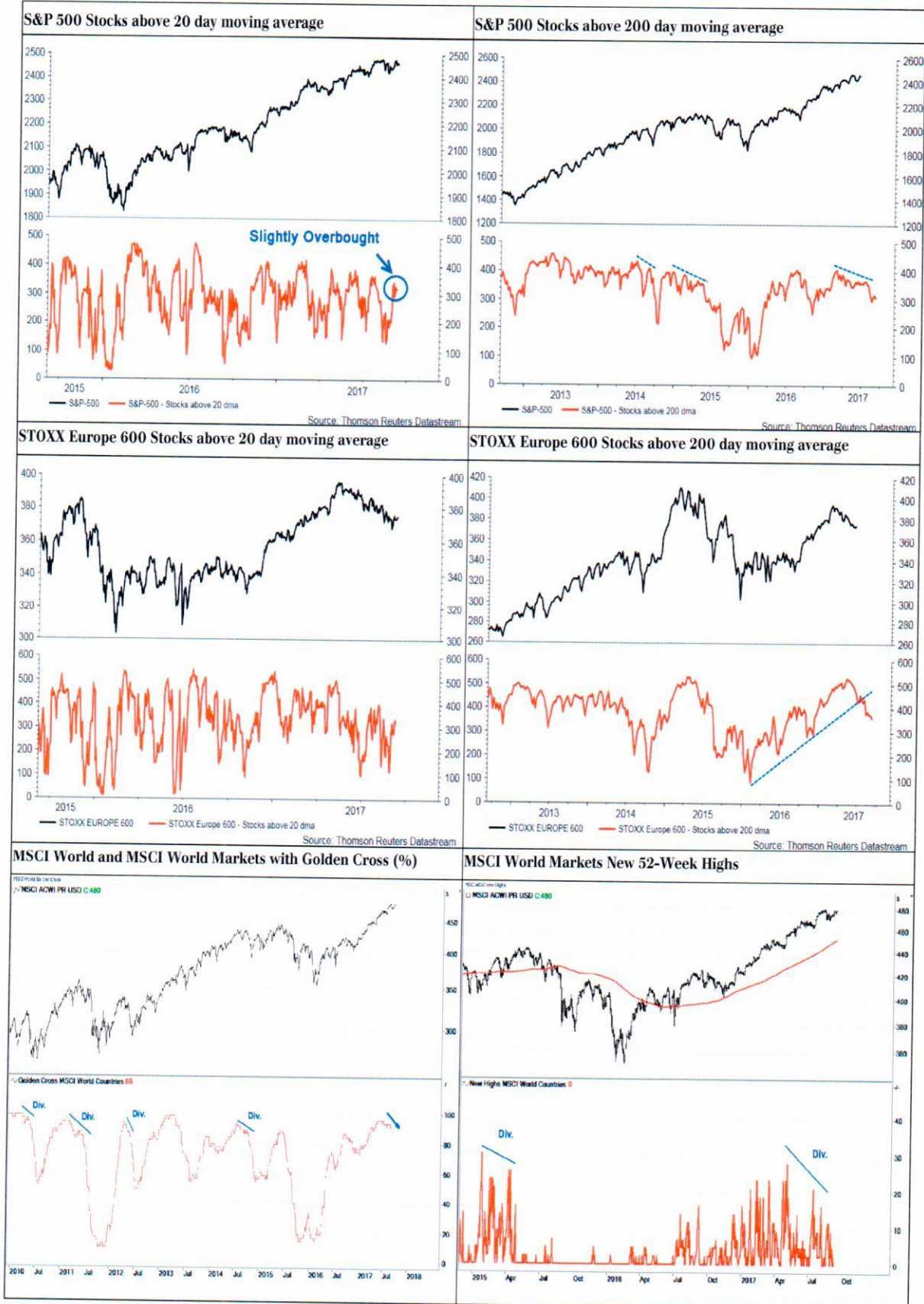
STOXX Europe 600 Index Sector Overview:

	RIC	Trading at	Trend (weekly MACD)	Rel. Strength according to the spread chart
Utilities	SX6P	307.85	↗	Outperforming
Basic Resources	SXPP	435.53	↗	Outperforming
Technology	SX8P	427.35	↘	Outperforming
Financial Services	SXFP	465.79	↘	Outperforming
Banks	SX7P	180.04	↘	Outperforming
Chemicals	SX4P	902.19	↘	Outperforming
Automobiles & Parts	SXAP	562.43	↘	Outperforming
Personal & Household Goods	SXQP	854.19	↘	Neutral
Industrial Goods & Services	SXNP	511.15	↘	Neutral
Food & Beverage	SX3P	662.49	↘	Neutral
Constructions & Materials	SXOP	455.43	↘	Neutral
Travel & Leisure	SXTP	247.57	↘	Neutral
Insurance	SXIP	276.93	↘	Neutral
Real Estate	SX86P	171.15	↘	Neutral
Oil & Gas	SXEP	290.81	↘	Neutral
Healthcare	SXDP	743.4	↘	Underperforming
Telecommunications	SXKP	285.46	↘	Underperforming
Retail	SXRP	293.47	↘	Underperforming
Media	SXMP	261.52	↘	Underperforming

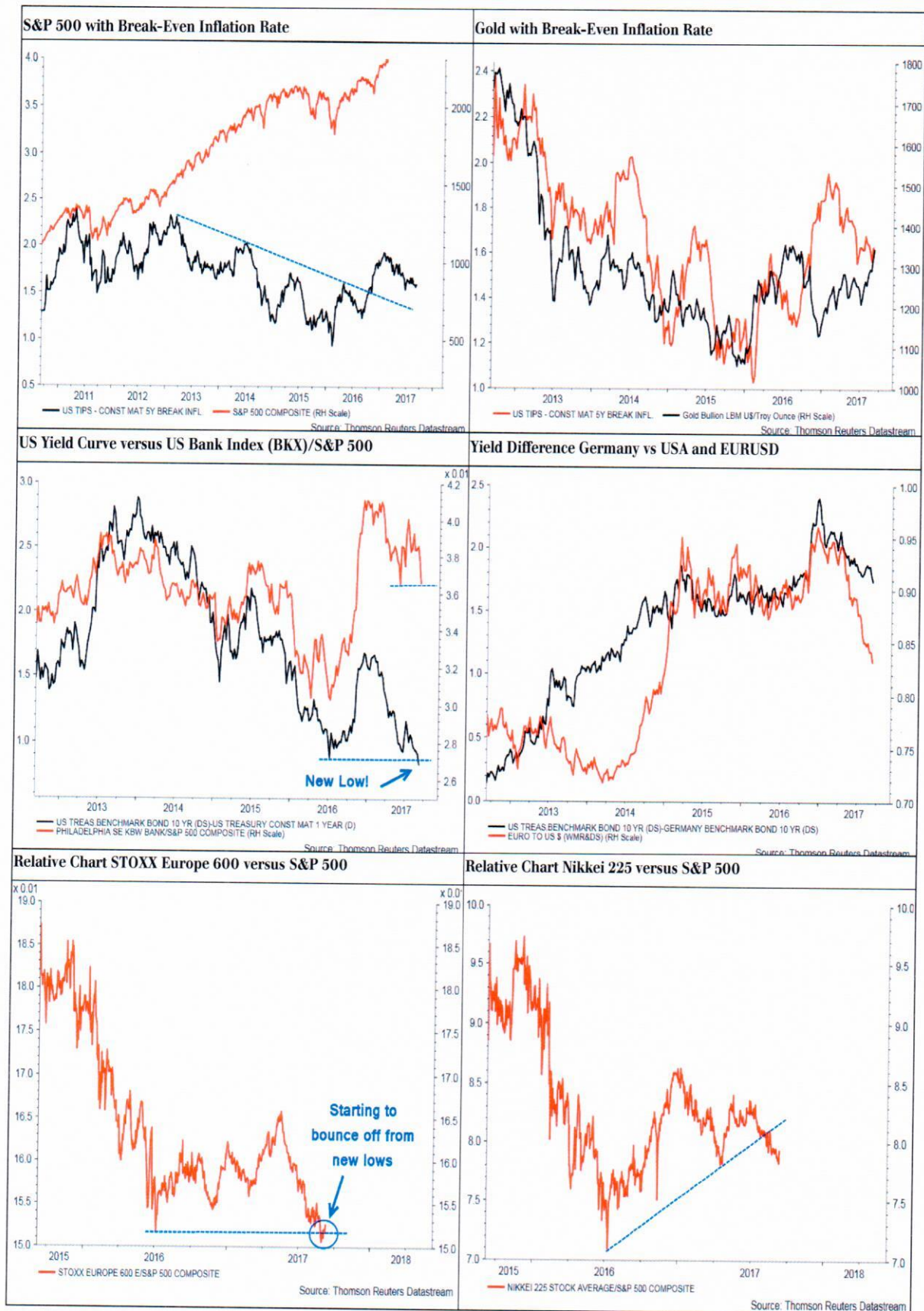
Weekly Technical Indicators: (Source: Pinnacle Data, Datastream) Charts: Metastock



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