UBS

Equities Sales Trading Commentary

Technical Analysis

Weekly Comment

Global

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Tactical Top Forming in SPX … Tech/EM Vulnerable!

- **US Trading**: After last week's sideways trading, the short-term technical picture in the US remains unchanged. With the marginal new breakout in the SPX and the Russell-2000 re-testing its July all-time high, the September bounce in the US was stronger than anticipated. However, with the selective breadth (fewer new highs and relative short signal in technology) and weak momentum, the number of divergences has been further increasing in our indicator work. Our sentiment studies are still at contrarian levels, the volatility in the Russell-2000 has plummeted to an all-time low, and together with the SKEW/VIX ratio at historical extremes we continue to see the US market short-term vulnerable for a tactical pullback into early/first half October where in our cyclical model we have the next more important tactical low projection for a bounce into November. We reiterate our last week's call where we would rather use dips to buy instead of chasing the SPX above 2500.

- With last Wednesday's reversal and a fresh momentum short signal in our indicator work we have increasing evidence that our suggested post triple-witching trading top (2-month cycle top) is in the making. Trading key support is unchanged at 2491. As long as its holds the SPX remains in a topping process, whereas a break of 2491 would be short-term negative and imply weakness towards 2460 (2016 long-term bull trend support!!), 2450, and worst case 2400 into first half October. On the sector front, we have seen initial breakouts in banks and oil stocks (have broken its 2017 bear trend). Short-term, these sectors are overbought and we expect a pullback together with technology into October. However, trend wise we remain bullish on late cyclicals and financials (buy the dips) whereas we avoid defensives where we would use a bounce into October to sell.

- **US Strategy:** In our cyclical model, the break of the SPX August 8th top at 2491 has triggered a new medium-term long signal in our cyclical model into Q1, but this does not mean that on a short-term basis we will not see tactical pullbacks. In the NDX, our suggested wave C pullback leg is underway, which in the SPX should have a similar character; but with new signs of a rotation on the sector front (breakout in banks and energy) we see the SPX well supported into potential early Q4 weakness. So, although we see the US market short-term vulnerable for a pullback into first half October, we remain underlying bullish 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, and where ahead of this potential top we should see further increasing selectivity in the US and global equities.

- **European Trading**: On track with our mid-September call, we have seen an oversold bounce in Europe over the last four weeks, which has produced selective new highs in the FTSE MIB, OBX (bullish oil), ATX, and where the DAX outperformed against most other EU headline indices. On a short-term basis, Europe and particularly the cyclical sectors where we have seen a decent bonce are overbought. Together with the deteriorating short-term momentum we continue to expect weakness into first half October but where the Euro Stoxx and the DAX should make a higher low versus its August low as a buying setup for a rally into November. Again, on the back of expecting a multi-week EUR pullback on the FX side, we expect Europe to outperform into deeper Q4, so although short-term cyclical sectors are pretty overbought, we would use dips into October to buy cyclicals/financials versus selling defensives.

- **Inter Market Analysis**: Our views on the macro side are unchanged. In bonds, the early September low in US 10-year yields we see as a major tactical bottom. On a short-term basis, we can see a pullback (reflecting a pullback in risk) into early October but medium-term we remain bearish bonds into later Q4/early Q1. In FX, the US dollar is tactically basing, where in some Asian/EM pairs we see initial breakouts, and the EUR is testing its 1.1820 key support. As long as this level holds, we can still see a final overshooting into early October, whereas a break of 1.1820 would imply that our suggested multi-week EUR trading top is in place. Gold is short-term oversold and on the back of our pullback scenario in risk we expect gold bouncing into first half October before we anticipate more weakness into November with headwind from a bouncing US dollar and rising rates.

- **Asian Corner**: Mostly on the back of a strong China (overshooting technology names) and Brazil we saw another new reaction high in the MSCI Emerging Market into mid-September, whereas most other Asian/EM markets are already in correction/consolidation mode since early August. With new breakdowns in Taiwan (broke its 2016 bull trend), Turkey, the NIFTY and HSCEI we are on track with our early August and early September call where we said we expect a tactical negative surprise (risk of a 10% correction) in EM into later Q3/early Q4, and where the relative short signal in US technology and a broader US dollar bounce could be further headwind for EM into deeper Q4. We remain short-term cautious on Asia/EM.

US Equity Market Update:

Chart 1.) S&P-500 Daily Chart

Chart 2.) S&P-500 with NYSE McClellan Oscillator

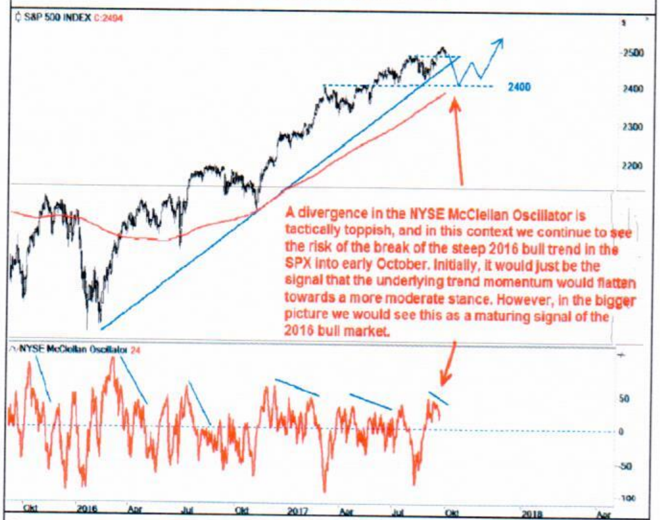
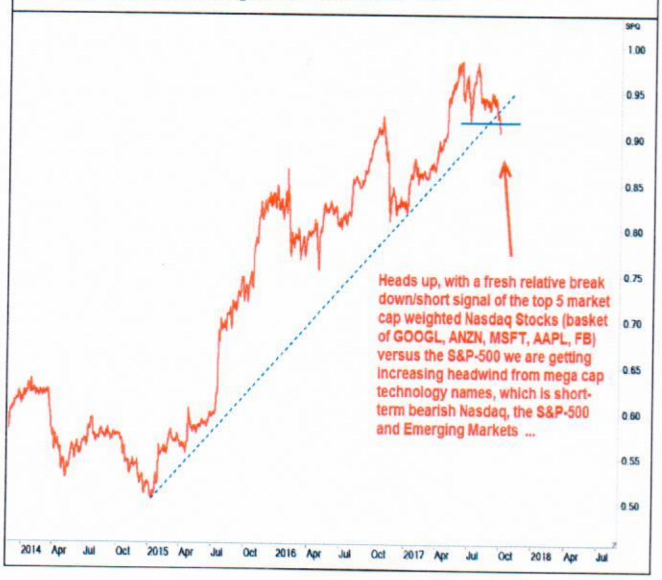


Chart 3.) Top Five Nasdaq Stocks versus S&P-500



Technology Vulnerable

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

With last week's weekly doji candle, the short-term technical picture in the US has not changed as to what we said last week. With the marginal new breakout in the SPX and the Russell-2000 re-testing its July all-time high, the September bounce in the US was stronger than anticipated. Having said that, **we are sticking to our tactical call and continue to see the US market vulnerable for a short pullback into early October, which in the Russell-2000, NDX and most key sectors would be the continuation of the deeper summer corrective scenario.**

The market breadth of the September bounce was quite selective where in the SPX and in the broader NYSE the number of new 52-highs were again weak. This was the basis for a low momentum breakout in the SPX, which produced a further rising number of divergences in our indicator work, such as the NYSE McClellan Oscillator, which is a tactical key indicator. **On the sentiment side, most of our studies are still on contrarian levels, which fits the picture on the volatility side where the Russell-2000 volatility index has plummeted to an all-time low and the SKEW/VIX ratio is at historical extremes.**

More importantly, whereas in the SPX we saw a marginal new breakout into mid-September on the back of a rotation, and relative strength coming into financials and oil stocks, **the Nasdaq showed relative weakness and refused to make a new high, where we continue to see the September bounce as a wave B countertrend move. Furthermore, we have created a basket of the top five (weighted by market cap) technology names in the Nasdaq-100 (GOOGL, ANZN, MSFT, AAPL, FB) where with last week's continued weakness we got a relative breakdown/short signal in these mega caps. We see this as a game changer short-term and latently bearish the S&P-500.**

Conclusion: With last week's Wednesday reversal and a fresh momentum short signal in our indicator work **we have increasing evidence that our suggested post triple witching trading top is in the making, which in our cyclical model is a 2-months high!!** Trading key support is unchanged at 2491. A break of 2491 would be short-term negative and imply weakness towards 2460 (2016 long-term bull trend support!!), 2450, and worst case 2400 into first half October.

US Equity Market Update:

Chart 4.) S&P-500 versus VIX Index

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

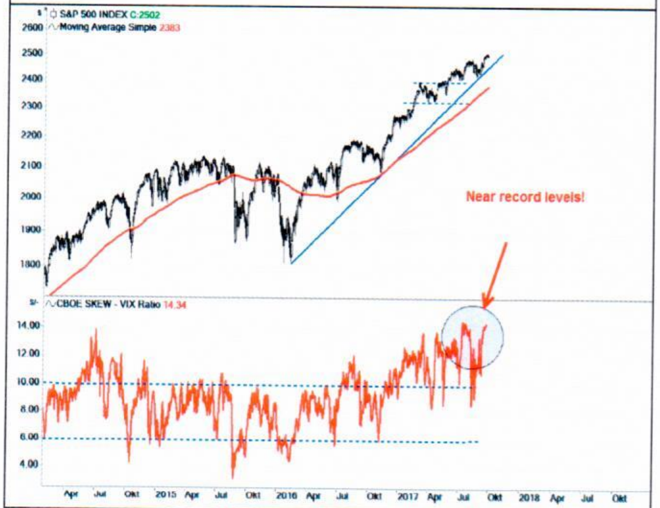
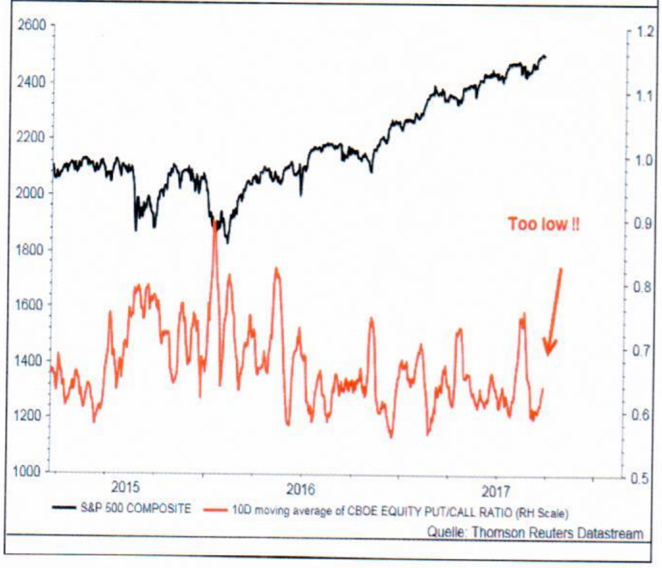


Chart 6.) S&P-500 with 10-Day CBOE Put/Call Ratio



Divergence Versus VIX Index

With a non-confirmation in the VIX versus the mid-September breakout in the SPX, we have a high conviction toppish signal for the US market.

With the SKEW/VIX ratio at all-time highs the tactical risk/reward for the US market remains poor and **we reiterate our recent call where we do not see the SPX starting a new broader breakout campaign and would therefore rather use dips to buy instead of chasing the market high above 2500.**

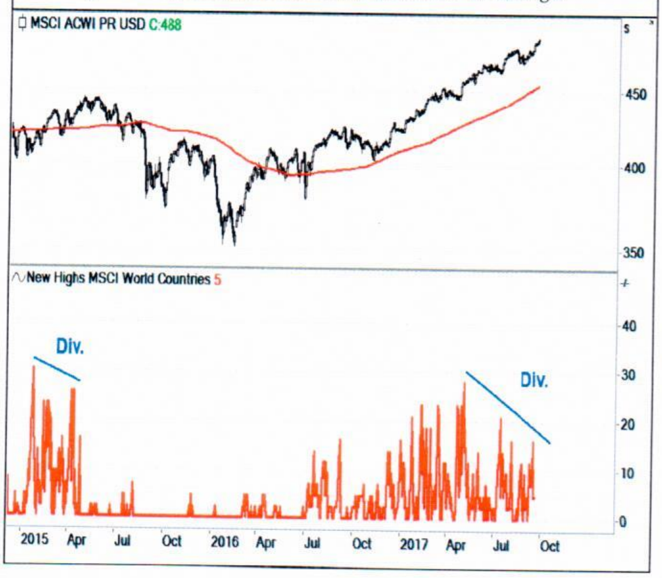
Particularly in our flow driven sentiment studies we have more or less all our sentiment indicators on tactical contrarian levels, which makes the market vulnerable for negative surprises.

US Equity Market Update:

Chart 7.) S&P-500 with NYSE New 52-Week Highs

Chart 8.) Russell-2000 with Russell New 52-Week Highs

Chart 9.) MSCI World with Global Markets New 52-Week High



Breadth Remains Selective/Weak

Regardless whether it's the SPX or the broader Russell-2000 and/or NYSE segment, **neither the new reaction high in the SPX or the re-test of the July all-time high in the Russell-2000 have been confirmed by a decent expansion of stocks making new 52-week highs**, which is reflecting an unchanged selective market breadth. However, as long as we have a healthy rotation (breakouts in banks and energy stocks) going on, we do not see the 2016 bull market at risk.

Increasing selectivity is not just a US phenomenon. In the global context the market breadth is getting increasingly selective as well, with fewer equity markets hitting a new 52-week high, which is not confirming the recent new high in the MSCI World. We see this in Europe (just 3 markets have hit a new reaction high over summer) as well as in Asia and in the Emerging Market complex, where the recent new high was driven only by a number of heavy-weighted technology names and where most other EM markets have been in correction mode since early August.

US Equity Market Update:

Banks and Energy Overbought … Technology in Wave C

After the uninspired sector picture without any real leadership in deeper summer, we highlighted the recent rotation in the US sector landscape as a clearly improving factor and a key reason why the SPX should be well supported into a potential pullback into early/first half October, so which makes our previously expected 5% to 7% corrective setback more and more unlikely.

Whereas we argued against chasing defensives and particularly the overbought utilities and healthcare sector by expecting a new up-leg in yields we saw on the other hand initial breakouts in banks and broker stocks and a massive and high momentum breakout in US oil stocks. Our view here is unchanged to what we said last week. **On a short-term basis, banks and particularly oil stocks (which are going vertical!) are clearly overbought, where a pullback into October is very likely. However, after the break of the 2017 down trend in the XOI and the July down trend in the BKX, we remain medium-term bullish both sectors so we would use weakness to buy/add.**

In the defensive camp utilities are short-term oversold but after the recent break down we see any strength in the DJU as a selling opportunity so **we remain bearish staples, utilities and would also not chase healthcare.**

A tactical game changer for the SPX short-term is the technology sector. With yesterday's reversal we have now our suggested lower high in place in the internet sector, and **it gives us increasing evidence that our suggested wave C corrective scenario in the Nasdaq Composite is underway.** So, on a short-term basis we remain cautious on technology (see the relative sell signal of the top 5 weighed Nasdaq stocks in Chart 3.) and expect more weakness into first half October. In this context, **we wouldn't be surprised to see a test and temporary break of the 6200 support in the Nasdaq, which would a) imply test of the steep 2016 bull trend and b) it would certainly weigh short-term on the SPX.** However, we are sticking to our base case scenario where we still do not see the July high in the Nasdaq as a major reversal. **We continue to think that in the current setback is just a wave C pullback leg of a larger wave 4, which means that we still expect a final wave 5 of the larger 2016 wave 5 bull cycle developing into year-end and into Q1. If we are correct with this call, then technology would move into another buying opportunity in the next 2 to 3 weeks.**

Chart 10.) Nasdaq Composite Daily Chart

Chart 11.) Internet Index (QNET) Daily Chart

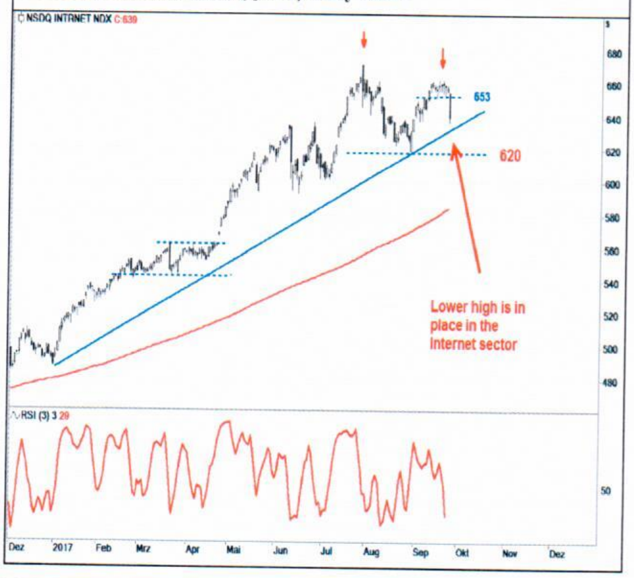
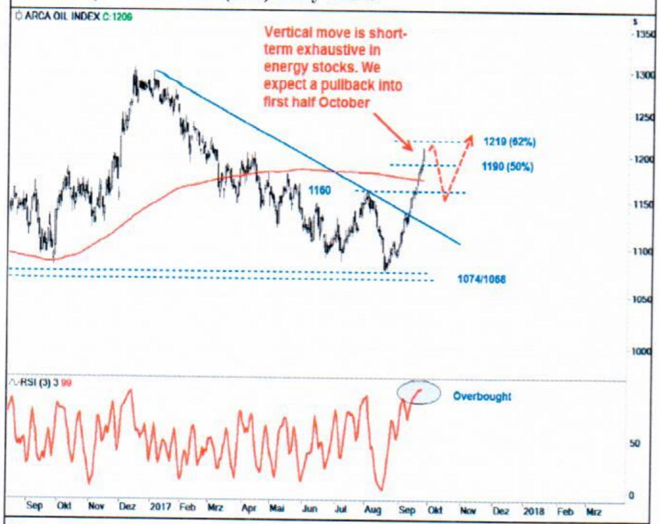


Chart 12.) US Banking Index (BKX) Daily Chart

US Equity Market Update:

Chart 13.) US Oil Index (XOI) Daily Chart



After the break of the 2017 bear trend, oil stocks continue to rally hard, where in the current position the rally gets an increasingly exhaustive shape, and where normally a trading top and subsequent pullback is not far away.

Chart 14.) US Natural Gas Index (XNG) Daily Chart

The next breakout candidate in the energy complex is the natural gas index where the XNG is breaking its 2017 downtrend. Buy any dips into October!

Chart 15.) Dow Jones Utilities Daily Chart

In the defensive camp, utilities have broken their key support at 739, which completes a bigger price top. On a short-term basis, the DJU is increasingly oversold so a bounce is likely but from an investment standpoint, and via expecting higher rates on the macro side, we would use strength to sell.

Inter Market Update:

US Dollar in Basing Process ... Trading Buy in Gold!

Our views on the macro side are broadly unchanged. **In bonds, the early September low in US 10-year yields we see as a major tactical bottom. On a short-term basis, we can see a pullback** (reflecting a pullback in risk) into early October but, which should form a **higher low as the set up for another move higher in yields into initially November**. So medium-term we remain bearish bonds (and defensive themes) into later Q4 and into early Q1 where we have our next major top projection for yields.

In FX, we continue to see the US dollar in a tactical basing process but where on a very short-term basis we cannot rule out a final undershooting into early October before starting the real and more significant multi-week corrective rebound into November. In some Asian/EM pairs we already see initial breakouts such in the INR, where a major low is in place, and we think that also in the CAD a more important low is already in place. In the EUR the short-term key support is unchanged at 1.1820. As long as this level holds, we can still see a final but limited overshooting into early October (which should cause a pullback in the DAX), whereas a break of 1.1820 would imply that our suggested multi-week EUR trading top is in place.

Chart 16.) Trade Weighted US Dollar (DXY) Daily Chart

Chart 17.) EURUSD Daily Chart

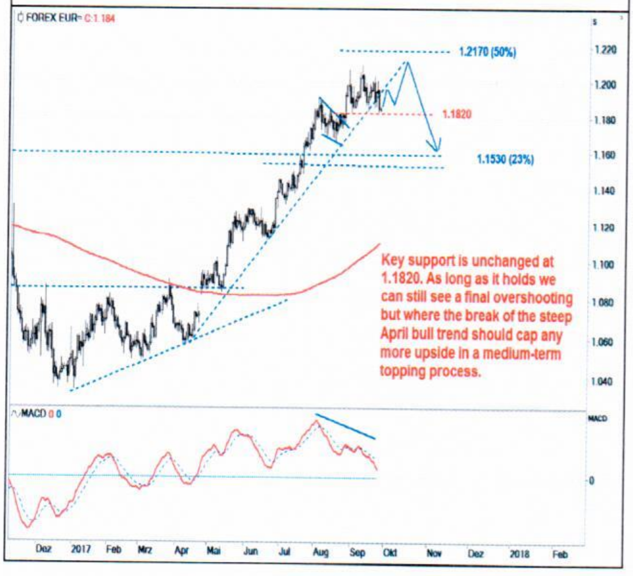


Chart 18.) USDCAD Daily Chart

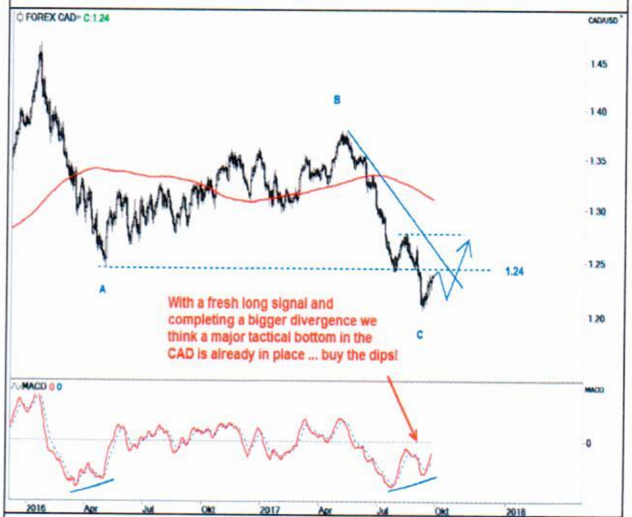
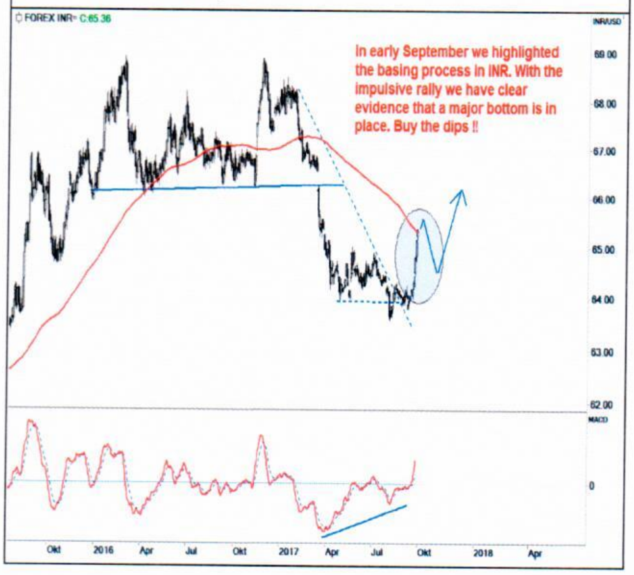


Chart 19.) USDINR Daily Chart



Inter Market Update:

Chart 20.) US 10-Year Treasury Yield Daily Chart

Chart 21.) Gold Daily Chart

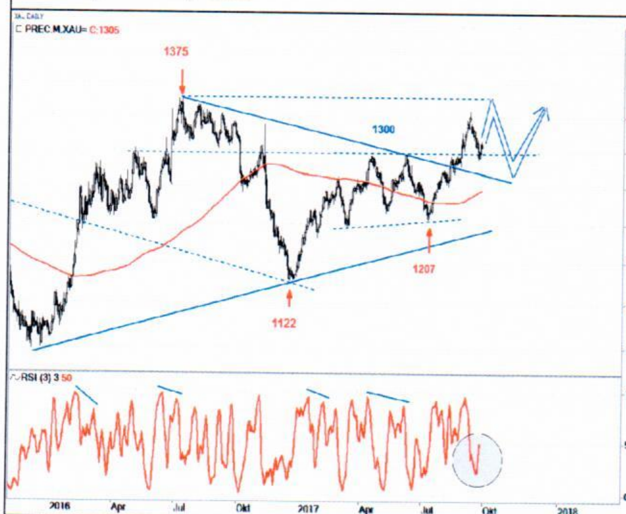
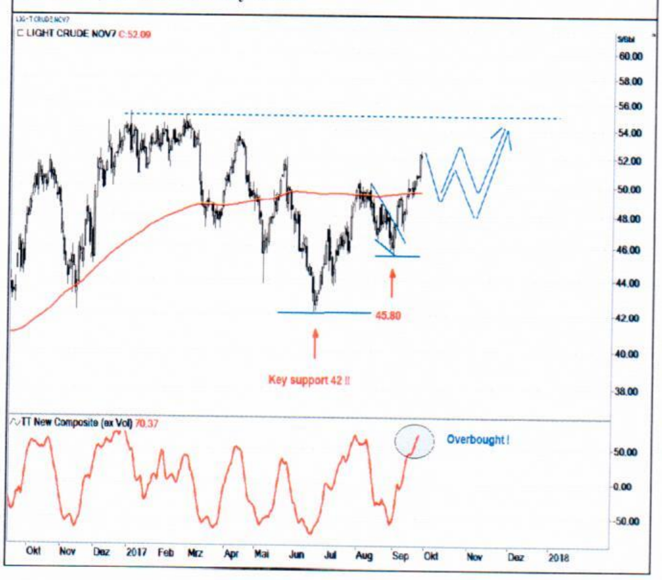


Chart 22.) Crude Oil Daily Chart



On the bond side, the early September low in US 10-year yields we see as a major tactical bottom. On a short-term basis, we can see a pullback (reflecting a pullback in risk) into early October but, which should form a **higher low as the set up for another move higher in yields into initially November**. So medium-term we remain bearish bonds (and defensive themes) into later Q4 and into early Q1 where we have our next major top projection for yields.

Gold is short-term oversold and after confirming the $1300 breakout level and on the back of our pullback scenario in risk we expect gold bouncing into first half October before we anticipate more weakness into November with headwind from a bouncing US dollar and rising rates.

For aggressive traders we would use dips to buy and position for a bounce into first half October!

The June low we identified as a major cyclical/tactical bottom as the basis for higher oil prices into later H2. Tactically, the late August pullback produced a higher low (2-month cycle low) at 45.80 as a new pivotal support, and as long as crude trades above this level the underlying tactical bull cycle remains in place. However, on a very **short-term basis crude oil is increasingly overbought, where a) we see further upside limited and b) we see crude on the way into a 2-months cycle top from which we expect a corrective pullback into initially early October and ultimately into November before stating the next bigger bounce higher to test the upper end of its 2017 trading range at around $55.**

So from a trading perspective we would take profits and/or rather buy dips instead of chasing crude on current price levels.

Asian Corner Update:

Increasing Pressure in Asia/EM Markets ...

In early August we highlighted the overbought set up in Emerging Markets and together with the overall markets expecting to form our suggested later 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 hitting a new reaction high in the MSCI Emerging Market into early September we reiterated our call in early September (September 5th weekly report) and we highlighted the increasing selectivity in the MSCI Emerging Market with continued strength in the heavy weighted China and Brazil, whereas most other markets in the Asia/EM complex were not able to make new highs. Ironically, this picture and the divergence in the EM block got even more significant.

Mostly on the back of overshooting heavy weighted technology names and overshooting Brazil, we saw another new reaction high in the MSCI Emerging Market into mid-September, whereas most other Asian/EM markets are already in correction/consolidation mode (Turkey down 8%) since early August. Yesterday we saw further breakdowns in Taiwan, where the Taiwan Weighted has broken its 2016 bull trend. The NIFTY is on the way to test its August reaction low at 9686, which is the neckline of a potential double top, and also in the HSCEI we are on track with our early September call where we expect a test and very likely a break of the steep 2016 bull trend.

Conclusion: With increasing technical damage in Asian/EM markets and the relative short signal in US mega cap technology names we are on track with our suggested tactical negative surprise, where all in all we continue to see the risk of a 10% correction in the EM complex into early Q4. Generally, **on a very short-term basis, some markets are oversold and we can see a bounce (also on the back of expecting a potential final undershooting in the USD) but our key message is that particularly with our anticipated broader US dollar bounce scenario from an early October bottom into November we should see further headwind for EM into deeper Q4 so where minimum the EM complex should underperform but where on the back of an overly bullish market sentiment and the stretched positioning we can even see a tactical washout into deeper Q4.**

Generally, in Q1 2016 we called a major bottom in the EM complex so we have been underlying bullish EM's from Q1 last year. However, if we think that the worst of the 2017 US dollar bear market is over it is very likely that we have also seen the best of the 2016/2017 EM bull cycle.

Chart 23.) MSCI Emerging Market Daily Chart

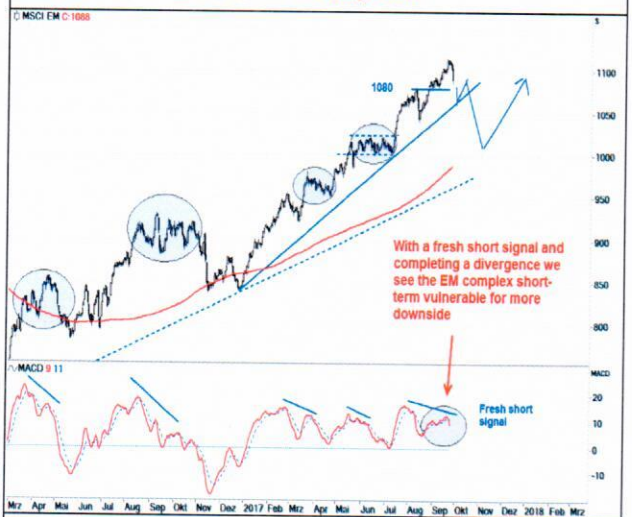


Chart 24.) MSCI Emerging Market Weekly Chart

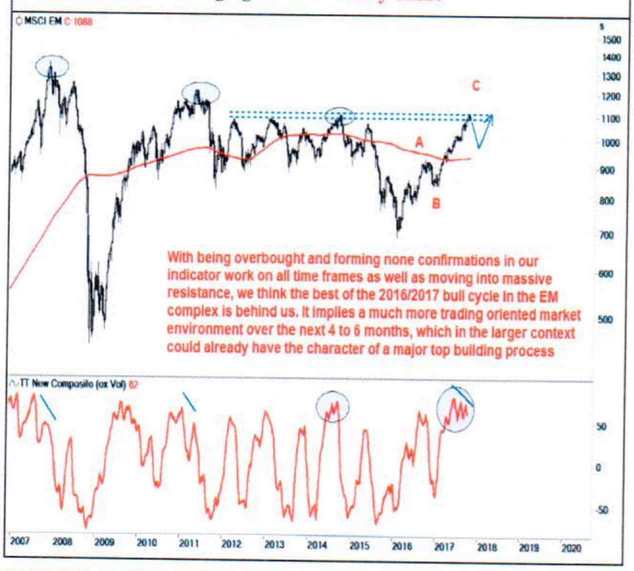
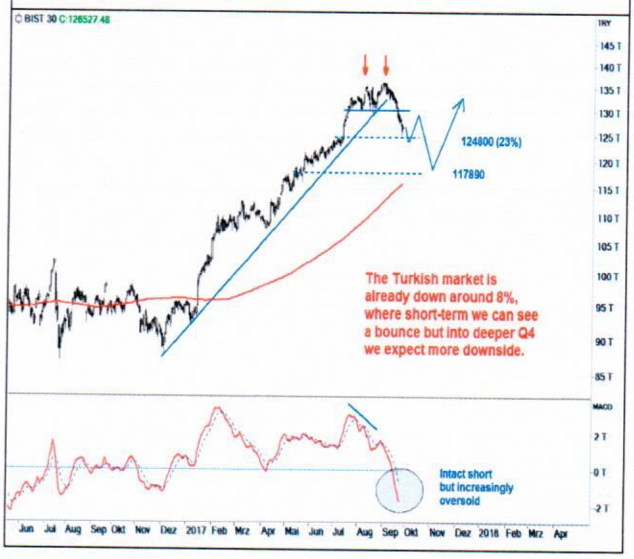


Chart 25.) BIST-30 Daily Chart



Asian Corner Update:

Chart 26.) Taiwan Weighted Daily Chart

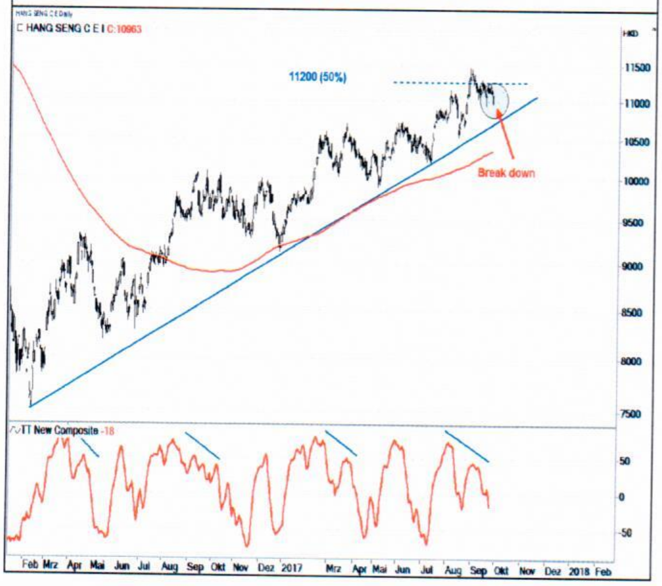
With the break of the 2016 bull trend the Taiwan Weighted is heading towards its key support at 10239, which is the neckline of a potential double top formation. A break of this level would open the door towards a test of the 200-day moving average as a classic mean reversion trade.

Chart 27.) NIFTY Daily Chart

In the NIFTY we have a similar set up and the index is plummeting towards its key support at 9686, which is the neckline of a potential double top. As since early August and we reiterated in early September, we remain tactically cautious on India.

A break of 9686 would imply more room on the downside towards 9400.

Chart 28.) Hang Seng China Enterprise Index Daily Chart



In the HSCEI, the mid-September bounce was very weak and the market has hit a lower high from which we saw the current sell off starting. With an intact short signal and after completing a divergence in our daily trend work we expect more short-term downside and a test of the 2016 bull trend at around 10700. A break of this trend would open the door towards 10500, which is the 23% retracement of the 2016/2017 bull cycle.

European Equity Market Update:

Short-term Overbought and Due for a Pullback ...

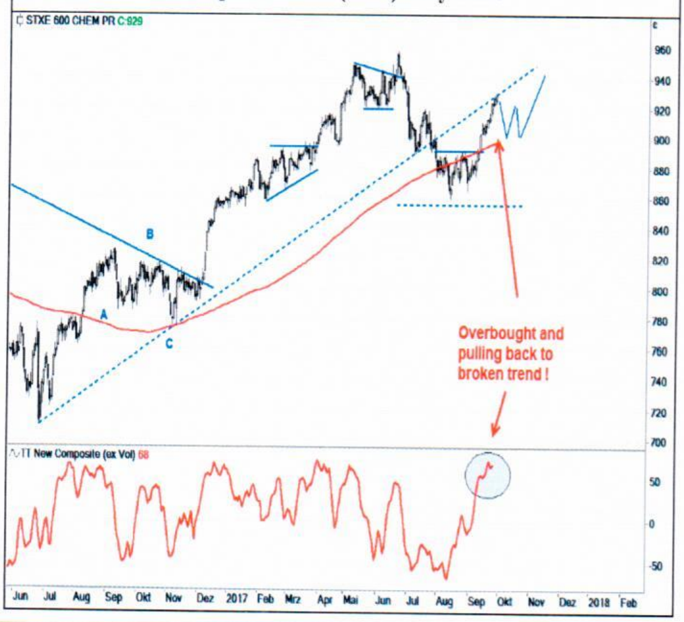
On track with our mid-September call, we have seen an oversold bounce in Europe over the last four weeks, which has produced selective new highs in the FTSE MIB, OBX (bullish oil), ATX, and where the DAX outperformed against most other EU headline indices. On a short-term basis, Europe and particularly the cyclical sectors where we have seen a decent bonce are overbought. Together with the deteriorating short-term momentum we continue to expect weakness into first half October but where the Euro Stoxx and the DAX should make a higher low versus its August low as a buying setup for a rally into November. Again, on the back of expecting a multi-week EUR pullback on the FX side, we expect Europe to outperform into deeper Q4, so although short-term cyclical sectors are pretty overbought, we would use dips into October to buy cyclicals/financials versus selling defensives.

Chart 29.) Euro Stoxx 50 Daily Chart

Euro Stoxx 50:

Last week brought just another marginal index extension towards the 61.8% retracement at 3550, which leaves the tactical setup virtually unchanged. In the overbought daily momentum indicator, a bearish divergence is forming and continues to show a short-term toppish pattern. Together with the recent plunge in the EUREX Equity Put/Call Ratio, short-term risk/reward remains latently negative, where we continue to expect from a cyclical work perspective a pullback into October that would provide the next contrarian opportunity to accumulate.

Chart 30.) STOXX Europe Chemicals (SX4P) Daily Chart



STOXX Europe Chemicals:

In late August, Europe and particularly cyclical sectors were pretty much oversold. With the September bounce and the breakout in early September we saw in several cyclical sectors classic short-term bottom breakouts, which we highlighted as a rotation back into cyclicals. The rally of the last 3 weeks was strong and both the major headline indices and particularly the auto sector as well as chemicals are overbought and heading into resistance. The chemicals sector is pulling back to its broken 2016 bull trend and with being tactically overbought we see a) further upside limited and b) the risk of a pull back into first half October before we should see further bouncing on the back of a multi week pullback in the EUR.

European Equity Market Update:

Chart 31.) FTSE-100 Daily Chart

FTSE-100:

The FTSE-100 remains strongly FX driven and with the GBP rally stalling below its downtrend from 2014, last week, the index found some buying support and staged a weak bounce. However, at this stage we still do not have a high conviction bottom in place and so that we can still see another pullback leg into October towards 7100, which could provide the next contrarian entry point.

Chart 32.) DAX-30 Daily Chart

DAX-30:

The index managed to hold and marginally extended its rally leg on declining momentum. Virtually all daily candles showed an exhaustive character last week and were either a doji candle or the market finished below its intraday highs; such that, we even got on a weekly chart basis just a doji candle, which mirrors the loss of index momentum. Similar to other index charts in Europe, the low momentum extension produced a non-confirmation in the overbought daily momentum indicator. In terms of price, shy above the 61.8% retracement (12538) we have another technical resistance defined by the July high at 12677 and the likelihood of a tactical top forming in that price region remains high.

Support for a pullback into October is at around 12320 and our focus remains on accumulating FX sensitive cyclicals such as autos, chemicals and industrials.

Chart 33.) Swiss Market Index Daily Chart

Swiss Market Index:

With financials and many cyclicals short-term overbought and due for a breather, it remains to be seen if the underperforming large cap bond proxies will be able to stage a meaningful bounce. From a trend perspective, we would see strength in the defensive camp as a selling opportunity, whereas pullbacks in financials/cyclicals remain an opportunity to accumulate.

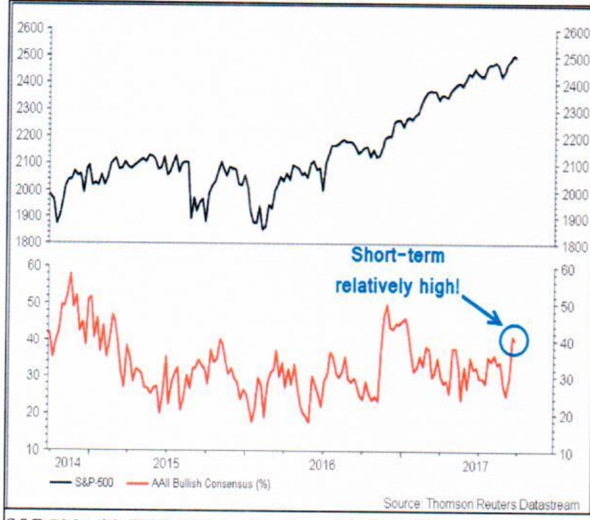
However, a bounce in the heavyweights would support the index to a certain degree but it would not provide conviction to expect a breakthrough of the significant overhead resistance at 9150/9200. Another pullback into October remains favored before a real breakout campaign becomes more realistic in Q4.

STOXX Europe 600 Index Sector Overview:

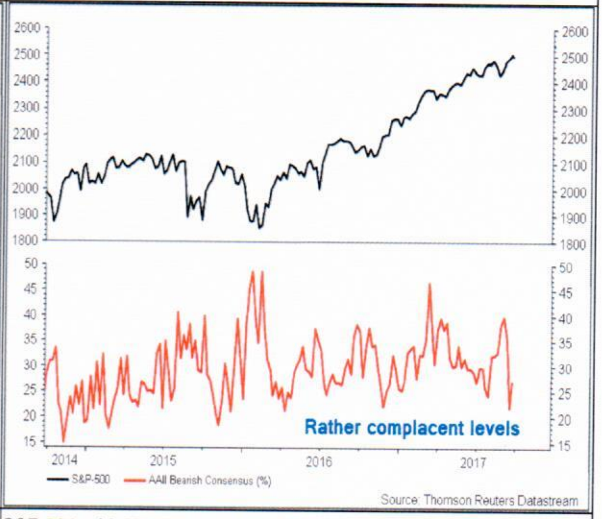
	RIC	Trading at	Trend (weekly MACD)	Rel. Strength according to the spread chart
Automobiles & Parts	SXAP	587.31	↗	Outperforming
Chemicals	SX4P	926.65	↗	Outperforming
Basic Resources	SXPP	423.51	↗	Outperforming
Oil & Gas	SXEP	304.91	↗	Outperforming
Financial Services	SXFP	475.32	↘	Outperforming
Industrial Goods & Services	SXNP	523.71	↘	Outperforming
Banks	SX7P	184.37	↘	Outperforming
Technology	SX8P	428.51	↘	Neutral
Constructions & Materials	SXOP	458.19	↘	Neutral
Utilities	SX6P	301.24	↘	Neutral
Insurance	SXIP	278	↘	Neutral
Real Estate	.SX86P	169.37	↘	Neutral
Personal & Household Goods	SXQP	841.32	↘	Underperforming
Food & Beverage	SX3P	651.59	↘	Underperforming
Healthcare	SXDP	755.99	↘	Underperforming
Travel & Leisure	SXTP	248.13	↘	Underperforming
Telecommunications	SXKP	286.65	↘	Underperforming
Retail	SXRP	302.24	↘	Underperforming
Media	SXMP	267.4	↘	Underperforming

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

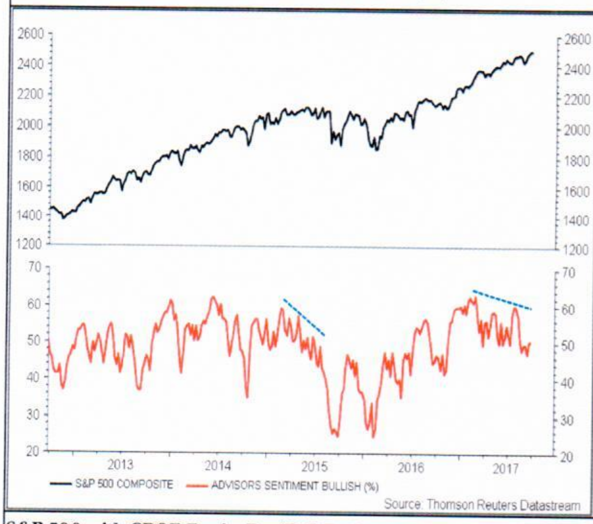
S&P 500 with AAII Bullish Consensus (%)



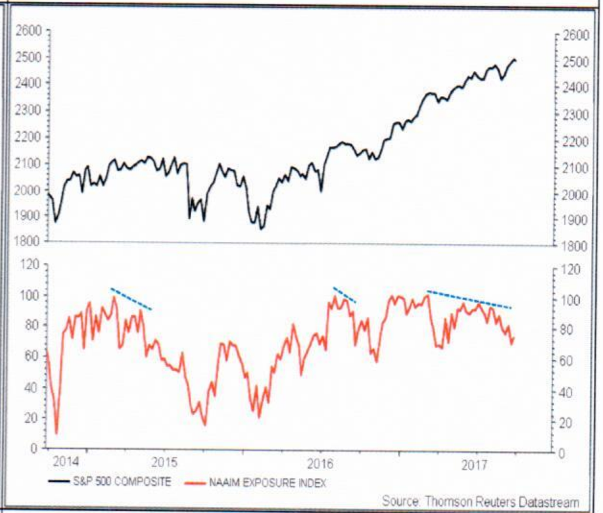
S&P 500 with AAII Bearish Consensus (%)



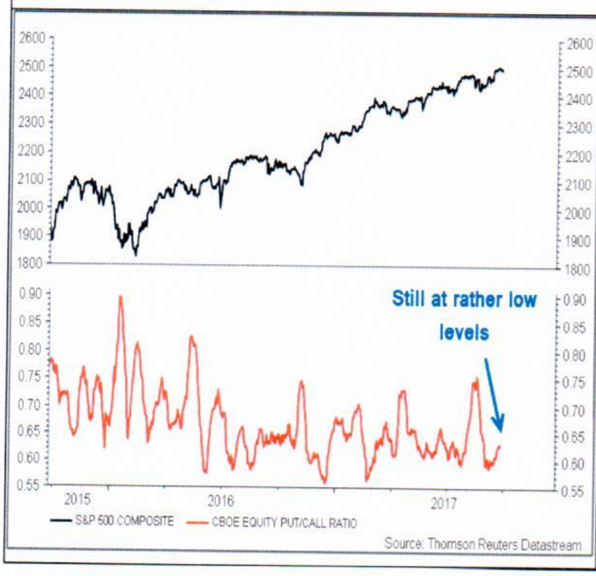
S&P 500 with INVI Advisors Sentiment Bullish (%)



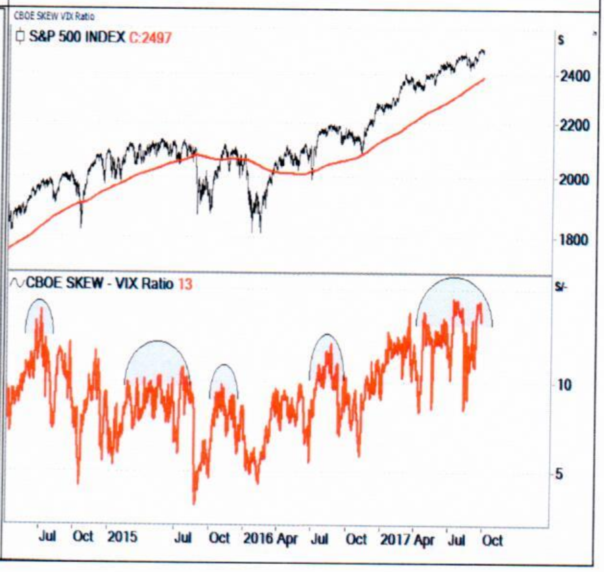
S&P 500 with NAAIM Exposure Index



S&P 500 with CBOE Equity Put/Call Ratio

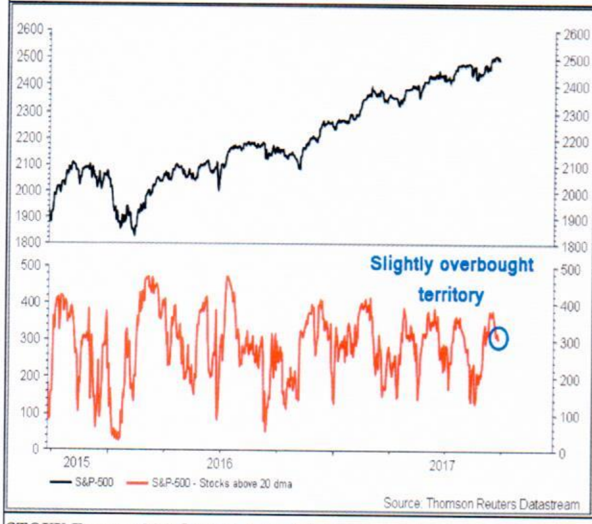


S&P 500 with CBOE SKEW/VIX Ratio

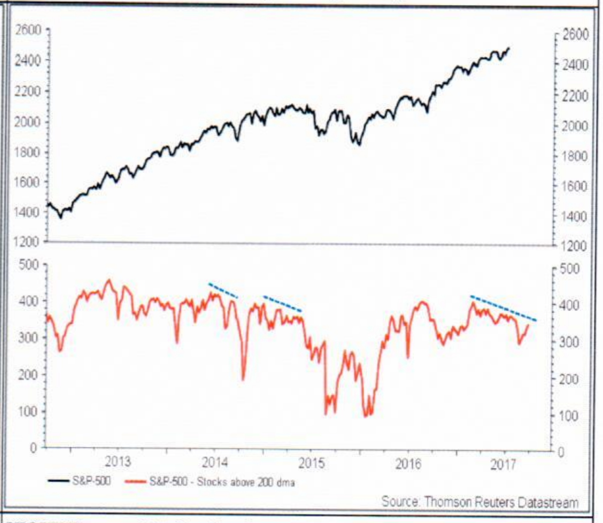


Weekly Technical Indicators: (Source: Pinnacle Data, Datastream) Charts: Metastock

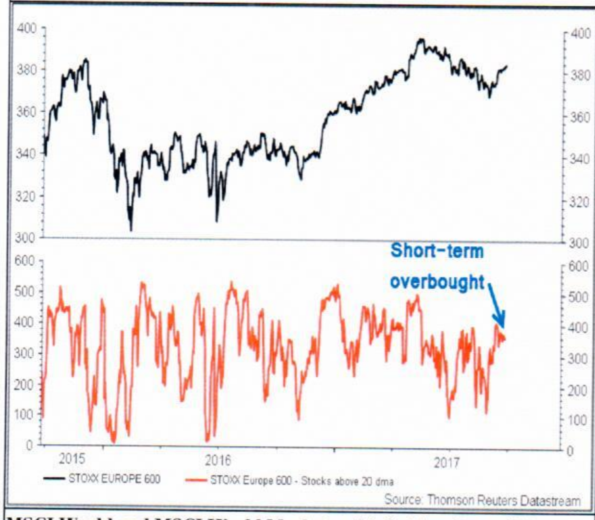
S&P 500 Stocks above 20 day moving average



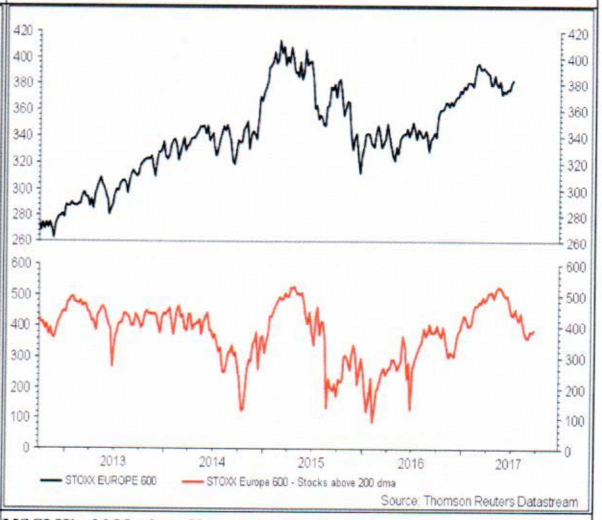
S&P 500 Stocks above 200 day moving average



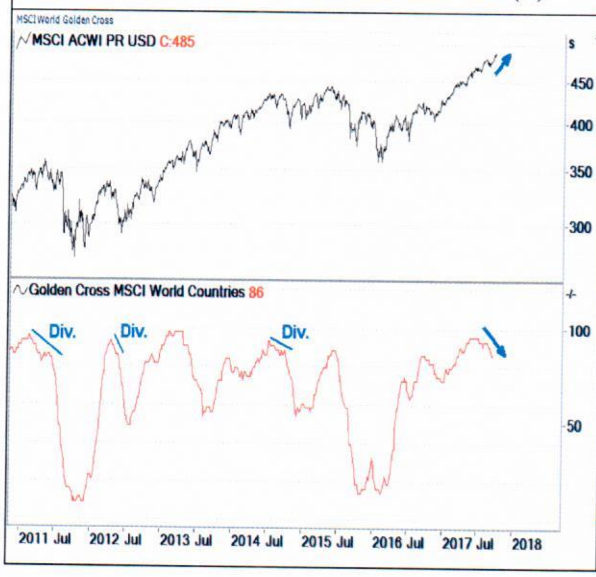
STOXX Europe 600 Stocks above 20 day moving average



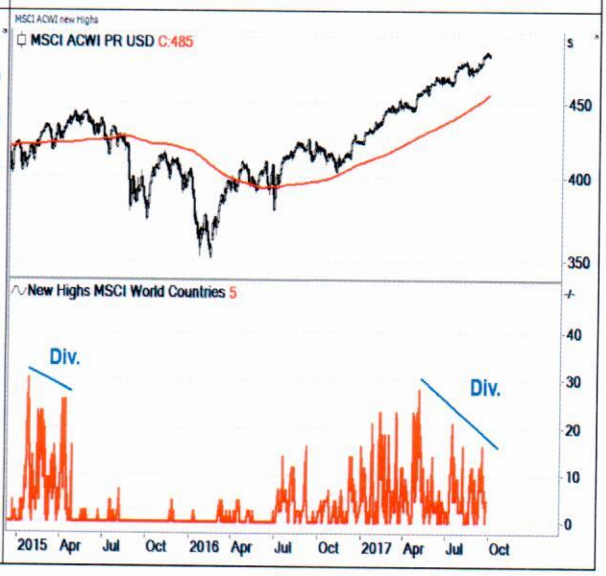
STOXX Europe 600 Stocks above 200 day moving average



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

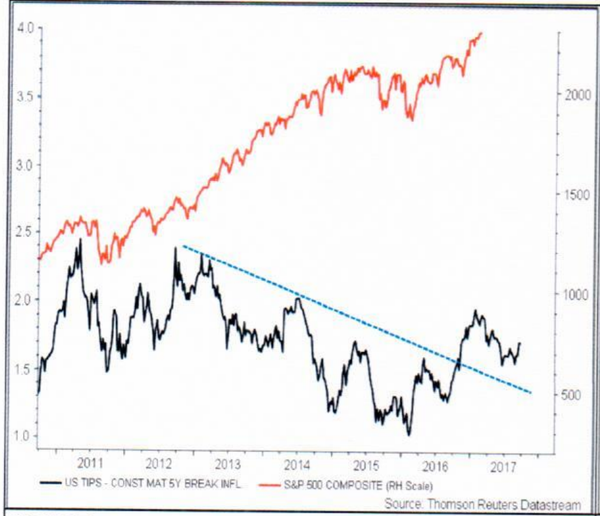


MSCI World Markets New 52-Week Highs

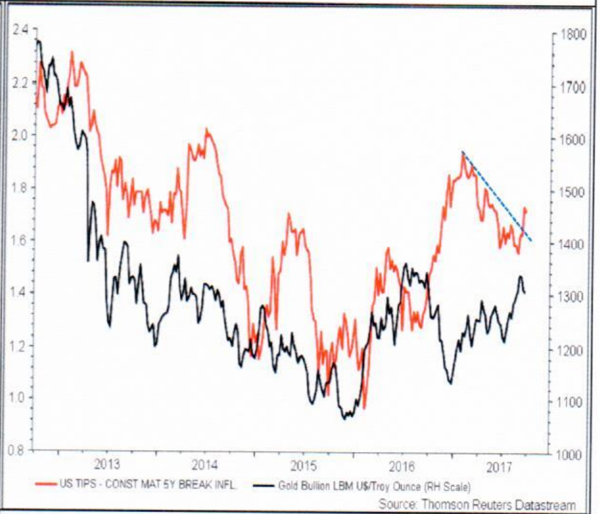


Weekly Technical Indicators: (Source: Pinnacle Data, Datastream) Charts: Metastock

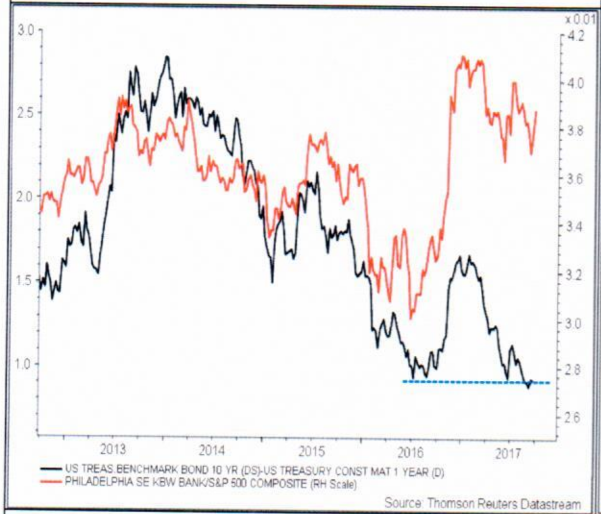
S&P 500 with Break-Even Inflation Rate



Gold with Break-Even Inflation Rate

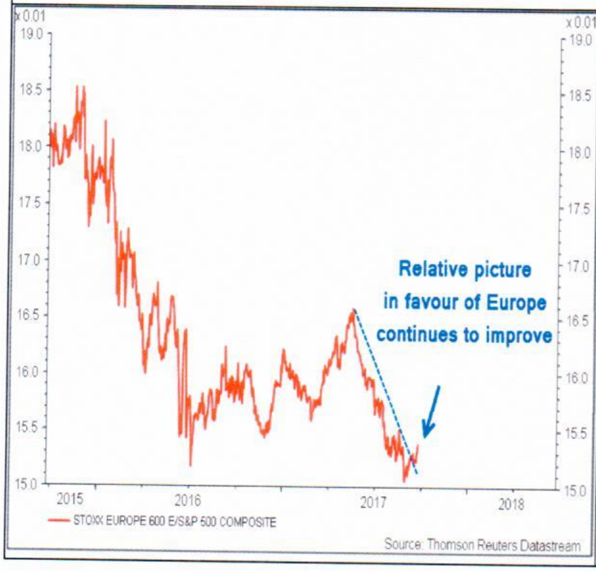


US Yield Curve versus US Bank Index (BKX)/S&P 500

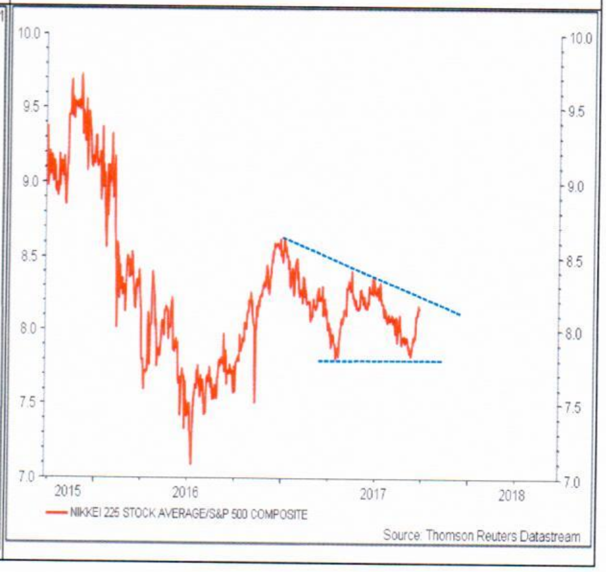


Yield Difference Germany vs USA and EURUSD

Relative Chart STOXX Europe 600 versus S&P 500



Relative Chart Nikkei 225 versus S&P 500



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