BAYCREST

Technical Analysis & Strategy

Christian Bendixen, CMT
Director of Technical Research
cbendixen@baycrestpartners.com
+1 (646) 878-0001

Weekly Market Update
September 23, 2009

DOLLAR

The focus for the market today is clearly the FOMC meeting, and the short-term trends will become more pronounced after this meeting. The outcome of this meeting has important implications for a number of markets, but we are going to be focused on the dollar, since this will tell us a lot about the likely short-term direction in other markets. We expect them to address (1) the economic outlook and (2) whether the Fed will adopt a more hawkish rhetoric or stance with respect to excess liquidity.

If the fed signals the rate cycle will be shifting up and or becomes markedly more optimistic about the economy then we expect that to be dollar positive – in the very short-term it should help drive the dollar higher. However, if risk appetite rises rapidly once again, those gains will likely be erased. If the Fed signals that they will reduce their MBS purchases, or any other hawkish rhetoric, then that will be dollar positive as well. So far the DXY has been holding the 75.6-76 support level.

S&P 500

Now let's discuss what we are seeing on the index level. Also attached, for those interested in the underlying price action, is today's note from my colleague, Blaze Tankersley, in which he describes what he sees driving prices at the component level.

While the equity markets drift higher we continue to see technical deterioration, suggesting we are in the final throes of this move. Having said that, on Aug 21st we called for fresh new highs on the S&P and we continue to argue that we have one final surge higher that will complete the move. Our original target zone for the final move higher was 1080-1120 but now we think the market will most likely reach 1100-1120.

In our last update, we were calling for a minor correction over a few days (one that we did not recommend acting on) before the final surge higher to complete the "ending diagonal" pattern that we have been tracking in the S&P. The 60 min chart below (Chart 1) suggests that it is highly likely that we have already completed this minor corrective leg (iv) of the final wave C, and that we worked out the correction through time and not price. If we go above 1076 that confirms we have started the final leg (v) of this final surge higher. On the other hand, if we do see a new correction/sell-off unfold over the next few days, we will argue that it simply means that the corrective leg (v) is not over in our opinion, and we would recommend getting long around 1030-1040 to play for the final surge higher. Either way, we expect a final surge higher to 1100-1120 into quarter-end at the very least.

SHANGHAI COMPOSITE

In our Aug 21st report, we argued that we had already seen the highs and the secondary top in the Shanghai Composite, and we continue to like the long US/short China relative strategy for the short-term. The price action in this index continues to suggest that we have already started the major intermediate move lower.

See the daily chart on SHCOMP below (Chart 2) – we just failed at the former resistance pivot level in the RSI, and price failed at the 50 day moving average. Therefore, the highest probability scenario in our opinion (Chart 3) is that we just completed leg 2 of (c) and that we are now about to start the longest and most powerful part of the move lower, which would be leg 3 of (c). In other words, the selling should intensify in the short-term, and we expect a fast move down to the ~2500-2600 level.

Chart 1: SPX Index EW

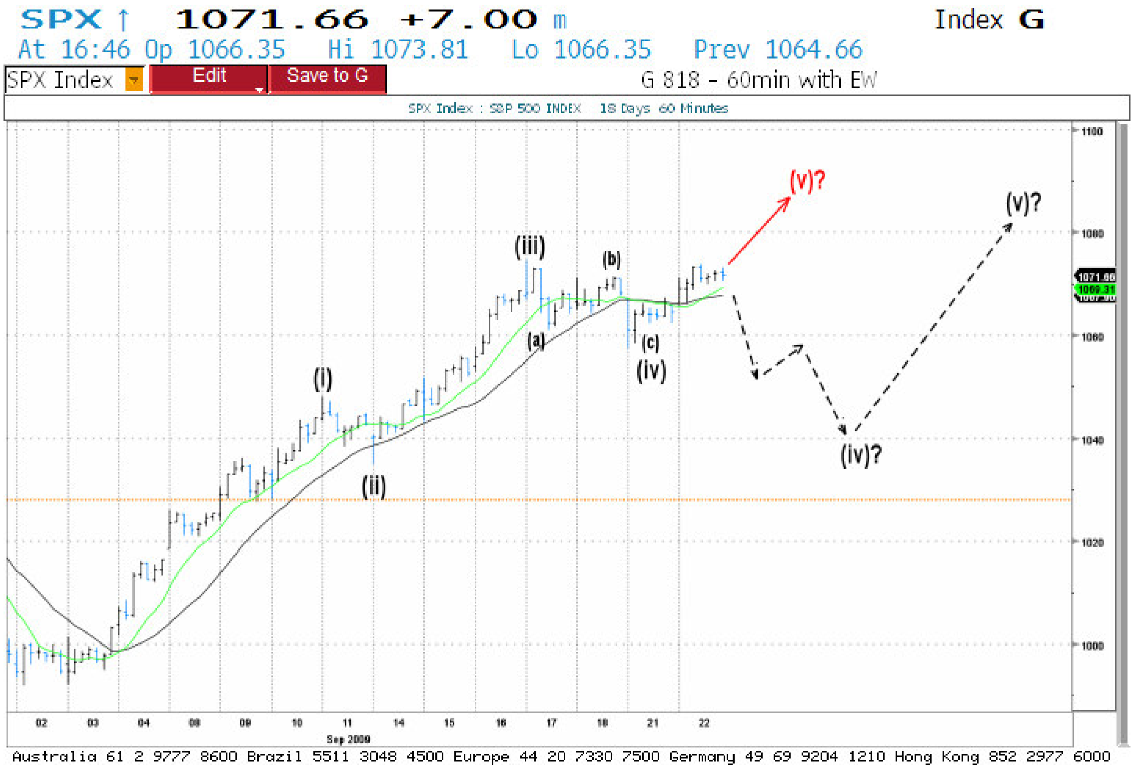

Chart 2: SHCOMP Index with RSI

Chart 3: SHCOMP Index EW

IMPORTANT DISCLOSURES

Analyst Certification
The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the substance of this report. The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. The research provided in this report is based on technical analysis provided by Bay Crest Partners LLC. Technical analysis is the study of price and volume and the interpretation of trading patterns associated with such studies in an attempt to project future price movements. The investments discussed in this report may not be suitable for all investors. Investors should use technical analysis as one input into formulating an investment opinion.

Potential Conflicts of Interest
Analysts employed by Bay Crest Partners LLC are compensated from revenues generated by the firm. Bay Crest Partners LLC generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, Bay Crest Partners LLC generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

Company Specific Disclosures
Bay Crest Partners LLC does not expect to receive or intend to seek compensation for investment banking services from any or all companies listed.

Additional Information
Please write to Bay Crest Partners LLC 40 Wall Street, 45th Floor, New York, NY 10005 Attention: Compliance Department.

Other Disclosures
This report is issued and approved by Bay Crest Partners LLC, a registered member of NYSE, FINRA, ARCA, ISE, NASDAQ, NFA. This report does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of Bay Crest Partners LLC. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. We recommend that investors independently evaluate particular investments and strategies. Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Bay Crest Partners LLC accepts no liability for any loss arising from the use of information contained in this report. All information, opinions and statistical data contained in this report were obtained or derived from public sources believed to be reliable, but Bay Crest Partners LLC does not represent that any such information, opinion or statistical data is accurate or complete, and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. This report may provide addresses of, or contain hyperlinks to, Internet web sites. Bay Crest Partners LLC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

The information presented in this document is believed to be reliable. This document does not constitute an offer or solicitation to buy or sell. For accredited investors only. Options are not suitable for all investors. Please ensure that you have read the options risk disclosure document, accessible at www.optionsclearing.com/publications