Technical Analysis & Strategy

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Weekly Market Update
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Overview

We suggested that the price action during the sell-off that started on 9/23 was "corrective", and the market is now moving in line with our expectations for a final surge higher. The rally from the 10/2 low has, in our opinion, been "impulsive" which gives us confidence that our target of 1100-1120 by mid-October is still on the table. We believe this last leg up will also complete the larger move from the March low, but until we are confident that the technical structures are complete we will continue to play on the long side in the short-term.

On Sept. 21st we recommended going long the US dollar and shorting the Euro as a short-term trading idea due to a number of signals in the indicators we use, and strong volume patterns in the currency ETF's. The bottoming process in DXY continues to progress, so we must remain cognizant that there is a risk of a minor leg lower should we witness higher equity highs in line with our market call. We maintain our stops at the 75 level, and at the 1.505 level in the EURUSD.

In recent weeks commodities, namely crude and copper, have not confirmed the new highs in equities. Given that we have started the final surge upward in equities we are on the lookout for signs that the commodities are staging a retest of their respective highs, or at the very least extending their short-term rallies. Both crude and copper found resistance from their 50 day moving averages yesterday, and we need to head lower from these levels for the shorter-term bearish case to remain valid. While we still believe we are heading lower in crude in the intermediate-term before we get a larger cyclical rally, we must respect current market action and would have to acquiesce to bulls in the short-term should price break above critical resistance levels. Those levels are ~73 for crude and ~283 for copper. We will update clients in the days ahead in respect to both crude oil and copper should price action warrant backing off from our bearish stance.

We have been speaking about the 3.3% level in 10-year yields as a critical support level. Last week we saw the confirmed breakdown through the 3.3% level. Shortly thereafter a bullish reversal candlestick pattern formed coincident with support at the 200dma from which yields have rallied. We expect the 3.3% level to now switch its role from support to resistance on a subsequent test. The 2.5% level remains as our minimum downside target.

On August 20th, we argued that we were on the verge of completing the move from the lows in the Aussie dollar, and given that we were nearing an important long-term pivot level at 0.84 we believed that the risk/reward on a short position was highly compelling. We got stopped out of our trade at 0.856 as the surge higher has continued, recently driven by a surprise rate hike by the Reserve Bank of Australia. We still think we are close to a major turn but will move to the sidelines and wait for signs the move higher is exhausting itself before reinitiating this trade. That said, we are keeping a close eye on current levels as the last Fibonacci retracement level is at ~0.898, so it is possible we will find resistance here.

Chart 1: SPX Index Daily

Chart 2: DXY Index Daily

Chart 3: Crude Oil Daily

Chart 4: Copper Daily

Chart 5: 10-Year Yields Daily

Chart 6: Aussie Dollar Daily

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