Technical Analysis

Weekly Comment Global

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SPX Trading Low In … Buy Signals in Commodities/Gold!

- **US Trading**: On track with our cyclical model we saw another short pullback last week, where the Wednesday sell-off produced initial spikes in our fear indicators (SPYDER volume); and with a 46% spike in the VIX index, the move had all the signs of a classic washout. With the following bullish reversal and major sectors/headlines indices confirming key support levels, we have growing evidence that our projected deeper/later May trading bottom is in place, which we continue to see as the basis for a new breakout attempt in the SPX. We are sticking to our recent comment and expect new highs in the SPX into June but clearly based on further deteriorating momentum and increasing selectivity (weak breadth), which we see as a leading indicator for moving into a more important tactical summer top.

- Key levels in the SPX are unchanged at 2404 and 2329, and as long as the SPX trades above 2329 we remain underlying bullish into summer. Within this range, last week's reaction low at 2353 represents a new short-term trading support and while trading above 2353, the market remains biased for a breakout attempt into June (target 2450/2500), whereas breaking 2353 would trigger a short-term sell signal with immediate risk of breaking 2329, which would confirm that an important tactical top is in place with a minimum correction target at 2250 (which is not our preferred scenario). On the sector front, we saw initial bullish reversals in commodity names, which we continue to see as a rotation candidate; and in technology we expect new reaction highs into June, whereas financials and most defensive themes remain in neutral stance.

- **US Strategy:** Since the February 2016 bottom, the SPX has traded in a wave 5 bull cycle of a larger degree, and it remains our conviction that this bull cycle will last minimum into summer 2017, and best case into H1 2018. Nonetheless, as we said over recent months, this bull market will not be one-way. Tactically, we got our suggested mean reversion pullback into April as the bottom for the next rally/bounce into deeper summer. Regardless of any tactical scenarios, trend-wise (and as long as the SPX trades above 2329) we remain underlying bullish into summer where we expect the SPX to reach our next strategic target of 2500 and before possibly seeing a first bigger correction leg into early Q4.

- **European Trading**: After the recent rally, Europe was massively overbought and on track with our cyclical model we saw a short pullback into last week, which in some markets had a healthy washout character. With the corrective shape of the recent pullback and on the back of the recent healthy momentum, the underlying bullish tone in Europe remains intact, where into June we expect to see new highs. However, after the vertical post French election rally we think the momentum peak in Europe is behind us, so into June we expect deteriorating momentum and increasing selectivity also in Europe as a leading indicator for moving into a more important tactical summer top. After reaching our 3554/3524 pullback target (3529 new key support) we expect the Euro Stoxx to re-test and ideally overshoot its May 8th high at 3667, which would open the door towards 3700, as the lower end of our 3700/3800 summer target zone. Sector-wise we remain bullish cyclicals, particularly in SXEP and SXPP, which we expect to participate from our expected commodity bounce/rally into summer.

- **Inter Market Analysis**: On the FX side, the EUR (after breaking its 2016 downtrend) is overshooting, and after going vertical the EUR is overbought. We expect the EUR to move into a tactical top followed by a corrective pullback in later June before resuming its underlying bull trend, where 1.15 as our initial 2017 target projection is already coming into sight. Keep an eye on the commodity block where the NZD and AUD are sitting at initial breakout levels. After posting our suggested early May wave C bottom we remain bullish AUD, where a break of the March down trend would underpin our tactical bull call on commodities into summer. With initial buy signals in the CRB Index, our anticipated May wave C bottom has been confirmed, and where crude oil is heading towards its February down trend at $53 as an initial target.

- Keep an eye on the metals complex where gold, silver and platinum are trading in potential breakout patterns. Platinum is not far from its August 2016 downtrend; silver trades in a huge triangle pattern (ahead of wave 3); and **in gold, the April reaction high at $1295 is absolute key**. A break of $1295 would be a quite bullish message and suggest a test of the July 2016 high at $1375. **With the breakout of the AUD and NZD we see the metals complex and gold mines moving into a make or break setup over the next few weeks and where the May 9th low in gold at $1213 represents a new key support**.

US Equity Market Update:

Chart 1.) S&P-500 Daily Chart

Chart 2.) Nasdaq Composite

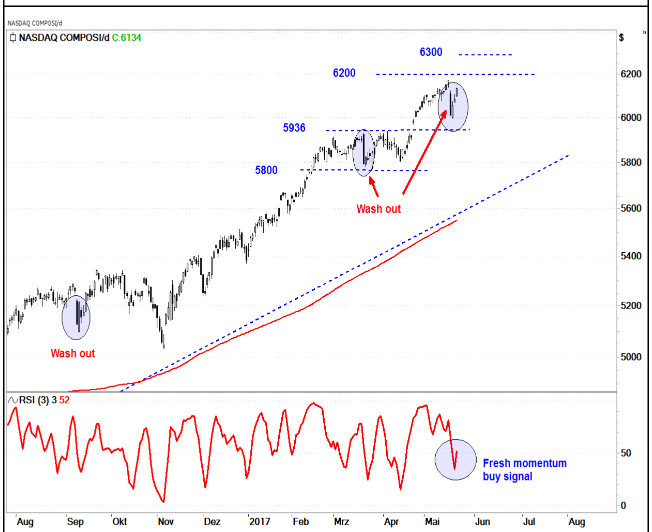
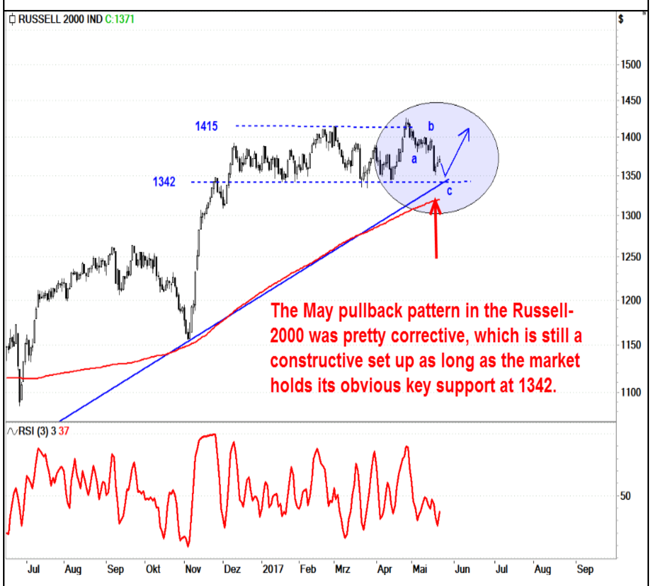


Chart 3.) Russell-2000 Daily Chart



Bullish Above 2353

Over the last two weeks we said that after the failed early May breakout attempt, from a cyclical aspect, we would expect a short and limited pullback into deeper/later May before starting the next breakout campaign into June where we still expect to see a new high in the US market. However, on the back of the weakening market breadth **we saw and continue to see any further strength increasingly limited, so where strength into summer would have more a distributive character, which we would see as the setup for moving into a more important summer top, preferably in later June.**

With last Wednesday's sell-off, the SPX nearly reached our suggested pullback target at 2350 to worst case 2329. More importantly, with initial spikes in our fear indicators (spike in SPYDER volume) and with a **46% spike in the VIX index, the move had all the signs of a classic washout**, which in the NDX looks pretty similar to the one-day washout candles we had in March this year and in September 2016. Furthermore, **in the Russell-2000, last week's sell-off completes a classic a-b-c corrective May pullback pattern, which confirms the key support at 1342.** Together with the transport sector sitting on key support (200-day moving average), defensives (consumer staples and utilities) as well as the banking sector not far from key support levels, and the energy complex trading in a basing process makes last week's SPX low at 2353 to an important medium-term support, where a break would certainly has a quite bearish implication.

Conclusion: With last week's bullish reversal and a fresh buy signal in our fast momentum indicators, we have growing evidence that our projected deeper/later May trading bottom is in place, which we continue to see as the basis for a new breakout attempt in the SPX into June.

The key levels in the SPX are unchanged at 2404 and 2329, and as long as the SPX trades above 2329 we remain underlying bullish into summer. However, within this range, last week's reaction low at 2353 represents a new short-term trading support and while trading above 2353, the market remains biased for a breakout attempt into June with target 2450/2500.

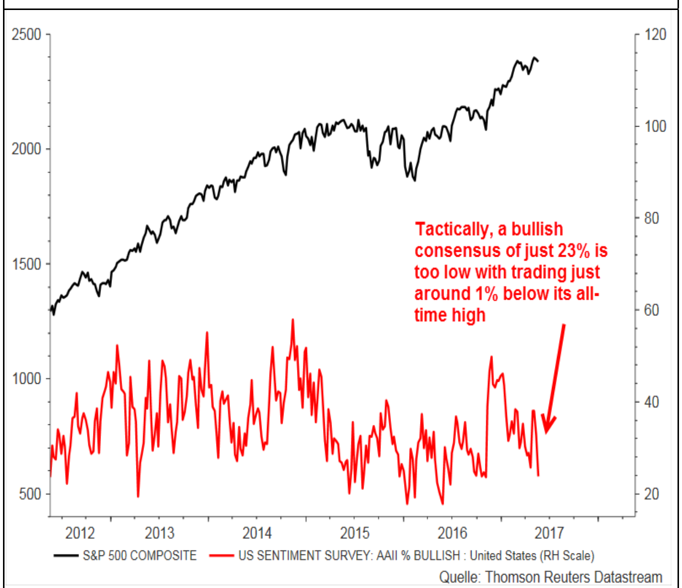
However, if a bounce should fail and we get a break of 2353, this would trigger a serious short-term sell signal, where a break of the April low at 2329 would get increasingly likely. From a cyclical standpoint, the April bottom represents a 6-month cycle low so a break 2329 would have far reaching consequences. It would confirm that a medium-term top is in place, with a minimum correction target at 2250 and it would suggest the market to be short biased into early Q4 where we have our next major cycle low projection.

US Equity Market Update:

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

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

Chart 6.) S&P-500 Weekly Chart with AAII Bullish Consensus



After hitting a 24-year low, we saw last week a massive 46% spike in the VIX index, where in the past 5 years we only had 4 similar volatility spikes. From a pure trend perspective, the spike ended in trend resistance, as the setup for a new pullback.

More importantly, we reiterate our call of the last two weeks where an extreme low in the VIX index below 10 has NEVER been the top in the market in the past. Again, an extreme low in the VIX index is definitely a late cycle phenomena, but all in all it leaves us minimum two more months if not even a multi-month distributive top building phase before we can expect the market to move into a major top. Implicitly, this means that we need to see at least one more all-time high in the SPX over the next 8 weeks.

Last week's spike in the VIX index caused a sharp plunge in the SKEW/VIX ratio towards more neutral territory, which in the current market phase we see as a tactical buying opportunity.

A similar picture we see sentiment studies such as the AAII Bullish Consensus, which is currently at 23%. Although we see a strong rise in the neutral camp, a Bullish Consensus of 23% is too low, if we take into account that the market trades within 1% reach of its all-time high.

US Equity Market Update:

Tech Key Performer … Energy a Rotation Candidate

It was a tactical key call of our 2017 strategy that after the vertical Q4 Trump rally we should see in Q1 a mean reversion of this bull cycle where we expected a broader multi-month rebound of defensives versus cyclicals pulling back. Tactically, we expected this Q1 mean reversion to move into a late Q1/early Q2 cycle bottom as the trigger for resuming the underlying 2016 reflation trade. Where do we stand in this scenario?

After the Q1 rebound, defensive key themes such as utilities and consumer staples are trading more or less sideways since March/April, which leaves these sectors in neutral stance, while trading above their obvious key support levels. In the cyclical camp banks and broker stocks hit our suggested early April bottom but on the back of the flattening yield curve financials are underperforming, where below 93.50 the BKX remains stuck in a neutral position as well. The problem case is the commodity block where energy stocks, steel and materials have extended their Q1 correction move into early May, but where we think the XOI and OSX have hit important bottoms. However, since their early May low we have these sectors still in a basing process, where a breakout/long signal is still missing to confirm that a major rotation has started.

So if we want to get an idea about the health of this bull market, we need to keep an eye on technology. Via its sector weight, it is the key driver of this bull market, and particularly in the current market setup, one of the few remaining outperformer themes. Last week's sell-off had a similar shape as the washout candle in March; and with the following bullish reversal and a fresh buy signal in our daily momentum we have a new breakout attempt underway in the NDX, where a break of the May 16th high at 6170 would imply 6200 to 6300 as next target projection.

Chart 7.) US Semiconductor Index (SOX) Daily Chart

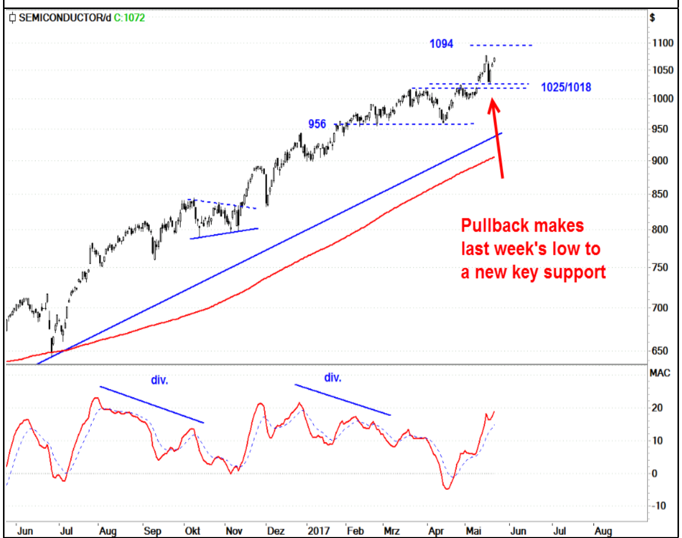


Chart 8.) SOX Index versus S&P-500

In the SOX index we got a near perfect pullback to its last breakout level, which makes the zone of 1025 to 1018 to an even more important support. Generally, whereas in the transport sector we already have a bigger divergence forming, which from a Dow Theories standpoint is negative, we have this divergence still not forming in the SOX index versus the SPX. It is important to understand that apart of the tech bubble top in 2000 in more or less all other major bottom or tops, the SOX index was leading in turning earlier than the overall market.

Conclusion: Technology as a hype theme remains a key outperformer and the major support for the wave 5 bull cycle in the US, and long as we do not see a divergence forming between semiconductors and the SPX, the health of this bull market is still intact. However, in the historical context, **technology is also pretty much overbought so that sooner or later we need to see some kind of a rotation in the US market to keep this bull market running. We remain latently bullish financials but in this context we see particularly the energy complex still as a key variable for the US market into summer and in the late stages of the wave 5 bull cycle in global equities, since the whole late cyclical outperformance cycle is missing.** In this context we continue to expect sooner or later to see breakouts in the energy sector.

However, if the current bottoms in the energy sector would fail, it would put a big question mark behind the health of this bull market and it would clearly cap the SPX if not make the market vulnerable for a more significant setback and higher volatility into summer.

US Equity Market Update:

Chart 9.) US Banking Index Daily Chart

Banks and broker stocks remain in a neutral position and with the US yield curve flattening further, banks continue to underperform. We recently said that the April low would be pivotal. With the current underperformance, we would allow seeing a bit more weakness since with the broken February down trend and the 200-day moving average, the BKX has very strong support. So, we remain medium-term bullish banks but cannot rule out a fake on the downside (temporary break of 87.80) before starting its next bigger bounce. Key breakout level on the upside is unchanged at 93.50. We would use weakness to buy/add.

Chart 10.) US Banks/SPX vs. US Yield Curve

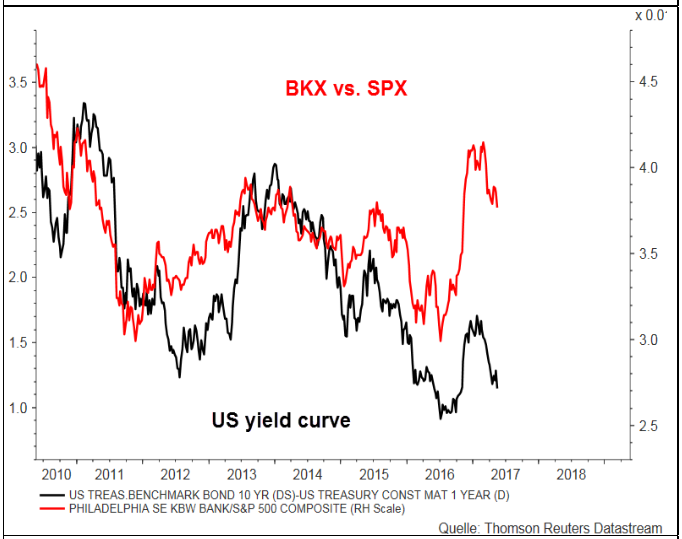


Chart 11.) Dow Jones Utilities (DJU) Daily Chart

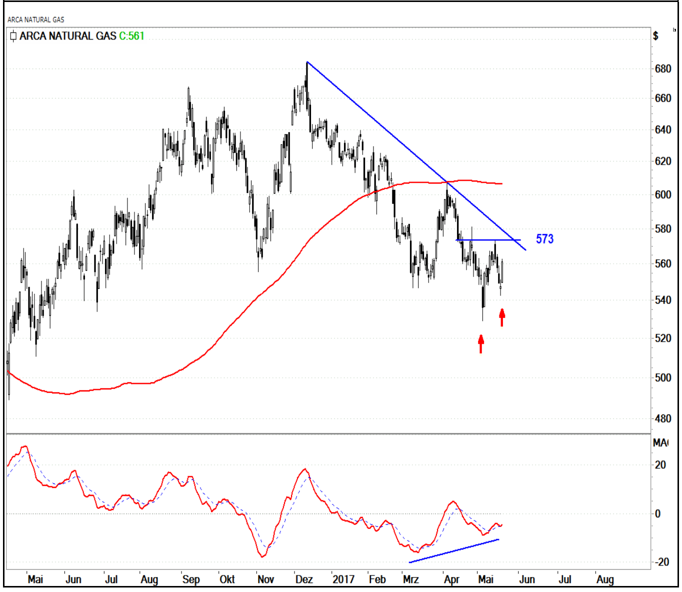
Utilities and consumer staples are effectively trading sideways since more or less March/April, which leaves these sectors in neutral stance. With the recent pull back in yields we see a new breakout attempt starting where a break of 712 would be short-term bullish and imply that a test of the 2016 all-time high in the DJU would be underway. However, with the cap of the broken 2016 bull trend we actually see the DJU more capped at 712 instead of expect a new broader breakout campaign, which nonetheless would help the market.

US Equity Market Update:

Chart 12.) Oil Service (SOX) Daily Chart

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

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



We continue to see the energy sector as a key variable for the US market into summer, where we still think that the whole late cyclical outperformance cycle is missing and in this context we continue to expect sooner or later to see breakouts in the energy sector. On the other hand, if the bottoms in the energy sectors would fail, it would be quite a bearish implication for the market as then the question is what should drive the market higher apart from technology.

Last week we got bigger bullish reversal candles in the energy complex, where in oil service, XOI and the XNG we continue to see in a larger basing process forming. 153 in the OSX is the neckline of a small double bottom. With the higher low in the XOI we have a potential inverted head& shoulder bottom forming and in both the XOI and in the XNG we have a higher low in place, and where 573 represents an important long trigger for the Nat Gas sector.

Inter Market Update:

EUR Overbought … Watch AUD and NZD!!

Strategically, it was a key call of our 2017 strategy to expect the US dollar completing its 2011 impulsive wave 5 bull cycle in Q1 as the starting point of a short but potentially sharp correction/bear cycle into end 2017/early 2018 as the basis for starting a new bull cycle within its underlying secular bull market. In early Q1 we called a major wave 5 top and with intact short signals in our weekly and monthly trend work, the US dollar remains clearly in a bear trend.

Tactically, after the break of the 2016 downtrend in the EURUSD and the vertical rally, the EUR is pretty much overbought and with heading into the time window of a multi-week cycle top projection we expect the EUR to be on the way into a near-term top as the basis for a corrective pullback into later June/early July before resuming its underlying bull trend. Best case is to see another extension towards 1.11360 (which after the break of 1.1130 was our next bigger target projection) but all in all we see more near-term strength more limited so that in the current set up we would not chase the EUR on the upside. However, the key message is that the EUR trades in a bull market where with trading at 1.1250 our initial 2017 target of 1.15 is already coming into sight.

Keep an eye on the commodity block where after hitting our suggested May trading bottom we now see initial bottom and trend breakouts in the AUD and NZD. After completing a major a-b-c correction pattern we remain bullish AUD, where a break of the March down trend underpins our bull call on commodities into summer.

Chart 15.) Trade Weighted US Dollar (DXY) Daily Chart

Chart 16.) EURUSD Daily Chart

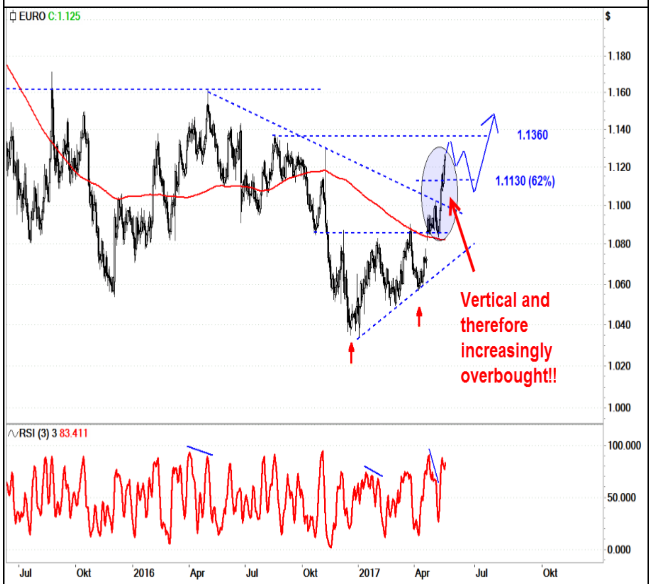


Chart 17.) AUDUSD versus CCI Index

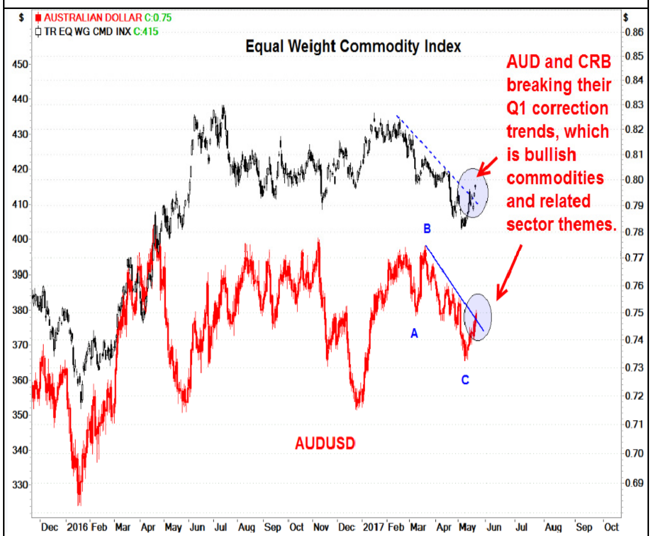
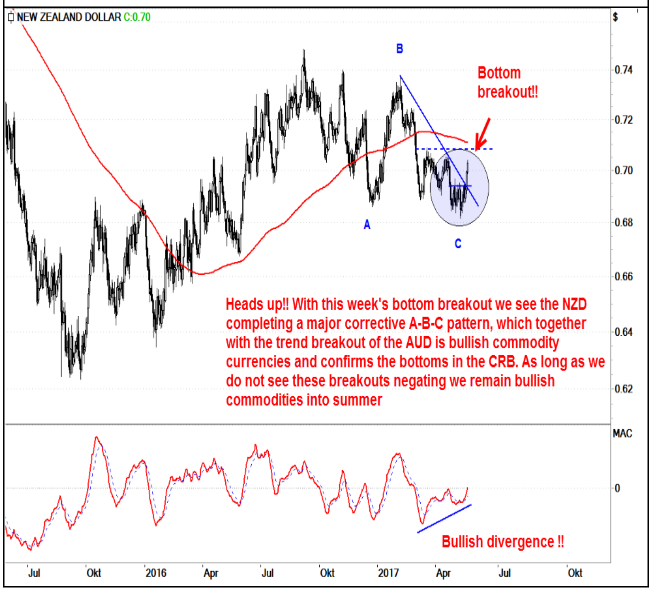


Chart 18.) NZDUSD Daily Chart



Inter Market Update:

Chart 19.) Crude Oil Daily Chart

Crude oil:

After the April/May extension of the Q1 correction we called a tactical bottom in crude oil in early May. Despite the temporary undershooting we saw and continue to see the May bottom/reversal as the basis for our suggested broader rally leg in crude oil into deeper/later summer where we still expect to see new highs above the $55 threshold, which would open the way towards our long standing $60 target we gave our last year as a potential major target of the 2016/2017 recovery cycle. **On a short-term basis crude is heading towards its March downtrend and with getting increasingly overbought we wouldn't be surprised to see a pull back into first half June, which however should bring us a higher low as the set up for the next rally leg into summer.**

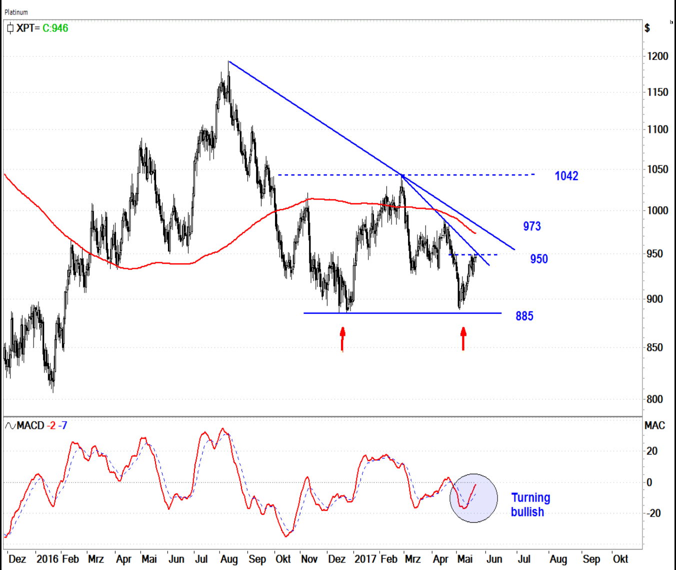
Chart 20.) Copper Daily Chart

Copper:

In our early May broader commodity update/reality check (see May 9th weekly comment) we highlighted the still constructive patterns in commodities as a key argument to expect minimum one more tactical rally and breakout attempt into summer, where we would get more light on the underlying status/health of the 2016 recover cycle in commodities.

Copper continues to trade in a larger bull flag and with the current bounce (and fresh daily buy signals in our daily trend work) the industry metal is on the way of testing its Q1 bear trend. A breakout in copper would be a very healthy signal for the overall market and it would be the ultimate signal for a larger rotation back into commodity related themes where China and in the Europe the SXPP (see chart 26.)should clearly outperform.

Chart 21.) Platinum Daily Chart



Platinum:

With the April/May sell off and the recent bullish reversal platinum has confirmed its December 2017 bottom, which makes 885 to an even more significant and obvious support. With the recent bullish reversal the metal is testing initial breakout levels at 950 on the way towards 973, which is a major breakout resistance, representing the August 2016 bear trend and the 200-day moving average. **Generally, with a break of these levels platinum would move into a major double bottom speculation with neckline resistance at 1042, so platinum is definitely moving into a make or break set up over the next few weeks!!**

We would buy the dips …

Inter Market Update:

Chart 22.) Gold Daily Chart

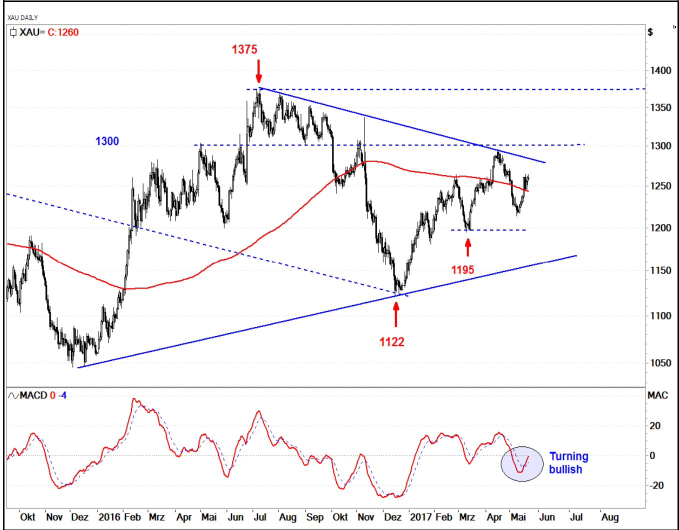


Chart 23.) Silver Daily Chart

Chart 24.) Silver Weekly Chart

Gold/Silver:

In gold we have a similar set up as in platinum. From a pure price perspective the yellow metal trades in a sequence of higher lows, which underpins our underlying bull case for gold. Last week, gold re-gained its 200-day moving average at $1240 and the yellow metal is basically on the way to re-test its pivotal April high at $1295. **On a short-term basis we wouldn't be surprised to see a bit of a pullback but if we look at the breakout set up in the AUD and NZD we see gold actually more moving into a potential short-term positive surprise instead of seeing any near-term break down.**

Generally, a break of its April high would not just trigger a new buy signal in our cyclical model, it would also break the July 2016 bear trend. It would mean that in the bigger picture, gold would break out of a huge triangle formation, which would be aggressively bullish and imply minimum a re-test of the July 2016 high at $1375. On the downside, the May 9th higher reaction low at $1213 represents a new trading key support. Strategic support is unchanged the December 2016 low at $1195.

In silver the April/May correction was definitely a negative surprise, but which on the positioning side has also caused a significant washout in speculative positioning, which is basically constructive.

Pattern wise we have a similar set up as in gold and platinum. **Silver is factually trading in a huge triangle formation, which de facto represents the consolidation of the first bull wave from its major December 2015 low, which we think is a 8-year cycle bottom.**

Generally, in the early stages of a bull cycle we normally do not know, whether the rally is just part of a corrective (a-b-c) rebound pattern and therefore just a bear market rally or if we are at the beginning of a new major impulsive bull cycle/market. So in this context the rally off from **the December 2015 low into summer 2016 can be both, a corrective counter trend wave A or wave 1 of a major new bull cycle.** Following this wave pattern, the triangle, which is forming since the summer top 2016, can be a corrective wave 2, where in this case we would just be at the beginning of a huge impulsive bull wave 3.

Analytically, with a very low ADX (trend momentum study) we have the set for a big trend move over the next 12 months, similar as in August 2010 (bullish) and in February 2013 (bearish) !!! As long as silver does not break its 16/15.50 key support, we remain bullish silver and expect a rally, which with a measured move target of wave C should minimum reach $24.00 and in case of moving into a wave 3 bull cycle we are talking about a target towards the $30 region into 2018!!