Weekly technical analysis chart pack – 13th October 2014
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After last week's focus on global equity concerns the short term fears have been played out. The market, built on record leverage now appears to be breaking lower. The Russell 2000 index is now in a down trend(highly correlated to S&P index) and only 33% of NYSE equities are above their respective 200 day moving averages. Long term trend lines have been broken and the overnight (weekend) U.S. equity futures appear to opening aggressively lower. With such a crowded position there is a definite fear of a sharp correction, heightened by the fact that the weekly charts are not yet in oversold territory. Entrenched long positions should be nimble.
The most bullish market now looks to be the Shanghai composite index. The last chart; long Shanghai versus short Kospi continues to break higher.

S&P 500 - Last week's timely chart on the S&P highlighted both the fragility in the market and also the key **1905 support level**. After breaking below the 2 year supporting trend line the Index actually closed last week right on this key 1905 support. This is both the August sell-off low and the 200 day moving average. However the futures market has opened today sharply lower (Ebola transmission in Texas and dovish FED rhetoric over the weekend), and with the bond market close in the U.S. today there are fears of a continued sell-off in a thin market. The long term chart (attached) shows have small this correction is compared to the long term bull market rally, the price action is NOT oversold on any of the weekly technical charts and the S&P looks to have enough momentum to continue lower.
Only a break above 2019 would confirm a resumption of the long term bull market but that is clearly not the focus right now.

Dow Jones Industrial Average - The Dow Jones Industrial average is only just beginning a topping process. Despite the fact that only 33% of NYSE stocks closed the week above their respective 200 day moving averages the market is only 4.6% off its all time high. Only a break below the August 2014 low at 16,333 will confirm the likely start of a longer term down trend, and the likelihood is strengthened by the weak overnight price action and the fact that none of the weekly charts are near oversold territory.

NASDAQ - On Friday the NASDAQ broke down through both the 200 day moving average and the August 2014 low and is now 7.25% below the 2014 double top. Short term momentum is very negative with both the 5 and 20 day moving averages breaking lower. Weekly oscillators, Bollinger Bands and DeMark indicators show the index is NOT at oversold levels and can continue to trend lower in the short term. Investors are clearly still long and leveraged. Support will come in at 4,000 (the 2014 support zone), but a break below here will rapidly heighten investors fears.

Nikkei – The NIKKEI is not trading as bearishly as European or U.S. equities. It has clearly broken lower from the 2014 double top at 16,374 but has found temporary support on a 2 year trend line commencing from the announcement of "Abenomics". A break below this trend line at 15,380 and below the 200 day moving average at 15,123 will likely target the 2014 support zone between 14,000 and 13,888. The fear in the market is the "long Nikkei" trade is crowded with large, leveraged positions, and a capitulation could force a fast and aggressive sell off.
Only a break of 16,374 would confirm a resumption of the long term bull trend but that is not the focus right now.

Hang Seng - The Hang Seng index is at the same level as it was in the latter part of 2009. It has in effect gone sideways for 5 years in a converging range. Last month's break higher failed (initially on the HK protest movement and then on global equity weakness) and now the focus has moved to the down side. The key level remains the 6 year rising trend line which comes in at 21,860 along with the 200 week moving average.
The weekly charts show no sign of being oversold so the risk clearly remains to the downside.

Shanghai Composite Index – The Shanghai composite index is clearly one of the strongest equity markets at the moment. In the short term it is overbought on the weekly Relative Strength Index (RSI) so we may so a short term correction lower but the long term trend is currently clearly higher.
Note the later chart of long Shanghai composite versus short Kospi index which continues to outperform.

Taiwan – The Taiwan TAIEX market is breaking aggressively lower. The price action fell straight through expected trend line and trend channel support at 8888 (now resistance) and the medium term trend is now clearly lower.

KOSPI – The KOSPI index is now looking very weak. Having been in a sideways range for 4 years the short term momentum is now aggressively lower, and the weekly charts are not showing over sold readings. Expect some consolidation at 1885, but a break below here will likely herald a medium term trend lower.

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Only a break above 2093 will regain the bull market but at the moment this looks very unlikely.
Note the later chart of long Shanghai composite versus short Kospi index which continues to outperform.

U.S. 10 year government bond yield - The 10 year government bond yield is clearly in a down trend from the start of the year. Support comes in at 2.21 while resistance moves down to 2.61. The upper 2.61 level needs to be penetrated to break the current trend lower.

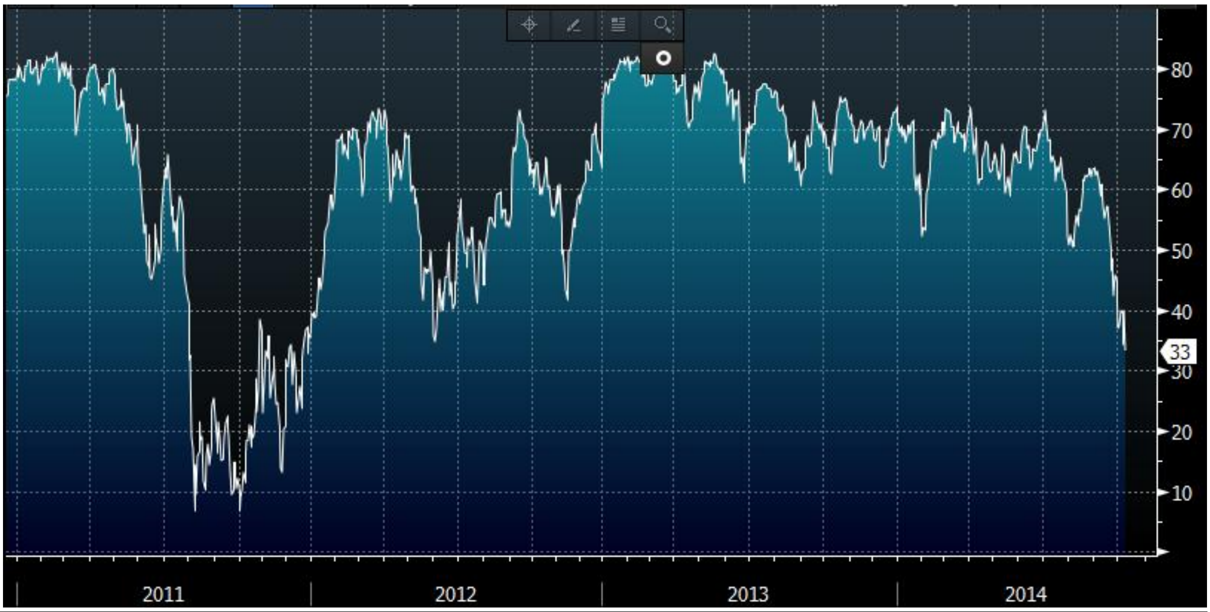
Gold - Gold is clearly caught in a falling triangle pattern, between the trend line resistance currently at 1275 and the triple bottom at 1180. The medium term move lower has been led by the strong US dollar while the short term 5 day bounce has been on the back of equity weakness. Clearly these 2 factors will determine the direction of the breakout and next medium term trend, 1275 and 1180 are the key levels right now.
If the price does break below 1180, the subsequent drop will likely be rapid and it will highlight global deflationary concerns.

U.S. crude oil (West Texas Intermediate)- U.S. crude oil (WTI) is now clearly in a down trend highlighting both U.S. shale productions and falling demand, and sparking more global deflationary concerns. The weekly oscillators, Bollinger bands and DeMark indicators show the price is currently oversold so expect a short term correction higher, but the medium target now appears to be 77.69.

S&P 500 versus Russell 2000

The chart above shows clearly the strong correlation between the S&P 500 and the Russell 2000 Index. However there is now a definite divergence. The Russell Index is clearly in a down trend making lower highs and lower lows, having broken the clear 1082 support level. This is another concerning chart for equity bulls.

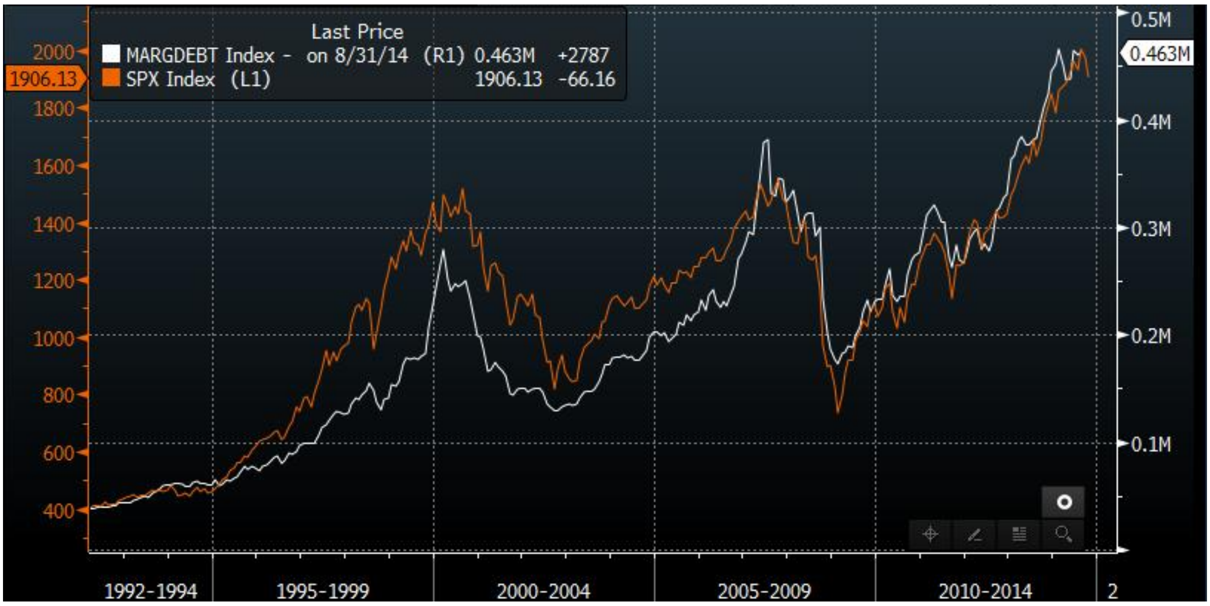
Percentage of NYSE stocks closing above their 200 day moving average



The chart above shows more weakness in the U.S. equity markets with a clear lack of breadth. Only 33% of NYSE stocks are above their respective 200 day moving averages.

Clearly the market has been led higher by less and fewer leaders and now an increasing number of stocks are breaking lower.

S&P versus NYSE member firms debit balances in margin accounts



The above chart shows the clear correlation between the S&P and the NYSE member firms margin debt balances (a barometer of leverage) for the last 30 years. The concern here is the huge run up in "leverage" with concerning parallels to the 2000 NASDAQ bubble and the 2008 Global Financial crisis. The recent ascent in the S&P has been on historically low volatility. Markets should not trend in straight lines but in waves, and a "pull back" of 10% in the S&P would actually be healthy for the market as it would likely bring an unwind in the extreme levels of risk being taken.

S&P 500 Index

Last week's timely chart on the S&P highlighted both the fragility in the market and also **the key 1905 support level**. After breaking below the 2 year supporting trend line the Index actually closed last week right on this key 1905 support. This is both the August sell-off low and the 200 day moving average. However the futures market has opened today sharply lower (Ebola transmission in Texas and dovish FED rhetoric over the weekend), and with the bond market close in the U.S. today there are fears of a continued sell-off in a thin market. The long term chart (attached) shows have small this correction is compared to the long term bull market rally, the price action is NOT oversold on any of the weekly technical charts and the S&P looks to have enough momentum to continue lower.
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Resistance

2019 All time high September 2014
1991 July 2014 peak
1904 Previous swing low and 200 day moving average * KEY LEVEL *****

Support

1904 Previous swing low and 200 day moving average * KEY LEVEL *****
1843 Previous resistance/support
1820 Weekly lower Bollinger Band
1576 2007 peak and long term support from March 2009 low
1502 38.2% retracement of 2009-2014 bull market

Dow Jones Industrial average – Long term chart

Short term chart

The Dow Jones Industrial average is only just beginning a topping process. Despite the fact that only 33% of NYSE stocks closed the week above their respective 200 day moving averages the market is only 4.6% off its all time high. Only a break below the August 2014 low at 16,333 will confirm the likely start of a longer term down trend, and the likelihood is strengthened by the weak overnight price action and the fact that none of the weekly charts are near oversold territory.

Resistance

17,350 All time high, September 2014

16,674 Last week's low and rising long term trend line support (2 year)

16,592 200 day moving average

Support

16,410 Support/resistance from 2000,2007 market peaks

16,333 Key August 2014 swing low

15,340 2014 low

14,198 2007 peak

13,962 200 day moving average

13,194 38.2% Fibonacci retracement level from 2009 GFC bottom

<u>**NASDAQ Composite Index**</u>

On Friday the NASDAQ broke down through both the 200 day moving average and the August 2014 low and is now 7.25% below the 2014 double top. Short term momentum is very negative with both the 5 and 20 day moving averages breaking lower. Weekly oscillators, Bollinger Bands and DeMark indicators show the index is NOT at oversold levels and can continue to trend lower in the short term. Investors are clearly still long and leveraged. Support will come in at 4,000 (the 2014 support zone), but a break below here will rapidly heighten investors fears.

Resistance

5132 2000 Nasdaq “bubble” peak and all time high
4610 2014 double top
4368 Long term trend line support, March 2014 peak
4321 August 2014 low
4300 200 day moving average

Support

4000 2014 support zone
3332 38.2% Fibonacci retracement level of whole post GFC rally
2861 2007 peak

NIKKEI

The NIKKEI is not trading as bearishly as European or U.S. equities. It has clearly broken lower from the 2014 double top at 16,374 but has found temporary support on a 2 year trend line commencing from the announcement of "Abenomics". A break below this trend line at 15,380 and below the 200 day moving average at 15,123 will likely target the 2014 support zone between 14,000 and 13,888. The fear in the market is the "long Nikkei" trade is crowded with large, leveraged positions, and a capitulation could force a fast and aggressive sell off.

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Resistance

18,295 2007 peak

16,374 Double top

Support

15,380 Long term trend line support

15,123 200 day moving average

14,753 August 2014 low

14,000-13,888 2014 support zone

13,266 38.2% Fibonacci retracement level of whole "Abenomics" rally

11,600 200 week moving average

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Hang Seng

The Hang Seng index is at the same level as it was in the latter part of 2009. It has in effect gone sideways for 5 years in a converging range. Last month's break higher failed (initially on the HK protest movement and then on global equity weakness) and now the focus has moved to the down side. The key level remains the 6 year rising trend line which comes in at 21,860 along with the 200 week moving average.
The weekly charts show no sign of being oversold so the risk clearly remains to the downside.

Resistance
31,958 2007 peak
25,356 2014 peak
25,000 2010 peak
24,111 2013 double top
23,143 200 day moving average and long term resistance line

Support
21,860 Long term trend line support and 200 week moving average ***KEY LEVEL***
21,137 2014 low
19426 2013 low

Shanghai Composite Index

The Shanghai composite index is clearly one of the strongest equity markets at the moment. In the short term it is overbought on the weekly Relative Strength Index (RSI) so we may so a short term correction lower but the long term trend is currently clearly higher.
Note the later chart of long Shanghai composite versus short Kospi index which continues to outperform.

Resistance

3478 2009 peak
3067 2011 peak
2443 2013 peak

Support

2243 Long term trend line and previous double top
2020 rising short term trend line
1984 2013 low
1664 Global financial crisis low

Taiwan TAIEX

The Taiwan TAIEX market is breaking aggressively lower. The price action fell straight through expected trend line and trend channel support at 8888 (now resistance) and the medium term trend is now clearly lower.

Resistance

9859 2008 peak
9593 2014 peak
9532 Sep 2014 peak
8968 200 day moving average
8888 Trend line support

Support

8777 Rising long term trend line
8500 March 2014 low
8453 38.2% Fibonacci retracement level and 5 yerar trend line support
6609 2011 low

KOSPI

The KOSPI index is now looking very weak. Having been in a sideways range for 4 years the short term momentum is now aggressively lower, and the weekly charts are not showing over sold readings. Expect some consolidation at 1885, but a break below here will likely herald a medium term trend lower.

Only a break above 2093 will regain the bull market but at the moment this looks very unlikely.

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Resistance

2229 Post financial crisis high
2093 2014 peak
2016 trend line resistance
1992 200 day moving average

Support

1885 2014 low
1770 2013 low
1718 Long term 38.2% Fibonacci retracement level

Long Shanghai versus short Kospi

The long Shanghai Composite index versus short Korean Kospi continues to outperform.

US 10 year government bond yield

The 10 year government bond yield is clearly in a down trend from the start of the year. Support comes in at 2.21 while resistance moves down to 2.61. The upper 2.61 level needs to be penetrated to break the current trend lower.

Resistance

3.05 2013/2014 peak

2.61 200 day moving average and trend channel resistance

2.33 2010 low

Support

2.21 50% Fibonacci retracement level of 2012/2014 low/high and trend channel support

2.09 Previous peak

1.67 2011 low

1.38 Post GFC low

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Gold

Gold is clearly caught in a falling triangle pattern, between the trend line resistance currently at 1275 and the triple bottom at 1180. The medium term move lower has been led by the strong US dollar while the short term 5 day bounce has been on the back of equity weakness. Clearly these 2 factors will determine the direction of the breakout and next medium term trend, 1275 and 1180 are the key levels right now.
If the price does break below 1180, the subsequent drop will likely be rapid and it will highlight global deflationary concerns.

Resistance

1392 2014 peak1285 200 day moving average
1175 falling trend line resistance

Support

1180 18 month triple bottom

U.S. crude oil (West Texas Intermediate)-

U.S. crude oil (WTI) is now clearly in a down trend highlighting both U.S. shale productions and falling demand, and sparking more global deflationary concerns. The weekly oscillators, Bollinger bands and DeMark indicators show the price is currently oversold so expect a short term correction higher, but the medium target now appears to be 77.69.

Resistance

107.62 2014 peak
105.40 long term trend line resistance
96.37 200 day moving average
94.00 trend line resistance

Support

77.69 2012 low
75.56 2011 low
63.14 2010 low

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All charts sourced from Bloomberg.

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