23 October 2017

The Technical Trader

Daily Technical Analysis from Bill McNamara

Prices as at 20 October 2017

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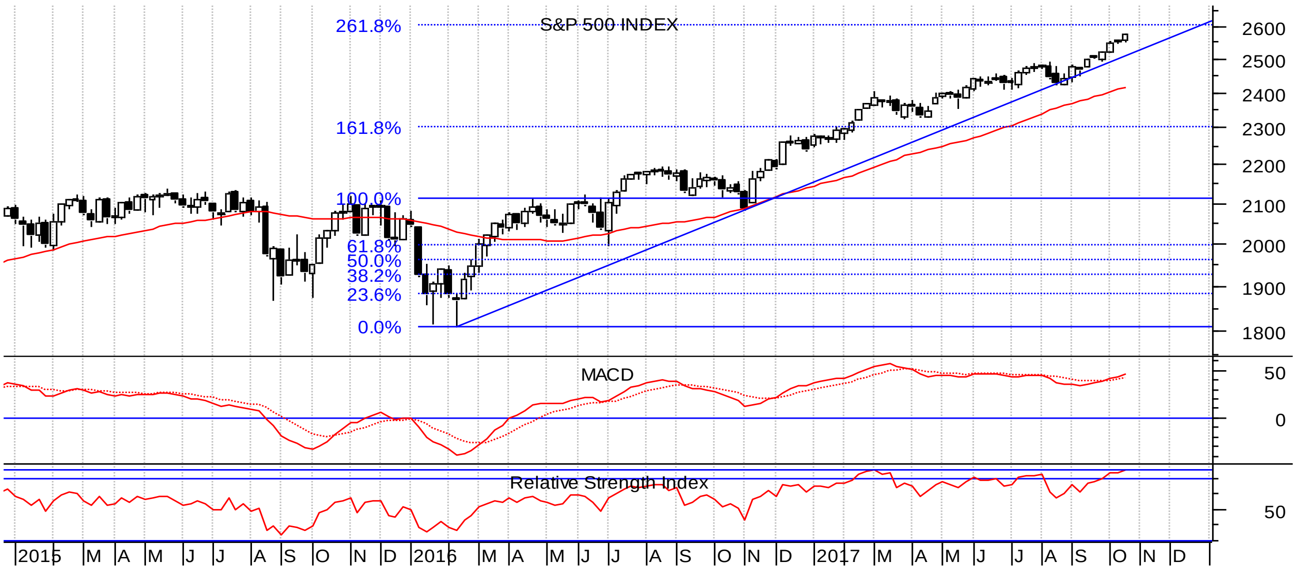
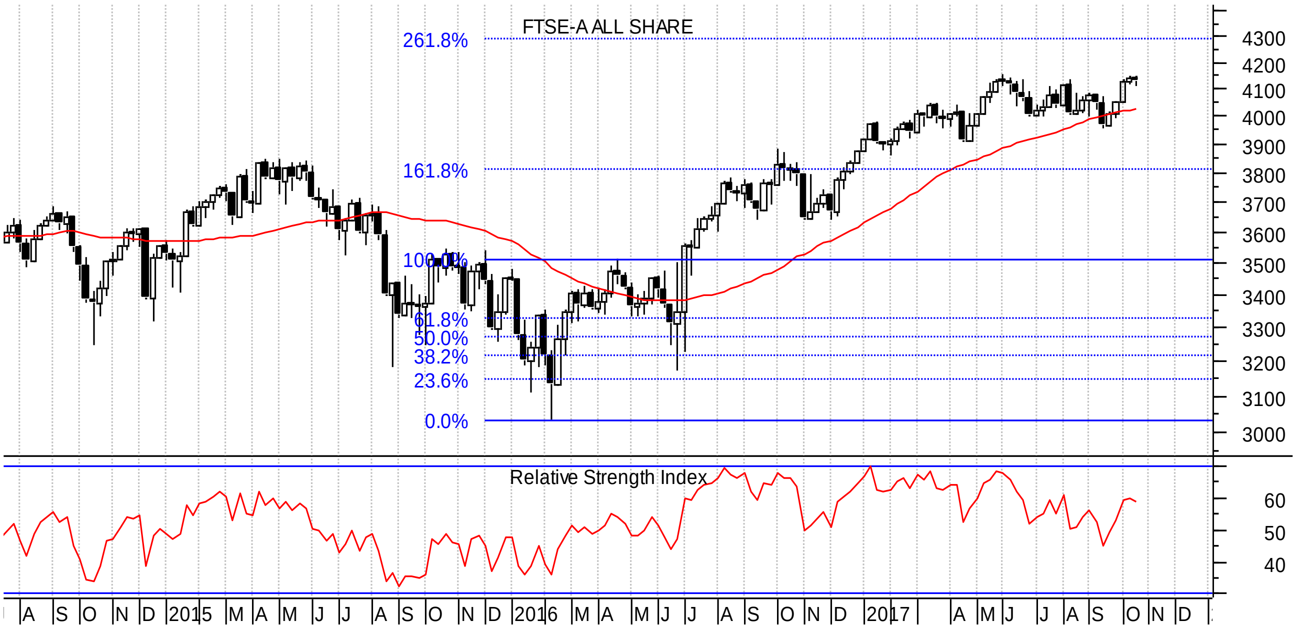
The latest key technical developments:

- *S&P 500, Dow Jones Industrials & Nasdaq Composite all hit new highs*
- *UK markets consolidating, just below recent highs*
- *Nikkei 225 post 21-year high; Asia ex-Japan hits new peak*
- *Copper at highest level since late 2014; Iron ore slumping*
- *Dollar testing resistance; yield on US 10-Year Treasury at 3-month highs*

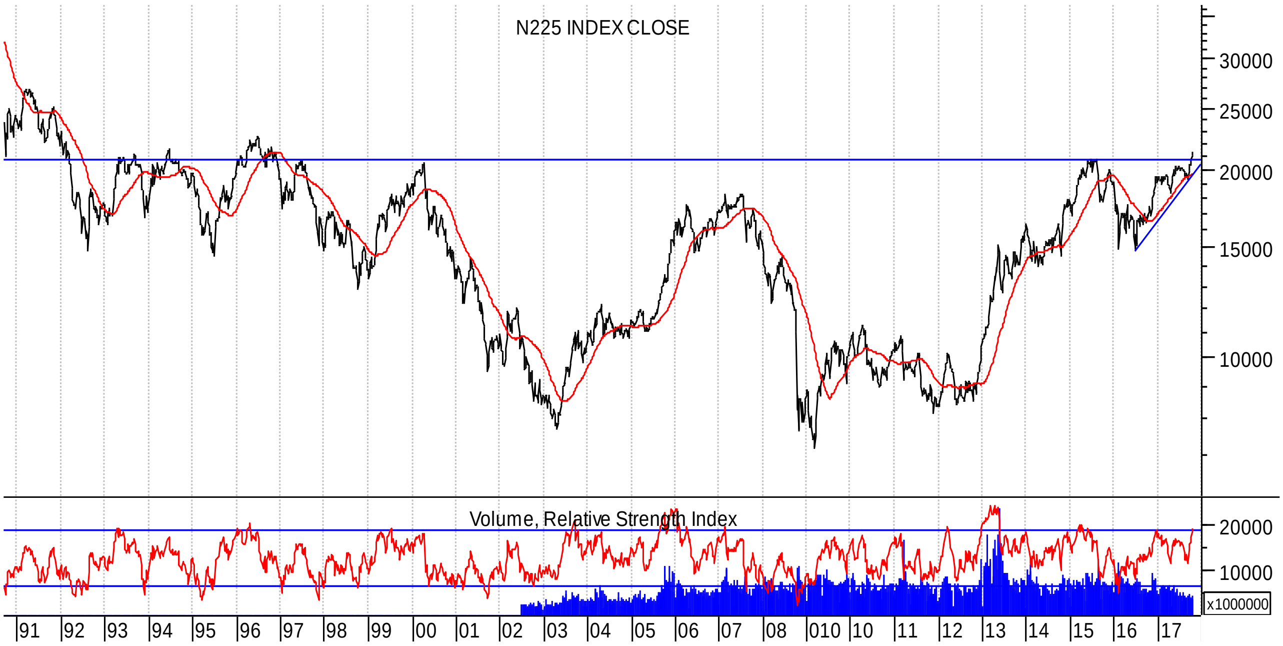
S&P 500 (2575.21) rose by 0.86% last week, and recorded a sixth consecutive week of gains (and a new all-time high) in reaction to the Republicans' tax-cut proposals. Volume figures remain supportive – last week's total was one of the top-ten highest of the year – and the main question-mark over the potential for further upside at this point is the extent to which the index has become overbought: the 76% reading on the 14-week RSI is, for example, the highest since 2013 and you have to go all the way back to 2003 to find the last time it climbed above 77%. While that demonstrates that upside remains strong it is also, surely, a cause for concern. Uptrend support now stands at 2500 or so while a 262% extension of the first wave of the rally points to around 2600.



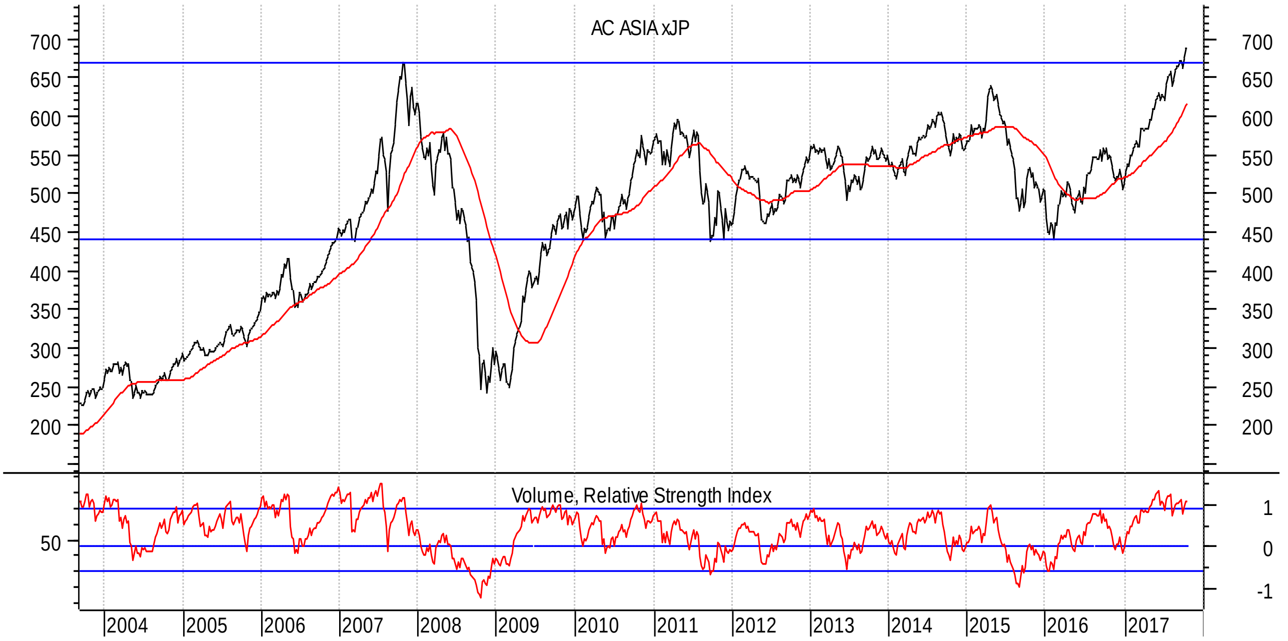
FTSE All Share (4127.92) - the chart for the All Share index shows that it has recently been re-examining the all-time high that it posted earlier this month (i.e. at 4145.98) and although it has experienced a fall-off in momentum – as measured by the 14-week RSI at the bottom of the chart – there is still little in the broader technical picture to suggest that the rally has reached a definitive conclusion. That said, the cautions price action of the last few sessions (which looks a lot like a manifestation of anxieties over the lack of progress with Brexit negotiations) should be monitored, although it seems likely that the index would have to retreat below 4075 or so before it would be appropriate to talk in terms of a corrective move.



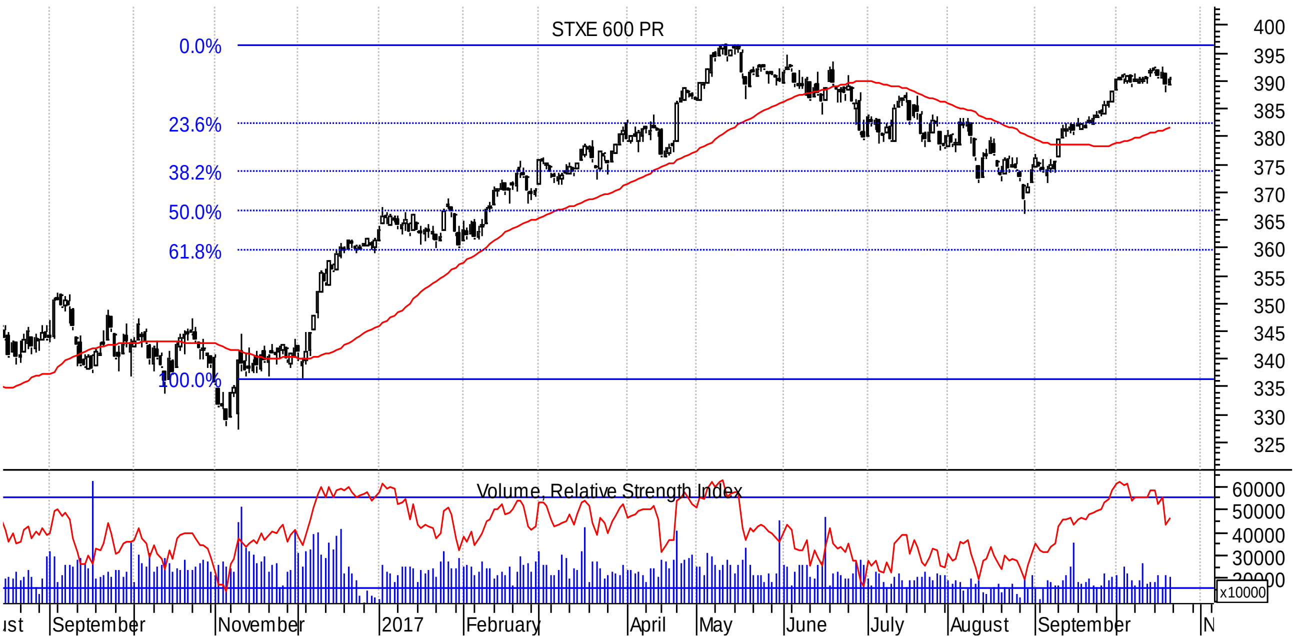
Nikkei 225 (21696.65) was already trading at 21-year highs before investors reacted to Prime Minister Shinzo Abe's clear election win, and last night's 1.11% gain was also notable for the fact that it took the latest winning streak to a fifteenth day – and that's a new record (exceeding a milestone that has stood since the 1960s). Market participants clearly like Mr Abe's economic policies and are relieved that he is going to be given more time; while this leaves the Nikkei looking short-term overbought the fall in the yen relative to the dollar implies that there could yet be scope for further upside.



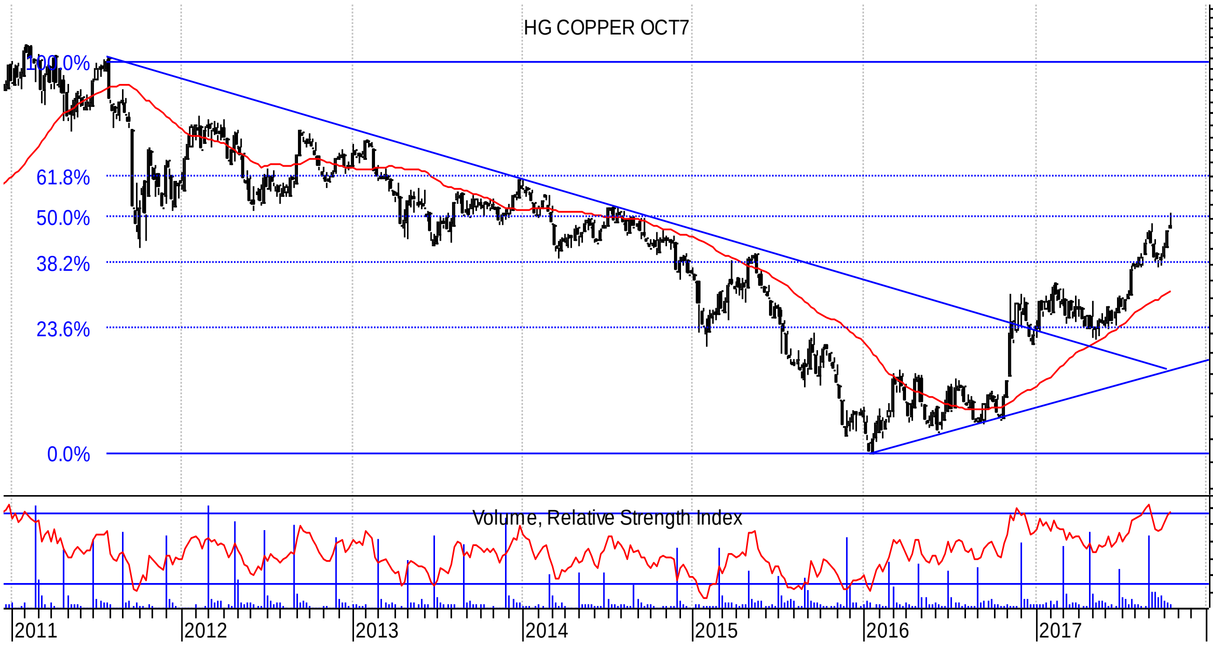
MSCI Asia ex-Japan (687.73) – amid the sense that the tensions between North Korea and the White House have eased somewhat (until the next missile test, at least) Asian markets have been rising strongly and, as the chart for MSCI's Asia ex-Japan index demonstrates, this optimism has lifted prices to new all-time highs. If there is a caveat to the bull case here it is that (a) the rally has already left the index with a gain of 33% this year, which means that it looks pretty stretched and, (b), the 14-week RSI is displaying clear bearish divergence (the oscillator last made a new high in the summer) – and that might indicate that the scope for further near-term upside has become limited. However, such is the strength of this move that we'd probably need to see a pull-back through the 2007 peak, at 668 or so, before it would be apt to talk in terms of a top having formed.



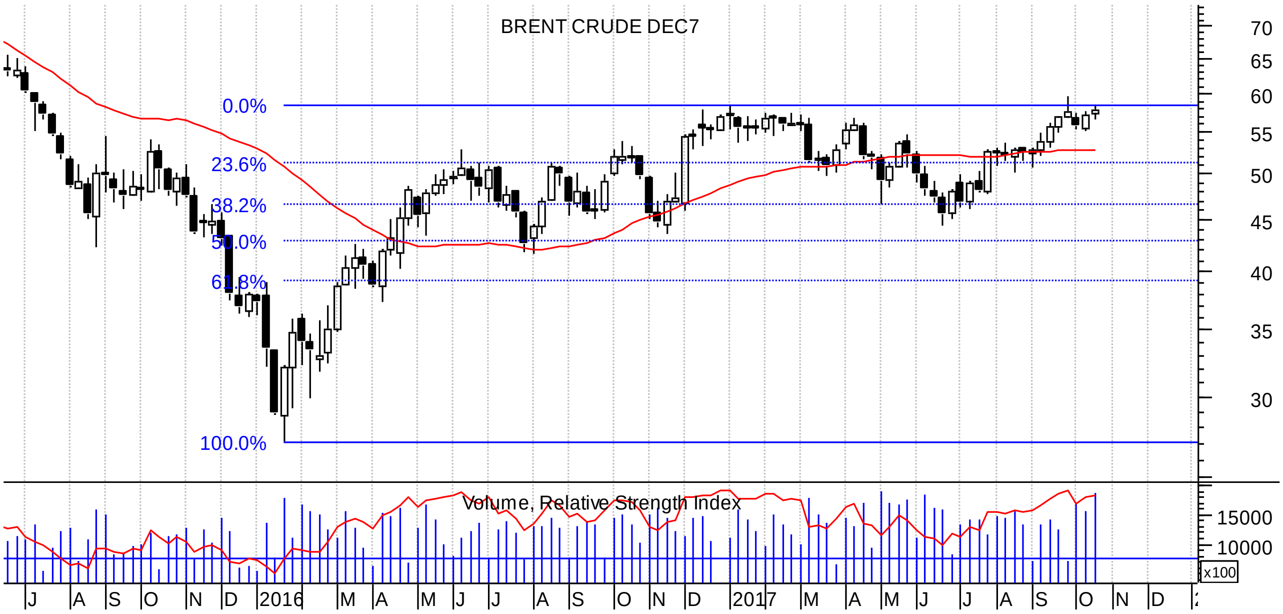
STOXX 600 (390.13) rallied off its August lows, at 366 or so, but has still failed to test its 52-week high, at 396.45 as strong performances from the likes of the DAX (which recently ran up to an all-time high) have been offset by weakness in other areas – Madrid's IBEX has, for example, fallen by 8% over the last five months. The chart is implying that these regional differences are likely to lead to ongoing underperformance in the STOXX.



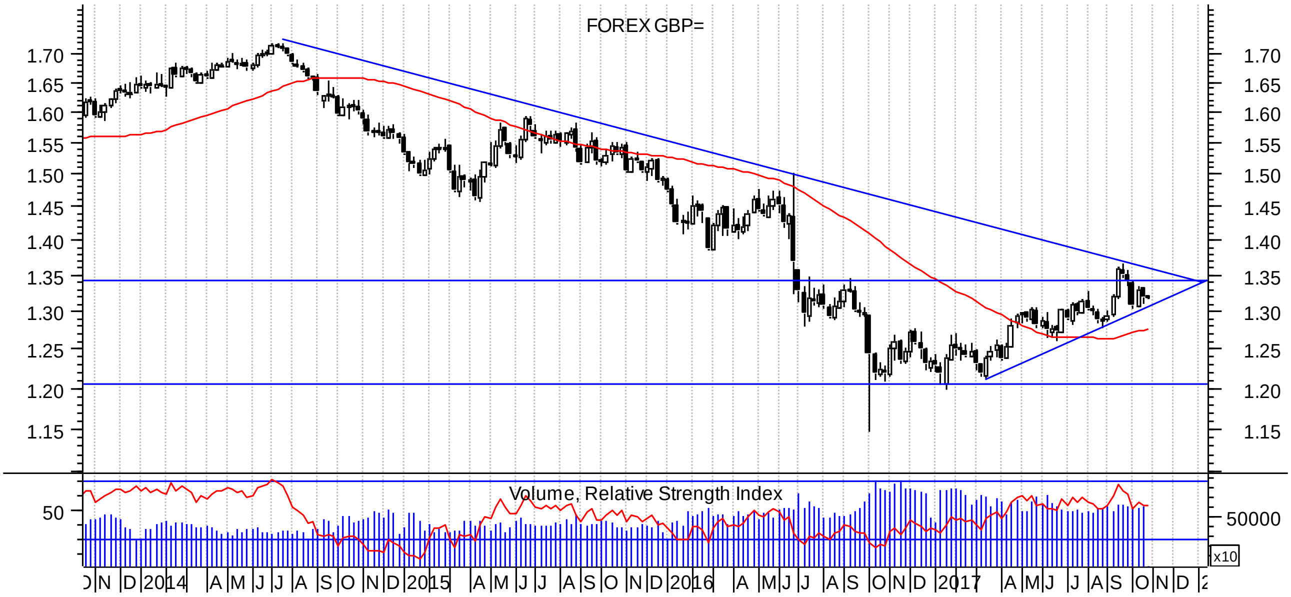
Copper ($3.1515) – last week's 1% advance lifted the copper price to its highest reading since September 2014, and it's worth noting that this marked its fourth consecutive weekly advance. The weekly chart below shows that it has now achieved a 50% retracement of the decline that began a little over six years ago and that fact that this coincides with the appearance of bearish divergence on the 14-week RSI could mean that the scope for further near-term upside has become somewhat limited. A close below $3.08 would reinforce that view.



Brent Crude ($57.75) – the latest price action for Brent has seen it struggling to get beyond the 26-month high of $59 that was recorded four weeks ago (last week's trading peak was $58.47). Although volumes have been fairly punchy lately there is still a sense that traders lack the conviction to haul the oil price back above the psychologically important $60 level – for now at least. However, if that price point is overcome the chart is implying that there would be scope for a decent short-term advance, with an intermediate target of around $67-$68 (which is where it topped out in May 2015).

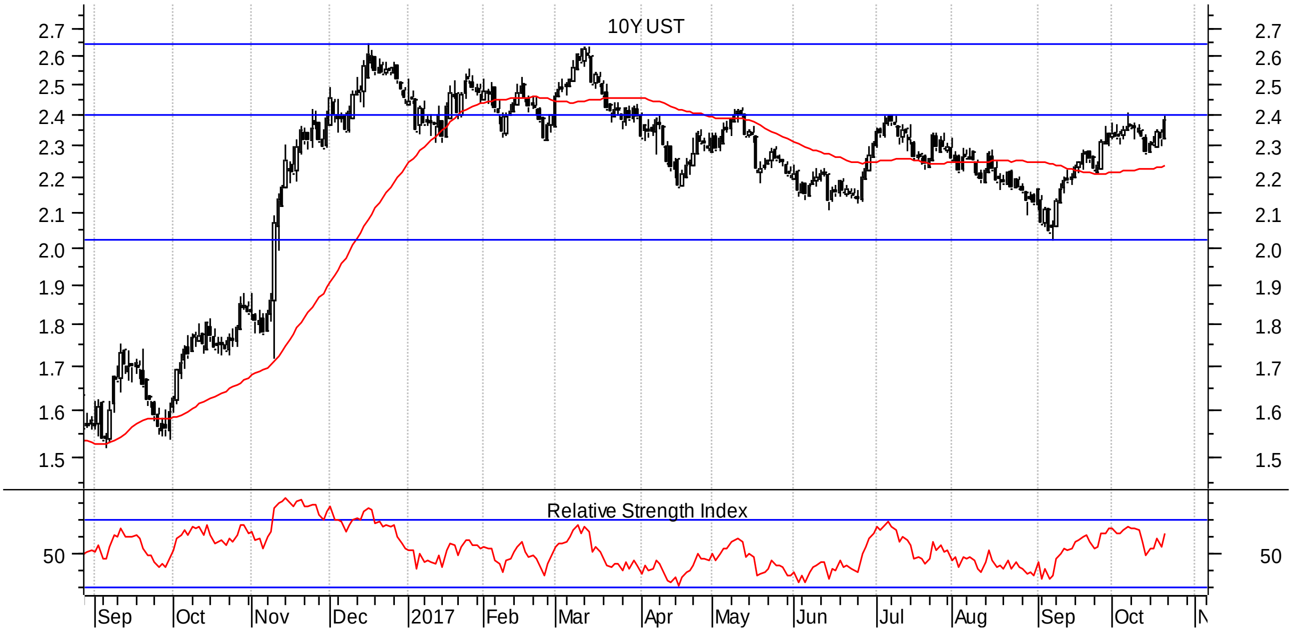


Sterling/Dollar ($1.318) shed 0.72% relative to the dollar last week as traders took the view that the spike in consumer inflation was unlikely to spur the Bank of England's Monetary Policy Committee into action, even though the 3% print was well above its stated target (not least because of the widespread view that the rate of increase in the inflation rate is unsustainable). The chart shows that 'cable' has been trending higher since March and although it has lately drifted back towards that trendline my sense of the technical picture is that *it would probably have to close below $1.30 to get market participants rattled*.



Dollar Index (93.7) has been creeping higher since it bottomed out at 91 or so last month and although it topped out at 93.96 on October 5th there is still little in the chart to suggest that this advance has run its course. The view in the market appears to be that a success for the Republicans with their tax package would likely drive thee Fed towards a more aggressive monetary stance (which appears to have gained some traction in the bond market – see below) and, that being the case, the DXY looks like it could have further to go in the short to medium term.

US 10-Year Treasury (Yield: 2.383%) is going to be worth keeping an eye on following its latest price action. Since it traded down to a new low for the year on September 8th, at 2.016%, the yield on the 10-year has been rising steadily and, as the daily chart below illustrates, it is now testing a key level (i.e. between 2.39 and 2.41, which proved to be critical in May & July). If the sell-off continues – and it looks like it might – the next target is likely to be the 2.63% reading that was recorded back in March (and, before that, in December of last year).



All Charts Courtesy of Metastock