MONTH END TECHNICAL UPDATE

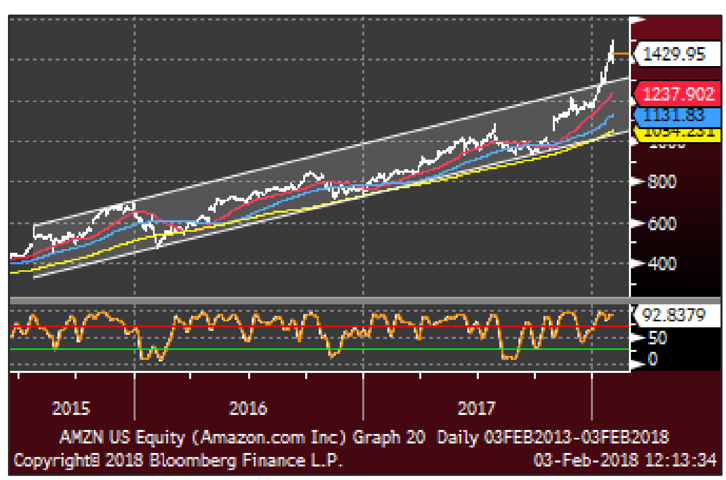
February 2, 2018

Lone Survivor

Yesterday was a hairy day in the markets. There was a lone survivor, or the damage would have been a LOT worse. Amidst a large magnitude downpour in equities, Jeff Bezos' Deflationary Vortex (AMZN) posted a large magnitude rally on earnings and its 3rd highest close in history. The stock peaked just shy of $1,500 ($1,498) after smashing earnings expectations and suggesting it can solve health care with Berkshire Hathaway and JP Morgan last week. This action could still carve the high of the move, for now.

Either way, it leads to an important question. Was Friday's move the beginning of an <u>interim pullback</u>, or a <u>generational peak</u>?

"Generational peak" is in the conversation because there are optimistic business owners, confident consumers, and animal spirits driving this market. It's a long way down to moving average support in the S&P, but I think we'll see it as other asset classes pave the way. <u>This does, however, feel like a pullback within a secular bull market.</u>

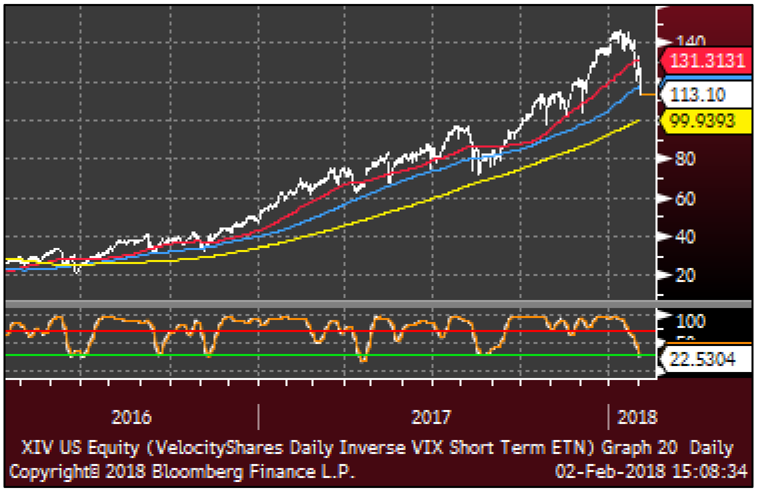


EQUITIES

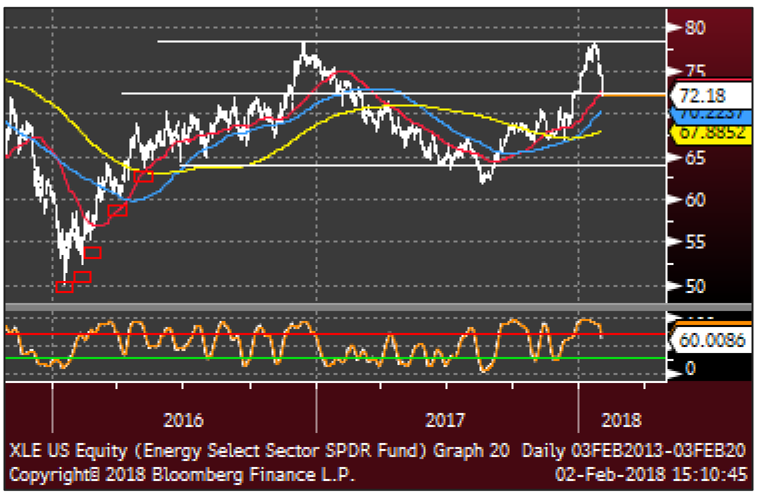
VOLATILITY IS BACK – I'm not here to sugar coat my gut feeling – I think the bond rout and equity pullback will continue. The risk of a Monday morning gap lower open in both markets, is extremely high. If stock indices drag down the $1B Inverse VIX bubble (by market cap) known as XIV, it could snowball. The chart is on page 4.

There were 4 sectors with 3-sigma freefalls on Friday – tech (IYW), financials (XLF), industrials (XLI), and energy (XLE.) The first 3 sectors represent pullbacks from the highs, so I'm on the lookout for a string of large magnitude moves. Energy pulled back into support, likely driven by new long positioning. Goldman Sachs just went positive on the sector in December. Last in, first out.

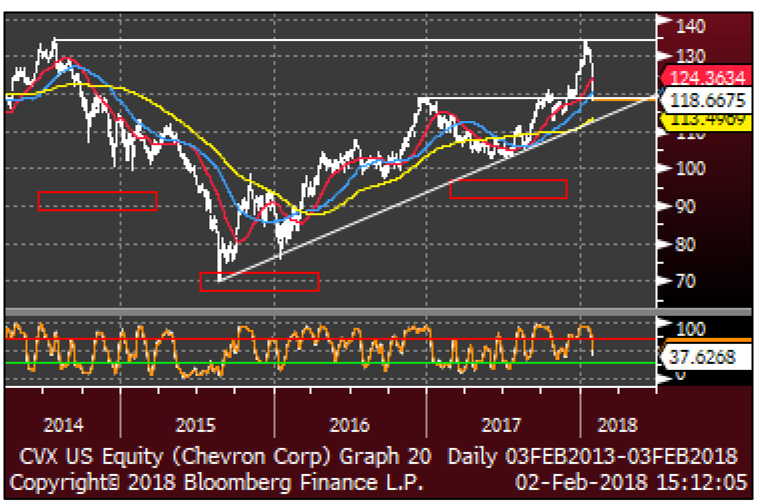
STRONG. VIEW. The builders sector (XHB) saw a 2.7 sigma (-2.9%) freefall Friday. I am not picking a bottom (obviously, if I expect the equity sell-off to continue), but I am chest-beating confident that this pullback will be a great buying opportunity. This rainbow of support from the 100-day moving average (blue) at $42.40, the ascending trend line (white) at $40.60, and 200-day moving average (yellow) at $40.20, which sit above the 2015/2017 peak at just below $40 – **WILL. BE. THE. TRADEABLE. BOTTOM. OF. THIS. MOVE.**



XIV – the short volatility ETF finally had its day of reckoning in a 3-sigma (10%) slide. With length this crowded and this much momentum, a test of the 200-day moving average is a LOCK.

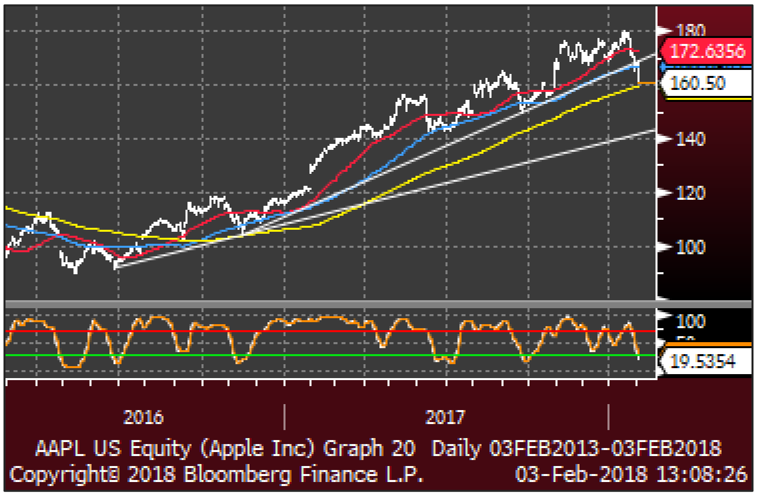


XLE – The energy sector failed where it should have – at the 2016 high of $78. With **"the war an energy"** clearly over, according to President Trump, I'm expecting the dip into moving average support between $68 and $72 to hold.



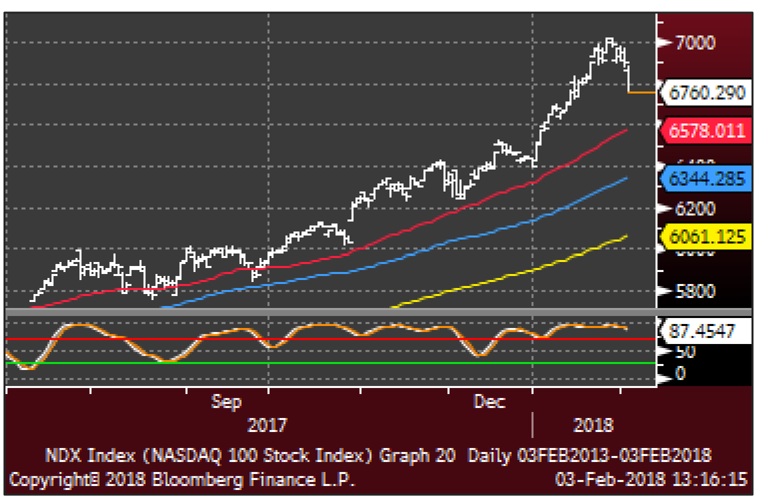
CVX – Chevron failed the first test of its 2014 high. Now we've got a chance to buy it at the ascending trend line. The risk reward down here looks binary – it's going to hold, or it isn't. Below the 200-dma and trend line at $113.50, all bets are OFF.

TALK TECH



AAPL – Apple's post earning slide cost it 4%, and also put it in the *3-Sigma Club*. The steepest trend line (white) is broken. The 200dma (yellow) is about to break. Apple looks like it's going to $140. MODEL X SALES: **LOWER THAN EXPECTED**

GOOGL – Alphabet's 4-sigma slide post EPS helped topple tech. Once again, I'm expecting this band of moving average support to hold.



Nasdaq – *Everybody's Talkin'* about the textbook top in the Nasdaq at 7K.

Pick a moving average and bid:

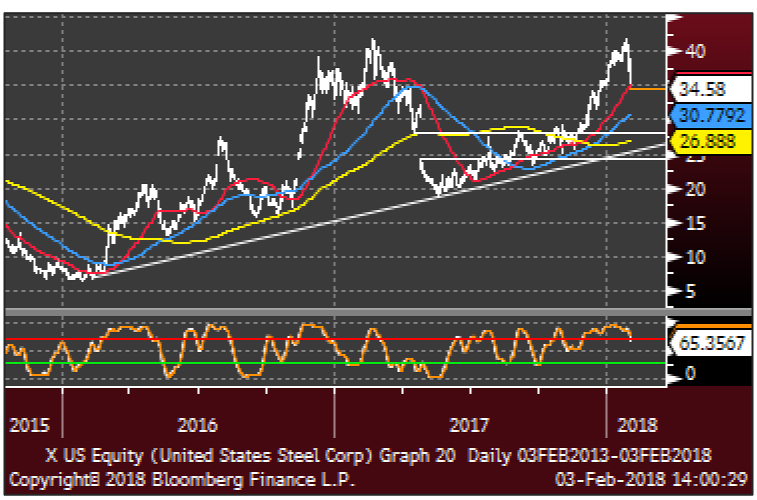
50 day (red)	6,575
100 day (blue)	6,344
200 day (yellow)	6,061 *gulp*

METALS & MINING - I have a myriad of reasons to remain bullish metals & mining (XME) after Friday's 2.5 sigma (5%) pullback. President Trump is moving toward protectionist policy. Miners & steel companies are going to get pricing power as the steel supply chain tightens. This dip in XME finds support at the 2016 high of $35, the 50dma at $35.25, the 200dma at $33.75, the 200dma at $32, and the ascending trend line (white) at $32.00. There will be a **"buy it until your head caves in"** opportunity soon. You will know when it is – I plan to dedicate an entire note to it.

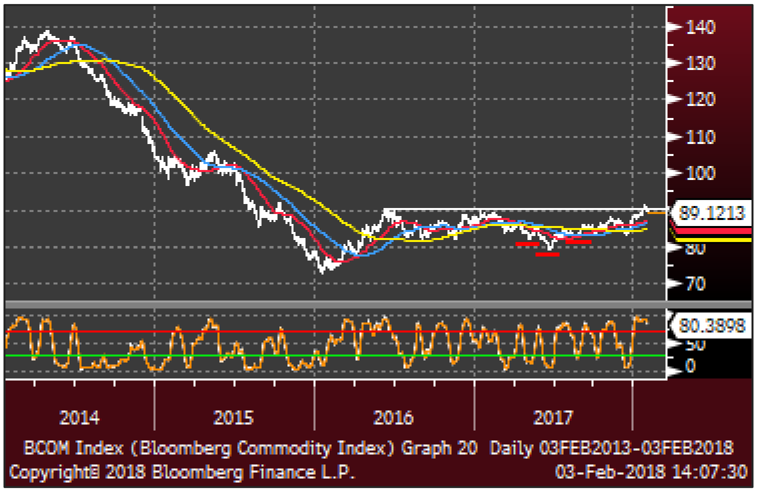
stacks evidence a mile high

CENX – I remain bullish Century Aluminum. A pullback to moving average support between $17.50 and $18.50 should be bought.

X – Big Steel failed at the 2017 highs. Scale down buy it into the moving averages. Brighter days ahead.



COMMODITIES



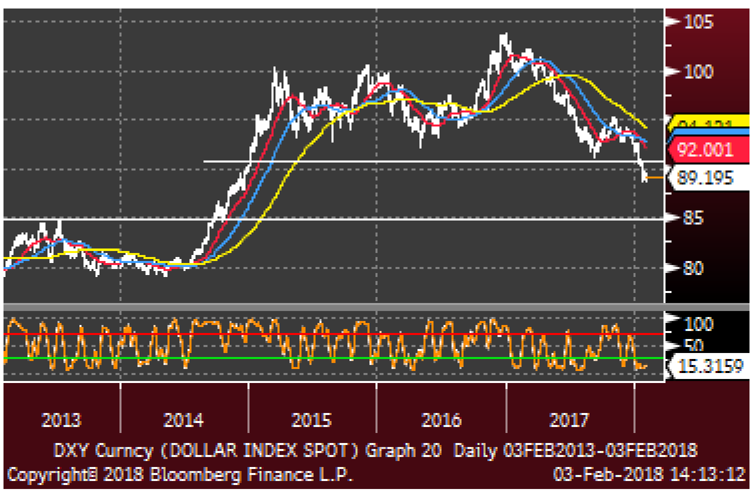
BCOM – the Bloomberg Commodity Index is trying to break above 2016 highs.

WTI – crude oil is trading into what I've identified as the 'breakout zone' above the interim peak at $62.50 in 2015. Structure is tight, but the market is well long so don't let a dip shock you.

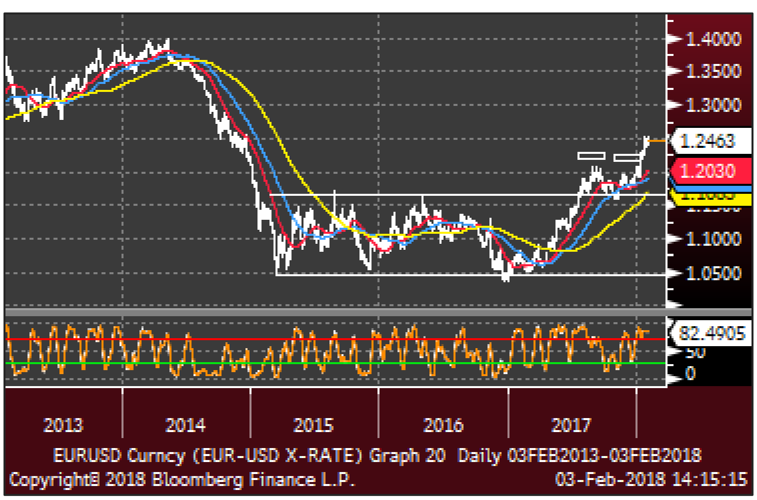
LME Copper – The trend is intact. Buy dips to the moving averages.

XAU – gold continues to fail on rallies and remains in an $1,100-$1,400 range.

FOREIGN EXCHANGE



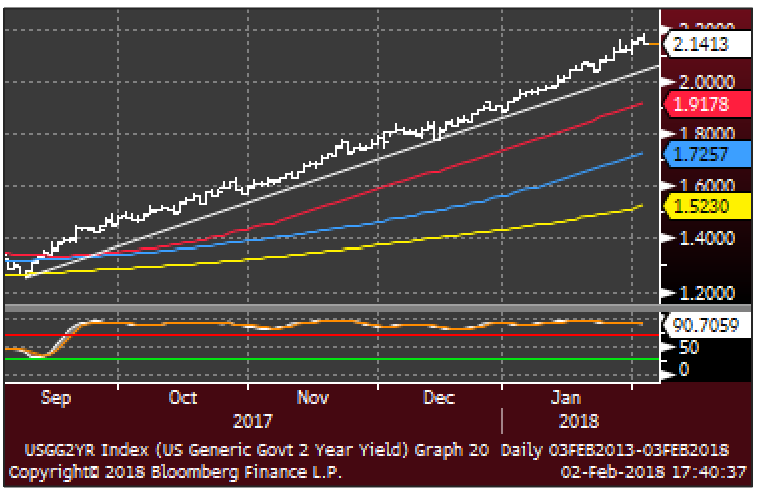
DXY – The dollar index has given up its 3-year range between 90.00 and 100.00 so it's a BFD. Sentiment may be red-lined negative, but there's no support in the dollar until 85.00.



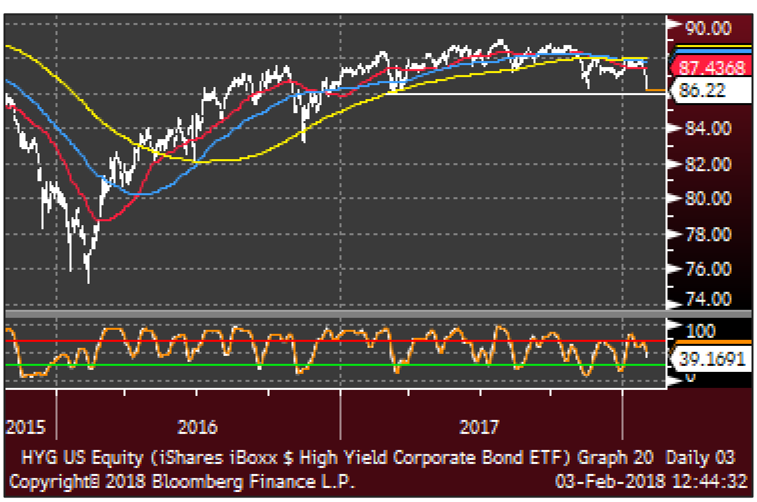
EUR – The Euro has broken out from the same 3-year range, retested old resistance, proven it as new support, and extended. Fade this trend at your peril. I won't consider it until the euro is €1.3000 bid.

CREDIT

US2Y Yields – 2 concerns. We need to 1) mind the outside reversal day within a 5-month up trend, but also 2) the up trend is well intact. Dallas Fed President Kaplan assured us we'll see some inflation pressure this year, but the markets are 'moving the yield chains' higher by themselves in response to the weaker dollar and surging commodity prices. With a base case of 3 rate hikes, this trend higher in yields could very well continue. Consider that the back end of the curve is moving with it. US30Y yields are above 3% and rising.



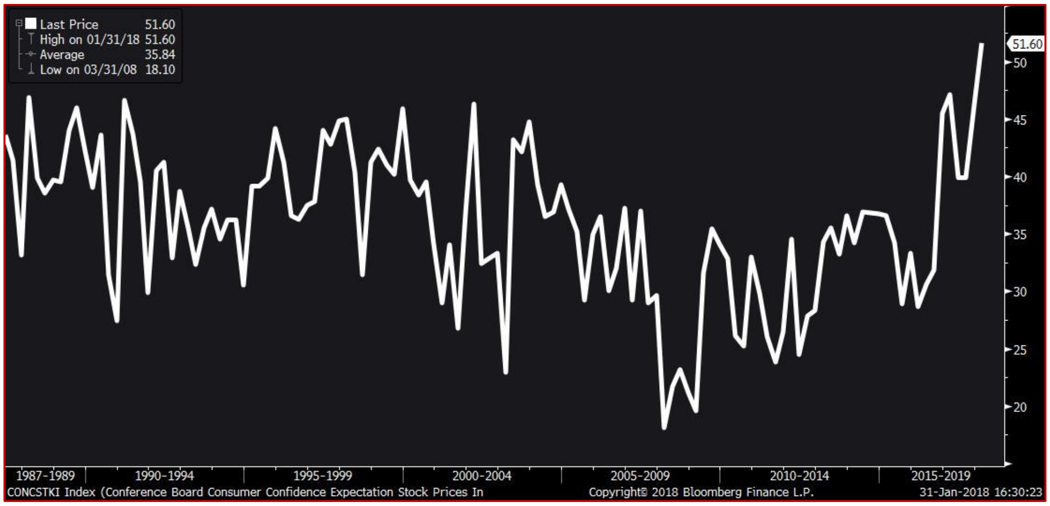
HYG, the High Yield ETF, below left, which fell 2.5 standard deviations (-.60 basis points) Friday. That $86.22 settlement marks the lowest close since March of 2017. Is everyone about to take a big step back off the risk plank?



Feels like it.

*DALLAS FED PRESIDENT KAPLAN SPEAKS IN AUSTIN, TEXAS
*YOU WILL SEE SOME INFLATION PRESSURE THIS YEAR
*UNEMPLOYMENT RATE WILL DIP INTO THE 3'S THIS YEAR
*BUSINESS INVESTMENT SHOULD BE STRONG THIS YEAR
*KAPLAN FORECASTS 2.5-2.75% GDP GROWTH THIS YEAR"
*BASE CASE IS FOR 3 RATE HIKES IN 2018, COULD BE MORE

CLOSING THOUGHTS:



Please note the Consumer Board's Consumer Expectations for Stock Prices is at multi-decade highs. There's a relevant association to make within the very recent *Real Vision Television* interview between Jim Grant and Jim Chanos

Jim Grant: **Are you at maximum short now?**

Jim Chanos: **We're pretty close.**

Noted

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