Technical Speculator

Timely Analysis for the Informed Investor

MARKETS – COMMODITIES – CURRENCIES

September 2015

Commodities

New 10-year low for the CRB

KEY POINTS:

- **More downward movement for the CRB; look for a retest of 181.83**
- **WTIC's downside target is met**
- **Favourable seasonality for natural gas, but the big picture has not changed**
- **Short-term bounce for gold, then more downward pressure**
- **Silver points to $14 in the 4th quarter (Q4)**
- **Copper's trend is still heading lower**
- **The U.S. dollar will soon be heading up**

Overview: Back to 2001 levels

Downward pressure continues for the Commodity Research Bureau (CRB) Index, as commodities face the headwinds of a rising U.S dollar and a stagnant world economy. The index is now below the 2009 mark of 200.16 and is heading lower, toward the 2001 level of 181.83 – and ultimately down to 173 (see **Chart 1**).

Chart 1

Note: We would advise investors to continue avoiding most commodities, as the outlook remains negative for the next few years.

WTIC: $40-to-$42 target reached

Our forecasted target of $40 to $42 was reached in the expected downtrend to the long-term support level (see **Chart 2**). Abundant supply, and weaker demand from China, Japan and Europe are contributing to the decline in oil prices.

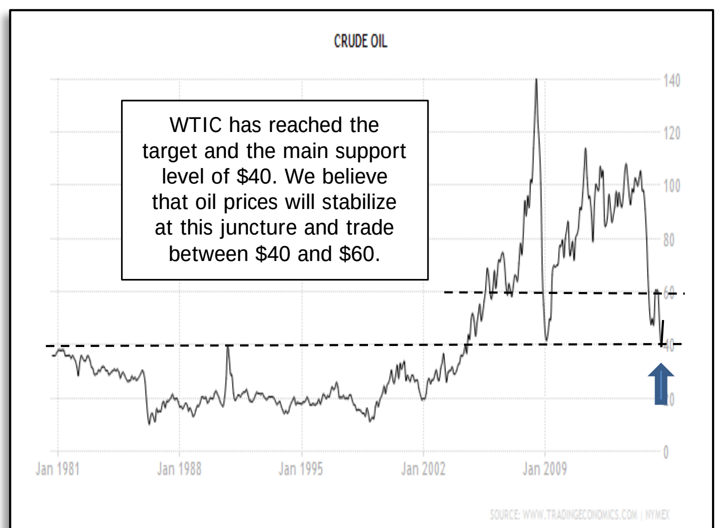

Chart 2

As a multi-year support lies around $40 (see the August issue, page 2), we believe that light crude oil will be pinned between $40 and $60 into 2016 (see **Chart 3** on page 2). Remain on the sidelines for now.

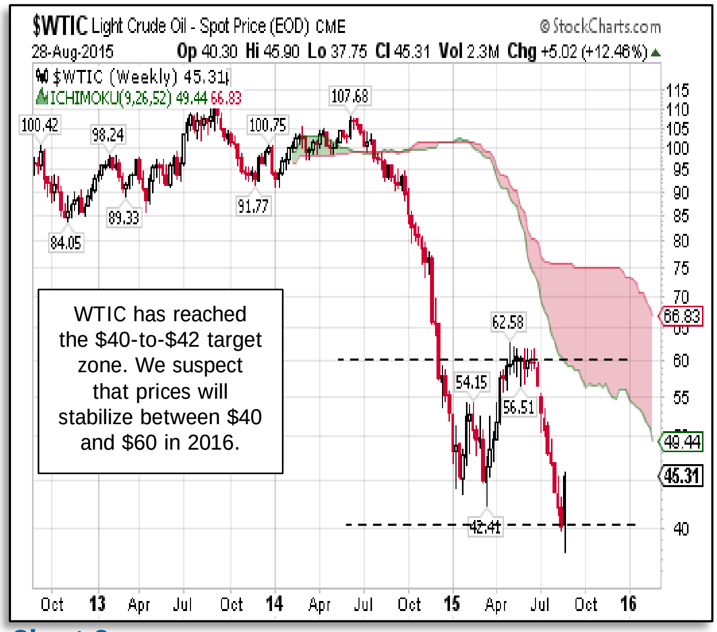

Chart 3

Natural Gas: Resistance at $3.00

A declining 50-week moving average (m/a) and being still well below the cloud resistance zone suggests trouble for the natural-gas bulls. The eight-month barrier is $3.00. We feel that some short-term strength may be possible with the favourable seasonality through to October. Nevertheless, $2.00 to $2.25 is still our target for Q4/Q1 (see **Chart 4**).

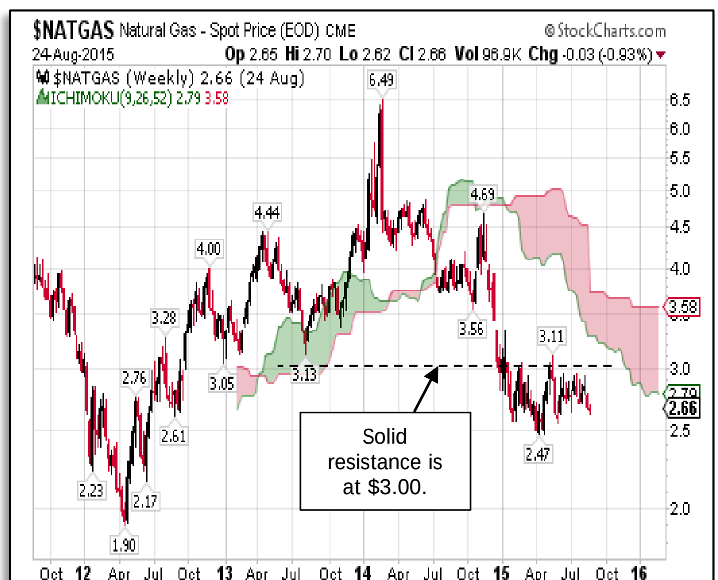

Chart 4

Gasoline: Both targets reached

Our target of $1.60 to $1.70 has been met (August 2015 issue, page 2) – and now comes the rollover. Now the lower target of $1.40 to $1.50 has also been reached. But the decline is not over. Watch for sub-$1.40 levels coming in September/October (see **Chart 5**).

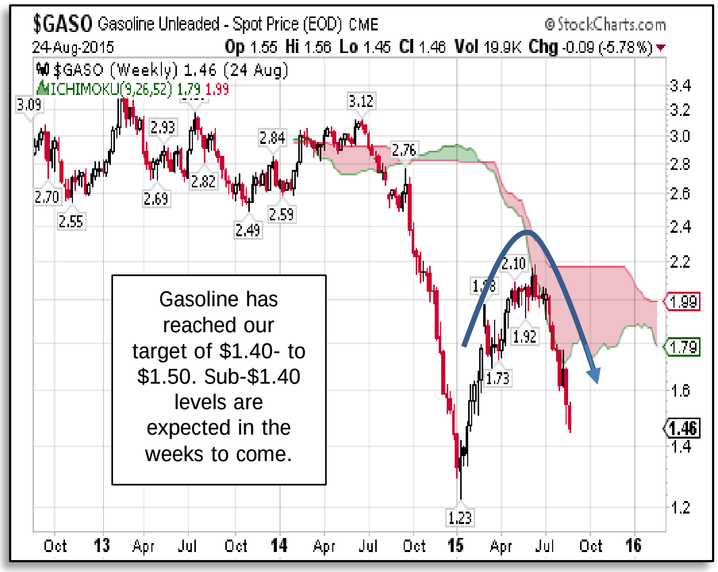

Chart 5

Gold: Counter-trend bounce ends

Breaking yet another key support level ($1,140 to $1,150) only reinforces the ongoing downtrend for gold prices. A downward-sloping 50-week m/a and a bearish momentum (Relative Strength Index [RSI]) reading point to lower levels. After the drop through $1,140 to $1,150, a short-term counter-trend movement is expected. Use this action to further reduce positions. The next target is $1,000 to $1,050 (see **Chart 6**). There is no good news for gold bulls.

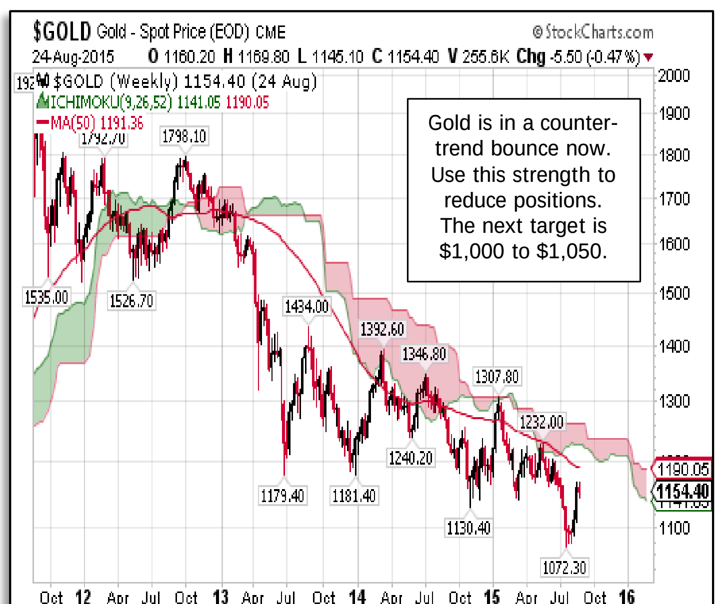

Chart 6

Silver: Downward trend continues

Among a multi-year pattern of lower highs and lower lows, silver prices are set for a short-term pop. There is some buildup in momentum. We believe that this will likely move silver up to $16.00, and then the main trend will take hold again. Use this brief bounce to reduce positions. More downside is coming. (See **Chart 7**). The target is $14.00.

Chart 7

Copper: Heading lower

A well-established pattern of lower highs and lower lows paints the long-term copper picture. An oversold momentum (RSI) reading points to a brief reactionary movement this month. Use it to reduce positions, as more downside is expected in the months to come. Look for $2.00 to $2.25. Continue to avoid (see **Chart 8**). There is no floor yet.

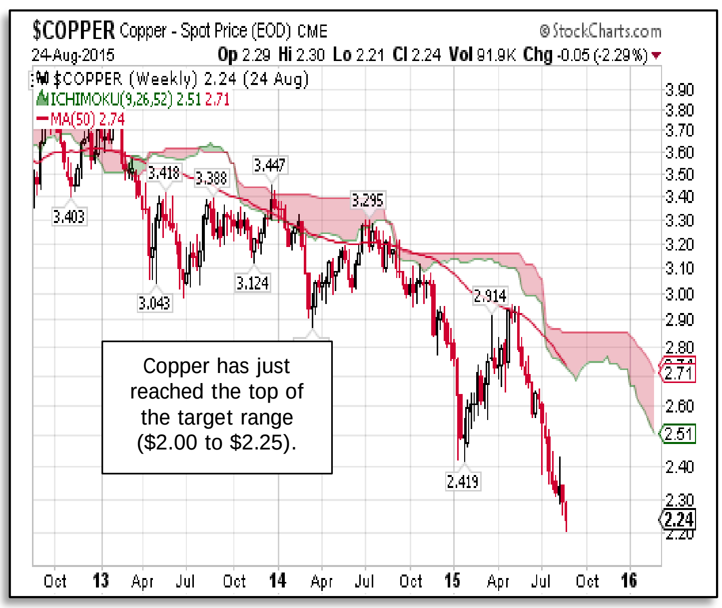

Chart 8

Wheat: Retest of $4.60 to $4.70

A levelling off appears to be forming for wheat prices: expect to retest the $4.60-to-$4.70 level over the next few months. Rising momentum (RSI) suggests that some month-over-month stability can be expected (see **Chart 9**).

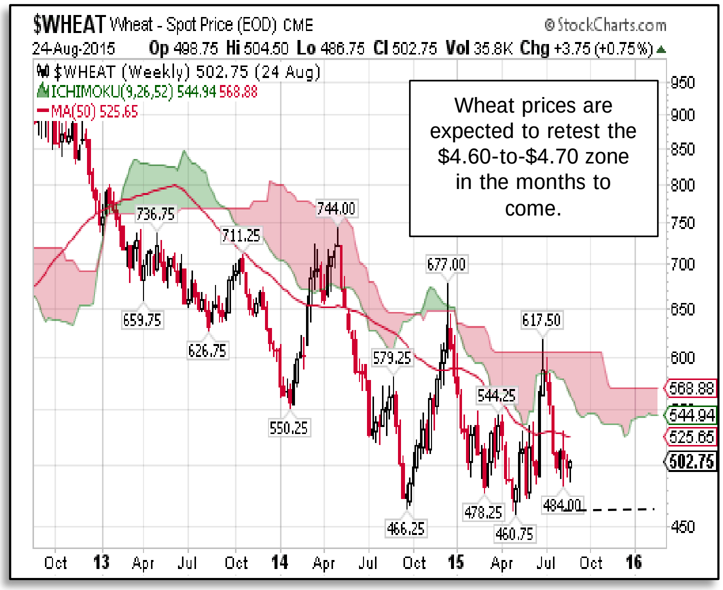

Chart 9

U.S. dollar: Short-term backfilling

A brief stall is developing for the world's reserve currency. Bouncing off the 50-week m/a, staying above the cloud

Chart 10

support zone; we expect some short-term backfilling before higher numbers are achieved. Look for $0.925 to $0.935 to act as support. The first target is still $1.00, followed by $1.06 in early 2016 (see **Chart 10** on page 3).

What should investors do?

We suggest that investors continue to reduce positions on any counter-trend movements and not commit any new money to commodities at this time. As we have previously stated, the secular commodity cycle normally lasts about 18 years. The latest cycle went from 2000 to 2011. The next cycle is not expected for many years.

We expect the US$ to continue advancing into 2016, with a rate hike and applying ongoing negative pressure to natural-resource prices. Our early 2016 target is $1.06.

For investors who do want to trade commodities, we advise keeping a 3%-to-4% protective stop at all times.

International Equities

Weaker period arrives

KEY POINTS:

- **World markets struggle; few remain in an upward trend**
- **Momentum drops for many indexes during September**
- **China and Japan still lead in global performance**
- **Europe's STOXX 600 holds to a bull trend**
- **DAX and CAC pause in their upward path**
- **Tougher times for the FTSE**
- **Denmark and Brussels lead Europe's indexes**
- **More downside pressure for Brazil's Bovespa**
- **Australia's ASX heads to 5000**

Overview: Trend-line break

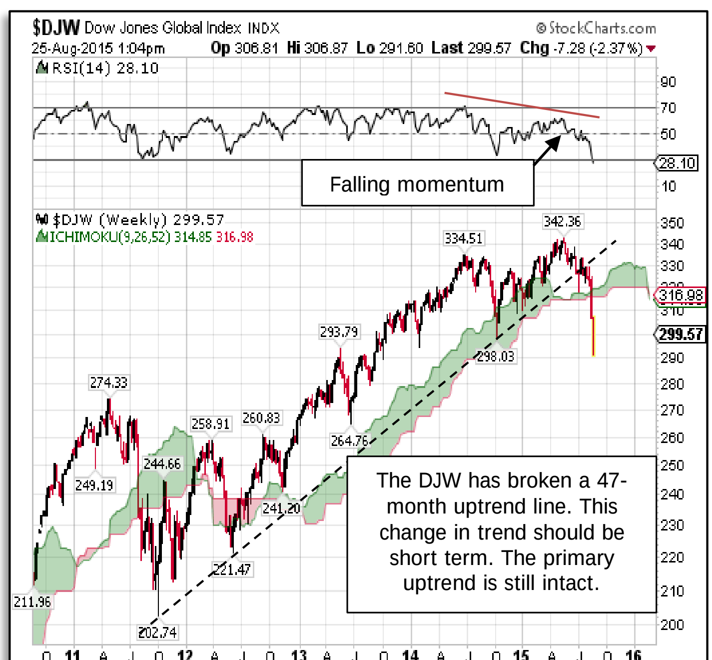

Chart 11

The major trend remains up (new high printed in May), but momentum (RSI) continues to drop and is now oversold. The May high was not met with a new high in momentum (RSI), and negative divergence has developed. We are expecting some short-term stalling for the Dow Jones Global World Index (DJW), with a downside target of 290 to 295.

Bottom line: This weakness is short term and does not change the long-term upward trend. The Q1 target is 360 (see **Chart 11**).

World markets ex-US: Backfilling

A downward-sloping channel on the MSCI World Stock Index ex-US suggests more short-term weakness, down to the 1650 base. We suspect that this weakness will carry into October. Stay on the sidelines for now. Wait for a topside breakout (close above 1925) before adding to positions (see **Chart 12**).

Chart 12

World markets: India and Japan lead

In global index performance over the last 90 days, Asian indexes once again took the top-performer spots.

Japan's Nikkei and India's BSE came in with the best negative score (-3.86% and -6.25%, respectively). The S&P 500 comes in at number three, with -8.14. We expect Asian indexes to continue to dominate in global performance to year-end (see **Chart 13**).

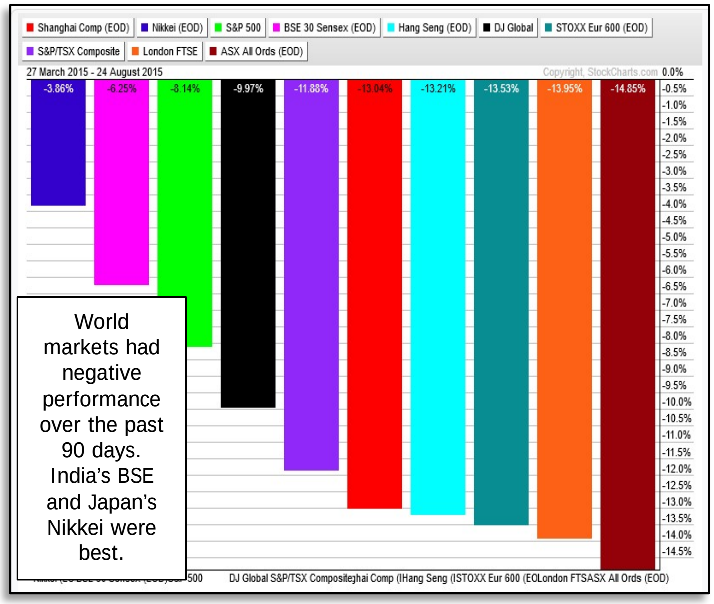

Chart 13

China: Trend line break

China's Shanghai broke through the 50-week m/a with a sharp decline in momentum (RSI). There are two support marks that we are now watching: the 3100 support level (3100 is a 40% retracement), and the 2600 level (a 50% retracement). Both are in the cloud support zone.

We believe that the correction is not finished, and that there is more shakeout ahead. Stay on the sidelines for now (see **Chart 14**).

Nikkei: Nearing target

The strong upward trend continues, momentum (RSI) remains in the bullish zone, and the index is well above the cloud support zone and appears to be rebounding off of the 50-week m/a. We see no reason why the Nikkei will not reach our target of 21,500. Continue to hold (see **Chart 15**).

South Korea: Bottom of the base

Key support line of 1900 break; momentum (RSI) is now oversold. Look for a reaction bounce at the 1800 level. Wait on the sidelines for confirmation of the rebound, or move on to a more promising security (see **Chart 16** on page 6).

Chart 14

Chart 15

India: Important junction

India's Bombay Stock Exchange is at an important junction. Although point-and-figure (P&F) models point to a rebound above 29,000, we suspect that more flat-to-down trading is coming. Wait on the sidelines until 29,000 is met (see **Chart 17** on page 6).

Chart 16

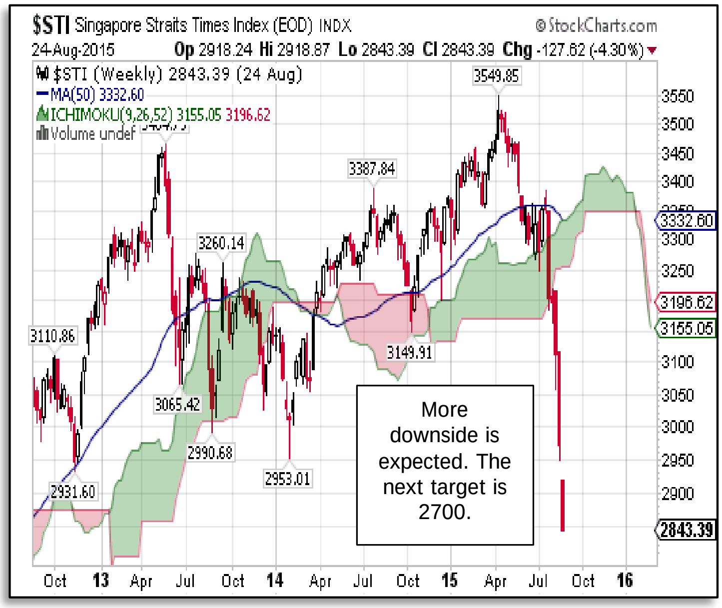

Chart 18

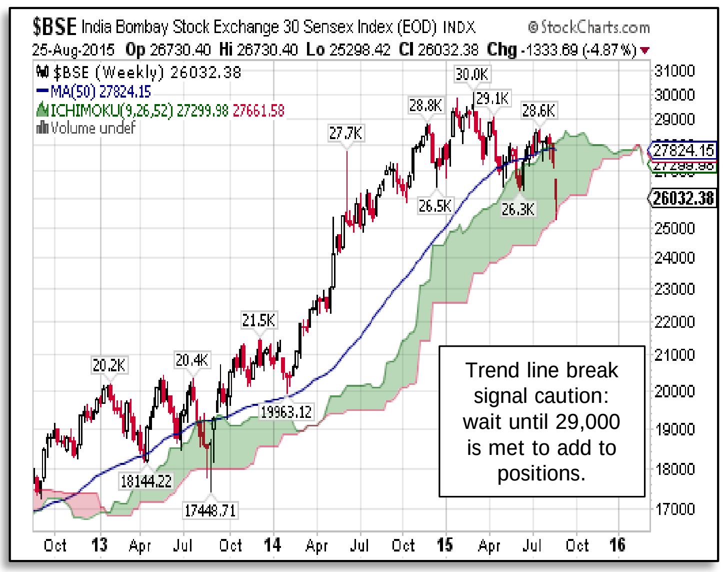

Chart 17

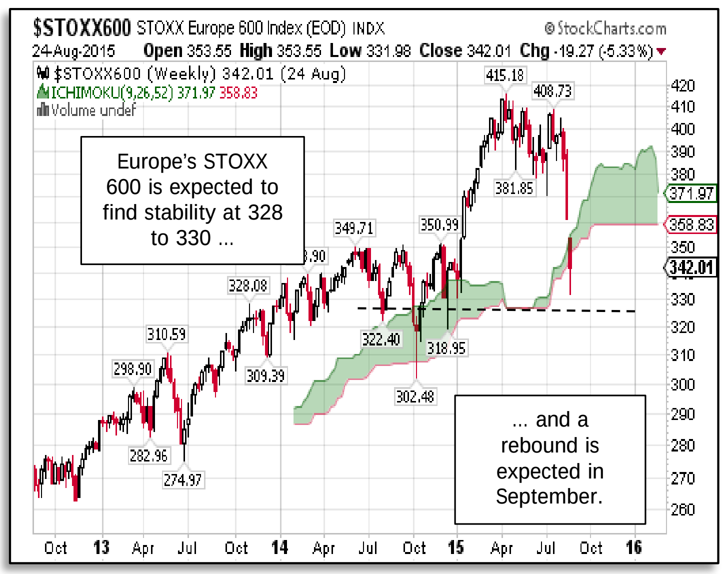

Chart 19

Singapore: Down to 2700

Recent violation of the 50-week m/,a and the crossing of the cloud support zone have pointed the index toward the bottom of the range. Stay on the sidelines. Wait for a confirmation of support at the bottom (see **Chart 18**).

Europe: Upward trend continues

The primary trend is higher, but a brief pullback is unfolding, down to 328 to 330. Momentum is almost oversold. The current retest of the cloud support zone is an important level. Wait for a breakout above 410 before adding to positions (see **Chart 19**). The target remains 420.

Germany's DAX: Drifting lower

The index is drifting lower and has violated the 50-week m/a. Wait for a topside breakout above 12,000 before adding to positions, as we feel that the DAX is still in a bull trend. This pullback is likely going to be brief (see **Chart 20** on page 7).

CAC: Consolidation

France's CAC Index is consolidating near the resistance line of 5200. We that suspect more time is needed before a breakout occurs. Support is at 4400. Add to positions on confirmation of support (see **Chart 21** on page 7).

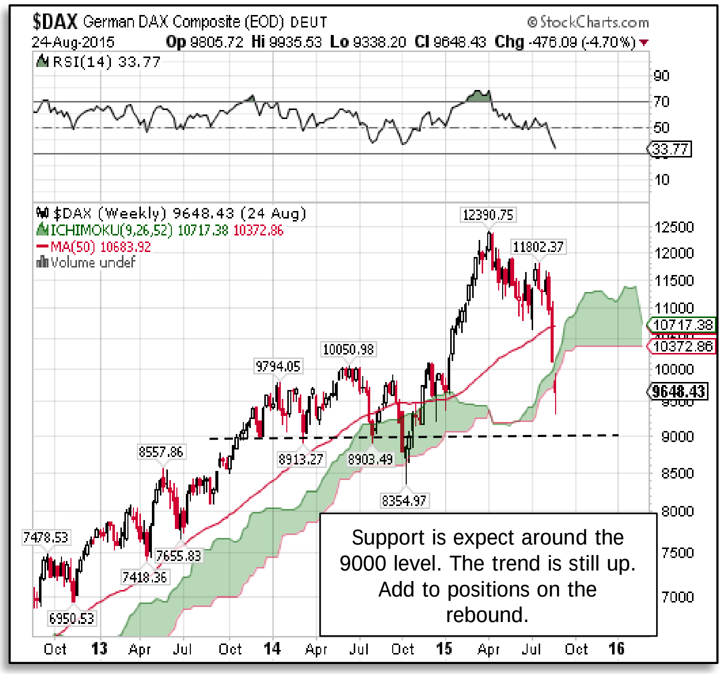

Chart 20

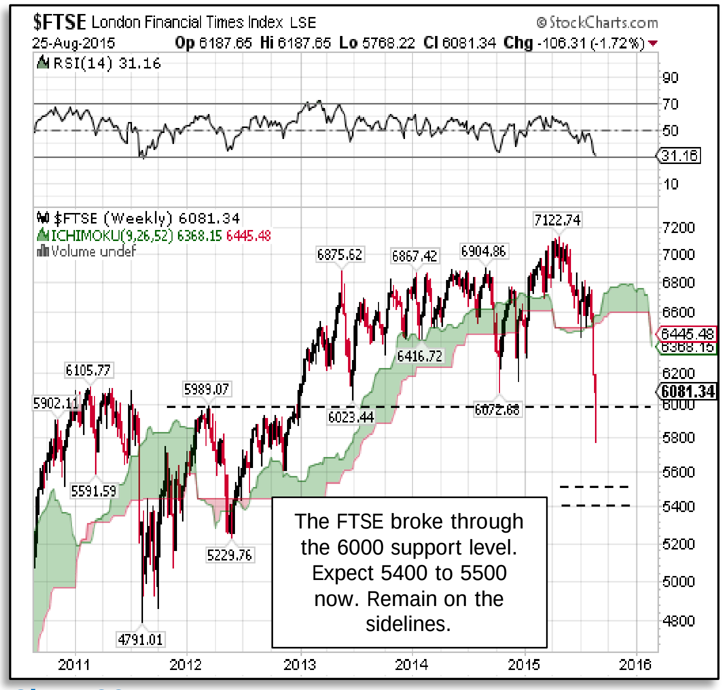

Chart 22

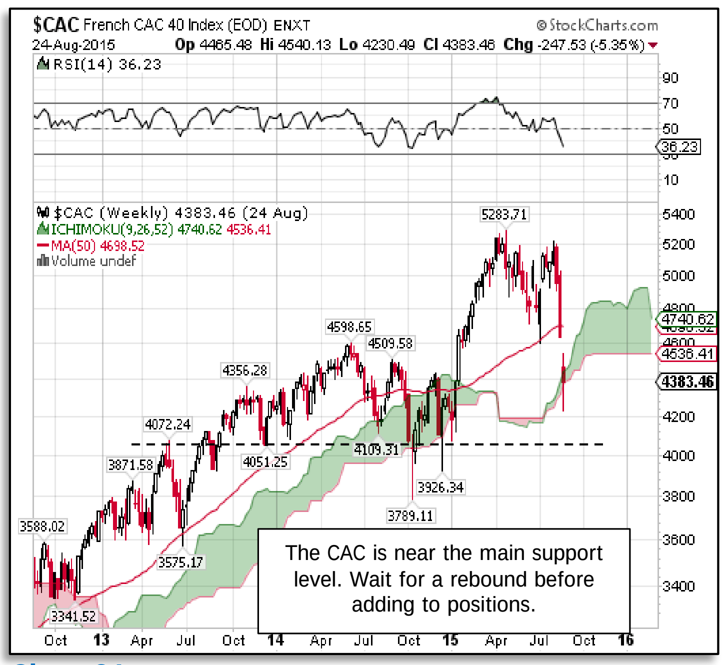

Chart 21

FTSE: Downside break

The UK's FTSE broke out of a broad consolidation in August and is expected to retest the bottom of the range (5400 to 5500). Momentum (RSI) is oversold (below 30). Remain on the sidelines until there is ample proof that the bottom has been found (see **Chart 22**). We believe that this shakeout is not finished.

Denmark: Upward trend

The KFX Index shows a strong upward trend, with higher highs and higher lows, but momentum (RSI) posted a lower level in Q2. We suspect that some profit-taking will occur. The support level is 900. Stay on the sidelines until the shakeout is finished, then add to positions (see **Chart 23**).

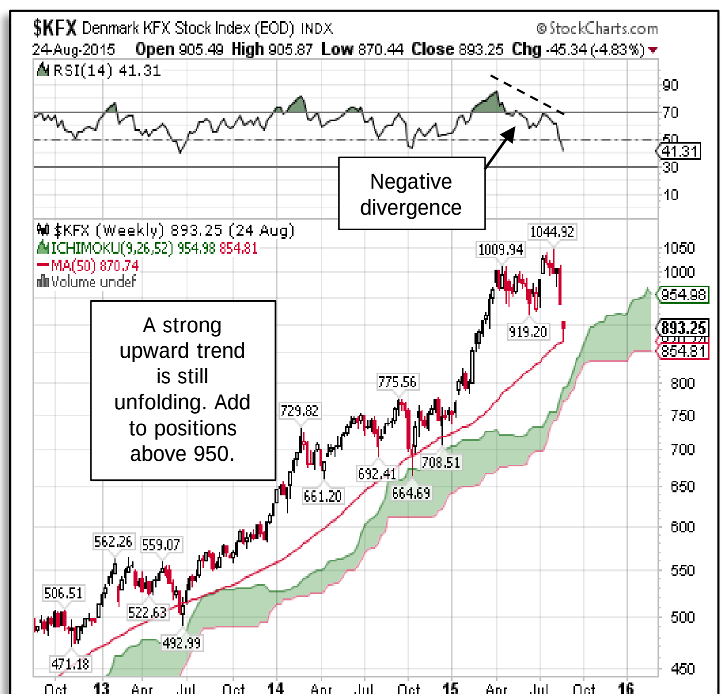

Chart 23

Chart 24

Brussels: Through the 50-week m/a

The Brussels Exchange Index (BEL) has broken the 50-week m/a with negative divergence on the RSI. But the BEL is still in the cloud support zone, and RSI is nearing oversold. We feel that a rebound is likely in the weeks to come. Add to position only at the 3400 level or higher (see **Chart 24**).

Brazil: Retesting the base

With falling oil prices and a short-term correction in global markets, the Bovespa is definitely feeling the pain. With oversold momentum (RSI), expect the index to retest the 44,000 level before a possible rebound can occur. Stay on the sidelines until confirmation of support (see **Chart 25**).

Chart 25

Australia: Rolling over

A break below the 5400-to-5450 support line says lower levels are coming. Momentum (RSI) has also fallen into an oversold reading, but we suspect that support will materialize at the 200-week m/a (5000 level) and take hold. Still, we remain confident that the ASX will move higher after this shakeout is complete. Remain on the sidelines for now. Add to positions only above 5200 (see **Chart 26**).

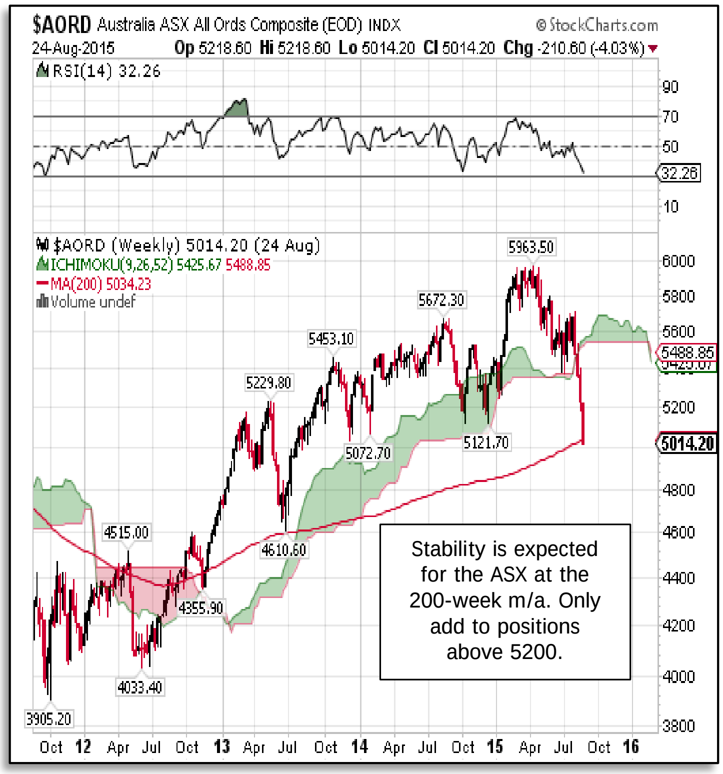

Chart 26

What should investors do?

The flash decline in late August was both a wake-up call and a buying opportunity. Many world markets have advanced steadily over the last few years with few declines. This is unusual, as pullbacks and corrections are part of any bull market. Corrections tend to reset the markets for further advances and allow savvy investors to step back in at more reasonable price levels.

Investors, however, need to be selective when choosing in which market to invest. The next two months (September and October) will likely be challenging, because greater volatility and lower levels are expected for many equity indexes. We suggest that investors look at the strongest-performing indexes that are remaining in an upward trend – such as Japan's Nikkei, Germany's DAX, France's CAC, Denmark's KFX, and Brussels' BEL – and leave the weaker indexes alone for now.

U.S. & Canadian Equities

Slide in September is long overdue

KEY POINTS:

- **Mini-crash in August does not change the ongoing bull trend**
- **NYSE, S&P 500 and the Dow with similar declines to 2010 and 2011, and they all recovered**
- **The TSX holds at 13,000 in climax low**
- **S&P/TSX Venture heads lower, to 495**
- **Sector strength still favours consumer cyclicals, healthcare, technology and financials into 2016**
- **U.S. unemployment is key to the bull trend of the S&P 500; everything still looks good**

U.S. economic overview

- U.S. unemployment holds again to 5.3%.
- Job vacancies continue to climb.
- Annual gross domestic product (GDP) flatlines at 2.90%.
- House construction spending holds at 0.10%, well below the 60-year average of 0.44%.
- Building permits are at a four-year high, but still below the 50-year average.
- New-home sales trend higher to 482,000, but still below the 50-year average of 654,640.
- Housing starts are at the highest level since 2007 and still trending up.
- Business confidence fell to 52.70, which is at the 60-year average of 52.79.
- Oil stocks increased again, to 2.62 million barrels in mid-August.
- Industrial production (IP) flatlined again and is at the same level as it was in 2011.
- Consumer confidence decreased marginally in August to 92.10, which is above the 60-year average of 85.81.
- Personal spending increased marginally to 0.20%, which is below the 50-year average of 0.55%.
- Inflation rate marginally increased to 0.20%, well below the 100-year average of 3.32%.

- **Conclusion: U.S. economic improvement is ongoing but selective. The unemployment rate is a key factor in the Fed's interest-rate decisions. The first rate increase is expected before year-end.**

NYSE: Oversold momentum

The benchmark NYSE index is going through a "pause that refreshes" moment. Momentum (RSI) has posted a negative reading (oversold), and now the index has crossed the cloud support zone. We regard this action as healthy and needed in order for the NYSE to advance in Q4.

We anticipate that this movement will be short term. Support is at 9700. Stay on the sidelines until confirmation of a rebound. Add to positions only above 11,000 (see **Chart 27**).

Chart 27

S&P 500: Broken trend line

A five-year perspective of the S&P 500 yields a Market Volatility Index (VIX) reading comparable to the 2010 and 2011 corrections. Momentum (RSI) has printed an oversold reading and crossed the cloud support zone (similar to 2011). Look for a movement to 1880 before rebounding and reaching our target of 2200 (see **Chart 28** on page 10).

DJIA: Pullback continues

A much-needed minor corrective phase continues to unfold. The volatility index (VXD) still remains below 2011 levels, as momentum (RSI) formed a negative (oversold) reading to the Dow in late August. We suspect that more shakeout lies ahead. Look for 14,700 as the main support level. Stay on the sidelines for now (see **Chart 29**).

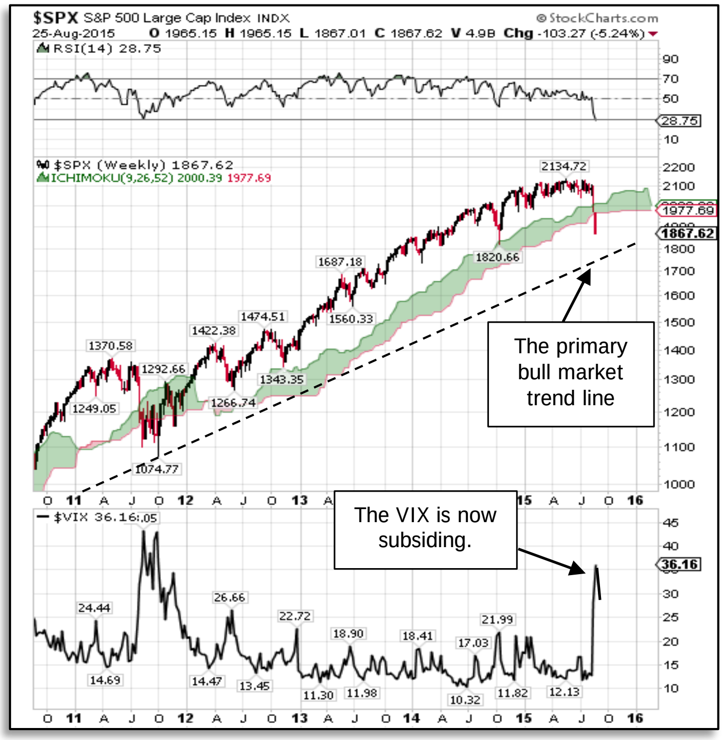

Chart 28

Chart 29

NASDAQ: No major concerns

The primary trend remains up and is displaying no signs of a prolonged correction. A new all-time high in July backs our outlook. Recent weakness suggests a short-term pullback to the cloud support zone. Look for support at 4200 to 4300. Add to positions on confirmation of support (see **Chart 30**).

Chart 30

Russell 2000: Down to 1100

The primary trend is up. Recent price action appears to be just a pullback into the cloud support zone. We suspect that 1100 will provide a base. Wait until there is confirmation of support before adding to positions (see **Chart 31**).

Chart 31

TSX: Climax low

Oils and materials continue to weigh negatively on the TSX. The commodity spillover is also affecting the banks. The near-term expectation of the Fed raising the U.S. interest rate in the next few months will only deepen the outlook for commodities and the TSX. The index has reached our Q3 target of 13,600 (August 2015 issue, page 10) and landed on the main support line of 12,900. We believe that stability will build at this level. Nevertheless, stay on the sidelines for now (see **Chart 32**).

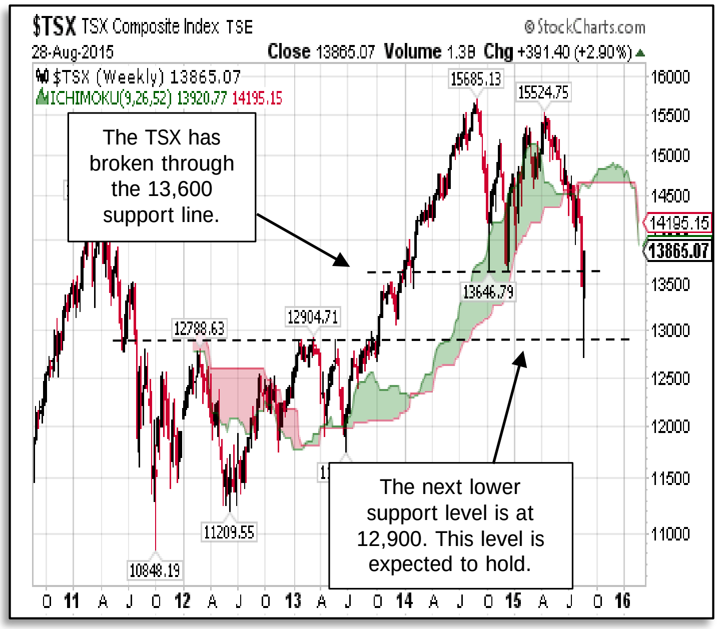

Chart 32

S&P/TSX Venture: No bottom yet

The primary trend remains down, and the Venture remains far below the cloud resistance zone, with an oversold momentum (RSI) reading. The index is now below the 2008/09 level. Continue to avoid: we feel that there is more downside to come. The next target is 495 (see **Chart 33**).

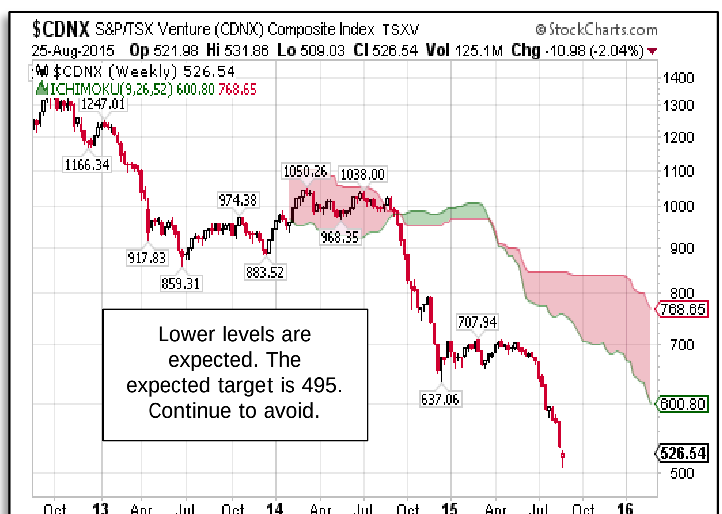

Chart 33

Where is the strength?

Sector performance over the past 90 days for the S&P 500 highlights a slight shift in strength. Utilities (a defensive sector) have advanced to the top in performance. However, the order of the other sectors is largely unchanged. This suggests to us that the bull market is still alive, and that the current market weakness is short term (see **Chart 34**).

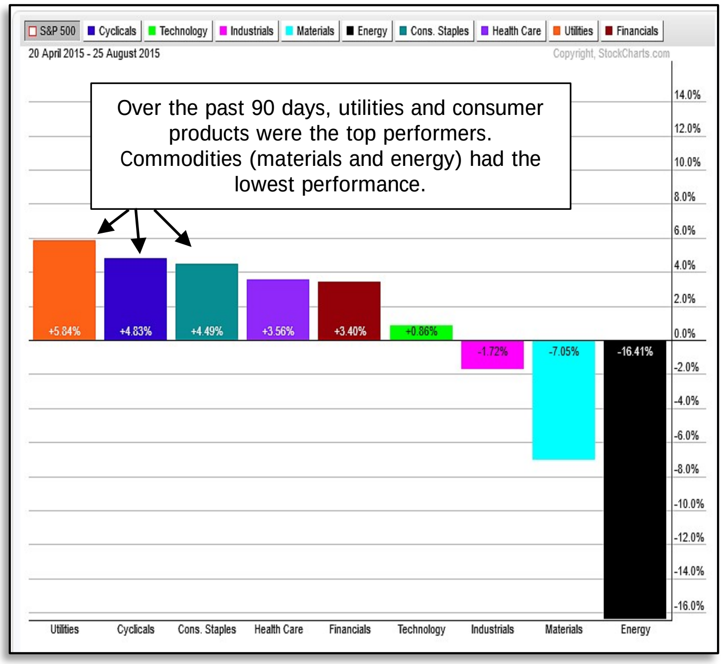

Chart 34

TSX sector performance paints a similar picture, only with more weakness. The defensive consumer staples group had the best 90-day performance, and the commodity sectors (materials and energy) had the lowest (see **Chart 35** on page 12).

Bottom line: We anticipate that there will be few broad changes in the lineup, to year-end and into early 2016.

The best-performing sectors should remain consumer cyclicals and staples, healthcare, technology and financials.

Sector highlight: Utilities

The defensive utilities sector is starting to outperform. A stable upward trend reversal has developed for the S&P utilities sector and for several select Canadian utility stocks.

WEC Energy Group Inc. (**WEC**) is in a pattern of higher highs and higher lows, the Moving Average Convergence/Divergence (MACD) crossover is positive, and the P&F breakout in mid-August points to $63. Buy around $44 to $46 (see **Chart 36** on page 12).

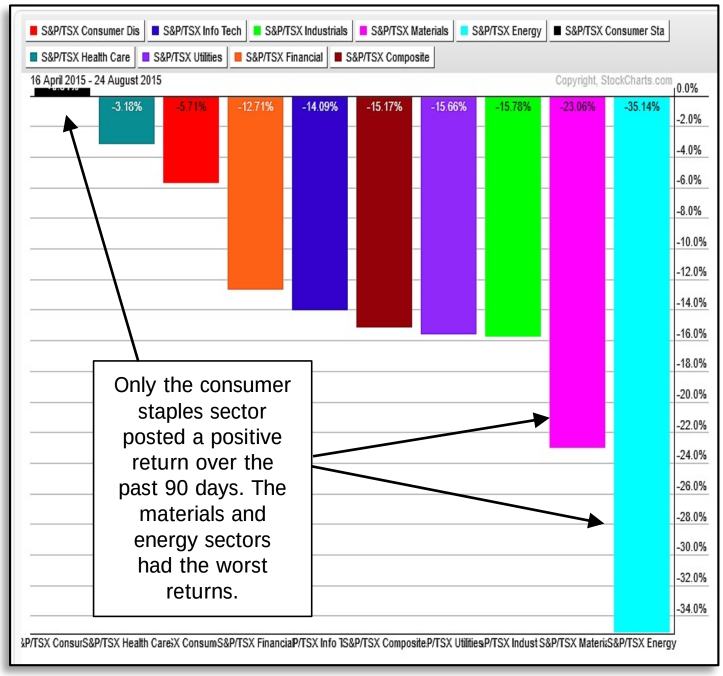

Chart 35

Chart 37

Chart 36

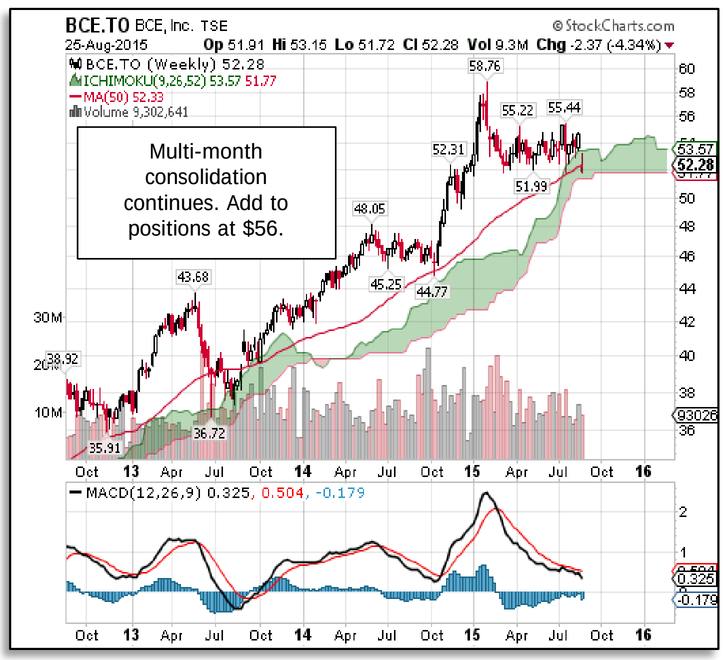

Chart 38

Edison Int'l. Inc. (**EIX**) is successfully rebounding off of the $56 support level with a rising momentum (RSI) reading and a promising MACD crossover. The target is $68 (see **Chart 37**).

A multi-month consolidation for BCE Inc. (**BCE**) is still developing: a near-term bullish MACD crossover is expected this month. Bouncing off of the 50-week m/a suggests higher levels in Q4. More backfilling coming. Add to positions above $56 (see **Chart 38**).

A topside breakout is expected for Algonquin Power & Utilities Corp. (**AQN**) above $10. A near-term positive MACD crossover looms in early Q4, and a positive P&F pointing to $11.00 suggests that an upside move is coming. Add to positions above $10 (**Chart 39** on page 13).

S&P 500 consumer sector

The post-commodity cycle (2000 to 2011) group continues

Chart 39

to print new highs, and momentum (RSI) remains in the bullish band, but negative divergence developed in 2015. Suspect some near-term weakness. Add to positions on confirmation of support (see **Chart 40**).

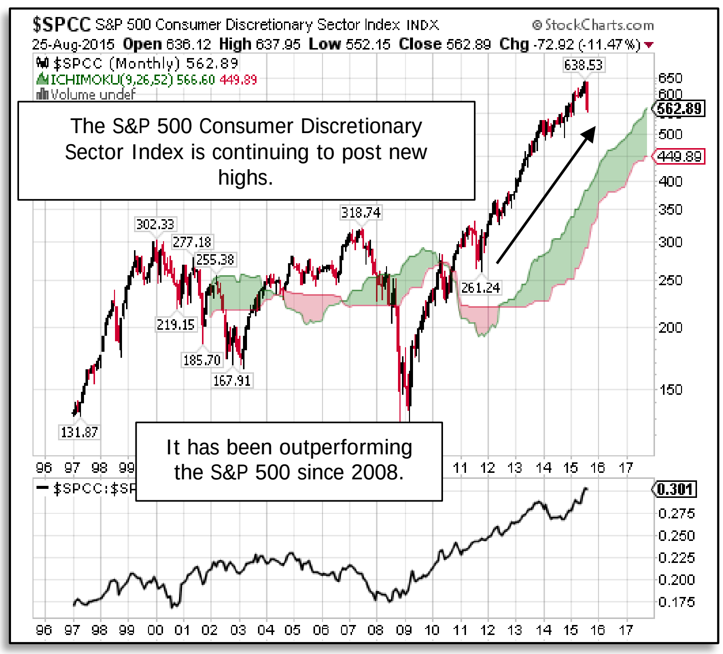

Chart 40

S&P 500 healthcare sector

A strong upward trend post-commodity cycle (2000 to 2011) here, with new all-time highs and a strong overbought momentum (RSI). This sector has been outperforming the benchmark S&P 500 since 2012. Use any weakness to add to positions – more upside lies ahead (see **Chart 41**).

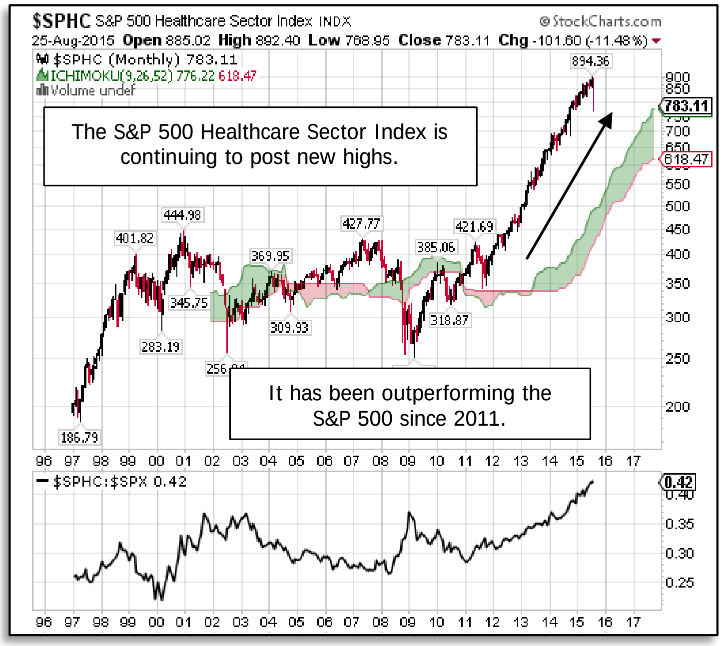

Chart 41

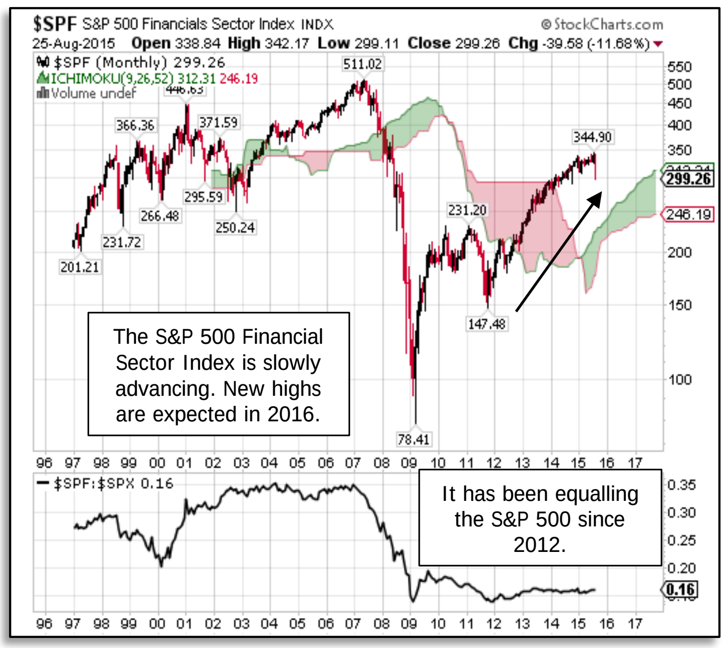

Chart 42

S&P 500 financial sector

There has been a mild upward trend reversal since 2013, and similar performance to the S&P 500 since 2012. Momentum (RSI) signals a negative divergence. We suspect that some near-term weakness lies ahead. Add to positions on confirmation of support (see **Chart 42**).

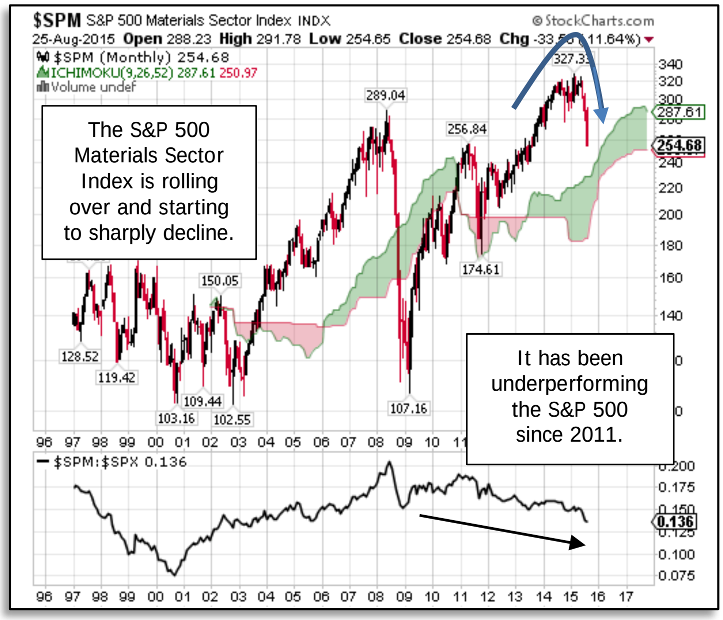

Chart 43

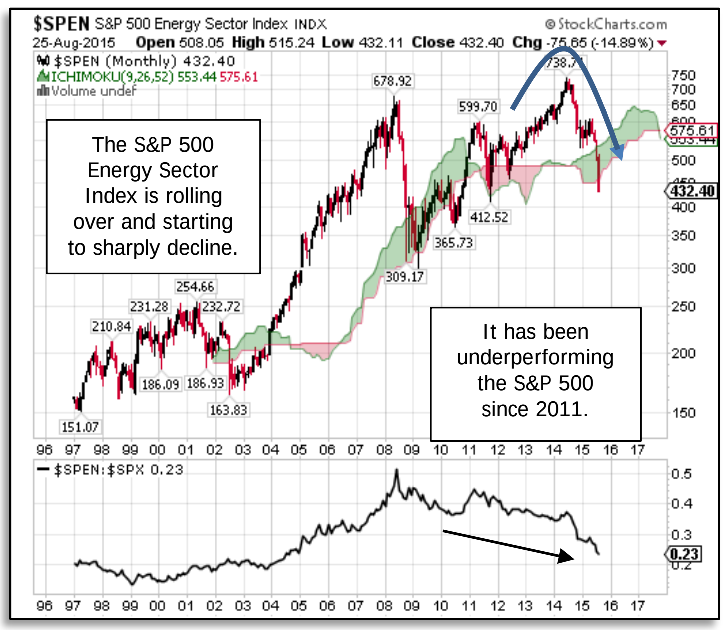

Chart 44

S&P 500 materials sector

There was a new topside high in early 2015, but a new corrective phase is underway. Falling momentum (RSI) plus underperformance to the S&P 500 since 2011 suggest more downside to come. Wait on the sidelines. The corrective phase is likely long-lasting (see **Chart 43**).

S&P 500 energy sector

This free-falling sector has violated the 2009-to-2014 upward trend, and momentum (RSI) is nearing an oversold level, suggesting a relief bounce. It has underperformed the benchmark S&P 500 since 2009. We suspect that further shakeout lies ahead. Use any relief bounce to reduce positions (see **Chart 44**).

U. S. Unemployment & S&P 500

Comparing charts suggests that the current pullback of the S&P 500 will be short-term in duration. Unemployment continues to decline, implying that the equity index has more upside room to go (see **Chart 45**).

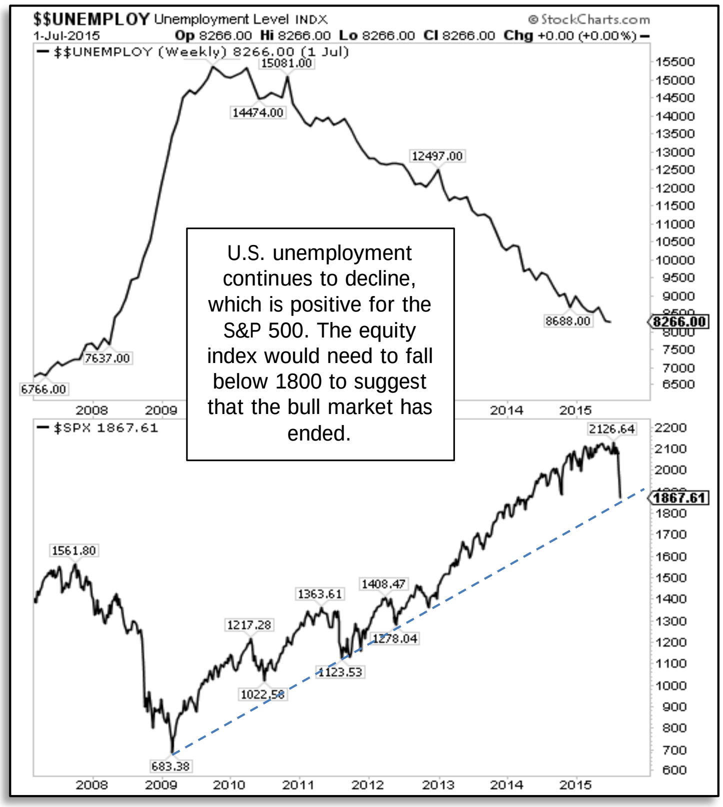

Chart 45

NYSE A/D: Troubling indexes

The Advance/Decline (A/D) Line is giving a downside trend break for the first time since the bull market began in 2009. The New Highs/New Lows Index is also beginning to break its 66-month upward trend line. This suggests that the current correction has more room to run. Although the two indexes slightly lag the NYSE Composite, the trend reversal is troubling and requires more monitoring (see **Chart 46** on page 15).

What should investors do?

The markets appear to be starting a much-needed pullback. U.S markets, in particular, are showing the greatest strength, largely due to their low commodity exposure. They should start to strengthen again as Q4 unfolds.

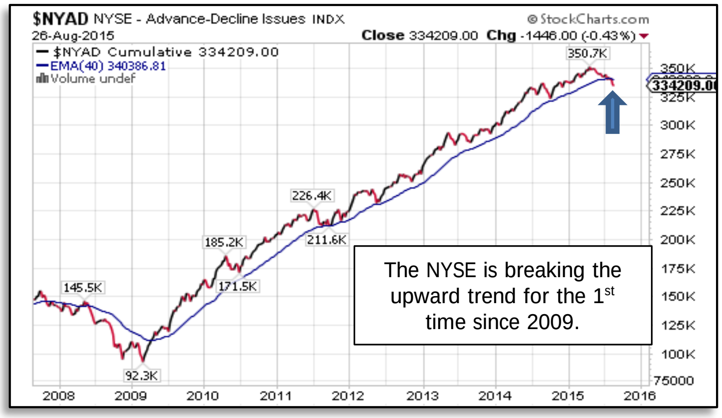

Chart 46

The TSX is still in a free-fall, but we believe that it is approaching the bottom. The target is 13,300.

We continually stress staying with the strongest-performing sectors and ignoring the temptation to bottom-fish commodities.

Consumer products, both discretionary and staples, are a constant top-performing sector. Healthcare is another outstanding group.

We suspect that this brief correction will continue over the next one to two months and provide some good buying opportunity for long-term investors.

Be patient. There is a long bull market ahead.

Final bell

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Six to 12-month projections and targets – September 2015

Security	Outlook	Date outlook was established	Target	Current price level
S&P 500	**No concerns. Higher levels into Q4.**	March 15/15	2200	1972 ↑
TSX	Very slow recovery expect. Revising year-end target lower.	August 28/15	15,250	13,859 ↑
U.S. dollar	**U.S. economy picks-up. Slow rise begins. Back to par.**	March 5/15	$1.00	$0.959 ↑
Dow Jones Industrial Average	**Long term upward trend still intact. Recovery rebound.**	July 30/15	19,000	176,528 ↑
Euro	US$ rebounds, moves the Euro lower. Resistance at $115.	April 20/15	$1.05	$1.12 ↓
Gold	Downward trend continues. New low in August. Heading lower in Q4.	October 23/14	$1,050	$1,133 ↓
Global markets	**Rebound in September. Lowering year-end target**	April 20/14	DJW to 335	306.09 ↑
WTIC	Rebounding off $40 level. Staying between $40-$60 into 2016.	August 28/15	$40-$60	$48.16 →
Natural gas	Retesting the 2015 base levels. Staying under $3.00.	April 4/15	$2.00-$2.25	$2.69 ↓
CRB	Downward trend continues into 2015. 181.83 is the new target.	August 15/15	181.83	202.09 ↓
VIX	Low volatility expected in 2015. Mostly sub-18 level.	March 15/15	Under 18.0	18.26
ASX	Short-term pullback; down to 5200. Higher levels by year-end.	March 20/15	6,000	5,222 ↑
U.S. 10-year T-Bond Yields	Slow rebound in yields as markets advance in 2015.	March 15/15	2.90%	2.21% ↑