T3 – Trends, Tactics & Timing

30 June 2020 l Monthly Report l Major Macro Markets (MMM)

Own Gold, Sell Equities

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the technical analyst AWARDS 2020 WINNER

Executive Summary

Ranking Model: Strategic, Tactical & Active Trends

% Trend Deviation: > 5% | 0-5% | - 0-5% | <-5%

Feature media interview:
"Echoes of the 1929 crash"

Ranking: LT Strategic Trend (%200-day average)

	STRATEGIC (LT)	TACTICAL (MT)	ACTIVE (ST)
1	GOLD	OIL	COPPER
	COPPER	COPPER	INDIA
	JAPAN	INDIA	GOLD
	CHINA	JAPAN	CHINA
2	EURUSD	FRANCE	FRANCE
	SWITZERLAND	GERMANY	OIL
	USA	AUSTRALIA	JAPAN
	GERMANY	CHINA	SWITZERLAND
	WORLD	EUROPE	EURUSD
3	GBPUSD	GOLD	AUSTRALIA
	INDIA	WORLD	EUROPE
	CANADA	SWITZERLAND	UK
	EUROPE	UK	GERMANY
	AUSTRALIA	EURUSD	GBPUSD
4	FRANCE	USA	CANADA
	UK	CANADA	WORLD
	OIL	GBPUSD	USA

❑ **Equities** – **Japan** and **China** remain the strongest equity markets, based on their long-term trends, with the latter approaching roundaphobia at 3000. **India** outperforms on short-term trend proxies.

USA has dropped in relative terms, to the bottom of the same list. All markets remain under pressure into their pandemic breakaway gaps, following an interim cycle signal on 8th June +/- 2/3 days.

❑ **Commodities** – **Gold** reversed higher, triggering a minor new high breakout from its prior 2-month trading range. Expect a resumption of its long-term uptrend into old price resistance around $1800.

Copper ranks high across all three trend measures, but remains temporarily capped under its June peak at 2.70, as part of its 78.6% retracement. **Oil** is losing short-term trend momentum into his prior breakaway gap at 41.05-36.05 and is still weighed by contango futures pricing.

❑ **G3 FX** – **EUR/USD's** sharp reversal now targets immediate support zone between 1.1170/50. **GBP/USD** underperforms, after falling back into its 3-month long trading range between 1.2650 and 1.2075. **USD/JPY** remains flat, near its long-term 200-day average.

Archive Reports	Media Interviews	Educational Material
Equity market crash: What next?	Is the Big Cycle About to Turn?	Seeking Alpha in a VUCA World
Bullion Breakout	EUR/USD Parity Risk	Value of TA
The Big Bond Bear	Black Gold, Black Swan: Is Negative the new normal?	Trading Psychology
		Behavioral Mistakes

T3 Contents

Rolling W-shape retest ahead?

Many within the investment community have been impressed by the strong post-crash rally across key equity markets. They talk about the market recovery as though things were good and mean-reverting back to “normal’. This is not the case at all. **Rallies of this type only ever take place just after a crash,** even as impressive at this latest one. In fact, what seems to be happening is the realisation that things are not as bad as had originally been thought. You are still always in loss making territory. The rise is not bullish, but only seen to be relatively less bad. **It’s an ugly but thrilling beauty contest of asymmetric risk and diminishing reward.**

“Irrational exuberance” - a key ingredient to the anatomy of a bubble, is now also building up. Speculative hot money is contributing at the margin. Fuelled by an idealistic bounce-back reaction from the pandemic led shutdown, comforted by central banks supplying an unprecedented amount of liquidity. **Mainstream rhetoric is behaviourally conditioned not to “fight the Fed”,** while traders remain seduced by mantras of “the [v-shaped] trend is your friend”. Technically, we prefer to let the market decide. In terms of S&P500, 3000 will continue to serve as a make-or-break price level (Fig 1), with risk to 2800 (value zone) and a **rolling W-shape retest of the crash lows.**

Fig 1. S&P500 daily chart, time factor & momentum indicators.

The Roadmap cycle: stage Y

Most of the buying is by the Fed, corporate buybacks and the public, but not the big institutions. In fact, **liquidity flows have been exhibiting dramatic short-covering during the entire recovery**, now verging at 9-year historic lows (Fig 2). This warns of a late stage "Minsky moment", disguised by profit-taking, as smart money heeds the signs and sells positions, or re-hedges, to preserve capital. **Our signature roadmap cycle marks this as part of a 3-stage process, not an event** (Fig 3). A crash-fall (W-X), rally (X-Y), followed by rest of the fall (Y-Z). S&P500's 80% post-crash rally is larger than average and therefore offers a **greater asymmetric downside risk.**

Global breadth also remain polarised. In the US there are seven stocks which dominate the Nasdaq index. This can easily go to a new high, but remains divergent from the broad-based S&P500 & psychological bell-weather Dow Jones Index. This also reflects growing perception of the damage to the global economy and the US economy that has already been done. The hit is so bad that the **only period of history to compare to it is what happened between 1929 and 1933.** The chart analogue from this period continues to serve as a viable roadmap. History does not repeat in exactly the same way, but will likely rhyme in terms of price and time patterns. Market historians should recall the **1929 false V-shape recovery of 51%, before its violent 86% down wave in 1930-32** (Fig 3).

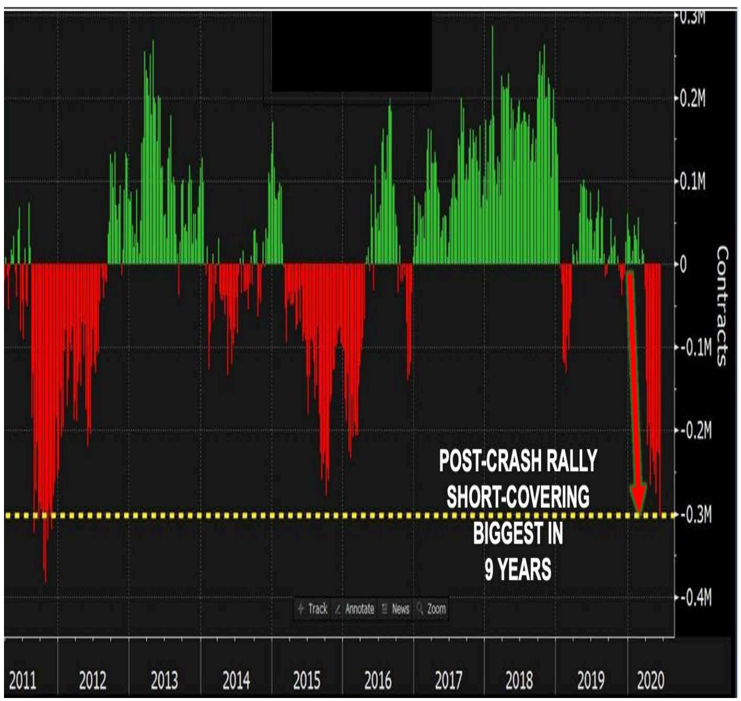


Fig 2. CFTC net shorts lowest in 9 years

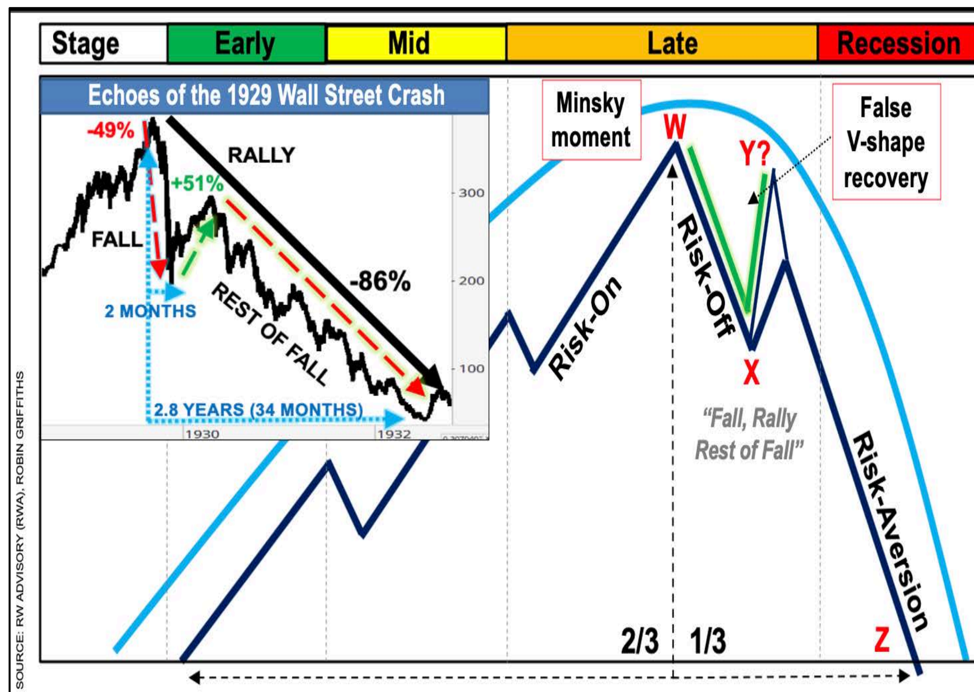


Fig 3. Investment Roadmap Cycle

Don't fight the Fed, or the pandemic gap

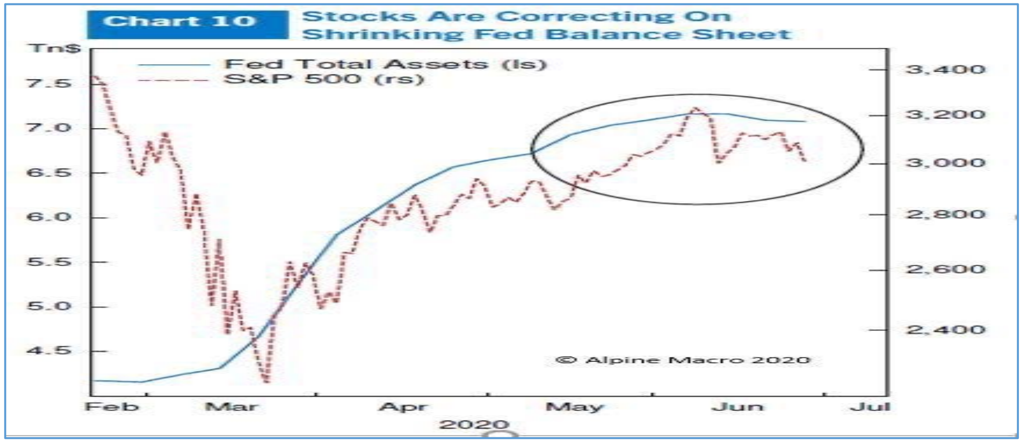


Fig 4. Stock market correction weighed by shrinking Fed balance sheet. Source. Alpine Macro.

Fig 5. Pandemic gap across key markets; Germany, Japan, India & China

At some point, and possibly right now the market will break down. When this occurs gold prices will rise, as a hedge. The **gold chart is already making a new marginal breakout upwards.** So be aware that the stock market can fail soon. Looking back at the S&P500 chart, it shows the rally phase has completed a five wave, W-cycle peak (Fig 3). It is likely done. Expect a breakdown.

The only reason for it to go the other way is because the Fed is printing money. **Although, even this has recently lost momentum, during the recent shrinking balance sheet** (Fig 1). Even so, the previous QE injection from the March crash lows is enormous. Many people think this has to be positive.

However, we read Mr. Lacy Hunt, who has consistently been correct on this debate. **The velocity of circulation of the money goes to zero.** It will not work this time. This is made even worse by the zombification of certain industries and companies. **While the Fed can influence liquidity, it has little power over insolvency.**

Meantime, a confluence of technical, seasonal and political factors are all turning negative. Technically, **several global markets have carved out interim tops during the month of June, ahead of their pandemic breakaway gaps** (Fig 5). These behavioural pressure zones can be found across the USA-S&P500 (3260-3330), Germany's DAX (13501-13237), Japan's Nikkei (23378-22950), India's Nifty 50 (35262-34769) and China's Shanghai Composite (3029-3010).

Presidential cycle risk, weakened by polls

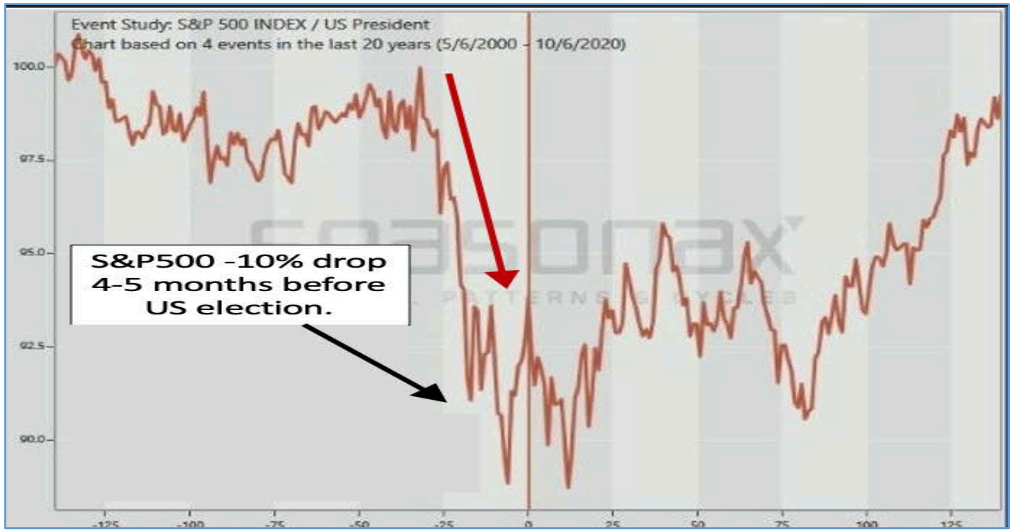


Fig 6. S&P500 performance 4-5 month before US election

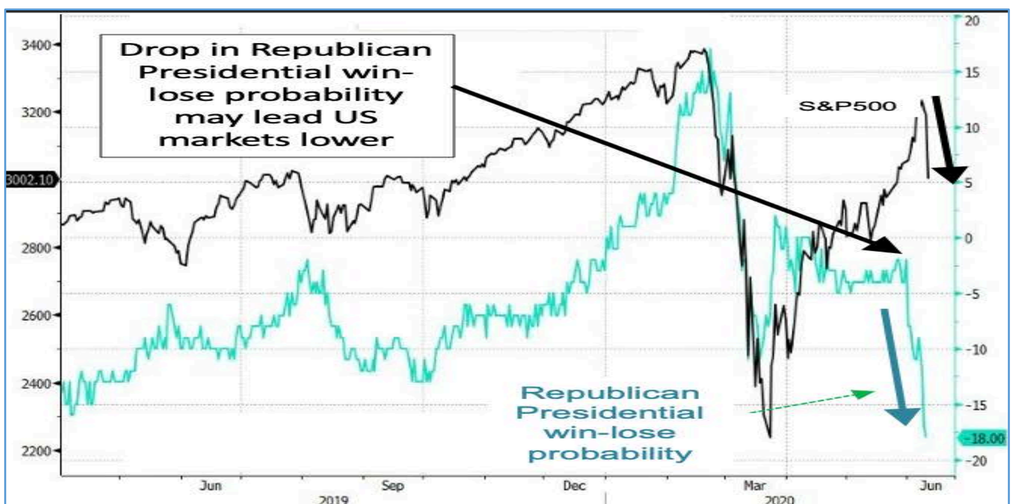


Fig 7. Republication Presidential win-lose probability and S&P500 Index

The market's price exhaustion also coincides with a recent short-term cycle on 8th June +/- 2/3 days. This might help to compress the traditional seasonality pattern of a mid-summer rally (in July), to flat, or weak momentum, triggering a potential peak-crash signature from August, into September-October.

This period also coincides with our political cycles which exhibit an **average downturn of -10% during 4-5 month lead of a presidential election** (Fig 6) Downside risk is further amplified this year by the **drop in Republican Presidential win-lose probability,** which is already pressuring the markets lower (Fig 7).

President Trump was at a high in popularity before the disease hit. He then rallied with the market. However, he has now made mistakes and the big one is in defending police and white power when the rest of the world is pivoting further to black lives matter.

His opponent don't need to speak. Mr Trump talks and digs himself a deeper hole to fall into. For all these reasons, technical, seasonal and political, we wish to be out of equities right now. The upside is small and the downside huge. **Own Gold, sell equities.**

Major Macro Markets

Technical Set-ups, Trend Filters & Dynamic Risk Levels

Fig 8. Gann Swing Chart (DAILY), with Parabolic Risk Filters and Dynamic Trend Regression.

Equities

World, USA, UK, Germany, Japan, India, China

World: Bullish momentum capped under 353-355

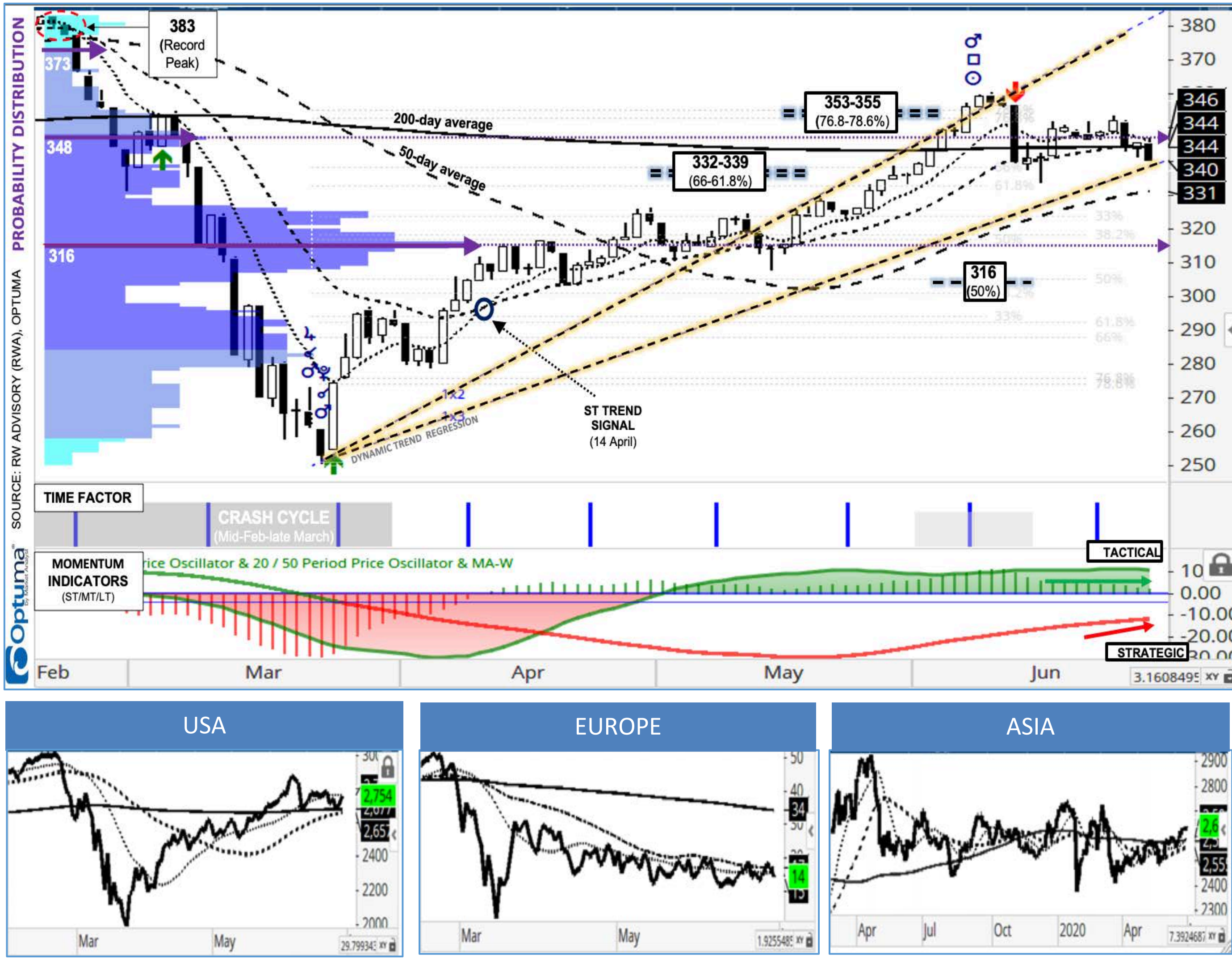


Fig 9. World Index daily chart, time factor & momentum indicators, Relative world charts.

ROADMAP OUTLOOK

ACTIVE	TACTICAL	STRATEGIC

Short & medium-term outlook remains positive, but is losing momentum, after a recent interim cycle on 8th June +/- 2/3 days.

Resistance at 355-353 (76.8-78.6% Fib) and 373 (value level).

Support at 331-339 (66-61.8% Fib & 50-day average). Only below here triggers a correction into 316 (50% Fib).

Risk level: Below 332 is negative for 316 & 300.

Relative performance: USA leads, with Asia rangebound and Europe developing a negative trend.

USA: Cycle reversal targets 3000, with risk to 2800.

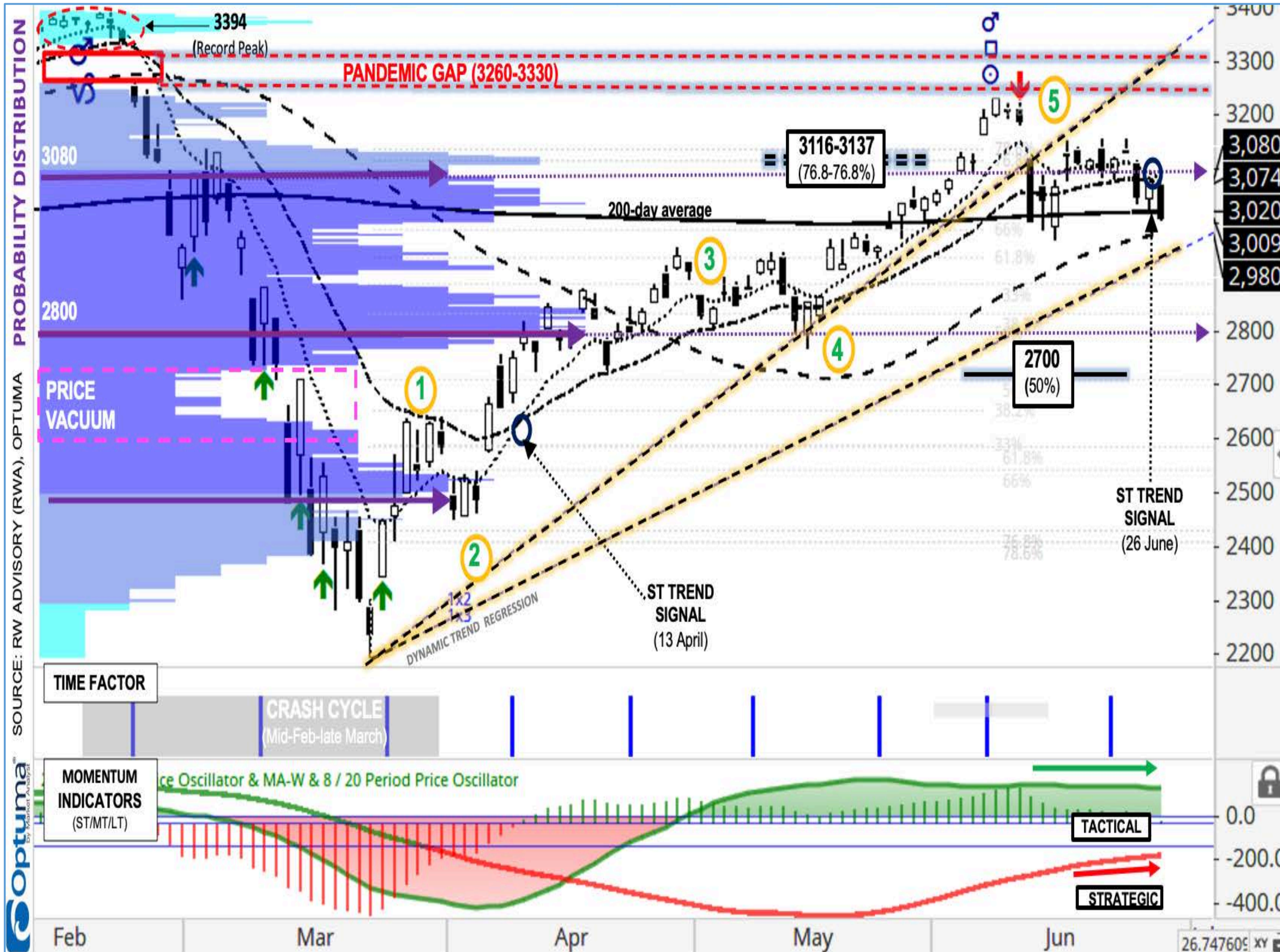


Fig 10. S&P500 daily chart, time factor & momentum indicators.

ROADMAP OUTLOOK

ACTIVE	TACTICAL	STRATEGIC

Short & medium-term outlook is neutral, after the latest cycle reversal, weighed by the pandemic gap (3260-3330).

Failure to maintain gains above 3116-3137 (76.8-78.6% Fib) will risk a sharp correction back under the all-important psychological level at 3000, then 2800.

This would be in-line with our bear-market roadmap of a 3-stage process. Fall, rally & rest of fall.

See media interview link for further details on our big picture cycle outlook.

Risk level: Below 3000 is negative for 2800.

UK: Reversing back into psych level at 6000.

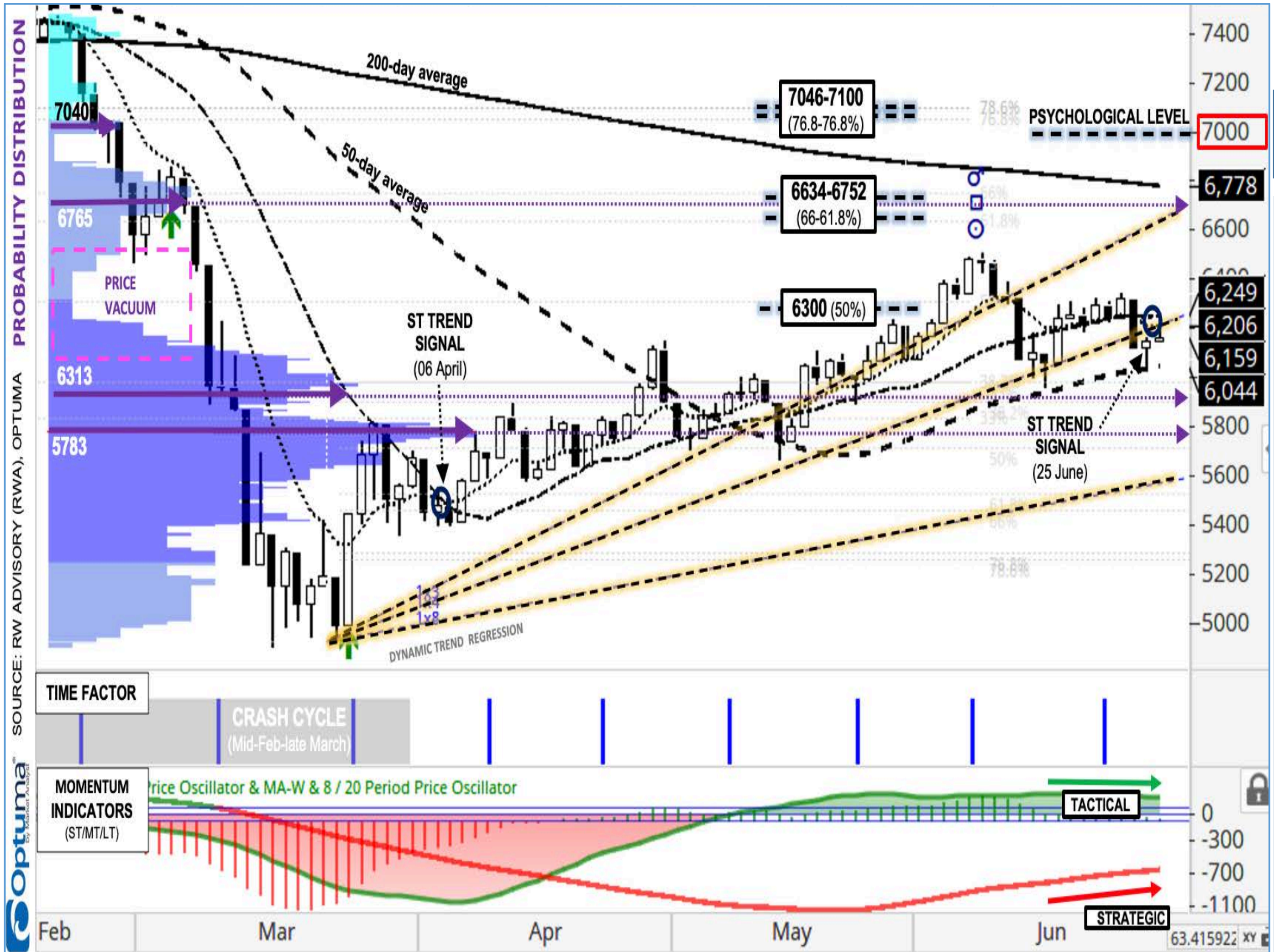


Fig 11. FTSE100 daily chart, time factor & momentum indicators.

ROADMAP OUTLOOK

ACTIVE	TACTICAL	STRATEGIC

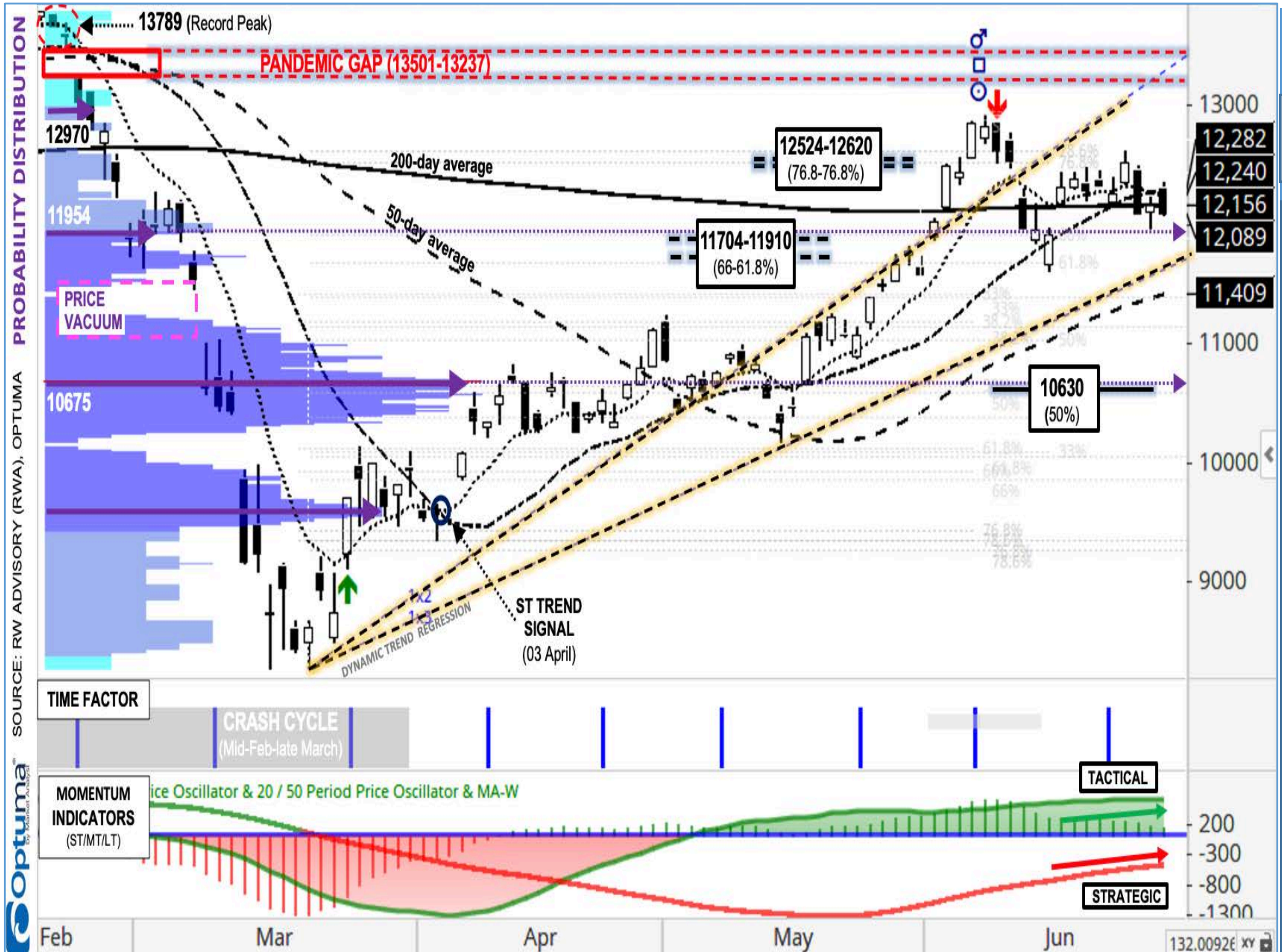
Short & medium-term outlook is neutral, after failing into 50% quantum price level at 6300.

As previously stated, this level served as a technical make-or-break area. Failure here now unlocks corrective weakness back into 6000 and 5783.

Only a move back above 6300 will resume the uptrend into 6634-6752 (61.8%-66% Fib), near the long-term falling 200-day average at 6778.

Risk level: Below 6300 is negative for 5783.

Germany: Capped under resistance zone (12524-12620).



ROADMAP OUTLOOK

ACTIVE	TACTICAL	STRATEGIC

Short & medium-term outlook has turned neutral, after failing into price zone (12524-12620).

This serves as a technical make-or-break area. Further gains above this area extend into final resistance at 12970, onto the old peak level of 13789.

Failure under 12524 will unlock corrective weakness back into 11954 (value level) & 11704-11910 (66-61.8% Fib).

Risk level: Below 12524 is negative for 10675.

Fig 12. DAX daily chart, time factor & momentum indicators.

Japan: Pandemic gap weighs (23378-22950).

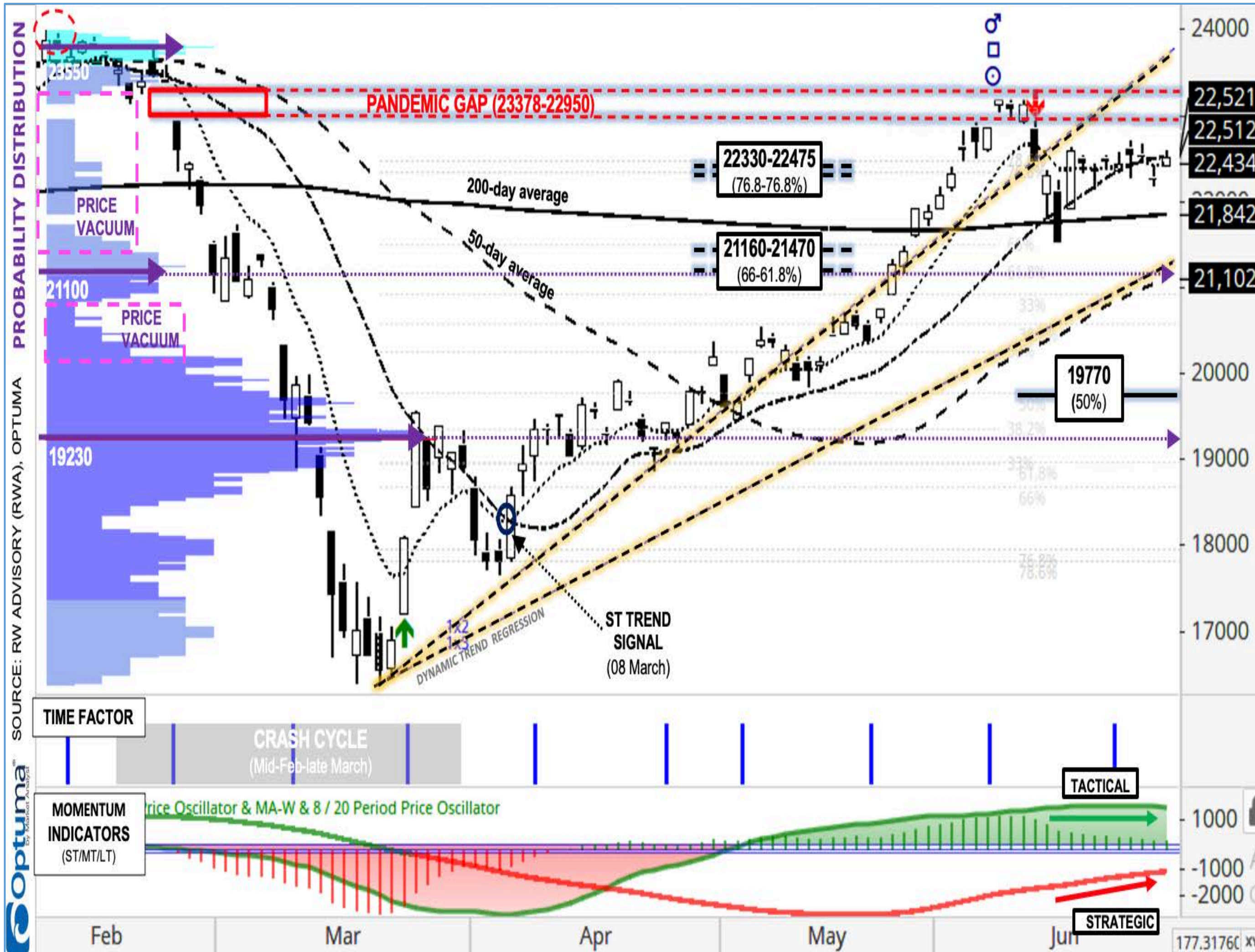


Fig 13. Nikkei daily chart, time factor & momentum indicators.

ROADMAP OUTLOOK

ACTIVE	TACTICAL	STRATEGIC

Short & medium-term outlook is neutral, after failing under key price zone (22330-22475) and pandemic gap (23378-22950).

Expect sharp corrective weakness back into 21160-21470 (66-61.8% Fib) & 21100 (value level).

Only a move back above 22330 will offer another challenge of 23378, onto peak levels of 23995-24036.

Risk level: Below 21530 is negative for psych level at 20000 and 19770 (50%).

India: Overhead resistance.

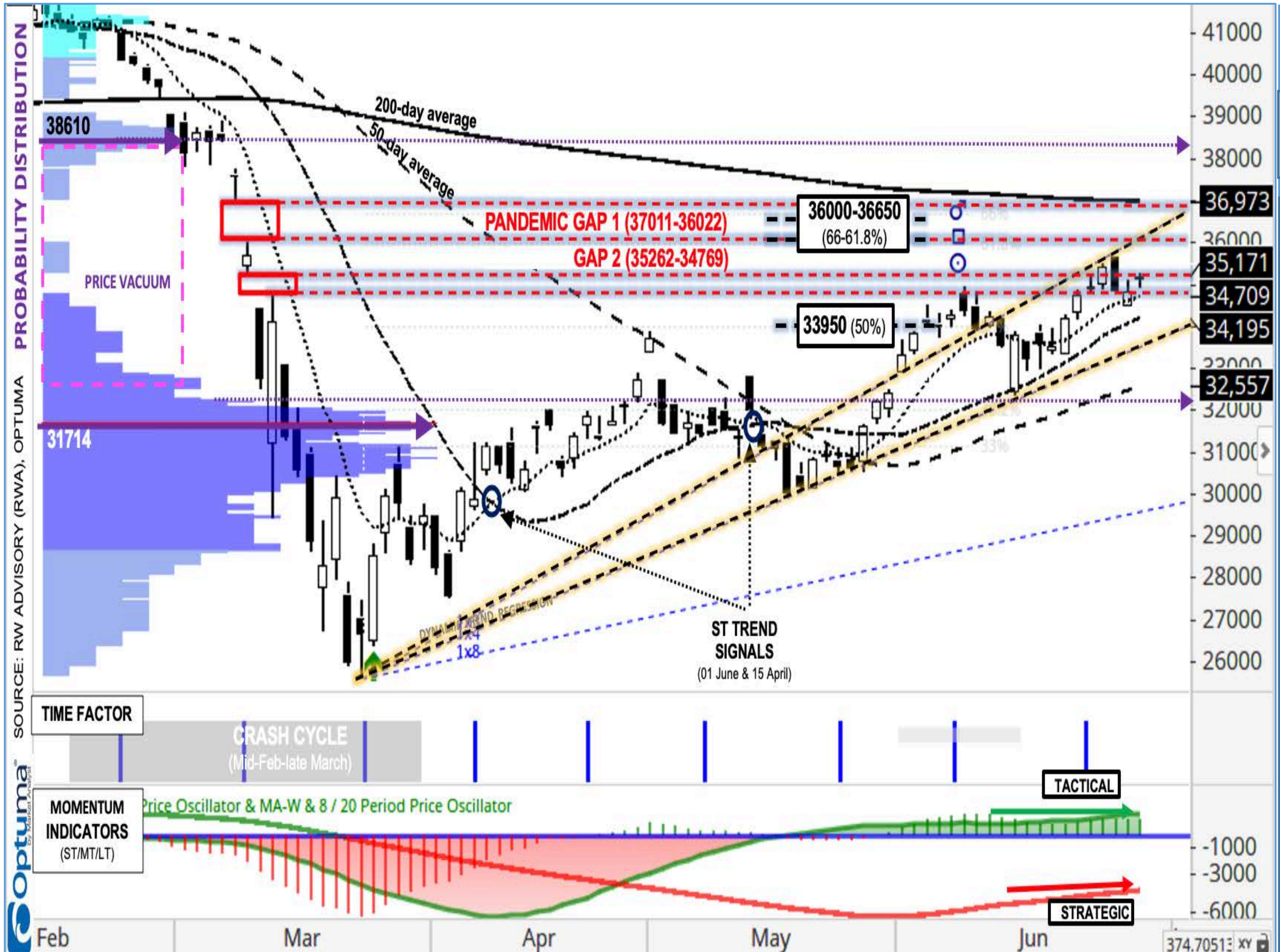


Fig 14. Nifty 50 daily chart, time factor & momentum indicators.

ROADMAP OUTLOOK

ACTIVE	TACTICAL	STRATEGIC
↑	↑	→

Short & medium-term outlook remains positive, but losing momentum, failing under the Pandemic gap region between 35262-34769 & 37011-36022.

A break under 33254 (20-day average) will unlock a sharp correction into 31714 (value zone).

Only a sustained close above 38022 will signal an extension higher into next resistance at 38610 (value level).

Risk level: Below 34195 is negative for 30000.

China: Losing momentum into psych level at 3000.

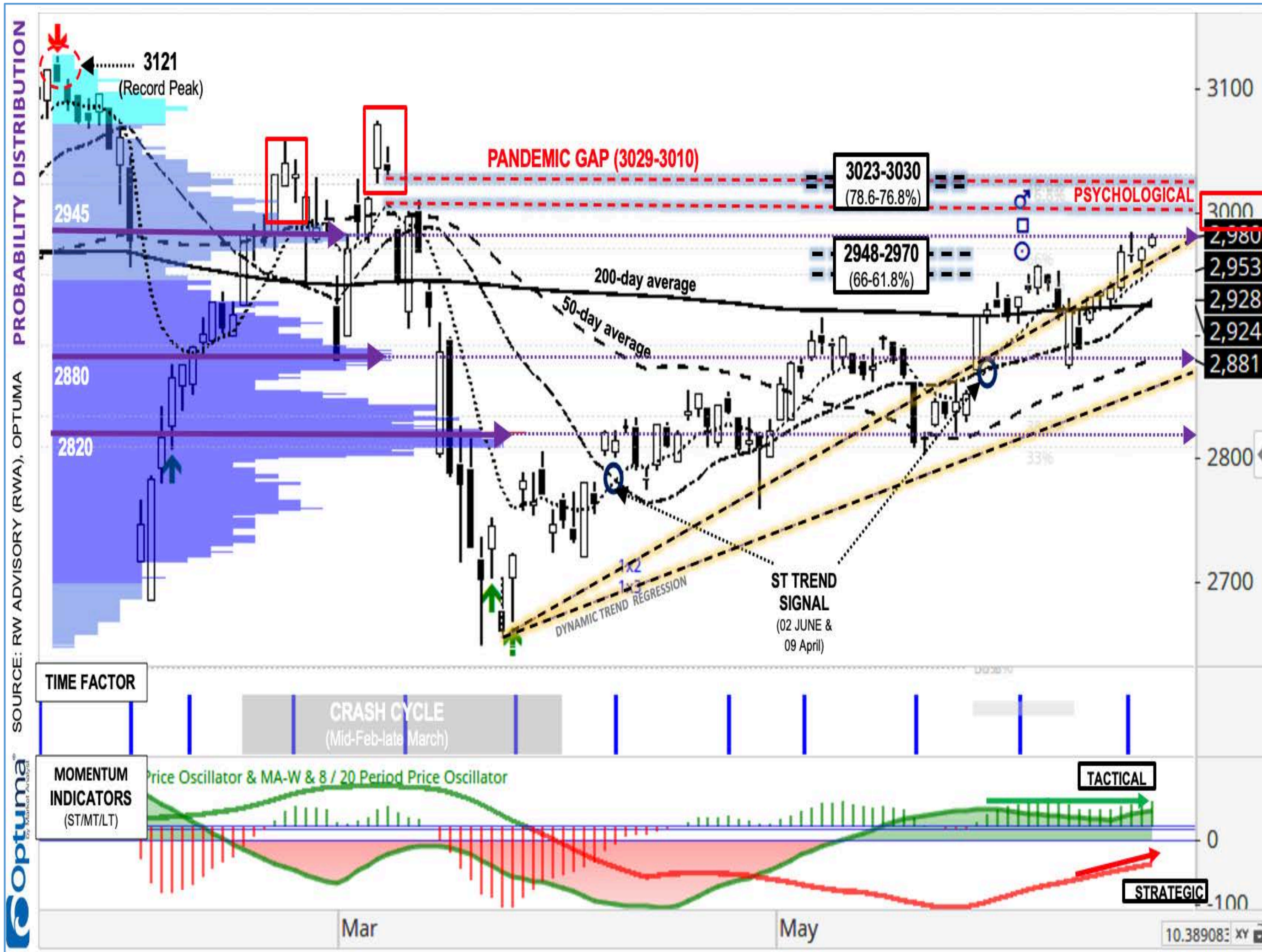


Fig 15. Shanghai Index daily chart, time factor & momentum indicators.

ROADMAP OUTLOOK

ACTIVE	TACTICAL	STRATEGIC
↑	↑	→

Short & medium-term outlook remains positive, but losing momentum, into psychological level at 3000, near pandemic gap between 3010-3029.

A break under 2879 (20-day average) will trigger sharp setbacks into 2820 (value level).

Only a sustained close above 3030 will signal an extension of the recovery into the old peak at 3121.

Risk level: Below 2930 is negative for 2820.

Commodities

Copper, Gold, Oil

Copper: Bull-trend stalls into 2.70 (June peak).

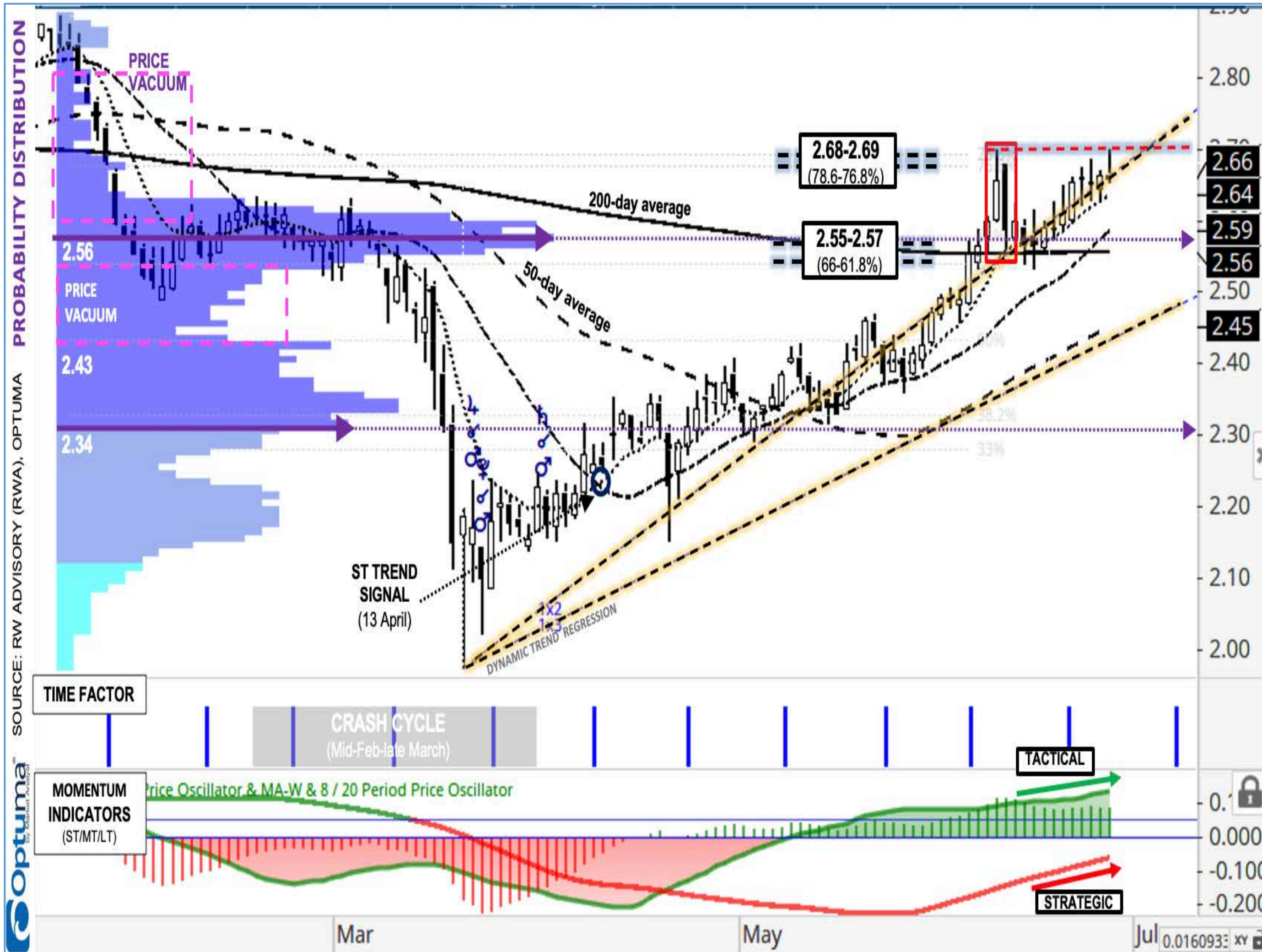


Fig 16. Copper daily chart, time factor & momentum indicators.

ROADMAP OUTLOOK

ACTIVE	TACTICAL	STRATEGIC

Short & medium-term outlook remains positive, but has stalled into overhead resistance, near 2.55-2.57 (66-61.8% retrace) & value level.

Failure under here, then 2.42 triggers setbacks into 2.34 (value level).

Only a sustained close above 2.70 will resume the uptrend into 2.90 (YTD peak levels) .

Risk level: Below 2.53 is negative for 2.34.

Gold: Marginal new high breakout.

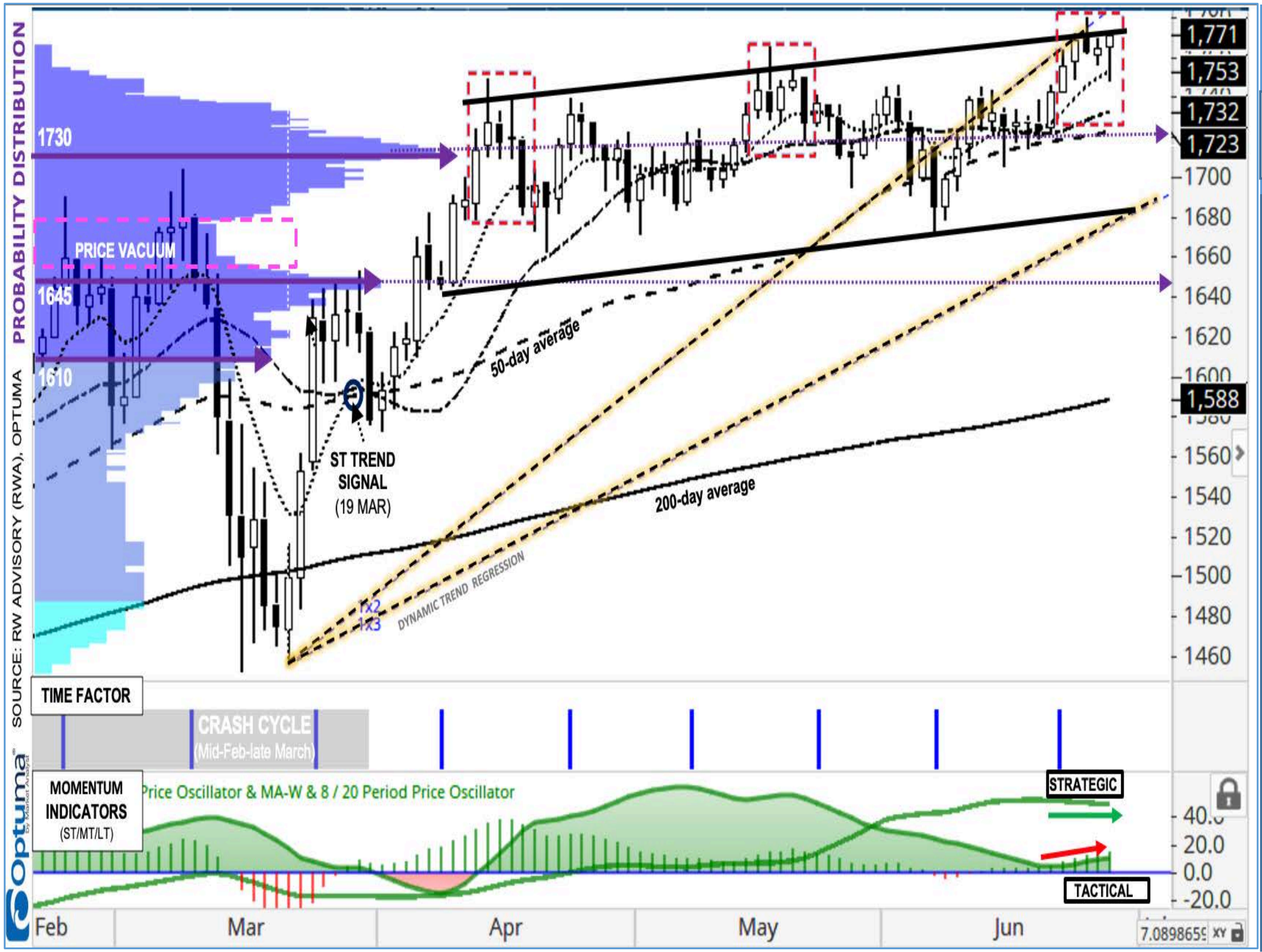


Fig 17. Gold daily chart, time factor & momentum indicators.

ROADMAP OUTLOOK

ACTIVE	TACTICAL	STRATEGIC
↑	↑	→

Short-term outlook has turned positive, after reversing higher and challenging its multi-month trading range.

LT strategic trend remains positive, favouring old resistance at 1800, then record highs.

Only a sustained close back under 1730 (value zone), will trigger a short-term pullback, into 1660-1650 (33-38.2% Fib).

Risk level: A sustained weekly close above 1750 will resume the previous uptrend above 1800, into the record peak of 1910.

Oil: Losing momentum under resistance ($36.35-41.05).

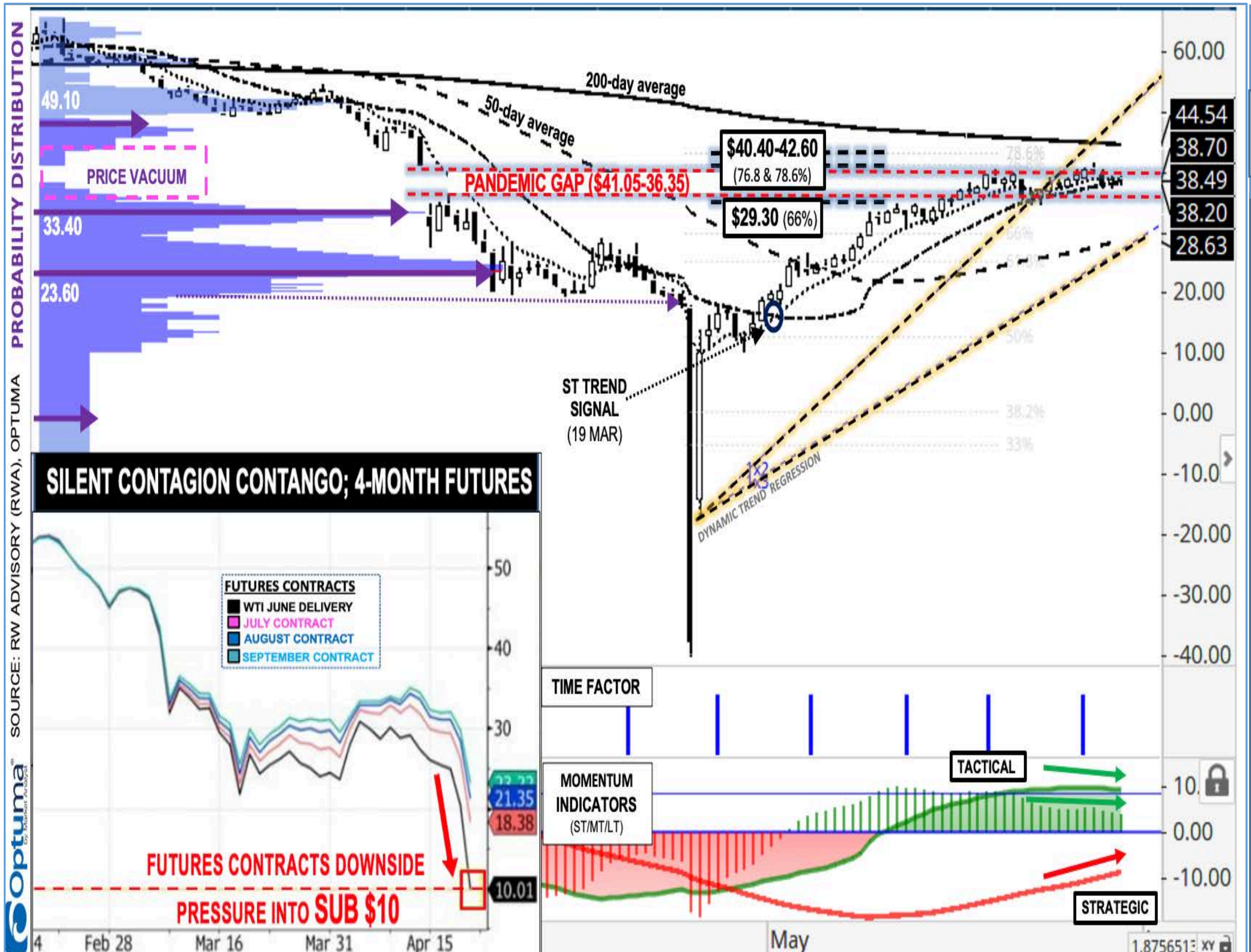


Fig 18. Oil daily chart, time factor & momentum indicators.

ROADMAP OUTLOOK

ACTIVE	TACTICAL	STRATEGIC

ST outlook remains positive, but on shaky ground, as the v-shaped recovery loses momentum into key resistance levels.

Futures pricing is also triggering a silent contagion contango, pressuring for sub-$10.

LT strategic trend remains negative, favoring a new normal range & ongoing asymmetric risk. See media link for more info.

Risk level: Below $28.60 will be negative for $10.

Currencies

EURUSD, GBPUSD, USDJPY

EURUSD: Reversal tests key level at 1.1170/50.

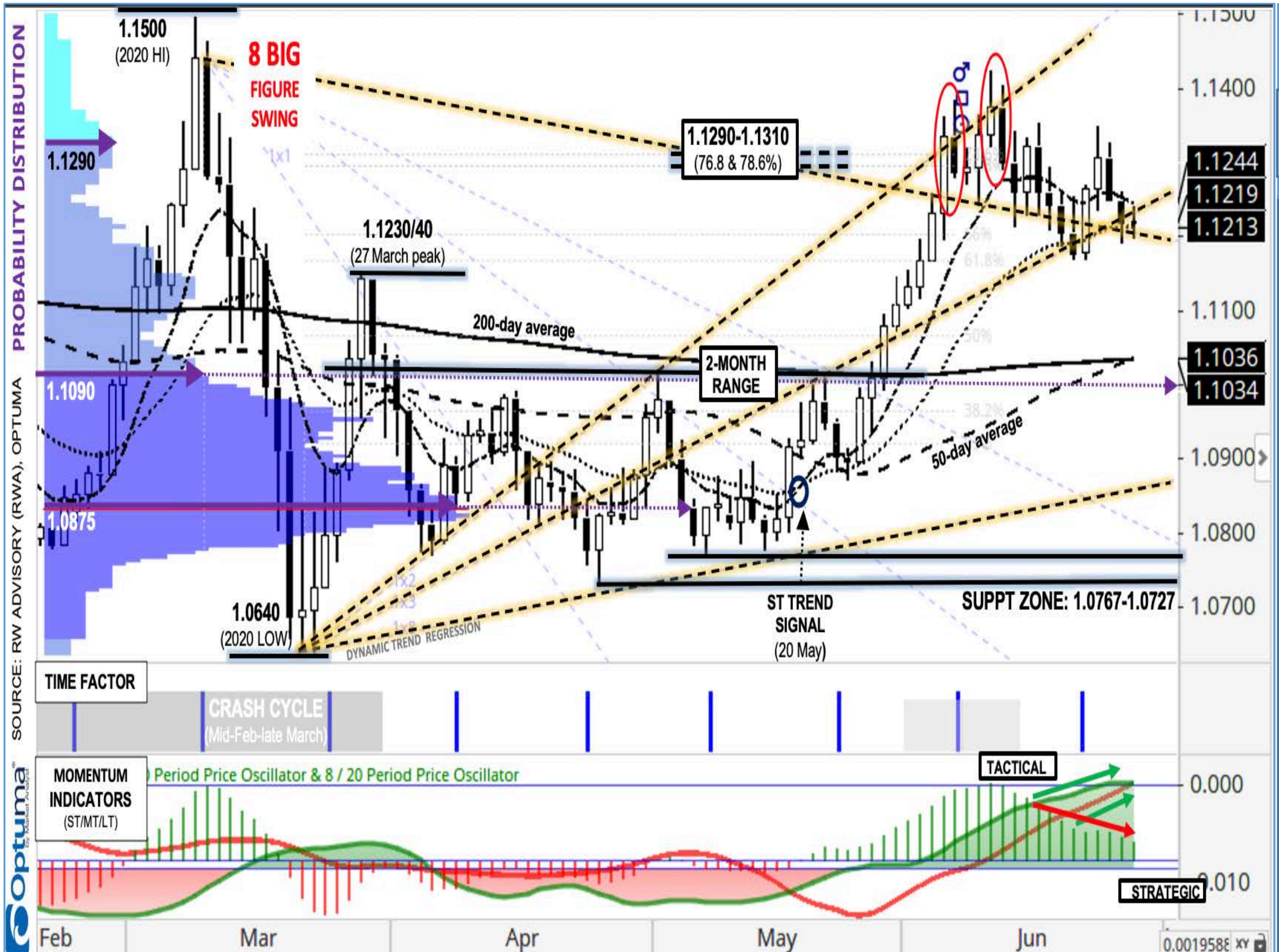


Fig 19. EUR/USD daily chart, time factor & momentum indicators.

ROADMAP OUTLOOK

ACTIVE	TACTICAL	STRATEGIC

ST outlook is negative, after its sharp reversal, following our cycle signal on 17th June (+/- 2/3 days).

The market was also pressured by overhead resistance at 1.1290-1.1310 (value level, dynamic trend & 76.8% Fib).

Key price level at 1.1170/50. A sustained break under here will trigger setbacks into 1.1010 (old 2-month range).

LT view remains bearish for 1.0350 & parity. See media [link] for more info.

Risk level: Below 1.1180 will unlock mean-reversion back to 1.0875.

GBPUSD: Reversal targets trading range floor at 1.2070.

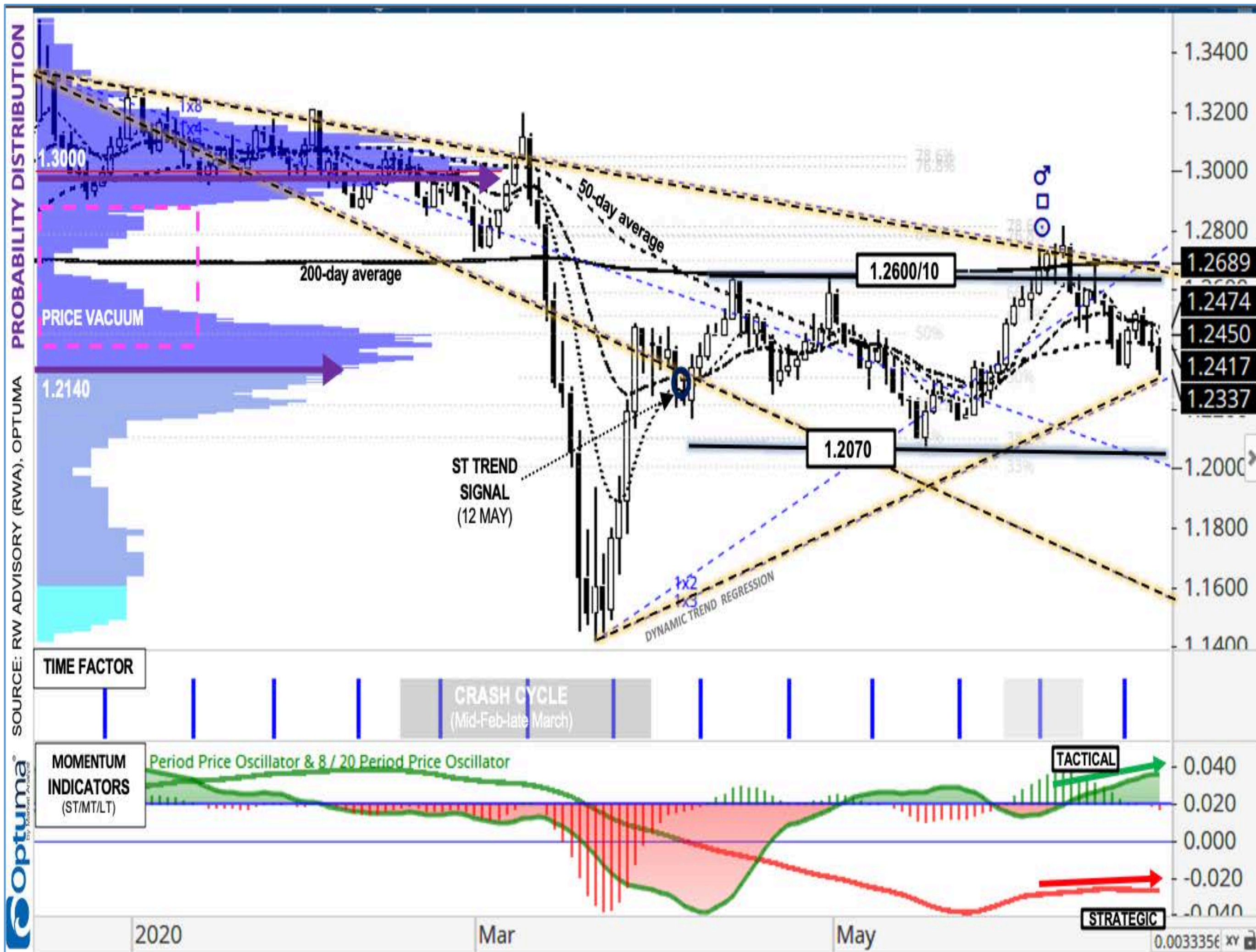


Fig 20. GBP/USD daily chart, time factor & momentum indicators.

ROADMAP OUTLOOK

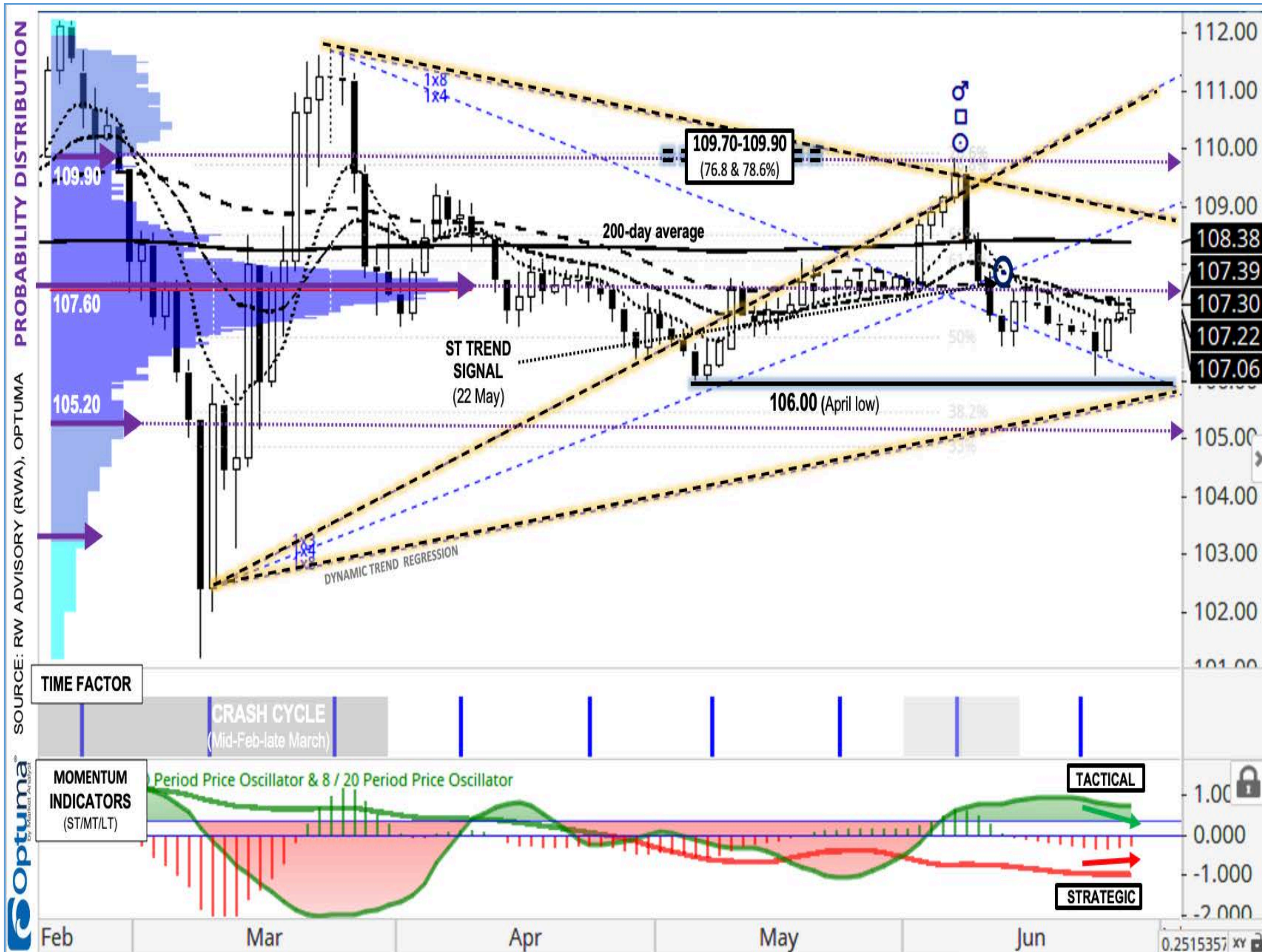
ACTIVE	TACTICAL	STRATEGIC

ST outlook is negative, after reversing lower and targeting trading range floor at 1.2070.

Only a sustained close above 1,2600/10 will trigger gains into psychological level at 1.30

Risk level: Above 1.2600 will re-build stronger momentum into 1.3000.

USDJPY: Rangebound. Key support at 106.00.



ROADMAP OUTLOOK

ACTIVE	TACTICAL	STRATEGIC

ST outlook is mixed, but weighed by overhead resistance at 108.40 (long-term 200-day average).

Immediate support at 106.00 (April low). A break will trigger further setbacks into 105.20 (value level).

Overhead resistance at 107.60 (value level), and 108.40.

Risk level: Below 106.00 will unlock setbacks back into 103.20.

Fig 21. USD/JPY daily chart, time factor & momentum indicators.

Executive Summary

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