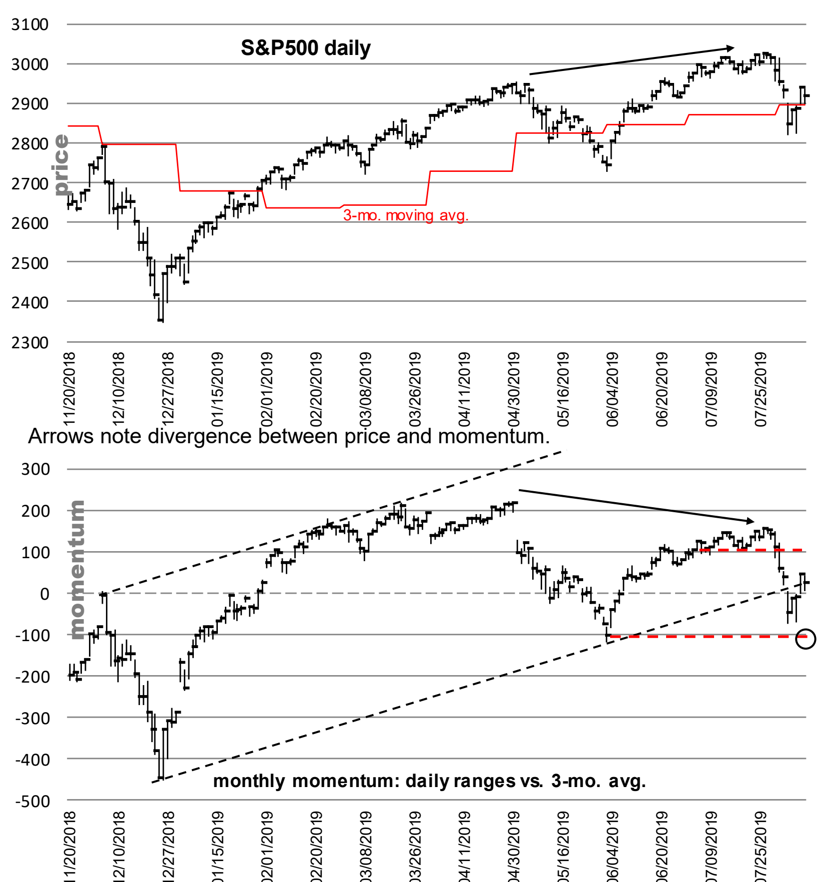
# MSA 360°
# Weekend Report

August 10, 2019

## Big markets: Some have decided; others are deciding




The S&P500's initial downturn came as the red horizontal at the +100 level came out on momentum. That was two weeks ago.

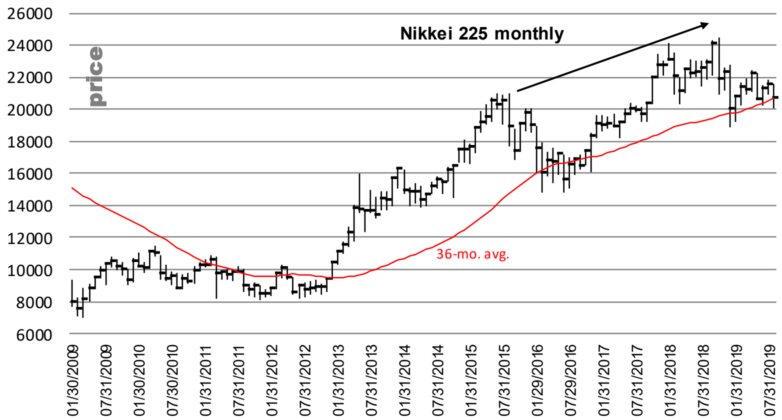
We expected that breakage of the upper line would in turn drop the index to at least its 3-mo. avg./zero line. It was at that level that the nine-month-old parallel uptrend channel bottom intersected.

Well, the drop actually broke the zero line and the parallel channel and only then did the market throw a tantrum back to the upside. While the rally no doubt impressed the Forever Longs, it did not impress MSA. The integrity of this uptrend is broken.

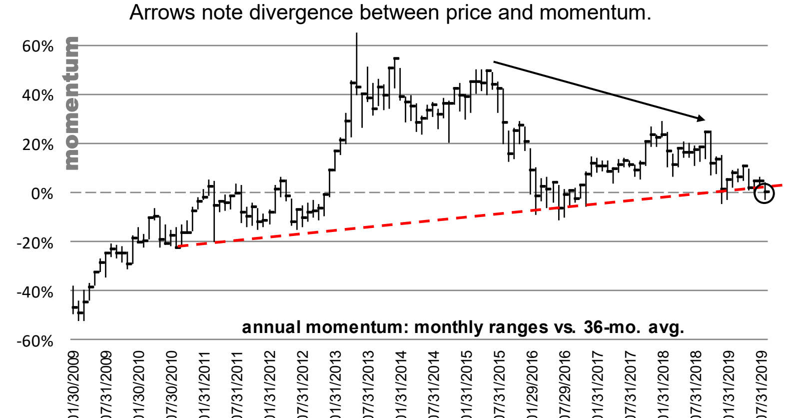
The only remaining feature for this monthly momentum chart is the low reading (lower red horizontal) at the –100 level. If during August we see the cash S&P500 close a day at 2772 or lower this month, then that pivotal low close will come out. That final point of breakage will occur before price ever gets back to the low seen in the May selloff (2728).

We also have other momentum indicators, including long-term (the 40-wk. oscillator), that define the minefield below as a cluster of numbers from **2792 down to 2772**. A tight, negative grouping.

Take out that zone and the issue shifts to the S&P500's annual momentum trigger level (**2631** traded in August) and those for other key indices and stocks (next pages).




Arrows note divergence between price and momentum.




MSA has run the S&P500's annual momentum chart many times the past few months. Here we show a few other key markets/symbols and provide a table of annual trigger numbers for some key markets we've been monitoring. As you'll see, many are much closer to annual momentum breakdown levels than the S&P500, though we'll defer to the S&P500 before pounding the table.

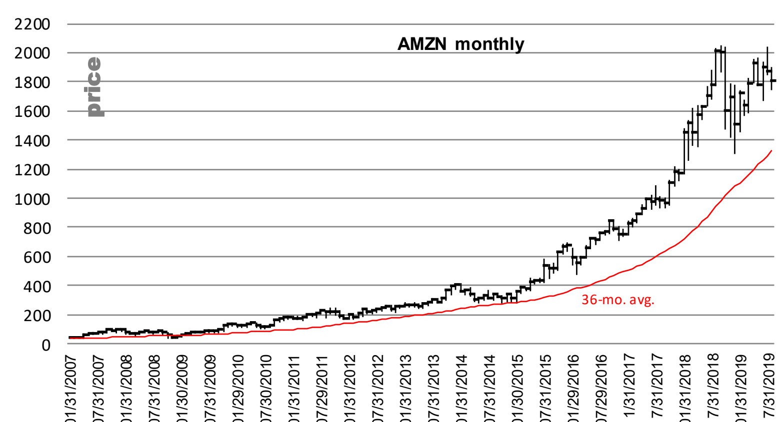
The **Nikkei 225**, like the S&P500, managed to avoid closing out December 2018 below its annual trend structure. Instead, by landing on it and turning up, it demonstrated that the trend structure as plotted by MSA is valid.

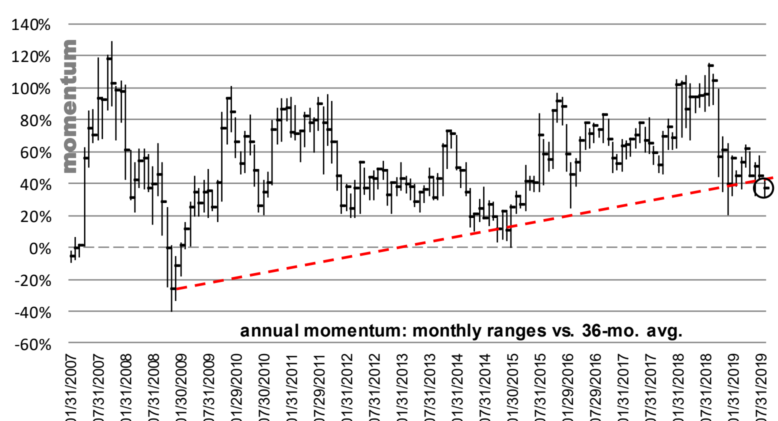
Friday's close was marginally below the zero line and the uptrend line (which is plotted through reaction low monthly closing readings going back to 2010). But we'll wait for the monthly close before declaring breakage. Friday's close was **20,684**. The zero line/trend structure is at **20,687.70**.

## Amazon

MSA argues that AMZN is key among leadership stocks to be watched in signaling a broader market downturn. At the December low close last year it held structure (defined by three reaction low monthly closing readings going back a decade) and rebounded. The momentum rebound was quite lame. This month's action has traded below the trend structure (and below the December oscillator closing reading), but we prefer a monthly closing violation.

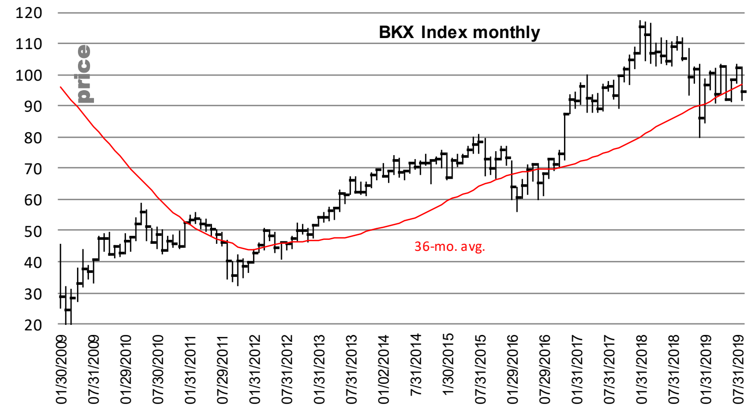
If AMZN closes August at **1835** or lower, that will break the structure. It closed Friday at 1807. It needs to rally!

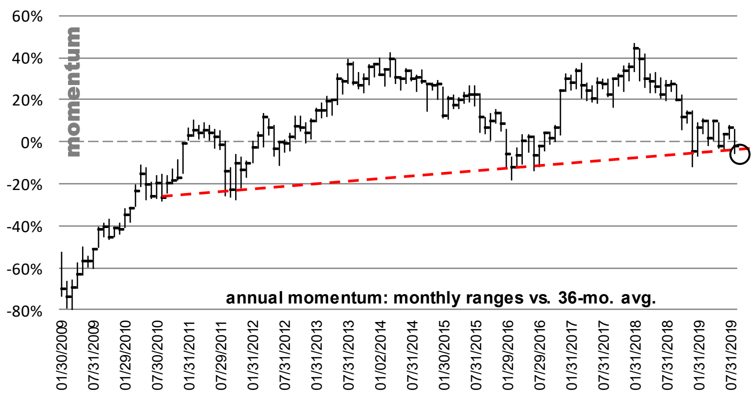


## KBE Bank Index

A monthly close for August at **91.99** or lower is a credible violation of the annual uptrend structure (defined by four prior reaction low monthly closing readings going back to 2010). Such a close would also take out the December 2018 close, which was on the line. This index's current price is 94.48.



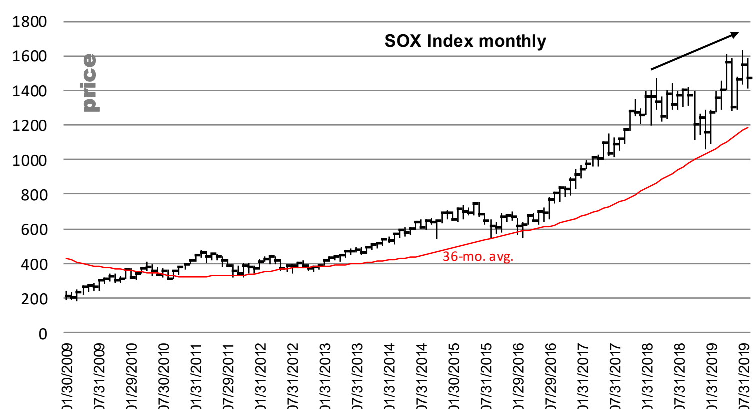



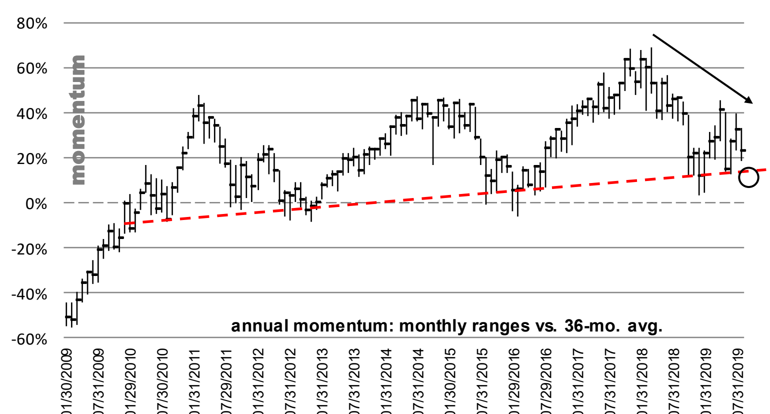

## Semiconductor Index

Four reaction low monthly closing readings define the red line on momentum. December 2018 was the most recent hit along the line.

And though price made new highs recently, momentum only upticked halfway back to its 2018 peak readings. A glaring non-confirmation.

Close August at **1330** or lower and you can assume the momentum trend structure is gone and a bear trend beginning.




### Other annual momentum triggers for August:

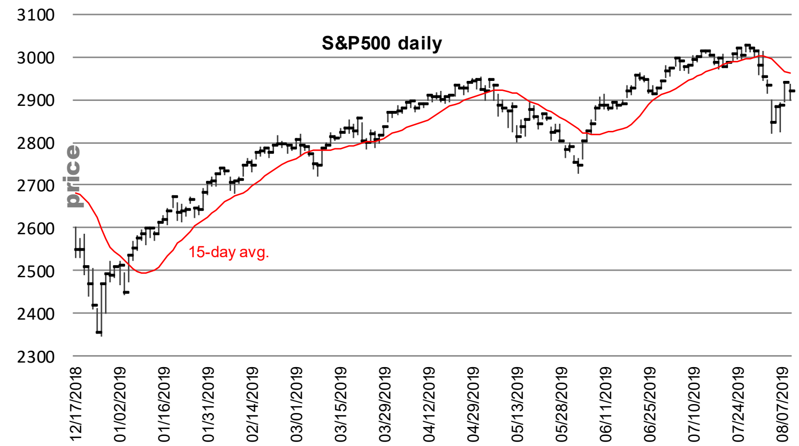
**XLY** (Consumer Discretionary ETF): 99.03 trade

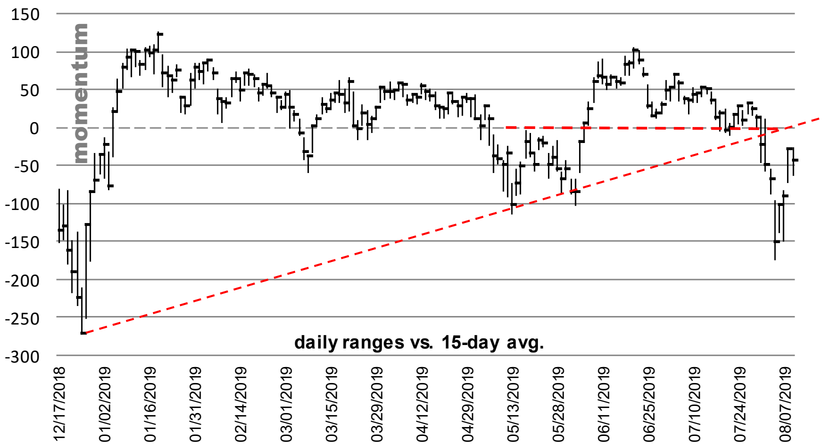
**XLV** (Healthcare ETF): 82.40 monthly close

**XLI** (Industrial ETF): 68.57 monthly close

**NDX** (NASDAQ 100 Index): 6968 monthly close

These numbers adjust up monthly.




## S&P500 shorter term

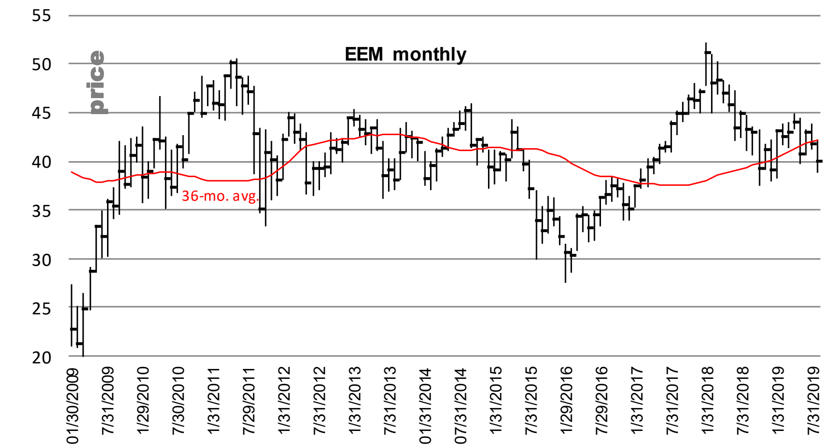
We've had some requests for a shorter-term update of the S&P500. And referencing the shorter term now might help in assessing the recent drop and the rally.

When the monthly momentum oscillator on page one broke below its upper red horizontal line (at 100 points over the 3-mo. avg.), this 15-day oscillator (similar to the 3-wk. avg.) broke below its pivotal zero line. Whoosh.

In this case the May oscillator lows came out during the mini-collapse. And then came the rally.

You can judge whether the momentum action looks positive (is it breaking out over anything?) or whether it's just a relief rally from a temporarily oversold situation.

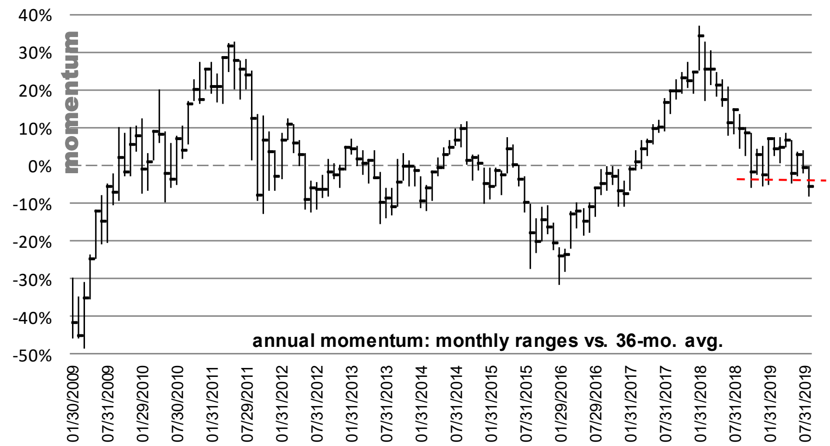
Likely the latter in our view.




## Emerging Markets ETF

Like the S&P500, EEM dropped in late 2018 and then rebounded. But the bounce in EEM is now oozing back down towards the December price lows.

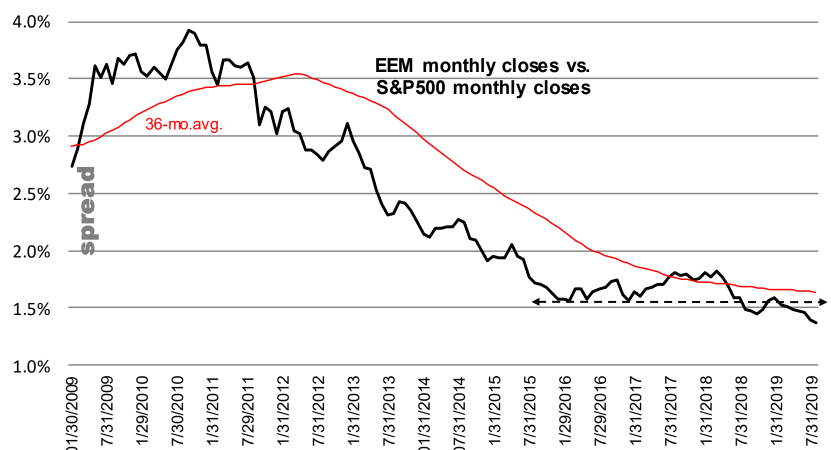
Annual momentum is below those comparable lows, though the structure being broken is fairly small in terms of dynamics. Still, down is the appropriate label. Closing this month below 39.99 would also put a monthly close below EEM's 3-yr. avg.

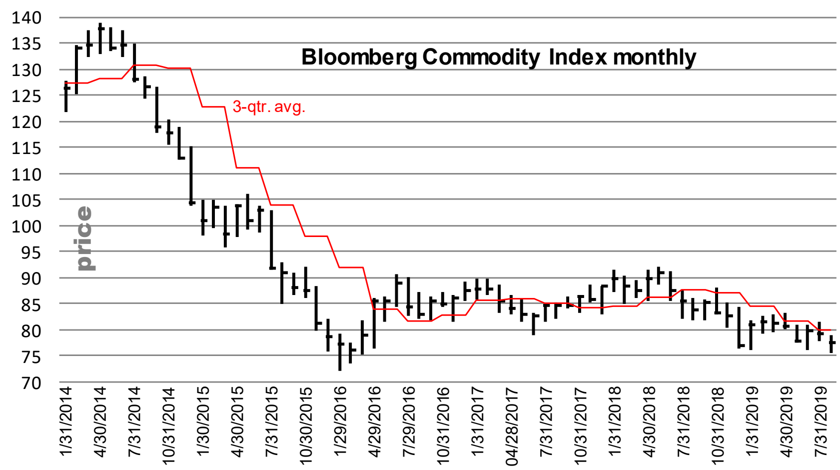


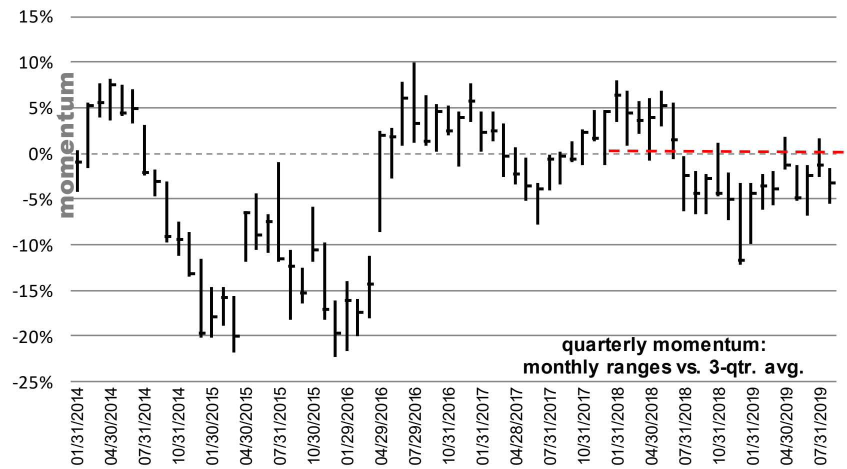

As for consequences, we can't be excited about downside percentage potentials. Firstly because this portion of the world's stocks already suffered a major bear trend from 2011 until late 2016. There's no bubble breaking here, just a resumed slide in a non-inflated stock market metric. Also, as said, the dynamics of the momentum structure being broken are minimal. There's no comparison to the trend structures below on the S&P500, etc.

**EEM's relative performance** suffered a massive drop from 2011 through 2016 (coincident with the drop in global commodity prices). EEM's performance has since advanced from the 2016 lows and over the past few quarters eroded below those early 2016 lows. A boring picture. This spread's long-term momentum is not at all confirming the recent erosion in the spread.

We'd pay attention to the Bloomberg Commodity Index and its potential upturn (MSA is monitoring and updating) for assistance in turning EEM back up in terms of its relative performance vs. the S&P500.





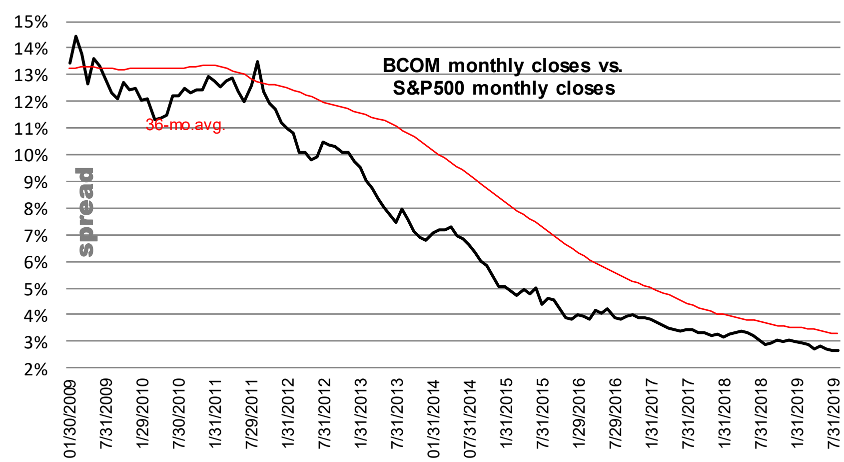

## Bloomberg Commodity Index (BCOM)

MSA has previously defined a breakout on this quarterly momentum oscillator as a trade to 81.65 or a monthly close above 80.05. Those numbers are applicable this quarter (they will likely adjust down by about a point next quarter).

It's likely BCOM is still somewhat in sync with the broad stock market, mostly due to actions by oil and copper (currently both remain weak). However, that could end soon.

For now BCOM remains negative, but watch the zero line on quarterly momentum. A breakout above that structure should drive this index to its price highs of the past several years (above 90) fairly rapidly. But we must wait for the numbers.

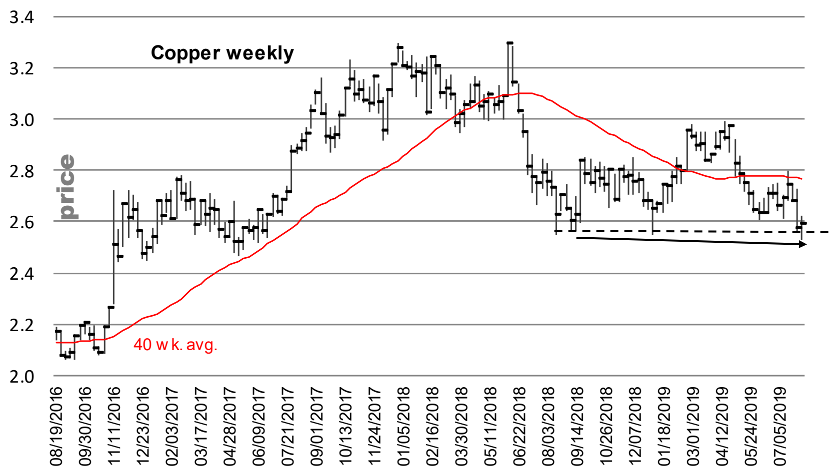
**The relative performance of commodities** collapsed from 2011 until late 2016. At that point relative stability and only further marginal slide persisted. This spread's annual momentum is not at all confirming the lows since late 2016.

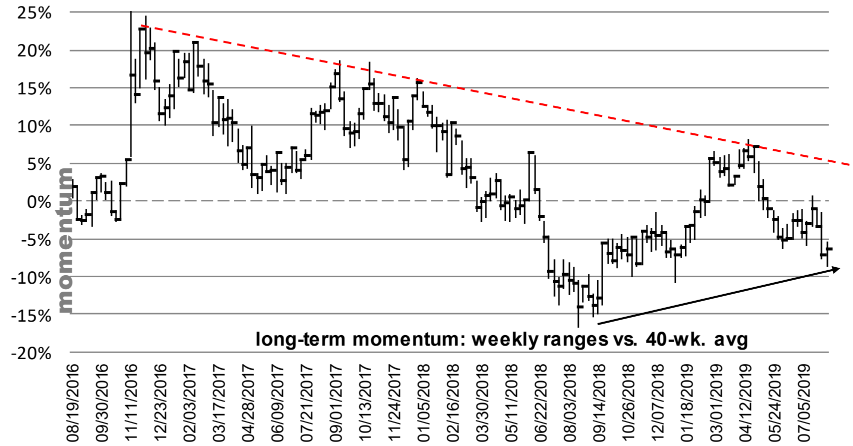



Gold, though part of BCOM, in no manner reflects the behavior and relative performance of the commodity category. Again, this is very similar to the situation before the commodity explosion that began in 1997. Gold led the way to the upside without any evidence of "commodity inflation."

Only later came the commodity inflation. Big time.

## Copper



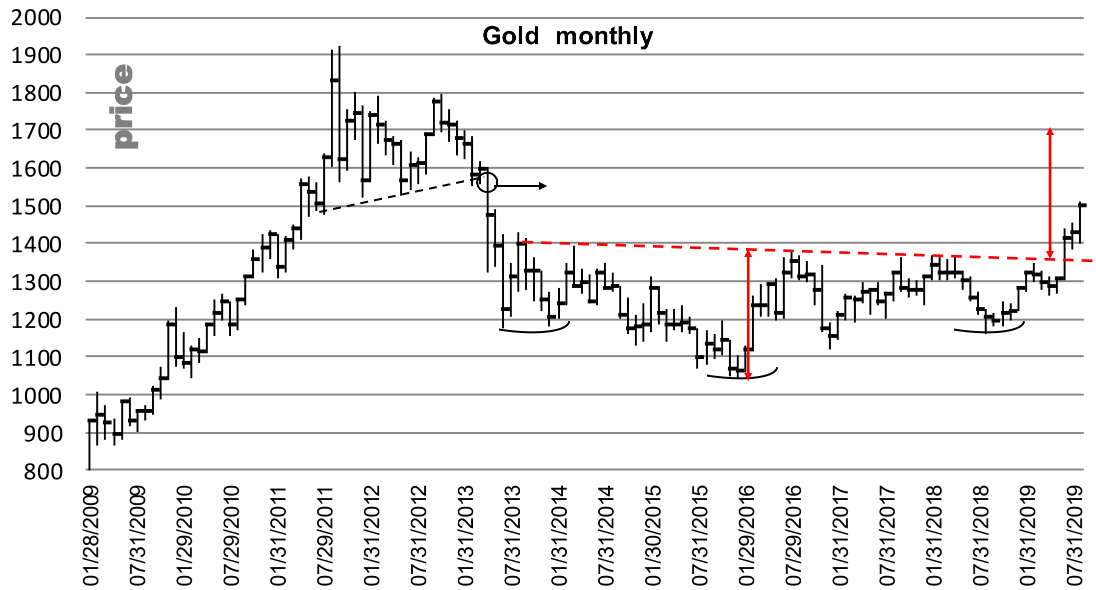




In our July 7th report we suggested the best thing copper could do would be to take out the obvious price chart floor at 2.55. Our confidence that would occur wasn't high. It was just a suggestion.

Well, last week copper traded to 2.5315. Then it reversed to close the week at 2.589. Was that it? We'll see, but at least the momentum picture now has a non-confirmation feature. Nice background technical feature prior to an upturn.

The most important momentum technical now is the well-developed downtrend structure that traces back to late 2016. Copper will have to earn the breakout. It will require a weekly close more than 5% over the falling 40-wk. avg./zero line to signal major trend change. Both the average and the trend line drop over time, so the task will get easier. For now it would take a weekly close over 2.90. So, it's not a nearby issue. We are monitoring.

We wait for the numbers, but are fully aware copper has created a clear pending trend change structure via its momentum action.




**Gold**

The cries for correction in gold dominate the technical analysis world. In fact the cries have persisted ever since gold reached $1400. All the way up.

MSA has not agreed with the nervous orthodox chart folks and still don't. But we'll likely soon be open to the possibility of a minor correction/congestion phase. We could always be wrong, but we don't think it's here and now.

Here we analyze the price chart. What everyone can see.

And here's what we see.

A massive base developed (a complex head-and-shoulder bottom) and then there was a breakout in June. The orthodox measurement of the upside objective points to something around $1700. Maybe it goes there in a flash or maybe it rests about halfway to that price-based target and generates what's called a mid-point congestion zone?

Well, about halfway means something in the mid-$1500s. And if you'll notice that back in the topping process in 2012 an 2013 (actually, annual momentum topped in early 2012), there's a line you can plot that identified a pretty clear point of price chart breakage. Old breakdown levels can sometimes become resistance later, even if temporarily.

Okay, now let's look at what momentum suggests as a possible first correction zone.


## Gold's annual momentum

Layered upside breakouts are evident on the bottom chart. In fact, one occurred recently and not far below current oscillator levels. Why should it halt now just after breakout?

And that second breakout was a structure that traces back to 2012. Major.

Current oscillator readings, having just cleared such a large and shallow momentum structure, will no doubt seek the next hurdle. And that's fairly clear—up around 23 to 24% over the zero line. It was that line on which momentum action danced for so many months during the topping process. And after breaking that structure and dropping into mid-2012, there was a failing *reach-back* rally in late 2012 that bumped that line from underneath. In sum, a pretty clear structure (black arrow). In price-equivalent terms reaching 23-24% over the zero line this month means a price in the $1570 to $1580 area.

MSA won't be so picky. Get up into the mid-$1500s and then be more alert to correction potentials.

We add three major thoughts.

First thought: we don't expect a hellacious drop in gold during any such correction. More likely it will involve some quick drop followed by up-and-down action in a range. **A mid-point congestion zone** before reaching the price chart objective near $1700.

Second thought: $1700 won't be the final objective of this advance in gold. It's merely a price-based first swing objective derived from the price chart basing action from 2014 to mid-2019.

Third thought: if you wish to participate in this gold advance (likely to last much longer and reach into unanticipated highs), then think hard about fully exiting long gold and gold-related positions (unless you're solely in time-sensitive positions such as call options). We realize gold "taught" many investors to become traders over the past few years. But the trend context has changed. This isn't a trade, but part of a global asset shift that will be both painful to many (stock markets) and vastly enjoyable for many (gold and later commodities).

Massive market events are underway. It's best to forget what 2014 to mid-2019 taught you.