

## Summary for week of 10 October 2016

- Stocks could bounce early in the week but prone to declines later
- Dollar likely to extend gains this week
- Crude oil vulnerable to declines later in week
- Gold could bounce this week but more downside likely

## US Stocks

Stocks slipped a bit last week as improving data bolstered the case for a Fed rate hike. The Dow lost just 68 points on the week to 18,240 while the S&P 500 finished at 2153. This bearish outcome was somewhat unexpected although I did not think the indexes would finish too far from their previous weekly close.

The market appears to be coming to terms with a December rate hike as the CME odds now stand at 60%. Depending on how strong subsequent data may be, it is quite possible that equities may not sell off in the face of higher rates as they did in December 2015 when Yellen finally pulled the trigger. If the data stays strong, and the various global worries do not worsen, then a hike need not be incompatible with additional upside. And yet there is now a veritable laundry list of possible global worries for the Fed to include into their ever-expanding criteria. What are the chances that any one of Deutsche Bank, China, Italy, or Japan will not suddenly emerge as a new risk problem which ties the hands of the Fed yet again?

While bulls can still piece together a plausible enough story of stocks moving higher with a rate hike, the astrological influences seem much more bearish now. As we enter the second full week of October, it seems very unlikely now that the old high at 2194 will be tested. My general expectation is that October will be bearish and the declines will tend to be concentrated in the second half of the month. There is one positive alignment this week upcoming but it seems unlikely to have that much of an effect. In fact, it could well act as a trigger for more selling. So it seems more likely that we are on the verge of a correction of some size.



Just how big is hard to say but it is very possible it could be 10% by November. I think we could well see a larger >20% decline although I'm not sure it will occur by November. There will likely be a second leg lower which takes place in January and February.

The technical picture looks more mixed here. The SPX is having difficulty moving above its 50 DMA and is trading in a narrow range between 2145 and 2165. A move above resistance at 2165 could see it rally to 2180 fairly quickly. Similarly, a move below support at 2145 could translate into a deeper pullback, possibly even below 2120. And a break below 2145 would also test trend line support in the rising wedge pattern off the February low. This line is just below 2145 although a small or brief violation may not hold any great significance. It may take a move to 2120 to get the bulls' attention as the rising wedge pattern would enter a new phase. If we do get a wedge breakdown, then rising channel support would be close to 2000. This would also match the June low and could be a more defensible level for bulls to re-enter long positions.

We can see the Nasdaq chart is moving sideways very close to its recent high. This is perhaps a sign of normal bull market consolidation. And yet we can also see that any move below the 50 DMA at 5239 could trigger another wave of selling. Bulls will have to keep it above that level to prevent a move down to the 200 DMA. The Nasdaq has been outperforming the other indexes this year so a technical failure at the 50 DMA could have more ominous consequences for the larger market. The weekly Dow chart also seems more bearish as stochastics is still in a bearish crossover below the 80 line. MACD is also in a bearish crossover. Horizontal support appears to be at 18,000 and if that is broken, then the measured move initial downside target would be around 17,300. One would think any break below 18,000 would eventually entail another tag of the 200 WMA at 16,648. Meanwhile, bond yields rose last week as the market began to factor in a rate hike in the near term. Short term yields are back at their pre-Brexit peak while the 10-year tagged its 200 DMA. There may be considerable resistance at this level since it matches a previous support level. But if it keeps rising this week, then we could see a major shift in market sentiment as it approaches 2% once again.

This week leans more bearish as plausible sources of optimism become more scarce. Venus is weakening as it leaves Libra this week and Mercury moves past Jupiter and hence it will also be less able to support prices. The early week has the potential for some upside on the Mercury-Jupiter conjunction, however. This is exact on Tuesday but Monday may be the key day due to an additional alignment with the Moon. There is a risk of a quick reversal lower once the Moon has



moved past in the afternoon. We could see a sharp rise Monday morning followed by profit taking. Alternatively, stocks could fade any gains on Tuesday. The real problem here is that the second half of the week looks bearish in its own right. So not only are there fewer sources of optimism, but there are more sources of pessimism. The Mercury-Mars square will be close on Thursday and Friday. While I won't be shocked if stocks manage to stay aloft for another week, it seems more likely that we will see some serious testing of support, both 2145 and likely also 2120.

Next week (Oct 17-21) also has some added downside risk as Mars conjoins Pluto late in the week. We could see some upside in the first half of the week but that is quite uncertain. The problem is that Mars will align with the Lunar Nodes in the early part of the week and thus open the door for declines at any time. The following week (Oct 24-28) also offers the bears another opportunity to do some damage. The Mars-Uranus square on the 28<sup>th</sup> roughly coincides with the Venus-Saturn conjunction and could mark a significant decline. November also looks bearish, although it may be more concentrated in the first half of the month. It is difficult to estimate levels but I think the chances are fairly good we could see a test of the 200 DMA at 2066 in November. 2000 is also not out of the question. I would think we should get a bounce going into December but it may be to a lower high. More downside is likely in January and February as Saturn aligns with Uranus and Jupiter. I think 2017 is looking more bearish with larger declines more likely to occur in summer.



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| Technical Trends                                   | Astrological Indicators | Target Range  |
|--|-------------------------|---------------|
| Short term trend is DOWN<br>(1 week ending Oct 14) | bearish (confirming)    | SPX 2120-2140 |
| Medium term trend is UP<br>(1 month ending Nov 14) | bearish (disconfirming) | SPX 2000-2060 |
| Long term trend is UP<br>(1 year ending Oct 2017)  | bearish (disconfirming) | SPX 1500-1800 |

## Indian Stocks

Stocks rebounded last week after the RBI cut rates and tensions eased in Kashmir. The Sensex gained less than 1% to 28,061 while the Nifty finished at 8697. This bullish outcome was somewhat unexpected as I thought the late week bearish influences could take stocks lower overall. The late week did see some selling, but the early week proved more bullish than expected as the entry of Mercury into Virgo on Tuesday helped to boost sentiment into Wednesday.

Global markets are increasingly factoring in a Fed rate hike in December. The odds of a hike are now at 60% and will likely go higher if we see more positive data in the weeks ahead. If there is going to be fallout for Indian equities, it should therefore show up well before the Fed finally does hike. Last week's profit taking was a reflection of this more cautious stance, even after the RBI's surprise rate cut. Governor Patel's more tolerant view of inflation could be just the ticket to offset any negative reaction from a Fed hike. The RBI will need to create a convincing growth story in order to keep FII in the country while the US Dollar appreciates in value. Of course, the Fed needn't raise rates at all as it has become captive to its ever-widening mandate of global economic stability. If Deutsche Bank were to go bankrupt, for example, then that would likely negate any chances of a rate hike. As the same time, the ECB has been hinting of winding down its QE program due to its ineffectiveness. The prospect of less liquidity would be another potential source of uncertainty for global markets.

The astrological picture suggests that stocks are on the verge of a correction. Indeed, the decline may well have already begun. I had thought we might have had more a little more upside in late September and early October on the transit of Venus through Libra. And yet, the ongoing alignment of Saturn with Rahu and Neptune was likely going to be a potent bearish force at some point. It seems to have manifested somewhat earlier than expected. I think there is going to be more downside for the rest of October and perhaps even part of November as a result of this alignment. This decline is likely going to be larger than any typical small pullback. I would think a correction of 10% or more is more likely by November. Some upside is likely in December but another major corrective move lower is likely to take place in Q1 2017.



The technical outlook looks somewhat bearish in the short term. Last week's high at 8800 was a lower high as the Nifty appeared to be forming a descending triangle pattern. Support is near 8550 for this pattern so in the event that we get a pullback this week, buyers will likely enter near that level. However, bulls need to break above 8800 in order to nullify the pattern. If they can't and if 8550 is broken, the downside target would be 8150. This is only slightly above the 200 DMA. The 200 DMA is close to the 8000 level which represents a 50% retracement of the whole 2016 rally. In other words, it may exercise a certain magnetic pull on prices if we do see the correction I am expecting in the weeks ahead.

The rally seems to be in more jeopardy here as the bulls are having trouble keeping the Nifty above its 50 DMA. While this doesn't necessarily signal the sudden end to the rally, it does suggest it may be entering a new consolidation phase which could bring a deeper pullback before any new upside is possible. More problematic is the fact that the 20 and 50 DMA are on the verge of a bearish crossover. This also almost happened in May but the bulls again took the ball and pushed prices higher. The pressure will be on to see if they can repeat the feat here. The weekly BSE



chart still shows a bearish crossover in stochastics which has been a fairly reliable indicator of a correction. Moreover, MACD is now in a bearish crossover. It may not go straight down from here but it seems more likely to trend lower one way or the other. The prospect of a bearish double top pattern may torment the bulls somewhat here as pullbacks may become full-blown sell-offs. The longer the Sensex goes without breaking above its old high of 30,000, the more likely we could see a deeper retracement. A retracement is likely in any event after the size of this year's rally but bulls will have to minimize its downside. A worse case scenario for the bulls may be another tag of the 200 WMA at 24,327. This would be a big decline from current levels but at least it would offer the possibility of the rally making a new leg higher. Meanwhile, Infosys (INFY) broke support and made a new low for the year in US trading. It's possible there could be a quick snapback which may return it to its previous September trading range. However, the pattern of lower highs over the past two months and the inability to move above the 50 DMA suggests we could see more downside in the weeks ahead. This is a bearish chart. Tata Motors (TTM) had a better week and rebounded off support from the 50 DMA. Bulls will have to see if they can match the early September high. One possible problem here is that the early September pattern looks like a bearish island reversal pattern. If bulls cannot move above Friday's high, then more downside is likely and even the 50 DMA may not act as support.

This holiday-shortened week leans bearish as Mars aligns with Mercury and Rahu late in the week. The early week could see some upside, however, as Mercury conjoins Jupiter on Monday and into Tuesday. With the BSE closed on Tuesday and Wednesday, some of the upside may be compressed and therefore fairly limited. I would not expect too much upside but one up day is possible. With diminishing positive influences this week, the

chances for a retest of resistance at last week's high of 8800 are not great. It's possible we could see 8800 but it is not really a likely outcome. Thursday and Friday look more bearish as Mercury is square with Mars and Mars comes under the influence of Rahu. Both of these pairings are bearish and should send stocks lower. I would expect at least one day of sizable declines in excess of 1%. A larger decline is possible also although I would not say probable. Overall, I think the chances are good for a down week. If the bears turn out to be stronger here, then we could even see a test of horizontal support at 8550. That's not likely but at the same time, it wouldn't surprise me.



Next week (Oct 17-21) also looks bearish especially in the first half of the week. Mars conjoins Pluto on Wednesday and I am expecting some fallout to occur around this time and probably in the days leading up to the exact conjunction. Gains are a little more likely later in the week as the conjunction separates. Nonetheless, I think we should see a lower low here, and probably one that tests 8550, if not lower. The following week (Oct 24-28) looks mixed. The late week Mars-Uranus square looks volatile and unpredictable and yet the midweek Venus-Neptune square could produce some upside. But early November may also bring some downside as both Mercury and the Sun come under the aspect of Ketu. Although I am uncertain about just when we could get more downside in November, I think it is likely that we will see the Nifty trade at a lower level in November compared with October. A rebound may begin in late November and carry into December as Jupiter approaches its alignment with Pluto and then Uranus. However, my expectation is that this will produce a lower high (8500? 8700?). More selling is likely in Q1 2017 which should at least retest the lows made in Q4 2016, if not go lower. Another major corrective phase is likely in Q3 2017 which should produce much lower lows. A retest of 6800 is therefore likely at some point in 2017.



**Technical Trends**

**Astrological Indicators**

**Target Range**

Short term trend is DOWN  
(1 week ending 14 October)

bearish (confirming)

8500-8650

Medium term trend is UP  
(1 month ending 14 November)

bearish (disconfirming)

8000-8400

Long term trend is UP  
(1 year ending October 2017)

bearish (disconfirming)

6000-8000

## Currencies

The Dollar rallied strongly on better than expected ISM data even if Friday's jobs report came in a little light. The USDIX briefly traded above 97 before settling at 96.6 while the Euro pulled back to 1.12. While the British Pound plunged against the Dollar, the Yen also weakened to 103 while the Rupee held steady. The bullish Dollar outcome was in line with expectations as I thought the midweek Venus-South Node alignment would spark some buying. The technical position of the Dollar got a huge boost as it moved above its 200 DMA last week. The ascending triangle pattern has an upside target at 98 so there is likely more upside now for the Dollar. Horizontal support is near 96 and the 200 DMA so bulls will have to defend those levels in the event of a pullback. A move below 96 would raise questions about the viability of this breakout although the upward momentum would likely have the final say. While the Euro did fall last week, it was less than the DX gain. The Euro touched support at the 20 WMA but it remains well above its July low of 1.10. With the ECB making noises about backing off its QE program, there may be a weaker case for the Euro falling below 1.10. Of course, if there is a Fed rate hike, then that would likely trump any reduction of Draghi's bond buying scheme.



This week could see more upside for the Dollar. Monday looks somewhat bullish on the Mercury-Jupiter conjunction. Perhaps it will retest Friday's high at 97. Tuesday and Wednesday look more bearish, however, so a pullback to the 200 DMA and 96 is very possible. I would not be surprised to see a move under 96. But the late week looks more positive so we could see the Dollar testing resistance at 97 or even higher. I would say the upside potential this week is perhaps only moderate probability (rather than high) but the trend higher is likely to continue. Next week looks more bearish as Mars conjoins Pluto. The retracement is more likely to occur in the first half of the week. We could easily see the Dollar back below its 200 DMA. The late week could see a recovery although it may not be able to recoup its losses. It seems unlikely that the Dollar will move much above 97 in October. November looks more mixed with no clear trend. Perhaps the Dollar will establish a new range between 94 and 97. December looks more bullish so we could see finally see a move back above 97 and perhaps even approach 100. January also looks bullish so a test of resistance of 100 is more likely then. March and April also look bullish so that could be enough upside energy to finally push it above 100.



**Technical Trends (Dollar)**

**Astrological Indicators**

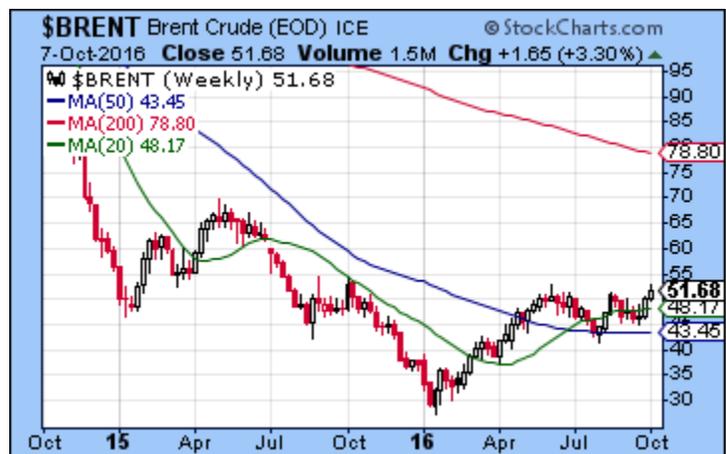
**Target Range**

|  |                      |         |
|--|----------------------|---------|
| Short term trend is UP<br>(1 week ending Oct 14)   | bullish (confirming) | 96-97   |
| Medium term trend is UP<br>(1 month ending Nov 14) | bullish (confirming) | 95-97   |
| Long term trend is UP<br>(1 year ending Oct 2017)  | bullish (confirming) | 100-110 |

## Crude oil

Crude oil extended its recent rally on hopes that the agreement for an OPEC production freeze would really hold this time. WTI gained 3% on the week and settled just under \$50 while Brent finished above \$51. While I thought we would get gains in the early week, I mistakenly thought the late week declines would have the final word. As it turned out, however, Friday's pullback was quite modest. The technical picture looks more positive here as crude is challenging its previous highs. Bulls have to feel a little safer these days as crude has climbed all the way back to \$50 after the 50% retracement low in August. The bulls would argue that higher highs are only a question of time once resistance from the June high is taken out. Some further consolidation is still possible, of course, although ideally it should create a higher low such as around \$46-48. And I would expect any pullbacks to this level to be bought fairly aggressively. The bullish case weakens only if there is a close below \$46. This would increase the likelihood of a retest of \$43. The bears are back on their heels now and may only be able to short at the interim high of \$51-52. Any move above that and we could see a short squeeze that pushes crude higher in the near term. The weekly Brent chart tilts bullish and only a reversal and red candle this week could negate the obvious up trend.

This week looks mixed at best. The early week could see more upside on the Mercury-Jupiter conjunction. However, that may only produce one or perhaps two up days. Given how close crude is to its old high, I would think a retest of the old high is likely but some pullback may follow. The late week looks quite bearish as Mars is in aspect with the Lunar Nodes. While crude could eke out another gain this week, it seems more likely it will finish lower. It all depends on where it tops out at in the first half of the week. I suspect WTI may only close above \$50 for a single day. Next week looks more bearish although the early part of the week could see a bounce. I would expect a lower



low by Friday the 21<sup>st</sup>. The Venus-Saturn conjunction on 30<sup>th</sup> October is a possible interim low for crude oil since November could see a modest rebound. I think \$43 is very possible by late October, if not lower. But November and December seem more likely to produce a rebound although it may be quite choppy. I am uncertain if crude will be able to move above \$52 by December. It's certainly possible and I wouldn't rule it out. But another major correction is likely in January and February. This could retest the interim low of \$40 although I'm not unsure if it will be bearish enough to retest the \$30 level. A lot will depend on how low this October retracement goes.

| Technical Trends                                    | Astrological Indicators | Target Range (WTI) |
|---|-------------------------|--------------------|
| Short term trend is UP<br>(1 week ending Oct 14)    | bearish (disconfirming) | \$46-49            |
| Medium term trend is UP<br>(1 month ending Nov 14)  | bearish (disconfirming) | \$40-44            |
| Long term trend is DOWN<br>(1 year ending Oct 2017) | bearish (confirming)    | \$30-50            |

## Gold

Gold prices collapsed last week on growing expectations of a Fed rate hike and the possibility that the ECB would end its misguided QE program. Gold fell 5% on the week and finished at 1251. While I had been forecasting a significant decline in October, I did not expect it to happen this soon. It now seems likely that gold will fall further in the near term. The technical situation had a lot to do with the plunge as bulls could not defend support at 1310. Once that broke on Tuesday, the next support level was 1250 – the descending triangle price target. Interestingly, this is also where the 200 DMA is so gold could find some stability here in the near term. And yet the inability for bulls to hold onto any gains on Friday's rebound was perhaps symptomatic of ongoing weakness in the gold market. If 1250 should fail, then gold bulls could be contemplating 1200 as their next support level. This is quite crucial in the long term bull story, of course, as it is the level that divides the bull rally breakout from the previous bear market trading range. Perhaps the real question is whether or not gold can remain above 1200. While there will certainly be buyers at or above 1200, there is no certainty that gold can rebound strongly from that level



given its recent price action. The descending triangle after 1375 suggests weakening conviction which does not augur well for another leg higher. And if the ECB reduces its QE bond buying program and the Fed hikes rates in December, then the fundamental story for the gold rally is basically taken off the table.

This week seems to focus on the question of whether we could see a bounce for gold at 1250. Previously, I had been bearish for this week but last week brought forward some of the negativity I had been seeing for gold in October. Therefore it is possible we could get some upside on the Mercury-Jupiter conjunction on Monday and Tuesday. While I think some downside is likely on Thursday or Friday, the week overall may not be that negative. More downside does seem likely for the rest of October but this week could bring a bounce.

Next week (Oct 17-21) looks more bearish as Mars conjoins Pluto in the second half of the week. Some further upside is possible in the early part of the week but I suspect gold will not be able to move back to 1300. The rest of October also looks bearish as the Venus-Saturn conjunction on Oct 30<sup>th</sup> may see gold decline further and perhaps even retest 1200. I would expect gold to drift lower through much of November. This would suggest there is good reason to think that gold will fall below key support at 1200. Gold may be subject to choppy trading in December and January although I do not expect a big rebound to take place. More downside is likely throughout 2017 with a retest of 1050 quite likely and even sub-1000 is quite possible.

| <b>Technical Trends</b>                              | <b>Astrological Indicators</b> | <b>Target Range</b> |
|--|--------------------------------|---------------------|
| Short term trend is DOWN<br>(1 week ending Oct 14)   | bullish (disconfirming)        | 1250-1280           |
| Medium term trend is DOWN<br>(1 month ending Nov 14) | bearish (confirming)           | 1200-1250           |
| Long term trend is DOWN<br>(1 year ending Oct 2017)  | bearish (confirming)           | 1000-1300           |

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