

Summary for week of 12 December 2016

- Stocks mixed this week with increasing downside risk
- Dollar likely to test resistance later in the week
- Crude oil may be range bound this week; new highs less likely
- Gold may bounce early but post-FOMC looks more bearish

US Stocks

Stocks extended this powerful Trump rally last week on a dovish ECB promise to extend QE asset purchases. The Dow gained 3% and hit another record close at 19,756 while the S&P 500 finished at 2259. This bullish outcome was somewhat unexpected as I thought we might see some early evidence of the coming correction. Not so. Not only did we not get any early week selling, the late week was no less bullish around the Sun-Saturn conjunction.

Investors are now focused on the likelihood of less regulation, lower taxes and higher profits under a Trump administration. They seem less concerned about potential negative impact of rising interest rates and government deficits but all things in good time. To be sure, there is a plausible case for stocks to go much higher in the medium term under Trump. That is why the bulls are controlling the conversation at this point. While there are sources of worry out there – Italy, China, Fed hikes – none are presenting a compelling reason for anyone to sell just yet. This week's FOMC meeting may refocus the discussion, especially if Yellen issues any fundamental changes to her forward guidance. Hitherto, she has been indicating a very gradual rise in rates back to normal, although given the massive debt levels around the world, some observers believe that rates will never be normal again. The market has basically priced in a hike with Wednesday's meeting although what Yellen will say is probably more important. If she signals concerns about Trump's economic policies, for example, that could dampen the current enthusiasm.



While it should not matter, Yellen is a Democrat and she may not be pleased with the Trump victory. She may well become part of official opposition to the Trump administration for the foreseeable future.

The astrological outlook is looking increasingly bearish. While I previously thought we would see a post-election bounce of some size in November and early December, I did not foresee the strength of this current Trump bump. I have also been too cautious about the possible impact of some short term bearish patterns in the past few weeks. Any possible down days have been negated or overwhelmed by the overall march higher to new all-time highs. Consequently, the Dow may well hit 20,000 this week. And yet Saturn is now approaching a closer alignment with Uranus and Jupiter. This increases the probability of a pullback and even a full-blown correction. As before, I think there is an elevated risk of steeper than expected declines over the next four weeks or so. That said, I would not be surprised if the downside was more muted such as we saw in the pre-election period.

The technicals look bullish but increasingly overbought. Bulls are chasing prices higher, possibility in the hope of pushing the Dow above 20,000. From a contrarian perspective, this would be an opportune time to sell. Instead of a broadening top, the higher highs on the SPX make the case for a simple rising channel. Channel resistance could be close to 2280-2300. Channel support is near the 200 DMA at 2118. I think the chances are fairly good we could see a test of resistance this week. The next pullback could test the 200 DMA although this would do nothing to damage the current 2016 rally. More immediately, the 20 DMA has acted as support in this Trump rally so we could see a quick test of that line first at 2201. A close below 2201 could well signal that a retest of 2118 is in the cards.

The arguments for a pullback are more compelling now. Not only are the indexes close to resistance, RSI is 76 now and is showing that stocks are overbought. Yes, overbought stocks reflect strong upward momentum and could produce more upside. But sooner rather than later, we know there will be a pullback. Stocks are also overbought on a weekly basis. The weekly Dow chart has RSI at 73 and stochastics at a lofty 98. A pullback to the 20 or 50 WMA could likely bring in a lot of buyers as the chart remains very bullish. Dip buyers will be expecting higher highs in Q1 2017 and will become frustrated if these don't happen. While this latest leg of the rally has been very strong, the longer term indicators offer hints of an overly mature bull market. The percentage of stocks above their 200 DMA is still well below its previous high. Yesterday's high matched the late November high and the resulting negative divergence suggested a weakening of the rally. Bond yields are still climbing as inflation expectations continue to rise. The 10-year yield is approaching key resistance at 2.5%. This matches its 2015 high. Yields still have some ways to go before reaching the more critical level of 3%. The Fed is likely watching this rise with some concern as an overly rapid rise in yields could prove to be disruptive. Yellen's forward guidance this week will be very important for the bond market.



This week is all about the Wednesday FOMC meeting. There are no obvious alignments that day so I cannot offer any clear views on likely immediate outcomes. I do think the bearish influences are building but I'm uncertain if they will be strong enough to manifest this week. Tuesday's Full Moon alignment with Saturn would suggest the bears have better odds. A decline is therefore possible than not on Tuesday and its effects could spill over into Wednesday. For that matter, even Monday is something of a question mark. Mars entered Aquarius over the weekend so there is always some turbulence from a Mars sign change. Whether or not it can last long enough to show up in Monday's trading is harder to say. If we have seen some declines on Monday or Tuesday, then the odds of a brief post-FOMC bounce rises. Thursday's Venus-Neptune alignment is slightly bullish in that respect. Friday looks more bearish, however, as Mars aligns with a slowing Mercury ahead of its retrograde station on Monday the 19th.



Next week (Dec 19-23) also contains some bearish potential, especially on Monday's Mercury-Mars alignment. As I have noted previously, there is a special risk here associated with the Electoral College vote. While a major upset of the Trump win is unlikely, the planets are aligned in a very interesting way that suggest something out of the ordinary may occur. More importantly, it may have market relevance. Some recovery is likely later in the week although the week as a whole could be negative. The following week (Dec 26-30) also looks bearish so we should see an extended pullback here at least. Uranus turns direct on the 29th so that could correspond with some unusual developments. Some upside is possible in early January but the mid to late January period looks bearish. It is possible late January will bring a lower low although it is hard to say with confidence. A rebound is likely in February and into March. Stocks may top out again in the first half of March and begin another corrective phase which lasts into May at least. This looks like a lower low relative to whatever low we see in late December or January. A strong rebound is likely to begin in June and extend through most of the summer. September will likely bring some downside which should last into October at least. The presence of these two fairly strong corrective phases in 2017 suggests the year as a whole is likely to be negative for stocks, and perhaps very negative.



Technical Trends

Short term trend is UP
(1 week ending Dec 16)

Medium term trend is UP

Astrological Indicators

bearish (disconfirming)

bearish (disconfirming)

Target Range

SPX 2200-2250

SPX 1950-2100

(1 month ending Jan 16)

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

bearish (disconfirming)

SPX 1500-1800

Indian Stocks

Stocks bounced last week as the ECB announced an extension of its QE program and investors took the RBI rate decision in stride. The Sensex rose 2% on the week to 26,747 while the Nifty finished at 8261. This bullish outcome was somewhat unexpected as I thought we might have seen more early week selling.

Stocks are looking fairly resilient here in the wake of a disappointing RBI announcement that kept rates unchanged despite the potential slowdown from demonetisation. The ECB also extended a lifeline to investors as Draghi promised to extend the QE program longer in an effort to boost economic activity in the Eurozone. This week may be more about the Fed as the FOMC meets on Wednesday. Chair Janet Yellen is widely expected to raise rates by 25 points as inflation pressures are growing. Her forward guidance will be read very carefully as she will have to weigh in on the possible implications of Donald Trump's free-spending populist program. US bond yields are on the rise ever since Trump's election in the anticipation of higher growth and higher inflation. Yellen is positioned to pour some cold water on the "Trump bump" in most global equities if she highlights dangers down the road. Investors should note that Yellen is a Democrat and she may not be pleased with the prospect of a Republican Trump administration for the next four years. Not to say that she will deliberately undermine its actions, but she may be more outwardly cautious about the risks of Trump's program. In some sense, Yellen's Fed may become part of the popular opposition to Trump's administration.



The planetary alignments still look fairly mixed over the coming weeks. I think the prospects are fairly low for a strong rebound off support at 8000 on the Nifty in the near term. Saturn will align with Uranus and Jupiter later in December and this is more likely to correspond to declines. Moreover, Uranus will station direct in close minor alignment with Rahu in late December. Whatever bullish influences may derive from the Jupiter opposition to Uranus, these are likely to be undermined by this instability from the Uranus-Rahu alignment. We are more likely to see sustainable gains on and after the Jupiter retrograde station on 6th February. After that time, Jupiter will align favourably with Uranus and should push stocks significantly higher. But before that time, I think stocks will be hard pressed to recover from their recent decline. Further downside is also quite possible between now and the end of January.

The technical picture looks bullish in the short term after Friday's close put in a higher high. The bounce off support at 8000 may have entered a second phase as the late week rally pushed above the 20 DMA. The 50 DMA is the next obvious area of resistance near 8422. Stronger horizontal resistance is near 8500. Last week's higher lows and higher highs suggest that push up to 8400 and 8500 is looking more likely in the short run. 8400 would represent a 50% retracement off the previous major high. Any move below the previous interim low at 8056 would be bearish and may suggest a return to the 7900-8000 area. But if 8056-8100 holds as support, we could see more upside in the coming days. To be sure, the current bounce is part of an extended test of the 200 DMA at 8188. Stocks cannot afford to fall too far below that level or else risk the possibility of a larger collapse.

Stochastics is overbought so that may argue for some short term selling perhaps as early as this week. Bulls may be looking at the weekly Sensex chart for encouragement as stochastics are oversold and trying to move above the key 20 line. While there is a possibility it could bounce higher here, there is also a risk of a retest and second break below the 20 line as happened in mid-2015 and early 2016. A sustainable rebound looks unlikely in the near term as MACD remains in a deep bearish crossover. A retest of the 200 WMA at 24,658 is looking more likely here. Even if we got a deeper sell-off to this level, it would still be a bullish buying opportunity as the key moving averages are still sloping upwards. This is an important indicator for a bull market that is not likely to fail anytime soon. Meanwhile, Tata Motors (TTM) had a nice bounce off horizontal support last week. It may try to recapture the 200 DMA in the days ahead. I would think key support is near the 20 DMA now so that any move below that will be bearish and could signal a retest of the early December low. HDFC Bank (HDB) saw a modest rise last week as it extended its consolidation above the November low. The early week rejection of the 20 DMA suggested that it may have some more downside before a sustainable rally is possible.



This week gives the bears a somewhat better chance to prevail. Monday looks a little bearish on the entry of Mars into Aquarius and its tense alignment with the Moon. Tuesday leans slightly bullish perhaps on the Moon-Jupiter aspect but it is not a clear influence. Wednesday looks somewhat more bearish on the Full Moon that aligns with Saturn. The late week also leans bearish (after the Fed) as both Thursday and Friday will see Mercury approach its conjunction with Pluto. Mercury turns retrograde on Monday the 19th but I suspect it could correspond with some early selling later in the week here. While I would not rule out further upside in this current rebound, this week does not offer a compelling rationale for it. I would think last week's lows at 8056 are more likely to be retested than resistance at 8400. Some upside is conceivable here but it is more likely early in the week. It seems less likely to be strong enough to push the Nifty back to 8400.



Next week (Dec 19-23) may be bearish in the early going as Mercury turns retrograde near the close on Monday. The sell-off could be related to US politics and particularly the election. While the sell-off may be sizable, the possibility of a late week recovery suggests the technical damage may not be significant. I would think we could see the Nifty remain above its previous low of 7900 and perhaps even 8000. The last week of December looks mixed with some upside likely in the first half of the week. The late week looks bearish, however, as Uranus stations direct while in close alignment with unstable Rahu. January looks somewhat more bullish although I would necessarily not expect a large rebound. February looks bullish also as Jupiter turns retrograde on the 6th and then aligns with Uranus. I think lower highs are more likely by early March, possibly in the 8300-8500 range. March looks bearish, however, and we could see lower lows by late April and May as Saturn aligns with Rahu. After a rebound in June and July, August and September also look difficult for stocks as Saturn ends its retrograde cycle. Lower lows are therefore possible in Q3. Q4 could bring a rebound but early 2018 should see another significant move lower.



Technical Trends

Astrological Indicators

Target Range

Short term trend is UP
(1 week ending 16 Dec)

bearish (disconfirming)

8000-8200

Medium term trend is DOWN
(1 month ending 16 Jan)

bearish (confirming)

7600-8000

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

bearish (disconfirming)

6000-8000

Currencies

The Dollar pushed higher again last week as the ECB issued a dovish statement and extended its QE program. The USDX finished at 101.5 just under its recent high while the Euro fell below 1.06. The Rupee strengthened to below 68 while the Yen weakened to 115. This bullish outcome was in line with expectations as I thought the late week Sun-Saturn conjunction would correspond with gains. This proved to be the case as Mario Draghi weakened the Euro. With the Dollar back up at resistance at 1.02, it is at a critical juncture with higher highs close at hand. Thursday's quick test of support at the 50 DMA suggested that the bulls are still very much in control. The next

piece of bull-friendly news could easily push the DX over the top. Janet Yellen may well provide the impetus for the higher high if the Fed actually raises rates on Wednesday. While the market is widely anticipating a hike here, we should expect more upside at least in the short run. Of course, her comments about forward guidance and the reaction to the Trump's more inflationary economic policy will be watched carefully. Conversely, the Euro is hanging on to support here as 1.05 looms large. A breakdown could see a quick fall to 1.02 and ultimately the downside target could be below parity at 0.95. Given the ongoing weakness of the EU economies, a weaker Euro is probably exactly what Draghi wants.

This week looks more mixed. Some retracement is possible in the first half of the week although the late week looks bullish. It seems unlikely we could get a new high this week, although I think it is coming soon enough. A retest of intermediate support at 100 is possible this week. Next week looks bearish as the early week Mercury retrograde station could introduce more volatility into the currency markets. While we could see some consolidation, I think we should see the Dollar strengthen for the rest of December with higher highs likely in the last week of the month. I would therefore think the odds are fairly good we could see 1.05 by New Year's. The rally is likely to run out of steam by the first week of January, however. January looks volatile and could bring higher highs but they seem less sustainable. More declines are likely in February although March could bring some upside. This may be a lower high, however. Another Dollar rally is likely in early Q2 and we could even see higher highs then. I think that 2017 should generally be bullish for the Dollar with a larger down trend more likely in 2018.



Technical Trends (Dollar)

Astrological Indicators

Target Range

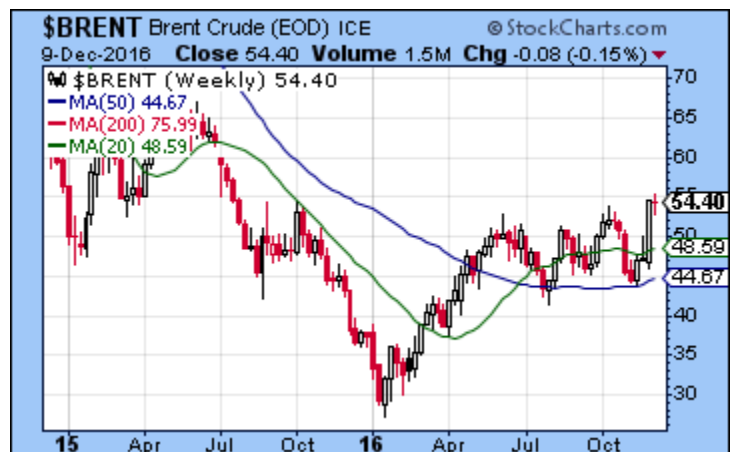
Short term trend is UP (1 week ending Dec 16)	bullish (confirming)	100-102
Medium term trend is UP (1 month ending Jan 16)	bullish (confirming)	102-105
Long term trend is UP (1 year ending Dec 2017)	bullish (confirming)	100-110

Crude oil

Crude oil was fractionally lower last week as traders took profits, especially following renewed Dollar strength after the ECB meeting. WTI edged lower on the week to \$51.50 while Brent again finished in the \$54 area. This slightly bearish outcome was in keeping with expectations as I thought we would see some kind of retracement given Monday and Wednesday's bearish alignments. As it happened, the low of the week occurred on Wednesday although Monday proved to be bullish. The late week was bullish as expected with prices rebounding off support. As expected, the first level of support did hold at \$49. Last week's retracement therefore fulfilled a bullish requirement and now the bulls have the baton and will try to push prices above \$52. The short term outlook looks positive so even if bulls are unsuccessful this week, they are still more likely to break above \$52 eventually. Another move below \$50 would dampen the enthusiasm, however, as it would suggest more sideways movement. A lower low near the 20 or 50 DMA would be more bearish although I suspect it would not spell the end of the current rebound off the August low. From a cautious viewpoint, crude is merely at the upper end of a trading range between \$43 and 52. A breakout will be bullish. The weekly Brent chart looks more bullish given the rising channel of slightly higher highs and slightly higher lows. Brent is currently testing channel resistance. A close above \$55 could indicate a new upside target of \$65.



This week looks a little bearish. Some early gains are still possible, but I would not say the odds of decisive new highs are high. WTI may end up only retesting resistance at \$52. The post-FOMC period this week looks more bearish as Mercury approaches its conjunction with Pluto. While I would not be surprised if crude finished higher, the case for gains is not strong. Next week could see some gains but again I am unsure if they will be strong enough to put in new highs. If the previous week ends close to resistance, then the case of higher highs will be stronger. Further upside is possible into the first week of January.



However, the rest of January looks more bearish. Depending on where crude tops out at, we could see a 20% decline by the end of January and early February. Another rebound is likely to begin by mid-February and continue into perhaps early March. It seems unlikely to produce a higher high. Then we should see another correction in April and May. Overall, I think crude is likely trending lower for the first several months of 2017 until perhaps an interim low in May. We should see \$40 broken at some point and very possibly a retest of \$30 by May. After a rebound in June and July, more downside is likely from August to October. Q4 looks somewhat more bullish, however.

Technical Trends	Astrological Indicators	Target Range (WTI)
Short term trend is UP (1 week ending Dec 16)	bearish (disconfirming)	\$49-52
Medium term trend is UP (1 month ending Jan 16)	bearish (disconfirming)	\$39-45
Long term trend is DOWN (1 year ending Dec 2017)	bearish (confirming)	\$30-50

Gold

Gold trended lower last week as the ECB promise to extend its QE program sent investors back to the Dollar. Gold lost more than 1% on the week to 1161. This bearish outcome was in line with expectations as I thought the late week Sun-Saturn conjunction could correspond with significant downside. This proved to be the case as the rest of the week had been fairly choppy. Gold is still searching for a tradable bottom here. It's possible it may have found one at 1160 since it matches previous recent intraday lows. After the breakdown of support at 1250, gold may be forming a falling wedge pattern here which is often bullish, even if only briefly. This argues for a pop higher soon enough. That said, gold occupies a kind of technical no-man's land here below 1200 but above 1100. There is not a lot of horizontal support here so that suggests it is less likely to spend much time in this area. It will likely bounce back above 1200 or quickly fall to 1100. The chart is obviously bearish so that would tend to argue for a quick decline to 1100. And yet maybe it is a little too obvious. A rally back above 1200 would keep the market guessing and force weak bears out of their short positions. But even if 1200 is recaptured, the longer term



view on gold is bearish as the downside target would still be 1030.

This week could see a brief bounce, especially in the first half as the Moon aligns with Jupiter and Venus. It seems unlikely to move above 1200, however. The second half of the week looks more iffy. With the FOMC meeting Wednesday, there is a risk that a rate hike could doom gold even further. While a hike is largely priced in already, additional downside is not out of the question especially if the Fed indicates it will become more aggressive raising rates in 2017.

Next week (Dec 19-23) is a mixed bag. The early week could see some upside but overall I would maintain a bearish bias. The late week is more bearish and even if we see a positive week, more downside is likely to come in the week after Christmas. I would expect lower lows by New Year's although I'm uncertain how low they will be. We could see a short rebound in early January but it looks like it won't significantly alter the technical picture. Late January and early February look bearish although I am uncertain if this will be a lower low. After a modest rally in February and early March, another significant correction is likely in March-April. I would think 1030 is very possible by April, if not lower. After a June-July rebound, more downside to potential lower lows is likely starting in August and September as Saturn aligns with the Lunar Nodes. Gold looks like it could finally make a more durable move higher in 2018, especially in the second half.

Technical Trends	Astrological Indicators	Target Range
Short term trend is DOWN (1 week ending Dec 16)	bearish (confirming)	1150-1180
Medium term trend is DOWN (1 month ending Jan 16)	bullish (disconfirming)	1150-1250
Long term trend is DOWN (1 year ending Dec 2017)	bearish (confirming)	1000-1300

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