

Summary for week of 24 December 2016

- Stocks vulnerable to declines early in the week but could recover late
- Dollar may test resistance again this week; further gains uncertain
- Crude oil could retrace early but buyers may return later in the week
- Gold likely to move lower this week but strong bounce coming soon

US Stocks

Stocks edged higher on the week on light holiday volume and the absence of any major new data. The Dow added about half a percent to 19,933 while the S&P 500 finished at 2263. This bullish outcome was somewhat unexpected as I thought we might have seen more early week downside on the Mercury retrograde. Indeed, the absence of any downside at all was disappointing given the tense short term planetary set up. Given the mix of influences last week, I was still uncertain we would get a down week, however.

But this Trump rally has gone on longer than I expected, at least from an astrological perspective. Fundamentally, there is good reason why stocks are higher as Trump will likely create a more business-friendly environment. But the rally can't go over indefinitely, at least not without some kind of pullback and consolidation. Investor complacency could be a problem here as more commentators are pointing to the low level of the VIX as a warning sign. Increasingly, stocks are priced to perfection and are therefore vulnerable to any sudden shock. Of course, even if there is a shock which produces a sell-off, the strong upward momentum of stocks in 2016 suggests that the subsequent rebound will likely be strong enough to approach previous highs, if not set new highs. While the new rising interest rate environment could be bearish for stocks, its negative effects may be some ways down the road.



The planetary picture is still suggesting a high likelihood of a pullback/correction between now and late January. To be sure, stocks have been bullish for longer than expected but the current alignments suggests declines are more likely than further gains. The medium term influences suggest we could be a key turning point here in late December and early January as Jupiter, Saturn and Uranus all align in the same degree of their respective signs. Moreover, Uranus, the planet of change and rebellion, will station direct this week thus emphasizing the importance of this alignment. I had thought the stocks would be more bearish as we headed into this alignment but it may be that it will coincide with a change in trend. Stations of slow moving planets like Uranus (and Saturn and Jupiter) are more frequently associated with trend changes. Therefore, the month of January should be bearish overall. Given that the month of December will likely be bullish, that compresses some of the negativity and could make January declines steeper than expected. February is still looking bullish as Jupiter stations retrograde opposite Uranus early in the month. But the planets in March and April argue against a sustained rebound and we could see a second leg lower, probably during the April-May time period. Early April is potential key in this respect as Uranus re-enters Aries on April 5th while Saturn turns retrograde a day later on the 6th. It looks like a difficult combination.

The technical picture is a familiar one: stocks overbought near record highs, but with indicators like MACD strongly hinting at a pullback. MACD is rolling over and is now negative indicating some downside is likely in the near term. But how much? Bulls will want to keep pullbacks to a minimum 3-5%, such as we saw in Sep-Oct. Even a retest of the 200 DMA at 2131 would only be a 6% pullback. Immediate support may be closer to the 50 DMA and the previous high near 2200. Resistance is from the rising channel trend line now around 2290-2300. Longer term support may be closer to SPX 2000 which connects the rising trend line off the January low. It would take a 10% correction to retest that rising trend line. As shocking as such a decline might be, it would still present a viable buying opportunity given the long term up trend of the market.

Not only are stocks overbought, but the rally is narrowing as breadth indicators are showing weakness. The percentage of stocks above their 50 and 200 DMA indicate a negative divergence with their summer levels given that the indexes are at their all-time highs. The Dow is trying to touch 20,000 but so far hasn't managed to do it as it fell just 13 points short of that level. It's hard to know which is a better indicator for a pullback. Contrarians would argue that a close above 20,000 would be a very good time to sell. Whereas, failure to close above 20,000 after repeated attempts might indicate weakness and in itself is reason to protect profits and lighten up on the long side. The weekly Dow chart looks very overbought as stochastics are at 97 and RSI at 75. Stocks could still rise in the short term and further push these indicators into overbought territory but this is likely not a good time to begin medium or long term positions. Meanwhile, bond yields drifted lower last week but remained above 2.5% on the 10-year. The bear market in bonds seems to have begun in earnest as all three moving averages are pointing strongly higher. A sharp pullback is inevitable fairly soon, perhaps to the 50 DMA at 2.1% or even to the 200 DMA at 1.8%. It seems unlikely that even a move



below 2% will abruptly change the upward direction for yields. The Fed will have its work cut out for it to keep long term rates low.

This week is holiday shortened as there is no trading on Monday. The week as a whole leans bearish. There are two key patterns I am watching this week. The first is the Monday-Tuesday alignment of Mars, the Lunar Node and Uranus. This is a short term pattern which may elevate volatility. It is a high probability bearish pattern which could produce a significant down day (>1%). Last Monday's Mercury retrograde offered a similar bearish profile but that proved to be a misfire. It is possible that short term aspects are being negated by other bullish patterns. Nonetheless, I would alert readers to the downside risk early in the week. Some upside is likely on either Wednesday or Thursday as Venus enters Aquarius. There is also a multi-planet alignment of Sun, Mercury and Mars on these days which argue for significantly increased trade volumes as tension may rise. I'm not certain it will produce declines in the midweek, however, although it complicates the simpler bullish influence of Venus. Friday could go either way, however, as Mars approaches its conjunction with Neptune. This is a bearish pairing but the conjunction will not be exact during trading hours so it may not manifest. If we have seen significant declines earlier in the week, then Friday could see some upside. Uranus turns retrograde on Thursday so that is another source of instability this week although I would not necessarily single out Thursday for special consideration.



Next week (Jan 2-6) will also be shortened for Monday's observance of New Year's. The first week of January still has a bearish potential, although I would not say it is a high probability. Tuesday leans bearish on the Moon-Mars conjunction. Some upside is possible during midweek as Mercury aligns with Venus. Thursday's Moon-Uranus conjunction also suggests some upside. Friday looks more bearish on the Sun-Lunar node conjunction. The following week (Jan 9-13) also leans somewhat bearish. The first half of the week looks more negative as Mars aligns with Pluto. The late week leans a bit bullish as Venus conjoins Neptune.



While we could see some upside leading up the Inauguration on the 20th, the inauguration itself and afterwards looks bearish as Saturn enters Sagittarius and Mars enters Pisces. Large declines are more likely as a result of these placements. Overall, there is a good chance that we will see the SPX test its 200 DMA sometime in January. An interim low looks most likely in the latter half of January or possibly early February. February itself looks bullish as Jupiter turns retrograde and aligns with Uranus. This rebound may be fairly strong and could even form new all-time highs. A lot will depend on where the preceding low occurs. March is likely to see the rebound rally end and a reversal lower could begin. April and May also look bearish as Saturn aligns with the Lunar Nodes for an extended period. A summer rally may begin in June and continue into July and August. I would not rule out another all-time high here although it is difficult to say. Another move lower is likely from August to perhaps October as Saturn stations direct and again aligns with the Lunar Nodes. Q4 2017 looks mixed but a large decline is more likely to begin by Q1 2018.

| Technical Trends | Astrological Indicators | Target Range |
|--|-------------------------|---------------|
| Short term trend is UP (1 week ending Dec 30) | bearish (disconfirming) | SPX 2200-2250 |
| Medium term trend is UP (1 month ending Jan 30) | bearish (disconfirming) | SPX 1950-2100 |
| Long term trend is UP (1 year ending Dec 2017) | bearish (disconfirming) | SPX 1700-2000 |

Indian Stocks

Stocks fell again last week as investors considered the impact of a rising Dollar and reduced FII inflows. The Sensex lost more than 1% to 26,040 while the Nifty failed to hang onto the 8000 level finishing at 7985. This bearish outcome was in keeping with expectations as I though the early week Mercury retrograde could be bearish. As it turned out, however, the late week was more bearish than expected as the largest decline of the week occurred on Thursday. Friday's rebound was broadly in keeping with our forecast.

The outlook for stocks is somewhat uncertain here. The rising Dollar is a serious obstacle for foreign investment which could limit new capital formation. The Modi cash ban still looks to be a headwind here and may well continue into the New Year as the government is still changing rules and trying to mitigate fallout. Even the GST rollout is uncertain in terms of timing and specifics. In other words, even if global cues continue to be positive – a big if – Indian equities will have some difficulty forging ahead. This is even more the case after RBI governor Patel indicated that he is more concerned with controlling inflation than promoting growth. That is bad news for stocks, of course, as higher interest rates will tend to depress economic growth.



The astrological outlook is mixed for the next few weeks. Jupiter aligns with both Saturn and Uranus over the next week so that could mark a turning point of sorts. Additionally, Uranus ends its retrograde cycle and stations direct this week and may coincide with some volatility in the short term. Overall, I think January will also be mixed although some upside is possible heading into the middle of the month. Saturn enters Sagittarius in the last week of January, however, so that could negate some of the preceding gains in that month. February looks more reliably bullish as Jupiter turns retrograde in early February and then aligns with Uranus. Since the planets look mixed over the next few weeks, we cannot rule out lower lows below 7900. That said, I would be surprised if we got a sudden collapse. It seems more likely that lower lows will only be marginally lower.

The technical outlook is bearish in the short term. Last week's decline pointed to a hard retest of the previous low and thus a possible bullish double bottom pattern. In that sense, the technicals are short term bearish but if 7900 can hold as support, then the outlook becomes more bullish. Bulls can also point to a positive divergence on the RSI as its current level is above its late November level. More negatively, however, MACD has only begun a bearish crossover and may have further to fall before reversing higher. While the bulls have an obvious way forward here above 7900, there will certainly be a lot of stop losses just underneath that level which could be vulnerable. This is another reason why a marginally lower low in the coming days may not necessarily be bearish.

Bulls are on notice, however, as the preceding rebound only made it as far as the 200 DMA before reversing lower. With the Nifty still on the wrong side of the 200 DMA, weak bulls may be worried that they are on the wrong side of the trade. If 7900 doesn't hold as support, then the downside target would be around 7500 based on the strength of the previous bounce. In the short term, resistance is likely around 8100. A bounce back to that level would keep the pressure on the bulls as the threat to a breakdown of 7900 would remain in place. A close above 8100 would be more bullish here and could begin a longer term rebound off support. The weekly BSE chart is still trying to form a viable bullish crossover in stochastics. It hasn't quite managed it yet, but it is close. RSI is still not yet oversold so there is some theoretical room for more downside in the coming weeks. Support is 26,000 so any close below that level would be very bearish for the Sensex. However, 26,000 is very close to a 50% retracement off the high of 29,000 so that could provide added support. Resistance is the early December high of 26,800 so any move above that level would have an upside target of 27,600. Meanwhile, HDFC Bank (HDB) enjoyed a decent bounce this week after making a new low. Any move above its November low would suggest this rebound could have some staying power. Failure to move above that level, would suggest a retest of last week's bottom and possibly even lower lows. ICICI Bank (IBN) managed to hang onto support at its 200 DMA last week. Further upside is possible here although any breakdown could be bad news for bulls as the series of higher lows would be broken.



This week looks bearish as Mars conjoins Ketu (South Lunar Node) early in the week. This is often a negative combination and it is made more volatile here since it aligns with a near-stationary Uranus. Uranus ends its retrograde cycle on Thursday and so it will be barely moving at all throughout the week. This may reflect instability in sentiment. Given how close the Nifty is to support at 7900, it seems likely that we will see a hard retest of that level on Monday or Tuesday. I would not be surprised if support was broken on this alignment. Some upside looks likely in the midweek as Venus enters Aquarius on Wednesday and the Sun conjoins Mercury on Thursday.

Neither of these placements are certain to produce bullish outcomes although taken together, they should produce some gains in the wake of possible preceding declines early in the week. Friday leans bullish. Overall, the downside risk is more reliable than the bullish alignments in my view. For this reason, I think the week will be negative overall. It's likely we may finish above 7900, however.

Next week (Jan 2-6) looks more bullish as Mercury aligns with Venus. The late week leans a bit more bearish, however. Overall, I think there is a decent case for a bounce here, especially if the preceding week has been negative. The following week (Jan 9-13) looks more bearish, however, as Venus conjoins Ketu and Mars aligns with Pluto early in the week. Even if the preceding week is bullish, there is enough negativity here to produce a retest of the previous low. The second half of the week looks more bullish. More upside is possible in mid-January although the Mars-Saturn square on 18-20 January looks turbulent. Late January is also vulnerable to more declines as Saturn enters Sagittarius on 25th Jan. However, at this point I think that declines may not be strong enough to establish a new down trend and may instead represent a range bound market. February is more bullish as Jupiter aligns with Uranus. I would expect a lower high in March from this rally, perhaps somewhere in the 8500-8700 range. Another corrective phase is likely to begin sometime in March and continue into April and May. May appears to be the most bearish month in this regard. The correction looks significant enough to negate most if not all of the preceding rally in Feb-March. A summer rally is possible starting in June and continuing into July. More downside is likely in August and September, however, so it may be difficult for stocks to make much headway in 2017. I would expect lower lows at some point through the year, whether they occur in May or in September.



Technical Trends

Short term trend is DOWN
 (1 week ending 30 Dec)

Astrological Indicators

bearish (confirming)

Target Range

7900-8050

Medium term trend is DOWN
(1 month ending 30 Jan)

bearish (confirming)

7800-8200

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

bearish (disconfirming)

6000-8000

Currencies

The Dollar was mostly unchanged last week as traders took profits while latecomers gained a foothold in the rally. The USDX finished just below 1.03 again while the Euro remained above 1.04. This neutral outcome was in keeping with expectations as I thought the influences were fairly mixed. We did see some early week gains on the Mercury retrograde but they didn't last. Not much has changed in the currency markets as the Dollar is taking a well-deserved breather. It's very overbought so it should be more likely to retrace at least a little in the coming days. Higher highs are still very possible, especially if there are growing signs of political stability in the US with the incoming Trump administration.

Trump's ability to get spending bills through Congress remains a question mark, however, so markets will be awaiting some evidence that his infrastructure plans can become a reality. The medium term technical target for the Dollar is likely still 1.08 although it may find resistance at 1.05 in the near term. Support is likely near 1.02 and the 20 DMA. A deeper retracement to the 50 DMA is also possible and would not jeopardize the rally in the longer term. The weekly Euro chart shows how vulnerable it is to more downside as last week's bounce was tiny. It remains perched precariously on support at this point. The difficult technical situation also applies to most other currencies against the Dollar. A breakdown of 1.04 could spark a rush to the exits and quickly push the Euro to parity and below.

This week could give the Dollar another opportunity to rally. The early week looks most bullish in that respect as the Mars-node alignment is often bullish as part of a safe haven play. We could easily see a retest of last week's high above 1.03. But the late week looks less positive so I'm uncertain if gains will hold. A brief run-up to 1.04 is conceivable this week but I wouldn't necessarily bet on it. Next week looks bullish to start but the late week could erase early gains. It's possible we could see the Dollar rally a bit further in early January, but 1.05 may be hard to achieve. The Dollar is more likely to begin to retrace by the second week of January. This pullback should

continue for most of the rest of January. It may well take it below 100. February should see more downside for the Dollar. I would not expect a massive sell-off but more likely an orderly extended retracement that forms a



higher low. A bottom is possible sometime in March after which another significant rally is likely. I am uncertain about the possibilities for a higher high by May. It's possible but it's unclear. More downside is likely in the summer and a retest of the 200 DMA is not out of the question. A rally is likely in August and September but I have my doubts about whether this will be able to offset the preceding retracement. Higher highs are therefore less likely in the second half of 2017. Early 2018 should coincide with a major sell-off in the Dollar.

| Technical Trends (Dollar) | Astrological Indicators | Target Range |
|--|-------------------------|--------------|
| Short term trend is UP (1 week ending Dec 30) | bullish (confirming) | 102-104 |
| Medium term trend is UP (1 month ending Jan 30) | bearish (disconfirming) | 99-102 |
| Long term trend is UP (1 year ending Dec 2017) | bullish (confirming) | 98-105 |

Crude oil

Crude oil was mostly unchanged last week in the absence of any significant new data. WTI went sideways for the week finishing at \$53 while Brent settled at \$55. This neutral outcome was more or less in keeping with expectations as I thought the mix of influences was unlikely to produce a strong result one way or the other. However, I mistakenly thought that Wednesday would be bullish but that day saw the largest decline on the week. The current consolidation looks bullish enough as crude is trying to break above resistance. Retracements have been very modest thus far and that argues for higher highs soon enough. There is a fair amount of overhead resistance above \$54 so we may be more likely to see crude grind slowly higher rather than breakout. It's hard to say. Support is now at \$52 for WTI so any close below that level would indicate a deeper retracement, perhaps to the \$50 level or even the 50 DMA. This 2016 rebound rally will only be called into question with a significant break below the 200 DMA at \$46. In other words, bulls have significant room for error going forward in the event of some bad news. The weekly Brent chart is bullish as the rising channel of higher highs and lower lows is still intact. If the pattern continues, then we are more likely to see a move lower to retest channel support in the next few weeks.



This week could see some further testing of resistance. I'm uncertain if we will have a winning week, however. The early week leans bearish on the Mars-Node conjunction while the late week could bring back buyers, especially on Thursday on the Moon-Jupiter aspect. If the early week is only modestly bearish, then we could see crude move higher by Friday. Next week (Jan 2-6) looks somewhat more bullish as Mercury aligns with Venus. There will likely still be some down days, especially on Tuesday's Moon-Mars conjunction. But overall, we could see WTI move above \$54. The following week (Jan 9-13) looks bearish to start on the Moon-Saturn opposition but a recovery is likely later in the week. I would think the rally runs out of steam sometime in the middle of January with declines more likely in the second half. Depending on where crude tops out at, I think the chances are fairly good that January will be a down month overall. More downside is possible in February with a possible interim low in early March. We could see a test of the 200 DMA at that time. Crude may be under pressure from March until May with lower lows possible. A significant rebound should begin in June and continue through July but higher highs are unlikely. The second half of 2017 is mixed at best with so we could see it range bound between \$35 and \$55 until 2018.



| Technical Trends | Astrological Indicators | Target Range (WTI) |
|---|-------------------------|--------------------|
| Short term trend is UP (1 week ending Dec 30) | bullish (confirming) | \$52-54 |
| Medium term trend is UP (1 month ending Jan 30) | bearish (disconfirming) | \$48-52 |
| Long term trend is DOWN (1 year ending Dec 2017) | bearish (confirming) | \$35-50 |

Gold

Gold slipped further last week as the Italian government quickly stepped in to assist its failing banking sector. Gold ended the week down marginally to 1133. This bearish outcome was in line with expectations although it was more modest than expected. I thought we might have seen more early week downside on the Mercury retrograde but only Tuesday generated any selling. Gold seems to be searching for a tradeable bottom here as declines are moderating in recent sessions. Gold is finding support at 1125 so that may hold for now. However, we may discern a descending triangle pattern which has a downside target of 1100-1110 in the event that support at 1125 is breached. We could see more bargain hunters at 1100 although the chart is still pointing to an eventual retest of the previous low of 1050. At this point, bulls are understandably skittish and may sell any positions after even small gains. This post-Trump sell-off has been so steep that not even the 20 DMA has been tested on any bounces. Any sustainable rebound will therefore have to test this line before it has any hope of going further. The 20 DMA is now at 1159. Horizontal resistance is closer to 1145, however. If gold does fall all the way down to 1050, then that would be a more compelling place for bulls to enter long positions since the double bottom is a bullish pattern. If the double bottom pattern fulfilled its eventual upside target, gold would hit 1700 after two or three years. But we're a long way from that scenario.



This week has more downside possibilities, especially on Tuesday and Wednesday. Mars conjoins the Lunar Node on Tuesday and this could bring more selling. We could see a hard test of 1120 and I would not be surprised if gold broke down to 1110. The late week Venus-Neptune alignment looks more bullish so there may be some recovery. I would keep an open mind on the week as a whole although I would retain a bearish bias just in case.

Next week (Jan 2-6) could see some upside on the Mercury-Venus alignment, especially early in the week. The late week Venus-Node conjunction is more problematic, however. We could finish higher here. The following week (Jan 9-13) looks more bullish as Venus conjoins Neptune. A strong gain seems likely during early January and this second week is probably the best time for it. We shall see. Then a sharp move lower is likely on Jan 16-18 on the Mars-Saturn square. The second half of January leans bearish as a result of this alignment. Lower lows are possible although given the probability of some preceding upside, I wouldn't assume that they are inevitable. A stronger rally is likely in February and March as Jupiter turns retrograde on Feb 6th and aligns with Uranus. This looks like it could produce a 10% rally, and maybe more. Another correction is likely starting in March and extending into May perhaps. Again, lower lows are possible although it will depend how strong the preceding rally has been. A short rally in June is likely but more downside is probable on the Saturn-Node alignment in

August and September. This looks more likely to produce lower lows although guessing levels is difficult. It is possible we could see gold fall below 1000 at this time. A sustainable rally looks more likely to begin only in 2018.

| Technical Trends | Astrological Indicators | Target Range |
|--|--------------------------------|---------------------|
| Short term trend is DOWN (1 week ending Dec 30) | bearish (confirming) | 1100-1140 |
| Medium term trend is DOWN (1 month ending Jan 30) | bullish (disconfirming) | 1100-1150 |
| Long term trend is DOWN (1 year ending Dec 2017) | bearish (confirming) | 1000-1300 |

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