MVA INVESTOR NEWSLETTER

14 January 2017 Volume 10, Issue 3

Summary for week of 16 January 2017

- Stocks more vulnerable to declines this week
- Dollar may test support early but should rebound
- Crude oil likely to move lower through the week
- Gold may retrace this week

US Stocks

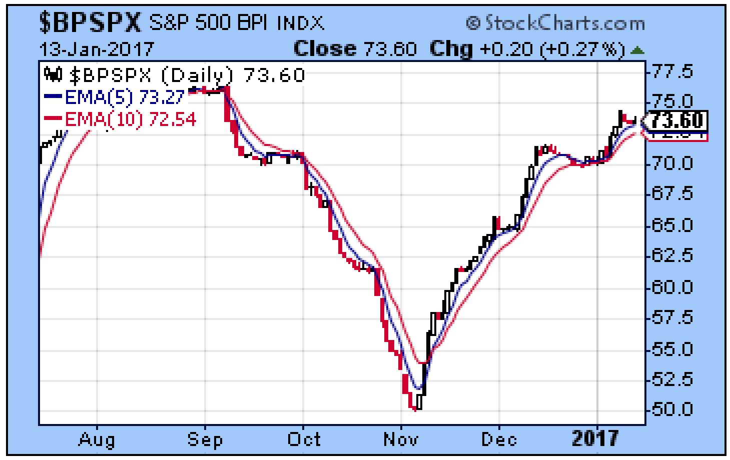
Stocks moved sideways last week as cautious investors awaited the beginning the earnings season. The Dow again failed to hit 20,000 and ended the week lower at 19,885 while the S&P 500 lost just two points to 2274. This neutral outcome was not unexpected as I thought there was a mix in influences could move sentiment in both directions. We did get the predictable test of 2260 on Wednesday and Thursday but stocks recovered.

Markets are still strong here although there some observers are discussing the possibility that Friday's Inauguration of Donald Trump may be the classic case of "selling the news". In this view, the Trump rally is based on expectations of higher growth from his policies but once he is sworn-in investors will take profits and wait for more evidence that he can actually follow through on his promises. With stocks overbought anyway, there is good reason to think that we could see at least a pullback after the inauguration. However, Trump could begin his tenure in the White House with a flurry of activity that gives the markets more reason to cheer. If Obamacare is quickly repealed and replaced with a viable plan then that could reassure markets. Other proposals to cut taxes and regulations could also impress the market if serious plans are put forward. As always, however, Congress will have the final word to what extent Trump can realize his protectionist, pro-growth agenda. That legislative process will take longer and could mean these bold steps could take several months (at least!) to come to fruition.

The planetary alignments still support the notion of a pullback after the inauguration, if not a few days before. My general expectation is that we will see stocks move lower over the next three weeks or so until perhaps the Jupiter retrograde station on February 6th. While the probability of a pullback is high here, it is less clear how large it could be. Certainly, there are some potent negative influences as Mars aspects Jupiter early this week and then aligns with Saturn on Thursday. And then Saturn enters Sagittarius on Jan 25th. I think the consensus view is that this initial pullback may quite modest and perhaps only goes to 2200. The planets hint at a somewhat deeper pullback than that, although I would be reluctant to assign a high probability to a large decline such as to 2100 or below. Another move higher is likely for February and into early March. It is quite possible that this could produce a higher high. A larger decline is more likely in April and May. It could begin as early as late March.

The technical picture remained bullish on all time frames. The short term outlook is perhaps the most vulnerable as the SPX is forming a possible double top pattern. If support at 2240 is broken, then the downside target would be 2190-2200. Bulls can still point to the strong bounce off 2260 last week as the reason why stocks could push higher in the near term, however. With Dow 20,000 so close, it is not impossible that we could get a brief push higher this week that achieves that milestone. But in that case, it seems more likely that we would see only a marginally higher high before a larger pullback takes place.

If January's trading range is broken to the upside, then we could have an upside target of 2300. If, on the other hand, we get that pullback in the coming days, then it is possible it could deepen to a full-blown test of the 200 DMA at 2146. At this point, rally breadth remains problematic as the percentage of stocks above the 200 DMA is well below its previous high. But that negative divergence can take some time to resolve itself. We can also note the Bullish Percent Index is still quite high here and there is not yet a bearish crossover of the 5/10 EMA. Until that happens, we cannot reasonably expect anything more than a modest bull market pullback. The weekly Dow chart is still overbought and pointing to a pullback soon. RSI is still above the 70 line and stochastics well above 90. On an intermediate time frame, this chart will not flash a clear sell signal until stochastics falls below 80. Even if we get a post-Inauguration pullback, it may not be large enough to push this indicator below 80. In other words, this kind of shallow pullback may only provide bulls with another reason to buy the dip. Meanwhile, yields continued to trend lower last week as the 10-year finished near 2.4% at its 50 DMA. Friday's data was stronger than anticipated and raised the odds of a March rate hike by the Fed, however. It's still under 30% so not enough for the market to react immediately. If Trump is bold in his economic proposals and there are clear signs that Congress will support him, then we could see yields move above 2.6%. There is some debate about where the end of the 30-year bull market in bonds occurs – at 2.6% or 3%. Needless to say this number will bear close watching in the weeks ahead as higher yields could be bad news for stocks.



This week is shortened for Monday's MLK holiday. I think there is a good case for a bearish week overall as Mars aligns with Jupiter and Saturn. Some upside is still possible on Tuesday and Wednesday ahead of the exact alignment although I would be hesitant about calling it probable. Wednesday is perhaps a better bet for an up day as the Moon-Jupiter conjunction suggests confidence and abundance. And yet even there Mars will aspect both the Moon and Jupiter so that introduces an instability into sentiment. Tuesday is harder to call as there is a mix of aspects in play. We cannot rule out some upside here either, although the Mars-Jupiter is quite close. Thursday and Friday look more vulnerable to declines as Mars aligns more closely with Saturn and then Mars enters Pisces on Friday. There is considerable potential for volatility here. That said, the presence of Jupiter in close proximity means that the negative sentiment could conceivably be kept at bay for another week. There is no certainty here but there is a plausible case for some significant downside around the inauguration.

Next week (Jan 23-27) also leans bearish. Monday looks somewhat bullish so that argues for a possible bounce, especially if the previous late week has been bearish. Tuesday's Moon-Mars-Saturn alignment looks more bearish, however, especially since Saturn changes signs the next day and enters Sagittarius. A large decline is possible this week although the strength of this Trump rally has moderated my bearish expectations. We will have to wait and see how quickly sentiment can change after the inauguration. The final days of January and early February also have some bearish potential. Jupiter turns retrograde on Feb 6th, so we are more likely to see some upside around that date. My expectation is that it will mark the beginning of an up trend that lasts into March. Higher highs are possible although that will depend on what kind of pullback we may see in the short term. A larger decline is likely to begin in late March and April. We could see the market continue to trend lower into May. At minimum, I would expect a test of the 200 DMA in the spring although I tend to think the indexes will fall further than that. An early summer rally is likely as Jupiter turns direct in June. However, the late summer looks more bearish again as Saturn aligns with the Lunar Nodes. One possible scenario for 2017 therefore is for lower lows by October. This is my preferred scenario although I will admit a lot of bearish things have to happen before that time for this outcome to pass. The last quarter of 2017 could be more bullish.

Technical Trends	**Astrological Indicators**	**Target Range**
Short term trend is UP (1 week ending Jan 20)	bearish (disconfirming)	SPX 2200-2270
Medium term trend is UP	bearish (disconfirming)	SPX 2150-2240

(1 month ending Feb 20)

Long term trend is UP   bearish (disconfirming)   SPX 1700-2000
(1 year ending Jan 2018)

Indian Stocks

Stocks rose last week on low inflation data, a solid IIP number and a decline in the Dollar. The Sensex gained 2% on the week to 27,238 while the Nifty finished at 8400. This bullish outcome was in keeping with expectations as I thought the planetary influences in the second half of the week could push the indices above key resistance. As expected, we saw a little early week selling but investors quickly moved in and bought the dip.

Despite the current rebound, equities still have to contend with several headwinds. The impact of demonitisation has yet to be fully accounted for due to the lag in data. While the market has discounted some negative impacts, there remains some uncertainty about the extent of the slowdown in the cash economy. Corporate earnings may lag further in terms of reporting its impact. The fate of the Dollar still hangs over most emerging markets as the FII or currency-driven hot money trade may vanish with further gains and another Fed rate hike. If US data remains strong, then we could see another rate hike as soon as March. This would likely be bad news for Indian stocks. Given these ongoing trouble spots, the pressure will be even greater on FM Jaitley to deliver genuine growth reforms in February's Union Budget. As always, the bull market climbs a wall of worry.

The astrological influences remain mixed at best in the near term. Some weakness is more likely here in the second half of January and into February. The Mars-Saturn alignment this Friday looks difficult as does the entry of Saturn into Sagittarius on 25th January. While I would not rule out some modest gains over the next two to three weeks, it seems more likely that stocks will come under more pressure. Once Jupiter turns retrograde on 6th February, the market may be in a more comfortable position for a rally to take place. At this point, I would not expect a strong rally which could produce higher highs above 8950. Another consolidation phase is likely to begin by late March and extend into May. This correction could be substantial but it may well see the Nifty remain above key support at 7900. After another rally in June and July, stocks are likely to fall further in August and September as retrograde Saturn aligns with Rahu.

The technical outlook is looking more bullish after the break above resistance at 8271. The double bottom target of 8700 looks more plausible now as bulls pushed the Nifty decisively higher last week. The current rebound has taken prices back over their 200 DMA and therefore puts the bulls back in the driver's seat. Horizontal resistance is significant at 8500 and that is almost where the Nifty reversed gears on Friday before closing lower. If we see a pullback, initial support is 8300 with secondary support at last week's low of 8227. While the previous high of 8271 may be significant as support, we should keep an open mind about consolidation that takes the Nifty below that level. I would think that as long as the Nifty remains about the 20 and 50 DMA at 8170 or so, the rebound will likely continue. We could then still see that target of 8700 fulfilled eventually even if we see a deeper pullback that may break support at 8271.

RSI is getting close to overbought at 65 although additional upside is still very possible in the short term. The weekly BSE chart shows a clear bullish crossover above the 20 line in stochastics. This is a medium term buy signal which suggests that the Sensex should move higher in the coming weeks. Even if we see a pullback as per my assessment of the astrological influences in the short term, the prospect of gains over the next month or two is supported by this technical buy signal. Once resistance at 27,500 is broken, we could see the Sensex move to 28,300. Meanwhile, Tata Motors (TTM) extended its rebound last week as it approached its resistance at its October lows. While there is a lot of overhead resistance here, I would think that the rebound isn't finished yet. Long term, the chart is still bullish and higher highs are not out of the question as the 200 DMA is still sloping higher. Infosys (INFY) had a more difficult week as it sold off after earnings were reported. A retest of the November low is quite possible in the near term although that would set up a more bullish double bottom pattern. The chart is still looking vulnerable long term as the 200 DMA is sloping downward.

This week has a growing downside risk. The late week alignment of Mars, Jupiter and Saturn could produce some significant moves and since two of the three planets are natural malefics, I would think the bears have the advantage here. The early week is more mixed perhaps with Monday leaning slightly bullish but Tuesday seems more bearish on the Moon-Mars opposition. Wednesday again leans a bit more bearish as the Mars aspect to Jupiter becomes more exact. Thursday sees the Moon join the alignment and thus increases the possibility of a move in either direction. The fact that the Moon conjoins Jupiter here is actually

bullish. However, both planets will be aspected closely by Mars so I would retain a bearish bias in any event. Friday also contains some bearish potential as Mars enters Pisces in the morning. There are a lot of moving parts this week which could confuse the outcome here. I would therefore keep an open mind about the possibility of a bullish week, even if I think the downside risk is rising. We could see a retest of resistance at 8500 or last week's high but it seems more likely that stocks will sell off. Late January leans more bearish so in the event that we have a winning week, the downside will be postponed until next week and beyond.

Next week (Jan 23-27) could begin on a bullish note as Venus aligns with Uranus on Monday. Tuesday's Moon-Saturn conjunction is more bearish, however. Wednesday's Venus-Saturn-Jupiter could go either way although I would lean a bit bullish. Saturn enters Sagittarius just after the close of trading so that could also dampen the proceeding either on Wednesday or Friday. After Thursday's holiday closing, I would expect negative sentiment to prevail Friday. The following week could begin on a negative note but gains may be more forthcoming in the middle of the week. Even if the late week is negative, the week as a whole looks somewhat neutral. Some upside is likely at the time of the Jupiter retrograde station on 6^{th} February, although the second week of February looks mixed. Overall, I would not expect another consolidation in late January or early February to produce a large pullback. It seems more likely that support of a higher low will hold, such as 8200 or perhaps 8100. The rest of February leading into the Budget looks more bullish as Jupiter aligns with Uranus. The rebound should extend into early March at least. 8700 looks very doable on the Nifty at this time, and even 8900 may be within reach. Late March and early April should see a significant decline as Saturn turns retrograde. This could mark the beginning of a longer correction that lasts through May and perhaps into June. Some upside is likely in early summer, but the late summer will see Saturn align with Rahu and this should put additional pressure on sentiment. I would expect the key support level of 7900 to be tested and likely broken at some point during the summer.

Technical Trends	**Astrological Indicators**	**Target Range**
Short term trend is UP (1 week ending 20 Jan)	bearish (disconfirming)	8200-8350
Medium term trend is DOWN (1 month ending 20 Feb)	bullish (disconfirming)	8300-8500
Long term trend is UP (1 year ending Jan 2018)	bearish (disconfirming)	7000-8000

Currencies

The US Dollar slipped further last week as traders took profits ahead of the Trump inauguration. The USDX finished just above 101, while the Euro moved up above 1.06. The Yen strengthened towards the 114 level while the Rupee Index held steady at 68. This bearish Dollar outcome was in line with expectations although I mistakenly thought the early week would see more downside. So far, this pullback has been fairly orderly and technically unremarkable. The DX is sitting on support at the 50 DMA here and this also matches some horizontal support from November and December. Bulls will want to reverse this down trend soon in order to preserve the higher low relative to the December low. Even if we see more downside in the short term, it may not be enough to change the up trend. I would think that 100 is still safe territory for the bulls. That said, it could evolve into a head and shoulders top pattern with a neckline of 100. A move below 100 would be more problematic in any event, and could eventually see a retest of the 200 DMA at 97. Longer term, the Dollar is still in a bull market and trending higher so perhaps what is first required is a full blown retracement to the 200 DMA. The weekly Euro chart still looks weak as it is struggling to bounce of support here. Resistance at 1.08 could prove daunting for Euro bulls although a close above that level might be enough to change the medium term outlook from bearish to bullish.

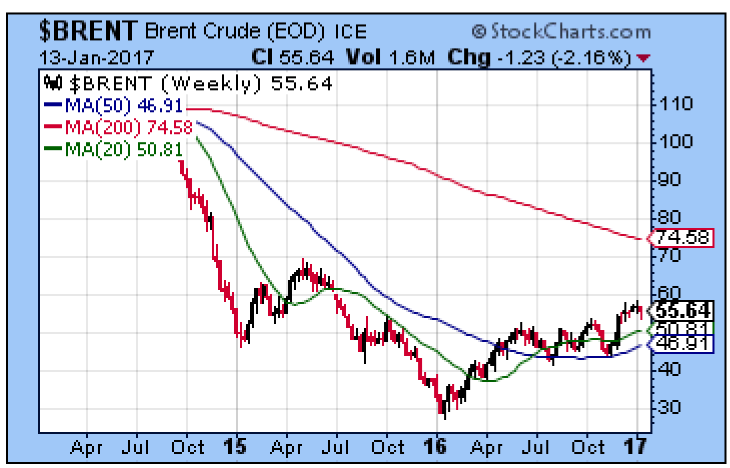
This week could see the Dollar rebound. The early week looks less positive so it is possible we could see a move below 101. However, the late week looks bullish as Mars aligns with Jupiter and Saturn and then it enters Pisces. We could therefore see a spike higher on Friday. Next week could bring more early week upside as Saturn enters Sagittarius on Wednesday. The late week may be less bullish so it is possible the Dollar rebound could stall at a lower high such as 102 or 102.5. Some further upside is possible into early February although it seems unlikely there will be a major new leg higher. It seems more likely that we will only get a retest of the December high at 103.5. February could see more consolidation, possibly to the 50 DMA or below. I would not expect a large retracement, however. March and April should see the Dollar rally again, and a higher high above 104 is possible. We could easily see 105-108 by May. After a new high in April-May, I would expect a major retracement in the Dollar, possibly all the way down to its 200 DMA (98?) by July. Another rally is likely in August and September but I am uncertain if it will be strong enough to produce a higher high. After the early summer pullback, it could be more likely that the Dollar will only be able to move to the top end of a range. The Dollar could remain quite bullish through the rest of 2017 but another major correction is likely in Q1 2018.

Technical Trends (Dollar) **Astrological Indicators** **Target Range**

Short term trend is DOWN (1 week ending Jan 20)	bullish (disconfirming)	101-102
Medium term trend is UP (1 month ending Feb 20)	bearish (disconfirming)	99-101
Long term trend is UP (1 year ending Jan 2018	bullish (confirming)	100-105

Crude oil

Crude oil fell last week on concerns that the OPEC production agreement may not hold. WTI lost 3% on the week moving below $53 while Brent fell to the $55 area. This bearish outcome was in keeping with expectations although I mistakenly thought that the declines were more likely to occur later in the week. As it happened, sellers moved in on Monday and Tuesday and pushed WTI below support at $52. This was a larger decline than I had anticipated although bulls may still be in control of the market. A larger retracement is not incompatible with the rally although it could delay the next interim high. Given the previous trading range of $52-54, the downside target of this current breakdown would be $50 on a closing basis. This would roughly match the 50 DMA and could be a more attractive level for bulls to enter long positions. However, that would set up a possible head and shoulders top pattern with a neckline near $50 and which would then have a downside target of $45-46. This would be just below the 200 DMA. We have seen the 200 DMA act as support throughout this rally and it should be regarded as a legitimate area of support in the event we have more selling. If, on the other hand, crude rebounded from its current level then resistance would be the previous high of $54 and then the rising trend line at $55.50. The weekly Brent chart provides ample reason why the bulls are confident here. The trend is up and dips are being reliably bought.



This week has some downside risk, especially later in the week. After Monday's US holiday closing, Tuesday looks bearish and we could see a retest of last week's low. Wednesday could be more bullish as the Moon approaches its conjunction with Jupiter. The late week Mars-Saturn alignment looks somewhat bearish. I would think the chances are fairly good that WTI finishes at or below $51.

Next week (Jan 23-27) also leans bearish as Saturn enters Sagittarius on Wednesday. The early week looks more bearish in this respect with the Moon-

Saturn conjunction on Monday and Tuesday giving bears a chance to push crude below $50. Some late week gains are possible as Venus enters Pisces but overall we could see crude fall further here. The following week could see more selling as the Moon conjoins Mars and Venus in Pisces. Lower lows are possible although if we have seen crude fall close to the 200 DMA, then we could see a bottom form in early February. Some upside is likely in the rest of February and that may carry over into March. I would not expect a huge rebound although WTI should at least retest its high at $55. There is a possibility it could go higher but a lot will depend on how deep the correction will be in the coming weeks. Another period of consolidation looks likely starting in March and continuing into April and May. I would not expect a large correction although a retest of recent lows looks quite likely. A rebound may begin as soon as June and last into the summer but more downside is likely towards the end of summer and into fall. Q4 looks mixed at best so the prospects for a major rally higher seem unlikely. Crude may strengthen in early 2018.

Technical Trends	Astrological Indicators	Target Range (WTI)
Short term trend is DOWN (1 week ending Jan 20)	bearish (confirming)	$49-52
Medium term trend is UP (1 month ending Feb 20)	bearish (disconfirming)	$48-52
Long term trend is DOWN (1 year ending Jan 2018)	bearish (confirming)	$35-50

Gold

Gold extended its recent rally last week as the Dollar retreated ahead of the Trump inauguration. Gold gained 2% on the week to 1196. This bullish outcome was in keeping with expectations as I thought the Sun-Jupiter-Saturn alignment would likely coincide with some gains into Thursday. That was more or less the case as the high for the week came on Thursday. Gold briefly peeked above 1200 and is vying to break out of the low end of its recent trading range. A close above 1200 would be more bullish here although it will be a long road back to its previous range above 1300. While the rally has been steady, it still has been quite modest and given the size of the preceding decline traders may be skeptical that this is nothing more than an oversold bounce. How far can the bounce go? RSI is at 60 now which is fairly close to where it was at the top of previous bounces before it sold off again. More upside is possible before it become overbought but bulls may be looking over their shoulder here in case the same bearish dynamic takes hold once again now that the RSI is hitting the 60-65 area. There should be some significant resistance near 1250 which was the October low. Interestingly, 1250 would also mark a 50% retracement off the 2016 high. And with the 200 DMA just a bit above at 1269, it is also quite possible we could see gold rally towards that level. This would not fundamentally change the down trend in gold although it could produce a protracted consolidation phase within a trading range of 1130-1250.

This week looks more bearish. After Monday's holiday closing, Tuesday leans negative as Mercury aligns with the Lunar Nodes. Wednesday also seems less amenable to gains, although it may be less bearish on balance. Some upside is possible on Thursday or Friday on the Mars-Jupiter alignment. This is a difficult call, however, as bearish Saturn is also in the mix. I would therefore not be surprised if we saw gold fall at the end of the week also. However, this ambiguity in the alignments makes that somewhat less likely.

Next week (Jan 23-27) also leans bearish as the Sun aligns with the Lunar Nodes and Saturn changes signs. Both of these look somewhat bearish for gold, even if there is some possibility of early week gains on the Venus-Uranus alignment. If the previous week has been bearish, then the early week could see a bounce which is then sold from Wednesday to Friday. The following week could see more downside pressure on the Venus-Saturn alignment although I'm not sure we will end up with lower lows. The Jupiter retrograde station on February 6th could mark a turning point and see gold reverse higher. It is unlikely to reverse exactly on that day, but it is a useful general indicator for the possibility of changing sentiment. Gold could therefore trend higher through most of February and into March. I do not have a strong opinion of where gold could top out at. It could either be a higher high or a lower high. Gold should then undergo a correction in April which should extend into May as Saturn turns retrograde. This looks like it will be a significant decline although it is possible it may not be a lower low (e.g. below 1130). After a summer rebound, more downside is likely as Saturn aligns with the Lunar Nodes in August and September. Lower lows are more likely here with 1000 as a possible target. At some point in Q4, gold should form a more durable bottom and begin to rally. This should continue into 2018.

Technical Trends	**Astrological Indicators**	**Target Range**
Short term trend is UP (1 week ending Jan 20)	bearish (disconfirming)	1160-1220
Medium term trend is DOWN (1 month ending Feb 20)	bearish (confirming)	1100-1150
Long term trend is DOWN (1 year ending Jan 2018)	bearish (confirming)	1000-1300