

Summary for week of 9 October 2017

- Stocks vulnerable to declines, elevated downside risk
- Dollar may strengthen again this week
- Crude oil likely to decline
- Gold could fall further but oversold bounce soon

US Stocks

Stocks extended their relentless up trend last week on more hopeful signs for the Trump tax plan. The Dow added three hundred points to 22,773 while the S&P 500 finished at 2549. While I thought we could see some upside last week, the size of the gains and the absence of any downside was unexpected. Needless to say, the market is now even more overbought but that doesn't seem to matter much anymore. It's all momentum based on the discounting of future tax cuts. And yet from an investing perspective, it is probably too late for chase this runaway train.

How long can this go on? Without any negative geopolitical developments, it is possible we could see markets continue to rise as long as the news out of Washington looks constructive. Investors have been in a forgiving mood lately as failures to pass an Obamacare repeal have not diminished the expectation of progress on taxes. And now with some viable path forward for the GOP to actually cut individual and corporate taxes, there is some rationale for this optimism. At some point fairly soon, one would think the tax cut will be baked into the cake, i.e. the market will have fully discounted it. Stocks could still push higher as we get closer to an actual bill passage, but it is unclear how much higher they could go. Of course, any disappointments in the bill would create a negative reaction in the market and could trigger a sell-off. But that is all just worst-case scenario stuff at this point as sentiment remains as bullish as ever.



The astrological perspective continues to argue for caution in the markets. To be sure, I did not anticipate these kinds of higher highs at this time given the apparently negative alignments of Jupiter-Uranus in late September and Saturn and the Lunar Nodes in early-October. October could still end up being bearish, of course, given the after effects of the Saturn-Node alignment on Oct 9, and the transit of Venus through Virgo from Oct 9 to Nov 2. But even if we do get a pullback this month, it will be from a higher level and hence it may not do much technical damage. We shall see if we get a mere repeat of the March pullback or something more noteworthy.

The technical picture remains as bullish as ever. One may be forgiven for wondering if stocks will ever fall again. The “Fed put” seems as solid as ever since the whole economy relies on assets appreciating in order to create inflation in an economy that lacks productivity growth. The SPX is riding the channel resistance line to higher highs. It could continue for a while yet and yet further gains will likely be more marginal. If Thursday’s high is resistance at 2552, the channel support is a bit below the 50 DMA, probably close to 2450. Any close between those two levels will continue the up trend and any pullback to 2450 would be a buying opportunity for committed bullish investors. The larger problem may be that there is so little fear in the market now that it is becoming ripe for a sudden shock.

But timing when that shock may arrive is hard to determine based on technical factors alone. For now, the rally breadth is healthy again as the Bullish Percent remains in a bullish crossover of the 5/10 EMA and is reducing its negative divergence relative to the previous high. The divergence remains, however, so there may be some threads of hope for bears. However, without any bearish crossover in this chart there is not a compelling reason to expect the market to decline any time soon. Short positions are therefore very risky and speculative at best. The weekly Dow chart is still trending strongly and makes a compelling argument for buying any pullback, no matter how deep. This is not to say that declines will be modest but rather that the rise over the past year has earned bullish investors a reasonable expectation that a decline to the 20 WMA, 50 WMA or even the 200 WMA will likely be followed with another strong rally. As always, bulls only have to watch out for lower highs after a pullback. The lower high becomes the alarm bell that has to precede a technically significant shift in market sentiment. Despite Friday’s disappointing jobs report, bond yields are still on the rise. The 10-year pushed towards previous highs at 2.4% and is edging closer to the potentially pivotal 2.6% level. A move above 2.6% could change the rules of the game in the short term as it would indicate a much greater likelihood of growth and inflation. It is unclear what effect this could have on stocks, however, as record debt levels could become problematic given higher servicing costs.

This week offers an even better chance for the bears. Clearly, the bulls have been stronger than expected, so it is not inconceivable that we could see yet another gain here. However, there are several potentially important



alignments taking place that could coincide with some declines. Monday sees the exact alignment of Saturn and the Lunar Nodes. This is a bearish pairing although it has been anything but bearish thus far during its approach. Venus enters Virgo on Monday so that also counts as at least a nominally negative influence for the next four weeks. However, we shouldn't necessarily expect any big sell-offs on Monday because of it. Wednesday's Mars-Saturn square is also negative. The second half of the week actually looks more negative in this respect as Mars aligns with Mercury on Thursday and then Mars enters Virgo on Friday. Both are plausibly bearish although recently that hasn't counted for much. Maybe the bulls will simply continue to stampede the market higher. To be honest, I'm not sure of the astrological rationale for why stocks keep going higher. Possibly it is due to specific hits in the horoscopes of the stock exchanges in question. And yet we should note the increasingly likely possibility of a pullback this week, especially after Tuesday. I am reluctant to suggest a downside target although recent price action would suggest moderation on that front. And yet the planets look unusually tense.



Next week (Oct 16-20) looks likely to bring some upside as Mercury conjoins Jupiter on Wednesday the 18th. Could this even be a higher high? I hope not, but we can't rule out that possibility. If the preceding week has been bearish then perhaps this will produce the all-important lower high from which we get more downside. But that is still a speculative scenario. Late week downside looks more likely here and hence offers some evidence for the lower high scenario. The following week (Oct 23-27) looks less bullish as Saturn changes signs and enters Sagittarius on the 25th (Wednesday). More upside is possible ahead of this date, but the second half of the week favors the bears once again. While the preceding week looks more bullish, this week seems fairly bearish. November could start off on a bullish note as Venus enters Libra on the 2nd. It is possible that we could see more gains in the wake of this positive placement. As I have suggested previously, higher highs are conceivable in November. And yet late November looks bearish again on the Mars-Lunar Node alignment. While early December could see some upside, late December and early January look bearish. One possible scenario would be a Santa Claus rally that runs out of gas quickly which is then followed by some significant selling in January. I still expect a significant pullback to take place between late November and February. I am uncertain when the bulk of the decline will occur, however. It could be as late as January. In that case, we could very well get higher highs in November and December. And yet 2018 still looks much less positive than 2017, especially in the first half. While it is possible we could only see minor bull market-type pullbacks in Q4 2017, the chances for larger declines and corrections should increase in 2018. The second half of 2018 looks more bullish, however.



Technical Trends

Astrological Indicators

Target Range

Short term trend is UP
(1 week ending Oct 13)

bearish (disconfirming)

SPX 2520-2540

Medium term trend is UP
(1 month ending Nov 13)

bearish (disconfirming)

SPX 2480-2520

Long term trend is UP
(1 year ending Oct 2018)

bearish (disconfirming)

SPX 2000-2400

Indian Stocks

Stocks rebounded strongly last week as domestic investors picked up the slack on news of GST streamlining. The Sensex rose by 2% to 31,814 while the Nifty finished at 9979. While this clearly bullish outcome was unexpected, I had not ruled out the possibility of a bounce here especially later in the week given the Jupiter influence on Thursday and Friday.

The most recent RBI statement has indicated growing concern about slowing growth and rising inflation. So far, investors are not pressing the panic button as the consensus is that government actions will be sufficient to maintain a steady course. But there is arguably less room for error now that FII may be less influential as interest rates are slated to rise in developed economies. Odds of a December Fed hike are now at 90%, even after Friday's poor US jobs report. While that rise has been discounted by markets now, further hikes in 2018 may not be and could act as a drag on equities. On the other hand, there is an increasing possibility of a major tax cut in the US which would likely have positive growth effects worldwide. As long as the mercurial Trump does not suddenly initiate a trade war with China, it is conceivable that the Trump administration could preside over a period of economic expansion.

That is the current expectation of US markets, as well as to a lesser extent the Indian market also. For now, the possibility of political stalemate on the US tax issue is seen as unlikely, although that could change quickly.



The astrological outlook is mixed at best as October will feature several difficult alignments. While stocks have generally been more bullish than I had thought, the upcoming Saturn-Rahu aspect this week remains a significant hurdle for sentiment. The transit of Venus into Virgo over the next four weeks should also be seen as a negative influence, although it may not be decisive. To be sure, there are some positives in the picture such as the series of Jupiter conjunctions with inner planets, but these do not seem to be sufficiently strong to outweigh the negatives. It is possible we could see stocks on a neutral footing perhaps, but there is still some elevated downside risk through to the end of October which may make rallies less reliable. November may be more bullish and could involve a rebound from whatever low we see in October.

The technical outlook remains mostly bullish. After the bounce off support at 9700, the Nifty is testing resistance at 10,000. A move above this level would likely entail more upside and another test of the highs at 10,200. If the current bounce fails and reverses lower, then we could see a third test of 9700. This would be a more bearish prospect as any break below that level would have a downside target of 9300. This is also the area of the 200 DMA (9311) so it could well be a level where bulls feel safer defending.

The problem for the bulls is the equal low at 9700. Since the late 2016 low, we have seen a series of higher lows. The higher lows were bought fairly aggressively as this reflected a higher level of confidence. But the inability of bulls to put in a higher low in September is a signal of increasing skittishness. This doesn't mean a technical breakdown is imminent but it may mean that the pattern of higher highs is in jeopardy. One possible scenario would be a range bound market below 10,200 which reflects this increased level of uncertainty. The weekly BSE chart is still tilting a bit bearish as stochastics is in a bearish crossover and may be heading lower. MACD is still in a bearish crossover and suggests more downside ahead. But last week's candle was bullish as it closed near the previous week's high and above the 20 WMA. This is a hint perhaps that this bounce could be stronger than the previous bounce off 9700 in early August. How the Sensex negotiates horizontal resistance at 32,000 could tell the tale, however. An easy move above that level would be bullish and argue for higher highs down the road. More hesitation could mean a range bound market, or even a deeper retracement. Meanwhile, HDFC Bank (HDB) retested its horizontal support last week. While the long term outlook is bullish, this chart is looking vulnerable to near term declines. If it can push higher from here then it could retest recent highs. However, a breakdown looks more likely. ICICI Bank (IBN) similarly drifted lower last week as it approaches a hard retest of its 200 DMA. It should find support around this area although marginally lower lows are still possible such as around the May gap. Any move below this gap and below the April high would suggest an eventual retest of the late 2016 low.



This week looks more bearish than last week. There are a series of key alignments which could coincide with significant declines. The Saturn-Rahu alignment is exact on Monday and Venus enters Virgo on Tuesday. Mars aligns with Saturn on Wednesday-Thursday. There is still a very real possibility of some up days here, such as on Thursday. The early week is harder to call, despite the negative alignments in place at that time. I suspect that the negative Venus influence will not have an immediate effect, nor will the Saturn-Rahu take immediate effect on Monday. To be sure, there is an elevated risk of declines through the week as a whole, but the early part of the week looks less volatile than the second half of the week. There is a multi-planet alignment on Thursday and Friday which could coincide with a major move or change in trend. While I believe it will be negative, there remains a possibility for gains. Bears should therefore be fairly cautious despite the apparently favourable planetary weather. One possible scenario this week would be an early week test of 10,000 which fails to push above that level followed by a pullback. A sharp move down to 9700 is also possible with this week's planets although I am reluctant to go out on a limb and say it is probable.



Next week (Oct 16-20) is a much-shortened trading week for Diwali. I would expect a bounce between Monday and Wednesday as Mercury conjoins Jupiter. The bounce could be fairly strong although if the preceding week is bearish, it may not be enough to negate it completely. The following week (Oct 23-27) looks mixed as the early week could see more upside but the late week entry of Saturn into Sagittarius is likely to produce a down day or two. However, I would not expect lower lows in late October. November leans bullish, at least up until Nov 20th or so. I am uncertain if the market could reach higher highs in November. Late November should see another reversal lower. I am still expecting another retracement to take place between December and February, with January looking like it could be the focus on the decline. Overall, 2018 looks bearish so higher highs seem unlikely. Instead, I think a test of the 200 DMA at 9300 is quite likely by that time, possibly as soon as Q1. Lower lows are quite possible by June or July. The first half of the year looks more bearish with some recovery likely in the second half.



Technical Trends

Short term trend is DOWN
(1 week ending 13 October)

Medium term trend is UP
(1 month ending 13 November)

Astrological Indicators

bearish (confirming)

bearish (disconfirming)

Target Range

9700-9950

9700-10,000

Long term trend is UP
(1 year ending October 2018)

bearish (disconfirming)

8000-9000

Currencies

The Dollar extended its rebound last week as more traders factored in a December rate hike. The Dollar climbed to 93.6 while the Euro fell to 1.173. The Yen held steady at 112 while the Rupee was unchanged at 65. The bullish outcome for the Dollar was in line with expectations as the Venus-Mars conjunction moved into place. The technical outlook is improving although there could be a battle over resistance at 94. This was the previous high in a failed rally in August. If bulls can push above 94 without much hesitation, then we should see more upside to come in the near term. Of course, the medium term outlook remains bearish as the current bounce is little more than an oversold bounce. Nonetheless, the imminent crossover of the 20 and 50 DMA suggests we could see more upside in the near term. So while the chart still looks bearish overall, the short term indications are pointing to more upside here. Whether the Dollar can rally back to its 200 DMA at 97 is an open question. Certainly a close above 94 would increase the odds of that taking place. The weekly Euro chart is now sitting near support at 1.17. A break down would likely signal a further decline to 1.15 which was the previous resistance level. But for the moment, the Euro is range bound between 1.17 and 1.21.



This week again gives the Dollar another opportunity to rise. The early week looks quite bullish as Venus enters Virgo on Monday. Another retest of 94 is quite likely and I would think the chances are good for a move above that level at some point. While some midweek retracement is possible the late week also looks bullish. Overall, I think we could see the Dollar rise above resistance at 94. Next week (Oct 16-20) looks more mixed as the early week could see some retracement. But the late week again looks bullish on the Sun-Uranus opposition. If the early week is a retest of support at 94 then we could see the Dollar move significantly higher after that. I would expect October to deliver more upside. November looks less bullish and could bring some retracement which may extend into December. Another push higher is likely into January although I do not know if it will be a higher high. Let's see. While Q1 2018 could bring additional strength, the rally will fail eventually, possibly as early as February although it may wait until perhaps April. This correction will be significant and could easily



retest the lows of 91-92. Lower lows are also possible. The Dollar should then rally strongly starting in June and continuing through much of the summer of 2018.

Technical Trends (Dollar)	Astrological Indicators	Target Range
Short term trend is UP (1 week ending Oct 13)	bullish (confirming)	94-95
Medium term trend is DOWN (1 month ending Nov 13)	bullish (disconfirming)	94-96
Long term trend is UP (1 year ending Oct 2018)	bullish (confirming)	96-99

Crude oil

Crude oil retreated last week as US exports approached record levels. WTI fell 4% closing near \$49. However, the price gap with Brent widened further as the European benchmark fell only 2% to \$55. This bearish outcome was in line with expectations as I thought the Venus-Mars conjunction would likely coincide with some selling later in the week. Bulls lost control of the market given Friday's close below the 200 DMA. There is likely support here although a shake-out is still possible before a rebound may take place. Also the magnitude of Friday's loss probably means at least marginally lower lows are likely in the coming days. Bulls have a little breathing room here although if WTI falls below \$47 it could weaken the technical situation further. But for now it looks like crude is following a falling channel lower with resistance near \$51. A move above \$51 could re-ignite the rally especially if it followed a higher low. Bulls will have to quickly reclaim the 200 DMA and \$50 in order to maintain sentiment. The longer prices stay below 200 DMA, the more likely crude will be subject to deeper pullbacks. The weekly Brent chart consolidated last week after testing resistance. The red candle was fairly predictable following the previous week's gravestone candle with the long upper shadow. A pullback down to the 20 and 50 WMA at \$51-52 would not be surprising at this point and perhaps many traders are anticipating exactly that. The medium term bias is still up in this chart although bulls may be prepared to accept the less bullish scenario of higher lows before they can expect to reach higher highs.



This week also leans bearish as Mars aligns with Saturn on Wednesday. Some gains are still possible, such as on Monday or Tuesday as the Sun conjoins Mercury. This may correlate with a bounce off support which is then sold in the second half of the week. That is one scenario at least. I think the chances are good that we see a lower low at some point this week. Next week (Oct 16-20) looks more bullish, especially in the first half as Mercury conjoins Jupiter. Although we could see some late week declines, the week overall should represent a rebound. The following week (Oct 23-27) looks bearish again, however, as Saturn enters Sagittarius. I do not have a strong opinion about whether this could be a higher low or lower low. November should bring another rally attempt but I suspect it will be fairly modest and short-lived. December and January look more bearish so we could see another retest of key support levels early in 2018. Lower lows (e.g. \$40) are quite possible at some point in Q1. A significant rally will likely begin in Q1 and extend into spring or early summer.



Technical Trends	Astrological Indicators	Target Range (WTI)
Short term trend is UP (1 week ending Oct 13)	bearish (disconfirming)	\$46-49
Medium term trend is UP (1 month ending Nov 13)	bullish (confirming)	\$48-54
Long term trend is DOWN (1 year ending Oct 2018)	bullish (disconfirming)	\$50-70

Gold

Gold extended its slide last week as the Dollar rallied in anticipation of higher interest rates. This bearish outcome was in line with expectations as I thought the Venus-Mars conjunction would likely bring some downside. Monday was unexpectedly lower, however, although Friday did bring some upside after a new low. As the Dollar begins to rally once again, gold bulls may be wondering if they were too optimistic. Friday's poor jobs report gave some life to the market as it hinted at the possibility that the Fed may have to postpone its long-awaited December hike. But the jobs report was likely impacted by last month's weather so there still isn't sufficient reason for the Fed to delay any further. The technical outlook looks bearish for the short term as most traders may be waiting for a lower level to enter new long positions. This would most obviously be nearer to the 200 DMA at 1250. There is also some horizontal support at that level. It is possible we could see gold reverse higher fairly soon since the size of the current pullback equals the size of previous pullbacks – about \$90. These measured move equivalences often do not play out but they are at least a rough guide to possible future developments in the chart. Gold is close to being oversold on RSI so that could also entice some buyers into the market. Resistance is likely around 1300-1310 near the convergence of the 20 and 50 DMA. An oversold bounce could easily reach that level without altering the fairly bearish tone of the market. A close above 1310 would be more bullish and suggest a retest of the previous high at least. Conversely, a close below 1250 would be bearish and might suggest a retest of the key support zone at 1210.

This week could see more downside as Venus enters Virgo on Monday. This is not to say that Monday will be lower as the Virgo influence on Venus may be diffused over several days. The Mars-Saturn aspect is exact on Wednesday and could coincide with an increase in volatility. A bounce is likely coming very soon for gold but I'm less confident it can occur this week. I would therefore lean bearish but acknowledge a margin of error. A test of the 200 DMA at 1250 is possible here.

Next week (Oct 16-20) looks more bullish as Jupiter conjoins Mercury in the first half of the week. While the late week looks a bit bearish I would think the chances are fairly good for a rebound. The following week (Oct 23-27) looks bearish as Saturn enters Sagittarius. At this point, I do not expect the decline to be too large. Generally, I would start to shift my bias to bullish the closer we get to the end of October and even more so into November. The rally should be fairly strong and a move back above 1310 looks quite possible. Late November may bring a pullback, however, which could well extend into December and possibly even January. There is a real possibility that the 1210 support level could be tested during this period. A strong rebound is likely to begin in January or February and continue into perhaps June or July.



Technical Trends	Astrological Indicators	Target Range
Short term trend is DOWN (1 week ending Oct 13)	bearish (confirming)	1240-1270
Medium term trend is DOWN (1 month ending Nov 13)	bullish (disconfirming)	1300-1350
Long term trend is DOWN (1 year ending Oct 2018)	bullish (disconfirming)	1200-1400

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