

FROM THE EDITOR, ISSUE 27. 20/10/11

Our Views on the Markets

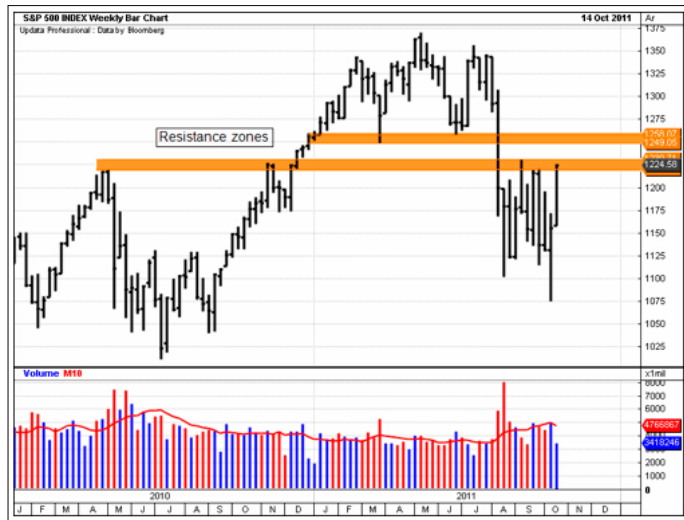
The common theme at present is that the recent rally in equity and commodity prices (decline in the USD) over the past two weeks is now encountering previous resistance (support) levels. This means we need to be on high alert for potential turns in the market over the next week or two, with a view to initiate trading positions in the direction of the broader trends, being down in equities and commodities and up in the USD.

With plenty of charts to look at, we have divided the analysis into three sections, to make the information more easily digestible. Starting with equity markets...

Equity Markets

S&P500 (chart 1)

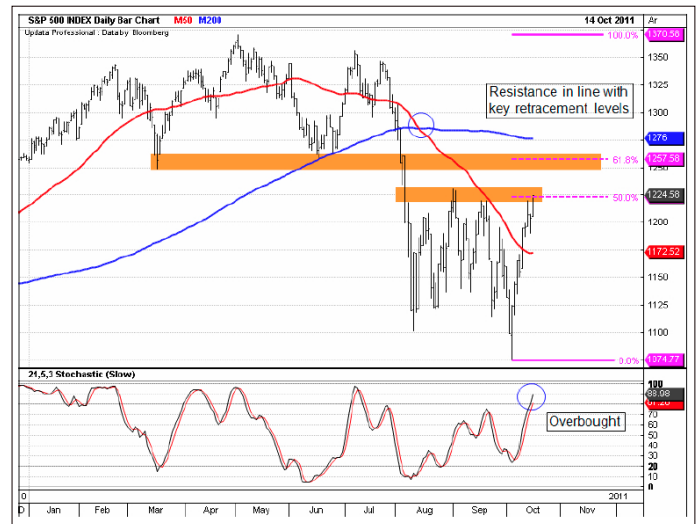
It was a strong week for the S&P500, with prices opening on the lows at 1158.15 and closing right on the highs at 1224.58, for a gain of 5.98%. This index is back testing key resistance between 1219 and 1230, which has not only capped prices since August, but also aligns with highs from April and November 2010. If prices managed to push above 1230, another notable zone of resistance is located marginally higher, between 1249 and 1258, being the lower boundary of the 2011 topping pattern. One aspect of last week's rally which is concerning is the lack of volume, with only 3.4 billion shares changing hands, well below the 10 week average of 4.7 billion. For a rally to be sustainable, volume should be increasing, not decreasing. Put another way, prices lifted higher last week more from sellers backing off than buyers stepping in with conviction.



Equities Chart 1

On the daily (chart 2), we can see that the noted chart resistance zones also coincide with key Fibonacci retracement levels of the entire decline from the May high at 1370.58 to the October low of 1074.77, being the 50% mark at 1222.68 and the 61.8% level at 1257.58.

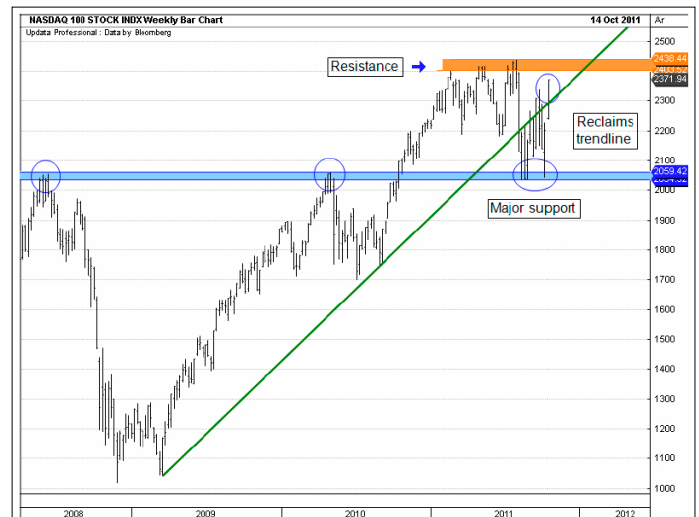
Other points of interest are the slow stochastic is returning to the overbought region above 80, an occurrence not seen since the July high. On its own, this is not enough to get bearish, as an overbought reading can last for some time. However, combined with the low volume and chart resistance, it is another clue that the advance is at risk of correcting, at a minimum. Also, with the 50 day moving average (red line) still below the 200 moving average (blue line), the long-term trend is down.



Equities Chart 2

Nasdaq 100 (chart 3)

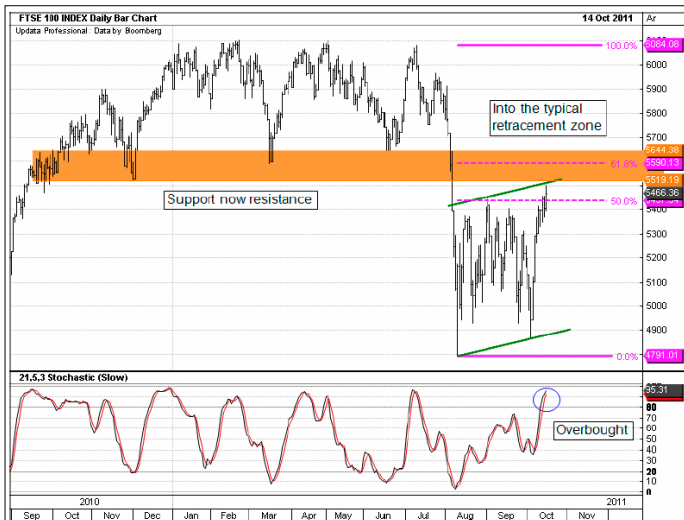
The fact that the Nasdaq100 has reclaimed the rising trend line is a bullish sign, as this had been providing resistance. Added to this, prices have retraced a large percentage of the July to August decline, returning focus to recent highs between 2403 and 2438. Key support is located between 2059 and 2034, being both recent lows and previous highs from 2010 and 2008.



Equities Chart 3

UK FTSE100 (chart 4)

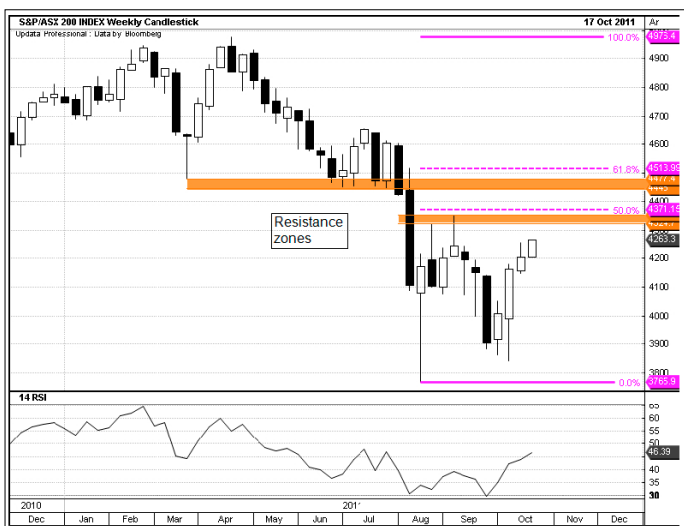
There is a confluence of resistance just above current levels, being the 50% to 62% Fibonacci retracement zone between 5437 and 5590, combined with previous chart support (orange band) between 5519 and 5644. Combined with an overbought reading on the slow stochastic (95.32) and overall choppy nature of the recent rally, further upside here appears very limited.



Equities Chart 4

ASX200 (chart 5)

Since the August lows of 3765.90, upside rallies have been capped by resistance between 4324 and 4354. Slightly above this region, we have the 50% to 62% retracement zone of the recent decline between 4371 and 4513, plus previous support between 4445 and 4477.

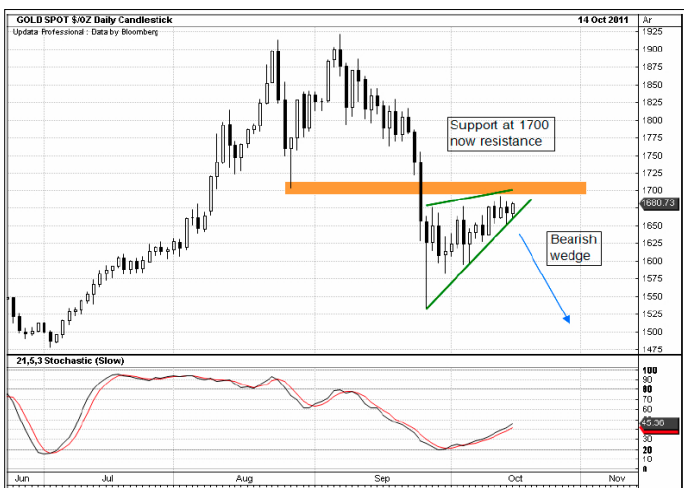


Equities Chart 5

Commodities

Gold (chart 1)

Following the sharp plunge lower in late September, prices have been drifting higher over the past month, with this move taking the shape of a rising wedge. In a downtrend, such patterns are bearish, meaning they not only break to the downside, but are completely reversed, pointing towards new lows below 1525. While a move above 1700 would not invalidate this pattern, should previous support now provide resistance, the bearish case for gold would be strengthened.



Commodities Chart 1

Silver (chart 2)

Previous major support, being the 2011 lows between US\$32.31 and US\$33.38, continues to provide a barrier to the upside, with prices failing to close above this zone for the last three weeks.



Commodities Chart 2

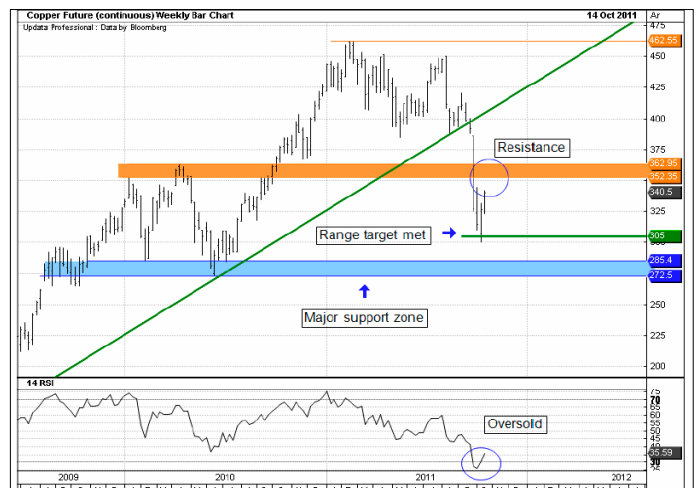
On the daily (chart 3), this coincides with the 38% to 50% Fibonacci retracement zone of the decline off the September highs of US\$43.40 to the September lows of US\$26.07, which we have labeled as Wave 3, still our preferred count. With Elliott Wave analysis, Wave 2 is often a deep retracement of Wave 1, being 50% to 62%, whereas Wave 4 is often a shallow retracement of Wave 3, being 38% to 50%. The rationale behind this is that at Wave 2, the trend is just beginning, meaning the bears are not yet fully committed, compared to Wave 4, where the downtrend is much more established and evident to all.



Commodities Chart 3

Copper (chart 4)

After tagging the range target at 305, prices are currently correcting the recent decline. Chart resistance, marked from the 2010 highs, comes in at 352 to 363.



Commodities Chart 4

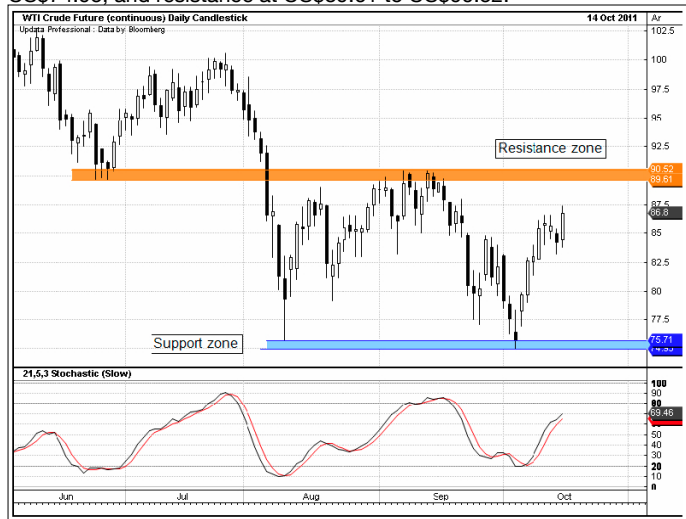
To the daily chart (chart 5), and very similar to the silver chart above, chart resistance coincides with the 38% to 50% Fibonacci retracement zone of the recent decline, labeled as Wave 3.



Commodities Chart 5

WTI Crude Oil (chart 6)

Prices are currently in a range defined by support at US\$75.71 to US\$74.95, and resistance at US\$89.61 to US\$90.52.

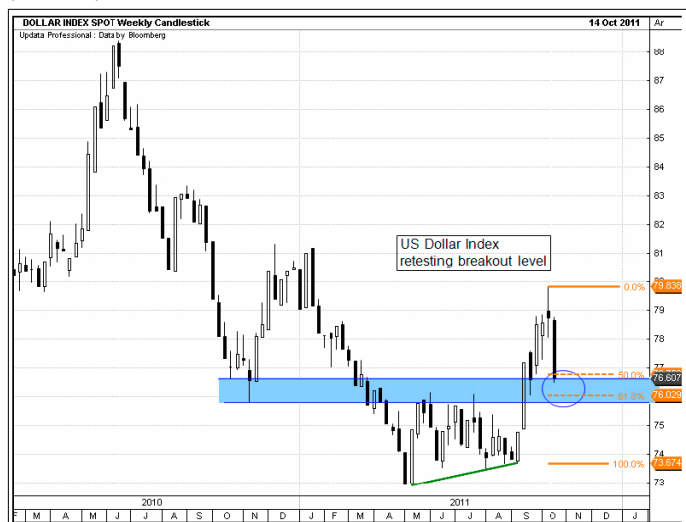


Commodities Chart 6

Currencies

US Dollar Index (chart 1)

The outlook for the US Dollar Index is the exact opposite to many equity and commodity markets, being the long-term trend is up, and previous resistance is now support. In saying that, to remain bullish the USD, we need to see prices hold the breakout level between 75.81 and 76.60 (blue box).



Currencies Chart 1

Should prices indeed find support around current levels and then resume the broader uptrend, we will be looking at a large head and shoulders reversal pattern (chart 2), should we then get a rally above 79.838.



Currencies Chart 2

The recent correction does not negate the similarities in the pattern between now and 2008 (chart 3). Although back in 2008 the initial break ran higher, we did see a notable correction of this move, before the longer-term uptrend really took off. We have highlighted where we are now compared to 2008 using a blue circle.



Currencies Chart 3

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