Technical Analysis

Weekly Comment

Global

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Last Week's Sell-off Had All the Signs of a Capitulation

- **US Trading**: As highlighted in our Technical Alert on Friday (February 5th), last week's sell-off had all the signs of a classic capitulation. We saw a big jump in risk aversion with a spike in the VIX index, the highest volume in SPYDERS since the March lows, a strongly increasing put/call ratio, and a spike in the NYSE TRIN/ARMS index. Have we seen the lows? We don't think so, from a cyclical perspective it is too early to call a bottom, and from a price perspective most charts still have some room to test their next relevant support levels.
- Conclusion: According to our cyclical roadmap, we still favor a 4-month cycle low in late February; so over the next 3 weeks we see equities as still vulnerable for more down tests. However, with last week's capitulation we think we have seen 90% of the downside, so the next 2 to 3 weeks could be more of a bottoming process (including a bounce this week), instead of expecting more of the same aggressive bear attacks from last week. From a price perspective we stick to our recent call and see most markets pulling back to their 200-day moving averages. Our SPX target is unchanged at 1040 to 1020, the Nasdaq Composite should see a low at around 2050. Given last week's capitulation we are changing our tactical bias and recommend aggressive traders to start buying/ accumulating into further weakness to position for a significant rally into March/April.
- **European Trading**: Last week's bounce was shorter than anticipated and another sharp decline materialized into the weekly close. The Euro-Stoxx has broken its 200-day moving average and the same signals we are getting from key sectors such as banks, financial service and insurance, whereas personal has a hit a new relative all time high and continues to outperform aggressively. Given last week's capitulation a bounce this week is likely. Since we are still far away from forming any significant price bottoms it is however too early to call a bottom.

In our mid January tactical call we highlighted the trend resistance at 19 in the VIX index as a trigger for selling equities. Today we are looking for a reversal in the strong resistance zone at 30 to 32 as a buying confirmation for aggressive traders and to position for a bigger rally into March/April.

US Equity Market Update:

Chart 1.) S&P-500 Daily with NYSE TRIN/ARMS Index

Chart 2.) S&P-500 Daily with CBOE Put/Call Ratio

Chart 3.) S&P-500 Daily with SPYDER Volume

Further Downside is Limited

Last week's sell-off had all the signs of a classic capitulation. The TRIN/ARMS index of the NYSE spiked to +3.4, which is evidence of a high volume sell-off (Thursday was a 97% down volume session). What happens after such a high volume wash-out?

In most cases, these capitulation sessions are quite near to important tactical bottoms but if we go a bit deeper into the details we can see a big difference between whether these sell offs occur in an uptrend or if the market is trading in a downtrend. In 2009, we had 7 sessions with a TRIN/ARMS index spike above +3.0, which is a threshold we can view as a contrarian buying trigger. 5 out of 7 sell-offs were more or less classic wash-out sessions in an uptrend and ex-post great buying opportunities. After 1 or 2 stabilization sessions the market reversed and continued to rally. However, the other 2 capitulation sessions occurred in downtrends, in late February, where the market was in the final stages of its Q1 collapse and in early July in the late stages of the June/July correction. In both cases the market needed another 5 sessions before the final low/reversal took place and the market started a new bull leg. In both cases further downside was quite limited and the down momentum started deteriorating, which is another classic attribute of a tactical trading bottom.

Conclusion: It's fact that last week's bounce was shorter than favored but the new lows are still fully inline with our Q1 correction scenario and our late February low projection. Last week we said that we wouldn't be too aggressive in playing a bounce as the market should be vulnerable for more downside. We stick to this call and would concentrate more on picking the next major low instead of playing bounces. With a rising CBOE put/call ratio and the biggest spike in SPYDER volume since the March lows, last week's sell-off already had a lot of a final capitulation, so that another bounce attempt this week is likely. However, following our cyclical roadmap we still favor a 4-month cycle low in late February, so over the next 2 to 3 weeks we see equities still vulnerable for more down tests. With last week's capitulation and the pattern in the NYSE TRIN index, we think we have seen 90% of the downside, so the next 2 to 3 weeks could be more of a bottoming process, as to expect more of last week's aggressive bear attacks. From a price perspective we stick to our recent call and see most markets pulling back to their 200-day moving averages. Our SPX target is unchanged at 1040 to 1020 and the Nasdaq Composite should see a low at around 2050. Given last week's capitulation we are changing our tactical bias and recommend start buying/ accumulating aggressively into further weakness to position for a significant rally in equities into March/April.

US Equity Market Update:

Chart 4.) S&P-500 Weekly with AAII Bullish Consensus

Chart 5.) VIX Index Daily

Sentiment:

In our last week's comment, we highlighted the AAII Bullish Consensus where we said this sentiment survey still had too high readings to signal a major tactical low. Last week the bullish consensus slipped to 35%, which is quite near to the threshold of 30%, which we see as contrarian buying territory. Another mixed to negative week would increase the possibility that next week we'll get the kind of contrarian sentiment call that we generally expect to see over the next 2 to 3 weeks.

In our Friday Technical Alert we highlighted the VIX index that has resolved a trend continuation formation to the upside. On Friday, the VIX was quite near to our target and major resistance of 30. We wouldn't be surprised to see a final spike in risk aversion towards 30 to 32 on a daily close basis.

In our mid January tactical call we viewed a move above 19 in the VIX as a sell signal for equities. However, for aggressive traders a reversal at around 30 to 32 would be a signal to start buying and position for a bigger rally into March/April.

Chart 6.) S&P-500 Daily Chart

Chart 7.) Nasdaq Composite Daily Chart

European Equity Market Update:

Euro Stoxx-50 Is Below Its 200-Day Moving Average

Last week's bounce was shorter than anticipated and another sharp decline materialized into the weekly close. From a price point of view the technical background has further deteriorated with the Euro-Stoxx breaking below the 200-day moving average. The same signal we are getting from key sectors where banks, financial service and insurance have broken their 200-day moving averages, whereas personal has a hit a new relative all time high and continues to outperform aggressively. On the other hand, last week's decline was accompanied by a huge spike in the future volume, which suggests that the move already had the character of a capitulation. With momentum indicators moving into deeply oversold territory, a tactical stabilization and another attempt to bounce is a likely scenario for this week's trading. However, since we are still far wave from forming any price bottoms we think it is too early to call a bottom. We expect more down-tests over the next 2 weeks.

Chart 8.) Euro Stoxx-50 Daily Chart

Chart 9.) Euro Stoxx-50 Daily Chart With Volume

Euro Stoxx-50:

The price signals we received from the break below the 200 DMA and the November 3 trading low, have obviously a bearish message. However, last week's decline was extreme in terms of price and volume. Cash and future volume jumped to the highest level since October 2008, which suggests that the down-move had the character of a classic capitulation. Furthermore, the short-term downtrend is too steep to be sustainable so alone form a momentum standpoint we expect a stabilization to be setting in soon.

Former support at 2693 is now resistance and a break is required to open tactical upside towards 2737.

Supports are at 2600 and 2555, where the latter represents the 38% retracement of the March/January 09 bull move.

Whether we look at the cash or at the Euro-Stoxx future volume, in both cases we saw a huge spike to the highest level since October 2008. Volume spikes often mark temporarily turning points.

The conclusion is that the Q1 correction has entered a final stage and the downside into our favored late February low should be limited from here.

European Equity Market Update:

Chart 10.) FTSE-100 Daily Chart

Chart 11.) DAX-30 Daily Chart

Chart 12.) Swiss Market Index Daily Chart

FTSE-100:

Last week's bounce was shorter than anticipated and the FTSE generated a fresh reaction low. With the whole correction taking the shape of a 5-wave structure, the momentum beginning to diverge and the big support at 5000 points coming in sight we are expecting another attempt to stabilize this week. A wave-5 structure suggests that the current correction is moving into its final stages, which is inline with our view that in the next 2 weeks we could see an important tactical low in the UK.

A break above 5145 is required to open further tactical upside towards 5305.

On the downside keep the important support at 5000 (200-day moving average) on the radar screen.

DAX-30:

Compared to the Euro-Stoxx, the German market is still trading above the early November high and the 200 DMA, offering support at 5312 and 5400, respectively.

On the upside, a break above 5540 is required to trigger a bounce towards 5733.

Swiss Market Index:

Last week's bounce ran into strong price resistance at 6600 and it was finally the pull back basis for another strong tactical down-leg. From a trend perspective the market is heading into massive support at around 6150, which are the price lows of October and November. Given the increasingly oversold status of the market we expect this area to hold and to be the basis for our anticipated March/April rally.

European Equity Market Update:

Chart 13.) DJS Food (.SX3P) Weekly Chart

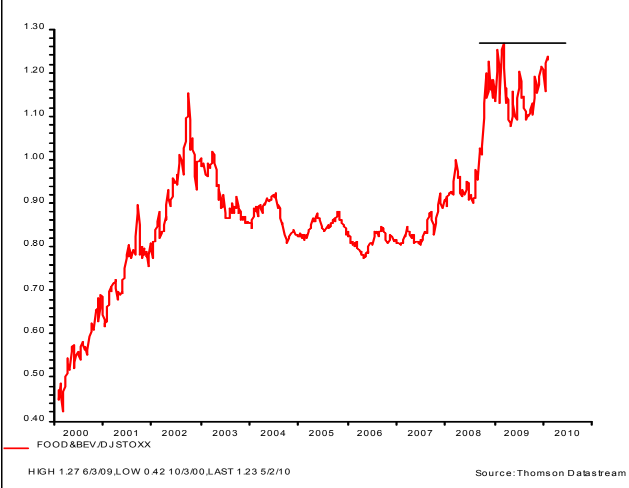


Chart 14.) DJ Personal & Household (.SXQP) Weekly Chart

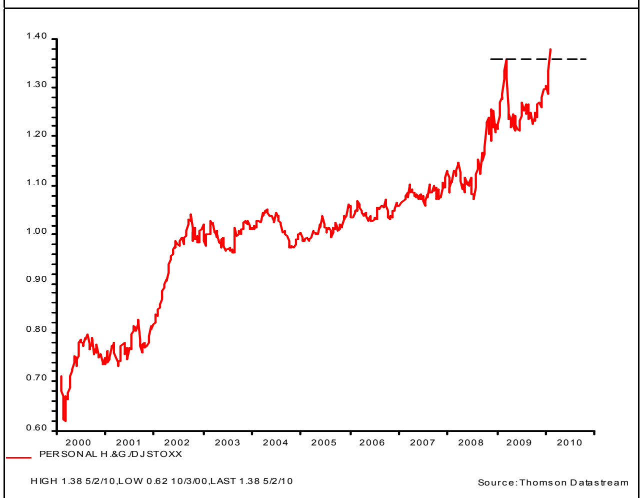
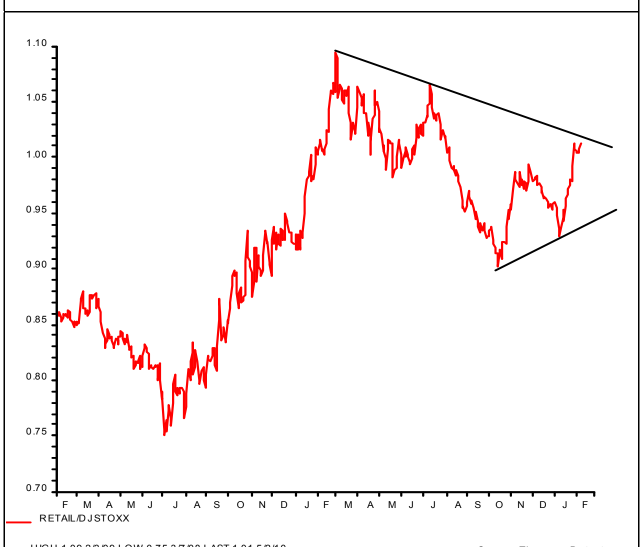


Chart 15.) DJS Retail (.SXRP) Daily Chart



Defensives Outperforming

Whereas financials and most high beta sectors continue to lose ground it is not a big surprise that defensive sectors are strongly outperforming. However, the relative performance is more selective than most expect since in the high beta camp we have in particularly the industrial sector surprising on the upside, whereas in the defensive camp utilities and telecoms are a big disappointment.

In our 2010 strategy call we said that from an inter-market standpoint we expect a strong bear move in the bond market in H1 and the top in interest rate futures will be obviously closely linked to the current decline in equities. When equities are finding their low in the next 2 to 3 weeks this should be the basis for a move up in yields into Q2 and this is obviously bearish utilities and telecoms. From a trend perspective we don't expect the current underperformance in these sectors to change.

On the other hand we have food, retail and personal strongly outperforming. Personal has hit a new relative all time high, which is a strategic breakout. Short-term probably overbought but from an investor standpoint a potential relative set back in the next few weeks would be an opportunity to buy/add.

Food and retail are heading into stronger relative resistance. It remains to be seen whether both sector will be able to generate a relative breakout where the overall market is starting to stabilize. However, from a trend perspective these charts/pattern are bullish and form an investor standpoint we would use weakness to add/buy.

Dow Jones Stoxx Sector Overview:

	RIC	Trading at	Trend (weekly MACD)	Rel. Strength according to the spread chart	Favourite Stocks *
Personal & Household Goods	.SXQP	331.4	↗	Outperforming	BRBY.L, HNKG_p.DE, CFR.VX, SSL.L, PGH.AS, UHR.VX, IMT.L
Food & Beverage	.SX3P	294.2	↗	Outperforming	CSMNc.AS, DCO.CO, CBRY.L, HEIO.AS, NUTR.AS, MHG.OL, ABI.BR
Retail	.SXRP	241.0	↗	Outperforming	JMT.LS, PRTP.PA, CLSGn.DE, KESBV.HE, DELB.BR
Healthcare	.SXDP	365.4	↗	Outperforming	EKTAb.ST, GETIb.ST, STAGn.DE, SOON.VX, ORNBV.HE, COLOb.CO, SHP.L, UCB.BR, NOVOb.CO
Travel & Leisure	.SXTP	106.6	↘	Outperforming	IHG.L, VTB.L, SGC.L
Industrial Goods & Services	.SXNP	237.9	↘	Outperforming	SAF.PA, ZODC.PA, VEIR.L, ANDR.VI, CHG.L, VRT1V.HE
Technology	.SX8P	188.9	↘	Outperforming	IFXGn.DE, AIXGn.DE, SOVG.DE, ARM.L, ASML.AS
Basic Resources	.SXPP	460.9	↗	Neutral	BOL.ST, KAZ.L, VED.L, MNDI.L, TENR.MI, VOES.VI, LMI.L, NAFG.DE
Chemicals	.SX4P	425.4	↗	Neutral	DSMN.AS, SY1G.DE, LXSGD.DE, CLN.VX, CRDA.L
Media	.SXMP	150.1	↗	Neutral	MTGb.ST, JCDX.PA, SAA1V.HE, DMGOa.L, ETL.PA
Oil & Gas	.SXEP	307.2	↗	Neutral	PGS.OL, AKSO.OL, ACY.OL, TGS.OL, GEPH.PA
Telecommunications	.SXKP	243.4	↗	Neutral	TEL2b.ST, TEL.OL, ISA.L, ELI1V.HE
Constructions & Materials	.SXOP	252.9	↘	Neutral	YTY1V.HE, FLS.CO, GBFG.DE, GEBN.VX, SIK.S, SKAb.ST, ASSAb.ST
Utilities	.SX6P	314.3	↘	Neutral	TRN.MI, ENAG.MC, IPR.L, PNN.L, CNA.L, SVT.L, NVG.L, UU.L
Automobiles & Parts	.SXAP	214.7	↘	Underperforming	PECI.MI, VLOF.PA, RHMG.DE
Insurance	.SXIP	140.2	↘	Underperforming	STB.OL, PRU.L, SLHN.VX, SAMAS.HE, ADML.L, HNRGn.DE, ZURN.VX, AML.L, MUVGn.DE
Financial Services	.SXFP	209.5	↘	Underperforming	EURA.PA, MVDP.PA, SDR.L, KINVb.ST, IGG.L, RATOb.ST, PGHN.S
Banks	.SX7P	196.7	↘	Underperforming	CNAT.PA, KBC.BR, DNBNOR.OL, SVEDAa.ST, DANSKE.CO, JYSK.CO, SYDB.CO

DJ Stoxx, Eurostoxx and FTSE350 sectors can be traded via CFD and UBS will make guaranteed bid-offer spreads in them. Normal sizes are 5m EUR to 20m EUR with others available on request. All orders can be executed on an agency basis (execution commission is applied to all trades) and short rates, borrow rates and dividend rates pre-determined as per standard CFD agreement.

* The above stock selection is a recommendation based on trend works, relative strength and pattern analysis. Most parts of the selection are based on a quantitative technical selection model. The character of the model is mainly trend-following. The aim is to provide a consistent top down approach and to give the medium-term oriented investor a selection of technically favourable looking stocks.

Weekly Technical Indicators: (Source: Pinnacle Data, Datastream) Charts: Metastock

USA	08.02.	01.02.	25.01.	Comment	Our Voting
Bullish Consensus AAII	35%	40%	47%	Sentiment continues to cool down	Positive
Bearish Consensus AAII	37%	35%	27%	Slightly higher	Positive
Inv. Intelligence Bullish Consensus	39%	40%	52%	Lowest level since July	Positive
Inv. Intelligence Bearish Consensus	22%	23%	19%	Little changed	Positive
Advance/Decline Line (S&P 500)	8023	8238	8907	The A/D line cointinued to retreat but the underlying trend remains up and	Positive
New 52-week highs (NYSE)	19	54	80	Fewer new highs	Neutral
Stocks above 200-day average	85%	88%	89%	The correction continues to extend	Neutral
ARMS Index NYSE (10-day-sma) (<0,9 bearish/>1,2 bullish)	1.18	1.22	1.37	Oversold	Bullish
ARMS Index NASDAQ (10-day-sma) (<0,9 bearish/>1,2 bullish)	0.93	1.13	1.01	Becoming overbought after the recent stabilisation which is suspicious	Negative
Put/Call Ratio CBOE All Options (10-day sma)	0.93	0.9	0.83	Highest level since November	Neutral

Europe (DJ STOXX 600)	08.02.	01.02.	25.01.	Comment	
New 52-week highs	1	11	18	Lower levels	Neutral
Stocks above 200-day average	64%	75%	82%	The correction is taking its toll	Neutral
Stocks above 20-day average	8%	21%	35%	Extremely oversold which is bullish	Bullish

Germany	08.02.	01.02.	25.01.	Comment	
Advance/Decline Line	-2093	-2132	-1948	From a trend perspective the chart is bullish. The short-term picture is however neutral.	Neutral
Stocks above 200-day average (HDAX)	70%	78%	81%	An increasing number of stocks are now in a correction mode	Neutral
Stocks above 20-day average (HDAX)	9%	20%	23%	Heavily oversold	Positive
Put/Call ratio equities (Eurex, 10-day sma) (above 0,90 bullish/ below 0,80 bearish)	1.0	1.0	0.9	Not extreme high but compared to the levels from recent weeks this is bullish territory	Bullish

Switzerland	08.02.	01.02.	25.01.	Comment	
Advance/Decline Line	1363	1345	1397	The A/D line continues to struggle with the uptrend which is still intact	Positive
Stocks above 200-day average	70%	76%	80%	More and more stocks are now in a correction mode	Neutral
New 52-week highs	0	0	0	No new highs	Neutral

Intermarket Analysis	08.02.	01.02.	25.01.	Comment	
Bullish Advisers US Bonds	64%	61%	57%	Sentiment is slightly improving and not yet at extreme levels	Positive
Bullish Advisers Gold	58%	60%	65%	Cooling down which is tactically positive	Positive
Bullish Advisers Euro/US-Dollar	45%	53%	65%	A stronger shift which should support the Euro in the near future	Positive
Bullish Advisers Oil	55%	60%	65%	Sentiment continue to cool down	Positive