

MARKET ACTION

With David Russell Twitter: @davidjrussell

Wednesday, Jan. 18, 2017

SPX holds bullish triangle

Groups / Sectors:

- SPX unch. Indexes in close range. Bonds ↓
- Int'l: Mexico, Canada, Korea, Taiwan ↓; HK, China ↑
- Metals strong: Iron, steel, copper, aluminum
- Ocean shippers, GSEs, ethanol, prisons strong
- Chips, telecom suppliers, REITs strong
- Retail bounces: Apparel, mall-based, supermarkets
- Retail, solar, hospitals weak

Stock Notes: *All eyes on Treasuries*

- SPY squeezes into tightening range
- **AP trade:** XOM Feb 90 calls for \$0.60 or less. *Not working*
- NTAP, CLR may ramp from 100DMAs
- TPX nearing potential buy zone.
- CCJ worth a look near \$11
- BLL breaking 50DMA. SUPN holding support.
- *Oil bears trying to come back*

General News:

- NAHB housing 67 in Jan vs 69 est. Sales trends weak
- Dec IP +0.8% vs +0.6% est. CapUtil 75.5% vs 75.4% est
- UK jobs strong. OPEC production down.

Thoughts & Observations:

- Interesting how Clinton partisan Brainard now a hawk
- Einhorn: Trump unpredictability → Volatility. *Really?*
- Recent px-action lesson: Wait for head-fakes in neutral mkt

Options Paper:

- DLTR bullish: Feb 72.50p-77.50c-82.50c
- DLTR May 80-85 call spread
- TMUS May 70 calls bought
- S Aug 11 calls bought
- VALE Feb 10 puts bought
- HIG Jan 49, 49.50 calls bought
- ARMK Feb 35 calls sold
- FIT 10Feb 8 calls bought
- FXI 27Jan 36 puts bought
- ABBV May 60-62.50 strangle bought
- JCP 27Jan 7 short puts → 24Feb 6.50s
- PG Jan 78.50 puts sold (eps 1/20 premtk)

Calendar:

- Today: Beige book, **Yellen**. | API oil **NFLX**
- Thur 1-19: **ECB**, Claims, starts/permits, oil | **China GDP**
UNP BBT KEY MTB | AXP IBM
- Fri 1-20: Trump Inauguration, Harker of Fed
GE PG STI SYF RF KSU |
- Mon 1-23: **MCD HAL | YHOO ZION**
- Tues 1-24: Euro Markit Flash, Brexit ruling, US existing homes
JNJ MMM GLW VZ LMT | TXN STX AA DFS COF ISRG
- Wed 1-25: German Ifo, Mtg apps, EIA crude oil
BA ABT APH TXT TEL | MSFT GOOGL SBUX EMN ETFC

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Webinar archive: <http://www.optionmonster.com/premium/map/>

See page 2 for our SPX analysis.

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SPX analysis 1-18-17: NEUTRAL

NOW: SPX remains NEUTRAL today, but with increased odds of an upside breakout.

The [ascending triangle](#) (bullish [continuation](#) pattern) cited yesterday was confirmed with a third higher low along the upward-sloping line spanning the Dec. 30 and Jan. 12 troughs. Flatline resistance is around the Dec. 13 high near 2279. No reversals are evident and the DMA sequence remains very positive.

Other indicators including breadth and sector performance remain positive, with few signs of risk aversion. *There is actually potential for safe-haven assets like the yen and bonds to weaken following counter-trend bounces.* (This would lift banks.) The calendar has also grown more bullish as we enter the thick of earnings season, with no one-single clear event priced in.

Even if a drop occurs, we see little risk of a break below the Nov. 25 SPX peak of 2214. This relative proximity of strong support is another bullish consideration.

Oil is struggling with supply concerns, but it's not yet a problem for the bigger market.

LEVELS:

- /ES has [support](#) at yesterday's low of 2257.25. This translates into **\$225.80** on SPY.
- Next [support](#) is the Jan. 12 low of 2248.50. This translates into **\$224.95** on SPY.
- Next [support](#) is the Jan. 3 low of 2240. This translates into **\$224.10** on SPY.

- /ES has [resistance](#) at 2274, which matches the SPX flatline resistance at 2279. This translates into **\$227.50** on SPY.
- Next [resistance](#) at 2277, which matches SPX's all-time high of 2282 on Jan. 6. This translates into **\$227.80** on SPY.

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GAME PLAN: /ES has a 24-hour range between 2258 and 2268 (\$225.90 to \$226.90 on SPY.) We see potential for near-term chopping toward 2266 (\$226.70) but probably not much lower. A breakout through \$227.60 will likely be chased. *Our bullish bias remains in effect as long as yesterday's low holds.*

The more important move this morning may be in bonds, which are showing signs of a bearish reversal (in price) after /ZB double-topped below 154. This has the potential to turn into a rout ahead of Yellen's speech at 3 p.m. ET (her [last comments](#) on Jan. 12 were positive/hawkish). ECB tomorrow may prove hawkish as well.

Such a reversal drop in bond prices could trigger bullish follow-through buying in bank stocks. This could be the single most important thing to watch today.

We're also watching oil, which is probing lows before API oil data tonight. We see risk of some kind of stability and/or attempt to bounce but aren't sure how this will occur.

ECODATA & CALENDAR:

- China house prices rose in 46 of 70 cities, and fell 20, in Dec. This is worse than Nov, when 55 rose and 11 fell.
- UK unemployment -10K in Dec vs +5K est. OPEC also confirmed Dec production -221K. US Mortgage applications are flat, with purchase volume -5%.
- CPI +0.3% in Dec, core CPI +0.2%. Both were inline
- Earnings (GS, TGT) continue to show a theme of financials=good and retail=bad.
- NAHB's housing-market index is due at 10 a.m. ET. The Fed's Beige Book is due at 2 p.m. and Yellen Fed speaks at 3 p.m. API oil inventories are due after the close at 4:30 p.m. ET.
- Tomorrow is busy, with ECB's interest-rate decision & press conference, US jobless claims, housing starts/building permits, Philly Fed and EIA crude-oil numbers. Yellen also speaks again in the evening.
- Friday brings Trump's inauguration (swearing in at noon) and a speech by Harker of the Fed.
- The World Economic Forum at Davos is also underway, causing many luminaries to appear on TV. Many have been critical of Trump. *Dalio's comments about "fearing populism" are especially interesting because they reflect how much institutional investors are missing/hating the current rally. We consider this hatred bullish because it suggests cash remains on the sidelines.*
- See ResearchLab's [interactive calendar](#) for a full rundown.

LONG-TERM VIEW:

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- SPX has held the June highs of 2120, with its 100DMA and 200DMA both rising and in bullish sequence. This is consistent with long-term continuation to the upside. (11/18)
- An inflationary trend has been underway since the start of Q4. This remains bullish for most of the SPX at present, and is likely to keep lifting interest rates. (12/5)
- On 12/16 we cited a mid-term topping in bond yields, which has unfolded as expected. We're now looking for TNX to test 2.20%, near a key level from Nov. 14. (1/5)
- There is potential for acceleration in the housing market if rates fall, which buyers may view as a "last chance" to buy a home inexpensively. (12/21)
- USDJPY has upside potential to the mid-2015 highs around 125, a positive for SPX and risk-appetite. (12/5)
- Russia's economy may accelerate in 2017 as its central bank cuts interest rates from 10%. (12/19)
- Crude oil (/CL) is showing signs of reversing its long-term downtrend in place since mid-2014 as its 200DMA turns higher. However there was a daily bearish engulfing candle on Jan. 3 that may prevent a breakout for now. (Updated 1/9)
- We see increased risk for companies associated with "the old way of doing things" in Washington. This includes various healthcare names and defense/aerospace names. Government IT-related companies may also come under fire. (12/12) Companies that rely on imports, especially retailers, are at risk under potential corporate-tax reforms likely to be proposed by the Trump administration. (12/22)
- We have studied SPX's breakout now vs 1995. While there are similarities, this time the Fed is hiking rather than cutting rates. While not outright bearish, it may prevent the *tight ascent* of 1995 along the 20DMA & 30DMA. The current run may have steeper pullbacks as higher rates weigh on sectors like Utilities, REITs and Consumer Staples. (1/12)