MARKETFIELD
ASSET MANAGEMENT

The Weekly Speculator

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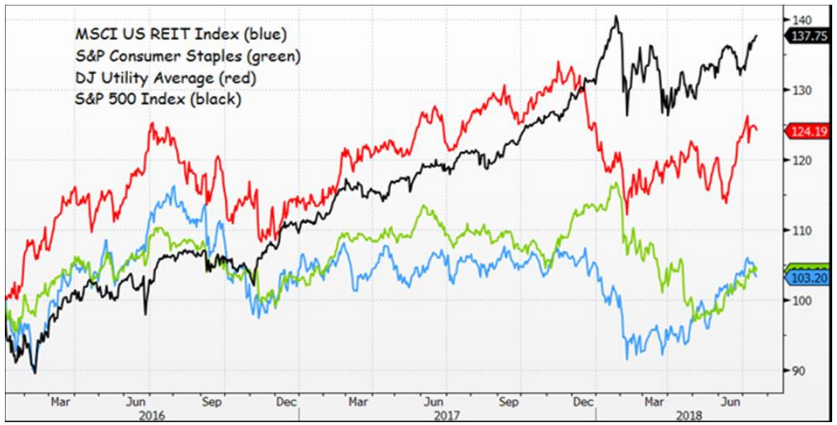
It has been a week of broad progress for global equity markets, helped no doubt by an absence of new trade driven headlines and a generally benign start to the US earnings season. The SPX has finally managed to record consecutive closes above the 2800 level, something that it had not managed since the end of January and although the 15 point bridgehead looks quite slender at the very least the recovery trend has been extended higher. Momentum still looks quite modest and only a small proportion of index members have broken out of recent trading ranges, but in a world dominated by passive indexing this matters less than the performance of the index itself.

Technology remains clear leadership, with Biotech also reengaging in recent weeks. The NDX index managed to record another all-time high on Tuesday absorbing an earnings miss by one of its story stocks and a large anti-trust fine on another without being knocked out of its stride.

Clearly for the next few weeks earnings are likely to become a major driving force of the market. January's strong season had been fully discounted by the market and April's was derailed by the emergence of the trade dispute and fears of margin compression. We are hopeful that third time might prove lucky, particularly for some of the globally integrated and economically sensitive groups that have remained becalmed for much of the recent recovery in the overall equity market. With the exception of the technology and energy sectors, this has been a very defensive rally by the US equity market, helped by the depression of yields at the long end of the curve.



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There are finally some signs that this might be changing, with the 30 year bond yield showing some ability to move higher. A close above 3.00% by the long bond would at least open up the possibility of a move back through the recent trading range with 3.15% a possible target. This would allow the 10 year yield some breathing room and the yield curve to bounce from its near flat conditions. It would of course take a move through 3.25% by the 30 year yield to mark a true change in the dynamic of the yield curve, and this seems like a remote possibility in the near term. However, a re-steepening of the curve would be consistent with a mood change by investors towards a more constructive mindset.

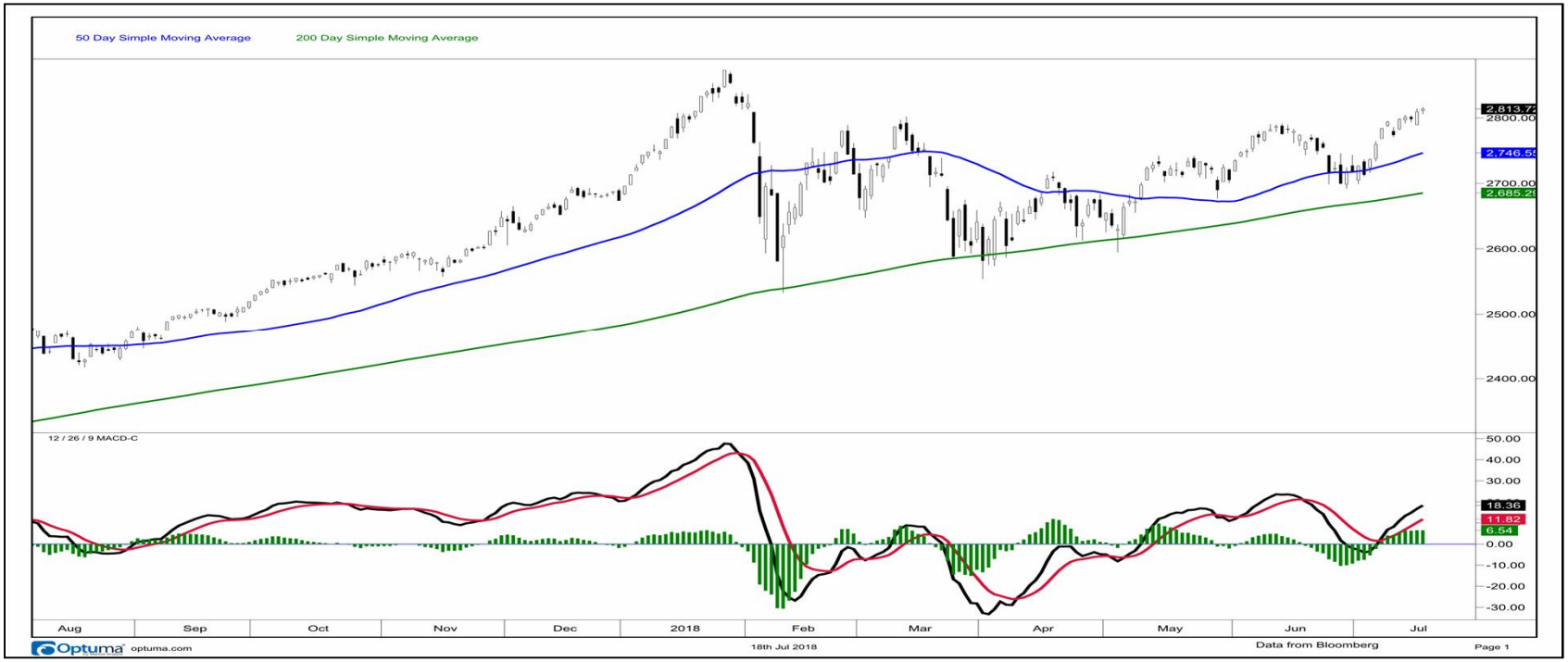
While sentiment towards US market exposure has remained intact, this coexists with a marked deterioration in sentiment towards the global economy. We have discussed the basis for this bifurcation a number of times in recent weeks and will not repeat our arguments at length. There are at least some signs of a nascent recovery in global markets, with Japan's NKY index close to breaking through 23000, the equivalent of 2800 in the SPX and the resource sensitive UK, Australian and Canadian markets all showing signs of recovery.

The emerging market complex remains a significant laggard, but at least it has started to repair some of the brutal damage wrought at the turn of the quarter. Latin American markets continue to lead this process, while China and Korea (which both have large MSCI Index weights) have yet to bottom decisively. The same dynamic has been visible in FX markets with Latin American currencies stabling but Asian currencies continuing to decline. Overall the progress has been sufficient to pull the Citigroup EM Macro Risk Index (MRI) down below its 50 day ma for the first time since February. The index is still unusually high at 0.705 (readings above 0.50 mean that investors are risk-averse in their positioning) but for the first time in many weeks the trend towards de-risking looks to be reversing.

It should be noted that the MRI has served as a useful contrary indicator at extremes which makes sense given that emerging markets are generally subject to flow driven moves (in both directions) that can exaggerate fundamental trends considerably. With the exception of some weakness in portions of China's economy (arguably compensated for by strength elsewhere) and a severe constriction of the shadow banking system (which means that liquidity conditions in China's financial markets are probably much worse than in the underlying economy) it is hard to find much which has gone wrong at the economic level in recent months. The weakening of the Chinese Yuan also appears to be controlled by local authorities rather than being generated by massive capital outflows, as was the case in 2015.

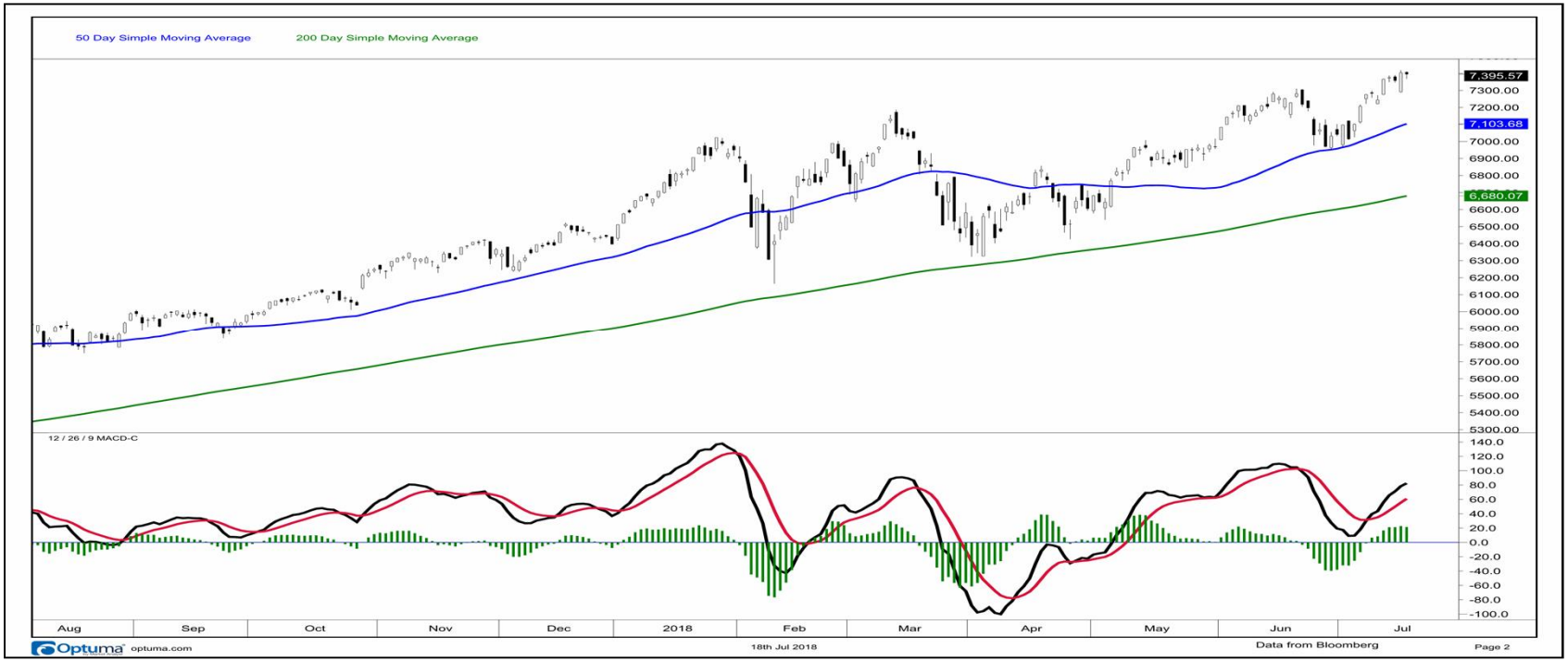
At the fundamental level there are also signs of improvement. The Citigroup EM Economic Surprise Index is almost neutral at -0.50, and almost identical to the US index at -1.10. This indicates that over the last 90 days both the US and emerging market economic data has essentially met expectations. We have no complaints about the quality of US economic data, but the apparent belief that emerging markets have fallen off the economic cycle looks to be mistaken. Should concerns about the trade dispute start to ameliorate (or at the very least appreciate that certain emerging markets may be well positioned to benefit), the potential still exists for a period of investor reengagement with emerging markets.

S&P 500



The SPX is up 1.49% over the past five trading sessions by grinding out an advance that managed to nudge the index through first resistance at the 2,800 level last Friday. On Monday the large cap index moved farther away from that level and yesterday the SPX closed at 2,815.62. MACD is rising in a constructive fashion putting more distance between it and negative territory. The bulls now have the all-time highs as the next level to overcome and this marks our first resistance at 2,873.87. We now mark first support at previous resistance at 2,800 and second 2,750.

NASDAQ 100



The NDX has re-taken the mantle of equity market leadership. The high tech index is up 2.02% since we last wrote and last Thursday the NDX rallied +122.27 points or 1.69% to 7,366.50 and in doing so it rallied through first resistance at the 7,300 level to new record highs. Despite disappointing results from NFLX that had an initial negative knock on effect and forced the index lower on Tuesday the index fully recovered and closed up on the day. MACD which never fell into negative territory continues to track higher. We now mark first short term support at previous resistance at 7,300 and second at the rising 50-day ma (7,103.57 at yesterday's close). Now that the NDX is in blue sky territory we are establishing a target of 7,500 and only a break of key support would have us rethink the viability of that target.

Russell 2000

The accumulation of small cap stocks had begun to slow after the RTY had gotten ahead of itself in early June. The index pulled back to the 50-day ma and made a second attempt at advancing through the record closing high at 1,708.10 a week and a half ago but rolled over and a shallow pullback unfolded. It may be that the index will remain range bound in a 50-point sideways trading pattern before the bulls make another attempt to take prices to new highs. MACD supports the consolidation argument as it is tracking sideways in positive territory. We now mark short term support at the rising 50-day and key secondary support at 1,640 (holding that level is central to our consolidation thesis). First resistance remains at 1,710.

VXO

The VXO index continued to probe lower in the last 5 sessions, closing at 10.62 on Wednesday and at one point threatening to drop back into single digits for the first time since January. This is consistent with the overall performance of the US equity market, with the SPX index finally establishing a bridgehead above 2800 and the NDX nudging up to a new all-time high in recent sessions.

We would note that other measures still signal some concerns, with the VIX somewhat higher at 12.10 (the gap probably being caused by direct purchases of volatility instruments) and the VXN index (which tracks NDX index option prices) still above normal at 16.53. In addition skew (the difference between put and call prices) is still quite elevated and all of the above suggest that positioning is a little more defensive than the VXO by itself would indicate.

Morgan Stanley Emerging Markets

The MXEF has continued to stabilize above the July lows. Two factors have alleviated the selling pressure on the EM Index. Last week we mentioned some of the EM equity markets were recovering. We pointed to Russia and Mexico which had both broken down early during the corrective process and had both managed to recover a decent portion of their losses. Brazil can be added to that list as it has recovered 50% of the ground lost during this year's selloff. In addition a number of EM currencies have also begun to stabilize and rally. That said it would be premature to say the five month correction had run its course. The MXEF would need to re-take the ground above the still falling 50-day ma for us to have the confidence to suggest that the selloff was behind us. We continue to mark first support at the June lows at 1,038.66 and second at 980.

10 Year Treasury Note

The 10 year yield remains pinned between the 2 and 30 year instruments and the range of movement was very small in the last 5 sessions with a low at 2.825% and a high at 2.88%. There are some signs of life at the long end of the curve with the 30 year yield starting to test resistance at 3.00%, a level it nearly touched on Wednesday afternoon before falling back to close at 2.99%. A move through 3.00% by the 30 year bond would be significant since there is little resistance before 3.15%.

A move up to this level would still keep the long bond range-bound, but it would create a little space for the 10 year to follow, with 3.00% being a reasonable target for a short term move higher. Longer term we would still need to see the 30 year bond yield break decisively above 3.25% in order to state that the environment has changed, and barring this the trend towards a flat or inverted yield curve still remains the dominant force at hand.

US Dollar

The DXY continues to track sideways digesting the gains form the April lows. The bulls have tried to extend the rally but have been met with supply since the middle of June at just below our first resistance at the 96 level but the pull backs have been shallow and have marked higher lows that have held at the 50-day ma. The majority of the overbought condition in place during the final weeks of the rally has been "worked off" as can be witnessed by MACD retreating back to just above neutral territory but this reflects the loss in upside momentum during the consolidation and not a reversal in price. We remain inclined to give the USD bulls the benefit of the doubt save for a break of key support at the 92 level.

Gold

Gold came under considerable pressure this week with the metal breaching important support at $1240 and then following through on the downside to reach $1221.10 on Wednesday morning, before bouncing to close at $1227.55. Wednesday's bounce is too small to represent a change in conditions, and the metal remains in danger of a retest of its 2017 lows around the $1200 level unless it can mount a rally that penetrates the falling 50 day ma (currently $1275).

ETF liquidation has been in evidence in recent weeks, with total holdings back to 69.24 mln oz., down from a May peak at 71.99 mln oz., although holdings are still about 3 mln oz higher than they were a year ago when the metal traded at a similar level. In other words although ETF holdings have been trimmed substantially they do not yet indicate a completely washed out market.

Crude Oil

The selloff in oil has extended since last Wednesday's -$3.73 or -5.03% drubbing. The following day oil fell through our first support at $70. And it was until the day before yesterday that it showed potential signs of stabilizing at $67. We have witnessed two other selloffs of the same ilk since last year's lows, one in January and another in May and although they were equally as nasty neither broke the up trend and it would be better to classify them as pauses in the uptrend. Conversely we have seen a few spirited advances such as the mid-June rally. We now mark short term first support at $67 and second at $64.

Copper

The industrial metals complex has experienced a very difficult four weeks with widespread liquidation across metals. Copper has suffered its fair share of damage, with the metal breaching multiple support levels on the way down. Although the last few sessions have been very choppy there is at last some sign of support close to the $6000 level, and the metal was able to bounce several times in the last few sessions to close at $6150, just $5 above its level last Wednesday.

Clearly it is too early to call the sell-off complete, but one way trends rarely remain in place for much longer than what we have seen take place Provided support around $6000 can hold we would hope to see at least a "relief rally" follow, with $6400 an obvious target. It would take a move back above $6600 to place the metal back in its old trading range, but we believe it will be some time before a move that high can be contemplated.

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