MARKETFIELD
ASSET MANAGEMENT

The Weekly Speculator

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The SPX index failed in its first attempt to challenge its January all-time high, with last Wednesday's intraday high at 2848.03 never being surpassed in the last five sessions. The pullback saw the index briefly breach key support at 2800 on Monday and then stage a modest recovery to close at 2813.36 last night. Although we would not overstate the damage from the failed assault, how this new 50 point (roughly 2%) range between 2800 and 2850 is resolved looks to be quite significant. An upward breach would set up an immediate challenge of the all-time high at 2872.87, while a move below 2800 would potentially be followed by a move down to 2700, which now combines the late June low with the rising 200 day ma.

One noticeable change in recent sessions has been the position of the SPX versus the other two indexes we follow. The small cap RTY index has been under some pressure, as we had expected. The index fell below its rising 50 day ma this week and has struggled to retake it in subsequent sessions. The overall damage so far is quite modest, but the manner in which it was chased higher as a "trade haven" in June probably requires a deeper pullback. The index has had a pattern of alternating out-performance and under-performance in recent quarters, and we believe that we are witnessing a repeat at the current time.

The state of the NDX index is rather more complicated and of course rather more important for the overall market. This index's market cap is dominated by a relatively small number of issues, with all of its key members has reported earnings over the last couple of weeks. Generally earnings themselves have been robust, but appear to have been fully discounted in most cases by the market. In a few high profile cases earnings disappointed, triggering very sharp losses in equity prices, again reflecting high levels of positioning. With earnings now behind us as an immediate driver it is important for the index to stay above its rising 50 day ma, with the price for not doing so potentially quite significant; since it would indicate a degree of exhaustion has set in after several months of outperformance.

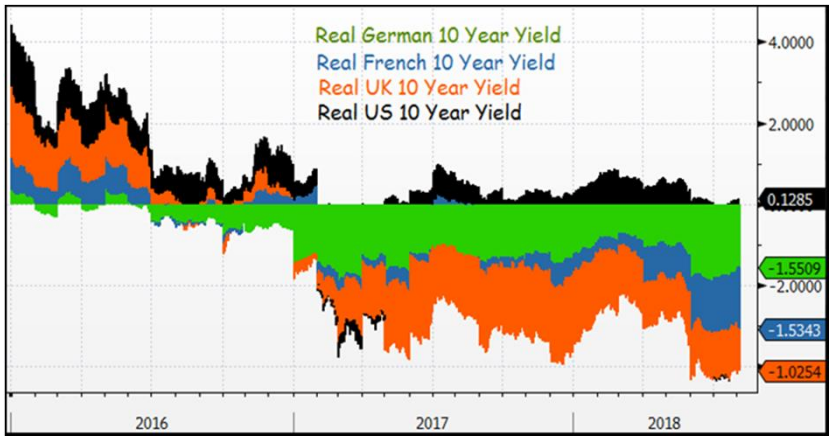
Markets outside of the US generally improved in recent sessions, particularly in Europe which enjoyed a strong July. Wednesday's session, which followed the news that the US is considering higher tariff rates on Chinese imports, saw some of these gains reversed and last night's session saw signs of panic in Asian markets. It is too early to be sure which path the US will take in its negotiations with China. Our sense is that the US Administration still wishes to "win" a war rather than "wage" one, and this will ultimately require some form of settlement to be put in place. Much of the very tough posturing is designed to set the stage for a

recalibration that can be declared as a victory.

This does appear to be the path that has been taken with Mexico, with a trade deal that both sides find to be acceptable now apparently close to being agreed after an even uglier start to the process. Of course there is much more at stake in a US/China dispute than the essentially local and much smaller trade flows between the US and Mexico and we certainly would give no guarantees that a solution acceptable to both sides will be found in the weeks ahead. What we do believe, however, is that a dispute would be damaging for both parties, and that currently markets have much more fully discounted the risks at stake in China and other emerging markets than within the US equity market.

Meanwhile, away from trade, there is growing evidence that long term yields are probing higher across the developed world. The weakness in yields (or strength in bonds) that accompanied the early stages of the trade dispute has been largely reversed. There have been two obvious drivers of this shift. Firstly in the US overall economic data and in particular inflation data have continued to meet or beat expectations, which are themselves quite elevated. The US 30 year bond is arguably the most important sovereign yield at present, since it marks the longest duration instrument in the world's strongest and most inflationary developed economy. Its march back up to 3.13% is therefore significant, although as we have pointed out before, its key resistance comes in somewhat higher at 3.25%.

For the time-being we would still treat the long bond as range-bound, which means that the overall yield curve remains in a flattening trend. However, a breach of 3.25% would potentially mark an important change in this dynamic. It should not be forgotten that the cycle high for the 30 year was 3.97% in January 2014. This may appear to be a distant target after years of depressed yields but it would be a realistic level to be reached if the long bond were to break out and experience follow-through. Our guess is that the 10 year would reach 3.50% to 3.70% under such a scenario, while the short end of the curve would continue to be anchored by FOMC guidance, generating a steeper yield curve, which itself would allow room for more robust FOMC guidance into the 2019/20 period.



The fact that the creep higher in yields has been a global affair makes an upside breach a little more likely to take place. The Bank of Japan has helped fuel this process, allowing its 10 year yield to fluctuate up to 20 bp above its zero target, resulting in a sharp move up to 11.5 bp, the highest yield since January 2016. European yields have also been moving higher, with the German Bund back to 48 bp, up from 29 in early June. The very depressed level of "real" 10 year yields certainly would allow for a material increase in underlying interest rates even in the absence of an obvious change to either official central bank policy or underlying economic data.

Thus far none of these moves appear to be decisive, but the fact that they were generally unexpected makes them a little more credible and certainly worth watching in the days ahead.

S&P 500

The SPX was unable to build onto gains that it had established when it broke out above the 2,800 level last Wednesday but the pull back in price that followed held that level on Monday on a closing basis and the large cap index has inched slightly higher. There appears to be a level of tiredness seeping into the index. MACD which had started to roll up has slipped lower through its signal line but remains in positive territory. How the new 50 point (roughly 2%) range between 2800 and 2850 is resolved looks to be quite significant. An upward breach would set up an immediate challenge of the all-time high at 2872.87. A move below 2800 could potentially be followed by a move down to the confluence of support at the June lows and the rising 200-day ma at 2,700.

NASDAQ 100

After reaching our 7,500 target on the day before our last published note the NDX rolled over succumbing to disappointing earnings releases and forecasts by a few of the larger tech companies until it stabilized when Apple Inc. (11.02% weighting in the NDX) numbers were released Tuesday night and the stock acted favorably yesterday (up +5.89%) helping to stabilize the index. One stock alone cannot stem the tide of lost momentum in the index and a broader swath of it's constituents for long as witnessed by price pressing against moving average support and MACD rolling over. We continue to mark key first support at the 50-day ma and second at 6,950 and only a move back through resistance at 7,500 would suggest that the NDX is out of the woods.

Russell 2000

Over the course of the past few weeks we have brought attention to the relative weakness of the RTY and the best that can be said is that the small cap index remains range bound. On the negative side of the technical ledger the RTY broke support at the 50-day ma and this week the shorter term moving average has capped any rally attempts. MACD had been static and moving sideways but it is now gathering apace lower and is only a day away from entering negative territory hinting that the lower boundary of the sideways price pattern might very well give way.

The index has had a pattern of alternating out-performance and under-performance in recent quarters, and we believe that we are witnessing a repeat of the latter at the current time. We now mark first resistance at previous support at the 50-day ma and second at 1,710. We now mark first support at 1,630 and second at 1,600.

VXO

Over the last 5 sessions, the VXO remained in a tight range between 10.92 and 12.97, signaling no change in mood among market participants. Given the range bound nature of the SPX index and the lack of significant index level news this is not surprising. However the calm at the index level contrasts with that of single stocks, which were often very volatile post earnings. This probably accounts for the much higher level of the VXN, where a number of key index members announced earnings in recent sessions and the substantially more concentrated nature of market cap means that the index level pricing of volatility can more easily become captured by single stock positioning.

Looking ahead a break of key support at 2800 by the SPX index would probably send the VXO through 14, while a trip back up to the all-time high would have the potential to trigger a move back into single digits. Moves between these levels have little meaning.

Morgan Stanley Emerging Markets

During the month of July we witnessed a recovery in the MXEF after suffering a -18.8% decline from the January highs but over the past 5 trading sessions the EM Index has been trapped underneath its 50-day ma and has been unable to extend last month's gains. One positive technical feature is MACD which is approaching positive territory after reaching a level in negative territory not seen since the September 2014 / January 2016 correction but there is more work to be done. The MXEF needs to move above its shorter term moving average to suggest the five month correction may have run its course but the next key hurdle will be to overtake its 200-day ma which also marks a 50% retracement level of the selloff from the January highs. Only this will give us the confidence to give the all clear signal. We continue to mark first support at the June lows at 1,038.66 and second at 980.

10 Year Treasury Note

Long term interest rates continue to move higher not just in the US but across the developed world. To some extent this can be explained by policy changes at the Bank of Japan (which has widened its tolerance band for interest rate swings), but most of the drift higher represents an adjustment towards economic data that still supports the idea of a broad global recovery. We still view the US 30 year bond as the key interest rate to follow, being the longest term benchmark in the world's strongest economy.

We pointed out the potential for a move up to at least 3.15% a couple of weeks ago, and Wednesday's close at 3.133% brings us to within touching distance of that level. We would not rule out a further rise from here, but the closer we get towards 3.25% the tougher resistance is likely to be. A breach of 3.25% would have very important ramifications for the US interest rate cycle, bringing with it the potential for a sharp re-steepening of the curve. The 10 year yield has basically tracked the move higher by the long bond, closing above 3.00% for the first time since late May on Wednesday, and is targeting its 2018 high at 3.126% if the 30 year continues to push higher towards its own key resistance.

US Dollar

The DXY remains range bound and cannot be classified as neither weak or strong as witnessed by MACD which has begun to track sideways at close to dead neutral. There has also been nary a signal of either repositioning or a change in sentiment as we closed out July and enter the new month. During the sideways price action the DXY has been kicked back and forth by trade and tariff headlines and that remains to be the case although more recently that reactionary activity has slowed but this recent calm could quickly end. We continue to mark first support at 93 and second at 92.

Gold

Gold continues to drift lower despite a stabilizing of the USD, with Wednesday's close at $1215.95 being the lowest for the metal since July 7th 2017. About the only positive note is that the recent declines have been very modest, and the metal is yet to surpass the July 19th intraday low at $1269.18. However, we are yet to see any credible signs of a sustained turnaround and key support at $1200 now looks to be a target.

Crude Oil

Although oil prices as measured by the front month WTI futures contract has held the low established 12 days ago and has not violated key support at the $64 level it has not shown any resurgence in underlying strength. MACD has extended lower in negative territory reflecting the lack of any upside momentum. Only a move back above the 50-day ma and extended follow through the $71 level would give us the technical faith that the June highs could be challenged. We continue to mark first support at $67 and second at $64 and a break of that level would confirm a correction of a larger degree was unfolding.

Copper

Copper continues to be used as a proxy for the US/China trade dispute, with a cooling of the rhetoric allowing the metal to bounce back to $6,378 (just below our first recovery target) on Thursday and then pushed back down to $6172 on Wednesday by rumors of an increase in the US unilateral tariff rate to 25%. Once a market finds a link between news and price this generally remains in place until the issue is resolved. This is particularly true in a fairly shallow market such as copper. In the meantime we would hope that support at $6,000 continues to hold, but it seems clear that some credible resolution to the trade dispute is required for the metal to put its difficulties behind it.

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