MARKETFIELD
ASSET MANAGEMENT

The Weekly Speculator

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Despite the fact that the SPX index experienced considerable daily volatility over the last five sessions, the index moved only 2.50 points from where it stood last Wednesday at last night's close at 2642.19. This is a fair reflection of the tug of war taking place within markets with the index subject to a wide and violent trading range without really going anywhere. Although this is generally true across global equity indexes and other financial markets we are starting to see hints that the commodity complex is ready to break higher, taking with it a number of sectors and country indexes.

With regards to the SPX the negative forces have been dominated by trade concerns. It is ironic that the mercantilist Chinese regime has been the apparent defender of globalization in recent sessions, but of course it is easy to argue in favor of the status quo when it has so clearly been favoring one's country and corporate sector for the last 20 years. The US arguably has a reasonable case to make on its behalf and on behalf of other nations, but the administration appears determined to make it using the least reasonable language possible. This has clearly unnerved investors and most of the last week's moves could be traced directly to Presidential statements made regarding this issue.

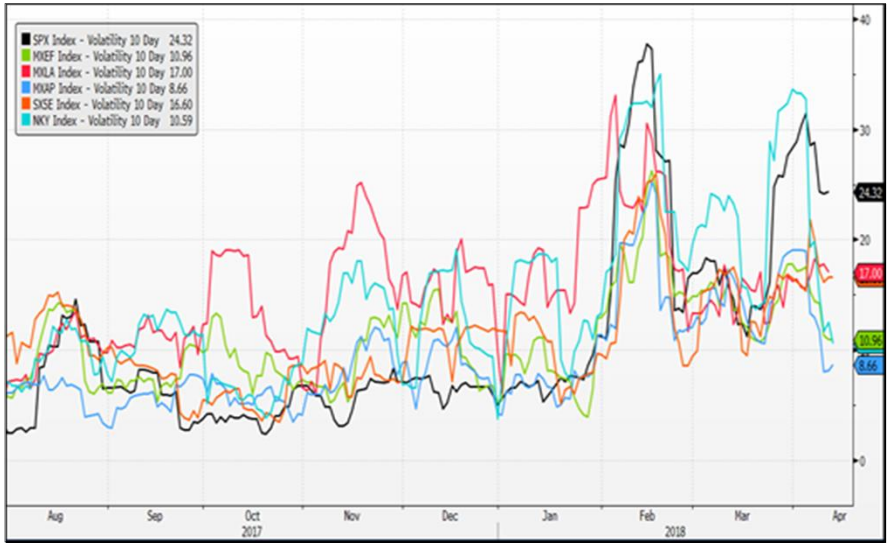
On the other hand words are not deeds, particularly when issued by real estate developers (anyone who has spent some time trying to reconcile renderings to finished buildings or stated square feet to reality should be aware of that). As we pointed out last week the NAFTA negotiations have involved some very nasty language without derailing the process, and although a final deal is yet to be agreed the indications are that the parties will be able to reach one. Readers with long memories may also recall the strong language used to demand that Japan open its borders and revalue its currency a generation ago. Although of course communication was generally handled with considerably more order and decorum by the Reagan administration, by the standards of the time many comments were deemed outrageous and the President was often likened to a Hollywood B movie actor hamming his lines.

Thus while we recognize the seriousness of the issues and would regard the imposition of tariffs as a legitimate cap on this cycle's potential we remain unconvinced that this risk will turn into reality in the short to medium term. This does not remove it as a potential catalyst for another break lower, but so far support around the 2550 level has held despite the ratcheting up of the rhetoric.

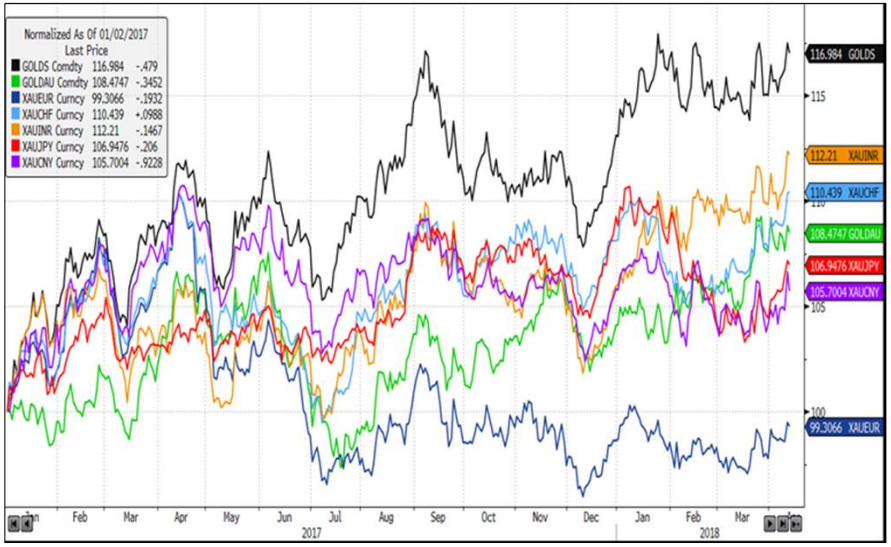
Meanwhile recent economic data, particularly trade reports from across the world, suggest that the companies deemed most at risk of tariffs have probably generally experienced an excellent quarter. The ability of the broad

equity market to hold above support in recent sessions has therefore bridged much of the time gap between trade and earnings. Should earnings by major exporters meet or beat expectations we would therefore have the potential for upward pressure in the parts of the market that have recently been subject to trade related selling and it will be very interesting to see how such a battle would be resolved.

We would also note that global markets have started to become substantially less volatile than the SPX. This is a significant change from the early weeks of the correction, in which all global markets moved rapidly lower. The recent period of violent range bound trading in the SPX has kept its trailing 10 day volatility at 24.3 (compared to December's 4.7). By contrast the equivalent measure in Europe (using SX5E index) has declined to 16.6 and Japan's NKY to an almost normal 12.5. The MXEF index is even lower at 10.95, reflecting an increased indifference by local markets to the US turbulence in recent weeks. Interestingly the EEM ETF, which tracks the ETF, has experienced over twice as much volatility over this 10 day period at 22.8, again reflecting that trading within US markets has started to become much more volatile than that in global markets even for instruments that track global indices.



There are of course a number of ways this anomaly can be resolved. The US equity market could calm down by settling in a dampened range with smaller daily moves, an outcome presumably driven by no substantive deterioration of trade issues and earnings that do no more than meet expectations. Less palatable would be another sharp break lower, which we would imagine would spread into global markets and expand volatility across the board as was the case in the early weeks of this correction. Of course an upside break would also compress volatility and we suspect be accompanied by a powerful move higher by much of the emerging market complex.



The latter has started to benefit from a determined move higher by much of the commodity complex. This is not something that is generally associated with a general correction in equity markets, but is an understandable outcome of current conditions that combine increased geo-political tensions with broad economic growth. Thus far crude oil is the only one of the three commodities we track to break out to a new cycle high, reaching $67.45 on Wednesday, its highest level since late 2014. Gold remains just below its January high but is now starting to record gains not just against the USD but also against other currencies (see chart). Indeed only the Euro price of gold is now lower than its level at the start of 2017, and that only by a small margin.

Copper has the reputation of being the most economically sensitive senior commodity and also remains range-bound but other industrial metals have started to break higher, most notably Aluminum in response to recent implementation of sanctions against Russia. The bulk of evidence suggests that most commodity producers should have enjoyed a strong first quarter, and a combination of strong earnings with multi-year price breakouts has the potential to generate a significant shift in sentiment towards this portion of capital markets.

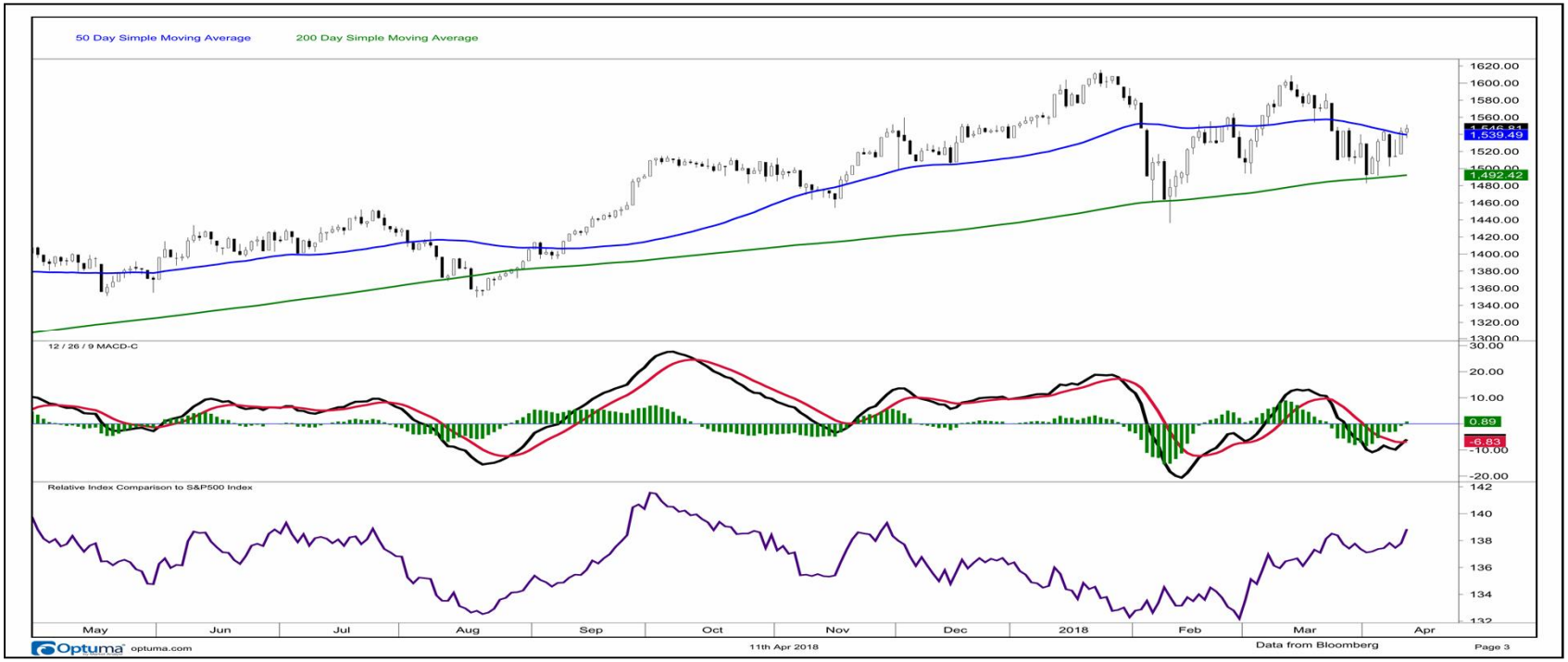
S&P 500

After the SPX index developed what could have been a bullish reversal pattern last Wednesday there was a lack of follow through the following day and by the close of trading on Friday that earlier technical signal was negated as the SPX traded down -58.37 points or -2.19% to close just above the 200-day ma. The large cap index has recovered this week but only to the point of being within 2.50 point of last Wednesday's close. This speaks only of the price action at the index level, under the hood at the industry sector level there have been some sizable price gains of note over the past five trading sessions. Over that same period the S&P 500 Automobiles and Components Industry Group is up +8.14% and the S&P 500 Energy Industry Group is up +5.84% to mention only two, both while the broader market continues to trade in its volatile sideways range. We continue to mark first support at the 2,530/2,550 zone and we now mark first resistance at 2,675 and second at 2,700.

NASDAQ 100

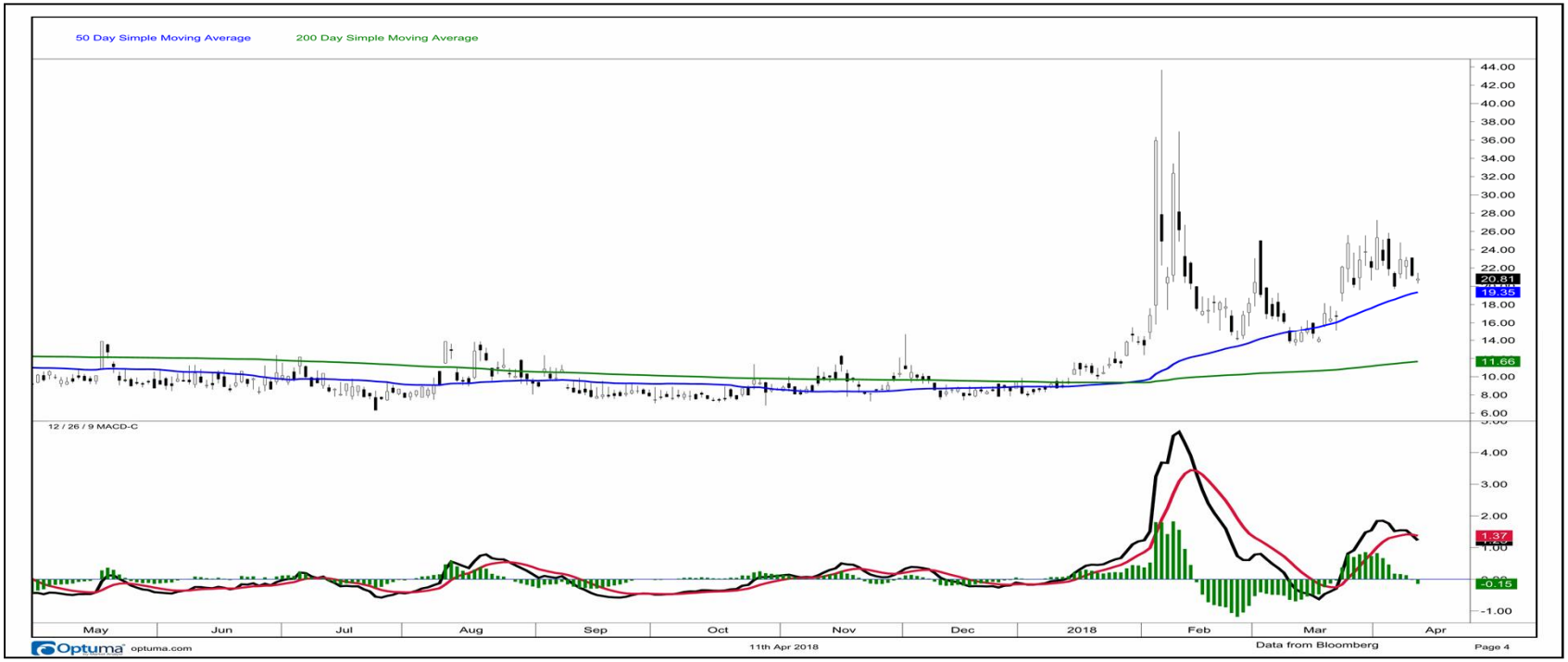
Like the SPX the NDX is very close to where it closed last Wednesday's trading session but in the case of the high tech index there is one notable difference. The NDX has technically done a better job at leaving the 200-day ma behind but like the broader index the NDX also remains range bound until it is able to retake the ground above first resistance at the 50-day ma (6,742.34 at last night's close). We now mark second resistance at 7,000. First and second supports remain unchanged at the rising 200-day ma (6,298.35 at yesterday's close) and 6,000 respectively.

Russell 2000



The RTY is the only US equity index that we track in these pages to re-take the ground above its 50-ma and is up nearly +1.00% over the past Speculator Week vs. a +0.36% gain in the NDX and a -0.09% loss in the SPX. The continued relative outperformance vs. the SPX since the beginning of March can be witnessed by viewing the added lower panel to today's chart. Saying that, the small cap index continues to be range bound as well, in between 1,500 and 1,600 in the shorter term and in the middle of the month's long sideways trading pattern. We continue to mark first support at the rising 200-day ma and second the February 9th intra-day low at 1,436.

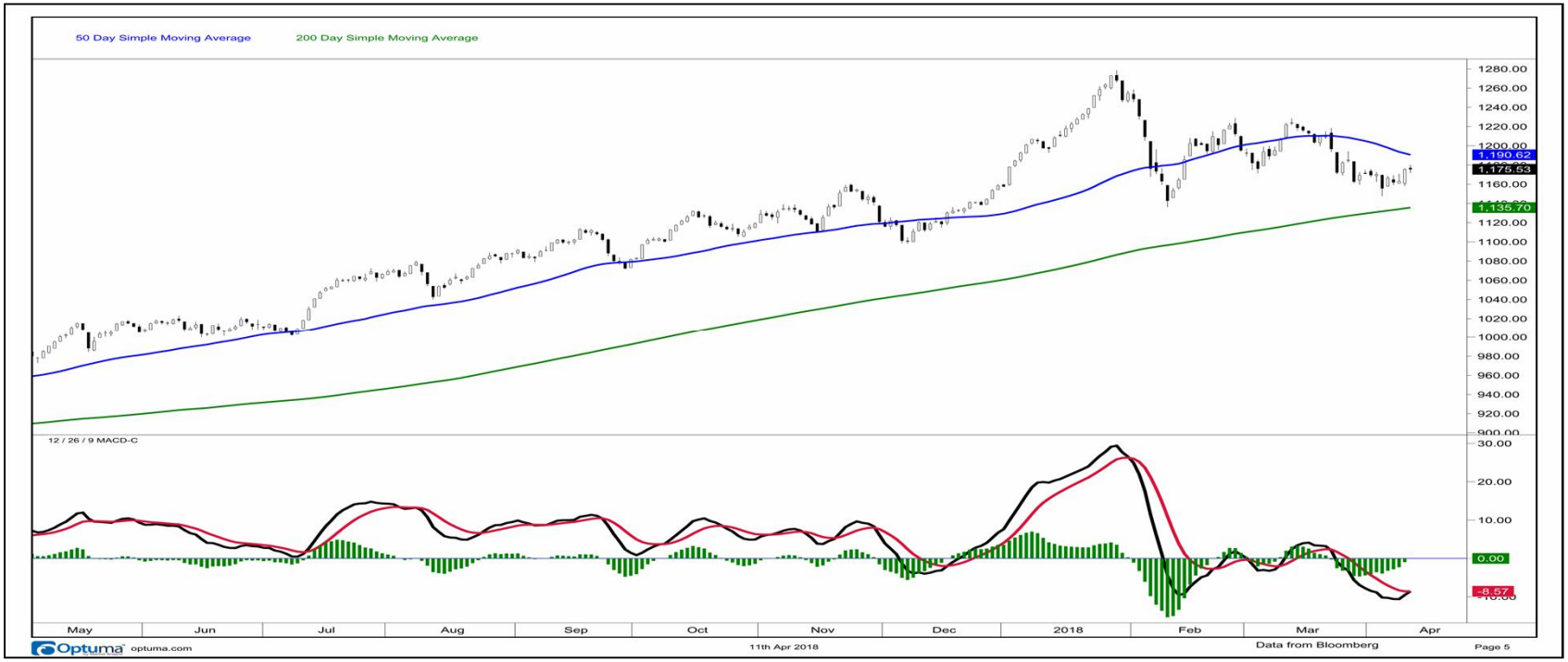
VXO



The VXO index closed on Wednesday at 20.81 and has remained above 20 since breaking higher in late March. The VXN remains somewhat higher at 24.69, but it starting to show signs of rolling over, while the RVX (which tracks RTY implied volatility) remains lower at 19.76. This is a highly unusual state of affairs that reflects the specific risks of trade restrictions and technology regulation in an environment that otherwise looks to be favorable for corporate earnings.

For the VXO index a move below 20 would probably indicate a sharp follow through to the key 14 level (and with it a break higher by the SPX index to 2800 or so) while a move back above 25 would presumably coincide with a break below recent support around the 2550 level. We view the former as more likely but the fate of the market remains in the balance.

Morgan Stanley Emerging Markets



The MXEF avoided a test of its 200-day ma last week and the EM index has quietly turned higher over the past five trading days. It was a nominal gain (1.72%) but bettered the three US Indexes and it has been in concert with a much lower lever of volatility. MACD remains in negative territory but is starting to hook higher. We continue to mark first resistance at 1,195 and second at 1,225. First support remains at the 200-day ma (1,135.70) and second at 1,100.

10 Year Treasury Note

Long term US interest rates continue to be trapped between strong resistance at their 2018 highs and the levels of shorter term rates below them. The 10 year yield has become becalmed in a narrow 2.75% to 2.85% range, held up by the 5 year yield at 2.61% and down by the 30 year at 2.995%. The former is anchored by the perceived end point of the FOMC tightening cycle while the latter reflects a lack of concern about inflation and so long as both assumptions remain unchanged there is very little space for the 10 year yield to move around.

US Dollar

On the day of our last published note the DXY made an attempt to break out above the 11 week sideways trading pattern but failed on Friday to follow through and over the past four days the DXY has pulled back below the 50-day ma. The more failed attempts to overtake the upper boundary of the price channel the more likely that support will be test. MACD continues to track sideways in neutral territory and only when the momentum oscillator begins to track decisively in either direction will we have a clue as to the sustainability of the price move out of the consolidation pattern. We continue to mark first support at 89 and second at 88.25.

Gold

Gold is finally starting to show a little more progress with the metal's movement no longer entirely dependent on the USD and gains being notched against all major currencies. Its headline price continues to be trapped in a multi-month range but at Wednesday's high of $1365.40 was within a dollar of breaking to a new 2018 high. Just above this level is the Brexit high at $1375, above which the metal would have entered a new leg higher in its bull market.

Crude Oil

After the retreat and test of support at the breakout level at $62, oil prices lifted off in spirited three day +7.49% rally that broke out of the 9 day down trend to close at a new recovery high yesterday. After a brief pullback in positive territory MACD has turned higher through its signal line. We now mark first resistance at $70. We are raising first support to 61.80 (last Friday's low) and second at $60. We would note that $69.14 marks a 50% retracement of the 2013 ($112.40) to 2016 ($26.05) bear market and we would expect to see this level tested in the days ahead.

Copper

Copper has bounced nicely after testing key support at $6500 and by Wednesday's close at $6950 it had just crossed through the midpoint of its 6 month trading range. Given the strength seen in other key commodity markets the odds of a break higher seem better than they have done since the metal started to consolidate and the metal should be watched closely for signs that it is ready to challenge the considerable resistance that stands between the current price and the December high at $7312.5

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Charts are courtesy of Optuma, data feed courtesy of Bloomberg Finance L.P.