Technical Analysis

Weekly Comment

Global

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15/09/2009

Equities Overbought ... Sell Banks!!

Due to traveling the next Weekly Comment will be sent out on September 29th.

- **US Trading**: Although the market breadth continues to be healthy, we don't see last week's new highs in SPX and Nasdaq as a reliable technical breakout. The market momentum continues to lag and deteriorating momentum is usually a leading indicator for a short-term reversal. Looking at our technical indicators, the situation is similar to early June. Trending indicators are diverging and daily momentum studies are moving into overbought extremes. On the upside, we see the SPX limited at 1060 and on the downside, a daily close below 1039 in the SPX and 2060 in the Nasdaq Composite would be initially negative. However, the SPX's key support remains at 992. Given the toppish short-term picture we expect the market to reverse and test 992 in the next 10 sessions.
- In the bigger picture, we continue to see September as a rollover month and October very weak for equities. Although we were obviously too early with our late August/early September tactical top call, our downside potential remains unchanged. We still see the risk of a 10-15% correction into late October, which would factually be just a pullback to the 200-day moving average in headline indices. Tactically, we are sticking to our recent call and would sell the rallies. Cyclical sectors are overbought and vulnerable for profit taking. Banks are underperforming, which we see as a warning signal for the overall market. A daily close below 45 would break the March uptrend in the BKX. Sell banks.
- **Inter Market Analysis**: Gold has failed to break its strategic resistance at $1030. Looking at our cyclical models, we continue to favor an important tactical low in gold in October, which implies that short-term gold and gold mines are vulnerable to a setback. With a non confirmation in daily momentum we see gold topping out early this week. A daily close below $985 suggests a move down to $970. We would take profits in gold and gold mines.
- **European Trading**: Bearish divergences in trending studies are reflecting the deteriorating market momentum, so we don't see last week's move as a sustainable breakout. With daily momentum indicators on overbought extremes we favor a pullback this week. However, the question remains whether prior to triple witching we can expect a bigger market reversal? A continuation of the current distributive top out phase into next week is the more likely scenario. We remain a seller into rallies and stay cautious on banks, where the DJ Stoxx Banks (SXP7) has still a record high extension of some 38% to its 200-day moving average.

Banks are beginning to underperform, since the BKX has not confirmed last week new high in the SPX. Our bearish wave count remains intact as long as the BKX does not mark a new high above 48. A daily break below 43.80 would be bearish and call for a move down to at least 38.

US Equity Market Update:

Chart 1.) S&P-500 Daily Chart

Chart 2.) Nasdaq Composite Daily Chart

Chart 3.) Nasdaq Composite Daily with Nasdaq New 52-Week Highs

New Breakout or Fake?

Last week we said that even in case of getting marginal new highs in the SPX and other US headline indices, it wouldn't change the underlying toppish picture of the market. Most daily and weekly price indicators are diverging and such non-confirmations are usually a leading indicator for an important tactical top. In early June, the market was in a similar situation. The breakout above 930 was based on low momentum and after 9 days trading sideways the market gave up and moved down into the major tactical low in early July at 850. Today we have a bigger non-confirmation forming in the MACD model and our short-term daily momentum is getting toppish. All this suggests that the market is vulnerable for a short-term top early this week.

From a pattern point of view it seems that SPX and NDX are forming a rising wedge. If so, then the top building phase would still continue through most of September, so that after an initial set back this week we could even see another marginal new high next week. However, if this is the pattern that we finally get as a potential top it would suggest a very sharp correction in October.

Generally, a daily re-break below 1039 in the SPX and 2060 in the Nasdaq Composite would be initially negative and suggest a re-test of the markets key support levels, which is the early September low at 992 in the SPX and the 1958 in the Nasdaq Composite. As long as 992 holds the market's price structure is per definition bullish.

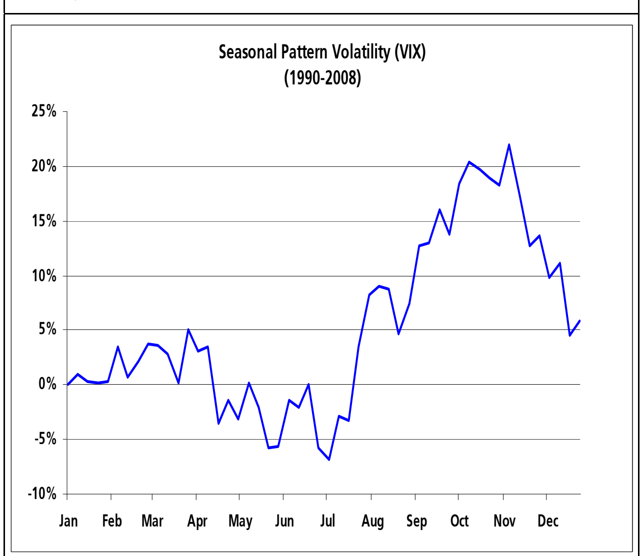
Despite last week's new high in technology, the number of stocks that are making new 52-week highs is beginning to contract and this non confirmation is something we usually see at important tactical tops. However, in the bigger picture, the market breadth is still very good. Last week we got new highs in the Russell-2000 and the NYSE Advance/Decline line is still in very good shape. Despite the deteriorating momentum on the short-term basis, the healthy overall market breadth is consequently the basis for another bull run into H1 2010.

US Equity Market Update:

Chart 4.) BKX Daily Chart

Chart 5.) S&P-500 Weekly Chart

Chart 6.) VIX Index Seasonal Chart



There is no change in the banking index. Banks are beginning to underperform since the last new high in the overall market was not confirmed by the BKX. This is negative and together with intact daily short signals in trending studies we expect a test of key support levels this week. With a daily close below 45 the BKX would break its March uptrend. The sector's key support remains at 43.80, which is the neckline of a potential head & shoulder formation. Again, **our bearish wave count remains intact as long as the BKX does not mark a new high above 48. A daily break of 43.80 would call for a short and sharp decline towards 38.**

Conclusion:

With last week's new highs, it is obvious that we were too early with our late August/early September tactical top call. Particularly, the cyclical stocks continue to outperform and with last week's new high the transport sector has negated its recent divergence versus the SPX, which is structurally bullish. Generally, the overall market breadth is still very good and this is just one bullish factor that suggests more upside into H1 2010.

However, we still have a lot of short-term warning signals that are suggesting a near-term top in equities is underway. In daily trending studies we have a multi-divergence forming. Last week we highlighted the fresh weekly momentum sell signal, which limits the upside and suggests a longer lasting and a potential stronger setback. Furthermore, **seasonality for implied volatility remains up into deeper Q4**, and although the market top obviously comes in later than favored, it doesn't mean that our correction scenario into an important low in late October/early November is negated. On the contrary, **the longer it takes to get the ultimate top the sharper the following down move will finally be and a potential rising wedge in SPX and NDX would support our view of a sharp correction in October.** Risk appetite is at record highs and such a temporary overshooting usually ends up in significant counter-trend moves. From a seasonal aspect it was consensus to expect a correction for September. It was one reason why we favored only a kind of rollover scenario. This call remains intact as long as we don't get a new momentum breakout on the upside. A daily close below 1039 would be initially negative and call for a test of the SPX's key support at 992. Into later October, we still see the risk of getting a 10% to 15% correction, which would be just a pullback to the 200-day moving average. Keep in mind, the fact that the 200-day moving average has turned positive is another structurally bullish signal and is one more reason why we see a potential Q4 low as a big tactical buying opportunity.

Inter-Market Analysis:

Gold and Gold Mines Vulnerable For a Tactical Set Back

In last week's report we again highlighted the long-term bullish picture on gold and on the gold bugs index (HUI Index). The trade-weighted dollar index has broken its highlighted key support at 77.40. However, it is interesting to see that the new trend continuation short signal in the US dollar was not able to lift gold above its strategic resistance area of $1000 to $1030, which is suspicious. We still think that in the current situation we need to make a clear distinction between the bullish long-term perspectives of gold versus the tactical picture. As last week highlighted, the gold bugs index is moving into a classic bubble pattern. However, on a short-term basis we said that we could see another tactical setback into October before a massive overshooting in gold and gold mines starts into 2010. Obviously, as long as we don't get a massive new spike in risk aversion a potential October low in gold and the gold bugs index should be highly correlated to a low in equities.

Conclusion: Looking at our short-term cyclical models, we continue to favor an important tactical low in gold in October, which we believe implies that on a short-term basis gold is vulnerable to a setback. Speculative long positioning is at record highs and if we don't get a breakout above the strategic resistance at $1030 within the next few sessions, it is very likely that profit taking from frustrated long traders will set in. Since the US dollar also looks oversold, we wouldn't be surprised to see a bouncing dollar near-term. It could be just another factor in triggering a tactical setback in gold and last but not least also in gold mines. Keep an eye on the 77.40 level in the trade-weighted dollar index. A daily re-break above this level suggests a somewhat stronger dollar bounce and looking at our cycles this bounce could last into October.

Generally, with the start of this weeks trading we have a bearish divergence in daily momentum indicators forming in gold. It is an invitation to take profits and/or sell. A daily close below 985 would be negative and suggest a pullback to the trend support of the huge triangle formation at 970. As long as gold does not break its strategic key support at $930 the underlying structure remains outright bullish. However, if $930 should fall for any reason, it would trigger a stronger correction and question our underlying bullish scenario for deeper Q4 and early H1 2010. In this context we also expect the gold bugs index to take a short-term breather into October. A daily break below 400 would be initially negative and call for a deeper setback towards 370. It should be a kind of final wash out before a major bull-run starts.

Chart 7.) Gold Daily Chart

Chart 8.) Trade Weighted Dollar Index Daily Chart

Chart 9.) HUI Daily Chart

European Equity Market Update:

A Multi-Divergence in Price Indicators is Forming

Several headline indices generated marginal new highs but the momentum of the move was weak and has in our view not the character of a convincing breakout. So the overall technical background has not changed. Bearish divergences in trending studies are reflecting the deteriorating market momentum, so that we don't see last week's move as a sustainable breakout. On the contrary, a potential bigger daily reversal this week would negate the breakout attempt and generate a trading sell signal. **With daily momentum indicators on overbought extremes we in fact expect such a daily reversal in the first week half. However, the question remains whether prior to triple witching we can expect a bigger market reversal? Probably it is the more likely scenario that the current distributive top out phase continues into next week.** We remain a seller into rallies and stay cautious on banks, where the DJ Stoxx Banks (SXP7) has still a record high extension of some 38% to its 200-day moving average.

Chart 10.) Euro Stoxx-50 Daily Chart

Euro Stoxx-50:

The Euro-Stoxx-50 continues to struggle higher with the pivotal resistance at around 2800 (38% retracement of the 2007/2009 bear cycle). A decisive break-out signal is not in place yet and a multi divergence in trending studies is reflecting the deteriorating momentum.

A temporary new high is not too far away but as last week said, we would not follow a break on the upside. The risk of a failure is high or of forming a rising wedge is high.

Important support is at 2674 offered by the September 2nd intraday low.

Chart 11.) DJ Stoxx Industrials (SXNP) Daily Chart

DJS Industrials:

With banks treading water, the SXNP is one of the remaining leaders of the current rally. The index has cleared the August 26th trading high and is taking aim at the 38% retracement of the 2007/2006 bear-cycle at 240, which is an important resistance level. Despite the new reaction high, the sector is facing the same worrying signals that we have in all broader index charts. A multiple divergence in trending studies is potentially toppish. If you are long industrials we would keep an eye on the 229 support. Negating last weeks breakout would be initially negative and a trigger for profit taking.

European Equity Market Update:

Chart 12.) FTSE-100 Daily Chart

Chart 13.) DAX Daily Chart

Chart 14.) Swiss Market Index Daily Chart

FTSE-100:

Another new price high not confirmed by trending studies is in place, leaving a multiple bearish divergence. A breakout on low momentum is usually not sustainable, so we wouldn't trust this move higher. On the downside, the prior high at 4944 is now short-term support so the index has little room to breadth without negating last week's break.

On the upside, the 50% retracement of the 2007/2009 bear-cycle at 5100 is the next big resistance level. However, we would keep an eye on 4944 as a re-break would generate a tactical sell signal.

DAX-30:

The DAX closed above the late August high, which is actually a trend continuation signal. However, the breakout's momentum is weak and from a pattern standpoint the DAX seem to be developing a wedge-formation which has a toppish character.

We favor a re-test of the breakout level at 5575 over the course of this week and a re-break would generate an initial trading sell signal. The lower support of the technical pattern is at 5360, which is a kind of key support/short trigger.

Swiss market Index:

As most European headline indices, the SMI continues to struggle higher on weak momentum, which limits the upside but still leaves a bullish price structure in place. Whereas most industrials marked a new reaction high we have financials starting to underperform a bit, which is a potential risk for the market. The last reaction low at 6040 remains an obvious key support. On the upside we have the strong overhead resistance at 6262, representing the 38% retracement of the 2007/2009 bear cycle.

In fact the market just goes sideway but given our overall market scenario we would expect the key support at 6040 to be tested within the next 10 sessions. Generally, a break of 6040 would complete a bigger price top and call for a move lower towards 5800. whereas a break of 6262 would open the way towards 6400.

Dow Jones Stoxx Sector Overview:

	RIC	Trading at	Trend (weekly MACD)	Rel. Strength according to the spread chart	Favourite Stocks *
Technology	.SX8P	194.9	↗	Outperforming	ISYS.L, IFXGn.DE, ATOS.PA, LOG.L, ALUA.PA, UTDI.DE, ASML.AS
Chemicals	.SX4P	394.1	↗	Outperforming	BASF.DE, LXSG.DE, AKE.PA, JMAT.L, SY1G.DE
Oil & Gas	.SXEP	310.2	↗	Outperforming	PFC.L, TECF.PA, SDRL.OL, PGS.OL, FUGRc.AS, PPHN.VX, GEHP.PA
Utilities	.SX6P	336.4	↗	Outperforming	VIE.PA, HRA.MI, EONGn.DE, ELE.MC, FUM1V.HE, IPR.L, ENEI.MI, EDF.PA
Telecommunications	.SXKP	252.4	↗	Outperforming	CPW.L, TEL2b.ST, TEL.OL, BT.L, ELI1V.HE
Industrial Goods & Services	.SXNP	236.0	↗	Neutral	BEKB.BR, RAND.AS, MEO1V.HE, TPK.L; RTO.L, IMI.L, WEIR.L, GETP.PA, HEXAb.ST
Basic Resources	.SXPP	419.0	↗	Neutral	BOL.ST, ENRC.L, KAZ.L, FRES.L, XTA.L, VED.L, POG.L
Constructions & Materials	.SXOP	263.9	↗	Neutral	YTY1V.HE, HOTG.DE, FLS.CO, LAFP.PA, WBSV.VI, HOLN.VX
Banks	.SX7P	228.5	↗	Neutral	BARC.L, DANSKE.CO, BKIR.I, ERST.VI, CNAT.PA, CRDI.MI, ALBK.I, DPBGn.DE, SWEDa.ST, KBC.BR, CBKGn.DE
Financial Services	.SXFP	233.5	↗	Neutral	INVP.L, BAER.VX, III.L, IGG.L, EURA.PA, PGHN.S, SDR.L, CBRO.L, INDUa.ST
Travel & Leisure	.SXTP	106.9	↗	Neutral	ETI.L, IHG.L, BAY.L, WTB.L, AIRF.PA
Insurance	.SXIP	149.8	↗	Neutral	HELN.S, STB.OL, OML.L, PRU.L, VIGR.VI, FOR.BR, SLHN.VX, ING.AS, RUKN.VX
Automobiles & Parts	.SXAP	230.3	↗	Neutral	GKN.L, RENA.PA, MICP.PA
Media	.SXMP	149.1	↗	Neutral	MTGb.ST, ITV.L, TFFP.PA, DMGOa.L, INF.L, SAA1V.HE
Food & Beverage	.SX3P	267.8	↗	Neutral	CARLb.CO, ABI.BR, HLBr.AT, MHG.OL, CSMNc.AS, TATE.L, KYGa.I, EVA.MC, HEIN.AS
Retail	.SXRP	230.2	↗	Neutral	DEB.L, PRTP.PA, DSGI.L, JMT.LS
Personal & Household Goods	.SXQP	301.0	↗	Underperforming	ELUXb.ST, BRBY.L, PSN.L, DIOR.PA, UHR.VX, PUMG.DE, BULG.MI
Healthcare	.SXDP	333.6	↗	Underperforming	SOON.VX, WDH.CO, EKTAb.ST, STMN.S, NOBN.VX, GETIb.ST, UCB.BR, MEDAa.ST, BIOX.PA

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, Market Maker) Charts: Metastock

USA	11.09.	04.09.	28.08.	Comment	Our Voting
Bullish Consensus AAII	37%	38%	34%	Virtually unchanged	Bullish
Bearish Consensus AAII	44%	38%	49%	Bearish consensus level is rising	Bullish
Inv. Intelligence Bullish Consensus	48%	50%	51%	Still near a multi-month high which has a bearish implication from a contrarian point of view	Bearish
Inv. Intelligence Bearish Consensus	23%	24%	19%	Little changed	Bearish
Advance/Decline Line (S&P 500)	7432	6253	6930	Market breadth is still constructive and the A/D line hit a new reaction high.	Positive
New 52-week highs (NYSE)	174	102	72	Breaking-up the recent non-confirmation	Positive
Stocks above 200-day average	92%	89%	92%	Breadth is strong but the indicator is also suggesting a medium-term overbought condition	Neutral
ARMS Index NYSE (10-day-sma) (<0,9 bearish/>1,2 bullish)	1.30	1.15	0.68	Suggesting an oversold condition	Bullish
ARMS Index Nasdaq (10-day sma) (<0,8 bearish/>1,2 bullish)	0.77	0.92	0.91	Overbought!	Bearish
Put/Call Ratio CBOE All Options (10-day sma)	0.88	0.87	0.84	The P/C ratio remains below zero which is bearish	Bearish

Europe (DJ STOXX 600)	11.09.	04.09.	28.08.	Comment	
New 52-week highs	51	9	15	Expanding	Positive
Stocks above 200-day average	94%	91%	92%	Medium-term a heavily overbought condition	Neutral
Stocks above 20-day average	88%	60%	84%	Back in overbought territory	Negative

Germany	11.09.	04.09.	28.08.	Comment	
Advance/Decline Line	-1970	-2241	-2130	A/D line is resuming the uptrend	Positive
Stocks above 200-day average (HDAX)	90%	83%	85%	Overbought	Neutral
Stocks above 20-day average (HDAX)	89%	49%	61%	Short-term condition is overbought	Negative
Put/Call ratio equities (Eurex, 10-day sma) (above 0,90 bullish/ below 0,80 bearish)	0.88	0.98	0.82	Neutral levels	Neutral

Switzerland	11.09.	04.09.	28.08.	Comment	
Advance/Decline Line	1308	1235	1280	New high	Positive
Stocks above 200-day average	100%	96%	96%	Bullish from a trend perspective but at overbought levels	Neutral
New 52-week highs	3	0	2	Initial signals of cyclical trends developing	Neutral

Intermarket Analysis	11.09.	04.09.	28.08.	Comment	
Bullish Advisers US Bonds	45%	46%	45%	Bonds remain well underpinned from a sentiment point of view	Positive
Bullish Advisers Gold	78%	74%	65%	Optimism remains high and thus Gold looks vulnerable to a correction	Negative
Bullish Advisers Euro/US-Dollar	62%	60%	58%	No convincing signal from the sentiment front	Neutral
Bullish Advisers Oil	56%	60%	58%	Neutral territory	Neutral