

# THE CANADIAN TECHNICIAN



U.S. Edition

## A Confluence Of Trend Lines

US Market Weekly Review  
July 24, 2020



With  
**GREG SCHNELL**

## MARKET COMMENTARY

The US markets drifted lower, with the leading large-cap tech names selling off and moving below their trend lines. Materials and retail now have the highest SCTR rankings for sectors. Both the Nasdaq and SPX made higher closing highs early in the week.



The title for the newsletter this week highlights some important data. When markets are running well, the price action is away from the trend lines. As price pulls back, we watch to see how it responds to the trends in place. Does it break the trend, but continue to make higher lows? This week has critical trend lines being tested on various fronts. The major trends in the US Dollar are broken currently with new 20-month lows, and the long term 10-year trend is broken as well. 10-year Bonds (\$TNX) may break below the March 23<sup>rd</sup> lows this week, suggesting more problems. The Commodities are breaking higher on weak US Dollar data. Even the energy sector was higher on a down week for the overall market. Can crude break out above \$42? Copper is trying to break out of a ten-year trend and gold is testing the 2012 prior high this week. Lastly, a lot of the global markets tested their post March uptrends. This is the same type of confluence that showed up in February.

One rare indicator I have been working on fired off a big signal of weakness this week, but I only have a few years of data. I'd make the analogy that it's akin to waking up in the middle of the night. Can we just get back to sleep with a calm market, or is this going to mess things up? I'll keep tracking the data to build out confidence in the indicator, but let's just add an asterisk for potential risk ahead. Without the SSIH, I would have been scared out many times. Until it starts to break down, I want to maintain a bullish bias.

Summary: Large cap tech slowed, the dollar broke down hard and commodities had a solid week, especially in the precious metals. While we all get nervous when large cap tech slows, I am not seeing big breakdowns yet. If they continue to break down, the market will definitely move down with them, because of their weighting. But as the dollar goes lower, I'll continue to shine the light on the commodity space. We are somehow able to climb the wall of worry which is about the size of Mount Kidd shown above!

Let's jump into the charts.

## @SSIH - STILL VERY STRONG

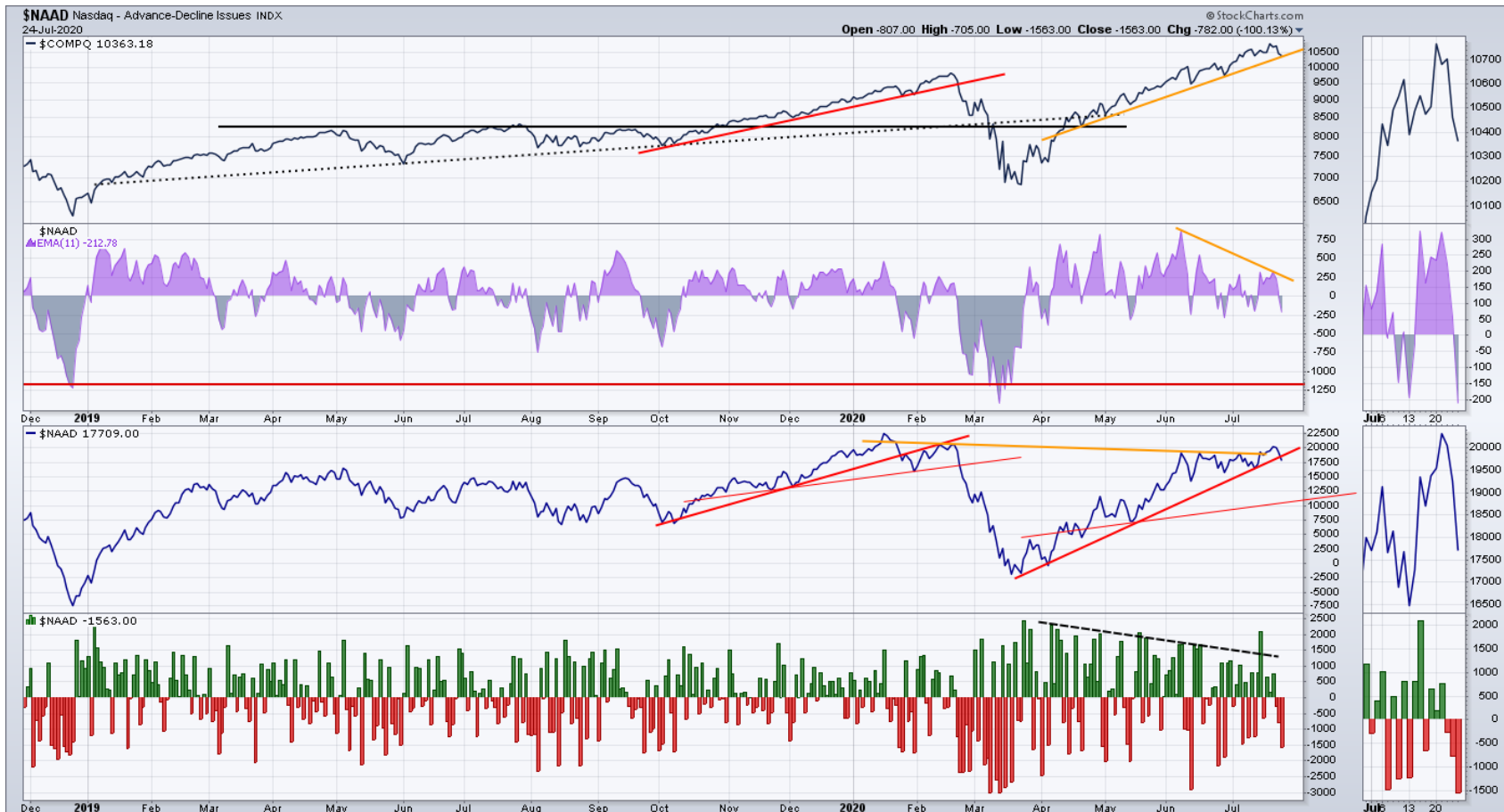
The Schnell Strength Index held this week at 99%. The market is still strong, despite the Nasdaq 100 declining again this week. As we work our way through earnings, this looks more difficult to maintain. That's an important index, but SSIH is still suggesting higher levels and we hit more daily closing highs this week.

When the SSIH starts dropping below 75%, we'll definitely be cautious. I post a preliminary SSIH reading in daily setups from Thursdays close/Friday's open on Thursday night or Friday morning. It doesn't bounce a lot, but weekend closes matter. This will allow you to position before weekends. I forgot to post on this Friday morning, my apologies.



## NASDAQ BREADTH

The Nasdaq advance/decline gave us the first sign of weakness this week, with the 4-month trend line break on panel 3. With the big names grinding lower this week, they can't drop the advance/decline line alone. There has to be a broad number of stocks going lower to change this line, not just a few. I have been highlighting this line through the newsletter on and off, because it is one of the best clues of weakness starting. We still have higher highs and higher lows, but a trend break is the first sign. Panel 2 is the two-week moving average, no news there other than weak thrusts lately in July. Now that the market has rallied for a while, panel 4 shows the change from before COVID to after. Big extremes both ways now.



## \$SUPADP- TOP 1500 STOCKS ADVANCE /DECLINE LINE

This chart is the [advance/decline line for the top 1500 stocks](#) which is an important gauge of the most powerful stocks. This trend line has not broken. So the chart above is based on small and large stocks, but when the chart breaks through the slope of this 1500 stock advance/decline line is probably when we have a bigger correction. I would expect the SSIH to break down before this chart breaks, but perhaps they crack together?



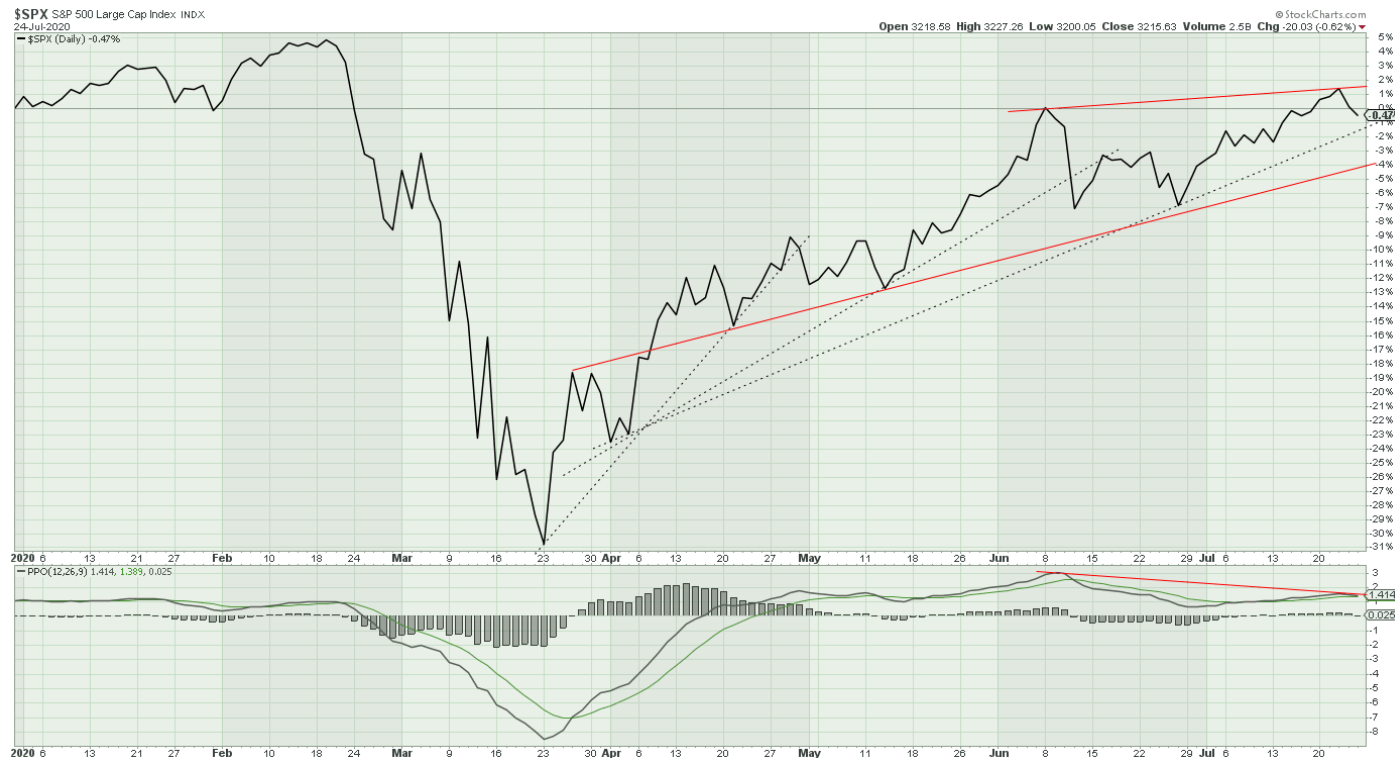
## \$NDX - NASDAQ 100 TREND CHANGE

**Link.** The Nasdaq 100 broke the intermediate uptrend this week, after hitting fresh closing highs on Monday. The daily chart PPO drifted below 2% which is still high. I have installed a green dashed trendline which could provide support at a lower slope. It is really an interesting crack in the market as other indicators still show strong support. On the video, in one of the last charts I point out how all of the big names were cracking the uptrend lines. That's not great, but they were definitely extended.



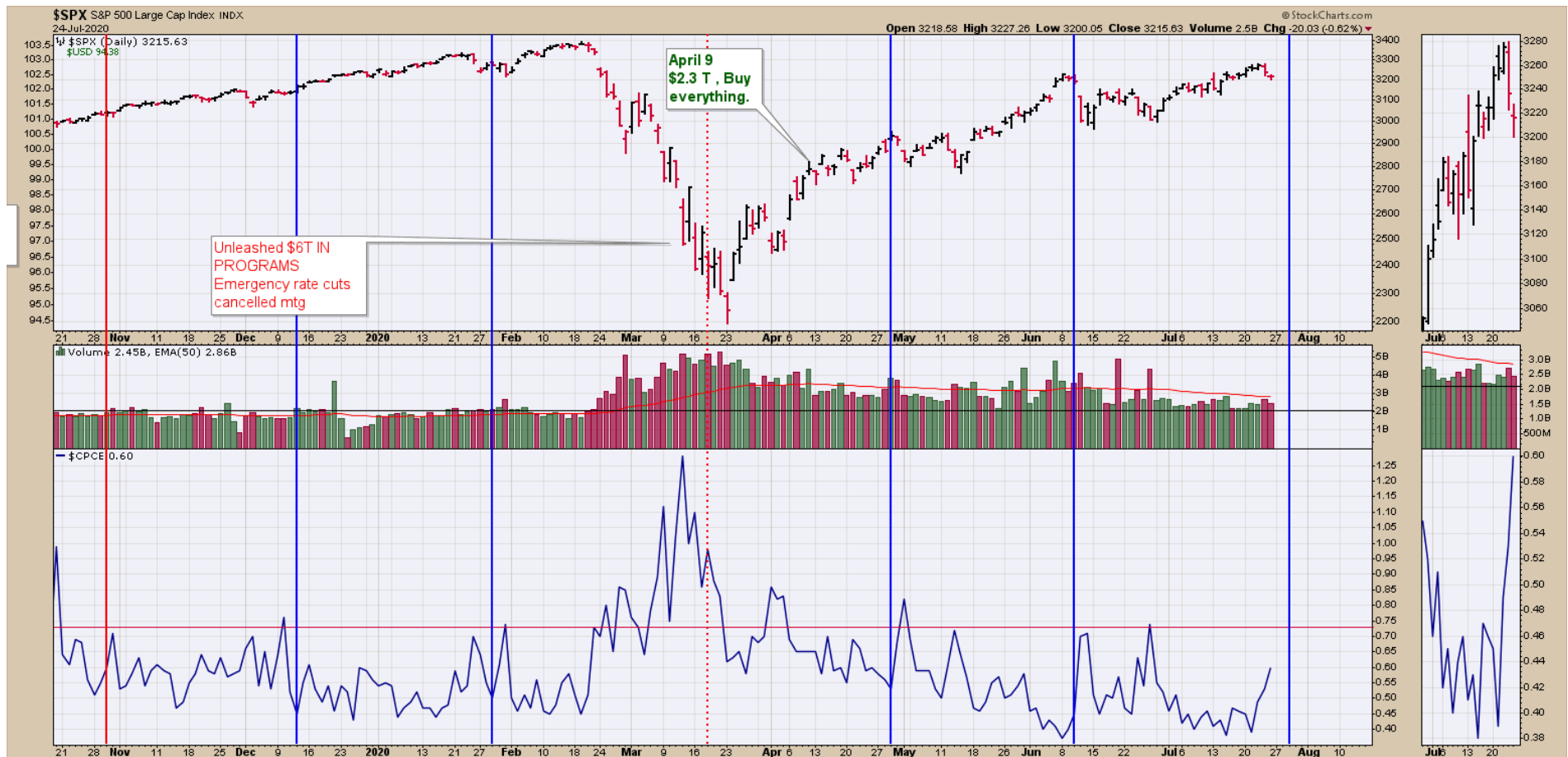
## \$SPX - FLIRTING WITH NO CHANGE ON THE YEAR

The \$SPX keeps flirting with the zero line on performance since January 1. This week, the market closed Tuesday at the highest highs since the February collapse. I have drawn some trend lines in dotted black on the chart to show how the slope changes over time. Each trend line break causes consternation, but eventually a lower slope shows up offering support, before the market cracks meaningfully. The red line is a good example of a normal slope of advance and we have been building that trend since early April. The concern this week for me, is the divergence in momentum shown by the lower high on the PPO compared to higher highs in price. This is the first divergence on the daily chart since the rally started. It is not a confirmed divergence signal until the PPO crosses its signal line. Heading into a Fed meeting this also gives us pause. [Link](#).



## FED MEETING

The Fed meeting is important this week as we try to open the economy. The fact that we hit new highs recently doesn't seem to concern the Fed. They continue to add verbal stimulus every chance they get. The market dropped briefly after the last two Fed meetings and they were buying opportunities. Notice the drop, rally for a few days, retest the Fed drop, then rally on both the April meeting and the June meeting. Something to watch for again? The lower panel has a recent push in protection buying with options.

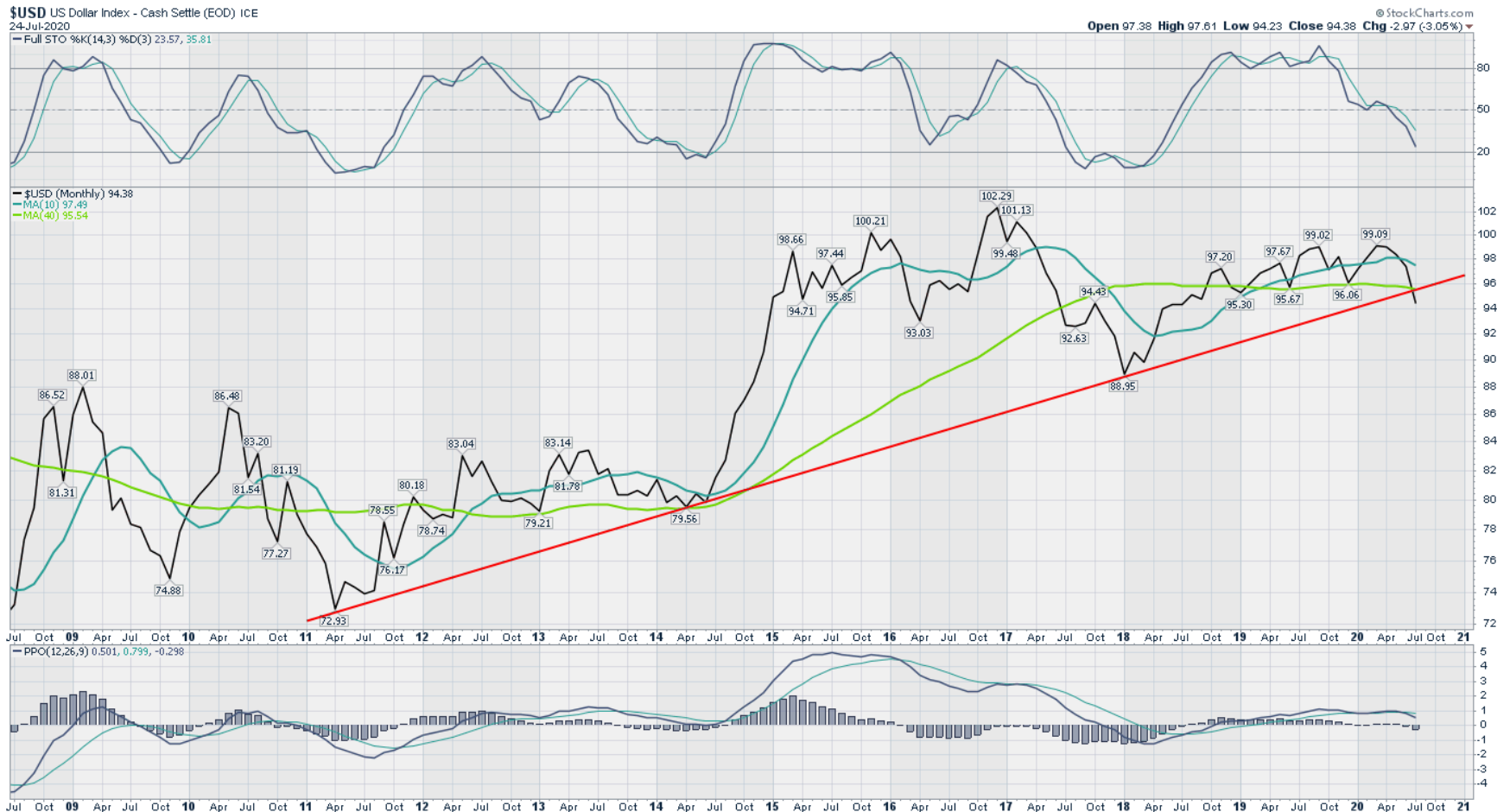




## \$USD

The US Dollar sits below the monthly trendline. Next Friday we'll see if it closes there. In the interim the weak dollar has been and should continue to help commodities. It's not just the heavily weighted Euro that looks like it is ready to break the dollar trend.

[Link](#). Other Currency charts are close as well. The Aussie Dollar already has, and the Canadian dollar looks ready to break it.



## \$XEU - THE EURO

The Euro broke a 7-year trend line this week but has some work to do to break the bigger 13-year trend. Perhaps that will be where the dollar slows down on its trip to the downside currently. Notice most moves above 50 on the full stochastic usually last a quarter or more. We have another PPO buy signal on the chart showing rising momentum right near zero. [Link](#).



## \$CDW - CANADIAN DOLLAR

The Canadian dollar pushed up almost 2% this month. That makes a couple of bullish changes on the chart. One is to be back above the 10-month moving average. The second is the full stochastic turning up well above 20, which is usually a bullish change and now the full stochastic looks like it could make a higher high shortly. One big concern for the Canadian dollar is the PPO has been below zero for 7 years. A strong clue confirming that commodities could be a big mover in the future would be a rising PPO moving above zero, perhaps signaling the end of the commodities secular bear market as I have been discussing. [Link](#).



## \$XAD AUSTRALIAN DOLLAR

The Aussie Dollar has broken the trend line on the monthly chart, suggesting a new commodity bull market. The PPO has turned up just below zero and looks to have strong momentum here. This strong momentum looks very bullish. I want to see the monthly PPO trendline break here as well. [Link](#). Notice the PPO never got above zero since 2013. That's what we'll be watching for over the next few months.



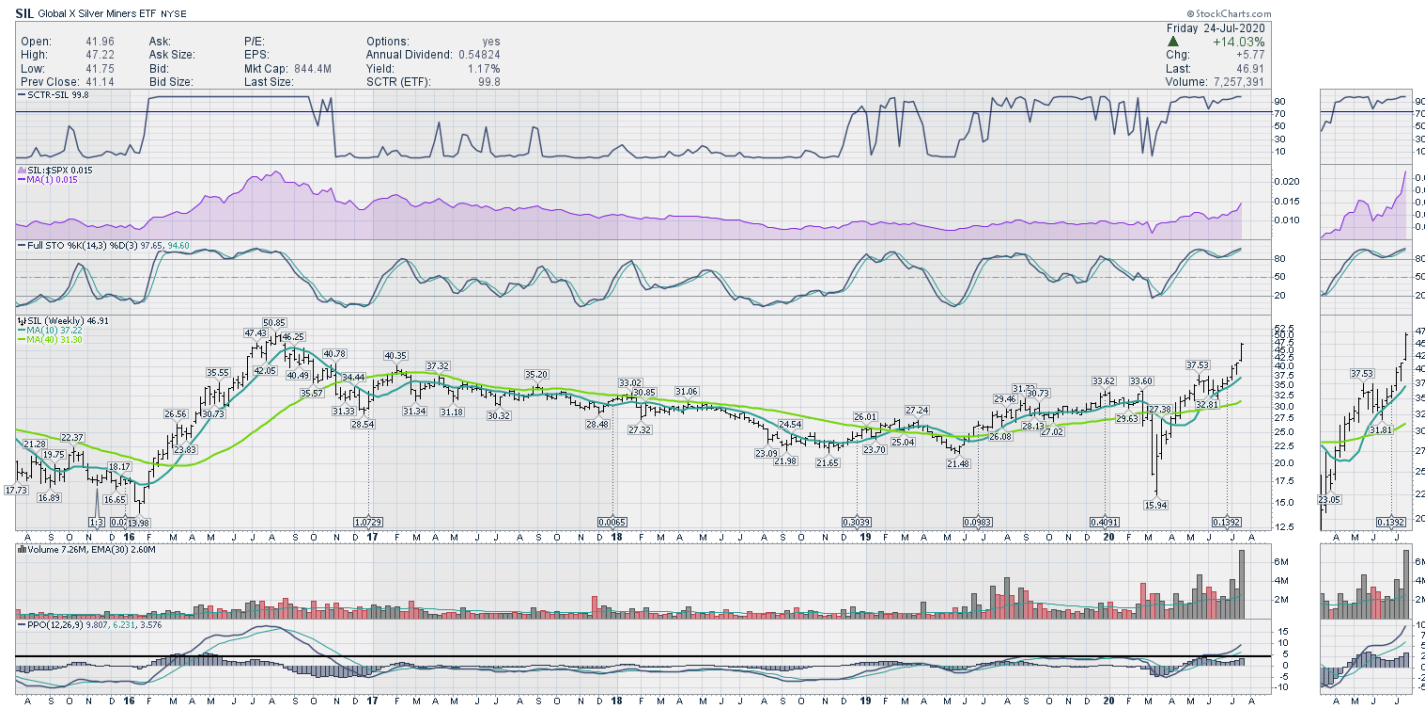
## BOND MARKET PROBLEMS

The bond market continued to have prices move higher and yields move lower, which is not a positive development. The Fed will have something to say about this and it is one of the biggest concerns I have. This weeks' title about the confluence of all these trend lines breaking includes the bond market. [Link](#). Quite frankly I thought the bond market would move higher in yields. This definitely suggests a reason to be more careful on the equity market rally. Notice the bond market breaking below previous lows in February. It is currently right at the lowest low on the week of March 23<sup>rd</sup>.



## SIL - SILVER

Silver and silver miners both soared this week. Volume was exceptional. While the move looks out of scale, in 2016 when the PPO started to accelerate, this was sustainable for months. [Link](#). I am concerned about the blowoff volume. [Here is a link to an article by Tom McClellan](#), arguing that this is more likely the end, rather than a continuation. Most high volumes are associated with tops on the chart below. The question is, are we moving into a new commodities bull market or the end of the commodities rebound? If so, we are just getting started. I will point out William O'Neil had an interesting formula. When something moves up more than 30% from the breakout with 8 weeks, do whatever you can to hold on rather than get shaken out. We are up 26.9 % from the breakout above \$37.5 in three weeks. Compelling arguments for both. I'd rather buy a pullback which would be a William O'Neil shakeout to scare the bulls, so watch the 60-minute charts for better risk/reward. This is the ETF which is an *average* of the silver stocks!



## MARKET SUMMARY

The Energy space rotated to the top of the list, with some merger activity. The two hottest sectors were the worst this week, and semi's were weak on INTC's saying they'll be 6-months late on their new products. Retail continues to have a high SCTR, regardless of the dire state of in-store shopping. Materials were strong on both sides, but copper was down slightly on the week. Lots of switching as groups soar, then plummet. This adds to the uncertainty of this rally continuing. The trends are weakening.

SYMBOL	NAME	SCTR	CLOSE	% CHG	+/-
XOP	E & P	1.9	52.78	4.29	
XLE	Energy	2.6	37.51	2.23	
XRT	Retail	88.4	46.16	1.94	
XLF	Financials	13.9	24.27	1.34	
XLY	Discretionary	89.3	135.54	1.27	
XLP	Staples	71.0	62.13	0.88	
XLB	Materials	89.1	61.47	0.51	
XLU	Utilities	35.0	60.28	0.12	
XLI	Industrials	31.3	71.84	-0.22	
SMH	Semiconductors	92.5	159.46	-0.47	
IYR	Real Estate	11.4	78.51	-0.70	
XLV	Healthcare	80.0	105.10	-0.75	
XLC	Communications	77.6	56.85	-0.98	
XLK	Technology	87.1	105.20	-1.53	

SYMBOL	NAME	CLOSE	% CHG	+/-
\$SPTGD	Gold Miners	386.63	5.46	
\$SPTMT	Materials	339.44	3.72	
\$SPTEN	Energy	78.88	3.04	
\$TSX	\$TSX	15997.06	-0.78	
\$SPTRE	Real Estate	269.70	-1.11	
\$SPTTK	Technology	162.87	-1.48	
\$SPTCS	Staples	645.96	-1.55	
\$SPTFS	Financials	261.54	-1.75	
\$SPTIN	Industrials	282.53	-1.92	
\$SPTCD	Discretionary	185.01	-2.03	
\$RTCM	Income Trusts	190.00	-2.64	
\$SPTUT	Utilities	288.33	-3.00	
\$SPTTS	Telecom	156.35	-3.96	
\$SPTHG	HealthCare	52.43	-6.48	

## GLOBAL VIEW

On the left, most of the G8 pulled back. While the \$SPX was flat, the Nasdaq leadership pulled back a little bit more. In Commodities, lumber has a huge reversal week. Copper was flat, but steel and rare earths were up. Liquid energy had a good week. Marijuana was showing some positive momentum, but not this week. Down 5%.

SYMBOL	NAME	CLOSE	% CHG	+/-
\$RTSI	Russia	1255.98	3.27	
\$BSE	India	38128.90	3.00	
\$MXX	Mexico	37345.35	2.80	
\$AORD	Australia	6148.00	0.05	
\$IDDOW	Indonesia	1107.16	0.02	
\$KOSPI	South Korea	2200.44	-0.03	
\$SPX	S&P 500 ----	3215.63	-0.28	
\$BVSP	Brazil	102381.58	-0.49	
\$SSEC	Shanghai	3196.77	-0.54	
\$DAX	Germany	12838.06	-0.63	
\$INDU	Dow ----	26469.89	-0.76	
\$TSX	Canada	15997.06	-0.78	
\$NIKK	Japan	22751.61	-0.85	
\$NDX	Nasdaq 100 ----	10483.13	-1.52	
\$HSI	Hong Kong	24705.33	-1.53	
\$IBEX	Spain	7294.70	-1.96	
\$CAC	France	4956.43	-2.23	
\$GBDOW	London	271.64	-2.49	

SYMBOL	NAME	SCTR	CLOSE	% CHG	+/-
\$SILVER	Silver		22.85	15.61	
SIL	Silver Miners	99.8	46.91	14.03	
\$NATGAS	Natural Gas		1.87	8.67	
GDJ	Gold Miners	98.9	41.83	6.41	
\$GOLD	Gold		1897.50	4.83	
\$GASO	Gasoline		1.26	4.13	
REMX	Rare Earth Metals	87.8	40.01	3.87	
\$HOIL	Heating Oil		1.26	3.67	
\$COCOA	Cocoa		2224.00	2.96	
\$BRENT	Brent Crude		43.78	1.48	
\$WTIC	WTI Crude		41.29	1.33	
SLX	Steel	18.2	28.92	1.15	
\$SOYB	Soybean		899.25	0.47	
\$COPPER	Copper		2.89	-0.41	
LIT	Lithium	96.5	34.90	-1.97	
\$SUGAR	Sugar		0.11	-2.05	
HMMJ.TO	Marijuana Stocks	18.8	6.93	-5.20	
\$LUMBER	Lumber		490.80	-10.89	
JJNTF	Nickel ETN		13.62	-12.75	



## VIDEO OF THE WEEK

The monthly conference call for members was held July 2<sup>nd</sup> at 5 PM EDT. [July 2020 conference call recording](#).

Here is the link to the chart list. [Weekly Charts](#)

Here is a link to this week's video. [A Confluence Of Trend Lines](#).

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### A Confluence Of Trend Lines

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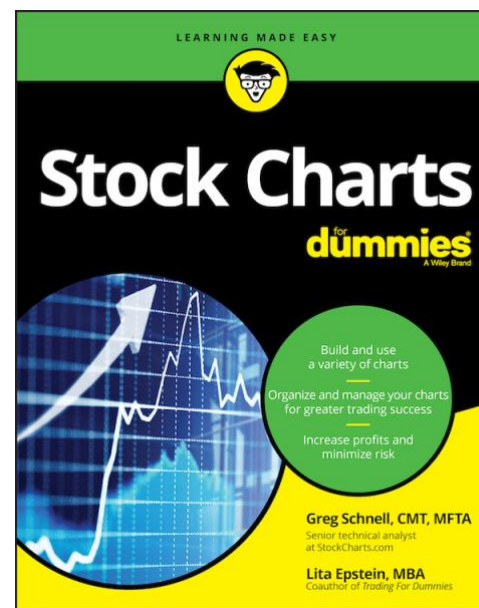
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Good trading,  
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