

THE CANADIAN TECHNICIAN



U.S. Edition

Extremes Are Worrying

Weekly Market Review
December 11, 2020



WITH
GREG SCHNELL

MARKET COMMENTARY

The trucks are now rolling out Pfizers vaccine this weekend after the FDA approved it late on Friday. That's huge! So vaccine injections start Monday. We also have the Fed meeting Tuesday and Wednesday. Moderna's vaccine is up for approval on Thursday December 17. But that's not all for this week. To round out the week, we have options expiration (OE) Friday. The last 4 years, this OE has been a positive swing and the market runs into the new year. It all adds up to lots of reasons for volatility. We still have the possibility of a stimulus package.



The market has been expecting a trade deal between Great Britain and the EU. Currently, they are deadlocked without one and a year-end deadline. The longer this goes, the more unstable this trade relationship is for the markets. The charts below show the British Pound and Euro both stalling at horizontal resistance. This is covered in detail on the video. The other international chart that was oddly shocking is the Shanghai index. It closed on 4-week lows.

The only sector up on the week was energy. Seriously. When was the last time we said that? There is an undercurrent of selling in many of the market areas, and my strength indexes are starting to drop. The SSIH is still bullish but moving lower. The title this week is reviewing extremes in the current market. We have numerous warning signs now in momentum on the SMH ETF and the \$SPX compared to the \$NDX. I've discussed these below. A blindfolded gnome might miss these clues.

Commodities were odd this week. Uranium, steel and oil names moved up while copper stocks moved down even though copper held up. Gold wobbled for the most part. The huge weakness in the Shanghai market never bodes well for a commodities chart, so we are now on watch for potential setbacks in our commodities rally. I covered this on the video.

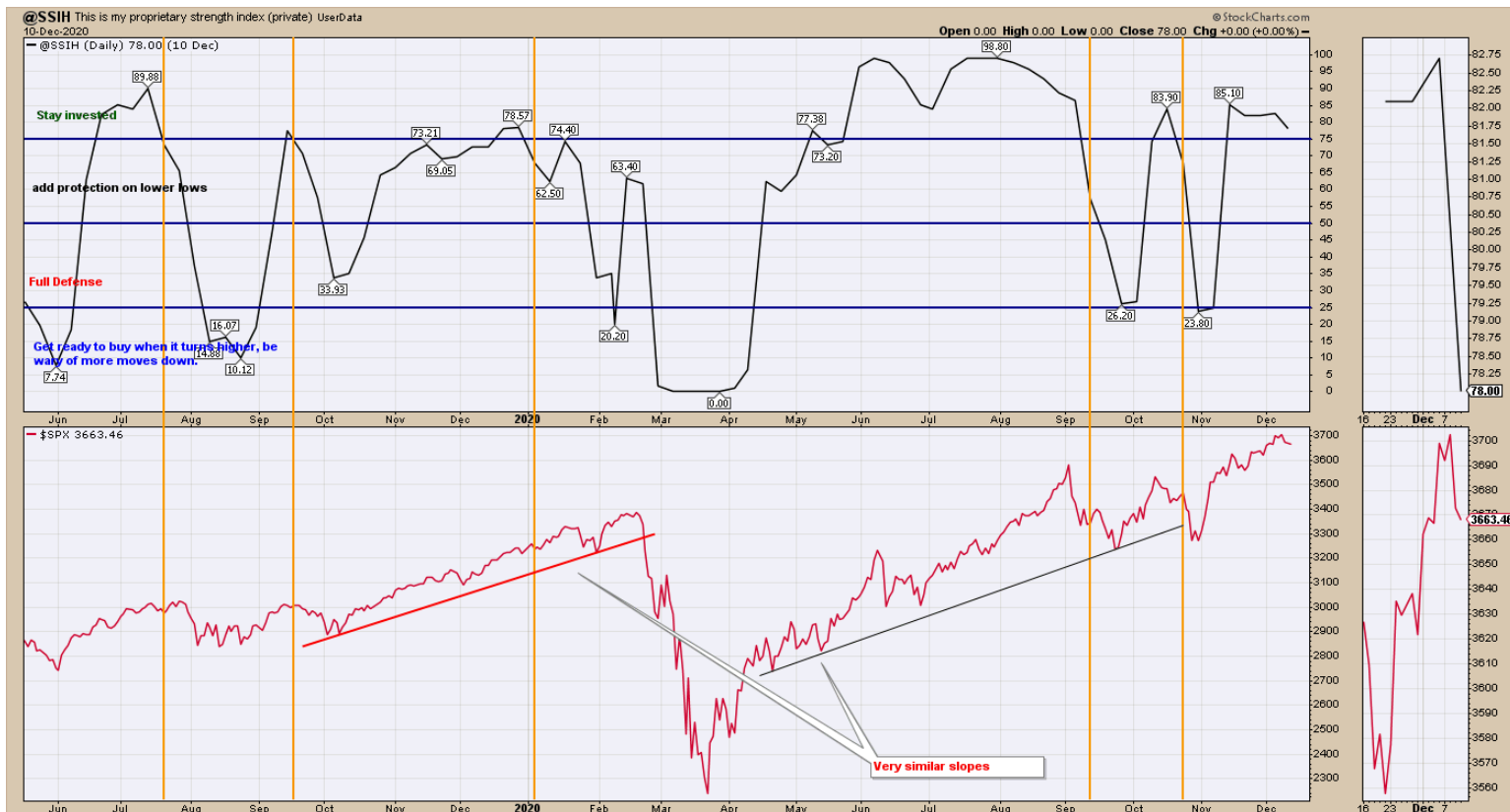
The short end of the yield curve has me perplexed. A massive move down in 2-year yields surprised me. The 5-year is also a little odd. More on the video.

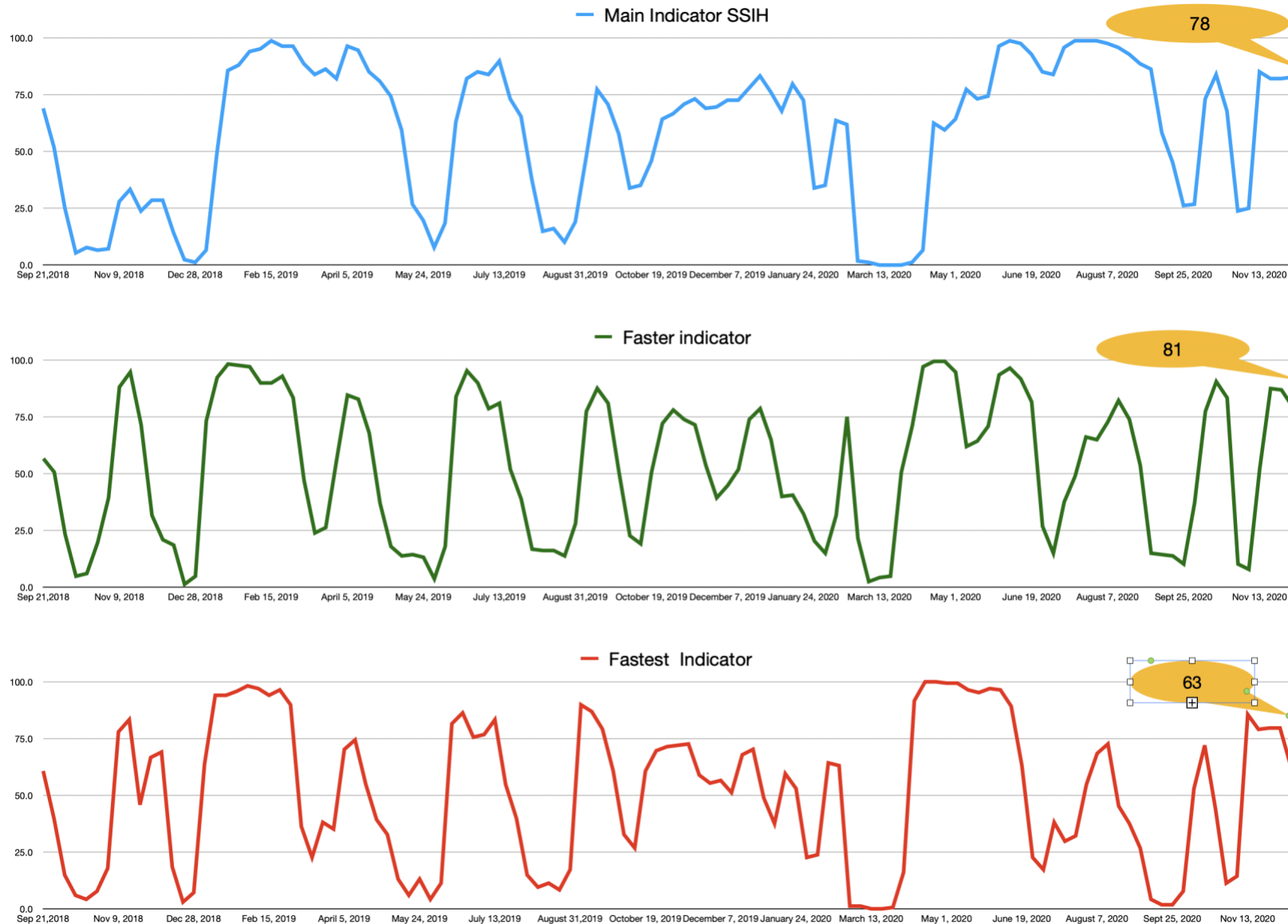
Summary: I am bullish and continue to be. I've lost a big portion of my positive reasoning this week with my strength indexes dropping, but we still have a few bullish things on the horizon. It is time to use tighter stops in my opinion. Let's hit the charts.

@SSI - BULLISH

The Schnell Strength Index dropped by 4% to 78%. This is still ok, but we are down 7% off the high point of this rally. Above 75% is bullish. Now that this is making lower lows, be careful if you are using margin.

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. Watch the daily setups tab this week for more updates.





SSIH, MY
FASTER AND
FASTEST
INDICATORS

The chart shows the SSIH in the top panel. The bottom panel is clearly showing weakness.

All three indexes are moving away from the prior highs. The backdrop is more tentative. We still might get some US stimulus. However, Brexit trade talk breakdowns are threatening the momentum in Europe.

\$USD - US DOLLAR

The US Dollar bounced slightly this week. I have added some cycle timelines shown in red which show a bottom in April. The problem is the Euro and Pound are stalling, which could send the US dollar higher. This weekly chart shows the PPO pointed down. Will we fall all the way to 2018 lows or does this invert and move higher on failed European trade talks?



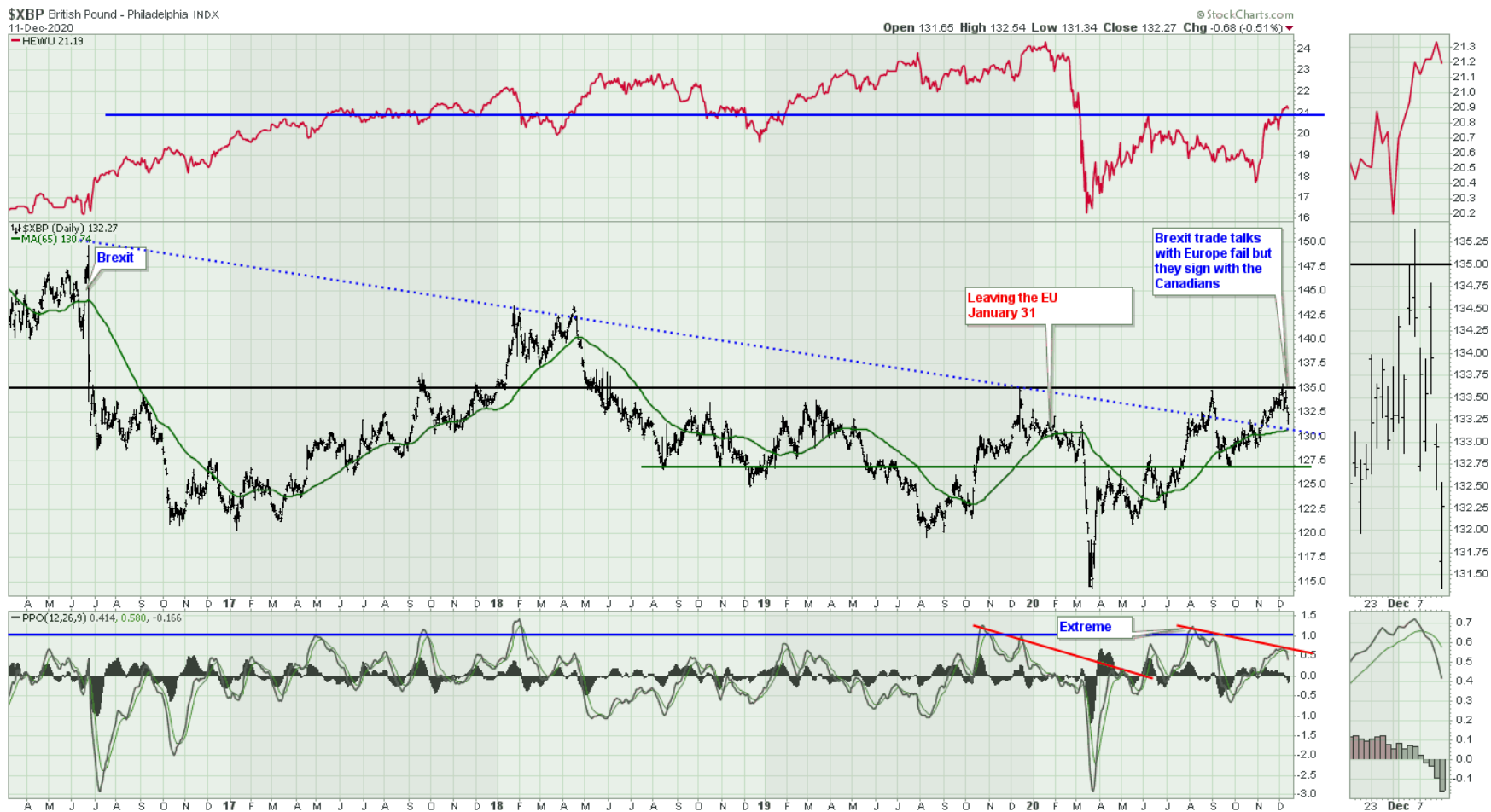
\$XEU - THE EURO

The Euro is the dominant currency in the dollar basket. These two horizontal black lines have been on the chart for years. We banged our head just under the 122 level and have spent two weeks trying to break through. Trade talks continue.



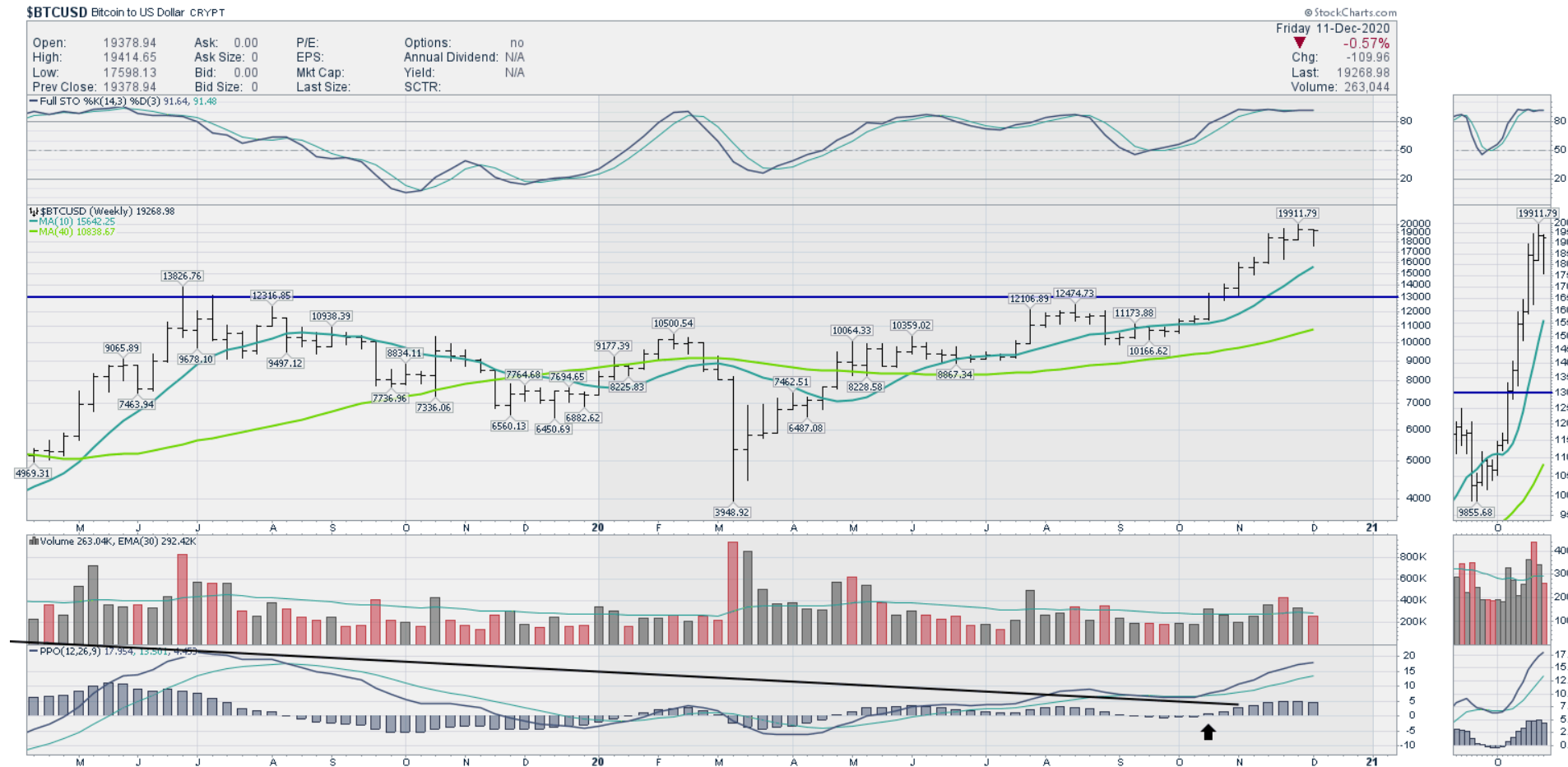
\$XBP - BRITISH POUND

The [Pound](#) chart below is a daily chart. We can see the Pound weakening (zoom panel) while the negotiations continue to stall. Canada and Great Britain signed an agreement this week, but the Eurozone is the big nugget. [Last weeks' breakout on the Pound looks like a failed breakout](#). What is important to remember is a surging US Dollar would clamp down the current commodities rally.



\$BTCUSD - BITCOIN

Bitcoin made a nice 1800 point bounce this week, after testing lower. Upside momentum is waning a bit as there is a lot of price overlap the last four weeks. The PPO is up near the momentum peak at the 2019 highs. [Link](#).



EUFN - EUROPEAN FINANCIALS ETF

The European financials chart is also showing a pause as the trade negotiations stall. Where does the chart stall? Right at the three-year trend line. The PPO is at a 3-year high, which is bullish. One of the large US banks moved assets out of England this week, suggesting this trade negotiation may not end well. [Link](#).



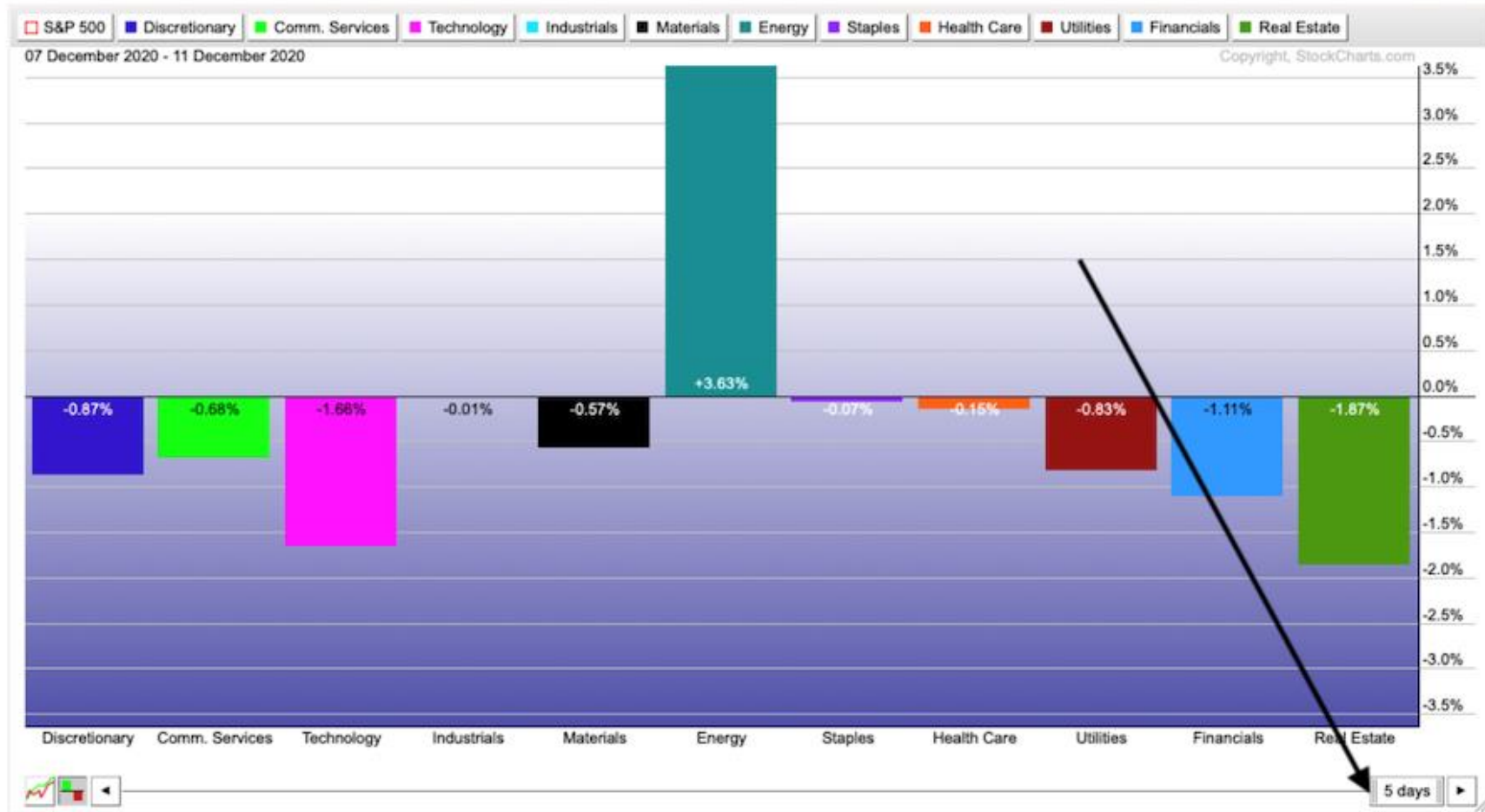
KBE - BANK ETF

The bank ETF (KBE) had a small trading range this week, but the volume soared. Price was only down fractionally, but there was massive volume. Three other volumes this big were on huge down weeks. Trouble in paradise? [Link](#). It just happens to be pausing at \$40, which is a major support/resistance level (not drawn in).



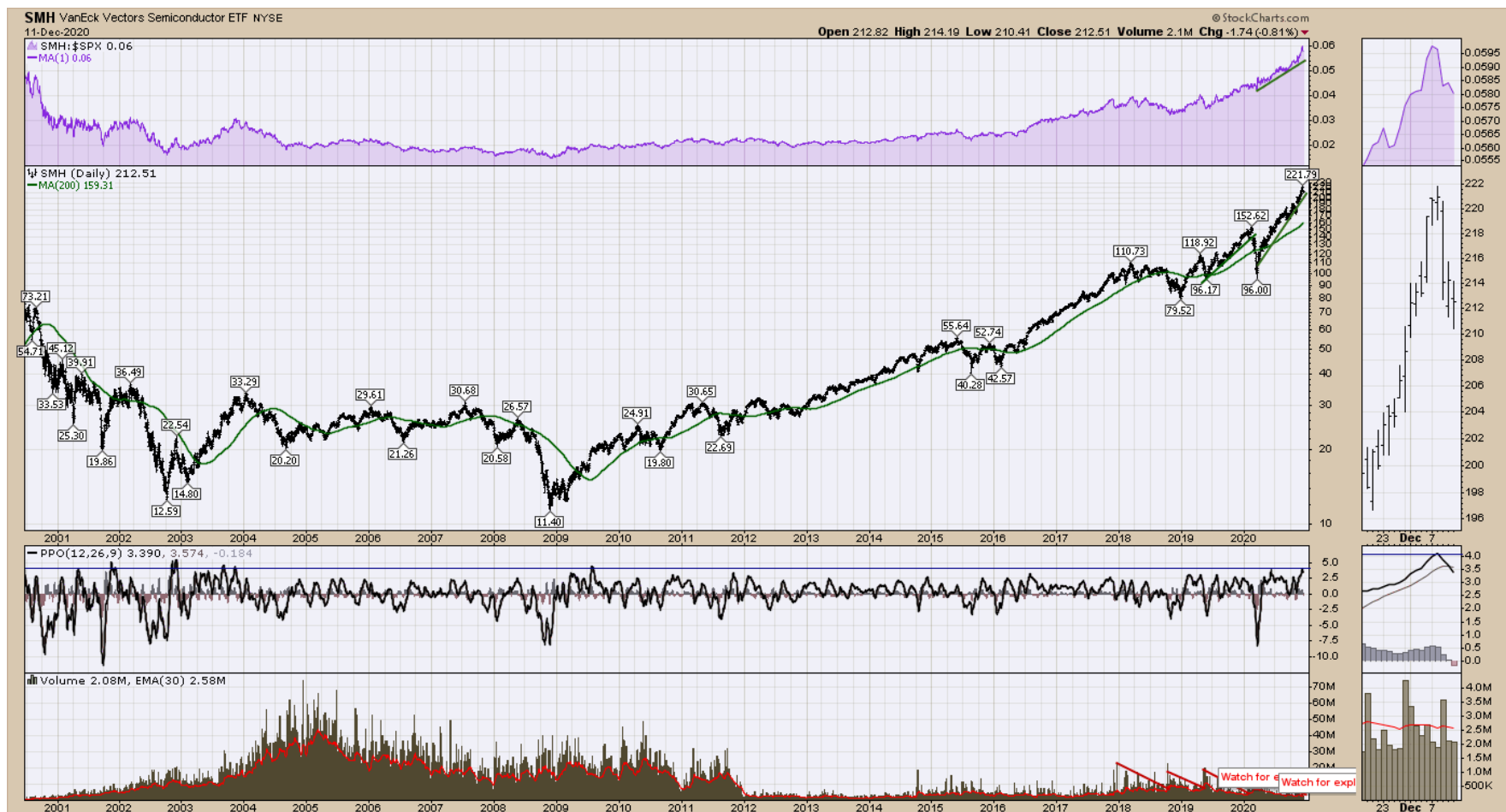
SECTOR ETF PERFORMANCE

This week only the energy sector was up. While the other groups were not down hard, it was across the board weakness. It's not common for energy to be so dominant, especially with the 6-year downtrend. Obviously, I like that outperformance, but I am surprised to see the industrials stall as Boeing starts to move planes and commodities picking up. [Link](#).



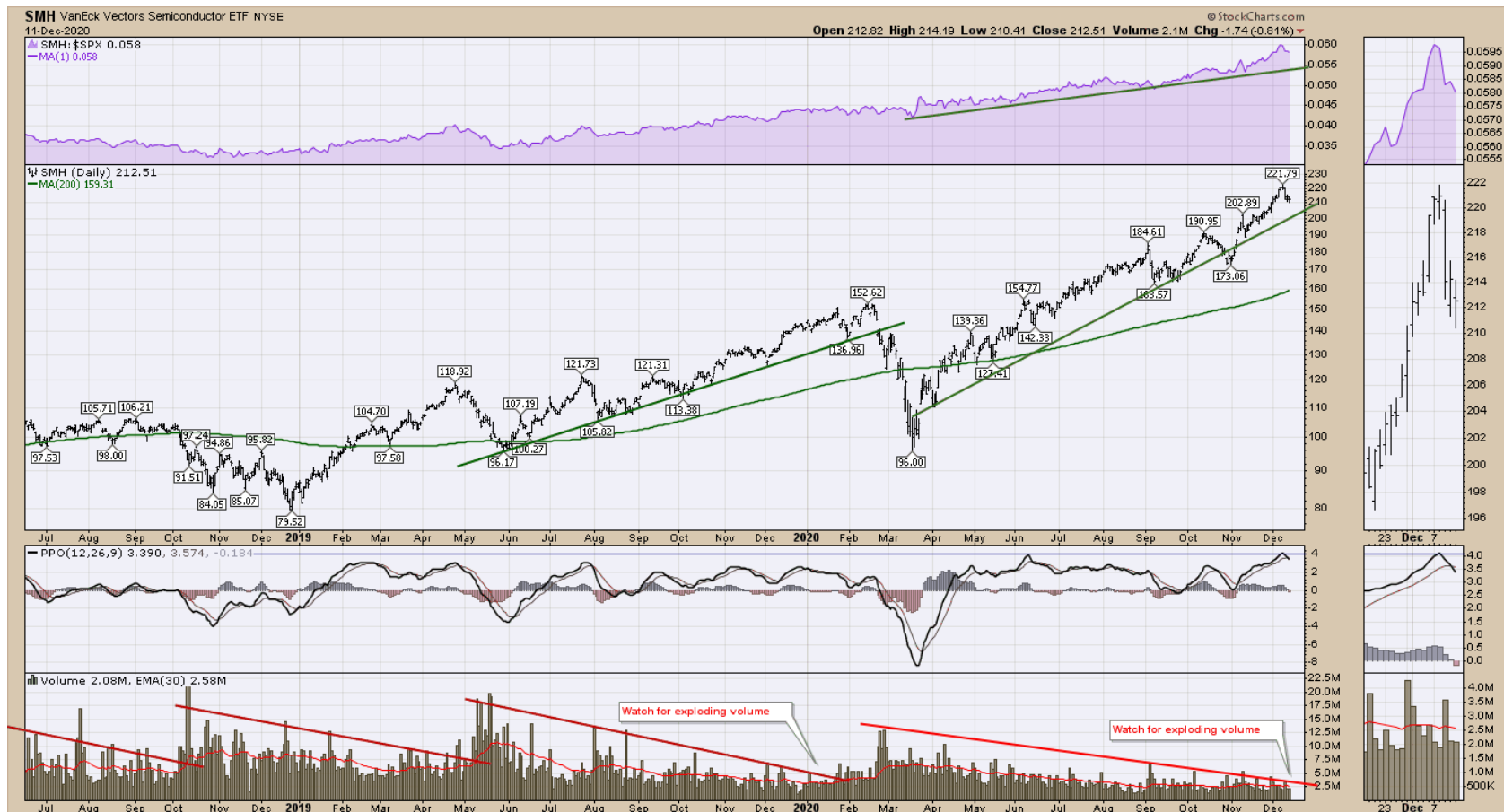
SMH - SEMICONDUCTORS - LETS TALK ABOUT EXTREMES

While semiconductors have been huge since 2013, this is one of the most vertical moves on the charts. This is a daily chart, but we are at the second highest daily PPO momentum surge in 16 years and the biggest in 10 years. [SMH](#). Notice the purple area chart. This shows the performance compared to the \$SPX. That is huge outperformance on the right-hand side. Semi's were down this week.



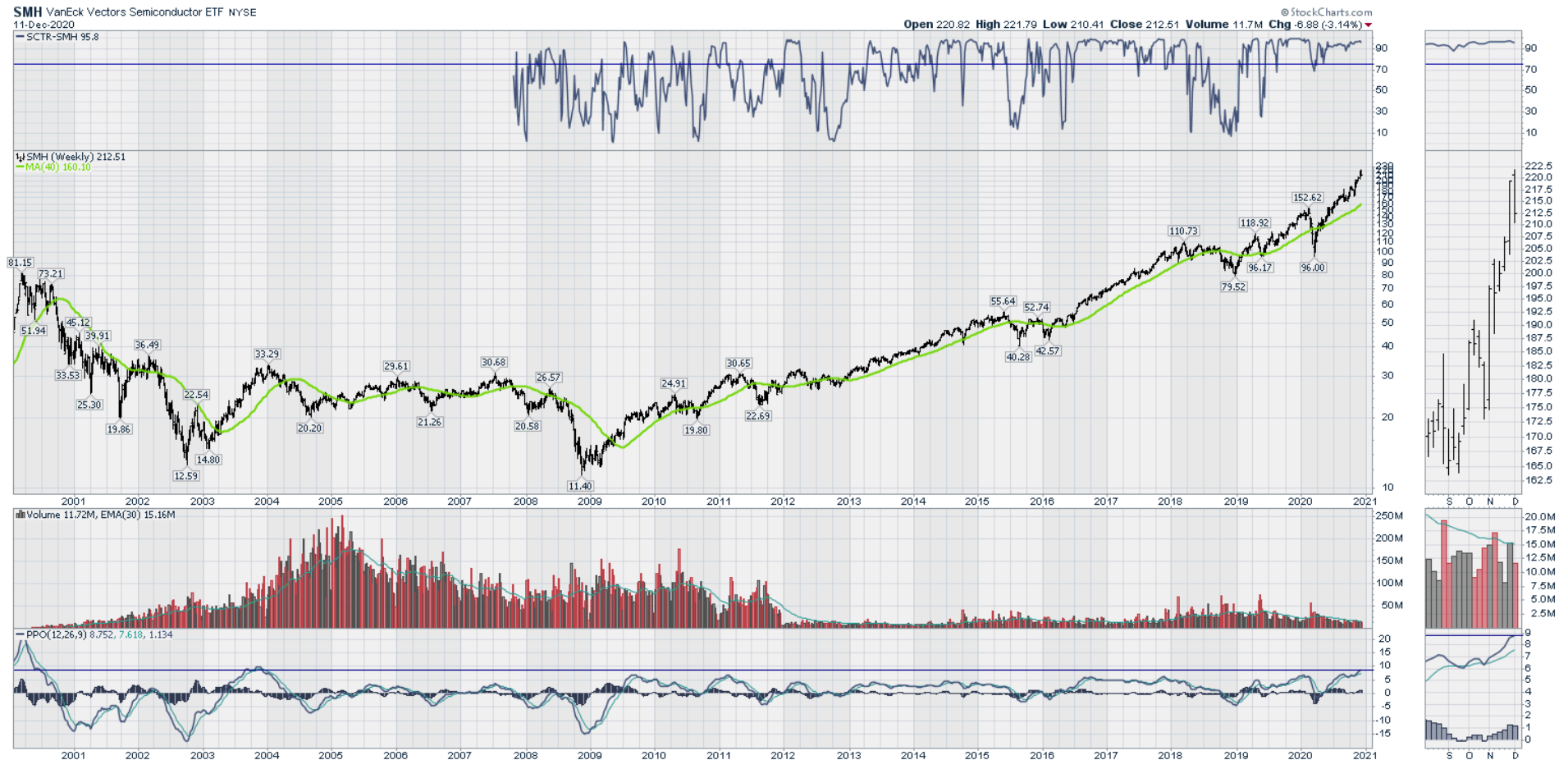
SMH - SEMICONDUCTORS - THE LAST FEW YEARS

I have zoomed in on the last few years of the chart. It does seem like a little bit of a blow off top and it is the second one since the COVID rally started. You can see the other one in June on the PPO. [SMH](#). This is very euphoric with multiple trips to record levels in six months. It is this sort of extreme that should at least give me a pause in bullishness. When we are this far outside the norm, it is hard not to be looking for some reversion to the mean. We have a sell signal on the PPO as it has crossed its signal line.



SMH WEEKLY CHART INSTEAD OF DAILY

The semiconductor ETF looks *even more extreme* on the weekly chart. This is bullish with PPO momentum this high, but we are so far above any rally in 16 years. The last rally to this extreme saw the semiconductor index drop meaningfully over the next six months. Then again, we haven't even started to roll over so it does not mean we cannot go farther. [SMH weekly](#).



MONTHLY CONFERENCE CALL LINK

Dwight and I hosted the [monthly conference call](#) on December 2, 2020. Click on the link for an hour of ideas. Dwight does a fantastic job of showing some of his setups and how they build momentum and then break out. If you are not reviewing the daily setups, I would encourage you to look there for ideas.

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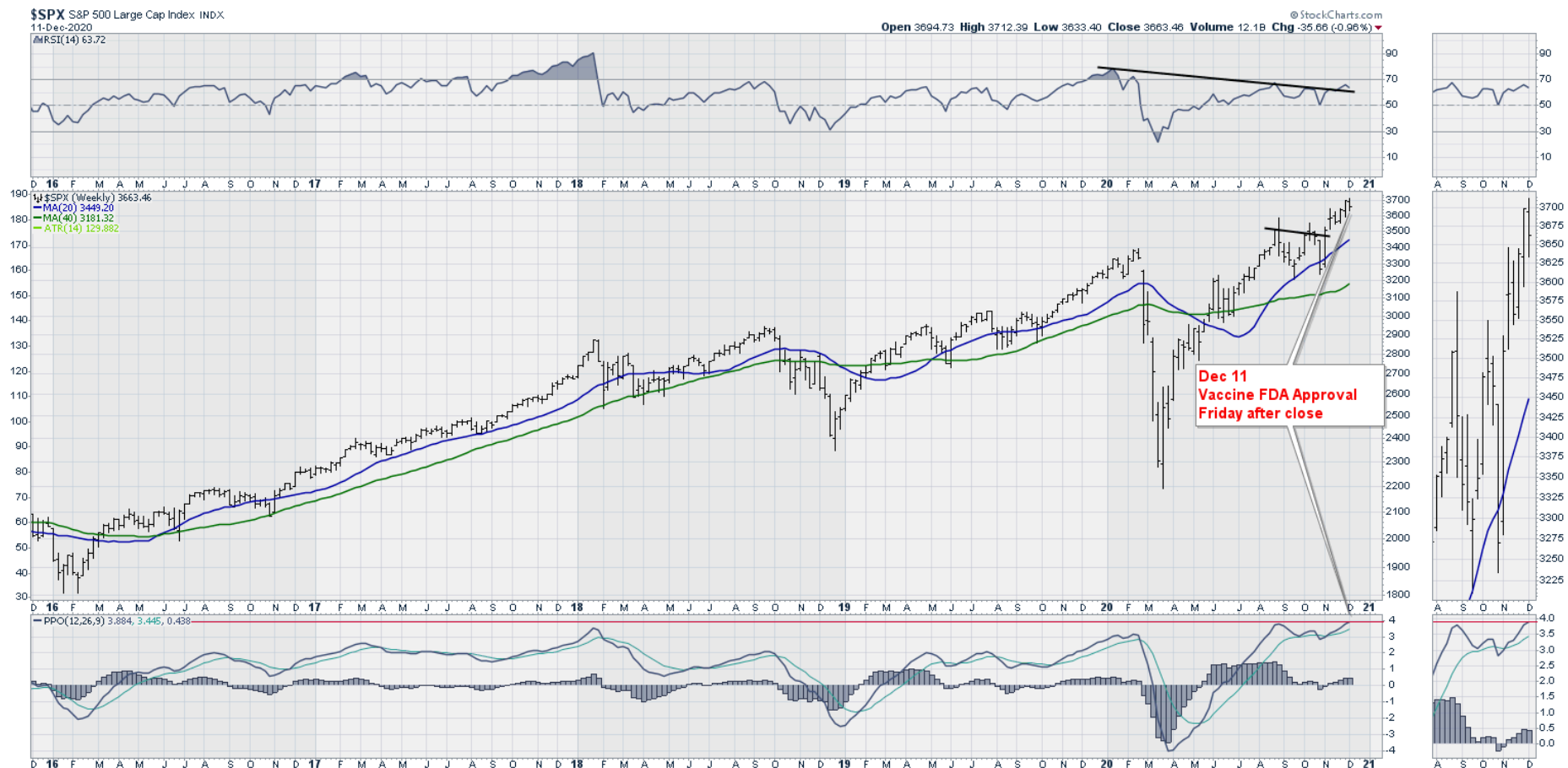
A Shot In The Arm - Three Vaccines

Monthly Conference Call
December 2, 2020



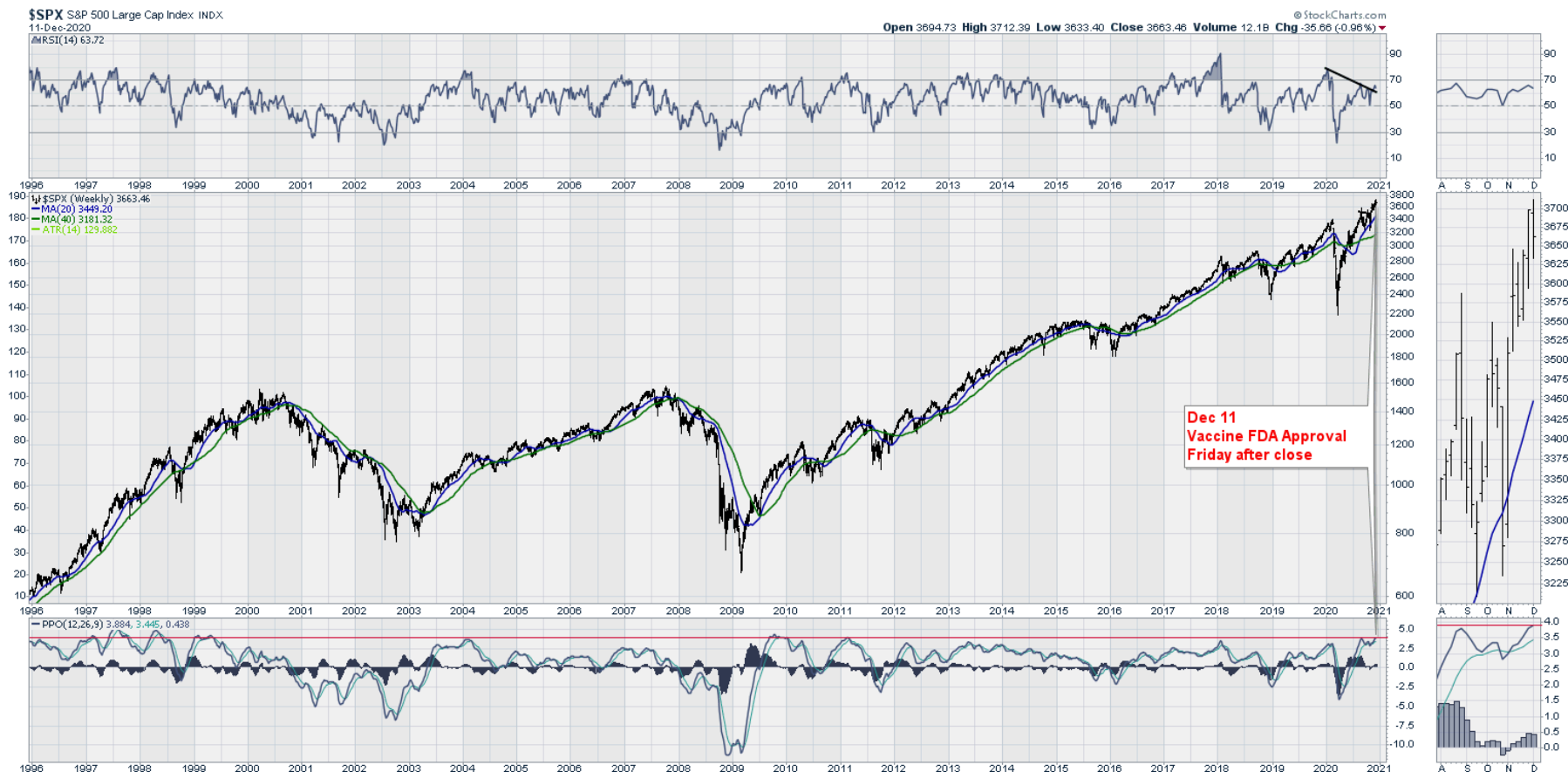
\$SPX - MOMENTUM EXTREME

The \$SPX - S&P 500 PPO is also at an extreme. On this closeup view, we recently moved above the August high. We are at 5-year highs on this chart. This secondary high on the PPO (after the August one) is a good place to check our work. We usually just get two runs at a high. I would expect the next PPO high to be lower. On the top panel we can see the RSI is at a lower level compared to the January 2020 high. [\\$SPX Link](#). On the next chart, I'll show a longer view of this chart.



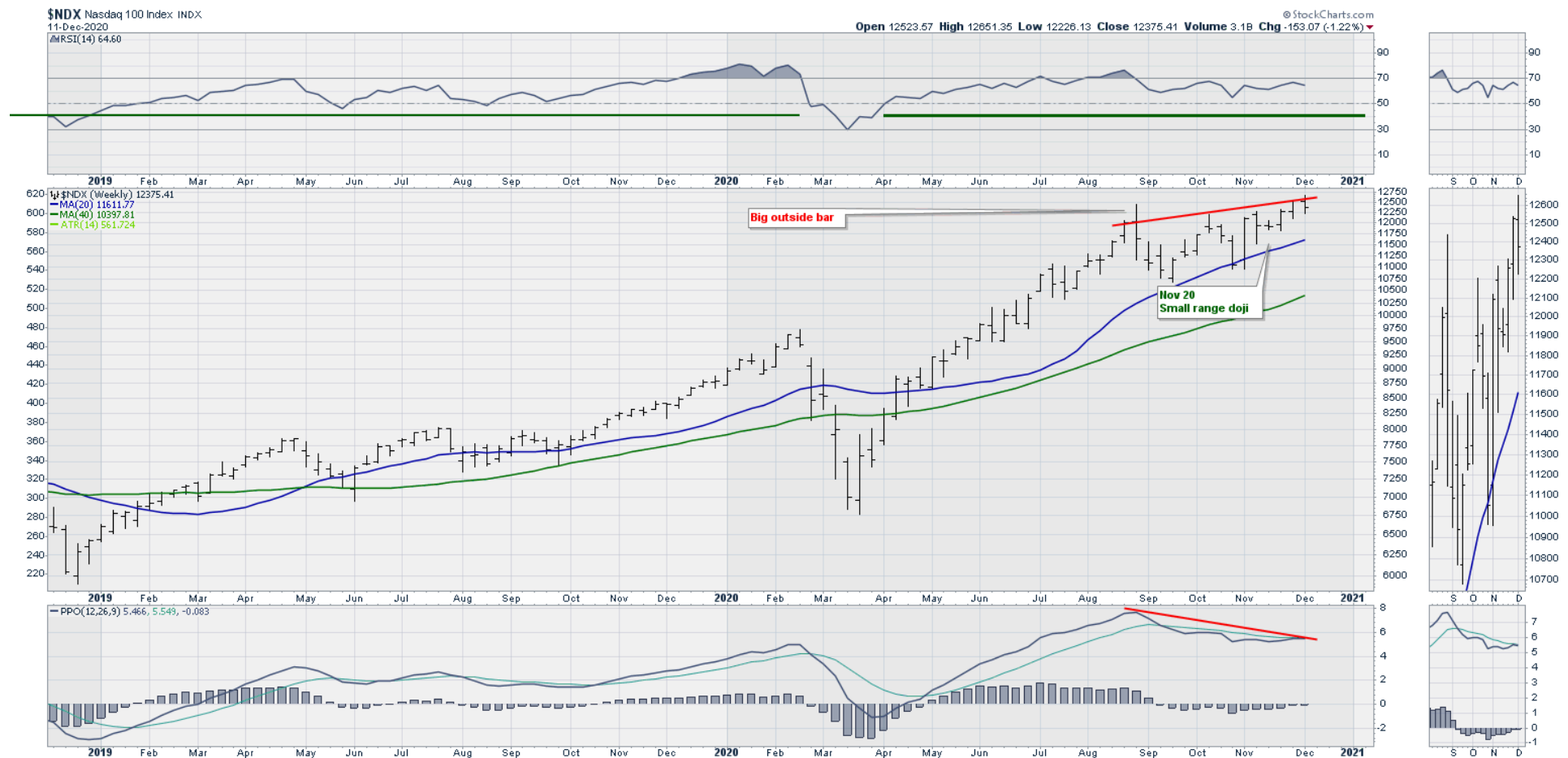
\$SPX - THE SECOND HIGHEST MOMENTUM IN 20 YEARS

The 25-year view shows the PPO at the second highest level in 20 years. It is difficult to live with the swings after these high momentum levels, but typically the market pushes higher. [\\$SPX - 25-Years](#). None of these high momentum readings occurred near major market tops. The 2018 high occurred as tariffs were announced against China, so a change in US government policy started a decline from that market high. 1998 was the Asian Financial crisis and later the LTCM implosion.



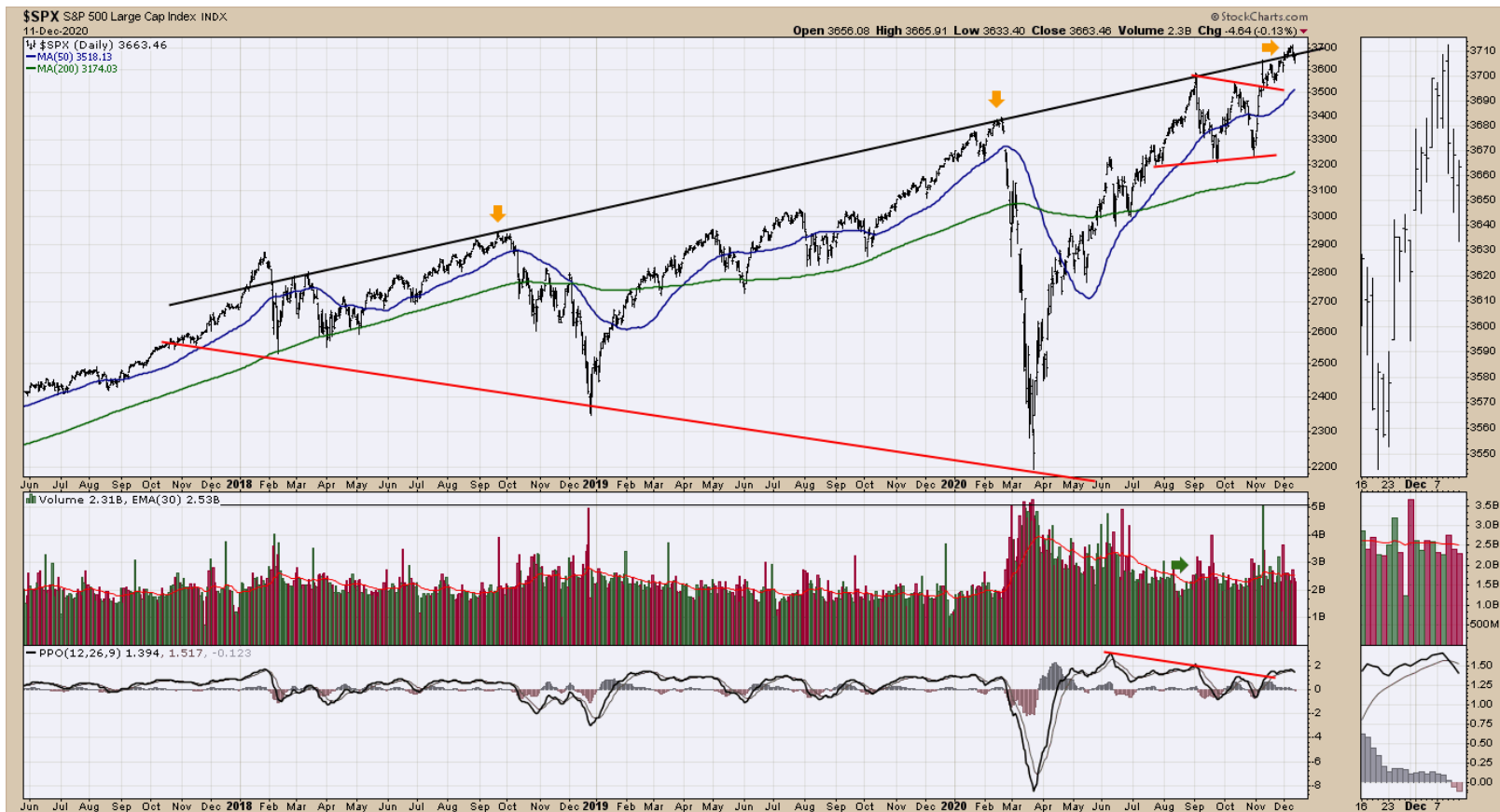
\$NDX - NASDAQ 100 PPO

The PPO on the Nasdaq 100 is at a lower high, unlike the \$SPX PPO discussed above. I have 'no' comfort with this significant difference between the two indexes. It is even worse with the semiconductors flying but something is amiss in big tech. I'm not going all bearish, but this doesn't look great in the big picture. [\\$NDX](#).



\$SPX - TOP TREND LINE INFLECTION POINT

One of the reasons to be concerned in the short term is this break above the three-year top trend line and falling back in it shortly after. The other reason for my concern is the 'second runup against this trend line has marked major tops and moved down dramatically. I could have included March 2018. [\\$SPX - Trend line break](#). I need to see the market firm up this week as we get through all the news flow I mentioned at the top. The PPO is on a daily sell signal now for the first time since the late October low.



THE MOVE TO ELECTRIC VIDEO

[The Move to Electric video](#). Register here for [the EV newsletter](#)! Gold membership level clients of GregSchnell.com will **receive the subscription EV content as part of their membership**.

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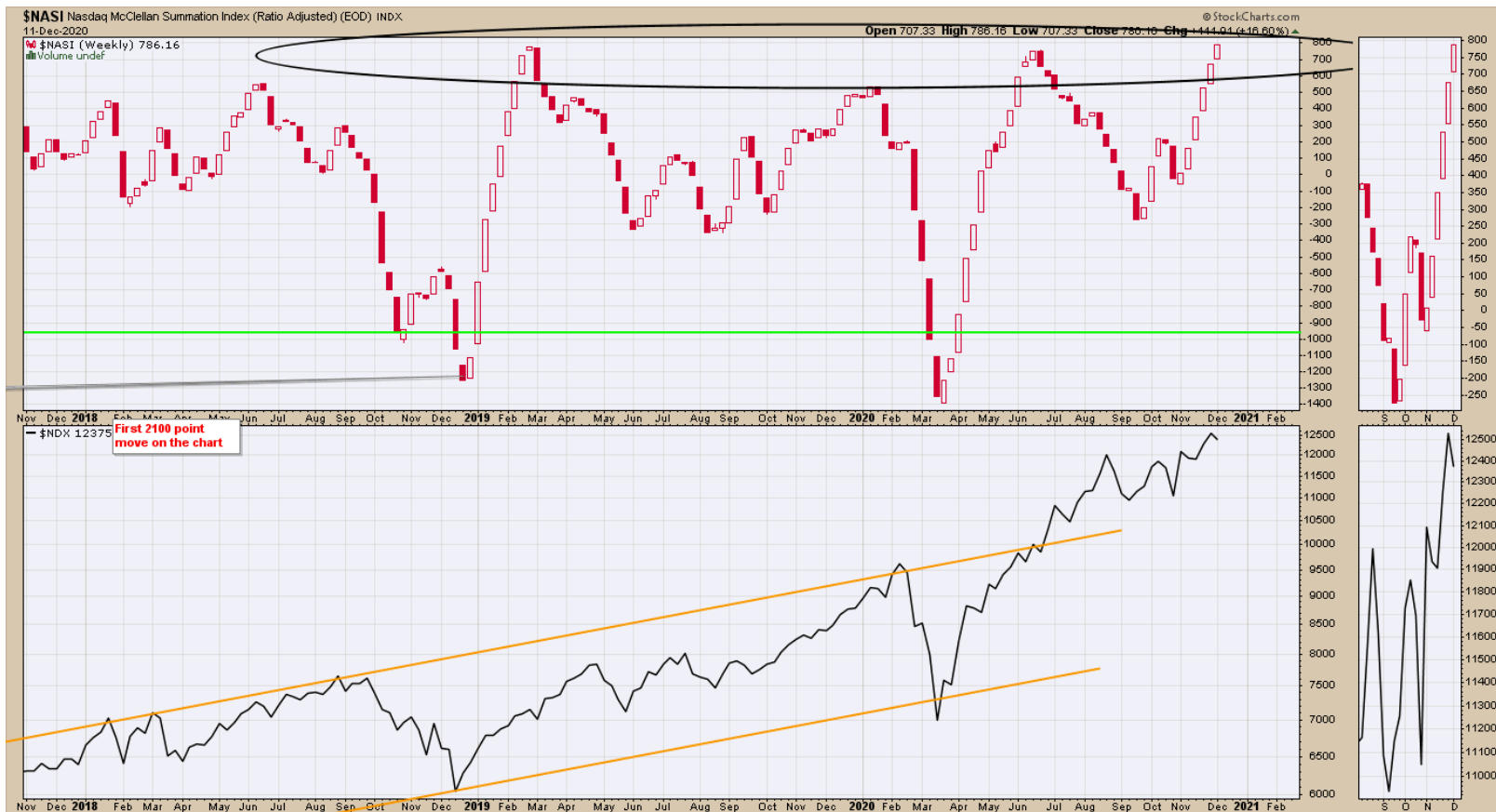
\$NYMO AND \$NYSI (NEW YORK MARKET INDICATORS)

The McClellan oscillators are a different method of calculating breadth. The \$NYMO McClellan oscillator for the NYSE is shown on this chart and is moving down and might go negative this week. That does suggest more waning momentum in the short term. The summation index at the top usually needs to move below 400 for a bigger correction to start. The \$NYSI (summation index) is a cumulative running total of the daily \$NYMO readings.



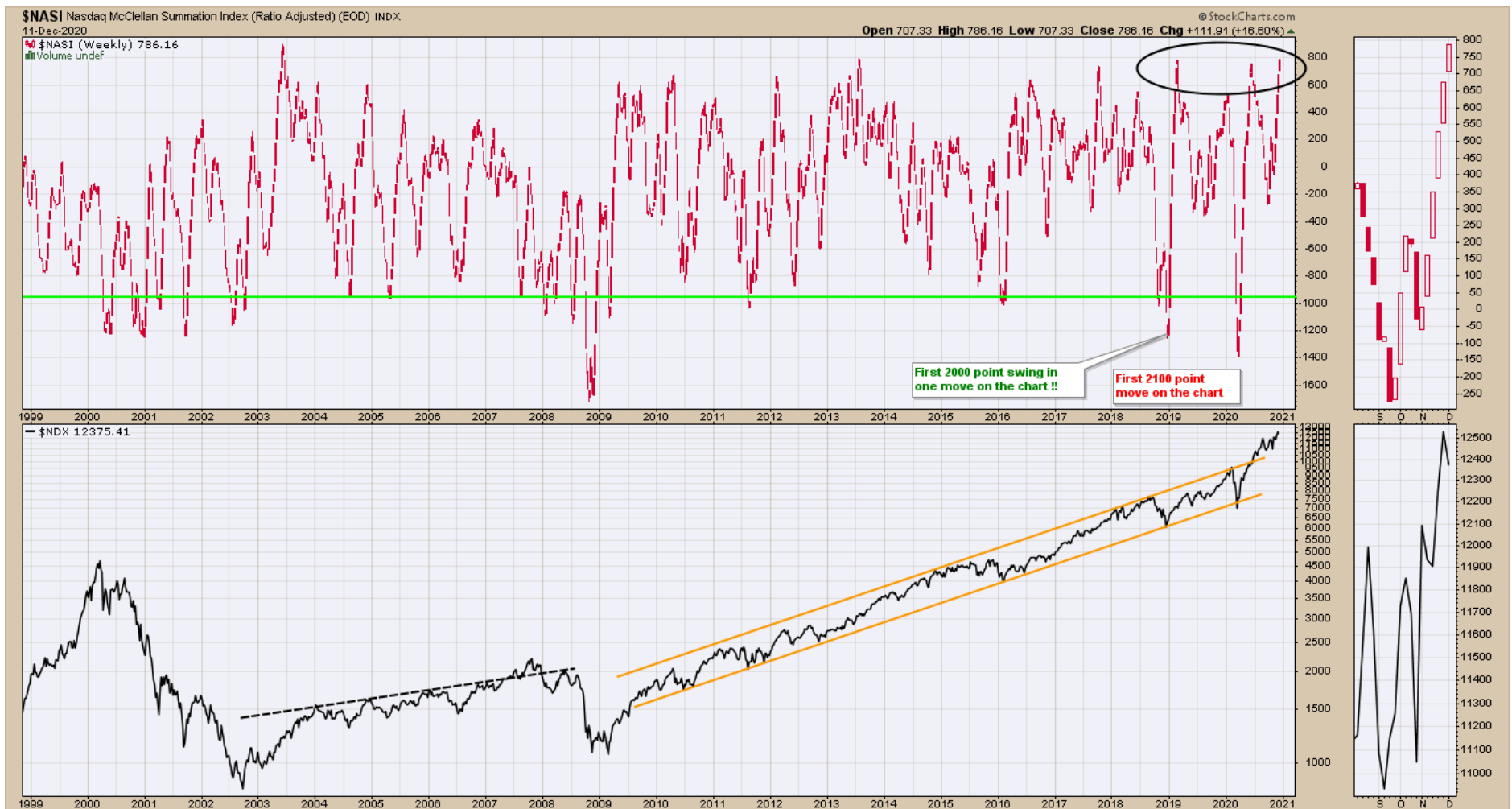
\$NASI NASDAQ SUMMATION INDEX

I have zoomed in on the Nasdaq summation index here. These three levels circled are also 3 of the highest readings recorded this century. The two lows shown are some of the biggest lows in the last 20-years. It seems the algos can push the market to wider and wider extremes and then release so they snap back to the middle. [\\$NASI](#). Notice it doesn't top with the market top but usually is early. I like the level around 200 for \$NASI before major weakness comes in. The next chart shows the longer view.



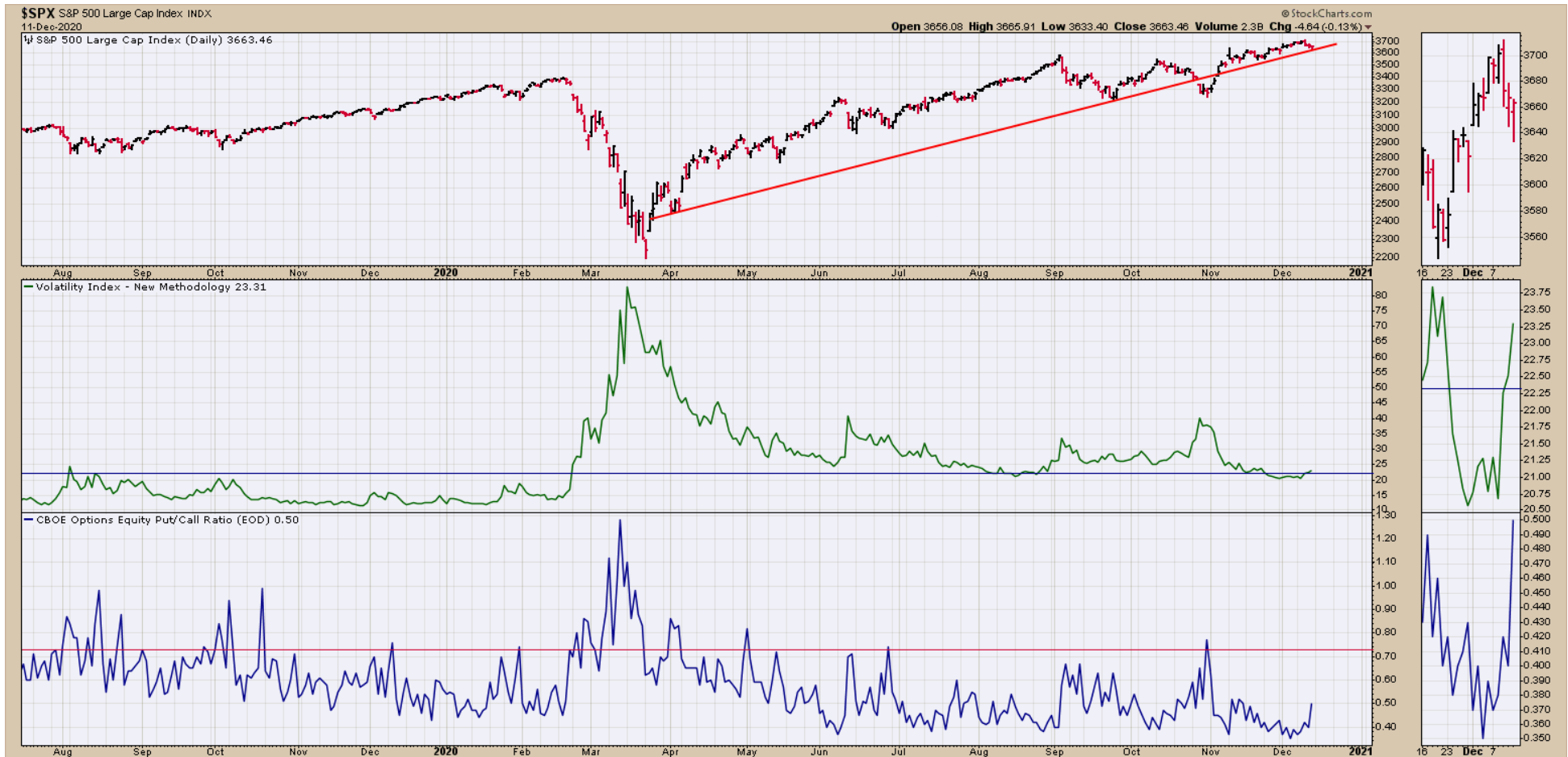
\$NASI - NASDAQ LONG TERM SUMMATION INDEX VIEW

These are three of the highest 5 readings since 2000. The two recent lows are also extreme levels. [\\$NASI Longer view..](#)



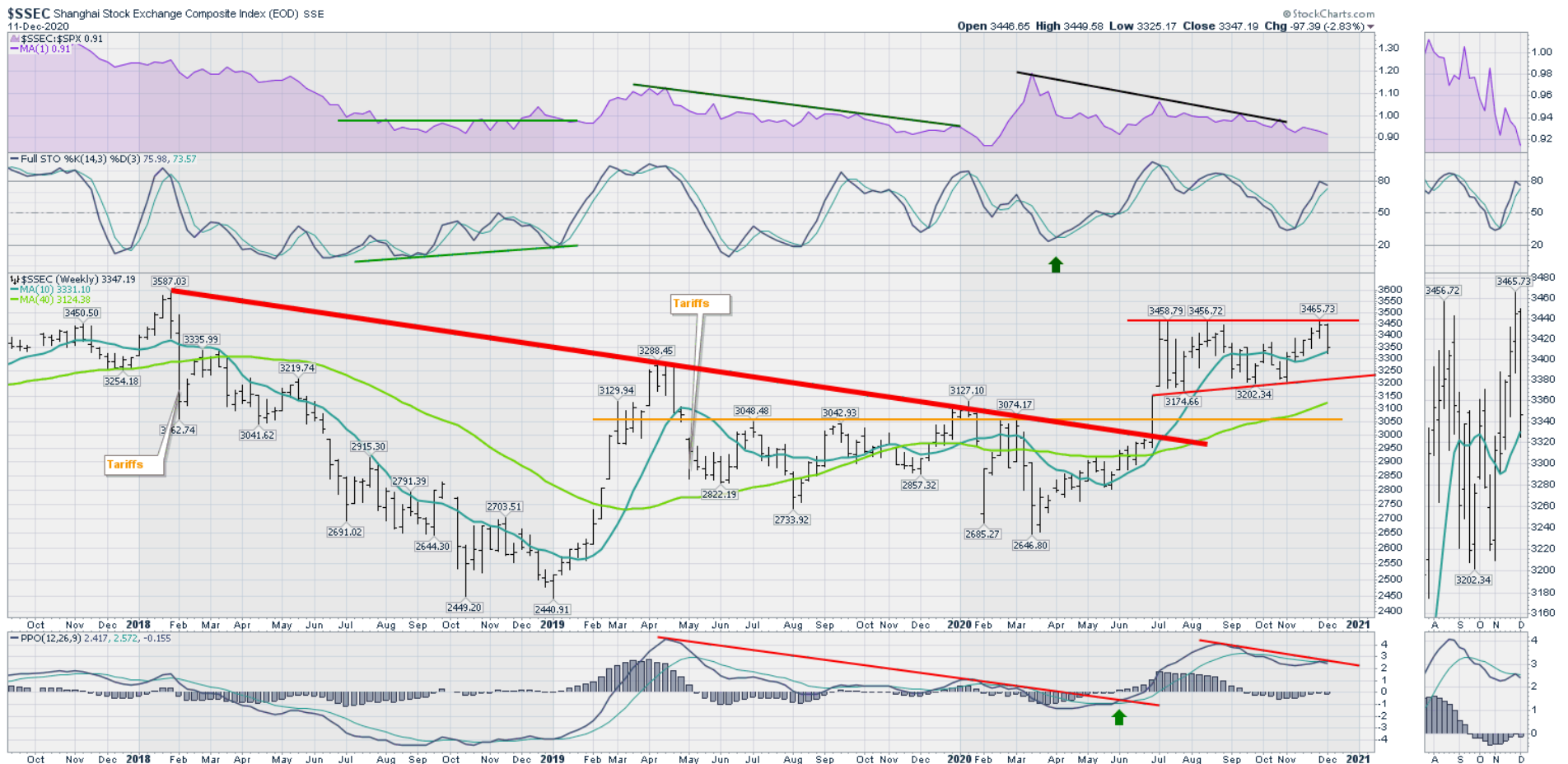
\$VIX - VOLATILITY INDEX

The \$VIX is creeping up in the middle panel. That is not great news, but I am aware of it. The Put/Call ratio on the lowest panel is also moving higher. Both of these can suggest upcoming weakness, so let's be ready and not surprised. [\\$VIX](#). Be careful on margin.

















PRIVATE INDICATORS












The Shanghai chart was a big surprise this week, dropping to new 4-week closing lows. It also failed at a level that is resistance on the 20-year chart. A falling Chinese market usually means falling commodities. They move similarly in the same direction with some difference. If this chart is changing, be careful with commodity trades and keep your stops tighter for swing traders. [\\$SSEC](#).



MARKET SUMMARY

The sector performance was specific to energy. Utilities and Staples were near the top of the list for the first time in a while. Semiconductors being a big negative is also a bit of a surprise but the discussion above highlights that something may be changing. Canada's marijuana names struggled this week (inside healthcare). Canada is on the right. Some safety trades showing up with telcos and staples starting to be near the top of the list. We'll watch to see if that starts to become a trend.

SYMBOL	NAME	SCTR	CLOSE	% CHG	+/-
XOP	E & P	77.3	62.48	2.43	
XLE	Energy	51.5	41.12	1.21	
XLC	Communications	66.4	66.94	-0.06	
XLU	Utilities	7.5	62.24	-0.27	
XLP	Staples	28.9	67.32	-0.46	
XLI	Industrials	75.4	88.77	-0.49	
XLV	Healthcare	27.4	111.68	-0.76	
XLY	Discretionary	52.0	156.30	-1.09	
XLB	Materials	68.1	70.90	-1.23	
XLK	Technology	58.9	124.30	-1.38	
XRT	Retail	96.3	61.26	-1.53	
XLF	Financials	53.0	28.46	-1.79	
IYR	Real Estate	8.0	84.05	-2.54	
SMH	Semiconductors	95.8	212.51	-3.14	

SYMBOL	NAME	CLOSE	% CHG	+/-
\$SPTEN	Energy	96.35	3.78	
\$SPTCS	Staples	653.98	0.94	
\$SPTIN	Industrials	327.85	0.77	
\$SPTTS	Telecom	169.45	0.77	
\$TSX	\$TSX	17548.92	0.16	
\$SPTFS	Financials	308.87	0.07	
\$SPTUT	Utilities	316.26	-0.01	
\$SPTTK	Technology	176.84	-0.39	
\$SPTGD	Gold Miners	310.88	-0.49	
\$RTRM	Income Trusts	219.37	-0.63	
\$SPTMT	Materials	315.04	-0.85	
\$SPTRE	Real Estate	303.49	-1.06	
\$SPTCD	Discretionary	223.55	-1.50	
\$SPTHC	HealthCare	63.25	-4.82	

GLOBAL VIEW

Here is the global view on the left. Europe struggled a bit with the trade talks dominating the headlines there. The USA was middle of the pack. The surprise of the week was the Shanghai weakness. Lumber continues to build an uptrend. Liquid energy rose with Brent crude closing at \$50 and West Texas up a few drops. Metals struggled with weakness in Asia. Gold was flat.

SYMBOL	NAME	CLOSE	% CHG	+/-
\$RTSI	Russia	1412.88	4.09	
\$BSE	India	46099.01	2.26	
\$IDDOW	Indonesia	1305.38	2.16	
\$KOSPI	South Korea	2770.06	1.41	
\$BVSP	Brazil	115128.00	1.21	
\$AORD	Australia	6886.40	0.31	
\$TSX	Canada	17548.92	0.16	
\$MXX	Mexico	43612.31	-0.08	
\$GBDOW	London	292.38	-0.30	
\$NIKK	Japan	26652.52	-0.37	
\$INDU	Dow ----	30046.37	-0.57	
\$SPX	S&P 500 ----	3663.46	-0.96	
\$NDX	Nasdaq 100 ----	12375.41	-1.22	
\$HSI	Hong Kong	26505.87	-1.23	
\$DAX	Germany	13114.30	-1.39	
\$CAC	France	5507.55	-1.81	
\$SSEC	Shanghai	3347.19	-2.83	
\$IBEX	Spain	8063.10	-3.12	

SYMBOL	NAME	CLOSE	% CHG	+/-
\$LUMBER	Lumber	722.00	6.40	
\$GASO	Gasoline	1.31	3.09	
\$HOIL	Heating Oil	1.44	2.42	
SLX	Steel	44.88	2.37	
\$BRENT	Brent Crude	50.00	1.52	
\$WTIC	WTI Crude	46.57	0.67	
\$NATGAS	Natural Gas	2.59	0.62	
LIT	Lithium	54.04	0.61	
\$GOLD	Gold	1843.60	0.20	
\$COPPER	Copper	3.53	0.10	
\$SUGAR	Sugar	0.14	-0.07	
\$SOYB	Soybean	1160.50	-0.21	
SIL	Silver Miners	41.94	-0.33	
GDX	Gold Miners	35.08	-0.65	
\$SILVER	Silver	24.09	-0.66	
REMX	Rare Earth Metals	56.55	-0.95	
\$COCOA	Cocoa	2622.00	-1.21	
HMMJ.TO	Marijuana Stocks	8.31	-5.57	

VIDEO OF THE WEEK

The Monthly conference call link is here. [Monthly Conference Call Link](#) - lots of ideas presented on Dec 2.

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

Here is a link to this week's video. [Extremes are worrying](#)



Extremes Are Worrying

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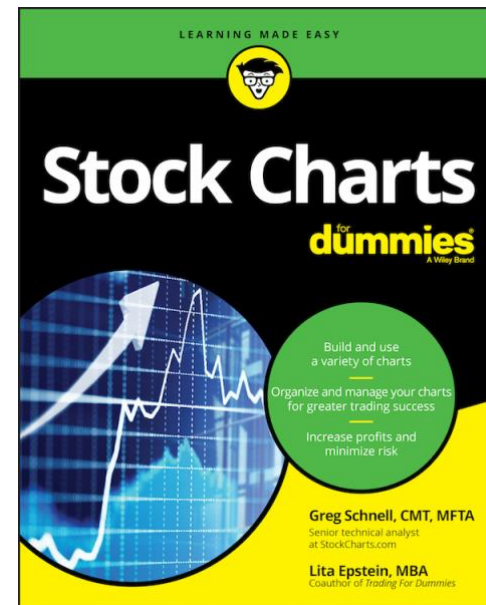
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Good trading,
Greg Schnell, CMT, MFTA.

BIOGRAPHY GREG SCHNELL, CMT, MFTA.

Greg Schnell, CMT, is the chief technical strategist at gregschnell.com specializing in intermarket and commodities analysis. Greg's work has been regular reading on the world-leading StockCharts.com platform for thousands of investors. Hedge funds, RIA's, portfolio managers, technicians and private investors consider the charts Greg displays. Greg Schnell is valued for his timely, in-depth, unique analysis that generates a valued perspective. Greg has won multiple awards as the Top Independent Analyst of the Year in Canada.



Based in Calgary, Canada, he is a past board member of the Canadian Society of Technical Analysts (CSTA) and past chairman of the CSTA Calgary chapter. As an active member of CMT Association, Greg speaks throughout North America on technical analysis. Greg is the co-author of Stock Charts for Dummies.