

SPECIAL STUDY



S&P 500 – Trades close to an extension target, warning of a pullback.

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S&P 500 weekly chart with US Dollar index, Bloomberg Finance LP

S&P 500 – Trades close to an extension target.

- + The S&P 500 cash index has recovered sharply from the deep losses following the credit crisis of 2007-2008.
- + After meeting 666.79 in March of 2009 a vigorous uptrend has followed which managed to break back over the 50 week moving average following the higher low registered at 869.32.
- + The subsequent trade has been contained within the confines of a rising daily channel reaching 1370.58 so far. However, we note that recent trade has led to the formation of a confirmed dark cloud cover reversal pattern.
- + This general area also ties up with a major extension target at 1337.63, the 161.8% extension of the 666.79-956.23 rise from 869.32. Shorter-term structure also suggests scope for a pullback from this region.
- + Combined with these initial warning signs we are wary of the recent price action in the US Dollar Index, covered on the next page, which hints at the possibility of a recovery.
- + We also note the general link between the US Dollar Index and movement in the S&P 500, as shown in the lower section of the chart on the left.



US Dollar index daily chart, Bloomberg Finance LP



US Dollar index weekly chart, Bloomberg Finance LP

Falling wedge and symmetric correction warn of a recovery in the USD.

- + In the upper chart on the left we note a falling wedge in the daily timeframe, which has an associated break lower that failed to hold. The push back over 75.810 now confirms this as a false break lower.
- + Also noted is the setup shown in the lower chart on the left which shows the completion of a symmetrical corrective phase from the March 2009 high at 89.624. The recent fall from 88.708 has thus far reached 72.696 close to the 100% extension of the 89.624-74.170 fall from 88.708, at 73.254.
- + Both of these setups also warn of a possible reversal in fortunes for the US Dollar.
- + If we combine this with the chart seen on the first page we can conclude that if indeed the US Dollar does strengthen then the equity markets will face a further headwind on top of the features already mentioned.
- + With the above in mind we would suggest caution when considering aggressive long positioning in US equities or shorting the US Dollar.

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