



Technical Strategies

Thursday
April 23, 2015

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CALLS AND SIGNALS

- **Shanghai Composite Index's** 121 percent surge over the past 15 months is "too fast," according to **UBS Group AG** strategist **Lu Wenjie**. The current Chinese equity boom is outpacing the surge from a low in 2005 that culminated in the 2007 bubble. The Shanghai Composite's 14-day measure of share-price momentum has climbed to 80.1, above the 70-level that indicates to some traders that prices are poised to fall for a 26th straight day. It was 75.7 nine years ago. The value of shares changing hands on the Shanghai Composite Index has surged about 18-fold to 862 billion yuan (\$139 billion). In 2006, trading rose threefold to 24 billion yuan. Terminal users can [click](#) to read more.
- **Spain-Germany 10-year** yield crossed above its 100- and 200-day moving average lines for the first time since 2012 on April 22, signaling a major change in trend, **Karen Jones**, technical analyst at **Commerzbank**, wrote in a note.
- **NZD/USD's** tumble may fade against key support zone at 0.7557/34, with the market likely to consolidate above that area in the near term, Bloomberg Technical Analyst Sejul Gokal wrote this morning. A shift in CFTC positioning and a wider N.Z.-U.S. rate spread are supportive of bulls, he wrote.

INSIDE TECHNICALS

- FX:** Alex Cole introduces the [Chameleon Oscillator](#) to spot signs of the end of the Canadian dollar's downtrend.
- EQUITIES:** Paul Ciana sees [Greek](#) stocks enter a trend-changing zone.
- COMMODITIES:** Akshay Chinchalkar sees signs of reversal in [oil](#).
- GUEST COLUMN:** S. Kris [Kaufman](#) of Parallax Financial Research sees end-of-trend signals in crude, the dollar and U.S. transport stocks.

Emerging Markets ETF Rising Faster Than S&P 500 Counterpart in Trend Reversal

BY GREG BENDER, CMT, BLOOMBERG TRADEBOOK

The MSCI Emerging Markets index has been rising faster than the S&P 500 since the end of March, as measured by their exchange-traded funds.

This recent outperformance by EEM reverses, at least temporarily, years of underperformance relative the SPY that tracks the U.S. equities benchmark.

Spotting reversal patterns, especially patterns that reverse strong trends, is as difficult in real-time as it is easy in hindsight.

A "failed" new low, like the one denoted by the shaded green circle, gets the attention of traders. The pattern is a "failed" low because price broke below the support line, drawn as a dotted red line, but instead of continuing to drop, price reversed quickly back above the support line.

Trend followers that have been making money on the short side of the market are now losing money. Many will have to cover their shorts, in turn pushing prices higher. This setup is occurring at the same time as two other signals that suggest prices may reverse.



Source: Bloomberg

Terminal users can click or run **G BBTA 728** to see a live version of this chart.

First, the failed new low occurred at the same time as a bullish RSI divergence: Price made a lower low and RSI made a higher low. Second, when prices reversed, they broke the bearish trendline, drawn as a solid red line from the August/September highs.

Charting and trading trend reversals

can be dangerous business. Identifying multiple signals in real time is necessary to identify and manage risk.

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FX BY ALEX COLE, BLOOMBERG ANALYTICS

Canadian Dollar Outlook Brightens, Chameleon Oscillator Suggests



Source: Bloomberg

Please contact Alex Cole for a copy of the custom study required to view this chart.

The Canadian dollar has reversed its slide against the U.S. dollar, according to the Trend *Chameleon*. The indicator has painted the Canadian dollar bars bright red since April 15. The first red bar in the series coincided with a break down from a consolidation channel at the top of the sustained rally.

Using another custom indicator, the Chameleon Oscillator (displayed in the lower panel), we can see that there were signs of trend exhaustion during the consolidation period.

The Chameleon Oscillator is similar in concept to the Trend Chameleon in that it is a blend of several indicators and changes colors based on the indicators' combined readings.

The Trend Chameleon establishes a reading from -6 to 6 and is based on three momentum indicators: Bollinger Bands, RSI and Stochastics. The indicator is

colored based on how many overbought/oversold criteria are being met — it turns bright red when the most overbought signals are sent and bright green when most oversold, with varying shades in between.

Specific readings of the indicators are as follows:

- 1) Bollinger Band readings focus on price relative to one and two standard deviations from the mean.
- 2) RSI readings use a traditional 14-period look back and a faster nine-period input.
- 3) Stochastics readings include both the % D and % DS lines.

As the Canadian dollar weakened against the U.S. dollar from September 2014 to January 2015, the oscillator finds support several times at zero.

There is a tendency for this oscillator to bounce off zero when in an upward trend

as the pullbacks in a strong trend are not enough to force it into negative territory (highlighted by the long aqua line).

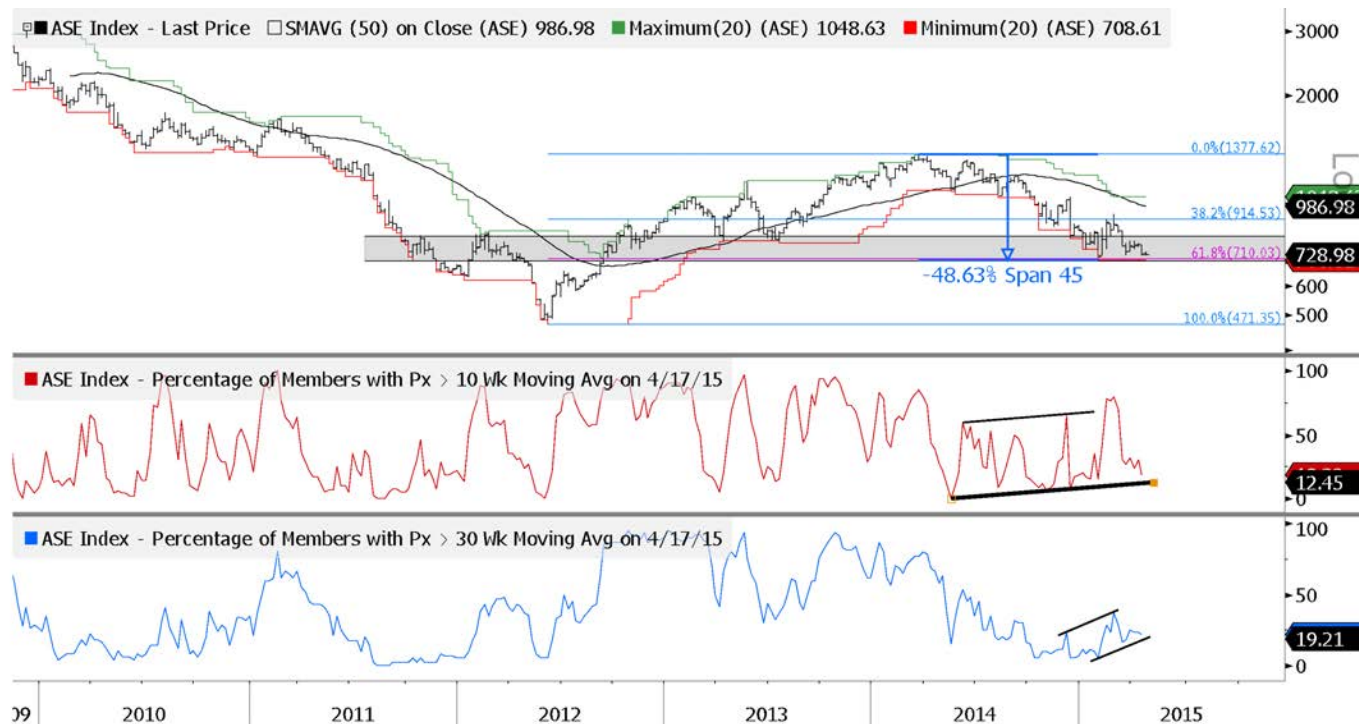
In December and then again in January the oscillator hits 6 (highlighted by the purple oval), the highest since the beginning of the uptrend.

The oscillator struggles to hold at zero and then in February it made a lower high that shows a clear divergence between the oscillator and price. It breaks below zero again and cannot rise back above, finding resistance at the zero line (short aqua line) before price finally breaks down out of the channel and the Trend Chameleon starts to paint bright red bars.

Alex Cole is a technical analysis specialist in Bloomberg's analytics department. He can be contacted at ACole9@Bloomberg.net

EQUITIES BY PAUL CIANA, CMT, BLOOMBERG APPLICATION SPECIALIST

Greek Market Trading in Zone Linked to Past Reversals



Source: Bloomberg

Terminal users can click the chart above or run **G BBTA 725** to see a live version of this chart. Because this chart is log scaled, the Fibonacci Retracements have been changed to calculate on a percent scale. To adjust Fibonacci ratios on the Bloomberg terminal, right click on the retracement, choose "edit properties" and change the scale to percent.

The Athens Stock Exchange General Index has declined to a price range where, in the past, trends have reached exhaustion for at least a few weeks to a couple of months.

The horizontally shaded area on the chart between 700-820 highlights times where up and down trends have consolidated, reversed or continued. What each trend entering this range has in common is the prior trend exhausts, then churns sideways for a few weeks and begins moving again.

Before entering this zone, the

capitalization-weighted index of 60 Greek stocks declined about 48 percent from its 2014 high. The ASE has spent a significant amount of time in this price range over the last few years. The current rolling 20-week low is 708. The 61.8% Fibonacci retracement level resides at 710 and held as support since the January test. The alignment of these levels suggests it is a key support level.

While price is holding the low end of this range, there is some indication from the ASE index constituents that support may continue to hold. The percentage of

stocks in the index whose price is trading above their 10- and 30-week moving average has been increasing, a positive sign for the index. If support breaks, then this was just another consolidation in a resumed downtrend.

The index is trading just 20 points from key support and 30-day historical volatility has declined from 76 to 33.

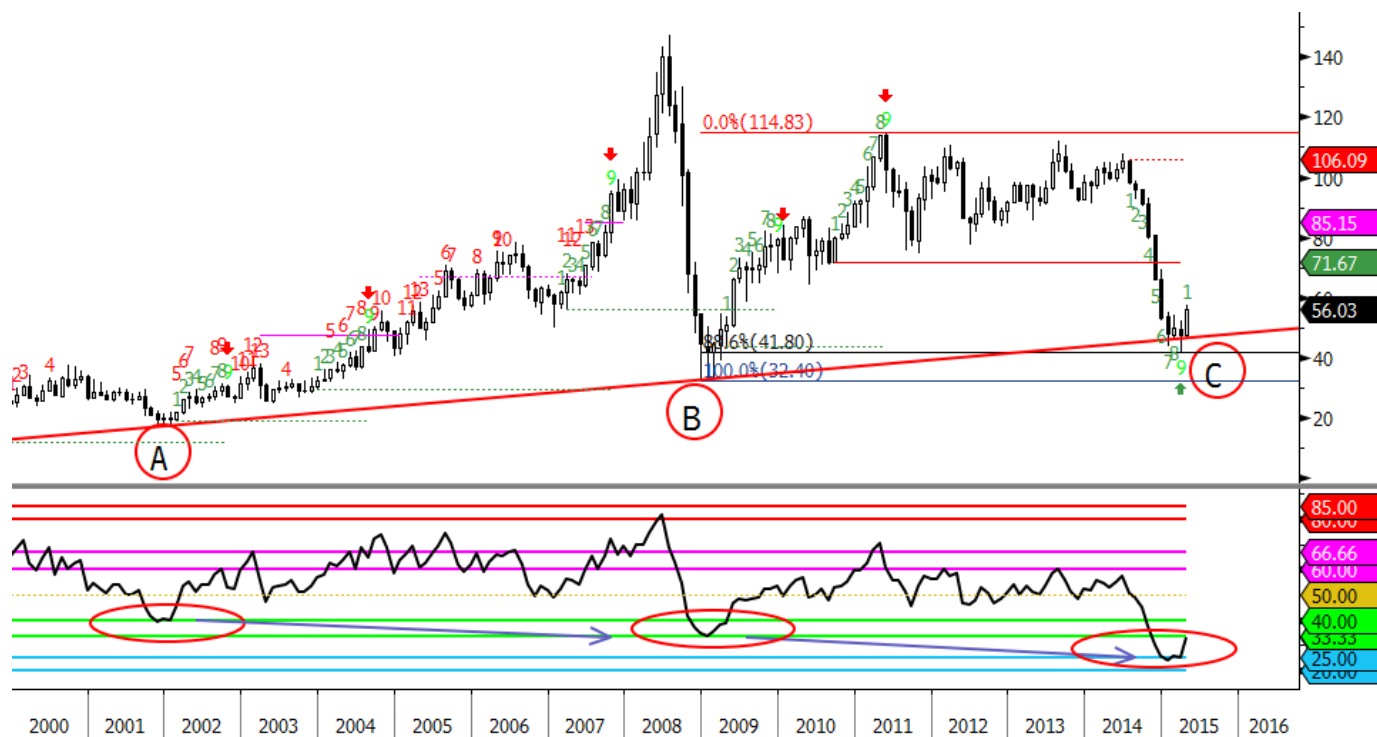
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COMMODITIES BY AKSHAY CHINCHALKAR, BLOOMBERG APPLICATION SPECIALIST

WTI Sends Signals That It's Reached Its Bottom, Now Poised to Rally



Source: Bloomberg

Terminal users can click the chart above or run **G BETA 731** to see a live version of this chart. This chart may take several seconds to load.

West Texas Intermediate crude oil is closing in on a bottom, technical patterns suggest.

Oil has continued to hold on to the long-term trend line seen in the price chart in the upper panel. The trend line, originating from the 1998 low, is once again supplying support.

The market's March 20 low of \$42.03 a barrel sat at another key support level — the 88.6 percent Fibonacci retracement of the December 2008 low and the May 2011 high.

There's also evidence that the market is looking to rally. The monthly RSI, shown in the lower panel of the chart, has fallen to a new low as compared to its 2008 bottom, while the price itself has not fallen to a new low (see the B and C circled areas in price chart). This is a positive RSI reversal, which calls for higher prices. The last time this occurred on the monthly chart was between the November 2001

and the December 2008 lows (A and B circled), with the market going on to record its April 2011 high of \$114.83.

Tom DeMark's TD Sequential Indicator™ reinforces the view that oil may be set to rally. The buy setup (the 1-9 annotations under the price bars) that began in July 2014 ended in March 2015 with a so-called perfection — this occurs when the low of either bar 8 or bar 9 is equal to or is lower than the lows of both 6 and 7. This has been immediately followed by a price flip with "1" appearing above the April bar, which has occurred because two conditions are being met: (1) the close of the bar prior to the current bar is less than the close four bars ago (bar five of prior setup), and (2) the current close for April is above the close four bars ago (bar 6 of the previous setup).

Toward the end of April, when the monthly bar is complete, a close above

\$53.27 will confirm the bullish price flip and a sell setup will begin. The March 2015 low of \$42.03 will become a critical long-term pivot for the bulls. On the other hand, an April close below \$53.27 would negate the current price flip and prolong any coming rally.

Finally, notice that the current price action in April is generating a pivot low. A pivot low is a three-bar pattern where the low of bar two is the lowest and is surrounded by higher lows on either side. As long as the April low at \$47.05 is intact, any close in April above 53.27 followed by the February high of \$54.24 would be bullish, with a target in the \$67 area.

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TREND TERMINATION GUEST COMMENTARY BY S. KRIS KAUFMAN, PARALLAX FINANCIAL RESEARCH

Major End-of-Trend Signals Detected in Crude, U.S. Dollar, and U.S. Transport Stocks

Crude oil, the U.S. dollar and U.S. transport stocks are exhibiting notable trend terminations (called “Extensions”), according to ExtremeHurst™.

Parallax Financial Research derived ExtremeHurst™ from critical failure physics that detects characteristic signs of discrete scale invariance occurring at the beginning and end of trends. It is available for terminal users at [APPS EHURST <GO>](#) and [APPS CS:PFR <GO>](#). The trend signals linger for about as long as they take to form, so monthly and quarterly scale signals that take years to build can have a major impact for years to come.

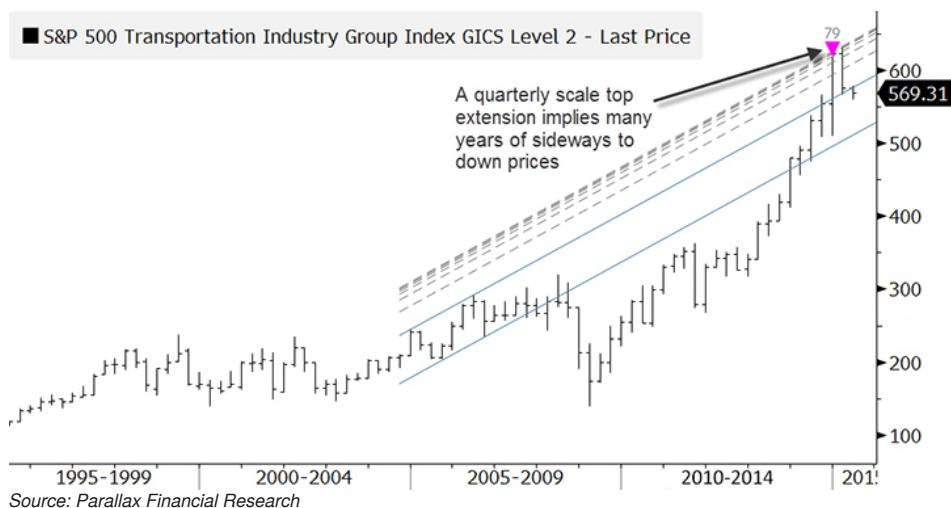
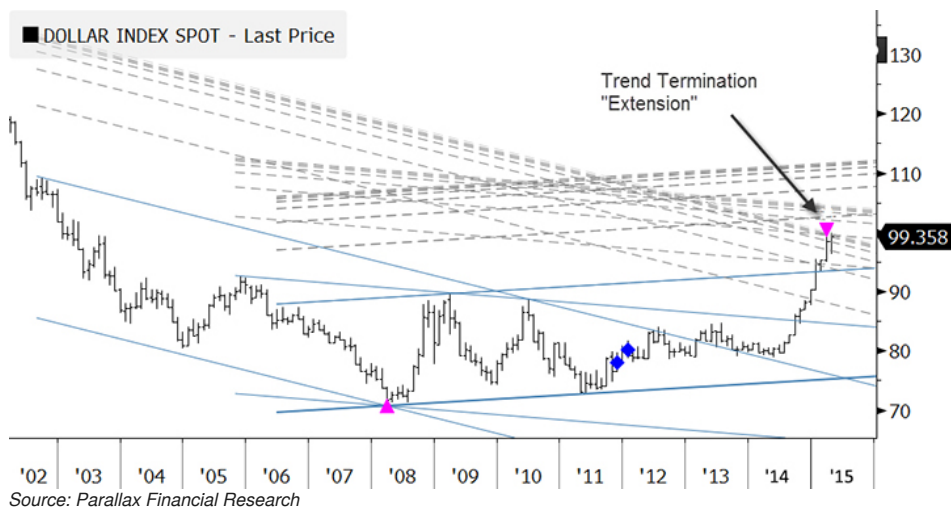
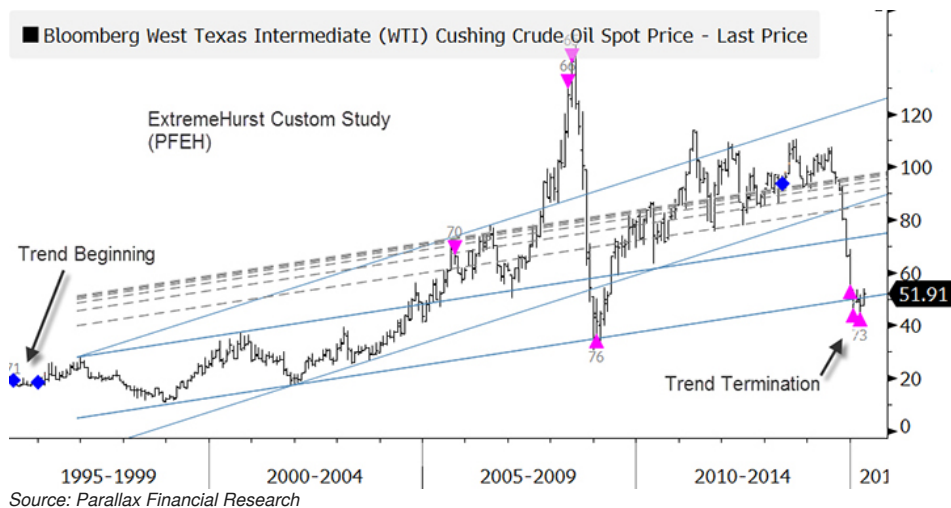
Figure 1 shows a current monthly scale trend termination on the crude oil spot chart (USCRWTIC Index), as well as some historical signals. Extensions mark the end of a trend, but they do not necessarily precede a large retracement. Markets may just move sideways following a signal. We expect crude to move sideways or retrace over the next year.

The next major signal is on the U.S. dollar (DXY Currency). Figure 2 shows a monthly scale top extension. Based on this signal, the dollar is expected to move sideways or retrace over the next year.

The largest signal is on the S&P 500 Transportation Index (S5TRAN Index). Figure 3 shows a top extension signal on a quarterly scale. Prices are forecast to move sideways to down for five or more years.

To confirm this forecast we ran our Price Wizard™ neural net equity valuation model on the index, which is available to Bloomberg terminal users at [APPS PRICEWIZ <GO>](#). Price Wizard estimated the price of each constituent stock in the index, and then using our “Aggregate Valuation” option, found the median valuation of the transport stocks to be 23.7 percent overvalued as of April 10. This confirms our overall negative outlook.

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Please contact S. Kris Kaufman for copies of these charts.

TECHNICAL LEVELS

FX	Price Points				Technical Indicators							Fibonacci Ratios		
	Last Price	% Chg (5)	5d High	5d Low	50d SMA	200d SMA	50d vs 200d	ADX	2SD From 60Day Mean	RSI 9	1 Year	3 Year	5 Year	
DXY	97.6950	0.38	98.4550	97.0010	97.1835	89.5541	8.5%	Range	100.6064	92.8143	45.48	87.5%	91.0%	60.9%
EUR	1.0781	0.07	1.0849	1.0660	1.0916	1.2130	-10.0%	Range	1.1587	1.0395	52.67	9.1%	9.2%	37.3%
JPY	119.9400	0.86	120.0900	118.5300	119.8296	113.8248	5.3%	Range	121.5816	117.6077	55.34	90.1%	95.7%	82.4%
AUD	0.7733	-1.01	0.7843	0.7683	0.7730	0.8432	-8.3%	Range	0.7902	0.7572	53.42	10.1%	7.5%	25.3%
BRL	3.0158	-0.15	3.0702	2.9936	3.0456	2.6075	16.8%	22.23	3.3713	2.5951	36.92	73.4%	79.4%	60.4%
Commodities														
CL1	56.34	-2.95	58.52	55.73	52.16	73.23	-28.8%	Trending	56.79	43.55	59.33	19.8%	18.8%	37.9%
NG1	2.57	-4.36	2.69	2.53	2.74	3.56	-23.0%	Range	2.97	2.49	44.08	3.4%	3.3%	19.2%
GC1	1190.30	-0.84	1209.00	1183.60	1193.07	1230.81	-3.1%	Range	1268.11	1140.40	45.86	26.4%	8.7%	11.9%
S11	15.88	-2.82	16.49	15.66	16.34	17.54	-6.8%	Range	17.65	15.33	37.91	22.1%	7.9%	9.1%
Yields														
GT2	0.5427	12.15	0.5528	0.4596	0.5905	0.5385	9.7%	20.93	0.7216	0.4510	53.45	59.6%	64.3%	45.7%
GT5	1.3799	6.03	1.4012	1.2589	1.4572	1.5512	-6.1%	Trending	1.6892	1.1963	54.68	34.9%	64.1%	51.5%
GT10	1.9673	3.97	1.9902	1.8427	1.9958	2.1928	-9.0%	21.98	2.2085	1.7379	58.74	30.3%	35.9%	34.1%
GT30	2.6484	2.69	2.6772	2.5007	2.6091	2.8693	-9.1%	Range	2.8120	2.3515	62.26	33.0%	25.1%	25.3%
Indices														
INDU	18038.27	-0.41	18169.26	17748.53	17971	17413	3.2%	Range	18382.61	17412.03	54.20	89.7%	96.3%	89.9%
SPX	2107.96	0.06	2111.30	2072.37	2088	2022	3.3%	Range	2135.90	2021.27	59.24	96.1%	98.9%	91.2%
UKX	7026.23	-0.47	7105.13	6979.32	6925	6711	3.2%	Range	7105.30	6712.18	53.44	91.1%	96.5%	82.5%
NKY	20187.65	1.52	20252.12	19474.23	19197	17050	12.6%	23.61	20541.10	17331.63	OB	99.0%	100.0%	73.6%
IBOV	54617.36	1.18	54960.16	53510.41	51417	53329	-3.6%	Trending	55087.58	46723.26	64.82	53.3%	55.5%	31.8%

Updated 8:30 a.m. EDT, Apr. 23, 2015. Source: Bloomberg LP

The above table monitors major markets and contains conditions to alert you to look at your charts. The rules are as follows: Last price and %Chg (5) is green/red if positive/negative. 5dHigh/5dLow is green/red if the 5d high or 5d low occurred during the last 20 days. The 50d SMA and 200d SMA will be green/red if the 50d SMA is greater/less than the 200d SMA. The 50d vs 200d measures the percent distance of the 50d from the 200d and turns yellow if the percent is between -1% and 1%. ADX will read Trending if it's greater than 25 and Range if its less than 20. 2SD From 60 Day Mean will be red and read Bearish when price is greater than the +2SD and will be green and read Bullish when price is less than -2SD. RSI 9 will say OB/OS and turn yellow when RSI 9 is greater than 70 or less than 30. The Fibonacci section will highlight blue if the 1yr, 3yr or 5yr ratios are within +/-1% of 38.2%, 50%, 61.8% levels or between 0-1% of 99-100%.

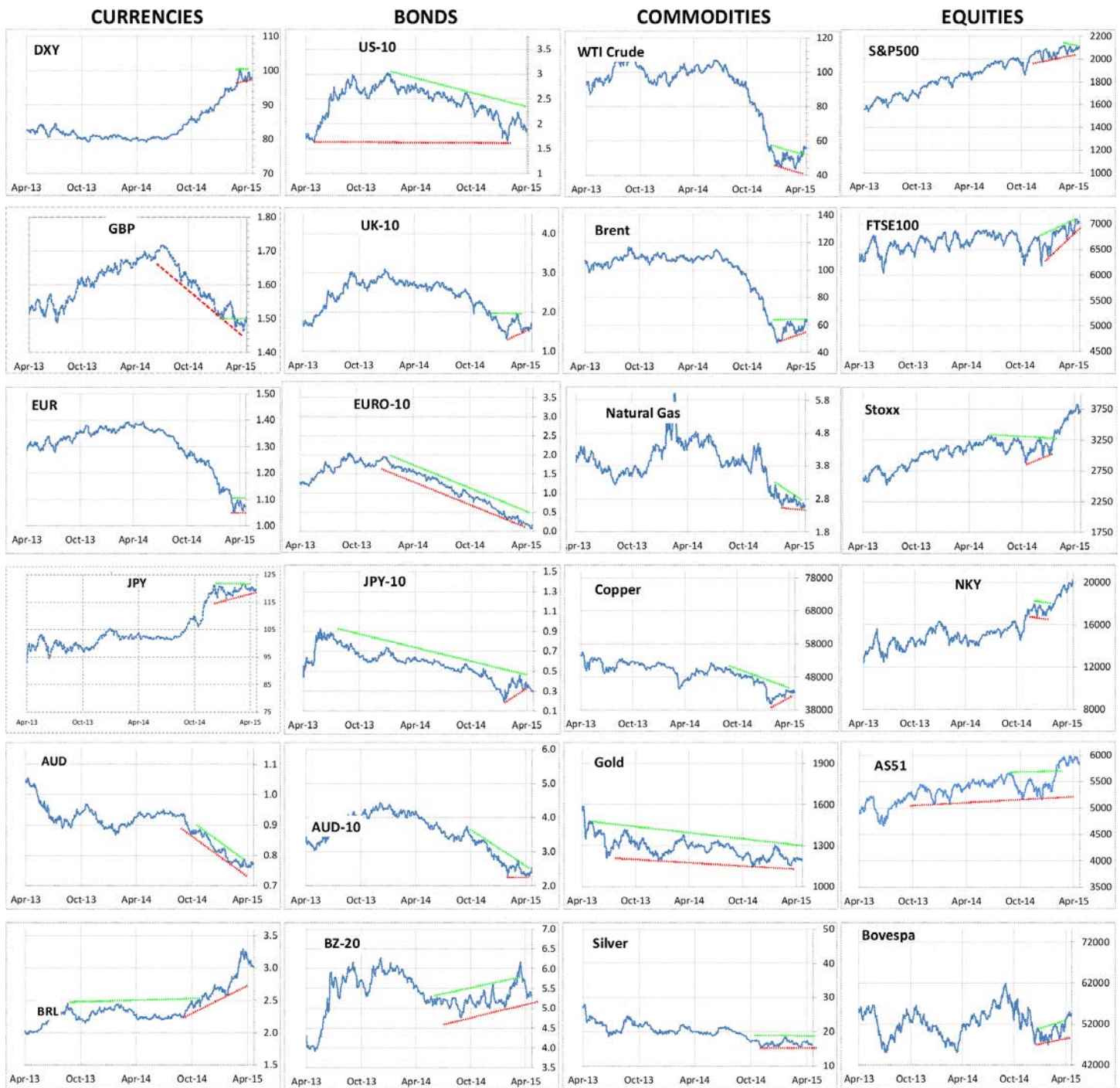
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GLOBAL TREND LINES



- U.S. dollar, Japanese yen consolidate in triangles.
- The euro 10-year continues to trend lower as other sovereign yields try to set higher lows.
- WTI front month crude futures have broken out, setting a new high for the year.
- Several stock indexes trade higher while the S&P 500 struggles to make a new high.

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CALENDAR

Bloomberg Charting and Technical Analysis Events

DATE	EVENT	FEATURING	LOCATION	CONTACT
April 28, 12:00-14:00	Technical Strategies, Tested and Quantified	Learn how to create strategies within the Bloomberg environment and then test its performance. Learn how to optimize parameters and add stops and money management. You will also learn how to create alerts on the strategy, including on intraday series.	Bloomberg, Sydney	Lionel Freemantle at LFreemantle@Bloomberg.net
May 5, 17:30-19:00	Introduction to Bloomberg Graphs and Technical Analysis	Oliver Woolf, Application Specialist on Technical Analysis for Bloomberg, will show how to create historical and intraday price charts, create customized technical charts, use graphs in Excel and Power Point, and graph curves.	Bloomberg, London	Ivaylo Pavlov at ipavlov10@Bloomberg.net
May 21, 12:30-13:30	Technical Analysis Master Class: RSI	Oliver Woolf, Application Specialist on Technical Analysis for Bloomberg, will lead this master class on the RSI indicator. The conversation will include how the RSI is calculated, what is meant by terms "overbought" and "oversold," divergence analysis, how to modify the RSI to make it more adaptive to trends, how to build your own studies based on RSI and how to backtest.	Bloomberg, Istanbul	Oliver Woolf at owoolf@Bloomberg.net

Bloomberg Brief: Technical Strategies

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WEBINAR

Policymakers to Corporations: A Strong Dollar & Its Impact on Earnings and M&A

Wednesday, April 29, 2015
12:00PM - 1:00PM U.S. EDT

Join this Bloomberg webinar for a moderated panel discussion and Q&A on the current landscape of monetary policy and how the USD is impacting corporate bottom lines and board room decisions.

SPEAKERS

Josh Wright — Bloomberg U.S. Economist
Stephen Jonathan — FX and Economics Market Specialist
Ken Shea — Senior Analyst for Global Food, Beverage and Tobacco, Bloomberg Intelligence
Demetri Papacostas — Team Leader Foreign Exchange & Economics Market Specialists

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