



Creative Global Investments

Morning market commentary & charts

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Objectivity

Integrity

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Asian and European financial markets, (currencies, equities and government bonds) were little changed as investors braced for the possibility of new quantitative easing measures from the European Central Bank (ECB).

The ECB will announce its latest policy decision at 13:45 Frankfurt time, followed by a press conference by President Draghi at 13:30. We expect the **ECB** to announce a QE program that may exceed EUR 1trillion amid pressure to turn around the weak economy and the threat of deflation.

As the WSJ yesterday reported, the ECB is looking at asset purchases of EUR 50bn per month until 2016.

As per prior reports, we expect the central bank to deliver a credible QE program of the same order of magnitude and impact as QE2 had in the US.

Announcements in the past of bond buying in the US and Japan had a bullish impact on their respective stock markets.

Given that history, there's a strong chance that tomorrow's ECB announcement will boost Eurozone stocks, however not necessarily weaken the Euro further, as the parabolic rise of the \$USD relative to most world currencies since June 2014 has been overdone in time and magnitude.

The ECB move, in combination with the European-wide Juncker Plan, which will bring an additional stimulus to particularly infrastructure projects in Europe, should be convincing investors to make further equities and bond investments into the Eurozone.

Hence, why we believe that Euro denominated assets (bonds, equities and the EUR/US\$) will rise in price and outperform for the medium-term (3 – 9 months), supported by today's ECB program announcement.

As we noted in our weekly report on Monday, there are increasingly significant signs of trend reversals that we have observed:

- **EUR/US\$ trend reversal**
- **US\$ trend reversal**
- **\$USB correction within trend channel**
- **\$SPX correction within trend channel**
- **Energy Equities negative trend reversing**
- **US equities RSI versus MSCI trend reversing**

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EUR/US\$ trend reversal

The Euro (\$XEU) is tremendously oversold; sellers seem exhausted. With last week's major surprise move by the SNB, impacting the Swiss franc crosses relative to the US\$ and the Euro totally unprepared and for most currency participants totally "unhedged", financial markets will now shift focus towards the expectation of QE and the usual following by hedge funds to go where the market is supported the most, **this could be a start of a big uptrend.**

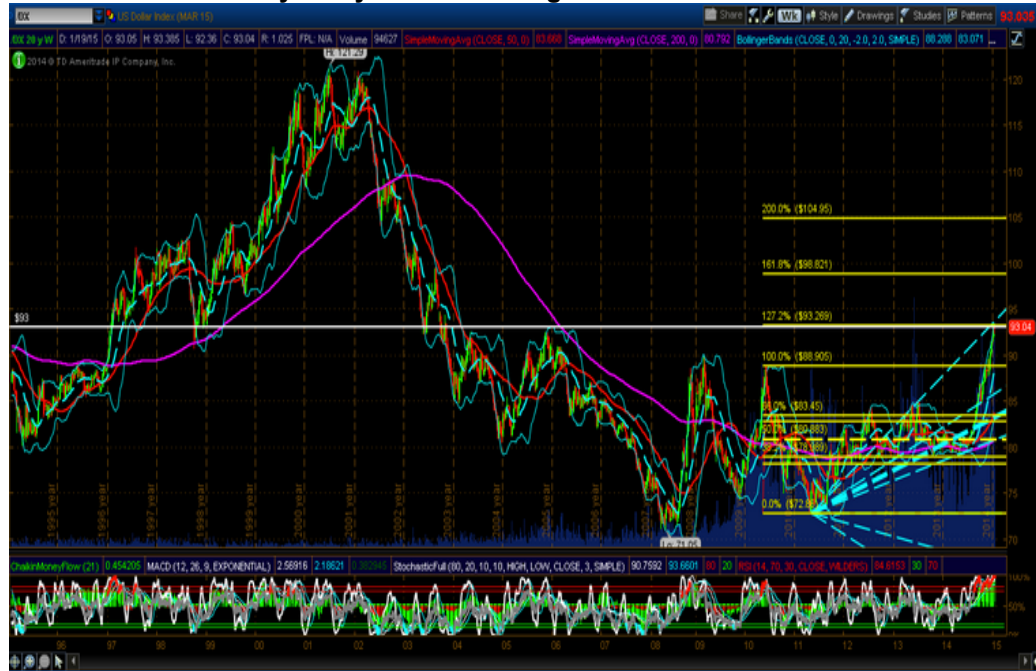


On the following long-term chart, one can see how the \$XEU is oversold, and with the ECB giving clarity to investors today, we see high possibilities for the \$XEU to move back towards 1.28 – 1.30 in the coming 6 months.



US\$ trend reversal potential

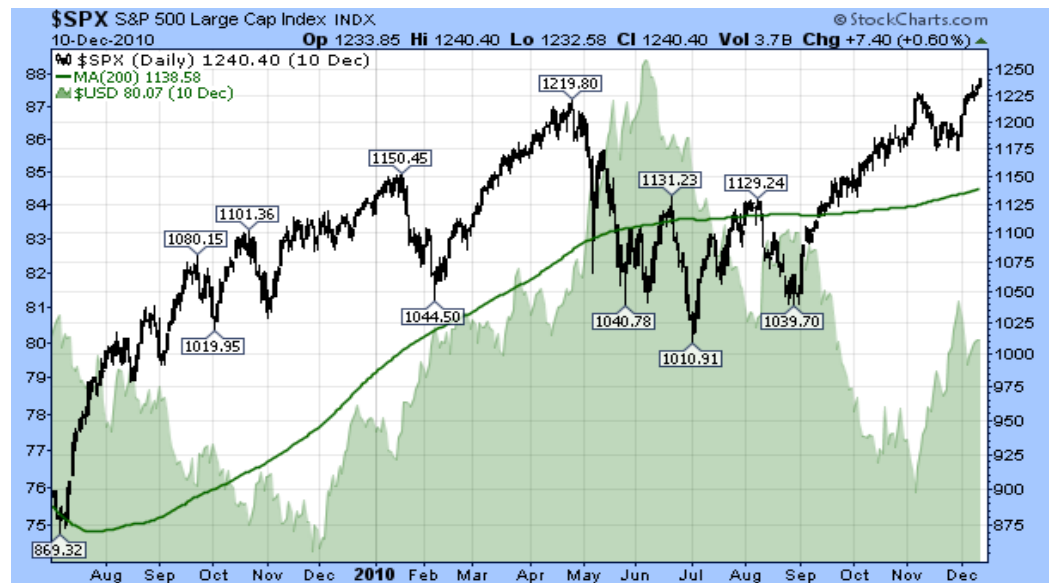
There are other reasons we see for this to be a potential EUR/US\$ bottom. Like too much bullish sentiment for the US\$, (“the most one sided trade in history”). Forecasters in Bloomberg surveys early this week still see the US\$ gaining versus all but nine of its 31 most-traded peers by year-end, after climbing against all of them in 2014. Based on such strong “consensus” views, we urge investors to be ready for a potential change in trend. As the weekly chart shows, the US\$ hit a double Fibonacci resistance at 93.00. We believe that there are currently many macro forces that may delay a break through that resistance level.



The \$USD is also currently 12 cents above the 200-DMA. The last three times that the \$USD moved that far above the 200-day mva in similar parabolic moves, the subsequent trend reversal was just as pronounced immediately after peaking.



As next chart below shows, back in 2010, the last top in the \$USD was preceded by the \$SPX peaking out just before, and as it pulled back to the 200-day moving average, the \$USD lost its momentum and rolled over.



\$USB correction within trend channel

Another correction (albeit short term only, as we see the trend for the \$USB to continue well into 2H 2015) waiting to materialize is the 30-Y Treasury bond reversal, as the price is near the upper trend channel limit. For now, we are expecting for the correction to remain channel-bound.



Same for the US 10-Y Treasuries Yield (\$TNX), which has reached our initial yield low target of 1.8% last week, and which we now see move back towards the upper line of the long term trend channel. **Long-term in 2015 however, we are expecting for the \$TNX to move towards 1.30%.**



\$SPX correction within trend channel

Since hitting a low in December, the VIX has traded higher, following a trend line that currently sits around 18.50. A break below this level of support would have bullish implications for the equity market, while a rebound higher would likely coincide with equity market weakness as investors race toward put options to protect against losses. **Historically, the Volatility Index has hovered around 20 through the first couple months of the year, trading in a manner that is neither bullish nor bearish; the gauge of volatility tends to decline into the spring months when bullish equity market tendencies become more prominent.**



North American equity markets entered into a short-term corrective phase on December 29th. Short-term technical indicators (mainly momentum) are trending down and are oversold, but have yet to show signs of bottoming. Intermediate technical indicators (e.g. Percent trading above 50-day moving average) continue to trend down, implying that the medium term correction starting on December 29th is not over yet.

We are expecting for the corrective phase in US equities to continue until end of the fourth quarter earnings report period (i.e. late January/early February).

Thereafter, North American equity markets are expected to resume an intermediate uptrend as they normally do during a US Presidential Pre-election year. **Historically, the best time for investing in US equities during the four-year Presidential cycle to own equities is from the beginning of November in a mid-term election year to July in a pre-election year.**

US energy companies led the equity market performance since Friday following a 5% rebound in the price of Oil. Investors are showing signs of nibbling away at beaten down energy names in hopes for quick gains that would potentially result from a rebound rally.

Seasonally, the energy sector is entering the timeframe when stocks start to trend higher, rebounding from a seasonal low that is typically realized in December/January. The positive pattern for the sector concludes closer to the end of spring as energy commodities peak ahead of the start of the summer season.

The Energy Sector ETF (XLE) is hinting of a short-term double bottom around \$72, potentially bringing upon a pause of the longer-term trend of lower-highs and lower-lows.



The Energy Exploration and Production ETF (XOP) and the iShares Canadian S&P/TSX Capped Energy Index Fund (XEG) are showing similar short-term bottoming patterns.

Positive momentum divergences on the charts of the sector ETFs suggest waning downside pressures as energy companies get set to report earnings.



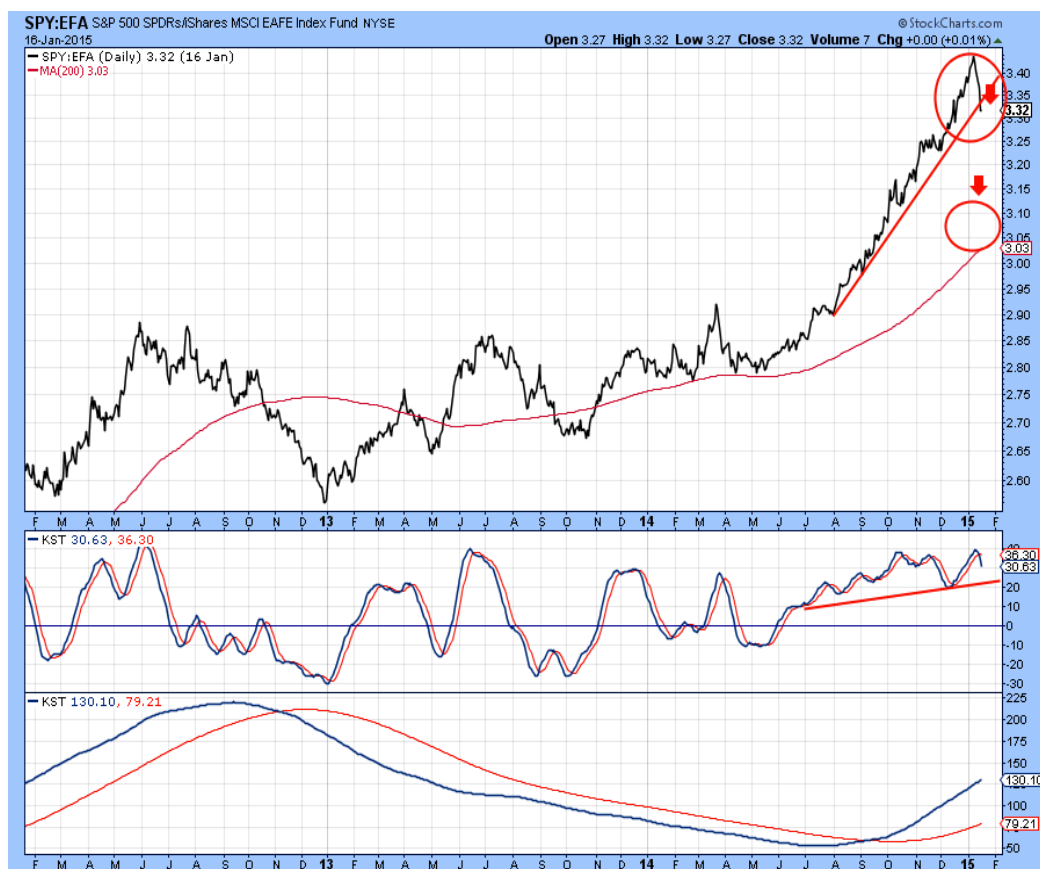
US equities RSI versus MSCI trend reversing

The trend favoring US equities over most of the rest of the world to us seems to be in the process of changing, at least for a while.

Also, emerging Markets are entering their phase of favorable seasonality, and have been leading world equity markets on the upside since the beginning of the year. Beyond January, the outlook for world equity markets is positive. **We are expecting for equity markets around the world to be exceptionally volatile this week due to a series of economic/political (ECB's QE announcement; Davos Global economic summit) news events.**

The rising trend of the ratio between the S&P and MSCI Europe Australia Far East ETF (SPY/EFA) has been violated as the following chart shows. That decline has also resulted in a short-term KST sell signal and the violation of a 6-month up trend line. The two signals taken together suggest that the recent high will remain intact for a while.

Corrections in strong up trends are usually short and sharp, often reaching their actual lows fairly early in the process, so don't be surprised in the event that some volatility in this relationship develops.



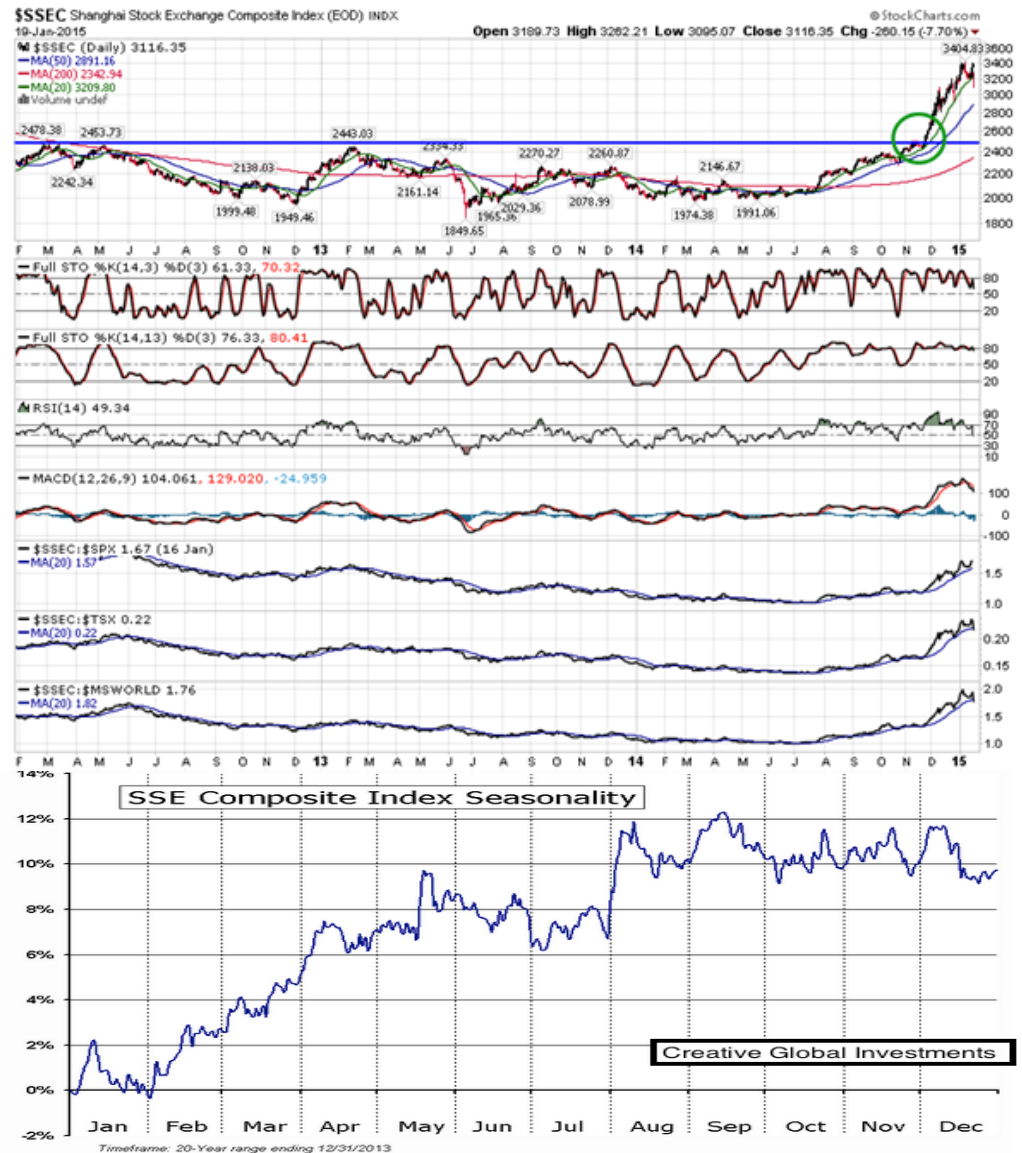
Monday, as US markets were closed, the Shanghai Composite recorded steep losses as regulators charged top brokers with illegal activities in margin trading.

The benchmark initially plunged 7.7%, falling below the 20-day moving average for the first time since October. The Shanghai Composite has charted a parabolic move higher since breaking above resistance around 2500 last November, quickly becoming significantly overbought and leaving the benchmark vulnerable to swift corrective declines, such as what occurred on Monday.

The next level of variable support below the 20-day moving average can be found at the 50-day, currently at 2891.

As long as the breakout above 2500 holds, a trend of higher-highs and higher-lows over the intermediate-term can be expected.

The Shanghai equity benchmark remains seasonally strong through to May, outperforming benchmarks back here in North America.



As the next chart shows, the Emerging Markets ETF (EEM) is also breaking higher. The ETF broke above short-term resistance at 39.63, completing an ascending triangle pattern, a bullish setup that implies upside potential to around \$42.50. Trend line resistance that has spanned the last four months has also been breached, suggesting a conclusion to the pattern of lower-lows and lower-highs that has dominated since last September. The MSCI Emerging Markets Index is seasonally strong through to the start of May.



Brazilian equities too had an interesting up day yesterday.



Petrobras (NYSE: PBR \$7.60; +4.6%), the biggest constituent of the \$BVSP, had a significant move upwards, which has started after hitting a 10 year low two weeks ago. We have a short term (3 months) price target of \$10 on PBR shares, and medium term price target of \$14 (6 – 9 months)



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