



Creative Global Investments

Morning market commentary & weekly charts

Wednesday, July 22nd, 2015

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Message to the FED: "Show me the inflation!"

What is the number one macro data factor for past and future FED monetary policy?
Inflation!

Take a look at the next chart and look at inflation expectations, as gauged by the 5-year breakeven inflation rate, which are showing signs of rolling over following the substantial rebound from the January low.



US inflation continues to fade, well below the Fed's 2% target, which policymakers view as a "temporary result of the strong US\$ pressuring commodity prices". However, when looking at the US\$ chart below, maybe the FED should rethink their definition of "temporary" for the US\$ strength, and impacts on the US economy and inflation, or better, the lack thereof



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And let's look at the "pillar" of the US economy, the housing market and its related strength since 2010, and if there is by any chance inflation rising from housing market related materials, like lumber. The price of lumber recently touched resistance at its 200-day moving average and subsequently turned lower, keeping the longer-term declining trend intact. Seasonal tendencies suggest further declines ahead with an average low reached by the end of October. Short opportunities may continue to exist for this industry that is showing clear signs of underperformance versus the market.



Gold has been the classic inflation hedge and the prospect of lower prices does not entice demand for the commodity. \$GOLD broke support around US\$ 1140 on Friday and fell to a low of US\$ 1080 on Monday as traders adopted the downside bias following the significant break. \$GOLD is presently trading significantly below major moving averages and a gap was opened during Monday's trade, which increases the likelihood of near-term downside exhaustion. The RSI of Gold is hovering around 20, the lowest level since the commodity plunged in April of 2013.



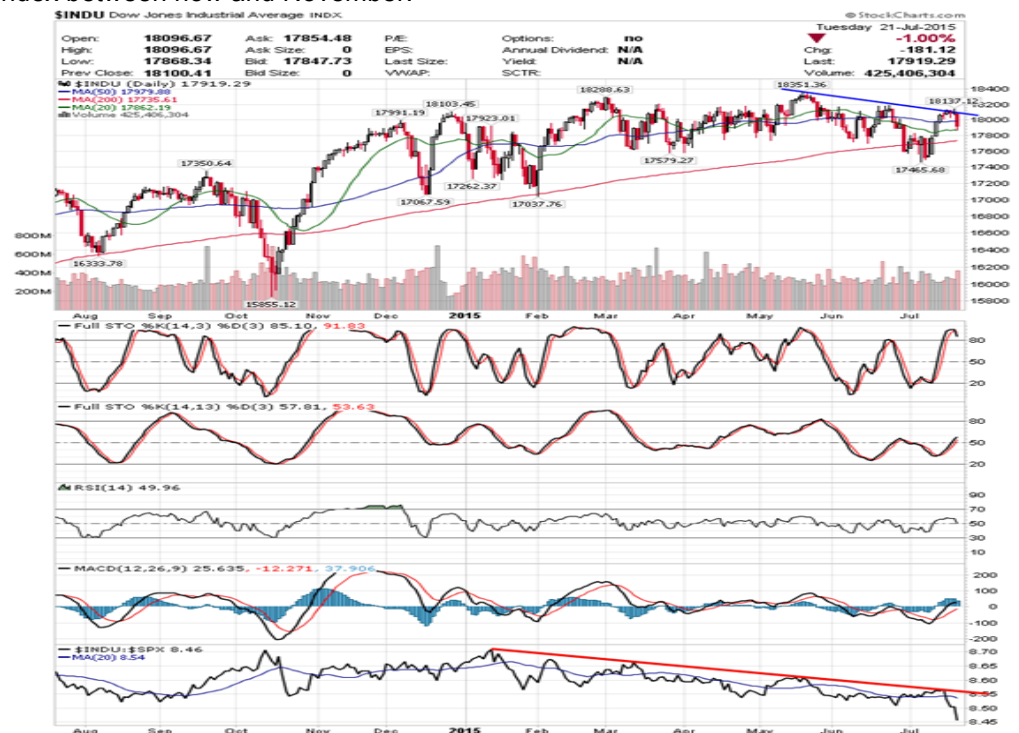
Weakness at the opening today is expected to trigger technical weakness in US broadly based equity indices. The S&P 500 Index is expected to open below its 20 and 50 day moving averages.



The Dow Jones Industrial Average is expected to open below its 20 and 200 day moving averages.



Stocks declined on Tuesday, weighed down by lackluster earnings results from Dow components IBM and United Technologies. The blue-chip benchmark appears to be confirming another lower-high, resuming a negative intermediate trend. The Dow has been underperforming the S&P 500 Index since the year began, a trend that does not appear set to end anytime soon; the benchmark seasonally underperforms the S&P 500 Index between now and November.

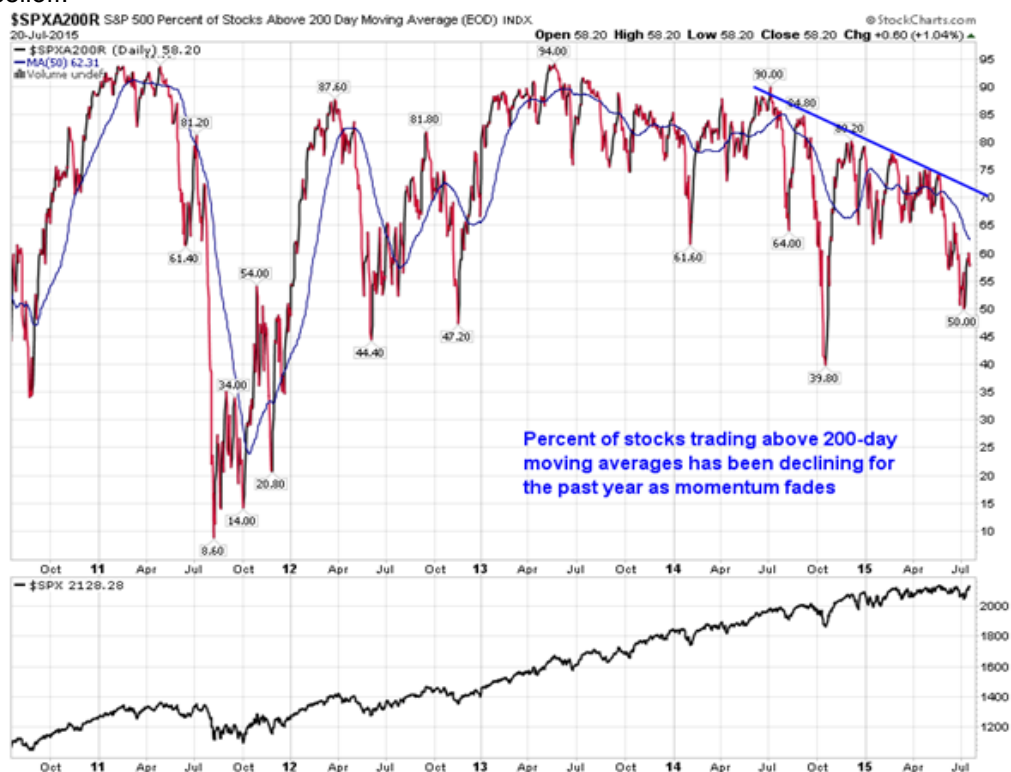


The Nasdaq Composite broke above short-term resistance on Friday at 5164, charting a new all-time high, as shares of Google surged over 16%. Shares of the tech titan broke out of trading range that spanned the past 21 months, renewing the upward trajectory of the stock. Previous resistance around 615 now becomes support. Although the stock doesn't have a substantial trading history, average price action following the July release of earnings suggests that the stock typically trades lower, losing 1.3%, on average, in the month of August. Given the gap that was created during Friday's trade, a retracement of some magnitude is reasonable to test levels of support below.



Monthly Averages over past 10 years:												
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
% Return	-0.5%	-3.0%	0.0%	5.6%	2.6%	0.5%	2.0%	-1.3%	4.7%	9.5%	-0.7%	2.7%
Gain Frequency	70%	40%	50%	60%	60%	60%	50%	40%	80%	70%	60%	70%
Max Return	10.0%	6.6%	7.7%	30.4%	26.0%	12.8%	19.2%	8.2%	16.8%	24.6%	8.8%	7.8%
	2009	2012	2010	2008	2005	2006	2011	2012	2010	2007	2005	2011
Min Return	-18.4%	-16.5%	-8.3%	-7.3%	-11.0%	-10.1%	-10.0%	-10.4%	-13.5%	-10.3%	-18.5%	-5.0%
	2008	2008	2014	2010	2006	2008	2008	2011	2008	2008	2008	2006

Other indications of breadth are also offering a warning to investors. The percent of stocks in the S&P 500 Index trading above 200-day moving average lines has been grinding lower for some time and has failed to recoup lost ground following the recent rebound in equity prices back to levels around the all-time highs. Typically, levels below 50 in this breadth indicator have coincided with appealing buying opportunities for the broader market. The indicator declined to a low of 50 in the recent selloff.



The NYSE Cumulative Advance-Decline Volume Line has been in a trend of higher-highs and higher-lows since October, and beyond, but the trend has recently been broken. Downturns in this indicator have typically coincided with periods of market weakness. The evidence suggests that momentum in the equity market is becoming increasing negative and, without a positive catalyst, may be prone to losses ahead.



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