

Monthly Comment

# Traders Bulletin

## Monthly Overview

01 December 2008

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### Major Technical developments for November:

- **Leading equity markets record third consecutive month of losses but close well above the lows**
- **Oil falls for fifth month in a row**
- **Gold rallies but other metals remain weak**
- **Dollar rally runs out of steam**

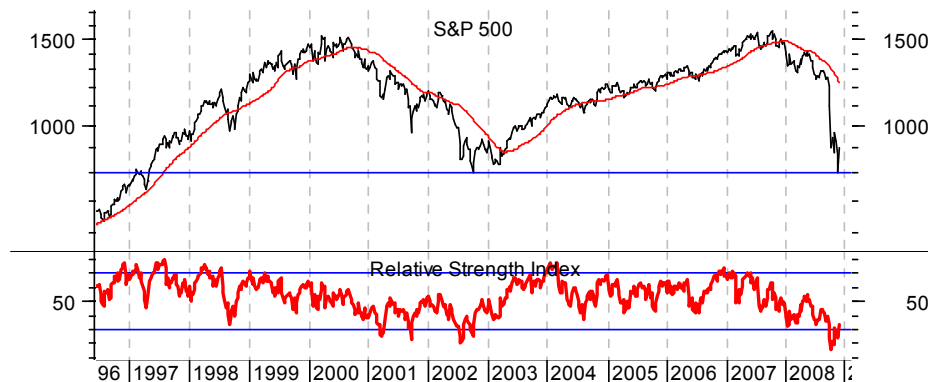
### US Market

The **S&P 500 (896.24)** shed 72 points (7.5%) in November, its third straight month of losses and the fifth out of the last six. This leaves the index down by 38.9% for the year and the loss would be a lot worse were it not for the sharp rally that took place last week as the Fed unveiled plans to help prop up the still-ailing housing market (the latest Case-Schiller Home Price Index recorded its 21<sup>st</sup> consecutive month of decelerating returns). In fact, last week's 12% advance was its largest since October 1974, when it gained 14% in a single week (in a move which effectively marked the bottom of that bear market)

Such positive price action takes on added significance, of course, when it follows the test of a major low or possible support level and, in this instance, it is clearly germane to the bull case that the S&P tested (and marginally exceeded) the major multi-year lows that formed in October 2002 – the closing low of 752 which was posted on November 20<sup>th</sup> was, in fact, the lowest since April 1997. As a consequence, it is hard to escape the impression that the S&P has encountered support and bounced – and, to date, that bounce has added 19% to the value of the index. This phenomenon is clearly illustrated in the weekly chart shown below.

### Equity Indices performance - November

|                       |        |
|-----------------------|--------|
| FTSE All Share        | -12%   |
| FTSE 100              | -10.7% |
| FTSE Mid 250          | -11.9% |
| FTSE Small Caps       | -16.7% |
| S&P 500               | -7.49% |
| Dow Jones Industrials | -14.1% |
| Nasdaq Composite      | -17.3% |
| Eurofirst 300         | -20.7% |
| Nikkei 225            | -14.6% |
| Hang Seng             | -23.5% |



The magnitude of the rally has also lifted the technical indicators off their extreme lows and, at the same time, greatly reduced the extent to which prices can be considered as oversold. Put another way, the market looked very attractive at 750 or so but is clearly less so now and, on the daily chart at least, a couple of (potentially) important areas of resistance are on the immediate horizon. What the chart above doesn't show is that the index is now just below the short-term downtrend which began in late September and the true test of whether this market has turned the corner is whether it can break through downtrends and start retracing previous declines by more than the minimum (i.e. by 38.2% or even 50%).

If the definition of a bear market is a series of descending peaks then it seems clear that we need to see that sequence broken before we start talking about the bear phase being over – in this case, that means a close above the early November peak at 1005.

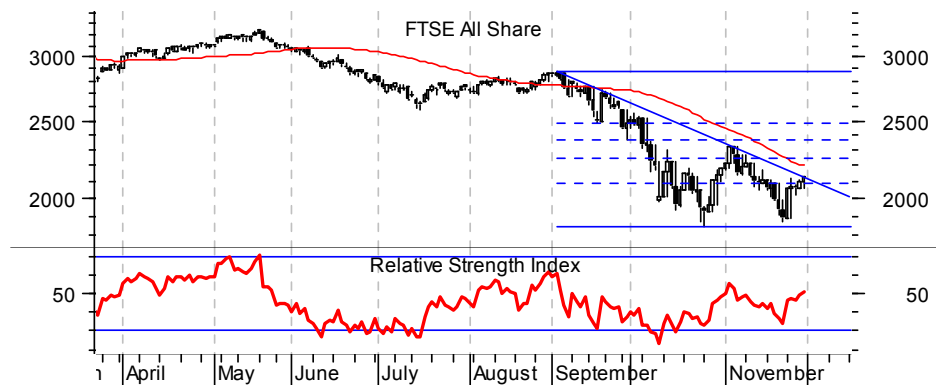
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**UK Markets**

**FTSE All Share (2133.99)** also posted its third consecutive losing month although it should be noted that its 49 point decline (2.27%) was far more modest than the losses recorded in US markets. This is not to say that the All Share didn't have a rough month, and ten days ago it was trading down at 1873.99 (which would have represented a loss of 14% for the month).

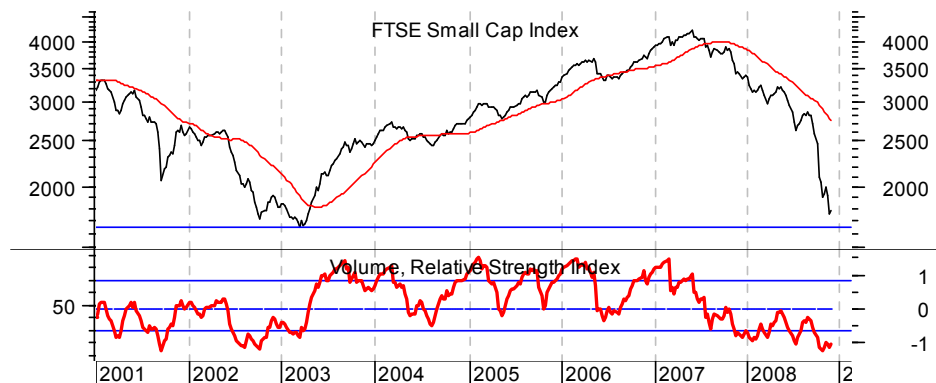
However, the chart shows that the retreat to that level corresponded with a test of the October lows, at 1847.25, and the fact that the index subsequently rallied hard does suggest that support has been found down there (it is also worth noting that the intra-day lows from November failed to exceed those from the month before, and that looks like a bullish development).

Like the S&P, the All Share now faces critical resistance in the form of the down trend which began after the highs in early September, when it was trading at 2870 or so and, as of Friday's close, the index is sitting right below the trend-line.



A month ago I noted that the All Share would have to post a decisive break above 2230 to indicate that it was moving out of its downtrend and the chart reveals that we did get a move through that level, but one that lasted just two days, following which the move lower resumed. With that in mind, what we are looking for now is a three-bar break above resistance – in other words, even if that short-term downtrend is exceeded, we need to see the index remain above it for at least three days.

While the price action of the **FTSE Mid 250 (6093.32)** is not altogether dissimilar from that of the All Share (with the notable difference that it did trade down to a new five year low last month) the recent activity on the **FTSE Small Cap Index (1784.44)** has been much less encouraging. During November this index shed another 154 points (7.95%), leaving it 57.6% below the all-time highs that were hit last year (and down 47.8% for 2008). While most indices were rallying hard last week the Small Caps managed just a modest recovery and, as the chart below illustrates, this protracted weakness leaves them close to the 2003 lows, then they bottomed out at 1637.5.

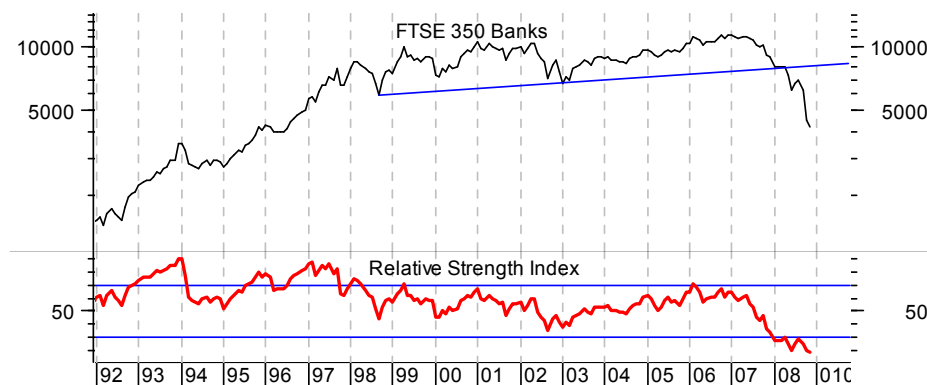


Although the index is displaying bullish divergence on the daily chart, there is no corresponding divergence on the longer-term charts and this suggests that we might not have seen the bottom here yet. In short, despite some apparently low share prices there is little in the current technical picture to suggest that they are not about to go even lower in the near term.

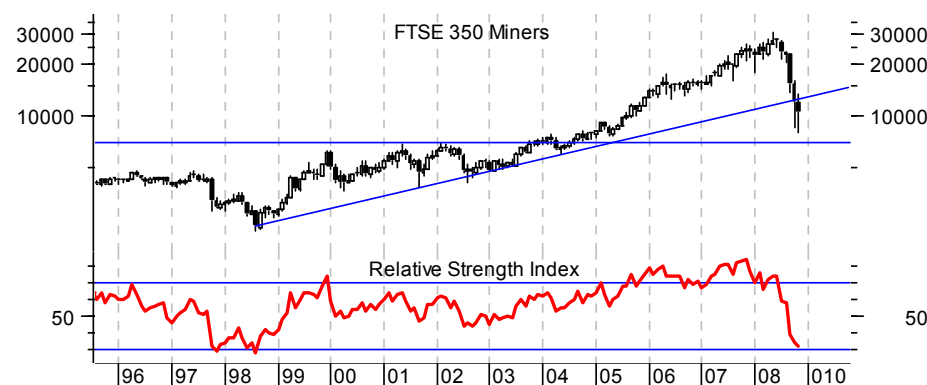
**UK Stocks**

The banking sector has been a significant drag on UK share markets over the last few months and that situation did not change materially in November – in fact the FTSE 350 Banks (4195) extended their loss for the year to 47% and although we have seen a couple of bear market rallies recently it is still not clear at all that the sector is over the worst.

The chart below shows that the banks are now back to levels last seen in 1996 and this is not surprising as investors continue to struggle to figure out what is going on – shareholder value is still being eroded by those banks that are obliged to borrow from the government while even those that had been thought of as performing well (HSBC comes to mind) have gone into reverse. Although the sector has managed to rally off the lows I would suggest that we need to see a move through the early November peak at 4708 before it is clear that the bearish cycle has reached any kind of conclusion – and such a move does not appear to be imminent.



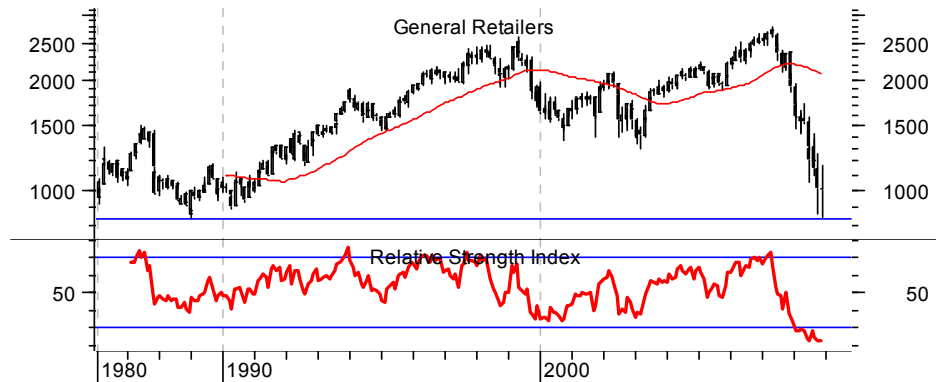
In October the **FTSE 350 Miners (10443.05)** fell sharply but then rallied hard to close well above the lows of the month and, at the time, that looked like it might be the start of a sustained rally. Such has not been the case, however, and last month the sector fell even further, eventually trading down to 8046 – a three year low – before rallying, although the loss for November still amounted to a not inconsiderable 12.3%. That was the miners' fifth consecutive month of losses and still it is not clear whether a bottom has formed.



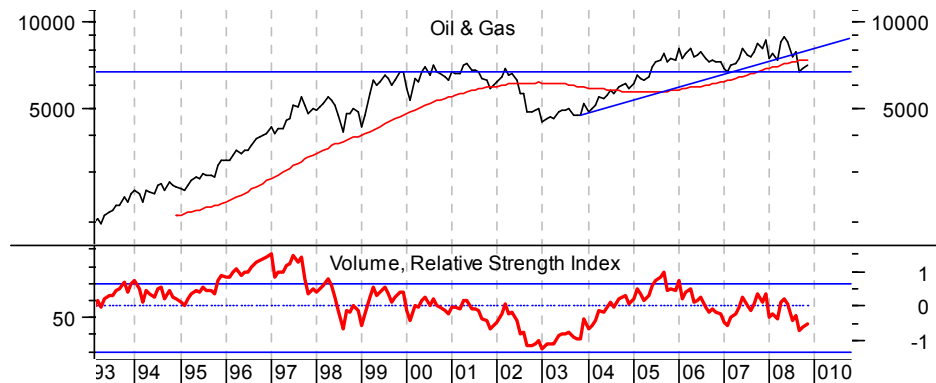
The bulls will argue that the sector has fallen by 66% since its peak earlier this year and that it is now very oversold – this is true and it is even possible to argue that a double-bottom of sorts has formed at around 8550 (and there is also bullish divergence on the daily chart). At the same time, the recent move off the lows has brought the miners into contact with their short-term downtrend and a decisive break above the trendline could even lead to a move back to last month's peak at 13259. Until that level is breached, however, the sector will still be in a bear market.

The **General Retailers (997.56)** have also been under considerable pressure as evidence of a dramatic and sustained slowdown in consumer confidence (and spending) continues to accumulate. Just last week DSG International reported an operating loss and last month the sector fell to levels last seen 20 years ago. The one bright spot in the midst of the gloom is the fact that the retailers closed a long way above last month's lows, at 846 (i.e. they rallied by almost 16%) and it appears that

they found support in the form of the lows from late 1998. Although the sector did end November with a small loss there is at least some technical evidence to support the proposition that a low might have formed. The long-term downtrend is now indicating the possibility of resistance at around 1170 although before that can be tested the sector must push through last month's peak at 1119 or so – and that's still more than 11% above current levels.



The price action in the **Oil & Gas stocks (7082.71)** has been fairly resilient, particularly when compared to the collapsing price of oil. Last month the sector actually gained ground, rising by 2.9%, to post its second consecutive monthly advance and while one wonders how long this can be sustained as crude slides through \$50 per barrel (and OPEC is unable to agree on further production cuts) the fact is that support has been found at around 6700 and prices have bounced. For investors anxious about future performance the best plan appears to be stick with holdings for now, but to start lightening the load in the event that the sector breaks down through that support.



**Global Markets**

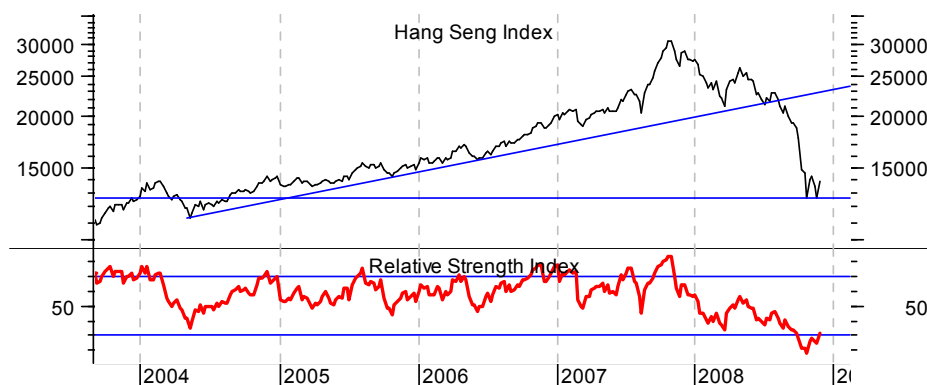
The **Nikkei 225 (8397.22)** has now recorded its sixth monthly decline in a row, a sequence not seen since the 1980s. That said, the decline for November was a mere 64 points and investors will have derived some comfort from the fact that the Tokyo index closed well above its monthly lows (at 7406). As I mentioned last month, the key



point from a technical perspective is that there has been a successful test of the 2003 lows and, notwithstanding last month's retreat, this support has held. The subsequent

price action for the Nikkei has shown that it has become stuck in a consolidation phase (which is hardly surprising), with resistance at just above 9500 and support at 7900 or so. Which of these levels is more likely to be tested in the near term remains unclear at this stage.

The **Hang Seng (14108.84)** also fell modestly last month, recording a drop of just 80 points although, like the Nikkei, it traded a lot lower and at one stage was down at 11814. The weekly chart below gives traders some cause for optimism – over the last few weeks the Hong Kong index has twice found support at just above 12600 and this small double-bottom does give the impression that there could be scope for further upside in the near term, particularly if the index succeeds in closing above the intermediate peak at **14243**.

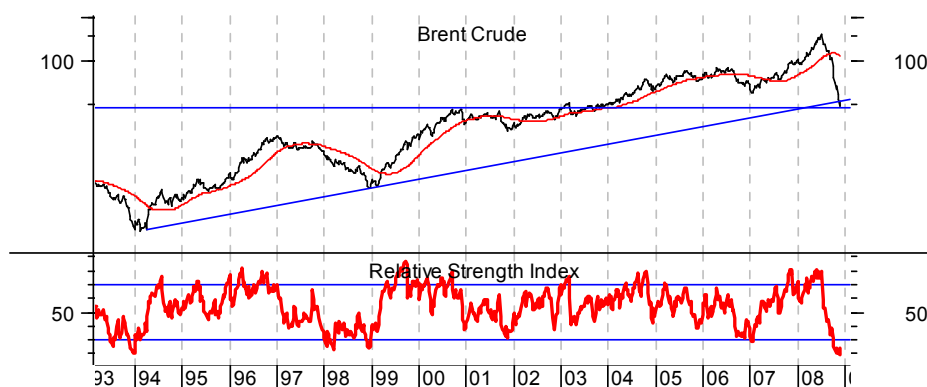


At 15500 or so the index will have retraced 38.2% of the decline that began in September and, given the short-term upside momentum that it has recently developed, a rally up to that level has become a realistic expectation (although I would also say that I would expect to see some resistance there).

**Commodities**

With the notable exception of gold, there has been no meaningful recovery in the prices of global commodities over the last few weeks as expectations of a deep and painful recessionary phase increase.

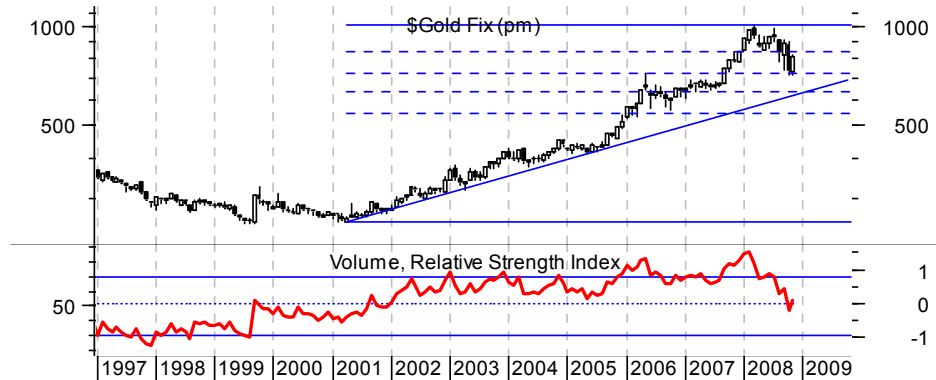
**Brent Crude (\$53.49)** dropped for the fifth month in a row, losing almost \$14 to reach levels last seen in early 2004. As the chart below shows, this protracted period of weakness has brought the price into contact with its long-term uptrend and, in fact, this trend has now been marginally breached.



On a mildly positive note, the price has managed to rally somewhat recently and ended the month 12% or so above the lows – at the same time, the chart above reveals that the 14-week RSI has retreated to extremely low levels, and while this does not make a rally inevitable it does suggest that support might not be too far off (the chart also shows that the highs from 2000, at \$45 or so, might arrest the selling pressure). Nevertheless, I would like to see a close above \$60 before suggesting that any kind of bottom has formed.

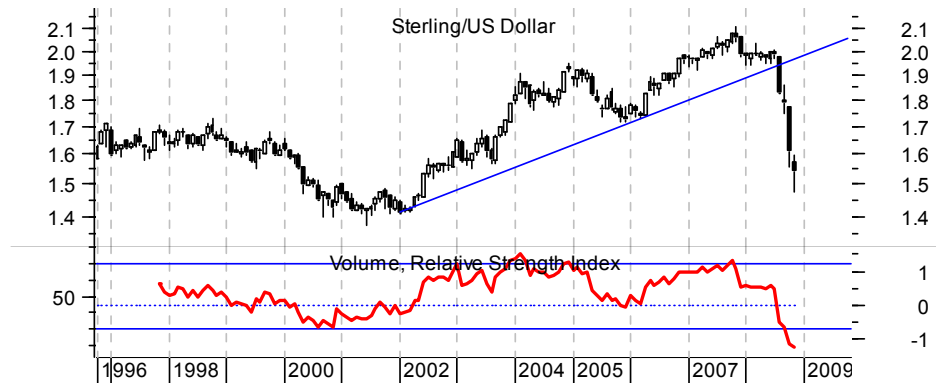
**Gold (\$814.50)** experienced one of its largest ever monthly advances as the price reversed a significant portion of the previous month's losses (you might recall that in October the precious metal dropped by a massive \$154). In part this reflects investor's

search for safe havens as bonds look far too expensive and the gloss has gone off the dollar). The longer-term chart reveals that the level at which gold found support is not completely arbitrary – in fact, it equates fairly precisely with the price having retraced 50% of the rally that began in 2001. What is not clear at this stage is whether there is still room for much more upside in the near term as the price has become overbought on a short-term view – downtrend resistance is now at \$854 or so.

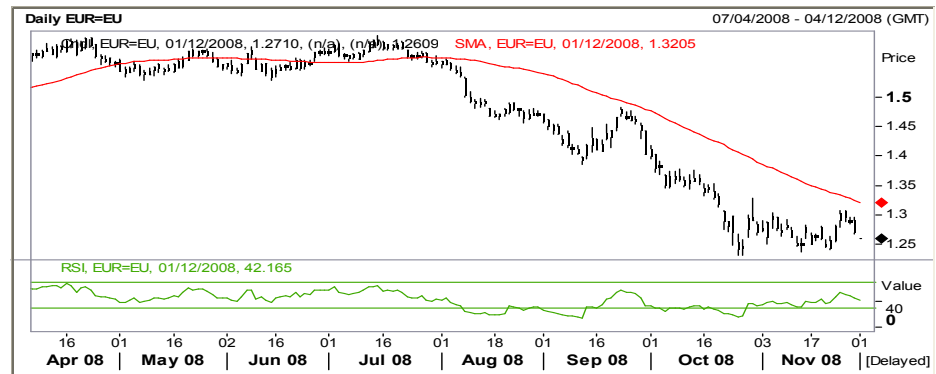


**Currencies**

***Sterling/Dollar (1.5383)*** – the pound continued to lose ground against the dollar in November, falling as low as 1.475 before finding support. Technically, there is no obvious reason why it should have found any buyers at that level, apart from the fact that it has become extremely oversold. The governments of both countries are going to be doing a lot of borrowing and printing money so it is not difficult to argue that the currencies will be suffering from similar pressures. In the near term sterling looks capable of gaining further ground against the dollar, although some resistance at 1.60 or so is likely.



***Euro/Dollar (1.273)*** - not long ago I suggested that the key level for this pair was around 1.30 and so it is worth noting that this was breached for a short while last week, with a close at 1.3025. However, its status as key resistance was reinforced as it retreated the very next day. For now, that remains the level to watch.



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