THE VIEW FROM THE BRIDGE CHART BOOK
A technical update after an “interesting” first week of 2016

January 8th 2016

Worst start to a year…ever

A 6% fall in 5 days for the S&P 500 is the worst start to a year in the US…ever. In the great scheme of things this is a completely meaningless statistic, but, taken along with recent market action, could there be some genuine cause for concern?

Looking firstly at the UK (page 3), there is something of a line in the sand at 6,000. We are currently at 5,912 and need a three to four-day print, under 6,000 and ending below the August 24th intra-day low of 5768, to make the case for the bears and the "watch out below" scenario. The top patterns, in 2000 and 2008, are very similar to today's; a rounding shape over a two to three-year period evidencing the distributive phase between buyers and seller, culminating in a significant fall.

In the short term the "Armageddon" narrative has been overdone and a rally back towards the falling 200 day moving average is quite likely. There are any number of players keen to put a base under markets – the Fed, the ECB, the BoJ and let's not forget the People's Bank of China, who probably have the largest stake to play with as well as the most to lose.

The UK Small Cap index (page 4) is looking more resilient, but again the bullish impetus from the August lows has failed and another day like the 24th when there weren't too many bids in the market would see a new low here. The REIT market (Page 4) has been another of the "darlings", but property shares don't have anything like the resilience of bricks and mortar as the period into and during the financial crisis demonstrates only too well.

Over on Wall Street (page 5) we have the same rounded top pattern as in the UK, which preceded market shake outs in 2000 and 2008. In 2000 the heroic over valuation of TMT (technology, media and telecoms) stocks was the pin prick and in 2008 it was sub-prime debt. What might it be in 2016?

We have no crystal ball and very often these things come "out of left field" (and of course with hindsight will be completely obvious after the event…) but currently any one of US slowdown, China currency devaluation, euro contagion supplied by Greece, Spain, Italy, France(?!), conflagration in the Middle East – perm two from any of Israel, Syria, Egypt, Saudi Arabia, Iran, Turkey, Yemen or Iraq, no doubt with a little bit of help from the US, China (again), Russia and two Spitfires from the UK (I am sorry if you think we are still a global power...we are not; the US just takes us along for a ride and then drops us off in the boondocks).

China has grabbed most of the headlines so far this year for two reasons. Currency devaluation and stock market manipulation (Page 6). The first should really come as no surprise by looking at the two charts on page 6. For nearly 10 years the yuan was pegged to the dollar. After much gnashing and wailing from the US the Chinese allowed the yuan to revalue. This allowed the Chinese stock market, which had been languishing ever since the tech wreck in 2000, to gain some considerable impetus. When the financial crisis came along it seemed prudent for the yuan to be pegged back to the dollar again. More gnashing and wailing from Wall Street ensued and the PBoC re-embarked on the revaluation process.

However, with monetary policy in the US on a completely different tack, the effect on the Chinese economy was deleterious. Quite why it took China so long to work this out is uncertain, but there is no doubt that devaluation, to make their exports more competitive, is firmly back on the agenda. The knock on effect of this currency war is further deflationary pressure around the globe, as if significantly lower commodity prices hadn't already ushered in that spectre. Stock market manipulation was easy on the way up, but almost impossible on the way down. The market was closed limit down (-7%) on Friday after just 25 minutes trading. Trying to persuade sellers who haven't yet reached the door marked "exit" (now a very small cat flap) that such an attempt is unpatriotic, isn't going to work is it? As ever greed and now fear are the only driving forces that work consistently.

The price of oil (page 7) probably won't fall much further, having got close to $30, which should provide support. The casualty ward is full of patients making predictions about oil (and pretty much anything else…) so maybe it's a case of $20 here we come. I can't remember who it was who heroically stated when oil was at $140 the we would never see $20 oil again, but I am pretty sure he won't stand up and remind me!

That other unfathomable commodity is gold. It has been far from lustrous since 2011, but in the turmoil of last week it was about the only thing going up apart from blood pressure. It is by no means certain that we have made a bottom, but as Kyle Bass is wont to say "*Buying gold is just buying a put against the idiocy of the political cycle. It's that simple*" and if the political rhetoric, as guided by the central banks, is losing its grip on the investment community, then that put is going to become quite valuable. If you are brave enough, gold mining shares offer a geared play on the shiny stuff. Page 7

The dollar index chart (Page 8) exhibits a flag pattern bounded by the 95 and 100 levels, between which it has gyrated for the past year. A resolution to the upside could see another move similar to that starting in the middle of 2014, ie another 20% upside from here. "Impossible!", I hear you cry. Maybe, but stranger things have happened, but only if the Fed carries on with its "interesting" interest rate policy in the face of increasing signs of an economic slowdown, as evidenced by the Atlanta Fed's GDPNow forecast of 0.9% for Q4 2015 (see chart on page 9).

The Yen is having a run (Page 8), mainly as folk unwind carry trade positions that are beginning to hurt. It doesn't make sense from a Japanese economic perspective and the BoJ will be very concerned if this strength last for much longer. Sterling (Page 8), once a reserve currency in its own right, is beginning to "benefit" from renewed weakness – well our exporters will appreciate it. In this race to the bottom who will "win" we wonder?

Finally, bonds (Page9). No one quite understands why they are so expensive yet they just keep on keeping on, with the exception of high yield (Page9) which is wheezing away like a canary in the US coal mine. Much punditry is of the opinion that yields can't go much higher; history says otherwise – see chart page 9.

So much to ponder after a traumatic start to 2016. With so much gloom around, and that's just the weather, we can expect some sort of rally and how that unfolds will determine any change in the direction of travel for the longer term. We will keep you posted.

Clive Hale

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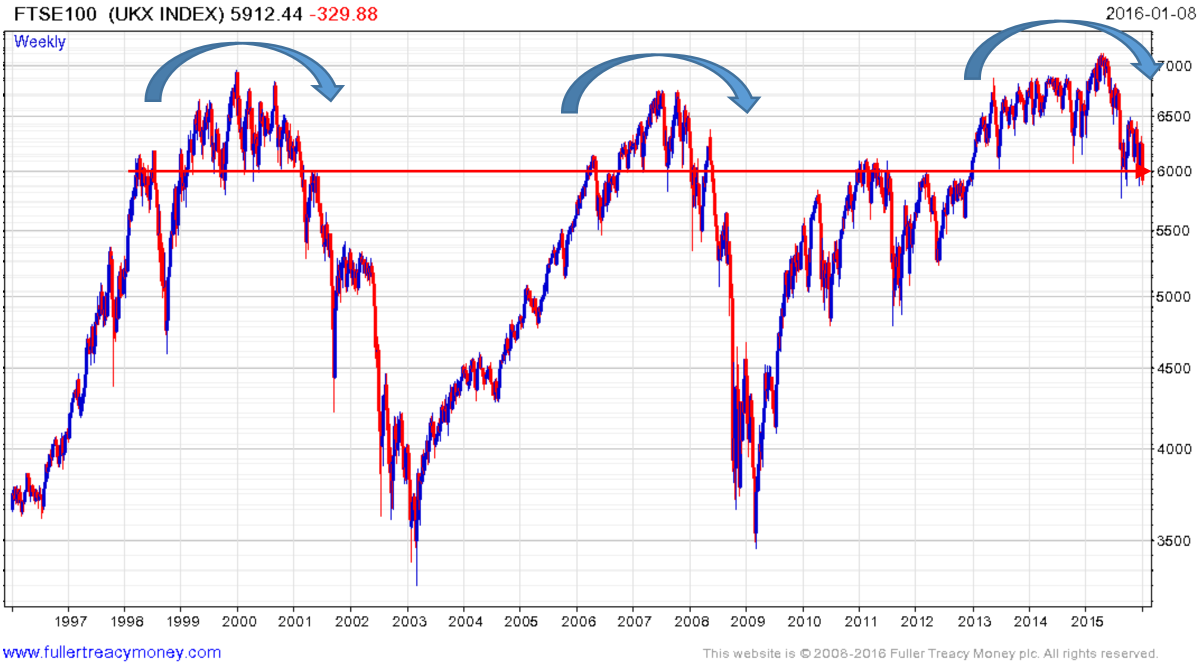

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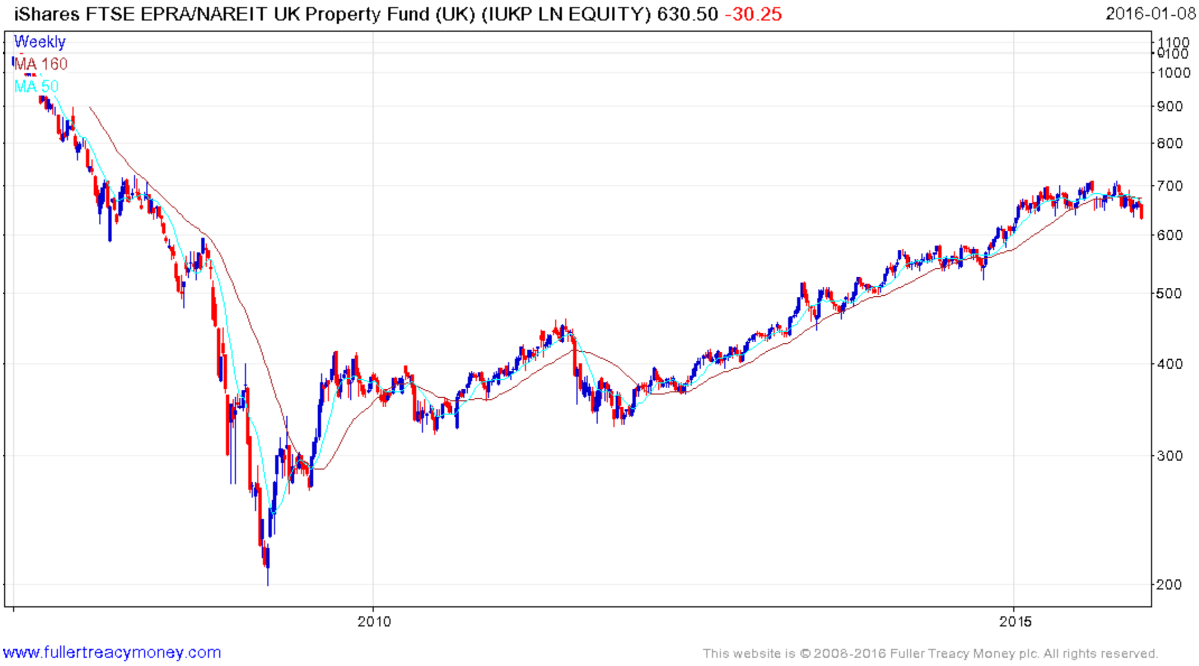

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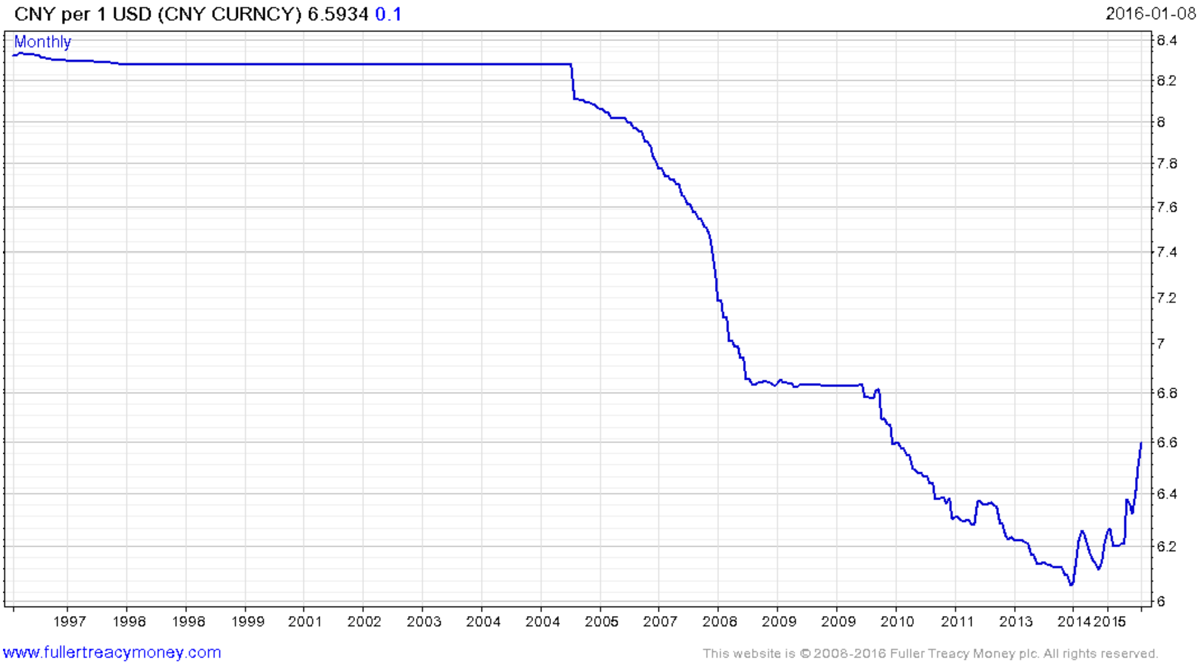

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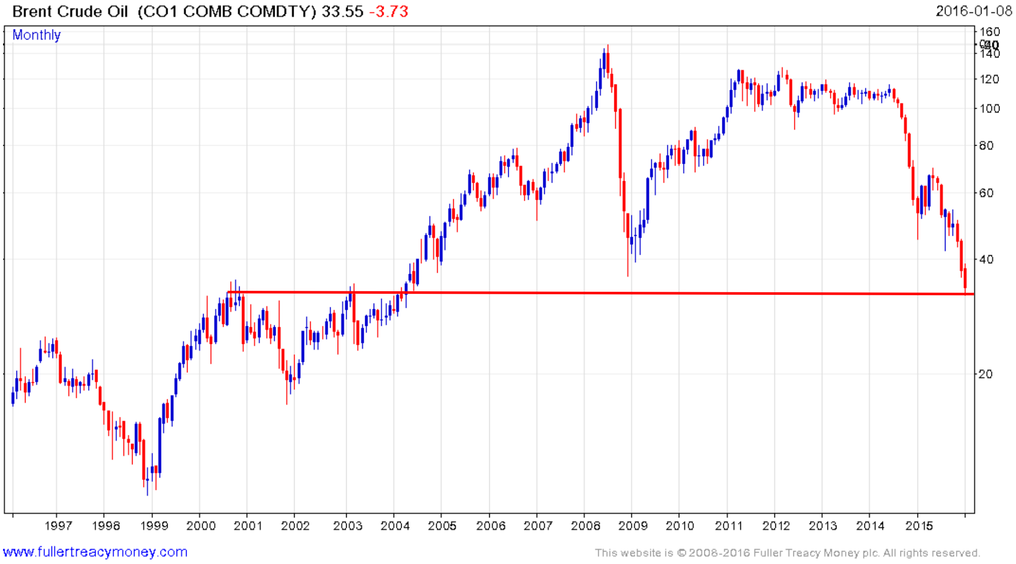

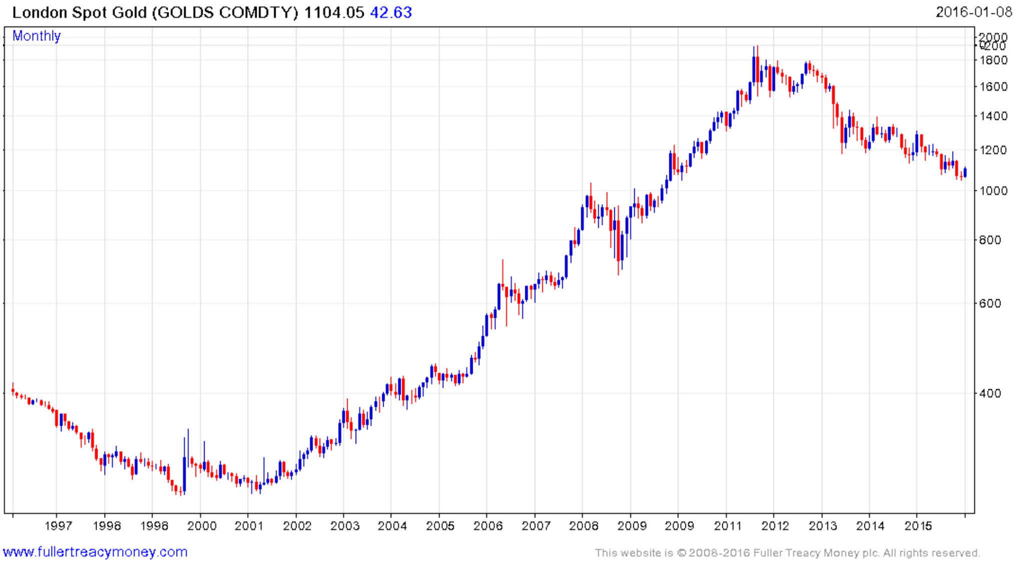

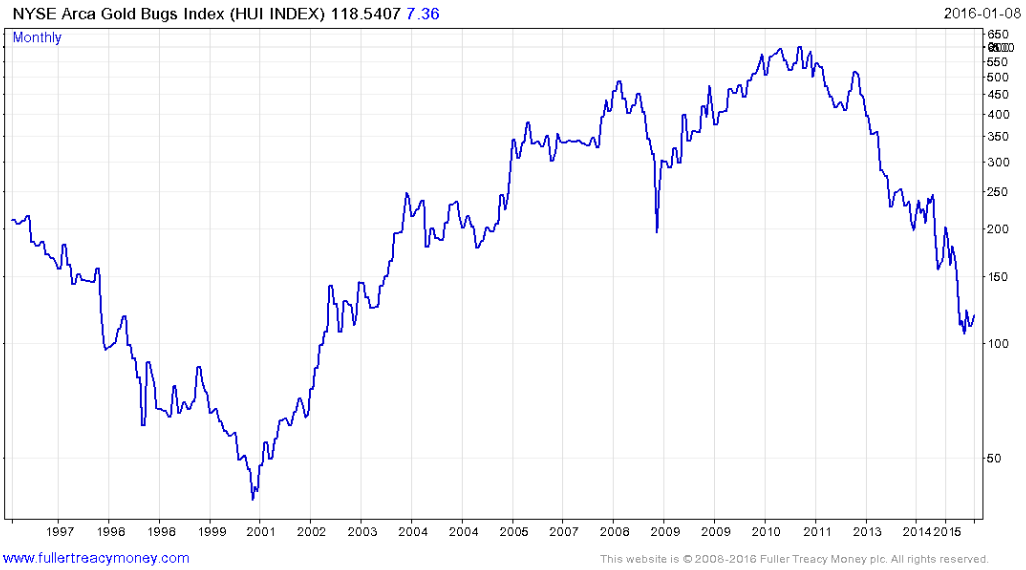

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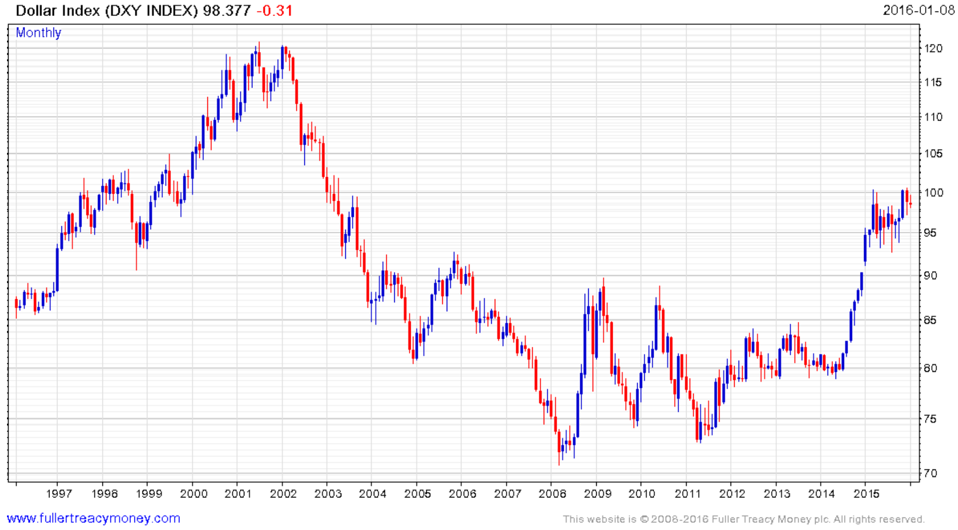

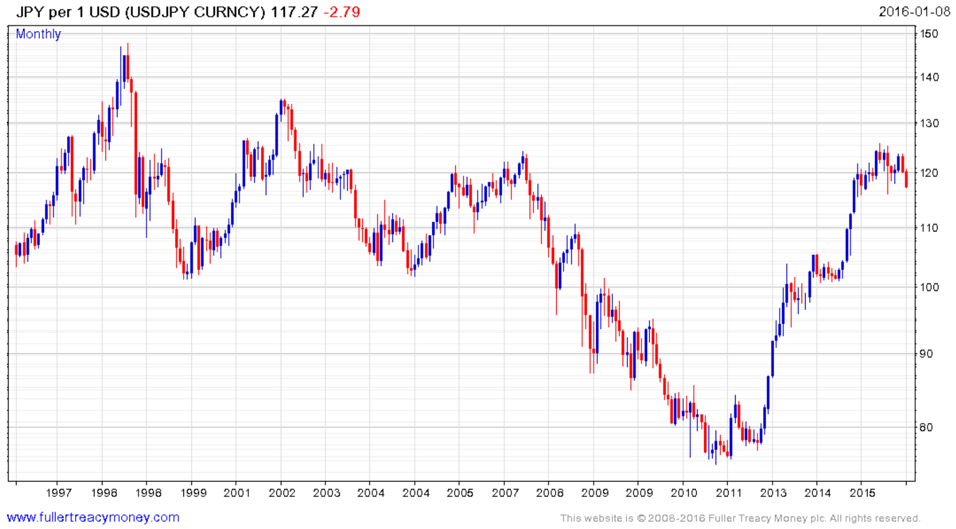

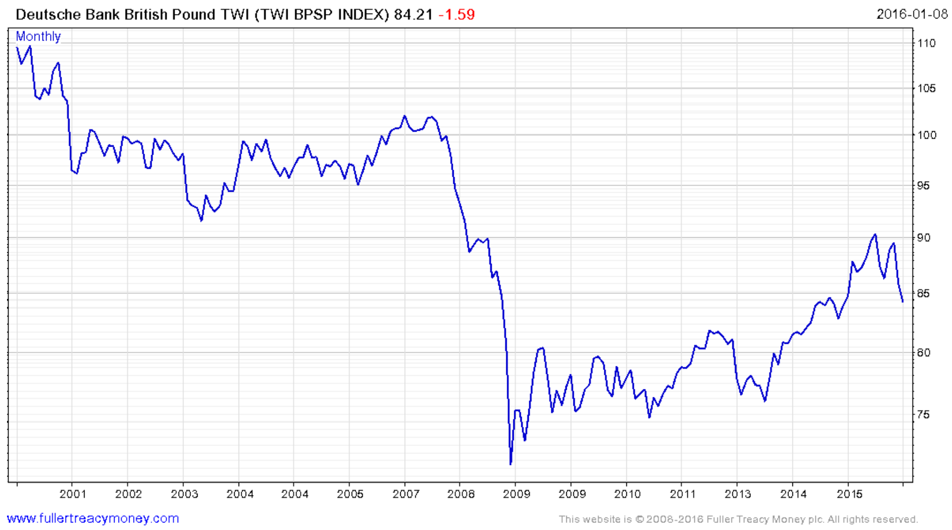

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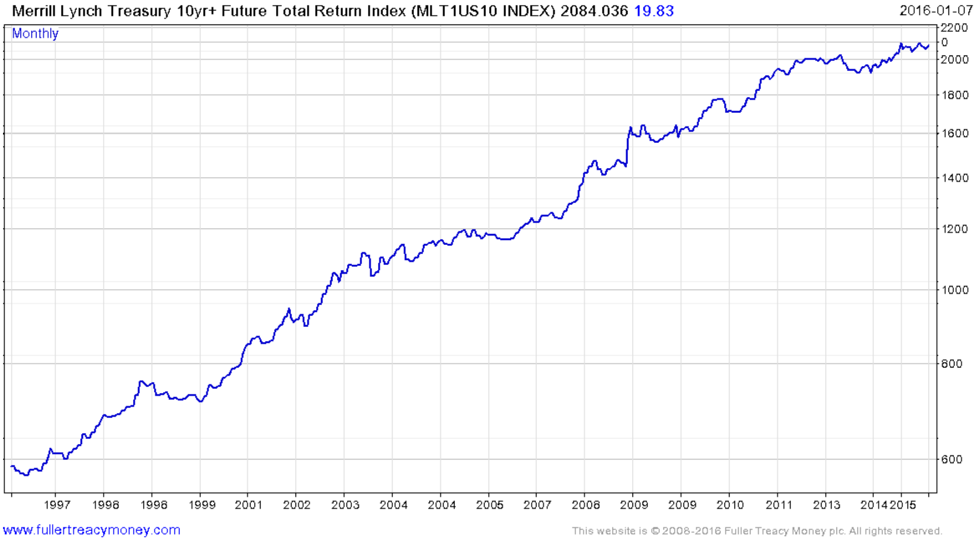

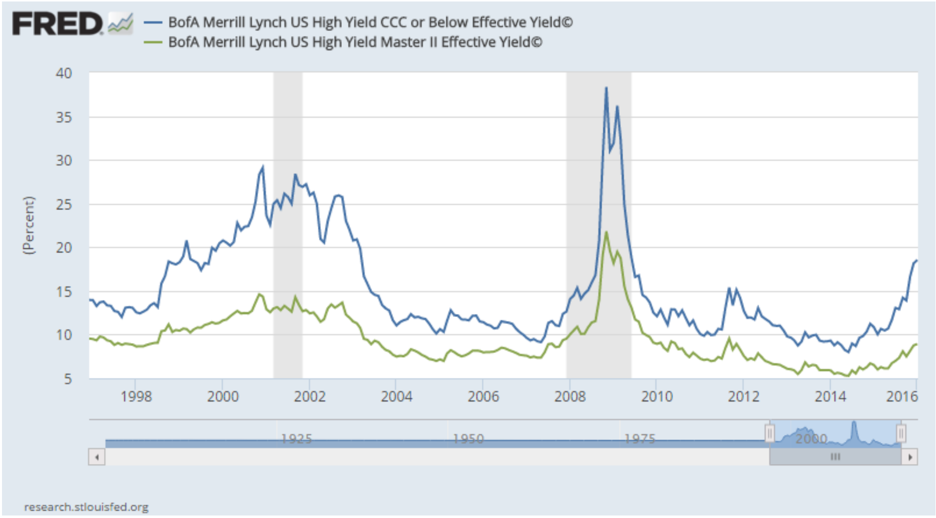

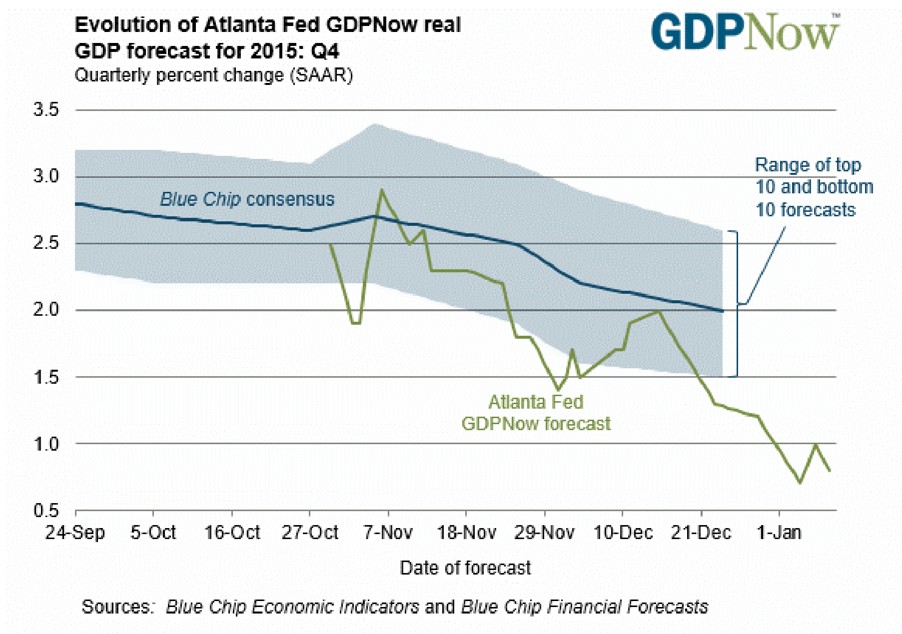

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