Big Picture report

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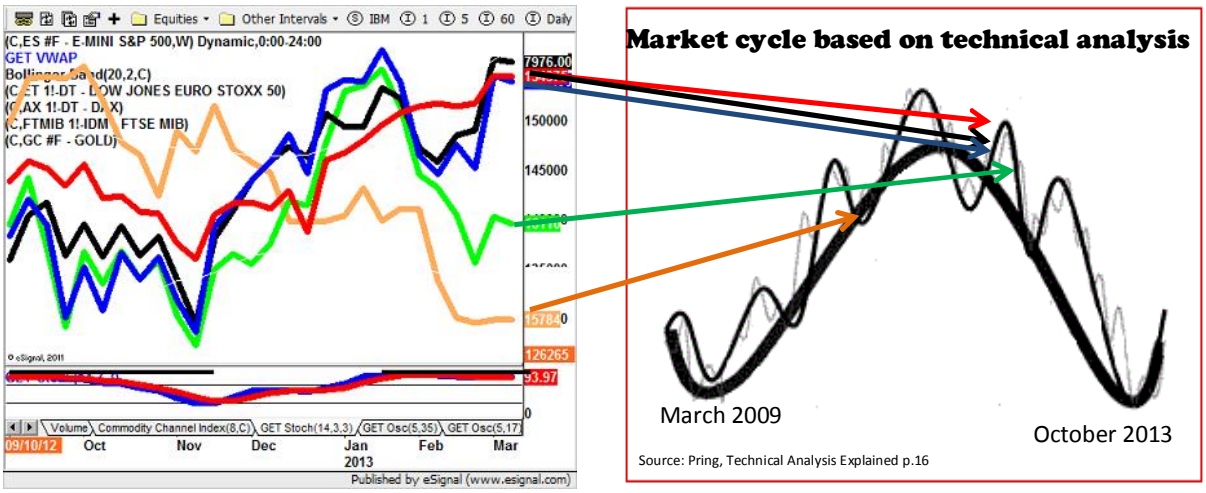
"Quantitative approach for asymmetric results"



☐ **Overall picture**: Equities are holding quite well considering the run up they had for almost four months now. Initial signs of weakness in the Italian index (green), followed by the Eurostoxx (blue). Those are usually the first markets to show signs of weakness, followed by the US (red) and then, the last one to leave the upward trend, is usually the German Dax (black line). This time I also included Gold (dark yellow line) which is, to date, probably at the best buying juncture. In a bull market cycle is only missing the last leg up made with euphoria, which should coincide with probably a (momentarily) lower Gold and Bund.

☐ (red line) **US Equities:** broke the last few resistances left, now the only one missing is the all time high at 1586. Market is weak despite the recent highs.

☐ **VIX:** still compressed, at some point a compressed spring will move violently. However graphically it is missing a lower low (final euphoric phase) that will give an end to the current four year bull market.

☐ **EUR/USD**: despite what others may see, which to them is a new upward trend, the trend in the higher timeframe is still bearish, labelling the recent movement up as just a corrective pattern: bearish trend already resumed.

☐ **European equities**: German Dax and Bund are going hand in hand higher. No signs of inversion for the Dax, while Bund is at least going non directional.

☐ **Japan**: violent movement upward but it is close to its natural target soon.

☐ **Gold and Silver**: higher Sp500 means to some no risk of markets meltdown, therefore no reason to hold Gold or Silver positions. To me this is as of now, just a better long entry point; possible to see an even better entry soon.

☐ **Commodities (DJ UBS Index)**: bearish pattern confirmed, is it a similar situation like 2007?

☐ **Commitment of Traders (COT) report:** for both Sp500 contracts and Gold: interesting facts.

Each topic has been studied as a stand-alone analysis. No conclusions have been drawn on one instrument, as a consequence of an analysis of another one. The idea of a Big Picture report is to see whether putting together all these stand-alone analysis, an overall trend is forming or not.

SP500 future weekly chart

The index is now trading higher and making green candles for eleven straight weeks, it is close to a record.
However what is missing to this trend is the strength which is clearly going down (Osc lower part of chart, purple arrow): still it is early to be able to call for an inversion, also because last week candle is a continuation one, therefore only long position are suggested.
Short position only at the violation of the purple support.
As of now, it is very likely that the index will try (only) to arrive at the current all time high.

VIX Index weekly chart

Volatility has been compressed for more than two months now, and similar to a spring, there will be a moment where this will move loose and, most probably, will arrive at previous resistances (20 or even 27) in no time.
Right now graphically it misses a final lower low.

Soon the trend will start inverting, as the decreasing weakness it is experiencing since last year (Osc, purple arrow lower chart).

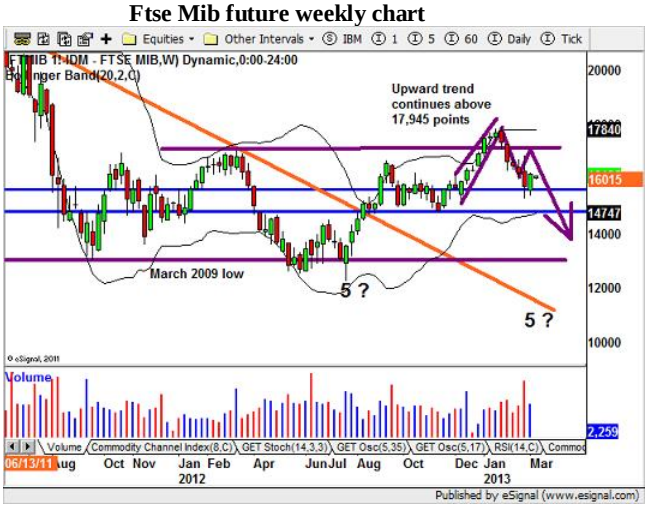
EURUSD weekly chart

The Exchange rate moved from its low point last July to the 1.37 level in January. Since then it is slowly trading lower.
Looking at low timeframes such as the daily one, the movement could be labeled as a bullish one: but when the view is much broader, it is safer to call the movement from July and onwards, a mere corrective pattern inserted in a bigger bearish impulsive one.
In particular the violation of the static resistance (blue line) in January is, as of now, a perfect bull trap.
Last week candle is a continuation one, therefore more weakness should be expect.
Important sign to note is the violation of the support (purple line) of the wedge, in which the prices were inserted.
Possible a short term continuation of the corrective bullish pattern, which can only be confirmed with the violation of the previous (January) high.

Eurostoxx 50 future weekly chart

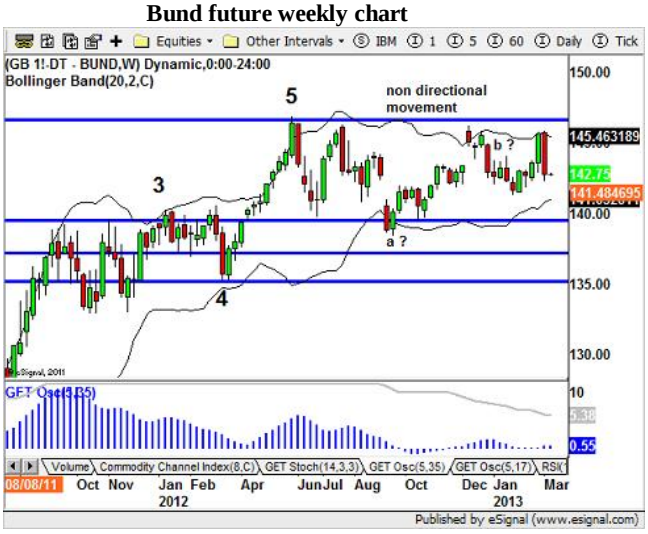
The European index violated the wedge in whicih it was inserted, giving initial signs of weakness.
Typically wedge formations are ending formations, therefore it is highly probable that we are witnessing a nascent downward movement.
Better, clear and safe indication of this new downward trend will be the violation of the next trendline.
If (or some will say, when) that trendline will be violated, then it will be very likely that prices will arrive to the next static support (purple horizontal line) first, and then to the dark yellow line, where below it, the impulsive bearish trend should find its end.
Continuation of the corrective upward trend only when breaking Januaryôs high.
Last week candle is a bullish one, therefore higher movement should be expected in the short term.

Ftse Mib future weekly chart



The Italian index is in pole position, compared to other European indexes, when it comes to bearish trends.
However it seems that it is recognizing the current support in the 16,000 index points.
Last week candle is a bullish one, therefore short term strength should be expected.
However a clear indication that the bullish trend is still intact will be given only when the previous high will be violated.
Graphically, from now on, each new lower high, will be a better entry for short positions.
As of now, it is not possible to exclude the final target of the impulsive bearish trend below 12,000 points (at or below the dark yellow line).

Bund future weekly chart



The German Bund is not giving any signs of wanting to leave the 142-146 level, in which is trading for almost a year now.
This doesnôt really help in suggesting a complete risk-on mode and therefore in clearly overweighting equities (at least European ones).
However last weekôs candle is a bearish one, therefore short term weakness can be expected.
The current trading plan can only be:

Long position at 140 points, or
Short positions at 146 points.

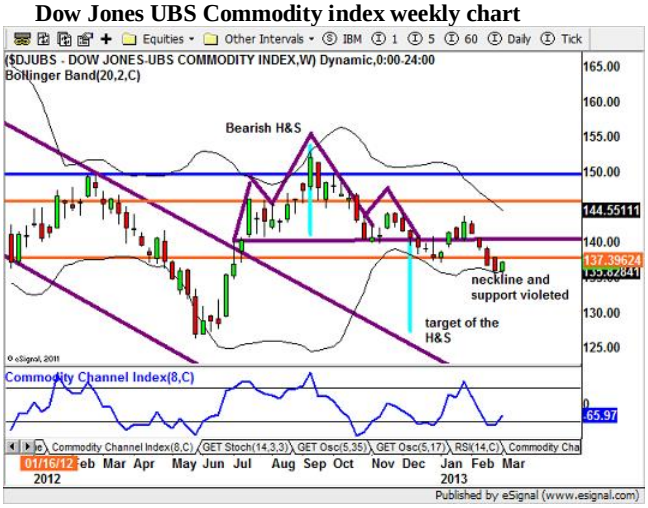
If the index will break in one way or another the channel, it should give an indication of the next target.

As of now, the indication is simply: non directional.

Gold future weekly chart

In one of my previous report I wrote: ñ**Gold went up for 36 straight months, therefore on a time analysis, within a 61.8% time retracement of such period (22 months) Gold can still be in an upward movement**ò.
As the high has been achieved on September 2011, right now we are 18 months away, and therefore well within the maximum Fibonacci time retracement.
It is also possible (but not mandatory) that the precious metal will also break (momentarily) the important support of 1,523 usd/once, which should be seen as a mere capitulation, from which the new and long waited leg up will probably start.

Dow Jones UBS Commodity index weekly chart



It is possible that, similar to 2007, the first items to clearly take a bearish trajectory will be commodities?
Looking at this index, it very well seems so.

Commodities broke both the neckline for the bearish head and shoulder, AND the important support (dark yellow line) which has been holding on the prices for more than a year.

From here, the first target will be the 125 points, and then somewhere below 90 points, to conclude the bearish impulsive pattern started in 2007.

The whole structure can be changed only when at least the right shoulder top will be violated. But Since August 2012 commodities were able to achieve only lower highs.

Copper future weekly chart

Similar to the previous chart, Copper is bearish, and has been bearish now for almost 18 months.

It hasnôt yet violated the neckline (unlike the previous commodities index) but it violated the short term support (purple trendline) which is a short term sign.

It seems that, on an intermarket analysis, markets will finally take the final bearish leg down only when Copper will violate its neckline.

The whole structure can be negate only when prices will break 400 usd/tonne, which is the right shoulder top.

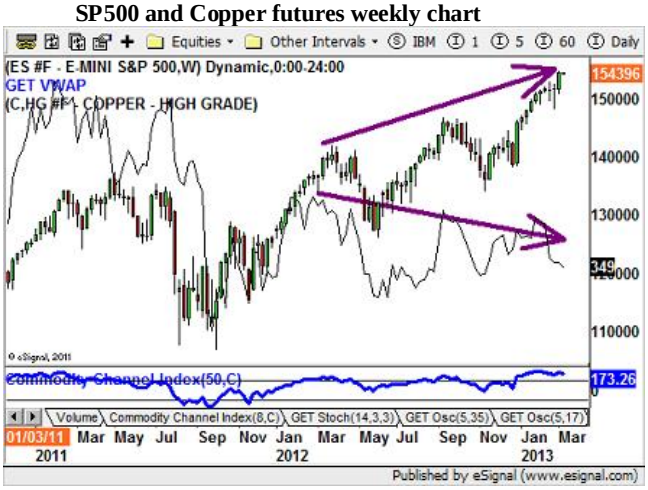
Nikkei 225 index weekly chart

Does the recent upward movement looks like a healthy equity index behavior? Not to me.
However last weekôs candle is a continuation one, therefore short term only long positions are welcome, also because the index should arrive at the target you have been reading for months now, which is 12,600 points.

That (the dark yellow line) is the projection of the width of the channel in which the index was moving.

If the index should invert first, it is possible it will go and test again the previous horizontal resistance, at 10,306 points.

SP500 and Copper futures weekly chart



Interesting as usual, Copper is signaling that the latest run up of the SP500 (or China for that matter) is not supported by the real economy:

Interestingly enough this chart is the same if we plot the Nasdaq instead of Copper.

Nasdaq is underperforming the SP500 which is another signal of caution with long positions.

Someone is lying here.

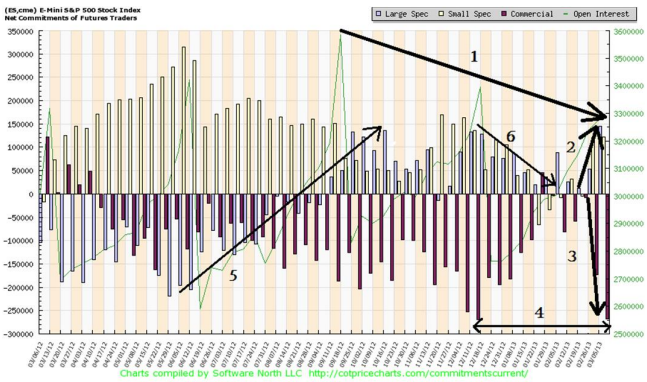
SP500 / Gold ratio weekly chart

The ratio moved higher, giving confirmation (if it was needed) that a new trend has formed and it called for buying Sp500 and selling Gold.

It has arrived at a significant resistance, last week candle is a continuation one, therefore more strength in the Sp500 should be expected, and consequently more weakness on Gold.

Overbought situation.

SP500 Mini COT Report



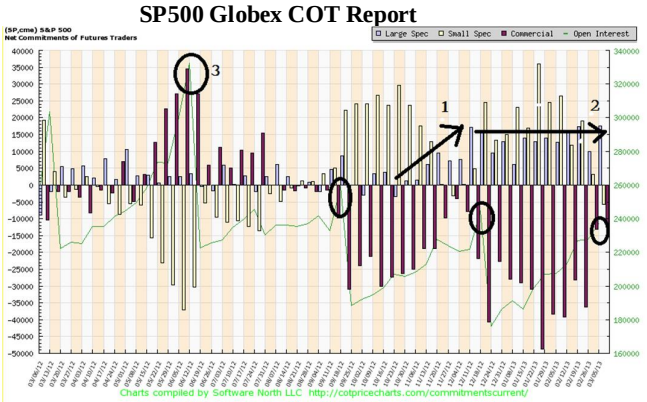
	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
02/05/13	267	434,689	345,642	56%	402	2,273,768	2,354,626	49%	230336	238,525	49%	3,001,463
02/12/13	263	414,474	389,092	52%	404	2,332,190	2,389,953	49%	282713	250,332	53%	3,087,242
02/19/13	257	389,674	377,283	51%	403	2,458,066	2,466,240	50%	232230	236,447	50%	3,147,268
02/26/13	272	439,892	387,287	53%	428	2,359,707	2,533,417	48%	358708	237,603	60%	3,236,746
03/05/13	272	516,432	371,277	58%	440	2,292,963	2,560,282	47%	399175	268,011	59%	3,275,893

Source: http://snalaska.com/cot/current/charts/ES.png

This report is giving interesting pieces of information, such as:

1. Open interest in this future has lower highs
2. Large traders (blue bars) increased their net long positions, therefore no signs of market inversion yet.
3. Commercials (purple bars) are at highest level of short position, which confirms point 2.
4. Highest level of short position for Commercial has been achieved last December in an exact twelve months time window.
5. Maximum short position of Large Traders was achieved on June 2012, from which they moved to highest long position on October 2012.
6. In December, Large Traders became market neutral until mid Janury.

SP500 Globex COT Report



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
02/05/13	28	17,371	4,737	79%	102	132,487	171,644	44%	56711	30,188	65%	207,632
02/12/13	27	18,000	1,717	91%	103	137,063	165,164	45%	56601	44,783	56%	213,129
02/19/13	25	20,547	3,281	86%	106	144,322	180,612	44%	69873	41,849	59%	227,085
02/26/13	30	22,067	12,148	64%	101	148,133	161,239	48%	56175	52,988	51%	227,911
03/05/13	32	23,594	5,998	80%	104	153,024	164,967	48%	58680	64,333	48%	237,188

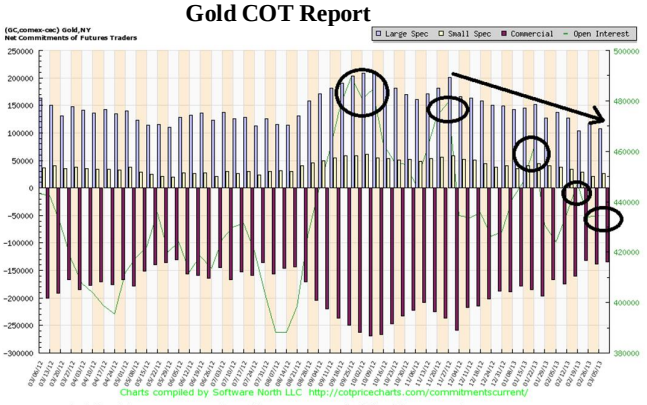
Source: http://snalaska.com/cot/current/charts/SP.png

This report is giving interesting pieces of information, such as:

1. Large Traders (blue bars) became net long between October and December 2012;
2. Differently from the E-Mini contract, Large Traders hold a steady long position since December;
3. Similar to the E-Mini contract, open interest has reached lower highs.
4. Small Traders decreased significantly their long exposure, becoming net short last week: this consequently made the net short position of Commercials (purple bar) decrease significantly.

The two report combined, is giving no indication of a trend inversion in the Sp500, making the case for opening position in favor of the current trend. However prudence is mandatory.

Gold COT Report

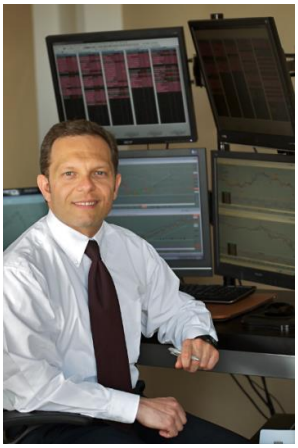


	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
02/05/13	324	192,806	55,341	78%	104	145,291	319,898	31%	61074	23,932	72%	423,982
02/12/13	323	193,941	67,106	74%	105	154,573	315,226	33%	62053	28,235	69%	435,088
02/19/13	361	195,870	92,219	68%	105	158,900	290,982	35%	61638	33,207	65%	447,290
02/26/13	333	201,956	85,357	70%	109	151,145	288,765	34%	55490	34,469	62%	433,858
03/05/13	342	195,248	87,661	69%	112	150,453	284,251	35%	57882	31,671	65%	434,586

Source: http://snalaska.com/cot/current/charts/GC.png

The COT report for Gold is showing less interest for the metal by Large Traders (blue bars) and decrease in open interest.

Long position may be opened with an additional confidence, when a substantial increase in the Large Traders net long position will be seen.



Mr. Maggioni has been working in the financial markets for the last 11 years covering different roles and working in tier 1 consulting companies and banks worldwide.

In recent years his studies have been focused on the psycho-emotional aspects of trading and how those aspects have an impact on tradersô behavior.
Before starting this venture, he was head of a hedge fund desk at HSBC Private Bank in Monaco and before that he was employed at Credit Suisse Asset Management (CSAM) in Zurich covering the in-house single manager hedge funds.

Most of his experience in hedge funds was gained while working in a Swiss family office where he was in charge of the research and analysis as well as due diligence for US and European hedge funds. He also performed quantitative analysis and portfolio construction for several funds advised by the family office.

Prior to that he worked as an external consultant for KPMG Financial Services in the Milan office. In 2002 he has been hired by Ernst & Young LLP, San Francisco as auditor for hedge funds, auditing large single funds and fund of funds. In 2000 he joined Ernst & Young in Milan as an auditor for mid-sized companies.

Mr. Maggioni holds an MBA from IUM and a Portfolio Management degree from the University of Chicago GSB

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