

17 OCTOBER 2016 - BMO

The highly anticipated Fed Minutes was a non-event in the end. Fed Chairwoman, Janet Yellen, yet again failed to deliver on her threat to hike rates. The market instead chose to react to disappointing Chinese data that pointed to lower exports that sent the market into a frenzied sell-off on Thursday.

The week had promised to be a bullish one but instead hosted the year's third steepest sell-offs on Tuesday. Having noted that however, it would seem that the market is not quite ready to crash as shown by its ability to still buy on dips. I suspect that the bears are also not ready for it because shorts are covered quickly.

"The US Dollar Index increased 1.5% in the week to 98.09, benefiting mostly at the expense of a weaker euro, a weaker yen, and a weaker British pound. The greenback's strength was partly a function of safe-haven flows and partly a function of interest-rate differentials." ~ Briefing.com

Earnings reports from **Alcoa (AA)**, **JPMorgan Chase (JPM)**, **Citigroup (C)**, and **Wells Fargo (WFC)** failed to produce a bullish response despite none of those companies missing consensus earnings estimates. In fact, the banks all beat expectations while Alcoa was in-line. I am inclined to think that the fear in the market was overcooked and the reaction to China's numbers grossly exaggerated.

The week's best-performing sectors were the Utilities (+1.3%), Real Estate (+1.2%), Telecoms (+0.7%) and Staples (+0.04%) - except for Real Estate, the rest were Defensive Sectors, but all favoured on the basis that they offer more attractive dividend yields - never a good sign for the bulls.



The DOW and S&P500 closed out the week below their 10, 20 and 50 DSMAs and below their 10 and 20 Week MAs. The benchmarks are now poised for another DFDM depending on how Monday 17 October closes. On weekly candles, the DOW and S&P500 have had two consecutive bearish weeks that give rise to the possibility of a third candle reversal this week.

With October expiration week being reliably bullish, this could rally the market on the back of some significant earnings from the likes of **Bank of America (BAC)**, **IBM (IBM)**, **Goldman Sachs (GS)**, **Johnson & Johnson (JNJ)**, **UnitedHealth (UNH)**, **Intel (INTC)**, **American Express (AXP)**, **Travelers (TRV)**, **Verizon (VZ)**, **Microsoft (MSFT)**, **General Electric (GE)** and **McDonald's (MCD)** amongst the DOW components this week.

Monday 17 to Friday 21 October

- Expiration week is usually quite bullish
- Wednesday 19 October is the anniversary of the Crash of 19 October 1987 – DOW went down 22.6% in one day, the single worst loss in a day.
- October Expiration Friday (21) has seen the DOW go down 8 of the last 12 (*Last year up*)

The third week of October (42) has been bullish on the DIA (100%) and SPY (100%) over the last 5 years but has been flat to bearish on low reliability over the last 10 and 15 years.

The 2016 Stock Trader's Almanac's averages for Monday are flat to bearish at 55% on the major indices while Tuesday, Wednesday, Thursday and Friday are bullish at around 54.7% on the DOW and 64.3% on the S&P500.

Economic Dates

Mon 17 Oct

- EU Final CPI y/y
- US Empire State Manufacturing Index, Capacity Utilization, Industrial Production
- Australia Monetary Policy Meeting Minutes

Tue 18 Oct

- US CPI m/m
- China GDP q/y, Industrial Production

Wed 19 Oct

- US Building Permits, Housing Starts, October Fed Beige Book
- Australia Employment Change, Unemployment Rate

Thu 20 Oct

- EU ECB Press Conference
- US Philly Fed Manufacturing Index, Existing Home Sales

Fri 21 Oct

- EU, France, Germany Flash Manufacturing PMI, Flash Services PMI

Fed Speak

- Monday: Fed Vice Chair Fischer (FOMC voter) (12:00 ET)
- Wednesday: Dallas Fed President Kaplan (FOMC voter in 2017) (13:30 ET);
- Thursday: New York Fed President Dudley (FOMC voter)
- Friday: Fed Governor Tarullo (FOMC voter) (10:15 ET)

Summary

It is going to be a busy week and one that has a historical significance - The Crash of October 19, 1987 when the DOW went down 22.6% in a single day to record the Worst Single Day Loss in the history of the stock markets.

Happy Hunting!

Conrad.