Technical

STI: 2800-2850 beckons

STI. Following an initial decline towards 2930, the STI rallied to a high of 3190. We had called for a rebound from the 2980-2990 level towards 3100 and stated that the move was most likely a bear rally. While the STI's initial decline and rebound have exceeded our expectations, the chart formation is clearly bearish. Aside from the rebound on low volumes and the inability to establish key support levels, this is the first time the index has gapped down twice in a month. This indicates a general reluctance to be on the long side of the trade and a preference to be on the short side. As for the downside objective, there is no change to our view. We still maintain a decline towards 2800-2850.

Aside from bearish indications on the STI, we will like to highlight other macro bearish indications:

1. The US$ weakness is reflected in both the Yen and the Euro and the latter is already trading near multi-year highs with little pull-back.
2. Sovereign bond yield spreads have started to rally from historically low levels and this indicates rising risk premium levels. The recent rise in bond yield spreads is just a blip and further expansion is likely in the coming days and weeks.
3. Various equity indices such as KLCI, the Footsie, and the S&P500 have retraced 62% of recent rallies and pulled back, suggesting that these are counter-trend moves.

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Technical Lingo

1. *Support- Zone of prior consolidation or could be a prior significant low. Alternatively could be trendline or parallel channel supports etc.*
2. *Resistance- Zone of a prior supply zone. Alternatively could be a prior high or trendline resistance*
3. *Fibonacii levels- Ratios are based on fibonacci numbers. Commonly used ratios are 33%, 38% 50% and 62% respectively. Used to identify support levels or conversely to project prices.*
4. *Moving Averages- Essentially smoothing devises. Most commonly used are simple, weighted and exponential averages based on closing prices. Useful in trending markets and whipsaws are common in sideways ranging markets. Double or multiple moving average crossovers are also used to spot trend changes. There are no hard and fast rules on choice of moving averages. The critical component is historical statistical validity.*
5. *Set-ups- A set-up is the observation of price formation, which suggests an impending signal to either go long or short. Set-ups precede signals.*
6. *Signal- various types of signals can be built into a trading system. They range from price bar breakout, to moving average crossover to indicator reversals.*