

Big Picture report

May 25th 2012

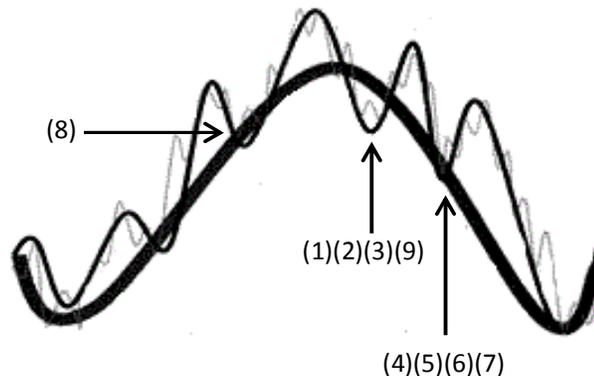
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“Quantitative approach for asymmetric results”



Long term trend **=====**
Medium term trend **=====**
Short term trend **=====**

Market cycle based on technical analysis



□ **Overall picture:** Equities find difficulties to bounce and are now sustained by important supports. Treasuries in the meantime are setting new historical lowest yield and commodities continue their slow descent. **Typically bottoms in the market happen with violent spike in volatility which didn't happen (only a minor increase) yet.**

□ (1) **US Equities:** chances for a bounce are increasing but since the technical damage to the overall situation has been substantial with the violation of 1300 future points, I would then expect, as of now, a lower high than this year's high.

□ **VIX:** if the bounce in the equities will materialize then VIX will go lower. A bearish engulfing on the weekly chart right now seems to confirm this.

□ (2) **EUR/USD:** the breaking of the support of 1.26 could potentially be far worse than we can think. Let's see if it will end like a bear trap (validating the bounce scenario) or not (then continuation of the downward trend).

□ **European equities:** (3) German Dax uber alles, while (4) Eurostoxx, (5) Ftse Mib, (6) Ibex are ready to give soon investors a last chance to exit.

□ (7) **Japan:** chart looks terrible, only if you are long. No sign of any bullish candle right now, so the only direction is down.

□ (8) **Gold and Silver:** going lower but it is a concern? Still very confident, but will need more patience.

□ (9) **Commodities (DJ UBS Index):** bearish scenario, but most of the commodities arrived at important support. A bounce is expected.

□ **CFTC Report:** little bit of data mining, especially concerning the result of the combination of the futures contract of the E-Mini Sp500 plus the Globex Sp500.

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 stopped its descent to the support drawn and with the fast indicator below signaling an inversion, chances are that it may soon happen. However it will be confirmed only with the breaking of 1329.75.. If next week the index will do a lower low, I would not be concerned as long as it doesn't close below it. If it will, then bounce will be very limited. **Time retracement of the upward movement (October to March, 25 weeks) can be next week (38.2%) or up to June 18th (50%).**

VIX Index weekly chart



Notice the specularity not only of the movement, but also the candles between the VIX and its market in the last few days. Topical lows in equities bring also considerable spike and expansion of volatility, which we are not experiencing right now. Fast indicator is also inverting.

EURUSD weekly chart



EURUSD is behaving as outlined in the chart. Right now the exchange rate is crossing the support bringing valuable information, at least by only telling us that right now the movement is considerable stretched. As of now it is not possible to read it as a pure bearish signal as a bear trap can materialize. **If we close this week as it is, it will be four consecutive red candles, which just looking at this chart has been in the last twelve months the maximum stretch of an intermediate downward movement.**

Eurostoxx 50 future weekly chart



This week's candle is still an inside, adding indecision to the already quite complicated situation in Europe (or apologies, the confusion in Europe is clearly reflected in the chart).

The fast indicator is signaling a divergence but that doesn't translate in change in direction outright.

Confirmation of the inversion only with the breaking of this week high or definitely better last week high (2210) with an ideal maximum target around 2400 points. Even for this index, time retracement brings possible time target between June 18th & June 25th.

Ftse Mib future weekly chart



Instead of the Ibox index, I present here a study on the Italian index, because more liquid and therefore easier to trade.

It is here clear to spot a five wave pattern, with wave 4 more prolonged and confused. Using a traditional technical analysis, it is also easy to notice that currently the index is testing the support of the low of 2009 bringing lots of questions on where this index will go if the Sp500 or the Dax will continue in their mere retracement. **Well, maximum target of the Ftse Mib index is 8,500 points.**

If 2009 low is instead broken before the now long waited bounce, then velocity of the downward trend will increase.

Bund future weekly chart



Bund is giving no signs of any weakness whatsoever and getting closer to the target of 146 points.

Signs, very feeble ones, of weakness can be found in the price rate of change, meaning the volatility of the price range since March which is constantly reducing. This can also be seen graphically in the wedge it is drawing.

Gold future weekly chart



Gold is at these levels starting making investors nervous, honestly for no reasons. Fibonacci retracements should be used not only in price but also in time.

Gold went up almost for 36 months and is now retracing for 9 months (a mere 25% retracement), but wouldn't be surprised if retracement will last longer, and can stretch up to 61.8% (22 months) and still, on a time perspective, be in an upward trend.

It is now two weeks that Gold is feeling the support of the long time trend line, in fact the last two candles are two hammers.

Breaking the high or the low of those hammers will bring consequences, which are already drawn in the chart.

Dow Jones UBS Commodity index weekly chart



Support has been broken, very likely that swiftly the index will go to the next support at 120.

Copper future weekly chart



Copper is behaving as expected. Any bounce is a good point to open/increase short position.

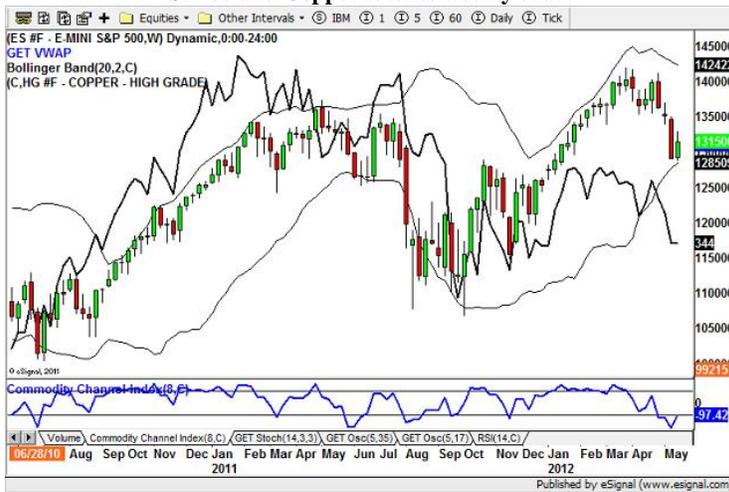
Nikkei 225 index weekly chart



ō Last week candle is more worrisome than it seems. I would not even look for a bounce but a straight sharp decline if last week low will be violated.ō

That was my comment on the last report and in fact the Nikkei accelerated the downward movement. Now we are in the same situation as before, but this time the indicators are in the oversold territory. Since last week candle is just an indecision one, I would expect next week to break previous low, before inverting and starting the bounce (maximum target 9,300 points). Or it can also just continue its path to the lower side of the channel, resulting in a prolonged oversold period. However confirmation of the bounce when breaking previous week high at 8,790 points.

SP500 and Copper futures weekly chart



ō I would expect at some point a strong acceleration of the downward movement of the SP500 to catch up with Copper.ō
That was my comment last time, and in fact the Sp500 did accelerate.

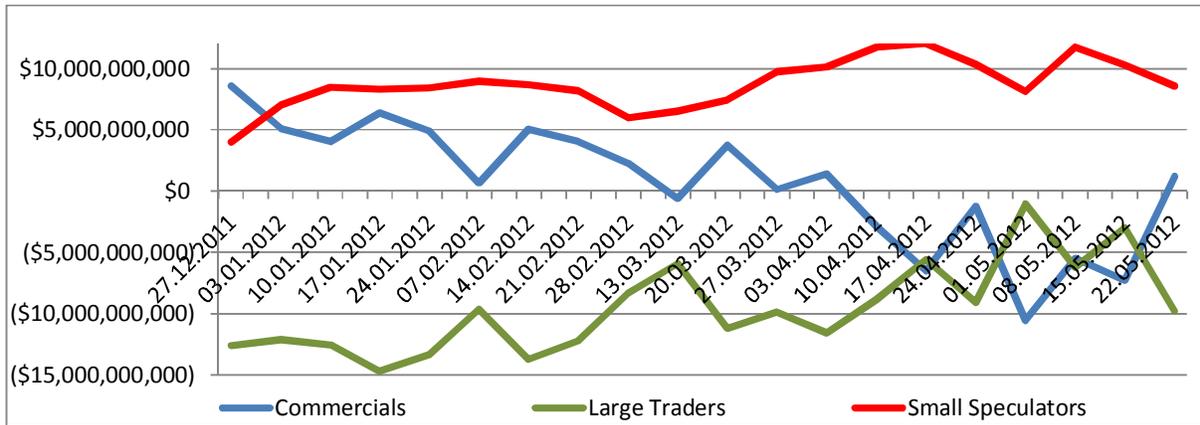
Ratio SP500 / Gold weekly chart



The ratio is now moving away from the upper line of the channel, the signal so far is correct.

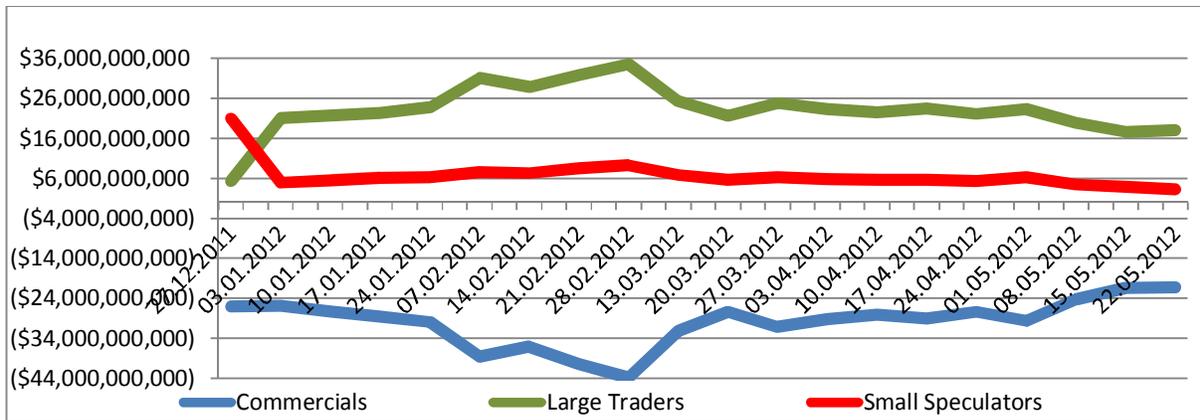
There will be an instance when the ratio will eventually move out of this channel (see the Bund as an example), but **as long as it is inside, the correct trade is, in this case buy gold and short the sp500.**

CFTC Net Position on Sp500 futures since Dec. 27th



Large traders doubled their short positions in the SP500 and Small speculators decreased it. **The information I am receiving is that Large traders are signaling that this price level is acceptable to open a big part of their shorts.**

CFTC Position on Gold Comex since Dec. 27th



Long exposure in gold is diminishing significantly, it is close to a 50% decrease since February 28th.



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 traders' 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.

Useful Links:

European Central Bank:	www.ecb.int
Bank for International Settlements:	www.bis.org
International Monetary Fund:	www.imf.org
Federal Reserve:	www.federalreserve.gov
US CFTC	www.cftc.gov

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