

TECHNICALS & MARKETS



*** Market commentary, not a product of research ***

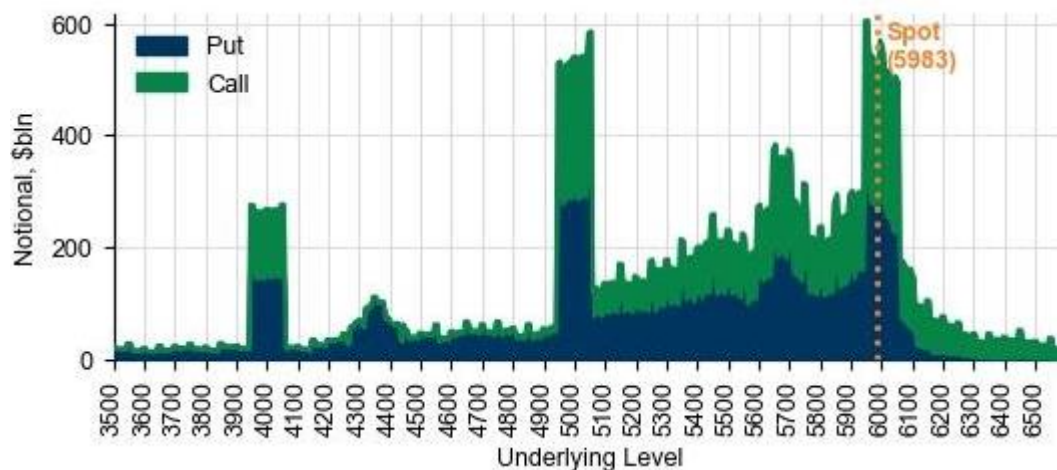
TECHNICALS & MARKETS...Expiry, SPX, NDX, DAX buy signal, Estoxx, HK, JAPAN

- Despite the US market being closed yesterday, there was plenty of action across the globe and in the futures markets due to ongoing uncertainty over the Israel/Iran war. With the latest headlines from the US last night, that the US government wants to give negotiations another chance, some of yesterday's losses on US futures and European markets are being undone this morning. The way the whole saga about the US involvement in Iran has been playing out so far, still creates a background where once clarity is visible, markets will see it as a clearing event. But that can obviously take a few more weeks now.
- From a technical point of view, it leaves US indices still in a narrow pattern after the plethora of Sell signals we have had last week, which are now creating at least a small pullback so far and have clearly stopped the advance throughout May. This is all happening right on target for the typically weak seasonal period of the second half of June. But the pullback so far has been very limited and dips were bought almost every time despite the escalation in the Middle East. The main reason for that is, that ahead of today's huge **Option expiry**, the market dynamics have been a stabilizing factor with Dealers running positive Gamma, where they suppress volatility. Today's expiry looks to be one of the biggest ever. More than 6 Trillion USD in options will expire and thus remove this stabilising anchor. The strike distribution of the S&P options shows how much Open Interest is clustered around the 6k mark.

Expiry size



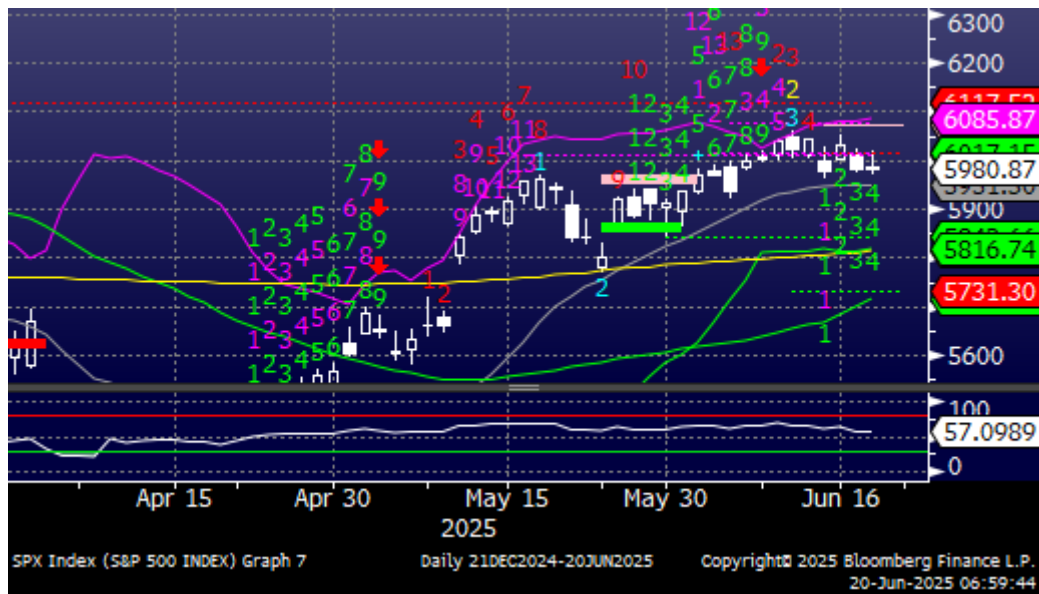
Put/Call distribution at strike prices



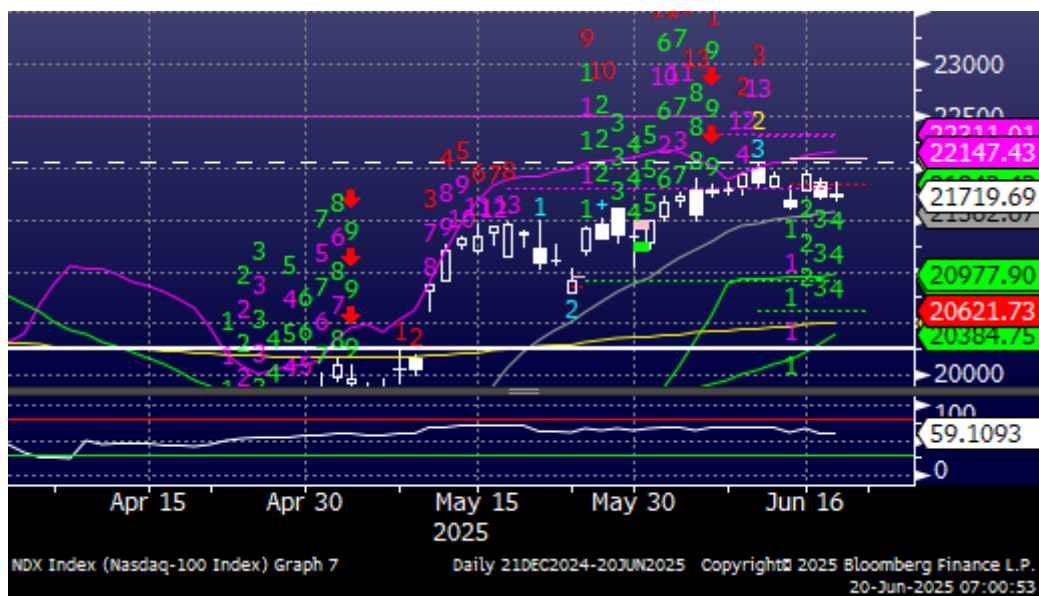
Source: ZeroHedge

- Once the expiry is out of the way, markets will move more freely as of next week. That can obviously go in both directions. But considering we still have a clear exhausted setups on the technical side, where the most recent DeMark Sell signals on S&P, Nasdaq and Russell have now all been confirmed with new counts to the downside, we do still see risks of more profit taking into next week. Should the news flow continue to weigh on the risk mood, eg. US does decide to get involved in Iran, the initial reaction could be more aggressive. As mentioned above, we would see that as a clearing event that makes a swifter end to the conflict more likely. But we would want to be buyers of the market once that is out of the way. The fact, that the expiry removes so much stabilising flow, can create air pockets, that might still unfold next week or the week after. Ideally we would like to see some sort of buy signals nearer the major gaps at 5800 on the S&P and below 21k on the NDX. If we get that, the risk/ reward outlook into a seasonally very bullish July looks much better.

SPX...support around 5800 gap still

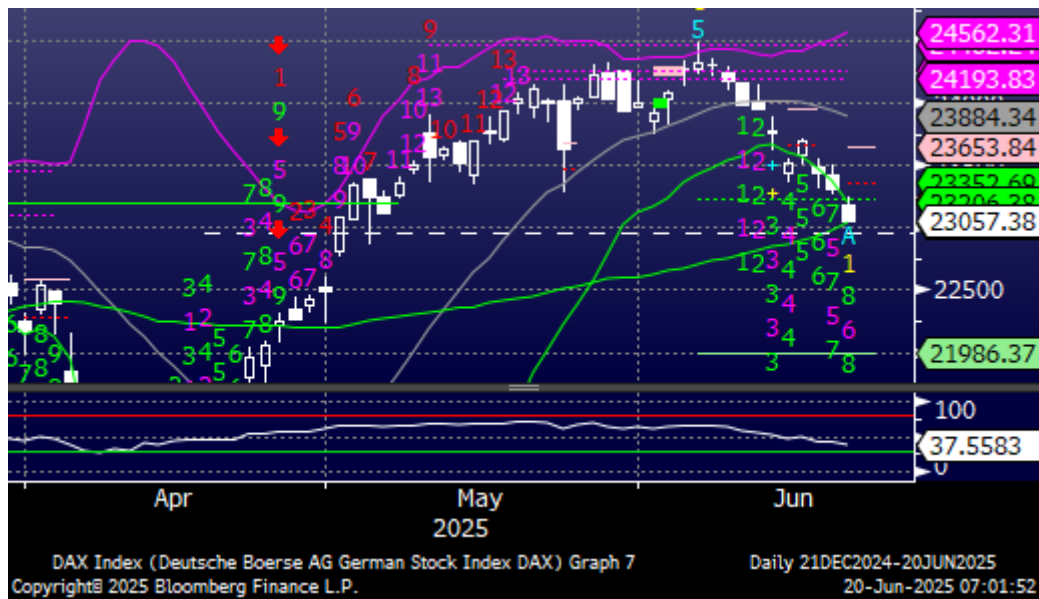


NDX...with active Sell signal (pink 13) and new count to downside

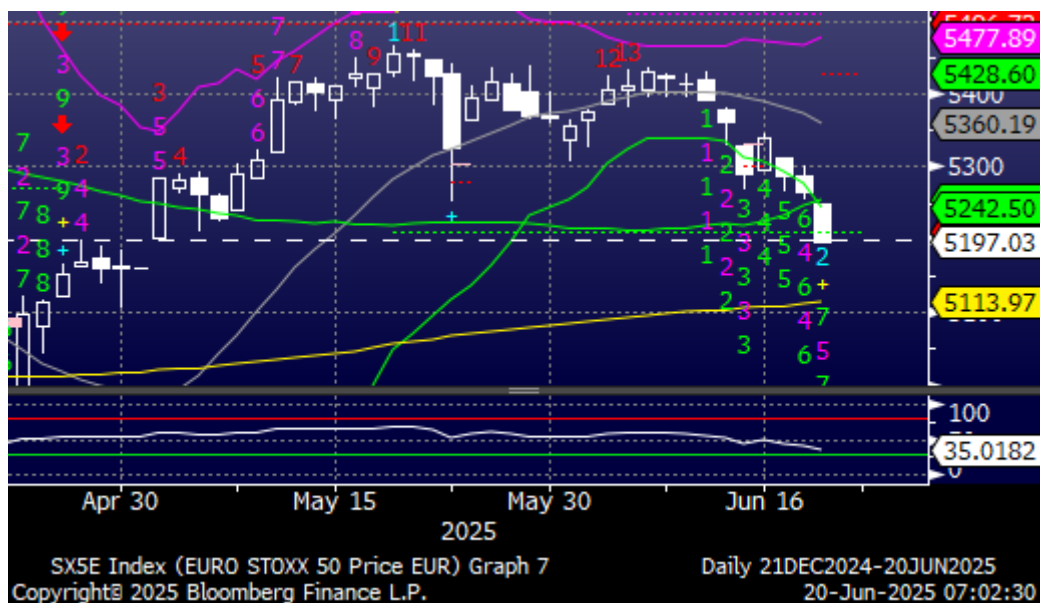


- EUROPEAN indices have seen more profit taking over the last few weeks since they all locked in their Sell signals and we turned cautious. That has led to a setup, where they are now not far off from actually showing the first potential DeMark **buy signals**. The DAX is most advanced on that front and will print a so called Buy setup today (Green 9, green arrow). It will do so as it has already made a new low yesterday, which automatically locks in that signal. But most other indices are still a day behind. That is the case for the Estoxx, the Stoxx 600, MIBTEL etc. The French CAC will show a buy signal today, despite the fact that it broke major support yesterday by closing below the 200d MA. As such, we would ideally want to see another new low fort this move today or on Monday in order to create a better alignment across European indices.

DAX...with Buy setup today (green 9, green arrow) right at 50d MA



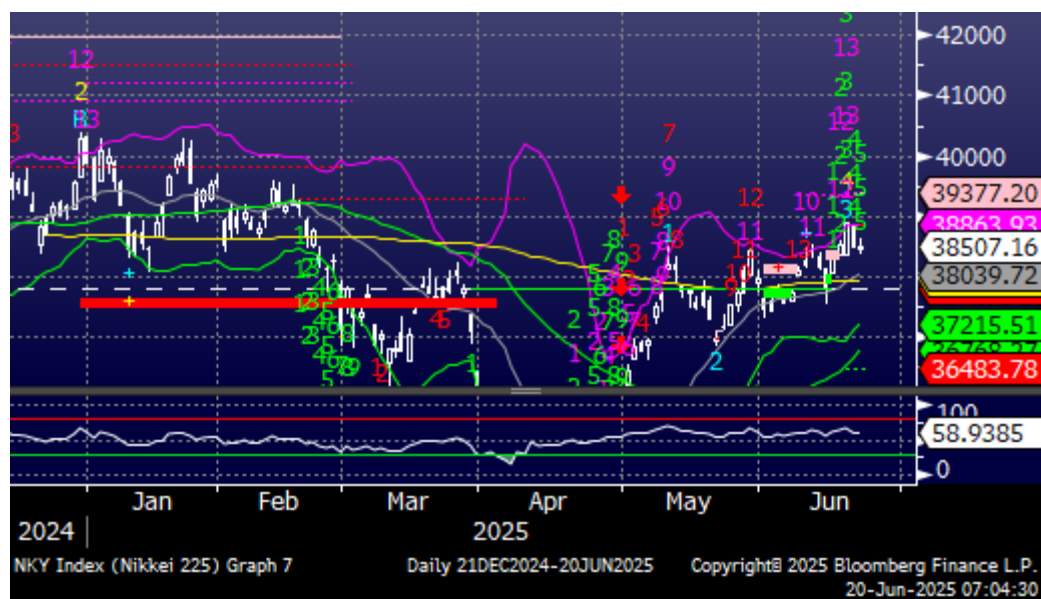
But Estoxx and Stoxx 600 still a day behind



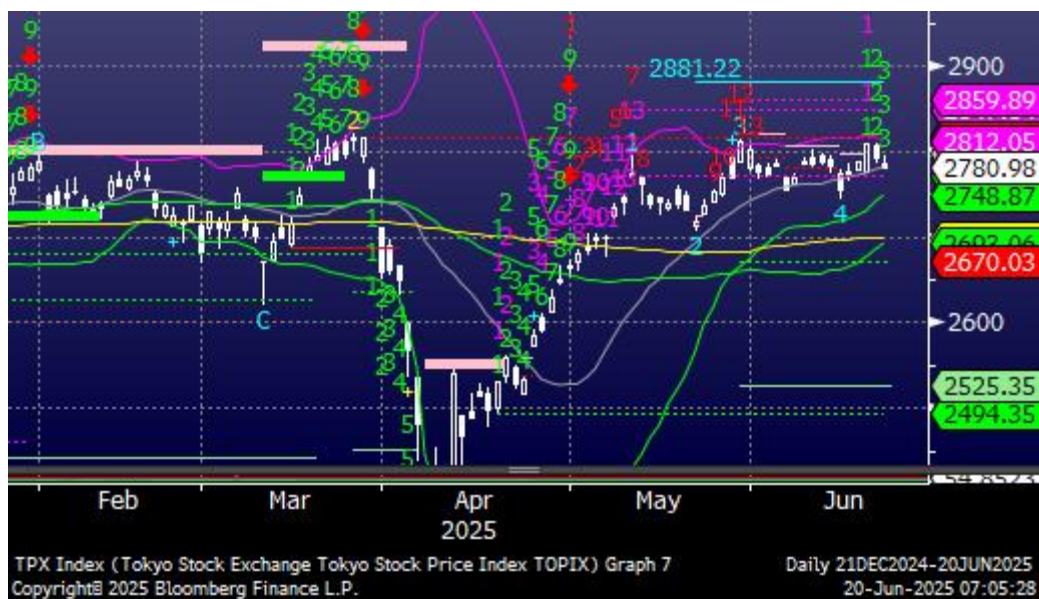
- If we get another bit of weakness over the next two sessions, a large number of single stocks in Europe would also show so called buy setups and thus confirm the setup across the indices. How much of a reaction we can expect to the upside is hard to say, especially as US markets are not lined up yet. But if we get buy signals on the Estoxx and Stoxx 600 as well by Monday, we would start turning more constructive on Europe. It has paid off to be patient at the top when we decided not to chase upside after the plethora of Sell signals at the end of May. If we then get a cluster of buy signals, we would not want to ignore those and start seeing a much more attractive risk/reward profile. Europe is now not far off from such a scenario.

- ASIAN markets are proving more tricky still. Despite today's gain in HK and China, so far the moves have been lacklustre and especially the HSTECH index continue to hover around its major support at 5k points. As there are still some clear upside counts on the Hang Seng in particular that have not been completed yet, we would expect those markets to regain their footing at some stage and start another leg higher. But we are watching supports and will adjust our view if they break.
- Another index in Asia to highlight is the NIKKEI. It has quietly managed to grind back up into 38k+ range, but is now showing two fairly strong DeMark Sell signals (double pink 13s). That does not mean a reversal is imminent, but it does limit upside in our eyes. The TOPIX index, the other major Japanese benchmark had various Sell signals over a month ago and has since been caught in the net of so called risk lines, which are the tolerance levels from those signals and tend to create resistance. With the NIKKEI now also showing active exhaustion signals, we would be wary of chasing upside in Japan for now. There is a good chance, that markets will have to pause and consolidate recent gains first and foremost.

NIKKEI.. double sell signal (pink 13s)



TOPIX...been stuck below the risk lines ever since sell signals over a month ago



<https://demark.com/sequential-indicator/>

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