Cartography Corner - July 2019

J. Brett Freeze and his firm Global Technical Analysis (GTA) provides RIA Pro subscribers Cartography Corner on a monthly basis. Brett?s analysis offers readers a truly unique brand of technical insight and risk framework. We personally rely on Brett?s research to help better gauge market trends, their durability, and support and resistance price levels.

GTA presents their monthly analysis on a wide range of asset classes, indices, and securities. At times the analysis may agree with RIA Pro technical opinions, and other times it will run contrary to our thoughts. Our goal is not to push a single view or opinion, but provide research to help you better understand the markets. Please contact us with any questions or comments. If you are interested in learning more about GTA?s services, please connect with them through the links provided in the article. The link below penned by GTA provides a user?s guide and a sample of his analysis.
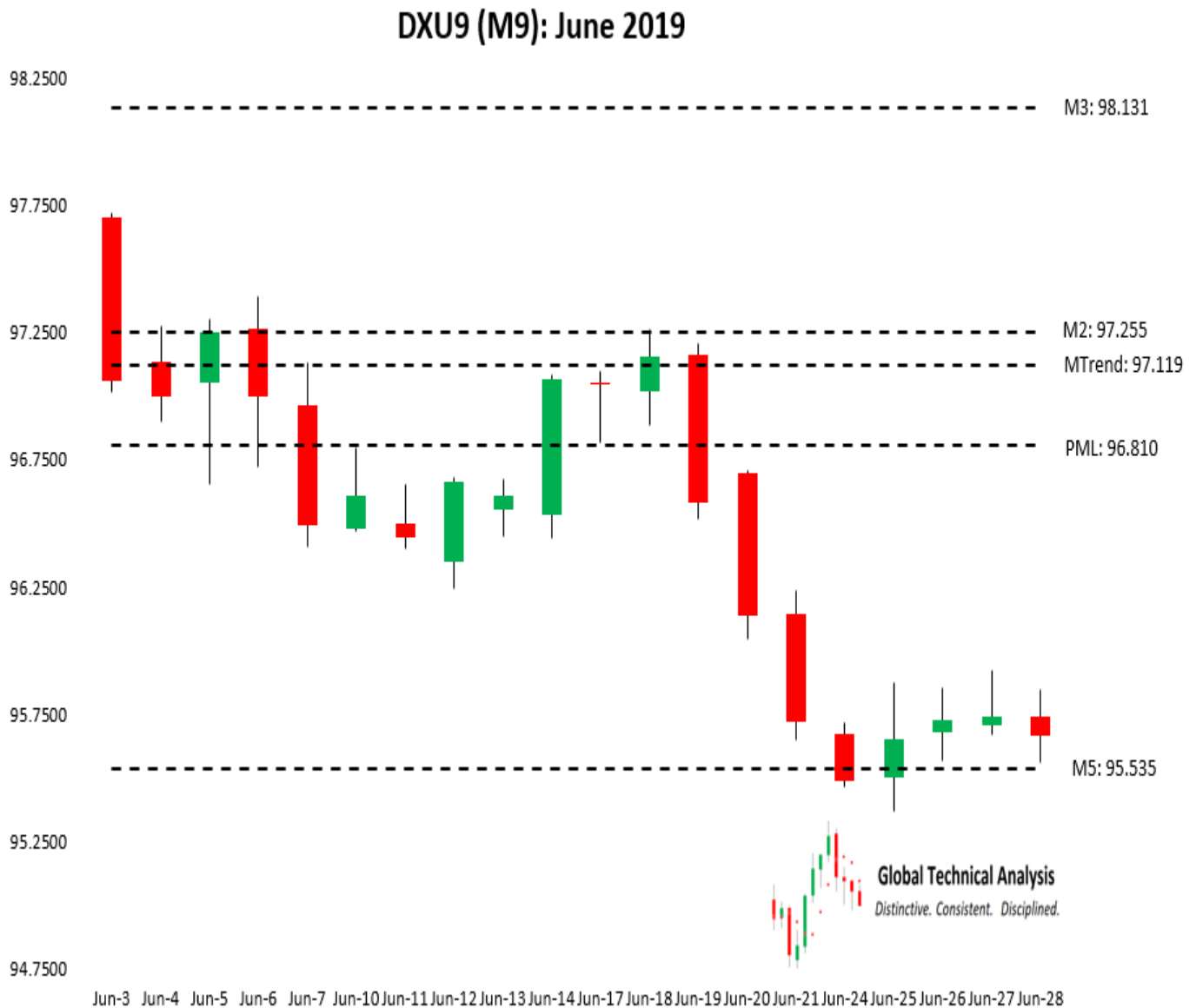
[GTA Users Guide](#)

A Review of June

U.S. Dollar Index Futures

We begin with a review of U.S. Dollar Index Futures during June 2019. In our June 2019 edition of *The Cartography Corner*, we wrote the following: In isolation, monthly support and resistance levels for June are:

- M4   100.155
- M1   98.435
- PMH   98.260
- M3   98.131
- Close   97.666
- M2   97.255
- MTrend 97.119
- PML   96.810
- M5   95.535

Active traders can use 98.260 as the upside pivot, whereby they maintain a long position above that level. Active traders can use 97.119 as the downside pivot, whereby they maintain a flat or short position below it. Figure 1 below displays the daily price action for June 2019 in a candlestick chart, with support and resistance levels isolated by our methodology represented as dashed lines. The first four trading sessions were spent with U.S. Dollar Index Futures breaching our isolated downside pivot levels at M2: 97.255 and the downside pivot (MTrend): 97.119. On the fifth trading session, the market price closed below May?s low price at PML: 96.810 and sustained below that level for the following four trading sessions. On June 14th the market price rotated back above May?s low price and, over the next two trading sessions, tested our isolated support levels at MTrend: 97.119 and M2: 97.255, *now acting as resistance*. **That test failed.** Over the following

four trading sessions, U.S. Dollar Index Futures achieved our downside exhaustion level at M5: 95.535. The final four trading sessions in June were spent with the market price trading slightly above our downside exhaustion level. *The realized error between our isolated downside exhaustion level at M5: 95.535 and June?s low price equaled 0.18%.   Figure 1:*

DXU9 (M9): June 2019

E-Mini S&P 500 Futures

We continue with a review of E-Mini S&P 500 Futures during June 2019. In our June 2019 edition of *The Cartography Corner*, we wrote the following: In isolation, monthly support and resistance levels for June are:

- M4   3078.00
- M1   2966.00
- PMH   2961.25
- MTrend   2849.28
- Close   2752.50
- PML   2750.00
- M2   2655.50
- M3   2556.50

- M5   2543.50

Active traders can use 2750.00 as the pivot, whereby they maintain a long position above that level and a flat or short position below it. Figure 2 below displays the daily price action for June 2019 in a candlestick chart, with support and resistance levels isolated by our methodology represented as dashed lines. The first trading session of June saw the market price test our isolated pivot level at PML: 2750.00 intrasession, with the low price for June being realized at 2728.75. Early weakness was overcome by strength and E-Mini S&P 500 Futures closed higher for the session. *The price action for that day is a good reminder of why market participants should judgmentally emphasize closing levels, relative to upside and downside pivots when initiating positions.* The market price closed within 0.50 points of our isolated pivot, with mechanical shorts suffering a fifty-point loss the following day while those respecting daily closing levels were spared.   The following four trading sessions were spent with the market price ascending to, and closing above, our first isolated resistance level at MTrend: 2849.28. The following ten trading sessions saw the market price continue its ascent, with our clustered resistance levels at PMH: 2961.25 and M1: 2966.00 being achieved and slightly exceeded intrasession on June 21st. *However, the market price did not close above those levels.* The final five trading sessions saw the market price pull back from (three sessions) and re-approach (two sessions) our clustered resistance levels. ***Figure 2:***

ESU9 (M9): June 2019

July 2019 Analysis

We begin by providing a monthly time-period analysis of E-Mini S&P 500 Futures. The same analysis can be completed for any time-period or in aggregate. <u>Trends:</u>

- Current Settle   2944.25
- Daily Trend   2931.61
- Weekly Trend   2923.12
- Monthly Trend   2872.83
- Quarterly Trend   2727.50

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SP 500 Futures
July 1, 2019

ESU9	31.54
Q4	3500.00
M4	3188.50
M3	3136.00
Q1	3072.50
Q3	3050.75
W4	3034.50
Q2	3019.00
D4	2995.75
M1	2977.25
D1	2974.75
PMH	2969.25
POH	2960.25

Quarterly: Consolidation

Monthly: Consolidation
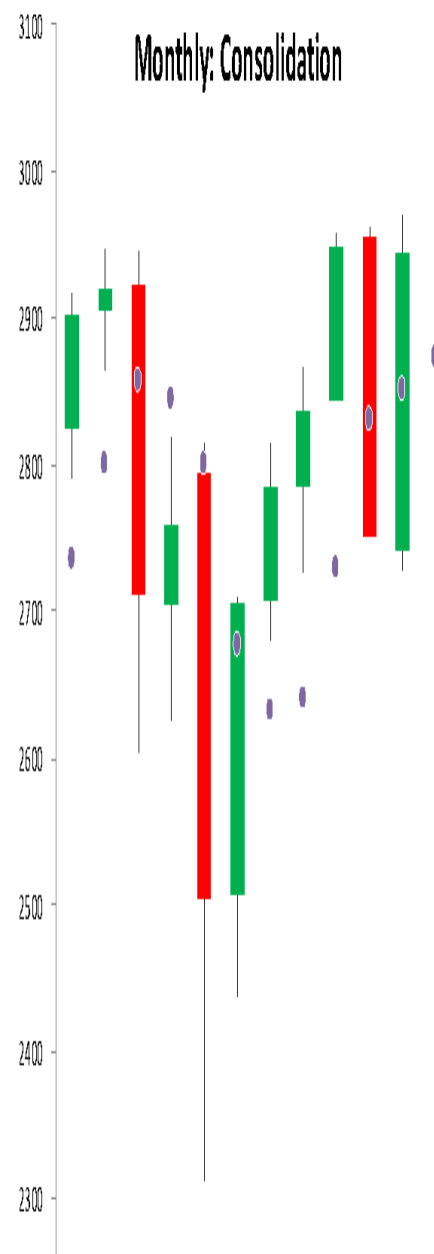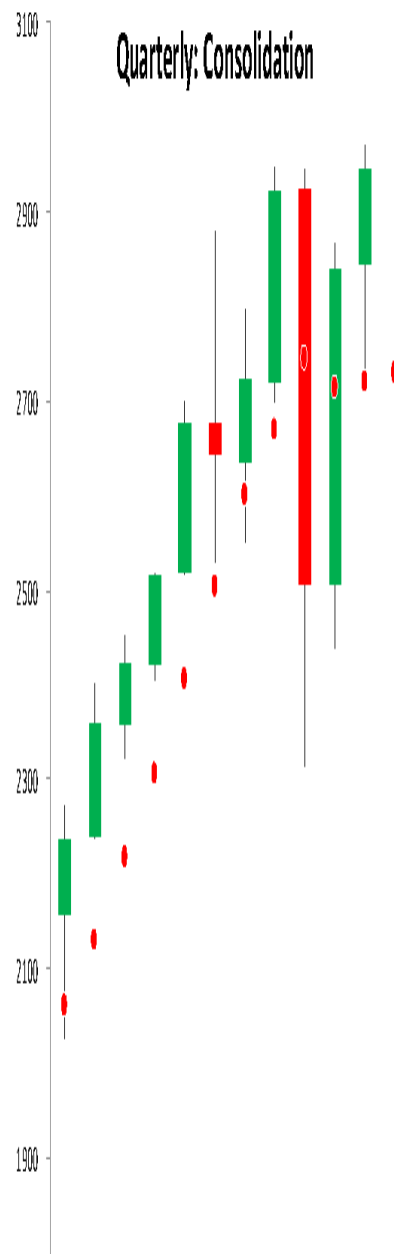
In our June 2019 edition of The Cartography Corner, we wrote the following:

> We would like to bring your attention to two important points with respect to the Trend Levels. First, the relative positioning of the trend levels is beginning to align in a very bearish manner. Daily is below Weekly. Weekly is below Monthly. The final alignment that would increase our concern further is to have Quarterly at the top of the order. The second point is that June Monthly Trend _rose_ relative to May Monthly Trend. The significance of this is that it informs us that there remain many ?trapped? longs at prices 3.5% higher than the current settlement price. May?s weakness introduced significant pressure on them.

What a difference a month?s price action can make. The relative positioning of the Trend Levels, as shown above, is aligned in the most bullish posture possible. In the quarterly time-period, the chart shows that E-Mini S&P 500 Futures are in ?Consolidation?. Stepping down one level in time-period, the monthly chart shows that E-Mini S&P 500 Futures are in ?Consolidation?. Stepping down to the weekly time-period, the chart shows that E-Mini S&P 500 Futures have been ?Trend Up? for four weeks. Within the context of the market price relative to the trend levels and the relative positioning of the trend levels to one another, technical analysis of E-Mini S&P 500 Futures is bullish. The need for a two-month high that we highlighted in last month?s commentary _was realized in June_. Facts are facts? and the fact is that the market is not sustaining weakness. It is a trader?s market, prone to swift and violent price swings. We are not abandoning our idea of being in the time window for a sustained reversal to occur. However, we are increasing our respect for the possibility of continued strength. There are two facets of this market that we are certain of:

1. _Energy is building and a large and sustained move is imminent._
2. _Our analysis will accurately identify the landmarks along the way._

Support/Resistance: In isolation, monthly support and resistance levels for July are:

- M4   3188.50
- M3   3136.00
- M1   2977.25
- PMH   2969.25
- Close   2944.25
- MTrend   2872.83
- PML   2728.75
- M2   2707.50
- M5   2496.25

Active traders can use 2977.25 as the pivot, whereby they maintain a long position above that level and a flat or short position below it.

Investment Grade Corporate Bond ETF

For the month of July, we focus on the Investment Corporate Bond ETF. We provide a monthly time-period analysis of LQD. The same analysis can be completed for any time-period or in aggregate. Trends:

- Current Settle   124.37
- Daily Trend   123.90
- Weekly Trend   122.90
- Monthly Trend   120.69
- Quarterly Trend   117.42

As can be seen in the quarterly chart below, LQD is in ?Consolidation?. Stepping down one time-period, the monthly chart shows that LQD has been ?Trend Up? for six months. Stepping down to the weekly time-period, the chart shows that LQD has been ?Trend Up? for seven weeks.
<u>Support/Resistance:</u> In isolation, monthly support and resistance levels for July are:

- M4   130.59
- M1   128.04
- M3   127.91
- PMH   124.44
- Close   124.37
- M2   122.54
- MTrend   120.69
- PML   120.41
- M5   119.99

Active traders can use 124.44 as the upside pivot, whereby they maintain a long position above that level. Active traders can use 122.54 as the downside pivot, whereby they maintain a flat or short position below it.

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LQD- Investment Grade Corp. Bond ETF

July 1, 2019

LQD	0.49
Q4	136.10
M4	130.59
Q3	129.68
Q1	129.66
M1	128.04
M3	127.91
W4	127.26
D4	125.34
W3	125.10
W2	124.94
D1	124.74
W1	124.73

Quarterly: Consolidation

Monthly: Trend Up 6 Months

Technical analysis of LQD is bullish. Having said that, ***there are bearish technical factors to be cognizant of***. The condition was met on a quarterly basis in 1Q2019 that makes us anticipate a two-quarter low within the next three to five quarters. That can be achieved this quarter with a trade below 112.78. The condition was also met on a monthly basis in January 2019 that makes us anticipate a two-month low in July. That can be achieved this month with a trade below 118.29. Lastly, the condition was met on a weekly basis, the week of May 27th that makes us anticipate a two-week low within the next two weeks. That can be achieved this week with a trade below 121.62. ***Figure 3:***
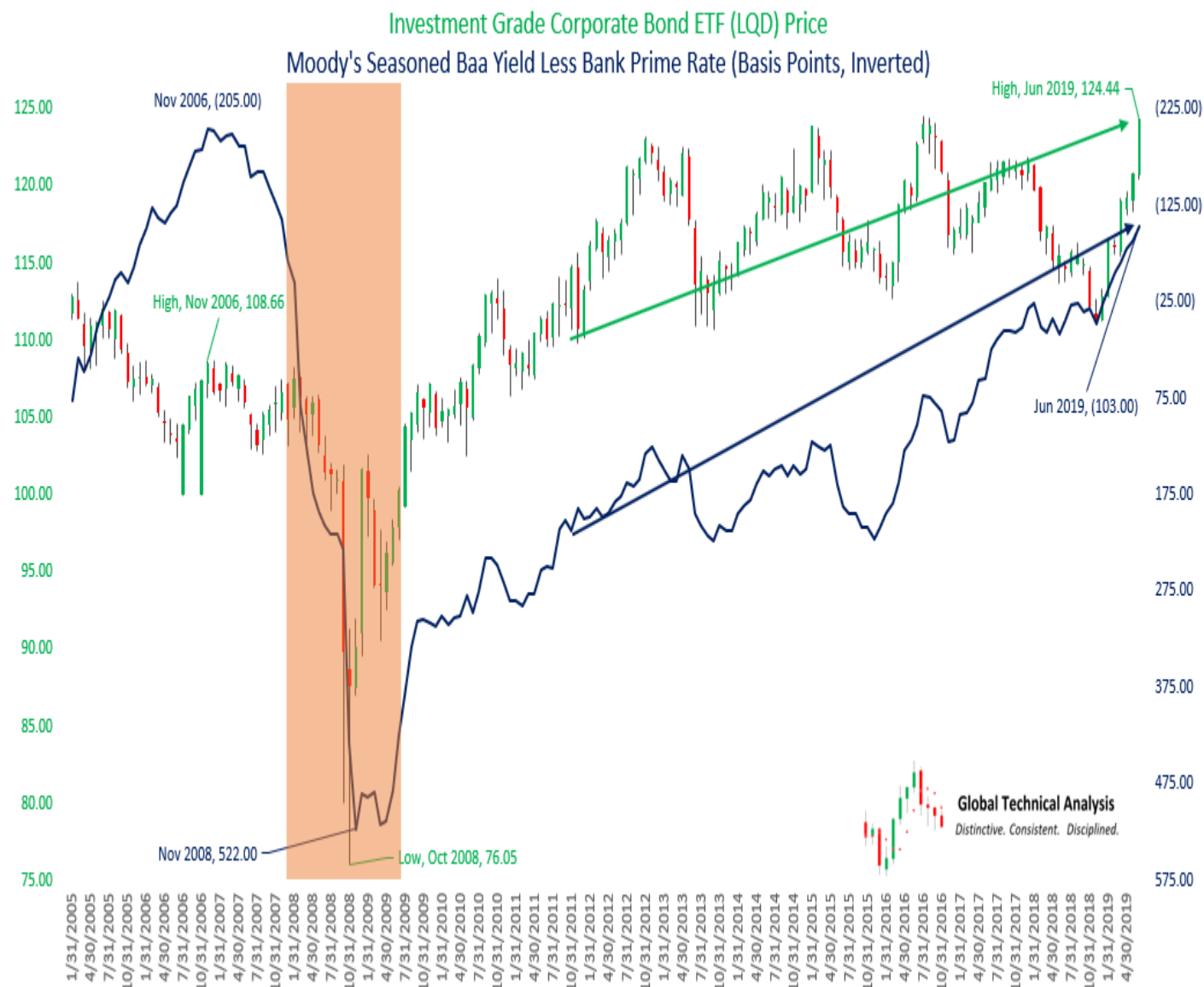

Figure 3 above displays an LQD monthly candlestick chart for the period of January 2005 through June 2019. Inversely overlaid is the spread between Moody?s Seasoned Baa Corporate Bond Yields and the Bank Prime Rate, measured in basis points. As Charles Gave explains:

> ?Artificially depressed prime rates below the natural rate of corporate credit have allowed banks to generate ?artificial? money, kept zombie companies alive, but most of all permitted most viable corporations to engage in ?financial engineering? such as issuing debt to repurchase stocks, all of which are predicated on cheap borrowing costs continuing indefinitely, the risk, of course, is that the credit-funded party ends once the curve inverts? When the private sector curve inverts, the zombie companies will fail, capital spending will be cut, workers will be laid off, and the economy will move into recession.?

In 2006, the spread reached a trough of -205 basis points. We believe that the spread today,

currently at -103 basis points will not be able to reach the 2006 level. We also believe the pending market repricing in LQD could be much more exaggerated than the thirty-three-point decline experienced during the Great Financial Crisis. We ask that you reflect upon the following:

- In 2006, the Bank Prime Rate equaled 8.25% and Moody?s Seasoned Baa Corporate Bonds yielded 6.20%. Today those levels are 5.50% and 4.47%, respectively. (Our next step is to normalize the spread relative to rate levels.)
- The size of the corporate bond market in 2006 totaled $4.9 trillion. As of the end of 2018, it totaled $9.2 trillion.
- As detailed by Michael Lebowitz in *The Corporate Maginot Line*, ?*50% of BBB companies, based solely on leverage, are at levels typically associated with lower rated companies. If 50% of BBB-rated bonds were to get downgraded, it would entail a shift of $1.30 trillion bonds to junk status. To put that into perspective, the entire junk market today is less than $1.25 trillion, and the subprime mortgage market that caused so many problems in 2008 peaked at $1.30 trillion.*?

Summary

The power of technical analysis is in its ability to reduce multi-dimensional markets into a filtered two-dimensional space of price and time. Our methodology applies a consistent framework that identifies key measures of trend, distinct levels of support and resistance, and identification of potential trading ranges. Our methodology can be applied to any security or index, across markets, for which we can attain a reliable price history. We look forward to bringing you our unique brand of technical analysis and insight into many different markets. If you are a professional market participant and are open to discovering more, please connect with us. We are not asking for a subscription, *we are asking you to listen.*