July 9th, 2015

In this report:

- **iShares China (FXI):**
- **US Dollar/Japanese Yen (JPY_A0-FX)**
- **German DAX (^GDAXI)**
- **Standard and Poor's 500 ETF (SPY)**
- **iShares Energy (XLE)**

Bulls vs. Bears - Two Sides to Every Market

If we look at the immediate headlines, the news is heavy with crisis, calamity and panic. Again, we have another episode where a 3-5% pullback is the cause for concern. I don't argue that the market should be higher if this current uptrend had real momentum following last year but the markets are only slightly negative six months into 2015. Not to mention, a few key markets have recently retraced after significant upside moves in the first half of this year. Now, the question is repeated for yet another instance in the last two years: "Is this a brief pullback or is this the start of something larger?" My response: The targets that have guided us over the past several years continue to do so. Currently, there are a few shorter-term scenarios that are actually indicating critical technical support levels that are close to completion while the larger measurements on the weekly timeframe in many markets still suggest the continued upside bullish tone until a larger retest occurs.

Within the context of the current environment, it is very easy to rationalize a sharp impending decline due to the lingering bearish arguments that persist. Even some recent high profile investors have expressed significant concern and the recent Greece fears have fueled these sentiments. Both sides have valid points and a strong case for either position could be made convincingly. Regardless, the focus must remain on the measurements of market movements that define opportunities and confirm bias.

From the Harmonic Trading approach, there are several markets that are setting up to resolve themselves before the end of the summer. All of these various scenarios are closing in on the resolution of their respective structures of the past year. Whether it is European or Asian equities, the US Dollar versus the Euro or Yen or the continuation of the multi-year bull market in the United States, the predominant trend of the past two years has offered excellent opportunities to capitalize on continuations following discreet retracements. The current volatility is providing yet another opportunity. For this reason, I believe the major themes remain intact but will face an important confirmation later this year.

iShares China (FXI): Weekly (Failed) Bearish Gartley

We examined the breakout in the FXI over the past few months. After a decisive breakout, the price action has pulled back to retest the prior failed harmonic resistance. This defines the 43-45 level as critical prior resistance that is now support.

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This represents the beginning phase to start to look for a great area to enter on the long side and benefit from the longer-term uptrend at hand. Although many have cited that the Chinese market has entered bear market territory during this 20% pullback, this argument dismisses the fact that it is up nearly 100% for the past 18 months. Also, this pullback is merely the first retracement following the weekly breakout above four year sideways resistance channel. The 38.2% retracement complements this area around $40 and serves as the lower support limit. Although the recent action has threatened the $40 level, this is the type of pullback I have been discussing over the past few months as an opportunity not a problem. I would start looking in this area to capitalize on this decline.

US Dollar vs. Japanese Yen: Weekly
61.8% Retracement

After this week's vicious drop due to the concerns about Greece, the currencies have experienced quite a bit of volatility. The pullback has violated an important set up that defined the 122 level as the continuation support. After an initial breakout to above the 61.8% retracement, the Dollar/Yen has retraced to consolidate further before resolving this important continuation point.

US Dollar vs. Japanese Yen: Weekly
61.8% Retracement

The 122 level continues to define the weekly continuation point but the immediate retest looks like a brief check back before the resumption of the long-term trend and above the prior 61.8% retracement. The weekly picture remains the same while the shorter-term consolidation will delay the larger upside scenario until later this year. Despite the recent breakdown, the support of the 88.6% retracement @ 119.20 of the past few months now serves as the ultimate reversal target for this pullback, if not sooner.

German DAX (^GDAXI): Daily
Bullish AB=CD Pattern with RSI

Ever since the price action broke above the long-term harmonic resistance at 9500, this market has advanced sharply. We outlined the existence of a Bearish Crab that exceeded the top of the reversal zone, rallying to as high as 12,000. Now, the price action has pulled back after this initial test. From a longer-term perspective, the index is pegged between two weekly structural harmonic levels between 9,800-12,200. The immediate daily chart support defines the 10,700 level where a Bullish AB=CD should begin to stabilize this current decline. This price action links up with an RSI reading that is close to testing an important oversold extreme which will confirm the reversal point.

Standard & Poor's 500 Index (^GSPC): Daily
Bullish 5-0 Pattern

In May, we reviewed the price action in the SPY ETF that reversed exactly at the weekly 1.618 extension just above 213. We addressed this in last month's report and favored another retest before the larger resistance could be confirmed. This presents some interesting considerations that must be addressed going into the second half of the year. Although I do believe the price action requires more time to consolidate at the 213 resistance, the overall character assessment of a temporary inflection point will become increasingly important on the next retest of this general area. For now, the daily chart in the index defines the 2039 level as the short-term support, as the Bullish 5-0 provides the overall signal for this validation.

iShares Energy (XLE): Weekly
Bullish 61.8% Retracement

After nailing the support target earlier this year at 72.30, the price action reversed at the 38.2% initial profit objective and it is declining ominously. This is one market I am watching closely, as it could be an early warning signal if it violates the recent low. The price action is retesting the larger support zone that defined the weekly measurements between 72.30-77. The true make-or-break is the 61.8% retracement at the low range of the support. Not to mention, the index is still maintaining the long-term uptrend since the low from 2002.

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July Conclusion

Although Harmonic Trading measurements can be exact as the situation in the SPY demonstrates, it is unusual for a single test to serve as the ultimate inflection point for a primary trend. The more common scenario is a thorough consolidation of zones that typically go through a retest before triggering a substantial reversal at hand. We are looking at the initial reaction in most cases that will require an eventual retest. Currently, the minimum technical scenario for most situations will still take more time to resolve any larger change in trend. For now, I do believe that the larger structures in markets such as the German DAX and S&P 500 substantially help to gauge what is possible. At a minimum, these markets have exhibited tremendous strength over the past year and are merely correcting an overbought situation.

On a final note, I have been considering what might occur beyond these larger targets. What levels could be considered if the S&P 500 exceeded the 2140 area, the NASDAQ Composite rallied above 5300 or the German DAX continued higher beyond the 12,000 mark? Although these possibilities eventually will be realized, they all must go through some type of consolidation or retracement BEFORE a larger continuation can occur. I think we are starting to see the early signs of relevance for many of these targets. For example, the fact the S&P 500 was unable to rally convincingly above the 2100 level is the first sign of some sluggishness. This is not to say that a devastating bear market could take hold rather I am trying to respect the natural mechanisms of the market. In the short-term, the strength of the first half of this year is finally experiencing a sizeable retracement that is setting up another opportunity – similar to several instances over the past few years. However, the early signs of change at obvious and significant natural harmonic targets must be regarded as a point of pausing to relieve the pressure of the past three years. As we have seen many times over the past few years in particular, the market has experienced sharp but brief 3 to 5% corrections as it has steadily climbed to new highs. Although we are not there yet, the point will come where a larger correction will ensue and the current market will begin to change character. This consideration for a variety of markets will be relevant later this year as they approach the resolution of important harmonic levels that must be cautiously regarded.

As the market enters the second half of the year, we have another situation where the progress for 2015 will be squeezed into the last quarter of the year. So, it is critical to keep in mind that the markets are slightly negative so far and will still likely book a positive gain by year's end. The question is: does this occur from here or at lower levels? Most likely, the markets will consolidate slightly lower but we are probably looking at the early stages of the market bottoming for a year-end rally. This will require the next several weeks to resolve the overall situation but the year's inflection point is increasingly close.

Please feel free to contact me at HarmonicTrader@HarmonicTrader.com, as I welcome your comments, questions and suggestions. If you are a trial member or wish to receive future reports, please sign up here:

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Best Regards,

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