Financial Research Education & Data

Volume 3, Issue 13
Trading Week Starting
February 14, 2011

The FRED Report

Summary of Market View

The stock market strengthened, as did the dollar, last week. We expect the first part of the week to be up for stocks and then choppiness could set in. This week is options expiration for February.

The dollar has started to improve and this could put some pressure on international bonds.

Commodities look to finally be snapping back to seasonal patterns, as the Egyptian crisis abates.

INSIDE THIS ISSUE:

Special points of interest:

- We have seen some improvements in both transportation stocks and also accumulation models, such that after some short-term choppiness the market could be up into the end of February.
- XLY (SPDR Select Sector Consumer Discretionary ETF) has started another up-move after some consolidation, which bodes well for the economy at least in the first part of the year.
- We do expect a strong summer rally in oil.

Stocks Review

The stock market did rally last week and is now short-term overbought. This, combined with the propensity for expiration shenanigans, suggests a choppy week. We would expect a rally early in the week followed by a down Wednesday and/or Thursday. **We have seen some improvements in both transportation stocks and also accumulation models, such that after some short-term choppiness the market could be up into the end of February**. Then, overbought monthly indicators again suggest some risk.

Our sector report is coming this week – a couple of quick notes here though. First, **XLY (SPDR Select Sector Consumer Discretionary ETF) has started another up-move after some consolidation, which bodes well for the economy at least in the first part of the year.** See the Sector Review for more on this.

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Fixed Income Review

We discuss international bonds this week. First, we note that our forecast for a rally in the dollar in last week's report could start to work here. At the same time, the BWX has started to struggle. Indeed, **BWX (SPDR Lehman International Bond Index ETF) has started to look a bit risky short-term, and a move below the 57 area could take this ETF down to the 51 area.**

We also note that thee PCY (Powershares Emerging Markets Sovereign Debt) is weakening as well. This ETF has got two strikes against it. First, a move up in the dollar could hurt this investment. Second, we have noted in other reports that money looks like it has started to come out of emerging market equities. Emerging market bonds also could suffer and it looks as if this is happening. Short-term charts are shown below, and we suggest readers take a quick look at the long-term as well. We will write some more about emerging market sovereign debt in the midweek if weakness continues.

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Commodity Review

We have seen still more resolution of the Egyptian business, and oil has started to react downward in accordance with the seasonal tendencies. **We want to start to accumulate a position in the oil market – so I would be looking VERY carefully at the USO**, first at 35.40, now that the daily Stochastics are getting down to the 20 area. Depending on the amount of time it takes, there could be a rally, then a lower low in the in the 34 area. But, **we do expect a strong summer rally in oil**. Watch the XLE in here as we could get a retracement that would be a buying opportunity this summer.

"We want to start to accumulate a position in the oil market."

One of the biggest markets for oil in the winter is Heating Oil, so we show the chart of UHN (United States Heating Oil Fund) below. Stochastics here have started to turn down and are now below 80, suggesting that seasonality is starting to kick in – and this commodity also drops into the late spring.

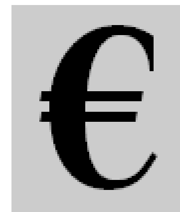
Natural Gas has also started to come down again, at least as measured by the UNG (United States Natural Gas Fund). This is also a seasonal thing, as the weather warms up. We would expect stocks related to Natural Gas to pull back as well. Natural gas is, however, much weaker.

International Review

We have seen numerous articles of late suggesting that Australia is weakening economically due to all of the weather related tragedies there. We show charts of the Aussie Dollar ETF (FXA) as well as the EWA (iShares MSCI Australia Index). In fact, **Australian markets are holding on quite well.**

We compare the above markets to Gold – all three are trading relatively near to highs, especially when looking at the weekly charts we show below.

In addition, we cover Canada in the "Weekly Chart of Interest" section on page 6, as this market is similar in outlook as well.



"Australian markets are holding on quite well."

THE FRED REPORT

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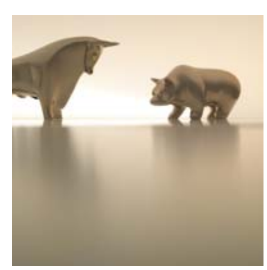
Weekly Chart of Interest

We show charts of EWC and FXC. We note that these are interesting ways to play commodities, as Canadian bourses contain many natural resource based companies. These markets are doing quite well, and merit a look.

About Our Organization



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