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Weekend Update
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VIX crossed above all the Model resistance levels to challenge the Ending Diagonal trendline, closing above weekly mid-cycle support at 14.95. It is clearly on a weekly buy signal. My warning last week, "Once confirmed, the upside move may be very fast." was accurate. Ending Diagonal patterns are known to completely retrace themselves, once broken.

(Bloomberg) Through most historical lenses, the tempest in equities over the last three days is barely noticeable. View it next to the market's eerie dormancy heading into the fraught month of August and it stands out.

Suddenly ended was a feat with no precedent in U.S. stocks, the S&P 500's streak of 15 straight days without swinging 0.3 percent in either direction. Selling picked up Thursday to swell the three-day decline to 1.7 percent -- practically a rout in a market that hasn't had a peak-to-trough drawdown exceeding 3 percent in nine months.

SPX Crosses beneath its “Brexit” trendline.

SPX declined beneath its Ending Diagonal trendline and beneath its Cycle Top resistance, leaving a confirmed sell signal in place. The next potential target may be Long-term support at 2343.06. A meltdown in the Risk Parity Models may bring the SPX considerably lower.

(Reuters) - U.S. stocks were modestly higher in late morning trading on Friday as investors cautiously dipped back into riskier assets, after a three-day losing streak on concerns over escalating tensions between the United States and North Korea.

A weaker-than-expected July consumer price data also supported the recovery.

Still, the S&P and the Dow were on track to post their biggest weekly loss in about five months and the Nasdaq on course to post its biggest weekly fall in about six weeks.

NDX closes at weekly Cycle Top support.

NDX declined, but closed at Cycle Top support. This action did not produce a weekly sell signal, although coming very close. A further decline beneath Intermediate-term support and its Brexit trendline at 5741.75 may produce that signal.

(ZeroHedge) In the world of giant bond funds, imitation *of trades* just may be the sincerest form of flattery.

Just two days after DoubleLine's Jeff Gundlach told Bloomberg and CNBC that he was taking profits in high risk assets, including corporate profits, building a buffer and loading up on VIX as a surge in volatility was his "highest conviction trade" (and correctly so, as just one day later VIX soared from 10 to 17), that "other" bond titan, Pimco said it was doing precisely the same. Speaking to Reuters, Pimco's chief investment officer, Dan Ivascyn, said on Friday that his firm which oversees more than $1.6 trillion of assets "**has built up an above-average cash position firmwide and has held S&P put options as geopolitical and military risks mount.**"

High Yield Bond Index reverses from its all-time high.

The High Yield Bond Index reversed lower this week after surging to an all-time high. The Cycles Model suggests a top may have been made last week. A sell signal may be generated should MUT fall beneath Intermediate-term support and its Ending diagonal trendline at 167.13.

(Bloomberg) It could be the beginning of the end for an 18-month rally in junk bonds.

A high-yield bond fund run by BlackRock Inc. slumped on Thursday to its lowest level since March, a day after Morgan Stanley warned a correction may already be underway. The cost of protecting speculative-grade bonds against default in the credit-default swap market climbed to its highest level since July 6. Investors demanded the most extra yield in almost a month to buy junk debt, according to a Bloomberg Barclays index fixed late Wednesday.

USB launches from Intermediate-term support.

The Long Bond surged higher after testing Intermediate-term support at 153.32. Treasuries have begun their period of strength. The rally has quite a distance to go, since it must complete the right shoulder of a potential Head & Shoulders formation near 165.00 before a major reversal takes place.

(ZeroHedge) n a mirror image of yesterday's ugly, tailing 10Y auction, moments ago the Treasury sold the last batch of paper for this week, when it auctioned off $15 billion in 30Y bonds, in a strong sale which printed at 2.818%, stopping through the When Issued 2.819%, the lowest yield for the tenor going all the way back to October 2016 as the curve has aggressively flattened since then.

The internals predictably were solid, with the Bid to Cover rising to 2.139 from last month's 2.306, above the 6 month average of 2.27. But it was the surge in foreign bidders that stood out as Indirects took down 66.8%, the second highest on record with the exception of July 2016 when indirects were awarded a record 68.5%. Directs declined modestly from 6.4% in July to 5.4%, leaving Dealers with 27.8%, one of the lowest on record.

The Euro declines, bounces above Cycle Top resistance.

The Euro declined through early this week, then made a partial recovery of its losses. The Cycles Model suggests that the period of strength may have ended and calls for a major reversal. A decline beneath the Cycle Top may be a sell signal. Traders are looking for a higher Euro, but it is near a technical limit to this rally.

(Bloomberg) The Bloomberg Dollar Spot Index was little changed and the euro was lower versus the greenback as investors awaited the release of U.S. inflation data later Friday.

Even though President Donald Trump escalated the war of words with North Korea, currency havens in the Group-of-10 currencies stayed within relatively tight ranges, possibly due to reduced positioning after the latest washout. Still, implied volatilities remained bid, with euro's volatility skew pointing to increased bearishness across most tenors.

EuroStoxx breaks the Head & Shoulders formation.

The EuroStoxx 50 Index finally broke through the Head & Shoulders neckline at 3425.00. The breakdown is long overdue and may set a cascading decline unto motion. The Cycles Model suggests a possible mid-week low.

([Bloomberg](#)) European equities dropped for a third day, sealing their biggest weekly drop since November, as volatility spiked amid intensifying geopolitical tensions between the U.S. and North Korea.

The Stoxx Europe 600 Index dropped 1 percent at the close, widening a three-day decline to 2.8 percent, as U.S. President Donald Trump [stepped up](#) his warning to North Korea over its threats to American allies. Stocks fell to the lowest since February on Friday as the VStoxx Index of euro-area volatility gained 2.1 percent to its highest level since April.

The Yen breaks out.

The Yen broke out above its June high at 91.88, confirming the uptrend may continue. Speculators now recognize the Yen as a safe haven despite Japan's close proximity to North Korea. The Yen is on a full-blown buy signal.

(Reuters) - The U.S. dollar inched up against the Japanese yen and the Swiss Franc on Friday, erasing earlier losses, after Russian Foreign Minister Sergei Lavrov said there was a Russian-Chinese plan to defuse tensions between the United States and North Korea.

Speaking live on state television at a forum for Russian students, Lavrov encouraged Pyongyang and Washington to sign up to a joint Russian-Chinese plan, under which North Korea would freeze its missile tests and the United States and South Korea would impose a moratorium on large-scale military exercises.

The dollar was up 0.05 percent to 109.25 yen JPY=, after earlier falling to a sixteen-week low following data showing U.S. consumer prices rose less than expected in July.

Nikkei declines below Intermediate-term support.

The Nikkei declined beneath its Ending diagonal trendline and Intermediate-term support at 19794.96, confirming its sell signal. A breakdown beneath the Ending diagonal suggests a complete retracement of the rally. From a Cyclical point of view, this action suggests a decline to the weekly Cycle bottom at 15194.91.

(EconomicTimes) Japanese stocks were flat in choppy trade on Thursday morning as geopolitical concerns over North Korea's threats of missile strikes receded.

Financial stocks underperformed after US Treasury yields fell as bond prices rose in a flight to safety by nervous investors.

Trade was subdued before a three-day weekend starting on Friday. The Nikkei was flat at 19,736.72 by the midday break, after it traded in positive territory in early trade.

U.S. Dollar retests its Cycle Bottom.

USD appears to be retesting its Weekly Cycle Bottom support at 92.52. Weakness may prevail through mid-week before another attempted bounce. The lower trendline of the Orthodox Broadening Top at 90.00 may be an attractor.

(BBCNews) **The US dollar, long a symbol of American economic might, has fallen steadily this year.**

The value of the dollar index, which tracks the dollar against six major global currencies, has fallen about 10% since January.

It pushed lower on Friday, even as demand for other safe-haven assets - typically a category that includes the US dollar - rose amid sabre-rattling between the US and North Korea.

The dollar, which surged in 2014 as the US economy gained strength, is hardly in danger territory. The index is running just a bit lower than it was a year ago.

.**Gold is at a turn date.**

Gold has arrived at a turn date this weekend without violating its Head & Shoulders formation. Its high this week was 1298.10, while the peak was 1298.80. The Cycles Model suggests a probable decline may begin over the weekend. Gold may go into freefall at any time during this decline.

(BusinessInsider) Gold has rallied 2.3% this week on the heels of renewed tension with North Korea. It is trading at its best level in two months, and is threatening to crack the $1,300 level for the first time since the day following the US presidential election.

Gold is viewed as a safe haven asset that investors flock to during periods of uncertainty. Amid this renewed flare-up in tensions with North Korea, Capital Economics decided to take a look at how the precious metal has responded to geopolitical risk events since 1985. What the research firm found might surprise you.

According to analyst Simona Gambarini, **the price of gold "tends to rise in anticipation of a conflict but often falls when tensions turn into a full-blown war."**

Crude may surprise this week.

Crude declined under Long-term resistance at 49.56 after a week-long challenge. The Cycles Model suggests a probable spike above resistance before a likely tumble until the end of the month. A decline beneath Intermediate-term support at 47.39 reinforces the sell signal.

(OilPrice) Oil investors have grown more optimistic as of late, as oil prices have moved back to $50 per barrel. The market appears to be on sounder footing, suggesting that things will gradually tighten for the rest of the year. But it is unclear how far oil prices can really move above today's position.

Hedge funds and other money managers have begun buying up long positions on oil futures, a sign of growing bullishness. Reuters analyst John Kemp argues that the positioning of hedge funds has entered the third bullish phase of 2017, after two previous cycles ran their course earlier this year. In fact, the most recent data saw the largest weekly increase in net-long positions so far this year, and interestingly, Kemp points out that the net-long build is due to new long positions, rather than simply just a reduction of shorts. In other words, investors are betting that crude oil prices will rise.

Shanghai Index reverses beneath mid-Cycle support.

The Shanghai Index reversed back beneath mid-Cycle support at 3218.70 as it hit a Cyclical soft spot. A decline beneath Intermediate-term support at 3167.92 puts it on a sell signal. The Shanghai Index now enters the negative season through October. The Cyclical strength appears to have ended last week. The potential for a sharp sell-off is rising.

(ZeroHedge) Earlier this month, Morgan Stanley warned that commercial real estate prices in New York City, Sydney and London would likely take a hit over the next two years as Chinese investors pull out of foreign property markets.

The pullback, they said, would be driven by China's latest crackdown on capital outflows and corporate leverage, which they argued would lead to an **84% drop in overseas property investment by Chinese corporations during 2017,** and another 18% in 2018.

Sure enough, official data released by China's Ministry of Commerce have proven the first part of Morgan Stanley's thesis correct. Data showed that outbound investment in real estate **was particularly hard hit during the first half of the year, plunging 82%.**

The Banking Index makes a strong reversal.

-- BKX had a strong reversal last week, breaking down beneath weekly Short-term support at 94.91. Further weakness may develop next week as BKX declines beneath its Intermediate-term support at 93.19, which gives a confirmed sell signal.

(NationalLawReview) There has been substantial physical and virtual ink spilled over recent financial regulatory announcements about a review of the Volcker Rule—the controversial Dodd-Frank Act provision that generally prohibits proprietary trading and private investment fund sponsorship/investment by covered banking organizations. But will these agency activities lead to any change? In our view, they may lead to some minor changes, but no major ones.

The recent regulatory actions include a joint federal banking agency release announcing that the five federal financial regulatory agencies that administer the Volcker Rule (the Agencies) will review the applicability of the Volcker Rule to certain types of foreign investment funds, followed by a later announcement by the Office of the Comptroller of the Currency (OCC) requesting comments on possible regulatory changes to the Volcker Rule.

(ZeroHedge) Several weeks ago, Janet Yellen boldly declared "I don't believe we will see another crisis in our lifetime." For the rest of us who live in reality there is little doubt that the latest Fed-fueled credit bubble will eventually burst in epic fashion and once again lay waste to the personal balance sheets of millions of Americans. And while the timing of market collapses can never be predicted, **UBS strategist Matthew Mish says there is one thing that is certain about the next credit unwind, it will be unlike anything we've seen before.**

To summarize, Mish notes that unlike previous credit expansion cycles, this current one has been **dominated not by traditional banks but rather by non-bank lending entities and government backed loans**, especially in riskier subprime residential, auto and student loans. Moreover, **unlike traditional lenders, Government debt tends to be much slower to react to things like rising delinquency rates**...you know, because it's just taxpayer money so who cares.

(ZeroHedge) Last Saturday, we reported that with VIX at 9, Interactive Brokers surprised many when announced it would raise volatility margins anticipating a *VIX shock.* This is what the brokerage said:

VIX has established new all-time lows over the course of the past month. The price dynamics of that product are such that it can have very large relative price increases over a very short period of time base on news and other market factors. In recognition of the special risk of sudden, large increases in market volatility, that is inherent in Volatility Products such as VIX, Interactive Brokers will put into place greater margin requirements for Volatility Products after expiration processing on Saturday, 19 August.

(ZeroHedge) ***Accounts of the financial crisis leave out the story of the secretive deals between banks that kept the show on the road. How long can the system be propped up for?***

It is a decade since the first tremors of what would become the Great Financial Crisis began to convulse global markets. Across the world from China and South Korea, to Ukraine, Greece, Brexit Britain and Trump's America it has shaken our economy, our society and latterly our politics. **Indeed, it has thrown into question who "we" are. It has triggered both a remarkable wave of nationalism and a deep questioning of social and economic inequalities. Politicians promise their voters that they will "take back control. "**But the basic framework of globalisation remains intact, so far at least. And to keep the show on the road, networks of financial and monetary co-operation have been pulled tighter than ever before.

Have a great weekend!

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