

TA THRASHER ANALYTICS

MAY 30, 2021



WEEKLY RESEARCH & ANALYSIS

BY ANDREW THRASHER, CMT

Bullish

- Long-term breadth remains strong.
- Trend Model remains positive for all sectors and indices.
- The Market Health Report remains supportive.
- Cannabis strengthens.
- Breadth improves.
- Micro caps improve.

Bearish

- SKEW rises.
- Coffee, hogs, copper bearish setups.
- VIX-SPX Sentiment spread rises.

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Volatility

Equities

Market Health Report

Sector

Crypto

Commodity

Sentiment

Trend Models

Sector Rotation: June	
Financials	XLF
Energy	XLE
Communication	XLC

Fixed Income Rotation: Q2	
Emerging Market Debt	PCY
20+ Yr Treasury	TLT

Market Health Report	
Breadth	3
Divergence	0
Momentum	2
Sentiment	1
Trend	1
Volatility	0
Total	7

Index & Sector		
	Up Trend	Down Trend
SPX	X	
QQQ	X	
XLF	X	
XLY	X	
XLK	X	
XLV	X	
XLU	X	
XLP	X	
XLI	X	
XLRE	X	
XLE	X	
XLB	X	

Daily Sentiment Index		
	% Bullish	5-day MA
S&P 500	75%	73%
Nasdaq 100	71%	71%
Nikkei	83%	77%
VIX	21%	22%
10yr Treasury	65%	74%
5yr Treasury	50%	54%
CRB Index	71%	67%
Gold	66%	67%
U.S. Dollar	21%	18%

*Green<25% Red>80%

source: trade-futures.com

Brief Summary:

Not a lot to cover this week with equities still in a short-term consolidation, finishing the month up 0.6%. We did see the S&P 500 rise a 1.2% and the Market Health Report has continued to do a good job telling us the health of the market is positive and the recent dip would be short-lived. The MHR is still strong at +7. The Sector Rotation model did not change for June and pegged two of the top three sector's during May (Financials and Energy).

Sentiment for volatility has held firm while its drifted lower for stocks, keeping the ratio between the two in a short-term up trend, which isn't a great sign for risk assets. Also, the SKEW Index has risen quite a bit, giving potential important signals for the VIX. Breadth remains supportive with prices advancing and sending advance-decline lines to/near new highs.

Commodity markets have been interesting lately with possible bearish setups for lean hogs, coffee, and copper. While the cannabis industry continues to strength after its decline from earlier in the year, breaking back above the 50-day moving average.

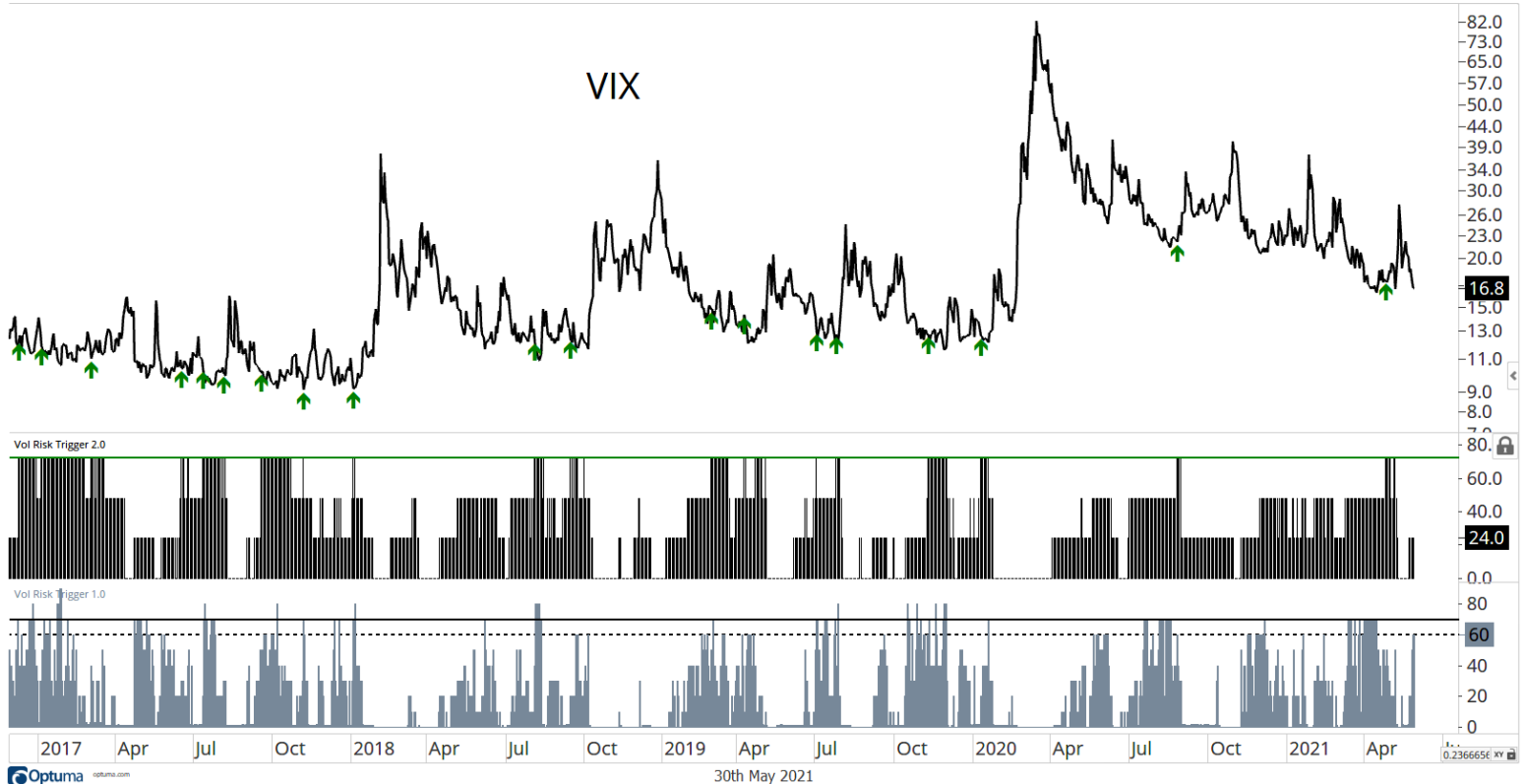
I didn't include the chart but I will note the Large Traders did increase their net-short position in the Eurodollar last week, reference last Sunday's note for more on this topic and its importance.

As a reminder, the below chart shows both the old Volatility Risk Trigger (VRT 1.0) as well as the new Volatility Risk Trigger (VRT 2.0).

The VIX continued to move lower last week, finishing under 17. The VRT 2.0 ticked higher at the end of the week but still is well off a level to suggest a dispersion-led spike is quickly approaching. This doesn't mean we couldn't see some strengthening in volatility, I say that primarily based on what we're seeing in the SKEW Index which I'll address on the next page.



CBOE S&P 500 Volatility Index - VIX (CBOE) - 1 Day Line Chart - USD - No Layout



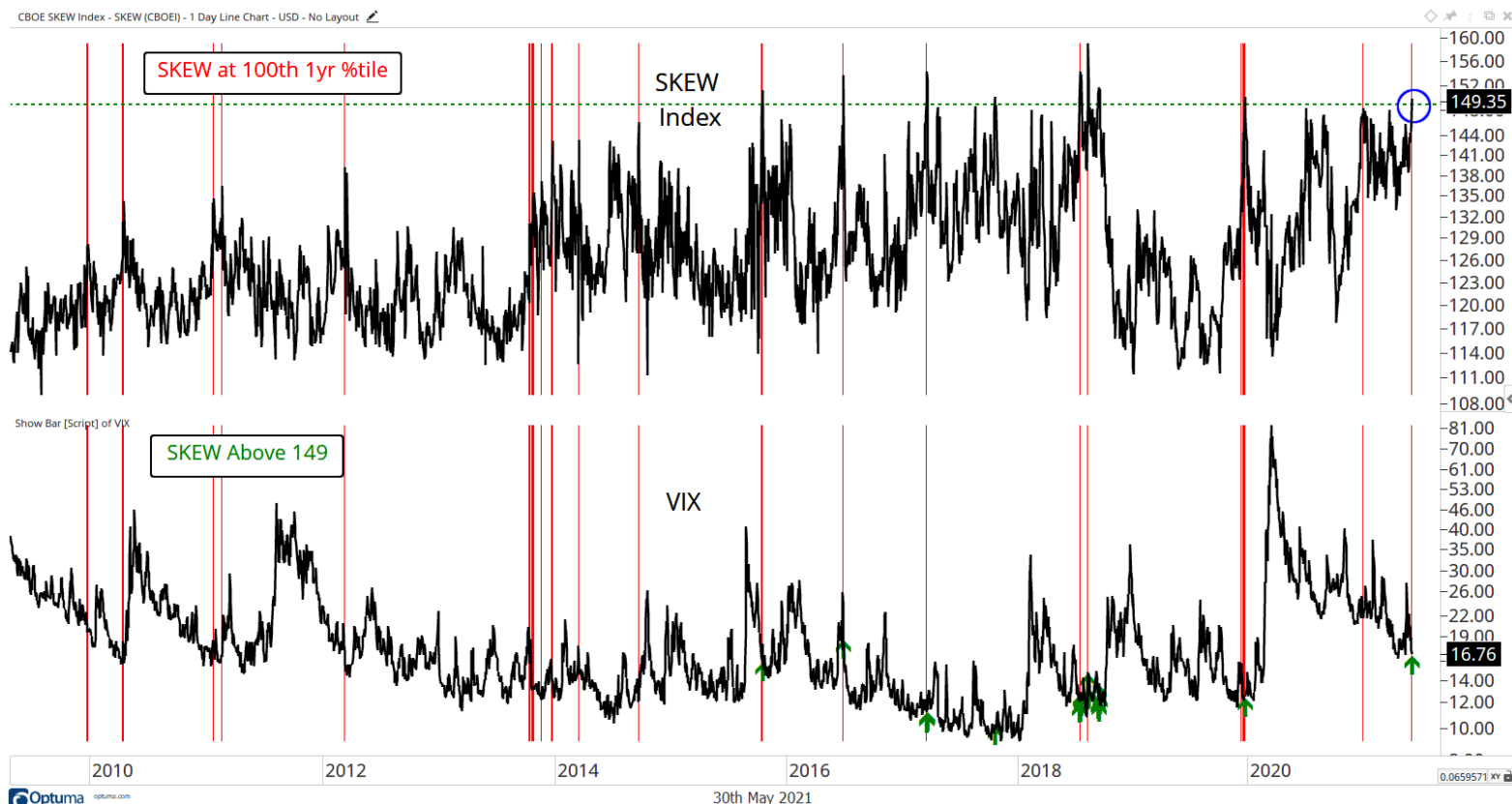
VOLATILITY - SKEW INDEX



A very simplified definition of the SKEW Index is that by focusing on out-of-the-money options its often viewed as a "crash" gauge. A reading of 100 implies 'normal' distribution of S&P 500 returns and each 5 point increase in the SKEW Index implies about a 14 bps increase in the risk of a 2-standard deviation move in the SPX. Similar to sentiment polls, most of the time SKEW isn't relevant or very predictive but at extremes (again, like sentiment polls), they can over some insightful data.

Right now, the SKEW Index is at one of its highest readings in a decade, 149. Let me unpack what's on the chart below. The Red lines show when SKEW is at a 100th %tile (1-year lookback) while the green arrows on the bottom VIX chart show when SKEW has been above 149. When we get these extremely high levels (relative or absolute), many times it's led to a material move in the Volatility Index. Most recently when it last hit its 100th %tile back in January ahead spot VIX going from 21 to 37 in a matter of a few days.

It's not just the level of the SKEW Index that has my attention, but also the speed at which it recently moved relative to the VIX, which the next page discusses further.



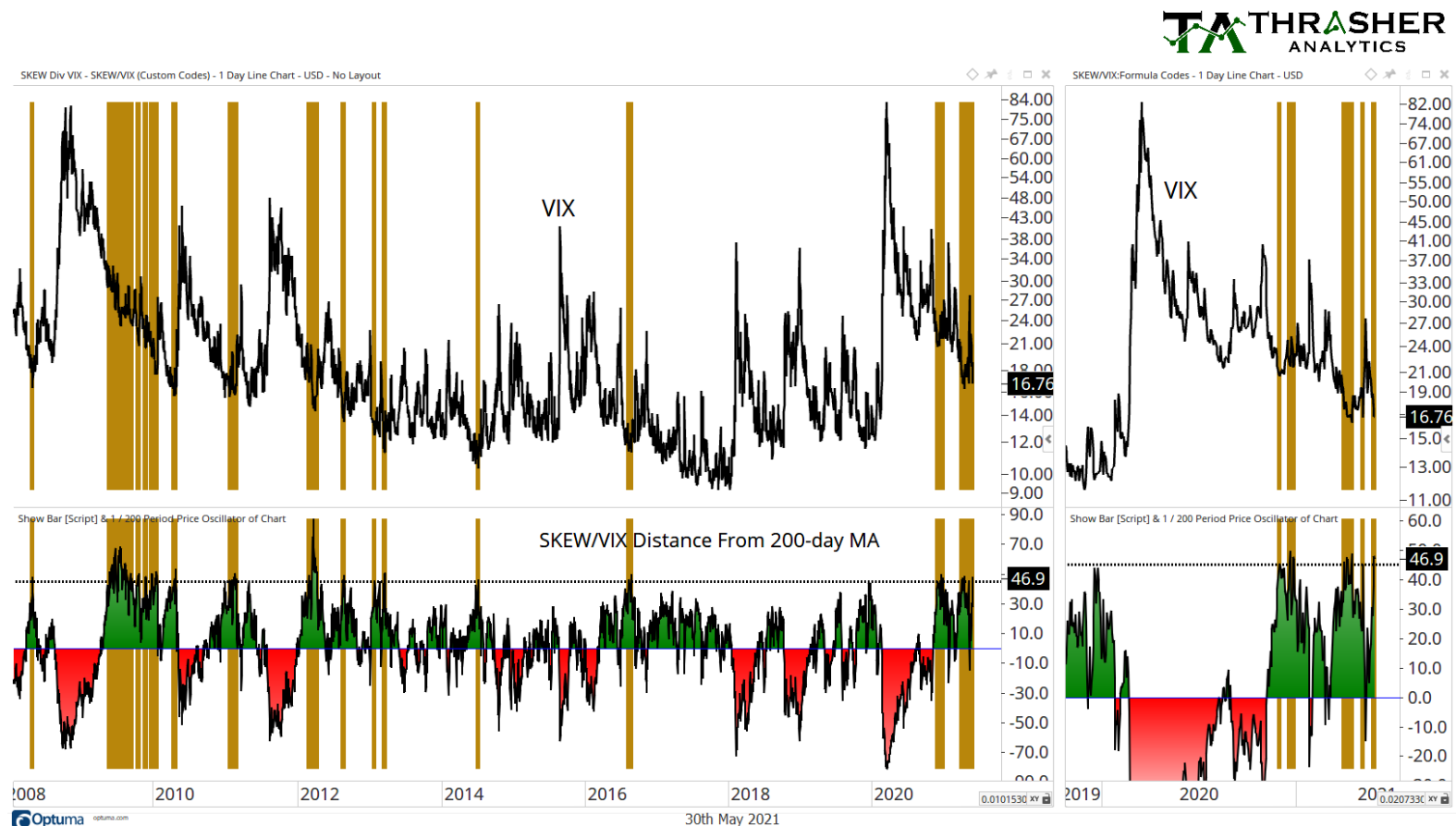
VOLATILITY - SKEW vs. VIX



This time we are going to take a look at a ratio of SKEW to VIX and specifically the distance of that ratio to its 200-day Moving Average. This will tell us if the ratio (rising if SKEW is increasing at a faster pace than the VIX) has moved quickly, causing a large spread from its long-term average - which in fact is the case today.

The ratio between SKEW and the VIX is 46.9% above its 200-day MA, a level it has only reached a handful of times since 2010. Notice when SKEW "outperformed" the VIX at such a fast pace in the past and where that occurred for the VIX, often near a low.

Not only is SKEW extremely high, but it's risen at a pretty fast clip relative to the Volatility Index. Several times in market history this type of action occurred before a pick up in volatility. Not necessarily a spike higher, but we often saw the VIX began to rise.



EQUITIES - S&P 500 DAILY



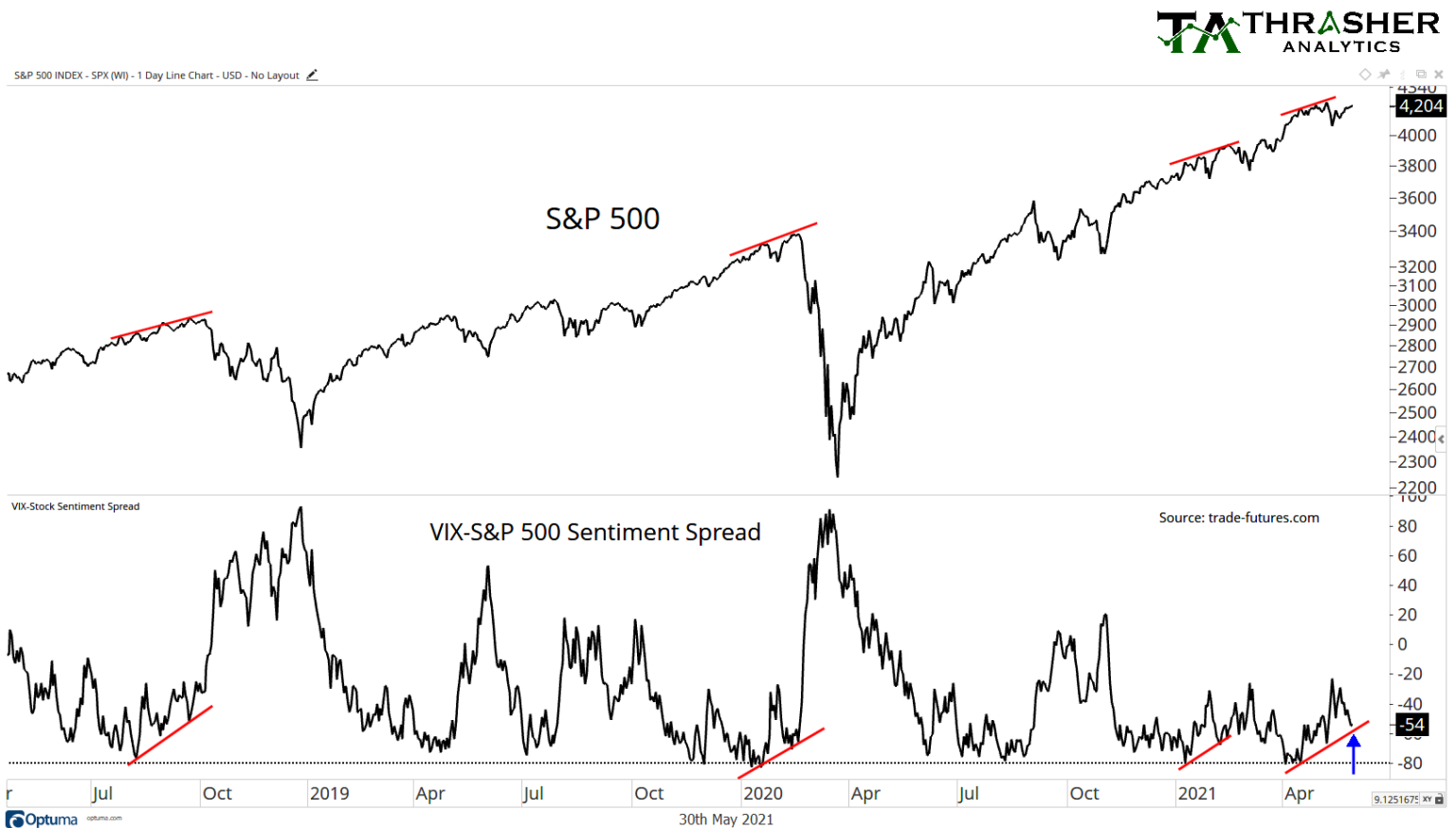
The 50-day moving average did a great job acting as support for the S&P 500, which continued to slowly advance higher last week and now sits just off its prior high. Just about every market observer is watching if we get a breakout in the SPX to a new high, laser-focused on 4232. Should we see a break of this level sometime this week it'll most likely occur with yet another lower-high in momentum. If the 14-day RSI doesn't get above 60, since 2012 it'll be just the 11th time the S&P hit a 1-yr high with such a low RSI reading. The prior occurrences didn't immediately send the index lower but we often did see some consolidation in daily price activity.



EQUITIES - SENTIMENT RATIO



Even though equities are nearly back to their prior high and the VIX has moved lower, the ratio between the Daily Sentiment Index % bullish for the VIX and S&P 500 has remained elevated. The VIX sentiment reading was 13% bullish when it was last at this level in early May, compared to being 21% right now. While the S&P sentiment reading is 5 points below its May high level. Sentiment has firmed up for volatility and cooled off for equities, keeping the ratio between the two within a short-term trend of higher-lows. This has not been bullish for equities in the past as you can see from the chart below.



EQUITIES - BREADTH: %ABOVE



Breadth has been one of the bright spots for the equity market for most of this year as we kept setting records for the strength of stocks above intermediate moving averages and record 52-week highs. The recent dip in equities saw a minor move lower in the % of stocks above the 50-day moving average, never breaking under 60%. However the recovery has been less stellar in breadth than in price. While the S&P 500 has moved above its prior short-term swing high at 4174, we haven't seen such an accomplishment for the breadth indicator. This isn't to suggest breadth is weak - it's not - but while stocks are rising (we'll cover this more on the next page) they aren't going at the same speed, so to speak, as the index and recovering their 50-day MA. This is a minor point but a chart worth watching if we do see price dip this week and the breadth figure moves under 70%



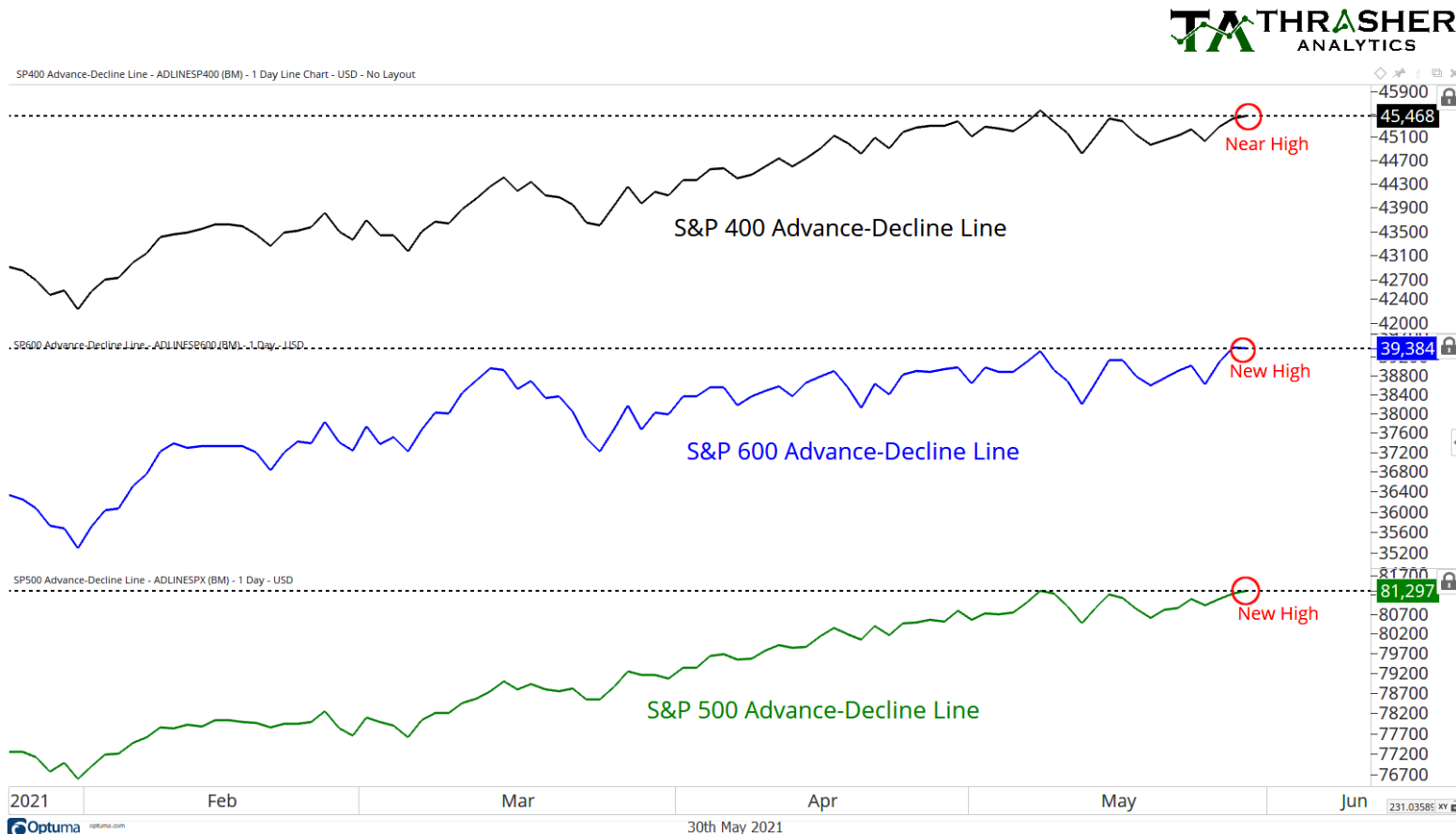
EQUITIES - BREADTH: A-D LINE



One bullish chart as it relates to breadth is the cumulative advance-decline line for small cap, mid cap, and large caps.

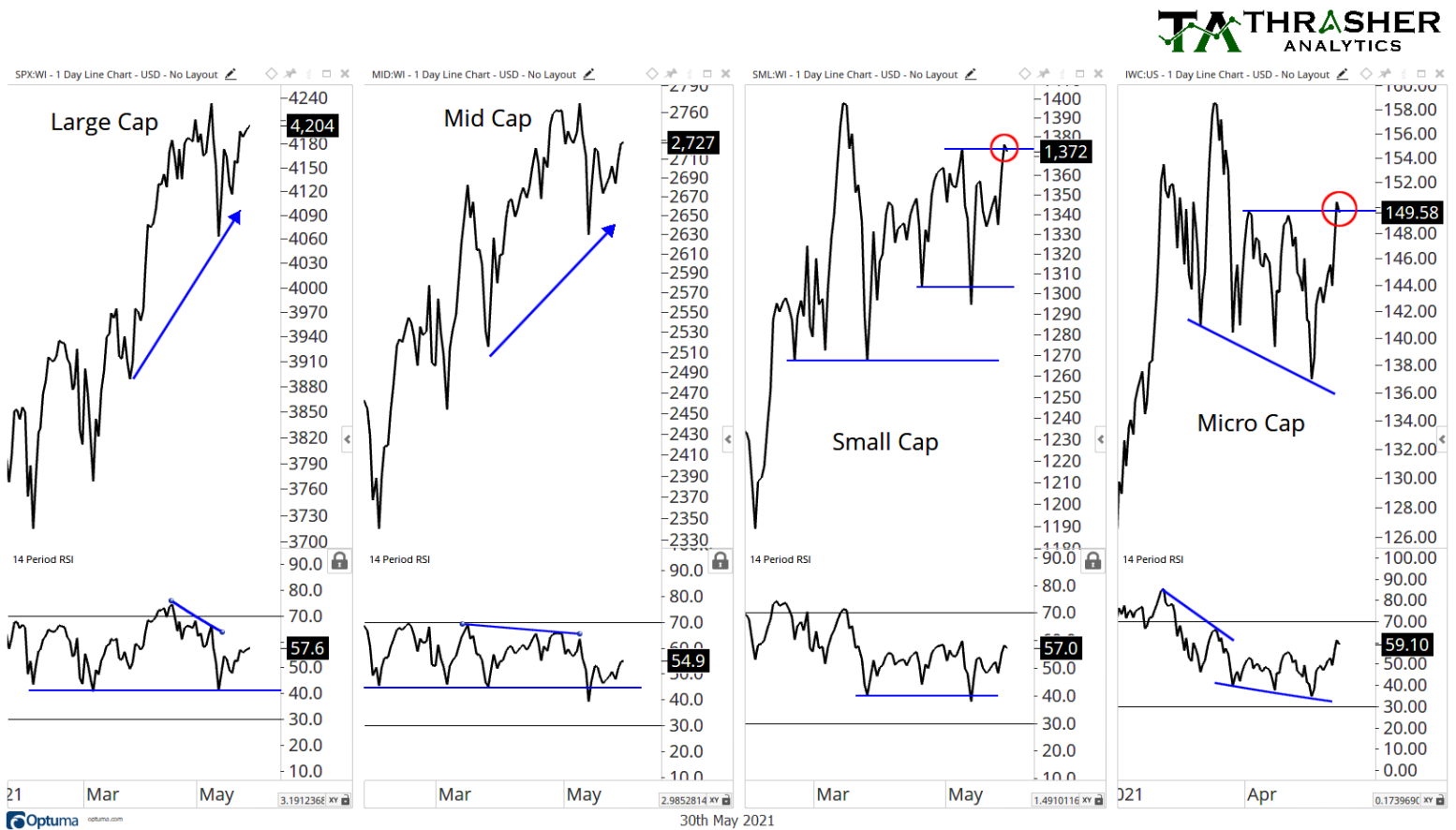
The S&P 600 and S&P 500 both had their A-D lines set new highs last week with the S&P 400 A-D Line just a few points away from doing the same. This is why I mentioned on the prior page that I think prices are in fact rising, sending the A-D lines higher, just not at the same velocity as price which is why we haven't had a higher-high in the % above 50-day MA indicator.

In my opinion, the A-D chart outweighs the 50-day MA chart, as the notion that prices are at least moving higher is *not* long-term bearish. Most major highs see the Advance-Dcline Line diverge for several weeks and/or months ahead of a peak. This isn't a requirement per se but a common major peak characteristic and one we don't have presently.



Speaking of asset size, the chart below should look somewhat familiar as it shows the large cap, mid cap, small cap, and micro cap indices.

I've previously discussed the concern with micro caps starting to make lower-lows and if that weakness would bleed into the larger indices. So far it hasn't (thankfully). Friday's price action saw a possible false breakout in the Micro Cap index, something I'll be watching if it weakens further this week. But as of right now we saw good improvement in all four indices last week, a good sign for the bulls.



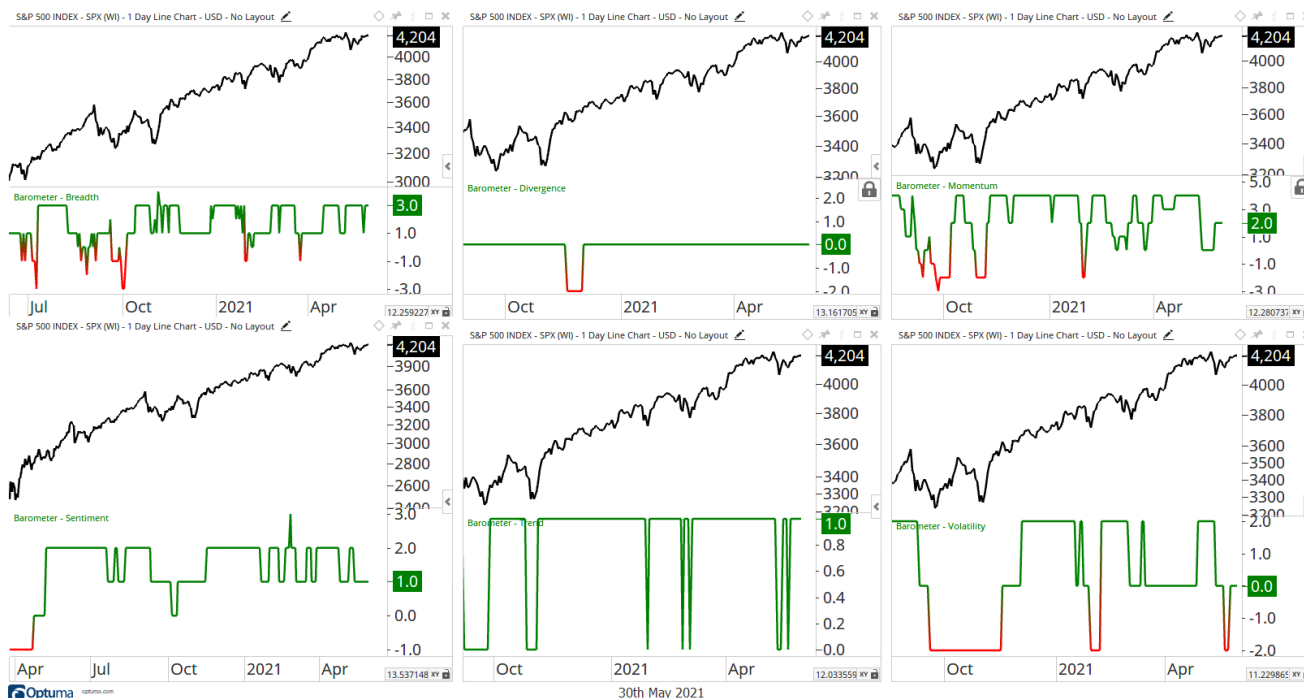
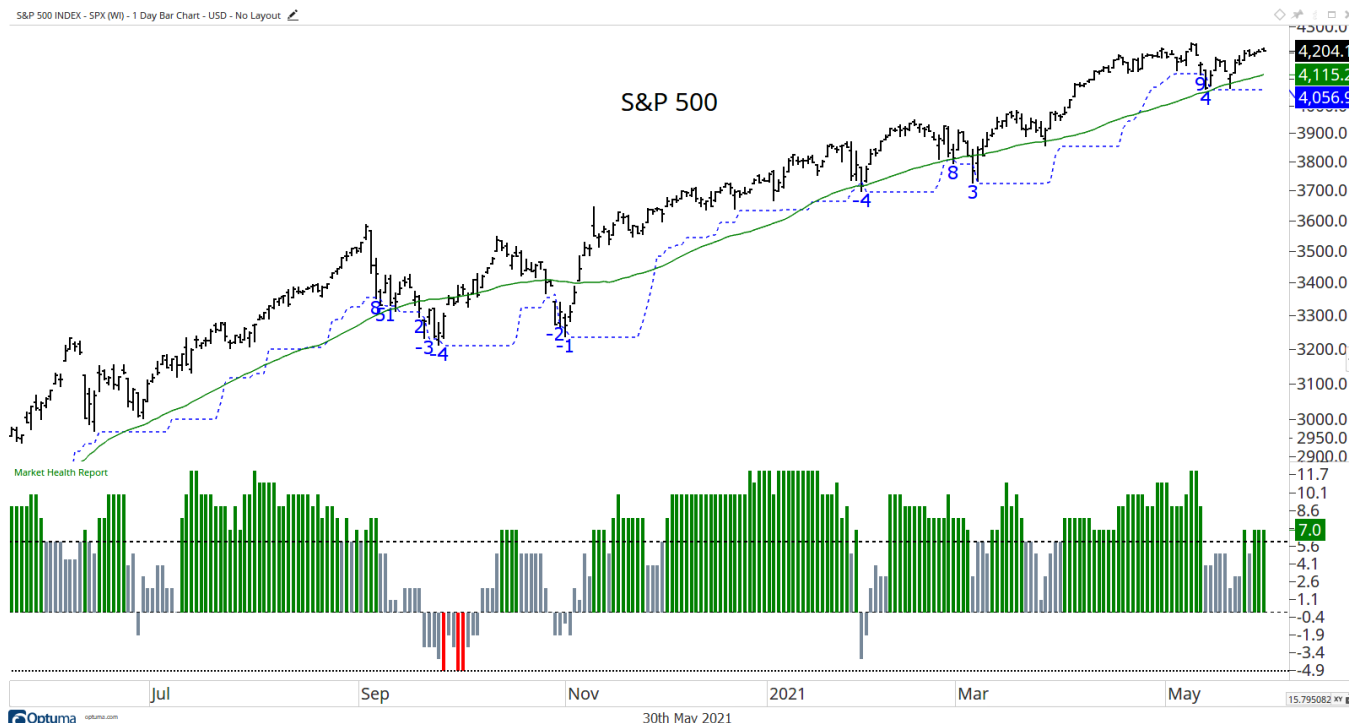
I remain bullish on the cannabis industry and while there's headlines nearly every day in this space which I could cover in ever week's letter, I am focused on tracking the price action that's driven by the supply and demand that results from those headlines. And right now that's helped move the U.S. Cannabis market (based on the MSOS ETF which owns just U.S. cannabis operators) higher, with a break last week of the 50-day moving average, which has been resistance on the prior two tests in April. Should MSOS continue to climb back above the 50-day MA, I'm watching the VWAP off the February peak which saw a counter-swing test last March and would be the next potential price target as news-driven catalysts continue to drive in interest.



MARKET HEALTH REPORT



The Market Health Report (MHR) finished the week up to +7. The 15-day lows show the recent readings of +9 and +4, which signaling the market was still fairly strong and the decline would likely be shallow. So far that's been the case, with SPX back near its prior high. As of Friday, none of the six categories are negative, a bullish sign for stocks.

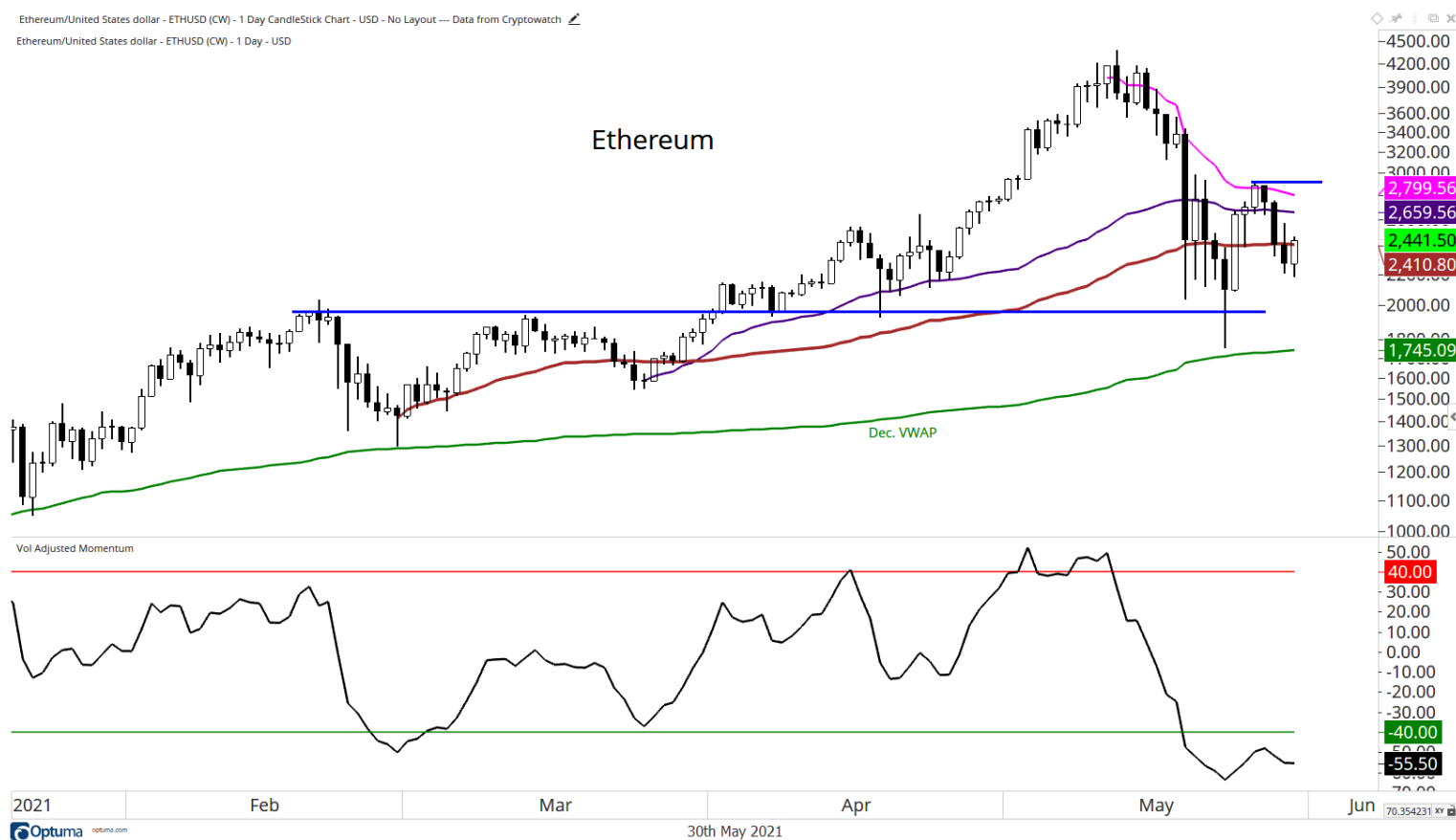


SECTORS - PERFORMANCE



Sector	> 50MA	> 200MA	1wk Perf ▼	1mo Perf	3mo Perf	12mo Perf
SPDR Consumer Discretionary Select Sector Fund ETF	False	True	2.55%	-3.00%	7.25%	39.68%
SPDR Communication Services Select Sector ETF	True	True	2.51%	2.32%	10.09%	46.64%
SPDR Real Estate Select Sector Fund ETF	True	True	2.17%	2.56%	15.85%	24.13%
SPDR Industrial Select Sector Fund ETF	True	True	2.02%	3.17%	16.01%	54.38%
SPDR Technology Select Sector Fund ETF	True	True	1.62%	-2.36%	5.9%	43.05%
SPDR S&P 500 ETF	True	True	1.23%	0.63%	10.43%	38.64%
SPDR Financial Select Sector Fund ETF	True	True	1.09%	5.70%	17.58%	60.43%
SPDR Materials Select Sector Fund ETF	True	True	0.76%	4.62%	18.64%	57.4%
SPDR Energy Select Sector Fund ETF	True	True	0.1%	4.19%	8.43%	34.08%
SPDR Consumer Staples Select Sector Fund ETF	True	True	-0.3%	2.94%	11.86%	19.67%
SPDR Health Care Select Sector Fund ETF	True	True	-0.61%	1.16%	9.76%	21.44%
SPDR Utilities Select Sector Fund ETF	False	True	-1.51%	-0.67%	11.65%	10.01%

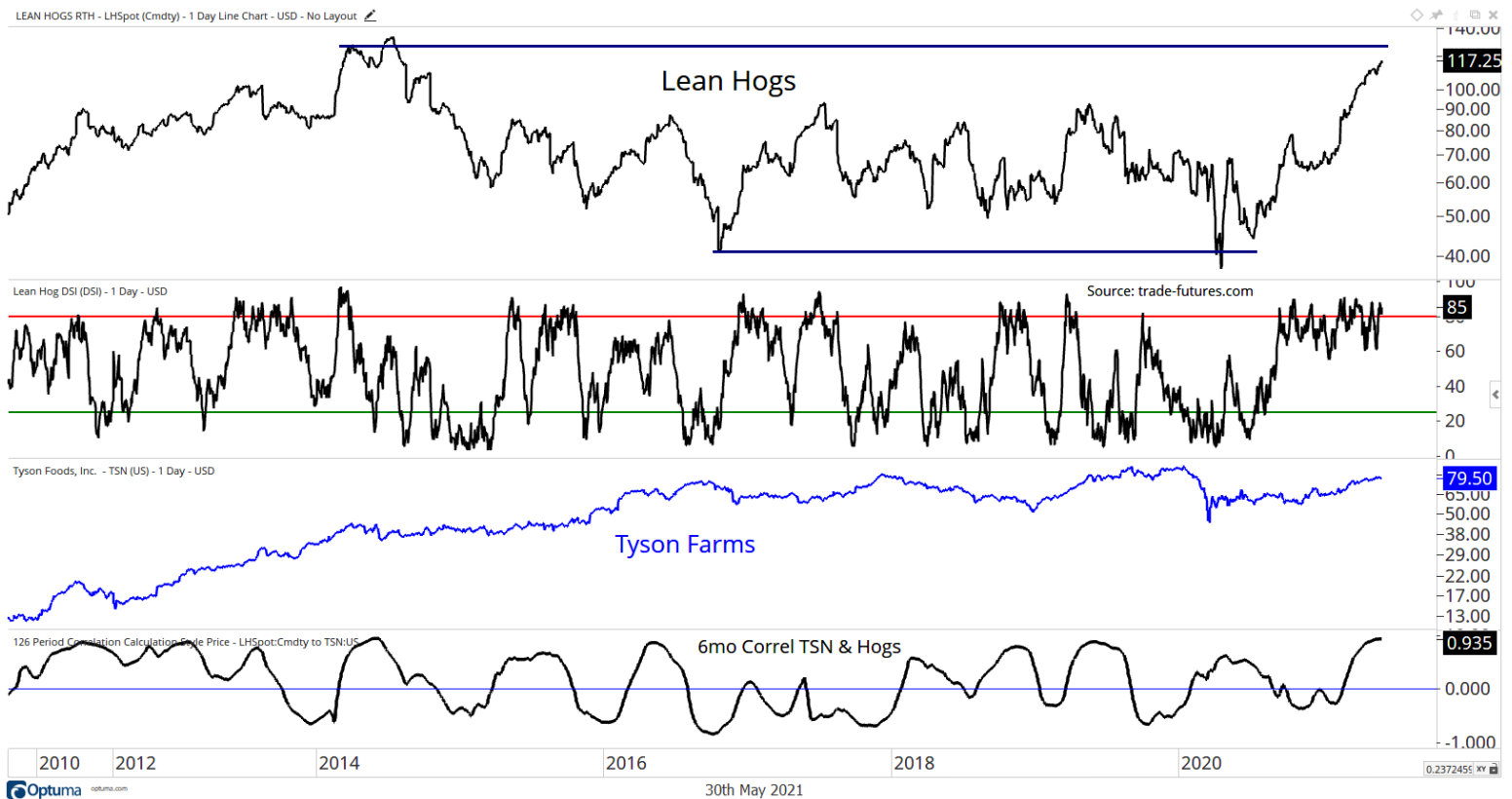
Last week I mentioned Ethereum appeared to have the best looking chart during the crypto sell-off, holding above its prior February swing high. Since then, we saw ETH rally over 40% before running into resistance at the VWAP off the May high. The price action continues to look constructive for ETH as long as it can hold above that Feb. level and December VWAP however things can be choppy between these support levels and the May VWAP (currently at 2,799). A trend needs to develop either higher, above 2800 or break under 2000 and eventually 1745. Until then, it could be choppy in the short-term.



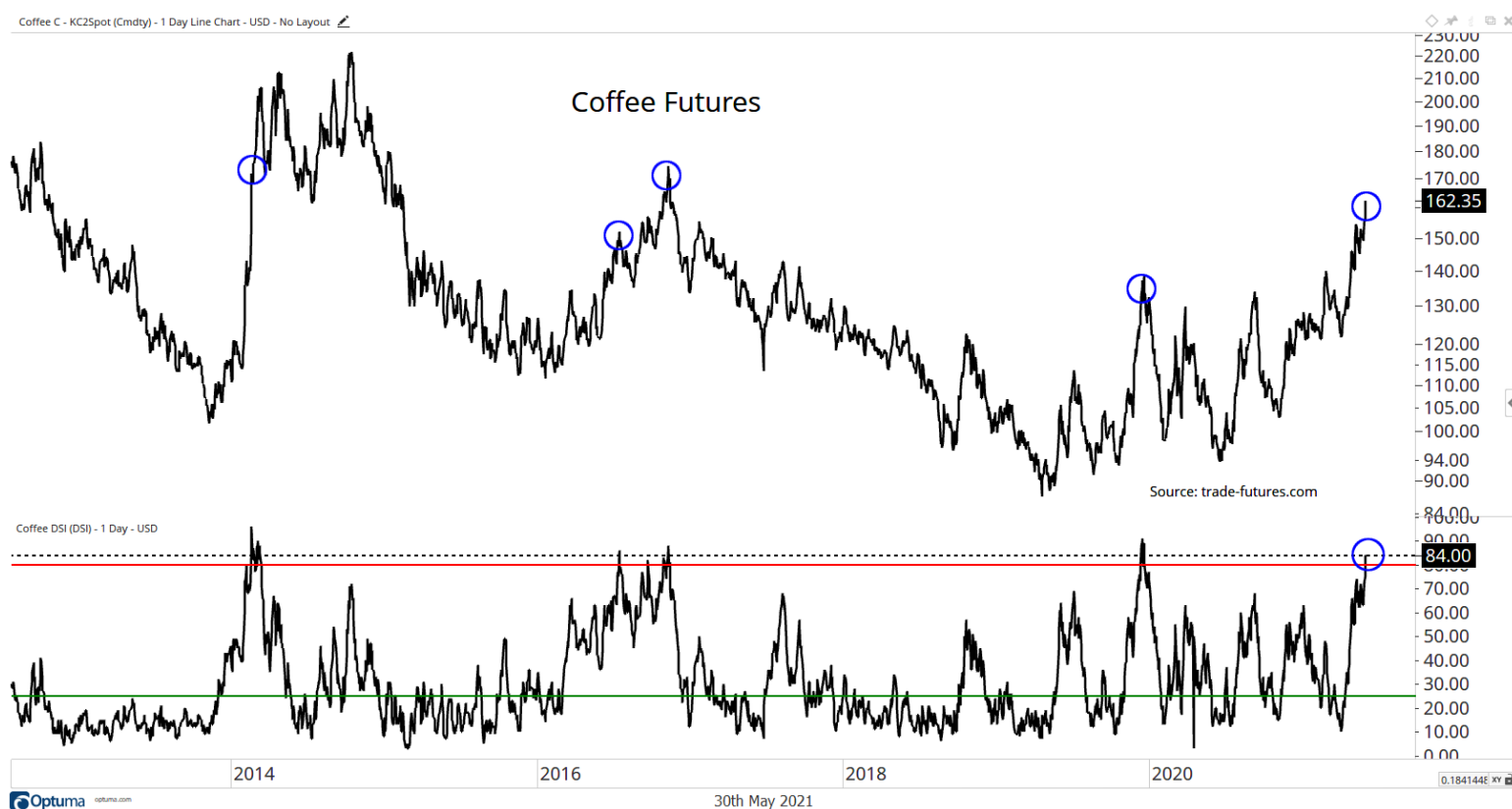
COMMODITY - LEAN HOGS



Like many other ag commodities, lean hogs futures have been on a tear higher, nearly up 200% from their 2020 low. However, as they now rise near the 2014 peak and with sentiment at an elevated 85% bullish level, there may not be cheap bacon left to carve (sorry!). This has bearish implications for producers like Tyson Foods (TSN) which has a strong positive correlation to Hog futures. Should these pigs get slaughtered (sorry again!) they could sent TSN lower. Something to be aware of if you have exposure.



Another ag commodity I have on my radar is coffee futures. Coffee has had a strong rise from \$100 to \$162 in just a few months. With that rise in price, sentiment has also gotten extremely elevated. DSI is now at 84% bullish, which is a level seen just a few times since 2014 - marked with blue circles. Three of those four occurrences saw coffee futures move lower while the fourth saw coffee continue to rise before a much larger top was put in. It seems just about everyone is bullish on coffee prices, which makes the risk/reward much less attractive.



COMMODITY - COPPER



Copper futures have risen all the way back to the 2011 peak, putting in a possible breakout higher last week with the move above \$4.6. However under the hood it appears Large Traders have been selling into this strength. This is important because Large Traders are often trend followers and will ride a commodity trend higher, as this initially did in copper. So to be seeing them decreasing their net-long position, going from the 100th %tile to the 59th suggests maybe this breakout wont hold and copper prices may start moving lower soon. The blue lines on the chart below show when the 5year %tile for Large Traders has gone from extremely high (at or near 100) to the current 59th.



DAILY SENTIMENT INDEX



Market	% Bullish [▲]	5MA	History [⊞]
Lumber DSI	14	23.4	
VIX DSI	21	22.4	
US Dollar DSI	21	18	
Cattle DSI	33.00	35.60	
Wheat DSI	37.00	35.00	
Platinum DSI	40.00	41.00	
Palladium DSI	40.00	35.60	
Cocoa DSI	40.00	39.40	
Orange Juice DSI	45.00	37.80	
5YR DSI	50.00	54.20	
Sugar DSI	60.00	52.60	
EuroDollar DSI	62.00	60.20	
Mexican Peso DSI	63.00	64.20	
Corn DSI	63.00	56.60	
Australian Dollar DSI	64.00	70.40	
Silver DSI	65.00	62.40	
10Y DSI	65.00	73.60	

<input type="checkbox"/>	Code	% Bullish [▲]	5MA	History [⊞]
<input type="checkbox"/>	Gold DSI	66.00	66.80	
<input type="checkbox"/>	Cotton DSI	67.00	53.20	
<input type="checkbox"/>	Swiss Franc DSI	69.00	74.20	
<input type="checkbox"/>	Crude Oil DSI	69.00	70.20	
<input type="checkbox"/>	Nasdaq DSI	71.00	70.60	
<input type="checkbox"/>	CRB Index DSI	71.00	67.40	
<input type="checkbox"/>	Copper DSI	71.00	62.00	
<input type="checkbox"/>	British Pound DSI	71.00	72.00	
<input type="checkbox"/>	New Zealand Dollar DSI	72.00	77.80	
<input type="checkbox"/>	Heating Oil DSI	74.00	76.00	
<input type="checkbox"/>	Gasoline DSI	74.00	76.40	
<input type="checkbox"/>	SPX DSI	75.00	72.60	
<input type="checkbox"/>	Natural Gas DSI	75.00	78.00	
<input type="checkbox"/>	Euro DSI	75.00	77.60	
<input type="checkbox"/>	Nikkei DSI	83	77.20	
<input type="checkbox"/>	Coffee DSI	84	72.20	
<input type="checkbox"/>	Lean Hog DSI	85	84	

Source: trade-futures.com

DAILY SENTIMENT INDEX



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10-Year T-Note (P) Continuation - TY_FSpot (CBOT) - 1 Day Line Chart - USD - No Layout



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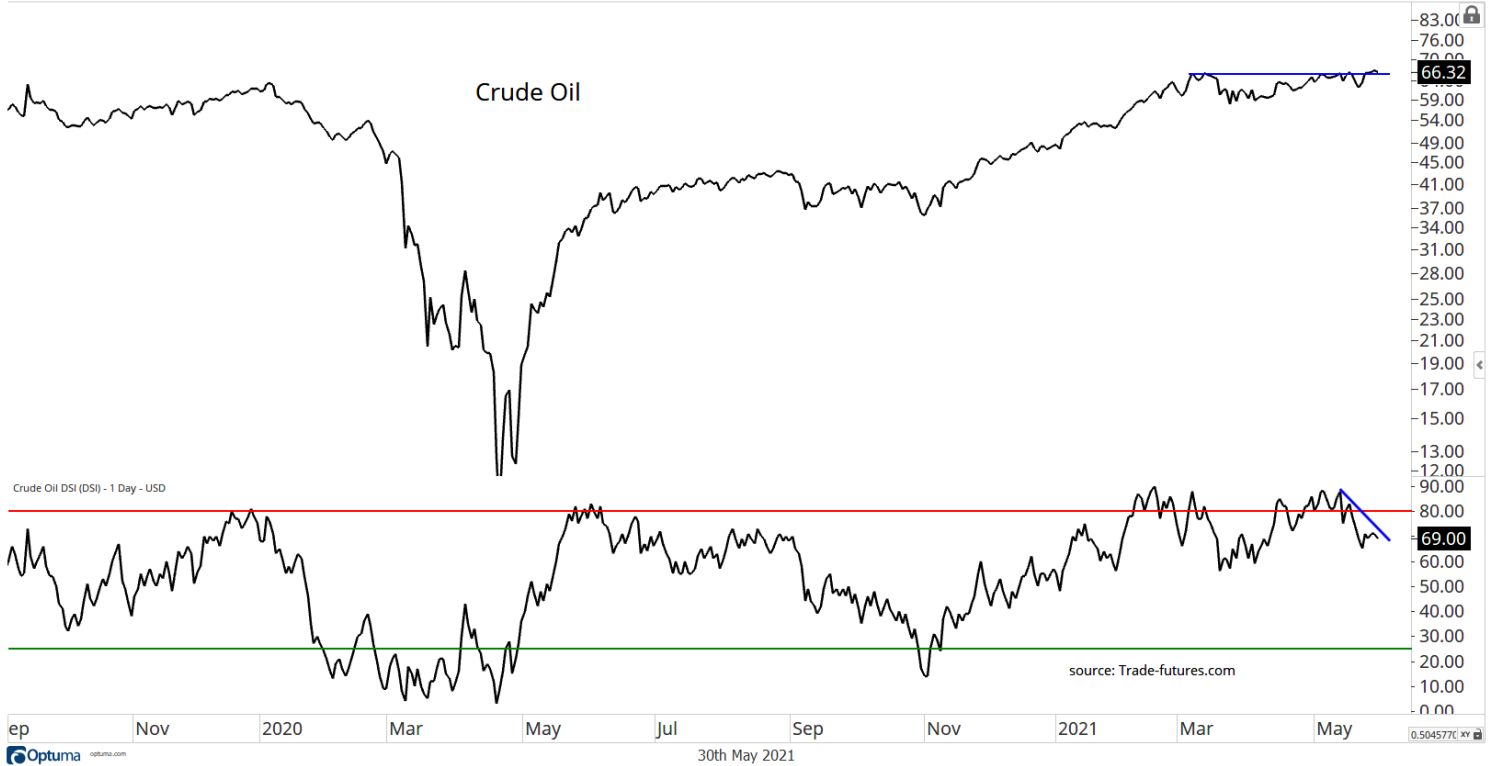
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DAILY SENTIMENT INDEX



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Crude Oil Light Sweet NYMEX - OILSW (W) - 1 Day Line Chart - USD - No Layout



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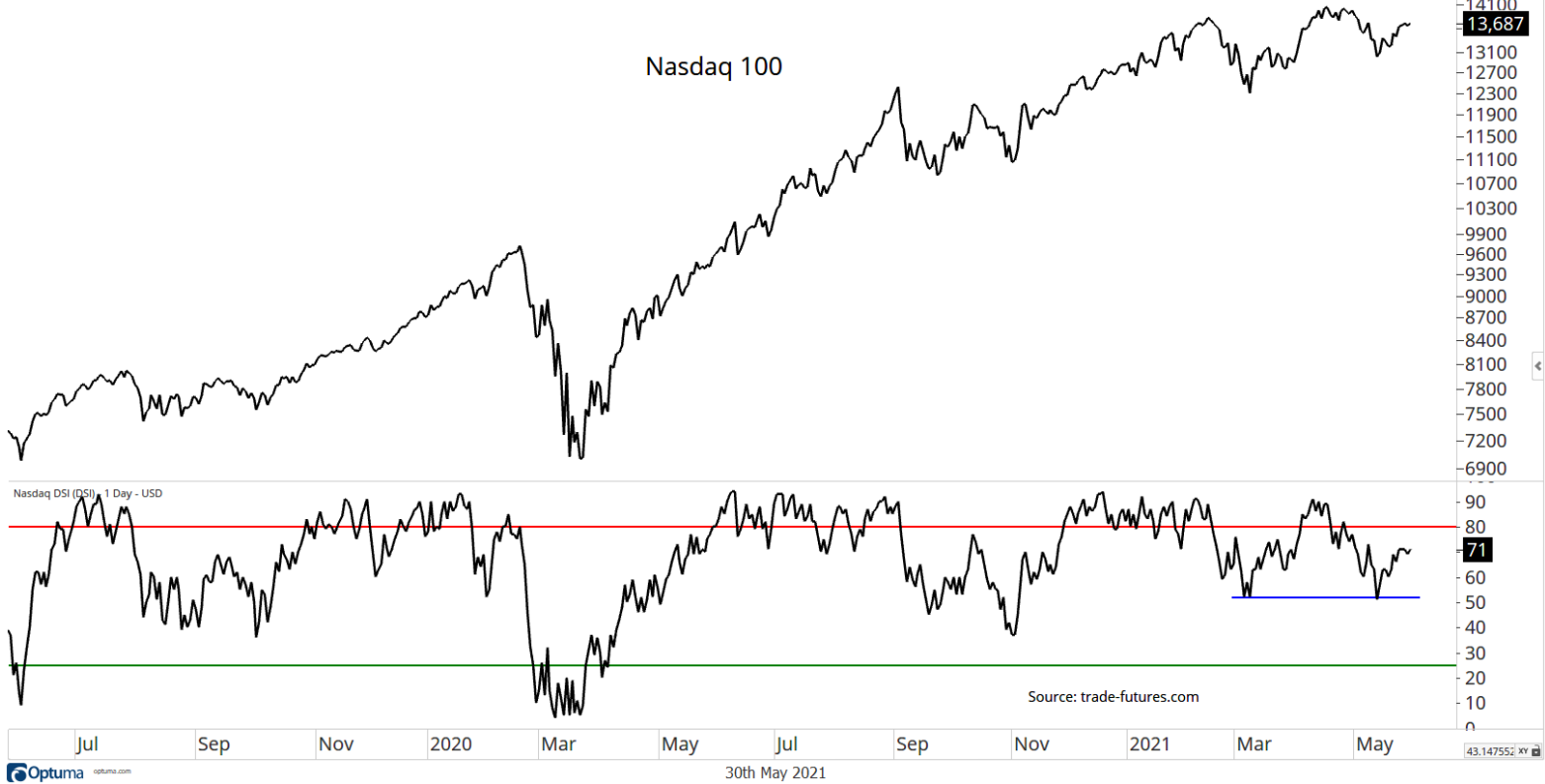
Gold Futures - GCSpot (NYMEX) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



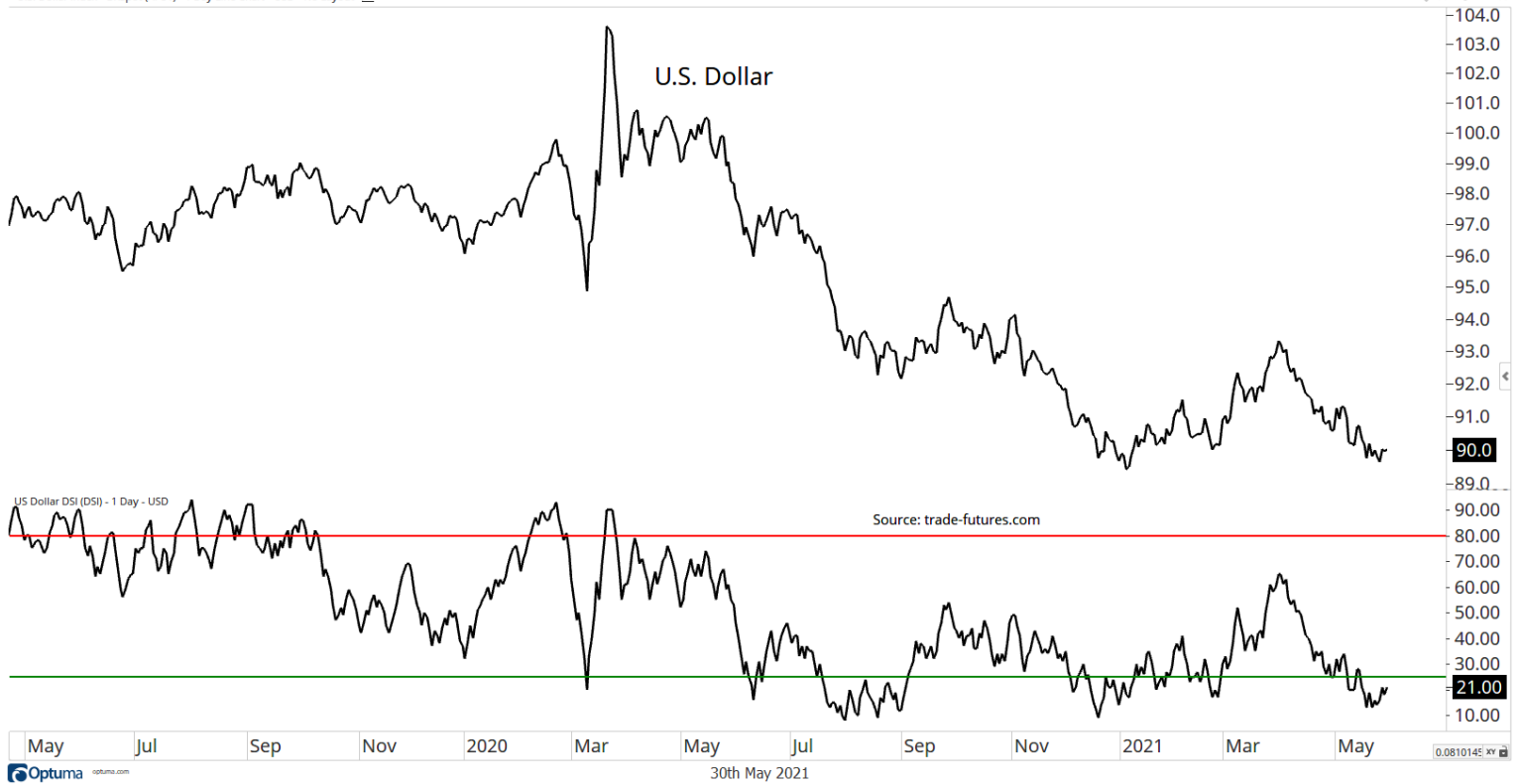
NASDAQ 100 Index - NDY (W) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX



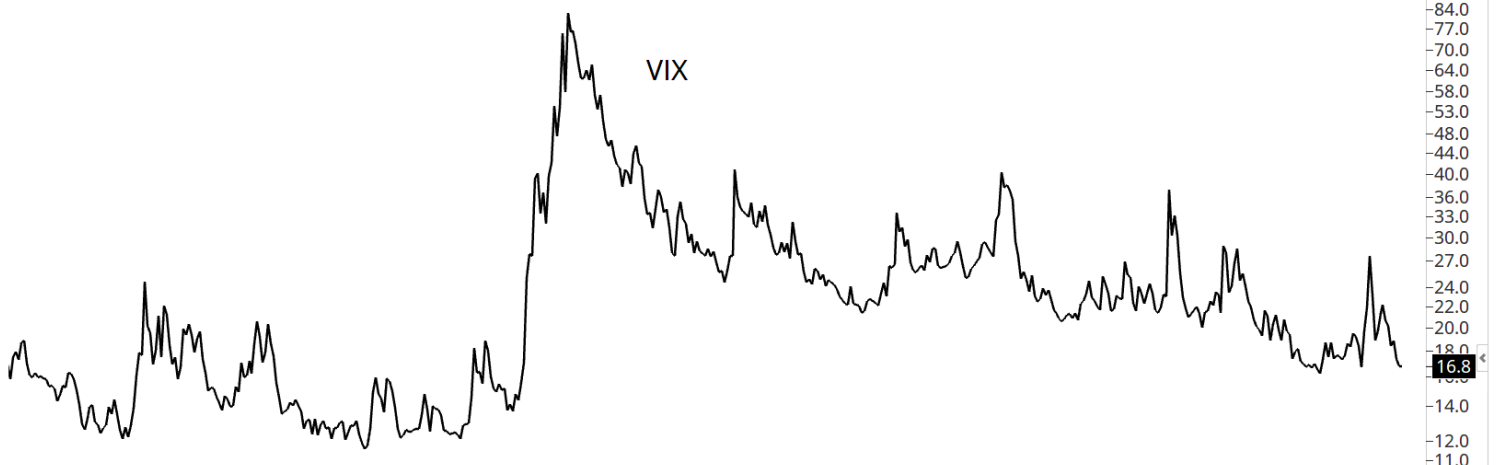
U.S. Dollar Index - DXSpot (AFUT) - 1 Day Line Chart - USD - No Layout



DAILY SENTIMENT INDEX

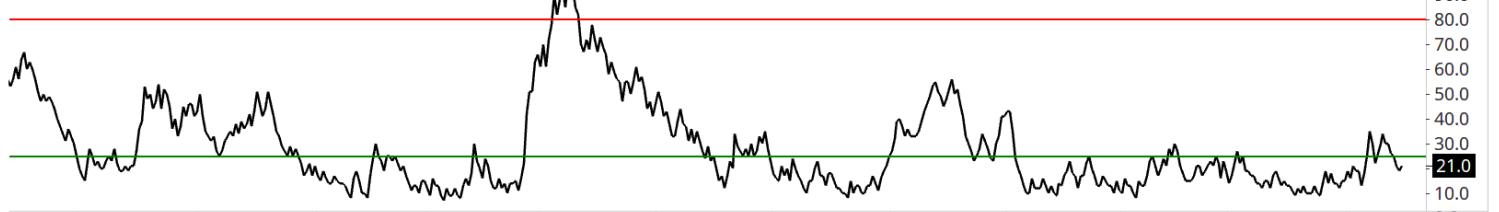


CBOE S&P 500 Volatility Index - VIX (CBOE) - 1 Day Line Chart - USD - No Layout



VIX DSI (DSI) - 1 Day - USD

Source: trade-futures.com



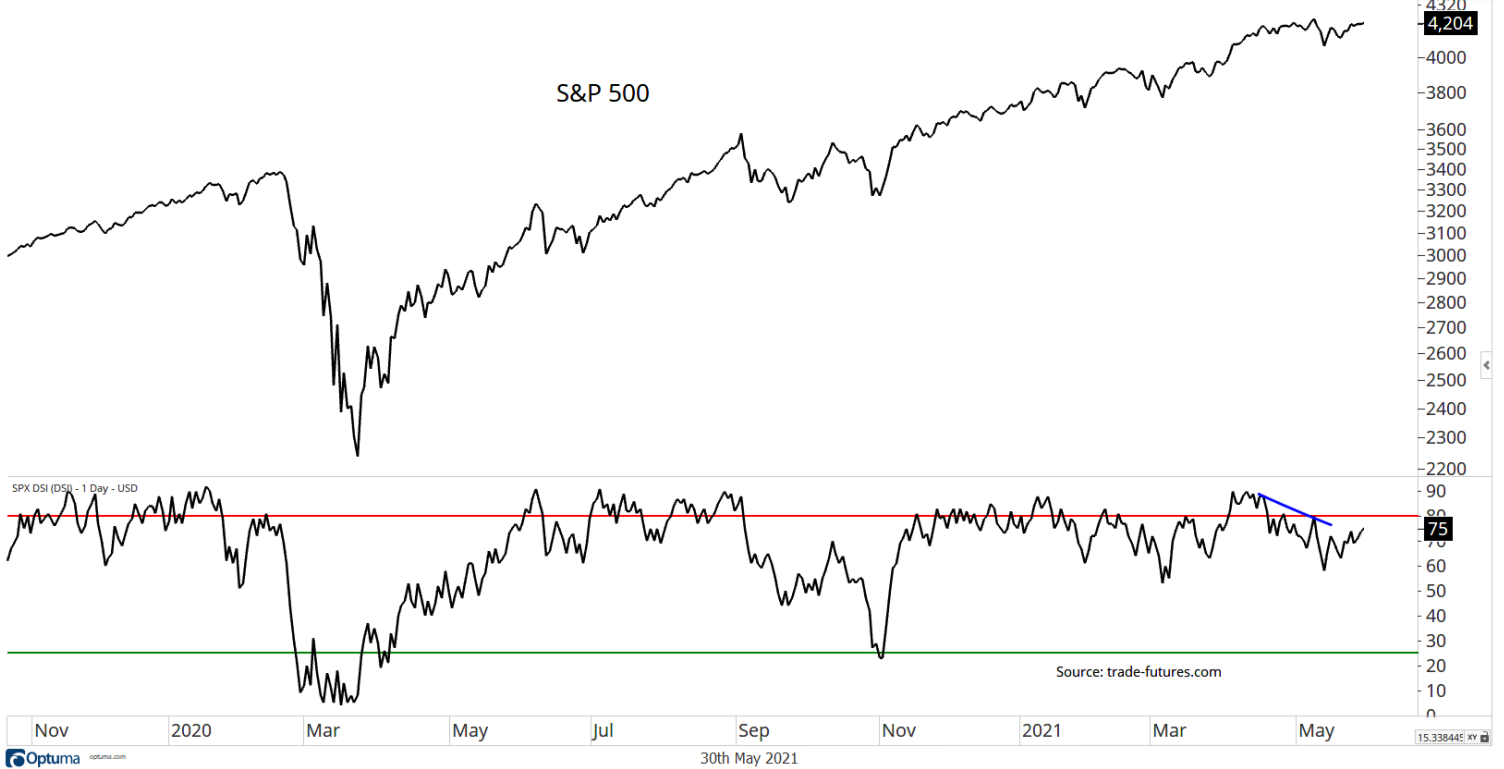
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DAILY SENTIMENT INDEX



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S&P 500 Index - SPX (CBOE) - 1 Day Line Chart - USD - No Layout

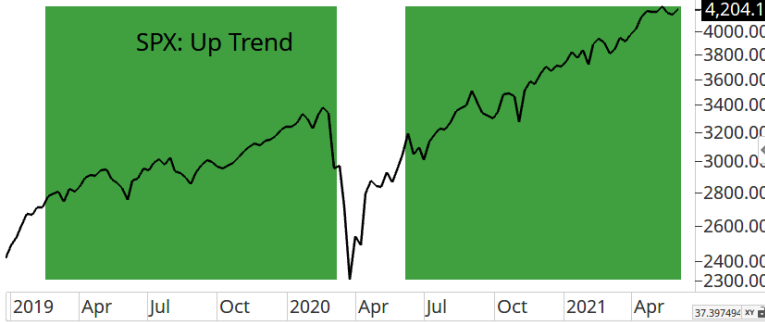


TREND MODELS

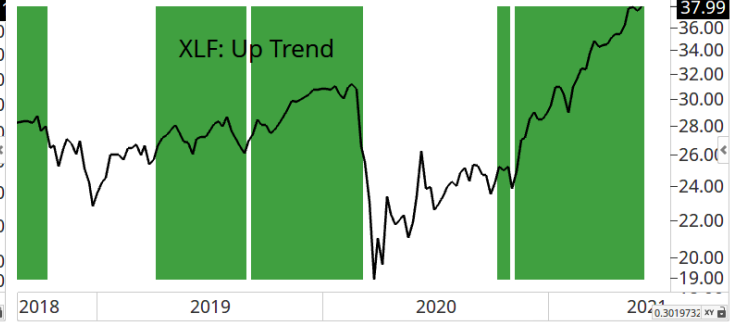


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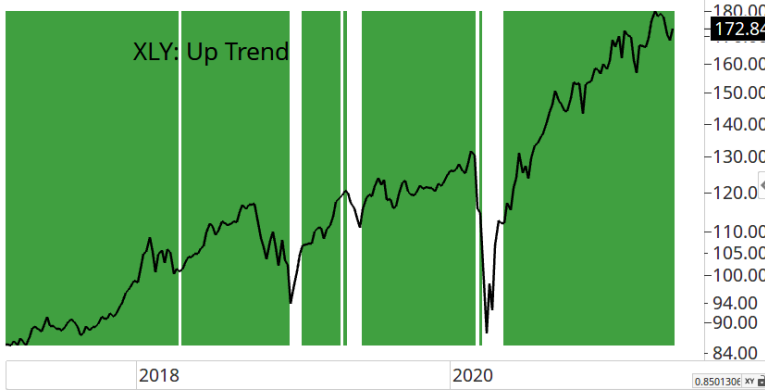
S&P 500 INDEX - SPX (WJ) - 1 Week Line Chart - USD - No Layout



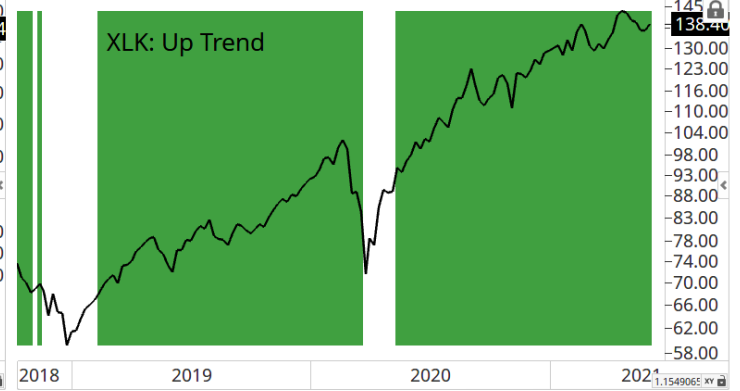
SPDR Financial Select Sector Fund ETF - XLF (US) - 1 Week Line Chart - USD - No Layout



SPDR Consumer Discretionary Select Sector Fund ETF - XLY (US) - 1 Week Line Chart - USD - No Layout



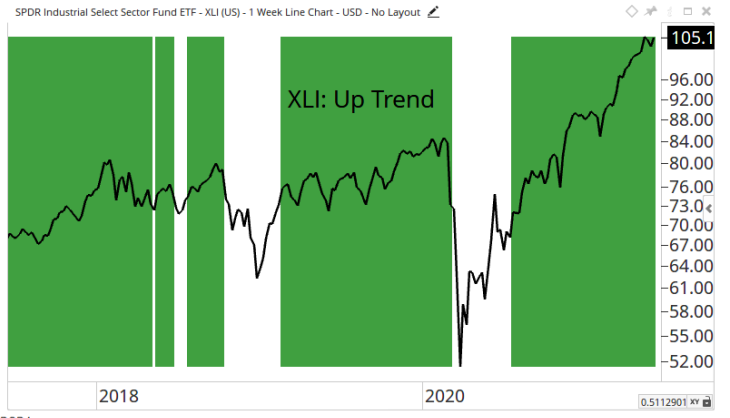
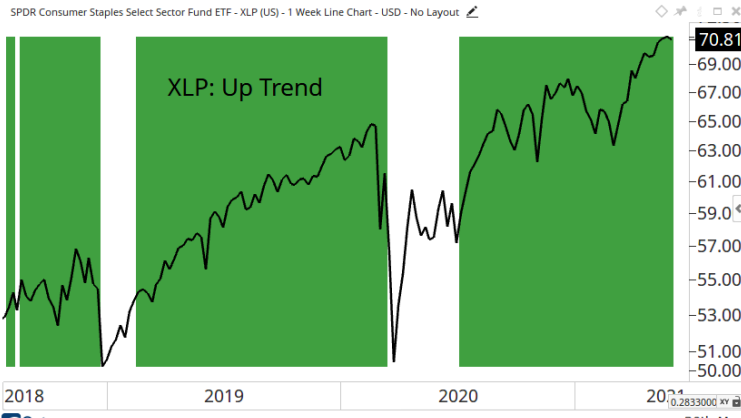
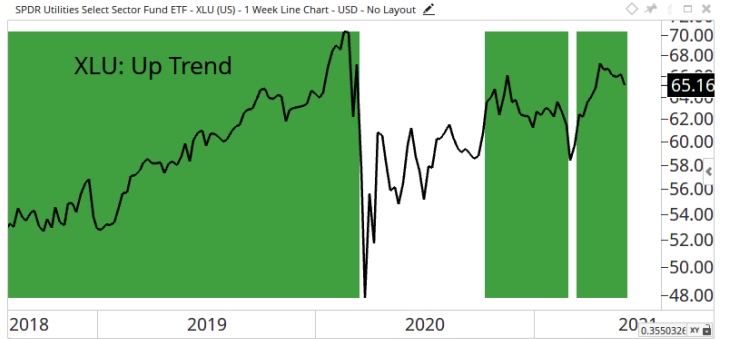
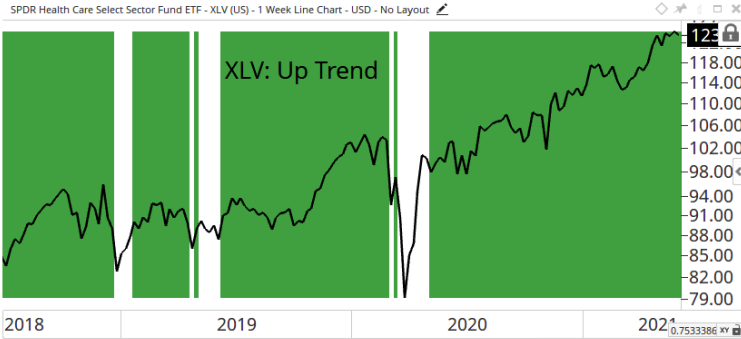
SPDR Technology Select Sector Fund ETF - XLK (US) - 1 Week Line Chart - USD - No Layout



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TREND MODELS



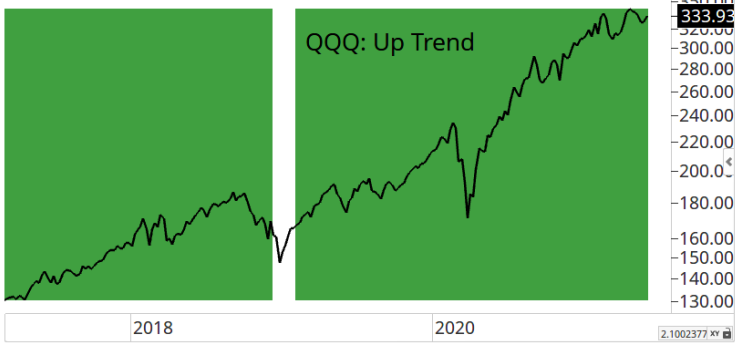
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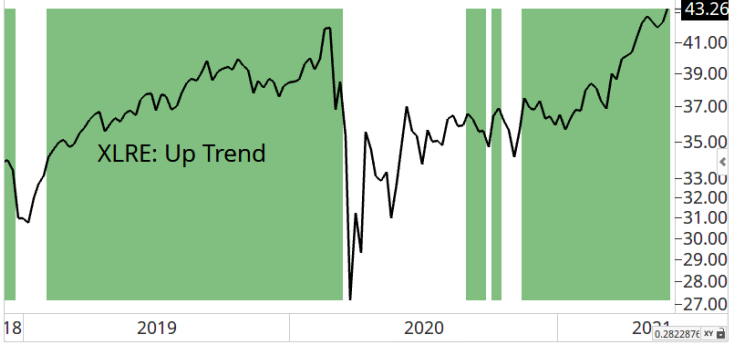
TREND MODELS



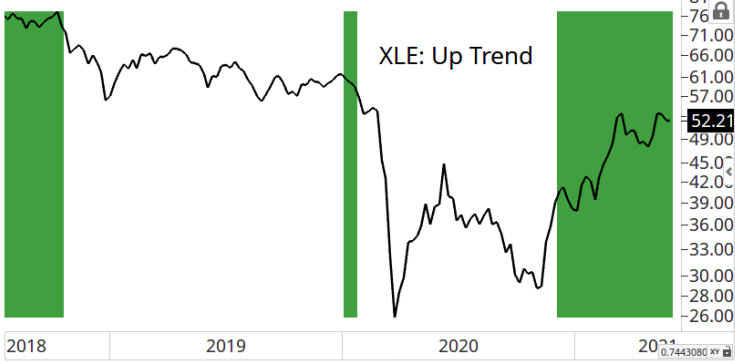
Invesco QQQ Trust - QQQ (US) - 1 Week Line Chart - USD - No Layout



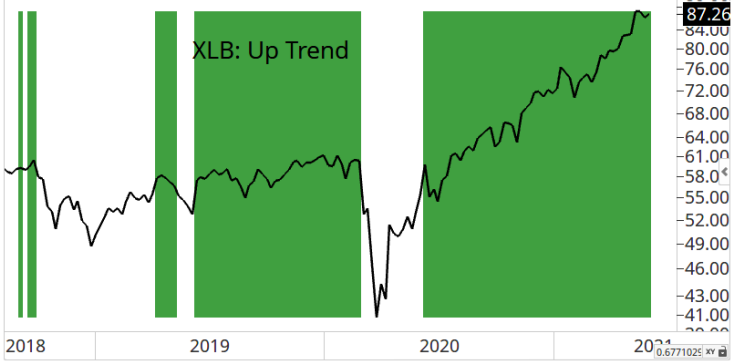
SPDR Real Estate Select Sector Fund ETF - XLRE (US) - 1 Week Line Chart - USD - No Layout



SPDR Energy Select Sector Fund ETF - XLE (US) - 1 Week Line Chart - USD - No Layout



SPDR Materials Select Sector Fund ETF - XLB (US) - 1 Week Line Chart - USD - No Layout



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