

# Technical Analysis: S&P 500

The worst is yet to come?

USA | INDICES | TECHNICAL ANALYSIS

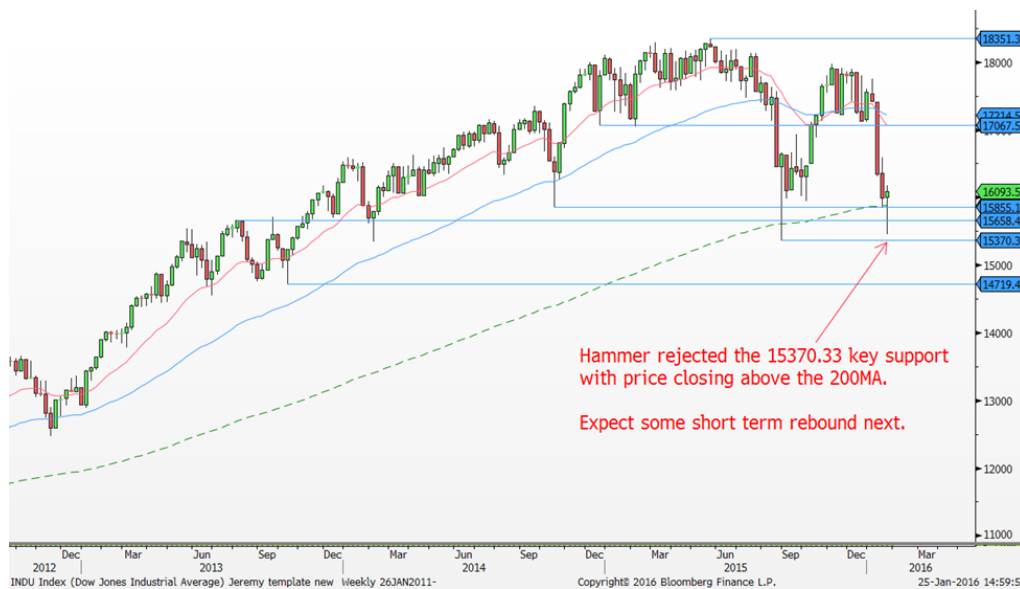
25 January 2016

- Hammer on weekly timeframe rejected 1820.66 key support
- Expect short term rebound next
- The crash thesis is still in play as outlined in [our first report published on 16/Nov/15](#)

## Last line of defense holding up for now

Across the major US indices, there were strong buying occurring around the key support areas.

### Dow Jones Industrial Average saw a huge rebound off the 15370.33 crucial support area



Tradable instrument:

Long:

SPDR S&P500 US\$@ - SGX:S27

SPDR S&P 500 ETF Trust – AMEX:SPY

Short:

DBXT S&PShort US\$X@ - SGX:HD6

Proshares Short S&P 500 – AMEX:SH

Long / short:

US SP 500 Index USD5 CFD – YMH16

### Nasdaq 100 saw a huge rebound off the 4078.85 crucial support area



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**S&P 500 saw a huge rebound off the 1820.66 crucial support area**



S&P 500 Index Weekly chart, red line = 20 exponential moving average, blue line = 60 EMA, Green line = 200 EMA  
 Source: Bloomberg

The rally off the support area formed a hammer (bullish reversal candle stick pattern) across board indicating further rebound. The retracement here should run out of steam once it tests the 1972.56 – 1993.26 overhead resistance which is also around the 50% fibonacci retracement level.

**The hammer story**

The S&P 500 does follow the hammer price action quite nicely where a rally usually occurs after the hammer is formed.

**S&P 500 : Hammer worked like a charm**



S&P 500 Index Weekly chart, red line = 20 exponential moving average, blue line = 60 EMA, Green line = 200 EMA  
 Source: Bloomberg

On the following week ending:

- 11/10/2013
- 07/02/2014
- 17/10/2014

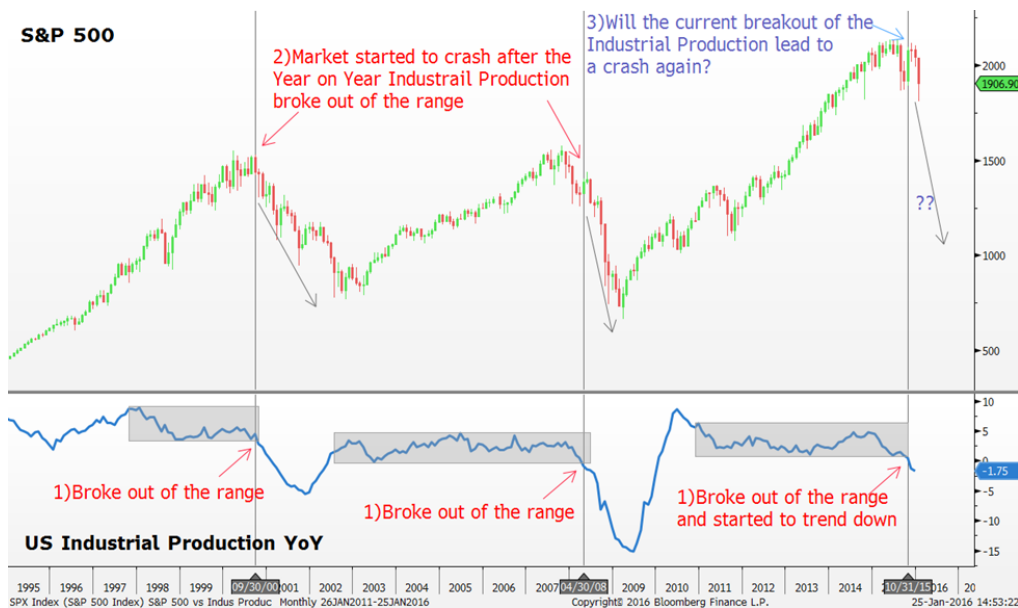
The hammer was followed by a strong rally with price making new highs.

However, this pattern seemed to be losing its lustre. The most recent hammer ranging for 126.47 points on week ending 28/08/2015 did followed up with a rally but price failed to make a new high suggesting a lack of bullish momentum.

Hence, the current hammer which is relatively smaller, ranging for 96.56 points should cause price to rally further but the rebound should be limited. We should see bears returning around the 1972.56 – 1993.26 resistance area where another attempt to break the 1820.66 key support takes place.

**Bonus chart**

**US Industrial Production signaling an upcoming crash**



S&P 500 vs US Industrial Production YoY Index Monthly chart, Source: Bloomberg

The lower panel on the charts shows the United States Industrial Production Year on Year Index where a breakout and trend change in the Industrial production caused the S&P 500 to tumble.

The current environment is showing the same signs with the Industrial Production breaking down of the range into negative territory. If history were to repeat itself, then we could see the real crash materializing soon.

**Conclusion**

We expect the US Major Indices to experience short term retracement next with the underlying long term trend being down.

**Related Reports:**

- 16 November 2015: Dow Jones Industrial Average – The real crash may be ahead of us
- 14 December 2015: Dow Jones Industrial Average – Showing more signs of a crash
- 14 January 2016 : Gold – Limited downside and it's time to start loading up
- 20 January 2016: S&P 500 – Another 40% more to the downside?

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