

LE COIN TECHNIQUE

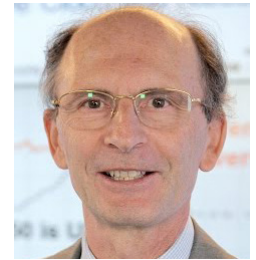
Reduce Nikkei from Overweight to Market neutral

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In November 2016, we recommended to overweight the Nikkei based on rising Relative strength versus S&P500, on a break above the weekly Cloud near 18000 and on a declining trend for the Yen index. Now, six month later, we recommend to reduce to market weight the Nikkei and to increase instead the Eurostoxx50 to overweight.

Indeed, the Nikkei rose to 19600 during the first quarter of 2017, had a minor dip to 18250 in April and rose again to test the key resistance near 20000. As usual, for a key psychological level as round number levels are, there is currently a pause, which corresponds also to a minor rebound of the Yen index (*in orange on the central panel*). However, the Relative strength ratio of Nikkei versus S&P500 has not made a higher high as the Nikkei rose to 20000. This is a case of divergence, suggesting a geographical rotation away from Japan toward other areas, like Europe. Indeed, the relative strength of Eurostoxx50 versus S&P500 was doing a 'higher high' during the comparable period and had been rising steadily since the mid of the first quarter 2017. Furthermore, the Nikkei made in June-July 2015 an important top near 21000, which has not been retested since and will constitute a second major resistance if the Nikkei is able to extend its advance above 20000. Such

extension is hindered by the weekly Stochastique, which is already in the overbought area and has crossed down recently. This means that the rise above 20000 could become a slow and difficult process in coming weeks, although the uptrend of the Nikkei is not really put into question as long as the Nikkei is above the rising Moving average 20-week (19245) and above the rising Moving average 40-week (18467). Furthermore, in July 2017, one note that the weekly upper cloud is rising to 18500, which, if broken down, would become a strong signal that the Nikkei uptrend is in danger. So far, the recommendation to downgrade the Nikkei from overweight to neutral in favour of Eurostoxx is a preventive measure based on the slowing down of momentum and on the weakening of the Relative strength of Nikkei versus S&P500 and it is suggested to be close to the high of the last 18 months. The trend of the Relative strength of an index is a key parameter, which needs to be monitored carefully. We are confident that it is giving the right kind of clues for the next six months at least.



Graphique:

Nikkei with weekly candlesticks with Moving averages 40 and 20 weeks surrounded by Bollinger Bands. Note also in orange the Yen index. On the upper panel are in black dash the Relative strength of Nikkei versus S&P500 and solid green the Relative strength of Eurostoxx versus S&P500. On the lower panel are located the weekly Stochastique & MACD.
Source: Stockcharts.com

