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wealthgram@gscgi.ch • www.gscgi.ch
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Eurostoxx50 (3518) Could Have a Bull Bias!

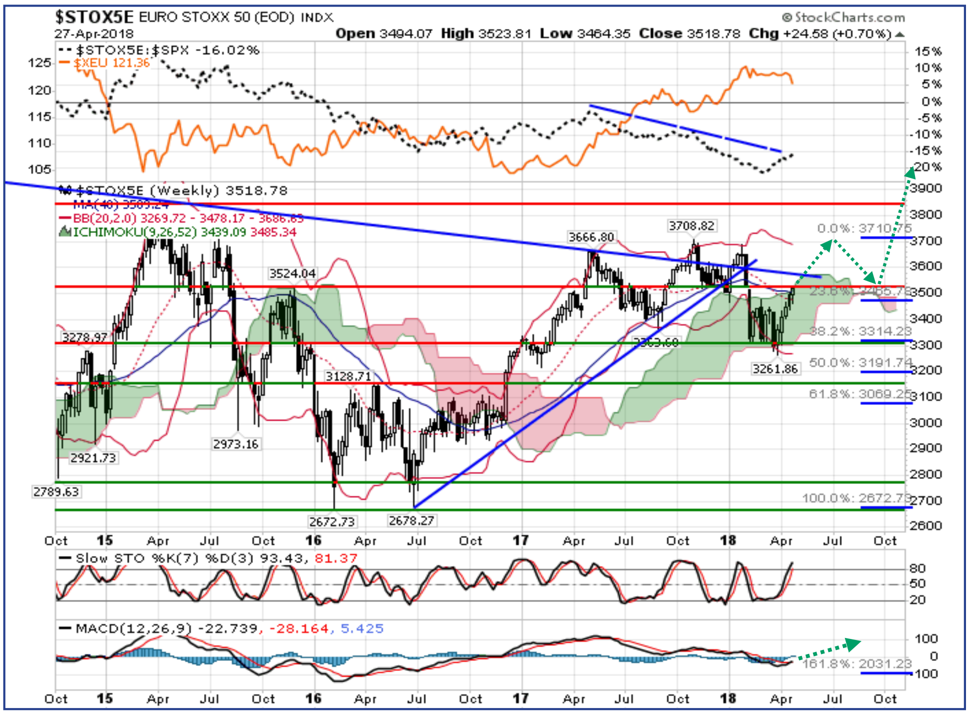
...article by Bruno Estier Strategic Technicals - http://bruno.estier.net/ - bruno.estier@bluewin.ch

Last year we also reviewed the Eurostoxx50 from a monthly perspective. Its then strong upward momentum was replaced by a wide ascending triangle *(between 3660 and 3350)*, which failed to break up and, in February 2018, reversed down by breaking the 18-month support trendline. Pattern failure is always a major concern in technical analysis and the pullback from 3708 has reached a spike at 3262, which rebounded quickly back above the 38% fibo retracement of 3314. The rise in April is testing the old resistance of 3525, which also happens to be the upper cloud, which will move toward 3550 in coming weeks.

Momentum is rising as displayed by the rising weekly STO now entering the overbought area above 80%. Upside potential is also signalled by a crossing of the weekly MACD, which should cross above zero within two weeks and should help Eurostoxx to rise from above the 20-wk MA (3478) toward the upper Bollinger Band (3686) and then above the old high of 3708. That would open up a 4100 target for the end of 2018 as displayed by green arrows.

To realize this bullish scenario, the Relative Strength of the Eurostoxx versus S&P500, as displayed on the upper panel *(black dotted line)*, will have to extend its 6-week rise in order to break the long descending resistance trendline lasting for a year. The recent 6-week rise of the Relative Strength is well correlated with the pause and slight decline of the Euro$ *(orange line)*. That inverse correlation worked very well while the Relative Strength has been declining since April 2017. Therefore, we have to monitor to see if the weakness of the Euro versus the US$ will confirm an outperformance of the Eurostoxx versus the S&P500.

We should keep in mind that a further rise of the Eurostoxx50 will have to break two hurdles. First, it should close above the main descending trendline joining the highs near 3570. Second, it should signal a breakout of this wide range (3300-3700), by rising above the flat weekly upper Bollinger Band (3686) for at least 2 weeks in a row. Such a bullish scenario will be supported by the long-term decennial cycle suggesting that the 8th year usually displays the second-best positive return after the 5th year. But right now, we are entering the weak annual seasonality from May-October, and also, we should remember the 4-year cycle, which may have been forgotten since 2002, whose low is due in October 2018. Thus, the bull case is no sure bet, and analyzing the charts may help monitor the risk of the European BUY and HOLD investment!



Graph:

Eurostoxx50 Weekly Candles.
Right now, it is at key resistance 3525, which is also the weekly upper cloud with a potential bullish path (green arrows).
On the upper panel, Relative Strength (RS) line of Eurostoxx50 versus S&P500 (black dotted line) is testing resistance and Euro$ is pausing (orange line).
On the lower panel, rising weekly STO & just crossing up MACD display a bullish weekly momentum.

Source: Stockcharts.com