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SMI Reaching Key Resistance Along Rising Euro/CHF

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While the media is celebrating a sharp rise in the US equity market in the first week of the new year, it seems worthwhile to look at the long-term technical pattern of the Swiss Market Index (SMI), which is displayed as monthly candles beginning 2010. Since November 2017, the steep rising uptrend is approaching the 9537 key resistance level of 2015, which was a few points above the previous peak of the mid-2007 level of 9531. The SMI was able to rise during 2017 because the parity of the Euro/CHF has been rising from about 1.07 to 1.1770, as the Swiss Franc was weakening versus the Euro, helping the export industry. As the current uptrend of the Euro/CHF is expected to extend toward 1.20-1.22, it should help the rise of the SMI. As the momentum of the SMI is strong, as displayed in the lower panel by the positive and rising MACD, a break of the 9537 resistance level is possible. The next long-term target for the SMI is a Fibonacci extension of the previous range of 7425-9537, namely 10845 or 13.7% above the current price. Then the full width of that same range can be used to project a 11650 target or a lofty increase of 22%. To realize these targets, the SMI will need to stabilize above the 9540 area to create a springboard for a further advance.

As the Relative Strength (RS) of the SMI versus STOXX50 *(orange line)* is rising to a higher high after a higher low, it is possible that it may be more interesting to invest in the SMI rather than the Eurostoxx Index while considering geographical diversification away from the US equity market, which is clearly outperforming the Swiss market as the declining black dashed RS line of the SMI versus S&P500 is testifying.

From a technical point of view, the current price of the SMI is still below the key resistance of 9537 and, therefore, there is a possibility that it stalled there. If we also consider the influence of the second momentum indicator on the lower panel, the monthly Stochastic Index is displaying a potential negative divergence *(a lower high)* while being in the overbought area for nine months. That consideration is reinforced as we check on the weekly time horizon and also discover a bearish divergence between the price of the SMI and the weekly Stochastic Index during the recent October to January period. To start 2018, the SMI is soon going to send an important message: either a pause below a key resistance and that could mean a temporary top in the US market as well; or, a break up above that major level of 9540 and the continuation of a bull trend, with most probably a further rise for global equities.

So, happy 2018 and … watch the SMI Index!

Graph:

The Swiss Market Index (SMI) monthly candles with Ichimoku cloud.
Also, the Euro/CHF parity is shown in dashed green line. On the upper panel is the declining Relative Strength of SMI versus SP500 in black dashed line, but the rising Relative Strength of the SMI versus STOXX50 (orange line). On lower panel MACD displays bullish momentum, but the monthly STO is overbought for more than a year with slight negative divergence.
Source: Stockcharts.com