

MI2 Trader: DAX Bad Price Action

19th July 2021

Comment

Over the last couple of months, making sense of price action, especially from a fundamental perspective, across markets has been challenging and frustrating. The result has been an increasing reliance on equities, the one trade that, come rain or shine, has been unstoppable. Sure, there was always the risk that this was simply FOMO, positions were crowded, and we were living on borrowed time. But as they say, make hay while the sun shines. So, with central banks' balance sheets to your back and tight stops, the risk-reward was manageable.

Then came the Fed's 'hawkish' pivot ("The Fed: An Unreliable Boyfriend" 18th June). At the time, we wrote that the equity market's assumption that this was a 'good tightening' worried us. Indeed, judging how we've now been stopped out of virtually every trade in our Macro Insider's portfolio, our concern was justified. However, while a paper book has zero relevance, the stories we heard of actual losses in real funds suggest that the Fed's move caused a lot of damage. Therefore, while it would be too soon to conclude that we are on the cusp of a VaR event, now is the time to sit up and pay attention. That's especially the case when the delta variant is surging, and, despite recent dovish moves from the PBoC as well as the ECB, you've had poor price action.

At this point, with stocks barely off of their highs, shorting the market seems foolhardy. But frankly, across the board, the charts look ugly and vulnerable. Thus, while Tech has kept the S&P and the Nasdaq supported, the broadest of US markets, the NYSE has flagged. Back in April, this broke out of a massive channel but has stalled. Momentum is horrible, which sets us up for the possibility it was a false break. You don't want to see this back below 16k.



That brings us to the DAX, which has been an excellent reflation trade but as a result, is now heavily owned. However, like the whole of the Continent, it is now extraordinarily vulnerable to Europe's

Warning: No reproduction, transmission or distribution permitted without consent of Macro Intelligence 2 Partners LLC ("MI2 Partners"). Unauthorized review, dissemination, distribution or copying of this message is strictly prohibited and could subject you and your firm to liability and substantial fines and penalties. If you would like clarification please contact support@mi2partners.com. The material contained herein is the sole opinion of MI2 Partners. This research has been prepared by MI2 Partners using information sources believed to be reliable. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. It is intended for the sole use by the recipient to whom it has been made available by MI2 Partners. The delivery of this report to any person shall not be deemed a recommendation by MI2 Partners to effect any transaction in any securities discussed herein.

premature reopening. Furthermore, just as we saw in 2015 and 2020, the RSI is breaking down. On both occasions, this foreshadowed a sell-off to at least the bottom of its min/max envelope. PS At the moment that level is 24% lower!



Trade

Our approach is simple, sell half a unit of risk here with a stop above the all-time highs at 15,850. Then add the rest on a move below 14,800 with a trailing stop. The initial target is 13,100 and then 12,000.



Warning: No reproduction, transmission or distribution permitted without consent of Macro Intelligence 2 Partners LLC ("MI2 Partners"). Unauthorized review, dissemination, distribution or copying of this message is strictly prohibited and could subject you and your firm to liability and substantial fines and penalties. If you would like clarification please contact support@mi2partners.com. The material contained herein is the sole opinion of MI2 Partners. This research has been prepared by MI2 Partners using information sources believed to be reliable. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. It is intended for the sole use by the recipient to whom it has been made available by MI2 Partners. The delivery of this report to any person shall not be deemed a recommendation by MI2 Partners to effect any transaction in any securities discussed herein.