GeoFront Capital Weekly Market Report

Week of 02.7.2016

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Weekly Highlights

- Tech leaders continue to get hammered
- Oil consolidating, pressure building for a breakout
- Gold continues to trend higher, looking overbought
- US nonfarm payrolls rise 151,000 and unemployment falls to 4.9%
- Fed stress test includes negative rate scenario
- Most GFC indexes are flat, continued robust FedEx aircraft cargo

Market News

This past week again saw increased volatility across all asset classes, most notably tech stocks were hammered again. Notable tech stock leaders have been experiencing notable drawdowns dating back to last year. Amazon (AMZN) is currently trading at $502, 27% below it's high of $696. Apple (AAPL) is again trading below $100 and closed the week at $94; down $40 or 30% below its previous high of $ 134 Additionally, Netflix, (NFLX) another tech stock darling of recent years closed the week at $83, down $50 or 37.5% from last year's high of $133. Perhaps the news of the tech news of the week was the disappointing guidance release from LinkedIn (LNKD) who apparently had a disappointing 4th qtr report and their stock subsequently dropped $84 or 43.6%. Friday's drop leaves LNKD shares down 61% from their 2015 high of $276 made almost a year ago on 26 Feb 2015. The past few weeks have reflected a total "Risk Off" mindest inside the technology sector.

It's important to consider however that each of the stocks mentioned above have tremendous runups over the past few years and a correction like the one they are currently experiencing has been long overdue for some time. Other tech stocks have been nowhere near as fortunate as these names to have experienced such significant levels of price appreciation. Groupon, (GRPN) whose IPO debut in late 2011 was generally hyped with great positivity by the financial news media, has delivered nothing but pain to investors. Twitter, (TWTR) is another tech stock that was erroneously hyped on the day it IPO'd in 2013. Since reaching a high of $74 a few months after it hit the market, it has endured a steady decline and ended the week by settling at a record low closing price of $15.72. GFC asks the question "Could it finally time for tech stock leaders to catch up to the rest of their underperforming brethren to the downside?"

As you can see from the chart above, GRPN has experienced a 90% decline since shares first started trading and flirted with making new all time lows this past week in the $2 handle. While the NASDAQ has experienced a massive run-up to test the 2000 dot com bubble highs, the rally has been characterising by less and less stock participating in the rally. Since the Nasdaq is market-capitalization weighted index, it was able to get away with achieving new highs above the 2000 high with only a few stocks leading rally. Depicted below is a possible Elliott Wave interpretation of the price pattern the NASDAQ may be tracing out. An expanded flat pattern is a 3-3-5 pattern in which wave B moves to exceed the point at which wave A began (2000 dot com high). What this pattern predicts is that wave C will decline the wave A lows of 2003. In short, it is possible to perceive the recent pullback in tech as just the start of a waterfall event for the NASDAQ in which investor sentiment towards new technology becomes more negative than ever. Many of the stocks in the NASDAQ are high beta in nature and GFC the potential for exacerbated volatility in tech to be a both real and significant risk going forward.

Many stocks listed on the NASDAQ suchs as GRPN, obviously have not been participating in the tech bull market. Perhaps most concerning to tech-bulls, is the extremely bearish price action that transpired in Google now known as "Alphabet" (GOOG). If one stock has been the unquestionable leader and face of the bull-market rally in tech for the last decade, it has to be Google. Google started off the week making new highs approaching the $800, then Tuesday through Friday it proceeded to erase more than 4 months of price gains. The end result is a VERY bearish engulfing candle on the weekly chart. This is a very ominous development for the king of tech. Google's (or now "Alphabet" has been the undisputed price leader in tech, and this bearish technical development is likely to signal significant trouble ahead for the NASDAQ index as a whole and put a damper on the extremely favorable outlook for tech companies in general.

Equities

GFC advised last week that resistance in the S&P for last week was in the 1925-1950 area. Price entered this area early in the week and sold off to close the week at 1880. Near-term the stock market is oversold and may need to climb above 1950 in order to rebalance itself before the bear-trend can resume in earnest. Ultimately we expect the S&P to trade below 1800 before a more significant short-term bottom is reached.

Commodities

Oil

- **Forecast:** Oil at major inflection point at $30 level, consolidation could lead to higher or lower prices in the coming week.
- Venezuela is on the brink of a complete economic collapse
- Iran moves to euro instead of dollar

This past week oil has seen increased volatility, steeply retreating back to the $30 level before recovering slightly. This followed the pattern we had expected in our previous weekly report however oil did not retrace as high as we had anticipated, only reaching high $34 level before pulling back. Its also important to note oil had less of a correlation with equity prices, as we had eluded to these are starting to uncouple from each other.

As can be seen above, oil is beginning to consolidate into a wedge pattern forming around the psychological $30 support level. We expect oil to break out of this consolidation, either on the upside or downside, possibly as early as next week. It is difficult to determine which side oil will take, however there are some indications oil might be poised to break out higher. As previously mentioned oil is close to a critical support level which has already been tested multiple times. RSI is also holding steady and might give a preemptive indication as to the direction oil will take.

Globally sustained low oil prices have continued to hamper global economic growth. Venezuela is the posterchild for oil related economic trouble with its economy on the verge of collapse and rampant triple digit inflation. The IMF is predicting the Venezuelan economy to shrink by 10% in 2015 and continue to 6% this year. Decades of socialist policies without the ability to adequately finance them have hit Venezuela hard and sustained oil prices have only exacerbated the issue. On Sunday Venezuela's Oil Minister Eulogio Del Pino discussed cooperation with OPEC members on measures to stabilize and prop up oil prices. Despite these meetings there doesn't seem to be any indication from Saudi Arabia, or others, that a plan to reduce oil production will take hold in the near future.

Iran, which has recently re-entered the international market for oil, is positioning itself to further distance itself from US dollar dependency. It plans to denominate its oil transactions in euros instead of dollars, including previous transactions it conducted with Indian and other countries. This comes as yet another blow to the US after the nuclear deal with Iran and after Iran selected Airbus for a multi-billion dollar contract to renew its aircraft passing up US based Boeing. Although this move is unlikely to have a significant effect in the near term, this could signal a paradigm shift away from the long standing US petrodollar into other currencies such as the euro.

Gold

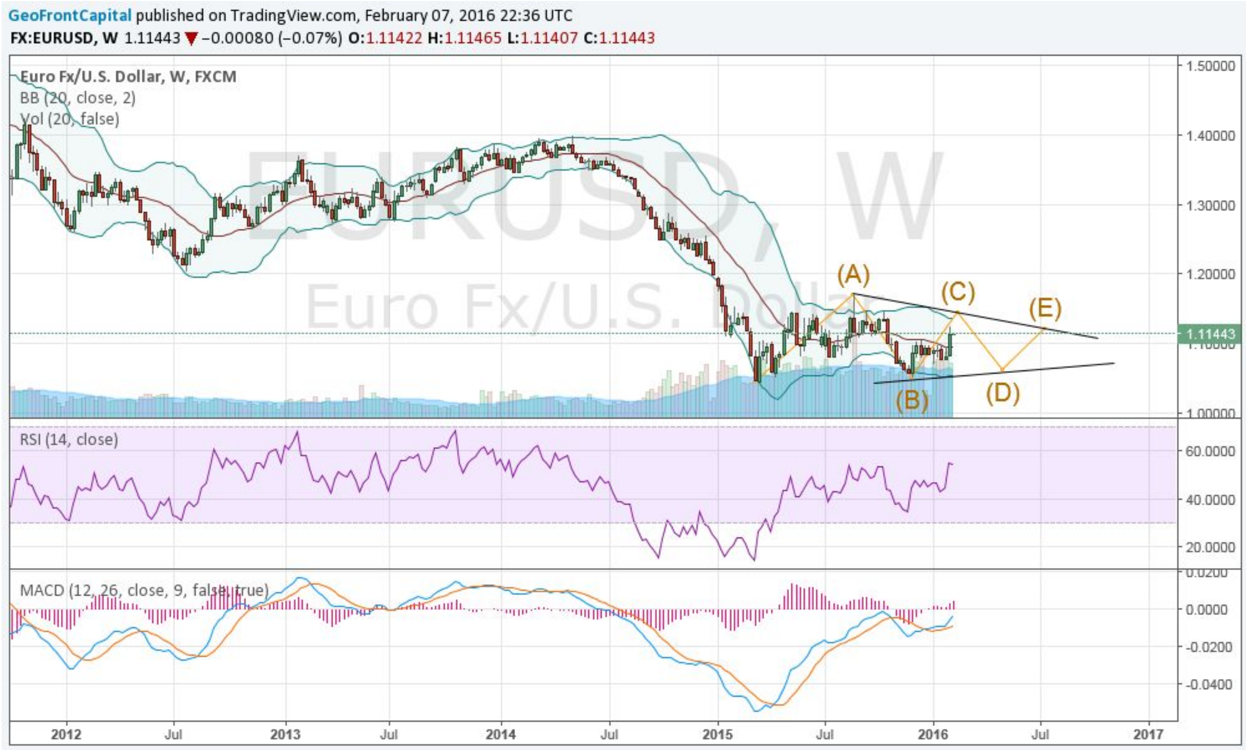
- **Forecast:** Gold will test resistance at 1189.
- Registering overbought 77 on RSI indicator (Daily)
- Gold up 4.9% last week alone

Gold continued high this week, closing at $1173 which was its highest close since October 20th. Gold surprised many investors to the upside this week. Near-term we believe the pace of gold's advance should dampen this week. Momentum indicators such as RSI are indicating overbought and price is trading above the top bollinger band. We expect a certain degree of sideways price-action to occur in the week ahead. If and when a correction develops, we believe it will be relatively shallow. Ultimately, gold should break into the $1200 range later in the year. Many fundamental factors seem to be driving gold. Currently, the dollar is undergoing weakness in the international FX markets, and the certain FED governors have floated the idea of negative rates. Additionally, hypothetical "stress-tests" involving a negative interest rates scenario has been talked about in the financial news. These fundamental storylines are providing a bullish backdrop against which gold can easily continue to rise.

Foreign Exchange

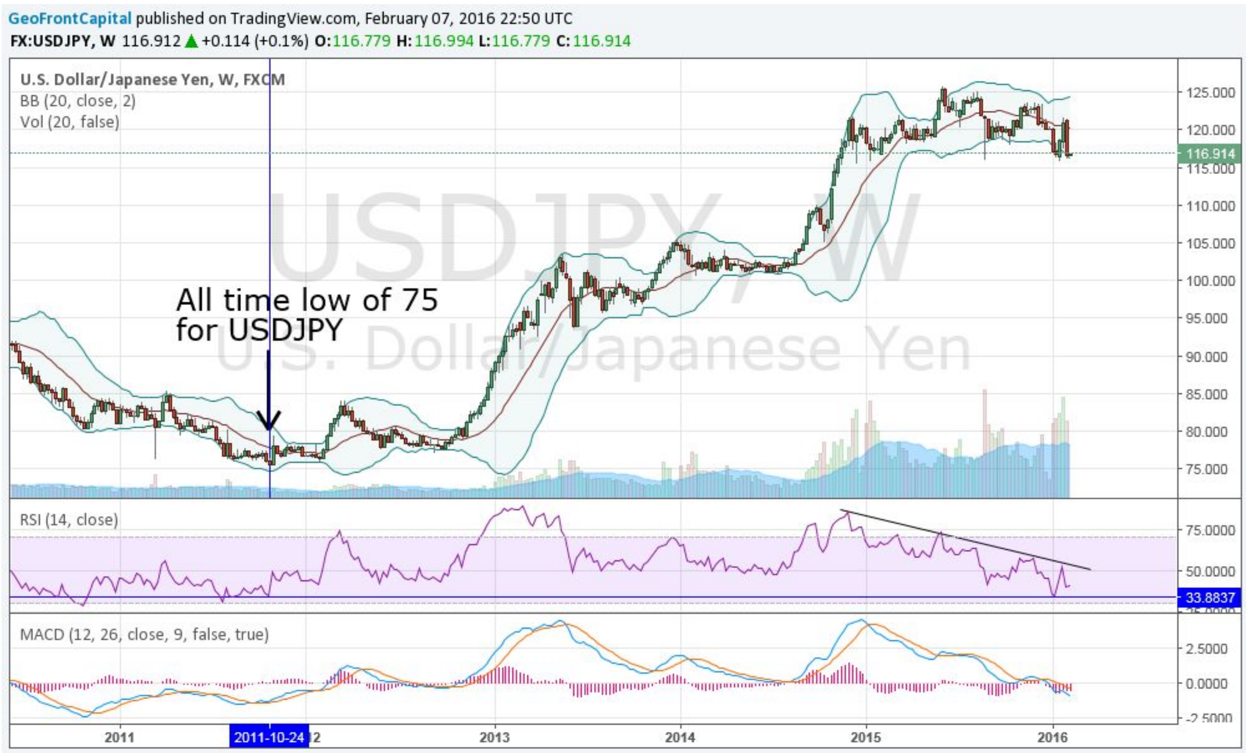
The U.S. Dollar index was unable to handle resistance in the 100 area last week and experienced a sizable move to the downside closing the week at 96.97. GFC is of the opinion that the dollar will indeed rise above the 100 area and undergo a dramatic rally as the world plunges into economic duress and the U.S. benefits from a safe haven capital flow. The time for that to occur has not yet arrived.

The EURUSD rose steadily last week to close at 1.1143. GFC believes it is on it's way above 1.13. However near term it may continue it's current pullback and dip into the 1.10 range. We like the idea of buying the dip until EURUSD gives deterministic sign of reversing.



Our longer term perception of where EURUSD is likely to trade is picture above. We believe the odds are high that EURUSD has entered into a contracting triangle pattern which should resolve itself to the downside. Prices are currently working to complete wave C, after which wave D take prices to retest support in the 106 area. EURUSD is currently in the process of reaching equilibrium in a significantly lower price range between 1.05 and 1.15. The economic problems inside the Eurozone are legion. The recent consolidation should be consider the calm before the storm. After this consolidation period is over, the Euro should undergo another seismic pricing event like it did in the latter half of 2014 where it was repriced from the 1.25-140 area to where it is now, except the next pricing area for the EURUSD is likely to be significantly below par.

Last week's dollar weakness was broad-based. So much so, that the USDJPY fell. Japan, who has embarked on a negative interest rate policy saw its currency inexplicably strengthen. We see this move as a technical move to allow momentum to reset before the next wave of JPY selling commences. Near term, GFC wants to be a buyer anywhere below 116 as we see systemic weakness in the Japanese economy with an out of control central bank that is hellbent on creating inflation at all costs necessary. The Japanese economy is heavily driven by exports and BOJ Governor Kuroda is trying to weaken his currency in order to maintain the nation's trade surplus.



The weekly chart of USDJPY above depicts how the Relative Strength Index (momentum) has reset to levels of fair valuation. In January the weekly RSI for this pair reached 33, which was the lowest it had registered since October of 2011 when the USDJPY traded at a level of 75. We view the price action of the USDJPY since late 2014 as basically "blowing off steam" after a tremendous rally from the 2011 low. We believe the upward trajectory of prices in USDJPY is likely to resume later this year, ultimately taking price above 140 and potentially much higher.

GFC Indicators and Data

Oil contango has continued to hold steady around the 80MMbbl level and did not vary significantly throughout the week. This hold true for our Dry Cargo index as well as our FedEx Aircraft utilization index. For our FedEx Aircraft utilization index, volumes continue to be robust and continue to trend upwards from the beginning of the year.

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