
A Massive H&S

All three major indices closed the week at new all-time highs. But, as @SentimentTrader noted, these new highs are being made on negative NYSE breadth (meaning there are more stocks declining than rising) and Nasdaq breadth which was barely positive.

The only other times in recent history we've seen this technical divergence was in July of 98' and July of 99'.

Also, as I noted in Macro Musings, credit is weakening and JNK finished the week near the lows.

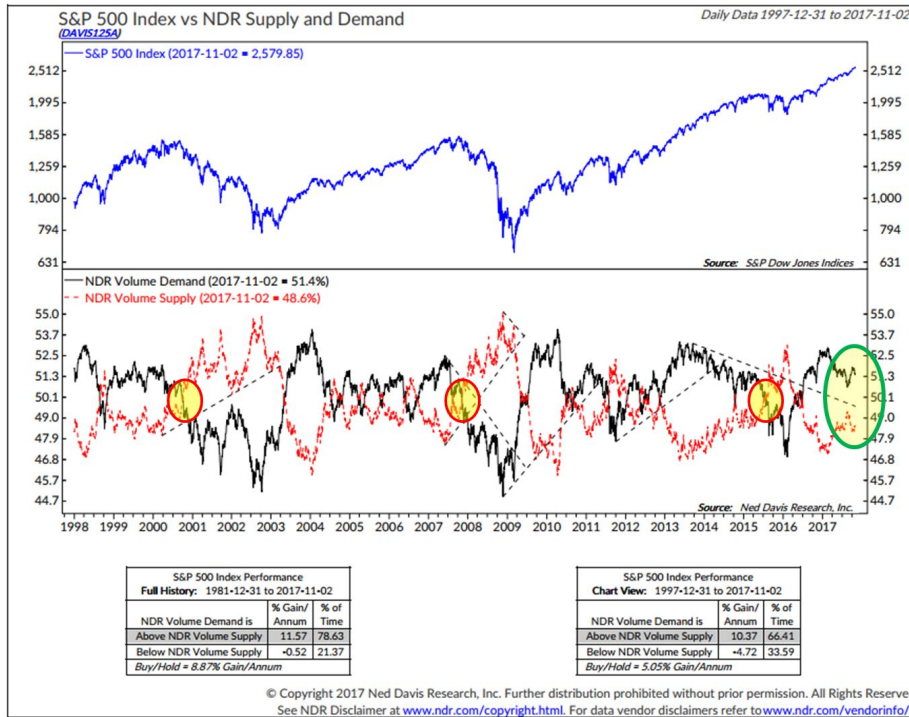
Is it time to sell?!

Nope. But the market has clearly entered a new regime of frothy sentiment that's been lacking the last few years. A standard late cycle development. This is going to lead to greater volatility; both to the upside and the downside.

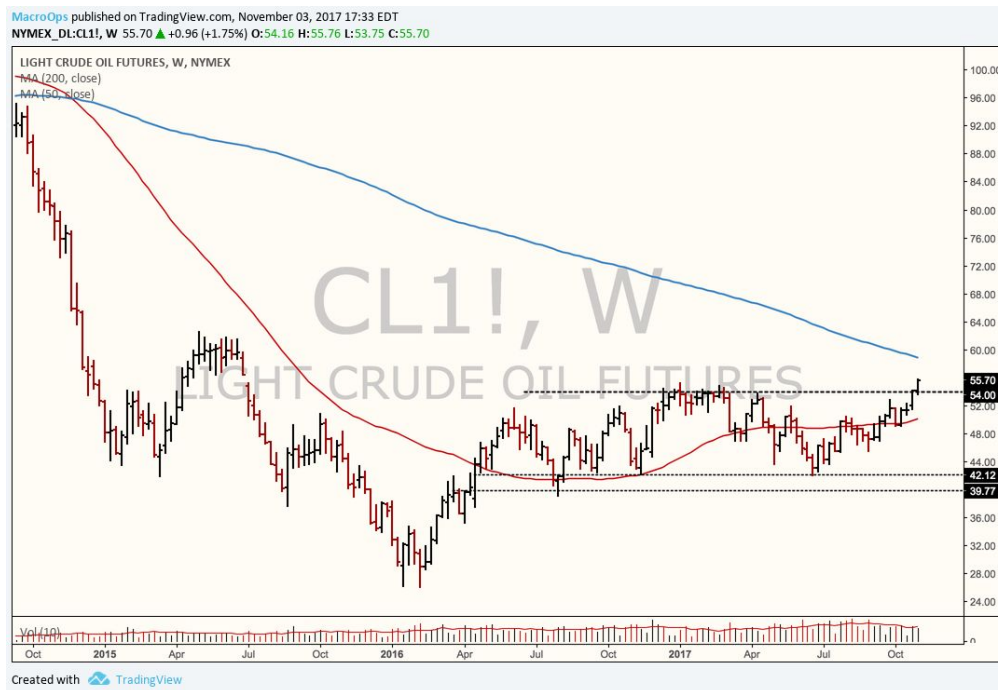
The key I think to playing these late cycle runs is to not give into the FOMO and chase nor try and pick a top and cut your longs on a selloff.

We want to do the opposite. We want to hold through the selloffs and add or open new positions on pullbacks. This environment is likely to play out over the next 6-12 months.

The technical picture isn't all bad either. There's a handful of indicators, like the one below from NDR, that suggest the current leg has some juice left in it. The chart shows the supply and demand fundamentals for volume on the S&P. Volume precedes price so when the black line (representing demand) is above the red line (supply) like it is now, it means demand for stocks exceeds supply. And so prices go up.



Strat port is sitting at new NAV highs again this week. I like how we're positioned. We should see a strong run in a number of our names going into the end of the year, especially our energy plays. Check out oil below. It closed the week above the critical \$55bbl level.



All the macro pieces are coming together for a sustained run in crude.

Despite the recent rise in oil's price, investors remain skeptical as well as under positioned. This is great. The best bull moves climb a wall of skepticism and worry.

I keep seeing headlines like this.

BUSINESS | EARNINGS

Oil Giants' Profits Soar, but Investors Aren't Sold

Top five energy companies on track to post highest annual profits since market crashed three years ago

And producers have actually become net long Texas Tea for the first time since 14', while specs are sitting neutral. All of this is very good for us.



We'll add to our oil trades Monday morning. I'll shoot out a trade alert when we do.

Let's talk currencies because I think we're seeing the start of what's going to be a MONSTER of a trend.

I'm talking about the dollar. Check out these charts.

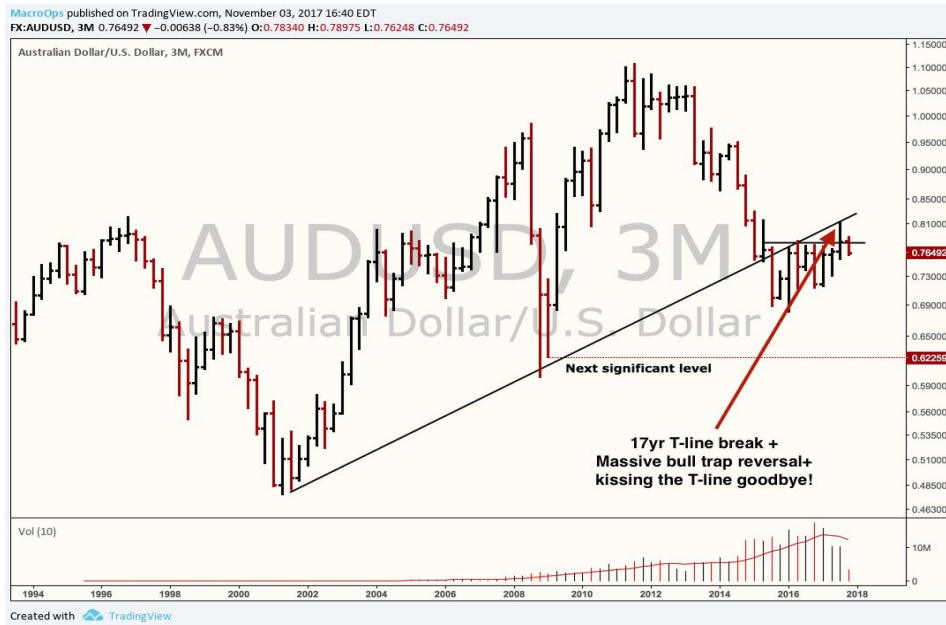


Here's the pound on a weekly basis.

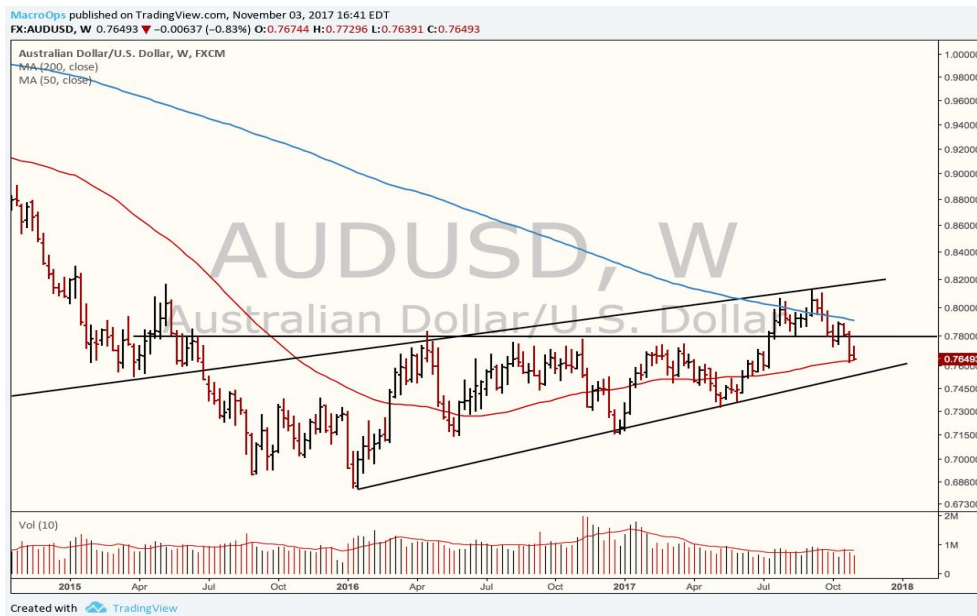


Now look at the aussie.

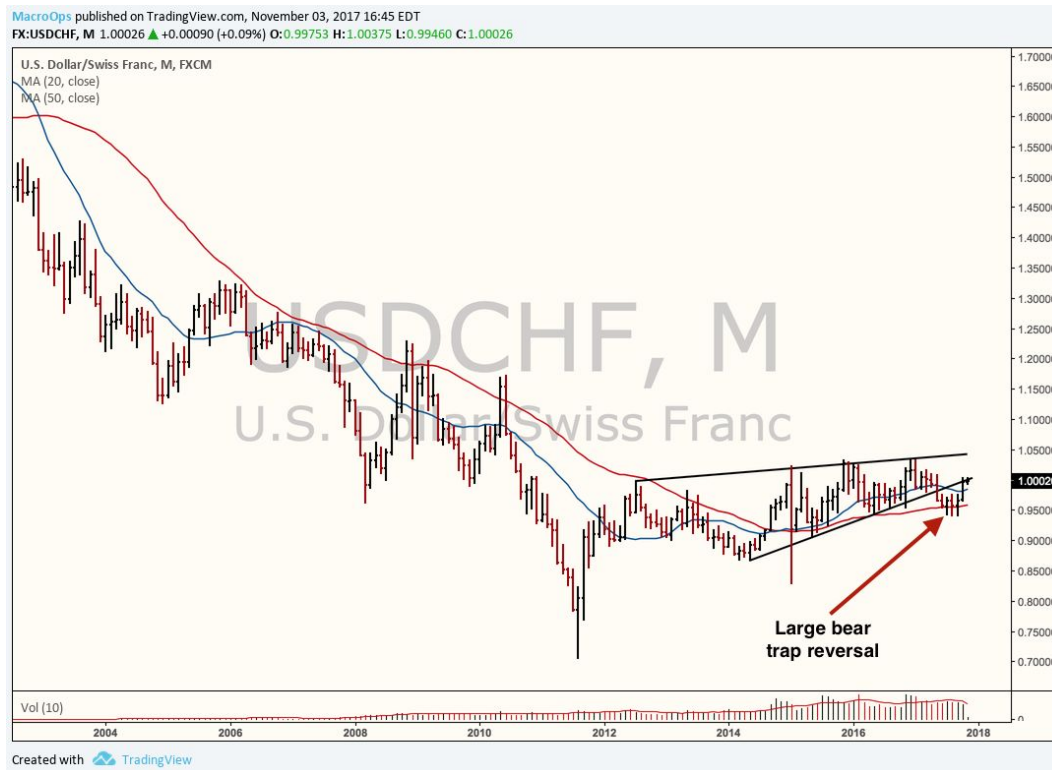
A massive 17yr trendline break followed by a huge bull trap reversal and a kissing of the trendline goodbye.



Here's the aussie on the weekly. This bull trap is catching a LOT of suckers long. Specs are still holding record long positions according to the COT data. That's going to be fuel for the unwind.



And another large monthly false breakout, this time in the Franc.



Now do I believe in the validity of 23+yr H&S patterns, like the one in the pound?

Nah, I don't know. That's probably reading too much into the tape than I prefer. What I think is more interesting though is that now the dollar/pound pair has broken below a long-term price channel. This signals a major shift in market expectations, something that's more secular than cyclical.

It's connected to Brexit, sure. But probably more importantly it's being driven by the conditions that spawned the UK national pessimism that drove them to vote for Brexit.

I don't think this move is anywhere near done. Huge false breakouts like the ones I've shown you above, should not be ignored. There is something really interesting going on.

I've been a long-time dollar bull these last few years. We made a lot of money long USD in 14'-15' and then made a good deal going short it, earlier this year. I've been waiting for sentiment and positioning, which had become crowded and one sided in the dollar bull camp, to unwind. I think that's now happened, at least that's what the COT and survey data is telling me.

So now we have washed out USD bull sentiment + the US Fed leading the way in raising rates again + dominating narrative over expected tax cuts in the US + growing excitement over US equities which is turning capital flows + great technical setups = a massive springboard for a coming dollar bull run.

At least that's what I'm thinking at the moment. I'd be interested to hear your thoughts.

We're already long USDJPY. On Monday I'm going to add starter (small) long USD positions against both the aussie and pound.

If you don't play in the futures or FX market. You can execute the long USD trades using ETFs. I'll be including that info in the trade alert I send out on Monday.

We'll also be putting on the first layers of the DOTM calls that we discussed in this month's MIR.

I'm thinking of starting with TRIP, JD, FCAU. Again, we'll send out an alert if/when we do.

I've been reading through a large number of quarterly hedge fund letters from my favorite managers. I'm taking notes of their trade pitches that I find interesting and think are worth looking into. I'm going to consolidate the info and share with you guys in next week's Brief.

Until then, enjoy your weekend and hit me up through email or in the Comm Center if you've got question/comments.

Your Macro Operator,

Alex

Strategic Ops								
NAV		\$1,307,977						
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Notional	Beta
Equity	Limbach LMB	7,750	\$13.66	\$12.50	\$8,990.00	\$18.00	\$104,703	-0.1902
Equity	Interactive Brokers IBKR	1,800	\$41.71	\$38.50	\$5,778.00	\$55.50	\$74,628	0.9292
Equity	GAIA	7,600	\$9.88	\$8.50	\$10,488.00	\$13.75	\$79,040	0.4497
Equity	Portugal ETF PGAL	8,000	\$10.57	\$9.98	\$4,720.00	\$11.75	\$85,040	1.0467
Equity	China A-Shares ASHR	6,764	\$26.69	\$25.83	\$5,817.04	\$31.30	\$199,876	1.475
Equity	Intrepid Potash IPI	13,769	\$3.70	\$3.20	\$6,884.50	\$6.00	\$117,403	1.053
Equity	Daseke DSKE	6,400	\$13.49	\$13.10	\$2,496.00	\$19.00	\$89,920	0.7348
Equity	W&T Offshore WTI	16,000	\$2.18	\$2.00	\$2,880.00	\$4.50	\$40,800	2.415
Equity	EnSCO ESV	3,700	\$5.15	\$4.30	\$3,145.00	\$6.50	\$18,574	1.667
Equity	Transocean RIG	2,900	\$9.32	\$8.26	\$3,074.00	\$15.00	\$26,796	1.683
Equity	Cabot COG	1,350	\$26.28	\$24.00	\$3,078.00	\$34.00	\$36,288	0.4829
Equity	Tuesday Morning TUES	7,500	\$2.60	\$2.00	\$4,500.00	\$5.00	\$18,000	2.041
Option	Tesla Mar '18 240 Put	28	\$8.80	\$0.00	\$24,640.00	\$24.00	~	1.048
Forex	Yen Futures (6JZ7)	-3	\$0.0087853	\$0.008988	\$7,601.25	\$0.008445	\$329,644	-0.2696

Metrics		
Exposure Breakdown		Total Open Risk
Equity	\$86,490.54	\$94,091.79
Commodity	\$0.00	7.19%
Fixed Income	\$0.00	
Forex	\$7,601.25	**Updated 11/2