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Market Monitor

Phillip Securities Research Pte Ltd
Singapore
26 July 2011

Technical Analysis – Intermarket Overview

Summary

The US debt ceiling seems to be the main thing that is looming over markets at this point. Better to keep bets small until the matter is resolved.

S&P 500 closed flat. Market participants are either standing on the sidelines (light volume) or assuming that the debt ceiling will go through because the US is “too big to fail”.

Shanghai Composite slid nearly 3% in yesterday’s trading. Continued downside in Shanghai could affect the rest of Asian equities, STI included. See Shanghai section of report for more details.

STI has broken out of a multi month triangle consolidation as of last Friday. In terms of technicals, this is a strong positive. We now need to see if price can maintain above 3150 or at a minimum, 3140 where the 200 day average is. Looking for a break above 3182/83 (last week’s high) as confirmation of the breakout.

Macros risks from Europe and the US continue to remain a threat to the STI’s advance.

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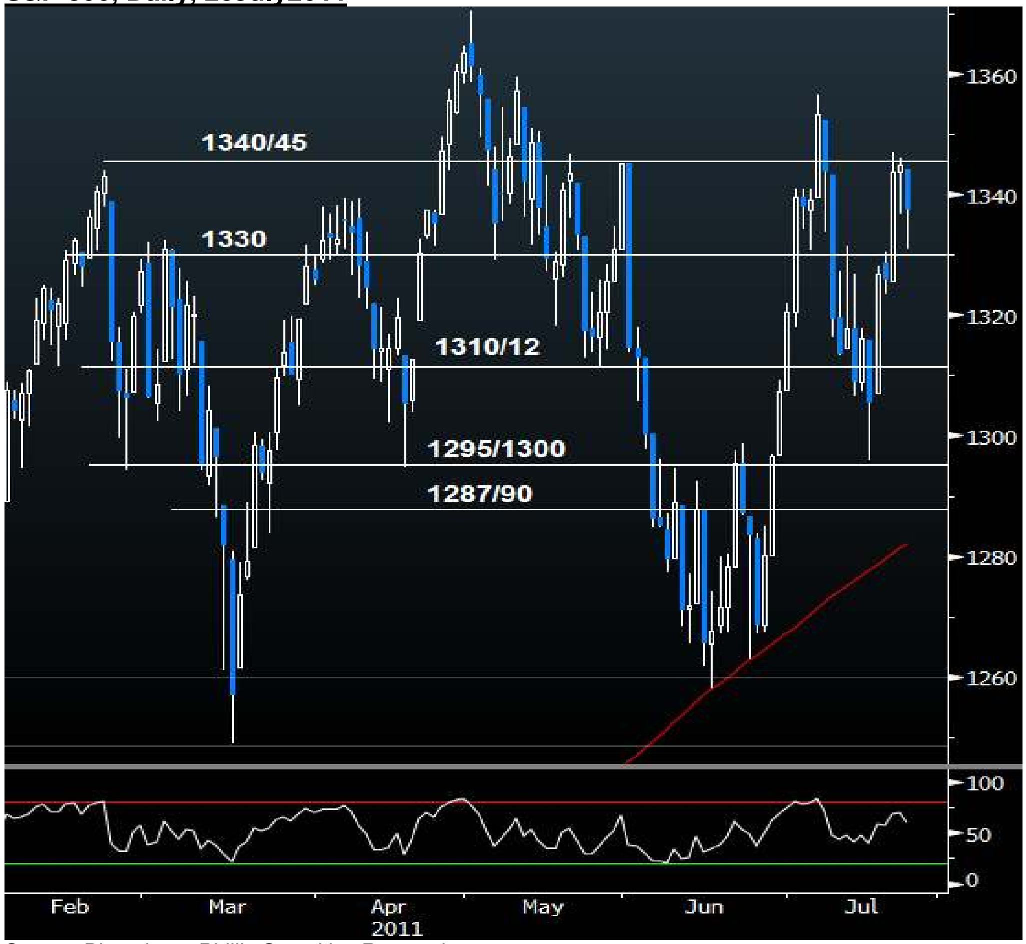
MICA (P) 003/01/2011
Ref No: SG2011_0209

S&P 500	
Previous Close	1337
Support 1	1330
Support 2	1320
Resistance 1	1347/50
Resistance 2	1356

S&P 500, Daily, 25July2011



Source: Bloomberg, Phillip Securities Research

Price action on the S&P 500 still seems relatively neutral despite the ongoing issues about the debt ceiling, with yesterday's session closing flat.

At this point the market is likely thinking that the US is in a "too big to fail" scenario, betting that President Obama and Congress will somehow find a solution to the debt ceiling issue.

The alternative is an unprecedented US default. According to Bloomberg news, Standard & Poor's said it would downgrade U.S. debt to junk status in the event of a default. Should this happen, it would almost certainly cause a cascade of selling.

Despite the "too big the fail" assumption markets have, our view is that the debt ceiling remains the #1 uncertainty that broad markets are facing at this point in time.

Once this issue is out of the way (assuming it is raised), the US market will likely turn its eyes back towards the earnings season again where sentiment could get more positive.

STI	
Previous Close	3171
Support 1	3150/40
Support 2	3120
Resistance 1	3183
Resistance 2	3200

STI, Daily, 25July11

Source: Bloomberg, Phillip Securities Research

Last week was very positive for the STI, rallying off support in the 3065 region to close above key resistance at 3180 (last week's close: 3182).

From the chart, we can see that there has been a breakout above the multi month triangle that we have been talking about. This is a significant development in the bigger picture technical landscape.

Right now, we want to lookout for follow through. We want to wait for a move above last week's high at 3182 to confirm the breakout.

Despite the breakout of the triangle consolidation, the presence of macro risks from Euro Zone and the US increase the risk of a false breakout or at very least, a choppy, erratic market.

Yesterday, the STI gapped down sharply, testing the upper trend line of the triangle consolidation and the 3150 level as support. Ideally, we want to see price maintain above the trend line and 3150 level, or at worst, 3140 where the 200 day average is.

Yesterday's close however, was positive. We saw buying kick in at the 3150 level at the upper bounds of the consolidation's trend line. To reiterate, the trigger we are waiting for in order for the breakout to be in play is a push above 3182/83.

Summary:

- Clean technical breakout, but unfavourable macro environment.
- Need to see price maintain above 3150, and at worst, 3140 for breakout to remain in play.
- The safest play would be to wait for a push above last week's high at 3182 to confirm the breakout has momentum backing it. This should ideally be confirmed by positive news from the US regarding the debt ceiling.

Shanghai Composite	
Previous Close	2688
Support 1	2675
Resistance 1	2700

Shanghai Composite, Daily, 25July11

Source: Bloomberg, Phillip Securities Research

The Shanghai Composite has unfortunately taken the path of scenario 2 that we outlined last week, namely,

"(2) There is a dip to 2750/60. At this point, a dip back to 2750/60 would be slightly disappointing, telling us that buying interest is not very strong."

Yesterday's downside volatility was a tad out of the ordinary, declining nearly 3% (2.96%) in 1 session. The break below support at 2950/60 has flipped the trend back towards the downside.

It also tells us that the rally starting mid-June was but an intermediate term rally in a longer term decline. Somewhat worrying. The minimum downside target is the June low around the 2625 region.

The best case is a double bottom around 2625. The worst is for price to slide below 2600 and continue lower, in which case, we could see a move towards the 2500 region where strong support is.

Shanghai has been the pack leader for Asian bourses and it is likely the reason why we saw the STI and most of Asia trade in the red for most of yesterday. Either way, a weak Shanghai Composite will act as a head wind for Asian indices.

Dollar Index	
Previous Close	74.10
Support 1	73.75/70
Resistance 1	74.35

Dollar Index, Daily, 25July11

Source: Bloomberg, Phillip Securities Research

The Dollar has broken out from the triangle type consolidation we mentioned last week. Price is anticipated to continue heading lower due to the direction of the current breakout.

Price formation has been rather "messy", telling of uncertainty in the interim. The downward breakout suggests a weaker Dollar to come. However, direction is hard to call in light of the macro risk from the debt ceiling and Euro Zone problems at the moment.

At this point it is best to give the Dollar some time to digest the ongoing events.

CRB	
Previous Close	345.89
Support 1	345
Resistance 1	350

CRB, Weekly, 25July11

Source: Bloomberg, Phillip Securities Research

The CRB has continued to inch higher over the past week. A tad surprising given the macro uncertainties of Euro Zone debt and the US debt ceiling looming overhead.

350 is acting as resistance at this point in time and 335/32 as support.

The US debt ceiling issue seems to be the major highlight of the markets at this point.

Despite the uncertainty, we think that markets could be anticipating a positive outcome since failure to raise the debt ceiling would spell disaster for the US and cause at a minimum several weeks of weakness.

A push above resistance at 350 would likely trigger additional buying. We would ideally like this to be in the context of positive news out from the US, Euro Zone or better still, both.

Crude Palm Oil	
Previous Close	3097
Support 1	3060
Resistance 1	3200/30

Crude Palm Oil, Weekly, 25July11

Source: Bloomberg, Phillip Securities Research

Minor rise in CPO prices last week compared to the close of the week before. Compared to last week's opening though, CPO prices were flat. There was a test of 3145/50 as resistance as well.

Volatility for the past 3 weeks of upmove has been small, telling us that there is lack of conviction to buy.

CPO price trend has been down for 2011. Given the currently low volatility, 3200/30 region should act as heavy resistance. If price manages to clear 3200/30 region, it still has the down trend line and 3400 level to contend with before a shift in trend to the upside can be called.

In other words, CPO prices have much to overcome before the weekly trend flips positive. Weak upside bias in the interim, but overall, techncials tell us that the path of least resistance remains poised downwards.

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