

Date: 27/09/2017

Market: ES mini

Timeframe(s): Intraday - 5m,15m,60m,3500T

News:

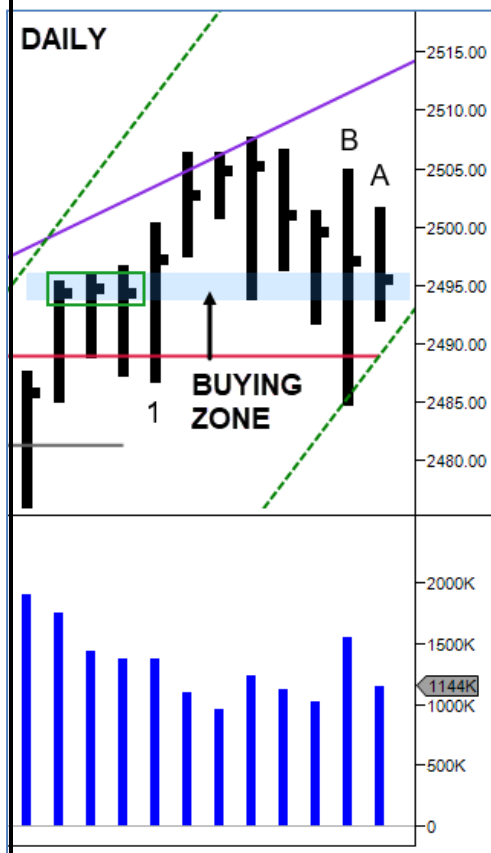
Yesterday:

HIGH: 2501.25

LOW: 2492.25

CLOSE: 2495.50

Other levels: res:2511.50, res:2507.25, sup: 2494.25 - 2495.25, sup:2488.50, sup:2477.50 - 79.00, sup:2461.00



The S&P has produced the 4th consecutive down day in a row, yet with all that volume and effort we are not making any genuine downside progress. Bar B had ample opportunity to take this market lower, but the buyers step in and we close back above multiday support (red line) and importantly back above the cluster of closes (green box) and ends up closing in the top 1/3 of the bar. Bar A is an inside bar, the volume is about 25% less than B, yet the spread is about half, this indicates that potential buyers are active and we have a case of Effort vs. Result. There is a subtlety in the price action; we dip into the buying zone, price holds and the close is higher than the cluster to the left, along with the strength of bar B, we must conclude that buyers are defending this level and actively buying. Since the original break (1) we are unable to close under this level. The question we ask ourselves, is the volume demand or supply related? Let's consult the lower timeframes to seek additional insights.

The 60m shows that trading has been confined to a down trend channel for the last 5 days, we manage to weaken the supply line at B, which we can view as an upthrust for arguments sake. This results in a pullback all the way back to the demand line where we have a confluence of buying from multiday support and the demand line; C highlights the buying that occurred at this level with pretty good price action, firm closes, decent spreads, but more importantly we had no further downside action from A (which was a very weak bar) The key bar on day 4 was E, this manages to break and hold above resistance (the lows of day 3) we were banging our head against resistance for 4 hours before we broke at E, so by all rights this level should now act as support. The market managed to weaken the supply line further at D, however this action results in a top reversal, but G halts any downside progress as we find buying - does this action make sense?

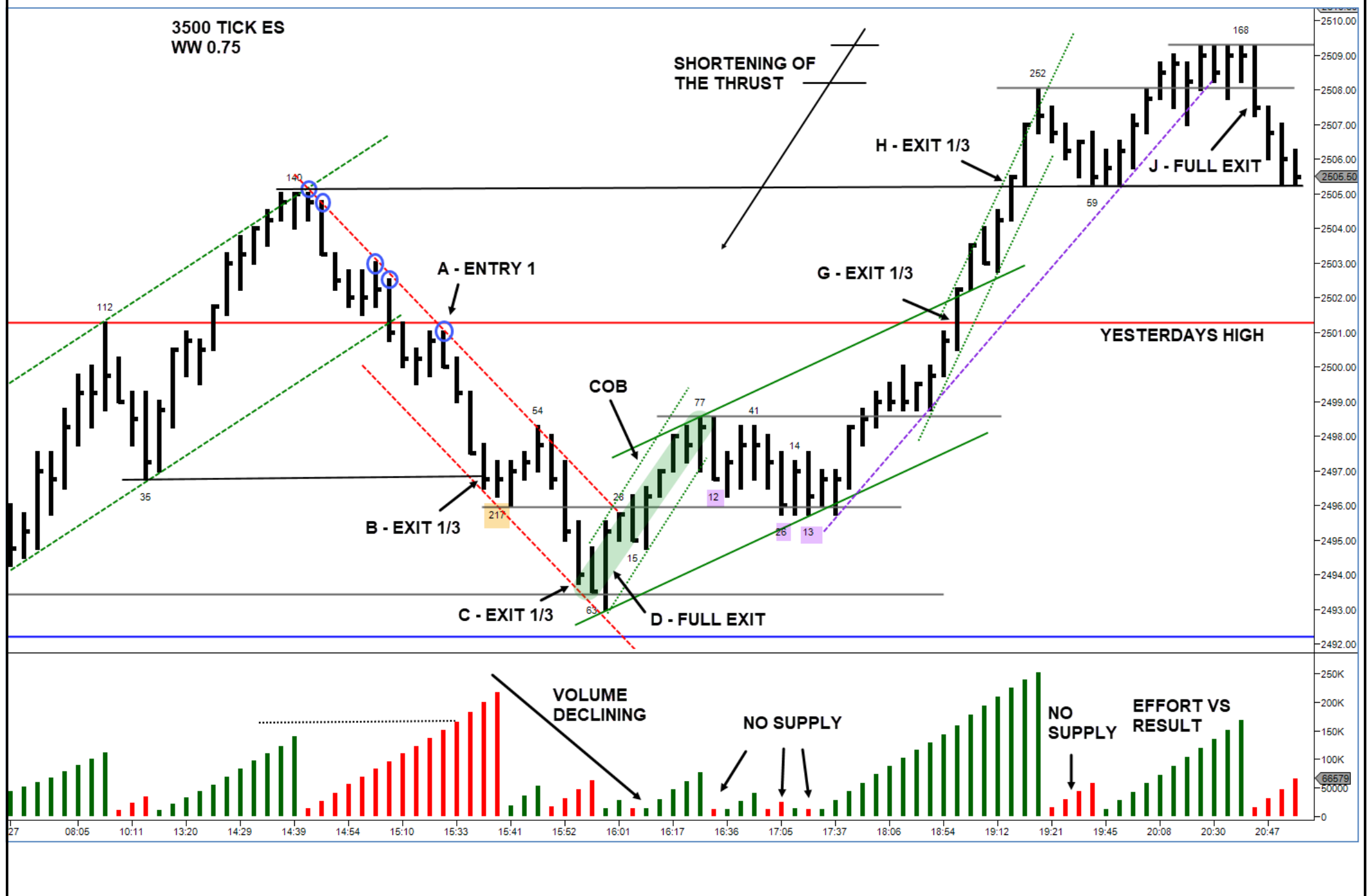


Yes, we are at support and it's evident to see buying at both F & G (mini buying zone) there is a subtlety in reading this price action and that is to observe that price closes approx two points off support - this indicates that buyers are very active and willing to buy aggressively at this level. Bar H is the US close and is difficult to interpret, saying that if we were to ignore the volume price dips into this area and we close off the lows. The fact that we have weakened the supply line in two areas (B & D) get decent buying at C after a sharp move down, and hold gains on day 5 suggests higher prices. Comparing day 5 to the other days we can visually see that the market is refusing to go down, we are holding firm at support. NOTE - the market manages to shrug off the weak price action at A, the very next day we retrace all the way back up and actually make a higher high at D, if the market was indeed super weak, sellers should emerge and defend their positions at A. The strength of bar J is trumping the weakness of A, this helps to add a subtle layer of strength

The volume was indeed demand related; only by consulting the background conditions does the market provide context. Bear in mind our analysis could be incorrect; if the market closes back under support and trades through the buying zone, we would make a short play back down to the demand line (2484.00). Although from the information provided, odds favour higher prices

Bar A - Entry 1, why? As we react there is a trend channel in play that price adheres to very well with 5 touches. During the pullback we break support (yesterdays high) and as we try to push up there is a confluence being the supply line and newly formed resistance that holds very nicely. The setup incorporates the 5m chart for additional data, as the waves are large with no detailed insights - at 1 there is clear evidence of Effort vs. Result at the highs (compare volume and spread to the previous bar) as we break support via 2 the volume increases (healthy for the sellers) finally the biggest clue is no demand at resistance (confluence level) along with the increasing wave volume, the setup is picture perfect

Bar B - Exit 1/3, first support (+4.25 points), Bar C - oversold in our channel that has held for 10 touches, we must respect the channel (+8.00 points), Bar D - Full exit, we spring an overnight level of support with a wide spread (due to the nature of tick charts, when we print a large spread it's of significance as it gives the bar validity)



Bar E – Entry 2, why? Via the tick chart we have a change of behaviour in waves (COB) it's the largest upwave since the uptrend begun that breaks the trend channel. From here the reactions are very weak as wave volume declines, literally no supply with 12k, 26k and 13k (purple highlight) where is the selling we had previously seen at this level with 217k? (orange highlight) and we are holding a higher level of support. The 5m chart helps immensely with the setup. If we analyze the individual bars coming down we have major buying, strength has emerged in force.

Bar 3 - a huge case of effort vs. result, this bar contains an incredible amount of buying, look at the volume and spread relationship – compare to other similar spread bars on the chart

Bar 4 – dips under the lows of 3 and reverses to close firm on even higher volume

Bar 5 – previous bar becomes oversold in our channel and is immediately reversed via 5, we result in a firm close back within the channel and retraces deep into the previous bar

Wyckoff has noted that swells in volume usually (but not always) result in a trend change (this is a core component of pure Wyckoff analysis, used on higher timeframes is a very effective tool for stock selection, as we know that a trend change is imminent) Bars 3 to 5 contain an extremely large amount of volume yet we only net a point to the downside, plus this block of volume dwarfs the US open, which we know is a volume aberration (discussed in previous Chronicles)

We continue to push up (5m chart) and hold a higher level of support, the purple highlights indicate a strength subtlety, every time the market has an opportunity for lower prices the second bar refuses lower prices and reverses to close firm. For 75 minutes we trade sideways and volume declines, supply is drying up; this action makes sense as we are absorbing supply to the left of the chart before mark up. The buyers have established themselves quite aggressively (via the swell in volume) before higher prices they need to absorb any leftover supply, this results in less friction to the upside which leads to higher profits. As Bar E closes it's an instant buy; we have a story of strength in background and the lack of supply in the immediate with favourable price action at a local level of support. Bar F is also a valid entry for the more aggressive trader

Bar G – Exit 1/3, first resistance (+4.25 points), Bar H – Exit 1/3, next resistance (+8.25 points) Bar J – Full Exit, a negative bar closing under support, after we get shortening of the thrust to the upside and breaking the purple demand line, odds now favour a more complex reaction and its near the US close (+10.50 points)

Today's trading provided a few opportunities that incorporated many Wyckoff principles. Regarding the large wave down (217k) it was only by analysing the 5m chart that we uncovered strength, the proceeding change of behaviour wave doesn't exert much volume to the upside and I too was looking for a test a little lower. However with the background conditions of strength (swell in volume) and as price unfolds for the next hour refusing to go down whilst holding a higher level of support and absorbing supply to the left, the whole picture cemented giving way to long positions, time to lock in profits and call it a day

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