

The Day So Far

The People's Bank of China set the renmimbi higher against the dollar following 8 straight days of weaker fixes, although this move failed to calm Chinese equities as the Shanghai Composite finished the day down 5.29%. Quite simply, investors, many of whom rode the spectacular boom last year, have lost faith in the regulators' ability to manage the volatility in the market and are looking to sell at any opportunity. Therefore, the efforts of the 'National Team' to support equities are having limited impact while retail investors remain intent on selling. Although foreign investors have largely stayed away from the Chinese markets, this bout of volatility is seriously affecting confidence in equities globally, as is WTI crude which overnight tested the lows of the year at \$32.25. As the Fed's Williams pointed out over the weekend, policy-makers have drastically overestimated the benefits of lower crude prices on the global economy, coming as it has when most other major commodities are crashing. The BRIC nations, for so long the engine of growth for the world for the past couple of decades, this collapse in commodities has been particularly devastating. Chinese equities, crude oil and Japanese Yen strength against the dollar are the three markets to watch for signs of risk-on/risk-off in the weeks and months ahead.

The Afternoon View

Last week was a calamitous opening to 2016, with many major indices posting their worst ever starts to the year and it is shaping up to be a very challenging 12 months for markets. Expect further downside in equities, although a bounce in the short-term cannot be ruled out given that we have fallen so violently and many indices are hitting some key supports. 3000 in Euro Stoxx has proved a very solid level in the past and so it is no surprise that we are bouncing off there so far this morning. That said, while the S&P remains below 2000 we look for further short opportunities in the days and weeks ahead; a break back above that level would force a re-appraisal. Likewise, we are short in crude as long as we remain below the 2015 low of \$33.98. The complete absence of data today should support equities in the short term, so we have a very conservative short entry in the S&P at 1969.

Key Headlines

Market Sentiment: Bearish

- Chinese CPI rises 1.6% y/y in December
- PBoC sets the reference rate for the renminbi stronger against the dollar for the first time in 8 days

Major Data Releases

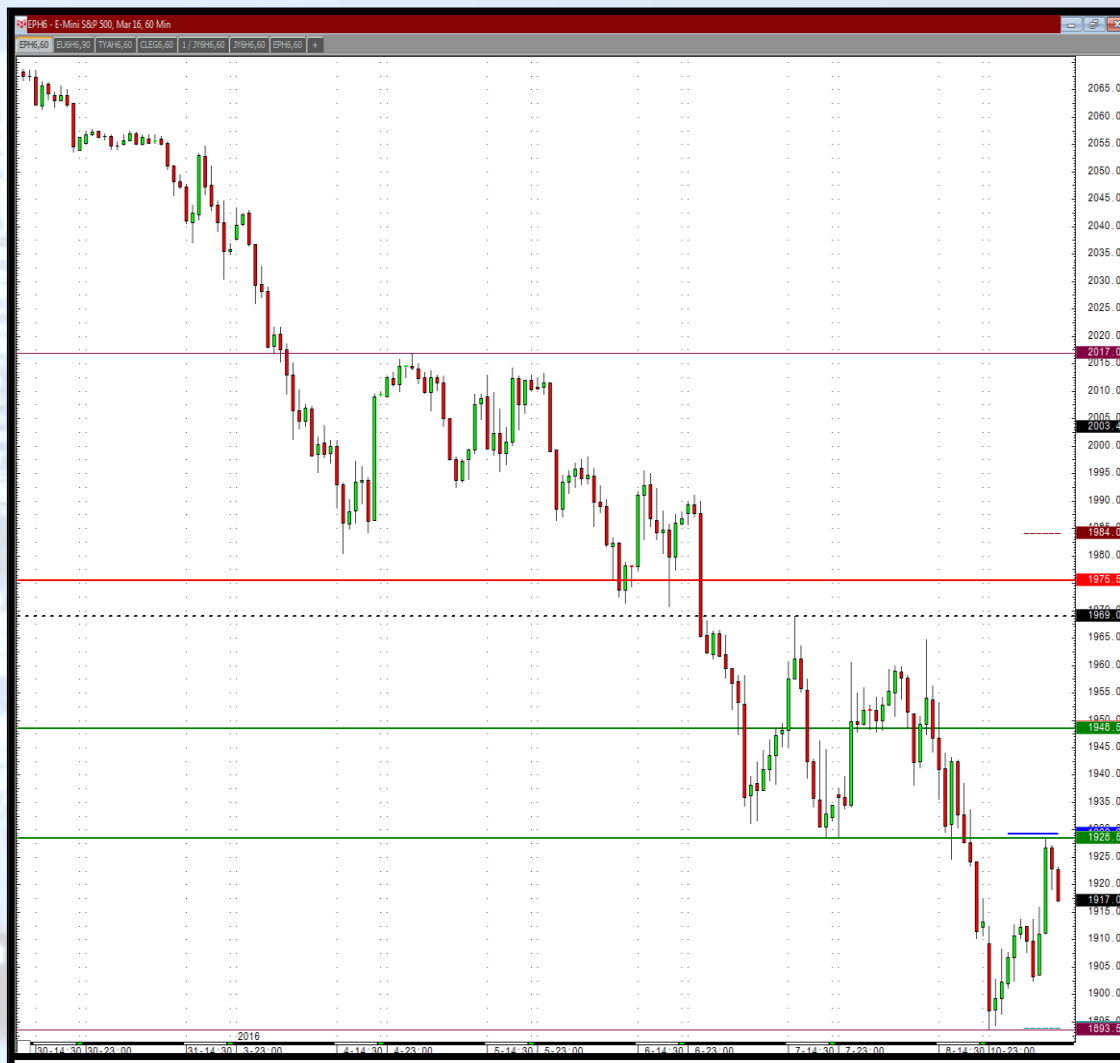
Data	Expected	Previous
No major releases today		

Strategy	Short
Entry	1969.00
1 st Target	1948.50
2 nd Target	1928.50
Stop	1975.50

Key Levels	Comments
1984.00	R2
1969.00	High of 7 th
1948.50	R1
1928.50	Pivot
1893.50	S1

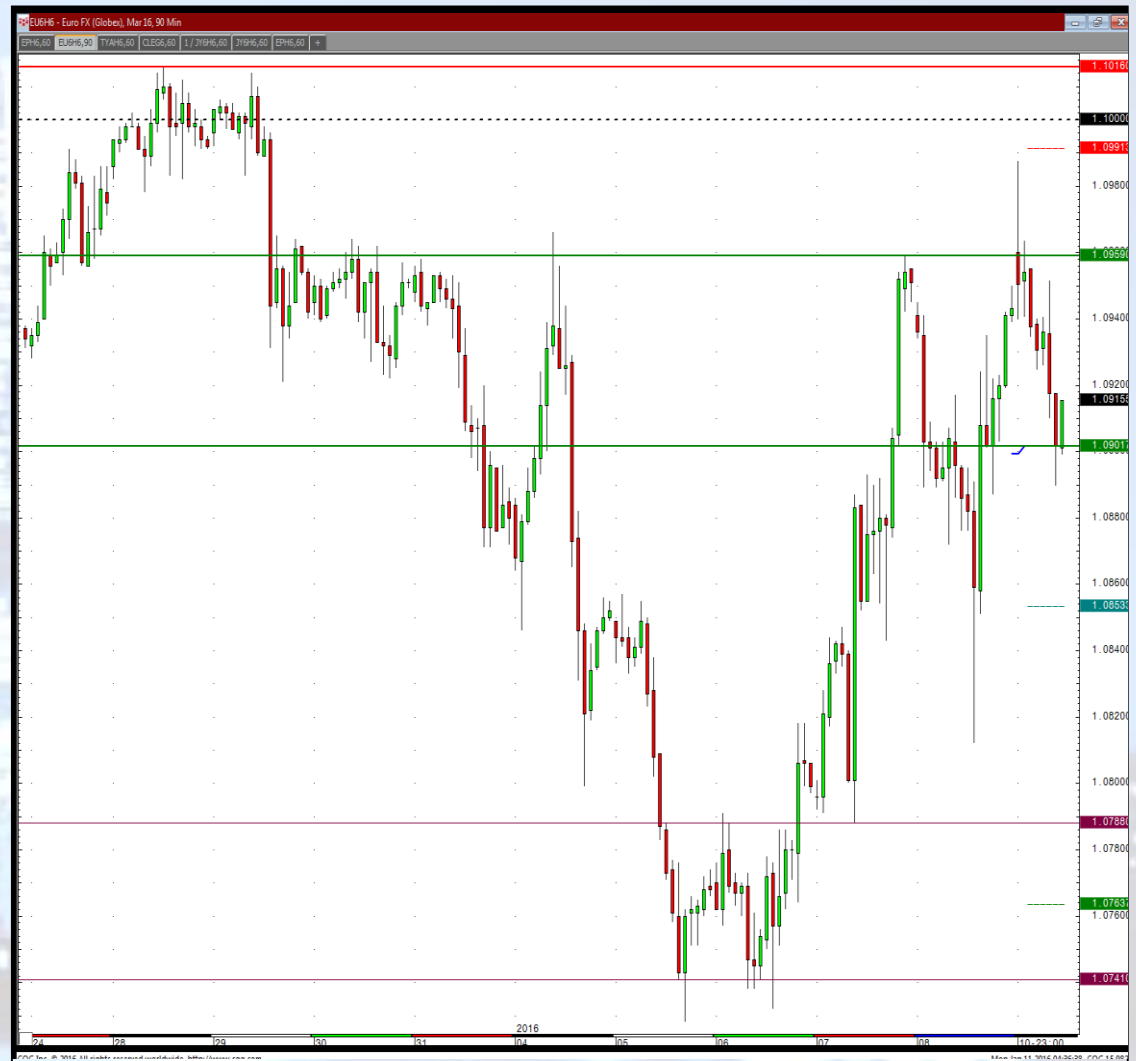
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Please see page 5 for more information



Strategy	Short
Entry	1.10000
1 st Target	1.09590
2 nd Target	1.09015
Stop	1.10160

Key Levels	Comments
1.10160	High of 29 th
1.10000	Handle Resistance
1.09915	R1
1.09590	High of 7 th
1.09015	Pivot



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Strategy	Long
Entry	126.275
1st Target	127.100
2nd Target	127.230
Stop	126.180

Key Levels	Comments
127.270	R1
127.230	Friday's High
127.100	High of 7 th
127.070	Pivot
126.275	Pivot
126.180	High of 4 th

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Strategy	Short
Entry	33.29
1 st Target	32.77
2 nd Target	32.10
Stop	33.54

Key Levels	Comments
33.93	R1
33.29	Pivot
32.77	Support on 6 th
32.77	Pivot
32.23	S1
32.10	Low of 7 th



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