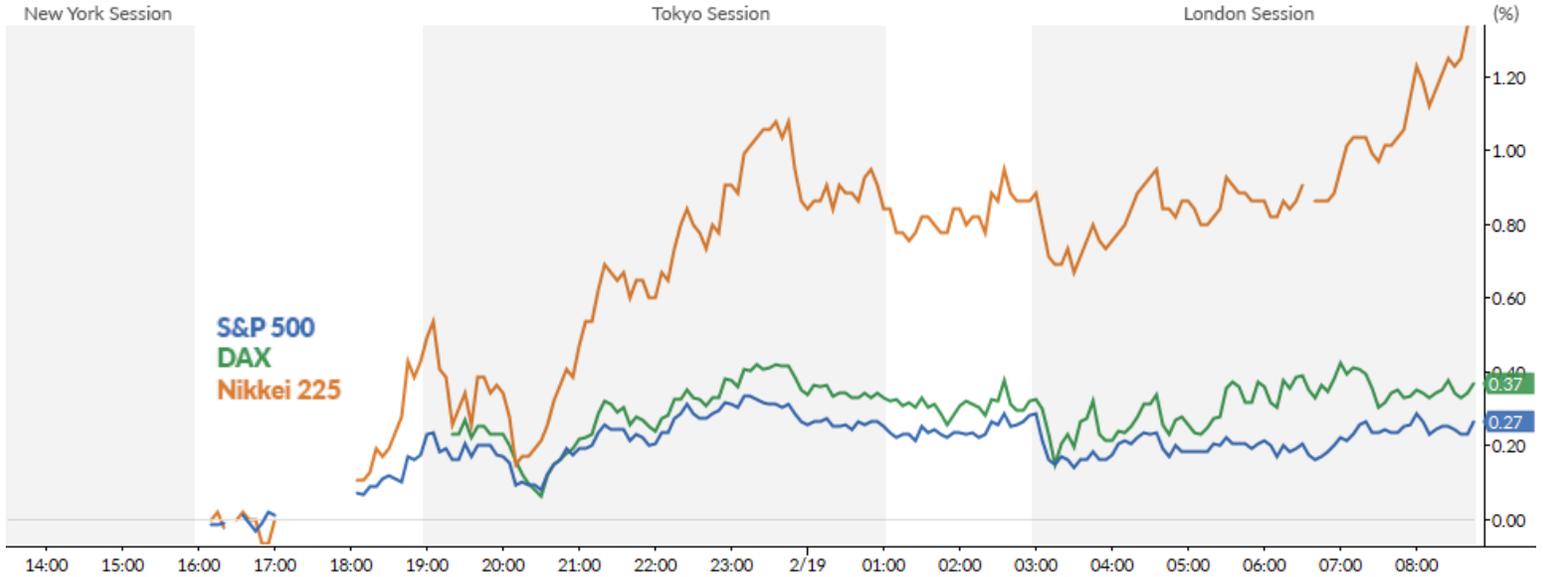


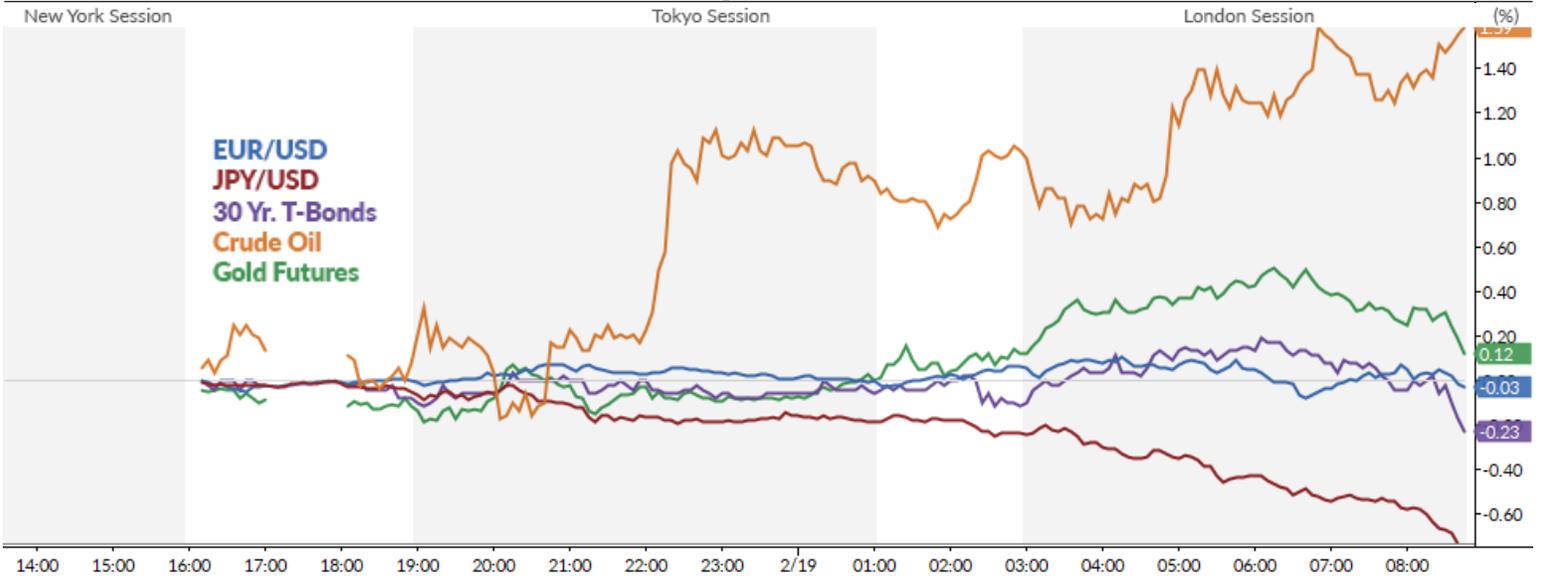
Overnight Notes

- ▶ In some ways, this morning's action is nearly a mirror image (i.e., reversed) of yesterday's—stock indexes are up, with Asia leading sharply higher, and other assets confirm risk-on mindset.
- ▶ Daily charts are still locked in consolidation and low volatility conditions. This should somewhat dampen intraday expectations.
- ▶ No strong setup to start the day. Intraday traders will have to cue off price action around key levels.

Global Stock Indexes Overnight



Overnight Risk Assets



** Note that JPY is quoted JPY/USD in the chart above to better show direction of USD.

Overnight Risk Appetite



Today's Directional Bias



Today's Trend/Range Bias



† See important notes on these graphics on the last page of this report.

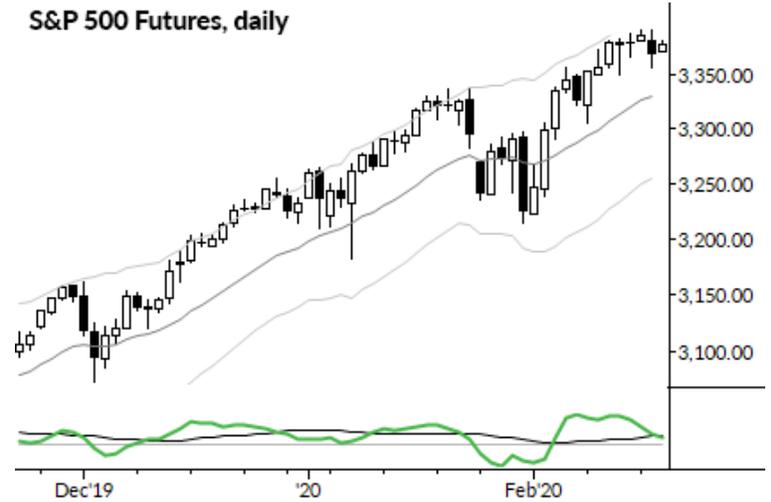
Today's S&P 500 Playbook

- ▶ Recent action may have been frustrating for intraday traders because moves have not extended well or cleanly. Yesterday, even with a setup for a strongly trending session, we printed a small doji for regular trading hours, and the day spent most of the session trading sideways. This is typical of markets in consolidation, and we are also entering a season period of volatility weakness/further volatility contraction. (Seasonality of volatility is stronger than seasonality of price direction—a little-known fact.)
- ▶ Traders looking to trade trending moves must carefully pick spots. Ideal entries would be consolidations at or just beyond key levels (including the high or low of the session as it develops). Furthermore, traders looking for trending moves should assume these moves will *fail*; this is an important shift in mindset that aligns expectations with the reality of markets locked in consolidation.
- ▶ **Range day (likely):** The first levels are the overnight high and low (3,382.00 and 3,368.75), which have clearly defined a tight range. Yesterday's day session high (3,375.00) is clustered in between those levels and provides a solid reference for early trading. This tight overnight range is unlikely to hold cleanly, but assume that moves through the level will be on lower momentum until you see otherwise. Assume trend moves will fail into range unless set up by strong momentum on lower timeframes (e.g., 5 minute charts).
- ▶ **Trend day (less likely):** To the upside, watch our key level at (3,385.00). If this level is challenged and breaks on strong momentum, there is very little resistance between that and our last upside level at 3,409.00. Though trending is less likely, upside is more likely than downside. To the downside, our key support level is 3,351.00, just under yesterday's low. Breaks of this level are more likely to be bear traps (i.e., deceptive) unless they are generated by new news or information. Next downside level is 3,316.00, should that level break on strong momentum.

Levels, Trend, and Volatility

	Change		Highs/Lows		Trend	Volatility	OB/OS	ATR(20)	AvgGap	%Gap
	Overnight	Yesterday	Yesterday	Overnight						
S&P 500	0.3% [0.3σ]	0.1% [0.1σ]	3,375.00 3,355.25	3,382.00 3,368.75	↑ ↑ ↑	Avg	OB(weak)	34.77	10.70	19.4%
30 Yr Bonds	-0.1% [-0.2σ]	0.4% [0.8σ]	163 16/32 162 20/32	163 13/32 162 26/32	↑ ↑ ↓	Avg	-	1 11/32	0 6/32	0.4%
EURUSD	0.1% [0.3σ]	-0.4% [-1.6σ]	1.08259 1.07910	1.08080 1.07849	↓ ↓ ↓	Avg	OS	0.004	N/A	N/A
Crude Oil	1.5% [0.9σ]	-0.6% [-0.4σ]	52.37 51.39	53.17 52.16	↑ ↓ ↓	Low	-	1.64	0.23	0.8%
Gold	0.5% [0.8σ]	1.2% [2.2σ]	1,608.2 1,590.9	1,614.4 1,602.4	↑ ↑ ↑	Avg-	OB	16.2	2.7	0.8%

S&P levels: 3,283.00, 3,316.00, 3,351.00, 3,385.00, 3,409.00



Upcoming Economic Releases

Wednesday: None

Thursday: Jobless Claims, CPI



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Legend for data table:

Num %: The change as a percent

Num σ : The change as a "Sigma Spike", expressed as a standard deviation of the previous twenty trading days

Trend: A proprietary trend measure based on weekly (S/T), monthly (I/T) and multi-month (L/T) daily returns (\uparrow =uptrend, \downarrow =downtrend)

Volatility: A measure of current volatility relative to the one year history of that particular market/instrument (Low \rightarrow Avg \rightarrow High)

OB/OS: A volatility-adjusted measure of overbought/oversold conditions based on the daily chart

ATR(20): The twenty day average true range

AvgGap: The average size of the opening gap, defined as Absvalue(Today's Open - Previous Close), with a one year lookback

%Gap: The percentage of trading days that have shown an opening gap over the past year

The graphics at the bottom of the first page are "bottom line" assessments of conditions and probabilities at the time the report was published. They are derived from a combination of quantitative tools and measures with a discretionary input.

Overnight Risk Appetite measures the "risk on or off" content of the Asia/Pacific sessions by evaluating price movement and volatility of a basket of instruments.

Today's Directional Bias gives a directional edge from the previous day's close. **Today's Trend/Range Bias** gives a tilt toward intraday trending or ranging conditions.

They should be understood in combination with the [more in-depth comments on the second page of this report](#). In intraday action, probabilities are conditional. (Meaning, for example, the probability of a trend might increase greatly if a certain price level is exceeded or some other action develops.) What might begin as a high probability trend day could change into a range day, and the comments will help differentiate between those conditions.

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