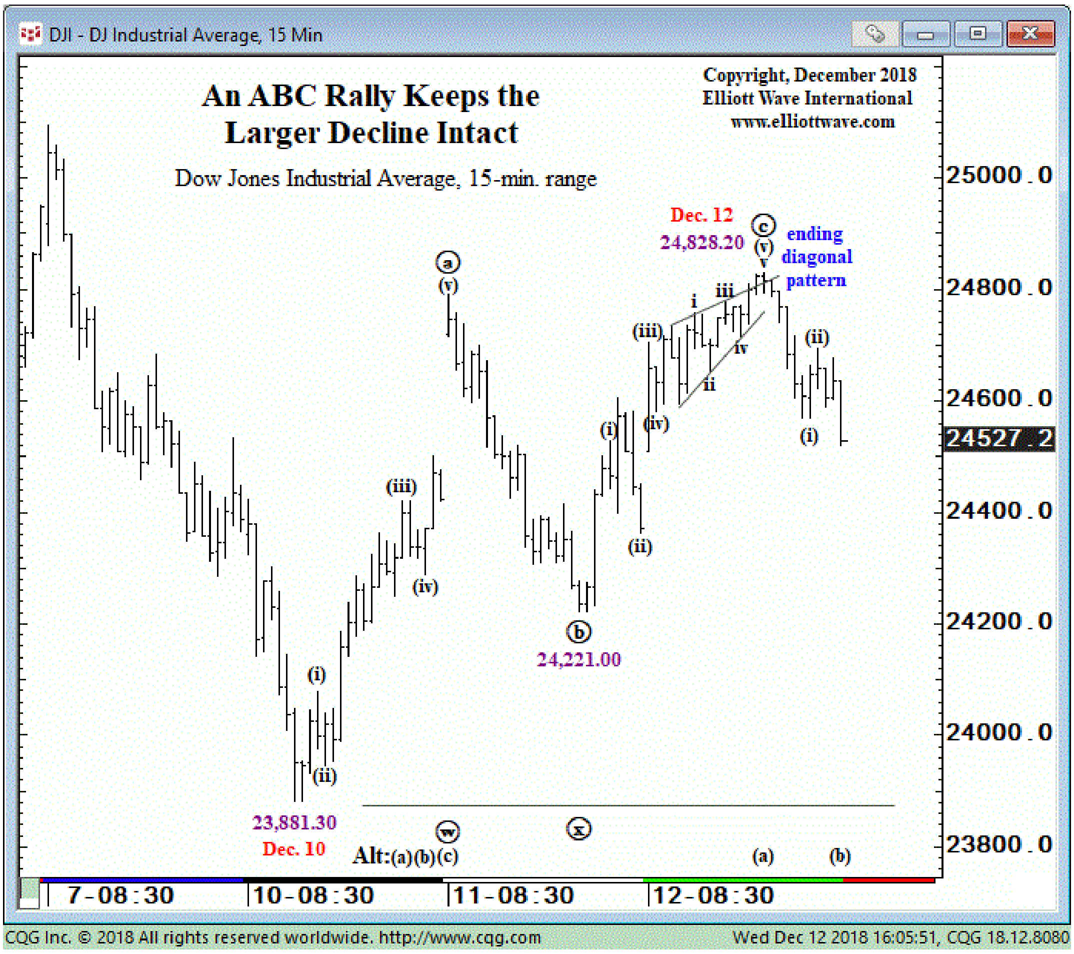
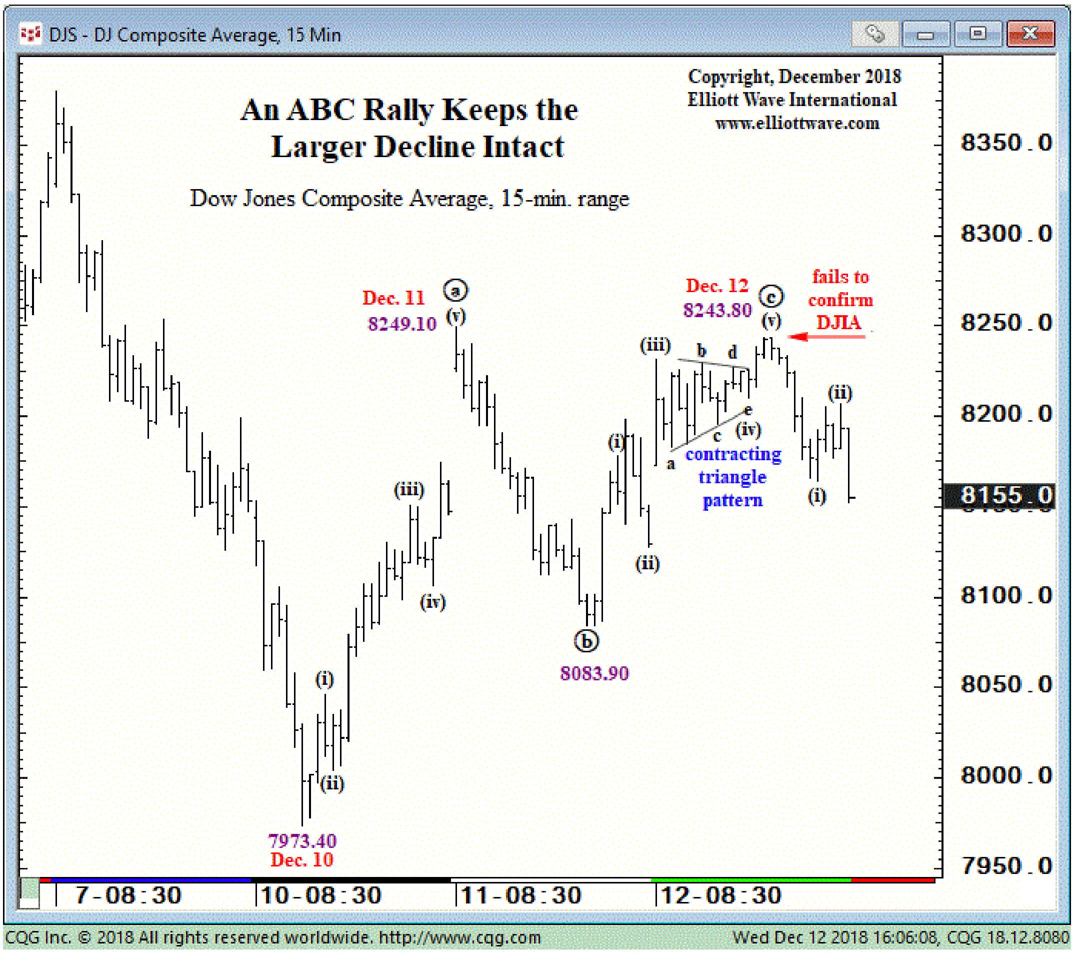
FINANCIAL FORECAST
SHORT TERM UPDATE

by STEVEN HOCHBERG

Update for Wednesday, December 12, 2018: 4:15pm, Eastern.

The pattern traced out by the market this week indicates strong bearish potential directly ahead. We'll soon see if prices fulfill this potential.

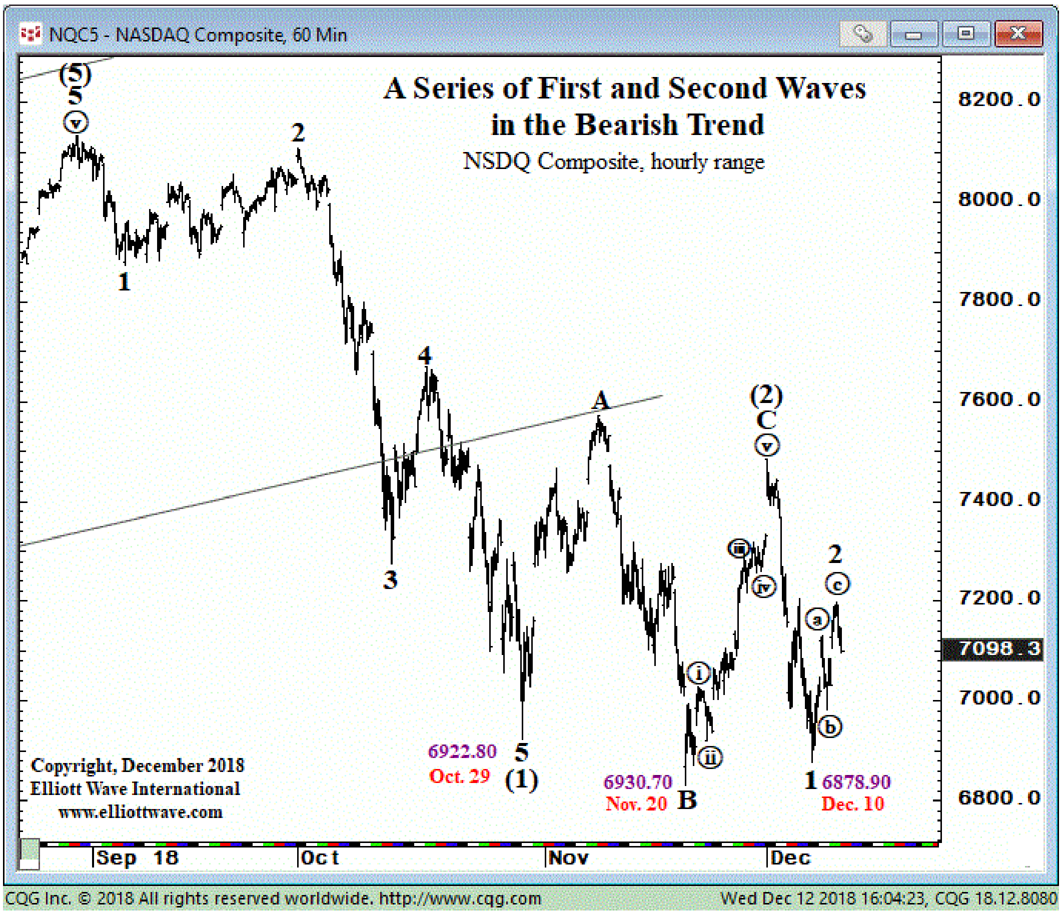




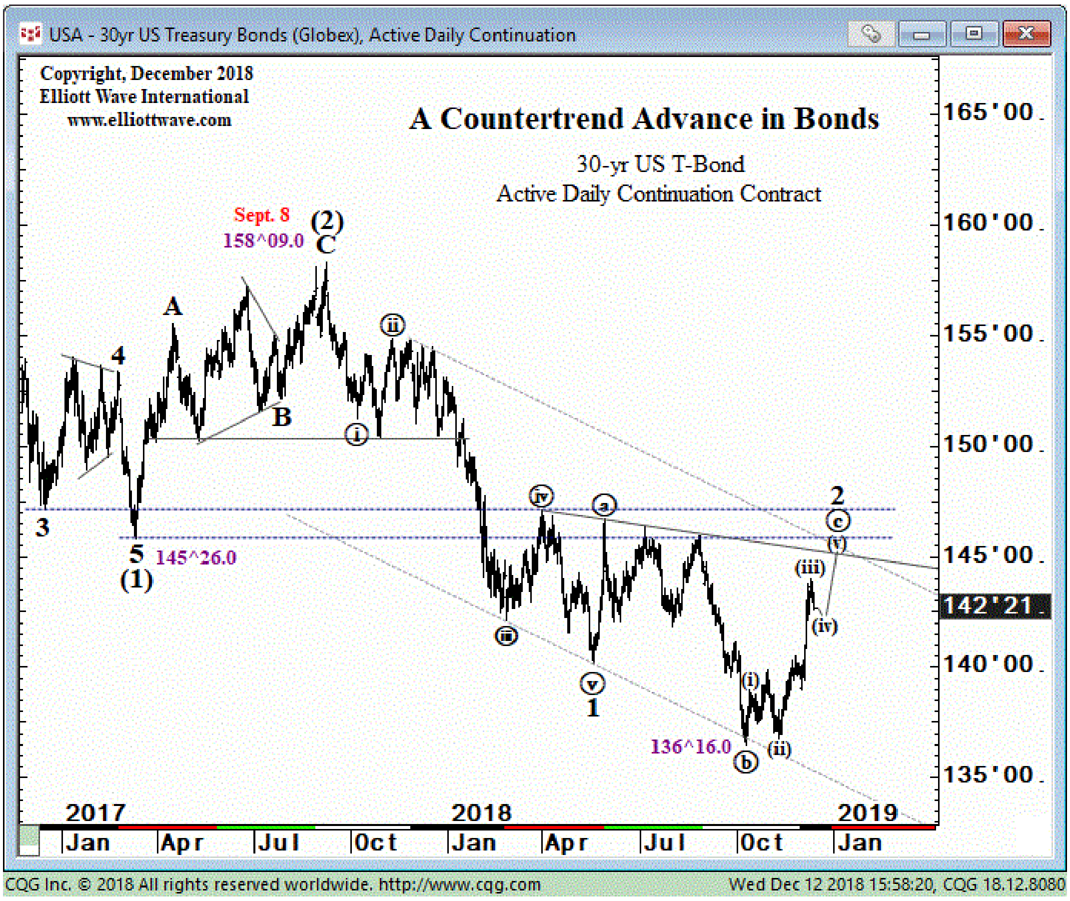
The main U.S. stock indexes carried higher until shortly after lunch time today, after which the market declined sharply. As shown on the top chart of the Dow Jones Industrial Average, prices traced out an a-b-c rally from the 23,881.30 low on December 10 to the 24,828.20 high today. ABC rally patterns are countertrend moves, so the “three up” means that the next larger-degree of trend is down. The final subwaves of wave c (circle) traced out an ending diagonal pattern (see text, p.36), a special impulse that serves to terminate the larger trend. The pattern appears to be a textbook example in real time. The Dow Jones Composite Average, shown on the second chart, failed to confirm the DJIA high this afternoon by remaining below its high on December 11. The DJCA, comprising all the stocks in the Dow Industrials, Dow Transports and Dow Utilities, reached the same point as the DJIA, a complete abc, but the structure was slightly different. Instead of terminating its three-wave rally with an ending diagonal pattern like the DJIA, the Composite traced out a contracting triangle for wave (iv) of c (circle) and then thrust to its final wave (v) of c (circle) high. So the market was expressing a slight variation of the exact same structure. They convey the same message: decline ahead.

It’s not certain how this “three up” fits into the larger structure but the pattern has provided an objectively-defined level in which to judge the bearish potential indicated by the wave structure. The trend of stocks should remain bearish and continue to decline to new lows—below December 10 low—as long as this afternoon’s highs remain intact. So, as long as the DJIA is below 24,828.20, a complete a-b-c rally is in place and the index should continue to work lower. This afternoon’s equivalent high in the S&P 500 is 2685.44 and the index has the same complete a-b-c advance as the Dow. So, the S&P should continue to decline to below 2583.23, the December 10 low.

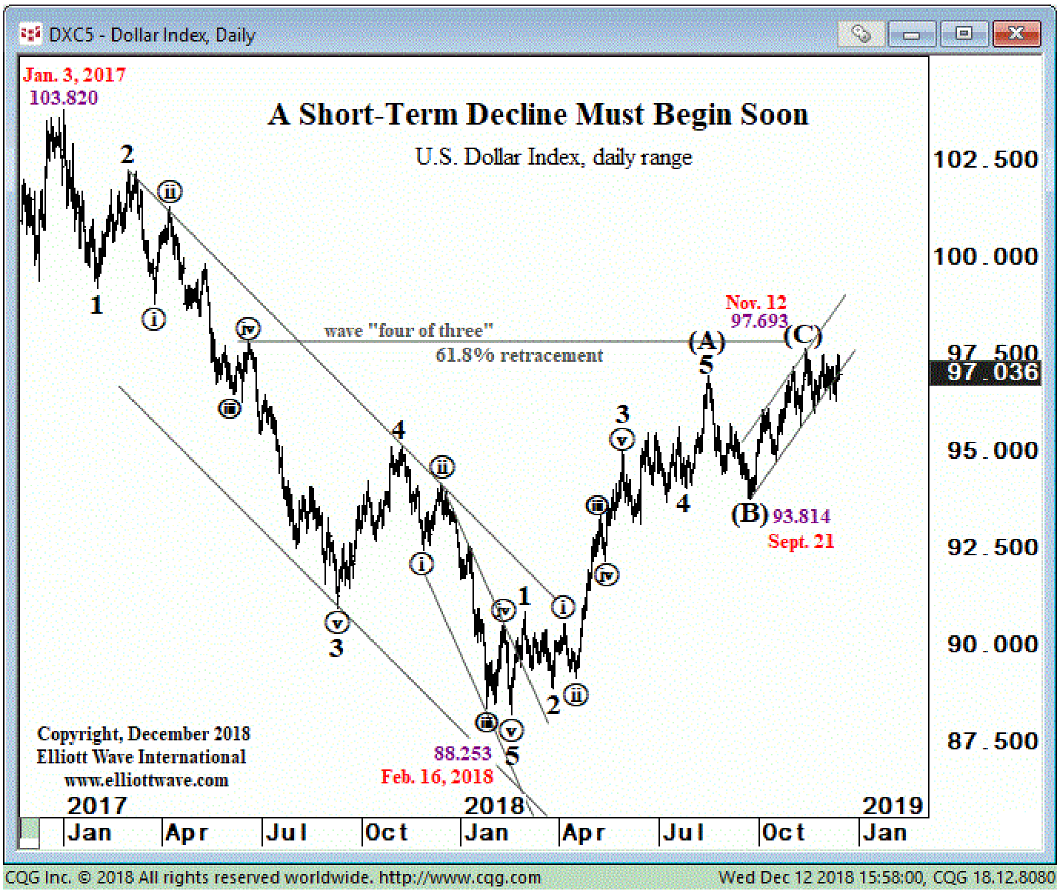
A rally above this afternoon's highs would indicate that alternate interpretations are at play. There are several viable alternates, one of which is shown by the alt. line at the bottom of the Dow's 15-minute chart—a double zigzag advance. All the alternatives imply a larger countertrend rally before the start of the next wave of the ongoing bear market. The Dow has resistance in the 25,095-25,312 range, which is 2708-2736 in the S&P.



The NASDAQ Composite traced out a similar a-b-c pattern from the 6878.90 low on December 10 to the 7197.20 high today. This rally is wave 2, which carried to the previous fourth-wave extreme. Wave 3 will be a long and persistent decline that will draw the index lower over the coming months. The key short-term level for the bearish potential is today's high. As long as it is intact, wave 2 is complete and wave 3 is beginning. If today's high is exceeded, it means that wave 2 is not quite finished and could carry to the next target area at 7233-7268 before terminating.

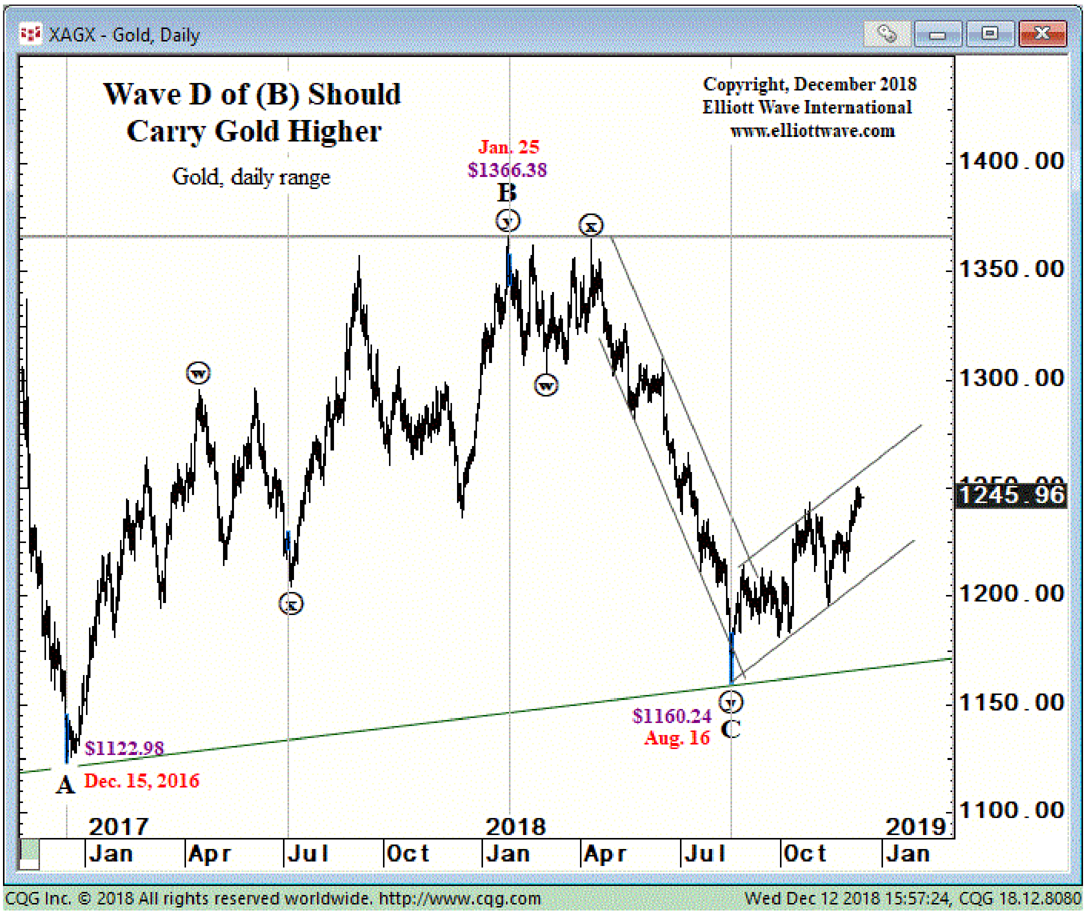


From the 143^31.0 high on Monday (Dec. 10), **[30-year T-bond futures]** declined to 142^19.0 today in what should be part of a fourth-wave correction. Initial support is just below the market at 142^04.0 to 142^17.0. Once the fourth-wave terminates, a fifth-wave rally should carry prices above 144^00.0 to complete Minute wave c (circle) and Minor wave 2. A decline through 138^31.0 would suggest that the near-term trend had returned to bearish.



The **[U.S. Dollar Index]** remains below the 97.693 high of November 12. Prices appear to have hit a roadblock in attempting to push past this high, but it is not yet possible to eliminate the triangle pattern that we discussed in Monday's STU. If the near-term wave structure has traced out a triangle, the U.S. dollar will jump above the November 12 high before attempting another trend reversal to the downside. If the November 12 high instead completes the dollar's rally, the index should now slip underneath 96.042, the November 20 intraday low, would eliminate the triangle and strongly support the bearish case. The coming trading hours and days are likely to provide the definitive answer and we will keep you apprised of any new conclusions that we are able to make.

The **[Euro]**, likewise, has not exceeded its extreme of November 12 (1.1215). If the short-term pattern over the past several weeks is not a triangle, prices should soon rally through 1.1473, the high of November 20. This push would eliminate the triangle potential and indicate that the euro was working its way up to the September 24 high. Until the November 20 high is exceeded, it is still possible that a triangle pattern is now ending and the euro will experience a sharp drop beneath 1.1215 before attempting the next rally.



There is no change in the forecast for **[Gold]**. Prices are rising in Minor wave D of Intermediate wave (B). The most probable target area remains at or near the $1300-$1350 range. After Minor wave D is complete, Minor wave E will be a multi-month pullback, retracing a portion of the rally from the August 16 low. That should complete Intermediate wave (B) and lead to Intermediate wave (C) up to new recovery highs in the final waves of Primary wave B (circle). The September issue of EWFF has a chart and an accompanying schematic of how this pattern should look.

[Silver]' is at an important short-term juncture. The rally has carried to $14.81 and is bumping into chart resistance that is at or near the $14.88-$14.95 range. A punch through $15.00 would clear this resistance and would be compatible with the bullish case. Still higher prices should occur thereafter. Silver is trending more or less with gold and the near-term bullish case for gold suggests bullish potential for silver, too. A close below $13.87, the November 14 extreme, would turn our short-term view of silver neutral.

Next Update: Friday, December 14, 2018.
--Steven Hochberg, Editor.

(↑ continue progression: upper case Roman/Arabic numerals; upper/lower case letters)

Wave Degree	5's With the Trend	3's Against the Trend
1 Supermillennium	1 2 3 4 5	A B C
2 Millennium	(1) (2) (3) (4) (5)	(A) (B) (C)
3 Submillennium	1 2 3 4 5	A B C
4 Grand Supercycle	I II III IV V	a b c
5 Supercycle	(I) (II) (III) (IV) (V)	(a) (b) (c)
6 Cycle	I II III IV V	a b c
7 Primary	1 2 3 4 5	A B C
8 Intermediate	(1) (2) (3) (4) (5)	(A) (B) (C)
9 Minor	1 2 3 4 5	A B C
10 Minute	i ii iii iv v	a b c
11 Minuette	(i) (ii) (iii) (iv) (v)	(a) (b) (c)
12 Subminuette	i ii iii iv v	a b c
13 Micro	1 2 3 4 5	A B C
14 Submicro	(1) (2) (3) (4) (5)	(A) (B) (C)
15 Miniscule	1 2 3 4 5	A B C

(↓ continue progression: lower case Roman/Arabic numerals; upper/lower case letters)