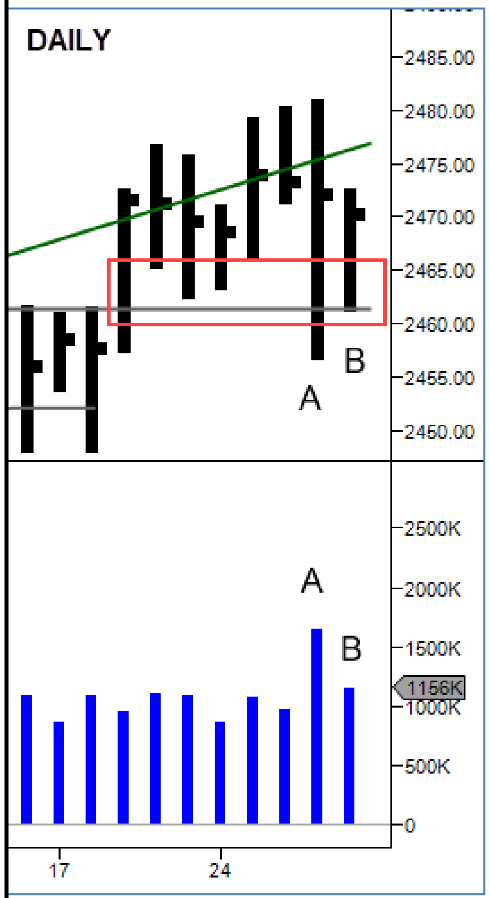
Date: 31/07/2017 **Market:** ES mini **Timeframe(s):** Intraday – 5m,15m,60m,3500T **News:**

Yesterday: **HIGH:** 2472.00 **LOW:** 2461.50 **CLOSE:** 2470.25

Other levels: res:2495.00, sup:2461.50, sup:2451.50, sup:2440.00, sup:2337.00, sup:2428.00, sup:2417.00



The S&P's has responded fairly well from the weakness at A, although bar A shows aggressive buying from the lows and closes fairly firm (we know demand exists) we have to pay attention to what the sellers have achieved - they managed to drive the market down hard (the weakest bar in 3 weeks). Bar B - closes firm, with a higher low, decent volume and holds the daily support level. The red box highlights a buying zone; if the market manages to close back above the supply line with decent volume, we would have to view bar A as a shakeout, which of course is bullish behaviour and would expect higher prices or more lateral movement (trading range) alternatively if the session ahead provides little movement (narrow spread) with weak volume (a no demand bar) we could have a lower prices on the cards, and expect a deeper pullback. As it stands from a daily perspective we would expect higher prices

The 15m chart confirms that higher prices are on the cards. During the European session we test daily support at A, market rallies to F where the US opens and we react back to support where demand emerges again with decent buying at B. Market finds resistance at C, we pullback to D where selling diminishes and we hold a higher level of support (bullish behaviour) as we rally and break the US open high to E volume increases (bullish)

Game plan: Scenario 1 – highs made first; unable to break supply line, look for a weak rally and supply to emerge. Due to the clustering of closes and yesterdays high being close, we would like a clean break to the downside with a weak rally back to resistance to apply bearish setups around the 2470.00 – 2472.00

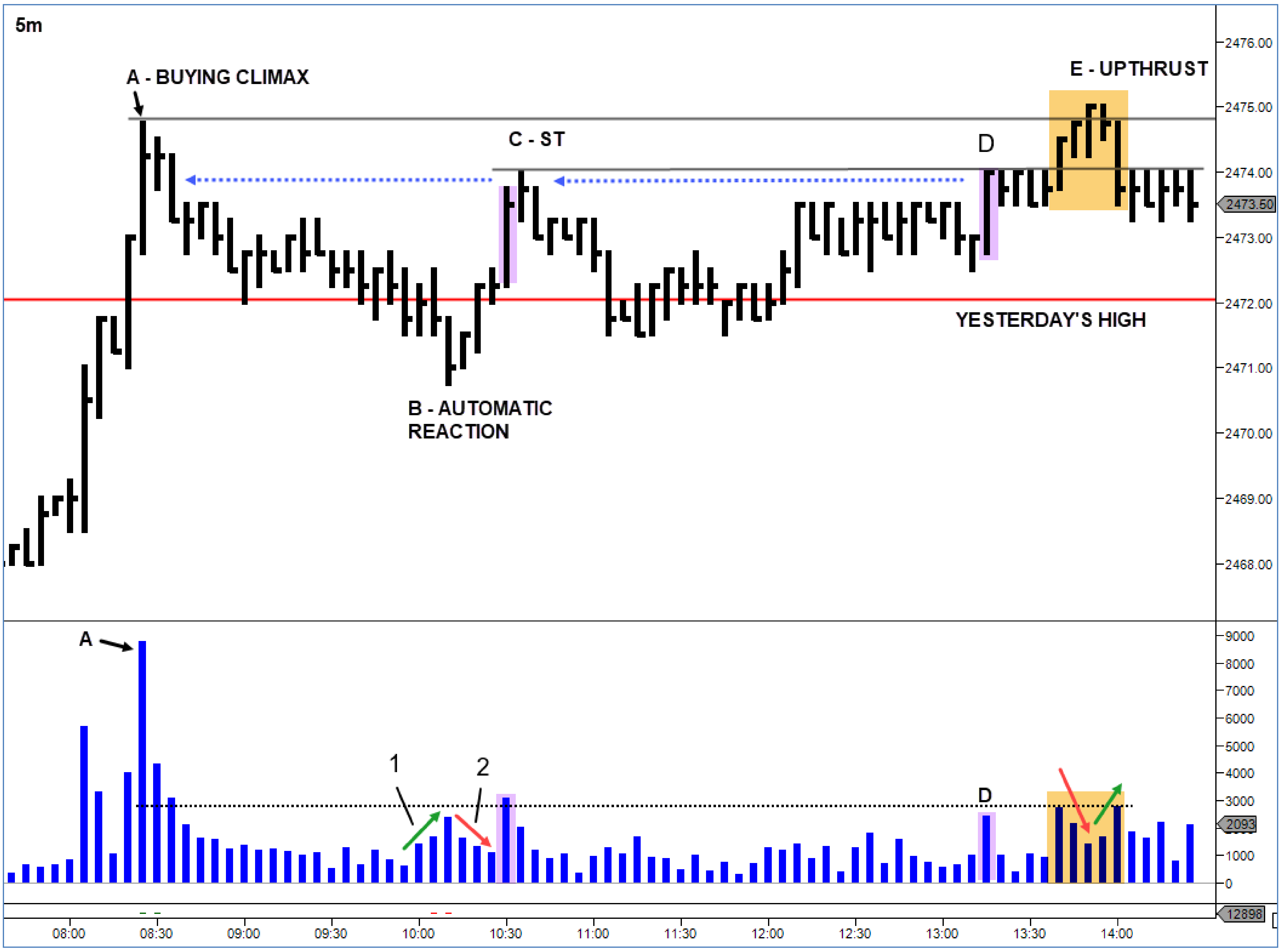
Scenario 2 – highs made first; breaks yesterday's high decisively with good demand, wait for a weak pullback back to support and apply bullish setups. Could be tricky as the high is near the supply line and the all time high, we have known supply in this area

Scenario 3 – lows made first; back to support at 2461.50 with a weak approach, selling of poor quality. Look for demand to emerge and apply bullish setups

Scenario 4 – lows made first; breaks support 2461.50 decisively/or bars A low, wait for a weak rally back to resistance and apply bearish setups. If we break the low of bar A, we must be nimble as we have another level of daily support 2451.00 right underneath. With the addition of the average true range in play, this potential scenario has limitations

The European session prints a classic component of Wyckoff via the 5m timeframe ''distribution'' it gives a heads up for potential bearish setups. This topic has been covered a couple of times in the Chronicles; principles remain the same albeit with a slight variation.

The rally to A is climatic in nature, we rise too fast too soon, then bar A itself - the spread is same in length as the previous bar, yet with double the volume no additional upside progress; ask yourself why isn't the spread double in length? This is due to hidden selling within bar A, only selling can cap bars A progress from rocketing off to the moon with all that volume. This is followed by a text book automatic reaction to B, as we decline volume increases, this means sellers are active. We have a secondary test at C where volume declines to the upside another tell tale sign. The 2 purple highlight bars are upside shakeouts, although the bars look bullish they actually contain hidden selling, how do we know? The pop in volume is out of character for local bars (mini climaxes) if we look to the left, where are we? Right into the climatic bar (A), this is all textbook behaviour, by using the volume histogram you can visually see the lack of volume compared to that of A, no real force. Finally at E we upthrust bar A (secondary test) with all this volume within the orange histogram we make very little upside progress, the market is being capped by sellers. The little break to E, the volume declines on the rally and from the upthrust we increase in volume. Upthrusts and springs are usually (but not always) the end of either distribution or accumulation, we need to break the lows of B with selling of good quality, a good sign of weakness/down wave. Bear in mind this is distribution via a 5m timeframe, the cause built should provide an appropriate effect (on a 60m time frame this isn't distribution)

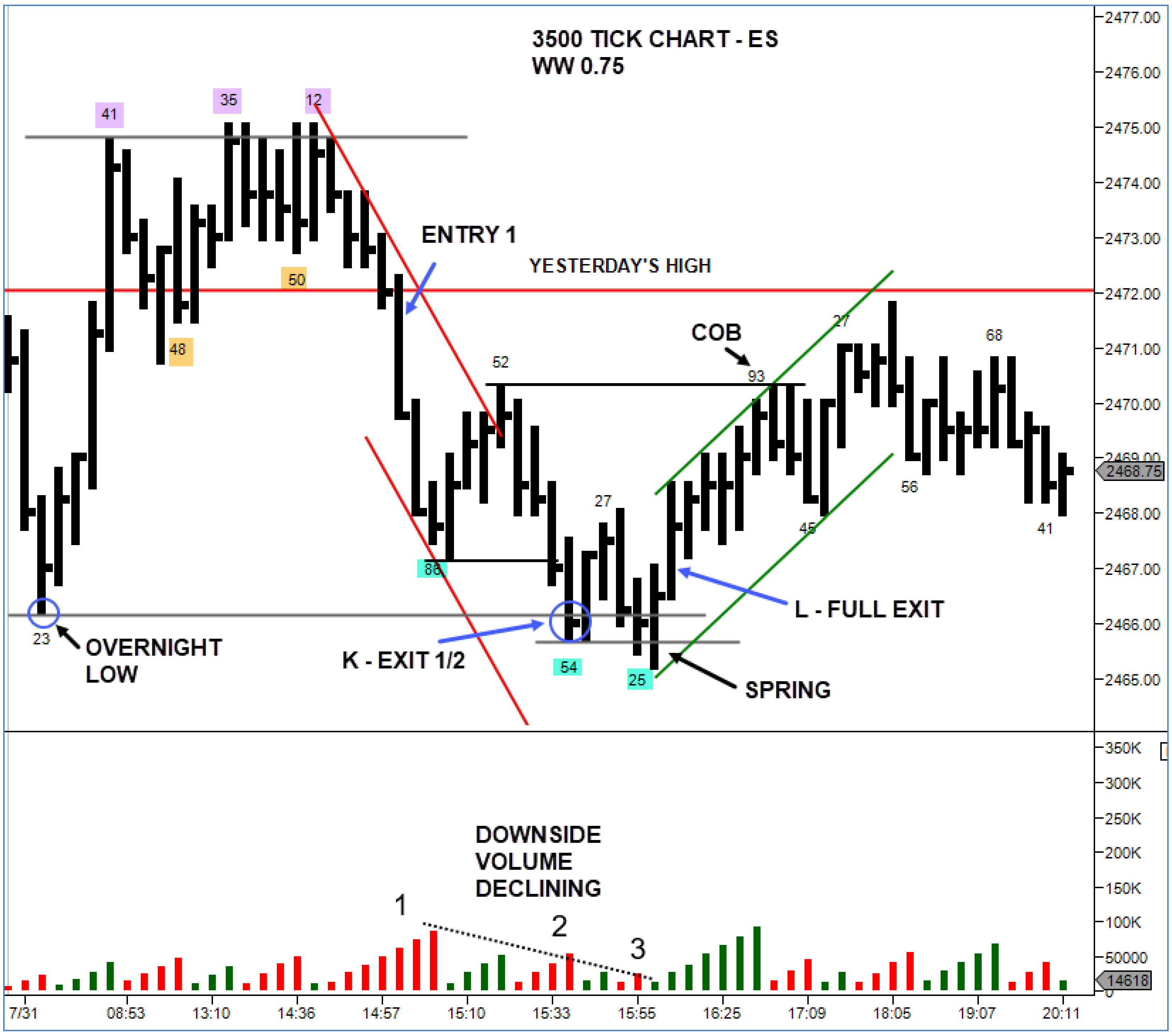


As the market opens we want to be looking for short opportunities. What's of interest is yesterdays high; this combined with the low of B (automatic reaction) are our first major levels of support that should break

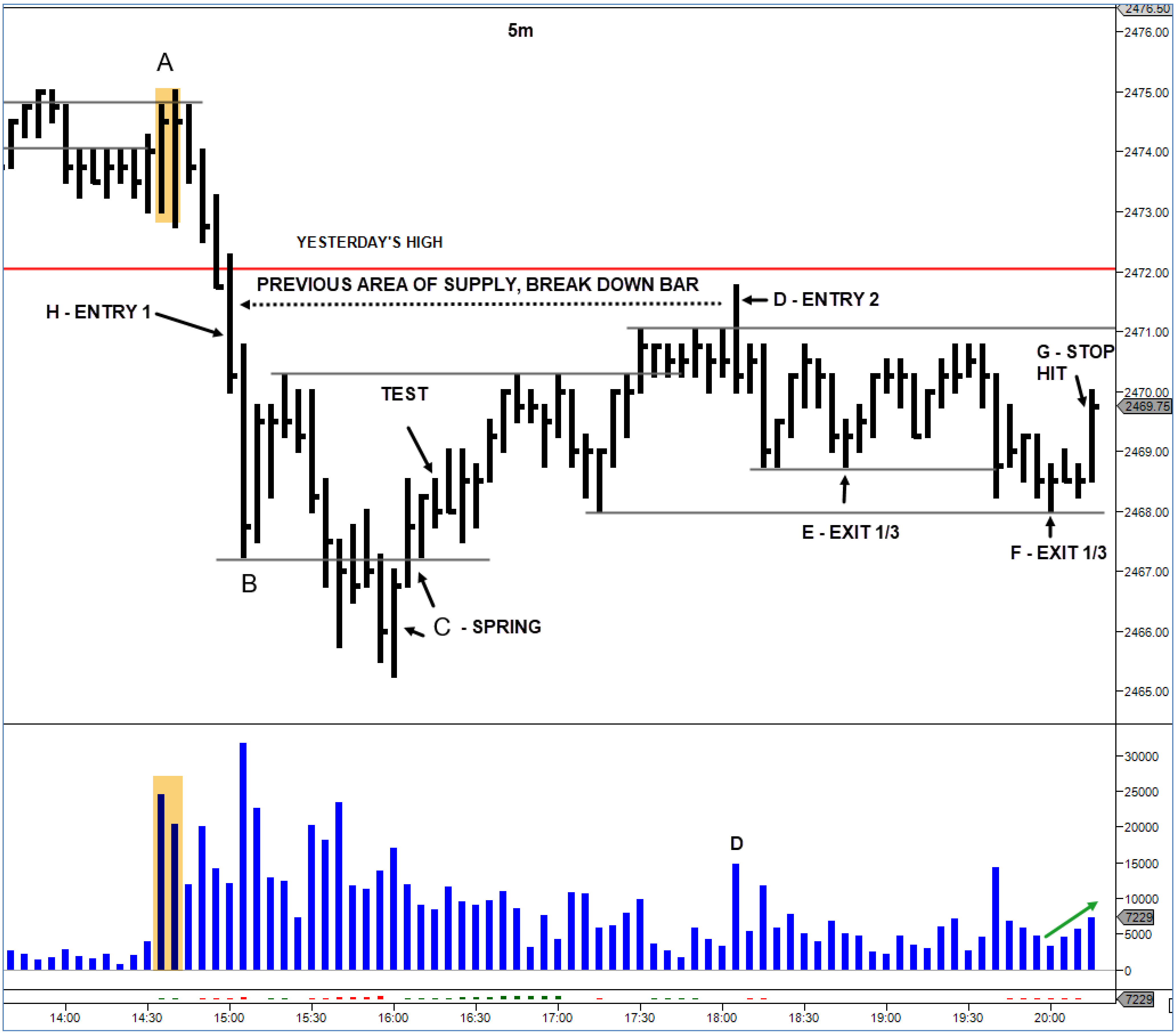
Entry 1 – why? We have major weakness behind us being distribution. The tick chart shows a different perspective in terms of waning demand. We break the highs with an upwave of 41k, then 2 successive waves of 35k and 12k contracts; both smaller in length and volume, demand is weak (purple highlight) NOTE – the 2 down waves 48k and 50k contracts (orange highlight) are both heavier in volume than any prior upwave. As we break support (yesterday's high) and a couple of pre-session lows, I let the market pull me in with a sell stop (via the 5m chart price action is superb as we break support, spreads increase, volume increases, bars closing on their lows etc) The 2 bars at A (US open) both have high volume yet no upside progress is made, this equates to hidden selling, giving further cause for additional weakness.

K – Exit ½ why? First support level that is abundantly clear, here we test the overnight low (+5.25 points).

L – Full exit, why? We have shortening of the thrust to the downside via the tick chart with the force of selling pressure diminishing, 86k, 54k and 25k contracts (green highlight or wave volume 1,2 &3) this occurs at a support level that has held at K. This tells us in advance that a rally is due of sorts, as we break the high of the 27k up wave, stop is hit (+3.25 points)



D – entry 2 via 5m chart, why? We print a hidden upthrust with an increase in volume and spread at resistance in a previous area of supply. Be aware that this trade has limitations, why? (adjust clip size accordingly) We have a change of behaviour upwave with 93k contracts at M (tick chart) behind us. However, the market is telling us that a pullback is due, we don't know how far or deep it will retrace, if we're nimble and alert this could be a successful trade that unfolds in our favour. It's very important to be aware of a potential trade's limitation in advance; so when it unfolds in front of you we are not shaken or bemused by any unexpected movement. When the market acts out of character to our preconceptions/and or the trade doesn't perform as it should, this can cause unnecessary un-comfort and on occasion lead to reckless trading behaviour.



E – Exit 1/3, first support level (+1.50 points), F – Exit 1/3, second support level (+2.25 points) This trade has been a long, painful hold, the trade has never got going. G – Full exit, why? As we rally from support volume increases (not healthy for shorts) as the bar closes, it's an instant market order for full exit (+0.50 points)

Today's response from distribution was picture perfect in terms of the effect from the cause built; it was unfortunate that we were never gifted any additional downside action as we were positioned early on in the day and had the opportunity to ride it down, not to worry, profits were locked in and there is always another trade. Time call it a day

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