A slump in housing demand that started off from the US has spread into a broad recession causing diminishing demand, driving down oil prices and affecting the economies around the world. Following the financial meltdown, the automakers were next to get affected. Are we seeing the end or is this just the beginning?

Since the financial crisis started with the collapse of Lehman Brothers, global stock markets have been on a free fall. Countries such as Iceland have been left virtually bankrupt after the crash of their financial markets brought on by their massive exposure to foreign debts. With constant rumors of more bankruptcies from big companies previously labeled as “too big to fall”, the financial markets have been unable to make a convincing turnaround and instead are currently testing multi-year lows. What was cheap is now getting cheaper convincingly, and affecting the economies around the world.

Governments around the globe provided stimulus packages with the hope of saving jobs and their economies. The Singapore government has also announced its US$13.6 billion stimulus package in a bid to ease the worst recession in the country’s history. The stock market received a short-term boost which quickly faltered due to the skepticism on whether or not the stimulus package would work. As an indication, when the stock market doesn’t rally after a piece of positive announcement, it probably may not advance after all. It must be noted that the stimulus package will take more time to show results. Meanwhile, in the short-term, we can expect the stock market to remain extremely volatile.

The Stimulus Effect

Bears are still in control, which means that the downtrend is still intact. This has created a lot of unwinding long-term investors that are now just waiting sideways for the market to recover just to be able to see their paper losses reduced – eventually causing trading volumes to dwindle on our local bourse.

Current readings from the indicators show that the 20-day moving average has nicely strengthened, especially so with regional markets showing bearishness. From the second STI chart, we can see that the 20-day moving average has nicely resisted the STI. For the last few weeks, the STI has been trying to stay above the psychological 1,700 points level. When the bears tried to break the 1,700 points level, the bulls fought back to maintain that level. The stock market doesn’t rally after a piece of positive announcement, it probably may not advance after all. It must be noted that the stimulus package will take more time to show results. Meanwhile, in the short-term, we can expect the stock market to remain extremely volatile. This has created a lot of unwinding long-term investors that are now just waiting sideways for the market to recover just to be able to see their paper losses reduced – eventually causing trading volumes to dwindle on our local bourse.

We observed a symmetrical triangle formation on the chart of Sembcorp. As triangle patterns are known to be trend continuation rather than reversal, the probability of the stock breaking down to test the low $1.90s is higher. Also, the confluence of the moving average lines suggests that a breakout into a new trend is beckoning.

With the STI and a lot of other stocks trading near the moving average resistance, traders who trade on the long side ought to be prudent as it will be on the riskier side. In a bull market, we look for support to buy, while in a bear market we look for resistance to sell. Hence, when the rebound happens, it may be a better strategy to look for the resistance to sell. We are in a bear market after all.