

Boeing (BA) bottoming out

Technical Analysis has been around for years, and the accuracy of forecasts depends on the strength of the evidence and confirmation through multiple indicators. In some instances, the evidence can be compelling in support of the argument as was the case recently with BA, a Dow component and classified under Industrial/Aerospace sector.

▼ BA hit a high in February 2019 and has been in a downtrend

Examining the weekly chart below, BA hit a high of \$435.56 in February 2019 and has been in a downtrend since then. The stock took a big hit at the onset of COVID, dropping from \$340 to \$100, as air travel literally came to a halt two years ago. It recovered gradually, hitting a high of around \$260 in March 2021. Subsequently, prices entered a steady decline reaching a low of \$120 in May 2021. This is where things start to get interesting from a technical analysis perspective. Prices recovered to \$170 and then retreated to test the prior low of \$120 in October 2022. The retest of \$120 lacked the conviction of the prior low, as seen by the Relative Strength Index chart – above the price chart. The RSI made a higher low creating what analysts normally call a divergence between the two price moves and the two RSI moves. This is normally viewed as bullish for further price movements from the low.

▼ Prices are headed lower unable to break through a key level

Prices then moved higher during the latter part of 2022, creating a double bottom as shown by the curved red lines. Double bottoms are validated when prices move higher than the prior high, also referred to as the “neck Line” which in this instance is shown as a blue horizontal line on the price chart. A break of the neckline then sets up a target based on the height from the bottom to the neck line which in this case brings it to around \$225 noted as a green horizontal line on the price chart. This also happens to be the 200-day moving average line. As mentioned previously, confluence of indicators makes the level more relevant, and sure enough prices retreated from the high of \$221. Prices are now headed lower, unable to break through the 200 day moving average after several attempts.

The reason for this is once again evident in the RSI chart above, where successive attempts to break through lacked conviction, implied by the negative divergence (downward sloping black line). The RSI has now moved below 50 implying a correction in place.

▼ A period of non-trending consolidation has begun

A natural consolidation would be at the “neck line” which served as resistance earlier. It also happens to be the 50% Fibonacci retracement of the recent rally. Further, the 50 day moving average makes it very likely to look for support here. A break of \$165 would suggest a retest of the prior low at \$120.

Shown below the price chart is the Percentage Price Oscillator (PPO) which is another measure of relative strength. Moves here confirm what was earlier observed in the RSI chart. The On Balance Volume chart below the PPO chart confirms that the most recent rally was coupled with good volume as noted by the uptrend. This is further confirmed by the ADX chart below it, which is a measure of trend, through the uptrending black line. However, the black line has now turned lower indicating that most recent uptrend is now over and a period of non-trending consolidation has begun.

▼ A reasonable risk-reward play: buy near 50-day MA with a stoploss

Boeing has received quite a few new orders lately and it is understood to be limited by its production capacity. Issues related to its Dreamliner recently surfaced and more details are awaited. For this stock to become more constructive and head higher, it needs to hold the \$165/170 level and break through the 200-day moving average on its next attempt. Otherwise, it may remain in a trading range of \$220 – 120 for longer. A reasonable risk/reward play could be to buy BA at or near the 50-day moving average, with a stop loss below the moving average, for a retest of \$220 and perhaps a move higher to test the \$280 level.



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▼ Disclosure

Full disclosure: The author has a position in the above fund. A copy of this blog will also be available at www.skmarketinsights.com under “blogs”. Please e-mail me at info@skmarketinsights.com to enable access to this and other reports.

