

Market Talk February 26, 2018

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Bullish signs continue

The markets continue to try to recover. Markets are up slightly on the year and have had their highest close since the beginning of the month. The US economy continues to be grow positively as does the global economy. The Mueller investigation persists but is not yet a crisis. The biggest debate in the US is gun control. Other issues such as the Syrian war and North Korea remain a concern but are largely out of most Americans' and Europeans' minds.

Naturally the question is whether can we recover and regain new highs. I believe the answer is yes as this recent correction had the earmarks of a wave 4. In a sudden, out-of-the-blue quick sharp move, the market did fall about 10%, and now a choppy recovery begins. Volatility indicators such as the Chicago Board Options Exchange Volatility Index (the VIX) leapt up but are settling down. We most likely have seen the end of single-digit VIX levels and now a slow rise should get underway. New highs in the DJI likely will not be matched by new lows in the VIX.

The 10 year US Treasury bond yield hit a high of 2.94%. This is below my target of around 3.20%. This target could still be reached but that will likely happen later as there appear to be signs that a correction in yields (an increase in bond prices) is underway. We note that the new US Federal Reserve Chair Jerome Powell speaks this week for the first time. His words will be studied to death. While hints abound that there likely will be at least 2 more interest rate hikes, we suspect that Powell will be calming as we are sure he won't want to spook markets or the economy. That will also keep the guy who appointed him happy so he can continue to brag he saved the US economy and markets.

There remain some gaps in the Dow Jones Industrial Average (the DJI) up around 26,000 to 26,500. They need to be cleared to confirm new highs ahead. The DJI is currently at resistance but once through 25,500 things should pick up. Naturally below 24,750 there could be further backing and filling. If we are forming a flag formation as we suspect then some further ups and downs would be natural. The DJI never seriously challenged our 23,250 breakdown and the low held above the 200 Day Moving Average.

Nonetheless any rebound to new highs should be the final run before troubled waters set in later this year.

Gold, silver and gold stocks continue to struggle. The commercial Commitment of Traders Report (COT) which measures net long and short positions, or open interest, for gold was unchanged again at 30% but both long and short open interest rose. The silver commercial COT improved again to 45%



from 44% but again both long and short open interest rose. The silver commercial COT is the best it has been since December 2017 just before a sharp rally.

For gold \$1360 to \$1375 continues to be resistance. But if the gold price breaks through this resistance, gold prices could move upwards swiftly. Silver still needs to break above \$17 and \$17.50 in order to move higher. In order for our view of gold and silver to remain bullish, it is key that the gold price not break below \$1290 and that silver remain above support of \$16.25. Silver, despite its weakness, continues to cling to an uptrend line. Sentiment for gold and silver is much lower but the gold and silver prices are not at levels that scream buy. The gold stocks languish and are acting more like stocks rather than the underlying commodity. But like the gold and silver commodities themselves, if the prices of gold stocks bust through recent resistance the up move could be swift.

We return with a full report next weekend. Enjoy the week. Spring is in the air.

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