

Technical Scoop February 18 2019

From David Chapman, Chief Strategist

dchapman@enrichedinvesting.com

For Technical Scoop enquiries: 416-523-5454

For Enriched Investing™ strategy enquiries and
for Canadian Dividend Strategy enquiries: 416-203-3028

Blow-off Cusp, skeptical bears, excited bulls, runaway train, Dollar-helped gold, SNC scandal, gold demand

Stock markets surged ahead once again this past week. The major U.S. indices rose on average 3%. Most are now up 10%-15% on the year. We are wondering are we on the cusp of a blow-off move. Since the low in December stock markets have gone almost straight up with barely a pause. Bears will continue to say this is temporary while bulls are becoming excited. We look at some indicators that continue to support a rising market. We note potential targets up to 30,000 DJI. Does it all make sense? Blow-offs never make any sense.

Debt is the bane of the world and no more so than in the U.S. that holds roughly 29% of all global debt. We take a look at U.S. where the national debt just passed \$22 trillion with barely a mention anywhere. The U.S. is now adding to that by another trillion every year. Debt it seems has also become a runaway train.

Our recession spread (page 24) narrowed again this week and now appears to be headed lower. But still far from being negative. The U.S. dollar soared but then pulled back abruptly on Friday. That helped push gold higher.

The big news in Canada is the SNC Lavalin scandal. So we look at SNC's chart (page 21). It's not pretty. The fear is that this company could go into freefall if it was criminally convicted. Given its importance to the Quebec economy and large investments held by Quebec's pension fund the Caisse de Depot it would not go over well in Quebec. Right now the chart is in no mans land. It doesn't look as if it is going to go up any time soon and the risk remains heavily to the downside.

Our Chart of the Week (page 33) looks at Central bank gold purchases particularly Russia and China.

What to look forward to this week? Well Monday is a holiday in both Canada and the U.S. and the stock market appears poised to continue its rise. As such, the Canadian Dividend Strategy remains fully invested.

Have a great week!

DC

“Banking establishments are more dangerous than standing armies; and that the principle of spending money to be paid by posterity, under the name of funding, is but a swindling futurity on a large scale.”

—Thomas Jefferson, 3rd U.S. President, 1743–1826, letter to John Taylor of Carolina in 1816

“Today’s Ponzi-style acute fragility and speculative dynamics dictate that he who panics first panics best.”

—Doug Noland, Prudent Bear Funds, *Credit Bubble Bulletin*, 10/26/07

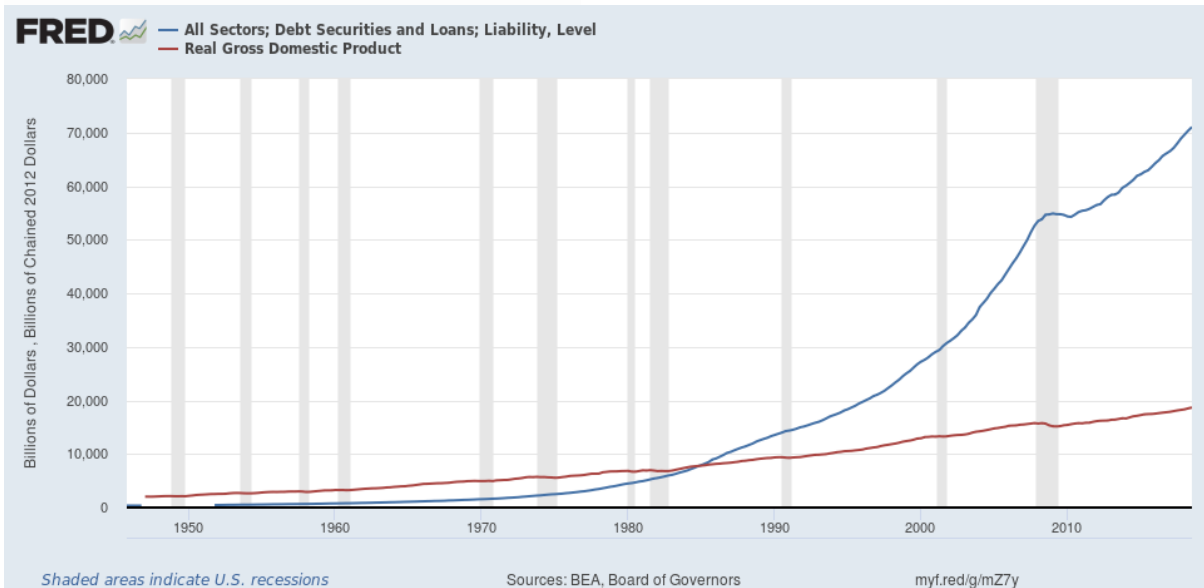
“A government which robs Peter to pay Paul can always depend on the support of Paul.”

—George Bernard Shaw, Irish dramatist, 1856–1950

\$22 trillion. Or to be more exact \$22.023 trillion. That’s the U.S. national debt. It is 105% of GDP. In passing \$22 trillion no announcements were made, no bells went off, no alarms were sounded, and there were no celebrations. That is almost 9% of global debt. And nobody cares. Why? Because it is the U.S. government and they can write unlimited dollars through the Fed. It will never be paid back. Interesting because China owns \$1.121 trillion as of November 2018, the largest foreign holder of U.S. national debt.

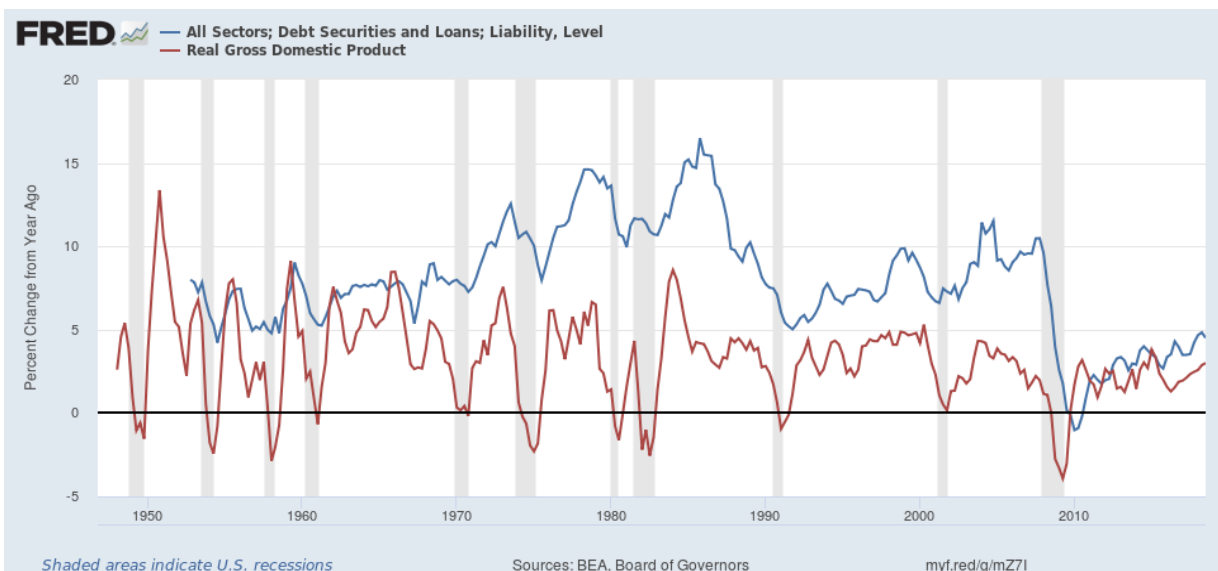
U.S. total debt is now \$72.249 trillion and nobody seems to care about that either. Total debt is the U.S. national debt plus state and municipal debt, corporate debt, and personal debt (mortgages, student loans, car loans, credit card debt). That’s almost 29% of global debt which is now at least \$250 trillion. Ten years ago, it was around \$140 trillion.

And nobody cares. After all, it fuels the economy and the stock market. But, at some point, a crisis develops. Then there is bankruptcy, followed by a major bankruptcy, and then a debt crisis. This is not a “maybe” or a “might.” There will be, over the next few years, a debt crisis of considerable proportion. We don’t know where it will start or how big it will be, but it is highly likely to happen. The signs are all there. Shaky banking systems in the EU, particularly Italy and Spain, which could leave German and French banks vulnerable. A shaky banking system in China that could bring down the massive amount of Chinese debt, much of it borrowed in U.S. dollars. PBOC (People’s Bank of China) could bail them out. PBOC is probably one of the few central banks that might have the capacity for a bailout. Not the other ones—not the ECB, not the Fed, not the BOE, or the BOJ. No wonder they passed laws that in the next banking crisis depositors and bond holders will pay as their deposits and debt are converted to equity. A bail-in, not a bail-out.



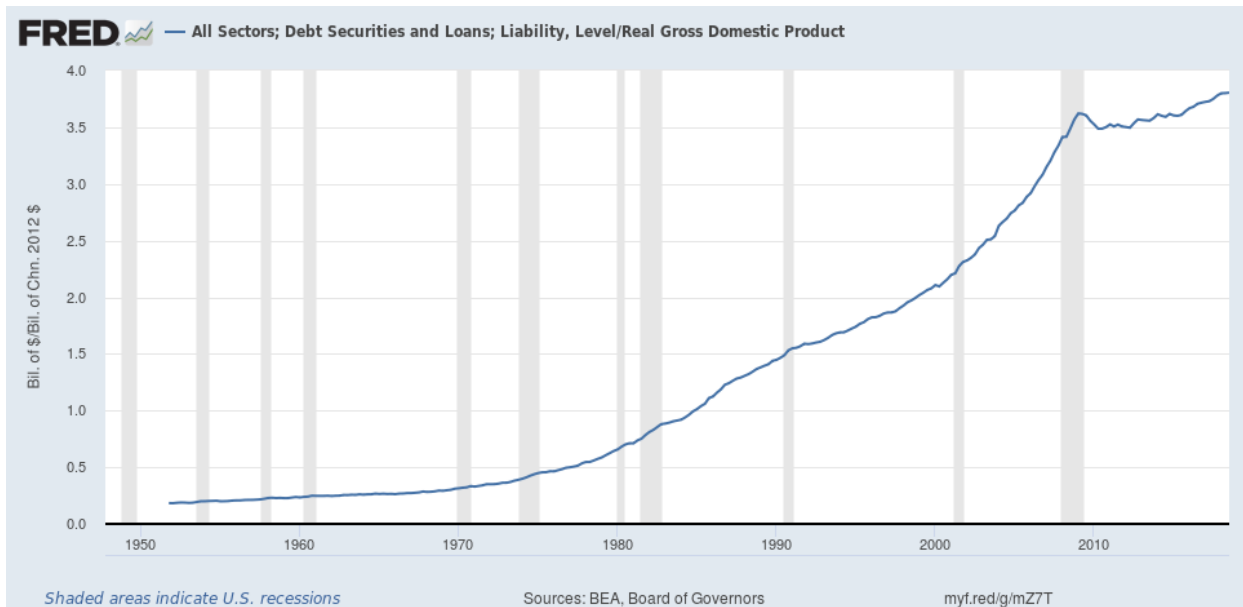
Source: www.stlouisfed.org

Here is a picture of the massive debt growth vs. the growth of GDP. In Q4 1984 the two were about equal. Now debt is almost four times GDP. From 1984 onward it has taken \$5.80 of new debt to create \$1 of GDP. Debt is in a bubble, a bubble that is growing skyward at an incredible pace. To add to the debt there is also what is known as unfunded liabilities. That totals \$122.6 trillion. Unfunded liabilities are primarily Social Security and Medicare.



Source: www.stlouisfed.org

The above chart shows annual growth of debt vs. annual growth of GDP. Growth of debt has clearly outstripped growth in the GDP. It is interesting that annual growth for debt picked up in the 1970s, peaking in the 1980s. It was in the 1970s that debt growth got underway, generally coinciding with the end of the gold standard in 1971.

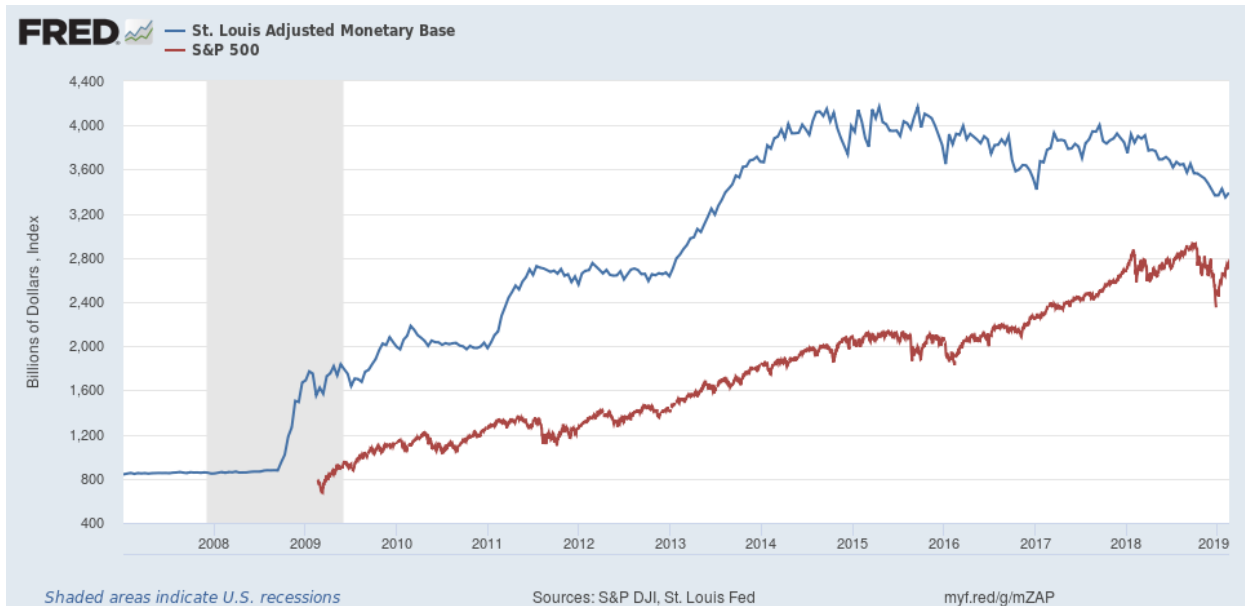


Source: www.stlouisfed.org

This is a chart of all debt to GDP. As of Q2 2018, the total debt to GDP stood at 380% or 3.8:1. In 1984, the ratio was 1:1. All G7 nations have seen their debt to GDP soar in the past 35 years or so. Global debt to GDP stands around 320% with some nations such as the United Kingdom and Japan having total debt to GDP exceeding 600%. Debt growth has fueled the stock markets and has helped keep GDP growth positive. After dipping following the 2008 financial crisis, debt growth has started to rise again, but at a much slower pace. Unless debt growth continues to rise, slowing debt growth would have a negative impact on GDP growth and the stock market. Debt is essential to the growth of the economy and to the rise of the stock market. Debt is essential to our way of life.

Here is another view of what drove the stock market and the economy over the past several years. After the 2008 financial crisis, the Fed poured billions (trillions?) into the markets through quantitative easing (QE). The monetary base exploded from about \$900 billion in 2008 to \$4.1 trillion by September 2014. When it was announced that QE would be ending, the stock market hesitated through 2015/2016. Despite no more QE, the stock market resumed its rise in 2016 on hopes of massive tax cuts and business friendly policies from the Trump administration. That started to change in 2017 when the Fed started quantitative tightening (QT). With funds being pulled out of the financial system by the Fed, trade wars, and rising interest rates it hit the stock markets. By year end, the stock markets finished down on the year.

Now the stock market is rising again on hopes that the Fed is finished hiking interest rates and they might even begin to ease. The Fed has also announced a slowing in QT. There are some signs that the economy is softening. In December, retail sales ex autos plunged 1.8% when the market expected a gain of 0.1%. Given that November was flat, retail sales are actually falling into a slump. That was the Christmas season and it hints that it was not very good.



Source: www.stlouisfed.org

With slowing debt growth, QT, and slowing economies in the EU, Japan, and China, the odds of the U.S. escaping a slowdown are slim. That should eventually work its way into the stock market too. The question is when. Right now, nothing seems to stop the rising stock market. It is rising on hope. Hope that the worst is over for the consumer because the most recent consumer sentiment numbers rebounded from the previous month's low, hope that the U.S.-China trade talks are successful, and hope that with the shutdown averted things might return to normal. While Trump's declaration of a national emergency in order to obtain funding for the "wall" will face a constitutional challenge, that is not expected to have any negative impact on the market.

Everything looks rosy right now. Confidence has come back into the markets. But is it false confidence? Or complacency? This is not unusual following the initial breakdown in the market. But if the market is going to rise higher, it needs fuel. And fuel means debt. It would help as well if the Fed eased and even supplied some QE. We have seen how it fuelled the market from 2009. But debt reaches its limits and it may be at that point. And the Fed needs to return to the easy monetary conditions of 2009–2014. But that is not about to happen any time soon.



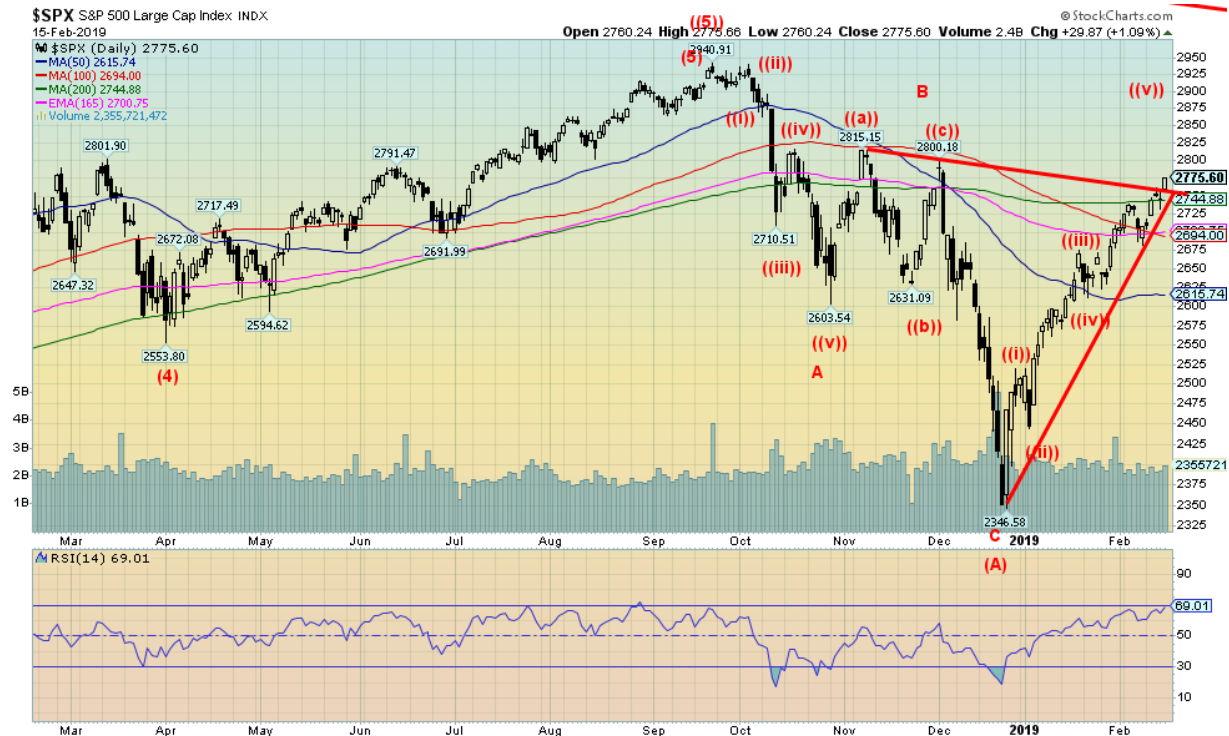
Can debt grow further? Consumer and corporate debt growth are stalling, but government debt continues to grow. Delinquencies are rising in auto loans, student loans, and corporate debt. The U.S. national debt is now growing by \$1 trillion a year. There were no celebrations when it hit \$22 trillion and it is not likely to see any celebrations when it hits \$23 trillion less than a year from now.

MARKETS AND TRENDS

	% Gains (Losses)				Trends		
	Close Dec 31/18	Close Feb 15/19	Week	YTD	Daily (Short Term)	Weekly (Intermediate)	Monthly (Long Term)
Stock Market Indices							
S&P 500	2,506.85	2,775.60	2.5%	10.7%	up	neutral	up (topping)
Dow Jones Industrials	23,327.46	25,883.25	3.1%	11.0%	up	up	up (topping)
Dow Jones Transports	9,170.40	10,567.69	3.8%	15.2%	up	neutral	neutral
NASDAQ	6,635.28	7,472.41	2.4%	12.6%	up	neutral	up (topping)
S&P/TSX Composite	14,322.86	15,838.24	1.3%	10.6%	up	neutral	up (weak)
S&P/TSX Venture (CDNX)	557.20	615.92	0.7%	10.5%	up	down	down
Russell 2000	1,348.56	1,569.25	4.2%	16.4%	up	neutral	up (weak)
MSCI World Index	1,710.88	1,840.52	0.6%	7.6%	up	down (weak)	neutral
NYSE Bitcoin Index	3,769.99	3,561.39	4.5%	(5.5)%	down	down	down
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	160.58	167.91	(0.6)%	4.6%	up	up (weak)	down (weak)
TSX Gold Index (TGD)	186.74	190.20	(1.2)%	1.9	up	up	neutral
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	2.69	2.66	1.1%	(1.1)%			
Cdn. 10-Year Bond yield	1.96	1.90	1.1%	(3.1)%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.21	0.14	(22.2)%	(33.3)%			
Cdn 2-year 10-year CGB spread	0.10	0.12	9.1%	20.0%			
Currencies							
US\$ Index	95.73	96.74	0.3%	1.1%	up	up	neutral
Canadian \$	0.7350	0.7552	0.1%	2.8%	up (weak)	down	down (weak)
Euro	114.58	112.94	(0.3)%	(1.4)%	down	down	neutral
British Pound	127.50	128.92	(0.4)%	1.1%	neutral	down (weak)	down (weak)
Japanese Yen	91.24	90.57	(0.6)%	(0.7)%	down	up (weak)	neutral
Precious Metals							
Gold	1,281.30	1,322.10	0.3%	3.2%	up	up	up
Silver	15.54	15.74	(0.4)%	1.3%	up (weak)	up (weak)	down (weak)
Platinum	795.90	806.90	0.6%	1.4%	down (weak)	down (weak)	down
Base Metals							
Palladium	1,197.20	1,407.20	2.6%	17.5%	up	up	up
Copper	2.63	2.80	(0.4)%	6.5%	up (weak)	neutral	up (weak)
Energy							
WTI Oil	45.41	55.98	6.2%	23.3%	up	down	neutral
Natural Gas	2.94	2.62	1.6%	(10.9)%	down	down	down (weak)

Source: www.stockcharts.com, David Chapman

Note: For an explanation of the trends, see the glossary at the end of this article.
New highs/lows refer to new 52-week highs/lows.

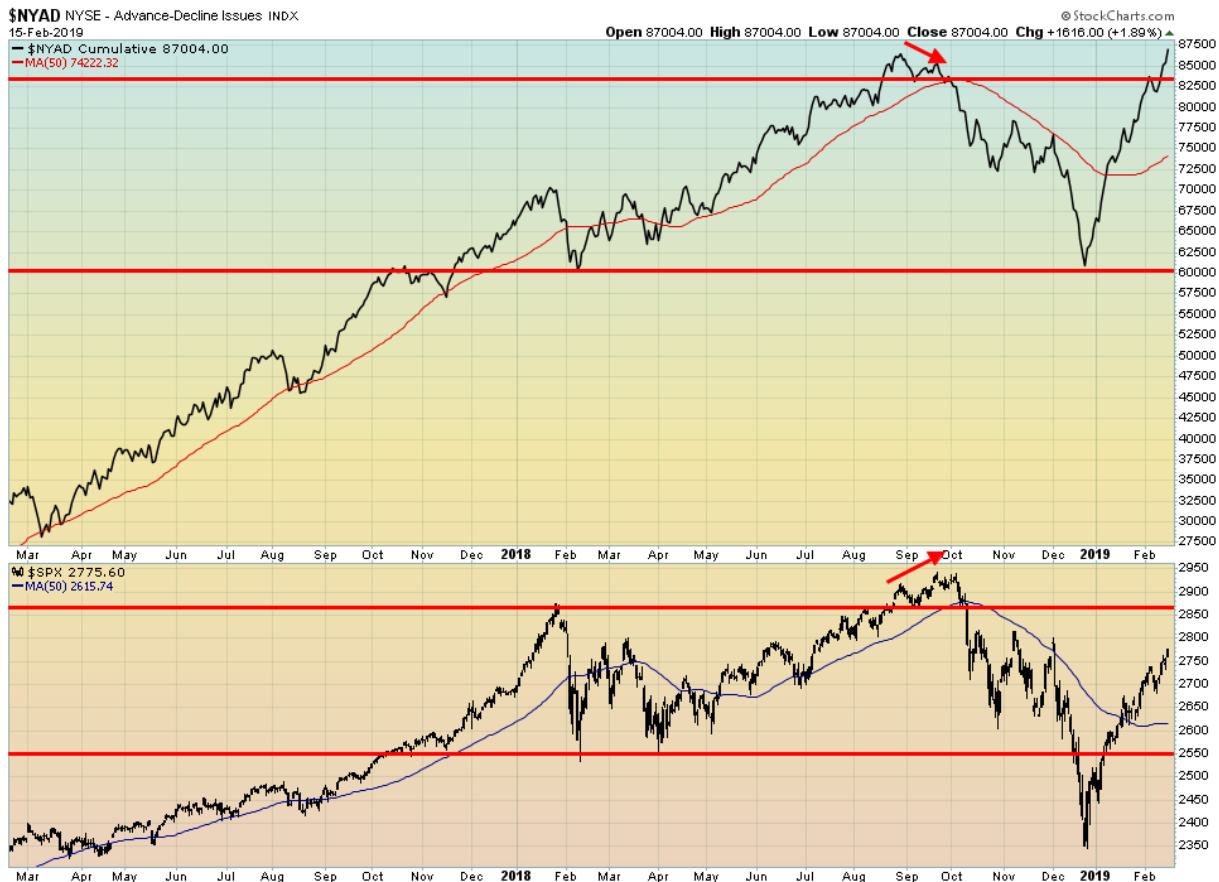


Source: www.stockcharts.com

Equities surged again this week. This week, it was rising consumer sentiment, the potential for advances on the China/U.S. trade front, and, dare we say, Trump getting his “wall” even if it will face a challenge on the constitutional front. They also appear to be averting another shutdown. The S&P 500 jumped 2.5%, the Dow Jones Industrials (DJI) was up 3.1%, the Dow Jones Transportations (DJT) was up 3.8%, while the NASDAQ gained 2.4%. The advance was a broad one. Elsewhere, the TSX Composite gained 1.3% while the TSX Venture Exchange (CDNX) was up 0.7%. The small cap Russell 2000 index gained 4.2%. Internationally, the FTSE 100 was up 2.4%, China’s Shanghai Index (SSEC) continued its recent winning ways up 3.9%, the Tokyo Nikkei Dow (TKN) gained almost 4%. In the eurozone, the Paris CAC 40 was up 3.9% while the German DAX was up 1.7%.

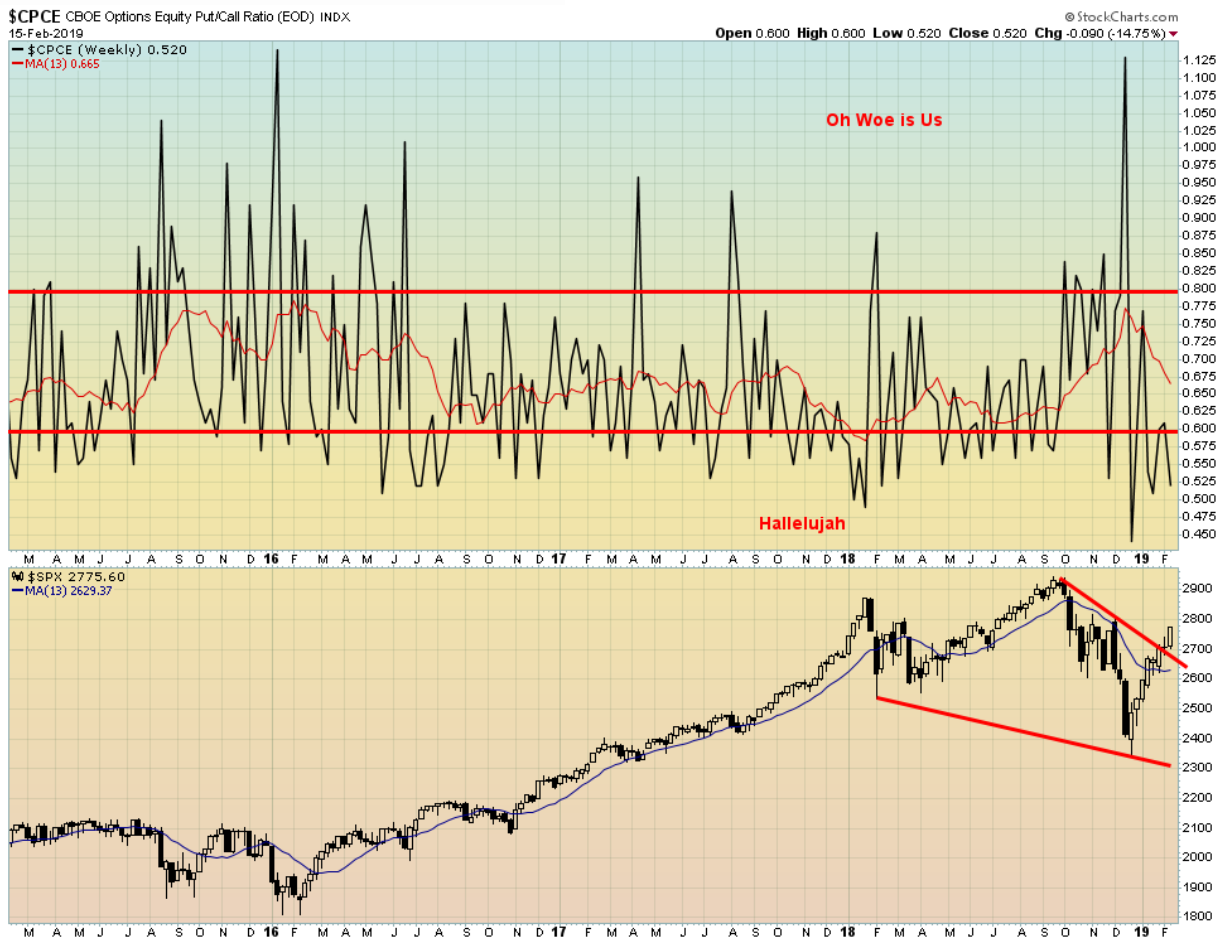
We continue to wonder whether we could really be on the cusp of a blow-away move. While we think that is a bit incredulous, we can’t dismiss it altogether. Just remember to exit before the top. The recent drop in the market from October/December 2018 raised the bearish level to high levels. The market continues to remain bearish, fueling the thought of a blow-off. Along the way so far, the stock market has barely pulled back. Now the S&P 500 appears to be breaking out of a bottom pattern. We could argue that the pattern suggests a bull move to new highs at 3,200. The DJI’s target would be around 30,000.

We haven't seen evidence that the Fed (or others) have flooded the system with liquidity as the market plunged in October/December. But there is no denying that if this rise continues, it could trigger panic buying. The other side of this is that a correction could hit at any time. A break under 2,700 would suggest that a correction is coming. Under 2,600 and it suggests the mini-bull is over.



Source: www.stockcharts.com

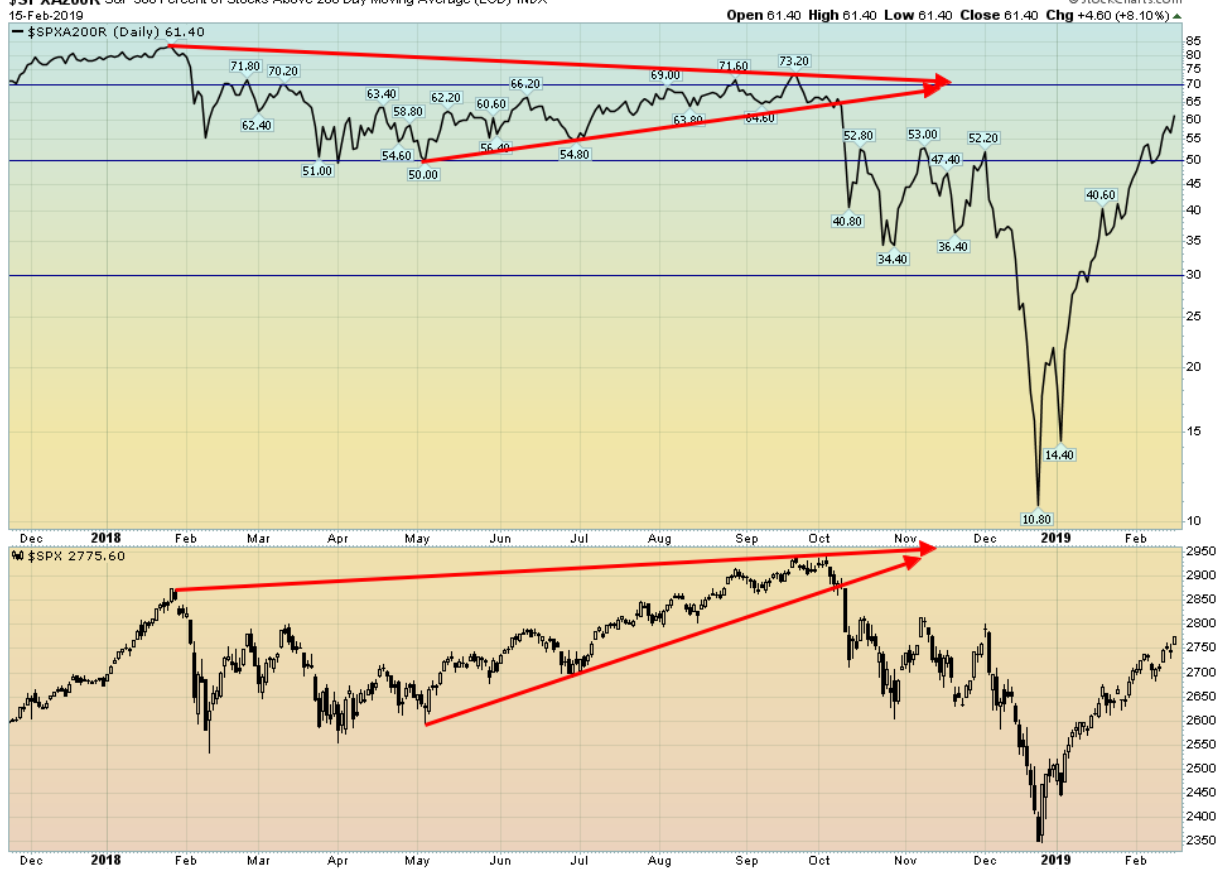
The advance-delay line appears to be leading the way as it has now made new all-time highs. That suggests to us that this market has further to move. The market itself has not made new all-time highs, but this suggests it will.



Source: www.stockcharts.com

The CBOE equities put/call ratio remains firmly in hallelujah territory with calls outweighing puts. This should suggest that the market could pull back, but so far it is doing the opposite.

\$SPXA200R S&P 500 Percent of Stocks Above 200 Day Moving Average (EOD) INDX
15-Feb-2019

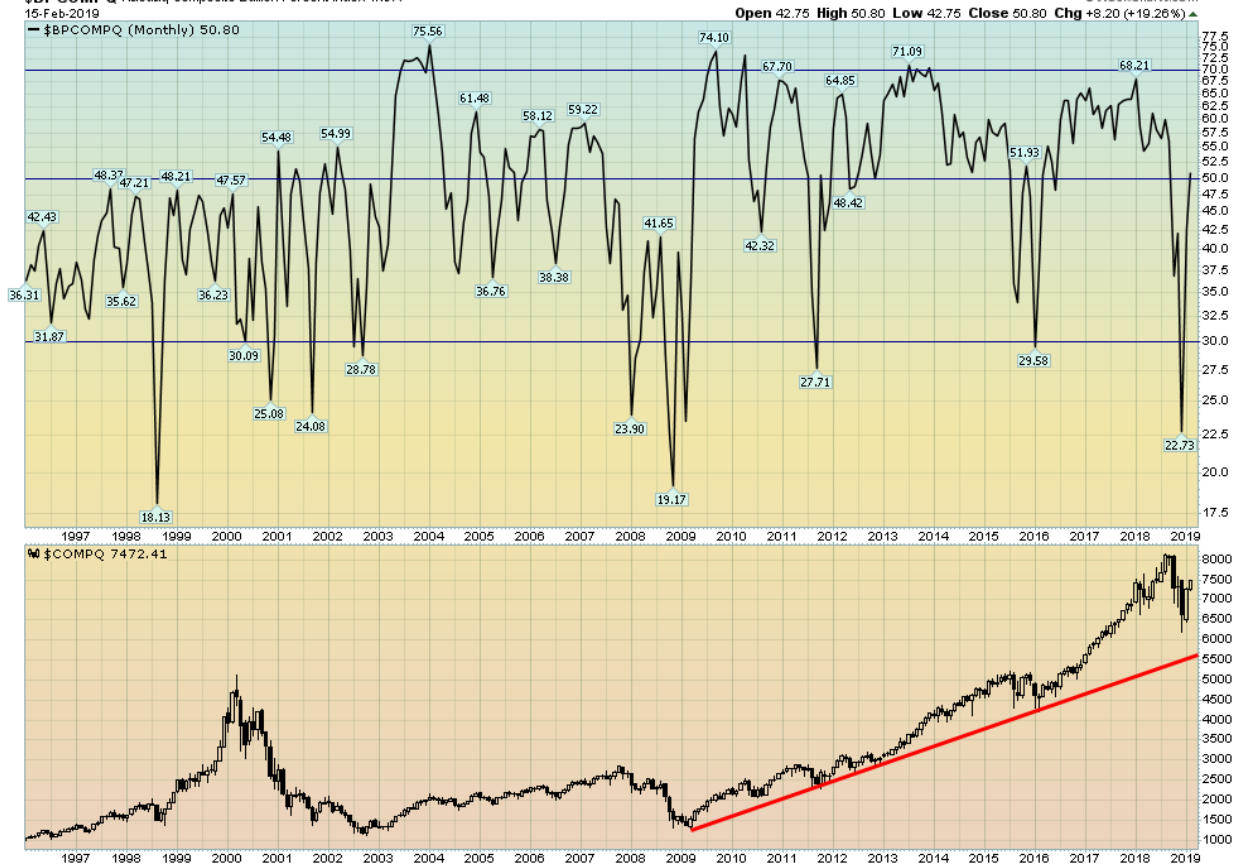


Source: www.stockcharts.com

The number of stocks trading over their 200-day MA continues to rise. It is now at 61.4%. That is approaching the territory that was seen during the rise from May to October. It also suggests a very strong move and evidence of a broad advance.

\$BPCOMPQ Nasdaq Composite Bullish Percent Index: INDX
15-Feb-2019

© StockCharts.com



Source: www.stockcharts.com

The NASDAQ bullish percent index is also up now over 50%. However, we are not yet at levels that could suggest a top over 70%. So, the NASDAQ could have more upward potential.



Source: www.stockcharts.com

The VIX volatility indicator continues to fall now down to 15. That is still well above the lows of early 2018 when it fell to close to 9, a record low. We see support at 13. We do not believe that, even if the S&P 500 was to make new all-time highs, the VIX will confirm by making a new low.



Source: www.stockcharts.com

We are playing with the wave count. What if the correction that got underway in January 2018 was it really just a large ABC with the final bottom in December? Wave 2 was a rising correction with the Brexit and election lows. If correct, however, this wave 4 was longer and deeper than what one would expect. However, this would give support to a potential blow-off move for the final up wave.



Source: www.stockcharts.com

As we continue this advance, we might want to watch the action of both the DJI and the DJT. In October, both the DJI and the DJT made new highs together. If this was a major top, our preference would have been for one to make new all-time highs but not the other. That sets up the Dow Theory divergence that the indices must confirm each other. So, keep an eye on this as we continue to rise. Only one of them should make a new all-time high. However, at the rate they are both rising, both of them making new all-time highs would not be all that surprising. Right now, the DJT is lagging the DJI.



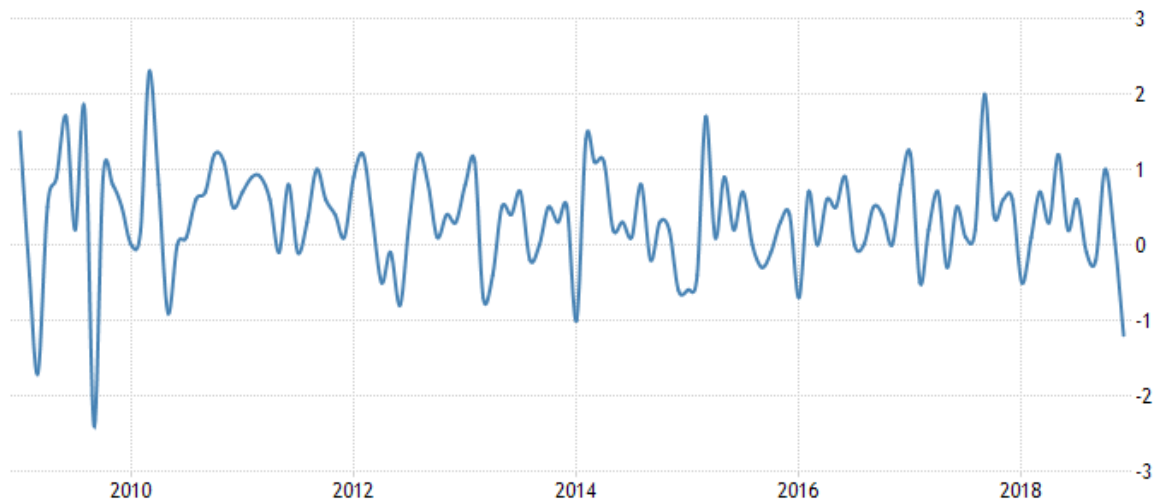
Source: www.stockcharts.com

Small cap vs. large cap. When the S&P 500/Russell 2000 ratio is rising, the S&P 500 is outperforming. When it is falling, the Russell 2000 is outperforming. During the collapse, it is no surprise that the S&P 500 outperformed. But now the tables have turned and the Russell 2000 is outperforming. This past week the S&P 500 gained 2.5%, but the Russell 2000 was up 4.2%. We expect that, in a market rally, small cap stocks should outperform large cap stocks.



Source: www.stockcharts.com

Bitcoin treaded water this past week. But, lurking in the background, is the Quadriga scandal where investors have lost upwards of \$250 million. Considering the market cap of the entire crypto industry is \$121.2 billion, \$250 million is a healthy chunk. We don't believe it is being reflected yet in Bitcoin's market cap. Many small cryptos and the exchanges are struggling to stay alive. They'd probably be better off just closing their doors now. Amazingly, Coin Market Cap (www.coinmarketcap.com) still listed 2,068 different cryptos, 12 of which still have a market cap of over \$1 billion. We read that an ETF slated to have exposure to cryptos was withdrawn, as requested by the SEC. Regulators are hovering. Articles we read at Coin Desk (www.coindesk.com) talk about Quadriga, but it doesn't seem to be considered a big deal, on the surface, at least. We expect that Bitcoin will eventually break \$3000 and head for its next level of \$2,000, eventually going to levels to \$1,000 and lower before this bear is over.



SOURCE: TRADINGECONOMICS.COM | U.S. CENSUS BUREAU

Source: www.tradingeconomics.com

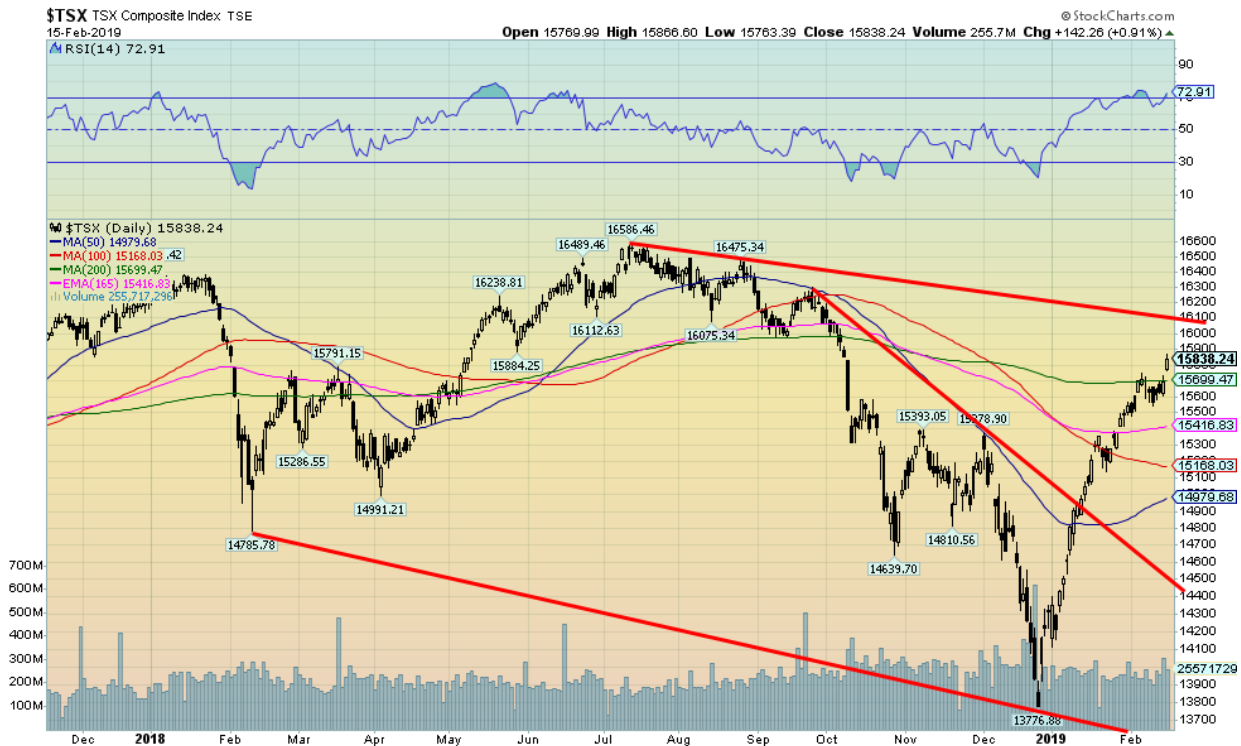
Retail sales broke down last month. In December, they fell 1.2% from the previous month. November was revised to a 0.1% gain. This is one the biggest monthly drops in the past decade since the financial crisis and recession of 2007–2009. To be precise, it was the biggest drop since September 2009. Can retail sales recover, or is this a sign that things are about to slow down? Our next chart seems to suggest no.



SOURCE: TRADINGECONOMICS.COM | UNIVERSITY OF MICHIGAN

Source: www.tradingeconomics.com

The February University of Michigan consumer sentiment index jumped to 95.5% in February. In January, it had fallen to 91.2% as the shutdown dragged on. But, with the shutdown out of the way and seemingly a deal in the works to prevent another one—plus hopes on the China trade front—the sentiment indicator improved. This, in turn, boosted the stock market as they put the poor December retail sales behind.



Source: www.stockcharts.com

The TSX Composite burst through the 200-day MA this past week after spending a week or two trading water just under it. That is usually positive and suggests that next the TSX could go up to test that downtrend line near 16,100. If the TSX does break through that trendline, then new highs are most likely next. Like the U.S. indices, the TSX has moved almost straight up since the late December low. And, like the U.S. indices, the TSX is starting to take on the characteristics of runaway move. Corrections since the December low have been shallow to non-existent. Obviously, a break back under 15,500 would be negative and suggest lower prices. We doubt that is going to happen right now.



Source: www.stockcharts.com

We couldn't resist. SNC Lavalin (SNC-TSX) has been all over the news in a scandal relating to what the Prime Minister may or may not have directed the former Justice Minister to do regarding SNC. For our Canadian readers, you probably know all about this. For our U.S. and overseas readers, you may ask: who's SNC Lavalin and why are they suddenly so important? Well, SNC Lavalin is the largest engineering and construction company in Canada, employing 29,000 worldwide with some reports indicating upwards of 50,000 worldwide. It is, or was, one of the top engineering construction companies in the world. Of its employees, only around 9,000 are in Canada, including 3,400 in the Province of Quebec. Founded in 1911, SNC's head office is in Montreal. It is considered the crown jewel of Quebec business, with close ties to the Quebec government and investments from the Caisse de dépôt, Quebec's huge pension fund.

SNC is embroiled in a graft and bribery scandal because of their activities in Libya and the regime of Muammar Gaddafi. In 2015, the RCMP charged the company with corruption and fraud related to its Libyan operations. It has been under investigation by Canada's Department of Justice. SNC has consistently lobbied to prevent the company from having to go to trial. Quite simply, a criminal conviction could destroy the company. To prevent that, SNC lobbied the PMO's office in an attempt to have it convicted only under a remediation agreement. That would punish the company but leave it intact. The question was the Justice Minister being pressured by the PMO's office to halt criminal proceedings into SNC and instead offer the company a remediation deal. Apparently, the Justice Minister wouldn't commit one way or the other. The result, in a cabinet shuffle the

Justice Minister was eventually assigned to a lesser portfolio and then resigned when the questions began to fly. Hence the scandal.

There is no doubt that a criminal conviction of the company would devastate it and would upset the political applecart in Quebec, leaving many in Quebec furious. It could also come at considerable cost to the Quebec economy, not to mention a hit on the books of the Caisse de dépôt. The company could also then be vulnerable to a foreign takeover, something that would not be accepted by the Quebec government. There are questions as to how it would impact employees, pensioners and more. Jobs no doubt would be lost. But the treatment of the Justice Minister, a member of First Nations, has First Nations extremely upset as well. The opposition is trying to take advantage of the scandal, but would they really have SNC convicted knowing the fallout it could cause? Who knows? Remediation appears to be the only correct way forward so as to punish the company but not destroy it. Remediation is not uncommon in the EU and the U.S.

The chart clearly shows that SNC has broken down. Its debt has been reduced to a BBB- rating—the lowest investment grade rating. Another downgrade and they are junk bonds. The gap on the chart is huge. This could well be a company in free fall, especially if it breaks down under its next point at \$33. We all remember Lehman Brothers. The fall was not pretty and at the end the decline was rapid. Is that SNC's fate? Stay tuned.



Source: www.stockcharts.com

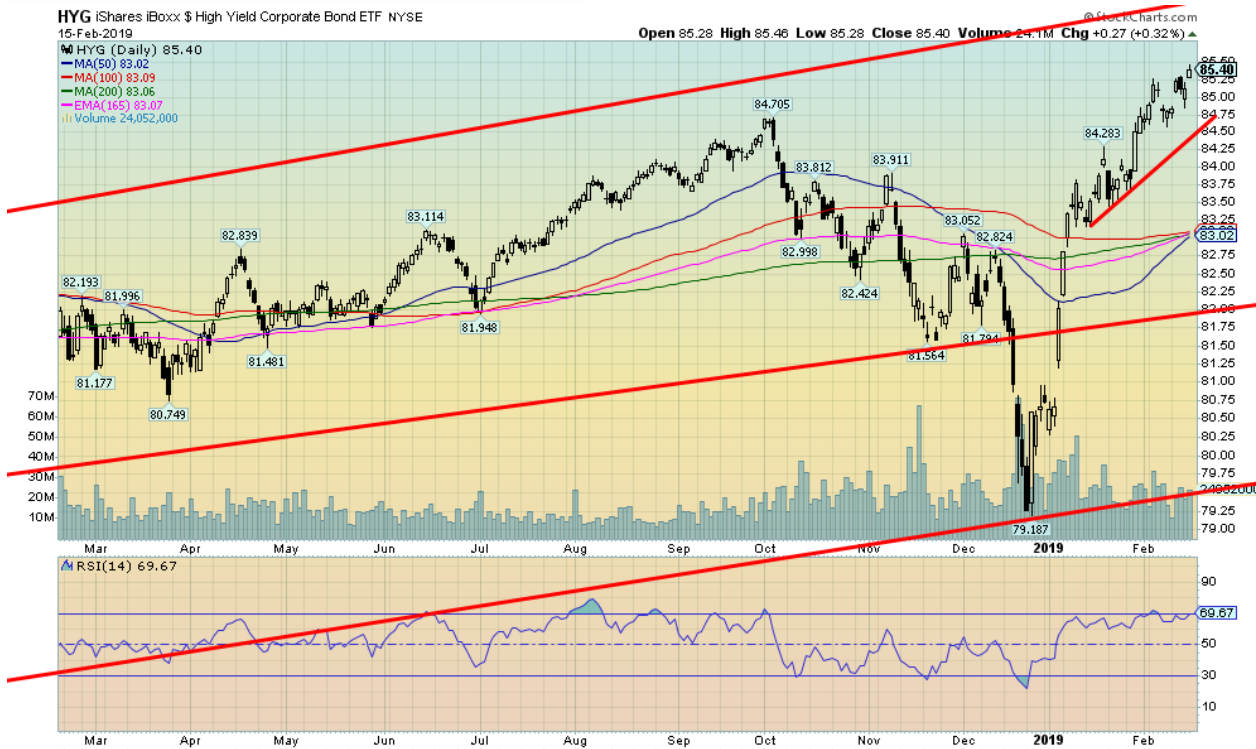
The U.S. 10-year Treasury note slipped to 2.66% this past week. Traders in the background are expecting an earnings recession to hit sometime in the next 6–12 months. The probability is placed at 25%. That, in turn, could put pressure on high-yield bonds. Although, as our chart below of HYG shows, you'd never know it. The 10-year appears to be renewing its downtrend, but still needs to take out the December low of 2.56%. A potential target could be the low of about two years ago in September when it fell to 2.05%. We note that German bunds also fell as the 10-year declined to 0.10%. In October it had hit a high of 0.576%. Quite the decline as Germany appears to be falling into a recession.

Recession Watch Spread



Source: www.stockcharts.com

Our 2-year U.S. Treasury note / 10-year U.S. Treasury note spread (known as the 2–10 spread) slipped to 14 bp this past week. This is the lowest level since December 2018. Another downtrend could be on its way. However, it has not gone negative yet. And even if it did, it usually requires at least 6 months at negative levels to suggest an impending recession. Still, the downward trend remains intact.



Source: www.stockcharts.com

We have to keep an eye on junk bonds as represented here by the iShares iBoxx \$ High Yield corporate bond ETF (HYG). It leaped to new highs again this past week. We have mused as to whether this is leading the stock market upward. Could be. Clearly, taking on the risk of junk bonds does not appear to be an issue.

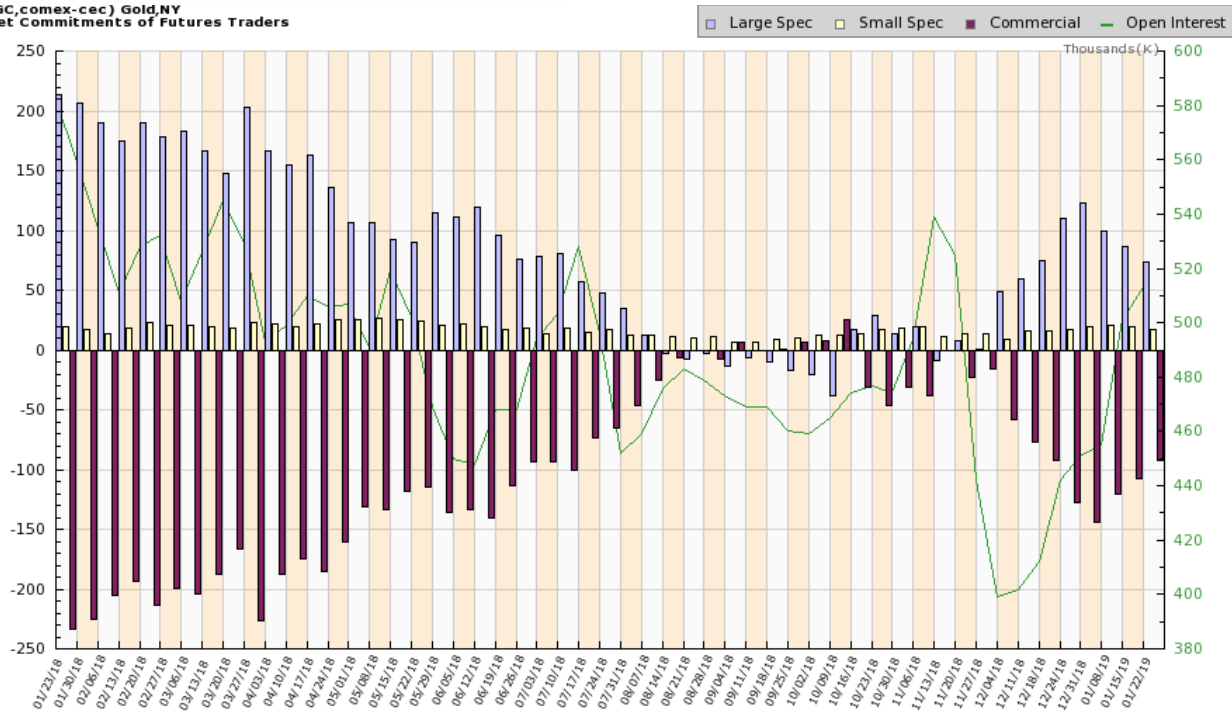
\$USD US Dollar Index - Cash Settle (EOD) ICE
15-Feb-2019



Source: www.stockcharts.com

The US\$ Index continues to trace out what appears as a huge topping pattern. On Friday, the index made a new high for this move at 96.87, then reversed and closed down small on the day. Could that be it? We would have preferred that the US\$ Index did not hit 96.87 as that was 1 bp above the August 2018 high. We thought that the index could be tracing out a huge head and shoulders top pattern. It still could be, but we would have preferred it didn't take out that August 2018 high even if it was only by 1 bp. Our breakdown zone is at 95 and once we break that, the target for the US\$ Index could be down to 90.30. We can see even lower potential targets, but first we have to break 95. And that is not a given. New highs now above 96.87 could suggest an assault on the double top highs near 97.53. One thing in favour of a potential top for the US\$ Index is the sentiment indicator is extremely high and, conversely, the sentiment indicator for the euro is extremely low. But, as they say, we have to await signs that a reversal is underway. Friday's action was a small indication, but we need downside to confirm.

(GC,comex-ccc) Gold,NY
Net Commitments of Futures Traders



Charts compiled by Software North <http://cotpricecharts.com/commitmentscurrent/>

--- Large Speculators ---				----- Commercial -----				-- Small Speculators --			Open	
#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest	
12/24/18	324	208,622	97,637	68%	99	130,090	258,309	33%	43866	26,632	62%	442,727
12/31/18	313	210,141	86,369	71%	96	130,285	274,899	32%	46707	25,865	64%	451,360
01/08/19	324	199,560	100,344	67%	98	137,605	258,792	35%	48508	26,537	65%	455,232
01/15/19	335	201,796	113,883	64%	107	179,059	287,172	38%	49334	29,134	63%	501,605
01/22/19	334	186,510	112,006	62%	104	197,278	289,355	41%	48740	31,167	61%	513,509

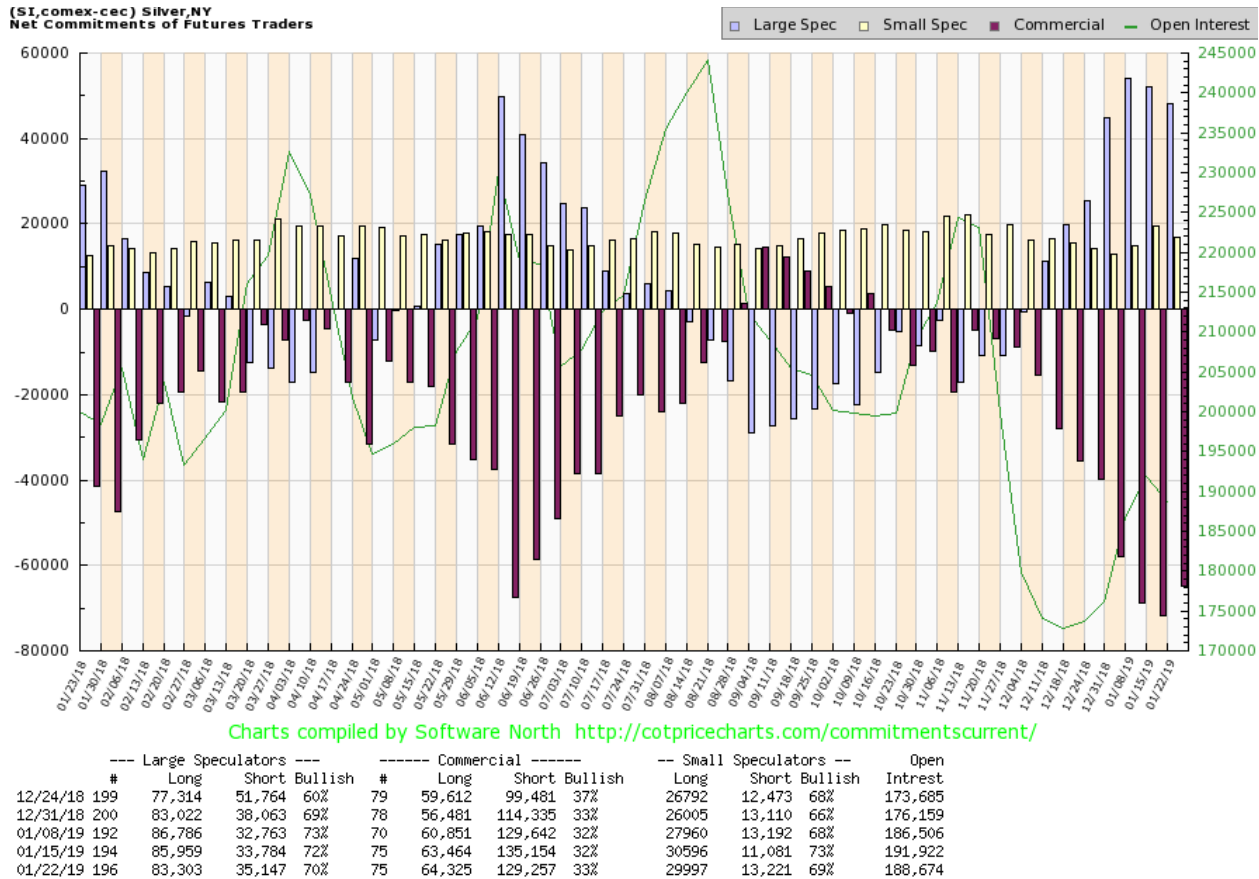
Source: www.cotpricecharts.com

The gold commercial COT was encouraging this week as it improved from 38% to 41%. This suggests to us that gold prices should move higher. Long open interest jumped roughly 18,000 contracts while short open interest also rose, but only about 2,000 contracts. The large speculators COT (managed futures, hedge funds, etc.) saw its COT fall to 62% from 64%. This is the third week in a row the commercial COT has improved. An encouraging sign. Our next move is to watch when the commercial COT turns down again, suggesting the potential for a top in gold prices.



Source: www.stockcharts.com

Silver may have completed its latest pullback within the context of a larger advance. Silver hit a low of \$15.45 this past week and appeared poised for a down week until Friday cut the loss. Still, silver closed off 0.4% on the week. Silver continues to hold what appears as a solid uptrend channel. Next up, silver should challenge the recent \$16.20 high and move higher. There is trendline resistance at \$16.50, a level where we could see silver pulling back once again. Higher prices are ahead for silver and, even after what could be a somewhat steeper correction coming up, we expect much higher prices later in the year.



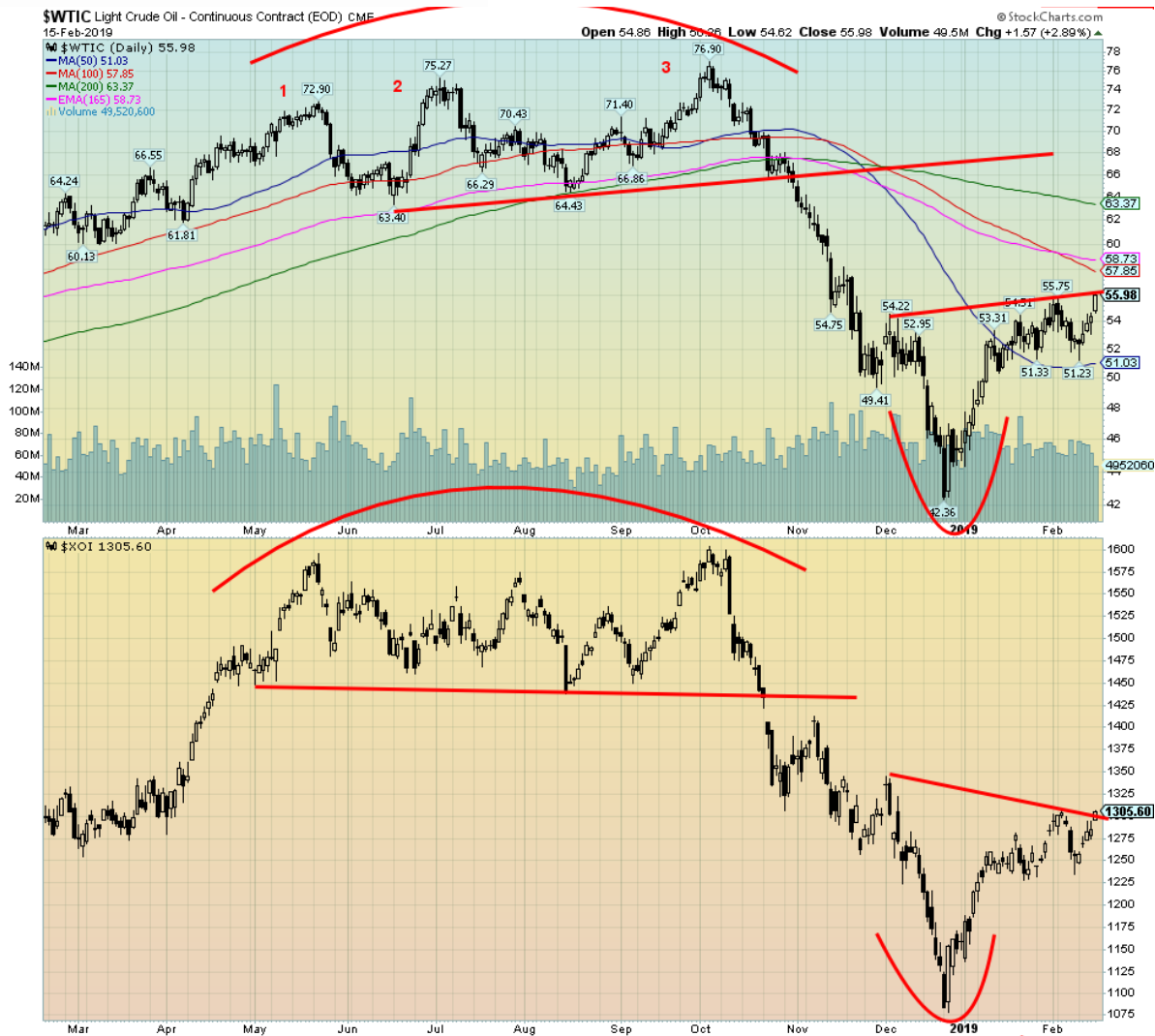
Source: www.cotpricecharts.com

The silver commercial COT was encouraging as it improved this week to 33% from 32% the previous week. Long open interest rose roughly 1,000 contracts while short open interest fell roughly 6,000 contracts. This supports our thoughts that silver prices should rise over the next few weeks. The large speculators COT slipped to 70% from 72%.



Source: www.stockcharts.com

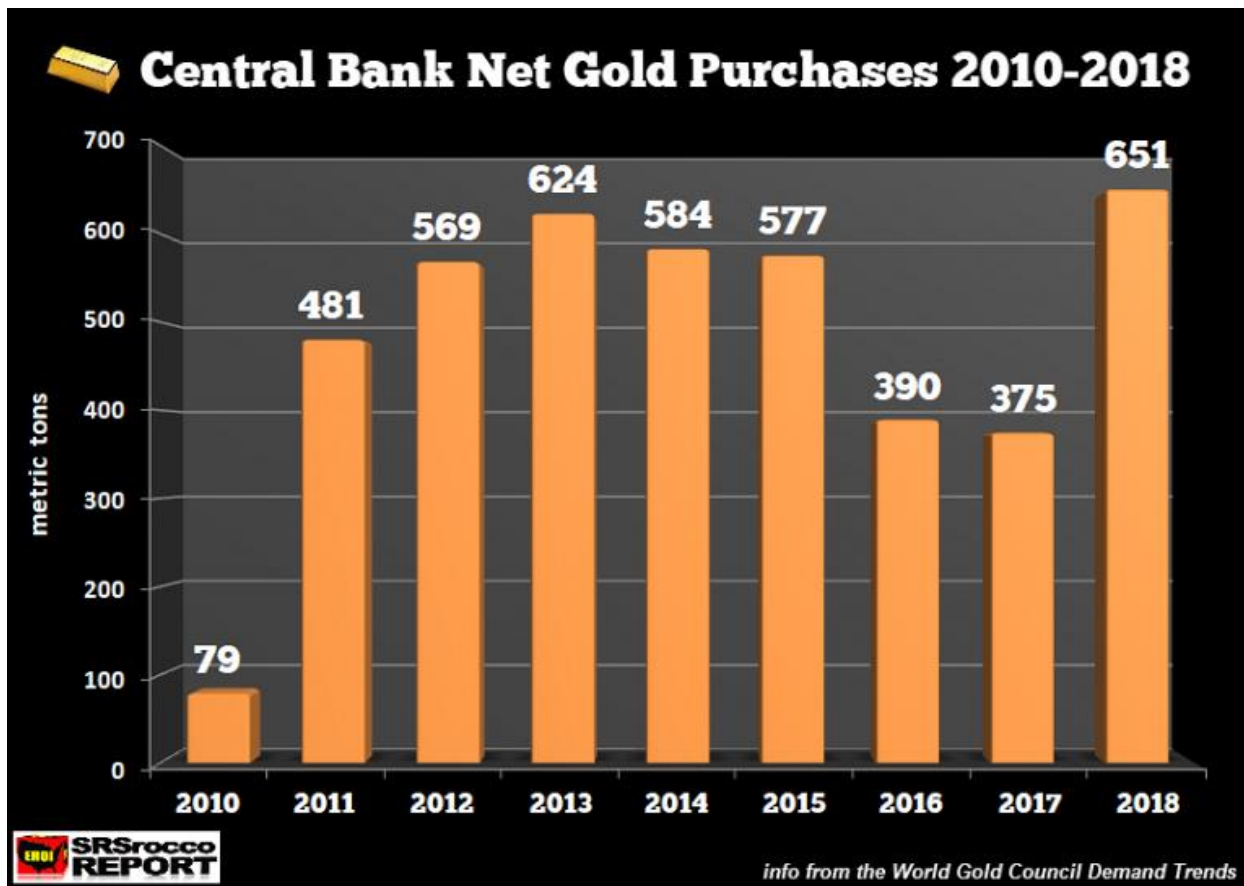
Gold stocks jumped on Friday, along with the rise in gold and silver prices. Friday's gain choked off what could have been a deep-down week. Still, the TSX Gold Index (TGD) ended down 1.2% on the week while the Gold Bugs Index (HUI) was off 0.6%. However, despite the down there were positives. The TGD tested its breakout level at 186 and it held. This is a positive development and could set up the TGD for further gains. Once the TGD makes new highs above 193.19, the target could easily be up to 200 and new 52-week highs. We like the rise of the TGD so far. It rises, suffers a pullback, and then rises again, all the while making new highs and higher lows along the way. That indicates to us a good uptrend that should carry the TGD to much higher levels later in the year. Once the next high is out of the way, the TGD could embark on another corrective move that might play out over a period of roughly four months.



Source: www.stockcharts.com

WTI oil jumped to its highest level this year as the Saudis cut output. WTI oil is now up 23.3% on the year, a healthy gain. WTI oil appears to be making a potential head and shoulders (although a rather awkward one) with potential to rise to near \$70 once WTI clears \$56. Similarly, energy stocks could also break out (they appeared to at least poke through on Friday) as the Philadelphia Oil & Gas Index (XOI) could rise to 1,570 once clearly through 1,305. The TSX Energy Index (TEN) is also poised to rise since it has cleared its breakout point at 152. Potential targets are 180–185. Besides the Saudis cutting output, disruptions continue with Venezuelan oil due to the strangling U.S. sanctions. We could also cite U.S. sanctions on Iran as it has cut what they normally sell to the global market. So, the Saudis, and sanctions against Venezuela and Iran are the prime reasons for rising oil prices. An initial target of \$70 appears quite reasonable under the circumstances. That could also send oil prices to new highs as well.

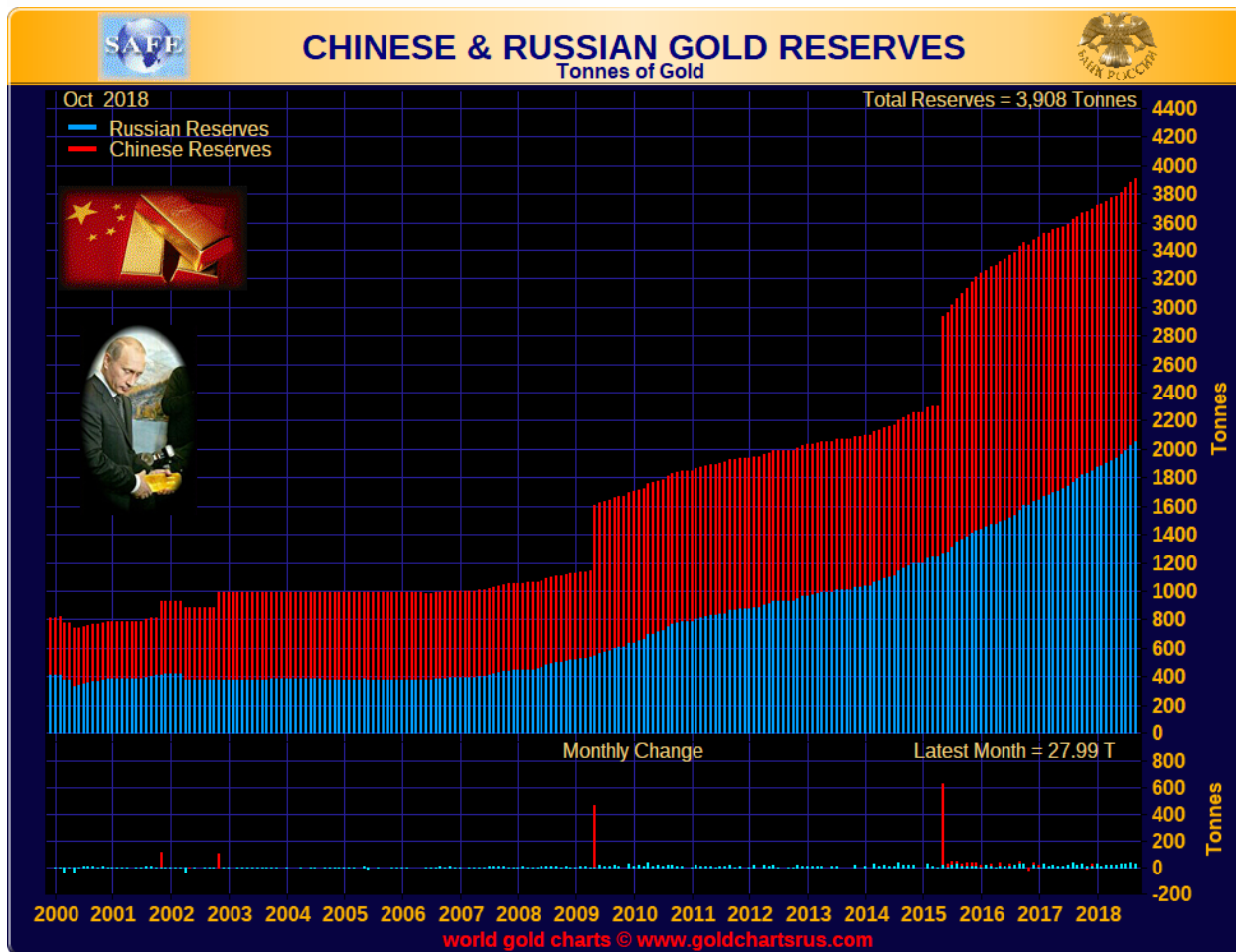
Chart of the Week



Source: www.goldchartsrus.com

Central banks continue to be major buyers of gold. In 2018, central banks added more gold than at any time in the past decade. Russia led the way, followed by Turkey. But in 2018 there were new buyers, including Poland and Hungary buying gold—the first Eastern European nations to buy gold since the turn of the century. 2018's purchases reversed a 4-year decline. The unknown in this is how much might have been purchased by the People's Bank of China (PBOC). They typically don't tell, and then, all of sudden, will announce their new holdings.

In terms of global reserves, Russia and China have been major purchasers over the past several years. They now rank 6th and 7th in gold reserve holdings—behind the U.S., Germany, the IMF, Italy, and France. It is their stated desire to build up their gold reserves to back their currency (ruble and yuan) and become less dependent on the U.S. dollar as the world's reserve currency.



Source: www.goldchartsrus.com

So, for what other reasons would central banks be buying gold? They are many and varied: geopolitical concerns, diversification of reserves, and, less dependency on the U.S. dollar and holding U.S. Treasuries. Even major global banks are getting into gold buying because of the Basel III reforms that gold could be accepted on par with cash and AAA government bonds. We are also reminded that there is ongoing depletion of gold deposits, huge duration of time between discovery and production, and fewer large discoveries. There is simply just not that much gold around to meet the potential demand (thanks, Brandon, for the tip on this).

Copyright David Chapman, 2019

Disclaimer

GLOSSARY

Trends

Daily – Short-term trend (For swing traders)

Weekly – Intermediate-term trend (For long-term trend followers)

Monthly – Long-term secular trend (For long-term trend followers)

Up – The trend is up.

Down – The trend is down

Neutral – Indicators are mostly neutral. A trend change might be in the offing.

Weak – The trend is still up or down but it is weakening. It is also a sign that the trend might change.

Topping – Indicators are suggesting that while the trend remains up there are considerable signs that suggest that the market is topping.

Bottoming – Indicators are suggesting that while the trend is down there are considerable signs that suggest that the market is bottoming.

David Chapman is not a registered advisory service and is not an exempt market dealer (EMD). He does not and cannot give individualised market advice. The information in this newsletter is intended only for informational and educational purposes. It should not be construed as an offer, a solicitation of an offer or sale of any security. The reader assumes all risk when trading in securities and David Chapman advises consulting a licensed professional financial advisor or portfolio manager such as Enriched Investing Incorporated before proceeding with any trade or idea presented in this newsletter. Before making an investment, prospective investors should review each security's offering documents which summarize the objectives, fees, expenses and associated risks. David Chapman shares his ideas and opinions for informational and educational purposes only and expects the reader to perform due diligence before considering a position in any security. That includes consulting with your own licensed professional financial advisor such as Enriched Investing Incorporated. Performance is not guaranteed, values change frequently, and past performance may not be repeated.