Technical Scoop March 5, 2018

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Executive Summary

President Trump shocked the world when on March 1, 2018 he announced that he was imposing tariffs on Steel and aluminum triggering fears of a global trade war. Canada, the EU and others threatened retaliation. Memories are short of the devastation caused by the Smoot-Hawley bill passed in 1930 that helped trigger trade wars and the Great Depression. Markets reacted as stocks and the US$ sold off, bond prices rallied, bond yields fell and gold and silver reversed to the upside.

Global stock markets had already suffered through their worst month since January 2016. Investors were already eyeing their monthly statements nervously. The baby boomers are entering their retirement years and since 2000 global stock markets have already gone through two major shakeouts with the high tech/internet meltdown of 2000-2002, 9/11 in 2001 and the global financial crisis and crash of 2007-2009. Until the recent rally global stocks had grossly underperformed. Interest rates have been at record lows. All of this was threatening to damper retirement plans. But there is even more as hundreds of pension funds remain grossly underfunded and many pension funds such as Sears Canada have slashed payouts to retirees even as they paid hundreds of millions in dividends and stock buybacks. It was also not surprising to discover that savings rates in both the U.S. and Canada have plunged to the lowest level in years. Levels that were seen prior to previous market meltdowns and financial crisis. Could we be on the cusp of a new market meltdown?

However, the Recession Watch Spread is not negative even though it has narrowed, so we believe the bull market still has legs.

Nonetheless, there are downside risks to this base case view. Trade wars are often a prelude to real wars and today we are seeing global economic and political tensions at their highest in years. The U.S. has even declared that the China and Russia need to be countered as they are a threat to the US. All have nuclear weapons.

Is Bitcoin recovering? Over the past month Bitcoin and the cryptocurrencies have recovered from their lows and in some cases are close to doubling. Is this the start of a new major upswing or just another correction/consolidation. We once again take a look under “Bitcoin Watch!”.

After being away for the better part of a month we review the stock markets, bonds, and gold/silver and the precious metals. We present a few extra charts of interest as well including our “Chart of the Week” (page 24) on the gold reserves of Russia and China.

David Chapman

Retirement? Are you kidding! Only one generation of Americans was ever fortunate enough to have the luxury of retirement. The rest of Americans will probably die in a Walmart parking lot while on duty [working in a retirement job].
—unknown wise person, in response to an online retirement article

It is better to have a permanent income than to be fascinating.
—Oscar Wilde

I have enough money to last me the rest of my life, unless I buy something.
—Jackie Mason

Stock markets just put in their worst month since January 2016. The Dow Jones Industrials (DJI) closed down 4.3% on the month. Losses have continued into March. At one point the DJI was down 12.2% from its January 2018 all-time high—a significant correction by any measurement. Other markets fared no better with some being worse. The S&P 500 was off 3.9%, the NASDAQ lost 1.9% while the Dow Jones Transportations (DJT) dropped 5.4%. The small cap Russell 2000 dropped only 4.0%; that the smaller cap stocks that usually lead the way down held in so well is encouraging. In Canada the S&P TSX Composite was off 3.2% while the small cap TSX Venture Exchange (CDNX) dropped 4.1%. It is encouraging when the CDNX outperforms the DJI, even if marginally.

Investors could be looking at these markets nervously, and opening their February statements gingerly. After all, the baby boomers are entering their retirement years and what many are discovering is that their pensions and portfolios may be insufficient to carry them through retirement. This is especially true of those who are discovering that their company pension fund is underfunded and their retirement benefits may not be as large as they anticipated.

Some, such as the retirees at Sears Canada, were even more shocked when they found out their pension payments could be slashed by at least 19%. Ask retirees about Stelco, Algoma Steel, and Nortel and they might understand the feeling. It seems shareholders and executives benefited. Not so much retirees. Since 2010 Sears Canada paid out $1.5 billion in dividends and share buybacks, more than five times the $267 million hole in its defined benefit pension plan, according to the Canadian Centre for Policy Alternatives.

And this took place against the backdrop of the Ontario government reducing the pension solvency funding requirement from 100% to 85%, all in order to make it easier for corporations to underfund. Many have. And in the U.S., it has even spread to state and municipal pensions in addition to many corporations. So, what are investors to do? Despite a recent hike in interest rates, bank deposits, GICs, and safe government bonds all yield generally below the rate of inflation following many years of depressed interest rates thanks to quantitative easing (QE) and the world's central banks sending interest rates to zero and even lower in order to combat the global financial crisis of 2007-2009. Safety comes with a price as well. Many were or are depending on the markets to make up the differential, but a bad month like February may make many nervous.

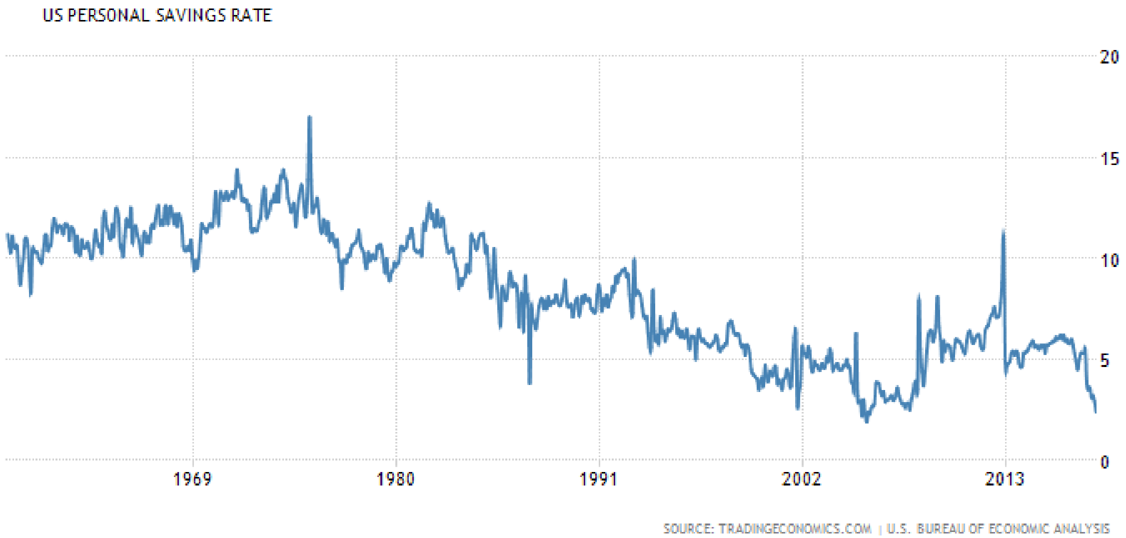
Since the financial crash of 2008 it has been stock markets that have led the way. For example, the DJI is up a stellar 254% since March 2009. Gold, on the other hand, has only mustered about a 40% gain especially following the collapse of 2013. But when one goes back to the beginning of the current century the story is different. The DJI is only up 117% while gold has gained 355%.

Sometimes these things depend on when you pick your start date. Pick 1980 when gold peaked, and gold's performance doesn't look so good—up only 55% vs. the gain on the DJI of about 2,800%. But go back to August 1971 when former President Richard Nixon ended the gold standard and gold is up roughly 3,600% while the DJI is still only up about 2,800% as stocks treaded water throughout the 1970s. If you adjust for inflation the gain on the DJI is trimmed to only 364% while gold has gone up 406%. For the DJI that is before dividends.

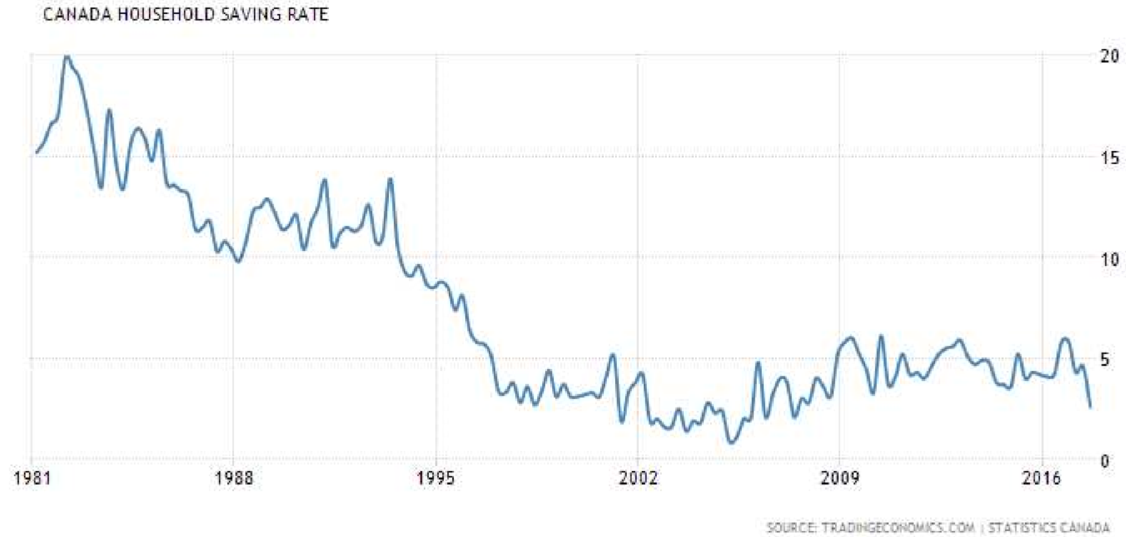
So performance does depend upon where you start. For most investors it starts when they put their money in the market. Put it in at the top and performance may not look so good. But one can't always jump in in March 2009. More likely few if any did. Investors tend to jump in at the top and bail at the bottom.

Where investors should really be nervous is the massive amount of debt that is outstanding globally. While the focus is often on sovereign debt the bigger concern should be on corporate and consumer or individual debt. It is the latter two that have grown sharply since the financial crisis of 2008. In Canada, household debt to GDP has grown from about 80% back in 2008 to over 100% today. Oddly enough, in the U.S. it has gone the other way as it has fallen from over 95% back in 2008 to about 78% today. Canada apparently has the highest household debt levels in the world relative to the size of Canada's economy. That is a vulnerable area for not only consumers but for financial institutions too.

It was therefore surprising to discover that personal savings rates are plummeting in both Canada and the U.S. In Canada, the rate sits at 2.6% while in the U.S. the rate is 2.4%, a level that is not far off its record low of 1.90% seen in July 2005. Canada's record low was also seen in 2005 at 0.90%. Both savings rates plunged from about 5%. Low personal savings rates do not bode well for the future. It is noteworthy that drops in the personal savings rate preceded recessionary periods. Maybe it's a warning sign. Investors should be wary.



Source: www.tradingeconomics.com



Source: www.tradingeconomics.com

Trade Wars and Real Wars!

Almost all wars, perhaps all, are trade wars connected with some material interest. They are always disguised as sacred wars, made in the name of God, or civilization or progress. But all of them, or almost all of the wars, have been trade wars.

—Eduardo Galeano, Uruguayan journalist

The headlines blared, "Trump Stokes Trade War Fear." Back in 2016 when Trump was a candidate for the Presidency we took a look at what some of his policies might mean if he were elected. One of his biggest concerned trade. At the time we believed any move towards trade wars would be bad for stock markets and the U.S. Dollar but positive for gold. This is what occurred in the 1930s when what was known then as the Smoot-Hawley Tariff helped trigger trade wars. Inevitably this led to not only trade wars but sovereign defaults and eventually real war, culminating in WW2. In November 2016, when Trump was elected President we reiterated that stance that his proposed policies were not good, especially for trade, and added that his potential leading candidates for appointments could lead to disruption and dysfunction in the White House. Seems we are now getting it all—in spades. The U.S. appears to be at war with itself over gun control, the environment, the Mueller investigation, and other issues.

Trump had already attacked washing machines and solar panels. And now he has added steel and aluminum with his announcement of tariffs on March 1, 2018. The Dow Jones Industrials (DJI) fell almost 400 points and the U.S. Dollar lost about 40 basis points. Gold reversed a downward spiral and closed higher. Curiously, Smoot-Hawley was signed into law on June 17, 1930. Over the next two years the DJI fell about 82%. Naturally, nothing has been signed into law—yet. But the move towards countermeasures is already under way in Canada and the EU. China is not expected to stand still.

In trade wars there are no winners. And trade wars (or we could also call them economic wars) inevitably lead to real wars. But, as the quote from Eduardo Galeano notes, they are never advertised as trade or economic wars. Today, the rhetoric is about North Korea wanting nuclear weapons, their ability to hit the U.S., and their selling of chemical weapons to Syria. Syria is using chemical weapons on its own people. Iran wants to become a nuclear power and their forces in Syria are a threat to Israel. All of this may or may not be true. Not unlike the so-called "weapons of mass destruction" that Iraq and Saddam Hussein had. Or they are bombing their own people like Muammar Gaddafi of Libya? But are Kim Jong-Un, Bashar Assad, and the Ayatollahs of Iran the real targets?

In January 2018, the Pentagon announced its new defense strategy called for aggressive steps to counter Russia and China. General Mattis, Trump's Secretary of Defense declared, "We have no room for complacency and history makes clear that America has no preordained right to victory on the battlefield." NATO troops (predominantly U.S.) are poised all along the border of Russia in Europe, allegedly to stop Russian aggression. U.S. military bases line the Pacific, allegedly to contain Chinese aggression. In all there are about 700 U.S. military installations around the world outside the U.S. costing the U.S. billions to operate. U.S-dominated wars over the past 17 years have cost, according to most sources, an estimated $4.4 trillion, adding considerably to the U.S.'s annual deficits and massive debt obligations. Officially, the U.S. acknowledges the expenditure of at least $1.6 trillion, still a substantial amount.

The complaint is China and Russia are pursuing an aggressive military strategy. Russia seized Crimea and threatens Ukraine. China is threatening its neighbours in the Pacific. China and Russia are also leading the way in trade with such things as the "New Silk Road" by moving away from the U.S. Dollar, building gold reserves, and creating Chinese-dominated counterparts to the U.S. dominated World Bank, IMF, and WTO. The U.S. Dollar has been questioned as to why it remains the global reserve currency. U.S. global hegemony is under attack. The loss of U.S. global economic dominance and the U.S. Dollar as the world's reserve currency would be economically catastrophic for the U.S. In the past, global wars have been triggered over less—what's different now is all parties have nuclear weapons.

Reserve currencies have a history of coming and going as empires rise and fall. Since the 15th century the Fiorino of Florence, Italy followed by the Ducat of Venice, Italy, the Netherlands Dutch Guilder, the Spanish Real, the Portuguese Escudo and the British Pound Sterling have served as the world's reserve currency. All were at one time associated with empires that rose, and then fell. History is about the rise and fall of civilizations and empires. Today's dominant empire, the U.S., is in many ways no different than previous empires that today no longer exist. At the heart of them were issues over expansion, over expenditure to pay for and protect the growing empire, and ultimately wars with challengers.

Source: www.cngcoins.com

Our concern is the markets as stock markets would fall and gold (and precious metals) would have the potential to soar if all this deepens and were to come to pass. It is not to say that any of this could come to pass. But it all needs to be watched. And announcements of tariffs on steel and aluminum are a distraction and ultimately not the real target. But they in turn could set in motion trade and currency wars that could eventually lead to real wars.

Bitcoin Watch!

Source: www.coindesk.com

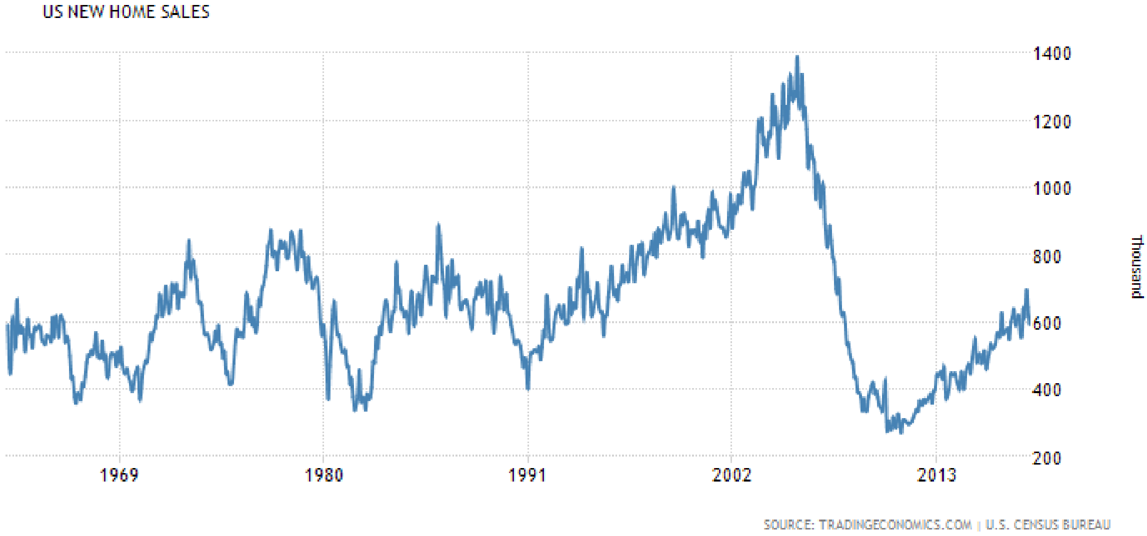
Are Bitcoin and the cryptocurrencies on their way to recovery? When we left a month ago Bitcoin was trading closer to $6,000. Now it has crawled back over $11,000. Is this a corrective recovery or the start of a new run-up to new highs? Is it consolidating or bottoming?

The suspicion is this is merely a consolidation or correction within the context of a longer-term decline. Volumes for not only Bitcoin but all cryptocurrencies have fallen sharply. Regulators continue to circle. The SEC is investigating. Scams still come to light. Lawsuits are still being launched against exchanges and those who started a cryptocurrency.

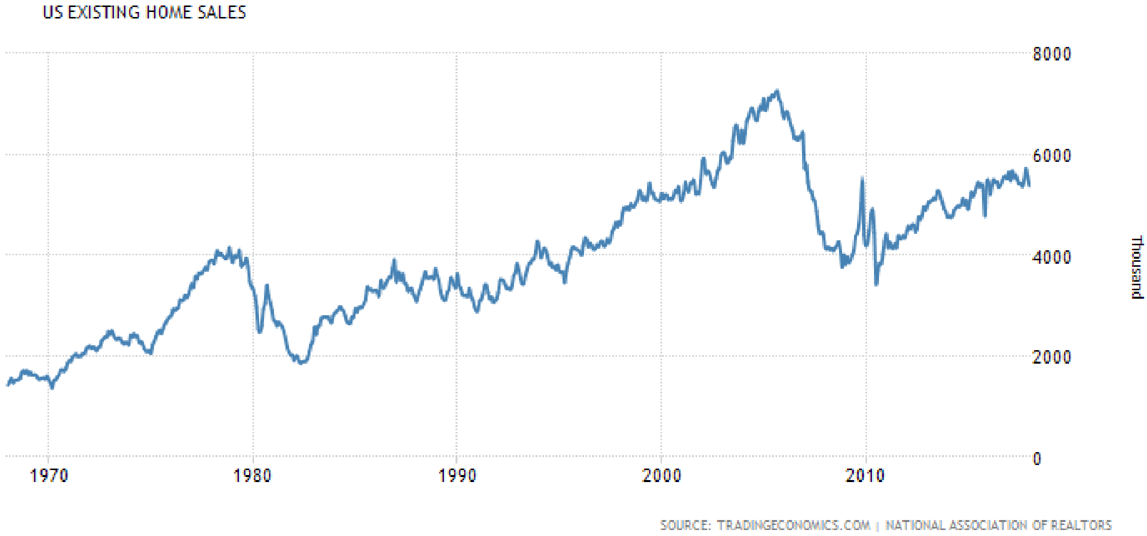
There are over 1,500 different cryptocurrencies listed at www.coinmarketcap.com. That is way too many. Hundreds of them have negligible market caps. Over 400 are under $100,000 market cap of which 350 are listed with no market cap or barely any. Over half are under $1,000,000 and two-thirds are under $5,000,000 market cap. There are bizarre ones—besides Dogecoin, we saw DopeCoin, Monkey Project, LuckChain, CannabisCoin, FedoraCoin, PutinCoin, InflationCoin, CrowdCoin, FuckToken (yes, FuckToken), PiggyCoin, WhaleCoin, Atomic Coin, RonPaulCoin, WomenCoin, Mao Zedong, Ride My Car, Braincoin, PeepCoin, and numerous versions with the word Bitcoin in it. Dogecoin is the 35th largest crypto with a market cap of $634.5 million, amazingly (down from a peak of $1.7 billion). It's an admitted fake or satire.

FuckToken, whose symbol is, you guessed it is FUCK, has a market cap of just under $1.1 million. There are almost 71 million FuckTokens outstanding and they currently trade at just over 2 cents. Incredibly its market cap peaked at over $4 million back in early January. FuckToken is described as a social cryptocurrency that helps everyone around the world give a FUCK. It allows users to send and receive money almost instantly with extremely low fees. It is built on the Ethereum Blockchain. FuckToken has been described as satire, taking a jab at all the other crypto-coins that are trying to be serious. Their claim is that basically all of this is just BS. No kidding.

We continue to hold to the premise that the bubble has burst and Bitcoin and many other cryptos should fall 80% or more from their peaks. Many will just disappear. Technically this still looks like a consolidation bounce-back. There should be considerable resistance for Bitcoin between $11,000 and $12,500. If Bitcoin were able to regain above $12,500 then it might find some legs. Currently Bitcoin is trying to potentially break a downtrend line from the December highs. A breakdown back under $9,500 could send Bitcoin back down towards the lows and $6,000.

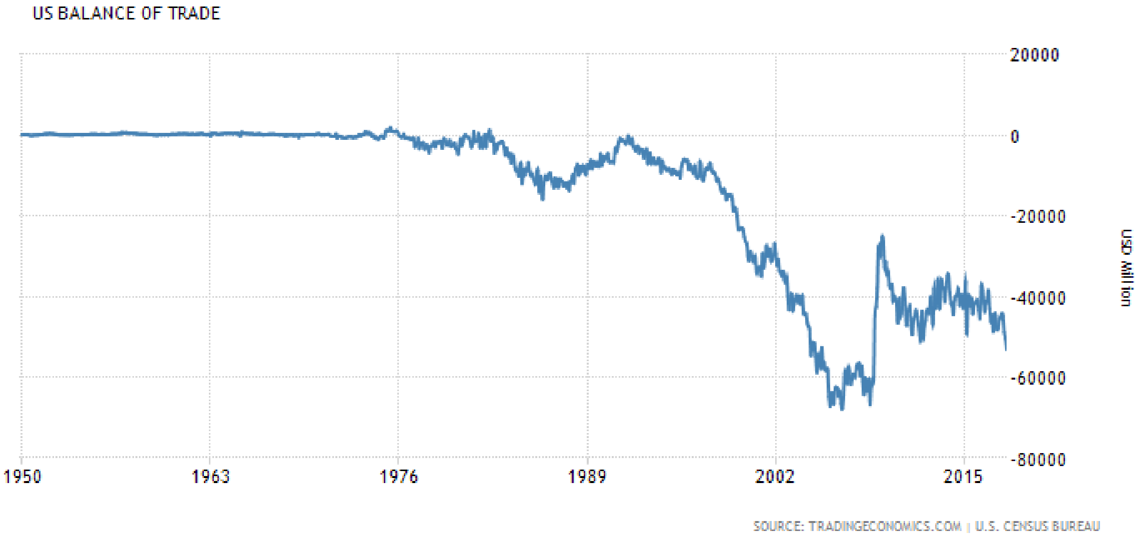


Source: www.tradingeconomics.com



Source: www.tradingeconomics.com

It seems rather pushy to say that the U.S. housing market has improved immensely. Yes, it has improved but as these charts show new home sales are barely back to where they were in the 1980s and 1990s and existing home sales are about two-thirds of where they were at the peak in 2005. Both fell in December 2017. Existing home sales fell 4.8% in 2017, the largest annual drop since 2014. New home sales are faring even worse, currently just over 40% of where they were at the peak. The latest sales of single-family homes were down in January 7.8% from December. The great housing recovery? Seems the economy is still looking for it.



Source: www.tradingeconomics.com

Okay, maybe Trump is on to something. The U.S. trade deficit widened in December to $53.1 billion—that's above the expected $52 billion and the downwardly revised November trade deficit of $50.4 billion. Seems the trade deficit is going the opposite direction President Trump wants it to. Americans, it seems, purchased more consumer goods including cell phones, cars, and pharmaceuticals. Yes, exports rose in December as well but imports rose faster. Americans cannot get enough of their gadgets that for the most part come from other countries. Judging from the slope of the chart the odds favour the trade deficit to widen more. But initiating trade wars is not the answer to reining in the trade deficit. For the U.S. it was always a quid pro quo as the U.S. purchased goods from the rest of the world and the rest of the world financed their deficit by purchasing their Treasuries. In trade wars the Treasuries may suddenly come back to them. And then how will they pay for them?

MARKETS AND TRENDS

	Close Dec 31/17	Close Mar 2/18	% Gains (Losses) Week	YTD	Trends Daily (Short Term)	Weekly (Intermediate)	Monthly (Long Term)
Stock Market Indices							
S&P 500	2,673.63	2,691.25	(2.0)%	0.7%	down	up	up (topping)
Dow Jones Industrials	24,719.22	24,538.06	(3.1)%	(0.7)%	down	up	up (topping)
Dow Jones Transports	10,612.29	10,332.98	(2.3)%	(2.6)%	down	up	up (topping)
NASDAQ	6,903.39	**7,257.87**	(1.1)%	5.1%	neutral	up	up (topping)
S&P/TSX Composite	16,209.13	15,384.59	(1.6)%	(5.1)%	down	neutral	up
S&P/TSX Venture (CDNX)	850.72	826.06	flat	(2.9)%	down	up	up
Russell 2000	1,535.51	1,533.17	(1.0)%	(0.2)%	down	up	up (topping)
MSCI World Index	2,046.47	1,990.95	(3.0)%	(2.7)%	down	up (weak)	up
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	192.31	172.99	(2.1)%	(10.1)%	down	down	neutral
TSX Gold Index (TGD)	195.71	181.41	(0.6)%	(7.3)%	down	down	neutral
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	2.40	2.86	(0.7)%	19.2%			
Cdn. 10-Year Bond yield	2.04	2.17	(2.7)%	6.4%			
U.S. 2-year 10-year Treasury spread "Recession Watch Spread"	0.51	0.61					
Cdn 2-year 10-year CGB spread	0.36	0.41					
Currencies							
US$ Index	91.99	89.04	0.1%	(2.3)%	neutral	down	down
Canadian $	0.7990	0.7750	(1.9)%	(3.0)%	down	down (weak)	neutral
Euro	120.03	123.29	0.3%	2.7%	up (weak)	up	up
British Pound	135.04	137.91	(1.3)%	2.1%	down (weak)	Up	neutral
Japanese Yen	88.76	94.58	1.1%	6.6%	up	up	up
Precious Metals							
Gold	1,309.30	1323.40	(0.5)%	1.1%	down	up	up
Silver	17.15	16.47	(0.1)%	(4.0)%	down	down	neutral
Platinum	938.30	965.10	(3.4)%	2.9%	down	up	neutral
Base Metals							
Palladium	1,061.00	986.65	(5.2)%	(7.0)%	down	up (weak)	up
Copper	3.30	3.12	(2.9)%	(5.5)%	down	up	up
Energy							
WTI Oil	60.42	61.25	(3.6)%	1.4%	down	up	up
Natural Gas	2.95	2.69	1.1%	(8.8)%	down	down	neutral

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

For every action there is usually an equal but opposite reaction. For months the Trump rally traced out a very distinct bull channel. Then in January 2018 the rally leaped over the channel, seemingly headed into new territory. It would have been unusual that following months of a bull channel it would suddenly leap up again. Could the market then be moving into a "blow-off" phase? Or is this just an overthrow? Well, now it is appearing as an overthrow. To balance the overthrow the market reversed suddenly and viciously (thanks to rising interest rates and strong statements from the new Fed Chairman) and the market plunged below the previous bull channel line. Was this a classic underthrow to balance off the overthrow?

By the time the dust cleared the S&P 500 had lost about 12% from the January all-time high of 2,872.87. The S&P 500, along with other stock markets tested down to the 200-day MA. The classic bounce-back rebound took the S&P 500 back up to just over the 50-day MA, but Trump's recent pronouncements about trade have caused the stock markets to shed gains quickly. The S&P 500 wound up down 2% on the week. The Dow Jones Industrials (DJI) suffered even more, losing 3.1%. So far, the S&P 500 is holding up on the year but the DJI is now down on the year. Other markets also suffered as the Dow Jones Transportations (DJT) lost 2.3% this past week and is now down 2.6% on the year. The NASDAQ fared well, losing only 1.1% and still has a 5.1% gain on the year. The small cap Russell 2000 lost just over 1% this past week and is down only a small 0.2% in 2018. The fact that the small cap index is faring so well could bode well going forward.

Elsewhere in the world other markets also fell. The London FTSE lost 2.4% and is down 6.9% in 2018, the Paris CAC 40 dropped 3.4% and is off 3.3% in 2018, the Frankfurt DAX dropped a sharp 4.6% and is now down 7.8% this year, while the Japanese Nikkei Dow (TKN) fell 3.3% and is off 7.0% in 2018. China was not spared either as the Shanghai Stock Exchange (SSEC) fell 1.1% and is off 1.6% so far this year. Canada wasn't spared either as the as the S&P TSX dropped 1.6% and is now down 5.1% in 2018 while the small cap TSX Venture Exchange (CDNX) was actually flat this past week but remains down 2.9% in 2018. Finally, the global index the MSCI World Index fell about 3.0% and is now down 2.7% this year. Markets everywhere are responding negatively to rising interest rates, the end of QE, and the threat of trade wars (and maybe even real wars).

The recent low for the S&P 500 at 2,532 now becomes important. As long as the market can hold above that level then odds favour a rebound. We continue to believe that this is a fourth wave up from the key February 2016 low at 1,810. Elliott Wave International count is different and they believe we have completed five wave ups and have made an extremely important and possible final top. Deferring to them they could be right. We are holding out some hope that there remains one more wave to new highs before the market makes what should be the final top before the onset of at least a 2-year bear market.

Below 2,532 the key level for the S&P 500 is at 2,417 the August 2017 low. As well, there is the March 2017 low at 2,322. If those levels were to break we would be in a bear market. To the upside the S&P 500 topped recently at 2,789 so it will be key going forward to take out that level. Above 2,800 odds increase that new highs would be seen. Numerous indicators are fairly neutral right now so the markets could go either way. Friday's action started out weak but as the day progressed the markets rebounded and closed generally higher on the day. Follow-through in this coming week would be important if the more bullish case is to take hold. Failure and breakdown under 2,600 would suggest that new lows are a possibility.

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Source: www.stockcharts.com

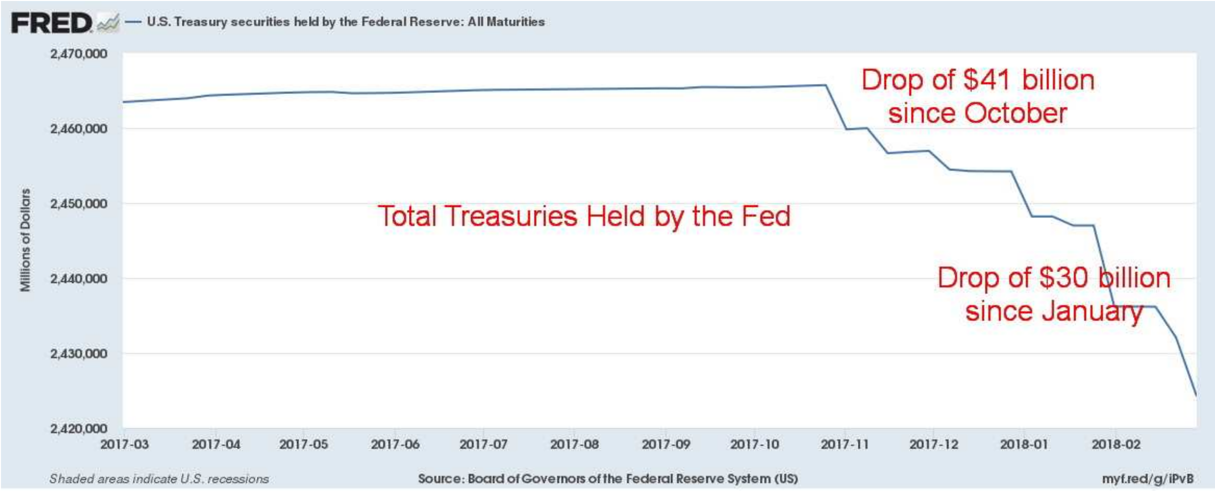
Here is the DJI with the wave count of Elliott Wave International applied. If you compare the two charts you will see where the differences lie. Elliott Wave concludes that we have reached the zenith and the market has topped. The two waves down from the top would be minor waves 1 and 2 of what should be ultimately a 5-wave decline. The DJI held above its 200-day MA and did not underthrow as did the S&P 500. The 200-day MA is currently just above 23,000. Previously we had viewed a breakdown under 23,250 as being negative for the markets. The DJI held that level. The DJI is currently testing the 100-day MA. Like the S&P 500 the DJI rebounded on Friday after being substantially lower earlier in the day. Follow-through to the upside this coming week is important if a more bullish case is to develop. Volume was high on the breakdown and predictably is lower on the current rebound. Volume was also lower this past week despite the general sell-off. Indicators are generally somewhat neutral even as short-term trends have turned down.

Source: www.stockcharts.com

The S&P TSX appears much weaker than its U.S. counterparts. The S&P TSX may have completed five waves to a very important top. We note that the sell-off busted through the 200-day MA and took out the low of what we labeled as wave 4. The subsequent rebound took the S&P TSX back to about the 165-day exponential MA before failing and dropping back below the 200-day MA. Another negative development. Volumes were not particularly robust up or down. The TSX, however, is dominated by energy, metals, and financials, so it is necessary to look at individual sectors. Sectors that are looking toppy or potentially negative are Income Trusts, Consumer Staples, Real Estate, Telecommunications, and Utilities. Financials look mixed here. Information Technology just made new highs. Health Care could be in the process of a rebound. Appearing potentially more bullish are Golds, Metals, Materials, and Energy. Also looking potentially higher are Industrials and Consumer Discretionary. It remains to be seen just how the TSX performs here. Certainly the chart looks negative, but if it can regain back above 15,900 then higher levels are possible.

Source: www.stockcharts.com

It is no surprise that volatility leaped during the recent selloff. The volatility index (VIX) jumped to its highest levels in two years. This followed months of the S&P 500 moving higher and the VIX making a series of record lows. We consistently warned that low volatility is usually followed by high volatility, sparking a market selloff that would be vicious and swift. It didn't disappoint. That said, the VIX is currently at levels well above the lows seen from July through December 2017. Even if the S&P 500 were to return and make new all-time highs it is highly unlikely the VIX will follow and make new lows. More likely is the VIX making considerably higher lows and a strong divergence with the price action of the S&P 500. This is what is normally seen at important tops where the price index (S&P 500) makes new highs (or lows) and the VIX does not confirm by making new lows (or highs). The market has not yet made that divergence. That is another reason why we believe that we could see new highs before this market makes its final top. The caveat is new lows and a breakdown in particular under the 200-day MA and 2,400.



Source: www.stlouisfed.org

If one wonders why there has been upward pressure on U.S. Treasury bonds and notes culminating in a stock market selloff one may need look further than the Fed embarking on selling off its portfolio. This was noted months ago by the Fed. But now it is happening. Since October 2017 Treasuries held by the Fed have fallen $41 billion and since the beginning of the year they are down $30 billion. They are also selling off Mortgage-Backed Securities (MBS), but that process is a lot slower as they are only down about $5 billion since the beginning of the year. More likely is that MBS will mature and not be replaced. That is presuming, of course, that the MBS held are still worth something. Going forward, it is more likely the Fed will sell off U.S. Treasuries as opposed to MBS.

Source: www.stockcharts.com

Have interest rates topped? We are not sure yet. Our original target for the U.S. 10-year Treasury note was a yield of 3.19%. At a high of 2.94% the notes are short of the target. Still, the drop while important has not as yet breeched anything to suggest a top is in place. There is considerable support down to 2.68% the 50-day MA and levels down to 2.60%. Below 2.60% a top would be confirmed. But that is a long way off right now. Major support can be seen down to 2.30%. Odds continue to support higher yields going forward. The 3.19% yield target remains valid. Support may be materializing down to 2.80%.

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Source: www.stockcharts.com

Recession Watch Spread

After leaping as high as 0.78% and testing the breakdown line that formed over the past few years near 0.75% the 2-year 10-year spread has begun to narrow once again. The spread is now back to 0.61% but still above the low of 0.50% seen in early January. We continue to monitor this spread for potential signs of an impending recession. Before both the 2001–2002 and the 2007–2009 recessions the 2-10 spread had turned negative. Negative spreads or an inverse yield curve are not unusual before a recessionary period as the yield curve flattens and goes negative. Currently at 0.61% the spread is well above levels normally associated with recessions. A breakdown under the previous low at 0.50% could set in motion another rapid decline in the spread towards negative spreads. Targets would be at least down to 0.22%.

Source: www.stockcharts.com

The reaction of the US$ to Trump's announcement of tariffs to be placed on steel and aluminum was immediate on March 1, 2018. After hitting a high of 90.89 the US$ Index reversed and closed 61 bp lower at 90.28. Follow-through on March 2 took the index down another 38 bp. Curiously the US$ Index hit the 50-day MA at 90.50 but failed to break through closing lower. This demonstrates once again that one needs to pay attention to these key MAs. There is a bit of tussle going on as to whether the US$ Index has indeed topped out or after a short pull-back it regroups and starts another upward climb. After hitting a low of 88.15 on February 15 the index had been climbing on the back of the potential for higher interest rates in the U.S. and the continuing decent economic numbers emanating from the U.S. Statements from the Fed that the U.S. economy is doing fine helped. Other issues were largely pushed into the background. But the potential for trade wars where nobody wins is unnerving for the US$. Added to that is nervousness that trade wars could also lead to foreign buyers not buying U.S. Treasuries any longer and even dumping them. As of December 2017, foreigners are holding some $6.3 trillion of U.S. treasury securities of which China has the largest holdings of $1.18 trillion. Despite fears of Chinese dumping or not buying any longer that number is actually higher than the $1.06 trillion held a year earlier. So, US$ up, or down? A break under 89.40 would most likely suggest that the dominant trend (down) will remain. Our original target for the US$ Index of about 86.80 has still not been hit. Trump's trade wars are not going to be positive for the US$. Nor is the widening investigation by Mueller and his team that continues to encircle the Trump Presidency. Trump's continued attacks on Attorney General Jeff Sessions, attacks that could be a set-up for a Nixonian "Saturday Night Massacre" would not sit well with either the US$ or stock markets. But it remains a real risk. On the other hand, it would be positive for gold. New highs above 90.89 would be positive but we now doubt that is going to happen.

Source: www.stockcharts.com

Gold and the precious metals continue to baffle and bewilder. Almost everyone agrees prices should be higher given fundamentals and the deteriorating global political situation. But fear of higher interest rates and continued strength for the U.S. economy have kept a lid on things. Interesting divergences are emerging, however, that could prove to be positive going forward. Gold made new highs in January 2018. Silver did not. Nor did the gold stocks as measured by the Gold Bugs Index (HUI) and the TSX Gold Index (TGD). Then this past week before the Trump tariff announcements gold made slight new lows below its early February 2018 low. Silver just missed making new lows while the gold stocks (HUI, TGD) also made interesting divergences. Both the HUI and the TGD took out their December 2017 low. Then this past week the HUI made new lows but the TGD did not. As a technical analyst we view divergences between comparable markets as interesting. If the market is truly to the downside than all should be making new lows. They are not. Both gold and silver remain well above their December 2017 low even as the stocks did make new lows.

This last phenomenon is interesting as in early 2016 we saw the HUI plunge to new lows below the December 2015 low but gold, silver, and the TGD did not. What followed was the best rally in years for gold, silver, and the gold stocks. The stocks in particular were on fire as the HUI gained 188% into July 2016 and the TGD was up 131%. Interestingly since then the HUI and the TGD remain well below those July 2016 highs as does silver; gold has challenged its July 2016 high of $1,377 but has failed thus far to take it out. All this action also reminds us somewhat of what took place in 2012/2013. Gold had plunged from its highs of $1,923 in September 2011 and on three occasions it plunged to around $1,525. Gold kept trying to recover, even making slight new highs on a few occasions. But silver and the gold stocks were not cooperating. Silver made lower highs on each of its bounce-backs from the $26 zone. The HUI and the TGD were tracing out lower highs and lower lows. The result was when gold broke down under $1,525 in April 2013 the verdict was swift and devastating. If something similar were take place now, only the opposite, gold could explode upwards once it firmly busts through $1,375. That could be a play on the old adage that for every action there is an equal but opposite reaction.

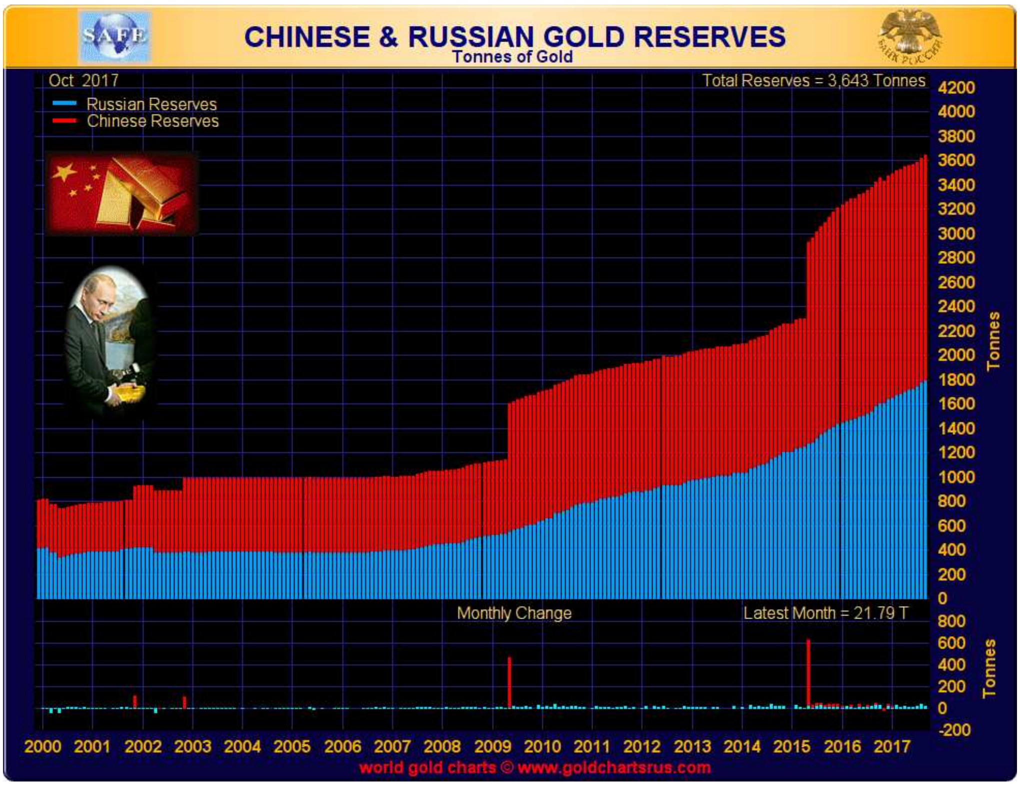
There is a void on the gold charts, roughly between $1,400 and $1,525. On the way down in 2013 and in the years that followed very little trading took place in that range. Since then the range has been largely between $1,150 and $1,350 with outside forays down to $1,050 and up to $1,375. All that suggests that once gold breaks that range, and odds favour to the upside, the move could be explosive. Currently we want to see gold hold $1,290/$1,300 but it needs to take out $1,350 to the upside. Trump's tariffs were very helpful as the US$ sunk and gold reversed its downtrend and moved higher. So did silver and the gold stocks, both of which need to become leaders if we are to move higher.

ENRICHED INVESTING INCORPORATED

Source: www.stockcharts.com

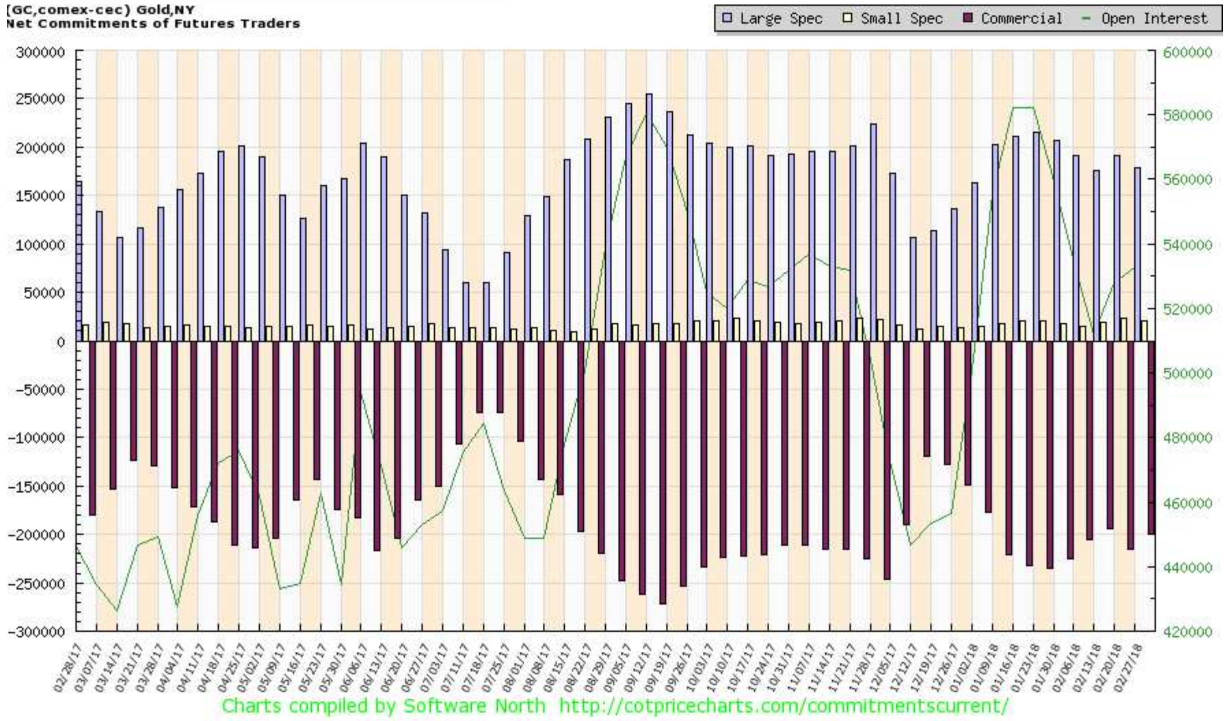
A positive divergence that has been encouraging is that gold expressed in Cdn$ has been outperforming gold in US$. Gold in Cdn$ made its low back in June 2013. Since then gold in Cdn$ is up 37% vs. a gain of about 27% for gold in US$. Yes, it has been reflection of the weaker Cdn$ vs. the US$ but one of the characteristics of gold is that it maintains purchasing power even as the currency weakens. Gold is an alternative currency that cannot go to zero, unlike stocks, bonds, and even currencies (many who have just become defunct). Gold in Cdn$ is only about 11% off its high of September 2011. Gold in US$ is still down 31% from its comparable high. Gold is a hedge against inflation, deflation, currency devaluation, and government. Yet it remains grossly under-owned compared to other assets.

Chart of the Week



Source: www.goldchartsrus.com

Speaking of gold being under-owned, that is not the case with the Chinese and the Russians. In the latest month it is estimated, according to the World Gold Council, that China and Russia added another 21.79 tonnes of gold to their reserves. China, at least according to official figures, added 0.01 tonnes. The Russians added the rest and its gold reserve holdings, at least officially, are now somewhat equivalent to China. China and Russia now hold the 6th and 7th largest gold reserves in the world, behind the U.S., Germany, the IMF, Italy, and France. While gold reserves make up roughly 65% to 75% of the U.S.'s, Germany's, Italy's, and France's total reserves, gold constitutes only 2.4% of China's reserves and 17.7% of Russia's. Their aim is to achieve gold reserves on the same basis as the four western countries. That implies a lot of gold buying and how to do it without pushing up the price. Both are purchasing gold to shore up and back their currencies the Yuan and the Ruble. China sees itself as eventually having the Yuan become a global reserve currency alongside the US$. Naturally that is not good for the US$ nor for the U.S—hence the tension between China and the U.S. Interestingly, a 100 years ago or so the global reserve currency was the British Pound Sterling and the economic challenger was the German Deutsche Mark as Germany and the Deutsche Mark were threatening to supplant the Pound and Britain as the global economic powerhouse. Well, we know what happened there.



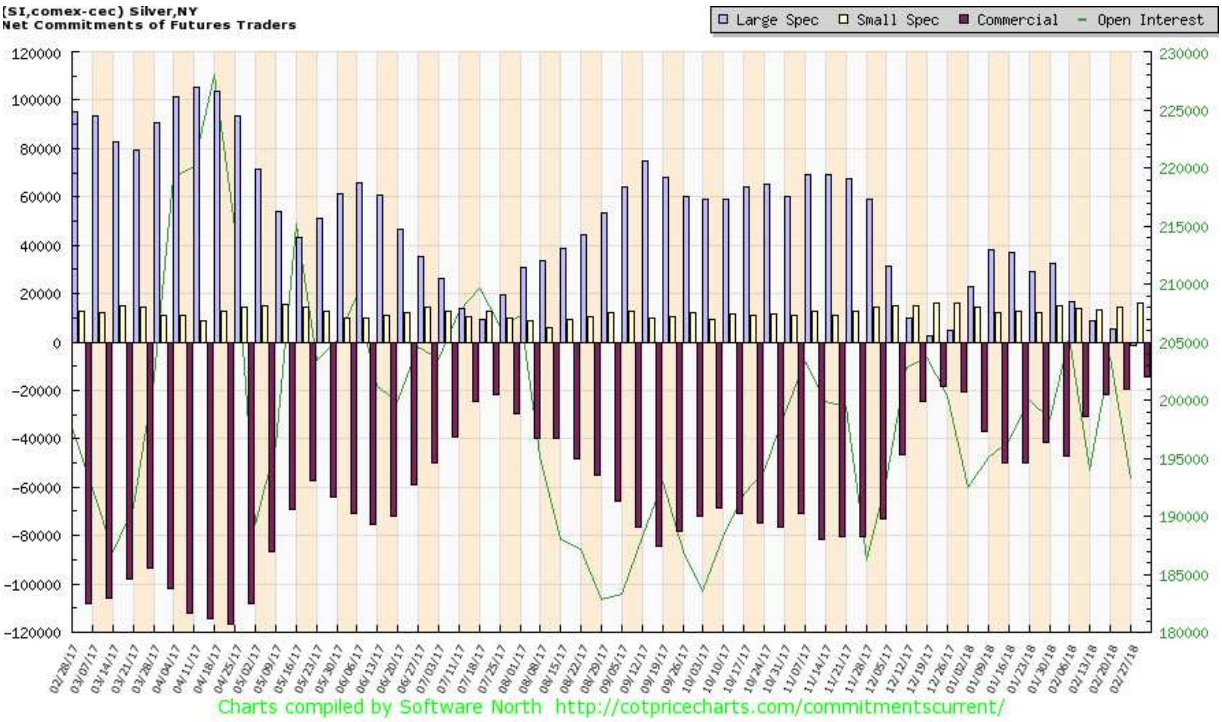
	Large Speculators				Commercial				Small Speculators			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
01/30/18	341	298,327	91,065	77%	101	154,690	379,766	29%	48667	30,853	61%	559,332
02/06/18	342	273,828	82,951	77%	105	158,650	364,101	30%	42286	27,712	60%	535,321
02/13/18	325	251,860	76,254	77%	105	150,847	345,383	30%	44796	25,866	63%	511,745
02/20/18	330	257,205	66,283	80%	104	154,913	369,791	30%	48400	24,444	66%	528,154
02/27/18	334	251,981	73,263	77%	104	161,527	361,323	31%	47335	26,257	64%	532,860

Source: www.cotpricecharts.com

The commercial COT for gold improved this past week to 31% from 30% as short open interest fell roughly 8,000 contracts while long open interest rose about 7,000 contracts. This is not the levels we saw in December 2017 before the latest rally for gold got underway but it is encouraging. We'd prefer to see it closer to 40% to 45% as it has in other periods before strong rallies took place. But the direction is positive. The large speculators COT (hedge funds, managed futures, etc.) fell to 77% from 80% as they cut their long positions and added to shorts. But all this occurred before Trump's tariff announcements. So next week's COT should be interesting.

Source: www.stockcharts.com

Silver has been a gross underperformer, but as we noted under gold this past week saw gold make slight new lows below its early February low while silver did not, just missing it with a low of $16.16 vs. $16.13 earlier. Overall as well silver held its potential $16.25 breakdown zone closing at $16.47 following the Trump tariff announcements. If gold has been frustrating silver has been even more so. There is a case for silver to break down and a case for silver to bust to the upside. We are optimistic that the breakout should be to the upside. There is considerable resistance up to about $17 but above that level the key levels are at $17.25 and $18. A break above $18 could project silver up to about $22.75. That would take out the July 2016 high of $21.23. Silver remains down roughly 67% from its high of September 2011. It is grossly undervalued considering supply/demand considerations.



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
01/30/18	199	72,145	39,723	64%	82	68,278	115,569	37%	27334	12,465	69%	198,358
02/06/18	205	63,729	47,189	57%	80	75,255	105,896	42%	27754	13,653	67%	205,470
02/13/18	208	64,816	56,105	54%	81	80,026	101,974	44%	28275	15,038	65%	194,056
02/20/18	202	63,200	57,880	52%	84	86,061	105,506	45%	28201	14,076	67%	203,629
02/27/18	195	63,023	64,531	49%	80	82,138	96,601	46%	30417	14,446	68%	193,343

Source: www.cotpricecharts.com

The silver commercial COT is the most encouraging we have seen in some time. This past week the silver commercial COT rose to 46% from 45% as short open interest fell roughly 9,000 contracts and while long open interest also fell roughly 4,000 contracts the net effect was positive. Interestingly, the large speculators COT fell to 49% from 52% and for the first time that we can recall short open interest actually exceeds long open interest. The commercial COT for silver is now in a better position than it was last July 2017 before a $4 rally took place or a gain of about 27%. Our expectations here are that silver could be poised to break out and make a significant move to the upside.

Source: www.stockcharts.com

Silver remains frustratingly cheap compared to gold. While many silver bugs go on and on about a 16:1 relationship between silver and gold in nature the reality is quite different. The ratio has ranged from 31.5 to 88.4 since 2000. Most of the trading has taken place between 47.5 and 67.5. But for the past few years the ratio has remained stuck above 70. The current ratio is 80.37 and we have rarely seen it remain so high for so long. Silver is cheap when compared to gold. If a strong rally gets underway for the precious metals the expectation is that silver should outperform gold. To get to a ratio of 47.5 silver would need to be trading near $28 vs. the current about $16.50 assuming gold remains as is at $1,323.

Source: www.stockcharts.com

If silver is frustrating the gold stocks are even more frustrating. As one pundit noted they are acting more like stocks than the underlying commodity. Both the HUI and the TGD plunged to new lows earlier in February even below the December 2017 low and not far off the December 2016 low. This past week the HUI plunged to new lows but the TGD did not—a divergence. Both reversed sharply following the Trump tariff announcement. Our chart has overlaid gold. As one can see, gold is nowhere near its December 2017 low but the gold stocks weren't paying attention and made new lows. Another divergence. As we noted earlier under gold we saw this phenomenon back in early 2016 as well. What followed was a very strong rally for gold, silver, and the precious metals with the gold stocks in particular enjoying a very strong move. The TGD gained roughly 131% from March until July 2016. Neither the TGD nor the HUI have been anywhere near those levels since. Gold stocks remain exceptionally cheap when compared to gold.

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Source: www.stockcharts.com

We have divided the Gold Miners Bullish Percentage Index into three spheres—happiness, just right (not labelled), and depression. Right now, we are closer to depression than we are to happiness. One wants to buy when the index reads depression and sell when it reads happiness. The last time we had happiness was in July 2016 when the TGD made a move of 131% from March to July and the HUI gained 188% in the same time frame. Holders of gold stocks could use a little happiness right now.

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.

Disclaimer

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