Technical Scoop March 12, 2018
From David Chapman, Chief Strategist
dchapman@enrichedinvesting.com
For Technical Scoop enquiries: 416-523-5454
For Enriched Investing™ strategy enquiries: 416-203-3028

Another wild week with high jobs numbers suggests new highs may be ahead

One of the highlights of the past week was the Prospectors and Developers Association of Canada (PDAC) annual convention. Sean Roosen the CEO of Osisko Royalties made some interesting observations at the convention. We take a look at those observations and what they mean for gold stocks going forward. What is needed is a spark, something that many have been waiting for. It is now approaching 7 years from that top in 2011 for gold and the precious metals and also a top for many commodities. Gold breaking through and above $1,400 may be that spark.

It was also the week of Trump once again. Trade tariffs, the resignation of Trump's top economic advisor Gary Cohn, Florida slapping down new gun laws, the Department of Justice (DOJ) suing California, a meeting with Kim Jong-Un and Stormy Daniels all made headlines. Trump seemed to be at center of everything even if it wasn't really about him. For example, the February US jobs numbers came out on Friday and they were unexpectedly higher than expected. Once again we take a look at the jobs report. But the stock market celebrated and the DJI leaped 400 points as the US stock markets enjoyed a strong up week. In addition, the Recession Watch Spread (page 19) rose. Are new highs ahead?

Finally, Bitcoin and the cryptocurrencies ended their recent rally and once again appear poised to plunge to new lows. All in all another wild week.

We include our usual array of charts on the stock markets, bonds, the US$ Index and gold and precious metals. This week we feature two charts of the week looking at margin debt and the Fed's balance sheet. The first Chart of the Week (page 16) looks at margin debt which has fueled the rally and can accelerate a market decline if one gets underway. We note once again that the Canadian Dividend Strategy is designed to rotate to cash in the event of a sustained market decline. The second Chart of the Week (page 17) illustrates the impact of quantitative easing (QE) on the U.S. stock market and suggests that the Fed reducing its balance sheet is a form of tightening along with hiking interest rates.

As it always seems there were headlines, a wild market and a volatile week of politics. And while we didn't include it in any of our commentaries we can't help but notice the wild ending to the Ontario PC leadership convention that took place on Saturday March 10, 2018. It ended with a disputed winner, a runner-up that has yet to concede surrounded by accusations of irregularities and disarray. All is normal it seems, just like the markets.

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Enriched Investing Incorporated
P.O. Box 1016, TD Centre, Toronto, ON M5K 1A0
ph: 416.203.3028 fx: 416.203.8825 www.enrichedinvesting.com
e-mail: dchapman@enrichedinvesting.com

People used to invest in prospectors and exploration because they wanted to take risks and they wanted to have fun. That money has now moved over to cryptocurrency and weed stocks.
—Sean Roosen, CEO Osisko Gold Royalties Ltd. at PDAC March 5, 2018 (*The Globe and Mail*, March 6, 2018, "Rise of crypto and cannabis cutting into mining: Osisko CEO")

It has been the elephant in the room. But Sean Roosen, speaking at the Prospectors and Developers Association of Canada (PDAC) held March 4 to March 7, 2018 in Toronto, may have hit the nail on the head as to why the Canadian mining industry and the associated stocks are struggling. It is certainly something we confess we have thought of but, unlike Roosen, never articulated. The reality is stark, however, as millions of dollars have been poured into cryptocurrencies and marijuana stocks. Except that cryptos and marijuana produce nothing really and eventually the marijuana just goes up in smoke. Mining on the other hand is the backbone of industry and demand continues even as it is becoming harder to find new resources.

Roosen "bemoaned" the lack of investor interest in mining. We have noted it by pointing out the ongoing very high gold/Gold Bugs Index (HUI) ratio and how the TSX Venture Exchange (CDNX) dominated by mining stocks continues to languish at or near multi-year lows. The stocks may be cheap but nobody cares. Roosen noted the dearth of investment over the past few years in exploration projects coupled with skyrocketing capital costs. To compensate mining companies have been turning to private equity. But that is no panacea as private equity is picky, they take months to make decisions and they insist on tough terms (*The Globe and Mail*, March 7, 2018, "Miners increasingly tapping private equity").

Roosen continued in what was an unscripted and candid keynote speech at PDAC. Large money managers used to provide risk capital for the industry. But managers have moved away from active to passive management such as index funds. That has shifted billions of dollars that might have gone into the mining industry. With no active management, raising new financing has become more difficult.

Roosen continued, finding new reserves is getting harder and increasingly the reserves are in harder to access locations. Investment in exploration has not been adequate especially since the financial crisis of 2008. As Roosen noted, the geologist is the "first one fired, and the last one hired" after the downturn.

But the reality is stark. Without new reserves the current ones could soon start to run out as supplies are drawn down. The life blood of the industry is investor capital coming from bought deals (investment banks purchase shares in a mining company at a discount then reselling to the public). They have almost become a thing of the past. As noted, private equity funds can and have filled some gaps but they take a long time to look at deals and their preference is for what is known as "shovel-ready projects." In the heyday of a commodity bull run for the stocks back in the mid- to late-2000s, bought deals were often put together in a matter of days.

Private equity also generally shuns exploration companies. That means the companies that usually start the process in the mining industry are also starved for funds. The reality is it can take 10 to 20 years from the time shovels go in the ground until mine is built and production is underway. And that is assuming they find sufficient quantity and grade worth mining. Another source of funding for the junior miners has been from senior miners. Of the $3.3 billion raised in 2017 by mining companies (some 44% less than in 2016) senior miners provided an estimated $598 million. Usually what it entails is the senior miner taking a minority investment in the company and getting a seat on the board.

Source: www.stockcharts.com

During the heyday of the junior mining stocks, roughly from 2002 to 2011 the gold/HUI ratio regularly traded at 3 or lower. Since the gold and commodity crash of 2013 the ratio, however, has mostly traded above 5. The ratio is down from its high in 2015 at 10.67 but historically it remains high, currently around 7.66. Data on the gold/HUI ratio is sketchy given that the HUI has only been in existence since 1996. Still what it reveals is that gold stocks remain cheap compared to gold. And that fits the narrative that Roosen outlined.

The chart of the TSX Venture Exchange (CDNX) reveals a similar story. The CDNX got under way in November 1999 following a merger between the old Vancouver Stock Exchange (VSE), the Alberta Stock Exchange (ASE), and the Montreal Stock Exchange (MSE). The CDNX has had a storied rise, fall, rise and fall again. From its beginnings the index soared over 5,200% to a peak in 2007. The 2008 financial crash did not leave the junior exchange unscathed. The CDNX collapsed 80%. While the broader big cap indices were dropping upwards of 55% the CDNX stocks could not find a bid.

But they recovered and by March 2011 the CDNX was up 260%. Then came the gold crash—deals dried up and the industry fell into a long funk bottoming in January 2016 down 81% from the 2011 peak. The January 2016 low has thus far proven to be a nadir. Since then the CDNX is up 78%. Are there cycles at play with the CDNX? The evidence is obviously quite limited but we noted that it was 9 years and 1 month between the start of the CDNX and the major December 2008 low. The next significant low of January 2016 was 7 years and 1 month past the December 2008 low. That works out to an average of 8 years 1 month or 8.08 years. Raymond Merriman of www.mmacycles.com has noted what he believes is a 7.83-year cycle in gold (orb of +/- 8 months). If that were correct then it is possible the CDNX is following the gold cycle even as its lows do not coincide with gold itself. The CDNX is roughly 50% mining stocks with most of them being junior gold mining exploration stocks.

Source: www.stockcharts.com

It was noted that this year's PDAC was well attended with attendance up roughly 6% over the previous year. The interest is there. What is needed is a spark, something that many have been waiting for. It is now approaching 7 years from that top in 2011 for gold and the precious metals and also a top for many commodities. Gold breaking through and above $1,400 may be the spark.

The week that was

It seems that almost every day stories revolve in some way around President Trump. This week was no different. Whether it was the ever-changing tariffs, the Department of Justice (DOJ) suing a U.S. state, the Florida government snubbing the NRA, Kim Jong-Un, or Stormy Daniels, Trump was usually front and center even if he wasn't supposed to be the centre of attention.

The tariffs on steel and aluminum were supposed to be because of "National Security." Instead, they have turned into a "mish-mash." The week was highlighted by the resignation of Trump's top economic advisor and head of the National Economic Council Gary Cohn. This was a strange one. Not so much because Cohn resigned because of a difference of opinion on tariffs, but because the resignation of Cohn leaves only Treasury Secretary Steve Mnuchin as the sole Goldman Sachs flag-bearer. Cohn, the former President and COO of Goldman Sachs, was brought in originally by Trump's son-in-law Jared Kushner. Many thought it odd that Goldman Sachs would give up a key role in the Trump administration. On the other hand, many will cheer the departure of Cohn so as to lessen the influence of Goldman Sachs.

At one point there were five former Goldman Sachs executives in the Trump administration. Now there is only one—Mnuchin. Gone are Steve Bannon, Dina Powell, Cohn, and the short-lived Anthony Scaramucci. And this is after only one year in power. The revolving door of the Trump administration.

As to the tariffs there will be tariffs, yes, but there are "carve-outs" for Canada and Mexico if they agree to enough concessions on NAFTA. Naturally those concessions aren't spelled out but as some describe it, this is nothing but a "shakedown." Nonetheless, the entire tariffs imposition is appearing to be more and more incoherent as the reasons for imposing them change. Rather than imposing the tariffs in a "loving way" and that "trade wars are good, and easy to win" tariffs are what triggers trade wars. In trade wars nobody wins. The U.S. could be a big loser as other countries impose targeted tariffs on U.S. industry and it won't guarantee that America's "rust belt" comes back to life.

The tariffs were supposed to be a shot at China. However, China doesn't send that much steel or aluminum to the U.S. China does produce a lot of steel contributing to a global glut of steel. Instead, the U.S. has managed with these tariffs to alienate supposed allies in Canada and Mexico and the

EU—not necessarily a wise idea. While these countries may take their complaints to the World Trade Organization (WTO) many believe Trump's ultimate target is the WTO itself, largely because it imposes too many rules on the U.S.

As to the other issues that popped up this week, the new gun rules voted in Florida is a step and a slap in the face to the NRA while the U.S. DOJ suing California is liable to get caught up in state rights. More intriguing is Trump meeting Kim Jong-Un—that is, a mentally deranged dotard meeting the Rocket Man and a madman. Given their previous war of words this meeting will no doubt be historical, but if it lessens global tensions then it has to be good. The meeting also may never happen given the volatility of the two involved.

Finally, Stormy Daniels seems to have become a major focus of attention. That also has the potential to become the Monica Lewinsky scandal on steroids. But the stock market? It's not focused on Stormy. It's focused on good economic numbers especially the bullish jobs report that came out on Friday. And the market is also more focused on the good news emanating from a potential historical meeting between Kim and Trump.

Bitcoin watch!

Source: www.coindesk.com

The cryptocurrency rollercoaster continues. From a high of around $11,660 on March 5, 2018 Bitcoin hit a wall and fell roughly 28% in the space of 4 days. Oddly, you never really get a grasp as to the why but it is easy to understand. Scams, hacks, regulators, and growing losses are all playing a role. That it was a bubble now seems rather benign. That many warned that the bubble would burst also seems rather moot. There has never been a bubble that didn't eventually burst and Bitcoin and the cryptocurrencies were a bubble accident waiting to happen.

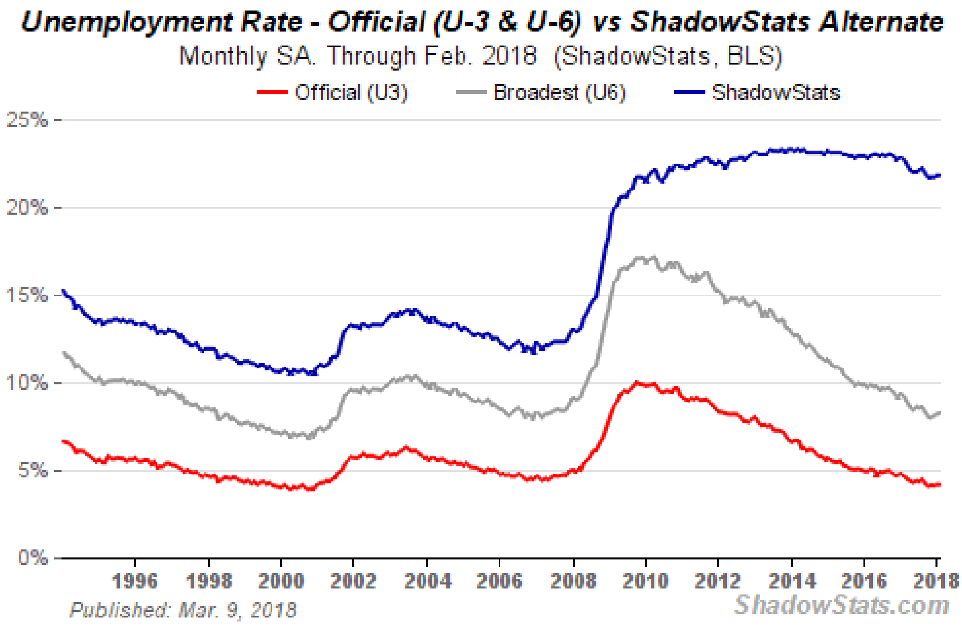
All this is sending the message that the corrective rally from the lows of $5,947 seen on February 6, 2018 is now over. Ultimately it should lead to new lows. In the interim Bitcoin has hit down near $8,000 and this should act initially at least as some level of support. Bitcoin could even bounce back up to around $10,000 again but that level should cap it. If the roll-down calculation is correct that once Bitcoin breaks the $5,947 lows, Bitcoin could begin another long descent that takes it down almost 99%.

No, that kind of a drop is not guaranteed. Bitcoin may be one of the survivors but as we have noted on numerous occasions with over 1,500 different cryptocurrencies outstanding most of them are eventually just going to disappear. It is rare to find any crypto that has actually held its own over the past week. With Bitcoin's bounce-back, it is now only down 18% in the past week. Numerous others are down a lot more.

We and others have said this before: gold is better than Bitcoin. Unlike Bitcoin, one can hold gold and feel it. It has been around for centuries and is not some latter-day digital currency. Cryptos have been vulnerable to hacking, and it should be noted that, yes, gold could be stolen but it is held primarily in secure vaults, not in some digital wallet. It's true that one can move digital currencies around faster and that may give them a role going forward. However, they can't hold their intrinsic value because they have none, whereas gold can never go to zero because it is rare. It is difficult to create replications of gold whereas cryptos have proliferated—otherwise, why are there now over 1,500 different cryptocurrencies? Supply of gold is limited because it is hard to find whereas cryptos have no control over supply. Volatility for gold is sharply lower. It is estimated that the volatility of cryptos is over 7 times higher than gold.

Gold can also be used for purchase and sales. The world's central banks continue to hold some 33,000 metric tonnes in their vaults. They hold no cryptocurrencies. Maybe in the future? While Bitcoin and some other cryptos can be used for purchase and sales their use is limited. The vast majority of cryptos can be used for nothing. So why would one hold a cryptocurrency over gold? Pure speculation is our best guess.

U.S. jobs report



Source: www.shadowstats.com

"**JOBS, JOBS, JOBS!**" So crowed President Donald Trump following the release of Friday`s nonfarm payroll. The February nonfarm payrolls came in at 313,000 when all the market was expecting around 200,000. Better yet, the January nonfarm payrolls were revised upward to 239,000. It was the highest increase in the nonfarm payrolls since July 2016. Employment rose in construction, retail trade, professional and business services, manufacturing, nonfinancial services, and mining. Wall Street thought they had died and gone to heaven. The Dow Jones Industrials (DJI) soared over 400 points. Who cares about Stormy Daniels or trade wars.

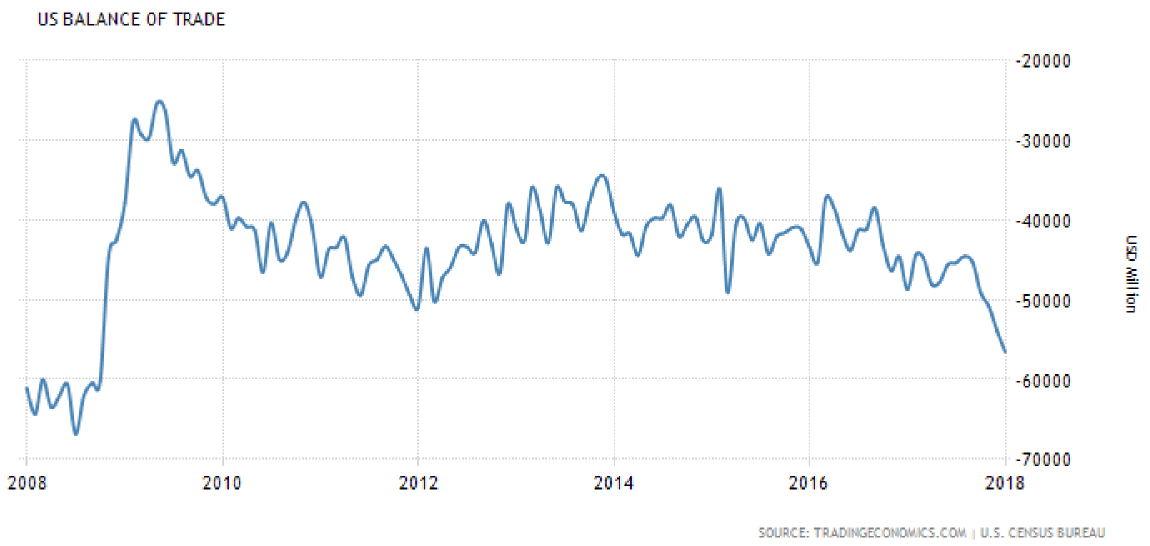
The unemployment rate (U3) remained steady at 4.1% easing to 4.14% from 4.15% while the U6 unemployment rate—that includes short-term, discouraged, and otherwise marginally attached workers plus those forced to work part-time because they cannot find full-time employment—rose to 8.24% from 8.19%. John Williams' Shadow Stats alternate unemployment rate that is the U6 number plus long-term discouraged workers who were defined out of existence in 1994 was unchanged at 21.8%.

Disappointingly, there appears to be little wage pressure as average hourly earnings rose 4 cents following a 7-cent gain in January. Overall average hourly earnings are up 68 cents on the year or 2.6%. The labour force participation rate for February increased to 63% up from 62.7% the previous month. This helps explain why the not-in-labour force dropped from 95.7 million in January to 95.0 million in February as more people entered the working force. The employment population ratio also rose to 60.4% from 60.1%. The actual number of unemployed persons rose in February to 6,706 thousand from 6,684 thousand in January, a gain of 22,000.

It should be noted a lot of gains have occurred because of seasonal adjustments in the household survey. There are two surveys carried out each month: one, the Household survey is carried out by the U.S. Census Bureau while the other, the Establishment survey, is carried out by the Bureau of Labour Statistics (BLS). You can read about the differences here: [The Differences Between the Household and Establishment Employment Surveys].

Nonetheless, the two have differences and both have their flaws. The 313,000 nonfarm payrolls come primarily from the Household survey where there is risk of duplications and seasonal adjustments that could cause jobs to disappear in later months. All of this leaves the Fed in a quandary at its March 20–21 meeting, the first for new Fed Chair Jerome Powell. Despite it all, it is expected that the Fed could hike the Fed rate another 25 bp at the meeting.

U.S. Trade Deficit



Source: www.tradingeconomics.com

If the U.S. should be concerned about anything it is the widening trade deficit. The January trade deficit jumped to $56.6 billion from a revised $53.9 billion deficit in December 2017. It was well above the expectations of $55.1 billion. Where the problem came is not in more imports but in fewer exports. Fewer exports suggests that going forward the U.S. could begin to slow down. The trade deficit widened with both China and Canada. That ought to get President Donald Trump going with his cry for tariffs and that others, China in particular, are taking advantage of the U.S. The reported deficit is the worst since 2008. This could also put further downward pressure on the U.S. Dollar. A falling U.S. Dollar is not positive for U.S. equity or credit markets but it is positive for gold even if there is a delayed reaction. Tariffs are not going to help. Nor will renegotiating trade deals necessarily help it either. Indeed, they could exacerbate an already deteriorating situation where the trade deficit actually widens further as tariffs are slapped on.

Enriched Investing Incorporated
P.O. Box 1016, TD Centre, Toronto, ON M5K 1A0
ph: 416.203.3028 fx: 416.203.8825 www.enrichedinvesting.com
e-mail: dchapman@enrichedinvesting.com

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MARKETS AND TRENDS

	Close Dec 31/17	Close Mar 9/18	% Gains (Losses) Week	YTD	Trends Daily (Short Term)	Weekly (Intermediate)	Monthly (Long Term)
Stock Market Indices							
S&P 500	2,673.63	2,786.57	3.5%	4.22%	up (weak)	up	up (topping)
Dow Jones Industrials	24,719.22	25,335.74	3.3%	2.5%	neutral	up	up (topping)
Dow Jones Transports	10,612.29	10,739.91	3.9%	1.2%	neutral	up	up (topping)
NASDAQ	6,903.39	**7,560.81 (new highs)**	4.2%	9.5%	up	up	up (topping)
S&P/TSX Composite	16,209.13	15,577.81	1.3%	(3.9)%	down (weak)	neutral	up
S&P/TSX Venture (CDNX)	850.72	828.90	0.3%	(2.6)%	down (weak)	up	up
Russell 2000	1,535.51	1,597.14	4.2%	4.0%	up	up	up (topping)
MSCI World Index	2,046.47	2,026.43	1.8%	(1.0)%	down	up (weak)	up
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	192.31	172.92	flat	(10.1)%	down	down	neutral
TSX Gold Index (TGD)	195.71	179.94	(0.8)%	(8.1)%	down	down	neutral
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	2.40	2.90	1.4%	20.8%			
Cdn. 10-Year Bond yield	2.04	2.23	2.8%	9.3%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.51	0.63					
Cdn 2-year 10-year CGB spread	0.36	0.45					
Currencies							
US$ Index	91.99	89.04	0.1%	(2.3)%	neutral	down	down
Canadian $	0.7990	0.7790	0.5%	(2.5%	down	down	neutral
Euro	120.03	123.07	(0.2)%	2.5%	neutral	up	up
British Pound	135.04	138.48	0.4%	2.6%	down	up	neutral
Japanese Yen	88.76	93.61	(1.0)%	5.5%	up	up	up
Precious Metals							
Gold	1,309.30	1324.00	0.1%	1.1%	down	up	up
Silver	17.15	16.61	0.9%	(3.2)%	down	down (weak)	neutral
Platinum	938.30	964.20	(0.1)%	2.8%	down	neutral	down (weak)
Base Metals							
Palladium	1,061.00	986.85	flat	(7.0)%	down	neutral	up
Copper	3.30	3.14	0.6%	(4.9)%	down	up (weak)	up
Energy							
WTI Oil	60.42	62.04	1.3%	2.7%	down	up	up
Natural Gas	2.95	2.73	1.5%	(7.5)%	down (weak)	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.

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P.O. Box 1016, TD Centre, Toronto, ON M5K 1A0
ph: 416.203.3028 fx: 416.203.8825 www.enrichedinvesting.com
e-mail: dchapman@enrichedinvesting.com

Source: www.stockcharts.com

We will start with the big picture. Here is the S&P 500 from the start of the century. The high of March 2000 marks what many believe was the top of Wave III up end of the Great Depression and war. Wave I topped in 1966 while Wave II bottomed in August 1982. The huge ABC triangle that formed first with the high tech/internet/9/11 collapse of 2000–2002 and then the financial crisis and sub-prime crash and recession of 2007–2009 constituted Wave IV. What has followed is Wave V. This should be the final wave before a multi-year bear market sets in. The advance has been in what appears as five waves with the wave (2) correction being the 2011 EU banking and debt crisis followed by wave (4) signalling the end of quantitative easing (QE). Wave (5) continues we believe. We continue to look for a final top sometime in 2018, anywhere from April to August.

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Source: www.stockcharts.com

This is the wave (V) rally from the low February 2016. We believe wave 2 bottomed in June 2016 with the Brexit mini-panic. We believe the wave that struck from the January 2018 top is wave 4. We have noted Elliott Wave International believes the January top was the 5th and final top. Of course, that remains to be seen. At this stage a breakdown under the March 2, 2018 low of 2,647 could signal another significant drop underway. Confirmation would come when the low of February 9, 2018 at 2,532 is taken out. Note how the 4th wave decline hit the 200-day MA almost exactly. This was the first good test of the 200-day MA since the election mini-panic low of November 2016. New highs above 2,790 would suggest that higher prices are ahead. Finally, a break over 2,850 would most likely confirm new highs lie ahead.

Enriched Investing Incorporated
P.O. Box 1016, TD Centre, Toronto, ON M5K 1A0
ph: 416.203.3028 fx: 416.203.8825 www.enrichedinvesting.com
e-mail: dchapman@enrichedinvesting.com

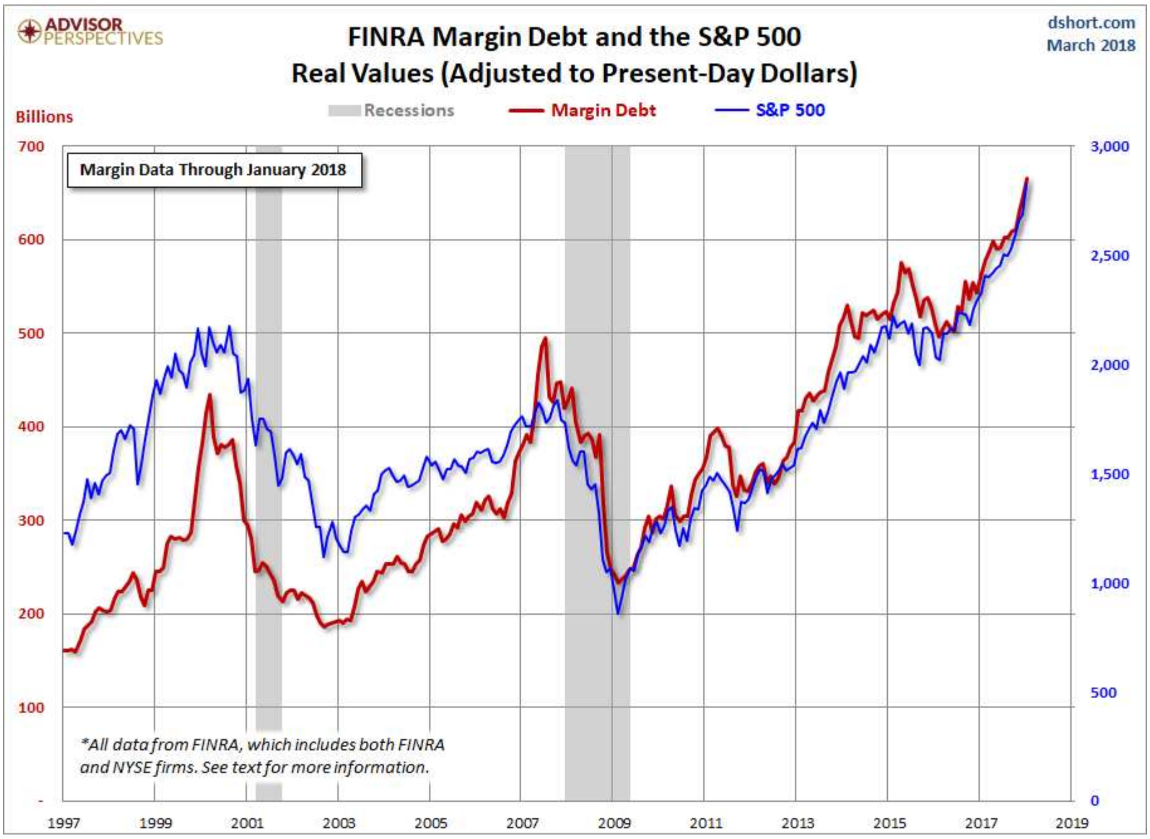
Source: www.stockcharts.com

It is not surprising that some interesting divergences arise following a shakedown such as the one in February 2018. The Russell 2000, a small cap index, has broken out to new highs but the large cap Dow Jones Industrials (DJI) has not. If this was a final top then we would expect the DJI to be breaking out to new highs and the small cap index lagging. Instead it is the other way around. As a result, this suggests new highs for the DJI are a possibility going forward. Another divergence to watch is that eventually the DJI does make new highs but the Dow Jones Transportations (DJT) does not. Something to watch for and keep in mind going forward.

Source: www.stockcharts.com

Here is another potentially significant divergence. On Friday, following the bullish jobs numbers, the NASDAQ gapped higher breaking a small downtrend from the January top and closing the day at new all-time highs. No other index made new highs like the NASDAQ. The FAANGs led the way with Amazon (AMZN), Apple (AAPL), and Netflix (NFLX) all making new all-time highs this past week. Google (GOOG) or more properly Alphabet and Facebook (FB) did not but they are not far behind. Is the NASDAQ leading the way for the others to also make new all-time highs? We see potential for a move up to 7,800 for the NASDAQ.

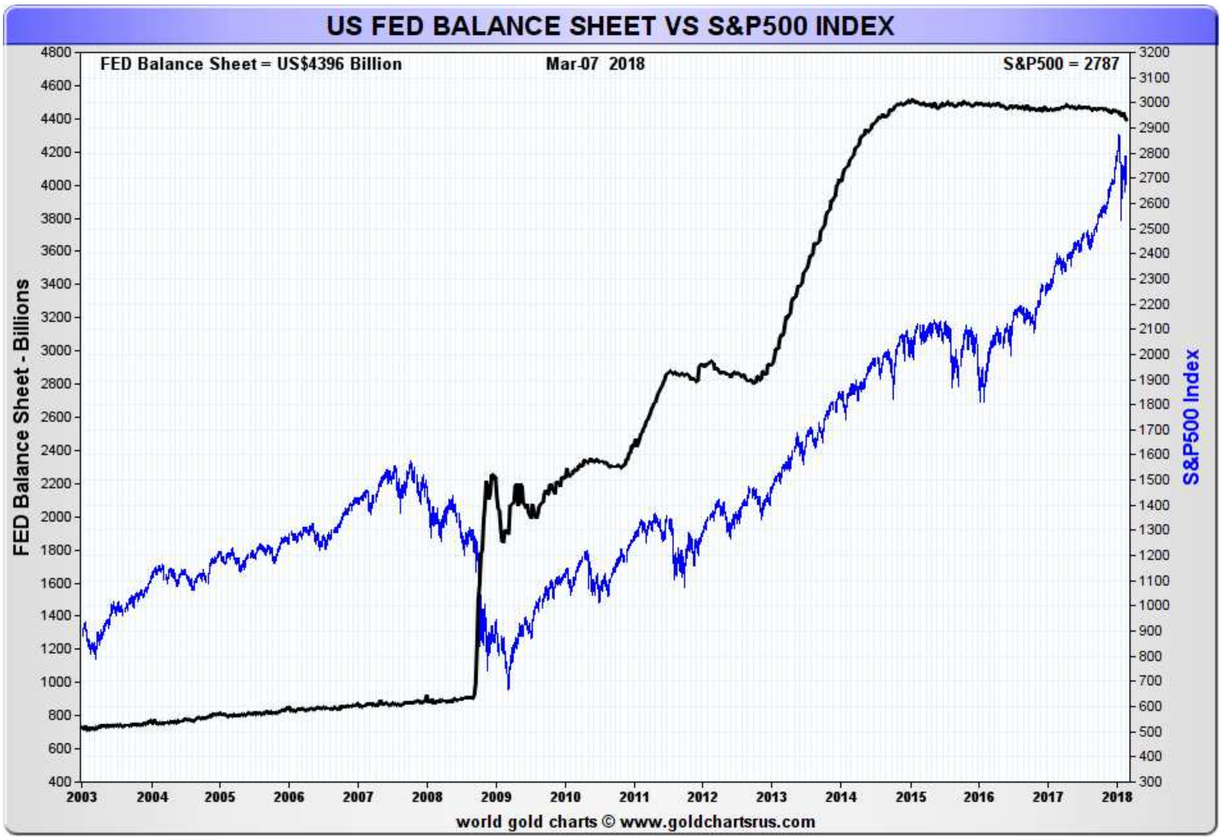
Chart of the Week 1



Source: www.dshort.com

Margin debt has fueled the rally. Amazing how margin debt grew as the stock market moved higher. This is actually a new publication source for margin debt. Previously the NYSE published at the end of the month the margin debt. But they stopped doing so in December 2017. The source now is apparently FINRA. FINRA's inclusion of firms is somewhat different then the NYSE, but it still draws a similar picture. Margin debt grew as the market went higher. Unfortunately, these numbers only go up to January and the market top. We await the February numbers following the sharp drop that occurred. One would expect that margin debt dropped with the market. Real debt margin growth since 1997 is up 300%. Interesting since the S&P 500 is up less than 150% in real terms. Investors have maintained negative credit balances in their accounts now for years through QE and the rise of the S&P 500 since 2009. No wonder we have had a bubble. But margin debt can accelerate a decline if one gets underway.

Chart of the Week 2



Source: www.goldchartsrus.com

If anyone ever doubted the impact of quantitative easing (QE) on the U.S. stock market this chart appears to illustrate it perfectly. QE = Massive rise in stocks (S&P 500). As the Fed balance sheet exploded upwards so did the stock markets. When the Fed announced an end to QE in 2015 the stock market faltered. But then it found its legs again as the economy continued to improve and the election of Donald Trump was favourable for Wall Street. But now the Fed is starting to unravel its balance sheet. Could it have the opposite effect? Does what went up as the Fed balance sheet rose go down as the Fed reduces its balance sheet? Time will tell, but the Fed reducing its balance sheet is a form of tightening along with hiking interest rates. While the reaction may be delayed the odds favour the stock market eventually caving in.

Source: www.stockcharts.com

Against the backdrop of all the confusion over tariffs and the stronger than expected jobs numbers U.S. bond yields for the 10-year Treasury note ticked higher this week to 2.90% from 2.86% the previous week. Here in Canada the 10-year Government of Canada bond was also higher at 2.23% vs. 2.20% the previous week. Not surprisingly against all of the background turmoil with regard to trade the Bank of Canada (BofC) left the key bank rate unchanged at 1.50%. For the U.S. 10-year Treasury note the recent high of 2.94% lies ahead. We continue to hold to our potential target of 3.19% and fully expect the 10-year to rise above 3% before this is finished. The first Fed meeting chaired by the new Chair Jerome Powell happens on March 20–21. It is widely expected that the Fed will once again hike the Fed rate by another 25 bp to 1.50%–1.75%.

Recession Watch Spread

Source: www.stockcharts.com

Our recession watch spread rose from 0.61% to 0.63% this past week as the 10-year Treasury note rose more than the 2-year Treasury note. Note how the former support zone of 0.75-0.78 capped the recent rebound in the spread. The spread is potentially signalling an impending recession when it goes negative as it did before both the 2000–2002 recession and the 2007–2009 recession. It can get down to those levels pretty quickly even as currently negative yields seem a long way off.

Source: www.stockcharts.com

The US$ Index waffled around most of the week, eventually ending up a small 0.2%. The bullish jobs report on Friday initially helped the US$ Index but at the end of the day it was off small. The best performing currencies on the week were the Cdn$ up 0.5% and the Pound Sterling up 0.4%. The Euro lost 0.2% while the Japanese Yen was hit harder down 1.0%. None of this has changed our outlook for the US$ Index as we believe it is forming a wave IV, and once complete the US$ Index should fall to new lows with potential targets down to 85.50. The recent rally saw the US$ Index fail at the 50-day MA. Naturally, if that was firmly taken out and new highs were seen above 90.89 then the US$ Index could next test the downtrend line up to around 92.50. Trump's ongoing trade tariffs and wars, coupled with the tightening Mueller investigation and the potential for a growing scandal over Stormy Daniels could all be negative for the US$ Index. As well, it was reported the U.S. trade deficit has deteriorated more and that is also negative for the US$ Index. Initially a break of 89.40 could send the US$ Index down to around 88 and new lows. Indicators are neutral here but the background is becoming potentially more negative for the US$ and that should translate into a decline. The Cdn$ saw some strength this week when Canada was exempt, at least initially, from the steel and aluminum tariffs. But Canada is being described by Trump this way: "Brutal Canada has outsmarted our politicians for decades." Well, okay, we defeated them in the War of 1812–1814.

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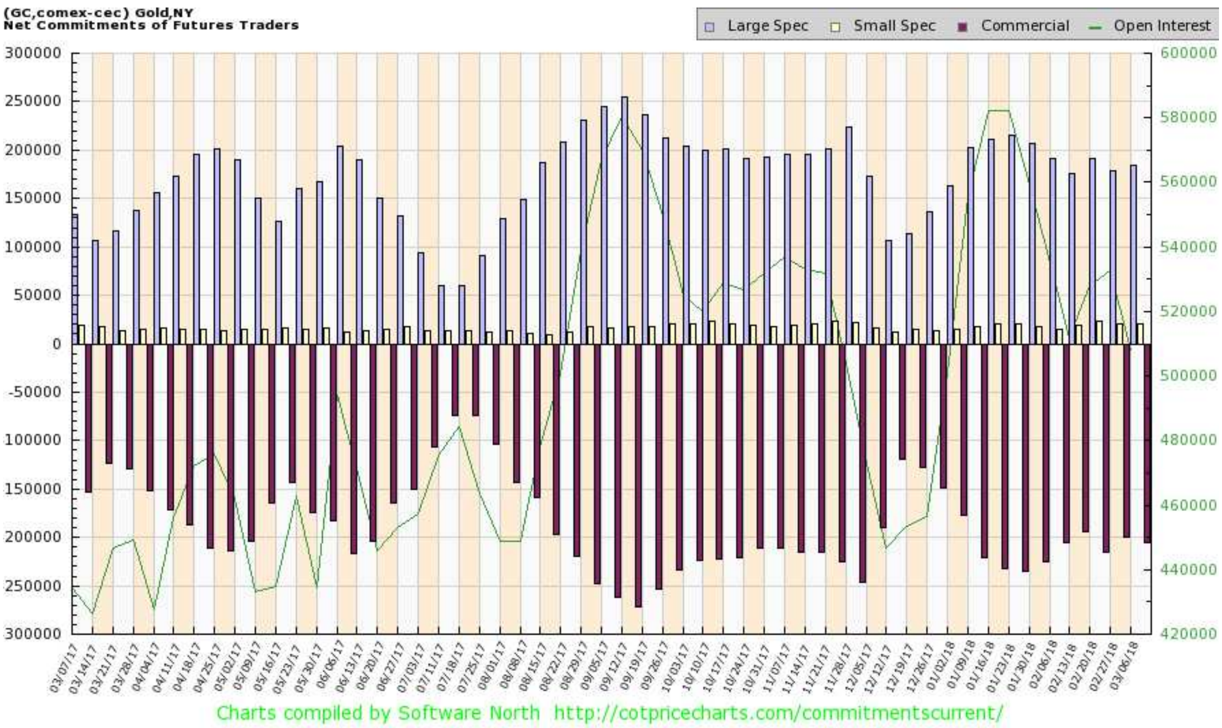
Source: www.stockcharts.com

Gold continues to frustrate and madden. Just as one thinks that gold is about to rise and break out as it appeared following the announcements of trade tariffs gold turned around and went back down on a stronger U.S. Dollar, decent economic numbers, and the bullish jobs report that came out on Friday. The result: gold spun wheels this past week with a tiny gain of 0.1%. Silver actually fared better gaining 0.9%. But platinum prices slipped 0.1%. As to the gold stocks, well, the Gold Bugs Index (HUI) was flat and the TSX Gold Index (TGD) lost 0.8%. Gold stocks remain mud, it seems.

The chart of gold continues to baffle. On one hand, it appears as a potentially huge topping pattern given the wall gold has run into at $1,350–$1,375. On the other hand, gold has continually made a series of higher lows since the major low seen in December 2015 at $1,045. The chart has the appearance of an ascending triangle and ascending triangles are bullish once they breakout to the upside. This particular triangle has a potential long-term target of at least $1,600 if gold can successfully break the ceiling at $1,350/$1,375. Until it does there remains downside risk if gold were to fall under $1,290/$1,300 as gold could then fall to better support near $1,270 or even slightly under down to $1,250. As long as gold remained at or above $1,250 it would maintain the series of higher lows.

Source: www.stockcharts.com

Above is gold from 2010–2014. We are showing this chart as it appears to be somewhat the opposite to the current situation. We have yet to discover how we could invert the chart with Stockcharts as then the similarity might show better. Substitute a ceiling of $1,350–$1,375 with a floor of $1,525–$1,550. The series of rising lows from the December 2015 low is replaced by a series of lower highs from the high of September 2011. There was one exception in 2012 that proved to be a false breakout. On the other hand, silver did have a series of lower highs during that period with a floor that developed at $26.40/$26.50. Gold appears today to be making an ascending triangle (bullish). Silver during that period was making a descending triangle (bearish). Gold's descending triangle was less obvious given the burst to new highs in September/October 2012. The key is what followed when in April 2013 both gold and silver broke down quickly and sharply. Next month is the 5th anniversary of that historic collapse. Could lightening strike again only a burst to the upside for gold and silver instead of a meltdown?



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
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
03/06/18	348	245,587	61,764	80%	112	153,421	358,324	30%	46281	25,201	65%	508,100

Source: www.cotpricecharts.com

The commercial COT for gold slipped slightly this past to 30% from 31%. Short open interest fell roughly 3,000 contracts but long open interest was down about 8,000 contracts. Conversely, the large speculators (hedge funds, managed futures, etc.) saw their COT jump to 80% from 77% as they cut their shorts by about 11,000 contracts but also cut their longs by roughly 6,000 contracts. The COT is kind of mixed here. It's not really bullish but it is not bearish either. Kind of like how gold has been performing of late.

Price Performance %

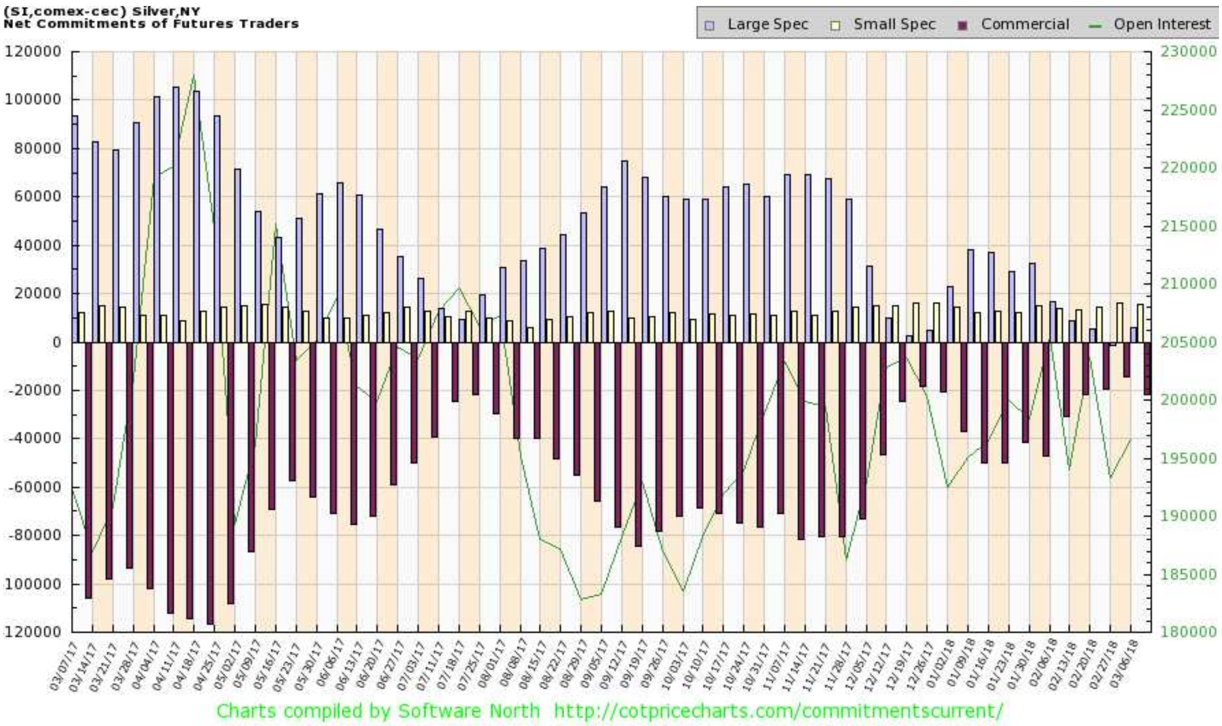
	Since January 1, 2000	Since March 1, 2009	Since December 1, 2015
Gold	357.2%	40.5%	21.9%
Silver	204.6%	26.7%	14.2%
Platinum	128.4%	(11.2)%	9.5%
Gold Bugs Index (HUI)	133.6%	(40.3)%	42.4%
TSX Gold Index (TGD)	104.3%	(41.7)%	31.9%
S&P 500	89.7%	279.1%	33.2%
S&P TSX Composite	85.2%	91.8%	16.6%

Source: www.stockcharts.com, David Chapman

Price performance is a mugs game. It all depends on where one starts. Start from the beginning of the current century and gold and the precious metals look pretty good. Start from the depths of the 2008 financial crisis in March 2009 and gold and the precious metals look like “chumpers” when compared to the performance of the S&P 500. Since the lows of December 2015 for gold and the precious metals their performance has been better about on par with the S&P 500. Still, the chart is interesting to give some perspective to performance over a period of time. Performance can vary. But it sometimes depends on your starting point. If we start from March 2009 one might say, why would one want to own gold and precious metals? But if one starts back at the start of the century one might say, why didn't we own gold and precious metals? Performance may vary over a short period of time but over the long term the true performance and value becomes more obvious.

Source: www.stockcharts.com

Finally, a week where silver actually outperformed gold. Silver continues to hold the uptrend line from the July 2017 low, but overall silver's performance continues to lag gold. We continue to view the silver pattern as a potentially huge head and shoulders bottom with the potential to rise to around $22.60 once it firmly breaks out over $18. As the chart indicates there is considerable resistance between $17.25 up to $18. Silver's underperformance is highlighted by its failure to sustain itself over its 200-day MA even as it continues to hold the uptrend line from July 2017. A breakdown under $16.25 would be negative but there is considerable further support down to $16 and down to $15.60. We continue to hold that silver's outlook remains bullish, but we are also well aware of some bearish forecasts and agree that holding above $16 to $16.25 should prove to be important.



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
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
03/06/18	214	68,686	62,500	52%	76	74,760	96,570	44%	29361	13,737	68%	196,590

Source: www.cotpricecharts.com

As with the gold commercial COT the silver commercial COT slipped this past week to 44% from 46%. Short open interest was unchanged for the most part but long open interest fell some 7,000 contracts. The large speculators reverted a more bullish stance, rising from 49% to 52% as they added over 5,000 contracts to long open interest while cutting short open interest by roughly 2,000 contracts. The silver COT remains bullish going forward. Interesting that the large speculators have once again flipped to the long side after going negative the previous week.

Source: www.stockcharts.com

The gold stocks were the subject of our opening essay so there is not much more to say except they remain depressed and unwanted. As we noted the previous week in early 2016 after gold had made an important low in December 2015 the gold stocks plunged to new lows in the first few months of 2016 even as both gold and silver were making higher lows. This divergence proved to be a nadir for gold and gold stocks and what followed was a strong rally into July 2016. It was a rally that hasn't happened since. The gold stocks in early 2016 were unloved and unwanted just as they are now. Contrarians may want to take a closer look. Appears to be good support for the TGD down to 175. Resistance continues at 200 and 210. A firm breakout over 210 could see the TGD rise to potential targets at 275.

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.

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