

Technical Scoop April 2, 2018

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Volatility and Debt Grow, but so does the Global Economy so no Recession yet

Volatility has become the name of the game. Since topping in late January 2018 stock markets have become increasingly volatile. This past week emphasized the volatility with the DJI rising 600+ points one day followed by a 300+ point down day. But stock markets closed higher this past week as trade tensions between the U.S. and China eased. Trade tensions, fear of higher interest rates, geopolitical tensions, chaos in the White House, the Mueller investigation and the President's peccadillos are all impacting the markets in some way. We take a look at the VIX volatility index against the S&P 500 to demonstrate the growing volatility.

We also look at the growing U.S. debt that has now reached \$21.05 trillion up some \$1.1 trillion since Trump became President. This past week the U.S. Treasury issued a near record of treasury bills, notes and bonds totalling \$294 billion. Not since the depths of the 2008 financial crisis has so much U.S. treasury debt hit the market. But with a \$1.3 trillion budget and deficits projected at \$1.5 trillion over the next decade needing to be financed debt is the name of the game. Given trade tensions there is growing concern about how China will react given they hold \$1.168 trillion of U.S. debt. The debt limit such as it is has already been surpassed. Yet gold that should be reacting positively to the growing financial crisis continues to languish.

Bitcoin has now fallen under \$7,000 breaking trendlines as it is poised to move even lower. Many cryptocurrencies have already fallen 90% from their peak. Billions have been wiped out. Still, many in the cryptocurrency universe remain convinced it's just a matter of time before they rise again.

The 2 year ten year U.S. Treasury spread (the Recession Watch Spread, page 17) has narrowed again. No it is not yet sub-zero but the direction downward appears to be entrenched. It is a warning sign that all is not right and that a recession is coming even if it could be still a year or more away. The Canadian Dividend Strategy is designed to include stocks with above average growth, below average valuation (lower is better), low historical risk and above average Return on Equity and above average annual dividend growth. This strategy is also designed to allocate to cash in a sustained market decline.

Gold continues to struggle at major resistance of \$1,350/\$1,375 failing again this past week. But as we note triple tops are extremely rare and the background fundamentals remain positive. We close with our "Chart of the Week" (page 26) showing that gold as a percentage of global financial assets is but a mere blimp. Yet gold has been a mainstay of the world's financial system since ancient times and all periods of fiat currency experiments have ultimately failed.

DC

“Every time I get accustomed to low volatility, like we were towards the end of the Greenspan era, and we think we have all the levers under the control... something erupts to remind us that the idea that anybody is in control of everything is hubris.”

—Lloyd Blankfein, CEO and Chairman, Goldman Sachs

“Markets love volatility”

—Christine Lagarde, Managing Director, IMF

Volatility has become the name of the game. As Lloyd Blankfein notes, just as you think everything is under control something erupts. It was always hubris and complacency to think that nothing was going to happen to the markets as they climbed relentlessly higher, seemingly oblivious to the potential “dark clouds” gathering around. But threats of trade wars, rising debt, global geopolitical tensions, chaos and turnover in the White House, and gathering storms around the U.S. President all eventually do take a toll. The global economy still looks strong with steady, if unspectacular growth, low unemployment (at least, the officially reported unemployment), relatively strong consumer confidence, tax cuts (in the U.S.), and continued recovery in the housing market—all this is contributing to a somewhat rosy outlook.

But since the stock markets topped back in late January 2018 the markets have been anything but calmly rising. Instead, the markets have been punctuated with sharp ups and especially downs. This past week alone saw a 600 + point rise for the Dow Jones Industrials (DJI) followed immediately by a 300 + point decline. The previous week saw the DJI shed over 1,100 points in two days. The threat of trade wars, the Facebook (FB/NYSE) debacle, and mind-numbing turnover in the White House all contributed to volatility and decline. The markets barely mentioned geopolitical tensions with Russia, the circling Mueller investigation, and the growing scandal sheet on the U.S. President’s peccadillos. All of the volatility makes one wish for the elation over the tax cuts that helped propel the markets higher—ignoring, of course, the growing debt problem as the tax cuts are estimated to add \$1.5 trillion to the U.S. deficit over the next decade. As well, trillion-dollar budget deficits could soon be de rigour once again.

Our chart below is an inverted volatility index (VIX). Normally the VIX is shown as moving opposite to the market. As the stock market rises the VIX falls and vice versa. The inverted version lines the two of them up nicely so divergences stand out. Note how the February 2016 stock market low was below the August 2015 low. But the VIX, instead of making new lows, was making a higher low. This divergence was a strong clue that the market could rise from there as volatility had fallen. Despite pullbacks on the S&P 500, even as the market moved higher, the VIX kept rising in a series of rising lows as well. Then from about May 2017 onwards the S&P 500 started rising sharply but the VIX, despite many attempts, did not follow; instead, it made a series of only slight higher highs. This was another significant divergence telling us that despite the sharp rise in the stock market the VIX’s upward momentum was actually easing.



Source: www.stockcharts.com

Given the sharp rise in the stock market against the backdrop of declining volatility it was expected the next move could be a sharp rise in volatility. Sure enough, the market collapsed in late January/early February 2018 and volatility (VIX) fell sharply along with the market. Now volatility has eased even as the stock market has tested the February 2018 low. While the S&P 500 has not made new lows, it did make a new low close. The VIX could be diverging here once again with the stock market. If that is the case, our expectations are the market could soon rise once again. But don't expect to see the VIX make new highs even if the S&P 500 does. Volatility has increased and we expect it to remain that way going forward.

The week that was

This past week was much quieter in a lot of respects than the previous one. Maybe it has something to do with Easter weekend and everyone has calmed down just a little. The President's peccadillos stayed firmly in the news as the Stormy Daniels "60 minutes" interview drew a huge viewing audience. Behind the scenes the court maneuverings continued as this case plus the other outstanding cases of accusations from women against the President could present a more dangerous situation for him than the Mueller investigation. They could drag him into court where he would have to testify under oath. A court has ruled he can't declare himself exempt from testifying. His Twitter account and he himself have been strangely quiet concerning Stormy Daniels and the other women. The comings and goings in the White House continue. Veterans Affairs Secretary David Shulkin is out and Trump's personal physician Rear Admiral Dr. Ronny Jackson is in. This should be interesting as Veterans Affairs is an organization with over 377 thousand employees, managing a budget in excess of \$180 billion. Jackson has no experience running a large organization. Jackson has to be approved by the Senate.

Communications director Hope Hicks finally left and it is rumoured that Trump's Chief of Staff John Kelly is next. It is being suggested Trump can be his own communications director and Chief of Staff. That could add even more confusion and chaos in the Trump White House.

The west and Russia continued their tit-for-tat expulsion of diplomats over the poisoning of the double agent in Salisbury, England. A number of NATO countries and the UN expelled Russian diplomats and the U.S. closed down the Seattle consulate. Russia retaliated by expelling 160 diplomats from the same countries and closed down the U.S. consulate in St. Petersburg. None of this appears to be having any impact on the markets. But it is a clear sign of heightened geopolitical tensions, tensions that could at some point negatively impact markets.

The growing U.S. debt

The U.S. auctioned \$294 billion of treasury bills, notes, and bonds this week. The split is \$185 billion of treasury bills and \$109 billion of notes and bonds. By any definition this was a huge amount and above expectations. The need is to finance the \$1.3 trillion budget and the \$1.5 trillion tax cut. The amount is the largest since the financial crisis of 2008. Despite somewhat weak demand the yield on the 10-year Treasury note actually fell this past week as volatility and weakness in the stock market translated into strength in the bond market. In stock market meltdowns, investors seek safer assets such as U.S. Treasury notes and bonds.

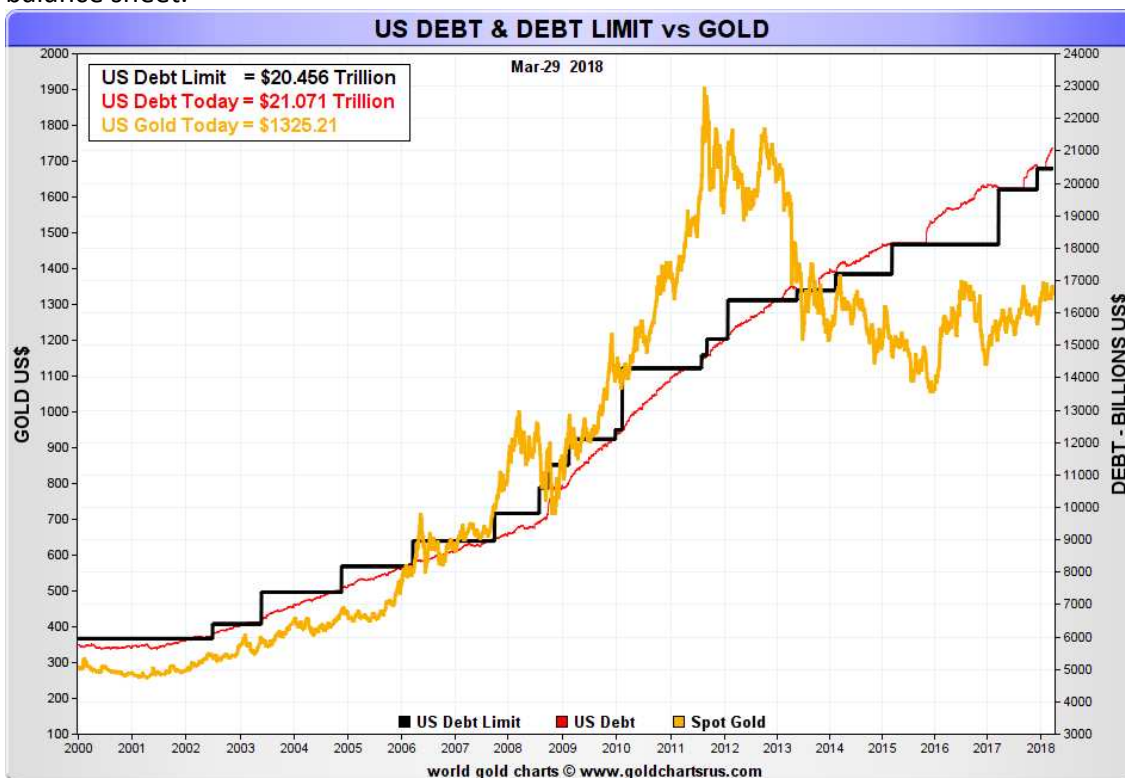
U.S. Treasury debt now sits at \$21.05 trillion and has jumped \$1.1 trillion since President Trump took office in January 2017. A jump of this magnitude happened only once before: at the height of the 2008–2009 financial crisis. An issuance of almost \$300 billion in debt in one week is the equivalent of what the total debt was back in the days of former President John F. Kennedy, according to [Goldcore](#). U.S. debt is increasing, parabolically it seems, yet the wrangling continues over the debt limit which it

is never really set, but instead merely pushed down the road. The U.S. has already exceeded the most recent debt limit.

The question is, is this vast amount of debt a potential Achilles heel for not only the U.S. but also for the global economy? It represents 9% of all global debt outstanding. Total U.S. debt (government, corporate, and consumer) stands at \$69.8 trillion which represents 30% of all global debt. Little wonder many say it will never be repaid.

The key is, will there still be those that step up as buyers of U.S. debt? That is a question particularly for the Chinese, with Trump appearing to be set to start a trade war with them even as they are trying to negotiate some sort of compromise. As we have noted before the Chinese own \$1.168 trillion of U.S. national debt. But that is down from a peak of over \$1.3 trillion held back in 2013. Overall, China's holdings of U.S. debt have declined over the past seven years although they have regained a bit over the past year. If a trade war escalates with China the debt may become a bargaining tool. China has stated they are looking at "all options."

As to the Chinese looking at "all options," Bloomberg reported that "senior government officials in Beijing reviewing the nation's foreign-exchange holdings have recommended slowing or halting purchases of U.S. Treasuries." If the Chinese stop buying, others such as the BOJ or the BOE would have to step up. The Fed may even have to step up purchases even as they want to lighten their balance sheet.



Source: www.goldchartsrus.com

If trade between the U.S. and China contracts then China would have fewer U.S. Dollars to purchase U.S. Treasuries. China could then switch to other sovereigns. China does not seem put off at the thought of purchasing Russian debt, for example. China and Russia, unlike the U.S., have sharply lower national debt to GDP ratios. The U.S.'s national debt to GDP ratio currently stands at 106%. China's is 20.2% and Russia is at 12.6%.

A beneficiary of the looming U.S. debt crisis could be gold, although one would never know it in looking at the sticky gold price of today. The U.S., of course, has the world's largest reserves of gold at 8,133 metric tonnes. That represents 74.5% of the U.S.'s reserves. China, at least officially, holds 1,843 metric tonnes and Russia holds 1,716 metric tonnes ranking them 6th and 7th in the world's gold reserves holdings. But for Russia it is only 16.6% of their reserves and for China it is a mere 2.3%. As an aside, Canada holds zero gold reserves having dumped all of theirs by January 2016, which eventually included all their holdings of gold coins of George V dated 1912–1914. Collectors eagerly snapped them up.

Our chart above from Nick Laird at [Gold Charts 'R' Us](#) shows the rise in gold prices corresponding to the rise of U.S. debt and the U.S. debt limit. This is not the first time we have shown this chart. The chart has proven popular with others as well. The gold price overshot the rise in the debt limit and debt into its top in September 2011. The last few years have seen the gold price lag the increase in the debt limit and the debt. Gold may be poised to catch up once again. Over the past few years, both Russia and China have increased their holdings of gold to back the Ruble and the Yuan respectively. Given their low holdings as a percentage of their total reserves it is expected that both will continue their purchases going forward as they aim to approach the U.S. in terms of its holdings. Even as others dump their gold, China and Russia would continue to snap it up.

Bitcoin watch!



Source: www.coindesk.com

It was inevitable. Bitcoin has now fallen back under \$7,000 to new lows. Worse, Bitcoin has broken down under a key trendline indicating that it is about to fall even lower. There is some support for Bitcoin down to \$6,000 but under that level the next good support doesn't develop until \$4,600 to \$5,000. Potential targets for this downswing are to about \$2,300. At that point Bitcoin would be down some 88% from its all-time high. All we can say to the holders of Bitcoin and other cryptocurrencies is they were warned.

And it is not as if it is just Bitcoin falling in price, as all or almost all cryptocurrencies are declining, some faster than others. There are still 1,594 cryptocurrencies listed at [Coin Market Cap](http://CoinMarketCap). The last time we looked they had a combined market cap of around \$245 billion. At its peak Bitcoin had a market cap of \$324 billion. To call this a "bloodbath" could become an understatement.

Regulation, scams, hype, an overabundance of IPCs, and the bursting of what still might be termed a huge bubble are all playing their part. Panic could envelope the market, pushing it even lower. The entire crypto market just never passed the smell test and now those who leaped in even leveraging up are paying a steep price. Losses are already in the billions. The worst performing cryptos are

already down 90% or more from their peak. Some are calling it a warning sign for the stock market. Given the performance of the stock market over the past couple of months they may have a point. Yet it didn't stop many from calling cryptocurrencies and Bitcoin in particular a "safe haven," as good if not better than gold. But Bitcoin and the cryptos were always considered ephemeral and they are now proving to be.

The bubble has burst and the question is, how low they will go? And we say this despite reading stories that this is merely a "bear trap" and that somehow Bitcoin and the other cryptos will recover and go to new highs. They could be in denial.



Source: www.stockcharts.com

MARKETS AND TRENDS

	% Gains (Losses)				Trends		
	Close Dec 31/17	Close Mar 29/18	Week	YTD	Daily (Short Term)	Weekly (Intermediate)	Monthly (Long Term)
Stock Market Indices							
S&P 500	2,673.63	2,640.87	2.0%	(1.2)%	down	up (weak)	up (topping)
Dow Jones Industrials	24,719.22	24,103.11	2.4%	(2.5)%	down	up (weak)	up (topping)
Dow Jones Transports	10,612.29	10,396.56	2.3%	(2.0)%	down (weak)	up (weak)	up (topping)
NASDAQ	6,903.39	7,063.44	5.5%	2.3%	down	up	up (topping)
S&P/TSX Composite	16,209.13	15,367.29	0.9%	(5.2)%	down	down	up
S&P/TSX Venture (CDNX)	850.72	796.67	(2.6)%	(6.4)%	down	neutral	up
Russell 2000	1,535.51	1,529.43	1.3%	(0.4)%	down (weak)	up (weak)	up (topping)
MSCI World Index	2,046.47	1,988.26	0.7%	(2.8)%	down	neutral	up
NYSE Bitcoin Index	14,492.18	7,400.99	(13.6)%	(48.9)%	down	neutral	up
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	192.31	175.41	(0.8)%	(8.8)%	down (weak)	down	neutral
TSX Gold Index (TGD)	195.71	186.56	(0.6)%	(4.7)%	up (weak)	down	neutral
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	2.40	2.74	(3.9)%	14.2%			
Cdn. 10-Year Bond yield	2.04	2.11	(2.8)%	3.4%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.51	0.47	(13.0)%	(7.8)%			
Cdn 2-year 10-year CGB spread	0.36	0.31	(11.4)%	(13.9)%			
Currencies							
US\$ Index	91.99	89.81	0.9%	(2.4)%	neutral	down	down
Canadian \$	0.7990	0.7760	(0.4)%	(2.9)%	down	down	neutral
Euro	120.03	123.04	(0.4)%	2.5%	down (weak)	up	up
British Pound	135.04	140.31	(0.8)%	3.9%	up	up	neutral
Japanese Yen	88.76	93.94	(1.5)%	5.8%	up (weak)	up	up
Precious Metals							
Gold	1,309.30	1327.30	(1.7)%	1.4%	neutral	up	up
Silver	17.15	16.27	(1.9)%	(5.1)%	down	down	neutral
Platinum	938.30	932.60	(1.7)%	(0.6)%	down	neutral	down (weak)
Base Metals							
Palladium	1,061.00	943.80	(2.9)%	(11.1)%	down	neutral	up
Copper	3.30	3.03	1.3%	(8.2)%	down	neutral	up
Energy							
WTI Oil	60.42	64.94	(1.4)%	7.5%	up	up	up
Natural Gas	2.95	2.73	3.8%	(7.5)%	up (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.



Source: www.stockcharts.com

The S&P 500, thanks to a good up day on Friday, put in a positive week. We continue to believe all of the recent action is the forming of a low that could eventually take the S&P 500 to new highs. Currently, the S&P 500 is down just over 2% on the year and down just over 8% from its all-time high seen in late January. At its recent low the S&P 500 was down just under 12% from its January high. Not quite what one would call bear market territory. We continue to muse as to whether the wave count up from the February 2016 low puts this current correction as wave 4. [Elliott Wave International](#) has put the January top as wave 5. They are currently looking for another sharp wave to the downside. We don't think it will happen but recognize that until we take out key points to the upside further sell-offs are clearly possible, especially given the ongoing news in the background.

One reason we are encouraged is that the Russell 2000, a small cap index, has actually held up remarkably well. The Russell 2000 is down only 0.4% so far in 2018, outperforming the big cap stocks. Normally in a bear market the small cap stocks are considerably weaker. The S&P 500 has held thus far the 200-day MA another positive development. Resistance remains above. There is good resistance up to 2,700 and 2,750. Above 2,800 the S&P 500 would indicate new highs are probable.



Naturally, all this is conditional on the S&P 500 holding the recent lows just below 2,600 and especially the early February low at 2,532.

Easing of tensions with regard to potential trade wars between the U.S. and China were a good reason why the markets rebounded this past week. As we have seen with the NAFTA negotiations they can be very fluid, moving from high tension and appearing that nothing will be accomplished to we could have a deal. Our expectations are the China/U.S. trade negotiations will take on a similar appearance as negotiations ebb and flow. A full-out trade war is not likely. Even all the noise over tariffs on steel and aluminum disguises the fact that steel and aluminum trade make up barely 0.2% of global trade that totals some \$2.4 trillion. Besides, Trump is not the first President to go the trade protectionist route. Every President since Jimmy Carter has imposed some tariffs on things. While tariffs are not positive it is the reaction and retaliation and escalation that could make things worse. But if both sides are willing to talk then it eases those tensions—at least, until the next round of threats. But as of the moment we are not seeing quite the tit-for-tat trade retaliation that we are seeing, for example, in the expulsion of diplomats between the West and Russia. But then the latter has had little impact on markets.



Source: www.stockcharts.com

A line chart gives a slightly different view of the market than does a traditional bar chart or even a candlestick chart. The line chart only plots the close. Here we see that the DJI made a new low close on March 23, 2018 below the close of February 8, 2018. But the traditional bar chart shows that the DJI made a lower low on February 8 than it did on March 23. Based on close only the DJI could be forming a descending wedge triangle. This triangle would not be visible on a bar chart of the DJI. A descending wedge triangle is potentially bullish. In this case the breakout comes at around 24,500 and could see the DJI return to the highs near 26,500. Naturally, once again the bottom end of the triangle must hold. That is currently near 23,500. The low close was at 23,509. Note also the decline in volume that has occurred on the recent pullback. It suggests that selling pressure is abating.



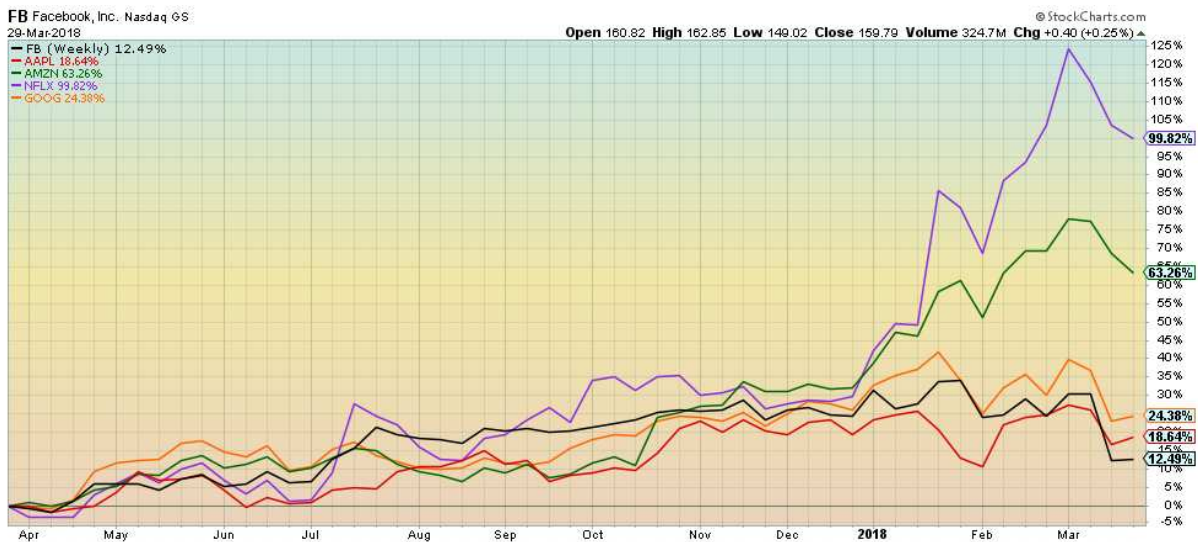
Source: www.stockcharts.com

The monthly chart of the S&P 500 shows potentially five waves up from the major low of March 2009. Waves 1, 2, 3, and 4 are complete with the key corrections in 2011 (wave 2) and 2015/2016 (wave 4). The only question remaining is: has the final high been seen in January 2018 to complete wave 5? Irrespective of this, the pullback has held uptrend lines and it remains well above the key monthly MAs of 21 and 55 months respectively. The 21-month MA is currently at 2,420 while the 55-month MA is at 2,146. We also show the 34-month exponential MA currently at 2,327. The chart goes back to 1998 and shows that when the S&P 500 broke the 34-month EMA the bear market accelerated to the downside. In both the 2011 and 2015/2016 corrections the S&P 500 tested the 34-month MA but didn't firmly break down. The 34-month EMA in those cases acted as key support.



Source: www.stockcharts.com

Here is the monthly NASDAQ chart from the major 2009 low. The NASDAQ is also holding its uptrend line. The uptrend also roughly coincides with the 34-month EMA, currently 5,835. So once again we are defined as to when a really serious bear market might get underway. The final line of support would come in at the 55-month MA currently down at 5,190. Volume has been on average declining. That is typical of markets in their final stages.



Here is the performance of the FAANGs over the past year (FAANGs = Facebook, Apple, Amazon, Netflix, and Google). All remain positive for the year but they are off their highs. While the center of attention has been on Facebook we note Amazon has been under attack from the President who has been twittering up a storm over the low taxes it pays, its misuse of the Post Office, and CEO Jeff Bezos. Bezos owns the Washington Post, a newspaper that has been quite critical of Trump. Bezos is also a well-known Democrat. Amazon fell 3.2% this past week even as the markets as a whole were up. Netflix also lost 1.9% while the other FAANGs were up on the week (FB was essentially flat with a small gain). As we have noted before, the FAANGs led the market up. Could they lead the market down?



Source: www.stockcharts.com

Given all the market volatility, it may have been no surprise that despite an almost record issuance of Treasuries this past week yields actually fell, at least in the long end of the curve as investors sought safety over the volatility of the stock markets. Given expectations of the Fed hiking interest rates at least two more times in 2018 pressure has been maintained at the short end of the yield curve. The yield on the 10-year U.S. Treasury note has fallen to 2.74% which is where the 10-year auction settled this past week. The yield has broken the 50-day MA and could be poised to fall further. A break of 2.70% could send the 10-year down to 2.60 and even send it down to test the 200-day MA, currently near 2.44%. While we do have a long-term target outstanding up near 3.20% it may be this pullback for yields has some more downside before rising again. This could ease fears that interest rates are rising, at least in the near term even as the Fed hikes the short rates.

Recession Watch Spread



Source: www.stockcharts.com

The 2–10 spread has narrowed again, this time falling to 0.47% down from the previous week's 0.54%. In Canada the 2–10 spread has also narrowed to 0.31% down from 0.35%. Maybe Canada's poor GDP report for January had something to do with the spread falling. In January Canada reported GDP growth as negative 0.1% when they expected a gain of 0.1%. This is noteworthy because it is a sign that the Canadian economy is slowing. Real estate slowing was cited as one of the factors. Before previous recessions the 2–10 spread went negative. At 0.47% it still has a ways to go, but the direction remains firmly in place and that is down. It is noteworthy there is no record of three consecutive Presidential terms with no recession. Obama had no recessions during his two terms. President Bush saw two recessions but before that President Clinton served two terms with no recessions. The 2–10 spread acts as a warning sign. And the current signs are not overly positive as the spread narrows.



Source: www.stockcharts.com

Fears about trade wars seem to be driving the US\$ Index of late. This past week, as fears of a China/U.S. trade abated the US\$ found a low and leaped. The low of 88.53 was well off the February low of 88.15. The US\$ rally took the US\$ Index back to the 50-day MA, just shy of 90. The US\$ Index gained 0.9% on the week while the Euro fell 0.4%. However, the big loser was Japanese Yen, dropping by 1.5%. The Canadian\$ was down 0.4% as Canada reported a weaker than expected January GDP. The British Pound lost 0.8% as Brexit fears continue to play havoc with the currency.

It's hard to say which way the US\$ is going to go here. The trend is still down but the bounce-back this past week was stronger than expected. But then the ups and downs of a potential trade war with China are like that—on one moment, back to negotiations the next. Another bone of contention between the U.S. and China could be the rise of the Petro-Yuan. China has launched oil priced in Yuan. It is China's latest attempt to derail the dominance of the US\$ for global supremacy. But as with anything it could take years for the Petro-Yuan to get established. The Chinese have been challenging the U.S. on a number of fronts—the U.S. dominated IMF, World Bank, and the International Bank for Reconstruction and Development (IBRD). As well, China along with Russia are creating an alternative

to the global payments system known as SWIFT. No wonder U.S./China tensions are high, especially when one adds in North Korea and China's building of military bases in the South China Sea, even as U.S. military bases are themselves prevalent in South Korea, Japan, and the Philippines.

Ultimately, all this could have a negative impact on the US\$. But the US\$ Index does not contain the Yuan as it is predominantly the Euro (57.6%), the Japanese Yen (13.6%), and the Pound Sterling (11.9%). The Canadian \$ is 9.1% while the Swedish Krona is 4.2% and the Swiss Franc 3.6%. No wonder many prefer to instead look at the US\$ Trade Weighted Index. Below is the US\$ Trade Weighted Index (Broad). This index is trade-weighted to a basket of currently 27 currencies including the Chinese Yuan, the Russian Ruble, and even the Venezuelan Bolivar. This chart is sharply different than the standard US\$ Index. The bounce-back since January/February 2018 has been stronger with the trade-weighted US\$. That may help explain some of the recent weakness for gold prices that are priced in US\$. But if the Chinese get the Petro-Yuan and the Shanghai Gold Exchange really underway then we may soon be thinking of gold in Yuan instead.



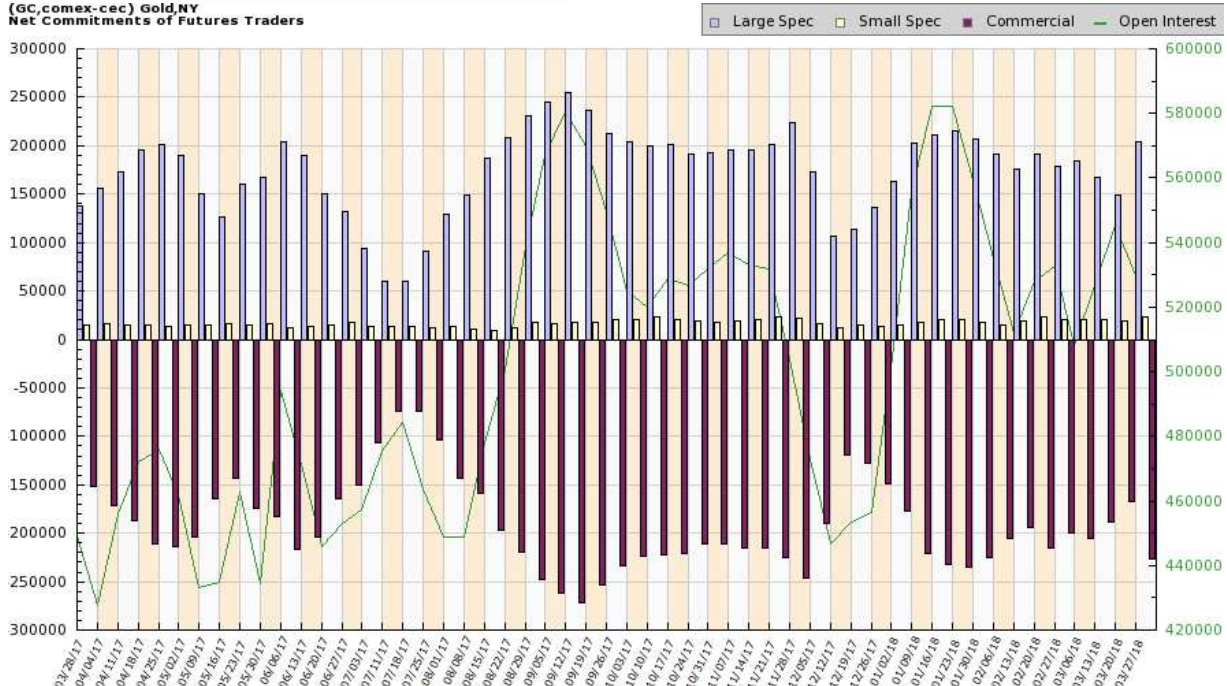
Source: www.stlouisfed.org



Source: www.stockcharts.com

Once again, just as gold rose into our key \$1,350/\$1,375 resistance it failed and backed off. The fall was swift as gold lost 1.7% on the week but was down 2.2% from the March 27, 2018 high of \$1,356.80. The sudden turnaround in the US\$ was the prime reason as Chinese/U.S. tensions eased on the trade front. We can look at the recent action somewhat nervously as the action since the beginning of the year looks eerily like the action seen in late June to early October 2016. The current action puts us in September 2016 before another down-thrust followed by the final up-thrust into October 2016. That said, triple tops are extremely rare and the pattern formed since 2016 still appears to be an ascending triangle which should be bullish. It has the characteristics of an ascending triangle with rising bottoms from the December 2015 low and a relatively flat top along \$1,365/\$1,375. If the pattern is correct, we should break out to the upside with potential to rise to almost \$1,700 or as a minimum target to \$1,620. Key, of course, is that current pattern doesn't really turn out to be a replay of July/October 2016. What followed was the collapse to \$1,124 in December 2016. Support remains down at \$1,290/\$1,310. Indicators are pretty neutral here. Seasonals should favour a rebound into May. The fundamentals for gold remain positive given trade wars, sharply rising debt, geopolitical tensions, and chaos in the White House. Demand continues to be good even if it ebbs and flows. China and Russia continue to add to their gold reserves.

(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	
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
03/13/18	340	234,431	66,483	78%	106	161,604	350,414	32%	48014	27,152	64%	526,762
03/20/18	364	223,882	75,151	75%	111	173,307	340,577	34%	46306	27,767	63%	545,499
03/27/18	341	259,032	55,678	82%	112	157,443	383,803	29%	49819	26,813	65%	529,690

Source: www.cotpricecharts.com

The commercial COT for gold pulled back this past week to 29% from 34% the previous week. The COT is as of March 27, 2018 which coincided with the top for gold. Short open interest took a big jump, up roughly 43,000 contracts while long open interest fell just under 16,000 contracts. It was no surprise then that the large speculators COT (hedge funds, managed futures, etc.) jumped to 82% from 75% as they shed roughly 20,000 contracts on the short side and added about 35,000 contracts on the long side. Overall, open interest fell roughly 16,000 contracts. Given the pullback that followed for gold prices we can view this week's report somewhat benignly although it is a bit concerning. We have seen this happen before where the commercial COT was improving, only to suddenly lurch back to the downside again, followed by an improvement once the gold price fell. We'll see how next week's commercial COT looks. If it improves again we'll know the commercials quickly covered their shorts.



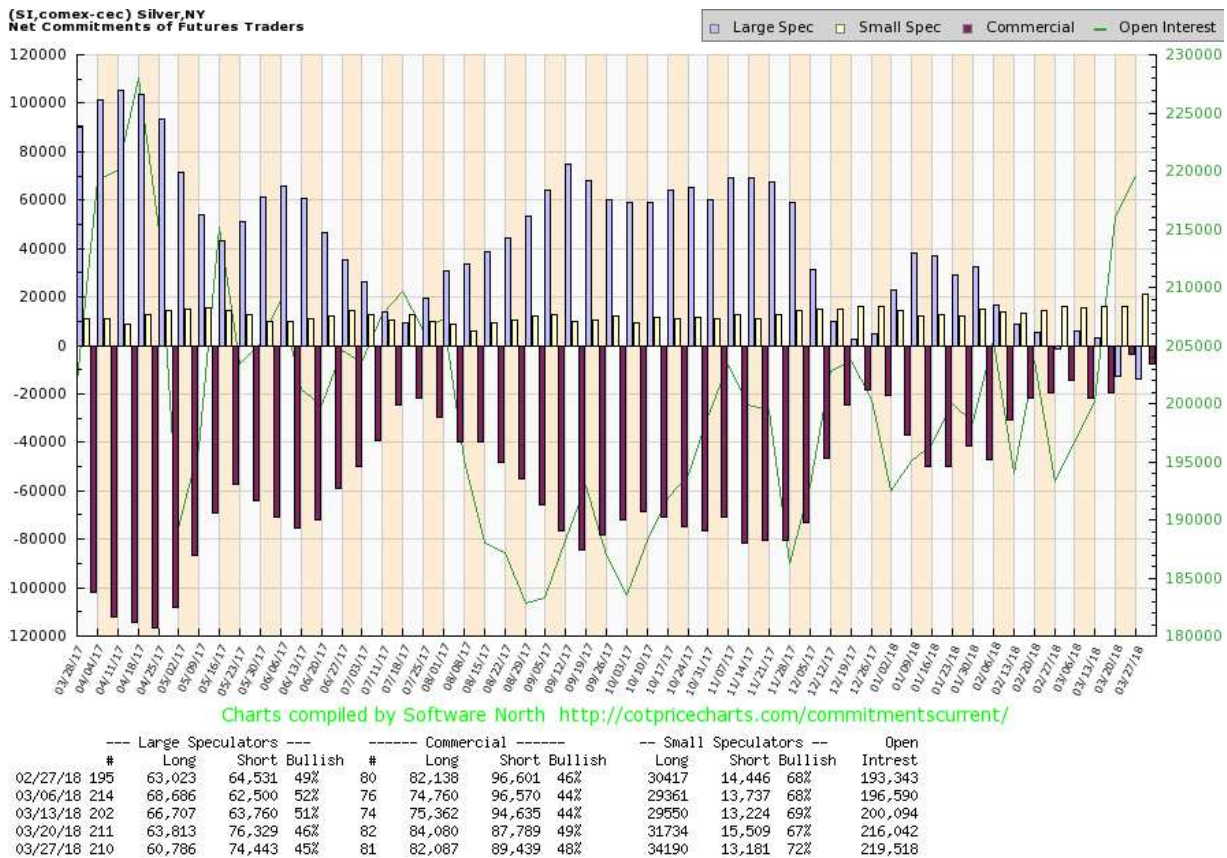
Source: www.stockcharts.com

Here's the longer-term view of gold dating from the September 2011 top and the ensuing six-plus years to date bear market. This is a chart we have shown in the past. For much of Janet Yellen's term at the Fed gold traded between \$1,150 and \$1,375. The pattern appears as a potential huge head and shoulders bottom pattern with the neckline at our major \$1,350/\$1,375 resistance zone. The chart pattern has potential to see gold rise to \$1,750 which is in line with the previously mentioned ascending triangle pattern. The major support line for this longer-term pattern is around \$1,250



Source: www.stockcharts.com

Silver continues to trade weakly. Like gold this past week silver peaked at \$16.81 on March 27, 2018 then swiftly fell, losing 1.9% on the week and down 3.2% from its earlier peak. The low-water mark for silver seen in July 2017 at \$14.34 continues to be a long way off. But silver continues to be frustrating, especially against the backdrop of good demand and dwindling supply. Silver ran right into resistance at the converging 50, 100 and 200-day MAs. This pattern has been in place since mid-February. To the downside the \$16.10/\$16.15 zone continues to act as support. The gold/silver ratio remains historically high over 80. Like gold, the pattern in some respects makes us nervous for a downside break because it is beginning to look like a descending triangle (bearish). It has measuring implications down to \$15.25 if it breaks under \$16. But fundamentals and the very good commercial COT (seen next) continue to keep us positive towards silver. Silver should outperform if a bull market gets underway. Indicators are fairly neutral here which is no surprise given the narrowing range of trading. Silver breaks out over \$17 and \$17.25. The major breakout occurs over \$18 with potential targets up to \$22.65.



Source: www.cotpricecharts.com

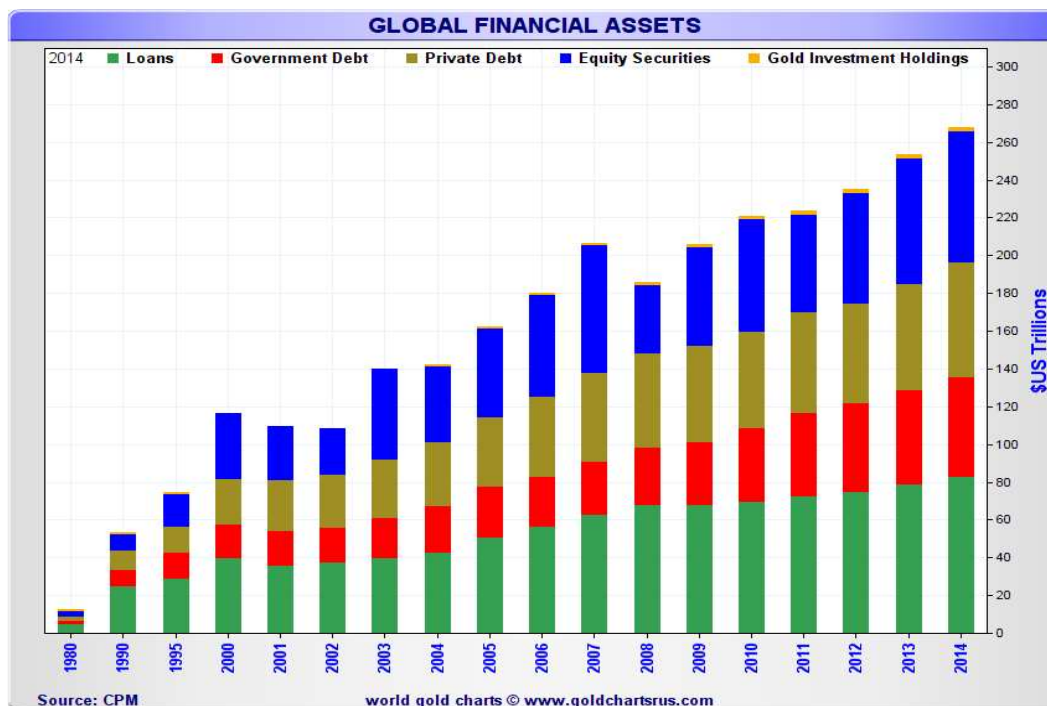
The silver commercial COT slipped a little this past week but not significantly compared to gold. The commercial COT slipped to 48% from 49% as short open interest rose just under 2,000 contracts and long open interest fell by roughly 2,000 contracts. But the large speculators COT also slipped to 45% from 46% as their long open interest fell by roughly 3,000 contracts although short open interest also fell by about 2,000 contracts. The large speculators continue to be in a net short position, something rarely seen while the commercial COT even at 48% continues to be amongst the best we have ever seen. Overall, this remains a very bullish report, but one would never know it with the way silver is actually trading.



Source: www.stockcharts.com

The gold stocks were off this past week with the Gold Bugs Index (HUI) losing 0.8% and the TSX Gold Index (TGD) down 0.6%. Despite being down, both gold indices actually outperformed gold and silver. We view that as at least mildly positive. Still, the TGD fell back under the 50-day MA despite the gain on Friday of 1.3%. The TGD has established a small uptrend but it is not particularly strong at this point. The TGD failed this past week at the 100-day MA before moving back down. The TGD closed down 2.4% from that top. But it is up about 6.9% since making a low in February 2018. Still, both the HUI and the TGD remain down on the year after three months. Resistance for the TGD is at 190 and then again at 198. A major breakout would occur above 208/210 with potential to rise to 275. Major support is at 175 with trendline support currently coming in around 182/185.

Chart of the Week



Source: www.goldchartsrus.com

Gold really is a tiny fraction of global financial assets (does not include real estate). You can barely see gold on this chart, but it is there. The chart only goes to 2014 but the positions held three-plus years ago still hold. Today global debt is estimated to be around \$233 trillion (includes loans, sovereign debt, and all other bonds of corporations, states, municipalities, etc. as well as consumer debt). The size of the global equity market is estimated at about \$80 trillion although it was also estimated the February collapse in equity prices shed \$5.2 trillion. Gold has a global value of \$7 to \$7.5 trillion considering that all the gold ever mined is still with us. That makes gold just over 2% of global financial assets. No wonder gold is a mere blip on this chart. Central bank gold reserves are estimated to be about 33,500 metric tonnes with a value at approximately \$1.4 trillion. Yet gold, unlike equity and bonds cannot fall to zero. Gold is difficult to find and the timeline from exploration to production is lengthy. Yet gold remains undervalued and under-owned. If even a small 1% of debt and equity were shifted into gold there isn't enough gold around to even begin to satisfy the demand unless everyone cashes in their jewellery. A 1% shift would represent about \$3 trillion in current value. Yet, for the most part, gold has been mainstay in the world's financial system since ancient times today just being the latest experiment with fiat currencies.

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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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