

Technical Scoop May 7 2018

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The sweetness of Energy and Apple

After falling earlier in the week the markets roared back on the back of good earnings from Apple, Apple buying back its shares and Warren Buffett investing in Apple. Despite a lower than expected nonfarm payrolls on Friday the market took it positively when unemployment (U3) fell under 4% for the first time since 2000. Because of a strong US\$ gold was weak in the early part of the week but also came back by the end of the week. Despite all the turnarounds most markets and most of the precious metals closed lower on the week. Oil, however, was up as tensions rose in the Mid-East and Russia and Saudi Arabia continued their cutbacks. Overall markets continue to trace out what might be an interesting (but temporary) bottom.

This week we outline the growing pressures on the US\$ as the world's reserve currency. We trace some history of reserve currencies from Ancient times and briefly describe how we are arriving at today. But common themes echoed throughout the history of empires and their currencies. Wars, debt and global overreach were a common theme. It is no different today. But could a return to the gold standard help us today despite the massive indebtedness? It's the debt stupid! A common theme. We re-present an interesting chart we saw that says it all about today's debt. We also look at Friday's U.S. employment report. As is usual there are holes in it that never seem to be discussed by today's pundits. Instead there are cheer leaders and politicians who get to crow at how good they are at managing the economy and creating jobs.

Bitcoin is surging through \$9,000 and appears to now be headed for \$10,000. The bulls are back out in force crowing how soon we will hit \$50,000. Skeptics abound and too many issues remain outstanding. We have our usual array of charts on the stock markets, bonds, gold and silver and oil. Our Recession Watch Spread (page 21) has fallen again, the trend remains firmly to the downside, but we are not yet at the point where a recession is imminent. But the warning signs are there. Finally, in our Chart of the Week (page 30) we look at why oil, and by extension oil and gas stocks, might be a sector to take a close look at. Signs abound that oil could outperform not only equities but also gold.

Indeed, in its most recent monthly rebalancing, the Canadian Dividend Strategy has significantly increased its weighting in energy stocks.

Have a great week!

DC

“This vast empire on which the sun never sets, and whose bounds nature has not yet ascertained”

—George Macartney, 1773, in the wake of territorial expansion following Britain’s victory in the Seven Years’ War

“Today the sun never sets on American territory, properties owned by the U.S. Government and its citizens, American armed forces abroad, or countries that conduct their affairs within limits defined by American power.”

—William Appleman Williams, 1991, from *The Reader’s Companion to American History* – Editors Eric Foner, John A. Garraty

For the past two centuries or so the world has been dominated by two empires— the British empire and the American empire. Some refer to it as the Anglo-American empire because the two have had significant historical, ethnic, linguistic, and cultural ties. Throughout it all their currencies, the pound sterling and the U.S. dollar have been the dominant currencies acting as the world’s reserve currency. It is no surprise the dominant superpower is also the dominant currency. It has been that way since ancient times. But increasingly, in a multipolar world, their dominance is coming under question and pressure.

First, a little history. The first currency that was circulated widely outside its borders was probably the Athenian silver drachma. It dates from at least the 5th century B.C.E. From about the 1st century B.C.E. to the 4th century C.E. the world was dominated by Rome. The currency was the Roman denarius followed later by the Roman gold solidus. As the Roman empire fell into decline the Roman gold solidus gave way to the Byzantine empire’s heavy gold solidus. That currency lasted for the most part until about the 11th century. Then, starting in the 7th century, the Arab gold dinar emerged as the dominant currency as the Arab caliphate controlled the Mediterranean and beyond from the Atlantic Ocean to the borders of India and China.

As both the Byzantine and Arab empires fell into decline by the 15th century because of high financing needs of their empires no currency emerged as dominant. The Florence fiorino became widely used in commercial transactions in the 13th century, particularly thorough the Mediterranean world. By the 15th century the Venetian gold ducat supplanted the Florence fiorino. As the world moved into the 17th century the Netherlands Dutch guilder became the leading currency because of the Netherlands’ rise as a dominant financial and commercial power. Paper money also started to come into circulation even though it was not backed by anything. During this period the Spanish real also played a key role, particularly through the vast reach of the Spanish empire and dominance in what became known as Latin America.

Both the guilder and the real began to fade into the 18th century, and following the Seven Years’ War (1756–1763) the British pound sterling emerged as the global currency. This lasted until WW1 (1914–1918) when the costs of the empire and the debilitating costs of the war started the decline of the pound sterling. At the end of WW2 (1939–1945) Bretton Woods established the U.S. dollar as the

world's reserve currency, so that other currencies fixed their currency to the U.S. dollar. Bretton Woods set the U.S. dollar convertible to gold at a price of \$35/ounce. But Bretton Woods started to break down during the 1960s. In August 1971 former President Richard Nixon shut the gold window and the U.S. dollar's convertibility into gold ended, setting in motion the current period of fiat currencies and floating exchange rates.

As history has shown, empires rise and fall. And the currencies of the dominant empire also rise and fall. Given that the U.S. dollar has been the dominant reserve currency for over 70 years, most people cannot perceive a world without the U.S. dollar. While all other previously dominant currencies no longer exist, the British pound sterling is still around. The British pound sterling is currently the oldest surviving currency, dating from Anglo-Saxon England during the reign of King Offa of Mercia (757–796).

The era of the U.S. dollar not tied to anything may eventually be called the era of debt. Since the world came off the gold standard in 1971 debt has exploded. We're witnessing the greatest level of debt ever recorded (\$237 trillion at last count). There is an old saying, "Gold is the currency of kings, silver is the money of gentlemen, barter is the money of peasants, but debt is the money of slaves" (Norm Franz, *Money and Wealth in the New Millennium*, 2001). Today we are slaves to debt. It is debt that will never be repaid. We may think of debt as normal, but it is anything but. And the debt build-up is aided by governments more than willing to create more currency. It is fiat currency—backed by nothing and with no inherent value except what the government tells you it is worth.

And now the U.S. dollar's dominance is being challenged against the backdrop of the U.S. being the most indebted nation in the world (\$70.1 trillion and counting, almost 30% of all the debt outstanding in the world). The challenge to U.S. dollar supremacy, which has the potential to be globally destabilizing, is coming primarily from China. China has launched the Petro-yuan to challenge the dominance of what is known as the Petro-dollar. The purpose is to shift oil trading out of U.S. dollars and into Chinese Yuan, giving China greater clout in global trade. China is also challenging U.S. global hegemony by launching a China-backed version of the IMF and the World Bank. They are even building an alternative global payments system to challenge the U.S.-dominated SWIFT system.

Then there is the building of Ancient Silk Road. The Ancient Silk Road was a trade route overland from China to Europe. Only today it would be railways. China is spending upwards of \$1 trillion to build the road that will involve over 60 countries and 65% of the world's population, and transport at least one quarter of the world's goods. The dominant currency would be the Chinese Yuan. All countries along the way would benefit from increased trade.

All of this presents a major challenge to the U.S. and to the U.S. dollar as the world's reserve currency. If there is a fly in the ointment it is that there is an enormous amount of debt outside the U.S. denominated in U.S. dollars. That means debt has to be paid back in U.S. dollars. A rising U.S. dollar is potentially destabilizing to that debt because it means the debtor has to use more of their local currency to purchase U.S. dollars to service and pay back the debt.

There are those who have tried to wean themselves off of the U.S. dollar by demanding payment for their trade, and in particular oil, in a currency other than U.S. dollars. In 2000 Iraq, a major oil producer, gave notice they were going to dump the U.S. dollar in favour of Euros for oil payments. After September 11, 2001 Iraq was suddenly on the hit list for invasion even though they had nothing to do with 9/11 but it might have WMD. Libya gave notice that they were going to set up an African-based currency zone whereby the Arab gold dinar would be the currency. Libya was lining up its neighbours to join the currency zone. Libya was bombing their citizens and the U.S. and NATO have a right to protect. Libya and its leader Muammar Gaddafi were overthrown by rebels backed by NATO in 2011.

Syria as well dropped the U.S. dollar in 2006, although as an oil producer they were small. They too faced a rebellion and are accused of gassing and bombing their citizens. But Syria invited Russia and Iran to help them. Now it is difficult to invade them and overthrow Assad without risking a clash with Russia, a nuclear superpower.

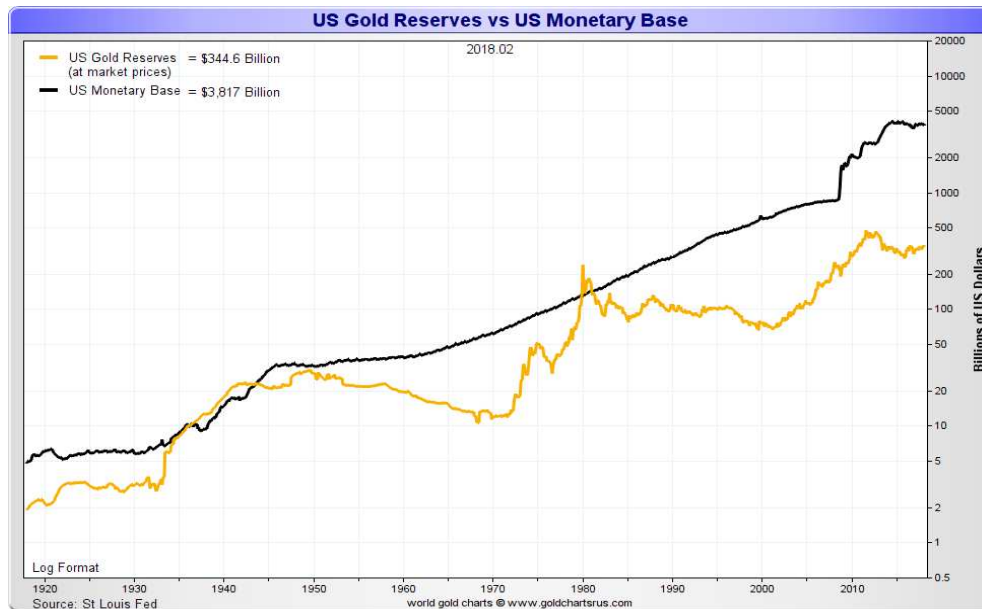
Now it is Iran who is being demonized daily with calls for regime change given that they too have announced that they will no longer be conducting trade, particularly oil, in U.S. dollars. They are doing this with China's support. Pakistan as well has announced that trade with China will no longer be conducted in U.S. dollars. Apparently, the U.S. has placed Pakistan on a watch list for violations of religious freedom.

While the U.S. dollar is being challenged one should keep in mind that debt, wars, and global overreach are the real culprits. This was the bane of all empires: Greek, Roman, Arab, Byzantine, Spanish, and British. No, the U.S. dollar is not about to be dethroned as the world's currency. Curiously, the U.S. also holds the world's largest horde of gold reserves—8,133 metric tonnes. A revaluation of gold prices to around \$11,500/ounce would allow the U.S.'s gold reserves to cover the monetary base. It would put the world back on a gold standard and it would be a defacto devaluation of the U.S. dollar.

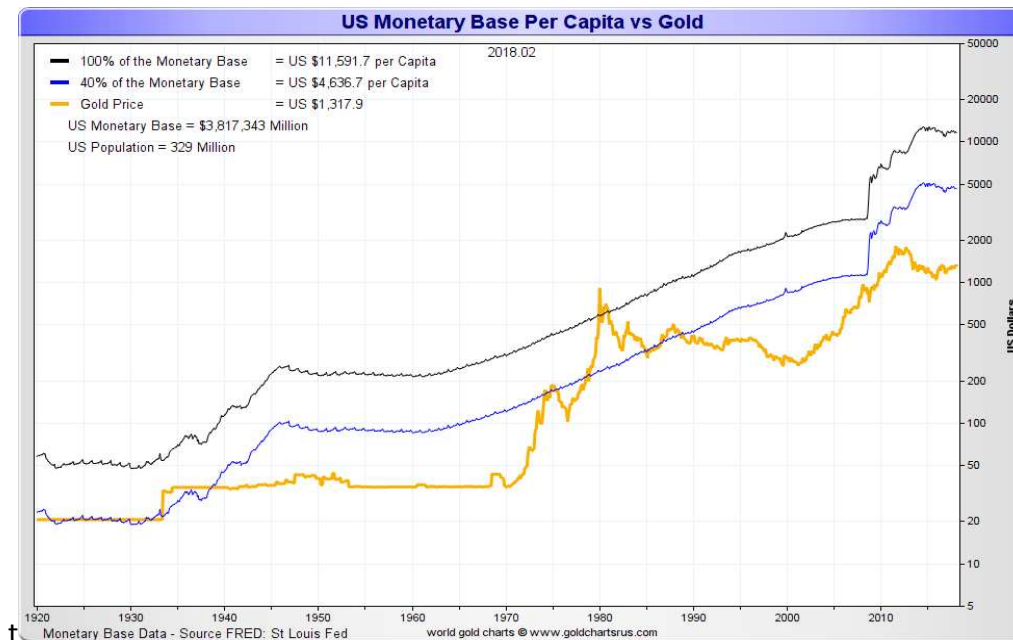
There are precedents for a revaluation of gold. In 1934, at the height of the Great Depression *the Gold Reserve Act* allowed for the confiscation of gold and gold certificates to be surrendered at the then-prevailing price of \$20.67/ounce. The gold was then stored at Fort Knox and revalued upwards to \$35/ounce. Foreign investors exported their gold to the U.S., devaluing the U.S. dollar and sparking inflation. This in turn increased the U.S. money supply, lowered real interest rates, and sparked economic activity. This also allowed for a large accumulation of gold in Fort Knox.

Could similar action today accomplish the same thing? Confiscation, however, would not go over well and many in the U.S. have accumulated their gold outside of the U.S. The charts below shows the U.S. monetary base per capita vs. gold based on covering 100% of the monetary base and 40% of the monetary base. Interestingly the revaluation of gold and moving the world back on to a gold standard is a concept that has been discussed by U.S. monetary authorities in order to pull the world out of its current debt malaise. There is also considerable resistance to such a plan, particularly by the global

banking community and even central banks. Both Russia and China have been increasing their gold reserves to back their currencies. While they have seen their reserves grow, they remain far behind the U.S. in terms of gold reserves per capita.



Source: www.goldchartsrus.com

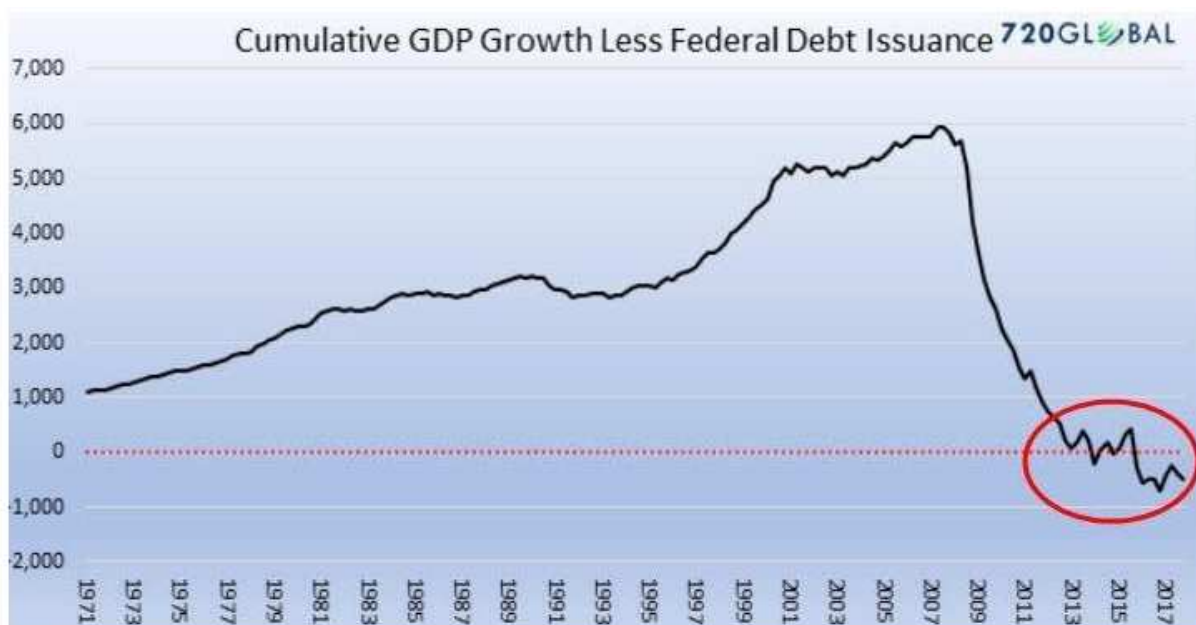


Source: www.goldchartsrus.com

Wars, debt, and global overreach are familiar themes played out over millennia. They always try to say that this time is different. The only thing different is the nature of the wars, the massive size of the debt, and global overreach. The U.S. dollar and the U.S.'s global hegemony are under pressure. One can only hope that the results are different than 100 years ago when another empire saw its global hegemony and global currency being challenged.

It's the Debt, Stupid!

We thought it interesting to repost this chart that we saw originally at Jim Sinclair's [MineSet](#). The chart takes GDP growth by year and subtracts the U.S.'s federal debt issuance by year. The chart is cumulative. If in a year GDP grows by \$500 billion while debt issuance grows by \$250 billion, then the net gain is \$250 billion. Obviously, it is the opposite if debt grows faster than GDP.



Source: Bill Holter at www.milesfranklin.com

So, what this chart says is from 1971 to 2008 GDP grew at a faster rate than debt. But since 2008 onward it is the opposite. It is so opposite that in a space of ten years cumulative growth has fallen from \$6,000 billion to negative. No surprise—we note that total U.S. federal debt now totals some \$21,170 billion vs. GDP of \$20,017 billion. Cumulative deficit is now in excess of \$1 trillion. Since Trump assumed the Presidency on January 20, 2017 U.S. debt has grown by \$1,124 billion.

Another way of interpreting this is that from 1971 to 2008 new debt was creating additional GDP. Since then it has been the opposite. This phenomenon has played out in all the major industrial countries since the financial crisis of 2008. They saved the system but now they have blown their credit limits. No wonder all major industrial countries have passed bail-in legislation. In 2008 they

bailed out the financial system, saving it from sure collapse to be followed most likely by another Great Depression. With bail-ins the next financial crisis will find depositors and lenders turned into equity holders—equity that, most likely, will be largely worthless.

It is also interesting that Holter started this chart in 1971. That was the year the world came off the gold standard. With money now having no value except what governments say it is worth, debt has exploded. In 1971, U.S. federal debt outstanding stood at \$398 billion and the debt/GDP ratio was 34%. Now it stands at \$21,170 billion and the debt/GDP ratio is 106%. Keep in mind this focuses only on the growth of federal debt. In 1980, all U.S. debt (federal, state, corporate, consumers) totalled \$4.4 trillion and the debt/GDP ratio was 177%. Today all U.S. debt totals \$70.1 trillion and the debt/GDP ratio is 350%. All major industrial countries have experienced the same. The highest is found in the United Kingdom and Japan where total debt/GDP exceeds 600%. The world on average exceeds 300%.

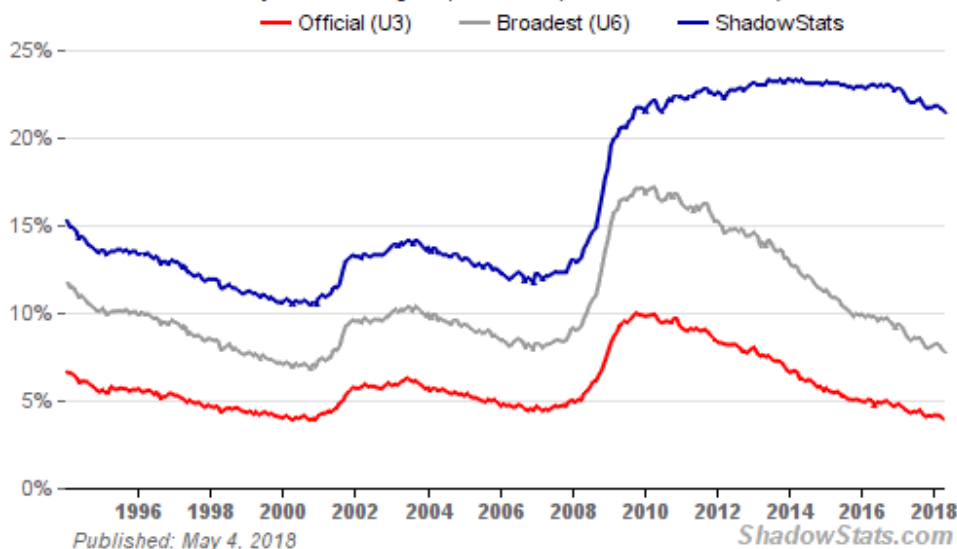
No wonder Bill Holter has called it “debt saturation.” He says it is “plain and simple”—the world is awash in debt. Yet we proceed as if it is not a problem. With global debt now totalling \$237 trillion, some of it might just be worthless.

U.S. Employment Report

The Bureau of Labor Statistics (BLS) released its monthly employment report on Friday. The BLS reported that nonfarm payrolls rose 163,000 in April 2018 vs. an expectation of 193,000 but an improvement over the March 2018 nonfarm payroll of 135,000. Still, it was the second successive below expectations report. The unemployment rate (U3) fell to 3.9% from 4.1%, the first time that U3 was below 4% since 2000. The BLS’s broad measurement of unemployment (U6) which is the U3 unemployment plus short-term discouraged workers and other marginally attached workers as well as workers forced to work part-time fell to 7.8% from 8%. The [Shadow Stats](#) number (U6 plus long-term discouraged workers and workers defined out of existence in 1994) fell to 21.5% from 21.7%. Wages have grown by 2.6% in the past year. Surprisingly employers are complaining it is difficult to find qualified workers as the labour market has tightened. At 2.6% that is barely above the rate of inflation.

Unemployment Rate - Official (U-3 & U-6) vs ShadowStats Alternate

Monthly SA. Through Apr. 2018 (ShadowStats, BLS)



Source: www.shadowstats.com

Given the drop in unemployment (U3), it was not surprising to find the labour force participation rate fell to 62.8% from 62.9%. Interestingly, it is the older prime-age workers 45–54 who are leaving the workforce as their participation rate fell to 80.2% from 80.7%. In all, it was reported the labour force actually shrunk by 236,000. From that perspective the drop in unemployment makes sense. It is not because more are employed, but because fewer are in the labour force. Those numbers tend to show up in long-term discouraged workers. Back in 2000 the labour force participation rate was at its peak high of 67.3%. The 45–54 prime-age workers labour force participation rate was over 83%.

To further put this into perspective the civilian employment population ratio fell to 60.3% from 60.4% in April. Again, this reflects the fact that more have dropped out of the labour force. In March the labour force totaled 161,763 thousand and fell to 161,527 thousand in April. Those deemed to be not in the labour force rose to 95,745 thousand in April vs. 95,335 thousand in March, a gain of 410,000. Yet somehow 163,000 found jobs in April. Furthermore, only 79.2% of Americans ages 25–54 were working in April. In 2000 that ratio was 81.4%. It means some 2.3 million of prime working age are somehow not in the labour force. They can't all be students.

Naturally the authorities will all hail the number. The reality seems to be a much cloudier picture.

Bitcoin watch!



Source: www.coindesk.com

Is Bitcoin headed off to a new stratosphere? Bitcoin has now climbed to over \$9,000 and appears to be on its way to \$10,000. A bounce is back in its step and it is being talked about again in more positive light. The crypto bulls are quickly predicting that \$10,000 will soon be surpassed.

Goldman Sachs has announced they are going to begin trading Bitcoin-related contracts on behalf of clients using the firm's own money. Goldman said clients had been asking about holding Bitcoin as an alternative asset. Goldman has even hired traders and numerous computer experts to help them in their endeavour. Oddly there are even skeptics at Goldman and they are also well aware of the risks inherent in entering this market. The timing is interesting as it was back in December when the CBOE trading of futures got underway. Futures opens up all sorts of possibilities in the crypto world. But it also introduces the ability to do arbitrage and other derivative games that can narrow spreads. Futures can also be sold short, something that can't be done with cryptos themselves.

This past week the market cap of cryptos surpassed \$460 billion for the first time since early March. It was a gain of over 15% on the week. Bitcoin was up 8.5% on the week. New cryptos keep popping up as the number of cryptos listed at [Coin Market Cap](#) leaped to 1,613 from 1,574 the previous week. So far, our thoughts that the crypto world would retreat are also in retreat. It is in a sense unbelievable. Many them haven't even got a circulating supply so far. Over 500 have a market cap of under \$1,000,000. 278 are showing no market cap. 29 have a market cap in excess of \$1 billion and only 5



have a market cap of over \$10 billion. Bitcoin leads the pack with a market cap of about \$165 billion. That is still down roughly 50% from its all-time high.

Cryptos still have issues: regulatory concerns, security issues, lack of understanding, still a small market, price manipulation because of thin trading, pump-and-dump ICO schemes, pricing that is not necessarily transparent, transaction delays, and cybercriminals. It remains a market that is caveat emptor.

There should be considerable resistance for Bitcoin at \$10,000 and up to \$11,000. Right now, Bitcoin is running into resistance between \$9,500 and \$10,000 and has failed thus far to penetrate above \$10,000. It is not say it won't. But from here on in it could be a struggle as there are so many issues outstanding.

MARKETS AND TRENDS

	% Gains (Losses)		Trends				
	Close Dec 31/17	Close May 4/18	Week	YTD	Daily (Short Term)	Weekly (Intermediate)	Monthly (Long Term)
Stock Market Indices							
S&P 500	2,673.63	2,663.42	(0.2)%	(0.4)%	down (weak)	neutral	up (topping)
Dow Jones Industrials	24,719.22	24,262.51	(0.2)%	(1.9)%	down (weak)	Neutral	up (topping)
Dow Jones Transports	10,612.29	10,370.23	(1.7)%	(2.3)%	down	up (weak)	up (topping)
NASDAQ	6,903.39	7,209.62	1.3%	4.4%	neutral	up	up (topping)
S&P/TSX Composite	16,209.13	15,729.40	0.4%	(3.0)%	up	neutral	up
S&P/TSX Venture (CDNX)	850.72	772.24	(1.5)%	(9.2)%	down	down	up (weak)
Russell 2000	1,535.51	1,565.60	0.6%	2.0%	neutral	up	up (topping)
MSCI World Index	2,046.47	2,019.01	(0.5)%	(1.3)%	neutral	neutral	up
NYSE Bitcoin Index	14,492.18	9,593.07	3.9%	(33.8)%	up	neutral	up (weak)
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	192.31	181.39	(0.4)%	(5.7)%	up	down	neutral
TSX Gold Index (TGD)	195.71	191.55	(0.2)%	(2.1)%	up	down (weak)	neutral
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	2.40	2.95	(0.3)%	22.9%			
Cdn. 10-Year Bond yield	2.04	2.33	(1.7)%	14.2%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.51	0.44	(6.4)%	(13.7)%			
Cdn 2-year 10-year CGB spread	0.36	0.42	(4.6)%	16.7%			
Currencies							
US\$ Index	91.99	92.60	1.4%	0.7%	up	down (weak)	down
Canadian \$	0.7990	0.7790	0.1%	(2.5)%	down (weak)	down	neutral
Euro	120.03	119.56	(1.4)%	(0.4)%	down	neutral	up
British Pound	135.04	135.36	(1.8)%	0.2%	down	neutral	neutral
Japanese Yen	88.76	91.65	flat	3.3%	down	up (weak)	up
Precious Metals							
Gold	1,309.30	1,314.70	(0.2)%	0.4%	down	neutral	up
Silver	17.15	16.52	0.2%	(3.7)%	neutral	down	neutral
Platinum	938.30	910.30	(0.7)%	(3.0)%	down	down	down
Base Metals							
Palladium	1,061.00	957.25	(0.6)%	(9.8)%	down (weak)	down (weak)	neutral
Copper	3.30	3.09	(0.6)%	(6.4)%	neutral	neutral	up
Energy							
WTI Oil	60.42	69.72 (new highs)	2.2%	15.4%	up	up	up
Natural Gas	2.95	2.71	(4.6)%	(8.1)%	neutral	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 stock market, as represented here by the Dow Jones Industrials (DJI), rallied on Friday when the market learned that Berkshire Hathaway (BKR.A-NYSE) (Warren Buffett) had purchased 75 million shares of Apple (AAPL-NASDAQ) since January. The news of Berkshire's purchase largely coincided with AAPL's quarterly numbers that beat the street. It was accompanied by the news of a massive buyback of shares of AAPL. It was biggest ever share repurchase of any U.S. company.

The Berkshire move was a surprise as Buffett had been quite tech averse, "never invest(ing) in anything that he (I) didn't understand." But Berkshire does like companies that have a lot of cash. Not surprisingly, AAPL leaped to new all-time highs, closing the week at \$183.83.

Despite all the excitement over AAPL, the markets still ended the week down thanks to weakness in the early part of the week on the usual fears of late—trade, interest rates, etc. But Thursday brought

a sharp reversal in the market and Friday followed through to the upside. Once again, the 200-day MA acted as pretty solid support. This is the third test of that zone since the stock started its collapse in February, hitting the level on February 9, April 2, and May 3. Each time the market rebounded. Some might even say there was a helping hand. Couldn't be the so-called "Plunge Protection Team (PPT)."

Our wave count says we have completed 3 major waves to the upside since the significant low of February 2016. This count does differ from [Elliott Wave International](#) in that they have the DJI completing five waves to the upside with the January high. Elliott wave can be quite interpretative. We have been encouraged by the DJI (and the other U.S. exchanges) continuing to hold their 200-day MA. The DJI would signal a break above the downtrend line from the January high over 24,480. Over 24,850 the DJI could be signaling a potential move towards the January highs.

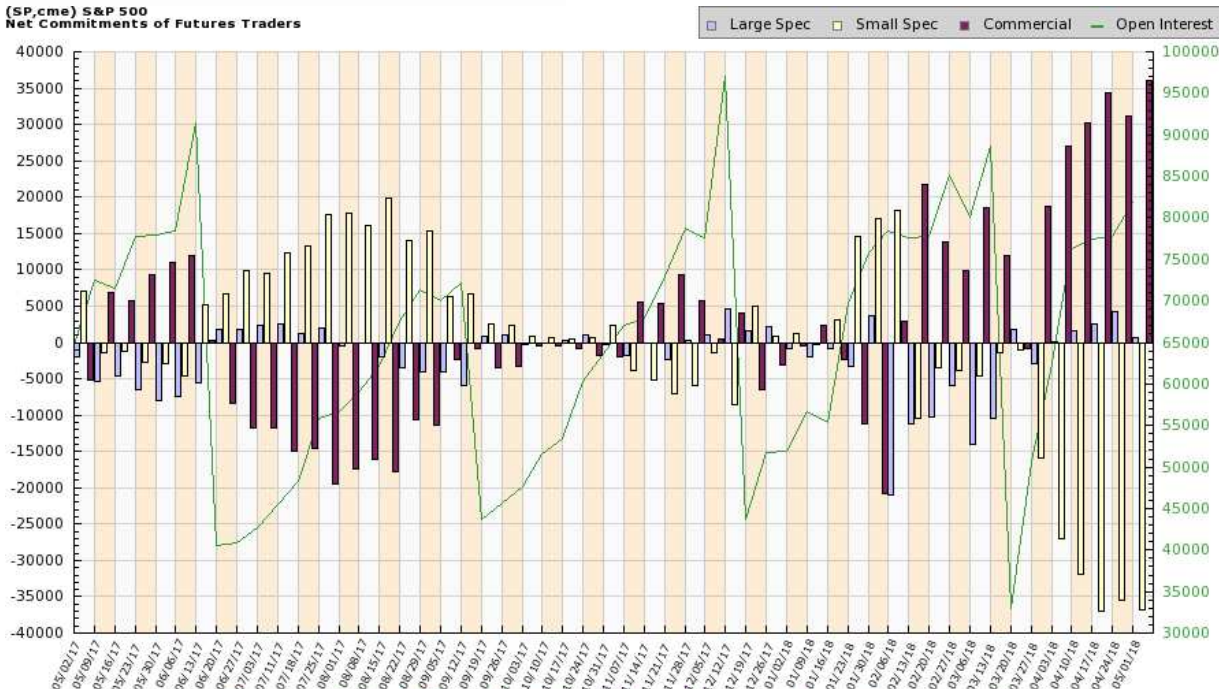
It is noteworthy this past week that the Dow Jones Transportations (DJT) were weaker, losing 1.7% on the week vs. 0.2% for the DJI. To date, there has been no divergence between the two indices. Like DJI, the DJT has also held its 200-day MA. Ideally, we would love to see one of them make new all-time highs while the other does not before both turn down. This could give us a Dow Theory sell signal, something that as we note has been absent to date.



Source: www.stockcharts.com

Here is that alternate wave count applied to the S&P 500. The action since the January high is playing out as a symmetrical triangle of the type abcde. Given our third test of the 200-day MA, it is possible we have completed the e wave and we are priming for a rally. The key break-out level for the S&P 500 appears to be at 2,720. The Fibonacci retracement levels from the January high are seen at 38.2% - 2,662, 50% - 2,700, 61.8% - 2,742, and 76.4% - 2,792. Above 2,792 odds increase that the market should make new all-time highs.

(SP,cme) S&P 500
Net Commitments of Futures Traders



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

--- Large Speculators ---				----- Commercial -----				-- Small Speculators --				Open
#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest	
04/03/18	19	7,829	7,817	50%	32	37,131	10,059	79%	17185	44,269	28%	62,386
04/10/18	20	7,817	6,223	56%	32	48,088	17,826	73%	19488	51,344	28%	76,205
04/17/18	19	7,700	5,219	60%	34	50,898	16,472	76%	18430	55,337	25%	77,465
04/24/18	19	9,237	4,954	65%	34	49,223	17,993	73%	18529	54,042	26%	77,816
05/01/18	18	8,223	7,637	52%	33	55,314	19,194	74%	17958	54,664	25%	81,901

Source: www.cotpricecharts.com

The commercial COT for the S&P 500 remains bullish. It improved slightly this past week to 74% from 73% the previous week. The large speculators COT (hedge funds, managed futures, etc.) fell sharply to 52% from 65%. Commercials increased their long open interest over 6,000 contracts vs. a gain of roughly 1,200 contracts on short open interest. This is as bullish as the commercial COT has been for the past several weeks and seems to hint at higher prices ahead.



Source: www.stockcharts.com

The NASDAQ appears to have broken its downtrend line from the January 2018 all-time high. This is a potentially positive development. Naturally, follow-through is important as the NASDAQ is attempting to break out over its 50-day MA. In the last thrust to the downside the NASDAQ did not test the 200-day MA as was seen with the DJI, the DJT, and the S&P 500. A positive divergence? Nonetheless, we'd like to see the NASDAQ over 7,400 to give us confidence that new highs are possible.



Source: www.stockcharts.com

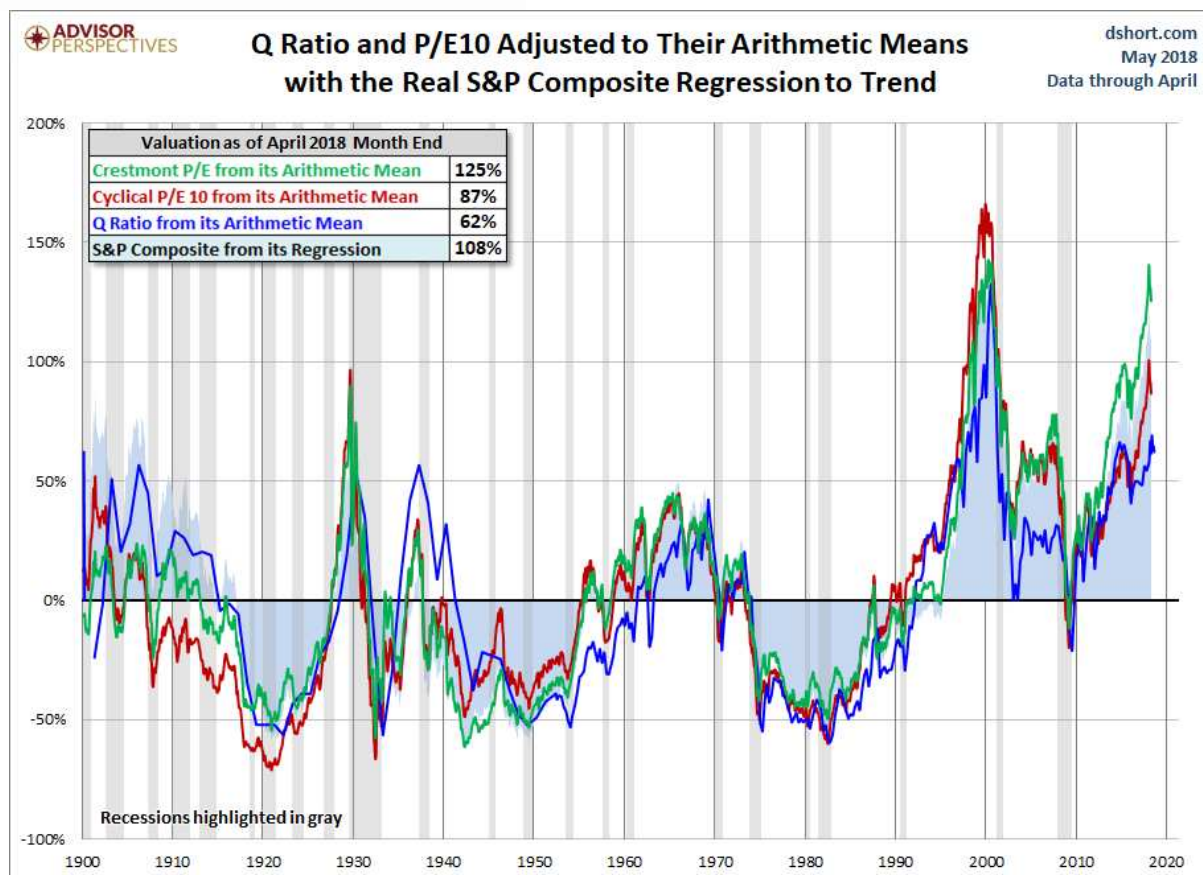
Above is a chart of the ratio of the S&P 500 and the S&P GSCI Commodity Index. This chart appears to be on the cusp of potentially breaking down, suggesting that commodities should outperform the S&P 500 going forward. Note how the ratio topped back in 1999, coinciding with the tech bubble and bottomed in 2008, coinciding with the financial crisis. Now it is possible it has made another top and it is trying to break the uptrend line and the 4-year MA. Something to consider going forward.



Source:

www.stockcharts.com

The S&P TSX Composite also enjoyed an up week this past week gaining 0.4%. This is another index that appears poised to move higher as it tests the 100-day MA. The TSX overall was considerably weaker than the U.S. exchanges, but given its bent towards commodities it may well outperform going forward and the TSX's commodity-based stocks all appear poised to move higher. That would fit with the previous chart—the S&P 500 and S&P GSCI Commodity Index ratio. A number of material and energy stocks are appearing bullish.



Source: www.dshort.com

[Advisor Perspectives](#) updates four valuation indicators monthly. They are:

- the Crestmont Research PE ratio
- the cyclical PE ratio, using the trailing 10-year earnings as the divisor
- the Q ratio, which is the total price of the market divided by its replacement cost
- the relationship of the S&P Composite to a regression trendline

What the chart is showing is that all four valuation indicators are quite high on an historical basis, suggesting the markets could be due for a severe correction starting anytime. Currently they are at their second highest level ever with only the highs of the 1999–2000 tech bubble surpassing current levels. The valuations are well above the highs seen at the time of the 1929 stock market top and well above the highs of the 2007 housing bubble top that was followed by a 55% stock market correction. Yet another warning sign that investors should be extra cautious going forward, even if the markets were to make new highs, as we believe could still happen.



Source: www.stockcharts.com

The U.S. 10-year Treasury note was relatively flat this past week, slipping to 2.95% from 2.96% the previous week. The uptrend that has been in place since a low in September 2017 remains intact. We continue to maintain that targets of 3.20% are still in place. However, a breakdown under 2.87% and especially under 2.51% would be a clear sign that bond yields are headed lower. The Fed did nothing at its most recent meeting and they continue to indicate that further interest rate hikes could take place in 2018. The next most likely date is the June meeting on the 12–13th. Mark it on your calendar. Could be important. It is noteworthy that the current effective Fed funds rate is 1.7% vs. a Fed rate of 1.50% to 1.75%. Inflation (core) has shown signs of rising above 2%. The Fed's target is 2%.

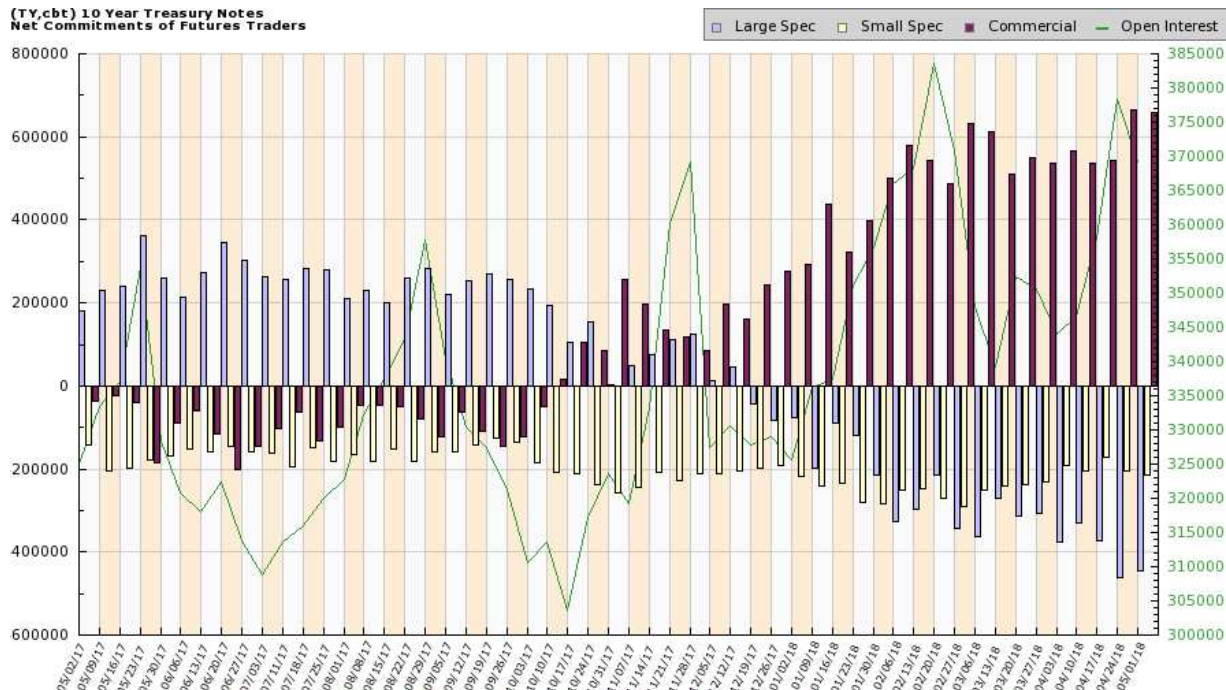
Recession Watch Spread



Source: www.stockcharts.com

The 2-year–10-year spread slipped to 0.44% this past week from 0.47% the previous week. It remains above the most recent low of 0.41%. Nonetheless, the downtrend appears to have renewed although the 2–10 spread remains far from previous lows which were negative. Before both the 2000–2002 recession and the 2007–2009 recession the 2–10 spread was negative for a period of at least six months before the recession hit (and a severe stock market correction as well). In Canada the 2–10 spread has fallen to 0.42%. In both instances the trend is down but is not yet at point that a recession might be imminent.

(TY,cbt) 10 Year Treasury Notes
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	
04/03/18	252	566,954	942,319	38%	353	2,394,138	1,828,086	57%	346921	537,608	39%	3,439,319
04/10/18	252	635,484	966,119	40%	365	2,359,922	1,823,944	56%	343145	548,488	38%	3,465,481
04/17/18	265	647,754	1,019,443	39%	367	2,446,325	1,902,503	56%	352571	524,704	40%	3,579,519
04/24/18	239	606,022	1,068,155	36%	364	2,636,126	1,969,913	57%	371438	575,518	39%	3,784,711
05/01/18	240	631,024	1,076,702	37%	360	2,550,191	1,890,783	57%	363401	577,131	39%	3,691,604

Source: www.cotpricecharts.com

The commercial COT for the 10-year U.S. Treasury note remains somewhat bullish. It currently sits at 57%, the same as the previous week. The large speculators COT is at 37% up from 36% the previous week. This is not necessarily telling us that higher yields are possible first before yields start fall, but it is a sign that the commercials at least are finding current yields attractive. Any strong rally decline in yields would most likely help flatten the yield curve further.



Source: www.stockcharts.com

The U.S. dollar rally continues. This past week the US\$ Index surged over 92, closing the week at 92.41 up 1.2% on the week. The Euro, which constitutes 57.4% of the US\$ Index fell 1.4% while the Pound sterling fell 1.8%. The Japanese Yen was relatively flat and the Cdn\$ gained a small 0.1%. The US\$ continues to defy predictions of its demise. It has now jumped over the 200-day MA for the first time since March 2017. There is little doubt now that the US\$ Index is correcting the entire decline from 103.82 in December 2016 to the low of 88.15 in February 2018. Potential targets are the Fibonacci 38.2% retracement level of 94.14, the 50% retracement level at 96, and the 61.8% retracement level at 97.83. Only above 100.12 is it possible that the US\$ Index could make new highs. The most likely target zone is somewhere between 94.14 and 96. Currently the US\$ Index is overbought so a pullback correction is clearly possible. The index has already achieved minimum targets just under 92 so odds favour a run to the next target level of 94.14. But not before a correction. Support would be seen down to 91 and below that down to 90. Below 90 the rally could be over.



Source: www.stockcharts.com

Driven by a higher US\$, gold prices fell once again this past week losing a small 0.2%. A rebound on Thursday and Friday helped prevent the loss from being more. Gold hit a new low at \$1,302 this past week. It was the lowest level seen since late December. The 200-day MA at \$1,305 appeared to contain the drop. A bullish commercial COT gives us hope this coming week that a price rise could occur. The major resistance zone is at \$1,370, a level we are sure everyone knows about. Interim resistance can be seen at \$1,320 and \$1,330. Support at \$1,300 held with next good support down to \$1,290. If \$1,300 continues to hold then gold appears to have formed a box formation with the breakdown under \$1,300 and the breakout above \$1,370. Given the continually testing of the \$1,360 to \$1,370 zone the expectation is that the breakout should eventually occur to the upside.

Admittedly, trying to read gold over the past few months has become difficult. However, we continue to believe that gold made a significant low back in December 2015 coming as it did seven years after the major low of October 2008. Gold, according to Ray Merriman of [Merriman Cycles](http://MerrimanCycles.com) shows that gold has a cycle low roughly every 7.3 years to 7.8 years. Major lows were seen in August 1976, February 1985, March 1993, August 1999 or April 2001, October 2008, and December 2015. That means we should still be on the major up cycle and the next major cycle low is not due until February 2023 to June 2024. The current up move should either test the September 2011 of \$1,923 or even explode higher to over \$2,000 and even up to \$2,700. A firm breakout over \$1,370 could target up to \$1,525 and the 2013 breakdown level. The current commercial COT as we note below is bullish. Intriguingly,

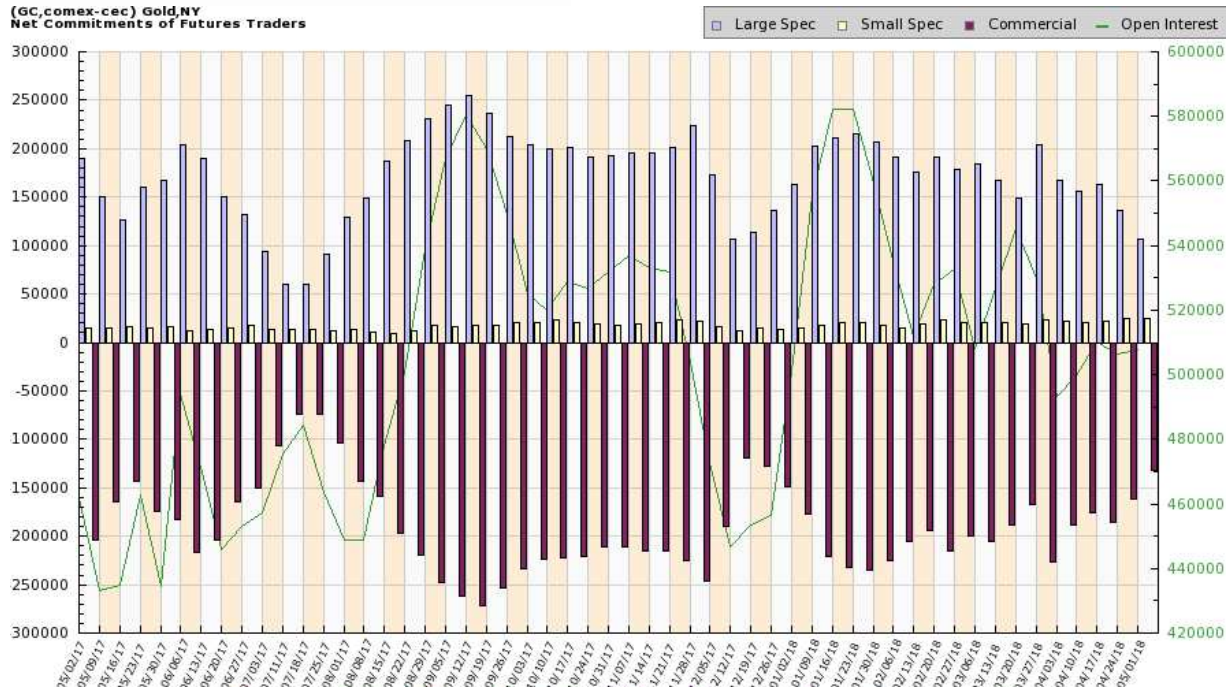
an Egyptian billionaire Naguib Sawiris has put half his net worth of \$5.7 billion into gold. Mr. Sawiris noted two things in particular as to why he put half his wealth into gold—the turmoil in the mid-East and the ongoing turmoil surrounding Donald Trump.



Source: www.stockcharts.com

Silver actually led this past week with a gain of 0.2%. Given some leading strength this past week and a continued bullish commercial COT we are optimistic of higher prices going forward. We have consistently said that silver remains exceptionally cheap compared to gold. Every time the gold-silver ratio went over 80 it proved to be top. The recent high was at 83.21. The ratio currently is at 79.59. A breakdown of the ratio under 70 could spark a sharper rally for silver. Silver appears to have formed a triangular formation, and while it appeared that it might break down, it didn't. Instead, silver rebounded nicely in the latter part of the week. Silver did see a new low price for 2018 at \$16.07 this past week. But support at \$16 appears to have held. Considerable resistance remains up to \$16.80 and \$17.25. A break over \$17.25 could see silver move swiftly to \$17.75. Over \$18 silver would firmly break out. Silver appears to have formed an interesting head and shoulders bottom pattern. The neckline is currently at about \$17.90 which is why we say a breakout over \$18 would be quite important. The potential target of the head and shoulders bottom is \$22.60. That would take out the July 2016 high. Major support is seen at \$16 and down to \$15.65.

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



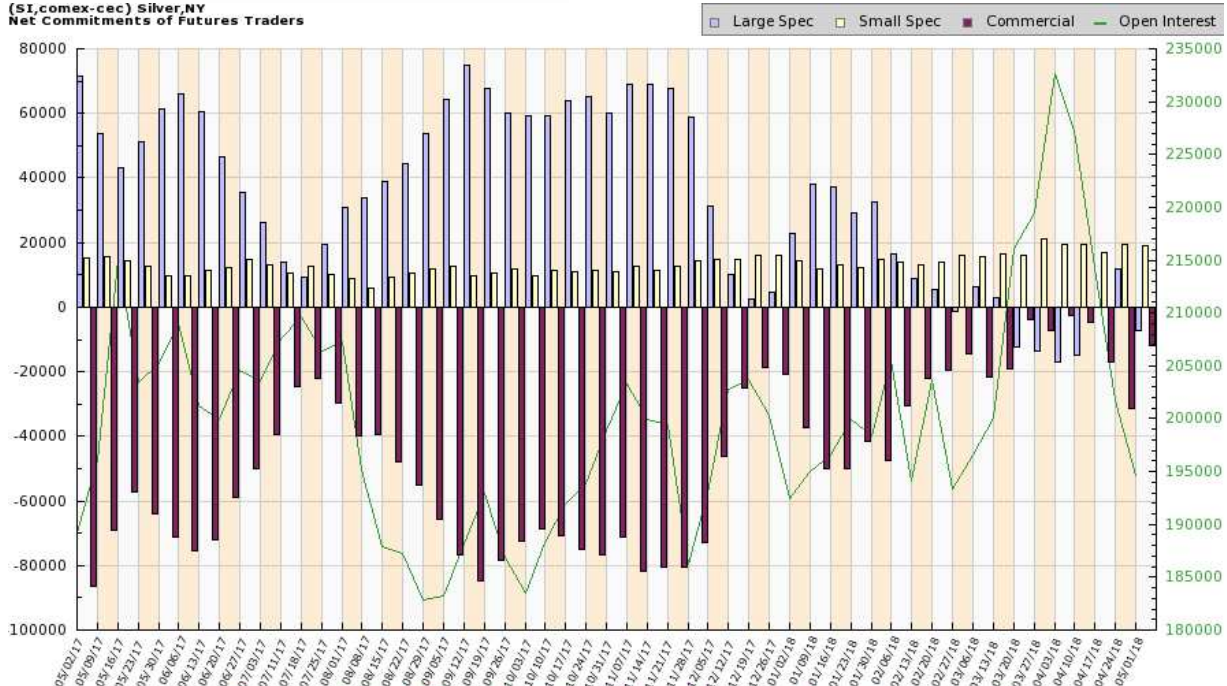
Charts compiled by Software North <http://cotpricecharts.com/commitmentscurrent/>

--- Large Speculators ---				----- Commercial -----				-- Small Speculators --				Open
#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest	
04/03/18 321	234,677	68,088	78%	104	162,608	351,473	32%	43845	21,569	67%	493,141	
04/10/18 326	234,457	79,085	75%	104	166,796	342,448	33%	45574	25,294	64%	499,588	
04/17/18 340	237,288	74,219	76%	103	173,535	358,797	33%	46906	24,713	65%	510,229	
04/24/18 352	225,804	89,158	72%	99	175,715	337,515	34%	50537	25,383	67%	506,410	
05/01/18 371	209,577	102,798	67%	104	179,735	311,607	37%	52288	27,195	66%	507,756	

Source: www.cotpricecharts.com

The commercial COT for gold jumped this week to 37% from 34% the previous week. The large speculators COT (hedge funds, managed futures, etc.) fell to 67% from 72%. This is a potentially bullish development. Long open interest for the commercials rose roughly 4,000 contracts, but it was the fall in short open interest that was larger at about 26,000 contracts. The commercials were largely covering their shorts. Meanwhile, the large speculators cut their longs by roughly 16,000 contracts and increased their shorts by almost 14,000 contracts. It is as if the large speculators threw in the towel. A rise next week in gold prices would go a long way to confirm what the COT appears to be telling us.

(SI,comex-ccc) Silver,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	
04/03/18	225	65,969	82,934	44%	80	86,416	89,053	49%	32333	12,731	72%	232,682
04/10/18	219	65,033	79,866	45%	87	83,340	87,918	49%	32624	13,213	71%	227,175
04/17/18	228	66,609	66,696	50%	80	76,300	93,255	45%	31127	14,085	69%	214,297
04/24/18	229	67,802	55,835	55%	73	75,386	106,951	41%	31795	12,197	72%	201,707
05/01/18	217	68,528	75,724	48%	72	78,011	89,989	46%	32743	13,569	71%	194,685

Source: www.cotpricecharts.com

Like the gold COT, the silver COT also improved this past week. The commercial COT rose to 46% from 41% while the large speculators COT fell to 48% from 55%. The commercials increased their long position by just under 3,000 contracts and, more significantly, cut their short position by 17,000 contracts. The large speculators actually added just under 1,000 contracts to their long position but added about 20,000 contracts to their short position. We are with the commercials. Couple this with the gold COT and the precious metals are appearing positive going forward.



Source: www.stockcharts.com

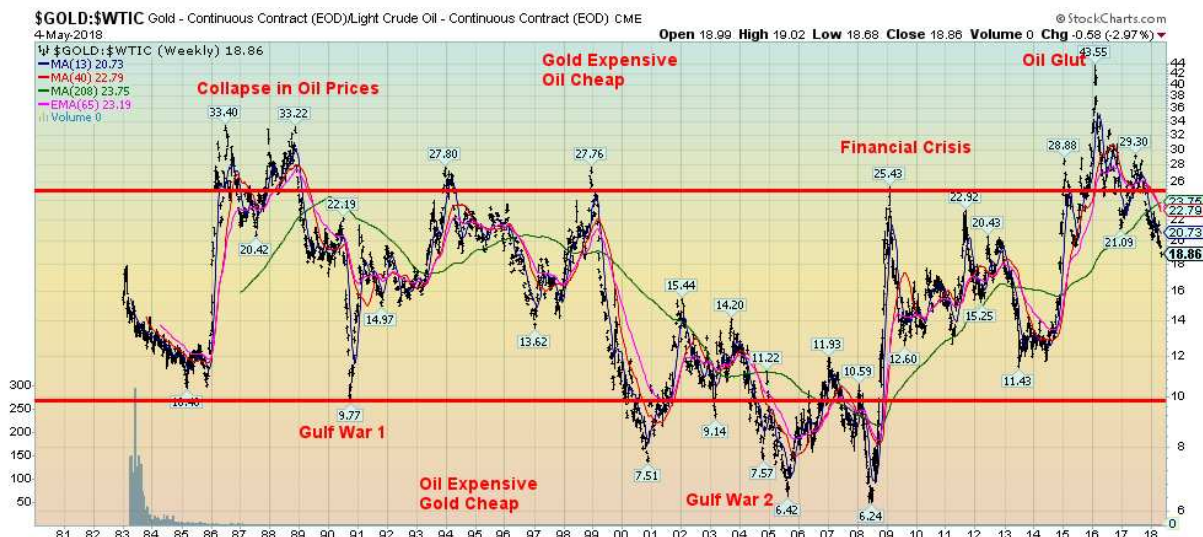
We like what appears to be a rising or ascending triangle forming on the gold stocks as represented here by the TSX Gold Index (TGD). Considering that gold was off on the week although silver was up the TGD held in losing only a small 0.2%. The Gold Bugs Index (HUI) was off almost 0.4%. The ascending triangle pattern is characterized by a rising series of higher lows with a relatively flat top. A breakout could occur over 194 with an even firmer breakout over 200. Over 194 the potential target could be 215 but over 200 the target could be 260, a gain of 35% from current levels. Support appears at 186 and even stronger support at 182. However, we would not want to see the series of higher lows broken. The last low was at 186.33. Significantly, that day the market reversed and closed higher. We have constantly pointed out that the gold stocks remain very cheap to gold. Price history suggests that it won't remain that way forever.



Source: www.stockcharts.com

Oil prices continue to rise despite the strong US\$. This past week WTI oil hit a high of \$69.97, the highest level seen since November 2014. WTI oil was up 2.2% on the week. Ongoing turmoil in the mid-East is helping oil prices as is a desire by both Saudi Arabia and Russia to get the price of oil back into at least the \$85 range. They have been cutting back on production to help push oil prices higher. That oil prices have been rallying despite the higher US\$ is considered quite bullish. Oil was considered to have made an important 18-year cycle in February 2016 at \$26.05. The previous 18-year cycle low was seen in December 1998 at \$10.65. With a range of 15–21 years the previous 18-year cycle low occurred in February 1986 at \$9.95. If the cycle is correct then WTI oil is in its up phase. Typically cycles break down into a two-phase, meaning two cycles of 9 years or a three-phase meaning three cycles of 6 years. Longer term oil prices break out over \$80. There is now significant support down to \$55.

Chart of the Week



Source: www.stockcharts.com

Supporting our thoughts that WTI oil could move sharply higher, this chart of the gold–oil ratio suggests that oil prices should outperform gold prices going forward. We appear to have broken down from the period of oil gluts and are moving into a period of tighter supply. As well, there remains considerable turmoil in the mid-East, particularly with the threats to tear up the Iran nuclear deal. War with Iran would send oil prices soaring. Notice how the gold–oil ratio spikes to lows during war as in both Gulf Wars the gold-oil ratio fell to under 10. We note all this even as we have indicated we believe gold has considerable potential to rally further. But oil could rally even more. The ratio has broken down under the 4-year MA and appears to be headed lower.

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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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