Technical Scoop December 10 2018
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Volatility, Huawei-based Threats, Yellow Vest Riots, No Deep End Yet, Bond and Gold Safe Haven, Oil Bounce

Are you loving the volatility yet? It was a week of 800 point plunges followed by huge rallies only to plunge again. Whatever joy came from the previous week's sharp up move was wiped out this past week. The week ended on a sour note with a 500 plus point down day and the growing controversy over the arrest of the Huawei executive triggering a potential global conflab tied up in the trade wars and sanctions by the U.S. against almost everybody it seems. China has threatened retaliation against both Canada and the U.S. (she was arrested at Vancouver airport by Canadian authorities for extradition to the U.S.) unless this is brought to a swift conclusion. And as if this wasn't bad enough the week ended with the renewal of the "yellow vest" riots in France, riots that could bring down a President.

It is difficult to say where this will lead the markets this coming week. A crash? Or a rebound? Despite the chaos there were a few technical signs that might suggest that the market isn't quite prepared to go off the deep end just yet. The Canadian Dividend Strategy has a large allocation to cash but still holds a select number of stocks.

Bitcoin fell to new lows again and is now beginning to look like a bottomless pit. But there was a big winner last week and we take a look at a digital currency called TittieCoin. Yes there are a lot of oddities in the cryptocurrency world. The job numbers were out on Friday in both Canada and the U.S. The U.S. numbers were a bit of a disappointment but the Canadian job numbers were gangbusters. Bonds have become a safe haven in all the market chaos (and a little bit of short squeeze as well). Result the recession watch spreads (pages 21 and 22) have narrowed again. We could be negative early in the year. The Fed is still expected to hike rates on December 19. Gold has also become a safe haven from the chaos and put in a solid up week with the gold stocks especially enjoying a strong up week. The World Gold Council's outlook is the subject of our Chart of the Week (page 30). Oil prices rebounded as well with cuts proposed from OPEC, Russia and Alberta.

Next week we will issue our annual Forecast edition. It will also be our last of 2018.

Have a great week!

DC

"If I owe a million dollars, I am lost. But if I owe $50 billion the bankers are lost"
—Celso Ming (Brazilian journalist, 1942–)

"The principles of successful stock speculation are based on the supposition that people will continue in the future to make the mistakes they have made in the past."
—Thomas F. Woodcock (*Wall Street Journal* editor & columnist, 1866-1945; as quoted in *Reminiscences of a Stock Operator,* 1923 by Edwin Lefevre, a *roman à clef* about famed stock market speculator Jesse Livermore)

"The usual bull market successfully weathers a number of tests until it is considered invulnerable, whereupon it is ripe for a bust"
—George Soros (Financier, philanthropist, political activist, author, philosopher 1930-)

The U.S. stock markets were quite taken back this past week with the 800-point drop in the Dow Jones Industrials (DJI) on Tuesday, December 4. It appears that President Trump did a good job of whipsawing the market. First trade with China was A-Okay; then trade with China was not so good. Almost four days of gains were wiped out in one session. It could have been even more after the arrest of the Huawei executive that apparently took place during the G20 in Buenos Aries at Vancouver airport but that didn't become widely known until Thursday, December 6.

At one point the market was down almost 800 points on Thursday. The talk turned to speculation that the Fed wouldn't hike rates in December after all because of all the volatility and uncertainty over the trade wars. The market rebounded with a fury. Then Friday's nonfarm payroll came in below expectations which encouraged more talk of the Fed holding off on rate hikes. Initially the market responded positively, but then reality set in and the Dow Jones Industrials (DJI) closed down over 500 points, ending a rather miserable week.

The arrest of the Huawei executive is, however, a serious matter, no matter what the charges are, and can't be easily dismissed. China has threatened retaliation against both Canada and the U.S. The executive, Meng Wenzhou, is the CFO of Huawei and the daughter of the founder.

It's not as if Tuesday's 800-point drop was unusual for this year or even the biggest drop. So far, in 2018 there have been four other 600-point plus drop days. They were February 2 (666 points), February 5 (1,175 points}, February 8 (1,033 points), March 22 (724 points), and October 10 (832 points). There were none in 2017. You have to go back to 2011 to find a 600-point plus day and back to 2008 to find four or more 600-point plus days. We've had five so far this year. Percentage-wise these don't even rate. None of these drops would find themselves in the top ten percentage drops since 1900. That honour belongs to October 19, 1987 (22.6%), October 28, 1929 (12.8%), and October 29, 1929 (11.7%). The 1,175-point drop on February 5 was only 4.6%, but point-wise it was the biggest ever. So, these declines need to be kept in perspective.

But we do note that five large declines like this in one year are historical and unusual, even if they didn't rank with the largest percentage declines. All five are in the top ten-point declines since 1950. And this is the early stages of a potential bear market—not the end as many might tout.

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Maybe the perspective comes from how two of the mightiest corporations have fallen. General Motors (GM) and General Electric (GE) are synonymous with the U.S.A. and global behemoths. Both have been giants for so long it seems impossible that they could fall. But fall they have. General Electric was founded in 1892. In 1896 GE became the one of the original 12 companies listed on the DJI. It was a part of the DJI for 122 years although not continuously. GE was dropped from the DJI in 2018. GE is down 79% from its all-time high seen in August 2000 and 76% from a recovery high seen in 2016.

Source: www.stockcharts.com

General Motors was founded in 1908. GM became a DJI component first in 1915, then following a removal rejoined in 1925. GM was removed from the DJI in June 2009 following a filing for Chapter 11 bankruptcy. The filing was, however, short-lived following a rescue from the Troubled Asset Relief Program (TARP). GM's removal signaled the waning power of the U.S. automobile industry.

Source: www.stockcharts.com

Oddly enough, the only charts we could find of GM dated from 2010 after they emerged from bankruptcy. It is probably not a surprise that GM's stock is higher since those dark days. GM pre-2010 hit its zenith in April 2000 at $93.63. By May 2009 GM had fallen to 75 cents. Could GM be once again hitting the skids? At one time it was the world's largest automaker.

Now it has recently announced it will close five factories, including one in Canada, and lay off upwards of 14,000 workers—all because of declining sales, a slowing economy, and the gradual shift to electric cars. Restructuring alone will cost GM $3.8 billion. Layoffs include both factory workers and white-collar workers. Oddly, one of the reasons GM stock has done well of late is because of massive $13.9 billion stock buyback. To put things in perspective, GE spent $40 billion on stock buybacks at prices anywhere from 150% to 300% higher than where GE is trading today. What this tells us is the two companies were essentially gutted by their own management. Stock buybacks do not create any jobs, add to investment, or contribute to the GDP.

Two of the most iconic companies are in trouble and the stock market is seeing record one-day declines. But it goes further. The FAANGs that led the market up are fast becoming the leaders on the way down.

Source: www.stockcharts.com

To date, the FAANGs have taken quite a tumble. It is revealing how much they have fallen from their recent highs.

- Facebook—down 38%
- Apple—down 26%
- Amazon—down 20%
- Google—down 18%
- Netflix—down 36%

Most of them are still in positive territory over the past year, but all are fading. All five are trading in bear market territory, below their 200-day MA. Facebook is down almost 24% over the past year and Apple and Google are now only clinging to gains. Icons can go up but they can also go down. It is unknown what the impact might be of the arrest in Canada of the Huawei CFO on charges of violating U.S. trade sanctions against Iran. While it might be one thing to go after the company it is unusual to arrest executives. All of the FAANGs have at least a footprint in China. Chinese high-tech companies are becoming major competitors to the FAANGs. The Chinese could retaliate against both Canada and the U.S. over the arrest and requested extradition of the CFO who is the daughter of the founder. No wonder the stock market is falling as trade concerns escalate.

The rebound has come on the expectation that the Fed might now cool its heels with rate hikes. We'd be surprised if that occurred at the December 19 FOMC. Given the ongoing sniping at the Fed and Fed Chair Jerome Powell from President Donald Trump it might give the impression that there is political interference in the Fed. That would be unprecedented, although attempts to manipulate the Fed have occurred in the past notably between former President Richard Nixon and the Fed chair at the time Arthur Burns (1970–1978). Nixon had previously blamed his 1960 presidential defeat on former Fed Chair William McChesney Martin, Jr. (1951–1970) because of his policies, Fed tightening, and slow growth.

Source: www.stockcharts.com

Volatility is now the name of the game as the chart of the VIX Volatility Index shows. Gone are the calm days of 2017. And gone, it appears, are the somewhat less calm days of the market between April and September 2018. This is a chart that points to higher volatility ahead. The volatility days of 2018 that have seen record-breaking down days might, going forward, appear to be almost quaint. The chart is pointing to potential targets up around 50 once it breaks out of the triangle. While that would be more in line with highs seen in 2011 and 2015 it would still be well short of peak volatility seen in 2008.

The markets are facing many headwinds going forward. Trade concerns are but one of many.

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Bitcoin Watch!

Source: www.coindesk.com

The long descent of Bitcoin and the cryptocurrencies continues. Bitcoin has now fallen under $3,400 and appears to be headed even lower. Bitcoin has fallen, as at time of writing, 16% in the past week. Hard to believe but there are some of the bigger cryptos that are actually up on the week. One called Bitcoin SV (BSV) is up roughly 10% this past week. Waves (WAVES) has gained almost 20% but was fading towards the week's end.

But the prize for the best gain on the week, however, belongs to TittieCoin (TIT), up a mind-boggling 1,195%. TittieCoin, it seems, is the digital currency of Tittie Island. For the uninitiated, Tittie Island is apparently a luxury resort being developed—where, we are not sure as the website makes no reference—where you can holiday and time-share. We are sure it will be in a family-friendly atmosphere. Not only have cryptos gone to the dogs (See DogeCoin), but they have, it seems, become just a couple of boobs. The boobs trade for about $0.001 or, in other words, for $0.0005/per boob. There is, amazingly, a supply of upwards of 1.3 billion. That's a lot of boobs.

Source: www.tittiecoin.com

But it is not all joy in crypto land. Even as there were several cryptos with gains of well in excess of 100%, there were many more losers. Something called Etheera (ETA) fell 97%. For every winner there were numerous losers.

Bitcoin's market cap has fallen to about $59 billion. That's down 82% from its all-time high in December 2017. Oh, how the mighty have fallen. And fall further it will. Trying to calculate where Bitcoin might eventually fall to is tricky depending on where and how one interprets the descending triangle that formed over the past several months. We could argue that Bitcoin will eventually just disappear. But then that might not be realistic. The biggest one should be a survivor. Or maybe not. Our next best calculation is currently $2,680 with the next potential landing spot around $1,250. All we can note is that we don't believe Bitcoin has bottomed yet.

There are now 2,068 cryptos listed at Coin Market Cap (www.coinmarketcap.com) vs. 2,076 a week ago. Finally, some drop-off. Although there are still only 934 coins listed at Dead Coins (www.deadcoins.com). The market cap of all the cryptos has fallen to $107 billion, down from about $130 billion a week ago. At one point the market cap of all the cryptos was over $1 trillion. The losses have been staggering. Surprisingly, there are still 9 cryptos with a market cap in excess of $1 billion. Bitcoin makes up 55% of the entire market.

Source: www.stockcharts.com

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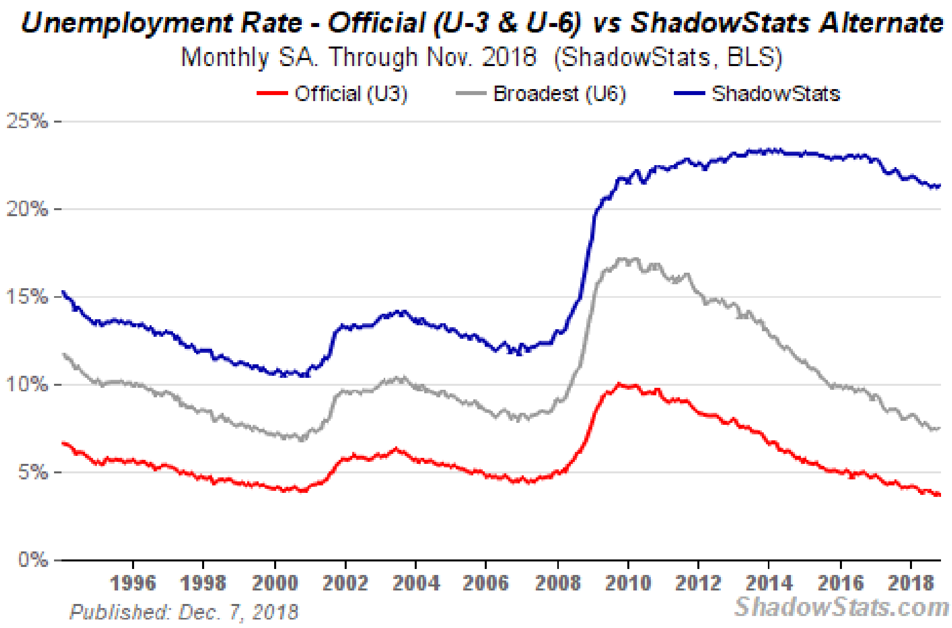
U.S. and Canada Job Numbers

The U.S. Bureau of Labour Statistics (BLS) reported the monthly job numbers on December 7. Statistics Canada reported the Canadian job numbers. The U.S. reported a gain of 155,000 nonfarm payrolls for the month of November. The market had expected anywhere from 189,000 to 200,000 jobs. The previous month was revised downwards to 237,000 from 255,000. The headline unemployment rate (U3) was unchanged at 3.7%, although technically it fell to 3.67% from 3.74%. The BLS reported the U6 unemployment (U3 plus short-term discouraged workers and other marginally attached workers plus those working part-time that want full-time work) as 7.6% up from 7.4%. The Shadow Stats (www.shadowstats.com) unemployment number (U6 plus long-term discouraged workers and those defined out of existence in 1994) was reported as 21.3% up from 21.2%. The numbers would be deemed a disappointment.



Source: www.shadowstats.com

As we usually try to do, we need to look at the numbers behind the numbers. The civilian labour force participation rate was unchanged at 62.9%, reflecting only a small change in the size of the civilian labour force that rose 133,000. The number of people employed rose by 233,000 to 156,795,000. According to statistics available from the St. Louis Fed (www.stlouisfed.org) the number employed full-time rose by 543,000 while the number of part-time workers fell by 258,000. The civilian employment population ratio was also unchanged on the month at 60.6%.

The total number unemployed rose by 11,000 in November. The number of people not in the labour force also rose up 60,000 on the month. Retirees make up the largest portion of those not in the labour force. As of

November 30, 95.9 million are reported as not being in the labour force, of which 52.5 million are retirees. The number of people reported as not in the labour force but looking for work and available rose to 1,678,000, up 187,000 on the month. Average hourly earnings were steady year over year at 3.1% while month over month they were up 0.2%.

In Canada, the November equivalent of the U.S.'s nonfarm payroll saw 94,100 jobs added. October saw a gain of 11,200. This was well above the consensus of 18,100 expected. The gain was made up of 89,900 full-time jobs and 4,100 part-time jobs. Canada's labour force participation rate rose to 65.4% from 65.2%. The unemployment rate fell to 5.6% from 5.8%. The market had expected the unemployment rate to remain steady at 5.8%. It is the lowest rate since 1976. Employment grew in six provinces, with the Atlantic provinces lagging with little change. Ontario added 20,000 jobs, mostly full-time. Despite the woes in the energy sector Alberta added jobs as well.

Source: www.tradingeconomics.com, www.statcan.gc.ca

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MARKETS AND TRENDS

	Close Dec 31/17	Close Dec 7/18	% Gains (Losses) Week	YTD	Trends Daily (Short Term)	Weekly (Intermediate)	Monthly (Long Term)
Stock Market Indices							
S&P 500	2,673.63	2,633.08	(4.6)%	(1.5)%	down	down	up (topping)
Dow Jones Industrials	24,719.22	24,388.95	(4.5)%	(1.3)%	down	down (weak)	up (topping)
Dow Jones Transports	10,612.29	9,951.16	(8.0)%	(6.2)%	down	down	up (topping)
NASDAQ	6,903.39	6,969.25	(4.9)%	1.0%	down	down	up (topping)
S&P/TSX Composite	16,209.13	14,795.13	(2.7)%	(8.7)%	down	down	neutral
S&P/TSX Venture (CDNX)	850.72	**572.38 (new lows)**	(2.9)%	(32.7)%	down	down	down
Russell 2000	1,535.51	1,448.09	(5.6)%	(5.7)%	down	down	up (weak topping)
MSCI World Index	2,046.47	**1,764.18 (new lows)**	(2.3)%	(13.8)%	down	down	neutral
NYSE Bitcoin Index	14,492.18	**3,401.79 (new lows)**	(14.5)%	(76.5)%	down	down	down
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	192.31	153.93	6.1%	(20.0)%	up	down	down
TSX Gold Index (TGD)	195.71	175.21	6.6%	(10.5)%	up	down (weak)	down
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury yield	2.40	2.85	(5.3)%	18.8%			
Cdn. 10-Year Bond yield	2.04	2.07	(8.9)%	1.5%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.51	0.13	(38.1)%	(74.5)%			
Cdn 2-year 10-year CGB spread	0.36	0.07	(36.4)%	(80.6)%			
Currencies							
US$ Index	91.99	96.48	(0.7)%	4.9%	up (weak)	up	neutral
Canadian $	0.7990	**0.7530 (new lows)**	flat	(5.8)%	down	down	down
Euro	120.03	114.10	0.8%	(4.9)%	down	down	neutral
British Pound	135.04	127.46	flat	(5.6)%	down	down	down
Japanese Yen	88.76	88.74	0.7%	flat	up (weak)	down	down (weak)
(weak							
Precious Metals							
Gold	1,309.30	1,252.60	2.7%	(4.3)%	up	neutral	neutral
Silver	17.15	14.70	3.4%	(14.3)%	up	down	down
Platinum	938.30	790.40	(1.2)%	(15.8)%	down	down	down
Base Metals							
Palladium	1,061.00	**1,196.40 (new highs)**	2.4%	12.8%	up	up	up
Copper	3.30	2.76	(1.1)%	(16.4)%	neutral	down (weak)	up (weak)
Energy							
WTI Oil	60.42	52.61	3.3%	(12.9)%	down	down	neutral
Natural Gas	2.95	4.49	(2.6)%	52.2%	up	up	up

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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Source: www.stockcharts.com

Thanks to Trump's on again-off again or who knows what is happening with China trade talks, the market put in an exceptionally volatile week. The market plunged, then bounced back on word the Fed might not hike rates much more (the term was the Fed rate is near neutral), but then tanked again when the Huawei executive was arrested and U.S-China relations were put on the endangered list once again. When the dust (and volatility) cleared, the S&P 500 was down 4.6% on the week, wiping out the previous week and putting the S&P 500 in negative territory for the year once again, down 1.5%. Other markets suffered too. The Dow Jones Industrials (DJI) fell 4.5%, the Dow Jones Transportations (DJT) was one of the worst performers down 8%, the NASDAQ lost 4.9%, while the small cap Russell 2000 was off 5.6%. Small caps continue to underperform large caps which is what one would expect in a bear market. In international markets, the London FTSE 100 was off 3.1%, the Shanghai Index (SSEC) shone, up 0.7%, the riot-bitten Paris CAC 40 fell 3.8%, the German DAX dropped 4.2%, while the Tokyo Nikkei Dow (TKN) fell 3%. In Canada, the TSX Composite lost 2.7% and the TSX Venture Exchange (CDNX) continued its miserable year, falling once again to new 52-week lows and losing 2.9%. The CDNX is down 32.7% in 2018. There were some encouraging signs that we still might see a Santa Claus rally but we are not holding our breath. The market instead could just be choppy over the rest of the month. Some will depend on how the Chinese executive fares in court. Both China and Huawei are denying the charges. It is also unprecedented to seize an executive from the company as opposed to just going after the company. It exposes both Canada and the U.S. to potential retaliation by China. Clearly new

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lows below 2,603 could send the S&P 500 lower to its next potential level near 2,400. That would mean new 52-week lows. The S&P 500 needs to regain back above 2,700 to suggest that it might see a further rebound and test the down-trending moving averages. Only above 2,800 is there even a remote chance of testing the highs. The reality is a bear market has set in and the 200-day MA, currently near 2,760 with some range up to 2,800, should act as firm resistance. The wave count suggests that wave 1 down was the low at 2,603. Whether wave 2 is complete or not we are not sure. A breakdown under 2,603 would confirm that we are in a 3rd wave down.

Source: www.stockcharts.com

We saw this chart in a recent issue of Elliott Wave International (www.elliottwave.com), so we thought we would work up our own version. What the chart shows on top is the NYSE new highs minus new lows with a chart of the NYSE below. Despite the rise from April to October, the new highs minus new lows struggled to stay above 0. At the high we note that even as the NYSE was moving higher the new highs minus new lows were moving lower with lower highs. Interestingly, the new highs minus new lows is making lower lows even as the NYSE itself is making a higher low. Naturally, this divergence is not as yet confirmed. But it is worth watching and suggests we could still make another upside attempt this month.

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Source: www.stockcharts.com

The number of stocks trading above its 200-day MA continues to fall. The current level is 35.6%, just above the recent low at 34.4%. That's still above the levels seen in 2011 and 2015–2016 and well above the levels seen in 2008–2009. Still, it is indicative of the bear market when 65% of the stocks listed on the S&P 500 are trading below the 200-day MA. The S&P 500 itself is under that level and indicates we are in a bear market that has not run its course.

Source: www.stockcharts.com

The TSX Composite fell 2.7% this past week. That was good compared to the U.S. indices who were down 4% or more this past week. So far, the TSX has held above its low seen in late October at 14,640. A break of that level suggests the TSX could fall to its next level near 13,900. The double top suggested a decline to at least 15,425. It achieved that and it next suggested a decline to 15,100. Since that was also achieved, we need to look at the next level which is down to 14,660. That level was also achieved. The double top suggests below 14,640 the next target could be down to 13,700 which is quite close to the other target we noted. So, a breakdown under 14,640 would suggest a decline to at least 13,700 to 14,000. A move back up that takes out 15,300 suggests that there is more backing and filling and we could then test the 200-day MA near 15,900.

Source: www.stockcharts.com

The TSX Financial Index (FS) has traced out what appears a large topping pattern from 2017 through 2018. It recently broke down. It suggests that the index could fall down to at least 250. That's only another 11% lower. The index is down 11.7% from its high seen in January 2018. The FS holds all the major Canadian banks.

Source: www.stockcharts.com

With the TSX Composite on the skids it is worth noting that only 30.6% of the stocks listed on the index are currently trading above their 200-day MA. It is not as low as it reached in 2011 and 2015–2016 and still has quite a way to go to reach the depths of 2009. However, anytime it falls under 50% it is indicative that the index is in a bear market. There appears to be some support down to 20%, but below that level we could be looking at 2009 levels once again.

Source: www.stockcharts.com

The German DAX has broken firmly into bear territory. The DAX is now down almost 21% from the high seen in January 2018. It is not a pleasant statement and we suspect the DAX is acting as a leader as to where the U.S. stock exchanges will eventually head. The Germany economy is the fourth largest in the world, but the German Bourse is only the 9th largest by market cap of exchanges in the world. One of its biggest problem children is Deutsche Bank (DB), the world's 14th largest bank by assets with $1,675 billion in assets. According to the rumour mill, DB is facing imminent collapse. If that actually happened it would make the collapse of Lehman Brothers in 2008 look like a Sunday school picnic. Deutsche Bank is down 93% from its high in 2006 and still falling. It is plagued with bad loans, bad sovereign debt, and supposedly the world's most dangerous derivative portfolio just waiting to blow up if one listens to the rumour mill. No, the potential for the collapse of Deutsche Bank can't be dismissed out of hand. However, in some ways Deutsche Bank is synonymous with Germany so its collapse would be earth-shattering and would cause major disruption and chaos in global financial markets.

Source: www.stockcharts.com

The Tokyo Nikkei Dow (TKN) remains one of the few indices that still appears to be in a topping pattern as opposed to breaking down. However, the TKN is trading below its 200-day MA and has done so for the past two months. The TKN breaks down under 21,250 and projects down to around 17,000. Only regaining above 22,500 might change that scenario. The Japanese economy is the third largest in the world and the Japanese Nikkei Dow is the third largest by market cap in the world.

Source: www.stockcharts.com

The 10-year U.S. Treasury note fell to 2.85%, pushed lower by the volatile, falling stock market and also due to a short squeeze. Amazing how they turn up when the universe is turning quite bearish as it was only a few weeks ago. It now appears that the 3.24% high may be it. That would fall short of our original target of 3.45%. The 10-year is under the 200-day MA for the first time since October 2017. Final confirmation that a top is in will come when we break down under the recent lows seen at 2.77% and 2.82%.

Recession Watch Spread

Source: www.stockcharts.com

The 2-year—10-year U.S. Treasury spread has fallen to 13 bp, its lowest level since 2007. It is still not negative but there is no denying the downward direction. At the current rate the 2–10 spread could be negative early in the New Year. We do need a few months of negative spread to begin to even suggest a potential recession. Still, it is interesting that we are now down to that level even as the economy still appears to have life. But as we have often pointed out, dark clouds are gathering. It also puts the Fed on notice. No wonder we are now hearing babbling that the Fed might not hike rates as expected at the FOMC December 18–19. That would be a shock. Our expectations remain that the Fed will hike on December 19. As to the potential rate hikes in 2019 that remains possible. The Fed has a bad habit of starting its rate hikes too late and halting them too late.

Recession Watch Spread (2)

Source: www.stockcharts.com

We couldn't help but notice a Bloomberg story this past week touting how the 2-year—5-year spread had turned negative for the first time since 2007 and that it was now signaling a potential recession. (https://www.bloomberg.com/news/articles/2018-12-03/the-flattening-yield-curve-just-produced-its-first-inversion).

The best we can say is that this is a very early warning sign. One week or so does not make a recession. We need several weeks of a negative spread. The 2–10-year spread is more closely watched. It too, as we noted above, is at its lowest level since 2007 but it is not negative yet. Still, it should be noted.

Source: www.stockcharts.com

The US$ Index continues to trace out what appears to us as a large topping pattern. The failure to push its way higher over 98, despite several attempts over the past two months, tells us that there is buyer fatigue. Given that sentiment indicators have consistently been at 90% or higher on a number of occasions over the past couple of months, there are probably few buyers around. As well, the potential for global trade war is not positive for the U.S. dollar. Surprisingly, it is the euro that is showing potential strength although the strongest looking one of late is the Japanese yen. Right now, there are fewer issues with Japan than there are with the U.S. or the EU for that matter. The first sign of faltering will be for the US$ Index to break under 96. However, the major breakdown would not occur until under 94. Once the market breaks down under 94, potential targets are down to 89. The entire zone from 97 to 97.75 is proving to be strong resistance right now.

Source: www.stockcharts.com

While the stock markets were hitting the skids this past week, gold, silver, and the gold stocks all rallied. Gold jumped 2.7% while silver was up 3.4%. Palladium continues its record-winning ways, gaining another 2.4% on the week. It is unusual to see gold and palladium trading at almost identical levels. Platinum faltered this past week, losing 1.2%. The world's largest palladium producer is Russia and that is a potential constraint on supplies, given the U.S. sanctions against parts of the Russian economy. Since the stock markets topped on October 3, gold is up 3.8% while the S&P 500 is down 9.9%. Gold along with bonds is proving to be a safe haven in times of stock market stress. Gold is now testing resistance at $1,250, closing marginally over that level on Friday. With the 200-day MA at $1,260 we need to see gold close over that level for a few days to convince us that we are now on our next move to resistance at $1,300/$1,320. Gold has the potential on this move to retest the highs seen over the past few years near $1,370. Initially at least, we will probably balk at that level once again. Ultimately, we believe we should go through $1,400 and even head to $1,500. A broader bottoming pattern for gold formed over the past few years suggests the potential to rise to over $1,700 once we firmly break out over $1,400. Because of the funeral for George H.W. Bush this week the COT report, normally reported on Friday after markets close, is delayed until Monday at close of market. Gold is perking up, but we await a firm breakout over $1,260 to suggest that our next move to $1,300 and higher is underway.

Source: www.stockcharts.com

Silver continues to show positive signs despite still being under $15. The recent pullback saw silver remain above $14. Silver was up 3.4% this past week. The pattern still appears to be forming a bottom. Sentiment, while off the lows that saw bullish sentiment fall to 6%, remains very weak. Our major hurdle remains at $15. Once over $15, a move to $15.50/$15.60 should get underway. Only a move back under $14.15 would turn us neutral. Support could now be seen at $14.50.

Source: www.stockcharts.com

Since we are Canadian, we do follow gold priced in Canadian dollars. Note how gold priced in Cdn$ has broken out over the 200-day MA. This is primarily the result of the weak Cdn$ which made new 52-week lows this past week. Closing at $1,663, gold priced in Cdn$ is only down 12.7% or $240 from its high seen in September 2011. Gold in US$, however, is down almost 35% or $670 from its high set at the same time. The differential is primarily because of the weak Cdn$. It shows that gold holds it value and maintains purchasing power as a currency weakens. We note that gold in pound sterling, euros, and Japanese yen is also trading above the 200-day MA. They are leading the way. All are suggesting that higher gold prices lie ahead.

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Source: www.stockcharts.com

The TSX Gold Index (TGD) appears to have broken out of another small head and shoulders consolidation pattern. The TGD gained 6.6% this past week while the Gold Bugs Index (HUI) was up 6.1%. When one compares this to the losses in the broader stock market the gold stocks were gang busters this past week. This is the second head and shoulders pattern seen in the past five months. The first one suggested a move to about 176. The high was 175.53. The current head and shoulders pattern suggests a move to at least 190. There is considerable congestion resistance from roughly 185 to 195. Volume has picked up a little over the past few days; however, there has been no strong volume come in just yet. This might not be unusual in the early stages of a rally. However, one has to be encouraged by the gold stocks moving in opposition to the down moves in the broader stock market. Seasonally, gold and gold stocks are moving into a positive period that often lasts until PDAC in early March. The stronger part of the seasonals starts after January 1. It should be noted that in the early stages it is the seniors, intermediates, and some juniors that make the best moves. Note that the TGD is now testing the 200-day MA (currently at 176.76) and could be poised to break out. Early leaders we can note are Barrick Gold (ABX), Franco Nevada (FNV), and Kirkland Lake Gold (KL). All are trading above the 200-day MA, a positive development.

Source: www.stockcharts.com

Finally, production cuts. OPEC and Russia agreed to cut 1.2 million barrels per day from global markets in an attempt to stabilize oil prices. This was despite the outcry from President Trump who wants even lower oil prices. Exemptions were granted to Iran, Venezuela, and Libya. WTI oil prices are down roughly 32% from a peak seen in October. The world has effectively been awash in oil, especially since the U.S. surpassed both Russia and Saudi Arabia as the world's number one producer. It was unclear as to how soon production cuts might start. And in the past, there were notorious cheaters. Alberta got in on the production cut game by announcing they too would cut production by 8.7%. The effect was fairly immediate as WTI oil prices jumped higher, ending the week up 3.3%. Canadian oil prices also firmed up. It still leaves WTI oil down 12.9% on the year. The effect wasn't so great on the Philadelphia Oil & Gas Index (XOI) as it ended the week actually down 2.4%. The TSX Energy Index (TEN) also ended the week down, but by a much smaller 0.2%. Both indices may have been more influenced by the sell-off in the stock market than the rise in oil prices. The recent collapse in oil prices retraced roughly 54% of the entire move from $26.05, a level seen back in 2016. It was also 79% of the move from $42.05, a price seen back in June 2017. Technically, there is no sign of a bottom just yet in oil prices, although the move this past week was encouraging. Certainly, the market had been extremely oversold and had been that way throughout November.

There is resistance up at $55, $60, and $65. WTI oil needs to regain above $66 to even begin to remotely suggest that there might be a better assault on the earlier high at $76.90. In the interim, $50 is support, and then it would be down to $42/$45. For the XOI there is some support at current levels. Like WTI oil, the energy stocks have been deeply oversold. Seasonally, we are moving into a better space for oil prices as well. Oil and the XOI have positive seasonals from December to July. Given the production cuts and positive seasonals, that might be encouraging for oil and energy stocks going forward.

Chart of the Week

Top 20 according to World Gold Council's latest rankings (as of November 2018)[10][11]

Rank	Country/Organization	Gold holdings (in metric tons)	Gold's share of forex reserves
1	United States	8,133.5	73.4%
2	Germany	3,369.7	68.8%
—	International Monetary Fund	2,814.0	N/A
3	Italy	2,451.8	65.1%
4	France	2,436.0	59.1%
5	Russia	2,036.2	16.9%
6	China	1,842.6	2.2%
7	Switzerland	1,040.0	5.0%
8	Japan	765.2	2.3%
9	Netherlands	612.5	65.5%
10	India	579.9	5.5%
—	European Central Bank	504.8	25.1%
11	Taiwan	423.6	3.4%
12	Portugal	382.5	63.1%
13	Kazakhstan	335.1	42.5%
14	Saudi Arabia	323.1	2.4%
15	United Kingdom	310.3	7.7%
16	Lebanon	286.8	19.5%
17	Spain	281.6	15.8%
18	Austria	280.0	46.9%
19	Belgium	227.4	33.6%
20	Philippines	197.9	9.7%

Source: www.gold.org

The World Gold Council (www.gold.org) (WGC) released their annual market outlook for 2019 this past week. Their expectation is that the factors that drove gold higher in the second half of 2018 would continue into 2019. They noted that gold did top out in April and drifted to a low in August near $1,165. Since then, gold has been slowly rising. Factors that pushed it down were many we have cited in the past, particularly the strong U.S. dollar, coupled with the Fed hiking interest rates and indicating that further hikes into 2019 were on the way. The U.S. economy was also humming thanks to Trump tax cuts. Bullish sentiment pushed stock indices to record levels following the downdraft that occurred in February/March 2018 because of trade war fears. Now that has reversed again and stocks are falling but gold is rising. Stock markets in emerging markets were particularly vulnerable.

The WGC cited that demand in China and India continues to grow. The two of them make up roughly half of global demand. There was also a rise in demand for gold in technology. Central bank demand also continues to be strong and the WGC expects this to continue into 2019. The underpinnings for gold remain strong as the WGC notes that these factors are relevant for gold's performance going forward.

The chart of gold holdings by central banks is interesting in that a major component of FX reserves for the Western countries is gold, whereas gold makes up only a small amount of the reserves of China and Russia. The two have been major buyers of gold over the past few years and their intention is to back their currencies with gold and raise their percentage of gold reserves as a share of forex reserves up to the levels of the Western economies.

The U.S. holds not only the highest reserves but is also the highest in relation to their foreign reserves. The U.S. carries the gold on their books at a price of $42.22, a level which is absurd. M1 money stock totals roughly $3,696 billion. If gold were revalued upwards to cover U.S. M1, gold would need to be priced at $14,100/ounce. While that number may also be improbable there has been talk at times to revalue gold upwards to deal with the debt problem. This is effectively what happened in the 1930s when the Gold Reserve Act (1934) was passed and it revalued gold upwards to $35/ounce from $20.67. It was an immediate devaluation of the U.S. dollar and it helped stabilize the run on banks to withdraw funds because those funds could no longer be converted into gold.

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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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