Technical Scoop E-Commentary March 11 2019
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Canada Jobs Sparkle, Trade Deficits Widen, Houses and Ships Signal Slowdown, Dollar Gains, Gold Corrects

20,000 jobs vs. 55,900 jobs. That was the stark difference between the U.S. nonfarm payrolls and the Canadian job numbers for February. Given Canada's population is only about 1/10th that of the U.S., it would be like Canada created 559,000 jobs in February. For the U.S. Fed, it gives meaning to their "patient" approach. To the BofC it gives pause to any thoughts of lowering interest rates. As to the unemployment rates, the U.S. rate (U3) fell to 3.8% from 4% while the Canadian unemployment rate remained unchanged at 5.8%. But not the difference in the labour force participation rate. For the U.S. it was unchanged in February at 63.2% while in Canada it rose slightly to 65.8% from 65.6%. The higher the participation rate the higher the unemployment rate. For the record, in the U.S. the U6 unemployment rate fell to 7.3% from 8.1% while the Shadow Stats unemployment rate (www.shadowstats.com) fell to 21.1% from 21.8%. Not surprisingly, those not in the labour force in the U.S. rose to 95,208 thousand from 95,010 thousand.

With the eurozone, Japan, and China all showing signs of slowing, it is not surprising as well we are seeing signs of slowing in the U.S. and Canada. In the U.S., the real merchandise trade deficit just hit record levels as both annual and Q4 deficits were the deepest in history. Q4 housing starts were revised sharply lower. Given the trade deficit and the slowing housing market, expect a sharp downward revision in Q4 GDP. The Baltic Dry Index (BDI), a measurement of shipping activity around the world, is at its lowest level since 2016, signaling a global slowdown in trade. Canada's housing market is also experiencing a slowdown as housing starts plummet across the country and prices continue to soften. Canada also experienced a widening trade deficit. In the U.S., a widening trade deficit is not what President Trump wants.

And a strong U.S. dollar is not what President Trump wants, either. But this past week the US$ Index jumped to its highest level since December. It backed off on Friday, but what it is telling us is that odds favour further gains for the U.S. dollar rather than a falling dollar. A run of the US$ Index to par (100) against the basket of currencies is now not out of the question. The Canadian $ gained on Friday following the strong job numbers, but the reality is the Canadian $ is not far from its 2018 low of 73.30 (it closed Friday at 74.57).

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Source: www.stockcharts.com

We have relabeled the US$ Index. The correction since August 2018 now appears as an ABCDE-type pattern which we have labeled as wave (B). To come is wave (C) up that should take the US$ Index to at least par (100). All this is against a backdrop of an overly optimistic US$ and a depressed euro. The breakdown point remains at 94.50.

The reaction of the markets on Friday to the February nonfarm payrolls was, in the end, rather muted. The markets had been falling all week, but Friday's action saw the stock markets fall, only to reverse and come back almost unchanged on the day. But, overall, stock markets were down on the week. We also note divergences such as the sharp fall in the Dow Jones Transportations (DJT), while the NASDAQ made new highs for the move but other indices did not.

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The S&P 500, along with the other stock market indices stopped short of a major breakout that would have suggested a run to new all-time highs. Remember DJI 30,000? Well. it is still alive. The S&P 500 along with the other indices could form the right shoulder of a potential head and shoulders bottom. After that, a breakout above 2,825 could project up to around 3,300. Key is the S&P 500 does not break down under 2,600. The five wave up pattern from the December low has forced us to reassess just where we are and the conclusion we came to is that the stock indices could still run to new all-time highs. But we emphasize the S&P 500 must hold above 2,600 or potentially all bets are off.

Gold benefitted from the poor economic numbers seen on Friday, but at the end of the week all gold could do was remain flat. Silver managed to eke out a small 0.6% gain. Our view on gold hasn't changed. After hitting a peak near $1,350, we expect a corrective period could last into May and gold fall to around $1,250, with a worst case scenario down to $1,220. That would fit with a stronger US$. Nonetheless, gold, after falling from $1,350 to near $1,280, is due for a rebound. We note improvement in the commercial COT this week, suggesting the commercials have knocked back on their short positions, although they didn't really add to their long positions. A gold rebound could take gold back to around $1,320 before it resumes its downtrend. Once this correction is out of the way, we expect that gold should embark on a multi-month rally that should take it past $1,400 and up towards $1,500. The Canadian Dividend Strategy has begun some allocation to gold.

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That's it for this week. Have a great week! We will return with a full report next weekend.

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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.