Technical Scoop February 28, 2022
From David Chapman, Chief Strategist
dchapman@enrichedinvesting.com
For Technical Scoop enquiries: 416-523-5454
For Enriched Investing™ strategy enquiries and
for Canadian Conservative Growth Strategy enquiries: 416-203-3028

Invasion foreshadowing, market unrest, war-impacted inflation, commodity powerhouse, sanction squeeze

Volatility is back with a vengeance as Russia invades Ukraine. Invasions have historically preceded recessions and stock market declines. 1914 and 1939 are two of the best known examples but lesser known was the USSR invasion of Hungary 1956, Czechoslovakia 1968 and Afghanistan 1979. War has played a big role in inflation most notably WW1 and the Vietnam War.

Markets were very volatile this past week both up and down. But what next? This week's report is shortened due to a very busy week cutting into our time. We cover the potential effects on commodities of the Russian invasion of Ukraine. This could impact the performance of energy stocks based elsewhere such as Canadian Natural Resources, a senior oil and natural gas producer with core operations in Western Canada, Offshore Africa and the U.K. portion of the North Sea, which pays a dividend and is held in the Canadian Conservative Growth Strategy.* Russia together with Ukraine would be a commodity powerhouse. Hard to put sanctions on them over commodities because it could spark a squeeze on commodities globally due to shortages. Sanctions against Russia could have all sorts of negative financial repercussions. We look at past bear markets and where that takes us today. Cycles repeat and are somewhat predictable. "History doesn't repeat itself, but it often rhymes" - Mark Twain.

Following our essay we provide our usual "Markets and Trends" chart followed by a look at the S&P 500 and gold. This week brings us the U.S. February employment numbers. And probably more twists and turns in the markets.

Winter is still hanging on officially for another three weeks. Spring is in the air. Get outside. Have a great week.

DC

* Reference to the Canadian Conservative Growth Strategy and its investments is added by Margaret Samuel, President, CEO and Portfolio Manager of Enriched Investing Incorporated, who can be reached at 416-203-3028 or msamuel@enrichedinvesting.com

"Never underestimate the power of stupid people in large groups."
—George Carlin, American stand-up comedian, actor, social critic, author, known for dark comedy and reflections on politics, the English language, psychology, religion, and taboo subjects; 1937–2008

"That men do not learn very much from the lessons of history is the most important of all the lessons of history."
—Aldous Huxley, English writer, philosopher, author – *Brave New World* (1932), Nobel Prize nominee nine times; 1894–1963

"The pendulum of the mind alternates between sense and nonsense, not between right and wrong."
—Carl Jung, Swiss psychiatrist and psychoanalyst, founded analytical psychology, influential in the fields of psychiatry, anthropology, archeology, literature, philosophy, psychology and religious studies, worked with Sigmund Freud; 1875–1961

Well, if you thought inflation was a problem before, the catchphrase now may be, "You ain't seen nothing yet" (apologies to Bachman Turner Overdrive). After months of posturing, Russia has invaded Ukraine, sending the world into a potential crisis not seen since World War II. While it is difficult to say how this will play out and end, there is one thing that is quite noticeable that was absent in World War II. Russia has commodities. Germany and Japan during World War II did not. Their attempt to secure their supplies, particularly oil, prompted Germany to invade Russia in 1942 and Japan to invade the Dutch East Indies in 1941–1942. Others did the same, as witnessed by the British/Soviet invasion of Iran 1941 to secure Persian oil.

But oil is just one of many commodities of which Russia is a major producer and exporter. So far, sanctions have largely avoided Russia's commodity sector but that could change, and that in turn could send prices soaring even more so than they have already.

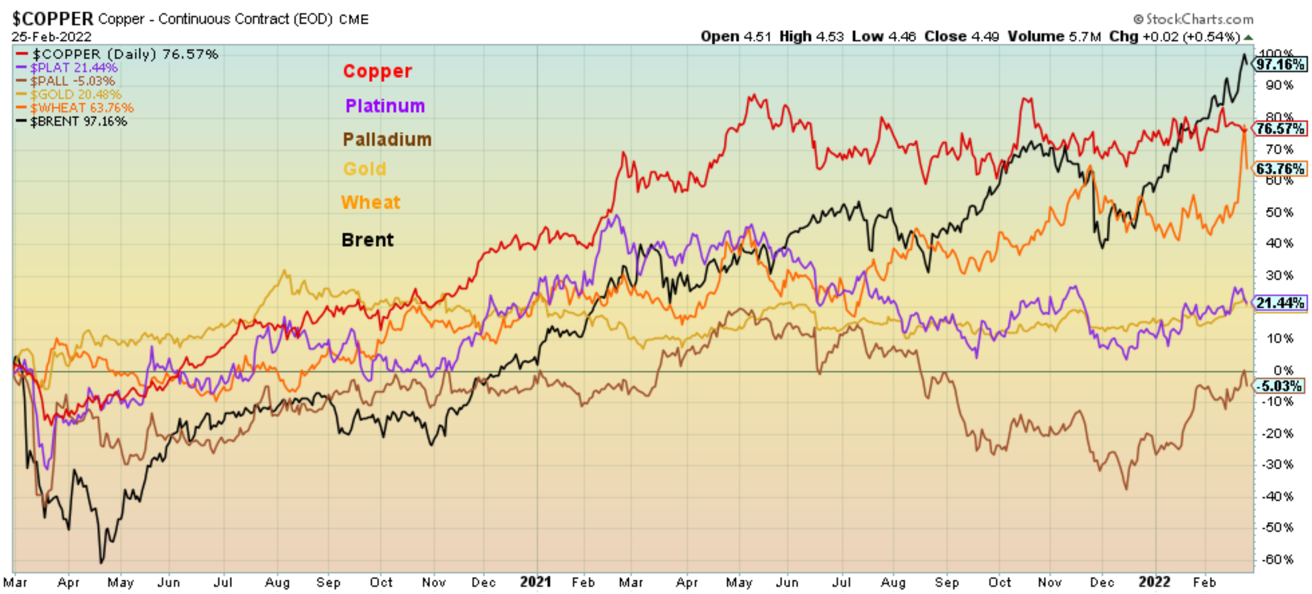
Russia produces 6% of the world's aluminum, 4% of the world's cobalt, 3.5% of the world's copper, 7% of the world's nickel, 40% of the world's palladium and 10% of the world's platinum, 10% of the world's gold, 4% of the world's steel, 30% of the world's diamonds, 13% of the world's major fertilizers such as potash, phosphate, and nitrogen, and 17% of the world's wheat. Add in Ukraine's wheat production and between the two they produce over 25% of the world's wheat. Ukraine also holds 50% of the world's exports of sunflower oil. Ukraine is also a major producer of nickel, copper, and iron. Ukraine has roughly 20% of the global iron market. Ukraine's wealth of commodities added to Russia's would make Russia a commodity powerhouse.

Neon, an important element in chip lithography sees 90% of the world's supply originate in Russia and 60% of this purified by one company in Odessa, Ukraine. Russia also is a major producer of titanium. One company, Russia's VSMPO-Avisma Corporation, is a major cog in the world titanium market as the world's civil aviation chain, which includes Airbus and Boeing, are quite dependent on it.

Lest we forget, Russia is the world's third largest oil producer with 11% of the global total and holds the world's eighth largest oil reserves. As to natural gas (NG), Russia has the world's largest reserves (24% of the global total), and is the world's second largest producer with 17% of the global total.

The U.S. last reported that they imported 595 thousand barrels/day from Russia (November 2021). That number represented 7% of all U.S. oil imports. Replacing it will not necessarily be easy and could further exacerbate rising oil prices. Russia has already limited fertilizer exports and could squeeze them further. This could be very problematic for the world and spark famines. While the word is that some countries such as Japan have announced they are prepared to release oil from their strategic reserves, there is insufficient supply to replace what could be lost if Russian taps were turned off. One can't automatically transfer surplus oil and gas from the U.S. and Canada over to the EU. U.S. could also release from their strategic reserves, but the reality is the U.S.'s strategic reserves are at their lowest level since the early 2000s.

Prices have soared since March 2020. Copper is up 76.6%, platinum up 21.4%, palladium actually down 5.0% but coming back fast following a period of weakness, gold up 20.5%, wheat up 63.8%, and Brent crude up 97.2%.



Source: www.stockcharts.com

An interruption or, worse, cut-off from energy could be disastrous for the EU. The chart below shows how much the EU is dependent on Russian natural gas. Europe relies on Russia for at least 40% of its energy needs, including 35% of its natural gas needs. For Germany it is 65%. Pipelines cross through Belarus and Poland to Germany. Nord Stream 1 goes through Ukraine to Germany. Any significant cut-off could plunge the German economy into a depression. Some countries such as Czechia, Latvia, North Macedonia, Bosnia & Herzegovina, and Moldova are 100% dependent on Russian NG. A number of European countries dependent on Russia's energy are opposed to any sanctions on Russia's energy industries.

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

Two prime names are Germany and Italy. We provide a chart below.

Many are calling for the expulsion of Russia from SWIFT, the global payments system. Given that oil and gas as are all commodities are paid for in U.S. dollars, it would prevent payments to Russia which in turn would result in them being cut off completely. This would be particularly problematic for Germany, which explains Germany's and the EU's reluctance to go the nuclear route of cutting Russia out of SWIFT. Cutting Russia from SWIFT could also reverberate back on Western banks, given the global intertwining of just about everything. In any case, EU banks are extremely vulnerable.

Europe's dependence on Russian gas will shape attitudes to sanctions

	Gas imports/ total imports (%)	Gas energy supply/ total supply (%)	Gas imports from Russia (%)	Russian gas cut-off vulnerability index*	Against sanctions on Russian gas
Hungary	45.1	33.6	95.0	57.9	×
Czech Republic	29.6	18.1	100.0	49.2	×
Latvia	23.1	21.2	100.0	48.1	×
Slovakia	25.4	24.9	85.4	45.2	×
Italy	41.5	41.6	43.3	42.1	×
Germany	31.0	26.6	65.2	40.9	×
Bulgaria	23.2	14.2	75.2	37.5	×
Poland	24.7	17.0	54.9	32.2	
Netherlands	23.5	45.1	26.3	31.6	
Romania	12.2	30.1	44.8	29.0	
Lithuania	18.6	26.0	41.8	28.8	
Finland	9.1	6.6	67.4	27.7	
Greece	13.3	24.0	39.0	25.4	×
Estonia	11.2	7.8	46.2	21.8	
France	32.3	15.8	16.8	21.6	
Austria	41.9	22.8	0.0	21.6	×
Luxembourg	16.4	18.2	27.2	20.6	
Spain	25.9	25.3	10.4	20.5	
Belgium	23.4	30.2	6.5	20.0	
Portugal	24.9	24.9	9.7	19.8	
Ireland	25.0	34.2	0.0	19.7	
Malta	10.0	45.3	0.0	18.4	
Croatia	23.3	30.6	0.0	18.0	
Slovenia	12.9	11.7	8.7	11.1	
Denmark	12.2	13.6	0.0	8.6	
Sweden	3.9	2.8	12.7	6.5	

*Average of first three columns.
Note. 2020 data, except for UK, which is 2019.
Sources: Eurostat; ISPI; EIU.

Source: www.ec.europa.eu, www.ispi.org, www.eiu.com

Russia could also default on its international financial obligations, leaving many Western banks, particularly in the EU and the U.K., saddled with losses. Italian and Austrian banks increased their exposure while giants such Soc Gen and UniCredit are quite exposed. Russia has, because of earlier sanctions, reduced its debt globally and while there would be a hit to the Russian economy, most estimates put it at no more than 1%. Russia has insulated itself with a huge build-up in foreign reserves estimated at over $650 billion. Russia also has large gold holdings in their reserves which are immune from sanctions and they benefit as global gold prices rise. The U.S.'s banking system exposure to Russian debt is very low, estimated to be about 1%. For the record, Russia's public debt to GDP ratio is 18% vs. the U.S.'s 125%. Russia's external debt to GDP is 38% vs. the U.S.'s 95%.

The real exposure and vulnerabilities lie with the eurozone banking system. Years of negative interest rates have destroyed their bond market. The number of negative yielding bonds is falling and that means bond prices are falling. Rising interest rates are now putting even more stress on eurozone corporations and banks. The ECB, along with other national central banks, are very vulnerable given its years of QE and other machinations that have left its balance sheets in tatters. Pressure in terms of a commodity war with Russia could start a financial collapse in the eurozone. Not helping was Brexit, which put another big dent in the EU/eurozone. For those reasons alone, kicking Russia out of SWIFT is probably a non-starter from the eurozone viewpoint. It would reverberate back on them, particularly Germany, whose financial and trade ties with Russia are considerable. It could also negatively impact Wall Street banks, thus triggering a potential global financial crisis. Rivalry is also rising again between France and Germany. NATO is vulnerable as well as a result, not only because of the tensions with Russia but also due to Turkey's ambitions in Central Asia.

We must also consider cyber warfare. Cyber attacks are a growing problem. Cyber attacks are not just limited to Russia but also the West uses them to attack Russia or China. In worst case scenarios cyberattacks could take the electrical grid system or shut down the banking system. That would cause a different kind of chaos and could have negative impacts on the stock market and the financial system.

The EU has already faced huge influxes of refugees from failed Middle East/Asian countries (Iraq, Afghanistan, Syria, Libya, etc.) as a result of the failure of U.S. wars in the Middle East that left these countries as failed states. The EU is now facing another potential refugee crisis, this time from Ukraine. Many Eastern European countries who are EU members and even NATO have shifted to hard right governments, some of whom are somewhat friendly to Russia (Hungary as an example). Many are also anti-immigrant.

So, could all this spark a serious bear market for the stock market? Bear markets are often complex affairs with many twists and turns. Over the past century we've been through what one would call three cyclical bear markets. They were: 1929–1949, the Great Depression and War; 1966–1982, the Great Inflation; and 2000–2009 the Great Recession.

War has played a role in bear markets. The bear markets that followed the outbreak of WW1 in 1914 and WW2 in 1939 are well documented. But two other invasions in the 20th century also sparked a stock market decline and contributed to recessions. The USSR invasion of Hungary in 1956 contributed to the recession of 1958. From a peak in April 1956 to a low in October 1957 the DJI fell about 20%. The USSR invasion of Czechoslovakia in August 1968 contributed to a recession that got underway in 1969. The stock market peaked in December 1968 then fell almost 36% into May 1970. We might add the USSR invasion of Afghanistan in December 1979 also contributed to a recession that started in January 1980. A stock market decline was already underway that bottomed in April 1980.

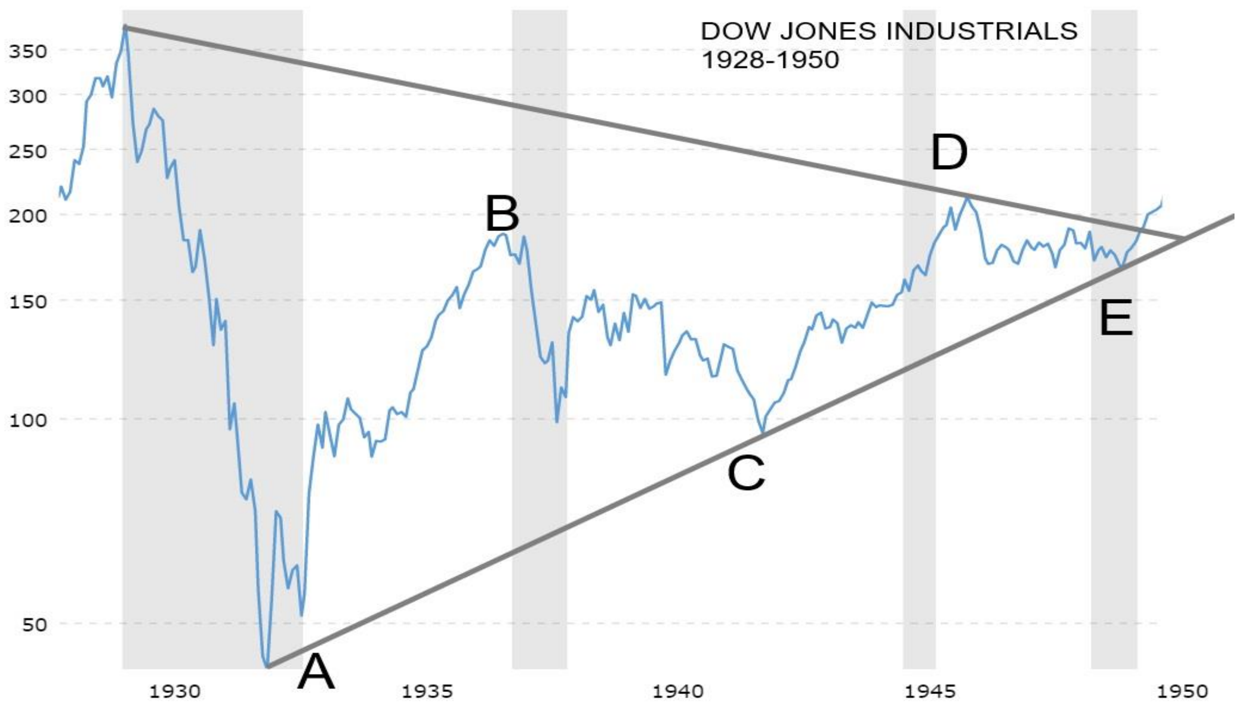
We are reminded and have noted that the longest cycle cited by Ray Merriman (www.mmacycles.com) is 90 years. It last bottomed in 1932. The next one is due in 2021–2037, according to Merriman. His next shortest cycle is 75 years (range 73–77 years) and that last bottomed in 2009, 77 years after 1932. Next up is the 36-year cycle (30–42 years) and that last bottomed again in 2009 which was 35 years after the 1974 bottom. The 18-year cycle (13–21 years) also last bottomed in 2009 (the previous one was either using the 1987 low but a better fit is the 1990 low) and it is next due in 2022–2030.

The 18-year cycle can subdivide into either three 6-year cycles (5–8 years) or two 9-year cycles (7–11 years) and often both. The 9-year cycle probably bottomed in either 2018 (9 years) or 2020 (11 years) from the 2009 low. The 6-year cycle (5–8 years) last bottomed in 2016, seven years after the 2009 low. It is due in 2021–2024. Given we are moving into the period of the 6-year cycle low, the 18-year cycle low, and the 90-year cycle low, assuming its existence, the odds increase that a multi-year bear market could be due. The unknown is the 90-year cycle as we have few observations. In U.S. history, 90-year cycle lows would be noted in 1843 and 1932. Given few observations, it makes this uncertain. Going back 90 years from 1843 we do observe there were significant lows seen in 1761 and 1783 during a period of inflation and wars (Seven Years War, American Revolution). 90 years prior to that brings us to the “Disaster Years” of 1672 and the Dutch/Anglo Wars and long periods of plagues. If we are facing only a 6- and 18-year cycle low, then this will be shorter lived but could remain with us for at least a couple of years.

The rest of the page is blank

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

Dow Jones Industrials 1928–1950 The Great Depression and War



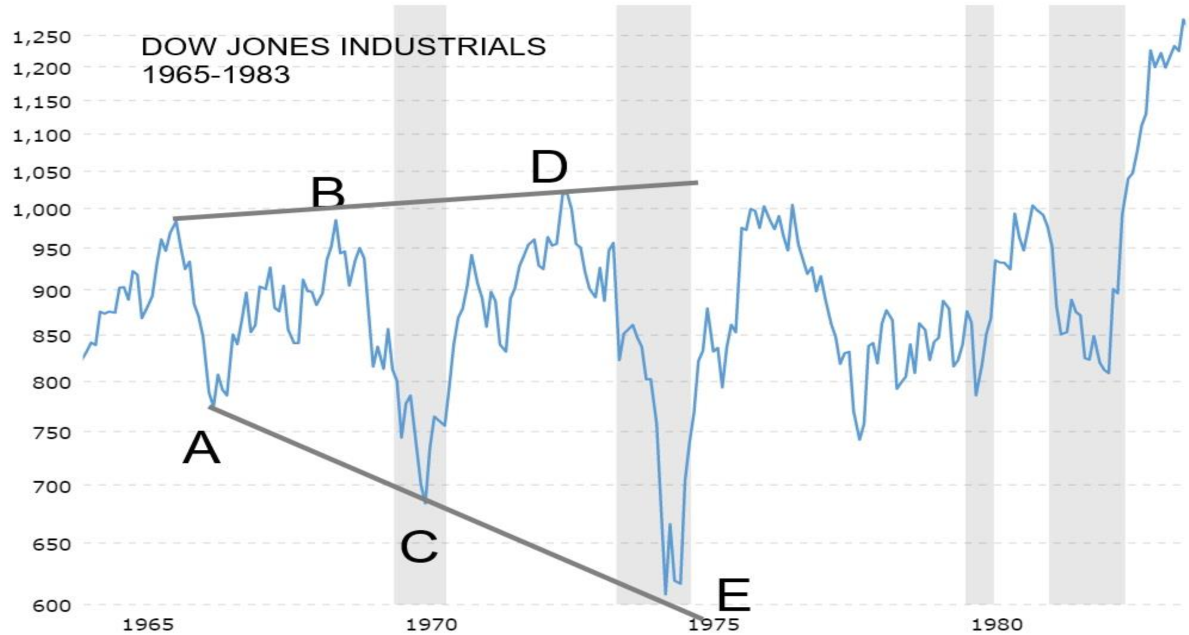
Source: www.macrotrends.net

Cyclical bear markets are long-lasting. The Great Depression and War cycle lasted 20 years and appears to have played itself out as a large symmetrical triangle ABCDE type. It took until 1954 for the DJI to surpass the 1929 high, a period of 25 years. The Japanese Nikkei Dow topped in 1990 and still has not recovered that high 32 years later. The NASDAQ topped in March 2000 and it did not take out that high for good until November 2016, a total of almost 17 years.

Next up was the 1966–1982 bear market, a period of 16 years we call the Great Inflation that was sparked by the War in Vietnam and the building of the Great Society. It was a complex affair, given that the market made its low in 1974 and completed at the time what appears to be an ABCDE pattern. The first move up that topped in 1977 and bottomed in 1982 could have been waves 1 and 2 of the subsequent long bull market that most actually count from 1982, not 1974, and topped in 2000.

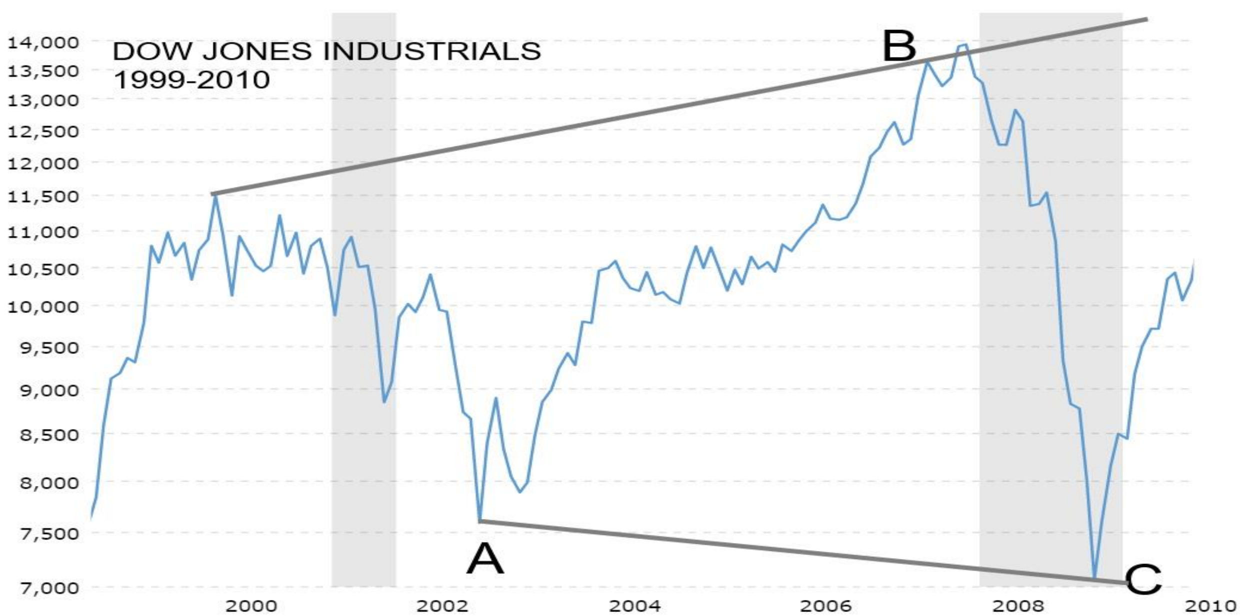
The third chart shows the bear market 2000–2009 that included the dot.com bust of 2000–2002 and the Great Recession of 2007–2009. That one appears to have played out as a huge ABC pattern, bottoming in March 2009.

Dow Jones Industrials 1965–1983 The Great Inflation



Source: www.macrotrends.net

Dow Jones Industrials 1999–2010 The Great Recession



Source: www.macrotrends.net

The Great Gold Bear 1980–2001

Source: www.macrotrends.net

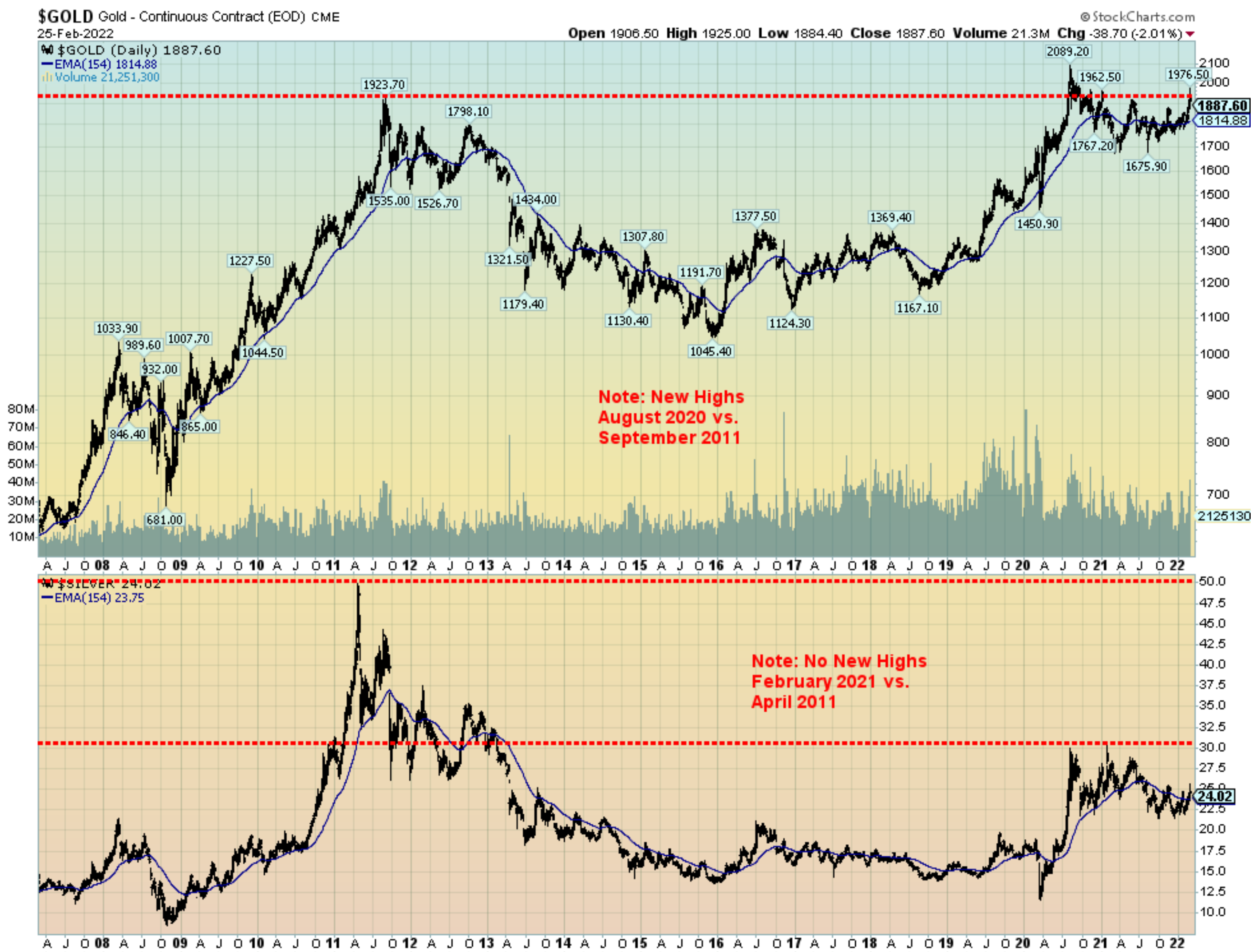
Gold's great bear market lasted from January 1980 to the final low in April 2001. Free trading in gold did not get underway until after former president Richard Nixon took the world off the Gold Standard in August 1971. The longest cycle for gold according to Merriman is one of 23.5 years, or could be 25 years. It is measured from an important low in 1976 to the first double bottom low in 1999 (23 years) to the second double bottom low in 2001 (25 years). Assuming its existence, the next one is due in 2022–2024 +/- 4 years with a more likely time frame of 2020–2027. More likely is the 7.83-year cycle low +/- 8 months (range 6–9 years). Excellent examples of that low starting from the 1976 low were seen in 1985, 1993, 2001, 2008, and 2015. The next one is due in October 2023 +/- 8 months.

The great gold bear market 1980–2001 fell in what appears as a long ABC pattern. The 7.83-year cycle breaks down into either three 31-month cycles or two 4-year cycles. Important lows from the 2015 low were seen in August 2018 and again in March 2021. So, we know we are in the third and final phase of the 7.83-year cycle. The question is, when and where does it top? We could see new highs as we have noted with potential targets up to $2,200–$2,400 or we could have a failed high not taking out the August 2020 high of $2,089. A spike high as we saw on February 24 at $1,978 may qualify as a potential high for this cycle. But we won't be able to confirm that until we break down under $1,750.

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

The invasion of Poland in September 1939 sparked a top in the stock market that did not bottom until April 1942. A similar scenario now, assuming the invasions are comparable, would not see a final bottom until 2025. The assumption, however, might only work if the world were actually to fall into World War III. That is not a given, despite the current situation. In any case, it would not be a straight down affair.

Gold is considered a safe haven in times of geopolitical and financial stress. Gold was fixed at $35 throughout the war years of 1939–1945, but gold stocks remained active. The war years of 1939–1945 saw gold mining stocks generally follow the stock market. Not a great endorsement for the current situation. In the current market we have always been bothered by the fact that gold did make new all-time highs in August 2020, but so far silver is nowhere near its all-time high, seen actually in 1980 and equaled in April 2011. The high so far was in February 2021 at $30.35 vs. the April 2011 high of $49.82. We live in troubled times.



Source: www.stockcharts.com

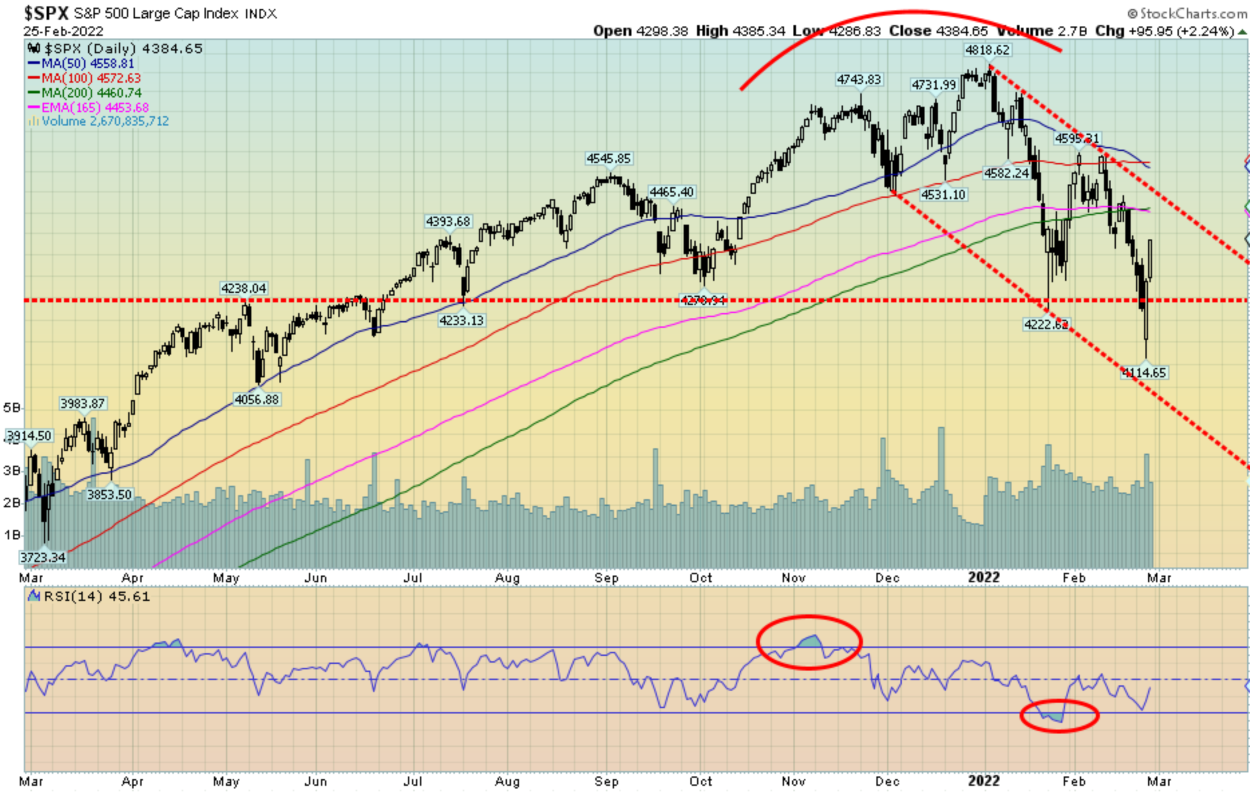
ENRICHED INVESTING INCORPORATED

MARKETS AND TRENDS

	Close Dec 31/21	Close Feb 25/22	Week (% Gains (Losses))	YTD (% Gains (Losses))	Daily (Short Term) (Trends)	Weekly (Intermediate) (Trends)	Monthly (Long Term) (Trends)
Stock Market Indices							
S&P 500	4,766.18	4,384.65	0.8%	(8.0)%	down	down	up
Dow Jones Industrials	36,333.30	34,058.75	(0.1)%	(6.3)%	down	down	up
Dow Jones Transports	16,478.26	15,207.21	1.6%	(7.7)%	down	down (weak)	up
NASDAQ	15,644.97	13,694.62	1.1%	(12.5)%	down	down	up
S&P/TSX Composite	21,222.84	21,106.00	0.5%	(0.6)%	down (weak)	up (weak)	up
S&P/TSX Venture (CDNX)	939.18	836.21	(1.9)%	(11.0)%	down	down	up
S&P 600	1,401.71	1,310.76	1.0%	(6.5)%	down	down	up
MSCI World Index	2,354.17	2,141.21	(6.2)%	(9.1)%	down	down	up
NYSE Bitcoin Index	47,907.71	39,333.23	(1.6)%	(17.9)%	down (weak)	down	up
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	258.87	280.51	(0.8)%	8.4%	up	up	up (weak)
TSX Gold Index (TGD)	292.16	317.19	(1.1)%	8.6%	up	up	up (weak)
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury Bond yield	1.52%	1.88%	(2.6)%	23.7%			
Cdn. 10-Year Bond CGB yield	1.43%	1.89%	0.5%	32.2%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.79%	0.38%	(17.4)%	(51.9)%			
Cdn 2-year 10-year CGB spread	0.48%	0.35%	(10.3)%	(27.1)%			
Currencies							
US$ Index	95.59	**96.62 (new highs)**	0.6%	1.1%	up	up	up (weak)
Canadian $	.7905	0.7866	0.2%	(0.5)%	down	down	up
Euro	113.74	**112.65 (new lows)**	(0.5)%	(1.0)%	down	down	down (weak)
Swiss Franc	109.77	107.99	(0.5)%	(1.6)%	down	down	up (weak)
British Pound	135.45	134.12	(1.4)%	(1.0)%	down	down	up (weak)
Japanese Yen	86.85	86.54	(0.4)%	(0.4)%	neutral	down	down
Precious Metals							
Gold	1,828.60	**1,887.60 (new highs)**	(0.6)%	3.2%	up	up	up
Silver	23.35	24.02	0.1%	2.9%	up	neutral	up
Platinum	966.20	1,050.10	(2.5)%	8.7%	up	up	up
Base Metals							
Palladium	1,912.10	2,365.70	1.2%	23.7%	up	neutral	up (weak)
Copper	4.46	4.49	(0.7)%	0.6%	up	up	up
Energy							
WTI Oil	75.21	**91.59 (new highs)**	1.5%	21.8%	up	up	up
Natural Gas	3.73	4.47	2.1%	19.8%	up	up (weak)	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 and, in some cases, all-time highs.



Source: www.stockcharts.com

How is everyone loving the volatility? The S&P 500 wound up 0.8% on the week. But at its low the S&P 500 was down 5.4% on the week. A spectacular turnaround. The low point of the week also put the S&P 500 down 14.6% from the all-time high in January. The NASDAQ fell briefly into bear territory, down at this week's low 22.3% from the all-time high. The NASDAQ then closed up 1.1% on the week after at one point being down 7.1%. The Dow Jones Industrials (DJI) was the only loser on the week, off a small 0.1% while the Dow Jones Transportations (DJT) rose 1.6%. The S&P 600 small cap index continued to perform well, up 1.0%. The S&P 400 mid cap index gained 1.1% on the week.

In Canada, the TSX Composite was up 0.5% while the TSX Venture Exchange (CDNX) was down 1.9%. On the TSX, eight of the sub-indices were up and six down. Leading the way up was Energy (TEN), gaining 3.4%. The big loser was Health Care (THC), down 2.5% continuing its lead as the worst-performing sector. The EU stock indices were rattled by the invasion as the London FTSE lost 0.3%, the Paris CAC 40 was down 2.6%, and the German DAX dropped 3.2%. All closed well off their lows. In Asia, China's Shanghai Index (SSEC) lost 1.1%, while the Tokyo Nikkei Dow (TKN) hit new 52-week lows, down 2.4% on the week. The MSCI World Index lost 6.2% but because there is a delay in reporting the MSCI is only measured Thursday to Thursday.

A sharp decline in the stock markets as we saw this past week can suddenly reverse, giving rise to sharp but brief rallies just to release the downside pressure. The question is, does this sharp rebound have any legs or will it quickly fade? Stats from the COT show that large speculators were significant buyers of the dip, so their long position is now quite long. That doesn't quite fit with a market about to take off to the upside once again. The S&P 500 Bullish Percent Index (BPSPX) closed at 35.8% after hitting low at 31.8%. It's in bear territory but it has been worse in the past. The CBOE put/call ratio closed at 0.57, back in bull territory. At its peak back in January, it hit 0.82 briefly in bear territory. The put/call ratio is not indicating a huge turnaround because everyone is back being bullish once again. The All-Bears Index did hit a high often associated with a bottom.

The February high for the VIX Volatility Index made a lower high with January even as the S&P 500 made new lows for the move. That is a positive divergence and could favour a rebound in the stock market.

The threat of higher interest rates still looms in the background. The U.S. 10-year treasury note fell this past week to 1.88% from 1.93%. More importantly, the 2–10 spread narrowed again, falling to 38 bp from 46 bp. In Canada it was the same, although the 10-year Government of Canada bond (CGB) was actually up 1 bp to 1.89% but the 2–10 spread narrowed to 35 bp from 39 bp. The narrowing of spreads usually precedes a recession. The Fed is expected to hike rates at the March FOMC by at least 25 bp and many are looking for a 50 bp hike. All the negative talk is having an impact on credit spreads as yield spreads on junk bonds widened to their highest in over a year. Yield spreads are also rising for BBB debt, the lowest investment grade and where the highest concentration of corporate debt lies and even for AAA (very little of that) debt. Rising credit spreads are another sign of weakness for the economy. We noted previously that margin debt has started to fall, which is often a sign that the party is over for the stock market.

We've seen a number of reports late this week saying the bear is over, long live the new bull. However, as we note, fast rebounds as we saw are usually short-lived, although they can hang around for a week or two. One can have a climax low, then see it followed by lower low that is more like a grinding low than the fast and furious one that signals a climax. A classic example was the financial crisis panic low in November 2008; following a rebound into December the market started a grind to the downside that didn't bottom until March at lower lows. The November 2008 low was the selling climax, but afterward the market went lower still. That didn't happen in March 2020 as the selling climax turned out to be the low. But this collapse doesn't feel like the March 2020 collapse which was triggered by the pandemic. This time the problems are deeper. This might only bring temporary relief.

The S&P 500's 200-day MA is at 4,460. So, it is important to regain and close above that level. But more important is breaking and closing above 4,600. At that level the low could be confirmed. Sharp rebound rallies like this usually peter out, but they can last a week or more. It will be important to see how the follow-through plays out this week.

Consumer sentiment continues to be miserable, down at the lowest levels since 2011. While the final Michigan sentiment numbers for February were slightly better than expected this past week, they were still pretty bad. This week we'll get the February employment report. Nonfarm payrolls are expected to be up 350 thousand following last month's gain of 467 thousand. The unemployment rate (U3) is expected to remain at 4%. Canada won't report its employment numbers until the following week.

The rebound rally was impressive. Follow-through and no new lows are even more important.

Source: www.stockcharts.com

Has gold topped? That is the question, given the spike high seen on February 24 as the Russian invasion of Ukraine unfolded. Spike highs on high volume are more than often a sign of a top. Not only was there a spike top as gold made a 52-week high, but a reversal unfolded and gold closed down on the week, off 0.6%. Spike, reversal, lower close—not a good sign. Silver managed to hold on to its gains but was barely up 0.1%, while platinum lost 2.5%. Palladium gained 1.2% (Russia produces 40% of the global total) and copper lost 0.7%. The gold stock indices didn't fare well as they too spiked, then closed lower with the Gold Bugs Index (HUI) down 0.8% and the TSX Gold Index (TGD) off 1.1%. Not a good week.

Gold wasn't the only one to spike as WTI oil prices surged to fresh 52-week highs at $100.54 before collapsing 10% and closing at $91.59 still up 1.5% on the week. So, has oil topped too? WTI is still well short of our targets of $108. No law says it has to be achieved so we'll watch this one carefully as well. The energy indices enjoyed an up week following the market as the ARCA Oil & Gas Index (XOI) gained 0.7% and the TSX Energy Index (TEN) was up a more stellar 3.4%. That fact that no sanctions were slapped on Russia's oil and gas helped to push oil prices back down again. What's key now is holding $89/$90 and the low seen a week ago at $87.46. If that breaks, then WTI could fall to $80/$82.

We have often expressed our concern that gold, rather than breaking out to new all-time highs, could fail below the August 2020 high of $2,089. Was this past week the failure? Naturally, we cannot confirm that immediately. Instead, our focus has to shift to downside support. This week's low was just above $1,878, so a break of that level tells us we'll go down to test $1,840/$1,860. A break of that level suggests down to $1,800/$1,820. Finally, a break of that level could suggest a test of $1,760/$1,780. That would be the final straw and a top at $1,976.50 would be confirmed. It could then set up a test of the March 2021/August 2021 lows near $1,675.

So, what caused this sudden reversal, given that the geopolitical and even financial background seems ideal for gold? Some of it was sparked by thoughts that Russia and Ukraine will talk. The reality is, that's not happening, at least not immediately. There were also rumours that Russia would sell gold to help prop up the ruble that has been battered. Yes, the market was slightly overbought as the RSI popped above 70 but that was not universal. The February options expiration might also have played a role as often gold exhibits weakness into the options expiration. Traders were also worried about fresh sanctions against Russia as that could hamper Russia's ability to trade in currencies, thus prompting sales of gold.

As well, the US$ Index soared, not surprisingly, also negatively impacting the price of gold. The US$ Index hit a fresh 52-week high of 97.74 before turning back down and closing at 96.62 up 0.6% on the week. With the US$ Index hitting new highs the euro hit new 52-week lows, down 0.5% on the week. But the reversal for the US$ Index could suggest merely another spike high in place. A break back under 95.50/96 would suggest that the spike high was it and the US$ Index is going lower. That would help gold. But until that happens, we can't rule out another attempt on the highs.

Silver also spiked, hitting a high of $25.67 before reversing and closing weakly at $24.02. Briefly taking out resistance at $25.50, silver's reversal hit hard as once again gold and silver diverged with gold hitting fresh 52-week highs while silver did not. Focus for silver now turns to the $23 level. If that breaks, it raises the potential for silver to test and break the December lows of $21.41. Elliott Wave International (www.elliottwave.com) noted that both gold and silver appeared to fall in 5 waves from the spike top. That's another possible sign of a top.

The gold commercial COT fell to 25% from 26% this past week as commercials added about 34,000 short positions but also added about 3,000 longs. It's no surprise then that the large speculators COT rose to 77% from 76%. The silver commercial COT also fell to 36% from 38% as they added about 7,000 shorts while cutting about 500 longs.

The TGD spiked to 332, short of our target zone of 350–375. If there was one positive aspect for the gold stocks, it was that after reversing sharply on Thursday they followed the broader stock market to the upside on Friday, even as gold sold off. Whether that translates into gold recovering remains to be seen. The reality is, right now we can only say the market is going higher if we are able to regain the highs seen this week and take them out. Gold must regain above $1,976, silver above $25.70, and the TGD above 332. Failure to do so focuses us instead on the downside. The near-term picture is now cloudy at best, with dark storm clouds gathering at worst.

With the collapse back under $1,900, it once again highlights the $1,900/$1,920 resistance zone. Gold failed to hold the gains above that level. It remains resistance that must be overhauled. A spike high followed by a downside reversal, divergences between gold and silver, possible 5-wave decline from the high (signaling the start of a possible impulse wave to the downside), and any calming in the Russia/Ukraine war could all be a signal that we have topped and we must refocus efforts on protecting the downside.

Copyright David Chapman, 2022

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.

Disclaimer

David Chapman is not a registered advisory service and is not an exempt market dealer (EMD) nor a licensed financial advisor. He does not and cannot give individualised market advice. David Chapman has worked in the financial industry for over 40 years including large financial corporations, banks, and investment dealers. The information in this newsletter is intended only for informational and educational purposes. It should not be construed as an offer, a solicitation of an offer or sale of any security. Every effort is made to provide accurate and complete information. However, we cannot guarantee that there will be no errors. We make no claims, promises or guarantees about the accuracy, completeness, or adequacy of the contents of this commentary and expressly disclaim liability for errors and omissions in the contents of this commentary. David Chapman will always use his best efforts to ensure the accuracy and timeliness of all information. The reader assumes all risk when trading in securities and David Chapman advises consulting a licensed professional financial advisor or portfolio manager such as Enriched Investing Incorporated before proceeding with any trade or idea presented in this newsletter. David Chapman may own shares in companies mentioned in this newsletter. Before making an investment, prospective investors should review each security's offering documents which summarize the objectives, fees, expenses and associated risks. David Chapman shares his ideas and opinions for informational and educational purposes only and expects the reader to perform due diligence before considering a position in any security. That includes consulting with your own licensed professional financial advisor such as Enriched Investing Incorporated. Performance is not guaranteed, values change frequently, and past performance may not be repeated.