Technical Scoop February 7, 2022
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Unrosy jobs, trapped Fed, QT underway, anticipatory waver, bearish growths, undervalued golds, cheap oil

Gangbuster job numbers. Or maybe not. We review the latest numbers as our "chart of the week" (page 8). Things are really not as rosy as they would like to make them out to be.

The Fed we say is caught between a rock and hard place. Some say trapped. Three to seven interest rate hikes are according to some in the works. QE is ending and QT could get underway. But the stock market is wavering even before the rates have been hiked and the economy belies weakness once one looks under the hood as they say. No wonder we are seeing the shift from growth stocks to value stocks. We note how hard many of the growth stocks have fallen. They are already in a bear market.

Gold is still trying to find traction and the gold stocks remain very undervalued by many measurements compared to gold itself. Despite oil rising over $90 it too actually remains cheap compared to gold. We look at that ratio. Oil prices continue to rise but given current technical and overbought conditions another pullback may be in the works. But will it last? The longer term trend remains firmly up and the oil and gas indices continue to make new highs. One of the very bright spots right now in the markets. For example, Tourmaline Oil Corp, a Canada-based natural gas and crude oil exploration and production company in the western Canadian sedimentary basin announced a quarterly dividend increase, a second special cash dividend, an expectation for further special dividends, a stock buy-back program, and better than expected debt levels, and is held in the Canadian Conservative Growth Strategy.*

The January CPI (inflation) numbers are out this week. Key number to watch.

We are still in a deep freeze but at least it's sunny. 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

"In this business if you're good, you're right six times out of ten. You're never going to be right nine times out of ten."

—Peter Lynch, American investor, mutual fund manager, philanthropist, manager *Magellan Fund* at *Fidelity Investments*; b. 1944

"Let the fear of a danger be a spur to prevent it; he that fears not, gives advantage to the danger."

—Benjamin Disraeli, British statesman, Conservative politician, Prime Minister of the United Kingdom 1868, 1874–1880, 1st Earl of Beaconsfield; 1804–1881

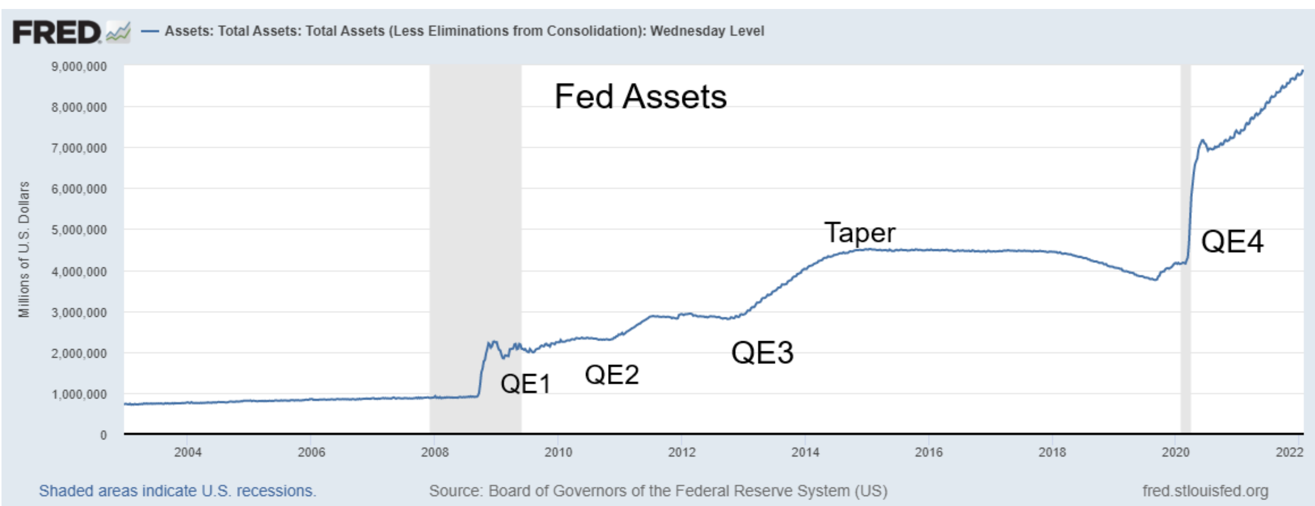
"Masses are always breeding grounds of psychic epidemics."

—Carl Jung, Swiss psychiatrist and psychoanalyst, founder of analytical psychology; 1875–1961

Rock and a hard place. Russia/U.S./Ukraine, Coutts, Alta. and Ottawa, Ontario, and the Federal Reserve aka "The Fed." Yes, our focus is the Fed. But the others can't be ignored just because they are different and have different ramifications. Being between a rock and hard place is when one is confronted with two equally difficult alternatives.

The Fed has an inflation problem. The Fed also has a slowly weakening economy and possible stock market problem. The Fed has decided to wind down QE and may even start QT. And they have hinted strongly they are prepared to raise interest rates at least three times in 2022, with many predicting four and some predicting five rate hikes.

Federal Reserve Assets 2003–2022



Source: www.stlouisfed.org

Since the start of the pandemic two years ago, the Fed has ramped up its balance sheet by some $4.7 trillion or 113%. That includes $3.2 trillion of U.S. treasuries and almost $1.3 trillion of mortgage-backed securities (MBS). At the same time, money supply has also ramped up with M1 up a mind-boggling $16.5 trillion (410%)

and M2 up $6.1 trillion (40%). The U.S. Federal debt has now hit $30 trillion and is up about $6.8 trillion since Q1 2020. Is it any surprise then to discover that the S&P 500 at its recent peak (January 4, 2022) was up 120% from the March 2020 pandemic low? All asset classes, particularly stocks and housing, have generally benefitted from the surge in money provided by the actions of the Fed. We call it monetary inflation.

Since the peak on January 4, 2022 the S&P 500 has fallen about 6%, but at its recent low was down 12.3% in correction territory. The NASDAQ was hit even harder, having fallen almost 20% at its recent low from its high that was actually made on November 22, 2021. The stock market has been driven primarily by a select few stocks. Five stocks (Apple, Google, Amazon, Tesla, Meta (Facebook)) make up 58% of the market cap of the NASDAQ 100. They also dominate the NASDAQ and the S&P 500. They have driven the market to its heights. Will they also lead it down? Meta (Facebook) fell 26% overnight on February 3, 2022 because of reported dismal results.

Meanwhile, the broader growth indices market which we represent here by the Ark Next Generation ETFs (ARKW, ARKK, ARKF) has fallen from the highs seen in February 2021—52%, 54%, and 51% respectively. The New York Fang Plus Index (FANG) topped back in November 2021 and has fallen just over 14%, although it was down 24% in bear territory before the recent bounce-back. What that tells us is that the broader market is falling but the big high-tech names have helped hold it up because of their performance and sheer size and weighting in the indices.

Source: www.stockcharts.com

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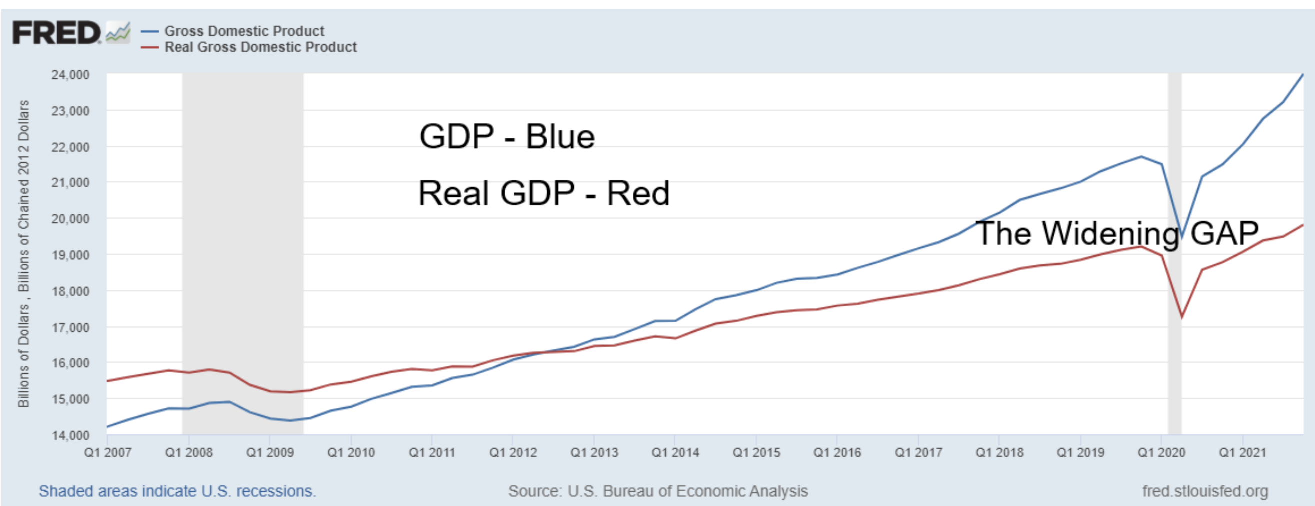
What the chart shows us is that the smaller cap stocks that are heavily represented in the ARK ETFs, along with the FAANGs, helped lead the market to its heights. The S&P 500 followed a steadier upward path. But the FAANGs and the ARKs topped back in February 2021. They have been on a downward path ever since, even as the S&P 500 continued on its upward path. Worse, they have all entered a bear market whereas the S&P 500 only entered correction territory. The signs for the stock market are not very good going forward. especially with the leaders turning down sharply.

But a rolling-over stock market is not the only problem. Is the economy as strong as they would like to make it out to be? The latest job numbers are not supporting that, despite the better than expected nonfarm reported for January (reviewed under Chart of the Week). They tout the strengthening GDP. But is it really that strong? When one compares GDP with Real GDP (inflation-adjusted GDP), it shows that the real GDP is lagging nominal GDP and the gap is widening, not narrowing. For years Real GDP outpaced GDP, but in 2012 that changed and ever since Real GDP is falling further behind. The population is growing but real GDP growth is not keeping up. Real GDP is lower than inflation and it is only now back to where it was before the onset of COVID. Despite claims that the economy is strong, the real numbers are refuting that claim. Inequality has been rising as the benefits of the Fed's QE and ultra-low interest rates that have goosed the stock market over the past two years have gone primarily to the 1%. According to the Census Bureau, the U.S. GINI coefficient, a measure of inequality in the U.S., has leaped to 48.5 (2019 latest available), putting the U.S. in the same league as many authoritarian and third-world countries.

GDP vs. Real GDP 2007–2022

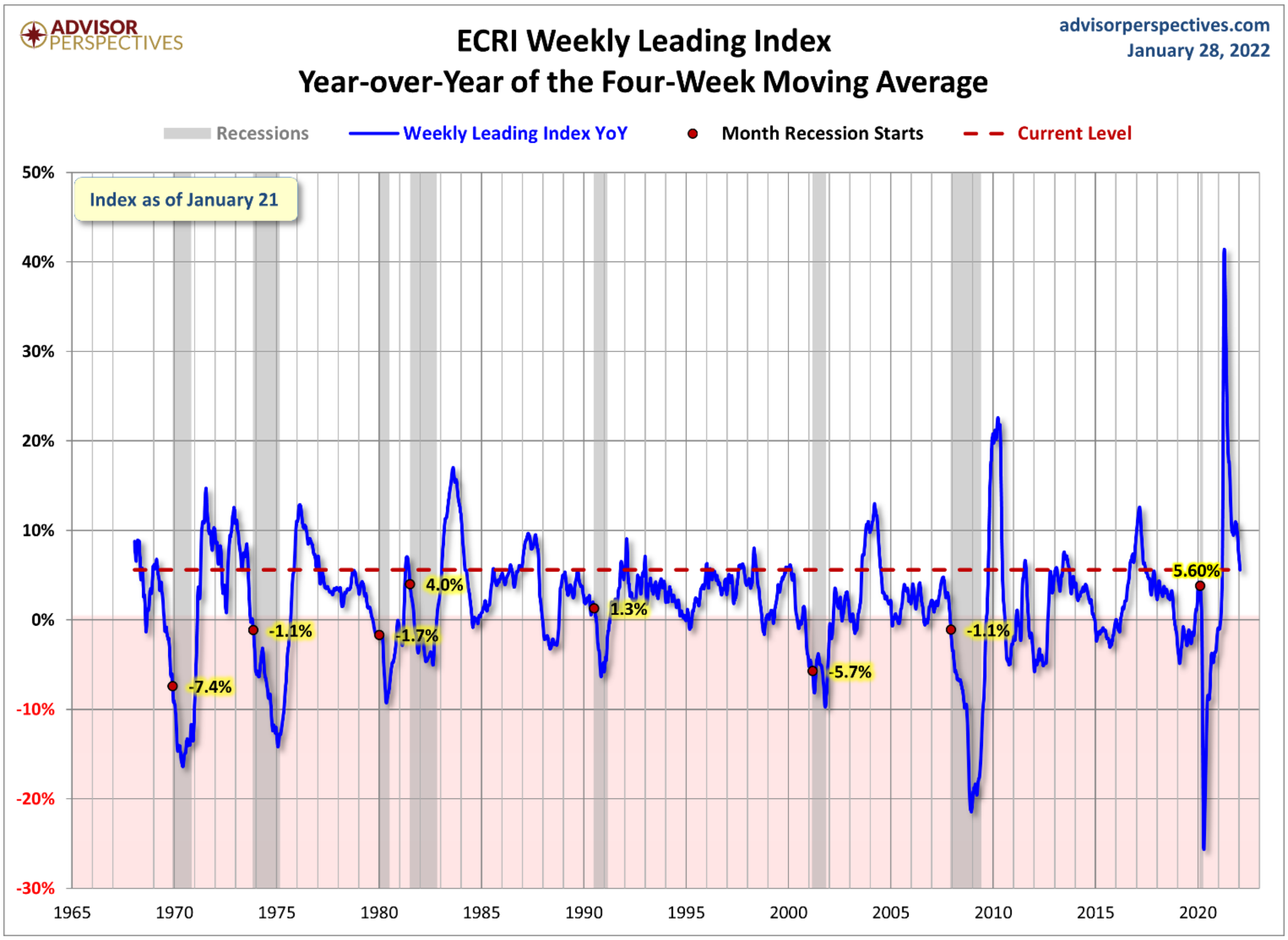


Source: www.stlouisfed.org

Speaking of COVID, when it got underway in March 2020 it was declared it should be over in a year. It's two years later and instead of it getting better, it has in many ways gotten worse. The U.S. numbers remain the highest in the world, although France and few others are challenging that supremacy. Many legislatures, particularly those that are Republican-led, have been treating it lightly, shunning mandates and more. The result is their numbers of cases and deaths have soared. Of the top ten states for cases/million, nine are

Republican-led. Of the top ten states for deaths/million, six are Republican-led. The U.S. has now recorded officially over 900,000 deaths and, at the current rate, they should exceed one million dead by early March 2022. No wonder consumer confidence has been falling.

Below is a chart from the Economic Cycles Research Institute (ECRI), courtesy of Advisor Perspectives. What this index has shown in the past is that when it drops below zero it has, with the odd exception, predicted a recession. Yes, right now it is higher than where it was at the start of recent recessions. But it is falling rapidly. What is interesting is that it was high before the 1973–1975 recession and the 1980–1982 recession. The biggest peaks came following recessions in 1982 and 2007–2009. The biggest trough came out of the short-lived but exceptionally steep 2020 recession. We'll attempt to monitor it going forward.



Source: www.advisorperspectives.com

Inflation is a problem. But is inflation suddenly a problem because of soaring demand? Demand is factor, but the main reason inflation has been rising is because of shortages, sparked primarily by COVID-related disruptions. Labour shortages are impacting ports, truckers shipping supplies, and factories that have been closed due to COVID outbreaks and more. If in North America and Europe they are upset about mandates and lockdowns they should live in China where the Chinese have shut down entire cities to contain the COVID. The result is their COVID numbers are small compared to those being recorded in Europe and North America. But China's brutal approach to COVID has exacerbated the supply shortages because China is a major manufacturer for the world. Couple that with ships sitting at sea because they can't unload their contents and you have a log jam of shortages that is not going away any time soon.

Labour shortages are a major problem. Yet the U.S. has been faced with a high number of quits as well. As the COVID grew, many were laid off or took permanent retirement, while others went back to school. The fear of COVID at work stops many from working, especially those who need to care for sick or elderly parents or for children as a result of the lockdowns. In the U.S., the labour force participation rate has fallen back to levels last seen in the mid-1970s.

Labour Force Participation Rate 1949–2022

Source: www.stlouisfed.org

The labour force participation rate measures the number of people who are in the labour force. The unemployment rate represents the number of people currently without a job. Note how, with the same labour force participation rate in 1976, the unemployment rate is twice what it is today. But in 2000, with a much higher labour force participation rate, the unemployment rate was practically where it is at today. A low unemployment rate coupled with a high participation rate shows a robust job market. If the participation rate was where it was in 2000 the unemployment rate today would be sharply higher. Despite the low unemployment rate, the jobs market is anything but robust today.

The Fed cannot coax people back into the labour market. The Fed cannot end supply shortages and disruptions. The Fed has contributed to inflation through its years of ultra-low interest rates and QE. But the inflation manifested itself in stocks, housing, and more. The Fed's action may have contributed to inflation in the economy but they are not behind it. However, with signs of a weakening economy, a still weak labour market, signs that the stock market is potentially making a significant top, the expected hiking of interest rates, and taking away the punch bowl by ending QE and contemplating QT may make things worse. Historically, the Fed has started too late and then stayed too long. This time is not different.

Some say the Fed is “trapped”. We prefer to say that the Fed is caught between a rock and a hard place. At least that gives them some wiggle room.

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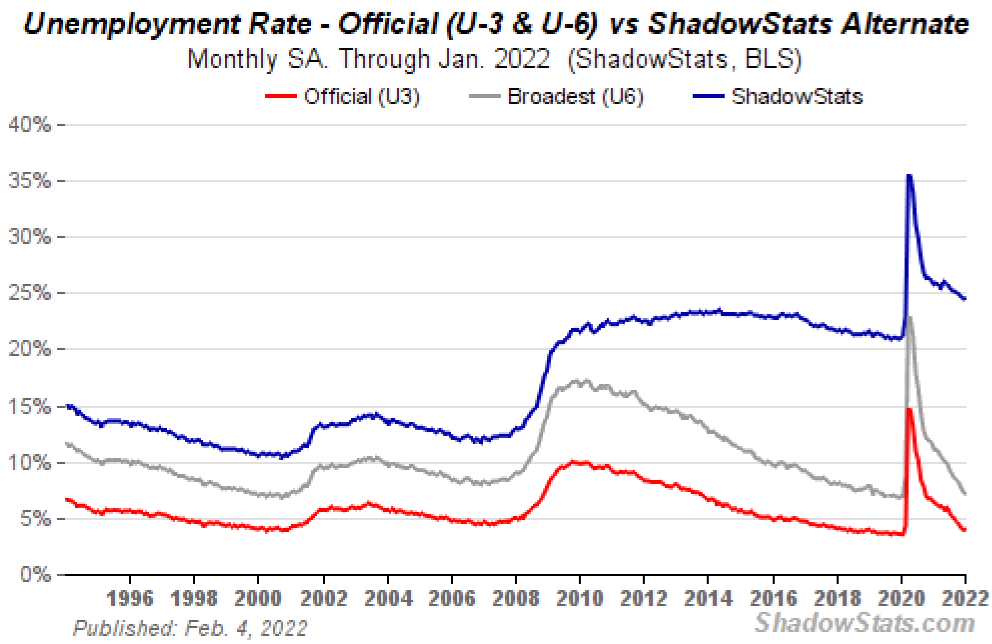
Chart of the Week

US Job Numbers



Source: www.shadowstats.com

Surprise du jour! The U.S. nonfarm payrolls unexpectedly leaped 467,000, well above the expected 150,000. Furthermore, the December nonfarm was revised upward to 510,000. The unemployment rate rose to 4.0% from 3.9%. That, however, appeared to be a function of more people looking for work as the labour force participation rate jumped to 62.2% from 61.9%.

The job numbers were a surprise and heighten thoughts that the Fed will soon start hiking interest rates. The earliest is the March 15–16 FOMC. It would be highly unusual for the Fed to hike between meetings. Some economists are now predicting seven interest rate hikes in 2022. That would be unheard-of. The numbers were a surprise as the expectation was that, given disruptions sparked by the huge surge in COVID over the past month or so, the nonfarm would have softened considerably in January. Reactions were all over the place. Gold initially went down but then came back; the stock market initially strengthened then sold off; the U.S. dollar strengthened but not by much; and bond yields rose but the 2–10 spread continued to narrow.

Trying to dig under the numbers is always a challenge. There are considerable minutiae to look at, and we can only scratch the surface. One way we attempt to tackle the numbers is to compare the current numbers with those for the previous month, and then again with where we were in February 2020 before the onslaught of COVID. The current size of the labour force is 163,387 thousand. But that is 1,196 thousand below the February 2020 level. Same with nonfarm payrolls, the number of people actually employed. January, of course, saw a jump of 467 thousand but the number of people actually employed remains down 2,875 thousand from

February 2020. Is the job market improving? Yes. But is it healthy? No. The shortfall is deeper than anything seen at the troughs of three of the past seven recessions according to Shadow Stats www.shadowstats.com.

One positive thing about the COVID and a tightened labour market is rising wages. Average hourly earnings were up 5.7% year-over-year (y-o-y) in January, above the expected gain of 5.1%. We peeked at the average hourly earnings of employees in the leisure and hospitality industry. Given it is one of the weakest sectors when it comes to wages, the gains are interesting. Y-O-Y they are up 13% or $2.24. Since February 2020 they are up 15.1% or $2.55. Gains there are amongst the best seen in any industry sector percentage-wise.

Apparently, one the significant contributors to the job gains in January was that expected layoffs really didn't materialize as the tight labour market kept people employed and even added to the market. We note that average weekly hours worked actually fell in January to 34.5 hours, down from 34.7 hours. In February 2020 it was 34.4 hours. What the drop tells us is that people worked fewer hours but didn't lose their jobs and their wages grew as a result of a tight labour market.

In other numbers, we noted that the labour force participation rate (LFPR) rose to 62.2%, up from 61.9%. That helped propel the unemployment rate higher as more people were looking for work. In February 2020 the LFPR was 63.4%. The unemployment rate (U3) was 4.0%, up from 3.9% but higher than February 2020's 3.5%. The U6 unemployment rate—which is the U3 rate plus short-term discouraged workers and other marginally attached workers and those forced to work part-time because they can't find full-time work—was 7.1% vs. 7.3%. In February 2020 it was 7.0%. The U6 rate is the highest reported by the Bureau of Labour Statistics (BLS). The Shadow Stats (www.shadowstats.com) unemployment rate, which is U6 plus long-term discouraged workers who were removed from the labour force in 1994, was unchanged at 24.5%, but well above the 21.3% seen in February 2020. The employment population ratio, meaning the percentage of people employed compared to the population as a whole, was 59.7% vs. 59.5% in December and 61.2% in February 2020.

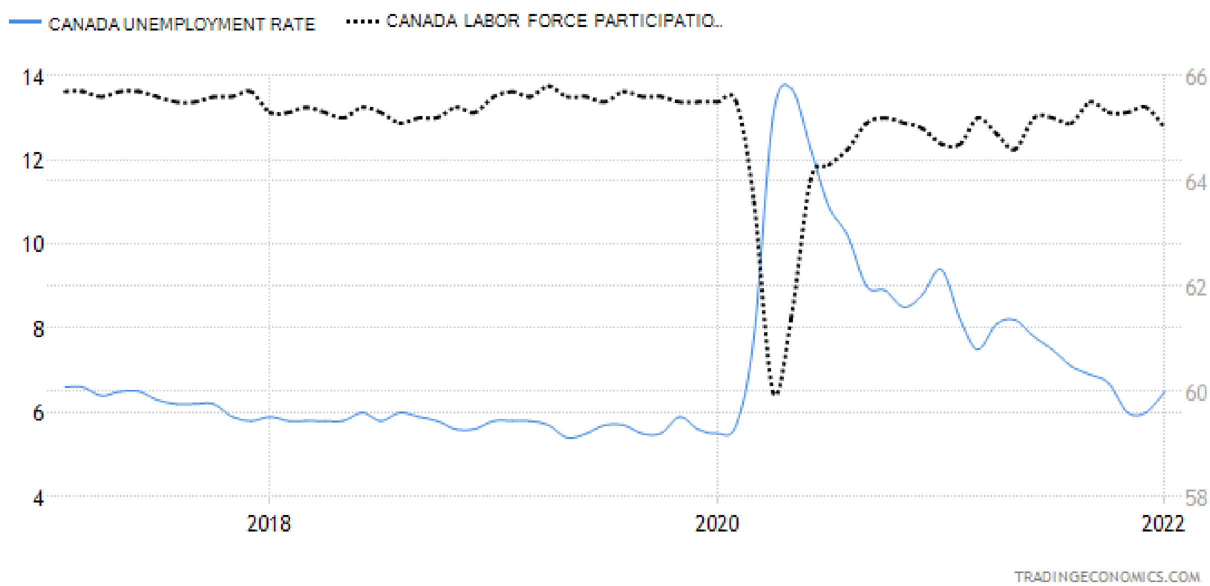
The number of people not in the labour force slipped to 99,516 thousand, down from 99,842. However, once again, February 2020 was a lot better at 95,045 thousand. Of the current total total 56.3 million are retired and another 9.2 million are disabled.

So where did the jobs come from? The biggest gain was for leisure and hospitality (surprise!), up 151,000. Irrespective of this, the sector remains 1.8 million jobs below where it was in February 2020. Professional and business services also did well, up 86,000 and are actually up 511,000 jobs from where they were in February 2020. That helps wage growth. Other sectors also gained with retail up 61,000, transportation and warehousing up 54,000, education up 29,000, and health care up 18,000.

A weak report might have given the Fed second thoughts about being too aggressive on hiking rates and even moving to QT. It didn't, so plans to hike and to taper remain as planned. Our question, of course, is, what is the impact on inflation? We'll find that out on February 10, 2022 when the January CPI numbers are released.

Canada job numbers

Canada Unemployment Rate, Labour Force Participation Rate 2017–2022



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

Surprise du jour numéro deux. Canada was expected to lose jobs in January as a result of COVID and stricter public health measures. Well, they did. Canada lost 200,000 jobs in January, ending a 7-month string of gains. The trouble was, they thought they'd only lose from 90,000 to 117,500 jobs. A big miss to the downside. What's worse, the unemployment rate jumped to 6.5% from the previous 6% and the labour force participation rate fell to 65.0% from 65.4%. In February 2020 the unemployment rate was 5.7%. Fewer people looking and the unemployment rate rising is like a double whammy. The labour force actually shrunk by 484,900 from December to January and is back to where it was basically in February 2020. The number of people unemployed increased by 106,000 to 1.34 million and is higher by 184,000 than where it was in February 2020. The increase in unemployment was largely due to temporary lay-offs. Nonetheless, the loss of jobs in January puts Canada's job levels largely back where they were in February 2020.

The big loss was in part-time employment; i.e., people working in leisure and hospitality accommodation and food services. That group fell 117,400, well above the previous month's loss of 64,300. Full-time employment fell 82,700, sharply below the gain of 142,800 seen in December. As with the jump in the unemployment rate, the R8 unemployment rate which is the highest reported by Statistics Canada jumped to 9.1% from 7.6%. The R8 rate includes discouraged searchers and those working part-time involuntarily. In February 2020 the unemployment rate was 5.9% and the R8 rate was 8.6%.

Hit hard were women and young people. As to the provinces, the biggest losses were seen in Ontario and Quebec. Ontario was down 146,000 while Quebec was down 63,000. Re-introduction of COVID measures by the provincial governments hurt the most there. As far as cities were concerned, Toronto was hit the hardest with the loss of 108,000 jobs. Similarly, Montreal lost 43,000 jobs.

Is this just temporary as a result of restrictions due to COVID? Or is this the start of a longer trend? With the Bank of Canada (BofC) expected to hike rates this coming year, that may result in a further dampening on the economy. Still, most economists expect a rebound in February as restrictions are eased. We note that the number of hours worked actually fell in January 2.2 hours, reflecting what was seen in the U.S. as, while many kept their jobs, their hours were cut. As in the U.S., Canadian bond yields rose with the 10-year Government of Canada bond (CGB) up to 1.86%. The 2–10 spread narrowed further to 50 bp.

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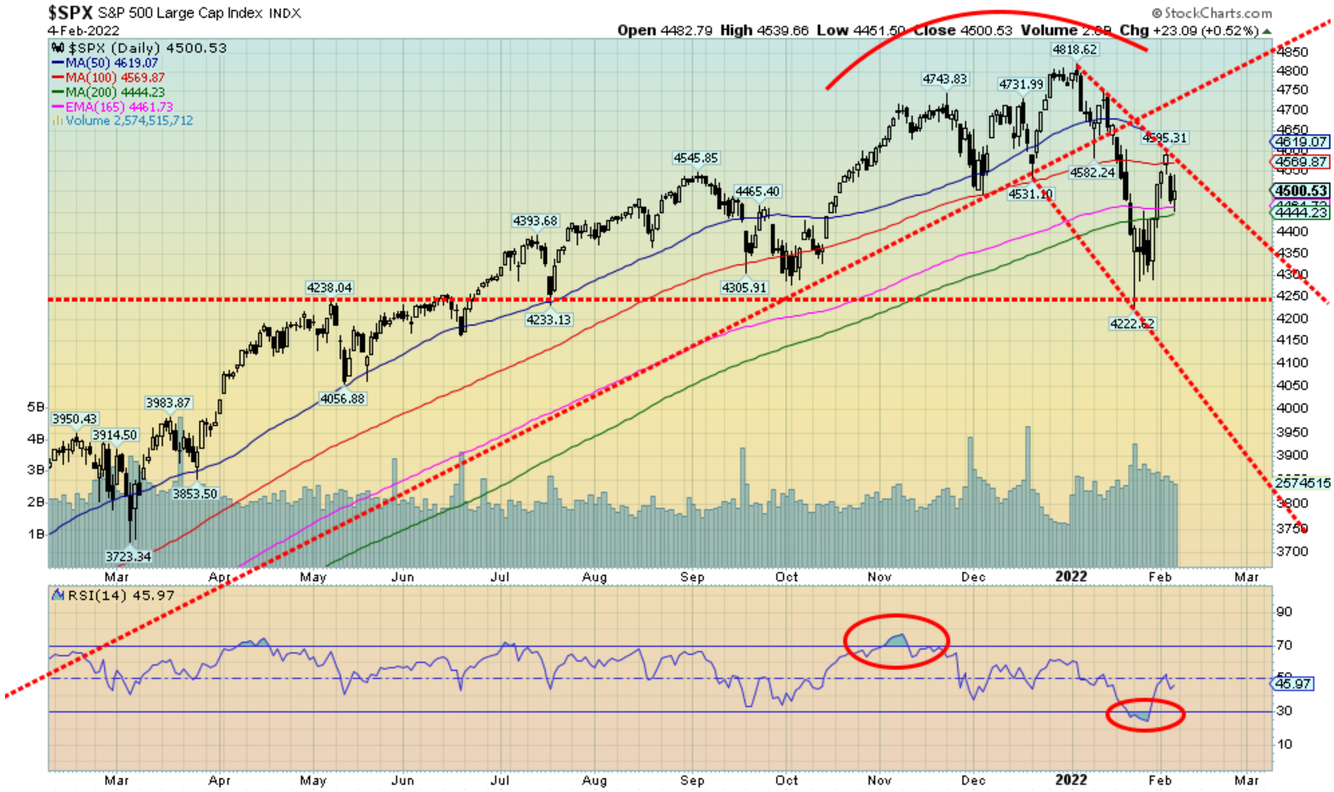
MARKETS AND TRENDS

	Close Dec 31/21	Close Feb 4/22	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	4,500.53	1.6%	(5.6)%	down	neutral	up
Dow Jones Industrials	36,333.30	35,089.74	1.1%	(3.4)%	down	neutral	up
Dow Jones Transports	16,478.26	15,214.31	1.1%	(7.7)%	down	neutral	up
NASDAQ	15,644.97	14,098.01	2.4%	(9.9)%	down	down	up
S&P/TSX Composite	21,222.84	21,271.85	2.6%	0.2%	up	up	up
S&P/TSX Venture (CDNX)	939.18	854.47	1.9%	(9.0)%	down	down	up
S&P 600	1,401.71	1,283.62	0.9%	(8.4)%	down	down	up
MSCI World Index	2,354.17	2,288.58	2.7%	(2.8)%	down	down	up
NYSE Bitcoin Index	47,907.71	39,554.77	6.6%	(17.4)%	down	down	up
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	258.87	246.28	2.5%	(4.9)%	down (weak)	down	neutral
TSX Gold Index (TGD)	292.16	282.28	3.0%	(3.4)%	neutral	down	neutral
Fixed Income Yields/Spreads							
U.S. 10-Year Treasury Bond yield	1.52%	**1.92% (new highs)**	7.9%	26.3%			
Cdn. 10-Year Bond CGB yield	1.43%	1.86%	5.1%	30.1%			
Recession Watch Spreads							
U.S. 2-year 10-year Treasury spread	0.79%	0.61%	flat	(22.8)%			
Cdn 2-year 10-year CGB spread	0.48%	0.50%	(2.0)%	4.2%			
Currencies							
US$ Index	95.59	95.48	(1.8)%	(0.5)%	down	up	up (weak)
Canadian $	.7905	0.7840	0.3%	(0.8)%	neutral	down	up
Euro	113.74	114.50	2.7%	0.7%	up	down	down (weak)
Swiss Franc	109.77	108.08	0.6%	(1.5)%	down	down	up (weak)
British Pound	135.45	135.26	1.0%	(0.1)%	up (weak)	down	up
Japanese Yen	86.85	86.79	flat	(0.1)%	down	down	down
Precious Metals							
Gold	1,828.60	1,807.80	1.2%	(1.1)%	neutral	neutral	up
Silver	23.35	22.48	0.8%	(3.8)%	down	down	up (weak)
Platinum	966.20	1,024.20	1.8%	6.0%	up	neutral	up (weak)
Base Metals							
Palladium	1,912.10	2,290.70	(3.6)%	19.8%	up	neutral	up (weak)
Copper	4.46	4.49	4.1%	0.5%	up	neutral	up
Energy							
WTI Oil	75.21	**92.31 (new highs)**	6.3%	22.7%	up	up	up
Natural Gas	3.73	4.57	(1.5)%	22.5%	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 and, in some cases, all-time highs.



Source: www.stockcharts.com

The rebound that got underway with the low at 4,222 on January 24 may have ended with the high this week at 4,595. The rebound retraced 62.5% of the decline which was just over the 61.8% Fibonacci retracement level. The S&P 500 hit the 100-day MA, then gapped down the next day (thanks to Meta). The job numbers allowed the S&P 500 to recover on Friday, but it looked more like a bounce off of the 200-day MA. Still, the markets managed to rise this past week and they put in their best week of the year so far. The S&P 500 gained 1.6%, the Dow Jones Industrials (DJI) was up 1.1%, the Dow Jones Transportations (DJT) was up 1.1%, while the NASDAQ gained 2.4%. The small cap S&P 600 gained 0.9% and continues to lag the large cap market. The S&P 500 Equal Weight Index gained 1.7%.

In Canada, the TSX Composite was up 2.6% and is the only major index in the black so far this year, a mere 0.2%. The TSX Venture Exchange (CDNX) was up 1.9%. In the EU, the London FTSE rose 0.4%, the Paris CAC 40 was down 0.2%, and the German DAX fell 1.4%. In Asia, the Chinese markets were closed because of the Olympics while the Tokyo Nikkei Dow (TKN) rose 2.7%.

If we are correct and the upward correction is over, then we have to watch 4,400 support carefully. A breakdown under that level could take the S&P 500 once again back below the 200-day MA currently at 4,444. Overall trends remain down. The NYSE advance/decline line is in a downtrend, the NYSE new highs/new lows is in a downtrend, only 50% of the stocks on the S&P 500 are above the 200-day MA, and 41% are above the 50-

day MA. The S&P 500 Bullish Percent Index is at 58 which is neutral. The put/call ratio is at 0.6, below the 0.8 threshold that would indicate that the market could be getting oversold. There might be some more chopping around this coming week, but a break back under 4,400 would seal it and the next move down would be under way which could take us to new lows. Following that low we then might see a more substantial recovery. A move that takes the S&P 500 back above the high at 4,545 would suggest we have more upside. Above 4,750 new highs would be possible. But the trend has shifted to the downside and even the so-called robust job numbers might not save the market.

Source: www.stockcharts.com

Despite the collapse of Meta (Facebook) this past week, the NASDAQ managed to rise 2.4% this past week. It didn't change much as both the daily and weekly trends remain down. The NASDAQ is down 9.9% on the year. At one point it was down over 19% from its high in November 2021. The NASDAQ is firmly now into what could be bear territory as it has traded under the 200-day MA now since January 18. The rally from the 13,094 low on January 24 appears to have ended at 14,904 on February 2. The next move saw the NASDAQ gap down on February 3. A breakdown now under 13,850 could suggest that the next move down is underway. The bottom of that channel is way down at 12,400. Outside of Meta, the FAANGs were generally up on the week. Meta lost 21.5% but Apple was up 1.2%, Amazon +9.5%, Netflix +6.7% (after a big fall), Google +7.2% and new all-time highs, Microsoft fell 0.7%, Tesla +9.1%, Twitter +4.8%, Baidu +8.1%, Alibaba +6.0%, and Nvidia +6.4%.

Source: www.stockcharts.com

The NASDAQ advance/decline line has broken support, suggesting that the NASDAQ should head even lower. The NASDAQ has clearly broken the uptrend line from the March 2020 low. That longer-term support line down near 7,000 looks enticing for the bears. The NASDAQ only has 18.5% of its stocks trading above the 50-day MA and only 19.2% of the stocks above the 200-day MA. That suggests that a large number of NASDAQ stocks are already in a bear market. The NASDAQ bullish percent index is at 38, still above bear territory. But the trend is down. The indicators are not encouraging for the bulls. The CBOE put/call ratio is back down to 0.6. Above 0.8 the put/call ratio is getting into bear territory. That suggests to us there is more downside to this market before a more substantial bounce might get underway.

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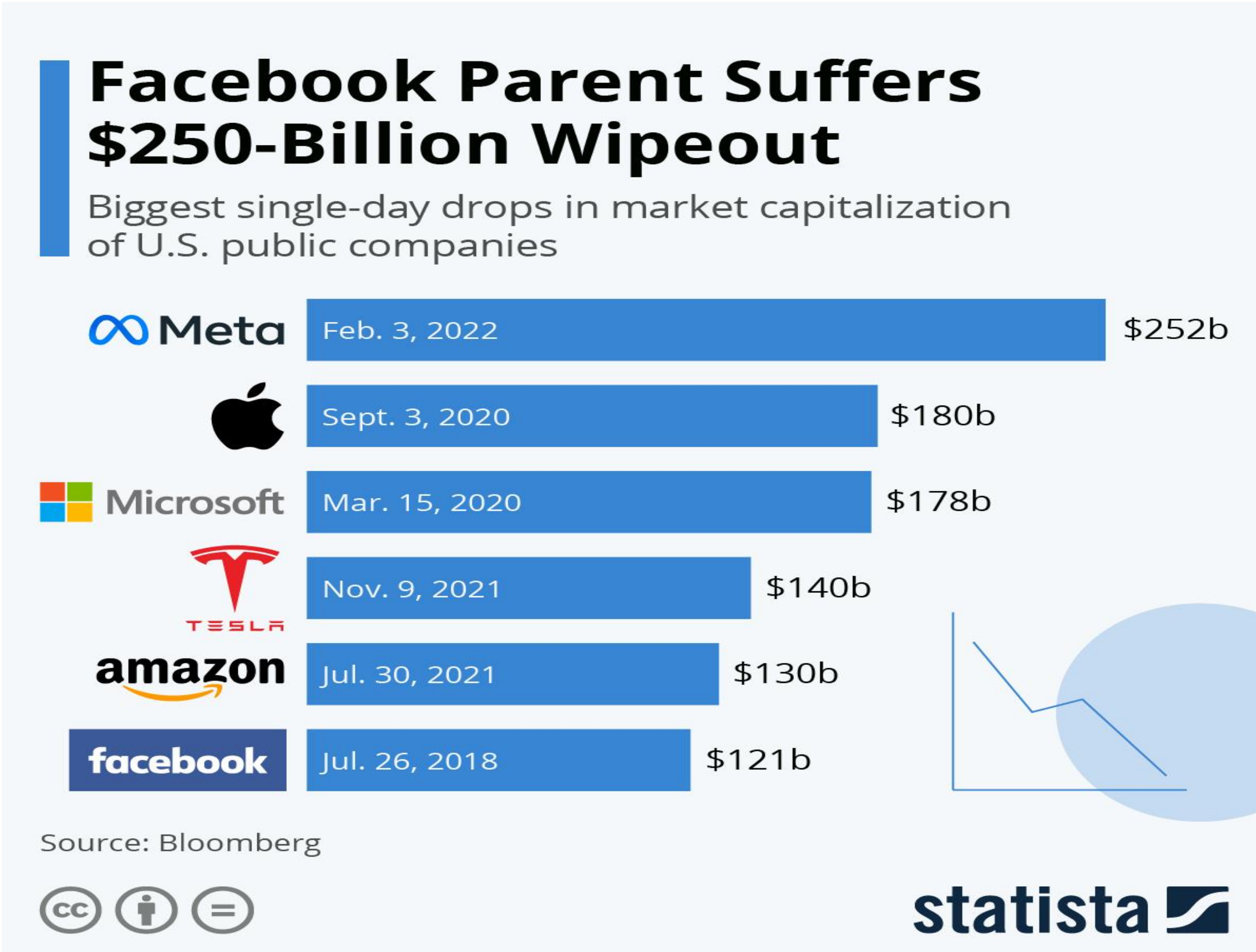
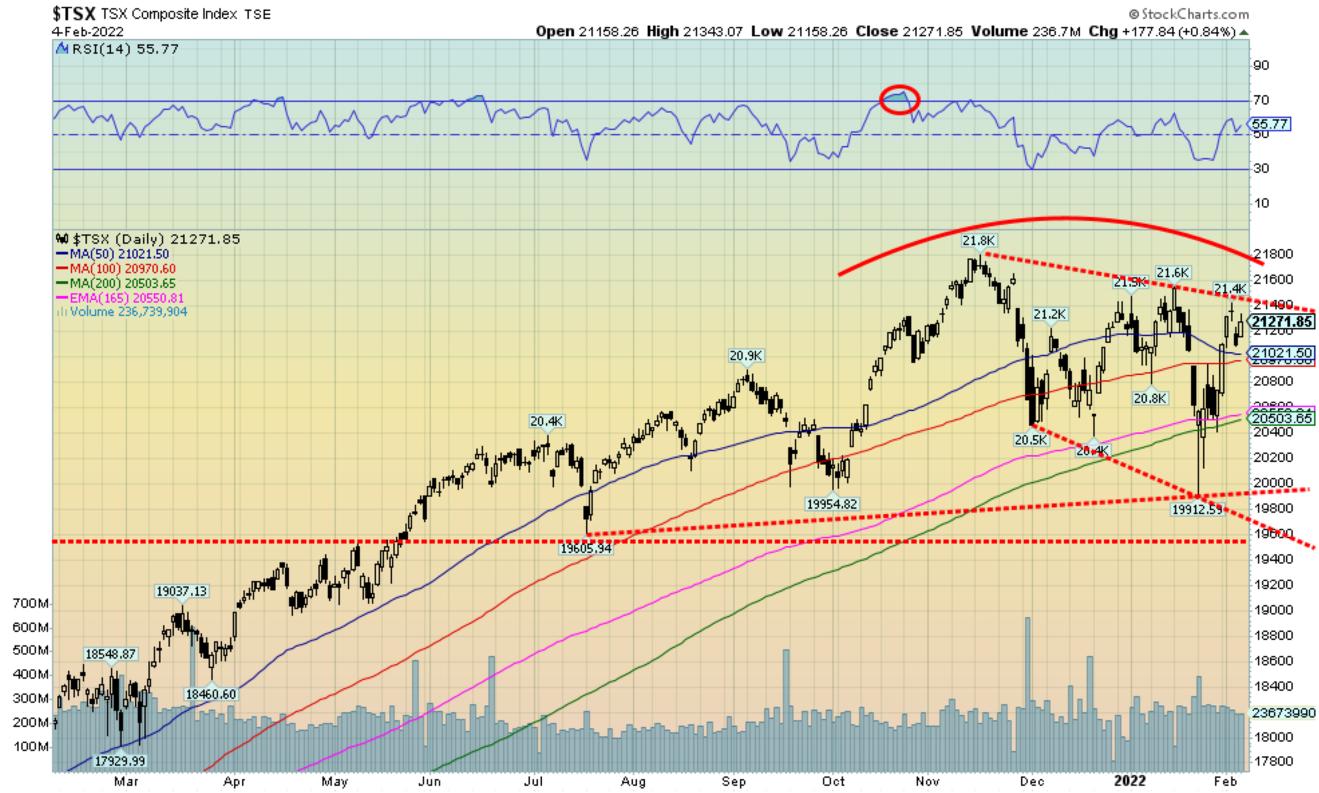


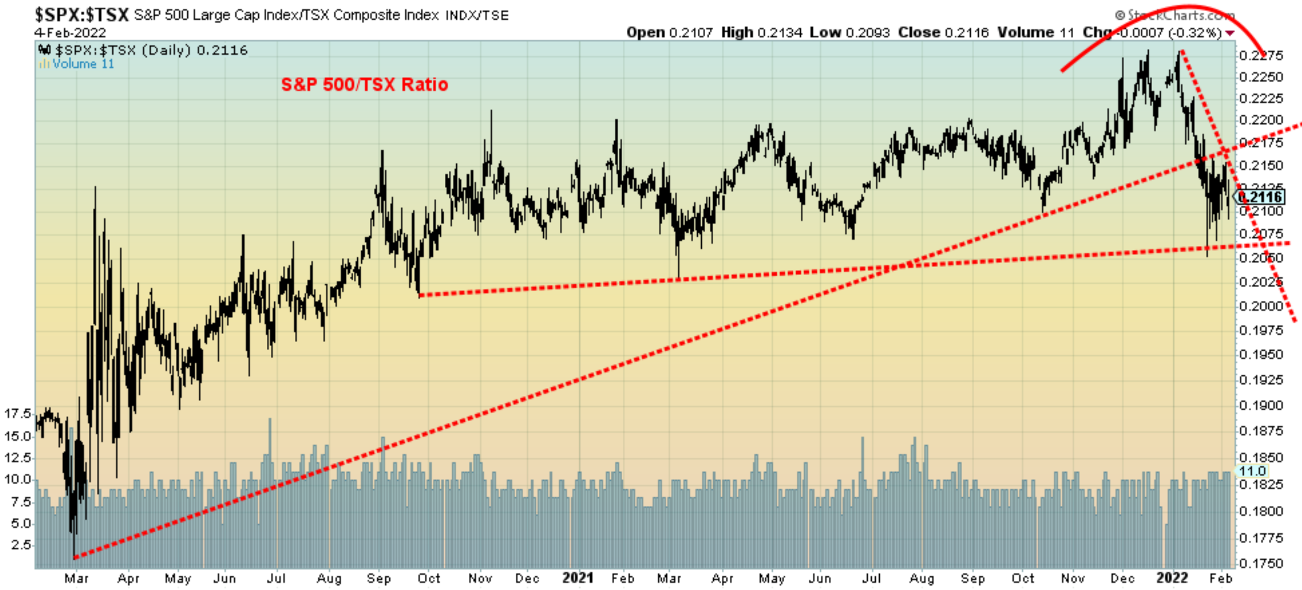
Source: www.statista.com, www.bloomberg.com

Wipeout week for Meta (Facebook). Yes, Meta set a rather unenviable record. The drop this week became the biggest single-day drop in market capitalization for a U.S. company. Mark Zuckerberg, its chairman, is estimated to have lost at least $29 billion. Poor Mark. He must be oozing with envy as Jeff Bezos the Chairman of Amazon saw his net worth rise $18 billion this past week. Meta fell 21.5% on the week while Amazon rose 9.5%. Heavens, Mark Zuckerberg might even fall out of the top ten wealthiest men on the planet club. Meta this past week lost the equivalent of either one Nike, two IBMs, or three General Motors during its huge drop on Thursday.



Source: www.stockcharts.com

The TSX Composite continues to outperform the U.S. markets. This past week the TSX rose 2.6% and is now up 0.2% in 2022. None of the major U.S. indices can claim that. The small cap TSX Venture Exchange (CDNX) rose 1.9%. Below, we show a chart of the S&P 500/TSX Composite Ratio. The chart shows that the uptrend line from the March 2020 low broke in favour of the TSX back in mid-January. But it remains at/just above a more significant line at 0.206. A break of that line would clearly put the TSX in a position to outperform the S&P 500 going forward. Since the 2009 low the S&P 500 has consistently outperformed the TSX. However, the TSX outperformed the S&P 500 from late 1999 to 2009 as that was the period when commodities shone and the commodity-dominated TSX outperformed. This past week all of the 14 sub-indices gained on the week. The leader was Energy (TEN), up 5.1% to new highs. Also hitting new highs was Telecommunications (TTS), up 1.5%. Other strong gainers were Health Care (THC) +4.8%, Materials (TMT) +3.8%, Financials (TFS) +3.2%, and Golds (TGD) +3.0%. The TSX did hit what might be the top of a channel near 21,400. A break back under 20,900 might send the index back down to 20,500 support. Major support is seen at 20,000 and again at 19,600. A firm breakout above 21,400 could set up the TSX to challenge the highs near 21,800. Outside of Energy, which continues in a strong uptrend, most of the indices continue to look toppy. An exception is Golds that appear to be trying to build a bottom.



Source: www.stockcharts.com

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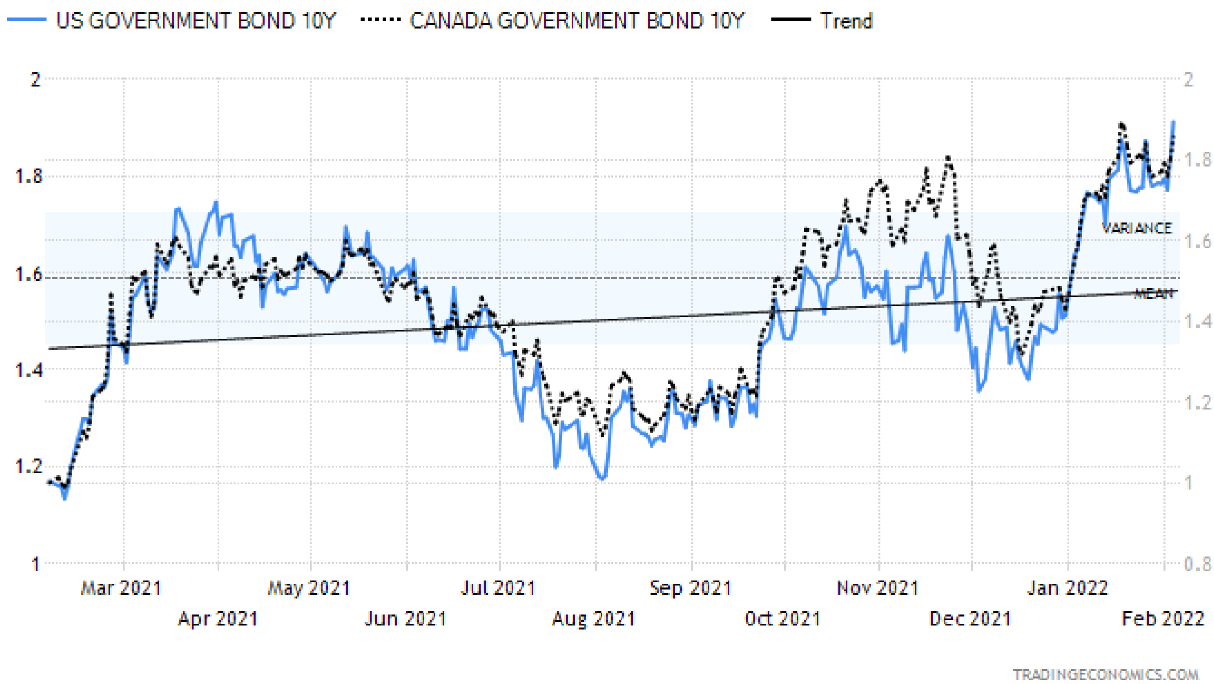
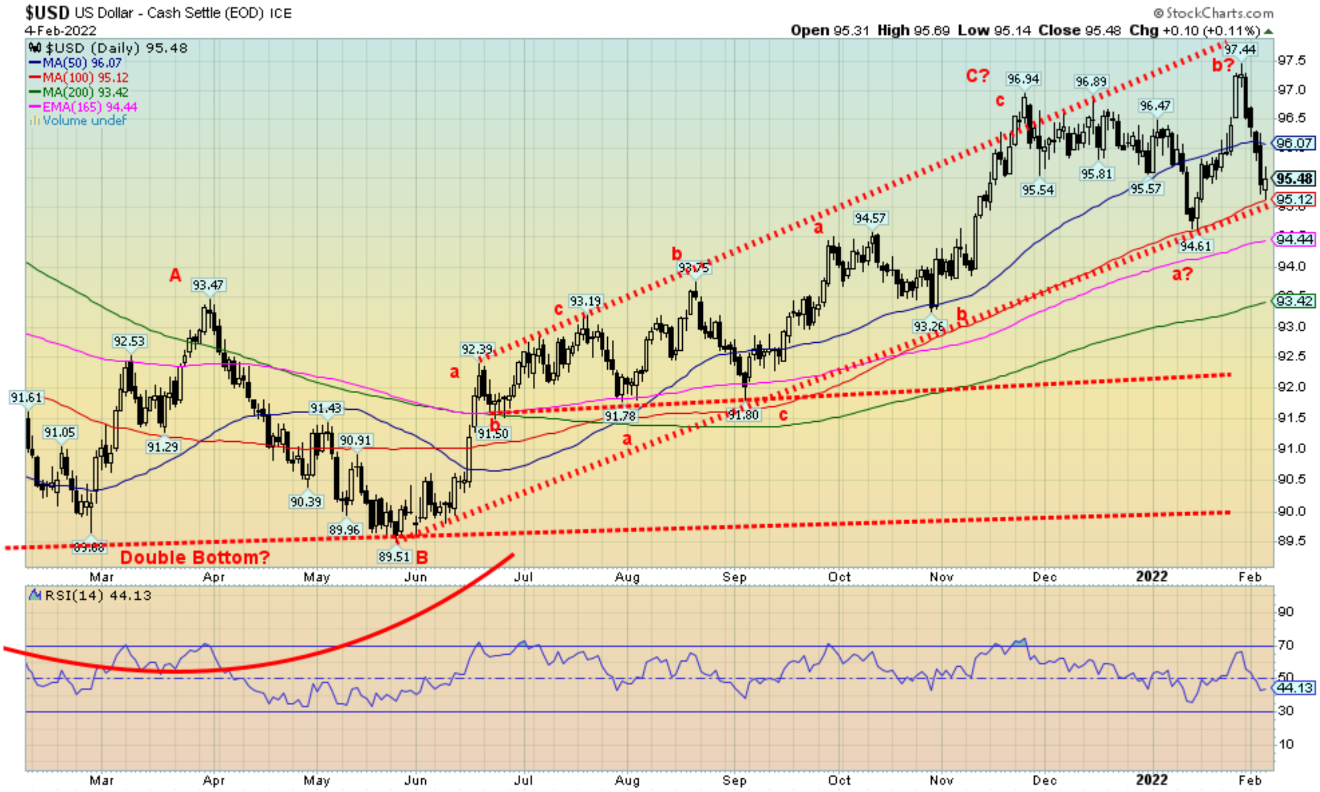
U.S. 10-year Treasury Bond/Canadian 10-year Government Bond (CGB)



Source: www.tradingeconomics.com, www.home.treasury.gov, www.bankofcanada.ca

The U.S. 10-year treasury note jumped this past week to its highest level since December 2019. Yields jumped following release of the January job numbers that were higher than expected. It raised the expectations of a potential 50 bp jump in interest rates at the March FOMC. Canadian rates rose as well as the 10-year Government of Canada bond (CGB) jumped to 1.86%, still shy of the recent high of 1.89%. The Canadian job numbers were negative. The U.S. 2–10 spread was unchanged at 61 bp while the Canadian 2–10 spread was down 1 bp to 50 bp. The Bank of England (BOE) hiked interest rates this past week and the ECB is moving to tighten monetary policy. That also played a role in yields rising this past week. The job numbers were the big ones this past week although there were some others of note. The January Chicago PMI rose to 65.2 up from 64.3 in December and above the expected 62. The ISM manufacturing index was at 57.6 vs. 58.8 and an expectation of 58. Initial claims came in below expectations at 238,000 vs. 261,000 the previous week and an expected 255,000. This coming week the numbers to watch are the trade balance on Tuesday and the big one, the CPI numbers, on Thursday. What's expected is a rise of 7.1%–7.3% vs. 7% in December. The core CPI is expected to be up 5.7%– 5.9% vs. 5.5% in December. But the actions of the BOE and the ECB are playing a role and their sudden jumping onto the rate hike bandwagon does suggest that the Fed will act in March. The question is, will it be 50 bp or 25 bp? Support for the 10-year is now down to 1.75%. Below that level we could fall back to 1.60%.



Source: www.stockcharts.com

The US$ Index fell this past week, losing 1.8% its largest drop since 2020. The Bank of England (BOE) and the European Central Bank (ECB) suggested tightening monetary policy. The ECB rumblings helped to lift the euro while the BOE hike helped lift the pound. The US$ Index fell, despite the strong job numbers released on Friday. Many now expect the Fed will hike 50 bp in March given the strong job numbers. But, as we noted, the job numbers are not as rosy and robust as many would like to believe. The euro rose 2.7%, the Swiss franc was up 0.6%, the pound sterling jumped 1.0%, but the Japanese yen was flat. The Canadian dollar rose 0.3% as oil prices continued to climb. The central banks seem to believe that hiking interest rates will cool inflation. But the central banks can't control the supply disruptions and labour shortages that are adding to inflation. And unless oil prices can be brought down the Fed can't control them either. The Fed pumps money, not oil. The US$ Index has now fallen to a significant support level just above 95.00. A break of 95 could send the US$ Index down to next support at 94.40/94.50. Major long-term support can be seen just below 92.50 and then again down to 90.00. The high at 97.44 is now appearing to us as a potential signficant top. The US$ Index did bounce on Friday following the job numbers. Resistance is up to 96. Above that level we'd have to reasses the downside move.

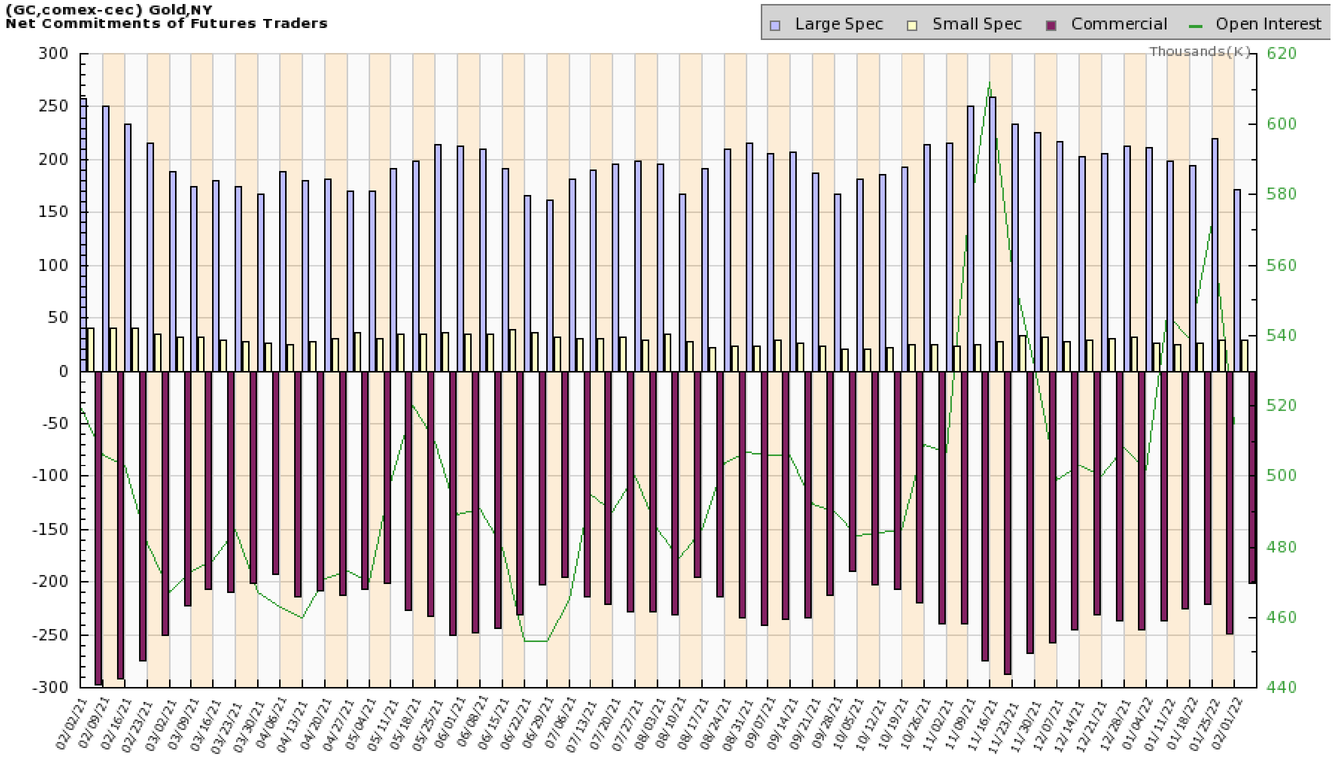
Source: www.stockcharts.com

Gold prices remain below our first crucial breakout point at $1,800/$1,820. We are now poking into that zone. But the key zone to overcome is at $1,850/$1860 and some further resistance at $1,900/$1,920 before we can say with confidence that a low is in. Failure in these zones would set up looking at crucial support at $1,770/$1780. A break at that level would be negative, but a break under $1,750 could be fatal. This past week gold recovered, gaining 1.2% despite the strong jobs report on Friday. The question on gold's mind is, would the Fed be more aggressive on hiking interest rates and tightening monetary policy going forward? The US$ Index fell sharply this past week, helping gold's cause.

Silver also gained, up 0.8% while platinum jumped 1.8%. Palladium pulled back a little in its rally, off 3.6%. But copper prices gained 4.1%. The gold stock indices also gained with the TSX Gold Index (TGD) up 3.0% and the Gold Bugs Index (HUI) up 2.5%.

Note how all our key MAs are beginning to converge. The key MAs of 50, 100, 200-day MA and the 165 exponential MA range between $1,796 and $1,806, emphasizing our $1,800/$1,820 zone that must be overhauled. The converging is like a tightening elastic that should pop. If we are successful in breaking out over $1,850/$1,860, then we could have potential targets up to $2,100. That would warm the gold bugs' hearts.

However, gold does face headwinds with the Fed tightening monetary policy and bond yields rising.



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

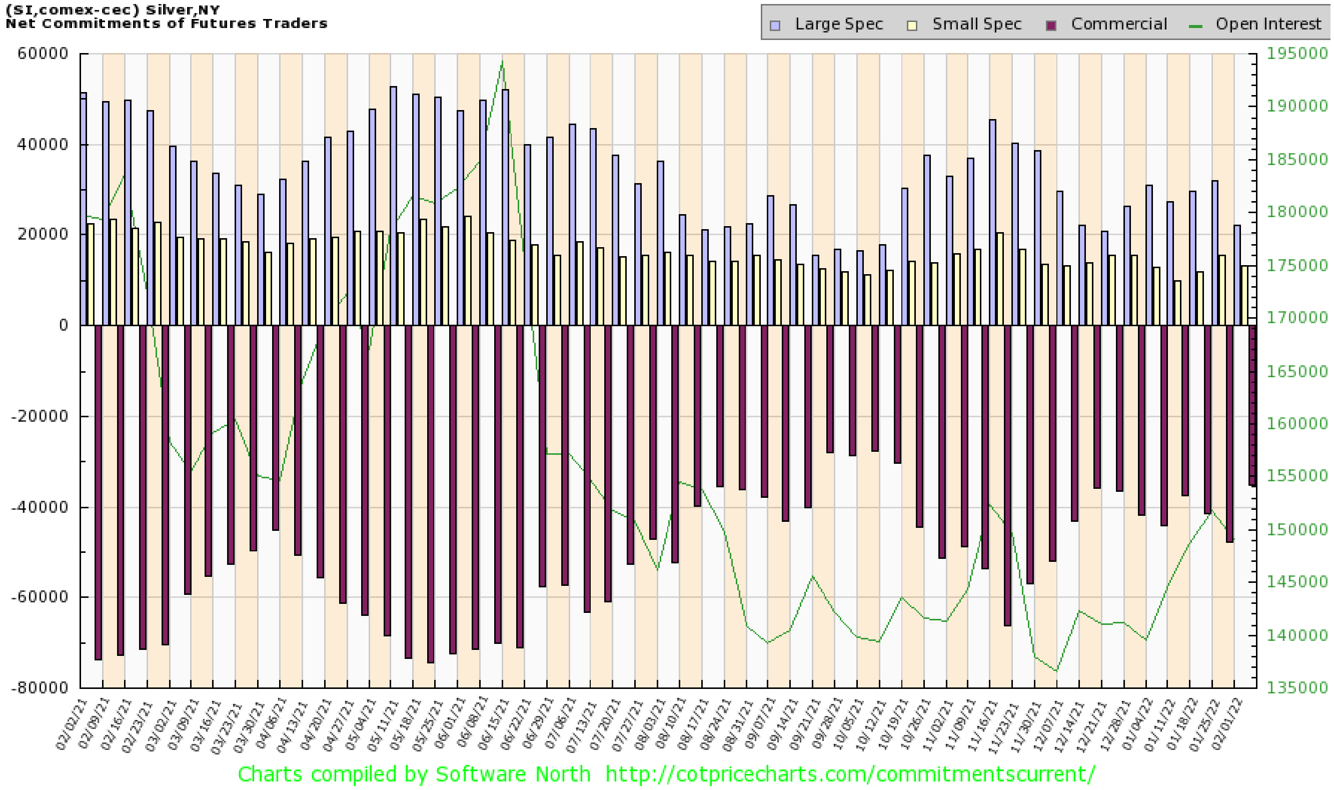
	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
01/04/22	320	296,583	85,228	78%	99	104,258	341,716	23%	45400	19,297	70%	502,717
01/11/22	337	290,102	90,365	76%	98	116,292	341,365	25%	48323	22,987	68%	546,516
01/18/22	333	290,528	96,321	75%	101	132,764	353,832	27%	46978	20,117	70%	539,204
01/25/22	338	313,415	93,264	77%	102	130,208	379,954	26%	50669	21,074	71%	572,078
02/01/22	324	275,994	103,852	73%	93	127,633	328,975	28%	46819	17,619	73%	515,331

Source: www.cotpricecharts.com

The gold commercial COT (bullion companies and banks) surprised this week, jumping to 28% from 26%. Long open interest actually fell about 3,000 contracts but short open interest fell even more, down 51,000 contracts, a very big drop. Clearly, in the recent down move the commercials were covering their shorts. Open interest fell almost 57,000 contracts again, suggesting massive short covering. The large speculators COT (hedge funds, managed futures, etc.) fell to 73% from 77% as they shed over 37,000 longs and added over 10,000 shorts. Do the commercials know something we don't? This is the best position for the commercial COT since last October, just before an upward move in gold prices.

Source: www.stockcharts.com

Despite an up week that saw silver rise 0.8%, it was actually a week that really saw silver just churn between $22 and $22.80. We note that silver needs to first regain above $23, then above $24 and especially above $24.50 to suggest to us that we are going higher. We do have a possible gentle uptrend underway. We may be forming a triangle pattern that breaks out above $24.50 and could project up to $28.50. Further resistance would be seen at $25.50 and more at $26. This past week when silver made its low at $21.99 gold did not confirm making a new low with silver. If silver does start to rise, the key area would be up between $23.80 and $24.00. A failure at that level would be negative and, in the collapse back, we could break to new lows below $21.41. Only a firm break above $24.50 and especially above $25 would confirm a low.



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
01/04/22	178	65,108	34,189	66%	74	39,892	83,865	32%	25396	12,342	67%	139,521
01/11/22	189	66,193	38,645	63%	82	46,451	83,811	36%	23703	13,891	63%	144,442
01/18/22	197	65,985	36,285	65%	81	50,331	91,871	35%	24763	12,923	66%	148,737
01/25/22	191	63,923	31,782	67%	87	50,135	97,819	34%	28132	12,589	69%	151,779
02/01/22	193	60,723	38,605	61%	85	52,970	88,233	38%	24681	11,536	68%	149,136

Source: www.cotpricecharts.com

The silver commercial COT jumped this past week to 38% from 34%. It was one of the biggest jumps we've seen in weeks. Long open interest rose almost 3,000 contracts while short open interest fell about 9,600 contracts. Total open interest slipped over 2,500 contracts on the week. The large speculators COT fell sharply to 61% from 67% as the large speculators added about 7,000 contracts to their short open interest position. Long open interest fell roughly 3,000 contracts. It was quite a dramatic turnaround and we view this as bullish.

Source: www.stockcharts.com

The gold stocks struggled to a gain this past week as they aligned with the stock market rebound and gold's rebound. The TSX Gold Index (TGD) rose 3.0% this past week while the Gold Bugs Index (HUI) rose 2.5%. Both, however, remain down on the year. That low at 270.19 on January 28 still looks like a potential important low. It left the hammer Japanese candlestick pattern on the chart, usually a sign of a bottom. It also held support at 270. But more works need to be done to suggest that we are leaving the lows behind. Resistance is up to 295. To be safe, we suggest using our key breakout point at 300. The TGD remains down 32% from the highs seen in August 2020. If the TGD can successfully break out over 300, then we have potential targets up to 345/350. That would only get us back roughly to where we were in May 2021. We do have a gentle uptrend underway but support at 270 must continue to hold.

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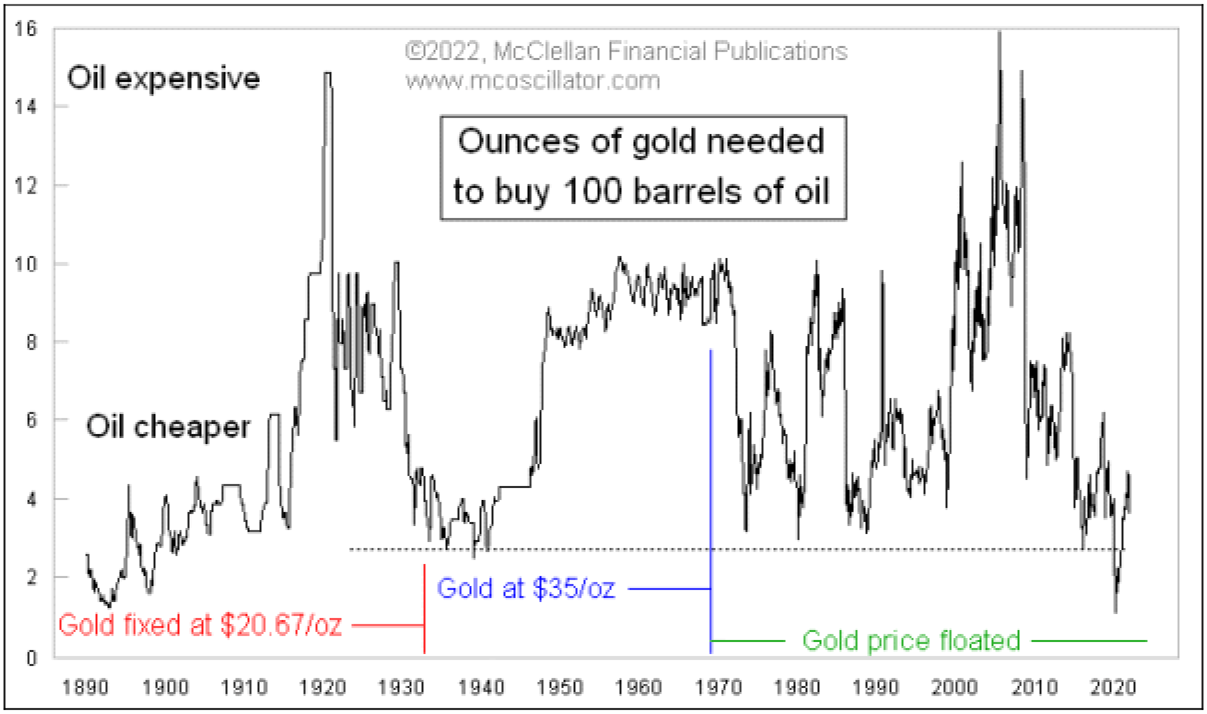
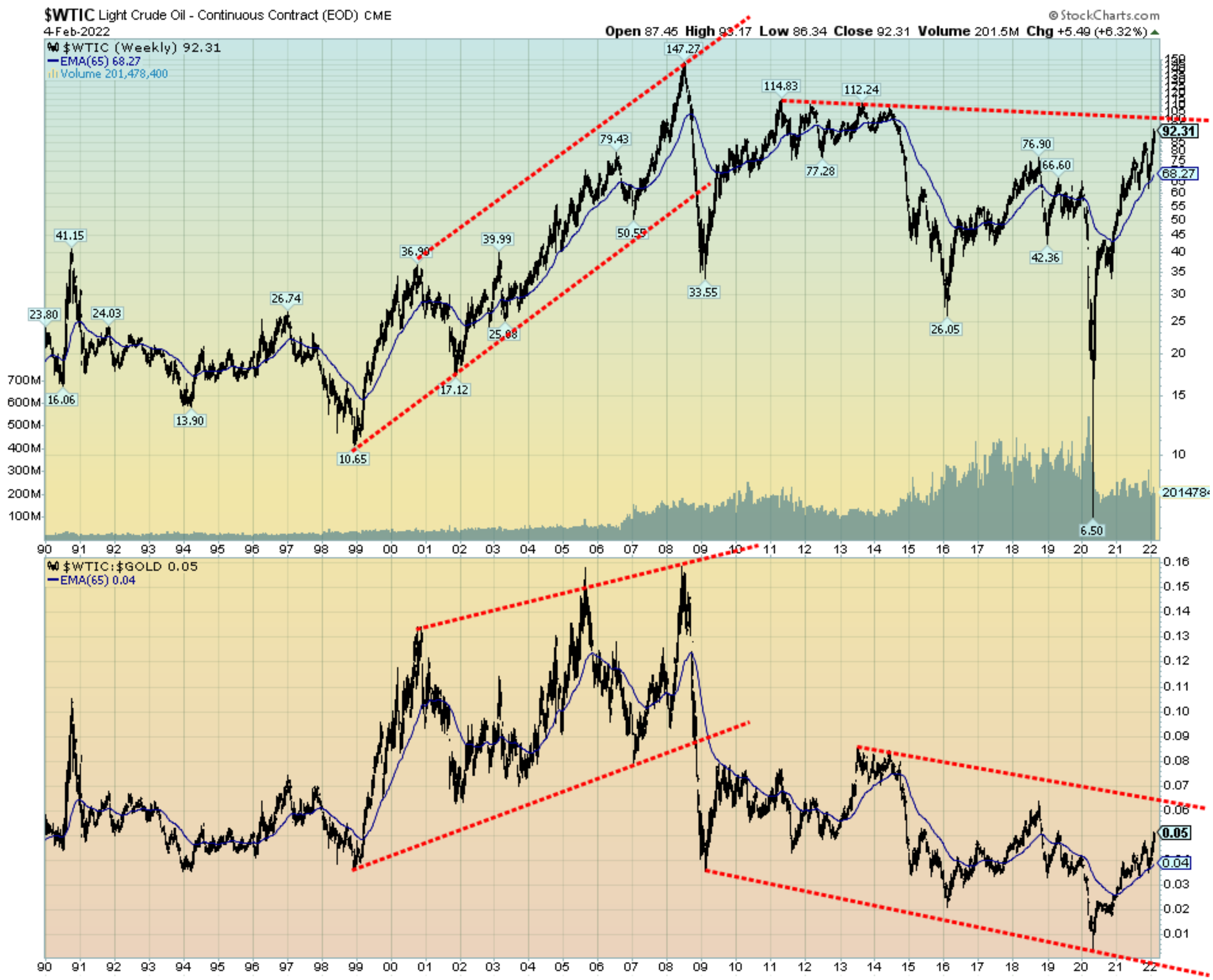


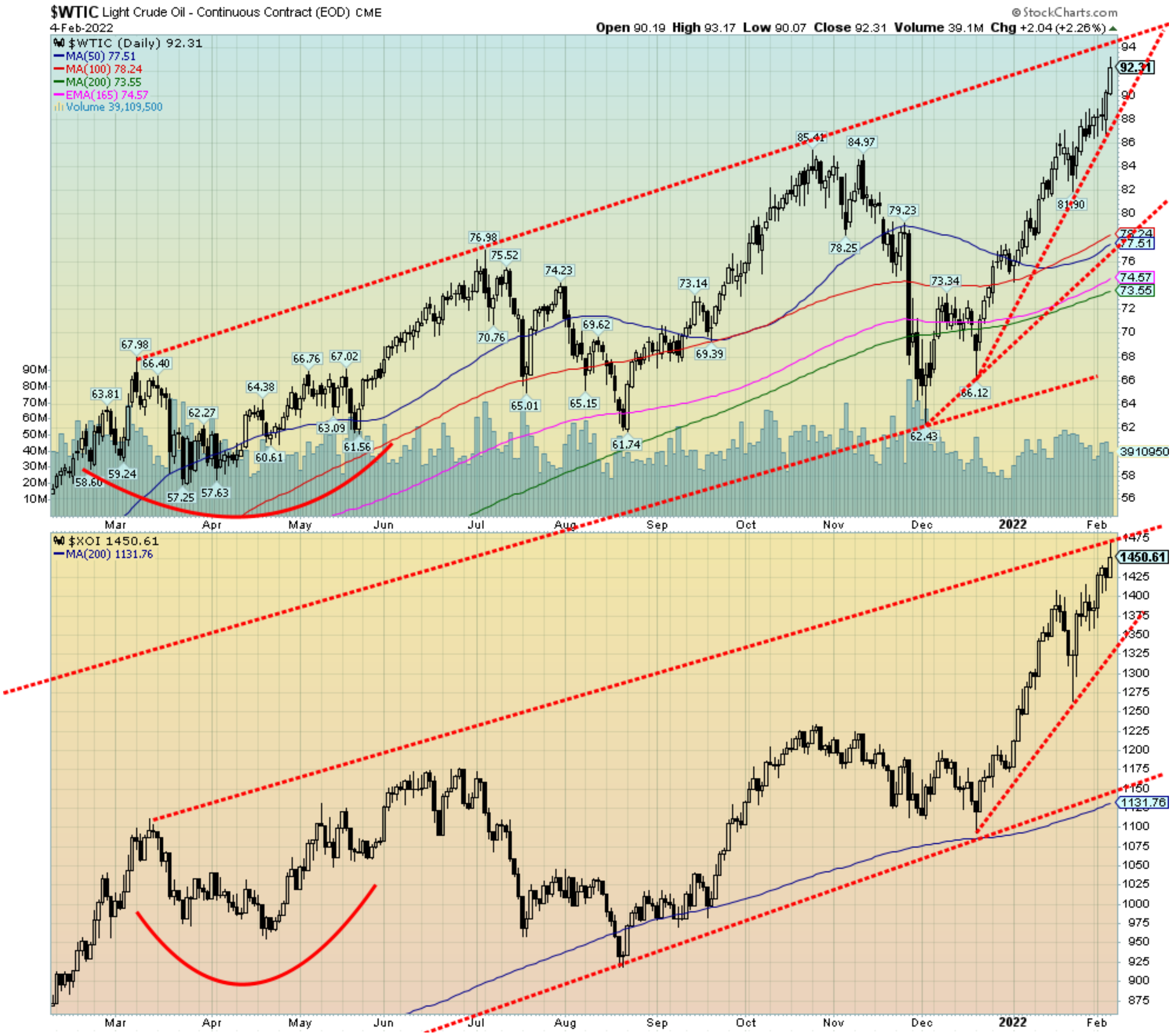
Source: www.mcoscilator.com

Tom McClellan of MC Oscillator (www.mcoscilator.com) in his recent Chart in Focus featured the oil/gold ratio. As he notes, in the long run oil and gold can get cheap or expensive relative to each other. Right now, oil is cheap vis-à-vis gold, even at $90+/barrel. McClellan noted that today it takes roughly 5 ounces of gold to purchase 100 barrels of oil. The long-term average is 6.2 ounces and it is 6.6 ounces since the gold standard ended in August 1971. So, yes oil is cheap compared to gold. To get to 6.6 ounces oil prices would have to rise to $119/barrel. All this continues to support the premise that oil prices could still be going higher.



Source: www.stockcharts.com

Here's a closer look at the Oil/Gold ratio since 1990. The WTI oil chart is on top, the WTI Oil/Gold ratio below. Note the chart breaks out above 0.06 which is equivalent to 6 ounces of gold to purchase 100 barrels of oil. The nadir of that ratio was during the March 2020 crash when oil briefly went negative. Note how high oil prices relative to gold persisted throughout the early part of this century, peaking in 2008 when oil prices hit $147 when gold was just over $1,000.



Source: www.stockcharts.com

WTI oil has surged above $90, hitting a high of $93.17 on Friday as a result of continued geopolitical tension (Russia/Ukraine/U.S.) and a deep freeze in Texas that has resulted in disruption of Permian wells in the state. There continue to be ongoing threats from the Houthis who earlier had bombed oil facilities in the UAE. There have also been cyber-attacks on oil facilities in the EU that have disrupted ports. There is also little sign that OPEC is prepared to increase production. Put it all together and oil prices have soared for the seventh consecutive week, once again hitting fresh 52-week highs. Brent crude has also jumped over $90.

Many are now noting that oil prices, up almost 48% since that low in early December, are now in a bubble and unsustainable. Gas prices at the pump have also soared with gas seen at $1.57/liter in Toronto and a national average of $1.516 on Friday both records. In the U.S., the national average on Friday was $3.423/gallon. These are the highest prices in seven years. Strategic oil reserves in the U.S. last reported were at their lowest levels since 2003.

Many believe oil prices will soon soar past $100. There are concerns about OPEC's spare capacity. OPEC have not been increasing their monthly release beyond what was previously announced. It is expected that OPEC's spare production will fall to 4% of total capacity by Q4 2022. Low inventories, low spare capacity, and low investment are all putting pressure on oil prices along with the geopolitical concerns.

Energy stocks are benefitting as the indices hit fresh 52-week highs once again this past week. The ARCA Oil & Gas Index (XOI) was up 4.9% this past week 23.1% on the year, while the TSX Energy Index (TEN) gained 5.1% this week and is up 22.8% so far this year. WTI oil rose 6.3% this past week and is up 22.7% in 2022. Natural gas (NG) went in the opposite direction this past week, falling 1.5%, but remains up 22.5% in 2022.

WTI oil is hitting what appears to be the top of a channel and is clearly in overbought territory. All of this suggests that oil could soon suffer a setback. The question is how much of a setback. Overbought is merely a state and it doesn't guarantee that any pullback will be substantial. Given WTI oil may be at the top of the channel and in an overbought position, a pullback could be in the works. But, how deep? Prices could fall back to around $89/$90 and still remain in an uptrend. The last significant low was on January 24 at $81.90. So, a breakdown under that level would signal a top. The XOI could arguably also be at the top of a channel and, given its overbought position, could also be vulnerable to a pullback.

There is little on the horizon to suggest that oil prices are going to fall substantially any time soon. We maintain potential targets up to $108 at this time. Minimum targets here in the low $90s have been achieved. And, no, the Fed cannot force oil prices lower. Given the low capacity in U.S. strategic reserves, any release would have only minimal effect. The U.S. consumes roughly 18.2 million barrels/day. The U.S. Strategic Reserves have enough for just over one month. The EIA forecasts that the U.S. needs to import 4.4 million b/d in 2022. Just over 50% of imported oil comes from Canada, but surprisingly the U.S. also imports from Russia. Given the current tensions, will that last? In November 2021 last available data shows the U.S. imported 17.8 million barrels from Russia or about 600,000 b/d.

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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