

## PIVOTAL EVENTS

MARCH 23, 2017

BOB HOYE

### Signs of The Times

*“The flood of retail money into stocks shows no sign of relenting. Tenth straight week into ETFs and out of mutual funds.”*

– Zero Hedge, March 10.

*“I believe the US 10Y bond yield will ultimately converge with Japanese and European yields well below zero – in other words, buy the 10Y bonds!”*

– Zero Hedge, March 11.

*“Hedge-fund trader loses big on oil bets that ignored the second shale revolution.”*

– Wall Street Journal, March 13.

*“Analysts Confident On OPEC Extension”*

– Oil Price Intel, March 17.

*“Liberal Protesters Boost Trump’s Economy As Sign-Making Supplies Sales Soar 30%”*

– Zero Hedge, March 18.

*“A continued environment of ‘OK’ growth and low inflation, which allows central banks to keep the party going.”*

– Morgan Stanley, March 19.

*“As long as the music is playing, you’ve got to get up and dance. We’re still dancing.”*

– Charles O. Prince, Citigroup, CEO, NYT July 10, 2007.

### Perspective

In the fateful month of May 2007, the Treasury curve reversed and in that fateful June, credit spreads reversed. Both forced the dramatic failure of Bear Stearns in early June, which marked the start of the worst contraction since the 1930s. Our presentation in early June included a slide of a crashed train. The caption was that “The Greatest Train Wreck in The History of Credit” had started.

Today, a Morgan Stanley researcher seems confident that central bankers can “keep the party going”. In 2007, the same boast would be accomplished through cutting the Fed rate. Short rates increase in a boom, and this has been a financial boom. Short rates decline in the contraction.

## **Stock Markets**

Back in December, we had thought that the positive stuff would run into March. But some items became tired in late February – early March. As noted last week, base metals made it to March 1 and rolled over. Crude oil stayed firm until the end of February. Credit spreads narrowed until the middle of March and as of Tuesday, this has reversed. Essentially, there has been little change in the yield curve since December.

The action in December became sensational enough to suggest that a Big Rounding Top was possible. This was confirmed by even greater technical excesses being accomplished more recently. These were accompanied by very strong sentiment readings. Both only seen at or near cyclical peaks in the stock market.

To back up just a little; with the explosion in November we called the action “Rational Exuberance”. Rational because it was discounting the change from the most anti-business administration in history to what could be the most pro-business. A few weeks ago, we noted that the action had left “Rational” behind and was just “Exuberance”.

Which continued to this week when a setback from a speculative surge began a correction. It has been earned and fits with the *ChartWorks* “ABC” correction, which could have declined to a “Springboard Buy”. This is a distinctive break in a flat or rising market and it registered on Tuesday. So, we watch for the bounce and how far it goes.

Out there will be the first drop in expanding margin on the NYSE. The actual report is a month behind and is considering a lagging indicator. With this and a MACD Sell on the S&P would confirm that the Big Top was in.

As we await the full development of the big Rounding Top, we can review some critical items.

One is the discovery that when the action in HYG (High-Yield) soars enough to drive the Daily RSI to close to 77 an important top was set by the S&P some 3 weeks later. The high RSI was set on February 27 and the S&P set highs at 2400 on March 4 and 2390 on March 15.

It could take a number weeks to see if the pattern worked as it did in 2007 and at the lesser high in May 2008.

Another relation that Ross has been working on is the action in the Treasury curve. The 2’s to 20’s need to take out a key low. While not that far away, the take-out is uncertain.

Charles Peabody at Compass Point specializes in bank stocks. The work is fundamental and last week’s conclusion was to downgrade the sector. The market is paying peak multiple for peak earnings.

Our last on banks noted that the big Canadian banks have a strong exposure in the US. The surge to the high in late February generated technical excesses. Following a correction, the action is testing the high.

Overall, we are looking at the most profoundly positive change in Washington, since the Reagan term started in January 1981. How much of this is in the market is unknown. But 1981 could guide. After the “ABC” correction and “Springboard” the stock market was firm into June.

Our wrap on equities is that technical and sentiment excesses only found near important highs are being generated. This is “Exuberance” beyond “Rational” and it can prevail for a while yet.

## **Currencies**

Positive vibes in stocks and credit spreads have been associated with the recent decline in the USD. We consider the action is still working on bottom as is the 20-Week ema. This is similar to the ones in 2014 and in 2015, which preceded substantial rallies.

Since the first of the year, the Canadian dollar traded up to 77 in early February and then down to 74 a couple of weeks ago. That took out the 20-Week ema which is concerning. At 75 now, it could trade near this level for a few weeks.

## **Commodities**

Commodities might have rallied well into March, but corrected through the last four weeks.

The high on the CRB was 196 and the low was 182 a couple of weeks ago, which was a significant drop. That was at support and a flat trading range can prevail for some weeks.

Crude slumped to 47 a couple of weeks ago. This drove the Daily RSI down to 25, which was oversold enough for a rally of some weeks. The initial bounce made it to 50 and it is now back to 47. A rebound for a few weeks seems likely.

Lumber rallied up to just below previous highs, working on a Triple Top. This is reviewed in a following chart.

Base metals (GYX) have been supported by the rising 20-Week ema, which can continue for some weeks.

## **Credit Markets**

The long bond (TLT) found support at the 116 level set in December. The rebound has made it to 121, which is approaching resistance at 121.70 at the 20-Week ema. This now sets a sequence of descending highs beginning at 123.14 in January, then 122.27 in early February and 122.14 later in the month. Wednesday’s high was 121.17. Not encouraging for the longer term.

Some firming in commodities and the TLT will decline.

High-Yield (HYG) became very overbought at the end of February and the break drove the Daily RSI to very oversold. That was at 86 a couple of weeks ago, which was at the 200-Day ma. The bounce made it to the 50-Day at 87.53. The next low was supported at the 200-Day at 86.

At 86.65 now, the rise can run to the last high at 87.53.

The panic in spreads ended with the CCC at 20.66% in February 2016. In an outstanding move, this came in to 7.81% in early March. At 8.71% it is attempting to reverse the trend. It will take some work over many weeks to accomplish.

## **Precious Metals**

We find comfort in reviewing gold shares divided by the bullion price, which has been in a basing phase, essentially since November.

The first low on the ratio (HUI/Gold) was 142 in November and the next at 142 in December. The first rally was to 180 in early February which was overbought enough to conclude a decline for the sector.

The next low was 149 in early March, which was tested a couple of weeks later. At 161 now, it needs to get above the 50-Day to complete the bottoming process.

GDXJ slipped from 43 in early March to 33 a couple of weeks ago. At 36 now, getting above the 50-Day would be constructive.

The bottoming action in December 2015 set up what we have been calling a cyclical bull market.

The “Cyclical” call was based upon the bottoming of gold’s real price as deflated by the PPI.

The Cyclical Peak was set at 9.27 in 2011 and the bottom was a double bottom. The low in October 2014 was 5.63, which was tested at 5.63 in July 2015. The high was 7.36 in July last year. The next low was 6.02 set in January. The latest posting is for February at 6.39, which is constructive.

A rising real price is a sign of improving operating margins for gold miners. It also enhances exploration prospects.

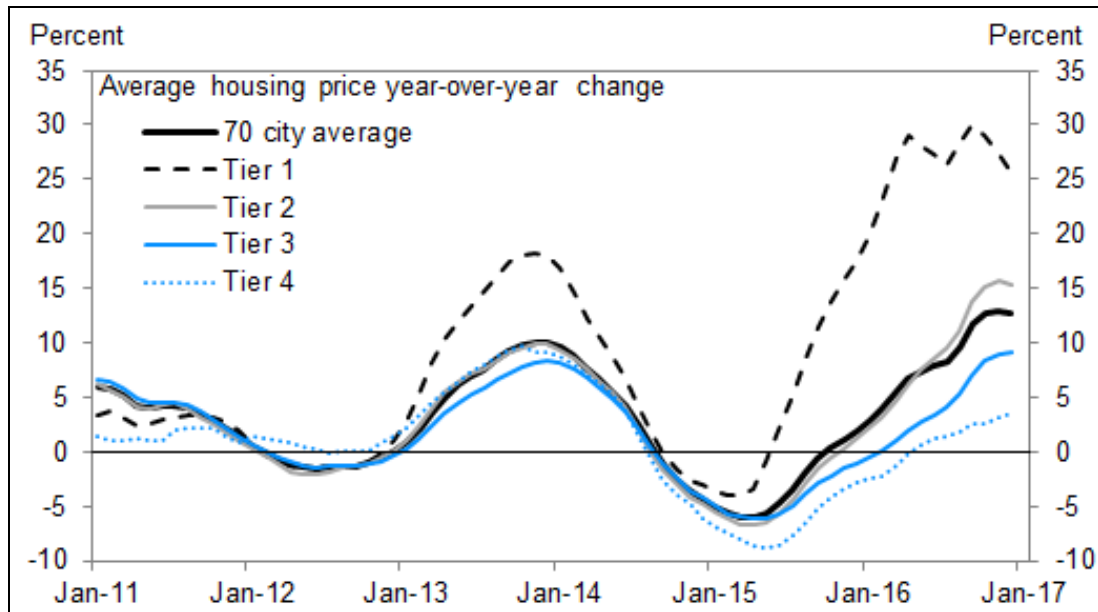
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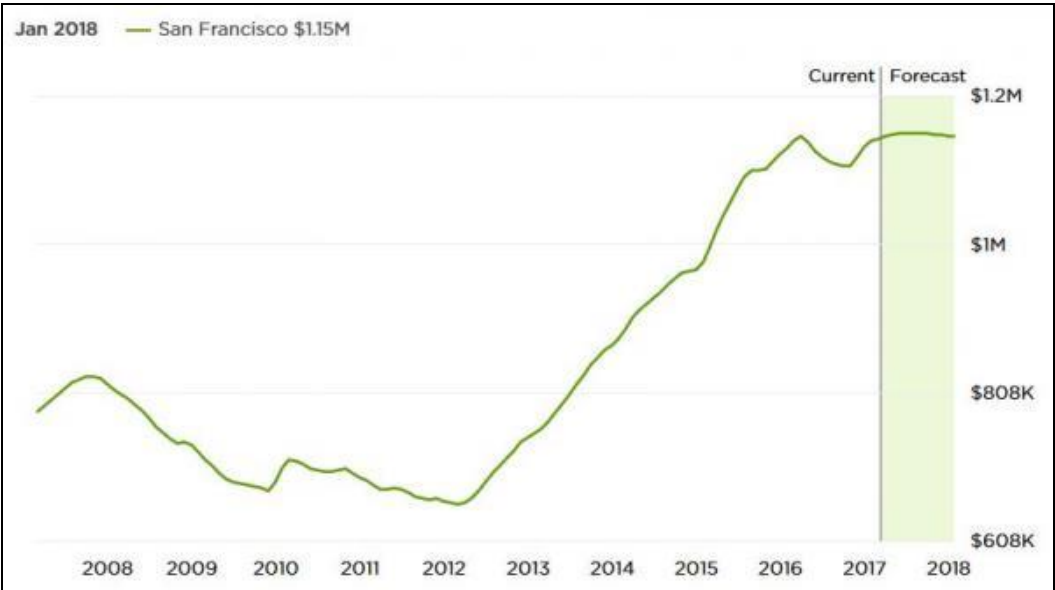
## China House Prices



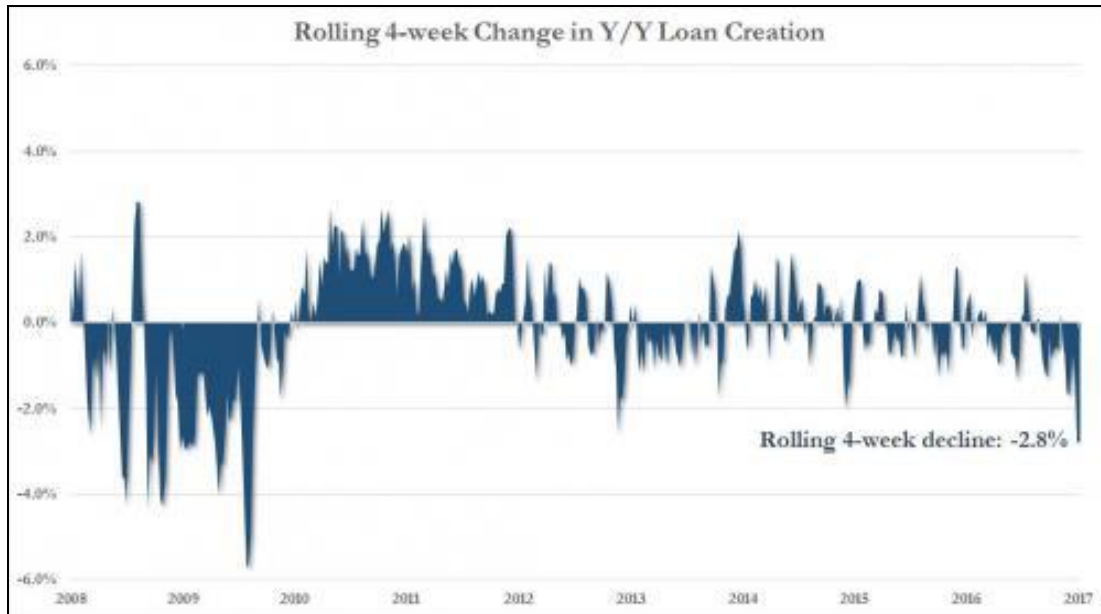
Source: Zero Hedge

- Latest posting sets a new, but modest, low.
- That's on the Tier 1 listings.

# San Francisco House Prices

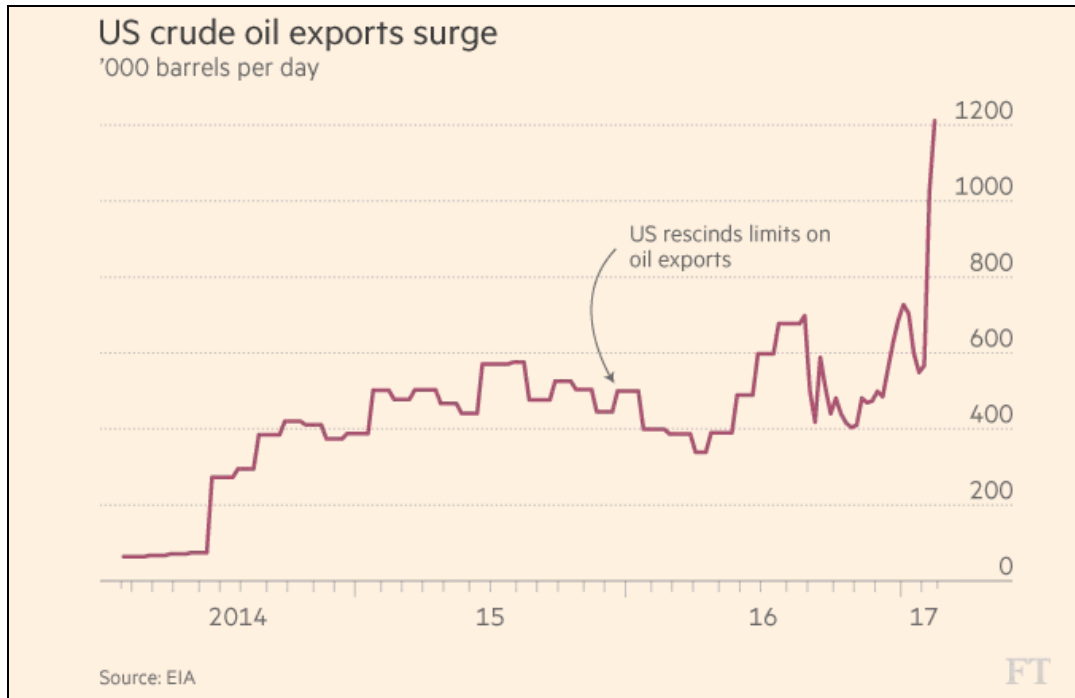


## US Y/Y Loan Creation



- For a contraction to start, banks don't have to call loans.
- All that is needed is that bankers become nervous and stop making them.

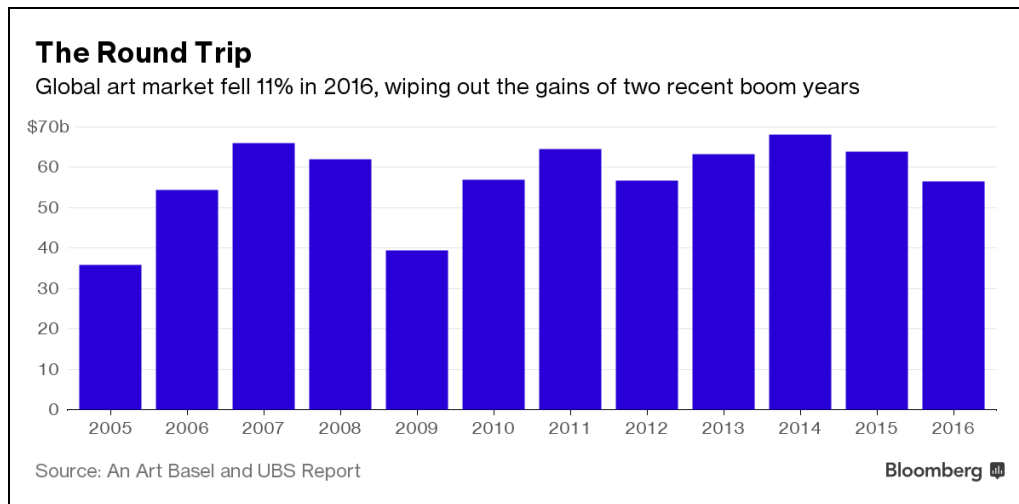
## US Shale Oil is Killing OPEC



***“At the peak of the 2014 boom, the break-even cost of U.S. shale oil was \$60. Today, the figure is nearer to \$30. In some places, the breakeven cost is just \$15 a barrel.”***

– The Times, March 20.



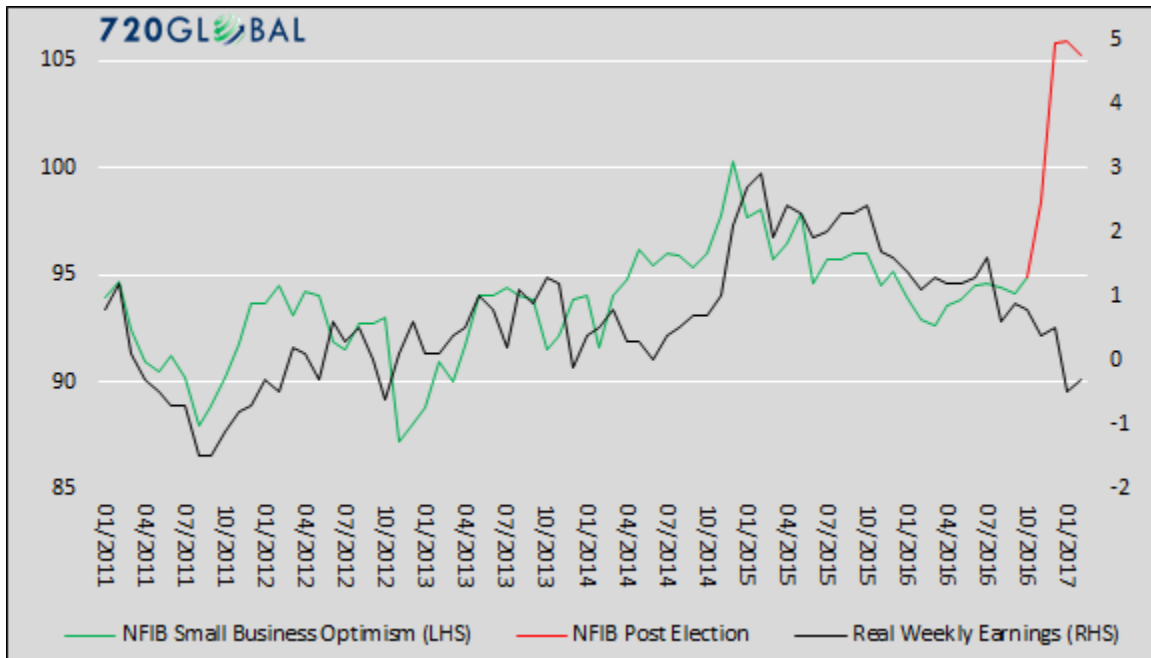


- The chart is of sales volume.
- Double Top with 2007 and 2014.
- At the tops, there must have been a lot of certainty.
- Check out the following:



The art piece, “My Bed” was originally sold by the artist for £150,000 in 1999 to an art dealer, for display. In 2015 it was sold at auction for £2.5 million.

## Small Business Optimism and Real Earnings

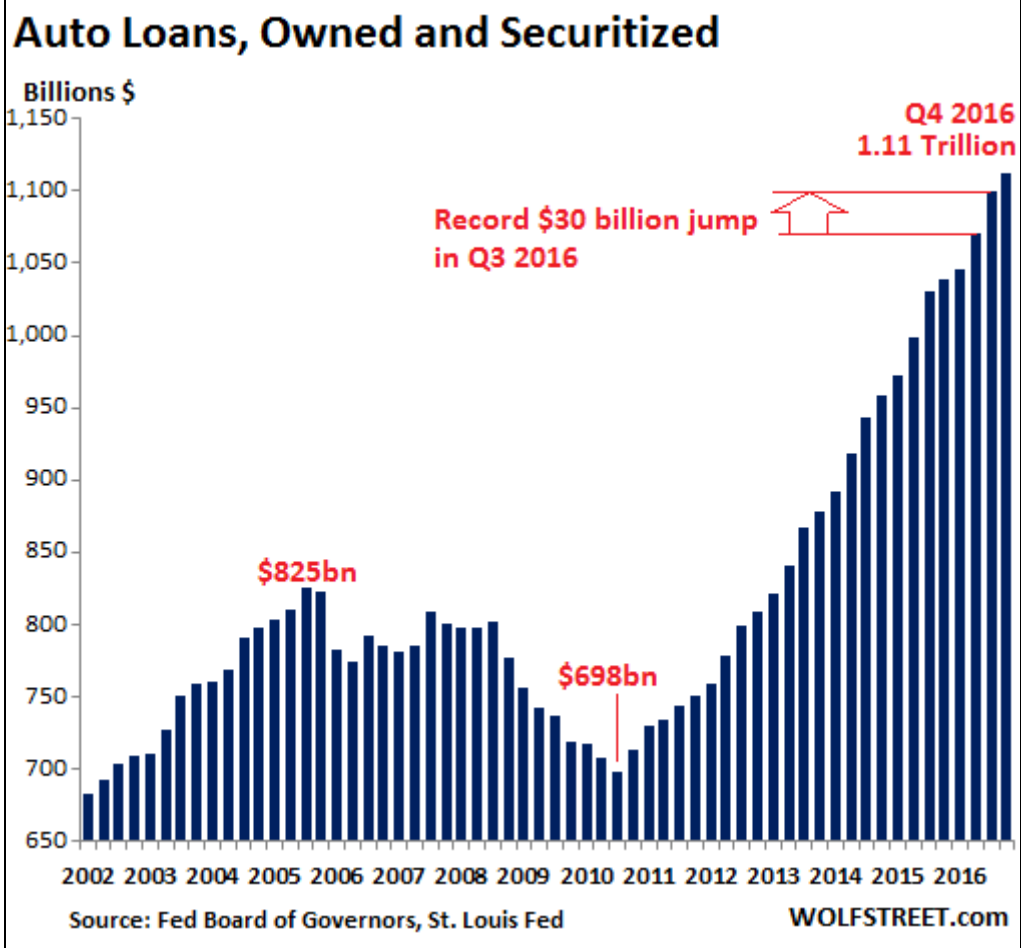


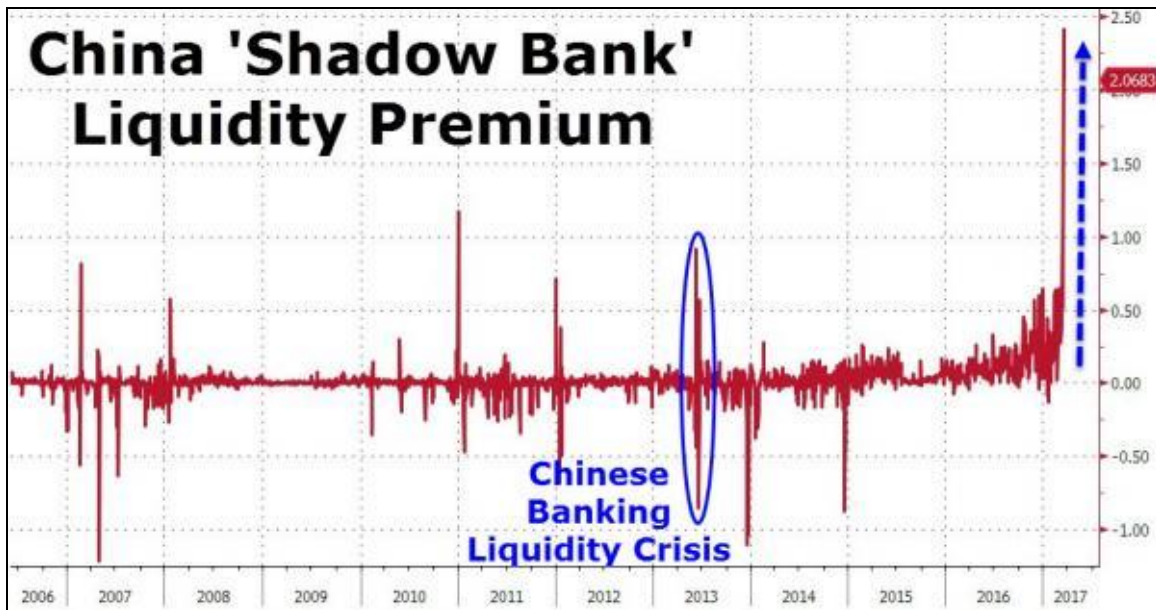
- Post Trump Optimism is in Red.
- Real Earnings are in Black.

## Setting Up For a Classic Triple Top



- Our March 2<sup>nd</sup> *Pivot* noted that Lumber had accomplished an Upside Exhaustion followed by a correction.
- Also noted was that Lumber tended to set Triple Tops at important highs.
- This week's action is working on the third Top, which could complete the Peak.





Source: Zero Hedge