

PIVOTAL EVENTS

DECEMBER 1, 2016

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Signs of The Times

“Dallas Mayor Admits Police Pension Pushing City Toward ‘Fan Blades Of Municipal Bankruptcy’”

“Shady real estate investments, marked down.”

– Zero Hedge, November 21.

“Investors are ditching bonds at the fastest rate in 3 years.”

– Business Insider, November 22.

“Gallup: Percent Republicans that believe that the US economy is ‘getting better’ jumped from 16% just prior to the election to 49% after the election.”

– Zero Hedge, November 24.

“Trump is meeting with an ex-bank CEO who wants to abolish the Federal Reserve and to return to the gold standard.”

– Business Insider, November 29.

“Krugman: Trump is the ‘worst man we could have made president’.”

– Business Insider, November 29.

Perspective

It is uncertain if Krugman knew about the discussion of a gold standard. Possibly not, as he would have become apoplectic and unable to comment. The “ex-bank CEO” is John Allison who recently retired as president of the Cato Institute. Our comment on a convertible dollar has been that it “manages” the ambition of government. This contrasts with the long-running promotion that a committee of experts must have a fiat currency so they can “manage” the economy. In so many words, a convertible currency disciplines predatory bureaucracy.

The Republican platform in the 1980 election included the constraint and honesty of a gold standard. A serious attempt was made, but was derailed by the serious recession that began in 1981. Also, Democrats had the majority in both houses.

With their strongest position since 1928, the Republicans have a mandate for reform. That would be towards a civil service and administration bound by constitutional norms. It is almost startling to think that immigration agencies would obey their own regulations.

Other interesting news is the sharp decline in the November post on the satellite global temperature. This set a big high with the 2015-2016 El Nino and the drop is steeper than the one following the last strong El Nino in 1989. It is now plunging at the fastest pace on the 28-year record.

A few months ago, climatologist Roy Spencer updated the chart. This showed the decline needed a significant plunge to resume the 18-year flat trend. It looked a long way, but it is almost there now.

The main forces acting to restore the flat-lining trend are that the El Nino weather-event is over and the Solar Minimum, which is a climate event, continues. November 22nd and 23rd set two “zero” days, making 25 for the year. The last cyclical minimum clocked 260 “spotless” days in 2009 and 51 days in 2010.

Inspired by experts, the overbearing state needs to maintain the front of omniscience as well as the endless funding. More and more people are becoming indifferent to its climate propaganda. A cool winter could spread skepticism.

And we all know that state funding relies upon the perpetual financial bubble. The plunge in long-dated Treasuries since July is serious. The crash in Municipal bonds is worse. The bond bubble is in the early stages of a profound deflation.

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Stock Markets

It seemed that enthusiasm blossomed into November. This included sharp rallies for coal and coal stock prices as well as for base metals and mining stocks. And then there was remarkable excitement in the marijuana sector. As noted, the wild part seemed like a “silly season” that could be short-lived. The main thing is that it shows a remarkable will to speculate. Even OPEC members are believing their own stories.

On the overall market, the NYA has reached 10872, which compares to 10903 accomplished in September. The thrust is getting overbought. On the bigger picture, the peak of 11255 was set in 2015. The big “Rounded Top” is still in place. This is the case for the European stock market as well.

Transports have strongly rallied to 9044 a week ago with the Weekly RSI up to 76, which is in limiting territory. The record high was 9310, so the Dow Theory is still negative. TRAN can correct.

Banks have been running with the steepening curve, which, itself, is up to the best Weekly RSI since 2013. The index (BKX) rallied from 60 in June to 74 at the end of October. The jump to 87 has accomplished Upside Exhaustions as well as a Sequential Sell. A significant correction is possible. The curve has been flattening for two weeks. Then as Bloomberg reported in October ***“Banks Hoarding \$2.4 Trillion of Bonds”***. It

seems that diminished lending and increasing deposits has flowed bank funds into Treasuries.

Technical excess applies to Canadian banks as well.

The hot sectors can correct the excesses.

Initially it was easy to attribute the rallies to Trump. But there could be more to it.

The economy generated a good number on the third-quarter report, which has been an important motivator. The win by the popular uprising and the prospect of a business-savvy administration adds to the zest. Such jolly action obscured the likelihood of problems being cleared in November.

Perhaps the results with the election are not specifically due to the election, but to an unusual wave of optimism passing through politics and the markets.

Currencies

We have had two reasons for the firming dollar. One is the chart pattern and the other will be debt service into New York payable in US dollars. Now, there is another reason. The Republican majority will redirect the Federal Reserve from reckless speculation to prudence. This could be disquieting to interventionist economists. They could eventually be reduced from rent-seekers to real job seekers. How many reckless economists can *The New York Times* hire a columnists?

On the chart, the DX needed to rise through the 20-Week ema, which was accomplished on October 1st at 95.5. At the 101 level now, there is resistance at the 102 level. Our longer-term target has been 112.

With firming commodities, the Canadian dollar has recovered from 73.59 in early November to 74.50. Getting above the 20-Week ema at 75.35 would be constructive.

Commodities

The big story this week on crude is that OPEC still thinks it can set prices. A lesser report notes that in shale fields from Texas to North Dakota, production costs have roughly fallen in half. That's just since 2014. In a county in North Dakota, there is a 2000 square-mile area where the production costs are down to \$15 a barrel – and falling!

Since August, the trading range has been between 52 and 42. This week's rally on news made it to 51.50. Momentum is neutral and we have been looking for a seasonal low for late in the year.

Considering the firming dollar and declining costs, next year's rallies could be modest.

Much the same holds for oil stocks, which to maintain the trend needs to stay above the 20-Week ema.

Base metals (GYX) set a trading range from August until late October. The last low was 271 in late October and in two steps it jumped to 331 on Friday. The spike got overdone and the correction could find support at the 300 level.

Mining stocks (XME) have been outstanding. Some have coal production. The “Rotation” out of last January’s disaster ran from 11 to 28 in June. The correction was to the 24 level in late October. Then the jump to 32 on Friday. At 70 on the Weekly RSI, the rise is somewhat overbought and needs a correction.

Yes, the coal sector has been sensational. Sensational enough that the proxy KOL registered extreme technicals on the way up. The high was 14.74 on November 9th. It has declined a little and at 13.15 now taking out 12.90 says the correction is underway. It could be significant. The low in January was 5.

Credit Markets

The Treasury rally into July generated some rare technical excesses. Enough to conclude that the great bull market was over. We called it “ending action”. At the time, the consensus was looking for US rates to enjoy the exceptional decline as seen in Europe.

That was at 143 on the TLT and at 120 last week the decline was oversold enough for the action to record a brief pause.

Recent changes in credit markets seem preliminary to another contraction. In which case, banks will be forced to unload a lot of bonds.

This is the setup for a classic revulsion for most classes of bonds.

Lately, there has been some dislike of Municipals. Which stands to reason as too many cities have had Democrat administrations for too long. Earlier in the year, Investor’s Business Daily headlined ***“Democratic Rule Ruined Some of Our Finest Cities”***. That’s physically and financially. Think of Detroit.

This week, US News reported ***“200 Sanctuary Cities Insist They Will Stand Strong”***. They will obey federal law or suffer discontinuation of federal funding. This developing conflict has depressed MUB, which has plunged from 115 in June to 106 this week. This is oversold and in need of a pause, within the bear market.

Emerging Bonds (EMB) became overbought in August at 118 and took out the 20-Week ema at 114.5 in early November. The low was 107.75 and it has been trading around 109 for two weeks. This is a significant hit within what could be a long decline.

Emerging Stocks (EEM) enjoyed a rally from 27 in January to 38 in September and took out the 20-Week ema in early November. The initial low was 34 and the rebound made it to the ema at 35.65 yesterday. At 35 today, taking out 34 turns the Emerging World down. EMB has already failed.

Narrowing of credit spreads since January was outstanding, enough to register technical excesses in October. It will take some work to turn this series around. This week’s jump in crude has forced the CCC spread down to 11%, which was the low in October.

While the financial world is blessed by rising crude prices, it may not last.

This week, ten-year rates in Germany, Italy, Portugal and England extended their rising trend.

Precious Metals

There are some cross-currents, which can be fun if you are a white-water kayaker. In the financial markets, it can be an intellectual challenge.

With the intent of making financial speculation perpetual, central bank recklessness became unlimited. Market distortions are without precedent and we all know about reversion to the mean. As in central bank practices. The most distorted market is that for interest rates.

Politics and finance can never be separated and history is working on a profound change. People are taking political power from the “experts” into their own hands, which is constructive. This will also involve the equivalent in finance. The confection of a national currency has been to serve the state, not the markets. On the Great Reformation, the public will “privatize” national currencies by forcing convertibility. Gold has always provided the best choice.

A complete reformation will include making the senior currency convertible into gold.

In anticipation of this, one would not buy gold or Treasuries. It will take a few years.

As part of the last Great Reformation, in 1717 Isaac Newton put England on to a bi-metallic standard. This became a simple gold standard.

In the meantime, the prospect of a firming dollar prevents us from getting excited about a possible outstanding rally for gold in US dollars. The same holds for silver, making this another ideal time to avoid fundamental studies that “prove” there is a “concerning” shortage of silver.

As noted last week, gold stocks relative to the bullion price will need to end the decline that began in early August.

Using HUI/Gold, the worst was 142 in early November. The next low was 144 and at 150 now, breaking above 155 would be constructive. Getting above the 50-Day at 163 would set the uptrend. With some technical improvement in this indicator, one could begin to accumulate gold stocks. Lightening up on the hot coal and base metal stocks would also be timely.

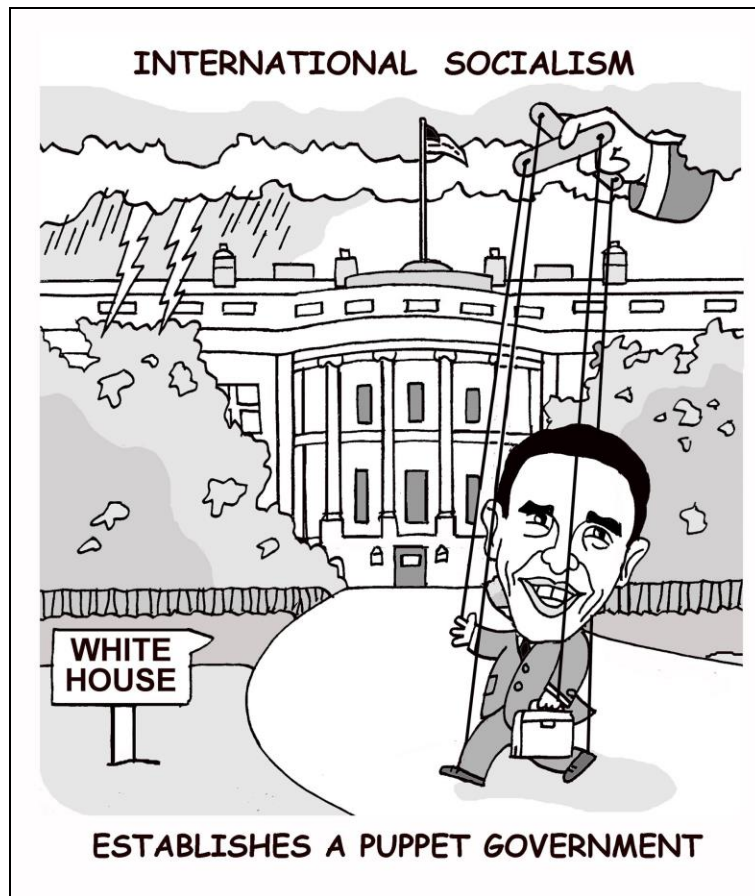
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We had this cartoon drawn in December 2008. Emotions were so high that a newspaper editor suggested leaving our names off.



“[Obama] issued executive orders, and his administrative state issued tens of thousands of pages of new regulations that took on the force of law. He called it ‘rule by pen and phone’.”

– Wall Street Journal, November 15, 2016.

The Forgotten Man



The image of Obama stomping on the Constitution is compelling and was painted by Jon McNaughton in 2010.