INSTITUTIONAL ADVISORS
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PIVOTAL EVENTS

THURSDAY, OCTOBER 15, 2015

BOB HOYE

Signs of The Times

"Letting the U.S. economy run at 'high-pressure' for a while by keeping interest rates relatively low will help push inflation back up to the Federal Reserve's 2% goal faster."

– Reuters, October 2.

Apparently, it was written sincerely.

"Global financial firms' estimated $100 billion or more exposure to Glencore may draw regulatory scrutiny."

– Bloomberg, October 7.

"As a rout in Chinese stocks this year erased $5 trillion in value, investors fled to safety in the nation's red-hot corporate bond markets."

– Bloomberg, October 7.

"Study: Government Workers make 78 Percent More Than Private Sector"

– FreeBeacon, October 8.

Data included benefits and was from Cato Institute.

"Retailers Roll out Gift Cards That Give Recipients Shares In Top Companies"

– Wall Street Journal, October 13.

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Stock Markets

Our September 29th Pivot noted that ***"Seasonality could bottom some two to four weeks from now. Momentum has further to go."***

Last week we noted that the prospect for an intermediate low following the break below the 50-Week ma counted out to around November.

Is the low for the S&P of late September the key intermediate low?

The decline into Black Monday, August 24th was global and severe. Particularly for Shanghai. We had the close on the S&P on that day as the target for the test. In between, the CCI could have reached 100 on the rebound (✓).

The next low was tied to the panic about Glencore, which some compared to Lehman in 2008. As exciting as it was, it was more like Bear Stearns in June 2007. The first "discovery" on that contraction. Lehman in 2008 was the killer discovery.

However, the Glencore collapse suddenly reversed to a brutal short squeeze. A chart follows that shows that the US intervention through REPOS was massively greater than in 2008. Rebounds are natural, the latest had extraordinary assistance. [1]

And now the bounce in the S&P has generated an Inverse Springboard, which is a "sell" in a declining market. Opposite to the Springboard of October a year ago.

Banks (BKX) set a false breakout in July and have been poor performers since. The high was 80.87 and the Black Monday low was 67.80. The rebound made it to 73.39; nowhere near the 200-Day. The low on October 2nd was 67.60 and the short squeeze made it to only 71.84.

At 70.25 now, taking out the 68 level is likely and would be a serious failure.

Credit Markets

Credit spreads widened into October 2nd with the Glencore setback. Some relief was possible. The huge and sudden REPO operation squeezed virtually everything in the universe. The High-Yield (PHDCX) rallied from 8.60 to 8.85 on Tuesday. The declining 50-Day ma stopped it for the fourth time since the key reversal in June. Spreads have done much the same.

Lower-grade bond prices and credit spreads seem poised for another setback.

On the Fred BBB chart, widening through the last "wide" at 242 bps could be similar to the key one in December 2007. It traded for a week at 232 bps. Yesterday it up-ticked to 234 bps.

On that breakout in spreads, the S&P took out the initial decline into November. The first leg of the bear ended at 1256 in March 2008.

Long Treasuries (TLT) held support at the 122.50 level, which was at the 50-Day ma. A couple of days of stock-market correction and TLT is up to 124, comfortably above the 200-Day as well.

The last high was 126 and that becomes our target.

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[1] Interventionist economics is so isolated from reality that it still believes that financial history is episodic. In so many words driven by news events. A big push will change the major trend. The problem is that financial history is periodic and important trend changes overwhelm arbitrary notions about "managing" a national economy.

Bankrupt theories, bankrupt countries and now bankrupt central banks.

Commodities

As noted last week, the commodity rally out of August 24th was a natural, helped by seasonal strength for copper and crude likely into September.

Copper rallied from 2.21 to 2.49 in the middle of September. The next rally made it to only 2.44 on Monday. A seasonal low in November has been possible and taking out the October 2nd low of 2.24 would mark the decline.

Crude oil fared better. The August low was 37.75 and the high was 50.92 on Monday. The swing on the Daily RSI from very oversold has been rather good. Likely enough to limit the move. The high on the December contract was 51.5 on Friday and today's low was 46.

A seasonal low late in the year has been possible.

Lumber sold off from 302 in June to 214 at the end of September. The rebound made it to 262 today. The swing from Daily oversold to overbought is impressive and the September low needs testing. Probably by year-end.

Grains (GKX) have done relatively well. The low was 273 in early September and the high was 300 two weeks ago. This was at the 200-Day and the next rally is attempting to get above the moving average which is declining.

Currencies

Until two weeks ago, the DX was trading between the 50 and 200-Day averages. Last week, it broke down from 96 to 93.88 now.

The intra-day low on August 24th was 92.52. This is our target.

The Canadian dollar traded close to 75 from late August. The last low was 74.31 in late September and now it is at 77.8.

Precious Metals

The September 17th ChartWorks *Gold Sentiment* had a target in the 1145 to 1185 level. Yesterday's and today's high reached 1190.

From the 1100 low in September this has been a good move. From the 1072 in July it has been an outstanding rally. The Daily RSI has swung from very oversold at 18 on the Daily RSI to almost 70.

It is an impressive swing and most of the gain for this move has been accomplished. Gold is registering an Inverse Springboard that could become effective within a week or so.

Since the bear started in 2011 each rally from very oversold has been sharp and all too brief. The last example for gold stocks popped out of last December and got overbought in January. We left the play on the rally into May.

Thus our advice over the past few months was for stability, first.

This would show up as the GDX began to outperform the bullion price. Our September 29th Pivot noted that GDX/GLD index rising above the 50-Day would be constructive. That was accomplished on October 2nd at 130 and the rally has continued to 150.

GDX has rallied from the base at 13 established from early August to the last low at 13.19 at the end of September. At 17 now, gold stocks have accomplished a big momentum swing.

A correction for the sector has been earned.

The base that is building will likely be the end of the bear that started in 2011. It is setting up a cyclical bull market whereby the precious metals become a premier sector.

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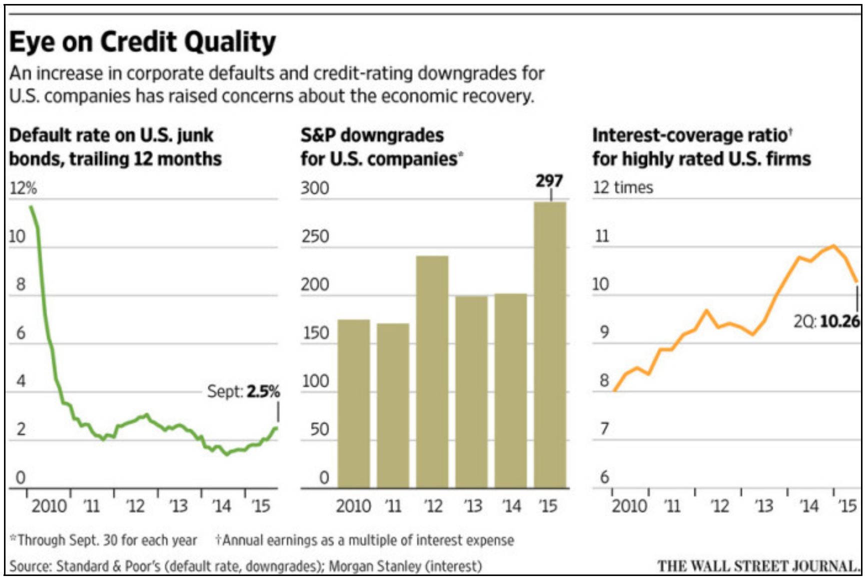
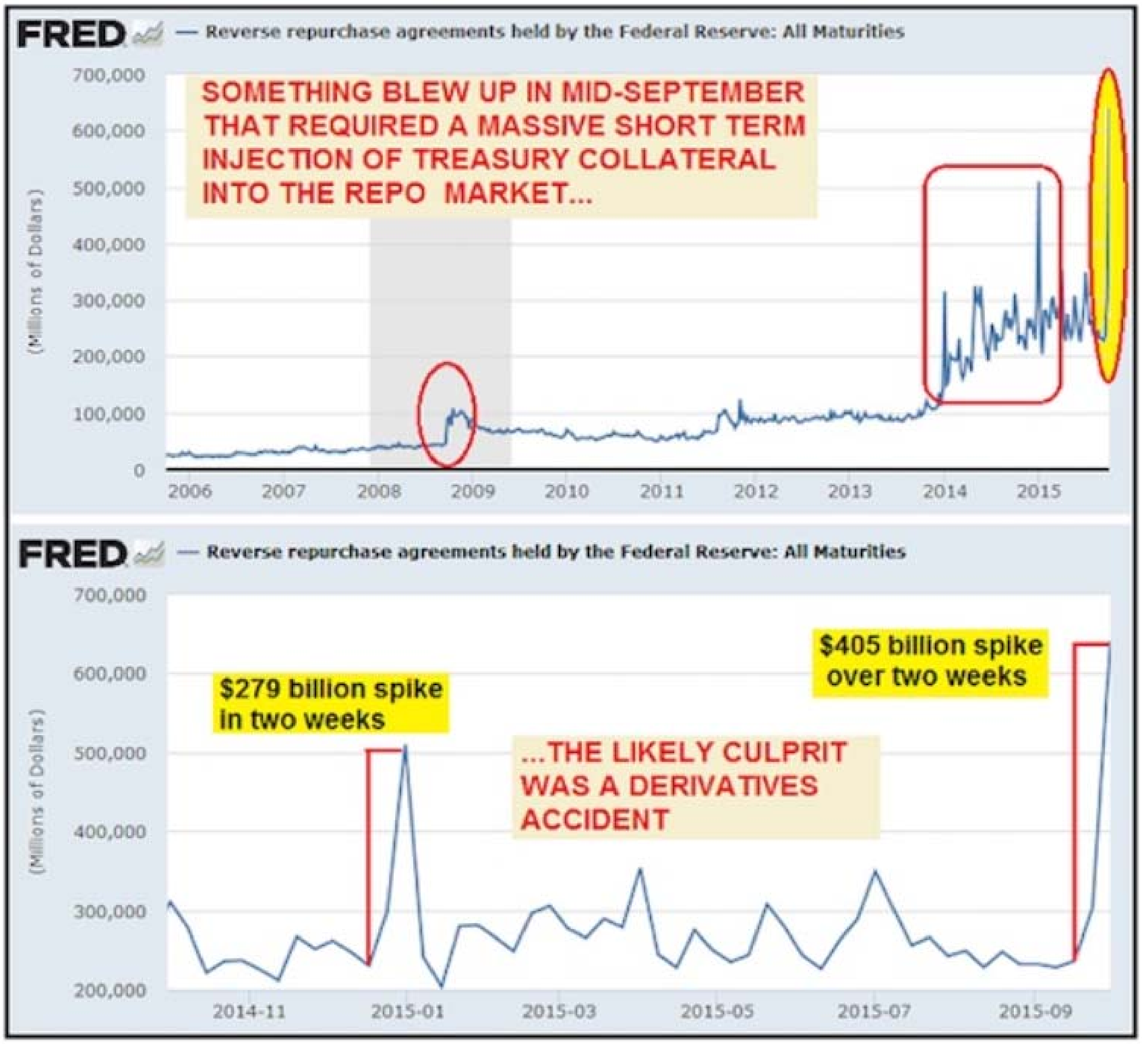
Changing Credit Markets



- The change started in June 2014.
- It is cyclical.
- It is not over.

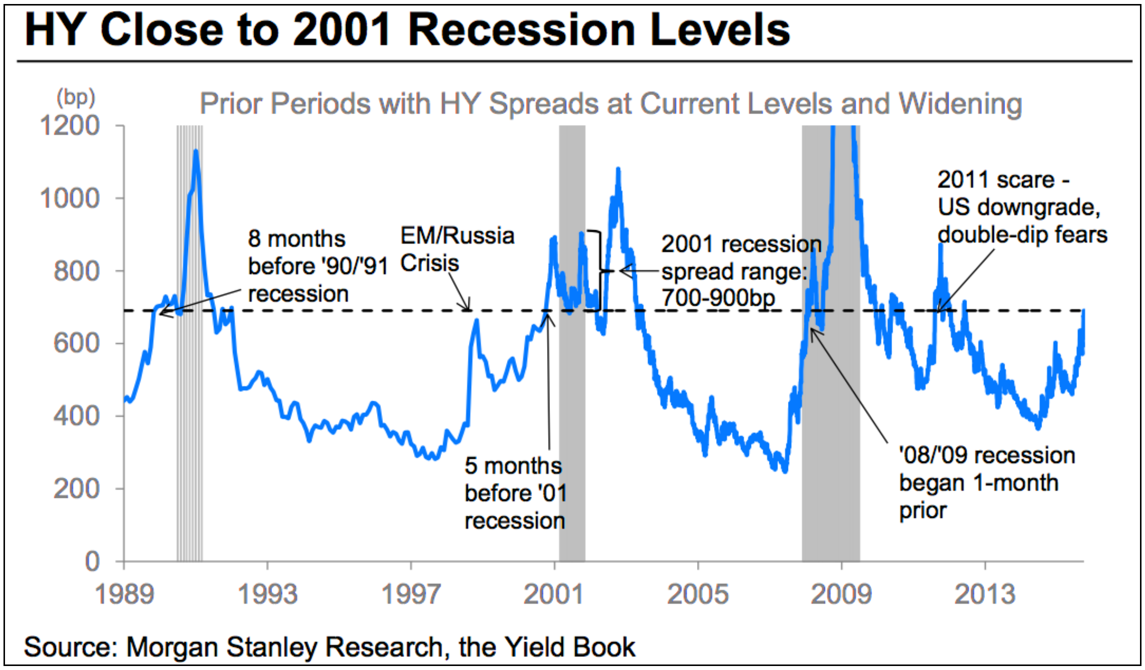
Massive Intervention



Source: Zero Hedge

- The intervention was imposed over two weeks in September.
- Some think that within the overall collapse, Glencore was the focus problem.
- Was a "Lehman Event" prevented or deferred?

Credit Spreads and Recessions



- By this measure, widening is now indicating a US recession.
- The "close one" in 1998 was with the LTCM disaster.
- The key breakout in 2011 occurred with the Euro Crisis.
- That was not a cyclical change in credit spreads.
- This one is!