PIVOTAL EVENTS

THURSDAY, NOVEMBER 5, 2015

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Signs of The Times

"Japan's central bank already owns more than half of the nation's market for exchange-traded stock funds."

– Bloomberg, October 28.

"The Bank of Japan declined to step up its monetary stimulus Friday even as it postponed its time-frame for reaching a 2% inflation target."

– Bloomberg, October 30.

"Surging levels of cash in U.S. money markets threaten to undermine the Federal Reserve's control over short-term interest rates."

– Wall Street Journal, October 27.

"Swelling Iron Ore Stockpiles In China May Signal More Losses"

– Bloomberg, November 1.

"Fine Wines Languish In China As Consumers Cool"

– Financial Post, November 2.

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Perspective

The salient headline is the one about the BoJ being long a lot of stock and electing to not to juice the money markets. Is it a discovery of integrity or a sudden loss of nerve?

Probably both, but this page is disappointed as we thought that the Bank of Japan would join the other central banks in boosting global stock markets in October.

Whatever – they have been trying to inflate asset prices since the early 1990s.

There has not been any stories about wine surpluses since the ***"Lakes of Wine"*** headlines in 2007-2008. A blog, The Wine Economist, had a headline in December 2007 ***"Draining Europe's Wine Lake"***.

As yet a scan finds no fresh stories about the problem, but it will likely provide another example of policymakers responding to events. In Ancient Rome "they" paid vintners to destroy grape vines.

In May there was a headline ***"China's Wine Industry Explodes"***, which suggests the wine lake could become a global problem.

And then there is the story-line about iron ore stockpiles. This reminds of the late 1980s when the aluminum inventory was huge. The quip was that it was the only other man-made thing that could be seen from outer space.

Be that as it may, one of the features of a lengthy post-bubble contraction is surplus commodities.

Stock Markets

The DJIA has had a target range of 17505 to 17870. The target lines are from the Keltner Bands as outlined in the ChartWorks of October 14th and 22nd. We have been calling this one the Analog Model.

At 17977, the high-side of the target has now been met and exceeded. The swing on the Daily RSI from very oversold with Black Monday to overbought is impressive. Even more impressive is the swing for the Nasdaq (QQQ) which is up to 73 on the RSI. A bounce with this vigor hasn't been seen since 2001, which was mid-crash.

October clocked the best one-month rally in four years. Clearly October was not allowed to be the month that clears some liquidity problems. Some problems were cleared in August and September, but the greatest financial bubble in history has been barely dented.

Technically, what is needed now on the Analog Model is the overbought (✓) and a Sequential (9) Sell Pattern (✓). It could take a few days to roll over.

The course of credit spreads reversed in June and in breaking out in July warned on the hit to most financial markets.

Spreads reached their worst at 242 bps on October 2nd and have come in to 220bps. The best on the correction in September was 220 bps, which now represents support. Credit spreads are preparing for the next phase of widening.

Banks (BKX) set a low of 67.80 on August 24th and at 66.70 on October 2nd. The recovery high has been 75 and it is trading at 74, right at the 200- Day ma. This sector's rebound has been rather weak and there is a story about S&P putting the "Too big to fail" banks on a downgrade alert. The suspects could be considered as the usual with JP Morgan, BoA, Wells Fargo, Citi, Goldman, etc.

Moody's has uttered the warning on Canada's third largest bank, BNS.

The high for BKX was 80.87 on July 23rd and as noted the low was 66.70. The rebound is having trouble at 74.

The senior indexes have made up most of the losses into early October. The high for the S&P was 2134, the low was 1867 and it is back to 2109. Once rolled, the correction could be to the 1990 level.

They have clocked an outstanding swing in Daily momentum from extremely oversold to overbought. And this week's sentiment number is noteworthy. Only 18 Percent Bulls.

Credit Markets

We have had some good trades out of the long bond (TLT).

The big rally made it to 135.63 in January. That was with the crash in crude and it was accompanied by a number of topping signals. The next rallies made it to 130.52 and to 128.10 on August 24th and to 124.65 on October 2nd.

This made three declining highs and in noting two earlier sets of the same pattern, we looked for one more pop. Ideally, this would reach the Keltner Band and it did. At 124.63 last week.

Then what was needed was the MACD Sell and if the TLT does not get above 122 on Friday it will register. It is at 120.62.

In the meantime, the decline over the last four days has taken out both the 200 and 50-Day moving averages.

The hit into October 2nd drove the JNK price down to 35.10. The recovery made it to the 50-Day at 36.65 last week. The momentum swing was rather good, but there could be a little more to the bounce.

Taking out 36 would turn JNK down.

The technical chart on spreads (JNK/TLT) has rallied from .282 on October 2nd to .301. This is above the 50-Day which is constructive. There is substantial resistance at .311.

Taking out .300 would resume the widening trend.

Commodities

The Shanghai hit took commodities (DBC) from 18.68 in May to 14.33 on August 24th. The rebound made it to 15.86 on October 10th. The subsequent low was 14.86 last week. This week's trade is straddling the 50-Day ma. Slipping below would be a negative comment on the global economy. And then there is the link to credit markets.

Taking out the last low at 14.86 seems likely and taking out the Black Monday low would be very serious.

Crude oil rallied from 37.75 to 50.92 and was stopped at the 200-Day ma in early October. With that we have been looking for a decline into December.

The oil patch (XLE) has accomplished an impressive swing from very oversold and is now vulnerable. At 72, the rally will likely be stopped at the 200-Day ma, which is at 73.

Our long-term targets for crude have been 37 and 27.

On the same rebound, base metals (GYX) accomplished a weak recovery. The August low was 257 and the late September low was 259. The last high was 282 a couple of weeks ago. This week's low has been 261 and the action is not oversold.

Base metal miners (XME) took out the August 24th low at 16.23 at the end of September. The bounce made it to 20.17 and it has been below the 50-Day since. The next low could set up another "rotation".

Lumber bounced from 214 in late September to 265 a couple of weeks ago. As with other items, the swing in momentum was impressive. It accomplished a reverse "springboard". That was close to the 200-Day and now at 240 it is close to falling below the 50-Day. This moving average has been thwarting rallies since June 2014, when credit spreads reversed to widening.

Currencies

As noted last week, the DX has broken above resistance at the 96 level. The next target is resistance at the 98 level. It could trade sideways for some weeks, building a base for the next advance.

In last week's edition, we thought that the Canadian dollar would drift down to the 74 level. At 76 now, it has been trading either side of the 50-Day. The decline could soon resume.

Precious Metals

Whew!

Ross's work on the Commitment of Traders numbers was right on. The ChartWorks of October 24th was titled: *Dangerous Territory* and the October 30th update was *Remains In Dangerous Territory*.

Numbers for silver were worse.

Gold's high was 1191.70 in the middle on the month and the last rally attempt made it to 1182 on October 28th. So far, the low has been 1106 earlier today and the Daily RSI is down to 31.

Operators like to run the stops at the round numbers on gold and the RSI could be a little lower for re-entry. So just under 1100 at an RSI of around 28 could provide the opportunity.

Long-term bullish positions in gold in the face of a chronically firming dollar have not been rewarding. Yes, the Fed is corrupt but trying to "get even" by being long gold has been a loser. Some gold should be owned as insurance or as liquidity in a storm, but otherwise it is for trading.

On the other hand, gold stocks are for traders and investors. And financial history (not the Fed) is setting up a new cyclical bull market.

For this we have needed gold shares to begin to outperform the bullion price. Ideally this should set a base rather than an impetuous "V" bottom and spike up. Our last exit from the sector was on the rally out to last May.

GDX/GLD index set a good base at the 120 level from late August to late September. It broke above the 50-Day on October 2nd and made it to 151 on the 19th. It is now back to the 50-Day at 134 and it is uncertain if this will hold. If it doesn't it will be a big test of the 120 level.

We have yet to advise investors to begin to accumulate positions in gold stocks.

Also needed to construct the base for a rally in metals themselves would be silver outperforming gold. It did from August 24th to October 2nd and then sideways along the 200-Day ma. Constructive while it lasted, but the ratio has become volatile, suggesting another phase of financial turmoil.

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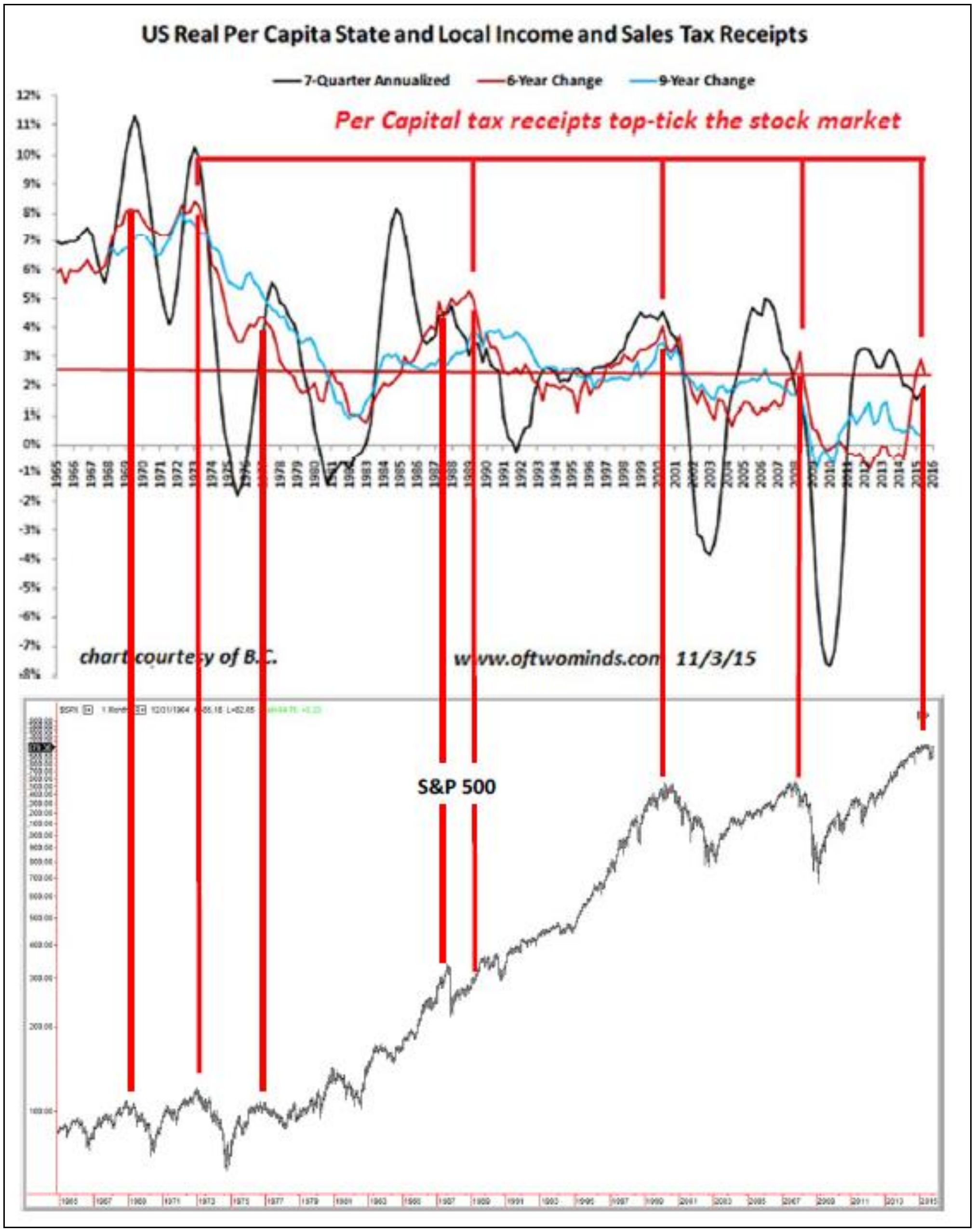
S&P and Tax Receipts

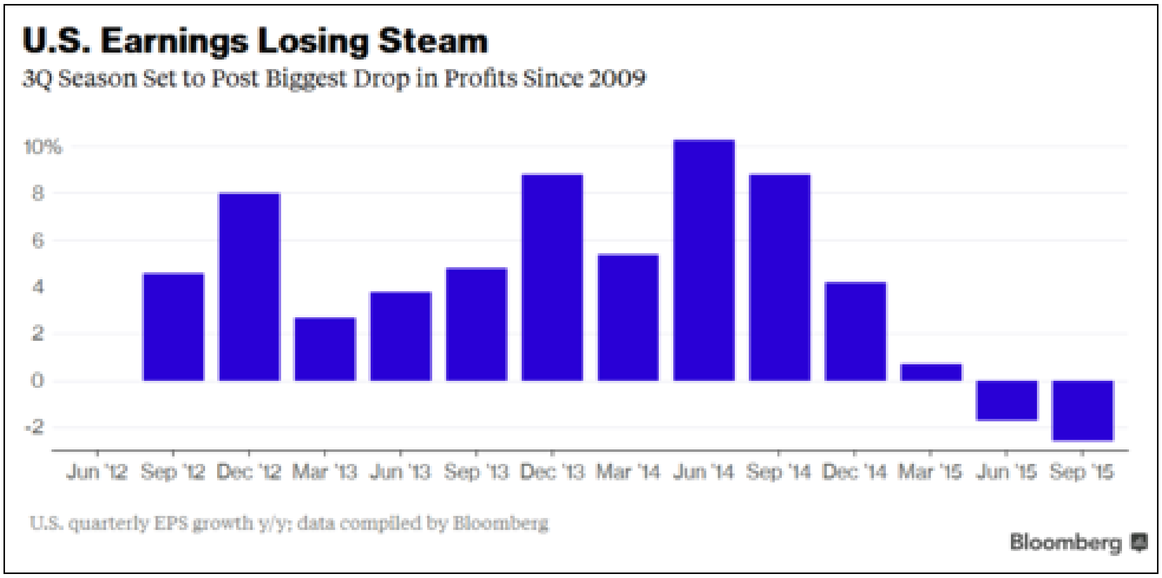


- Correlation is very good.
- Except for 1987, which had more to do with "portfolio insurance" than with anything cyclical.
- Otherwise, the turns have been cyclical.

Credit Ratings: Upgrades/Downgrades

- Postings are quarterly.
- The ratio-line plunged in 2Q2007.
- The ratio was a disaster until the end of 2009.
- This time around, the plunge began in 1Q2015.

Triple Yikes!



Percent Bears

- Sentiment is bleak.
- Opposite to that of July.
- Suggests most of the exuberance has been accomplished.