

5 Troubling Charts

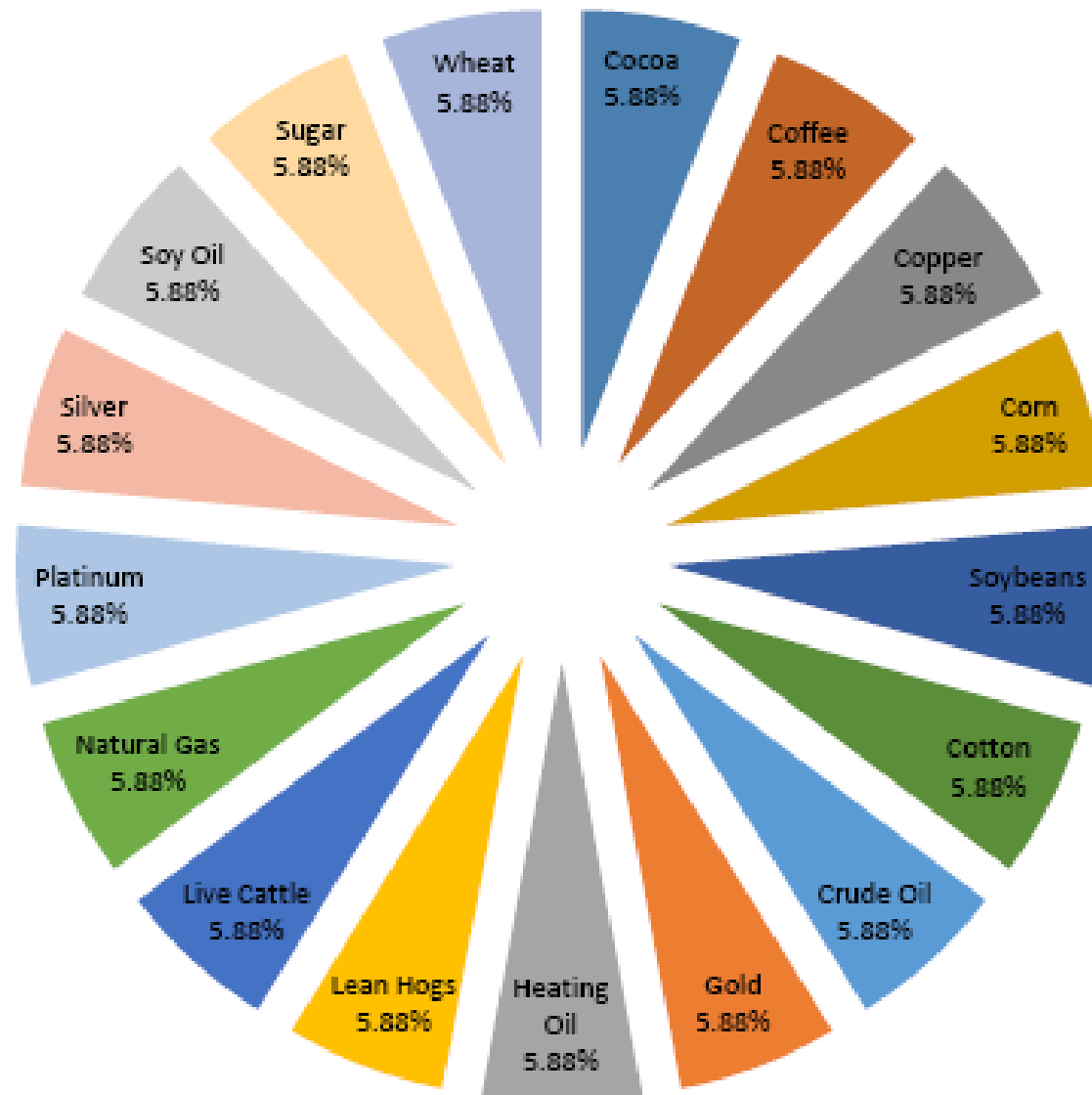
Tim Taschler, CMT, Sprott USA, 8-4-19

From a macro perspective, there are 5 key charts (all courtesy of StockCharts.com, 8/4/19) that I find troubling, the first of which is copper. Friday's break of the neckline of a large head-and-shoulder pattern targets \$1.90. If Doctor Copper is still working as an indicator, the economic slowdown will continue if copper does indeed break lower:



Commodities, as a basket, are looking weak as well. I prefer to watch The Thomson Reuters Equal Weight Commodity Total Return Index because it is a broad based commodity index, equally weighted, that reflects the price movement of 17 exchange traded future contracts .

% WEIGHT BY COMMODITY



GCC, WisdomTree Continuous Commodity Index Fund, tracks the Thomson Reuters Equal Weight Continuous Commodity Total Return Index, and is bouncing along its lows:



The Australian Dollar, often referenced as a commodity currency, is breaking down:

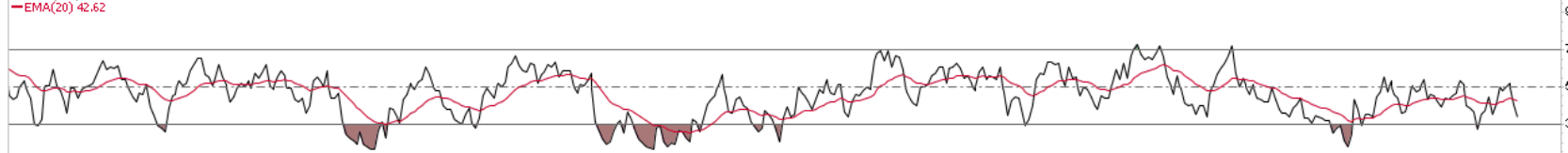
\$XAD Australian Dollar - Philadelphia INDX

2-Aug-2019

▲ RSI(10) 33.79

— EMA(20) 42.62

© StockCharts.com
 Open 69.01 High 69.11 Low 67.83 Close 67.98 Chg -1.12 (-1.63%) ▼



📊 \$XAD (Weekly) 67.98

— EMA(13) 69.63

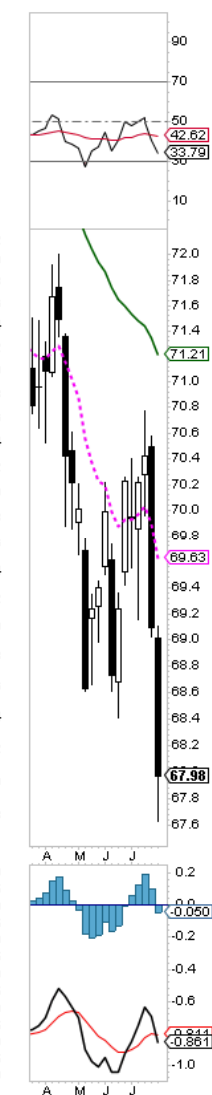
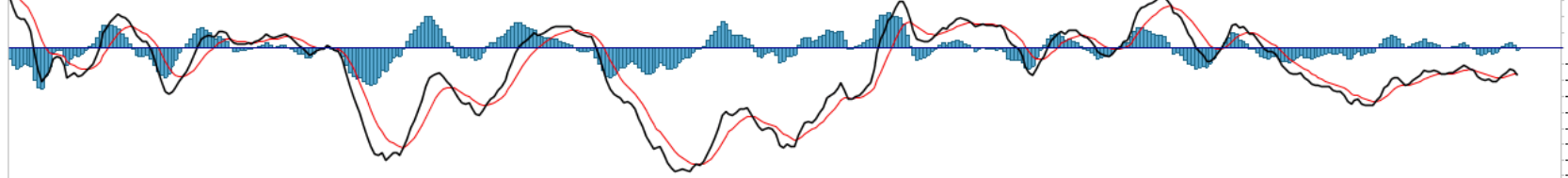
— EMA(50) 71.21 38.55

— EMA(200) 75.54



Oct 12 Apr Jul Oct 13 Apr Jul Oct 14 Apr Jul Oct 15 Apr Jul Oct 16 Apr Jul Oct 17 Apr Jul Oct 18 Apr Jul Oct 19 Apr Jul Oct

— PPO(12,26,9) -0.861, -0.811, -0.050



The US 10-Year Treasury Yield (TNX) has been working its way lower all year and is now at 2-year lows. There were a lot of calls for the 10-year yield breaking higher once it traded over 3% at the end of 2018, but that has not been the case:



Finally, the apparent driver of all of the above – the US Dollar. There is a laundry list of reason that the Dollar should be trading lower:

- trade wars
- Fed having reversed position from raising to lowering interest rates
- suspension of the debt ceiling
- massive twin US deficits
- constant Fed-bashing tweets by President Trump

Yet, the Dollar index (\$DXY, \$USD) continues holding up near it's multi-year highs:



Conclusion

I am firmly in the inflation camp, but I do worry that short-term we could see some sort of deflationary panic. It's hard to ignore the global slowdown as most global data points show slowing growth and slowing inflation.

The Fed has reversed course from raising rates ("autopilot") to cutting rates. Additionally, the Fed also announced it was ending its QT program on August 1, 2019, two months earlier than its previously scheduled end date of October 1, 2019. At this point, QT is only \$15 billion per month, so why bother ending it early unless the Fed sees some problem in the financial system?

Even more troubling was Fed Chair Jerome Powell's press conference, an unmitigated disaster. In only 30 minutes, Powell managed to say that (1) this rate cut was not the start of a prolonged easing cycle, (2) this rate cut wasn't just going to be just one rate cut and (3) investors should not assume the Fed won't hike rates again. HUH? So much for the concept that the Fed is the bastion of stability and leadership. With Trump's constant Fed-bashing on Twitter, I have to wonder how long Fed credibility remains intact:



Donald J. Trump 
@realDonaldTrump

What the Market wanted to hear from Jay Powell and the Federal Reserve was that this was the beginning of a lengthy and aggressive rate-cutting cycle which would keep pace with China, The European Union and other countries around the world....

4:41 PM · Jul 31, 2019 · [Twitter for iPhone](#)



Donald J. Trump 
@realDonaldTrump

....As usual, Powell let us down, but at least he is ending quantitative tightening, which shouldn't have started in the first place - no inflation. We are winning anyway, but I am certainly not getting much help from the Federal Reserve!

4:41 PM · Jul 31, 2019 · [Twitter for iPhone](#)

Finally, the US plans on issuing \$433 billion in debt over the next 2 months. That is \$274 billion more than what was estimated in April. That is \$274b is 170% MORE than was estimated. Higher interest rates and higher debt is not a good mix. Maybe this is what the Fed sees lurking on the horizon?

A Dollar Funding Squeeze Is Spreading Across Global Markets

We will all know the “whys” sometime in the future. For now, I continue to focus on how things trade, and not what I want to see. We have been in uncharted water since 2008, and it might be that we are approaching some type of end-game to this massive monetary experiment. It is becoming clear that central bankers around the globe are failing in their attempts to “normalize” policy. The reality is that Quantitative Easing will probably be with us for a long time. Negative interest rates and money printing seem to be the path of least resistance. Don't fight the Fed, trade what you see and pay attention to Global Macro, because it appears that things are going to getting more problematic on several fronts.

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