

Market Talk February 19, 2018

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Mini Rogue Wave signals blue skies ahead, with banks thriving as interest rates rise on the horizon

Rogue waves in technical analysis are rare and they usually always occur after a long largely unbroken uptrend. But like ocean rogue waves they appear to come out of nowhere. An extreme example was the 1929-1932 collapse leading to the Great Depression. The 1987 stock market crash was another example and it didn't lead to another depression. Anyway this month's tumble was a pretty small one and once it finds its low we should move to new all-time highs. But it is a signal that the bull market is approaching its end. Inflation may be the current bugaboo along with rising interest rates but rising interest rates in themselves do not END the stock market. In the financial sector, banks thrive as spreads improve. But others, like real estate, might be jittery.

The DJI fell in five waves. Volume on this rebound has fallen, which indicates a corrective wave. The DJI is currently testing the 50 day MA so a pullback is likely. Volume was high on the mini crash. There is a gap up around 26250 to 26500 so it needs to regain that level to confirm new highs. Failure is not an option as it could signal more serious markets ahead. The focus is on interest rates and inflation but political issues such as the Russian investigation wars linger in the background. And there is now heightened risk of a sudden bankruptcy and subsequent systemic risk to the financial system. Ultimately that is likely but not right now.

Gold and silver continue to frustrate. Silver and gold stocks continue to underperform gold. Gold has run into a wall at \$1360 and does need to overhaul that zone to suggest \$1400 and higher. The current market reminds me a little of gold topping in 2011 and then spending the next year or so testing to \$1525 before collapsing. This is the third attempt up to \$1360 or so. So while I expect it to pull back again I am not looking for a collapse. The \$1300 area should provide support. Silver tested down to the \$16.25 area but appears to be holding -- really needs to break above \$17.50 and start leading to boost my confidence. The commercial COT for gold was steady this week at 30% and the silver commercial COT improved to 44% which is bullish. Short open interest fell for both gold and silver. There are no cycle lows on the horizon following a significant low in December 2017. So I am eventually looking for an upward burst once gold clears through the \$1360 zone, but wary of the unexpected if gold were to fall under \$1290.

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