

## PIVOTAL EVENTS

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### Signs Of The Times

*"Take Federal bailout money, watch your company's stock fall 90%, become a Co-Chair of Davos"*

– Bloomberg, January 20

The headline was referring to Citigroup CEO Vikram Pandit.

*"Junk-bond trading volumes are rebounding to the highest levels in 11 months – optimism."*

– Bloomberg, January 27

*"Societe General SA and Credit Agricole SA were among French banks to have their credit grades cut by Standard & Poors."*

– Bloomberg, January 24

*"The IMF cut its forecast for the global economy as Europe slips into recession."*

– Bloomberg, January 24

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### STOCK MARKETS

The best January for the stock markets in years has restored their popularity. Bullish comments include low P/E's and attractive dividend yields as well as favourable comparisons to bond yields. Not to overlook outstanding earnings gains.

In our dispassionate approach this is considerably different to conditions in early October. Choppy action, but rising until around January was possible and couple of weeks ago we thought it could continue into February.

The February 24th ChartWorks "Complacency Abounds Oh-Oh!" outlined the probability of a top within the next four weeks.

The surge out of mid-December has been exciting enough to register some cautionary alerts and last week we were looking for some "key" technical excesses. The S&P has

since reached 73.3 on the daily RSI and this compares to 70 reached with the high of 1370 at the end of April. That was on the speculative surge that our proprietary Forecaster expected to complete in that fateful April.

Stock markets are poised to roll over. If so, the latest rally is a test of the April high which we considered the cyclical best of the first bull market out of the crash.

### **CREDIT MARKETS**

The demand for risk continues with favourable action in corporate and municipal bond markets. Yields for the Italian ten-year keep going lower and after registering scary headlines last week even the Portuguese bonds are declining in yield.

Sub-prime mortgage bonds have rallied in price from 38 in October to 51.6 – that's up a little more than half a point from last week.

Money market stuff such as the Ted-Spread started to narrow at the end of December.

To Ross's "Complacency Abounds" in stock market volatility we would add that it is abounding in the credit markets as well.

Fortunately, we may have an exit indicator.

The action in municipals (MUB) has been good enough to register an Upside Exhaustion. The price could roll over within a couple of weeks and the change could be part of a general reversal in risk products. This will likely show up in the reversal in the stock market VIX.

Long-dated treasuries are working on a big top. Within this the final rally has been likely to occur as the excitement in stocks and commodities fades.

This has taken the bond future from the 140 level to the 145 level. The high was 146 in December.

### **CURRENCIES**

Ross targeted the decline in the US dollar index to around 78.8 and so far it has bounced off this level a number of times. With this, the Canadian made it up to 103 (briefly). It is now vulnerable to a decline in commodities.

### **COMMODITIES**

Grains (GKX) continue to work on the test of the high of 445 set in early January.

On base metal prices (GYX), the rally was likely to reach its best around January. From a low of 350 in October the gain was 22% to 426 on Friday, which drove the RSI to 74. As noted last week it was almost to the level that would end the rally.

The GYX has slipped to 407 and taking out 400 would set the downtrend. This would also confirm that 505 last April was the cyclical peak.

Today's ChartWorks outlines some trading opportunities in crude oil.

## PRECIOUS METALS

Gold's real price has generally been increasing from its cyclical low in early 2011. This represents an improvement in the returns from mining and at some point it would inspire gold shares to outperform the nominal price of gold.

One way of tracking this is through the HUI divided by gold, or because it's easier, the GDX/GLD. The steady decline as gold shares fell relative to gold began at 469 in December 2010 to 308 two weeks ago. The reversal was sharp and the rise has been to 335.

This could be the start of a very important trend and we will expand on this next week.

We are very bullish on the long term outlook for the precious metal sector.

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