

WHAT ARE THE MARKETS TELLING US?

April 15, 2018

Commodities are breaking out. A key bond market indicator of inflation expectations has surged to a new multi-year high. And, the U.S. dollar index appears poised for another breakdown. Where to hide during the bear market in stocks? The mounting evidence continues to support the view that capital will seek greater opportunity in the markets and sectors that massively lagged U.S. stocks during the previous deflation era from 2008–2015, especially commodities. Nearly every week since the January peak in the S&P 500, we have noted that a downturn in the stock market is likely to fuel the uptrends in the longest-neglected markets. **Last week featured powerful price-action in a number of commodities and related equities.**

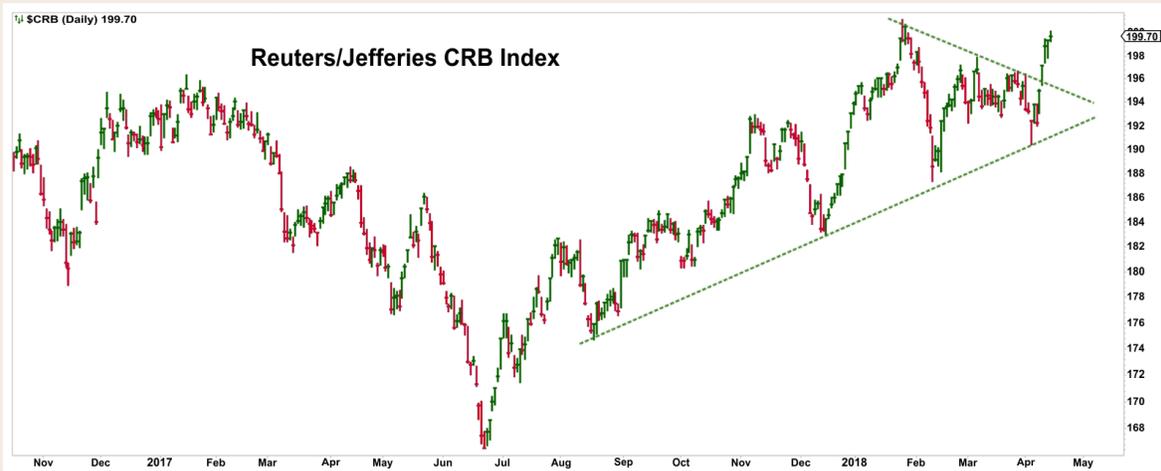
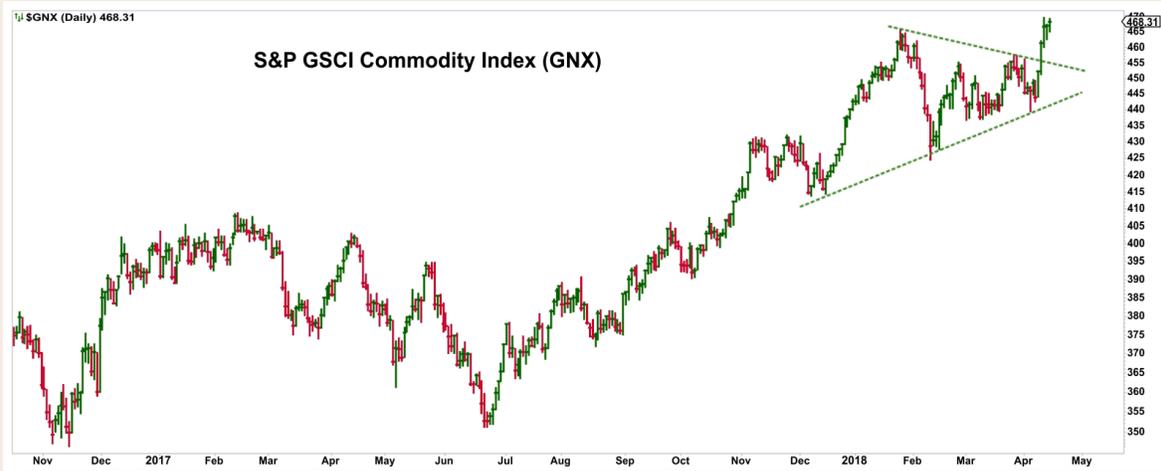
In *WILTW* April 12, 2018, we noted that “nearly every key commodity measure has significantly out-performed the S&P 500 since this index peaked in January.” Moreover, the consolidation in the S&P since the March 13th “failing-rally” top continues to reveal powerful evidence supporting the view that investor asset-preference is shifting rapidly. As shown in the table below, **nearly every major commodity and commodity index has significantly out-performed the S&P 500 since the March high in this benchmark.**

Consider the following:

Market	% Change Since March 13th
Brent Crude Oil	+11.81
WTI Crude Oil	+9.83
NYSE Oil Index (XOI)	+8.86
Oil Services Index (OSX)	+7.97
S&P GSCI Commodity Index (GNX)	+6.07
Gold and Silver Index (XAU)	+5.53
Reuters/Jefferies CRB Index	+2.66
S&P GSCI Industrial Metals (GYX)	+2.27
Gold	+2.05
Silver	+0.74
Copper	-1.70
S&P 500	-4.55

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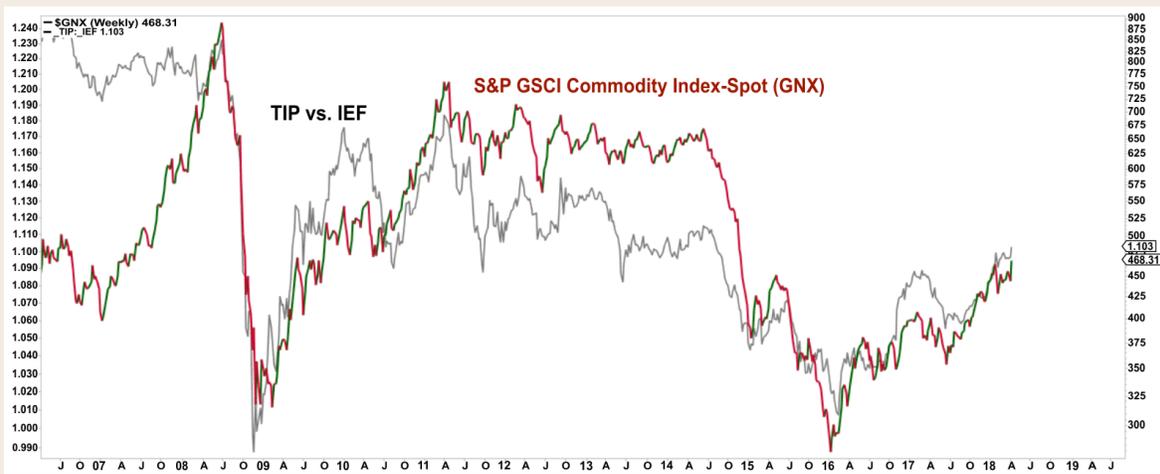
CHART 1: S&P GSCI Commodity Index-Spot (GNX) [top] and Reuters/Jefferies CRB Index – Daily. As noted in the charts, the GNX and CRB have broken-out sharply from the multi-month consolidation pattern. The GNX rallied 5.54% and the CRB advanced 3.87% last week.



Source: StockCharts.com

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CHART 2: iShares TIPS Bond ETF (TIP) vs. iShares 7-10 Year Treasury Bond ETF (IEF) [top] and S&P GSCI Commodity Index (GNX) with TIP vs. IEF – Weekly. The breakouts in the commodity indexes shown in Chart 1 were accompanied by a breakout in the TIP-to-IEF ratio, which rallied 0.54% last week to register a new multi-year high. The advancing ratio indicates that **investor expectations regarding inflation are rising.** This measure has traded closely with many of the deflation and reflation trends since 2008.

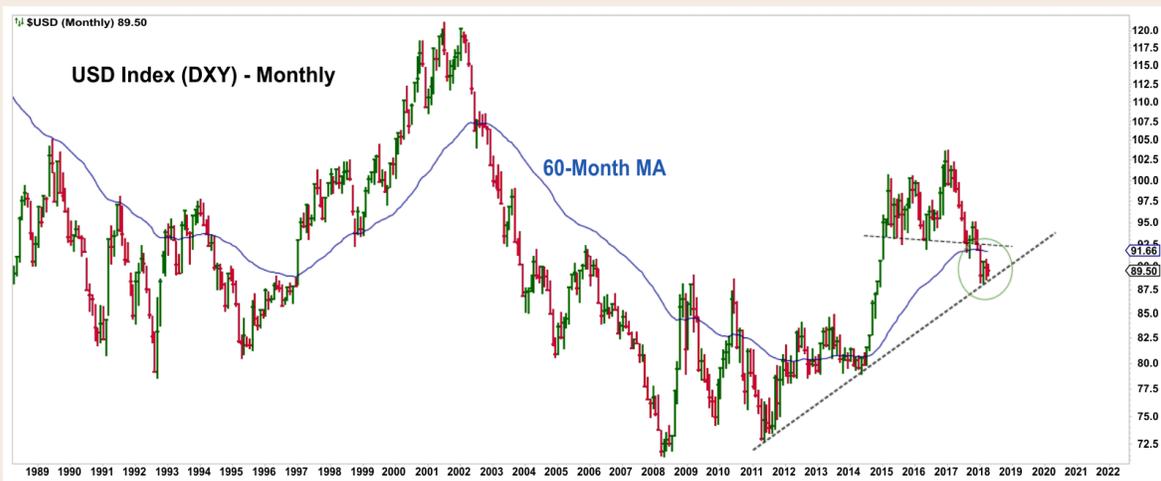


Source: StockCharts.com

This begs the question: **are the breakouts in the markets and indicators shown in the above charts leading the next down-leg in the U.S. Dollar Index (DXY)?**

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CHART 3: U.S. Dollar Index (DXY) – Monthly and Weekly. As noted in the first chart below, the DXY continues to consolidate above the key 2011 uptrend-line. The lower chart shows that the DXY appears to be forming a possible bearish “triangle” pattern. History suggests that break-downs from such patterns tend to be sharp and rapid. **Notably, the 60-month moving-average (MA) is turning down**, while the weekly MA ribbon is falling sharply. The falling momentum measures are an important clue that the DXY is likely to decline in the coming weeks and months.



Source: StockCharts.com

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CHART 4: U.S. Dollar vs. Mexican Peso (USDMXN) – Weekly. The USDMXN appears to be forming a large “head-and-shoulders” (H&S) top. As noted in the chart, the RSI momentum indicator has formed a lengthy bearish-divergence versus the USDMXN. **The technical-profile suggests that the USDMXN could decline sharply below the “neckline” of the H&S top and eventually test the 2008 uptrend-line.**



Source: StockCharts.com

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CHART 5: British Pound vs. USD (GBPUSD) [top] and Canadian Dollar vs. USD (CAD) – Daily. As noted in the first chart, the GBPUSD appears to be in the process of rising above the multi-month consolidation pattern. The lower chart shows that the CAD has surged strongly from the H&S bottom.



Source: StockCharts.com

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CHART 6: Canadian Dollar (CAD) – Weekly. The bull-market in the CAD has featured two sharp up-legs followed by a lengthy consolidation. The CAD surged an average of 15.72% during the two up-legs: +17.30% from the January 2016 bottom and +14.14% from the May 2017 low. A 15.72% rally from the March 2018 low at 76.29 could test the major 2011 downtrend-line.



Source: StockCharts.com

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