

[Print this Article](#)[\[Close Window\]](#)

GENERAL COMMENTARY - broad stockmarket, commodities, copper, dollar, oil, PM Sector...

originally published **November 15th, 2015**

The big story is that the dollar looks like it is embarking on another major upleg, fuelled by the gathering forces of deflation, as in 2008, and the impending collapse of the European Union. This is why commodities are so weak, and anyone who thinks that a rising dollar will help the US stockmarket is probably in for a nasty shock – it sure didn't help it late last week – and it didn't in 2008. The eventual reaction to all this is likely to be global emergency QE, which will lead to hyperinflation, so once this tsunami of QE gets underway we can expect gold and silver to soar, until it starts, however, they are at the mercy of being dragged down by deflationary forces like everything else.

The dollar has now broken out upside from its Pennant, and while there is a small chance that it will stall out at its highs, it looks more probable that it is starting a major upleg, similar in magnitude to the one from July 2014 to March of this year. This will be occasioned more by the collapse in the euro than anything else, and if it comes to pass will lead to a severe drop in commodities, and gold and silver in particular. After this drop, the hyperinflation driven mega bullmarket in gold and silver will start to come together.



Late last week the broad stockmarket broke hard below its 200-day moving average, confirming our belief that the preceding rally was a bearmarket rally. Junk Bonds had broken lower some days before, presaging a broad market break to the downside. Somewhat bizarrely the Biotech sector managed a modest rally on Friday, but this sector is not going to hold up with the rest of the market dropping, so it is expected to fall into line and drop soon too – its setup continues to look very bearish.

Bearmarket rallies can be fast and furious, and as a result sucker in a lot of people who think that the bullmarket is still on. It is more than a little surprising that this got as high as it did - it was expected to be turned back down again sooner by the heavy resistance at lower levels. After breaking down from the bearish Rising Wedge, it broke sharply below its 200-day moving average on Thursday, confirming a reversal. Now it looks vulnerable to a retreat back from whence it came - the August lows, and very possibly lower still. Note that it may bounce soon at its rising 50-day moving average.



Commodity indices dropped to new lows, and since they are not heavily oversold by historical standards, we may be on the verge of another waterfall decline in the face of the gathering forces of deflation, which is why we need to be careful with respect to bottom fishing in ANY commodities, and to employ close stops if buying for a tradable rally.

BAD NEWS FOR COMMODITIES - the break to new lows last week confirms that the bear market is still operative, which is hardly surprising given the negative alignment of moving averages. With the earlier oversold condition unwound by the sideways movement of the past several months, there is scope for another steep decline. The fact that CRB didn't even make it to the resistance level shown on the relief rally is an indication of continuing weakness. It could now drop to the lower boundary of the major downtrend channel.



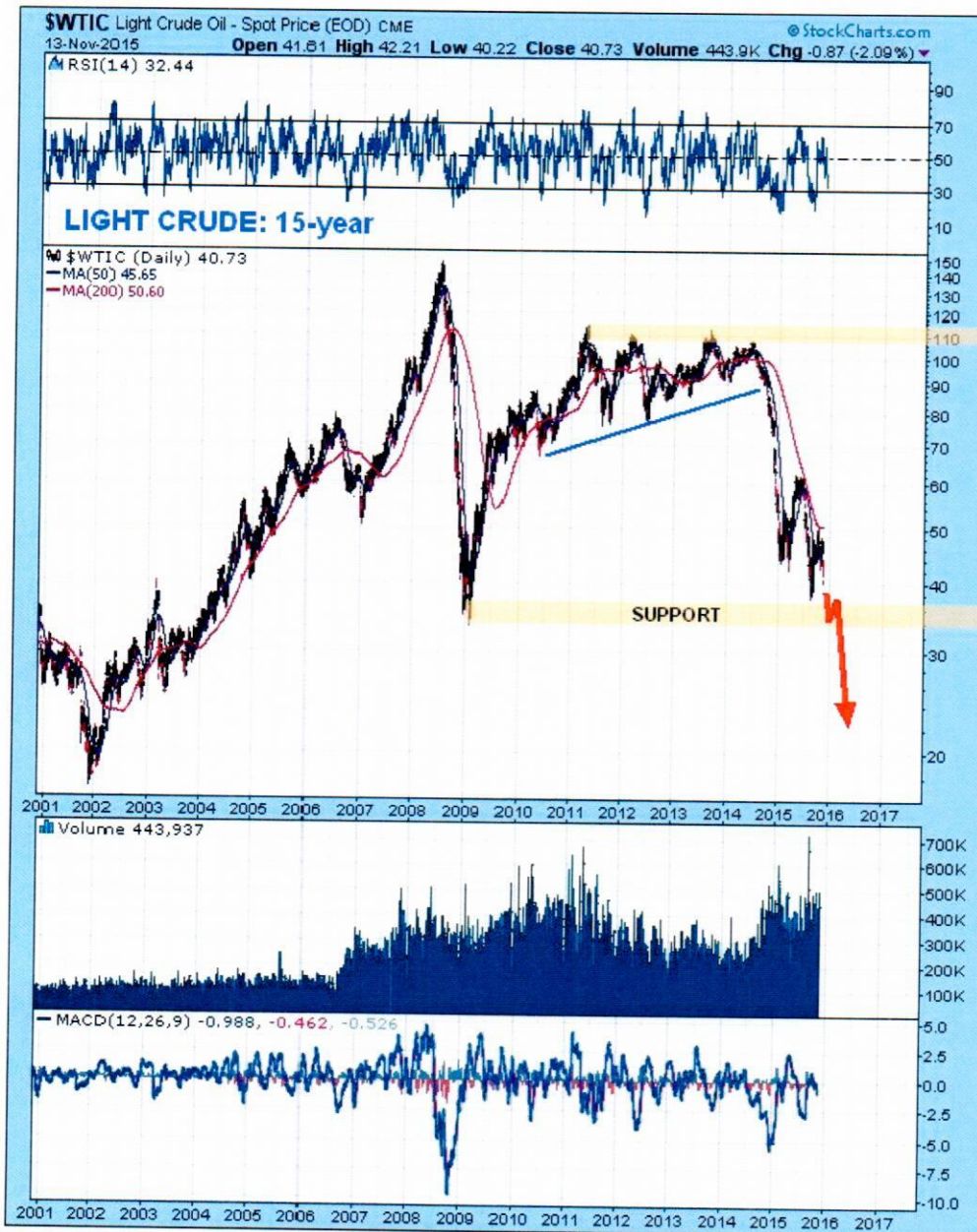
Copper broke to a new low and could be on the verge of collapse – back to its 2008 lows at \$1.25, or lower.

The chart looks awful - copper appears to be accelerating away to the downside and there is no significant support until the 2008 low at \$1.25 is reached. In adverse conditions it could hit this downside target in short order and possibly even overshoot it.



Both fundamentally and technically oil looks like a horror story – it looks set to drop back probably to the mid to low \$20's.

The fundamentals for oil are absolutely terrible, and, more importantly, look set to get worse, with a massive glut that is threatening to overwhelm storage capacity and players like Iran weighing in on the oversupply party, and all this against the background of an intensifying global recession / depression caused by the intractable debt overhang. Despite being at multi-year lows, there is no relief in sight for many commodities, including and especially oil, which it is thought could easily drop below its 2008 lows, and is perhaps destined to drop to the mid to low \$20's.



While Adam Hamilton is certainly correct in his assessment that Precious Metals stocks are extremely undervalued and set to make a spectacular recovery at some point, the trick is in the timing. He has been saying this all year, and as you know we just made a decent profit shorting the sector, in the full knowledge of its undervaluation, based on our correct interpretation of the COTs. COTs are late out this week, not appearing until Monday (tomorrow). This is apparently due to the public holiday last week but may be a Big Money trick to get the edge on other traders. Being right too soon is a trap we want to avoid falling into if possible, so if we buy the PM sector for a tradable rally, we will only do so at possible inflexion points at strong support, such as we are now at, with close stops. Looking at the 6-month chart for GDX in isolation, shown below, it certainly looks like we are a good point to go long here with close stops. However, the fact that commodity indices are making news lows, and that copper and oil in particular look set to plummet, gives us pause for thought. These developments increase the chances that gold and silver will soon break to new lows, despite them being down for many down in a row as described in yesterday's article Isn't that funny? - silver's down for 12 days in a row!

We need to be careful here - it is very tempting to go long the sector here as a trade, because it has arrived at an important support level, but the commodity indexes have broken to new lows and copper and oil look set to plummet against the background of a rising dollar, so there is considerable danger that the PM sector will crash this support and head lower still over the short to medium-term. Putting on a long trade in something like NUGT might work here, but if you try it make sure you place close stops, because if this breaks to new lows, things will likely get ugly in a hurry, notwithstanding the fact that gold and silver have been dropping almost non-stop for weeks now.



Puru Saxena has produced a balanced assessment of the situation in his update [Make or break](#), which I am largely in agreement with, although he is sat on the fence too much for my liking. He is bearish on Biotech, as we are.

Conclusion: we could be close to a 2008 style plunge situation where the dollar powers higher and pretty much everything else collapses, caused by the deflationary vice closing. During this phase, the PM sector will get taken down too, regardless of how undervalued it is. However, immediately they start rolling out the QE big guns to try to offset it, and thus threaten hyperinflation, gold and silver are likely to take off on a huge rally. In the meantime there will be tradable rallies, and we may be on the verge of one now in the PM sector, for reasons set out in Yesterday's update [Isn't that funny? - silver's down 12 days in a row!](#), although the break to new lows by commodity indices and the terrible look of the copper and oil charts warns us to be cautious. The way to play such potential rallies is to buy on a drop to support, such as has just happened, with close stops.

End of report.

Posted at 6.40 pm EST on 15th November 15.