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Halftime Inflection Points Near

June 2, 2013

DOW JONES

May 5, 2013

"There is more - not less - support for the arguments made in the April 15 and April 20 reports. Everything is the same, except in the technicals, where the picture has deteriorated, thereby increasing the likelihood of a terrible smash."

The **6-month Dow** chart that appears at the end of this section includes the MACD above the price chart, as well as the slow stochastic beneath it.

The slow stochastic, my most used and favourite indicator, has been divergent and generally non-confirming at each major point of 2013's rally, post-January.

Reflecting terrible deterioration, and with this momentum indicator below its moving average, the stochastic warned of, and subsequently slumped with Friday's 208-point smash.

Meanwhile, the MACD (generally the most widely followed momentum indicator among technicians) generated a sell signal this past Wednesday; in tandem, these 2 critical indicators made this just-begun smash a more likely occurrence.

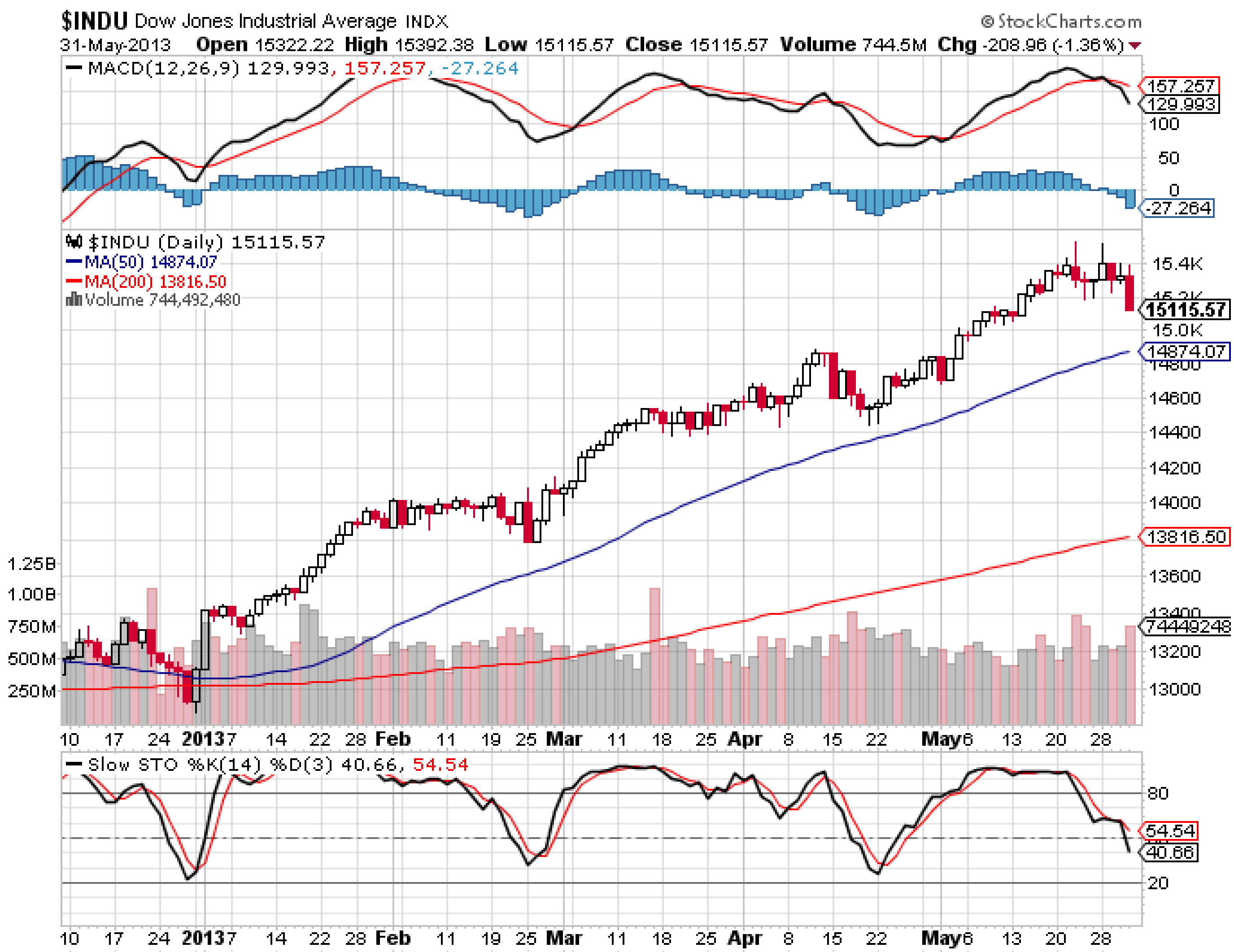
While a quick decline toward Dow 14,800 could easily yield a snap-back bounce to, say, 15,050, the true areas of support this month lie around the 14,600 and 14,000 levels. 13,000 and beyond has been pushed out to the next quarter.

The several and sundry deteriorating global fundamental indicators will not be reviewed because their discussion has gone on and on ad nauseum.

Similarly, such was the case regarding ALL major market turning points in ALL asset classes, EVERYWHERE in the world since, well, FOREVER. And the reasons repeatedly given for the turning point in question are regurgitated as explanations after the fact.

What is different and therefore worth noting, however?!

As with Volker, Mieno (MOST notably for me), Greenspan, and Abe (when the Japanese make changes they don't mess around!), this coming changing of the guard in the US will be, as with the others mentioned here, a killer (in more ways than one)!



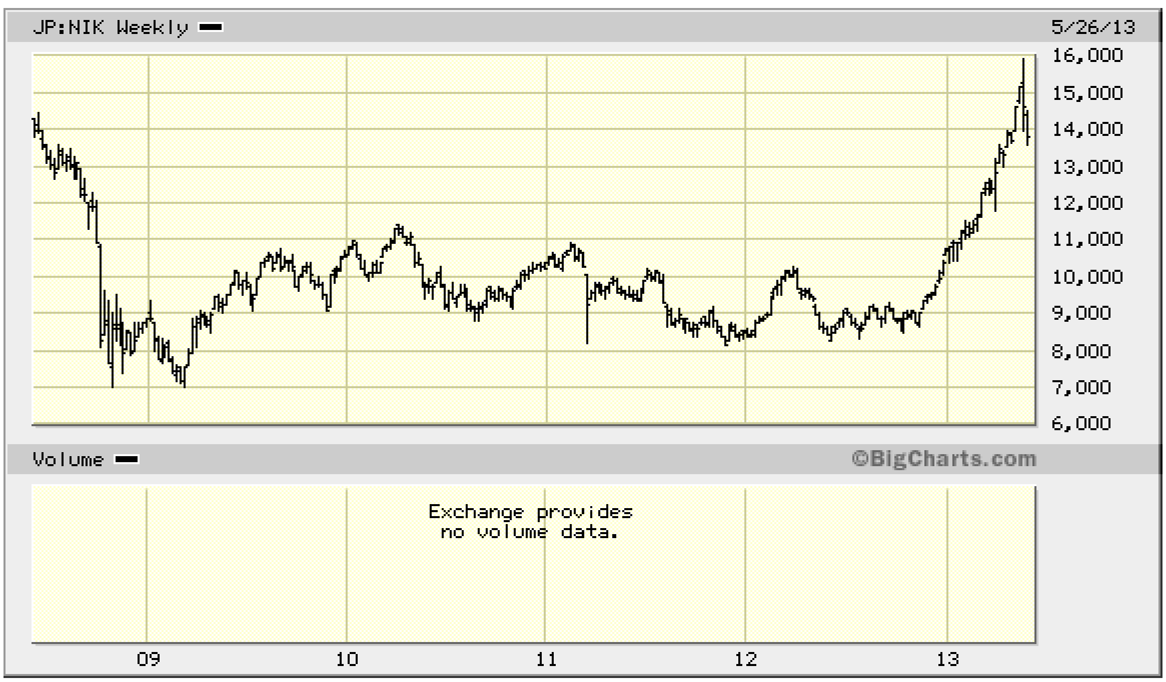
What Abe just did in Japan, will be mirrored in the US, asymmetrically, of course. It is not fundamentals that change, but the indicator of the indicators (so to speak) that will have altered in the US, hence its mention.

This changing of the guard will not only have marked the most "unique" exit strategy from a monetary policy (which actually is not the case, but is being perceived as such), but, as with the other bankers cited above, will have marked one of the most crushing and telling indicators of an inflection point in the history of markets!

NIKKEI/SHANGHAI

This month, I again look at the 5-year patterns of the Tokyo and Shanghai lead indices, to draw analogy between the 2 major Asian bourses, between which hot-money tends to flow back and forth; the similarities are fascinating.

For this reason, please note the **5-year Nikkei and 5-year Shanghai Composite charts,** respectively, which follow immediately below:



The area of the previous Wave-4 is in the 11,000 - 12,000 area. This is key, since that tends to be the support zone in Elliott analysis. Further, in this case, that zone represents the neckline resistance out from which it broke.

Therefore, everyone will make a big deal of a collapse to that area, since it does represent a sizeable percent decline.

Thirdly, it is about a 50% correction of the explosion to-date.

Please note the 25-year chart at the end of this section; the downtrend channel was breached and, therefore, a new bull market has begun, spurred by international money managers needing to increase weightings from near-zero levels.

Bear in mind the following:

Through the 1990s, New York and Tokyo traded asymmetrically. One made higher highs and higher lows (New York), while the other made lower highs and lower lows (Tokyo).

The key observation is that, notwithstanding the preceding, they rallied and corrected at the same time, on a quarter-over-quarter basis! This is a crucial observation, when relating a meaningful move in one market (such as what has begun in Tokyo at this time) to the other!

May 5, 2013

"To continue to follow in the Nikkei's footsteps and maintain the apparent mirror image between them, we would see the Shanghai Composite soar above 3500 this year. So, let us consider the fundamental and technical argument supporting such price action.

"China - also as so often reported by me since identifying the Shanghai's peak just under 6000 - trades off-cycle to the other major global indices. In other words, there can be co-directionality longer term, while trading asymmetrically intermediate term.

"In the intermediate term, the fundamentals would therefore become favourable for China as the economy's stimulus measures kicks in, thus causing a bounce in the commodities, which creates a whiff of inflation that hurts global equities (and supporting PM prices)."

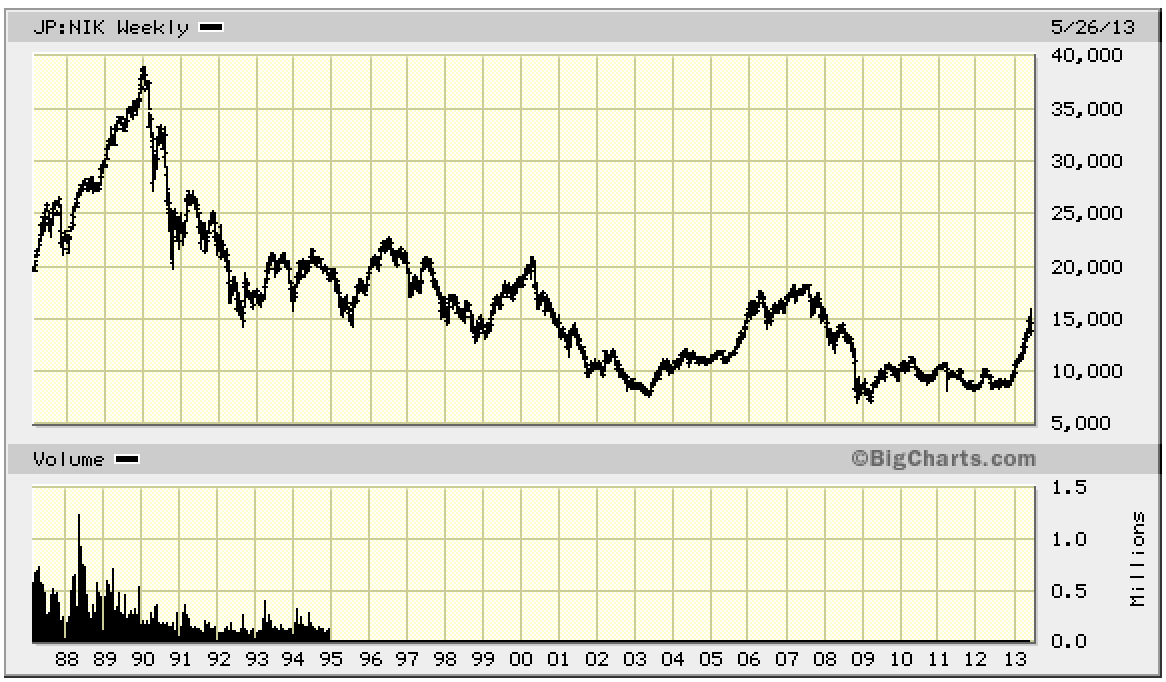
"Immediately below, please note the Nikkei's 25-year chart. As we can see, the index has come into a major resistance zone, based on levels seen in 1992, 1995, 1998, 2001 2006 and 2008."

I could have continued the sequence above to include the (end of) 2011 low, and wonder whether 2014 will have marked a critical peak that coincides with a global equity cataclysm.

I do so now.

A technical note regarding the 25-year Nikkei chart below: When connecting the 1990 and 2007 peaks, a bearish trend has clearly been broken.

When connecting the 1990 and 2000 tops, one arrives at a level that approximates the 2008 bottom. These technical observations support the reversal discussion above.



Conclusion

There is a lot of money to be made in allocating funds on intermediate bases between these 2 Asians markets. Shanghai trades asymmetrically to the rest of the world on an intermediate term basis, while the Nikkei is co-directional over a like period.

The preceding is the key point on which any global hedge fund manager worth his salt will be focusing.

GOLD, SILVER

I strongly advise rereading this section from last month's report.

Most of what I add this month is in regards to technical analysis and the implied timing (read carefully!), stemming from time cycles and the conclusions of trends in volatility, including attendant premiums.

Everything is continuing according to the script previously laid out, most notably the transference of wealth and power from West to East, which must necessarily include the transfer of the former's gold to Asia.

While I have been writing about this for 13 years, and while it has been going on for just as long, it is this most recent period during which it has been most notable, as the crash in paper gold has ushered in the most overwhelming GLOBAL hunt for physical gold in the history of markets.

6-Month GLD and SLV charts conclude this section, wherein the MACD indicators appear above the price charts, while the slow stochastic are found beneath them.

In each case, the MACD indicators are already in buy signal modalities, while the stochastic momentum indicator is well into positive territory, including a very bullish divergence in the case of the SLV.

The divergence is minor, admittedly, while there is none in the case of the GLD. On its reversal day, silver had traded dramatically lower during Asian hours, so I would NOT be surprised to see those levels (around $20 on the SLV), much to everyone's panic.

There are a few technical points to bear in mind:

A smash in the equity markets is a trigger for much higher precious metals prices, but not in the very short term. Why?

There is a need to show a break in the asymmetric relationship, by the same parties (and for the same reasons) who have been the manipulators to-date.

Cycles that have worked for YEARS are concluding, so negative cycle pressure is at its peak this month, following a collapse and basing pattern that is basically complete.

Option time premiums (implied volatility) and historic volatility are shedding their final minor percentage points, perfectly timed and in-line with these events.

The preceding 2 paragraphs equate to a single conclusion: From these price zones, rocketing precious metals and related option prices!

Finally, the idiotic media will view Bernanke's departure as negative for precious metals, since QE would presumably be ending. Idiots! Not only is that a stupidly premature headline to spread, but just how bullish was that bit of delightful news, anyway?

The PM bulls (including me) were all lathered-up about QE, but the CEO (Commander-In-Chief) told the corporate heads to not spend their cash hoards, and inflation did therefore not result. That, after all, was the basic conclusion, not that QE was bullish for PMs but, specifically, the would-be resultant inflation.

Now we will finally get the commodity inflation, due to shortages and the short covering that the latter engenders, all stemming from collapsed inventories and now-underestimated economic activity in China (I suspect).

DOLLAR, YEN, EURO

Last month, I commented that, while I have held a hot hand in 2013 in the currencies (my saving grace in an otherwise challenged year), the picture had become murky and uncertain for me, which I took to mean sloppy trade within the complex, resulting in a basically weakened Dollar.

As the following **5-year Dollar Index chart** illustrates, the Dollar has come into overhead resistance that will not be easily overcome. In and of itself, this will be positive for gold.

The murkiness of which I speak, however, pertains to a break in the relationship between the Yen and the euro, the asymmetric combination of which led to a stronger

Dollar. Now, I suspect, they will combine to weaken it, as the Yen trades sideways with an upward bias, while the euro does something similar.

May 5, 2013

"The Yen and Euro each have reversed slow stochastic, but that can quickly change, while the MACD for EACH are solidly bullish.

"Meanwhile, the opposite is true of the Dollar (UUP). The stochastic is turning up from *almost* getting into oversold territory, while its MACD is solidly bearish (while not my own favourite, the MACD is perhaps the most widely followed technical indicator among technicians).

"The Euro has turned up from a level above both key moving averages, while the Yen has had at least a pause imposed on it by traders, as the 50-day moving average was approached. However, with the 200-day moving average all the way at 115 (!), I would not be surprised to see a summer rally toward 108; in fact that would be my preferred bet at this time.

"This fits nicely with my view of the Nikkei, as well (see Nikkei/Shanghai above).

"My first sense here is that there is a shift in the Dollar dynamics and that we will also see that as having been a part of a global changing of attitudes toward US equities."

Ditto to all of the above, but, on an interesting front for we technicians, please note how the MACD and stochastic have subsequently behaved. Indeed, not only did they fall into line as described, but, interestingly, these indicators became overbought or oversold (whether the Dollar or the asymmetric Yen or euro) on relatively little price movements. To me, this peaks of generally sideways trading activity.

Following, are the daily **6-month charts of the Dollar (UUP) fund, followed by Yen (FXY) and Euro (FXE) currency shares, respectively.**

Each chart includes the 50 and 200-day moving averages, as well as the MACD above the price chart and the slow stochastic beneath it.

Please scroll down to next page.

Please scroll down to next page.

CONCLUSION

Beware, regarding the 2nd half of the year, versus the 1st six months:

PAST WILL NOT HAVE BEEN PROLOGUE. QUITE THE OPPOSITE!

Sid Klein

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