Sid Klein Global Strategy
1001 BOUL. DE MAISONNEUVE O., BUREAU 950, MONTREAL, CANADA H3A 3C8
TEL: (514) 939-2221 FAX: (309) 417-0942
e-mail: sidklein@sidklein.com
www.sidklein.com

Dow's Age Advances; Asia Intertwined; PMs' Logical Illogic; Currency Picture Blurrier

May 5, 2013

DOW JONES

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.

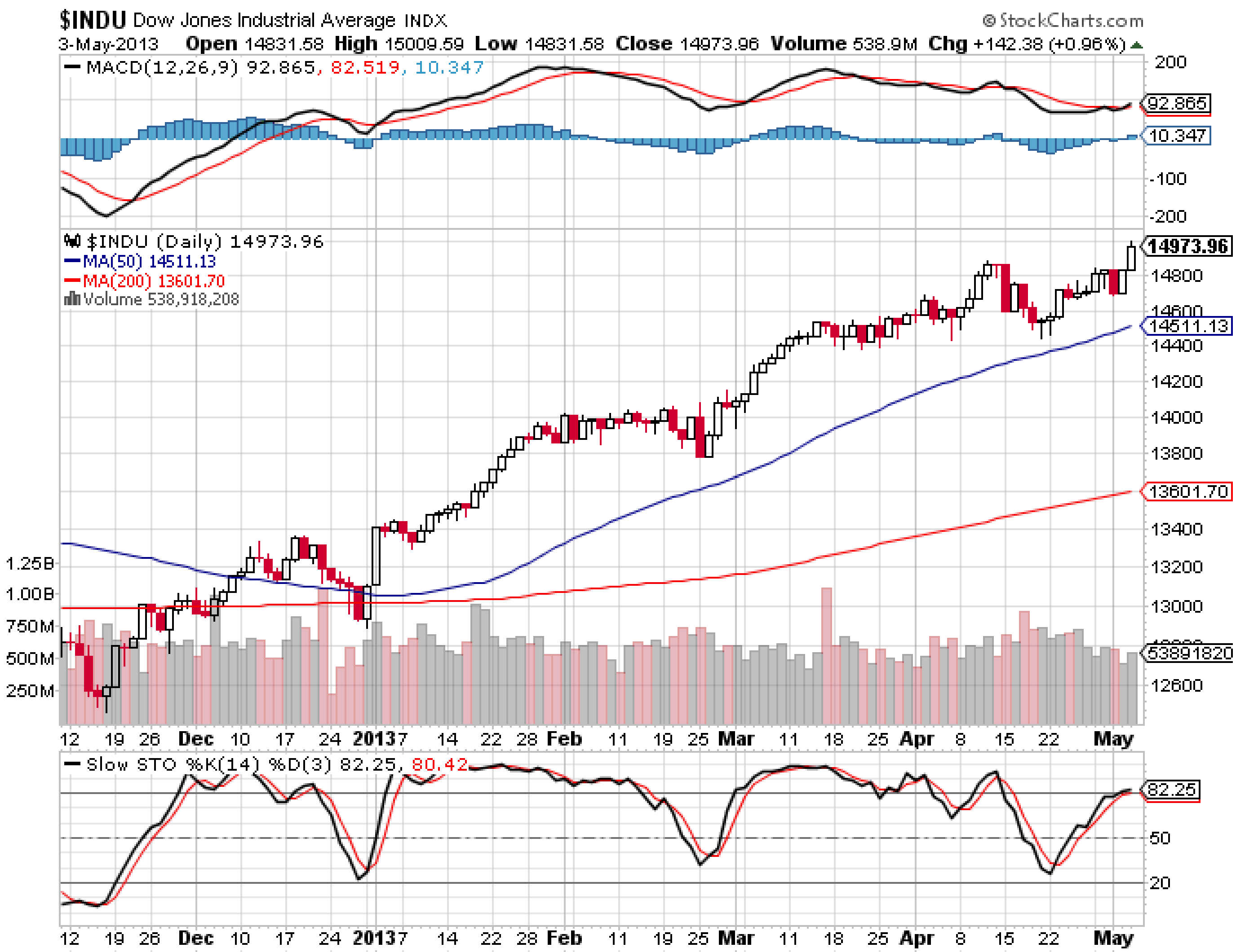
There will be plenty of dippy dip-buyers....before an avalanche feeds on itself as the last buyers and weakest hands realize that they been had by Wall Street....again!

This past Friday was a veritable love-in on CNBC. Hmm....

Immediately below, please note the **6-month Daily Dow chart.** The slow stochastic (my most weighted indicator) appears beneath the price chart, while the moving average convergence-divergence (MACD) indicator appears above it. The shorter term-oriented 50-day moving average is the blue line, while the all-important 200-day moving average is illustrated in red (the only moving average I ever follow seriously).

After the January high, the Dow has enjoyed 3 additional peaks in March, April and May that have each suffered negative divergences in the slow stochastic, my most important momentum indicator.

Meanwhile, the MACD has also suffered lower highs through the same period of 4 tops (perhaps the crash will have its technical backdrop named after the band).



Yes, there is a cataclysm a-comin', and it will have occurred when its timing will have best suited the ruling class's interests.

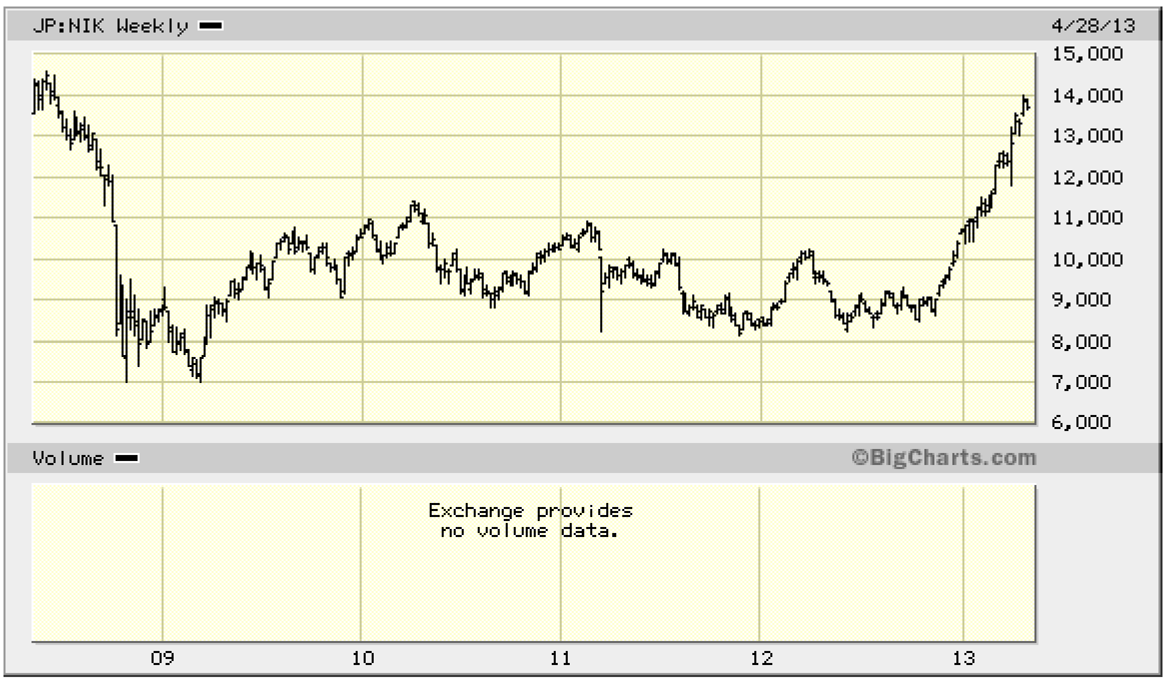
Remember, this isn't about "fighting the Fed." It's about using **external** indicators (to the Dow) to come in-tune with when they are less likely to continue to fudge or overwhelm the indicators and the free market that they would otherwise be mirroring.

Follow the currencies, rates and their inter-relationships, precious metals......everything!

NIKKEI/SHANGHAI

Much of the Nikkei's comment today is understandably found within the Yen section, while most is made via a comparison to and in conjunction with the Shanghai Composite.

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



Please scroll down to next page.

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).

Inflation is an enemy for most markets, but Japan and, to a lesser extent China, are different.

In the above scenario, the Nikkei would be correcting, simply because a whole bunch of turnaround in the deflation/inflation story has been discounted.

(Within this picture, the Yen's net-sideways action within a major downtrend could simply become a supportive aspect for the Nikkei, as opposed to continuing to be the strongly stimulate one that it has been to-date.)

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.

The Japanese index blasted out of a major reverse shoulder-head-shoulder, and should have completed or be completing an initial Wave-1 in an off-cycle (with the rest of the world) and new bull market.

The best and easiest way to invest in the bull was to simply play the long/short Nikkei - Dow spread. It has gone from around -3000 to about 0. my logic over the extended period during which I had made this recommendation was that it was a far less risky strategy, should equity markets implode.

I never suspected that this return would occur during GLOBALY rising stock markets. Moreover, I dropped the notion of investing in the Nikkei altogether, in favour of being heavily short the Yen at the perfect peak zone.

Today, one can bear in mind that the next major advance will occur after the bullish enthusiasm and lofty premiums for playing Japan are wrung out of the market. This takes time, and, yes, I will be sure to remind that the Nikkei and the Dow went in opposite directions through the 1990s.

China and Japan are competing for the same thing, namely, which will become Asia's block currency. I used to argue that it had to be Japan, based on per cent of Asia's GDP and market cap, each of which were about 40% at the time. Since then, China has emerged, and we also know that the Americans are NOT pulling for the Chinese in this competition. So, what can we conclude?

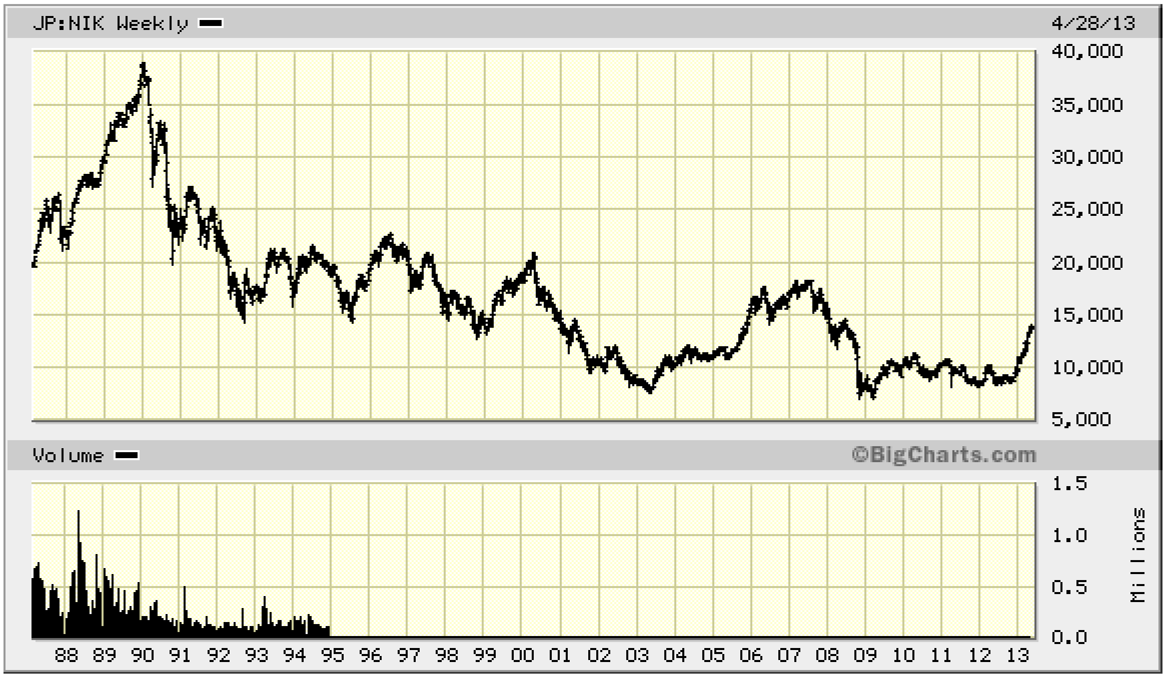
For different reasons, both countries' equity markets are off-cycle with the restof the world and that it will be an interesting asset allocation and timing game to shift from one market to the other.

Please bear in mind that while Shanghai is off-cycle to other major global averages by months, while the Nikkei is off-cycle in cyclical and even secular terms.

Conclusion

A wise investor would therefore position accordingly, using Japan as the countertrend market in one's portfolio, while using the Shanghai Composite as an intermediate term device for managing risk and smoothing volatility within that strategy (since the latter tends to be off-cycle with other major global averages by months).

At this time, it would be wiser to favour the Shanghai Composite over the Nikkei. Still, I remind that the Nikkei may be a secular story while the Shanghai Composite is an intermediate term one that is used to manage the global equity book, particularly within Asia.



GOLD, SILVER

My two most recent articles published on Seeking Alpha identified the low in silver a week early to the day, while catching the precise spike low in gold one week later *(the most recent articles published on Seeking Alpha can be accessed by clicking on the SA icon on the sidklein.com homepage).*

Of course, I was early in silver and was stopped out of half of a 200% position with a negligible loss (the Friday pre-crash). However, after 3 decades, I can both smell a rat, as well as note a spike low aberration when I see one. Reiterating, such is the case with gold.

There are worldwide (often long) line-ups to secure physical gold since the engineered paper crash, with Indians, Chinese, Middle Easterners and others paying hefty premiums for the privilege of owning the bullion.

This dichotomy of a powerful physical market that takes advantage of a collapsed paper one is the very mechanism of manifesting my oft-repeated decade-old forecast and warning that "There is a massive transference of wealth and power from West to East, which includes the ownership of gold."

Let's rewind a little: For many months, we have either been hearing of huge, unsustainable and even unprecedented short positions in silver by manipulative Wall Street banks who have only VERY recently had an investigation against them dropped by the CFTC.

We also know that there have been massive short positions in gold, with respect to which there has been intelligent discussion that today's plot includes the bullion banks' short positions that are tied to gold leased to them by the government, which conceals the true status of its holdings on its balance sheets.

Indeed, why can't the Germans get their gold back before several years if the Americans indeed have it?

So, the argument goes, the bullion banks have to return the gold to the government so that the gold may wend its way back to its true owners. Okay, follow the plot:

To get their hands on the gold they shorted via the leasing of what they didn't own, there is a need for a paper crash that would shake the metal loose from the public's limp hands.

But the plot thickens in that the same paper crash causes citizens and governments the world-over to line up to be the bullion banks' competition.

This is why I believe that we have seen the lows, as described in the two above-referenced SA articles. Consider this:

In the week that followed the gold crash, the metal rallied back most of the decline, with MANY observers pointing out that the rally was of a short covering nature, as could be witnessed by the relatively <u>feeble volume</u>.

At the same time, MANY have come out to forecast another down-leg following this quite "obviously" short covering rally.

A collapse of the psychologically stunning sort that we saw, not only shook precious metals out of the public's hands via the historic off-loading of exchange-traded products, it also created a ton of overhead resistance, comprised of sellers who swear to their investment gods that they would sell, "<u>If I could just get back to x price.</u>"

Well, that's the overhead supply to which the arguers of "low volume short covering rally" refer. BUT, WHAT IF THE LOW VOLUME REFLECTS AN UNWILLINGNESS TO SELL, MUCH AS THE ENGINEERED CRASH DID NOTHING TO DISSUADE A HISTORIC STAMPEDE IN THE PM's BULLION?

When the exchange traded products liquidations took place, the gold wasn't disappearing, it was ending up in the strong hands of those who desperately need to return the stuff they shorted.

The low volume short covering rally, the poor quality of which could only lead to a new leg down, has been too wisely and widely been reported on. Since most technical rules have gone out the window amid the most manipulated markets and charts by the most corrupt investment and bullion banks, it pays to be sceptical.

The weak hands that sold through the paper crash, are the same ones who have promised themselves to sell into rallies that carry the metals to "reasonable" loss levels.

THE VOLUME WILL APPEAR AT LEVELS THAT ARE DEEMED TO BE WHERE SHORT-TO-INTERMEDIATE TERM SHORT SELLERS ARE STOPPED OUT. THAT HIGH VOLUME DAY WILL BE ACHIEVED ONCE THE PM CRASH IS ENTIRELY WIPED OUT (APRIL 11 LEVELS), THEREBY MARKING THE SHORT TERM HIGH, I BELIEVE.

DOLLAR, YEN, EURO

The Yen and Euro have been trending asymmetrically and thereby maintaining a politically contrived "balance" in the value of the Dollar.

However, since February, the latter strengthened by breaking out of a long trading zone, when the weakness in the Yen finally overwhelmed any "balancing" strength in the Euro.

More recently, the Dollar has been weakening and has rolled over, as BOTH the Yen and Euro and been moving up. Meanwhile, as pointed out at its peak, the Dollar developed serious negative divergences.

As the following **5-year Dollar Index chart** illustrates, the Dollar has come into overhead resistance that will not be easily overcome. Ordinarily, this would be good for gold but, frankly, previous relationships appear to be out the window, making any asymmetric activity with the PMs coincidental, more than anything else.

Please scroll down to next page.

Regarding shifting relationships, we have even seen the Yen and Euro moving together, sometimes sharply, whether up or down, albeit temporarily.

However, now, the Yen's indicators have corrected enough and the currency *might* not rally any further in the near term. Also, the Euro has strength that can carry the chart pattern to 133.

Between the two currency analyses, we may simply be looking at continued but perhaps slightly lower Dollar range trade. While my hottest market has been the currencies, I am all of a sudden a bit uncertain.

This is typical of something changing, if my history as a commentator is any indicator; one thing that I can reiterate with some confidence is that one can throw steadfast conclusions out the window about the relationship between the Dollar and the PMs.

However, I can say what I am now following very closely:

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.

Immediately below 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 (most important for me) beneath it.

Please scroll down to next page.

Please scroll down to next page.

Please scroll down to next page.

Sid Klein

LEGAL NOTICE: This market letter is the work product and intellectual property of Mr. Sidney Klein. It arises out of his training and profession as an international expert on financial equities. It is a private correspondence from Mr. Klein to his subscribers. Any person who copies or otherwise disseminates this letter becomes subject to international criminal and/or civil prosecution under the Universal Copyright Convention and the Berne Convention for the Protection of Literary and Artistic Works. Nearly all countries in the world have signed both of these Conventions and have pledged to enforce them through their own legal systems. In addition, Interpol may be called upon to assist in the international enforcement of these Conventions through its processes of arrest and extradition. If you are the *recipient* of a copy of this market letter, whether through the internet or by facsimile, you should immediately report to Mr. Klein the name of the person or entity that sent it to you. Send your email to sidklein@sidklein.com.

DISCLAIMER: This market letter is intended to assist in the dissemination of information to private subscribers. The information contained herein represents Mr. Klein's best efforts in good faith to advance knowledge to his clientele, but there can be no implied guarantee as to its accuracy or completeness. The information is given as of the date appearing on this market letter, and Mr. Klein assumes no obligation to update the information or advise on further developments relating to the information provided herein. No solicitation to buy or sell securities is intended, and none should be inferred. Investments are inherently risky, but investment risk itself is a function of individual preferences. Thus any opinions, recommendations, or judgments expressed in this market letter are of necessity abstract and general. They must be modified, accepted, or rejected by individual subscriber/investors whose risk averseness cannot be known to Mr. Klein.