THE CHAPMAN REPORT

Charts and commentary by David Chapman
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STOCK INDICES

				trend		percentage gain or (loss)		
index	**close on July 19**	**52-week high**	**52-week low**	**inter-mediate**	**short-term**	**week**	**YTD**	**strategy**
S&P 500	1,680.19	1,693.12	1,329.24	up	up	0.7	18.6	Long (new highs)
DJI	15,543.74	15,589.4	12,471.49	up	up	0.5	18.6	Long (new highs)
DJT	6,436.93	6,608.87	4,838.10	up	up	2.3	24.1	Long (new highs)
NASDAQ	3,600.08	3,624.54	2,810.80	up	up	(0.4)	18.8	Long (new highs)
TSX Comp.	12,685.13	12,904.71	11,416.49	up	up	1.8	2.0	Buy
TSX 60	729.73	742.39	651.27	up	up	2.1	2.2	Buy
CDNX	920.39	1,349.32	859.33	down	neutral	2.5	(24.6)	Stand aside

for definitions of terms, see end of report

Thank you Mr. Bernanke. Fed Chairman Ben Bernanke may be coming to the end of his tenure but he must not want to go out on a sour note. This week Bernanke confirmed what some at least thought that the Fed would continue its "…highly accommodative monetary policy….". It appears that the situation in the labour markets remain "far from satisfactory" according Bernanke. He said that the Fed is not on any pre-set course.

The result was the S&P 500, the Dow Jones Industrials (DJI) and Transportations (DJT) soared to new highs (nominal) for the current move to the upside. The NASDAQ did not confirm as it failed to make new highs.

This could be a divergence if the markets were to fail this new high. However, the DJT did confirm the DJI by making new highs as well. According to Dow Theory, a major tenant of Technical Analysis, the averages must confirm each other.

Thus far, the new high is marginal one for the S&P 500. The S&P 500 could rise as high as 1,800 on this next move up. That appears to be the top of a bull channel. The DJI could rise to 17,000.

If the US stock markets are moving into major distribution mode a run to new highs should not be surprising. Following an initial break in July 2007 the markets moved to new highs in October. In 2000 the markets topped initially in January (DJI) and March (S&P 500 and NASDAQ) but after an initial break the markets made a series of lower highs over the next several months until May 2001 when the final top was made and the markets began their major collapse into the October 2002 lows.

The recent break was, however, quite shallow. The low was seen at 1,560 as the markets only dropped 7.5% from the May 2013 highs. However, Bernanke's statement buoyed the market and it soared to new highs. Bernanke judged that it was way too early to make any statement that the "taper" would begin in September as many especially the financial press were surmising.

Charts created using Omega TradeStation 2000i. Chart data supplied by Dial Data

There are reports that fresh money is coming into the market from retail investors. Some of those funds might be coming from the commodity markets as investors fled the sector especially following the collapse of the gold market in mid-April. The retail investor, however, is notorious for getting it wrong at tops and bottoms. This time should not be different.

The S&P 500 has resistance at 1,700. However, above that level it is difficult to say where resistance is as the index would be in new high territory. As noted the top of a possible bull channel is up near 1,800 so that could be an objective.

Support is down to 1,670 and below that level a decline to 1,635 is possible. Major long term support is down at 1,585 and a breakdown under that level would suggest that a major bear market could get underway. Final major support would be seen at 1,500-1,520.

Many will site the stellar earnings especially for banks as a reason for stocks to rise further. Investors should note, however, that there is legislation wending its way in Congress to effectively bring back Glass-Steagall that would once again separate investment banking from traditional banking. Many believe that the banks continue to report smoke and mirrors numbers as they understate the real value of their loan portfolios, which continue to hold billions of dollars of underwater debt.

This situation may not be helped by Detroit filing for bankruptcy the largest municipal bankruptcy in US history. Muni bonds were hit hard this past week as a result. Banks would be major holders of muni bonds along with pension funds. There is the potential for other US cities to join Detroit in bankruptcy. Numerous US cities have major shortfalls in their pension funds. Chicago as an example has a pension shortfall of some $19 billion. Moody's Investors Services downgraded Chicago.

Other cities on a list of possible bankrupts include Philadelphia, Houston, Los Angeles, Baltimore, Miami, Scranton and Harrisburg. New York City has also been mentioned. New York City went bankrupt in the 1970's. As noted one of the major problems for these cities are underfunded pension funds amongst others. Many US states have the same problem. At worst, the downgrade of Chicago could be the tip of the iceberg for further downgrades.

Another big problem on the books of the banks is student loans. This trillion dollar plus industry is in major trouble as many students cannot repay their student debt because they can't get a decent paying job (or any job). Like the mortgage market before it much of the trillion dollar student loan debt was securitized. A collapse of that market could be as devastating as the real estate collapse of 2007/2008.

Yet the stock market goes blithely on ignoring the warning signs that could bring about a collapse as dangerous as the 2008 financial collapse. A market moving to new highs will unfortunately only tell those investing in the stock market that they are all geniuses.

TSX COMPOSITE

The TSX Composite gained 1.8% this past week led by Golds, Materials and Financials. And I might add the takeover of Shoppers Drug Mart (SC-TSX) by Loblaw (L-TSX) helped drive the Consumer Staples sub index to new highs. That is, however, a one shot event. The TSX 60 gained 2.1% on the week while the TSX Venture Exchange (CDNX) was up for the second week in row with a 2.5% gain.

The TSX Composite is fast approaching the resistance line from the last highs. This line is currently near 12,850. A breakout over that line could see the TSX Composite rise to potential objectives up near 14,000. If that were to happen it would be important for the commodity sectors of Energy, Golds, Materials and Metals & Mining to lead the way higher. It is unlikely that the TSX Composite would be able to attain those levels without a major move by those sub-indices. The commodity group has been weak since peaking in late 2011. Those sectors are showing signs that they are poised to break out of their slumber.

On the other hand, the strong sectors such as Consumer Discretionary, Consumer Staples, Health Care and even Financials are showing signs of being overextended and topping. That is not to say they will but that could at least underperform going forward.

Charts created using Omega TradeStation 2000i. Chart data supplied by Dial Data

Support for the TSX Composite is at 12,500 and down to 12,300. Below 12,300, a decline to major support at 11,900 is probable. A breakdown under 11,900 could signal the start of a major bear market. Weekly indicators are turning up and the TSX Composite (and TSX 60) has issued fresh buy signals this past week. ETF players could use the XIU to go long the index.

Source: www.stockcharts.com

The CDNX is now up three weeks in a row since making what appears to be hammer (Japanese candlestick pattern) four weeks ago. The hammer signaled at minimum a temporary bottom. The CDNX has a lot of work to do, however, to turn up once again. This past week the short-term trend did change to neutral from down. The CDNX has resistance at 920 then up to 1,100. Grant you the CDNX made up moves on a number of occasions over the past two years only to see the rebound fail. Note how the 40 week MA has contained all attempts to break out over the past two years.

Support is at the lows near 860. Indicators are turning up with positive divergences. The MACD indicator for example is showing strong positive divergences that have been forming since mid-2012. The RSI indicator at the lows hit extremes not even seen at the lows of 2008. Over 1,100 the CDNX could embark on a major bull market.

TSX SUB-INDICES

- Bernanke delivered again and that helped the TSX Composite this past week. Setting aside the Loblaw/Shoppers deal that helped drive Consumer Staples to new highs this past week it was the Golds along with Energy and Financials that helped push the TSX Composite higher.
- Ten of the fourteen sub-indices were up on the week. The leader to the upside was the aforementioned Consumer Staples led by Loblaw that helped the sub-index jump by 7.2%. Golds were up 6.1% and Financials and Materials gained 3%.
- The biggest loser was Information Technology off 1.5% followed by Income Trusts down 0.9% and Telecommunications off 0.5%.
- There were no intermediate trend changes for the sub-indices this past week.
- Short term trend changes this past week included: Golds down to neutral; Materials down to neutral; and, Real Estate down to neutral.
- Consumer Discretionary, Consumer Staples, Financials and Health Care made new highs. Health Care made new highs but closed lower setting up a reversal week. The other three making new highs are flashing warning signs in the indicators suggesting that they could be soon making a top.
- With the commodity sectors of Energy, Golds, Metals & Mining and Materials up now for the past couple of weeks if these sectors were continue this run it could well take the TSX Composite higher.

				trend			
	close on July 19	**52-week high**	**52-week low**	**inter-mediate**	**short-term**	**week**	**strategy**
Energy	261.99	274.09	230.36	up	up	up	Long hold
Financials	207.56	208.07	168.22	up	up	up	Long hold (new highs)
Information Tech.	29.79	33.86	21.37	up (weak)	down	down	Long hold (caution)
Consumer Discretionary	121.35	121.85	89.48	up	up	up	Long hold (new highs)
Consumer Staples	301.30	302.81	222.88	up	up	up	Long hold (new highs)
Healthcare	81.06	81.60	58.96	up	up	down	Long hold (new highs)
Industrials	142.68	145.62	109.14	up	up	up	Long hold
Materials	232.96	357.19	210.55	down	neutral	up	Stand aside
Telecommunications	111.31	124.96	103.00	down	down	down	Stand aside
Utilities	214.06	235.24	199.75	down	neutral	up	Stand aside
Gold	177.65	355.92	154.00	down	neutral	up	Stand aside
Metals & Mining	716.96	1,050.76	662.20	down	down	up	Stand aside
Real Estate	231.53	252.25	215.21	down	neutral	up	Stand aside
Income Trusts	174.43	197.39	156.81	down	down (weak)	down	Stand aside

for definitions of terms, see end of report

EXCHANGE TRADED FUNDS

- With Bernanke clarifying things (somewhat) with regard to "the taper" the ETF's were generally up on the week. Some of the index ETF's gave buy signals although the signal was not particularly strong. Bonds were up somewhat on the week and the commodity sectors all improved.
- Intermediate trend changes this past week were as follows: XIU down to up; XIC down to up; and, IEV neutral to up. All three ETF's issued buy signals.
- Short term trend changes this past week were as follows: XIU down to up; XSB down to neutral; XIC down to up; XMD neutral to up; FXI down to neutral; EEM down to neutral; IFN neutral to up; IEV neutral to up; and, HIX up to down.
- XFN, QQQ and SPY made new highs. However, with the new highs there were numerous negative divergences.

	intermediate trend	**short-term trend**	**intermediate strategy**
XGD/T Gold	down	down (weak)	Stand aside
XMA/T Materials	down	down (weak)	Stand aside
XIT/T Technology	up (weak)	down	Long hold (caution)
XFN/T Financials	up	up	Long hold (new highs)
XEG/T Energy	up	up	Long hold
XRE/T REIT	down	down (weak)	Stand aside
XIU/T TSX 60	up (weak)	up	Buy
XSP/T S&P 500	up	up	Long hold
XBB/T Bonds	down	down (weak)	Stand aside
XSB/T Short Bonds	down	neutral	Stand aside
XRB/T Real Return Bonds	down	down (weak)	Stand aside
XIC/T Composite	up (weak)	up	Buy
XMD/T Mid-Cap	neutral	up (weak)	Stand aside
QQQ NASDAQ	up	up	Long hold (new highs)
SPY/NY S&P 500	up	up	Long hold (new highs)
EWJ/NY Japan	up	up	Long hold
FXI/NY China 25	down	neutral	Stand aside
EEM/NY Emerging Markets	down	neutral	Stand aside
GLD/NY Gold	down	down (weak)	Stand aside
SLV/NY Silver	down	down	Stand aside
JJC/NY Copper	down	down	Stand aside
IEV/NY Europe	up	neutral	Buy
IFN/NY India	down	up	Stand aside
TLT/NY 20-year bond	down	down	Stand aside
HUC/T HBP Winter NYMEX Crude Oil	up	up	Long hold
HUN/T HBP Winter NYMEX Natural Gas	down	down (weak)	Stand aside
HIX/T HBP S&P TSX 60 Inverse	down	down	Stand aside (bottoming?)

For definition of terms, see end of report

BONDS

	close on July 19	52-week high	52-week low	trend: inter-mediate	trend: short-term	percentage gain or (loss): week	percentage gain or (loss): YTD	strategy
US 30-yr Treasury Futures	135^16	153^02	132^17	down	down	1.2	(8.1)	Stand aside
Cdn 10-yr Bond Futures (CGBs)	132.52	140.44	130.15	down	neutral	0.7	(2.2)	Stand aside

for definitions of terms, see end of report

Thanks to Fed Chairman Ben Bernanke's reaffirmation that the Fed would maintain its highly accommodative monetary policy US Treasury bonds as represented by the 30-year bond futures rebounded for the 2nd consecutive week with a gain of 1.2%.

From a technical standpoint the 30 year Treasury future appears to be finding support at the 4 year MA and as a result could rally back toward the breakdown line of the possible huge topping pattern near 141^00. That would be a solid $6 move in prices. That scenario would only change if new lows were seen below 132.

Ten year US Treasury notes fell to 2.50% this past week from 2.61% the previous week and two year Treasury notes were at 0.32% vs. 0.37% the previous week.

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Charts created using Omega TradeStation 2000i. Chart data supplied by Dial Data

With bonds rebounding back, it is possible that Bernanke was spooked by rising interest rates and what it would do to the US economy if they continued to talk about the “taper”. “Taper” talk hasn’t stopped but it has slowed at least. Bernanke seemed to go out of his way to calm the markets. Given that Bernanke is expected to leave soon as Fed Chairman, it may be he didn’t want to go with rising interest rates and a falling stock market.

It wasn’t a great week for economic numbers and that may also have influenced Bernanke. Economic numbers released this past week included:

- Retail sales for Jun came in at a disappointing gain of 0.4% when the market expected a 0.9% gain. Retail sales in May were up 0.5%. Overall, the gain was insignificant given population growth.
- The Empire Manufacturing index for Jul surprised to the upside coming in at 9.46 when the market expected a reading of 3. The Jun index was 7.8.
- Is inflation back? The Jun CPI rose 0.5% vs. an expected rise of 0.3% and low 0.1% gain in May.
- Industrial production for Jun was below expectations at a gain of 0.3% vs. the expected 0.5% gain. It was, however, better than the May number of flat. Capacity utilization for Jun came in at 77.8% vs. 77.7% in May.
- Housing starts for Jun were a big disappointment coming in at 836 thousand when the market expected 925 thousand and the May number was 928 thousand. That was a 10% decline from the previous month.
- Building permits for Jun also disappointed coming in at 911 thousand vs. 985 thousand in May. The market expected 975 thousand. With building permits down 7.5% on the month the question has to be asked – what housing recovery?
- Leading indicators for Jun disappointed coming in flat vs. a gain of 0.2% in May. The market expected at least a 0.2% gain.
- On the slightly good news side initial claims this past week were 334 thousand vs. 358 thousand the previous week. But could that be because there are just fewer people eligible for unemployment insurance.
- Finally the Philly Fed for Jul was 19.8 well above the expected 3 and the 12.5 reported for Jun.

Overall, however, the numbers this past week were soft and a disappointment. Key economic numbers out this coming week include:

- Existing home sales for Jun expecting a 5.27 million vs. 5.18 million the previous month. Could this number disappoint as did the new home sales this past week?
- Durable goods orders for Jun are expected to rise 1% vs. the 3.6% reported in May. This can be a volatile number.

A potential bullish move was seen in the large speculators COT for 10-year Treasury note futures as it jumped to 51% vs. 47% the previous week. The gain is suspect, however, as it was mostly due to a big drop in open interest. The commercial COT for 10 year Treasuries slipped to 53% from 54%.

The US Treasury will auction $99 billion of 2, 5 and 7-year notes this coming week. If the past is any guide the Fed will buy upwards of 70% of the issue.

Bernanke helped rally bonds this past week. But is this just a correction to the recent decline or is it the start of a new bull move to the upside? Odds favour that it is just a correction.

CANADA

Cdn bonds as represented by the Government of Canada 10 year bond futures (CGB's) also benefitted from Fed Chairman Bernanke's re-affirmation that monetary stimulus would remain in place for the foreseeable future. As a result, the CGB's rose 0.7% this past week.

The CGB's have now rebounded back to the breakdown line from what appears as a potentially large topping pattern. It is possible that bonds could rebound back above the channel line to test the 13 week MA at 133.40 and the 40-week MA at 134.80. In a best case, the CGB's could reach up to the downtrend line from the July 2012 top at 136. New lows below 130.30 would change this scenario. Then the CGB's could fall to test the 4 year MA near 128.

Stephen Poloz the new head of the BofC held his first interest rate announcement this past week and it was no surprise that rates were left unchanged at 1%. His forward guidance statements were, however, more dovish then previous announcements. This suggested that the BofC would leave rates unchanged until at least the last quarter of 2014. They did reaffirm that the expected their headline and core inflation levels would reach 2% by mid-2015 the same as previous forecasts.

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. Economic numbers released this past week continued to show a soft economy:

- Existing home sales for Jun were reported to rise 3.3% vs. a 3.6% gain in May.
- Manufacturing sales for May were up 0.7% vs. a decline of 2.1% in Apr.
- Wholesale sales for May were up 2.3% vs. a 0.4% gain in Apr.

- Headline CPI for Jun was flat vs. a gain of 0.2% in May. Core CPI was down 0.2% in Jun vs. a gain of 0.2% in May.

Economic numbers out this coming week include:

- Retail sales for May expecting a gain of 0.3% vs. the 0.1% gain reported for Apr. Given higher gas prices, the retail sales gain could be higher.

Bond prices were higher this past week for the 2nd consecutive week. They could rebound further, however, it would be quite negative if they were to falter here and return to the recent lows as it would suggest new lows were coming (higher yields).

PRECIOUS METALS

	close on July 19	52-week high	52-week low	trend inter-mediate	trend short-term	percentage gain or (loss) week	percentage gain or (loss) YTD	strategy
Gold	1,293.30	1,785.30	1,183.20	down	down	1.3	(22.8)	Stand aside
Silver	19.45	35.09	18.18	down	down	(1.7)	(35.5)	Stand aside
Platinum	1,429.70	1,731.20	1,295.40	down	neutral	1.4	(7.1)	Stand aside
Palladium	748.66	785.00	583.46	up	up	3.8	6.6	Buy
Copper	3.14	3.99	2.98	down	down	(0.5)	(13.7)	Stand aside
Gold Bugs Index (HUI)	240.33	529.80	206.66	down	down	6.8	(45.9)	Stand aside
TSX Gold Index (TGD)	177.65	355.92	154.00	down	down	6.1	(41.4)	Stand aside

for definitions of terms, see end of report

Gold prices rose for the 2nd consecutive week gaining 1.3% but silver faltered and was down 1.7%. This is a divergence. However, platinum was up 1.4% and palladium gained a stellar 3.8%. Copper was only off slightly losing 0.5%. The gold stocks, who often lead gold prices higher (or lower), put in a strong up-week (see Gold Stocks below).

Gold rise this past week was helped by Fed Chairman Bernanke's re-affirmation that the pace of monetary stimulus (QE) would be maintained. However, in keeping with his statements of late he also acknowledged that at some point the Fed would begin to "taper". However, he did note that it was way too early to make that judgement.

Still the financial press continue to talk about the "taper" and the potential for that to start in September. The simplest response to that is that it is not going to happen. The economic numbers do not support it.

Evidence continues to mount that the central banks are having a supply problem as the physical market for gold tightens. Since the collapse in mid-April when someone offered at least 400 tonnes of paper gold on the futures markets all at once there have been questions swirling around a number of events that gave little in the way of answers. First was the request in January by the German Bundesbank to repatriate 300 tonnes of their gold from the NY Fed. The Bundesbank was told it would about seven years to return the gold. Considering the small size it should not take seven years to return it. That is assuming the gold is there.

Second in March ABN Amro (large Dutch bank) told its bullion customers that redemption of their physical gold was impossible and that they would be paid in cash instead. That apparently caused a bit of a run at UBS and Scotiabank as customers came to take their gold back. A directive was issued by the Swiss central bank that gold deposits could not be withdrawn. If the gold was there, why couldn't customers take delivery?

Thirdly it was learned that delivery times at the London Metals Exchange was as high as 100 days. Why would that be unless there was a supply problem.

Much has been made of the swift decline in the COMEX gold since early in 2013. As well during the steep decline in gold prices some 300 tonnes came out of the GLD Spdr Trust. All that gold has gone somewhere.

Was it coincidental in April before the crash that a number of bullion banks were recommending to sell gold? Since then the commercial COT has indicated that the bullion banks have been covering their shorts while at the same time the large speculators have increased their short position to record levels.

The gold forward offered rate (GOFO) has gone negative indicating that there is supply problem as the price for cash gold is higher than one to three month forward rates. This is a rare event and last occurred in November 2008 at the lows of the 2008 financial crash. Prior to that, the GOFO rate went negative at the gold market lows in 1999 and 2001 when gold was trading near $250. Premiums at coin dealers remain positive in the 5-6% range for gold and 15% and sometimes more for silver. This again is more indicative of a supply problem raising further the question as to why then did gold fall in mid-April.

Charts created using Omega TradeStation 2000i. Chart data supplied by Dial Data

India tried to suppress demand by placing an 8% import duty on gold. It was the third increase in the past year and a half and designed to help lower India's chronic trade deficit. However, it had a perverse effect as Indians imported record amounts of silver while still getting their hands on gold through non-official channels.

Conditions appear to be growing that could cause the price of gold to rise quickly from current levels. If gold were to close at these levels at month end it would break the string of lower monthly gold closes since October 2012 (one exception was March 2013 where gold closed marginally higher).

A close this coming week over $1,300 would give a buy signal for gold. It would set up the potential for a run to $1,400 for gold. Initial resistance is up $1,320 then $1,350 and $1,380. Support is at $1,265 and then down to the lows at $1,180 to $1,200. Gold appears to be on the cusp of breaking the downtrend line from the March 2013 highs.

Silver has developed stiff resistance at $20 but above that level a run to $22 is probable. Silver would get a more significant breakout over $22. Support for silver is down to $18.65. Below that level new lows below $18.18, the June low, is possible.

The commercial COT for silver slipped slightly this past week to 46% vs. 47% the previous week. Silver never developed the short position gold did during this crisis. Oddly while all other commodity, stock and bond futures contract reported the futures positions for clients and pro traders this past week there was no update on the commercial COT for gold. The commercial COT for gold was last reported at 48% while the large speculators COT was at 53%.

Evidence continues to gather that a low may be in for both gold and silver. What is needed now is some confirmation that the low is in.

Gold Stocks

Gold stocks made their second consecutive higher close this past week with the Gold Bugs Index (HUI) gaining 6.8% and the TSX Gold Index (TGD) up 6.1%. The HUI appears to have broken a downtrend line from highs seen in September 2012. The TGD is just short of breaking above a similar line. The 50-day MA looms as further resistance. The 50-day MA for the HUI is at 247.68 and for the TGD at 182.55.

Both the HUI and the TGD did make a higher low following the bullish reversal day on June 28, 2013. As well, there were numerous positive divergences across daily and weekly at the June lows. Still the HUI needs to close over 264 and the TGD over 193 on a weekly basis to confirm a potential low and give a buy signal.

Charts created using Omega TradeStation 2000i. Chart data supplied by Dial Data

The HUI should now have support down to 222. A gap between 222 and 218 has yet to be filled. As long as that gap is not filled, the HUI should appear increasingly bullish. There is a similar gap on the TGD between 163 and 168 that has not yet been filled. If the gaps on the HUI and the TGD are not filled, it could be a small break away gap another bullish sign.

Resistance on the HUI is at 250 and up to 265. Above 265 the HUI become more bullish and a run to 285 to 300 is probable. Similarly, for the TGD there is resistance at 180 but above that level a run to 200-210 is probable.

The gold stocks remain deeply oversold but the past couple of weeks has produced some bullish signs. Both indices remain down over 40% on the year and are down over 60% from their all-time highs seen in September 2011. The bulk of the decline occurred following the mid-April 2013 crash in gold/silver. Up until that time the correction in the gold stocks was normal and not out of line with previous corrections. It was only after the mid-April 2013 crash that the decline in the gold stocks deepened and took an unexpected turn. If past history is a guide, the rebound could also occur quickly. A start would be solid buy signal as opposed to the current antidotal evidence that a buy signal may be imminent.

CURRENCIES

	close on July 19	52-week high	52-week low	trend: inter-mediate	trend: short-term	percentage gain or (loss): week	percentage gain or (loss): YTD	strategy
USDX $	82.71	84.93	78.60	up	neutral	(0.5)	3.6	Long
EUR €	1.3140	1.367	1.207	neutral	neutral	0.6	(0.5)	Stand aside
GBP £	1.5255	1.6279	1.4893	down	neutral	1.1	(6.1)	Stand aside
JPY ¥	0.9990	1.2913	0.9692	down	down	(0.8)	(13.5)	Stand aside
CHF	1.0628	1.1091	1.0056	down (weak)	neutral	0.6	(2.9)	Stand aside
CAD $	0.9631	1.0313	0.9435	down	neutral	0.3	(4.0)	Stand aside

for definitions of terms, see end of report

I keep reading how the US$ Index is going to go higher defying all of the US$ bears. Last week's outside week reversal in prices to the downside, however, flies in the face of that forecast. The US$ Index continued to fall this past week losing another 0.5%.

None of this is to suggest that the US$ Index can't go higher but a failure at key resistance levels (85) is not a bullish sign. This past week the US$ Index closed under the 13 week MA suggesting further losses could be coming. This is not to say that the US$ Index can't find support and start another move higher, however, overcoming the outside reversal week could prove daunting. If the bulls expect the US$ Index to go higher they are almost universally bearish against the Euro.

Despite how bad things look in Europe there is the possibility that the Euro zone is at its depths whereas recent signs have indicated that the US economy could be slowing rather than expanding as many love to tout. The US Treasury doesn't particularly want a strong US$ although they may never voice that. The US authorities would prefer a weak US$ in order to help exports and to monetize the US debt.

The Euro gained 0.6% this past week as did the Swiss Franc. The British Pound was up 1.1% but the Japanese Yen was the week's loser down 0.8%. The Cdn$ was up a small 0.3%. With the US$ Index under 83 the next level support is seen at 82 and down to 81.50. Major support is down at 80. A breakdown under 80 and especially under 79.50 could see the beginning of a US$ rout to the downside.

The commercial COT for the Euro slipped slightly to 66% from 67%. Long open interest rose 2,000 contracts while short open interest was up 3,000 contracts. The British Pound commercial COT slipped to 69% from 71%, the Japanese Yen commercial COT was steady at 83% while the Cdn$ commercial COT slipped to 65% from 67%. The small decline in the commercial COT for the currencies could be seen as mildly negative.

The US$ Index has been battered back and forth depending on the rumours surrounding the "taper". "Taper" on and the US$ rises; "taper" off and the US$ falls. Right now the expectation appears to be favouring "taper" off. Certainly the generally weaker than expected economic numbers this past week supported maintaining QE rather than "tapering".

Chart wise the US$ appears to be suggesting that it has further to fall. Whether the fall turns into a rout remains to be determined.

Charts created using Omega TradeStation 2000i. Chart data supplied by Dial Data

ENERGY

	close on July 19	52-week high	52-week low	trend: inter-mediate	trend: short-term	percentage gain or (loss): week	percentage gain or (loss): YTD	strategy
Oil	108.05	107.73	77.70	up (extremes)	up	2.0	17.7	Long
Gas	3.789	4.43	1.90	neutral	neutral	4.0	13.1	Long
AMEX O&G Index (XOI)	1,407.01	1,431.00	1,145.55	up	up	1.8	13.3	Long
TSX Energy Index (TEN)	262.0	274.09	227.77	up	up	1.9	5.4	Long

for definitions of terms, see end of report

WTI oil prices rose again this past week gaining 2% and hitting their highest levels since February 2012. As well WTI prices were higher than Brent crude for the first time in almost three years as the bottleneck of Cushing, Oklahoma is cleared. Increased pipeline and railroad (and even barge) transportation has helped clear the bottleneck. All of this has helped Cdn western crude as the spread differential with WTI has also narrowed considerably.

WTI crude had traded as much as $23.44 below Brent as recently as February 2013. But thus far in 2013 WTI prices are up 18% while Brent has fallen 2.5%. Still the Mid-East remains volatile and the potential for a blow up there could change the Brent price quickly.

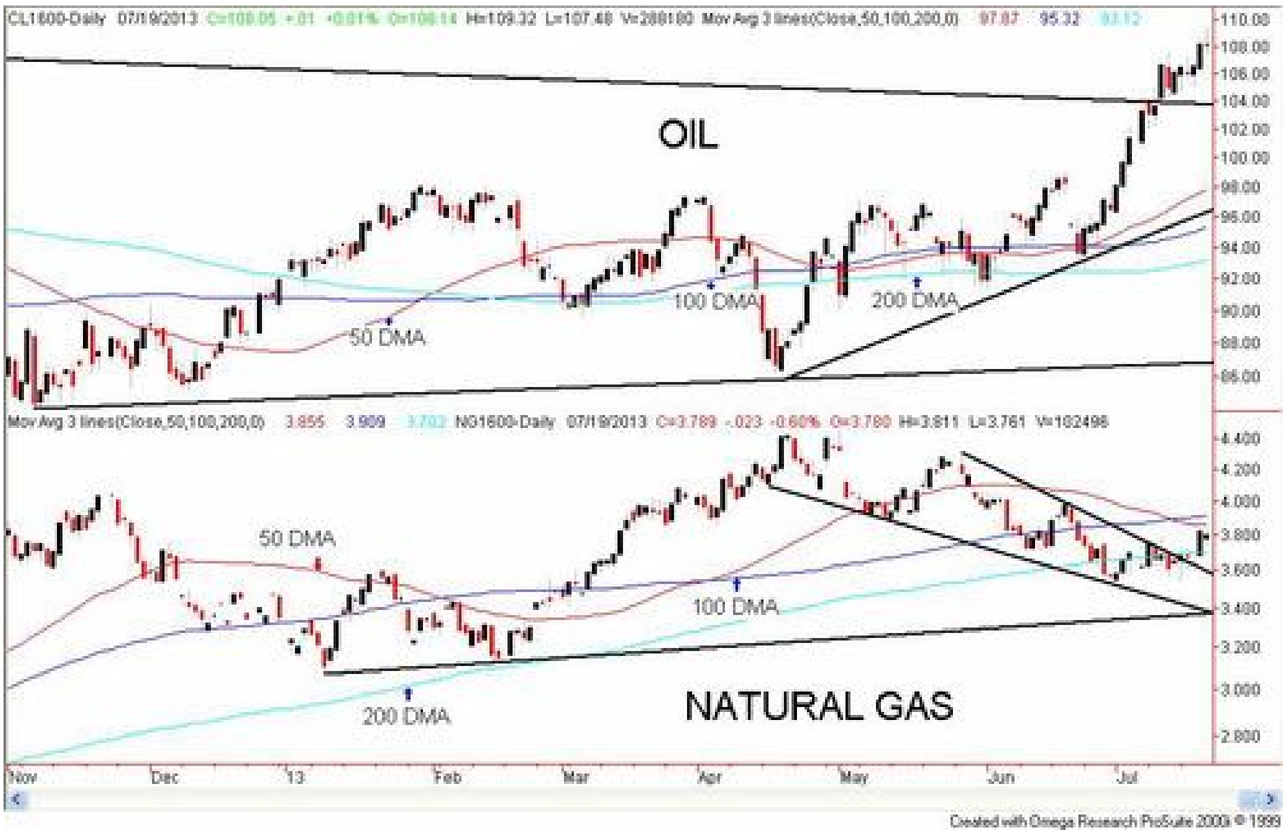
WTI broke out of what appears as a huge symmetrical triangle two weeks ago. This triangle has potential objectives up to $140. A move of that magnitude could require the Mid-East situation to worsen. Declining US crude supplies could only provide so much to the rise in prices. The EIA did report this past week that crude supplies fell again this time by 6.9 million barrels leaving them 10.4 million barrels below last year's levels. Gasoline supplies rose 3.1 million barrels and are 18.2 million barrels above last year; and, distillates rose 3.9 million barrels and are 4.1 million barrels above last year.

Key to this breakout is that oil prices hold above $95 on any pullback. Ideally support at $100 holds but under that level $95 would be the last key support. A breakdown under that level would be quite negative and suggest further losses for oil prices.

The rise in crude prices has put upward pressure on gasoline prices. Gas prices in Toronto have gone up to $1.36/litre. US gas prices are up $3.64/gallon. Refineries are quite full as production has reached some of its highest levels ever. Demand is quite robust in the US despite a rise in production in the US with supplies from fracking coming on line.

Natural Gas (NG) rose 4% this past week breaking out over resistance at $3.65. Prices rose to resistance at $3.80. Above $3.80 NG could rise to $4. There is further resistance up to $4.20 and $4.40. The weekly chart is revealing a potential huge head and shoulders bottom for NG. The right shoulder may need more time to form. The pattern breaks out above $4.40 and has potential objectives up to $7.70. This pattern would bust with a move under $3. A breakdown under $3.50 would throw the potential huge pattern in doubt. The pattern has been forming since highs back in January and June 2010.

Working gas in storage (US) increased to 2,745 Bcf this past week a gain of 58 Bcf. The gain was lower than the 5-year average but higher than last year. NG inventories remain below last year and the 5-year average.



Charts created using Omega TradeStation 2000i. Chart data supplied by Dial Data

The commercial COT for oil slipped slightly to 40% this past week from 41% the previous week. However, the large speculator COT rose to 80% from 78%. The commercials increased their long open interest by 17,000 contracts and their short open interest by 41,000 contracts. Total open interest rose 62,000 contracts. Given higher oil prices the rise in open interest is positive and a confirmation of the recent price increase.

The commercial COT for NG was steady at 55%. As with oil total open interest rose 26,000 contracts. With NG prices higher, the rise in open interest confirmed the price movement.

Both oil and gas prices appear to be headed higher. Oil has resistance at $110 and then up to $114. Above $114, oil prices would be making new highs.

ENERGY STOCKS

Given the improvement in Cdn oil prices in relation to WTI the TSX Energy Index (TEN) outperformed the AMEX Oil & Gas Index (XOI) this past week. The TEN was up 1.9% vs. a 1.8% gain by the XOI.

The TEN has broken out of a symmetrical triangle pattern that formed following a high in February 2012. The triangle pattern has a potential objective up to 325. In addition, a large symmetrical triangle formed from a high seen back in March 2011 at 370. This triangle does not break out until 285. It has potential objectives up to 435. Nonetheless, the TEN has been showing positive signs of late as weekly indicators have turned up and volume has picked up with the break out in the index. As well, the index has broken out above the 40 week MA. The 13-week MA is turning up but has not yet crossed over the 40 week MA. The TEN has resistance at 270, 280 and 290. Support is seen for the TEN down to 250. Under that level, the rebound is in doubt. A breakdown under 235 could signal a move back to the June 2012 lows.

Charts created using Omega TradeStation 2000i. Chart data supplied by Dial Data

While the TEN has broken out the XOI is just below its recent highs at 1,431. The XOI is giving off fresh buy signals and weekly indicators are once again turning up. Above 1,425 new highs are highly probable. The XOI broke out of what appears as huge symmetrical triangle that formed from the highs of March 2008 at 1,663. The triangle broke to the upside in January 2013 and has potential objectives as high as 2,200.

Above 1,450, the XOI has resistance at 1,500 and up to 1,600. The XOI has seasonal strength from roughly December to July so the period of strength could be ending. Seasonal weakness is sometimes seen from September to November. The XOI has key weekly support down to just under 1,300. Under that level, the rebound would be in doubt especially if the XOI were to fail here.

DEFINITIONS OF TERMS

Intermediate-term trend (weekly trend): Of interest to conservative long-term investors. As long as the intermediate trend is up, conservative long-term investors can continue to hold. Watch the short-term trend for possible trend changes coming.

Short-term trend (daily trend): Of interest to more aggressive investors and traders. When the short-term trend turns up more aggressive investors and traders may wish to go long. Note though that all strategy signals are based on the intermediate trend only.

Strategy:

Buy: All buy signals relate solely to the intermediate trend. A buy signal is issued when the intermediate trend turns up.

Sell: All sell signals relate solely to the intermediate trend. A sell signal is issued when the intermediate trend turns down.

Stand aside: intermediate strategy is in stand aside mode following a sell signal.

Long or long hold: intermediate trend is up following a buy signal and investors can continue to remain long.

Long or long hold – topping or caution: short term indicators are diverging negatively and there are other indicators indicating to us that the market may be topping out. Confirmation will only come when the intermediate trend turns down and issues a sell signal.

Stand aside - bottoming: short term indicators are diverging positively and there are other indicators indicating to us that the market may be about to change from stand aside to buy. Confirmation will only come when the intermediate trend turns up and issues a buy signal.

Stand aside – accumulate: similar to stand aside – bottoming above except investors may wish to consider accumulating. Confirmation will only come when the intermediate trend turns up and issues a buy.

(New highs, new lows): market or index is making new highs or new lows.

Trend Signals:

Up – Trend is up.

Down – Trend is down.

Neutral – Trend has entered a transition phase before either resuming the current trend or changing trend. This is a caution zone and signals that a trend change may be in the offing.

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