THE CHAPMAN REPORT

Charts and commentary by David Chapman

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Stock Indices

	Intermediate term trend	Short-term trend	week trend	intermediate strategy
S&P 500	up	up	down (small)	Long
NASDAQ	up	up	down (small)	Long
TSX Composite	neutral	up	down	Stand aside (bottoming?)
TSX Venture	down	up	down	Stand aside (bottoming?)

Fed Chairman Ben Bernanke saved the day. US stock markets were headed for their 2nd consecutive weekly decline when Bernanke's speech from Jackson Hole, Wyoming on Friday made the case for more QE. Ironically it was two years ago that Bernanke also spoke at Jackson Hole hinting about QE2. Bernanke's concern is about the lack of job growth. The US economy needs at least 200 to 250 thousand jobs monthly basically to stand still with population growth. US job growth has been substantially below that level. Hence the musings about more QE.

Still the US stock markets did lose for the 2nd consecutive week but the loss was small. The S&P 500 fell 0.3%, the NASDAQ was off 0.1% while the Dow Jones Industrials (DJI) was down 0.5%. The Dow Jones Transportation (DJT) suffered even more losing 2.2%. Note that the DJI is just below its highs seen in early May 2012 while the DJT is nowhere near its highs made in July 2011. The DJT also did not make new highs in May 2012 along with the DJI. This potentially breaks one of the key tenants of Dow Theory that the stock market averages must confirm each other. If the DJI goes on now to make new highs while the DJT does not this will confirm the divergence and could be signaling a major top in the stock markets.

However, that top should not occur until the markets do make new highs and fulfill potential objectives. The S&P 500 still has objectives up to 1,450, 1,525 and even to 1,600. The S&P 500 has thus far held a support zone at 1,390 and has not even approached a more key support zone at 1,360 (low this past week was at 1,397). The S&P 500 has thus far made small new highs at 1,426 which was just above the April 2012 high at 1,422. A failure here would be negative and potential set up a double top. The potential neckline of that double top would be at 1,275. While this pattern is not expected it remains a possibility until the market makes new highs above 1,426. Given the impetus of more QE from Bernanke as well as the potential for global stimulus from the ECB, the BOJ and PBOC (Europe, Japan and China respectively) then this should push stock market prices higher over the next few weeks.

Cycles show, however, that the S&P 500 could top as early as this month or in October. Recall that the 2007 market topped on October 7, 2007. The S&P 500 made an important low on October 10, 2002 as well to end the two year High Tech/Internet crash. So that period in early October does have some potential to once again end the rally.

The 1,390 support zone was emphasized this past week with the failure to break down under that level. Above 1,426 the market should easily go to 1,450. Bernanke has made no commitments as to the timing of what could become known as QE3. The first two rounds of QE have supported the stock markets without any acceleration of inflation and QE has also supported the economy even as growth remains quite anemic. QE could be considered a desperate measure but it is the only remaining tool for central banks around the world as interest rates are already for the most part at record lows. Bernanke also believes that the benefits of QE outweighs it costs. The costs would only show up if inflation picks up.

But as has been noted here and especially at Jim Sinclair's website www.jsmineset.com it is QE to infinity. That will help propel the markets higher especially gold.

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

Bonds

	Intermediate term trend	Short-term trend	week trend	intermediate trend strategy/bond model system
US Bonds	up	neutral	up	Long
Cdn Bonds	up	neutral	up	Long

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

Bernanke's speech suggesting that there could soon be another round of QE helped spark a jump in bond prices (lower yields) this past week. US Treasury bonds as represented by the 30 bond futures rose 1.4% this past week while Cdn bonds as represented by the 10 year bond futures (CGBs) rose 0.4%. Ten year Treasury notes fell to 1.57% this past week from 1.68% the previous week. This is not far off the all-time low seen at 1.43% in late July 2012.

Bernanke's main concern is the labour market with unemployment persisting over 8%. This is the headline Bureau of Labour Statistics (BLS) rate U3. The BLS U6 unemployment rate was last reported at 15%. The U6 unemployment rate includes discouraged workers under one year unemployed and part time workers seeking full time work. Shadow Government Stats (SGS) reports an alternative unemployment number. The SGS unemployment rate was last at 22.9%. The SGS number includes long term unemployed over one year that are not included in the BLS numbers. There are some 45 million Americans (almost 15% of the population) listed as living in poverty and on food stamps. Think of food stamps as the equivalent of the soup lines of the 1930's.

While Bernanke wasn't definitive his words were enough to spark a stock, bond and gold rally. Many felt that Bernanke would act sometime in the next few months. This is despite ongoing signs of some economic improvement. However, the improvement seems to come almost everywhere but employment. Employment remains a major concern.

Economic numbers this past week saw consumer confidence for Aug slip to 60.6 down from 65.4 in Jul. The market had expected 66.5. The Q2 GDP was revised upward slightly to 1.7% from 1.6%. Pending home sales for Jul rose 2.4% after falling 1.4% in Jun. Personal income for Jul rose 0.3% but personal spending jumped more up 0.4%. The Jun numbers were up 0.3% and flat respectively. The Aug Chicago PMI came in at 53 but that was down from Jul's 53.7. Under 50 signals a recession. If the consumer confidence number was weaker than expected the Michigan sentiment indicator another measure of consumer confidence was better than expected coming in at 74.3 for Aug. This was up from 73.6 in Jul. Finally factory orders for Jul rose 2.8% vs. a decline of 0.5% in Jun.

This coming week could be telling as Friday brings the market the August employment numbers. The market appears to have low expectations looking only for a nonfarm payroll gain of 115 thousand jobs. The Jul nonfarm payroll was a gain of 163 thousand. The unemployment rate is expected to remain at 8.2%. A gain of 115 thousand jobs in Aug is tepid at best. The US economy needs almost 250 thousand jobs every month just to stand still with population growth.

Also out is the ISM manufacturing number for Aug looking for 49.9 vs. 49.8 in Jul. The manufacturing sector remains quite weak. Weak economic numbers in the US and continued weak economic numbers out of Europe and China is sending everyone looking at further monetary stimulus. While positive for stock markets the additional stimulus in the past has not necessarily translated into an improved economy.

The Cdn economy continues to "chug" along. It was estimated that Q2 GDP improved by 1.8% only marginally better than the US economy. This number remains anaemic at best. The consumer weighed down by record debt is simply not spending. The softening global economy and a strong Cdn$ is hurting Cdn exports. As with the US call it the "muddle along" economy.

The BofC meets this week and they are expected to leave interest rates unchanged at 1%. Recent numbers and low inflation probably ensures that Carney has considerable room to keep interest rates low. Talk of higher interest rates should therefore ease. The Cdn jobs numbers are also out this Friday. The consensus is for a gain of 6.3 thousand jobs in Aug. This would be a big improvement over the loss of 30.4 thousand jobs in Jul. The unemployment rate is expected to remain at 7.3%.

Unlike the US don't expect Flaherty to unleash any Cdn version of QE3. He seems to be chiding corporations to spend (as is BofC governor Mark Carney) even as he seems to forget that huge cuts to corporate taxes have contributed considerably to Canada's fiscal deficit and added to corporation cash coffers.

The US Treasury bond futures have leaped back over the 13 week MA a technical resistance point. The recent highs were seen at 152^28 in last May. New highs are possible with major resistance up at 155^12. Support zones are seen at 149 and 145. Cdn bonds could test the recent highs at 140.44 (closed Friday at 138.13).

Precious Metals and Currencies

	Intermediate term trend	Short-term trend	week trend	intermediate strategy
Gold	up	up	up	Buy
Gold Bugs Index (HUI)	neutral	up	up	Stand aside (bottoming?)
Silver	up (weak)	up	up	Buy
TSX Gold Index	down	up	flat	Stand aside (bottoming?)
US$ Index	up (weak)	down	down	Long hold (caution)
CDN$	up	up	up	Long hold

Precious Metals

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Bernanke spoke and gold responded – sharply to the upside. On Friday gold broke out over its downtrend line from the highs of September 6, 2011 at $1,912. Silver fell just short of similar downtrend line from a high seen on April 28, 2011 at $49.52.

With gold breaking out of its downtrend line and from a potential double bottom seen on December 29, 2011 at $1,525 and May 16, 2012 at $1,528 the potential objectives are $2,060 as a minimum and possibly objectives up to $2,300. Once silver breaks out over $31.60 (possibly as early as this coming week) its objectives could be up to $55 with a further objective seen just above $69.

Gold jumped over $31 on Friday during daytime futures trading. After the futures market closed the cash market kept rising and was up over $36 on the day by the close around 5pm. Silver jumped a $1 during daytime futures trading and was up $1.30 on the day in the cash market. The higher cash market closings suggest that the futures market could open higher again on Tuesday. Volume was high.

Both gold and silver were down earlier in the week so the big jump on Friday was welcomed. On the week gold was up 0.9% while silver gained 2.5%. The gold stocks were also weak in the early part of the week and the big up day on Friday saved the week for them. Still the TSX Gold Index (TGD) finished off slightly losing a tiny 0.05%. Essentially the TGD was flat. The Gold Bugs Index (HUI) on the other hand managed a 0.6% gain.

The dramatic ending on Friday also helped change some of the trends. Gold's intermediate trend changed from neutral to up. Gold has given an official intermediate buy signal. Silver's intermediate trend also changed from neutral to up. Silver joins gold in giving off an intermediate buy signal. Officially the stocks are not quite there yet. The HUI's intermediate trend did change to neutral to from down. The TGD's intermediate trend remains down but it is quite weak.

The other metals did not fare quite as well. Despite the ongoing trouble at the Lonmin platinum mine in South Africa platinum was actually down 1.1% this past week. Palladium lost 3.6% while copper was off 1%. Copper continues to perform despite all of the gloom surrounding the global economy. With South Africa initially directing the murder charges at the striking miners rather than the police who actually shot the striking miners the situation at the Lonmin mine could deteriorate further and even spread. Many describe South Africa as tension filled where following the end of apartheid a black elite has essentially replaced the white elite and the vast majority of the population remains mired in poverty. Racism still dominates particularly from the white Afrikaners who make up roughly 60% of the white population.

Given the solid breakout for gold this past week further gains could come fast with more $20 plus days. If there is a note of caution is the sudden shift in the commercial COT that fell this past week to 29% from 31% and down from 34% two weeks ago. Short open interest jumped 31,000 contracts while long open interest was up 2,000 contracts. Overall though open interest rose 28,000 contracts which in some respects is positive despite the downward shift in the commercial COT. The big long open interest jump was seen with the large speculators where their COT rose to 84% from 81%. Hedge funds are a dominate player in the large speculator category.

It is possible the commercial COT could shift again this coming as these numbers were released before Friday's big jump. It is difficult to say how the commercials might react to Friday's jump that followed Bernanke's musings for more QE. The silver commercial COT was also down to 33% from 36% and 40% two weeks ago. The silver commercial COT fell not because of a big jump in short open interest but because of long covering as long open interest fell 5,000 contracts this past week. The fall in the commercial COT was as with gold offset by the large speculators where their COT rose to 78% from 71%.

The key support zone for gold is now at $1,650. Under that level and especially under $1,640 might change Friday's bullish scenario. For silver its points are at $30 and $29.70. Major support for gold is seen at $1,600 and for silver at $28.75.

Friday's big jump for gold and silver is encouraging. With Bernanke effectively declaring that QE3 is almost a necessity this should ensure that gold and silver prices should only move higher in the coming month. The objectives noted above could be hit sooner than later. Pullbacks should be shallow and used as buying opportunities. Always keep the downside risk points in mind.

To the upside there may be resistance at $1,700, $1,780 to $1,800 and $1,850. For silver once the market can break out over $31.60 resistance would be seen at $34, $37, $40 and $44.

Currencies

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

With Fed Chairman Bernanke suggesting that more QE could be on its way, the US$ Index fell 0.5% on the week. Earlier in the week the US$ Index hit just under 82 resistance (high was 81.84) but Bernanke spoiled the party and for the first time since May 2012 the US$ Index slipped under 81 (low 80.96). All currencies fared better against the US$ this past week with the Euro, the Swiss Franc, the Japanese Yen and the British Pound all gaining 0.5%. The Cdn$ fared slightly better gaining 0.6%.

The US$ Index finished the week on a major uptrend line this past week. A breakdown under 81 could see the US$ Index fall to potential objectives at 78 based off of the ascending wedge triangle that formed from January to August 2012. A breakdown under 78 would be more serious for the US$ Index as it could fall to test the lows near 74. Below 74 the US$ Index could breakdown further and test the major lows just under 71 seen in March 2008.

The US$ Index has fallen 1.8% in August. The Euro is up 2.2% while the Cdn$ gained 1.8% in August. The US$ Index was last at these levels in May 2012. The Euro has been improving as the Euro zone appears to be getting itself together in order to save and protect the Euro. On the other hand Bernanke's musings about move QE hurt the US$ this past week as QE is seen as an effective devaluation of the US$. By printing money the Fed increases the supply of money and the monetary base would normally grow faster. Sharp growth in the monetary base was seen in previous rounds of QE.

Also helping the Euro this past week was musings by the Chinese to purchase Euro bonds in order to help support the Euro. The Chinese are also considering further stimulus for their flagging economy. The ECB is also going to embark on a bond buying program to help the Euro even as the Germans continue to object. With all of the talk of further bond purchases the programs oddly help the Euro but have been detrimental to the US$.

The commercial COT for the Euro continues to slip a little. The current reading is currently at 70% down from 73% the previous week. There was a 12,000 contract jump in short open interest this past week while long open interest fell 8,000 contracts. Overall open interest fell 10,000 contracts.

The Cdn$ is at a significant resistance zone near 101.60. Above that level there is some resistance at 102 but above 102 the Cdn$ could rise to 105 and 106. However, with the commercial COT down at 22% that currently appears to be unlikely scenario. This is the 2nd consecutive week of a commercial COT at 22%. Those levels usually suggest that the Cdn$ could soon fall. This past week short open interest rose 13,000 contracts and open interest overall was up 13,000 contracts. The Cdn$ has support down to par (100) but a breakdown under 99 would be negative and could see the Cdn$ test down to 98 and an uptrend line that comes near 97.

The US$ Index appears to be on the verge of a more significant breakdown with longer term objectives remaining down to 78. A break this week of 81 again could set a decline to that level in motion. On the other hand regaining 82 would be positive. This is, however, not expected.

Energy

	Intermediate term trend	Short-term trend	week trend	intermediate strategy
Oil	neutral	up	up (small)	Stand aside
Natural Gas	neutral	down	up	Long (caution)
XOI Index	neutral	up	down (small)	Long
TSX Energy Index	neutral	up	down	Stand aside (bottoming?)

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Oil prices had their best gains since October of 2011 in August jumping roughly $8.40 or 9.6%. On the week oil prices were only up a small 0.3%. The Bernanke musings of potentially more QE helped push oil prices into the plus column after spending most of the week to the downside. Natural gas (NG) fared better gaining 2.4%. After enjoying some strong gains following a low in April NG was down this past month. NG may have found support at the $2.60/$2.70 zone.

Also helping oil prices (and NG as well) was Hurricane Isaac which shut in 95% of Gulf of Mexico oil input. That is, however, a temporary phenomenon and with the storm passing that should soon come back online. So that left Bernanke's musings for more QE to help push up oil prices at the end of the week.

Brent crude was at $114.57 so the spread between WTI and Brent was just above $18. The biggest threat to oil prices remains the potential for war in the Mid-East. While the Obama administration has maintained a measured response to the Iranian situation the Romney led Republicans have been beating war drums if elected. The rhetoric from both the Iranians and the Israelis remains high so a military response from Israel while illegal under international law could occur although it is not likely.

Oil stocks remain positive. The EIA reported this past week that crude supplies rose 3.8 million barrels leaving them 7.5 million barrels above last year's levels; gasoline supplies, however, fell 1.5 million barrels and are 7.4 million barrels below last year; and, distillates were up 0.9 million barrels but are 30 million barrels below last year.

There is little to read into the commercial COT that has remained relatively steady at 42% for some time. This past week short open interest jumped a sharp 45,000 contracts but long open interest was up 24,000 contracts.

Technically oil prices are holding the $95 support zone but if they are to go higher they need to break out over $98. Over $98 oil prices could rise to major resistance at $108. A major breakout over $108 could see objectives up to $146 based on the potential double bottom that formed at $75.67 in October 2011 and again at $77.70 in late June 2012. In theory a breakout over $98 could see potential objectives up to $132.

Support for oil is good at $95 but under that level a decline to $90 is possible.

Only a breakout of hostilities in the Mid-East or at least very heightened threats of hostilities could cause oil prices to jump to the $132 to $146 zone. Despite all of the rhetoric the odds still appear low but that is only assuming that all parties are rationale. The odds appear to be low that the Iranians would start something given their military inferiority. As well the Syrian conflict continues and that continues to threaten to spread. Again the Obama administration remains measured to the conflict but a Romney election could change that equation.

NG prices recovered this past week bouncing off of support at $2.60/$2.70. NG closed at $2.80 resistance. Above that level the previous highs at $3 to $3.10 would provide resistance. Above that level NG has the potential to rise to $3.25 and even $3.50.

The energy stocks bounced back this past week but not enough to take them into positive territory. The AMEX Oil & Gas Index (XOI) was down a small 0.1% and the intermediate trend slipped back to neutral from up as a result. The Toronto Energy Index (TEN) was off 2% and broke under a small support line. Support for the XOI is at 1,220 and down to 1,200. The XOI breaks out at 1,250 and could have objectives up to 1,300. Major support is at 1,180. The TEN has been weaker and could break down under 245. Major resistance is seen just under 270 but above that level the TEN would break out.

Thus far the up moves in oil and gas and in the energy stocks has been measured. All appear to be forming a good series of higher highs (the next higher high remains to be confirmed) and higher lows. Failure for oil to break above $98 or NG above $3.25 would be a negative. For the XOI the previous high was at 1,246 and for the TEN at 264. These are the levels to watch for a breakout on the upside and to confirm the uptrends that have been under way since the lows June 2012.

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. But 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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