HIGHLIGHTS OF THE WEEK
BY DAVID CHAPMAN

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The mystery of budget deficit versus increase in debt

The unworking working ^not

Stock Market weekly review

Bond Market weekly review

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THE GRYPHON REVIEW

HIGHLIGHTS

THE MYSTERY OF BUDGET DEFICIT VERSUS INCREASE IN DEBT

Much has been written about the explosion of debt since the 2008 financial crash. The definitive study remains the McKinsey Global Institute paper of February 2015 titled "Debt and (not much) deleveraging." The paper outlined that global debt had increased by $57 trillion since 2007, to $199 trillion. By global debt, it is referring to all global debt of governments, corporations, households and financial institutions. The largest category is government debt ($58 trillion), followed by corporate debt at $56 trillion. At the time, global debt represented 286% of global GDP.

Today that debt is estimated at between $230 and $250 trillion, which represents an incredible increase in just the past two years. But that is just an estimate, as admittedly hard data is difficult to find and put together. Probably one of the biggest increases in debt came in China where, according to the McKinsey study, their debt (primarily corporate) jumped by at least $20 trillion during that period, and possibly even more.

The massive amount is fine as long as the global economy is growing, and the debt can be serviced. But invariably what happens is that the global economy slows, currencies shift and debt that was manageable becomes unmanageable. The prime cause of financial panics and depressions for centuries has been debt collapse, and it is something that occurs regularly as leverage becomes unsustainable. One of the definitive books written on the subject was economists Carmen Reinhart and Kenneth Rogoff's This Time is Different (Princeton University, 2009). The book covers eight centuries of financial crises and debt collapse. Each time the experts declared, "This time is different." It never was, as the only thing that was different might be how they collapsed. But collapse they did. There are even serial defaulters (Greece, Argentina and others). Even Great Britain and France have defaulted.

So the question has been, and remains, what will happen this time. But happen it will. It is a question of when, not if. Since the world came off the gold standard in August 1971 (a default by the United States, although they would never admit that), there have been a series of financial crises, each one more intense than the previous one. The downturns only lasted a few quarters, or a year or so, but as the economy came out of the crisis, fewer and fewer people benefited from the turnaround. A few became incredibly wealthy, while the rest stagnated. Crises occurred in 1974-1975, 1980-1982, 1987-1992, 1998, 2000-2002, and the most recent was 2007-2009. Recovery from the most recent crisis has been feeble despite endless rounds of quantitative easing (QE) in the US, the EU and Japan and, to a lesser extent, in other Western economies. Interest rates have dropped to historically record lows with ZIRP and NIRP.

For the majority, wages have stagnated. In the US, the median income today is $30,489, while in 2000 the median income (inflation adjusted) was $28,704. That's median, meaning half make more and half make less. Adjusted for population growth, there are actually fewer people working today in the US than there were in 2000. More are considered not to be a part of the labour force, again on a population-adjusted basis. Roughly 15% of the US population is considered to be living in poverty and collecting food stamps. Half the population is receiving benefits of some sort, which includes primarily Medicaid and Social Security. Real median household income is lower today than it was in 1999 despite some improvement in the past year. The top 20% of the population has done well with the top 10% benefitting the most, while the bottom 80% of the population have stagnated or regressed in terms of income.

In 2008, total US debt was $50.7 trillion. That is all debt, including households, government, corporations and financial institutions. Since 2008, it has jumped 31% to $66.5 trillion. One of the biggest jumps has come in the US federal government debt that has increased from $10.8 trillion to $19.7 trillion, a jump of 82%. The huge increase is primarily because of the 2008 financial crisis that forced the federal government to come in and bail out the financial system that was, if not for the intervention, headed to a complete meltdown and an economic depression.

Much of the added debt was not for new programs and building infrastructure (which badly lags, not only in the US but in Canada as well). McKinsey has estimated that the world needs to spend $3.3 trillion annually just to keep up and maintain the infrastructure gap. Yet annually, the world falls quite short. Given current budget considerations many countries are reluctant to spend that kind of money, but no doubt will face higher bills later, as the infrastructure ages and needs replacement.

This reluctance to spend on what is needed is highlighted by the annual screaming that goes on surrounding government budgets and deficits. In the US, one the biggest areas that elicits "screaming" is the annual difference between the budget deficit and the growth in the debt. In the US there have been showdowns over the deficit ceiling, including one time when government was effectively shut down until the deficit ceiling was raised. Of course, government couldn't shut down completely and many things continued, including the ongoing wars that the US has been involved in since 2001 at a cost estimated conservatively at $6 trillion.

Since the 2008 financial crisis, US government debt has grown by $8.9 trillion, the largest increase ever seen for US government debt. Without it, the financial system may have collapsed. The US conservatively—or at least officially—spends $579 billion on defense, and is intertwined with the industrial/military complex in the US. The likelihood of the defense budget being cut to any extent was most likely minimal. Interestingly enough, the estimated budget deficit for fiscal 2016 is estimated at $590 billion. While debt has grown by $8.9 trillion since 2008, the sum of the annual budget deficits during that time totals $6 trillion, a differential of $2.9 trillion.

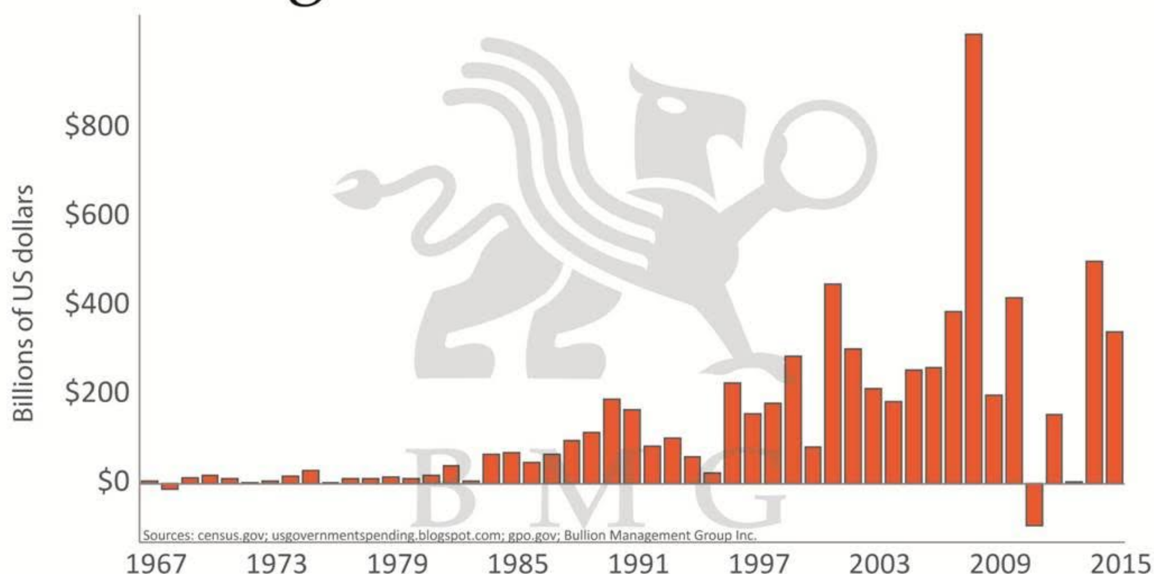
Many point to the difference and believe it shows the profligacy of the government in its spending. But it is not unusual, and increases in the debt constantly exceed the annual budget deficit. The budget deficit (or surplus) is merely the difference between revenues and expenses. Even individuals could see their debt rise faster than their budget deficit.

A simple example: A person's debt increases by $20,000, but their budget deficit was only $10,000. The other $10,000 was an investment that was made using borrowed money. For governments it is somewhat different, but the concept is the same.

For governments there are items called "off budget." Off-budget items are not included in the annual budget. The main off-budget items in the US are the Social Security Trust Fund, the US Postal Service, Fannie Mae and Freddie Mac. We are not going to go into details, but merely note them. There are also "supplemental appropriations." A lot of money spent on the wars in Iraq, Afghanistan and elsewhere were supplemental appropriations and would not show up on the budget. There are a lot of supplemental appropriations annually. As well, loans to other entities would increase the debt but would not show up in the budget.

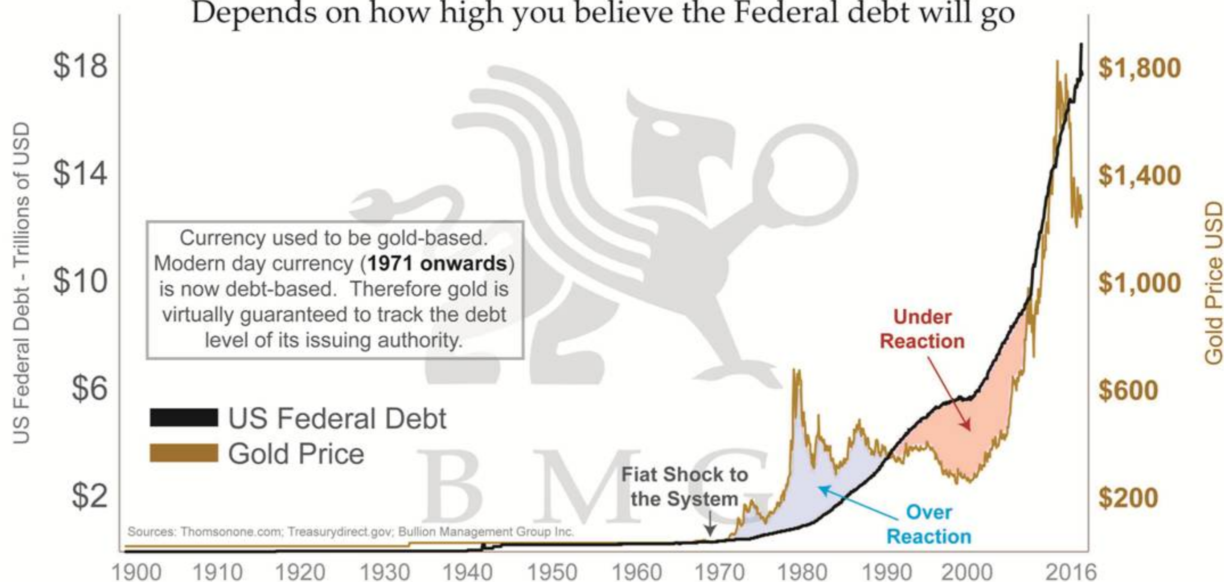
US federal spending in the latest fiscal year was estimated at $3.9 trillion. Six items (Medicare, Social Security, Defense, Income Security, Interest on the Debt and Pensions) accounted for $3.4 trillion of it, or 89%. Medicare and Social Security are two items considered to be mandatory spending. Mandatory spending accounts for 60% of the budget expenditures. Other things, like interest on the debt, are mandatory only because not to pay it would put the US in default. Defense is considered a discretionary expense, but the US spends more money on defense than any other nation in the world. Pensions and other items like income security are not necessarily mandatory, but essential.

Below are a couple of charts. The first shows the differential between the annual budget deficit (or surplus) and the increase in the debt. Note that even in years where they reported a budget surplus, the debt increased. Because of the reasons noted above, it is not unusual for debt growth to exceed the actual budget deficit. It IS unusual for the debt growth to be less than the budget deficit but it did occur in 2011, no doubt because of lags between deficits and actual borrowing.



Source: www.census.gov www.usgovernmentblogspot.com www.gpo.gov Bullion Management Group

The second chart shows the relationship between the growth of US debt and the rise in the price of gold. Note how gold has overreacted and underreacted versus the growth in the US debt. Gold overreacted during the 1970s and 1980s after the US took the world off the gold standard in August 1971. During the 1990s, and lasting well into the 2000s, gold was in an under reaction mode to the growth in the US debt. It caught up, and briefly was in an overreaction once again by the time of the top in 2011. Since then, gold has been in another period of under reaction with regard to the growth in US debt. It is expected at some point to once again catch up, and even go into another period of overreaction.



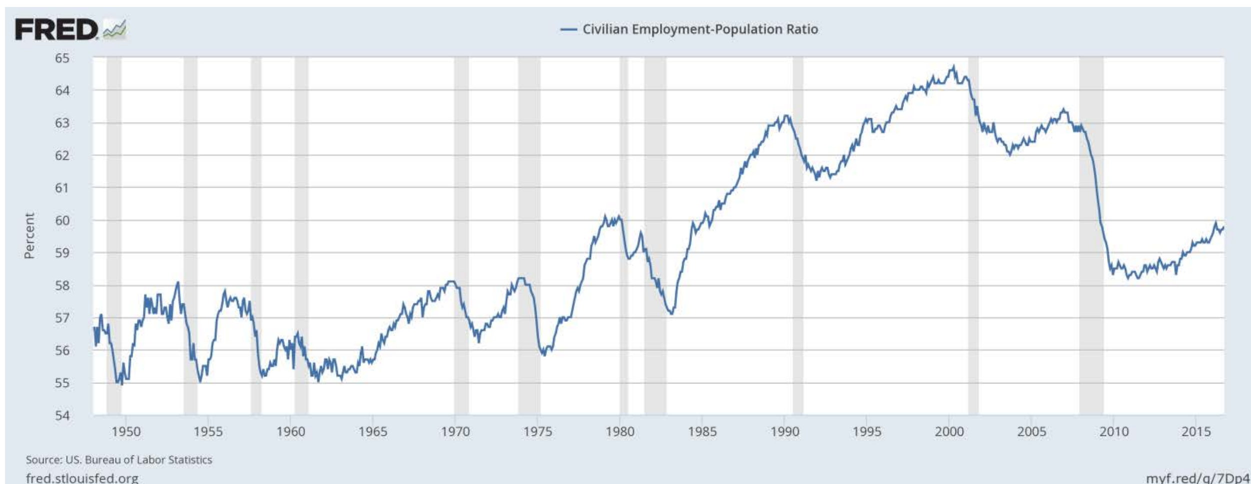
Source: www.thomson.com, www.treasurydirect.gov Bullion Management Group

THE UNWORKING WORKING ^NOT

We have often talked about how the US labour numbers, reported monthly, are distorted and do not tell the entire story. So it was interesting that we were directed to a story by political economist Nicholas Eberstadt titled "The Idle Army: America's Unworking Men" that was published in the Wall Street Journal on September 1, 2016 http://www.wsj.com/articles/the-idle-army-americas-unworking-men-1472769641. Nicolas Eberstadt is an economist with the American Enterprise Institute.

The article was largely ignored by the media although Margaret Wente, a columnist with the Globe and Mail, noted it in an article titled "America's hidden crisis: Men not at work" (Globe and Mail, October 15, 2016). Eberstadt's article noted that roughly seven million men between the ages of 25-54, the prime working years, were not only unemployed, they weren't even looking for work. They show up in the army of people noted as "not in the labour force." Today the Bureau of Labor Statistics (BLS) shows the number not in the labour force at 94.2 million. Retirees account for 50.1 million, and the disabled account for 10.7 million – total 60.8 million. That leaves 33.4 million, and not all of them would be stay-at-home homemakers or students. We can pick up another 1.9 million who are in prison (note: not all are men between the ages of 25-54). There are also 6.7 million felons in the US, many of whom will have difficulty finding or even holding a job. Again, not all are men between the ages of 25-54.

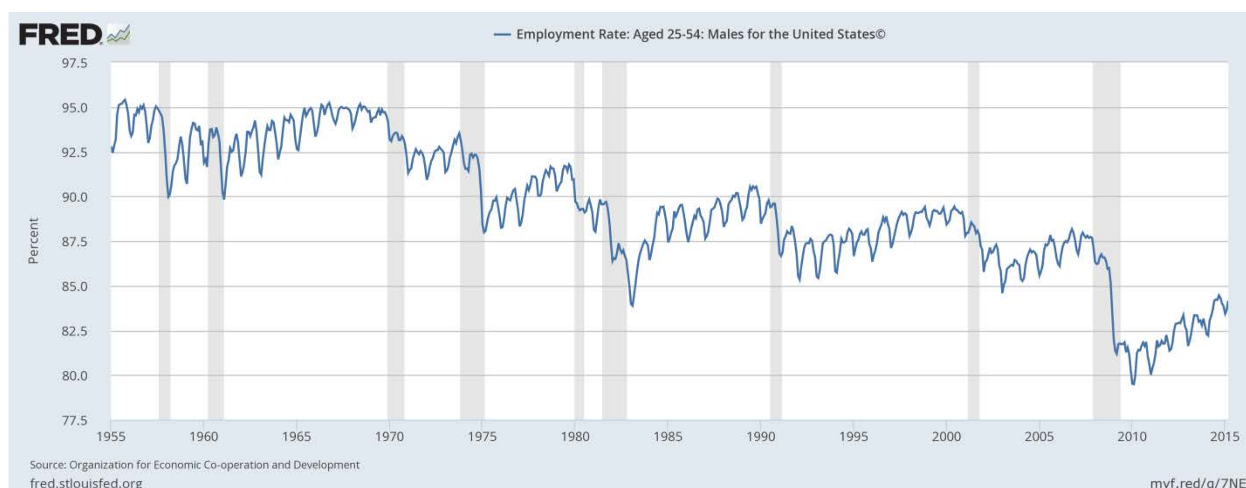
Most discussions about the US labour situation say that the US is at or near "full employment." We have noted in the past that this is far from the truth. The labour force participation rate is down at 62.9%. From 1988 through 2007, the labour force participation rate was consistently at 66% or higher. If the labour force participation rate were back at that level, the headline unemployment rate (U3) would be closer to 9.5% instead of 4.9%. Instead, at 62.9%, the labour force participation rate is back where it was in the late 1970s, a period where women were just starting to enter the labour force in larger numbers.



Source: www.stlouisfed.org

The argument is that the US is near full employment. The above chart says otherwise. That is the civilian employment population ratio that today sits at 59.8%. It was at that level back in 1979. For years, from 1987 to 2008, the civilian employment population ratio was north of 61%. That meant that a lot more people were working. It could be worse; it could be 1950s and 1960s levels. But back then it was largely men that worked. Today that is not the case. Women actually dominate the labour force.

As for men, it is not a good situation. Below is a chart of the employment rate for men ages 25-54. The current level is at 84.1%. In 1940, before the US entered WW2, the employment rate for men ages 25-54 was at 86.4%. Throughout the 1950s and 1960s, and even into the 1970s, the rate was never below 90%. But the major recessions of 1974-1975, 1980-1982, 1989-1992, 2000-2002 and especially the 2007-2009 financial collapse has decimated males in the prime of their working life. Maybe not surprisingly, the same situation is happening in Canada as well.



Source: www.stlouisfed.org

So who is this army of unemployed men? Well, as the Eberstadt article notes, they tend to be less educated, never married, native born and African American. Not only are they unemployed with little or no hope of anything of any consequence ever in their working lives, it has resulted in broken families, increased drug use, rising alcohol use and increased suicides. Women are also suffering, as their drug use, suicides and excessive drinking has also gone up. Other statistics show that marriage rates for less-educated men have fallen sharply, and the percentage of babies born to unmarried women has leaped. Family and community networks are under considerable stress.

Full employment? You have to wonder what the FOMC and many economists are talking about.

KEY ECONOMIC INDICATORS

USA	CURRENT	YEAR AGO	CANADA	CURRENT	YEAR AGO
US YIELDS			**CANADA YIELDS**		
Fed Rate	0.25%-0.50%	0%-0.25%	BofC Rate	0.50%	0.75%
3-month T-Bill	0.27%	0.01-%	3-month T-Bill	0.52%	0.43%
Real Interest Rate (3 mth T-Bill-% chg. CPI)	(0.75%)	(0.18%)	Real Interest Rate (3 mth T-Bill-% chg. CPI)	(0.62%)	(0.59%)
GDP GROWTH			**GDP GROWTH**		
GDP	$18.5 trillion	$18.2 trillion	GDP	$2.0 trillion	$2.0 trillion
USA (official)	1.2%	3.0%	Canada (official)	0.9%	1.0%
USA (Shadow Stats)	(2.0%)	(1.2%)			
UNEMPLOYMENT			**UNEMPLOYMENT**		
USA (U3)	4.9%	5.1%	Canada (official)	7.0%	7.1%
USA (U6)	9.7%	10.3%	Canada (R8)	10.3%	10.1%
USA (Shadow Stats)	23.0%	22.9%			
US Labour Force	159.6 million	157.0 million	Can Labour Force	19.4 million	19.3 million
USA Part Time Workers %	17.9%	17.5%	Can Part Time Workers %	19.1%	18.6%
USA Labour Force Participation Rate	62.8%	62.6%	Can Labour Force Participation Rate	65.5%	65.9%
Not in Labour Force	94.4 million	93.7 million	Not in Labour Force	10.1 million	9.9 million
DEBT & MONEY (US$)			**DEBT & MONEY (CDN$)**		
US National Debt (Federal only)	$19.5 trillion	$18.2 trillion	Canada National Debt (Federal only)	$1.05 trillion	$1.05 trillion
US Total Debt (Federal, State, Business & Household)	$66.3 trillion	$61.8 trillion	Canada Total Debt (Federal, Provincial Business & Household)	$5.2 trillion	
Debt per family	$812,521				
Savings per family	$10,138				
Unfunded Liabilities	$103.6 trillion				
Liability per taxpayer	$865,756				
US M2 Money Supply	$13.0 trillion	$12.0 trillion	Canada M2 Money Supply	$1.4 trillion	$1.3 trillion
US Monetary Base	$3.8 trillion	$3.9 trillion			
US Debt to GDP	105.4%	102.8%	Government Debt to GDP (All)	91.5%	86.2%
US Total Debt to GDP	358.3%	351.1%	Canada Total Debt to GDP	345.5%	328.1%
US Budget Deficit	Est. $590 billion		Canada Budget Deficit	Est. $29.5 billion	
Budget Deficit as a % GDP	3.2%		Budget Deficit as a % of GDP	1.7%	
INFLATION			**INFLATION**		
US Inflation (official)	1.1%	0.2%	Cdn Inflation	1.3%	1.0%
Shadow Stats Inflation	8.7%	7.8%			
OTHER			**OTHER**		
Baltic Dry Index	912	889			
US Living in Poverty	43.3 million	45.3 million			
Food Stamp Recipients	42.9 million				
US Recession Probabilities	22.5%	13.3%			

Source: Bullion Management Group, www.research.stlouisfed.org, www.bankofcanada.ca, www.shadowstats.com, www.statcan.gc.ca

WEEKLY MARKET REVIEW

STOCK MARKETS

Source: www.stockcharts.com

The US stock market continues to meander in a neutral fashion. Since the mini-drop back on September 9, 2016, the Dow Jones Industrials (DJI) has traded narrowly, largely between 18,000 to the downside (was 17,960) and 18,360 (high has been 18,450). The DJI has formed what appears to be a large ascending wedge triangle. The breakdown zone remains roughly the same at around 18,000, with the 200-day MA down at 17,665. Most indicators are in neutral mode, or mildly negative at best.

Volume has been falling even as the market rose following the brief Brexit scare seen back in June 2016. The Case Shiller P/E ratio continues at a high level (currently 26.65) often associated with market tops. Since the late 1800s, the Case Shiller P/E has only exceeded a level of 20 on six significant occasions. The first time was in the very late 1800s/early 1900s, prior to market panics in 1903, 1907 and during WW1 and the inflationary collapse in 1921. The second time was following the stock market bubble top of 1929.

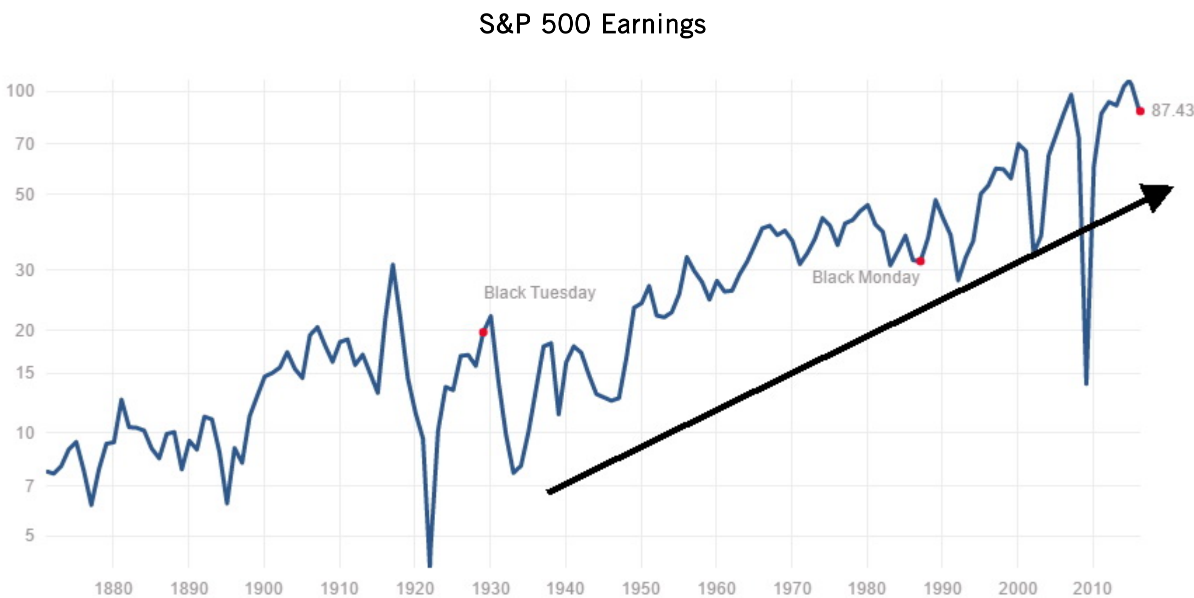
The third occasion came with the stock market top in 1937, while the fourth occasion occurred in the mid-1960s, again at the time of an important stock market top prior to the collapse into 1974-1975. The fifth time, and the record to date, occurred at the stock market top in 1999/2000, when it reached an all-time high of 44. What followed was the 2000-2002 tech wreck. The sixth time occurred at the stock market top in 2007, when the Case Shiller P/E was at current levels. The long-term mean is 16.70, with the median just over 16.

So does this mean the markets are about to fall? Well, no, but it does suggest that buying at current levels may not be a wise idea, given historical observations.

Case Shiller P/E Ratio

Source: www.multpl.com

Stock market bulls have placed a lot of faith in continued growth of earnings. For sure earnings have continually been on an upward swing since the Great Depression, with periodic interruptions. Since the Great Depression, the most vicious interruption was the financial collapse of 2007-2009, where earnings plunged the most since the 1930s. The biggest plunge actually occurred into the early 1920s, following WW1 and a mini-depression and panic into 1920-1921. The current 12-month EPS is at 87.43, while the peak came in September 2014 at a level of 107.22. Since then earnings have been on a steady downward path, but admittedly have not broken down completely, as was seen in 2008. However, the current decline in earnings bears watching. The belief in the market is that any decline is temporary, and one should await the next quarterly earnings report. Besides, there is little alternative to owning stocks.



Source: www.multpl.com

With an overvalued stock market on the basis of P/E and earnings in a slow decline, the stock market is clinging to the belief that the US$ won't rise too much (which would be negative for stocks), and that interest rates will remain relatively low. Key to that belief is that the Fed does not hike interest rates. It was the unexpected hike in interest rates in December 2015 that spooked the markets, resulting in the 14-16% decline seen into January/February 2016. Once the market believed that the Fed might not hike any further, the stock market recovered and ran to new highs, with the only interruption occurring at the time of the Brexit in June 2016.

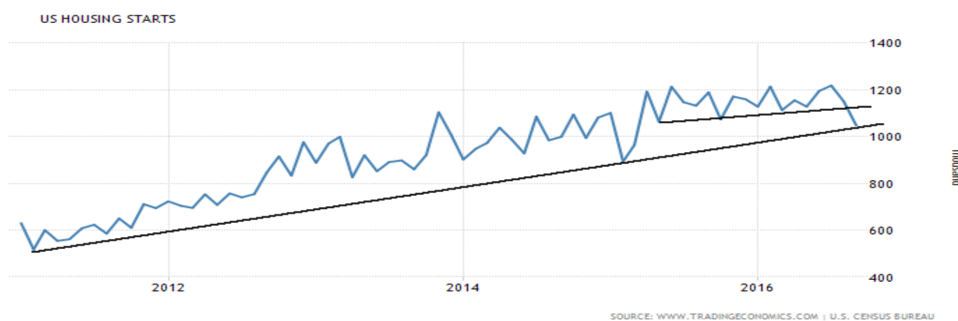
Stock markets in the US managed small gains this past week. The S&P 500 was up 0.2%, the DJI was up 0.3%, the Dow Jones Transportations (DJT) was up 0.1%, and the NASDAQ was up 0.1%. The Russell 2000 fell 0.4%. Canadian markets fared better, with the S&P TSX Composite gaining 1.5%, while the TSX Venture Exchange (CDNX) may be starting a new up move; it jumped 2.5%. Overseas, the Shanghai Stock Exchange (China – SSEC) gained 0.9%, the Tokyo Nikkei Dow (Japan) gained 0.9%, the German DAX gained 1.2% and the Paris CAC 40 gained 1.5%. The London FTSE was the loser, off a miniscule 0.03%, which meant it was essentially flat.

With crude oil prices continuing to rise (up another 3.3% this past week), that is also helping the US stock markets as the energy stocks continue their recent rise. This is raising hope that energy companies will be reporting much stronger earnings in the next quarter, and that in turn is helping to keep the US stock market up. We are not sure whether the recent rise in bond yields might have a negative impact on the coming earnings season. If the 10-year US Treasury note were to stabilize, that could encourage the stock market to rise further.

One has to wonder when economic indicators continue to be weak or even contracting. For the thirteenth consecutive month, Industrial Production (IP) fell. Year-over-year, IP is down 1%. It remains odd that a key indicator such as IP can be negative for a year now, yet the economy is still considered to be growing and the labour market supposedly expanding.

Source: www.tradingeconomics.com

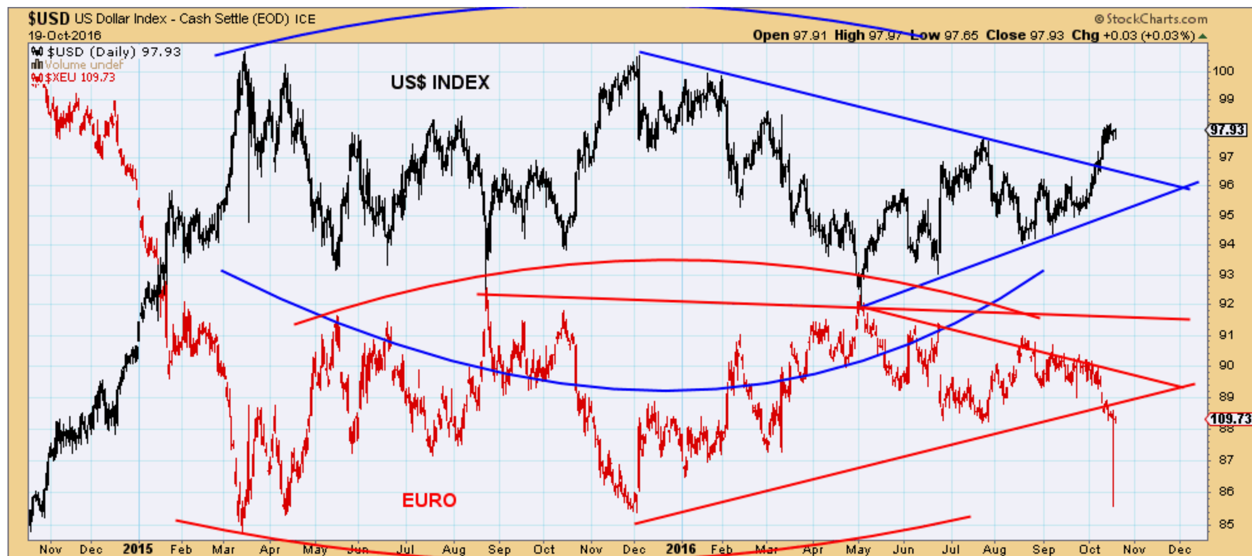
The housing market appears to be rolling over. Housing starts in the US tumbled 9% to a seasonally adjusted annualized rate of 1,047 thousand in September from August 2016, below market expectations of 1,175 thousand. It is the lowest figure since March 2015, due to a fall in construction of multifamily homes. In contrast, building permits rose 6.3% to 1,225 thousand, beating expectations of 1,165 thousand. Housing Starts in the US averaged 1,439.56 thousand from 1959 until 2016, reaching an all-time high of 2,494 thousand in January 1972 and a record low of 478 thousand in April 2009. Falling housing starts has potential negative implications for employment in the construction industry.



Source: www.tradingeconomics.com

The breakdown zone for the DJI remains at 18,000. A solid close under that level would most likely signal lower prices ahead. For the S&P 500, the breakdown zone comes at 2,100. It is important to note where the 200-day MA is for both. For the DJI, it is currently at 17,665 and for the S&P 500, it is at 2,070. Those levels would provide initial support. Only a breakout over 18,400 for the DJI and 2,175 for the S&P 500 could change the negative scenario. Signs continue to point to a decline ahead rather than a rise. What it needs is a trigger.

CURRENCIES



Source: www.stockcharts.com

After months of coiling and keeping us in suspense as to which direction the US$ Index might break, it appears to have chosen the upside. Conversely, the euro appears to now be breaking down, losing 1.7% on the week. The euro wasn't the only one suffering this past week against the US$ as the pound was the weakest again, losing 4.2%, while the Japanese yen was off 0.6% and the Canadian $ dropped 0.7%, despite oil prices continuing to climb.

With the US$ Index breaking out to the upside, our focus now shifts to the March and December 2015 highs just above 100. A breakout over that level should target, at minimum, a move to 106-108. If this is correct, this up move should be the final up wave for the US$ Index in a bull market that got underway back in 2008. The major part of the move, however, did not get underway until May 2014. With the FOMC minutes that came out on October 12, 2016, the focus continues to be on a potential rate hike for December. That has helped push the US$ Index higher.

For the euro, its focus shifts to the lows of March and December 2015, just above 105. A breakdown under that level could target down to 96-98. Given all of the problems with Deutsche Bank, a decline to those levels does not seem so farfetched.

We have noted in the past what appears to be a tight relationship between the Canadian $ and WTI oil. We have also previously noted what appears to be a large head-and-shoulders bottom pattern that had been forming on both WTI Oil and the Canadian $. WTI Oil now appears to have broken out once it cleared and closed over $49.25. WTI Oil hit a high this past week at $51.60 and has closed so far at $50.18. Potential targets are up to $85.80. With the potential for things to heat up in the Middle East, that could be the catalyst for higher prices. Thus far, the catalyst has been the possibility of supply cuts by the Saudis and Russia.

MARKETS AND TRENDS

			Percentage Gains		Trends		
Stock Market Indexes	Close Dec 31	Close Oct 19	Week	YTD	Daily (Term)	Weekly (Intermediate)	Monthly (Long Term)
S&P 500	2,043.94	2,144.29	0.2	4.9	down	up	up (topping)
Dow Jones Industrials	17,425.03	18,202.62	0.3	4.5	down (weak)	up	up (topping)
Dow Jones Transports	7508.71	8,064.72	0.1	7.4	up	up	neutral
NASDAQ	5007.41	5,246.41	0.1	4.8	neutral	up	up (topping)
S&P/TSX Composite	13,009.95	14,840.49	1.5	14.1	up	up	up
S&P/TSX Venture (CDNX)	525.59	789.40	2.5	50.2	down (weak)	up	neutral (bottoming)
Russell 2000	1,135.89	1,222.64	(0.4)	7.6	down	up	up
MSCI World Index	1,693.06	1,686.46	1.3	(0.4)	down (weak)	up	down
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	111.18	217.08	8.2	95.3	down (weak)	neutral	up
TSX Gold Index (TGD)	129.30	222.3	6.3	71.9	down	neutral	up
Fixed Income Yields							
U.S. 10-Year Treasury	2.27	1.76	(1.7)	(22.5)			
Cdn. 10-Year Bond	1.39	1.20	flat	(13.7)			
Currencies							
US$ Index	98.75	97.93	flat	(0.8)	up	up	up
Canadian $	0.7233	0.7620	0.9	5.4	neutral	neutral	down
Euro	108.59	109.74	(0.4)	1.1	down	down	down
British Pound	147.37	122.80	0.6	(16.6)	down	down	down
Japanese Yen	83.12	96.68	0.8	16.3	down	up	up
Precious Metals							
Gold	1,060.50	1,269.90	1.3	19.8	down	neutral	up (weak)
Silver	13.82	17.66	0.9	27.8	down	neutral	neutral
Platinum	892.90	943.50	0.2	5.7	down	down	down
Commodities							
Palladium	562.00	635.50	(2.1)	13.1	down	up	down (weak)
Copper	2.135	2.103	(3.4)	(1.5)	down	down (weak)	down
Energy							
WTI Oil	37.07	51.82	3.3	39.8	up	up	down (weak)
Natural Gas	2.35	3.17	(1.3)	34.9	up	up	neutral

Source: Bullion Management Group

GOLD AND PRECIOUS METALS

GOLD INDICATORS

	CURRENT (Oct 19, 2016)	YEAR AGO
Gold in US$	$1,269.90	$1,175.80
Gold in Cdn$	$1,666.54	$1,526.62
Gold in Euros	€1,157.00	€1,036.00
Gold in British Pounds	£1034.00	£761.00
Gold in Japanese Yen	¥131,340	¥140,900
Dow Jones/Gold ratio	14.33	14.64
Gold Volatility Index	14.59	16.79
Gold/Oil ratio	24.51	25.61
Gold/HUI ratio	5.85	8.75
Gold/Silver ratio	71.90	73.95
Gold Sentiment Index	126.45	80.0
PERFORMANCE	**2000 to Present**	**Year to Date**
Dow Jones Industrials (DJI)	58.3%	3.4%
S&P 500	45.9%	3.9%
Gold	338.5%	19.8%
Silver	223.9%	27.3%
WTI Oil	102.4%	40.7%
DJI REITS	195.6%	5.3%

Source: Bullion Management Group

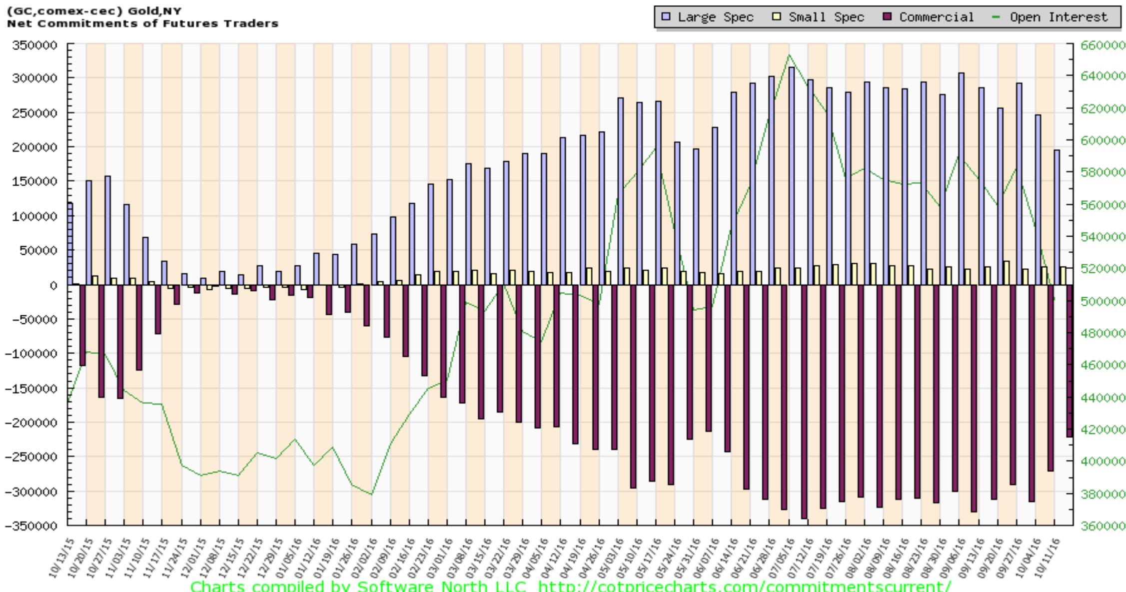
Since making a low on October 7, 2016 at $1,243, gold has jumped almost $30, or 2.1%. This has come against the background of a rising US$ Index, which is counter to how gold normally performs against the US$. Silver is also up about 55 cents, or 3.2%. The strong performers have been the gold stocks, as the Gold Bugs Index (HUI) has jumped 11.5% off its low, and the TSX Gold Index (TGD) is up 9.7%.

While the up move is encouraging, a reminder that gold, silver and the gold stocks are not out of the woods yet. Platinum has performed poorly, gaining 1.6% off its recent low, while palladium has barely budged off its low. Copper prices have regressed; however, they may be more a reflection of a potentially weakening economy rather than a sign that gold prices are about to fall once again.

Gold fell to our original target zone of $1,240/$1,260 once it broke under $1,300. As long as $1,240 holds, then the odds suggest that gold should regain back above $1,280. Key resistance would be seen from $1,300 to $1,315.

The recent commitment of traders report (COT) showed that the commercials continue to cover their short positions. The October 14, 2016 commercial COT showed a jump to 25% from 23%. Short open interest fell by roughly 50,000 contracts, while long open interest rose by about 1,000 contracts. This is not a definitive bottom, but it is encouraging. The large speculators COT (hedge funds, managed futures etc.) saw short open interest jump about 10,000 contracts, while long open interest fell by a sharp 41,000 contracts. The large speculators COT fell to 76% from 80%. The commercial COT and the large speculators COT tend to move counter to each other, with the commercials being the lead.

Source: www.goldchartsrus.com



	Large Speculators				Commercial				Small Speculators			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
09/13/16	378	351,776	66,363	84%	112	116,841	428,212	21%	53893	27,935	66%	575,002
09/20/16	374	326,326	70,147	82%	115	120,314	410,929	23%	61156	26,720	70%	558,791
09/27/16	361	358,972	67,068	84%	113	123,156	437,750	22%	53108	30,418	64%	583,161
10/04/16	371	324,136	78,628	80%	104	111,864	383,106	23%	54958	29,224	65%	544,824
10/11/16	367	283,386	88,167	76%	103	112,362	333,561	25%	53697	27,717	66%	500,328

Source: www.cotpricecharts.com

While gold briefly traded under its 200-day MA, silver prices managed to only test the 200-day MA. Silver has resistance at $18 but above that level, a run to $19 is probable. A breakout over $19 would suggest that silver's low is in, and silver could then start a move back towards the June highs of $21.23. A breakdown under $17 would be at least short-term negative, and suggest a decline towards $16.50.

Like gold, silver's sentiment was quite low, suggestive of a bottom. This does not rule out a retest of the lows until silver breaks out over $18.

Key for the gold stock indices is that they fill gaps that were left on the charts during the recent decline. The HUI left a gap between 218 and 224, while the TGD left a gap between 226.30 and 229.50. If the HUI and the TGD fill those gaps, then the odds favour higher prices ahead. A failure at the gaps could suggest a retest of the lows, or even new lows. Both indices fell to just below their 200-day MA, a level often tested during bull (and bear) markets. If, as we suspect, we are in a new bull up-move, then the test of the 200-day MA should be positive. The TGD breaks out above 245, while the HUI breaks out above 240. Short-term indicators are turning up.

We have read a number of Elliott wave analyses reports recently, and can say that all have been positive for gold going forward, even though all have different conclusions as to where we are. Our preference here is to point out key support/resistance levels. Once gold breaks out over $1,300 /$1,315, it would confirm a low and suggest another attempt at $1,380/$1,400. If the Elliott wave counts are correct, then gold in the next up move should eventually regain $1,500 or higher. The fundamental signs are all positive despite the recent correction, which we viewed as healthy for the evolving bull.

David has worked in the financial industry for over 40 years. He spent most of his career on the trading desks of a few large Canadian financial institutions where he was a manager and dealer in money markets, foreign exchange and financial derivative portfolios. These included Export Development Corporation (EDC), Canadian Imperial Bank of Commerce (CIBC) and Confederation Treasury Services Ltd. (CTSL), the treasury arm of Confederation Life Insurance Co. (CLIC). David moved into the brokerage industry in 1995, where he applied his experience in financial markets and technical analysis to writing market commentaries and articles as well as acting as an investment advisor. David spent several years writing columns for Investor's Digest of Canada, as well as institutional and retail clients, and appearing as a guest market analyst on the Business News Network (BNN). David is a Fellow of the Canadian Securities Institute (FCSI) and a Canadian Investment Manager (CIM).

HIGHLIGHTS OF THE WEEK
BY DAVID CHAPMAN

OCTOBER 21, 2016
TORONTO, ONTARIO

The mystery of budget deficit versus increase in debt

The unworking working ^not

Stock Market weekly review

Bond Market weekly review

Currencies weekly review

Gold and Precious Metals weekly review

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THE GRYPHON REVIEW

HIGHLIGHTS

GLOSSARY

TRENDS

DAILY – Short-term trend
WEEKLY – Intermediate-term trend
MONTHLY – Long-term secular trend
UP – The trend is up.
DOWN – The trend is down
NEUTRAL – Indicators are mostly neutral. A trend change might be in the offing.
WEAK – The trend is still up or down but it is weakening. It is also a sign that the trend might change.
TOPPING – Indicators are suggesting that, while the trend remains up, there are considerable signs that suggest that the market is topping.
BOTTOMING – Indicators suggest that, while the trend is down, there are considerable signs that the market is bottoming.

* - Indicates that the trend has changed.

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