T H E G R Y P H O N R E V I E W

A G L O B A L M A R K E T A N A L Y S I S

N O V E M B E R 4 , 2 0 1 6

HIGHLIGHTS OF THE WEEK
BY DAVID CHAPMAN

NOVEMBER 4, 2016
TORONTO, ONTARIO

The American election nightmare

A glimmer of hope?

The November FOMC

Stock Market weekly review

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Gold and Precious Metals weekly

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THE GRYPHON REVIEW

HIGHLIGHTS

THE AMERICAN ELECTION NIGHTMARE

It's Halloween and things are getting downright scary. November 8, 2016 is the US election. It is shaping up to be the most contentious US election in history, with two candidates that are equally loathsome. Both are seen as unfavourable by over 50% of the public. Neither side will accept the other side's candidate.

There is extreme bitterness and acrimony between the two sides. A hung election would be a logistical nightmare as well as an event that could, in a worst-case scenario, rip the country apart. No matter which side wins, one side will cry 'fraud' and 'rigged,' and the other side will cry 'Russia' and 'hacked.' The level of polarization in the US is at its highest level since the Civil War of 1860-1864. The word 'compromise' seems to have disappeared from the dictionary.

So what will happen on November 9, 2016 is anybody's guess. But a few things are for sure. The stock market will continue to trade; banks will open; parks will open; offices will open; there will be traffic jams in all major cities; the wars will continue; and the sun will rise and later on, set.

We thought that in celebration of the upcoming election, the "Gryphon Review" would put together a little presidential cycle table outlining how things fared under previous presidents. We went back to the election of Harry Truman (D) 1949-1952, and took a look at debt growth, GDP growth, the stock market (Dow Jones Industrials (DJI)), gold, the US$ and the range of Fed Funds. Out of it, we hope to see some trends or conclusions for what may happen during the upcoming presidency of either Hillary Clinton or Donald Trump, assuming of course that all hell doesn't break loose on November 9, 2016.

The following observations were easiest:

Highest % increase in debt: Ronald Reagan (R) 1981-1984 – 72.1%

Highest $ increase in debt: Barack Obama (D) 2009-2012 - $6,064.8 billion

Smallest % increase in debt: Harry Truman (D) 1949-1952 – 2.8%

Highest % increase in GDP: Jimmy Carter (D) 1977-1980 – 56.2%

Highest $ increase in GDP: George W. Bush (R) 2005-2008 - $2,663.8 billion

Smallest % increase in GDP: Barack Obama (D) 2009-2012 – 8.6%

Highest % increase in DJI: Bill Clinton (D) 1993-1996 – 95.3%

Smallest % increase in DJI: George W. Bush (R) 2005-2008 – Loss (18.6%)

Highest % increase in gold: Jimmy Carter (D) 1977-1980 – 337%

Smallest % increase in gold: Ronald Reagan (R) 1981-1984 – Loss (47.9%)

Highest % increase in US$: Ronald Reagan (R) 1981-1984 – 36.2%

Smallest % increase in US$: Ronald Reagan (R) 1985-1988 – Loss (27.2%)

Highest effective Fed Funds rate: Ronald Reagan (R) 1981-1984 – 19.1%

Lowest effective Fed Funds rate: Barack Obama (D) 2009-2012, 2013-2016 – 0.07%

The Presidential Cycle

President	Debt $ Billions	% Debt Growth	GDP $ Billions	% GDP Growth	DJI % Gain (Loss)	Gold % Gain (Loss) 1.	US$ % Gain (Loss) 2.	Effective Fed Funds Range 3.
Truman (D) 1949	$259.1	2.8%	$357.5	36.2%	64.6%	% 9.2%		1.50%-1.75%
Eisenhower (R) 1953	$272.7	5.2%	$439.0	22.8%	71.1%	1.2%		0.80%-2.94%
Eisenhower (R) 1957	$290.5	6.5%	$535.1	21.9%	23.3%	0.8%		0.63%-3.98%
Kennedy (D) 1961 *	$316.1	8.8%	$662.9	23.9%	41.9%	Flat		1.17%-3.85%
Johnson (D) 1965	$368.7	16.6%	$899.3	35.7%	8.0%	10.2%		3.79%-6.07%
Nixon (R) 1969	$435.9	18.2%	$1,219.5	35.6%	8.1%	65.2%		3.50%-9.19%
Nixon (R) 1973 **	$629.0	44.3%	$1,790.3	46.8%	(1.5%)	111.7%	(12.2%)	4.65%-12.92%
Carter (D) 1977	$909.0	44.5%	$2,796.8	56.2%	(4.0%)	337.0%	(4.0%)	4.61%-17.19%
Reagan (R) 1981	$1,564.6	72.1%	$3,952.8	41.3%	25.7%	(47.9%)	36.2%	8.77%-19.10%
Reagan (R) 1985	$2,601.1	66.2%	$5,155.1	30.4%	79.0%	33.2%	(27.2%)	5.89%-8.76%
Bush 1 (R) 1989	$4,001.8	53.9%	$6,434.7	24.8%	52.4%	(18.8%)	0.2%	3.09%-9.85%
Clinton (D) 1993	$5,181.5	29.5%	$7,978.3	24.0%	95.3%	10.8%	(0.1%)	2.96%-6.05%
Clinton (D) 1997	$5,628.7	8.6%	$10,148.2	27.2%	67.3%	(26.3%)	20.3%	4.68%-6.54%
Bush 2 (R) 2001	$7,354.7	30.7%	$12,088.6	19.1%	Flat	60.8%	(11.1%)	1.00%-5.98%
Bush 2 (R) 2005	$9,986.1	35.8%	$14,752.4	22.0%	(18.6%)	102.0%	(2.1%)	0.16%-5.25%
Obama (D) 2009	$16,050.9	60.7%	$16,027.2	8.6%	49.3%	89.5%	(10.6%)	0.07%-0.19%
Obama (D) 2013	$19,804.5	23.4%	$18,683.3	16.6%	38.6% +	(23.8%) +	17.4% +	0.07%-0.40%

*** Died in Office Replaced by Johnson ** Resigned Replaced by Ford + To date**

Source: [Bullion Management Group]

Note 1: Gold prices were pegged at $35/ounce under Bretton Woods until August 1971. Prior to August 1971, gold prices were under pressure due to the high volume of US dollars floating around the world. There were more US dollars than there was gold, and there was pressure for gold prices to rise. Gold prices were suppressed for a period under the London Gold Pool that existed from 1961 to 1968. A two-tier system existed from 1968 to 1971 until it, too, collapsed.

Note 2: The US$ was fixed to gold under Bretton Woods. Other currencies were fixed to the US$. The Smithsonian Agreement of December 1971 effectively ended the fixed exchange system. By February 1973, the world had switched to a floating rate currency exchange system, and Bretton Woods was dead.

Note 3: Prior to 1954, there was no effective Fed Funds rate, as they used the Discount Rate.

Barack Obama (D) 2009-2012 was the lucky president to come to power just after the financial crash of 2008 and the Great Recession of 2007-2009, when the US bailed out the financial system to soften the Great Recession and prevent it from potentially turning into another Great Depression. The conditions that led up to the financial crash and Great Recession were set under the previous President George W. Bush (R) 2001-2004, 2005-2008.

Trying to draw conclusions from the table is somewhat more subjective. On balance, debt increased, percentage wise, more under Republican presidents than under Democrat presidents. The DJI and gold both had their best gains under Democrat presidents. GDP growth was about equal under both Democrat and Republican presidents. The US$ tends to rise during Democrat presidencies and fall during Republican presidencies. Drawing a conclusion from the data is difficult, but it appears to say that if you want debt growth to be smaller, gold and the DJI to rise and the US$ to rise, hope for a Democrat presidency on November 8, 2016.

On the other hand, with both candidates equally loathed and polarization entrenched, maybe the best course is just to hide under the bed. It’s the political year from hell. Freddy Krueger is out there to steal your dreams. Nightmare on Elm Street? No, more like Nightmare in America.

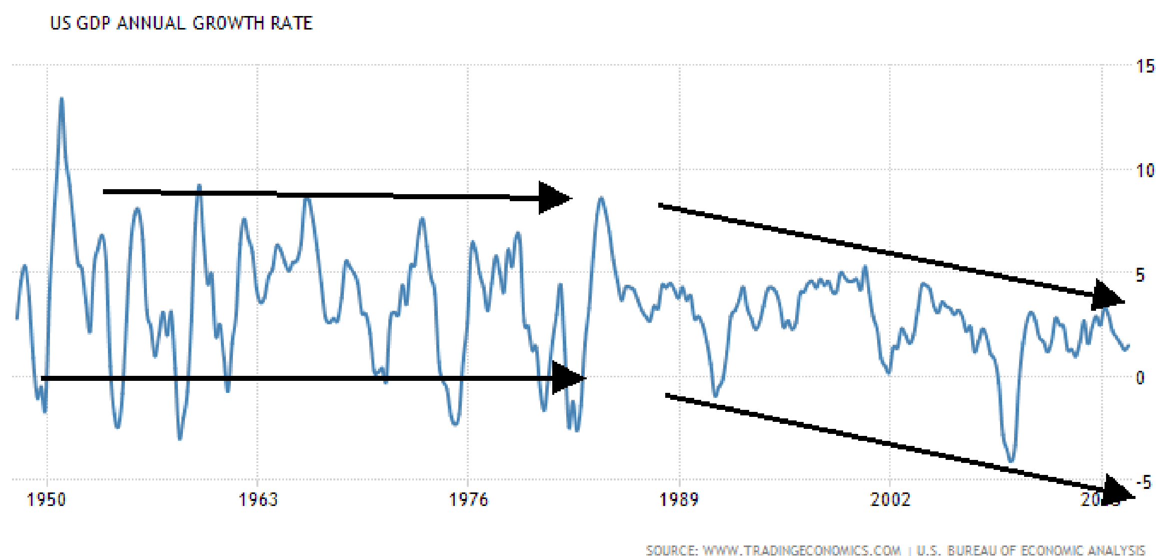
A GLIMMER OF HOPE?

Last week's release of Q3 GDP gave the economic bulls a glimmer of hope. It came in at +2.9%, far better than the expected +2.5%, and better than the final reported Q2 GDP of +1.4%. Helping things along was the report that personal spending for September 2016 was up 0.5%, giving hope that the consumer was alive and well. The market had expected a gain of 0.5%. Personal income was up 0.3% and was slightly below the expected gain of 0.4%. The core PCE price index, which the Fed loves to follow, came in up 0.1% for September and is now up 1.7% over the past year, not far from the Fed's goal of 2%.

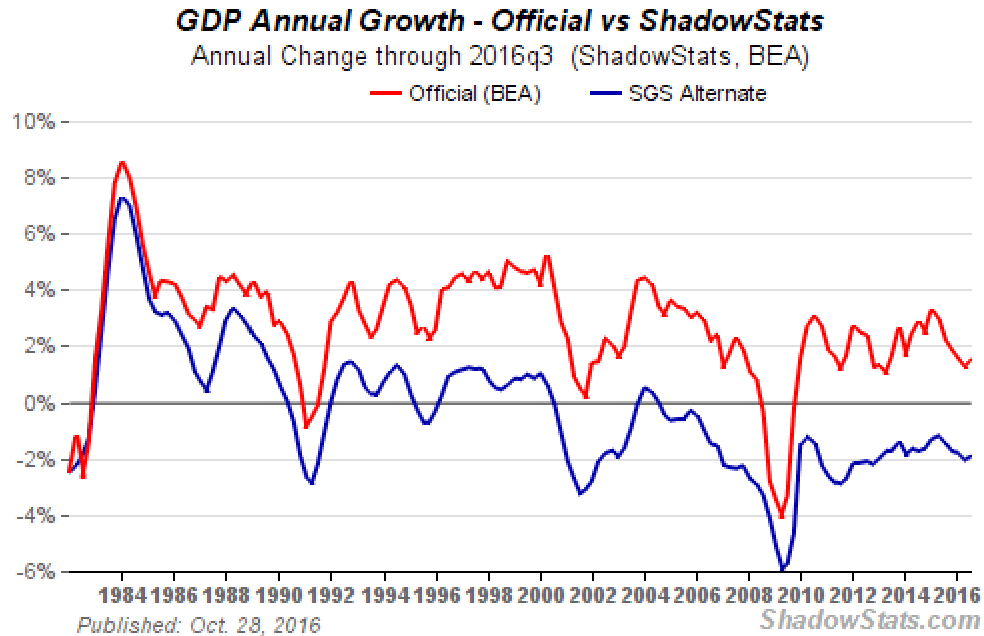
Other numbers also gave some hope, as the Chicago PMI (manufacturing) for October was 50.6, which is at least above the 50 recession level. But it did disappoint, as the market was looking for a reading of 54. Finally, the ISM manufacturing index for October came in at 51.9, again above 50 and close to expectations of 51.7. If there was a disappointing number, it was construction spending for September that fell 0.4%, when the market expected a gain of 0.5%.

The Q3 GDP numbers were deeply flawed. Year-over-year real GDP growth is up 1.5% that, while mildly better, still leaves the US economy underperforming. The downtrend continues. The reality is that the US economy is still struggling to keep its head above water following the Great Recession of 2007-2009 and the financial crash of 2008. While the Q3 GDP rate was the best in two years, it should be noted that the uptick was largely the result of an inventory build-up, which is not sustainable, and a surge in exports that, given the strong US$, is likely not sustainable either. So one has to take the apparent good Q3 number cautiously.

Shadow Stats www.shadowstats.com also reports an alternative GDP number, adjusted for methodological changes used to calculate GDP back in the 1990s and earlier, and which give an upside bias to the official reported GDP number. Shadow Stats year-over-year GDP number comes in at negative 1.9%, maintaining the reality that the US has been in an ongoing rolling recession almost constantly since 2000. The Shadow Stats chart is shown below, along with the official reported GDP.

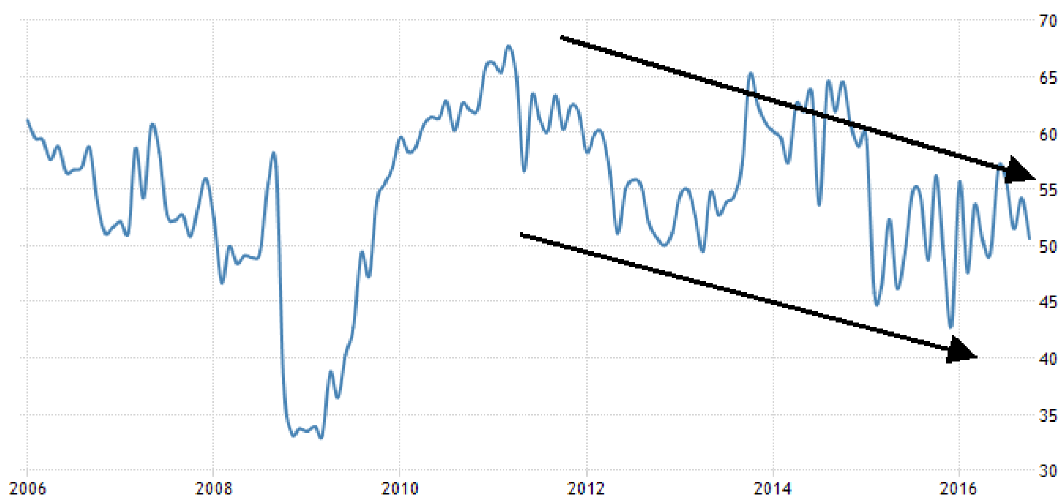


Source: www.tradingeconomics.com

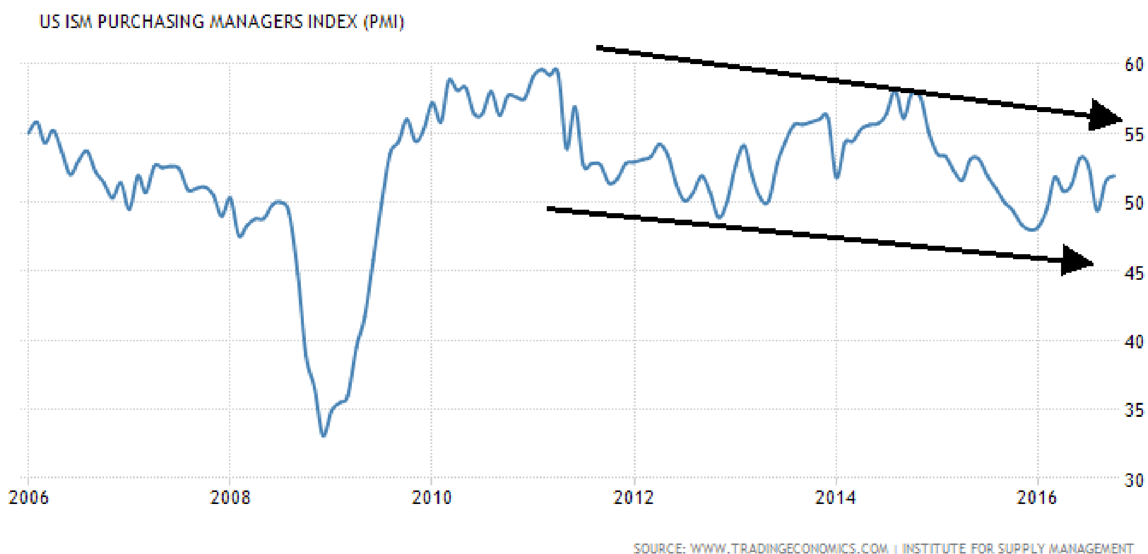


Source: www.shadowstats.com

The Chicago PMI is threatening to fall under 50 (once again), reflecting the weakness in manufacturing. The October ISM manufacturing number was better than expected and it was the highest reading in three months, but it too remains overall weak, just hanging above the 50 recession zone. The best one can say is that manufacturing is hanging in without actually falling into recession territory. Overall, it remains weak.



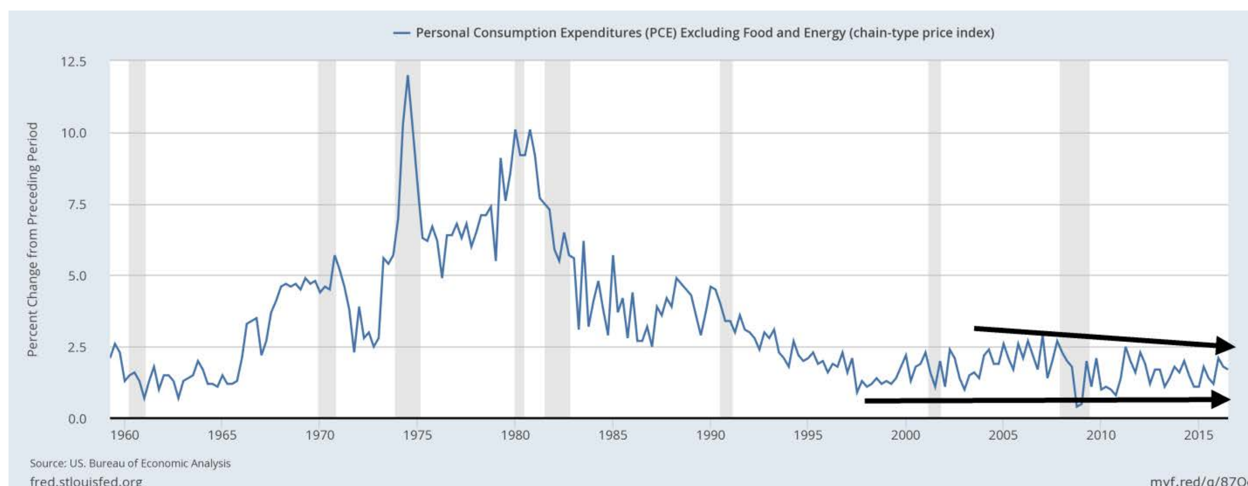
Source: www.tradingeconomics.com



Source: www.tradingeconomics.com

The Fed's favourite inflation indicator is the personal consumption expenditures (PCE). The current core rate (ex- food and energy) is at 1.7%. This remains below the Fed's target of 2.0%. Some, however, love to tout it as being close enough to justify the Fed hiking interest rates once again. We know the Fed would love to normalize the interest rate curve, but the reality is that overall the economic numbers remain weak, and the EU and Japan remain mired in their rolling recessions. Also the Fed has to be concerned about the US$: If it gets too strong it causes all sorts of problems, not just for US manufacturers, but for the massive pile of debt that is out there denominated in US$.

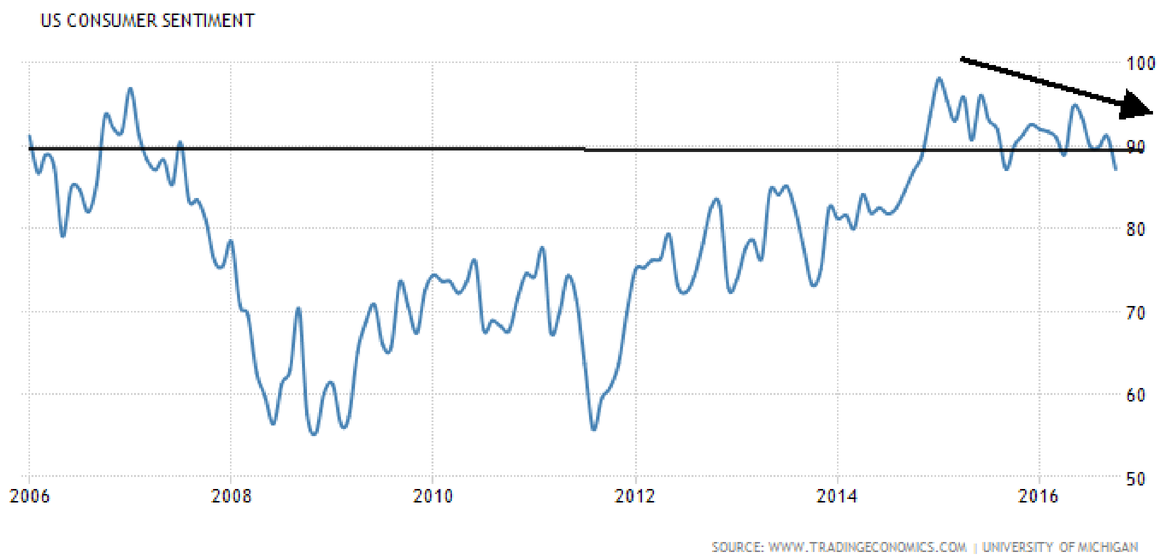
The PCE has been largely between 1.2% and 2.1% since 2012. It can't seem to rise, nor does it go down much. But it doesn't give sufficient ammo for the Fed to hike interest rates. Or does it?



Source: www.tradingeconomics.com

Source: www.tradingeconomics.com

Finally, consumer confidence appears to be waning. We are wondering whether the polarized election might be having a negative impact on consumer confidence. Maybe?



Source: www.tradingeconomics.com

THE NOVEMBER FOMC

To no one's surprise, the Fed left interest rates unchanged at the November FOMC. However, and also as expected, the Fed continued with hinting that the economy is improving, inflation is picking up and job gains are solid and, as a result, the case for a rate hike remains. The Fed would like to; however, it continues to await further evidence of "progress towards its objectives."

As the "Gryphon" has constantly noted, the evidence continues to be stacked against a rate hike. By the time the "Gryphon" is released on November 4, 2016, the markets will know the October nonfarm payrolls and employment rate. The ADP employment change came in at 147,000 new jobs for October, below the consensus estimate of 165,000. The ADP employment change is often a predictor of the nonfarm payrolls. September was revised upwards to 202,000 from 154,000, so watch for the revisions. It may balance itself out. As we have pointed out on numerous occasions, the nonfarm payrolls are full of holes. Most jobs of late have been of the part-time variety. Not exactly what one would call secure employment.

Any uncertainty coming out of the election next week could put a further damper on thoughts of any rate hike. The bond markets are reacting negatively, largely because they are concerned about the unravelling of the bond bubble. We have noted that liquidity in bond markets has been drying up. That could be the precursor of a default of some significance.

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)	(0.73%)	(0.12%)	Real Interest Rate (3 mth T-Bill-% chg. CPI)	(0.83%)	(0.58%)
GDP GROWTH			**GDP GROWTH**		
GDP	$18.5 trillion	$18.2 trillion	GDP	$2.0 trillion	$2.0 trillion
USA (official)	1.2%	3.0%	Canada (official)	0.9%	1.0%
USA (Shadow Stats)	(1.9%)	(1.4%)			
UNEMPLOYMENT			**UNEMPLOYMENT**		
USA (U3)	4.9%	5.1%	Canada (official)	7.0%	7.1%
USA (U6)	9.7%	10.3%	Canada (R8)	10.3%	10.1%
USA (Shadow Stats)	23.0%	22.9%			
US Labour Force	159.6 million	157.0 million	Can Labour Force	19.4 million	19.3 million
USA Part Time Workers %	17.9%	17.5%	Can Part Time Workers %	19.1%	18.6%
USA Labour Force Participation Rate	62.8%	62.6%	Can Labour Force Participation Rate	65.5%	65.9%
Not in Labour Force	94.4 million	93.7 million	Not in Labour Force	10.1 million	9.9 million
DEBT & MONEY (US$)			**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

It has taken some time, but the Dow Jones Industrials (DJI) appears to be breaking down under 18,000 support. For the past month and half, the DJI has largely held this technical and psychological level. The 165-day exponential moving average is currently at 17,995, and this has acted as support. Below lies further support in the form of the 200-day MA, currently at 17,448.

The catalyst for the decline appears to be fear over the election results. Whereas, previously, the market felt that Hillary Clinton was comfortably in the lead, polls have shifted, and now the outcome is more uncertain. Markets hate uncertainty, thus the decline.

The question is, how far might the market fall. If the market did form an ascending wedge triangle, the potential is there for it to fall back to the January/February 2016 lows once it has fallen firmly through 17,450. A look back at June 2016 and the unexpected Brexit scare shows that the 200-day MA held, and the market rebounded to new highs. An argument being tossed around is that retail is not in the market to the same extent it was before. At the time of the 2007 top, roughly 65% of the public was involved in the market, whereas today it has fallen to 55%. The market is more institutionally dominated. Institutional money can move swiftly, so flash crashes are possible.

It is no surprise that volatility has picked up as a result of the recent decline. The VIX volatility indicator has jumped to its highest level since June 2016 and the Brexit. A breakout over 20 would break the downtrend that has been in place since August 2015. We noted in the previous "Gryphon" that there was a high probability that volatility was about to spike. Besides the DJI breaking down under 18,000, the S&P 500 has broken down under 2,100. The question now on our minds is how low can the market go before it finds a bottom.

Source: www.stockcharts.com

If there was a leading indicator to the current decline, it was the small cap stocks. The Russell 2000 is a small cap index, along with the S&P 600. Both preceded the breakdown in the large cap indices. Neither the Russell 2000 nor the S&P 600 confirmed the large cap indices by making new highs. Another divergence was the Dow Jones Transportations (DJT) that has remained well below its all-time highs seen in November 2014. One of the key tenets of Dow Theory is the averages must confirm each other. The failure of the small cap indices and the DJT to confirm the major large cap indices was a sign of potential trouble ahead. The Russell 2000 is shown below.

BONDS

Source: www.stockcharts.com

Has something gone amiss in the bond markets? The iShares 20+ Year Treasury Bond ETF appears to have broken trend line support, and broken down under the 200-day MA. It may yet find support here. The catalyst appears to be a mixture of fear of the Fed hiking interest rates at the December FOMC, interpreted signs that the US economy is improving, fear of an election mess and rumours of growing liquidity problems in bond markets. The latter may be the most dangerous.

Yields on the 10-Year Treasury Note have jumped to 1.81% after hitting a high this past week at 1.86%. This is up from 1.37% seen back in July 2016. The bond malaise is not limited to just the US bond market. The 10-year German Bund has seen its yield jump to 0.13%, up from a low of negative 0.19%. The Japanese government 10-year bond (JGB) has seen its yield rise to negative 0.06%, up from negative 0.29%. We haven't seen any recent estimate of bonds trading at negative yields, but it would have to now be considerably less than the estimated $13.4 trillion seen in July/August 2016.

Longer-term cycles could be at play here. We have often noted the presence of a 6-year bond cycle. Important bond market lows (prices – high in yields that move inversely to prices) occurred in 1981, 1987, 1994, 2000, 2006/2007 (double bottom) and 2013. The 6-year cycle breaks down into either three cycles of two years, or two cycles of three years, and sometimes both. A low was seen in 2015. It is possible that was the 2-year cycle. But maybe it really is two 3-year cycles, and we are now in the throes of making a 3-year cycle low.

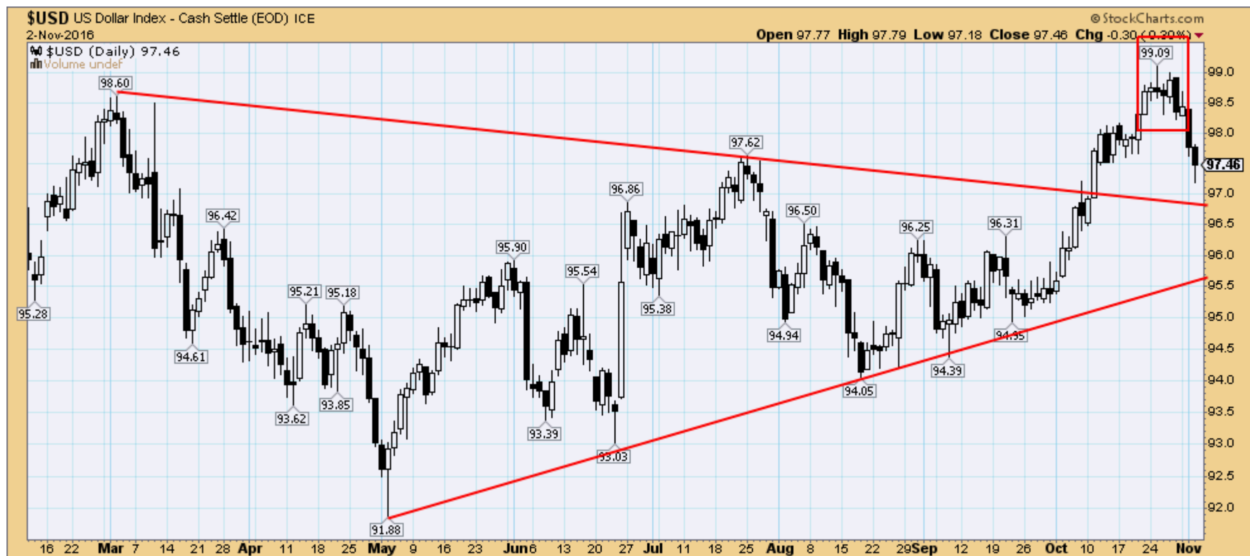
Source: www.stockcharts.com

The 30-year Treasury bond trading on the CBOT outlines these cycles quite well. Below is the chart of the 30-Year US Treasury Bond that trades on the CBOT. We have labeled the 6-year cycle low 1, 2, 3 etc. Note that, in between roughly every two or three years, there is also a drop in the price of the bond. The bond is currently trading at 162.30. The 2015 low was seen at 146.63. A break of that point and test of 140 would be a perfect set-up to trigger the next bond rally and satisfy the 3-year cycle low. The next 6-year cycle low is not due until around 2019/2020. But there have been some nasty in-between bond market drops, notably in 1984, 1990, 1996/1997 and 2011. But the really serious bear bonds were seen during the drops into the 6-year cycle low. One of the worst was the 1994 bond collapse that resulted in an accord between the US and Japan to strengthen the US$ and weaken the yen. It sparked a huge US bond rally, and set up what became known as the Japanese carry trade. The 1994 collapse was so serious that there were fears it would bring down the financial system.

The major concern today is the growing illiquidity in bond markets. That alone could send bond prices down (yields higher). If we read this correctly and it is a setting up for a 3-year cycle low, then our expectations are that, while it could be a good drop, it won't be a killer drop. That would be saved for later this decade.

Currently the TLT needs to regain back above 133 to suggest that this decline is over. New lows below 129.75 would set up a test of 125 support.

CURRENCIES



Source: www.stockcharts.com

Has the US$ topped? Last week we noted a doji pattern on the charts that indicated that a pause might be in order. This week the US$ Index fell, losing 1.2%. If the US$ Index was down, other currencies were up, with the euro surprisingly gaining 1.7% and the British pound 0.4%. The Japanese yen was also up, gaining 1.1%. The Cdn$ lost a small 0.1%.

The catalyst for the US$ Index to fall was the same reason that gold jumped and the US stock market fell: uncertainty surrounding the November 8 election. If this is just a temporary pullback, the expectation would be that the US$ Index should generally hold at around 97, the former breakout zone. If something more serious is at play, the US$ Index would fall through 97 and then through 95.50, confirming a breakdown is underway.

A collapse at this time could prove fatal to the US$ Index, as it would be the third time that it has failed around 100. Previously, the US$ Index made highs at 100.71 in March 2015, and again at 100.60 in December 2015. The high this time was at 99.09. Triple tops are a rare event, so the expectation was that the US$ Index should break through 100 and target up to 106-108.

The opposite of the US$ Index is the euro that makes up 57.6% of the US$ Index. At least, that is the current mix, until such time as the Chinese yuan becomes free trading, and potentially becomes a part of the US$ Index. The Chinese yuan is now a part of the IMF's Special Drawing Rights (SDRs), but it is not yet free trading.

The euro bounced back this past week, despite the negative background of Deutsche Bank and the bankrupt Italian banking system. As well, the ECB has been forced into more QE, including purchasing corporate bonds. Italy is to hold a constitutional referendum on December 4, 2016, but it is not a referendum on its membership in the EU. It is a referendum to reform the appointment of powers of the parliament of Italy. The euro had been targeting down to 96-98 once it broke down through 111. Regaining 111 would be positive, but the euro needs to break up through 115 to suggest higher prices and confirm the end of the recent downtrend.

MARKETS AND TRENDS

			Percentage Gains		Trends		
Stock Market Indexes	Close Dec 31	Close Nov 2	Week	YTD	Daily (Term)	Weekly (Intermediat e)	Monthly (Long Term)
S&P 500	2,043.94	2,097.94	(1.9)	2.6	down	neutral	up (topping)
Dow Jones Industrials	17,425.03	17,959.64	(1.3)	3.1	down	up (weak)	up (topping)
Dow Jones Transports	7508.71	8,025.80	0.7	6.9	up (weak)	up	neutral
NASDAQ	5007.41	5,105.57	(2.8)	2.0	down	up	up (topping)
S&P/TSX Composite	13,009.95	14,595.11	(1.4)	12.2	neutral	up	up
S&P/TSX Venture (CDNX)	525.59	770.11	(0.7)	46.5	down	up	neutral (bottoming)
Russell 2000	1,135.89	1,162.52	(3.5)	2.3	down	neutral	neutral
MSCI World Index	1,693.06	1,657.93	(1.1)	(2.1)	down	neutral	down
Gold Mining Stock Indices							
Gold Bugs Index (HUI)	111.18	215.12	2.1	93.5	down (weak)	neutral	up (weak)
TSX Gold Index (TGD)	129.30	226.08	2.6	74.9	down (weak)	neutral	up
Fixed Income Yields							
U.S. 10-Year Treasury	2.27	1.81	1.1	(20.3)			
Cdn. 10-Year Bond	1.39	1.21	6.1	(13.0)			
Currencies							
US$ Index	98.75	97.46	(1.2)	(1.3)	up (weak)	up	up
Canadian $	0.7233	0.7470	(0.1)	3.3	down	down	down
Euro	108.59	110.94	1.7	2.2	neutral	down	down
British Pound	147.37	122.90	0.4	(16.6)	down	down	down
Japanese Yen	83.12	96.69	1.1	16.3	neutral	up (weak)	up (weak)
Precious Metals							
Gold	1,060.50	1,308.20	3.3	23.4	neutral	neutral	up (weak)
Silver	13.82	18.69	6.0	35.2	neutral	up (weak)	neutral
Platinum	892.90	1,001.80	3.9	12.2	neutral	down (weak)	down
Commodities							
Palladium	562.00	634.50	2.2	12.9	down	neutral	down
Copper	2.135	2.23	4.0	4.5	up	up	down
Energy							
WTI Oil	37.07	45.34	(7.8)	22.3	down	up (weak)	down
Natural Gas	2.35	2.79	(8.2)	18.7	down	up	down (weak)

Source: Bullion Management Group

GOLD AND PRECIOUS METALS

GOLD INDICATORS

	CURRENT (Nov 2, 2016)	YEAR AGO
Gold in US$	$1,308.20	$1,117.20
Gold in Cdn$	$1,752.21	$1,459.06
Gold in Euros	€1,179.00	€1,019.00
Gold in British Pounds	£1063.00	£724.00
Gold in Japanese Yen	¥135,170	¥135,300
Dow Jones/Gold ratio	13.73	16.04
Gold Volatility Index	19.32	17.19
Gold/Oil ratio	28.85	23.43
Gold/HUI ratio	6.08	9.08
Gold/Silver ratio	69.98	73.23
Gold Sentiment Index	129.6	73.0
PERFORMANCE	**2000 to Present**	**Year to Date**
Dow Jones Industrials (DJI)	56.2%	2.0%
S&P 500	42.8%	1.7%
Gold	351.7%	23.4%
Silver	242.8%	34.7%
WTI Oil	77.1%	23.1%
DJI REITS	177.9%	(1.0%)

Source: Bullion Management Group

Gold and silver have both benefitted from the uncertainty that surrounds the US election. The fear is a Trump victory, where his views on trade in particular could sink the US$, the stock market and, by extension, result in a strong up move for gold. Neither candidate is clear about trade these days, but Trump's views in particular invoked thoughts of Smoot-Hawley, the trade bill and tariffs in the 1930s, that helped deepen the Great Depression.

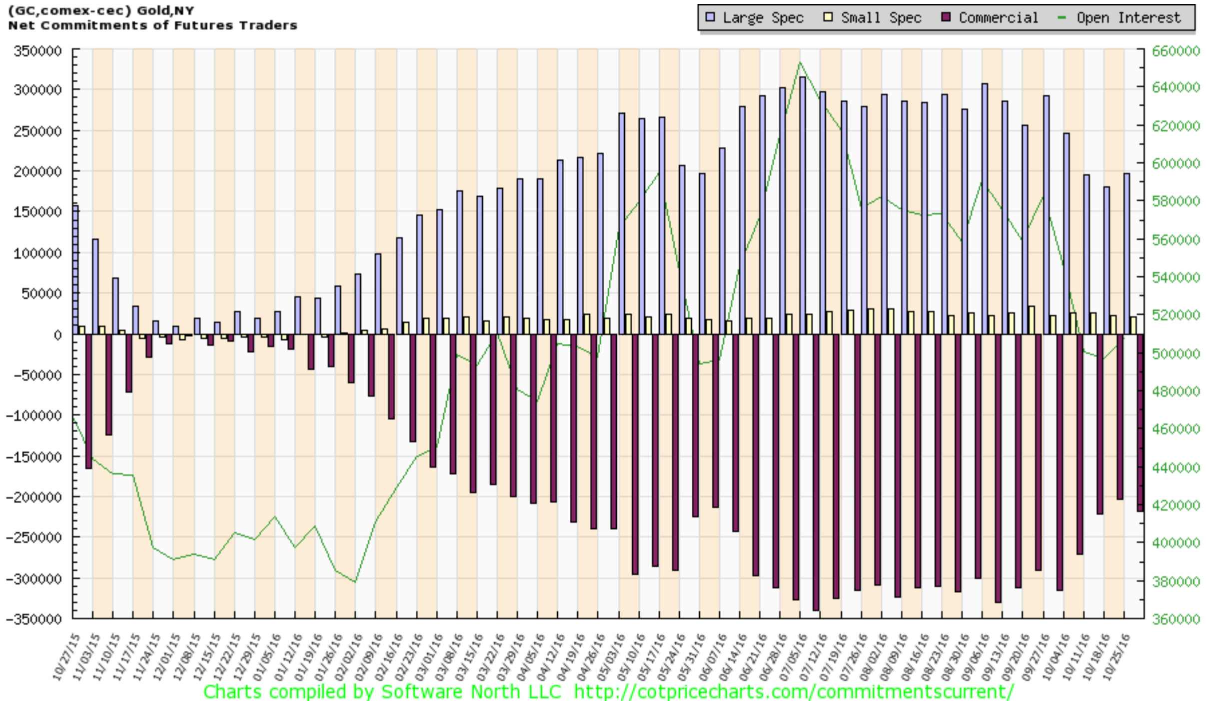
Gold leaped to back over $1,300 this past week. Although it pulled back later, trading odds now favour a close over $1,300. There is significant resistance between $1,300 to $1,315 and $1,320. Over $1,320, the next hurdle would be at $1,340. Above $1,340, odds are high that new highs would be seen above $1,377.

Potential targets remain up to $1,500 to $1,550. If things break quickly this could occur in 2016, but more likely into 2017. A steep correction should follow once gold achieves $1,500 territory.

Silver has taken out resistance at $18, and should be next focused on taking out $19. But the key area for silver to take out is at $20. Above $20, odds increase that new highs would be seen above $21.23. Targets could be up to $24 to $26.

All this is premised on gold holding support, first at $1,275 but, more importantly, at $1,240. Below $1,240 a test of $1,200 is likely, but the odds for that are decreasing. Silver has support at $18 and then at $17.50. A break below $17 would be negative and suggest a decline towards $16. But odds of that happening are now low. The gold/silver ratio has once again fallen below 70, and that suggests to us that silver prices should continue to lead and outperform gold.

The recent commercial COT did slip back to 26% from 27% as the commercials added about 14,000 contracts to their short position. We do not view that as super negative, although our preference would have been to see the commercial COT continue to improve. The large speculators COT (hedge funds, managed futures etc.) saw their COT improve to 76% from 74% as they added about 11,000 contracts to their long position, while cutting their short position by about 6,000 contracts. Neither the commercial COT nor the large speculators COT are at levels that suggest a top or a bottom.



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
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
10/18/16	381	274,345	94,727	74%	104	115,441	318,112	27%	51020	27,967	65%	497,061
10/25/16	374	285,376	88,396	76%	106	114,700	332,299	26%	49625	29,006	63%	507,617

Source: www.cotpricecharts.com

Source: www.stockcharts.com

One thing to keep in mind is that, while gold remains some $600 from its all-time highs of 2011, it is a lot closer to its all-time highs in other currencies. The table below summarizes the differential for the major currencies:

Gold in Currencies	All-Time High 2011	Current Level	Differential (%)
US$	$1,923.70	$1,308.20	$615.50 (32%)
Cdn$	$2,022.82	$1,752.21	$270.61 (13.3%)
Euro	€1,437	€1,180	€257 (17.9%)
Japanese Yen	¥156,300	¥134,900	¥21,400 (13.7%)
Pound Sterling	£1,235	£1,053	£182 (14.7%)
Swiss Franc	CHF 1,746	CHF 1,275	CHF 471 (27%)
Russian Ruble	₽96,004 (Feb 2016)	₽80,138	₽15,866 (16.5%)
Chinese Yuan	CNY 12,292.34	CNY 8,780.72	CNY 3,511.62(28.6%)

Source: Bullion Management Group

As can be seen, gold in US$ terms is the furthest away from its all-time highs. The yuan remains closely tied to the US$ so its differential isn't surprising, but does reflect recent devaluations in the yuan against the US$. Many may be surprised to learn that gold in Cdn$ is the closest to its old all-time high, but it is reflective of the decline of the Cdn$ against the US$ over the past few years.

Gold is now challenging the $1,300 level. The expectation is that it should break through, but most likely will require a few days of backing and filling. Once over $1,320, the next resistance would be at $1,340. Above $1,340, new highs are probable. The key is to hold above $1,280 on any pullback.

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

NOVEMBER 4, 2016
TORONTO, ONTARIO

The American election nightmare

A glimmer of hope?

The November FMOC

The 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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