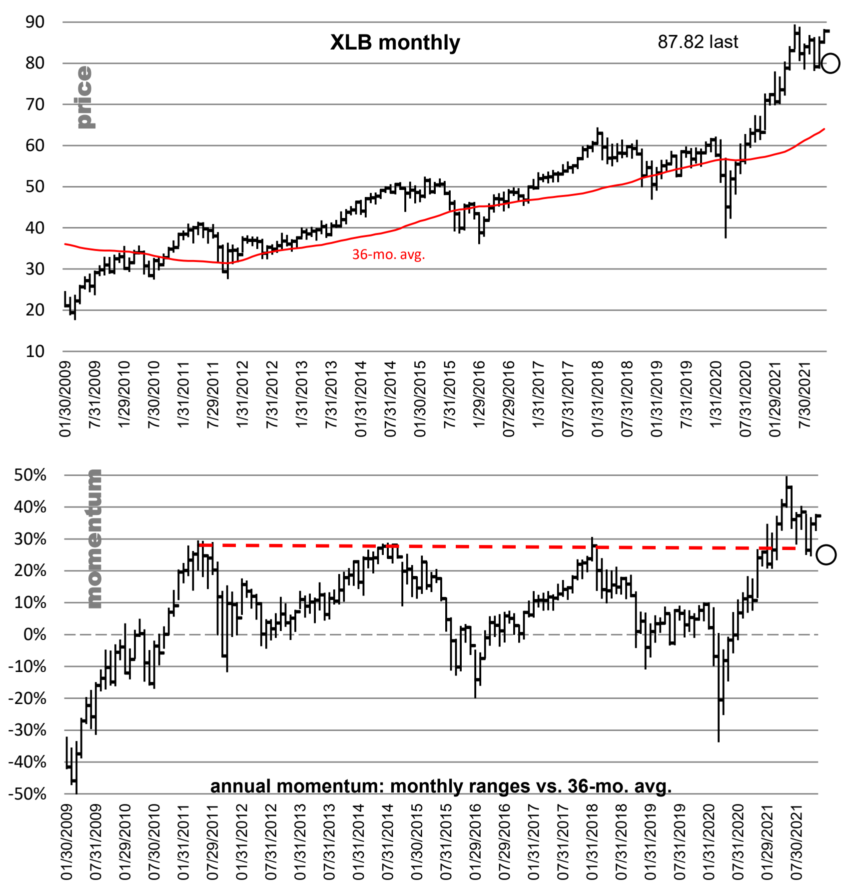
360° WEEKEND REPORT

MSA

November 7, 2021

Stock market, T-Bonds, gold and silver, corn and wheat



XLB (Basic Materials Select Sector SPDR)

In late 2019 and very early 2020, MSA argued in multiple reports that momentum conditions were ripe for a collapse situation in the overall U.S. stock market. That event occurred: a crash-dimension event (meaning over 30% within a handful of weeks). However, one day off the March 23, 2020 low, MSA informed those who had been correctly short that "pain" was about to inflicted on them if they remained short. Cover!

No, MSA didn't expect a return to the highs followed by new highs, but sharp upside at least.

Within the broad market we suggested on selective long-side positions. Fortunately, most of those (e.g. oil sector ETFs and fertilizer companies) beat the S&P 500 since our points of entry (those buy signals were issued from August through November 2020). Basic materials was also one of our sector picks. But we confess that it hasn't kept pace with the S&P 500.

The Wall Street Journal quoted MSA regarding the materials sector on September 21st, 2020: "'Commodity longs are about to be on the right side of a major asset class move,' said Michael Oliver of Momentum Structural Analysis, 'that likely won't stop until it reaches extreme excesses of its own.'"

If we measure XLB's gains since that date, it's up 39%. However, the S&P 500 is up 43%. So our pick in this case underperformed the broad market. Fortunately, our other more directly commodity-related picks such as oil services (OIH), oil and gas exploration (XOP), and fertilizer stocks (CF and MOS) have vastly outperformed the S&P 500. Those two oil-related sectors have more than doubled since our entry signals, and our two fertilizer stock picks have tripled.

But what about XLB going forward?

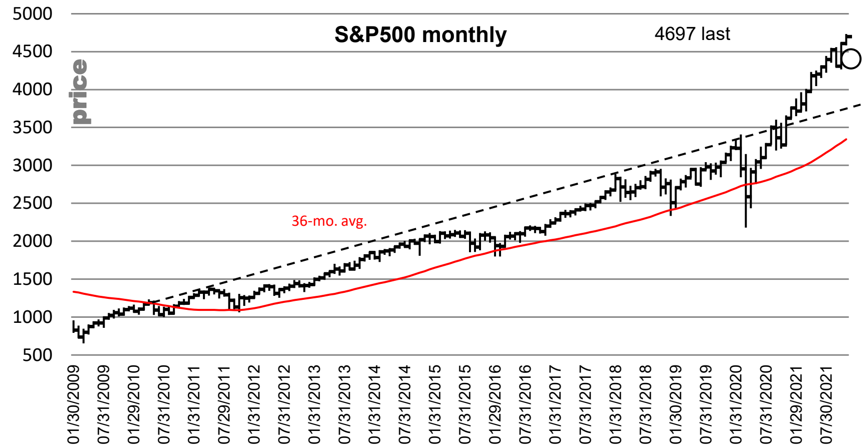
This sector ETF, while it has *some* commodity relationship (the top four holdings are Sherwin Williams, Air Products, Ecolab, and Freeport McMoRan, totaling about 35% of its overall weightings), the stocks in the ETF are more indirectly commodity related, the exception of course being Freeport McMoRan.

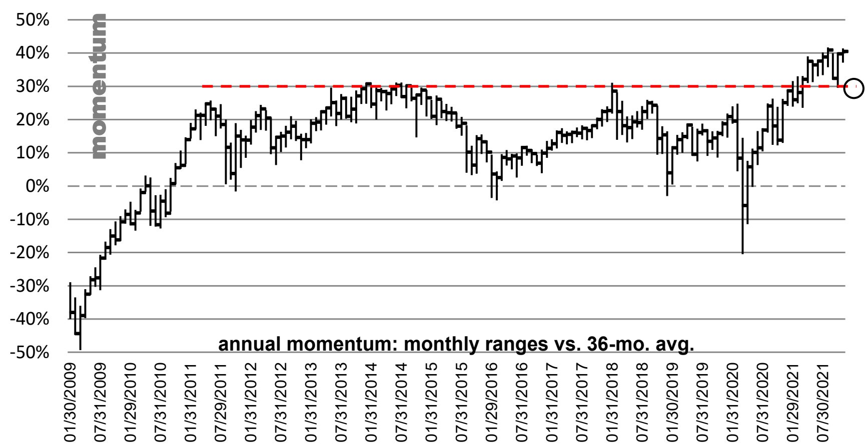
Furthermore, history shows this sector does move with the overall stock market, while many sectors such as energy-related and the fertilizer stocks have demonstrated that they can trend totally opposite the stock market for several years at a stretch.

Meanwhile, XLB's price chart has basically matched the price action of the S&P 500, except for the past several months. As the S&P 500 (and also the Dow and NASDAQ 100) moved out above its early August high after a selloff in late August and early September, XLB has been caught in a sideways range of action since May. Firm but stalled.

But one major similarity between XLB and the major indices is evident on its **annual momentum**, MSA's main focus. The annual momentum action since summer 2020 has moved out above the upper readings of the prior decade's wide range of action. That high level oscillator breakout signaled the start of the blow-off move—or the *acceleration phase* of the aged bull trend—for XLB, the S&P500 (next page), NDX, etc. And since then the low reading of the recent drop has pulled back to the top end of that prior range, used it as support, and then turned back up, thus marking a pivotal line in the sand. A monthly close by momentum that's credibly below the oscillator's closing reading of September will constitute an abort signal by momentum. Meaning a signal that the excited acceleration phase (since summer 2020) of this aged bull trend is ending. And when blow-offs end they're usually terminal.

Looking out to December, a monthly close at **81** will signal such an annual momentum downturn for XLB. That trigger number adjusts up by about .90 per month.





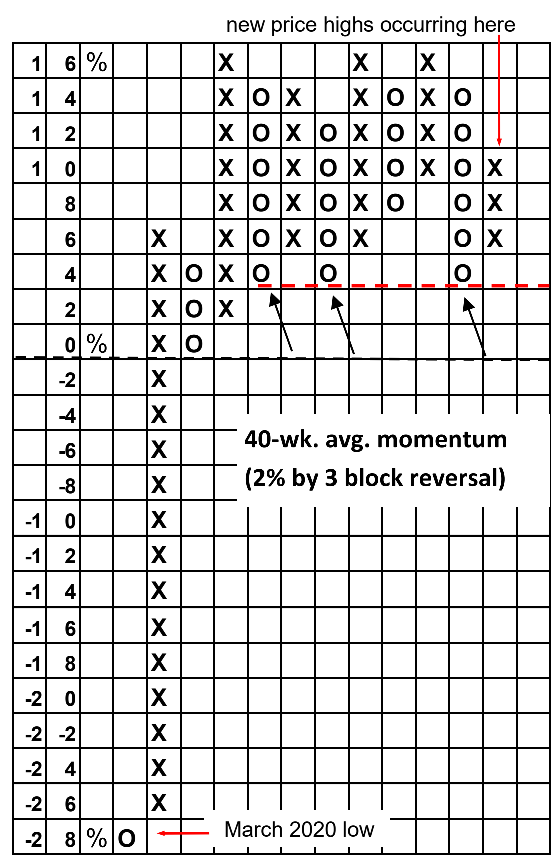
S&P 500 annual momentum

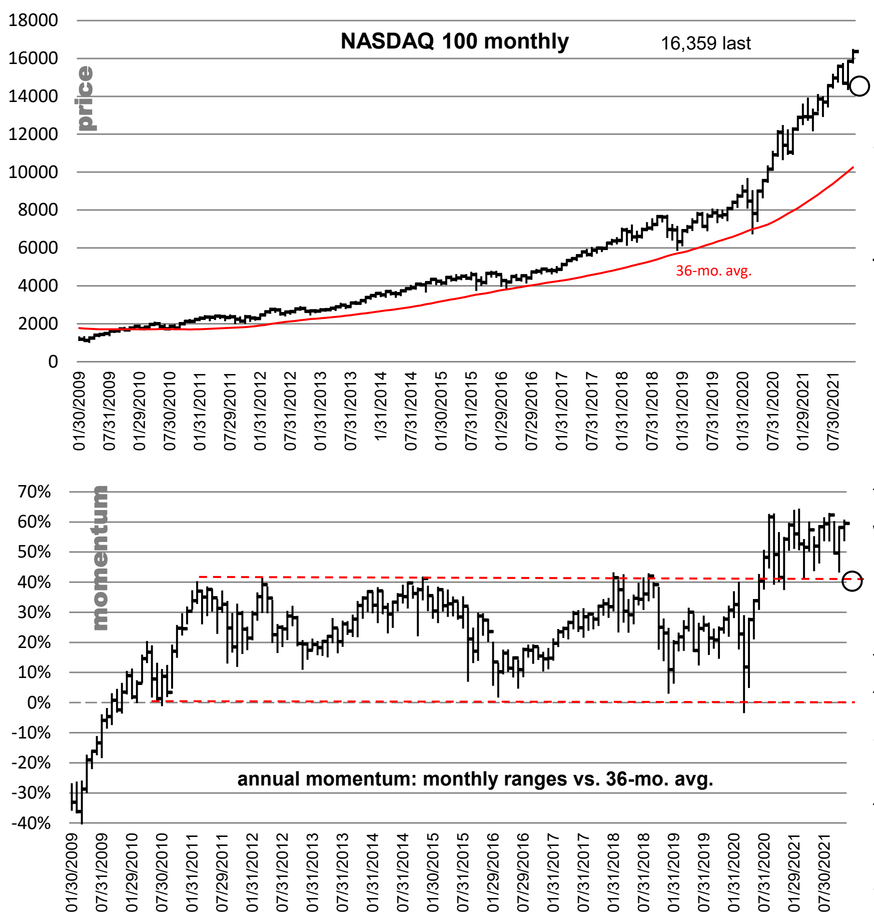
The blow-off phase of this aged bull trend also began in summer 2020 as annual momentum took out the prior decade-old, high-level ceiling. Price action also signaled the move when it broke above the prior angle of ascent.

Momentum then used that horizontal as support in the August/September drop, marking the spot, and has since moved into new price highs above that of August.

A monthly close back below the September oscillator low (at 30% over the zero line) will constitute an abort and a major annual momentum sell signal. Looking out to December, that will occur if the monthly price close is **4400** or lower. That sell trigger adjusts up monthly by about fifty-four points. Break momentum and expect price's *first* downside move to rapidly drop to that chart's line of acceleration around 3700.

The S&P 500's 40-wk. momentum (point-and-figure chart on the right) has been in most of MSA's recent reports in weekly bar chart format. The September low halted at the two prior lows in momentum that were seen in September and October last year (red-lined). With last week's rally by the S&P 500, the readings reached well above 11% over the zero line/40-wk. avg., thus putting in 2% x three-block reversal upticks on this point-and-figure chart of 40-wk. momentum. Meaning this long-term metric has now set up a trio of oscillator lows at 4% over the zero line. Even a return to that level will likely be nasty, and certainly adding a tick below that line will be a major sell signal (a quadruple-bottom breakout) for this momentum time scale. We won't specify trigger numbers for this week as they're far enough below for now, but when the S&P 500 gets some downside underway again, as we suspect will occur soon, then MSA will update as to trigger levels on this time scale of long-term momentum, week by week. It's likely to be triggered before annual momentum's trigger level is reached. Meaning break this time scale and expect a full assault on the annual momentum structure trigger level not far below.





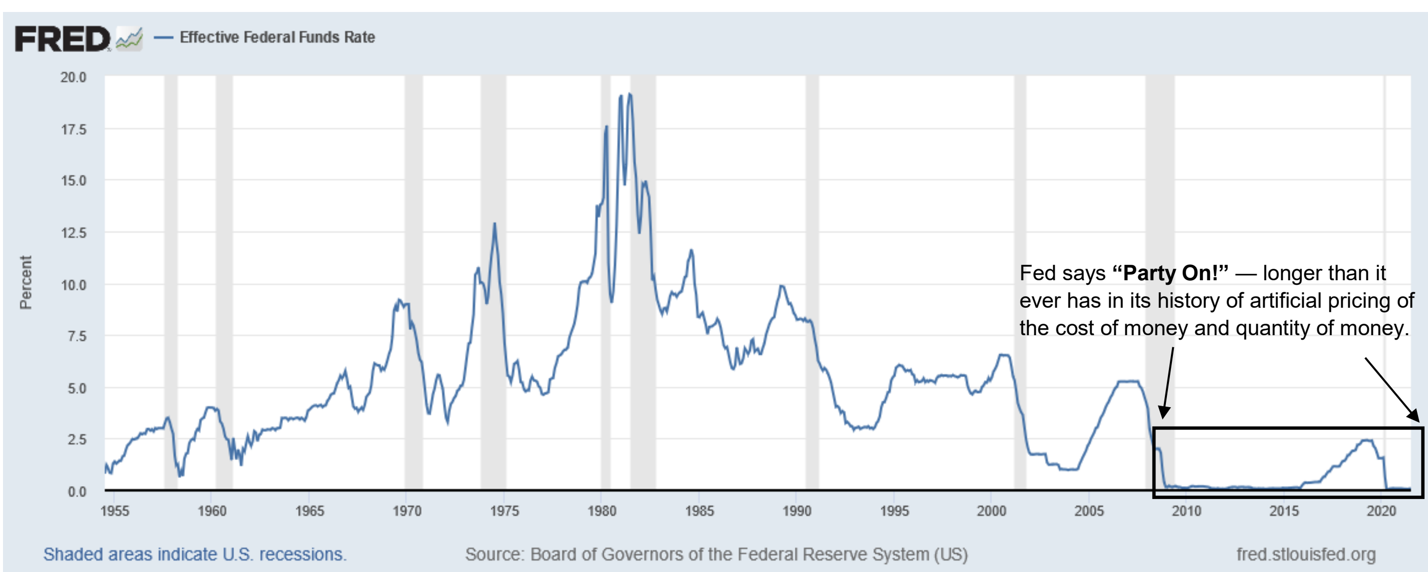
NASDAQ 100: annual momentum

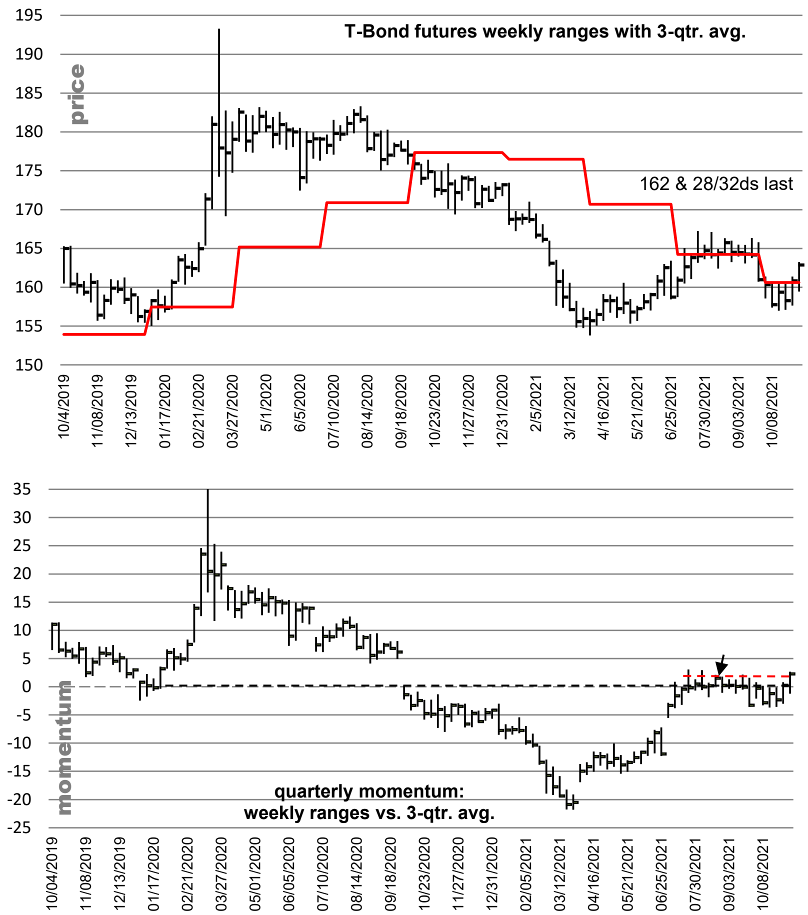
MSA will continue to update this set of charts as we consider this leader index's annual momentum the most important metric in terms of defining a U.S. stock market top.

The acceleration phase began in summer 2020. All lows on momentum have since relied on support around the same oscillator level: on top of the prior decade-old momentum range. The upper red-lined structure is amply set for future use as a major sell signal when violated.

Looking out to December, a monthly close at an estimated **14,720** will break the structure to the downside (40% over the zero line does that) and likely create a fairly efficient move to the next pivotal level—the overly used structure around the zero line/36-mo. avg. (There have been no monthly closes below that annual mean/zero line since it was risen above in 2010!)

Meanwhile, if you're long, enjoy yourself, as you are and have been supported *artificially* by the central bank. The popular assumption is that investor preferences regarding asset allocation will remain in your direction. Well, we think not. The monetary flow will persist, but not in your direction. And the evidence for that is mounting (following pages).





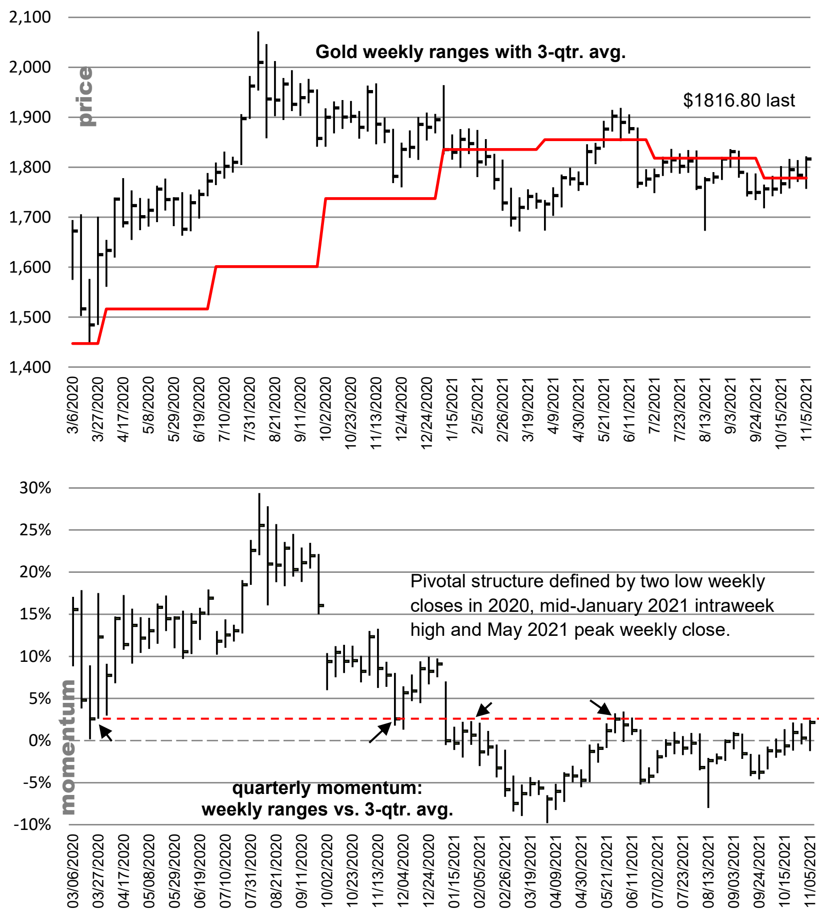
T-Bonds: quarterly momentum

Last week's action cleared a key level. We'd specified that a weekly close this quarter at 162 & 20/32ds would clear quarterly momentum's peak weekly closes of last quarter. Friday closed credibly above there (that prior close last quarter noted via the red horizontal and arrow). Breakout.

We don't have a solid sense now of where upside might go. Sorry. The top chart suggests around 170 is where the price chart watchers might begin to sell, but frankly we're not confident that all-too-obvious level will be a lasting barrier.

As we've said before, we don't consider this upturn in long-government bonds/drop in yields as one that will last several quarters, more likely several months, but it could be emotional and sharp. Clearly since March there has been movement into T-Bonds (that March low coincided with gold's) for asset allocation reasons (doubt by some large asset managers regarding the sustainability and risk/reward at this point of the stock market?). In any case, time will reveal that underlying factor.

Technicals argue the shift is underway positively, once again, into this "alternative" asset category.



Gold: quarterly momentum

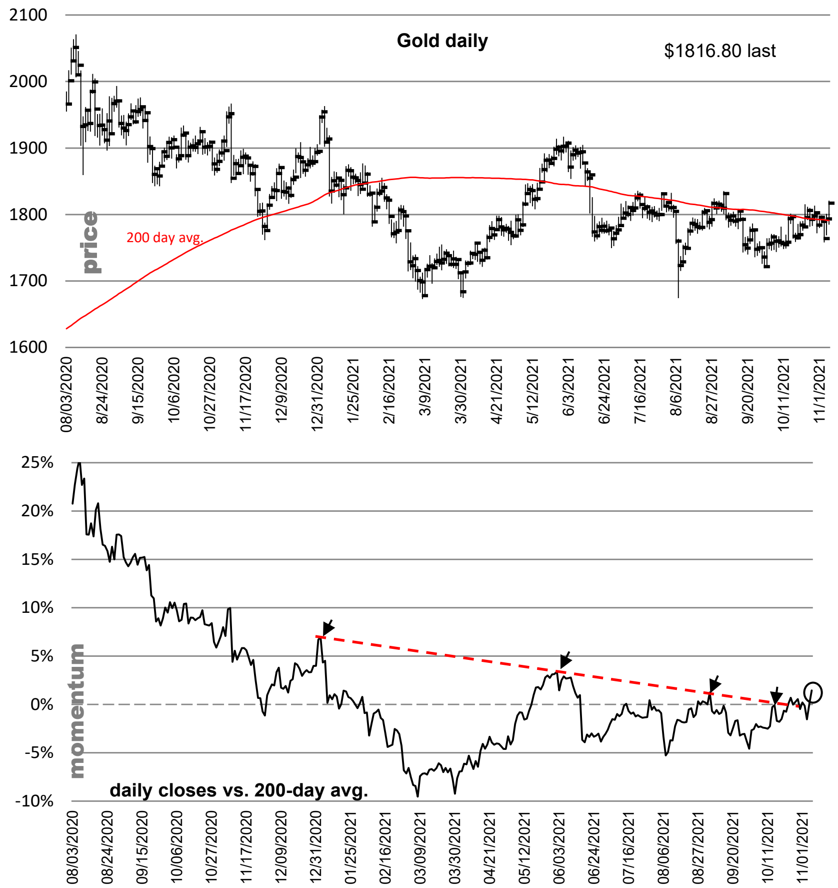
At the starting gate

Similar to T-Bonds (the other alternative to U.S. stocks). Gold's price chart weekly peak close (the first week of August 2020) was one week after the T-Bond weekly peak close (the last week of July 2020).

Then both made corrective lows in March 2021. They both rallied from there and then pulled back again. Now both are either just above or just below quarterly momentum breakout levels.

Using this 3-qtr. avg. metric for gold, we want to see a weekly close this quarter at **$1825** or higher. Last week's high was just above $1820. Frankly, it wouldn't surprise us now that the breakout week ends up well above our defined closing breakout number. (Therefore, on an intraweek basis if gold trades to 4% over its 3-qtr. avg./zero line, that's an actionable buy without waiting for a weekly close. That will occur with any trade to **$1849.70**.) December future, front active contract, is our reference.

Other comparable momentum metrics already indicate breakout.

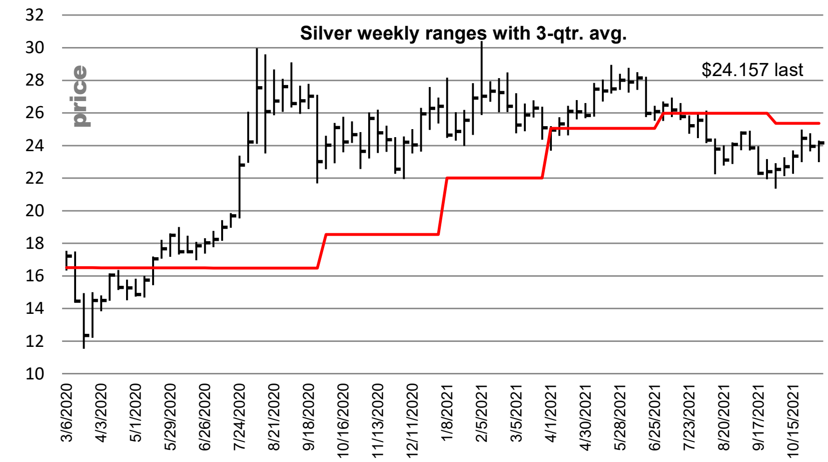


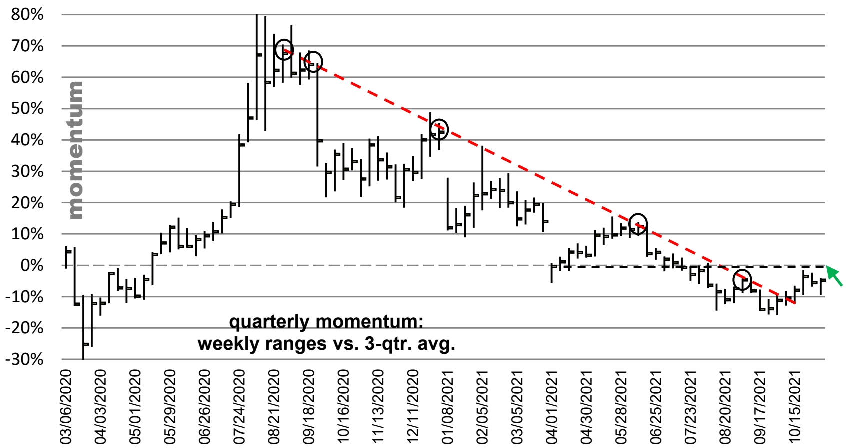
Gold's 200-day avg. is comparable in time scale to the 3-qtr. moving avg., only it adjusts daily whereas the 3-qtr. avg. adjusts quarterly.

And frankly this is the moving average that most bears have probably been routinely using (the past five months) as a zone to sell into—any protrusion marginally over the 200-day is a sale opportunity, they believed. And it routinely worked several times for several percentage drops. Assuming they took their profits. But then the action would return again above the 200-day and they would try again, and try again.

Well, there *was* in fact a momentum oscillator trend structure tracing back to December 2020: a gradual downtrend (red line) defined by four pivotal high closes along it. Action rose above it a few weeks ago (hint!) and then briefly dropped back below it in the middle of last week. Then late last week that emergent struggling upside breakout process shifted sharply enough on the upside to also take out all high readings on the momentum chart since late June (noted by the last two arrows on the momentum chart).

So this long-term metric of gold **has shifted to positive**. We're waiting now on the flat line on quarterly momentum to be overcome on a weekly closing basis. But this oscillator offers enough indication that the upturn out of the protracted correction mode by gold is ending. And it's coincident with T-Bonds. And that makes sense, as investment managers who have been around a while and who are now thinking on their feet—are more and more concerned about the risk/reward remaining in the very aged and (monetarily) inflated U.S. stock market. Bet on asset flows starting to shift direction.



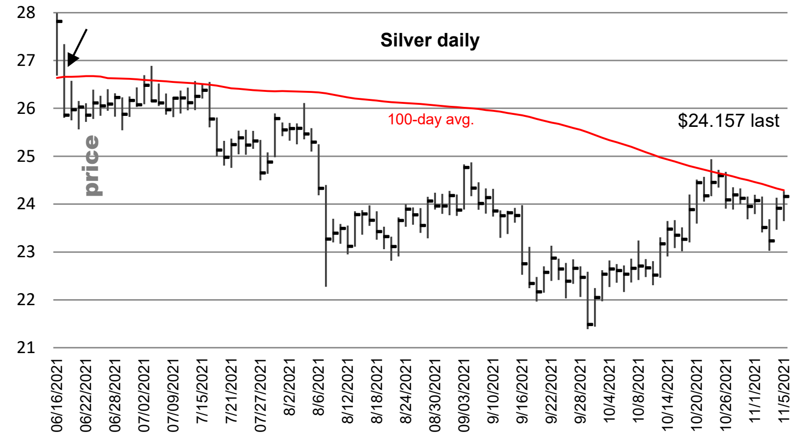


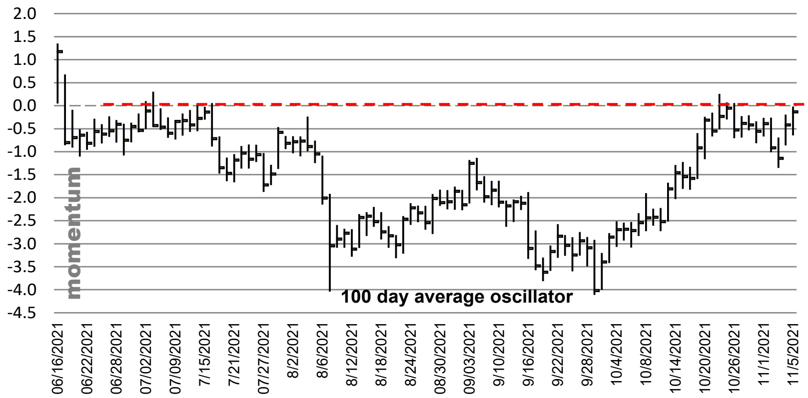
Silver: quarterly momentum

Of our major signal levels, this set of charts is equivalent to gold's **$1825** weekly closing breakout (vs. its 3-qtr. avg.).

The downtrend (defined by multiple peak weekly closing readings) has already been broken out above. But for good measure we want to see a weekly close over the zero line/3-qtr. avg. That means a weekly close at **$25.37** or higher.

We expect it.





Silver: 100-day avg. momentum

Another strong hint that quarterly momentum will fully break out is the 100-day avg., about half the time scale of 3-qtr. avg.

In mid-June came the narrow-minded **"the Fed is going to get us!" selloff** (down arrow)—the "taper" certainty, as if that was some sort of overriding fundamental even if it did occur and if that policy persisted. Almost a laughable concept, actually.

Well, the daily momentum action vs. the 100 -day has since been confined **precisely** below that average/zero line. Neat. No closes above.

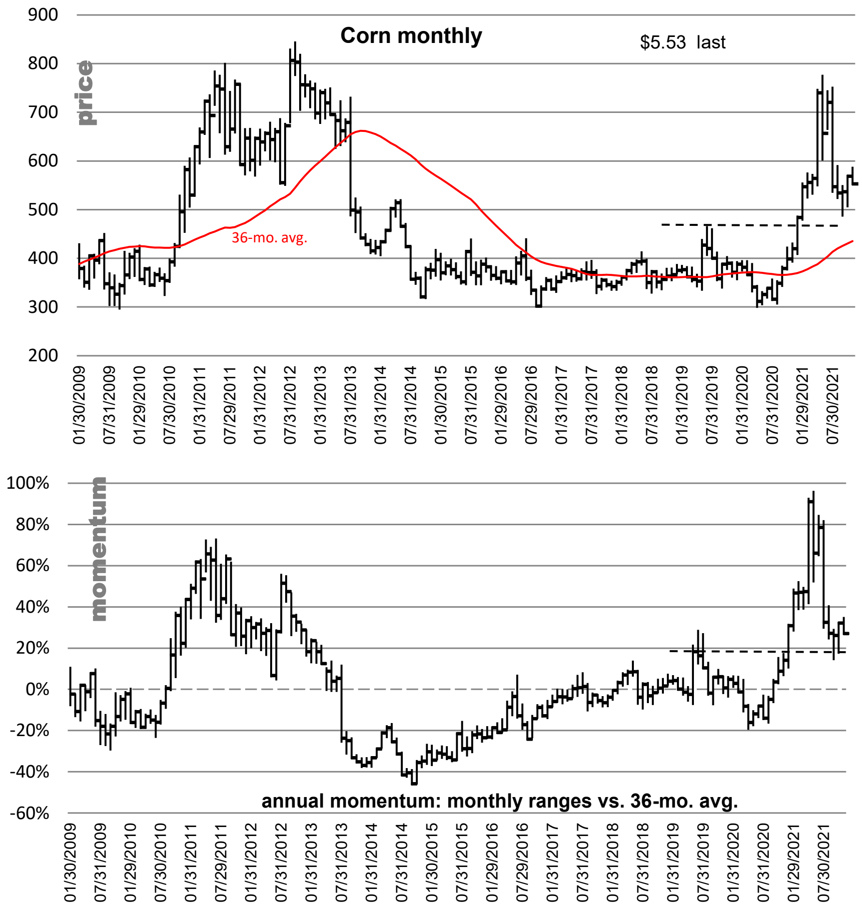
The action now back pressing at that structure again on Friday.

Close this Monday **at $24.26** (adjust that down .03 per day) and that will produce a close over that zero line structure. Breakout.

Consider that yet another significant sign that silver is in the process of a major turn out of the congestion range of the past fifteen months—and a resumption of the major bull trend.

Yes, we'd still like to see the 3-qtr. avg. situation shift, but often one must take such shifts in phases, as the evidence mounts.

Grains: Corn annual momentum

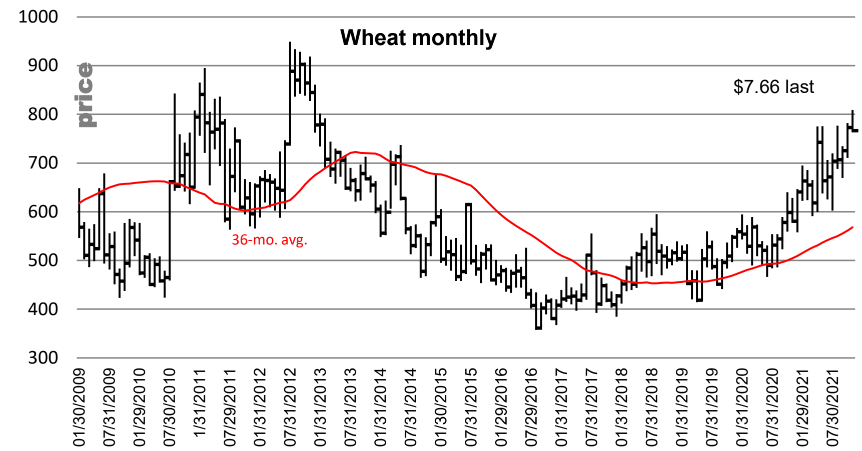


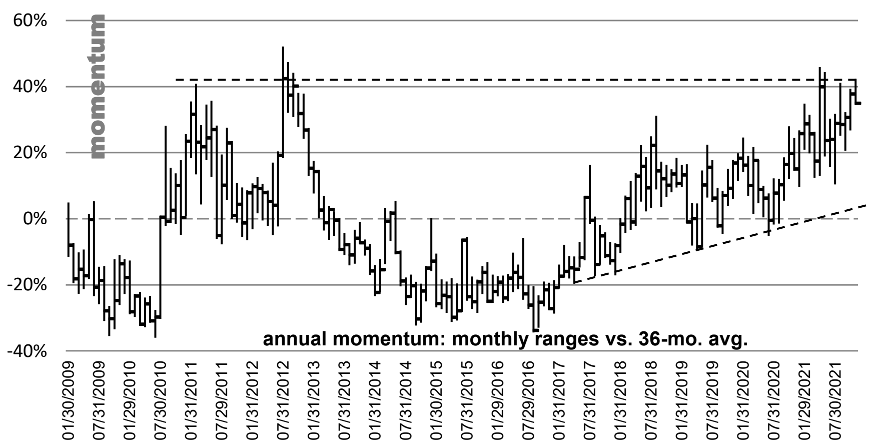
Before we begin to comment on the charts of corn and wheat, we offer an **observation regarding the overall commodity category** (the Bloomberg Commodity Index, BCOM).

MSA issued a major "Upside Explosion" call for commodities as a category back in October 2020. Some commodities had already engaged on the upside just before that report, but most followed suit in October and November 2020. BCOM was then in the low 70s and we projected a likely first target of 105, though in more recent reports we've raised that to perhaps 110. The recent high by BCOM was above 106. So why not be satisfied and take profits?

Because when we look across the markets we see too many commodities that have **already had a correction** and appear to be in resumed or "next" up legs in their major trends. For example, **crude oil**. Our buy was just above $40 last November and then it surged into the mid to upper $70s where it congested/corrected for four months between June and September, at one point producing a drop within that range of over $15. Since then it has further engaged an annual momentum trigger (secondary buy), which argues to us that oil is likely now headed into the $90s. And **natural gas** is currently congesting and has not yet achieved our first target around $9. Many other commodities like copper and these two grains have produced corrections in recent months. So when we add it up, *the bottom-up view* of the category is that it's now more likely poised for a further up leg rather than the onset of correction. Hence our BCOM targets are not likely to halt this advance.

Both price and annual momentum of **corn** have pulled back to likely support levels and did so three months ago. Brakes have been applied since with rebound evident from those levels.





Grains: Wheat annual momentum

Wheat has advanced in a way that has internally corrected constantly. No explosive thin-air surges, just arm-wrestling its way to the upside.

Meanwhile, the conspicuous prior annual momentum chart highs of 2010 and 2012 were at 40%+ over the zero line. Early this year readings tagged that possible resistance and produced a sharp three-month drop from $7.73 down to $6.04. A large percentage correction.

But then it rebounded again to 40% over four months ago and was once again sold into, producing a $1.20 drop per bushel. Again, corrective-type action but standing in place.

Now for a third time momentum is back over the 40% level, indicating persistence though with corrections in the process. There's no particular reason to assume that this hit at +40% will yield yet another correction. Instead it looks more likely to finally produce a sharp up leg, especially if it closes this month at **$8.09**/bushel or higher, or next month at **$8.20** or higher. Such closes will produce new high annual momentum closing readings above prior peak closes going back over a decade. Ceilings be gone! So far this month's high has been $8.07. There's still a lot of month to go.

And the only credible annual momentum structure to watch below is so far beneath the current market as to be almost irrelevant and unlikely to be seen for many months and after higher prices and a further sharp rise in the 36-mo. avg.

Positions in markets mentioned in this report: long PHYS (Sprott Physical Gold Trust), long SLV calls

- Michael Oliver and Bret Oliver