ZEAL INTELLIGENCE

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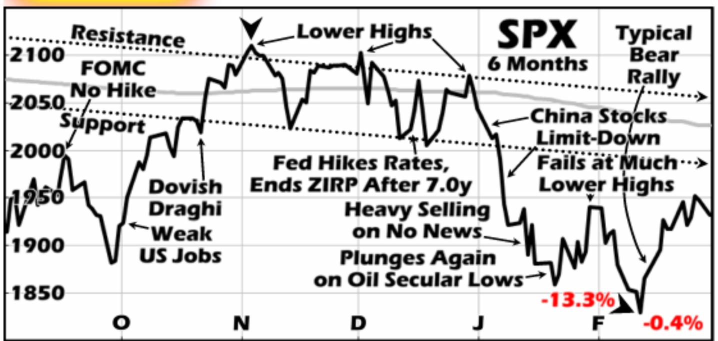

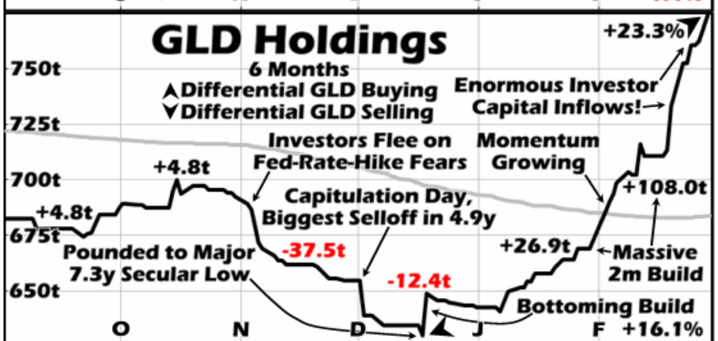

"I don't think it is going to be necessary to cut rates." – Fed's Janet Yellen testifying before US House, 2.10.16

It was a roller coaster of a month in the stock markets, as a steep slide to major new lows was followed by a V-bounce into a sharp rally. But this low-volume buying driven by short covering looked like a typical bear-market rally. And with the stock markets rebounding to lower highs after each selloff, it is almost certain a new bear is upon us. Stocks are plagued by rampant overvaluations courtesy of years of Fed-conjured levitation. Fears of the Fed's new tightening cycle are going to continue to drive stocks lower, no matter how slow it is.

As stock markets plunged in early February, the US dollar once again failed to enjoy its customary safe-haven bid. The lack of confidence in the dollar despite getting that very Fed rate hike traders wanted is ominous. After spending the better part of a year flooding into the dollar on rate-hike hopes, their excessive buying is exhausted. Now whenever one of the Fed officials utters something dovish, the dollar tends to sell off considerably. It fell back under its flattening 200dma in February, both topping signs. With the USDX still not far from March's 11.9-year secular high driven by hopes the Fed would hike, serious downside still remains in this currency.

The increasingly-evident new stock-market bear and sliding US dollar helped spur *investors* to return to gold. American stock investors in particular exited 2015 radically underinvested in this ultimate portfolio diversifier. But they flooded back into GLD shares with a vengeance as gold shot higher last month. They bought GLD shares far faster than gold itself was rallying, forcing GLD's managers to shunt that great excess demand directly into physical gold bullion. Investors *taking the gold-buying baton* from speculators is critical for a young gold upleg to strengthen into a full-blown bull market. February's massive GLD buying confirms this is happening!

Investors pouring capital back into gold fueled one of its most-amazing months in some years. Early on last month, gold decisively broke out above both its new uptrend's resistance and 200dma. Heavy gold buying erupted as the dollar and stock markets sold off. But as they bounced back, gold didn't suffer a proportional selloff. In a major show of relative strength, gold instead *consolidated high* and held on to those sharp gains. It soon even decisively regained its old support at $1200. Nothing begets buying like buying, so gold's awesome outperformance of everything else this year started to attract heavy buying from hedge funds later in February.

And with gold finally rallying long enough and far enough to convince stock traders its strength was sustainable, they rushed to buy the long-abandoned gold stocks. Coming off of its ludicrous fundamentally-absurd 13.5-year secular low in mid-January, the HUI skyrocketed at a breathtaking magnitude! Late 2015's pariah was rapidly becoming the belle of the ball, trouncing the performance of everything else. While the sheer size of February's mighty rally was anomalous, the gold stocks' long-overdue mean reversion higher is only just starting. The more they rally, the more capital they'll attract.

Gold Back in Black

February proved an amazing month, spectacularly vindicating contrarians! The stock markets sold off sharply early on, plumbing major new lows. This further eroded traders' faith in central banks' ability to manipulate markets. So capital flooded back into gold, which is the ultimate portfolio diversifier. As all this buying blasted gold and the stocks of its miners higher, these rallies hit the radars of far more traders and became self-feeding. Despite that glorious month, the global re-diversification into gold is only just beginning.

Bank of Japan Stuns Markets with NIRP

January's final trading day was crazy, shaping much of February's central-bank discourse. The Bank of Japan led by Haruhiko Kuroda shocked the world by declaring a -0.1% interest rate! Commercial banks would have to pay the BoJ interest for keeping deposits there. The BoJ wasn't the first to implement a negative-interest-rate policy. The ECB had paved the way back in June 2014. The BoJ's NIRP was on top of the equivalent of a staggering *$675b per year* of QE money printing to buy assets. Japan's central-bank easing is the most extreme the world has ever seen relative to the size of its economy. The idea behind NIRP is forcing banks to lend money rather than park it at the central bank. But it won't work in Japan, a hardcore saving society. Borrowing demand can't be stimulated where no one wants debt.

Just a week earlier, Kuroda had told Japan's parliament that any additional BoJ easing *would not be NIRP!* Then he went to that World Economic Forum at Davos over the next weekend, and was apparently peer-pressured by other elite central bankers into reneging on his no-NIRP commitment to Japan's lawmakers. Mario Draghi was likely the ringleader in influencing Kuroda, who was apparently led to believe NIRP would boost the Japanese stock markets and weaken the yen. And it certainly worked that day due to the shock value, the Nikkei 225 shot up 2.8% while the yen fell 1.7%.

Stock traders worldwide were thrilled, as NIRP opened a whole new horizon of central-bank easing. The SSEC over in China surged 3.1% higher, while Germany's DAX climbed 1.6%. This central-bank-conjured euphoria spilled into the US markets despite a terrible read on US Q4 GDP. It came in at a near-stall-speed +0.7% annualized growth rate. Yet the SPX rocketed 2.5% higher to 1940, its biggest up day of the young new year. But that still left the SPX with a 5.1% loss that month, its worst January since 2009. With the yen collapsing, the USDX shot up 1.0% to 99.6. That was only 0.7% under its 11.9-year secular high of mid-March 2015.

With stock-market euphoria roaring back and the dollar soaring, that was a perfect setup for a serious selloff in gold. Yet it still rallied 0.3% on January's final trading day, a hint of mounting investment demand that would soon burst forth in the weeks ahead. February's gold demand was epic!

Gold Investment Demand Soars Out of Gates

February dawned with bad data on the 1st, with both of China's major PMIs coming in below expectations in shrinkage territory. The official one fell to 49.4, the weakest levels seen since August 2012 just before the Fed launched QE3. The SPX lost 1.0% out of the gates, until the Fed's Stanley Fischer spoke in New York. Yellen's right-hand man argued the Fed *doesn't know what it's going to do* on the rate front, which is why the FOMC meets 8 times per year! His other dovish comments implied 2016's market volatility could very well stay the Fed's hand on rate hikes. Traders loved this, and bid the SPX back up to a flat close. Lower odds of rate hikes this year knocked the USDX 0.6% lower, helping gold catch a 1.1% bid to $1129 *courtesy of stock investors*.

Early-stage gold uplegs have three critical fuel sources. Initially futures speculators cover shorts, providing the first impetus for a rally. This pushes gold high enough for other futures speculators to voluntarily add new highly-leveraged longs. But durable uplegs are only possible if the gold-buying baton *is soon handed off to investors*. They have vastly-larger pools of capital, and are strong hands in for the long haul with effectively no leverage. The best proxy for capital flows into and out of gold from investors is the daily holdings of gold bullion of the world's dominant GLD gold ETF. That day American stock investors put so much differential buying pressure on its shares that its managers were forced to boost its holdings by 1.8%! If they hadn't equalized all that excess GLD demand directly into physical gold, GLD share prices would've decoupled to the upside. 1.8% is a serious build. Since GLD's debut in November 2004, only 1/50th of all the trading days since had seen 1.8%+ bullion builds.

The 2nd saw adverse consequences already start cropping up for Japan's NIRP. The BoJ announced that it would *cancel a sale* of government bonds to retail investors for the first time ever due to negative rates. Japan is utterly dependent on issuing debt to finance its massive overspending. It was asinine to make that debt so unattractive that investors wouldn't want to lend to Japan! In the US, the NIRP-driven euphoria vanished abruptly as the SPX plunged 1.9%. The attributed catalysts were a 4.7% plunge in oil taking it back below $30, and hawkish Fed comments. Voting member of the FOMC this year Esther George of Kansas City said the Fed can't change policy for every little market blip. She said the wild swings in financial markets were "not all that unexpected, nor necessarily worrisome" given that the Fed's rate hike in December ended years of policies aimed at propping up the financial markets. Fed hawks were alive and well.

Gold was flat that day ending a CoT week where it crept up 0.6%. Futures speculators had added 7.5k contracts on the long side while covering 10.0k short ones, for solid CoT-week buying equivalent to 54.5t of gold. That was certainly a good step in the right direction as February dawned.

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Gold's Rallying Spills into Gold-Stock Sentiment

With that one-day Japan-NIRP surge largely erased just a couple trading days later, central bankers fretted. William Dudley of the New York Fed gave an interview published after the close on the 2nd. He was *super-dovish*, claiming the financial conditions were far tighter since the Fed's December rate hike. With market developments altering the Fed's outlook for economic growth and risks, Dudley implied that the Fed would be unlikely to hike at the FOMC's next meeting in March if stock-market volatility persisted. Not too long ago, such dovishness would've unleashed a monster rally.

But the SPX merely eked out a 0.5% gain on the 3rd, as central-bank jawboning's efficacy continued to wane. That morning's ADP report on US private jobs came in a bit better than expectations at +205k versus +195k. But the ISM's read on US services plunged to 53.5 versus the 55.1 economists were looking for. Services were supposed to be the shining bulwark of strength in a sea of weak manufacturing, so that spooked traders. Gold took off soon after that ISM services report on heavy investor buying. High GLD-share demand triggered another 0.7% build following the previous day's 0.6%, pushing gold 1.2% higher to $1143. The USDX helped boost gold too, plunging 1.7% as Dudley's interview made traders realize 2016 won't see 4 rate hikes. That was a pivotal day in gold stocks too, with the HUI *rocketing 8.5% higher* as stock traders' bearish sentiment started to shift!

That proved gold stocks' best up day in 29 months since mid-September 2013. And unlike that earlier surge coming on an FOMC-meeting day where it didn't start tapering QE3 as expected, there was no news catalyst on the 3rd. Without a doubt, *no-news buying* is the best kind. Traders can't rationalize it away as soon as some news fades. That day was also very important technically, with the HUI decisively blasting back above its 200dma. It hadn't traded above that key psychological milestone in 17 months, a long time.

The dazzling gold and gold-stock momentum continued on the 4th, with the metal and the HUI rallying another 1.1% and 5.5%. Again stock investors led the way forcing another 0.5% GLD build with their heavy gold-ETF demand. The USDX's continuing 0.7% fall certainly helped, despite a flat SPX. The new Dallas Fed president said the Fed should be "patient" on rate hikes, yet the SPX still refused to rally.

Jobs Friday, the world's most-important market-moving economic report, arrived on the 5th. And it was *a big miss*, with US January jobs growth of just 151k compared to the +190k expected. Yet because the unemployment rate fell to 4.9%, the lowest since February 2008, traders made the odd choice to interpret it as hawkish. Wall Street always ignores the rate because it is merely estimated from a household telephone survey. But the payroll number is hard data from businesses. Adding to the hawkishness, wage growth grew 2.5% YoY which portends looming inflation pressures. So the USDX shot up and gold sold off after jobs' release.

China Keeps Buying Gold Despite Interventions

Given gold's strong 3.4% rally in February's first 4 trading days leading into Jobs Friday, it could've suffered a big selloff on that hawkishly-interpreted report. Indeed gold fell from $1159 just before to $1145 an hour or so later. But as the SPX sold off sharply on odds of 2016 rate hikes swinging higher again, gold caught a major bid. It surged another 1.5% higher to $1173 as the SPX plunged 1.8% to 1880 on Fed-rate-hike fears. Again differential GLD-share buying by American stock investors paved the way with another 0.7% holdings build. And the HUI blasted another 5.7% higher. I had to pinch myself to see if I was dreaming, as owning the gold stocks was suddenly a heck of a lot of fun again! On a side note showing how dangerous these stock markets are, tech darling LinkedIn saw its stock plummet 43.6% that day alone after it lowered its Q1 revenue outlook by just 6%!

Monday the 8th began with weekend news out of China, despite its stock markets closing *for that entire week* for the Lunar New Year holiday. Due to trying to manipulate stock markets higher and shore up the devaluing yuan, January's $99.5b drop in China's forex reserves was the second-highest ever after December's $107.9b. That left total reserves at $3.23t, their lowest since May 2012. More importantly for us, China's central bank *continued buying gold*. The PBoC added another 16.2t taking its official holdings to 1778.5t. It is important to remember the false premise behind last summer's record gold-futures shorting attack was the idea that China was done adding to its gold reserves. But the PBoC has been regularly buying gold each month ever since!

It was kind of funny, as the Friday before CNBC was full of analysts saying the US stock markets would find it easier to rally with Chinese stock markets closed. Yet on that first day of China's week-long holiday, the SPX plunged another 1.4% to a new post-peak low of 1853 on no news. And this was naturally great for the surging gold investment demand, with another 1.5% gold rally to $1190 on another 0.7% GLD build. The HUI climbed another 3.0% on gold's ongoing big impressive gains. Our trades were gloriously soaring!

Japan's NIRP woes continued to intensify on the 9th, as *10-year* Japanese government bonds saw their yields turn negative for the first time ever. Negative 10-year yields had never before been witnessed in a G7 nation. The idea that Japan's bonds would be spurned by investors battered the Nikkei 225 to a huge 5.4% loss, its biggest down day in almost 3 years! Meanwhile here in the States, the SPX just ground along near the prior day's low close even as traders eagerly awaited Janet Yellen's congressional testimony the next day. Gold finally took a well-deserved breather.

Despite its 0.2% loss that day, this metal had soared an incredible 5.3% higher in that CoT week. And American futures speculators were instrumental, ramping their longs by a staggering 1/8th or 27.2k contracts while modestly covering 0.4k short ones! This was the equivalent of 85.7t of gold buying. Speculators adding new longs is very bullish, since making these leveraged upside bets *is totally voluntary*.

Bubbleology

	P/E Ratio		Fair Value		Dividend Yield		Overvalued		Market Cap		Co >28x		Co <7x		No Profits		Lowest P/E	
S&P 500	24.0	-0%	1137	+3%	2.29%	-0.07%	71%	-1%	$18,131b	+3%	23%	+2%	2%	-1%	10%	+2%	UAL	2.9
Dow 30	19.2	+6%	12028	-5%	2.95%	-0.21%	37%	+7%	$5,058b	-1%	17%	+7%	0%	+0%	3%	+0%	JPM	9.4
NAS 100	31.9	-6%	2001	+5%	1.33%	-0.13%	128%	-15%	$5,016b	-2%	40%	+3%	2%	-1%	12%	+0%	AAL	3.7

Annual	M1 Money		M1/oz US Gold		MZM Money		MZM/oz US Gold		CPI		PPI		<Key>
Inflation	$3,095b	+5.5%	$11,827	+5.5%	$13,816b	+5.8%	$52,799	+5.8%	236.92	+1.4%	182.5	-5.0%	Link

Yellen Finally Speaks Publicly After Rate Hike

The dawn of the open-ended QE3 era in early 2013 was the beginning of the gross market distortions gutting gold in recent years. There had been 162 CoT weeks since, as of the 9th. That week's 27.2k contracts of long-side buying by speculators was the 5th largest in that span. And only 6 of those weeks saw spec long-side buying of over 20k. This is another illustration of the *massive shift in sentiment* underway in gold in February. It went from being utterly despised in mid-December to an increasingly-sought-after momentum play in less than 2 months! Nothing begets buying like buying, so attention-grabbing rallies soon feed on themselves.

The 10th saw Japan's Nikkei 225 slide another 2.3% to a 16-month low, down 10.3% in just 8 trading days since the BoJ NIRPed! This was the exact opposite stock-market impact Kuroda had intended, he must have been freaking out. American stock traders were looking for salvation from none other than Janet Yellen. As of the day before, the SPX had fallen 10.7% since the Fed ended ZIRP in mid-December in that rate hike. Oil was down 20.1% in those same 7 weeks. With Janet Yellen scheduled to testify before the US House financial-services committee that morning, surely she would recognize the damage done and dovishly soothe riled markets, right? Traders eagerly awaited the first time that she would speak publicly since the afternoon of that rate hike.

But she wasn't dovish! When asked about rate *cuts*, she opined "I don't think it is going to be necessary to cut rates." She declared the Fed expects to continue its rate-hike cycle this year, declaring it "expects that with gradual adjustments in the stance of monetary policy, economic activity will expand". She also slammed the door shut on NIRP in the US, warning that "There are several potentially substantial legal and practical constraints to implementing a negative IOER rate regime, some of which would be binding at any IOER rate below zero, even a rate just slightly below zero. Most notably, it is not at all clear that the Federal Reserve Act permits negative IOER rates, and more staff analysis would be needed to establish the Federal Reserve's authority in this area." IOER is *interest on excess reserves*. Janet Yellen herself doesn't know if NIRP is even legal in the US!

After that, the hearing got really bizarre. Black lawmakers dogpiled Yellen on the horrific black unemployment that Obama's economy has wrought. They pressed her to name a black person to be a regional Fed president, said that the Fed's *primary mission* needs to be black unemployment, as well as demanded the Fed mention black unemployment in every FOMC statement! I've never seen anything like it.

Gold's Fundamentals During Dismal Q4

With Yellen hawkish, a sharp 1.6% SPX rally early on on hopes she'd be dovish fizzled out to a flat close. Yet gold's price climbed 0.7% to $1197 despite the threat of rate hikes. Remember late last year when everyone fervently believed Fed rate hikes would obliterate zero-yielding gold? History proved that thesis was a steaming pile of crap, as I warned you many times before December's rate hike. Fed-rate-hike cycles have actually been very bullish for gold historically!

Overnight on the 11th, the World Gold Council released its highly-anticipated Q4 Gold Demand Trends report. This is the world's premier authority on gold's *fundamentals*, and Q4 was exceedingly important for gold. It not only sunk to deep 6.1-year secular lows in mid-December the day after that rate hike, gold's average $1105 price during the quarter was the worst since Q4'09. How did gold fare fundamentally when everyone hated it and thought it was doomed?

The answer is *pretty darned awesome*, seeing demand rising 4.4% YoY while supply plunged 10.0% YoY! Let's dig into the WGC's numbers. 4/7ths of world gold demand last year came from jewelry, and that only fell 0.9% YoY. Meanwhile investment demand, just over 1/5th of the total, blasted 14.9% higher YoY in Q4! Despite the din of naysaying, there were still plenty of smart contrarian investors out there who recognized the great wisdom of *buying low* when gold was deeply out of favor. Interestingly central banks, about 1/7th of 2015's gold demand, agreed. Their demand soared 24.9% YoY! China's official gold buying played a big role in that. Overall that country's 268.2t of Q4 consumer gold demand was the world's largest, followed by India at 233.2t. It was interesting to see the US's grow 5.8% to 62.0t in Q4, in a quarter where American commentators loathed gold.

The supply front was even more interesting, where total mine supply dropped 9.3% YoY in Q4! That was 4/5ths of the total, with recycled gold making up the rest. It plunged 12.2% YoY. On that mine-production front, this was the first quarterly decline *since Q3'08!* The WGC is projecting mine supply to fall again in 2016, and I suspect it will for years no matter what gold's price does. The critical exploration pipeline for new gold projects all but evaporated due to the low gold prices in recent years spawned by central-bank stock-market manipulation. After suffering through economic depression, the gold miners are going to remain conservative and gun shy on exploration spending for years to come.

In a month full of fantastic gold action, that WGC report on its fundamentals is February's most-important takeaway. It proves that gold's dismal Q4 prices were purely the result of irrational sentiment, excessive fear. They had absolutely nothing to do with fundamentals, which were *very strong*.

Zeal Speculation Matrix

	Relative Indicator			Trading Range		Multiple Extremes (6 Months)				
	Level	Multiple	Bias	Oversold -	Overbought	Low	Date	High	Date	Latest Web-Essay Link
SPX	1932.23	0.954	Short	<0.95	>1.10	0.899	2.11.16	1.023	11.3.15	Fed's Market Distort. Unwind
VIX	20.52	1.113	Long	<0.75	>1.75	0.865	11.2.15	1.989	9.1.15	Major Stock Bear Awakening
USDX	98.17	1.013	Short	<0.97	>1.08	0.981	10.14.15	1.038	11.30.15	Trading the Parabolic Dollar
CRB	163.79	0.846	Long	<0.85	>1.05	0.776	1.20.16	0.943	10.9.15	China Commodities Drag
Copper	$2.13	0.918	Long	<0.85	>1.05	0.794	11.23.15	0.942	10.15.15	Copper-SPX Disconnect
Crude Oil	$33.79	0.763	Long	<0.70	>1.10	0.556	1.20.16	0.975	10.8.15	Energy Stocks No Bear Ref.
XOI	981.09	0.850	neutral	<0.85	>1.10	0.742	1.20.16	0.984	11.3.15	Energy Stocks No Bear Ref.
Gold	$1239.20	1.093	Long	<0.90	>1.05	0.912	12.2.15	1.100	2.11.16	Gold, Miners Rocket Higher
Silver	$14.89	0.989	Long	<0.80	>1.10	0.882	12.14.15	1.042	2.11.16	Silver's Deep Undervaluation
HUI	167.49	1.307	Long	<0.65	>1.10	0.658	9.14.15	1.307	2.25.16	Gold-Stock Upside Targets

Gold's Explosive Decisive $1200 Breakout

I'm not sure what time the WGC published its Q4 GDT, but the gold rallying on the 11th started in Hong Kong with a surge to $1218 or so. That was the first day those traders were back from their Lunar New Year holiday, which was 3 days as opposed to mainland China's 5. All throughout the London trading session after that, gold continued powering higher. By the time the US markets were opening, gold was already at $1241! Yellen testified before the Senate's banking committee that day, and said the same thing. Incredibly federal-funds-futures traders fully discounted the chance of any Fed rate hikes in 2016, instead handicapping *a rate cut* at the FOMC's September meeting! The SPX fell as low as 1810 on Fed-rate-hike fears, before rallying to a -1.2% close at 1829. In the 8.7 months since the SPX's lofty peak back in late May, the SPX had lost 14.2% in what will prove to be a major new cyclical bear market. Those take the SPX *50% lower on average*, but after the Fed's unnatural levitation it'd be surprising if the downside doesn't overshoot to -60%ish.

Gold didn't lose any of its huge overnight gains, closing up 4.1% at $1246! For a couple years following gold's epic Q2'13 plunge soon after QE3 spun up, which proved gold's worst quarter in an astounding *93 years*, this metal was able to stabilize at $1200 support. That more or less held until July 2015 and that extreme gold-futures shorting attack late one Sunday evening explicitly executed to shatter support. Gold's spectacular rally on the 11th, its biggest up day since January 2009, *explosively* decisively regained that support. A decisive technical breakout exceeds 1%, and that day the $1200 line was exceeded by 3.8%! $1200 was once again major support, and gold-stock traders rejoiced blasting the HUI up 7.1%. Provocatively that day gold and the HUI were up 17.5% and 43.3% YTD, which would've been fine gains for all of 2016! February's run was truly extraordinary.

Friday the 12th began with the Nikkei 225 plunging 4.8% to another major new low, down 14.6% in the 9 trading days since Kuroda implemented NIRP! He was probably cursing the day he met Mario Draghi. The big news in the US was a January retail-sales beat, with core sales surging 0.6%. It was pretty misleading as with most data in recent years, as this entire gain was *due to a seasonal adjustment!* Without those fictional adjustments January retail sales were merely up 1.4% YoY, with them that surged to +3.4%. But the US stock markets were oversold enough the prior day, despite the VIX at only 28.1 which isn't bottoming-grade fear, that it didn't matter. The SPX rocketed 2.0% higher to 1865.

But gold didn't wilt in this short-covering onslaught, only giving back 0.6% after the previous day's massive gains. It was even more impressive considering the USDX rallied by 0.4% as well. The HUI climbed another 2.7% to 163.6, the best level since January 19th's fundamentally-absurd *13.5-year secular low*. In just 18 trading days, the HUI had sky-rocketed an astounding 62.4% higher! Vindication from the endless attacks from irrational gold bears last year couldn't have felt sweeter. Multiplying wealth is the best revenge.

While Monday the 15th was the Presidents' Day holiday in the US, the world kept on turning. The Nikkei 225 finally bounced, soaring 7.2%. And despite Chinese exports dropping 11.2% YoY and imports plunging 18.8% YoY, the first day of trading after that Lunar New Year holiday week saw the SSEC merely lose 0.6% on central-bank-easing hopes.

The Fed Rolls Out Big Gun to Talk QE4!

The DAX surged 2.7% too, on news the ECB was talking about buying *bundles of bad loans* from Italian banks as an expansion of QE! You just can't make this stuff up, it defies belief. SPX futures were up 1.5%, and such a huge holiday global stock surge spelled trouble for gold. It was hit hard in Asia, trading as low as $1203 before recovering to $1209. That was 2.4% below Friday's close as Americans returned.

The 16th saw the SPX's *low-volume* short-covering bear-market rally continue with another big 1.7% gain. That was the SPX's best 2-day run since late August after that sharp 4-day correction. Gold and the gold stocks were hammered as the metal entered the US trading day at $1214. Although most of the losses happened on Presidents' Day, gold fell a big 3.1% to $1201. That was its worst day since late July's extreme gold-futures shorting attack. Gold still looked very bullish though. Its new $1200 support held, and there were *no GLD draws* which meant stock investors weren't exiting on that big drop. Just 2 trading days earlier in that monster gold surge, they'd bought GLD shares so aggressively that its managers had to boost GLD's bullion holdings 2.0%! But that sharp gold selloff still crushed the HUI 7.6% lower.

That Tuesday ended a holiday-shortened CoT week that saw gold still rally 1.0% despite that day's plunge. And the American futures speculators again led the way with serious buying. They added 11.1k new long contracts while covering 15.9k short ones for total CoT-week buying equivalent to 84.2t of gold. That was quite strong, and it wasn't over yet. For speculators' gold-futures positions to just mean revert to their normal-year levels between 2009 and 2012, this group of traders still had to buy 33.6k long contracts and cover an additional 57.5k short ones. This portended another 283.5t of coming gold buying as speculators' bets normalize.

The 17th saw the SPX's low-volume short-covering rally continue with another 1.6% surge. This was the first streak of 3 SPX 1%+ up days since October 2011. Most of these gains were already seen before the 2pm release of the minutes from the FOMC's January 27th meeting. They were as dovish as you'd expect, with the FOMC members starting to view the sliding stock markets *as a tightening* equivalent to further rate hikes! I don't understand this myself, so I can't even attempt to explain it. It sounds like a rationalization to slow the Fed's one-hike-old rate-hike cycle to me, the Fed is really getting worried. Federal-funds-futures traders had the chance of 2016 rate hikes highest in December at 40%. It was awesome to see gold climb 0.7% to $1210 despite that sharp 3-trading-day 5.3% SPX rally. $1200 was holding.

After the close that day, the St. Louis Fed president and FOMC voting member this year James Bullard gave a major speech in his home town. Perceived as a hawk, he claimed it would be "unwise" for the Fed to continue hiking rates with declining inflation expectations. He went so far as arguing the most-natural option if needed *is more QE!* That was the first time any major Fed official has implied *a QE4* might be necessary. I was shocked to see QE4 talk just 2 months after the Fed's first rate hike in 9.5 years. Bullard choosing to jawbone dovishly has ignited massive stock rallies in recent years, most notably on October 16th, 2014. One day after a major SPX low, he said the Fed needed to delay ending its QE3. Over the next 2 weeks, the SPX soared 8.3% on that dovishness. Bullard was credited with saving the markets!

Big Investment Buying Confirms New Gold Bull

Traders eagerly awaiting another Bullard Bounce on the 18th were disappointed. Despite QE4 talk, the low-volume bear-market rally fizzled with a 0.5% SPX loss. But over in gold-land, this incredible dovishness wasn't lost on traders. They aggressively bid the metal 2.1% higher to $1235. The futures speculators still fear rate hikes even though they're very bullish for gold historically. And with QE4 joining all the rate-cut and NIRP talk, it was becoming clear *there was no way* the Fed will hike rates 4 more times this year as it had forecast at mid-December's FOMC meeting. As Bullard lit a fire under gold, the HUI surged 4.9% to regain 161.4.

Friday the 19th began with a hotter-than-expected read on US inflation, as the core CPI climbed 0.3% which was its fastest rise since August 2011. Even though the Fed does not like the CPI as an inflation gauge, with the core up 2.2% YoY it was above the Fed's 2% target. Traders figured this put 2016 rate hikes back on the table. This would've been interpreted as very bearish for gold not long ago, but with a flat SPX the metal was able to merely slip 0.5% to $1228. It was awesome to see this strength driven by *American stock investors* flooding back into GLD shares! They experienced so much differential demand that GLD's holdings soared up 2.7% or a whopping 19.3t that day. Excess GLD-share demand has to be directly equalized into physical gold bullion to keep that leading ETF's shares mirroring the gold price.

Monday the 22nd began with a strange overnight event. On June 23rd, the UK is having a referendum on whether or not *to leave the European Union*. Even though the UK has never been part of the Eurozone currency bloc, its 43-year-old membership in the EU has always been controversial for national-sovereignty reasons. That day the popular mayor of London said he would campaign for a Brexit, Britain's exit from the EU. So the British pound sterling plummeted by 1.8% versus the US dollar, its biggest loss in nearly 6 years. The USDX surged 0.8%, beating gold down 1.6% to $1208. But American investors still kept flooding into GLD, forcing another huge 2.6% or 19.3t build. Its holdings had rocketed up 17.1% YTD in 2016 and 12.4% MTD in February!

As I wrote back on December 31st predicting a new gold upleg this year while the metal still languished at $1060, any major gold upleg requires *investors* to soon take the buying baton from futures speculators. Investors are strong hands in for the long haul using little or no leverage. Their buying is effectively inexhaustible. But futures speculators, whose short covering initially ignites gold uplegs, are the opposite. They have a super-short-term focus due to the extreme leverage inherent in gold futures, and their buying potential is limited once shorts are covered. GLD's massive 5.4% build over those 2 trading days, the largest since February 2009, proves *investors are taking over from speculators*. This was the best and most-bullish gold news seen in all of 2016!

GLD builds of the magnitude seen on the 19th and 22nd only happen in less than 1 in 100 trading days. They hadn't been seen back-to-back since early 2009, early on in gold's massive 166.5% *bull market* between November 2008 and August 2011. That big early-2009 buying later proved to be from hedge funds, which are notorious for their herd behavior. When managers see something rallying and their peers are buying, they crowd in. Such big investment buying is a nearly-ironclad confirmation *gold is in a new bull market!*

February's Gold Rally Was Only the Vanguard

The 22nd also saw the SPX's bear-market rally resume with a big 1.4% gain to 1946. But soaring so far so fast, the SPX looked weak. It hadn't even regained its 50dma, which is strong overhead resistance. And the VIX fear gauge had slumped to 19.4, under that 20 level that reveals *excessive complacency* and is the green light for resuming shorting.

And indeed the 23rd saw the SPX slide 1.2% in its worst down day since early February well before that bear-market rally. Crude oil sold off sharply after Saudi Arabia's oil minister's comments at a Houston conference of energy executives. The 81-year-old Ali al-Naimi, a very-respected veteran of many booms and busts, said, "The producers of these high-cost barrels must find a way to lower their costs, borrow cash, or liquidate. It sounds harsh, and unfortunately it is, but it is a more efficient way to rebalance markets. Cutting low-cost production to subsidize higher-cost supplies only delays an inevitable reckoning." So Saudi Arabia was not going to cut as al-Naimi emphasized elsewhere, instead the US shale-oil producers would have to go bankrupt! The SPX fell on this shock, which helped gold rebound 1.4%.

The 24th saw the SPX rebound from an early-day selloff to a modest +0.4% close, but momentum was still fading. A flash PMI from Markit indicated US *services* were contracting. Gold only edged 0.3% higher, but GLD-share demand was so high that ETF added another 1.1% to its gold-bullion holdings! American investors' demand for gold continued to be remarkable. The 25th began with the Shanghai Comp in China plunging 6.4% on no clear catalyst. Despite that, the SPX enjoyed a late-day surge to a 1.1% gain following good US durable-goods orders in January. They rose 4.9% compared to +2.5% expected. Gold edged up another 0.4%.

Friday the 26th began with a better-than-expected revision to US Q4 GDP, which allegedly grew at a 1.0% annualized rate versus the +0.4% expected. Since this beat lifted the odds of more Fed rate hikes, gold sold off over the next few hours. It finished the day at -0.9%, compared to -0.2% in the SPX. It was ominous stocks didn't rally on that good data, more evidence that *the bear-market rally is over*.

February proved an extraordinary month, and the major capital inflows into gold and its miners stocks were just the earliest vanguard of shifting preferences. With the US stock markets floundering in a major new cyclical bear, the pressure for investors to diversify is only going to intensify. The Fed-levitation years left investors so radically underinvested in gold that it is *going to take years* to rebuild those prudent positions! GLD offers a great example. In 2012 before the gross QE3-spawned market distortions, GLD's holdings had averaged 1294.2t. That's still 66.5% above today's levels!

March's market action will swirl around that FOMC meeting on the 16th. It's one of the quarterly ones followed by a Yellen press conference, the only ones where a rate hike is likely. The stock markets will probably sell off into that critical decision, which is very bullish for gold demand. Even if the Fed doesn't hike, market risks are high due to that "dot plot" of rate projections by FOMC members. If they remain too hawkish in 2016, Fed-inflated stock markets are in serious trouble. If they are too dovish, it makes the December rate hike look like a mistake and implies a weakening economy. *Damned either way!* Finally on the investment front, I am replacing general miner BHP with elite gold miner NGD.

Stock Speculative Investments and Speculations

◆ **China Gold** (**CGG-TSX**) … China Gold soared in February, but still greatly underperformed its peers. Its 2015 gold production grew 26.5% YoY to 228.5k ozs, but CGG didn't report cost data and its Q4 results aren't due out until March 30th! 2016 output is forecast to climb to 235.0k ozs. (Rec 10/15 @ $1.90 • Now $2.26 • +19% • Stop ↑$1.82 *25%*)

◆ **Richmont Mines** (**RIC-NYSE**) … Richmont rocketed up with its sector. It produced 22.4k ozs of gold in Q4 at high AISC of $1274 per ounce. Full-year 2015 was 98.0k at an AISC of $1074, which was more reasonable. Richmont is expecting costs to fall this year, projecting midpoint production of 92.0k ozs at lower midpoint AISC of $975. But even with its high costs, the company left 2015 with $46m in cash after earning operating cash flows of $33m last year. (Rec 10/15 @ $2.76 • Now $4.67 • +69% • Stop ↑$3.75 *25%*)

◆ **OceanaGold** (**OGC-TSX**) … OceanaGold blasted higher as well, and reported a heck of a Q4. It mined 119.5k ozs of gold at AISC of *just $709 per ounce!* That makes OGC one of the lowest-cost gold miners in the world. It expects to see similar results in 2016, with guidance at midpoints of 405k ozs of gold produced at AISC of $725. OceanaGold is one of my favorite miners with its epic fundamentals. (Rec 11/15 @ $2.50 • Now $3.74 • +50% • Stop ↑$3.01 *25%*)

◆ **Klondex Mines** (**KDX-TSX**) … Klondex soared early last month, but hadn't released any Q4 financial data as of late February. 2015 saw production of 127.5k gold-equivalent ounces (83% gold, rest is silver). It's forecasting production growing to 147.5k in 2016, at excellent AISC of $875. Even after February's surge, it's still trading at a 21.9x P/E. (Rec 12/15 @ $2.59 • Now $3.61 • +39% • Stop ↑$2.93 *25%*)

◆ **Kirkland Lake Gold** (**KGI-TSX**) … Kirkland Lake blasted higher all month long, defying the sector consolidation. The company isn't expecting to report results until mid-March, so there wasn't any material news last month. Given the massive surge in its stock, investors expect great news. (Rec 1/16 @ $4.84 • Now $8.17 • +69% • Stop ↑$6.19 *25%*)

◆ **Alacer Gold** (**ASR-TSX**) … Alacer way underperformed in February, stalling out after reiterating disappointing guidance for 2016. It produced 163.7k ozs of gold in 2015, but is only forecasting a midpoint of 128.0k this year as its mine transitions to mining deeper ore. Still, with low AISC of just $805 in 2016, $361m in cash which is 46% of ASR's current market cap, and a 16.9x P.E, Alacer remains a strong value play among the gold miners. It will be bid higher. (Rec 2/16 @ $2.18 • Now $2.71 • +24% • Stop ↑$2.11 *25%*)

◆ **B2Gold** (**BTG-NYSE**) … BTG soared last month, but its Q4 results aren't due out until mid-March so there was little news. It's forecasting 2016 gold production at a 530.0k ozs midpoint, at AISC centered around $910. Spending February under its 200dma, BTG's rally has barely started. (Rec 2/16 @ $0.75 • Now $1.12 • +49% • Stop ↑$0.88 *25%*)

◆ **IAMGOLD** (**IAG-NYSE**) … IAMGOLD skyrocketed last month, and released Q4 results unlike many of its slow-to-report peers. It mined 806.0k ozs in 2015 at high AISC way up at $1118! With gold averaging $1159, that didn't leave much room for profits. IAG is forecasting 785.0k ozs of gold production this year, at better AISC of $1050. And with its $691m in cash, *73% of its current market cap*, IAG remains a great buy for gold-stock investors looking to deploy. (Rec 2/16 @ $1.45 • Now $2.42 • +67% • Stop ↑$1.93 *25%*)

◆ **Tahoe Resources** (**TAHO-NYSE**) … Tahoe's February rally was lackluster, stalling after the company announced it was buying Lake Shore Gold. It's a great deal for the long-term but dilutive up front. The combined company forecasts 2016 silver production at a 19.5m ozs midpoint and AISC of just $10.50. It will also produce *400k ozs of gold* at AISC of $975! It's sad to see the old pure-silver Tahoe evolving into *a primary gold miner* in sales, but it's a powerhouse. (Rec 2/16 @ $7.75 • Now $9.24 • +19% • Stop ↑$7.28 *25%*)

◆ **Eldorado Gold** (**EGO-NYSE**) … Because of harassment from Greece over a mine build, Eldorado's stock has really lagged. That challenge should be resolved, but even without that mine EGO is awesome. It is forecasting 2016 gold production at a 597.5k ozs midpoint at AISC of $960. And Greece's highest court in such matters *already nullified* two decisions revoking mining permits by Greece's government. (Rec 3/16 @ $3.00 • Now $3.00 • +0% • Stop $2.25 *25%*)

◆ **Pretium Resources** (**PVG-NYSE**) … Pretium's stock got hit after a $120m offering to secure the final cash necessary *to fully fund* its $697m Brucejack mine build. Scheduled to go live in Q3'17, Brucejack is expected to average 404k ozs of gold per year for 18 years! Now completely financed, this great mine will really attract investors as it nears going live. (Rec 3/16 @ $4.66 • Now $4.66 • +0% • Stop $3.50 *25%*)

◆ **Primero Mining** (**PPP-NYSE**) … Primero *plummeted* after receiving a tax claim in its *years-old dispute* with Mexico, bringing out the parasitic lawyers. But PPP is expecting to mine 270k GE ozs this year at AISC of $875, so it is radically undervalued no matter how this old tax dispute is settled. (Rec 3/16 @ $1.63 • Now $1.63 • +0% • Stop $1.22 *25%*)

Stock-Options Speculations

◆ **GDX Mar 14 Calls** … Buying low pays out nicely, again. (Rec 9/15 @ $2.08 • Sell Now @ $5.20 • +150% FINAL)

◆ **GDX Jun 14 Calls** … Lots of time remains for this trade to mature. (Rec 2/16 @ $1.64 • Now $5.60 • +241%)

◆ **SPY Sep 193 Puts** … Late February's sub-20 VIX green-lighted shorting. (Rec 3/16 @ $11.95 • Now $11.95 • +0%)

Long-Term Investments

Symb.	Exch.	Description	Rec.	Price	Now	Gain
Gold	*(coins)*	1-oz bullion	5/01	$264.40	$1239.2	+369%
Silver	*(coins)*	US 90% bags	11/01	$4.20	$14.89	+255%
SSRI	NASD	Silver miner	4/02	$2.92	$5.80	+99%
GG	NYSE	Elite major gold	8/02	$8.12	$14.32	+76%
PAAS	NASD	Major silver	8/02	$6.10	$9.59	+57%
OXY	NYSE	Major US oil	12/05	$39.65	$68.82	+74%
SCCO	NYSE	Major copper	2/06	$14.52	$23.94	+65%
EOG	NYSE	Major US oil	7/06	$34.67	$64.74	+87%
SLW	NYSE	Elite major silver	11/08	$3.60	$15.73	+337%
DGC	TSX	Elite mid gold	8/15	$12.69	$21.31	+68%
IAG	NYSE	Elite mid gold	8/15	$1.52	$2.42	+59%
TAHO	NYSE	Elite gold/silver	8/15	$8.13	$9.24	+14%
AG	NYSE	Elite major silver	10/15	$3.20	$4.64	+45%
OGC	TSX	Elite mid gold	10/15	$1.95	$3.74	+92%
BTG	NYSE	Elite mid gold	11/15	$1.07	$1.12	+5%
EGO	NYSE	Elite mid gold	2/16	$2.24	$3.00	+34%
NGD	NYSE	Elite mid gold	3/16	$3.39	$3.39	+0%

Watch List

Symb.	Exch.	Sector	Risk
FM	TSX	Copper	5
SCCO	NYSE	Copper	5
NSU	NYSE	Copper/Gold	5
TRQ	NYSE	Copper/Gold	5
FCX	NYSE	Copper/Oil	7
AGI	NYSE	Gold	4
AKG	NYSE	Gold	5
AR	TSX	Gold	4
BAA	NYSE	Gold	8
BVN	NYSE	Gold	5
CG	TSX	Gold	4
CNL	TSX	Gold	7
CRJ	TSX	Gold	7
DGC	TSX	Gold	4
DPM	TSX	Gold	6
EDV	TSX	Gold	7
GGD	TSX	Gold	7
GOLD	NASD	Gold	4
GORO	NYSE	Gold	6
GSV	NYSE	Gold	8
GUY	TSX	Gold	6
LUG	TSX	Gold	7
MUX	NYSE	Gold	7
NGD	NYSE	Gold	4
PG	TSX	Gold	6
PRU	TSX	Gold	4
ROG	TSX.V	Gold	6
SA	NYSE	Gold	7
SMF	TSX	Gold	4
TGZ	TSX	Gold	8
TXG	TSX	Gold	7
FNV	NYSE	Gold Royalty	5
RGLD	NASD	Gold Royalty	6
SAND	NYSE	Gold Royalty	4
HL	NYSE	Gold/Silver	3
EPD	NYSE	OG Pipeline	7
ETE	NYSE	OG Pipeline	6
NAT	NYSE	Oil Shipping	4
EPE	NYSE	Oil/Gas	7
LPI	NYSE	Oil/Gas	7
OAS	NYSE	Oil/Gas	6
SYRG	NYSE	Oil/Gas	7
AG	NYSE	Silver	5
ASM	NYSE	Silver	5
CDE	NYSE	Silver	6
EXK	NYSE	Silver	5
FSM	NYSE	Silver	6
MVG	NYSE	Silver	6
PAAS	NYSE	Silver	4
SLW	NYSE	Silver	2
SMT	TSX	Silver	8
SSRI	NYSE	Silver	5
SVM	TSX	Silver	7
TWTR	NYSE	Social Media	7
CCJ	NYSE	Uranium	7

Risk 1-9, 9 High … (More Info)

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Briefings

◆ North Dakota Oil Woes
◆ Total World CB Easing
◆ Iran Demands Euros

◆ Thanks to hydraulic fracturing and horizontal drilling, North Dakota grew into the second-largest oil-producing state following Texas. It accounted for 1/8th of overall US production in 2014! So oil's brutal 75.2% plunge from $107 in June 2014 to under $27 in January 2016 is a nightmare for ND. The price of ND light-sweet crude out of its premier Bakken shale oilfield fell to just *$16.50 a barrel* in January, a brutal 14-year low! So oilfield activity is waning fast. ND's rig count hit 41 in January, the lowest level since July 2009. That's down from 64 in December, and another 1/4th of the remaining rigs will be idled if prices stay low. While shale oil wells' output declines fairly rapidly, ND produced around 1.15m bpd in December. That's just 6.5% under December 2014's monthly record of 1.23m bpd. So ND oil output certainly hasn't adjusted to oil's stark new realities, but it will have to. Far less drilling will be a big hit to future production as the existing wells' output declines and depletes in coming months and years. In December, ND's unemployment rate of 2.7% was still the lowest in the nation. But it shed 4000 jobs which left it with that month's largest MoM and YoY declines in employment of all states. ND governments had forecast the oil boom continuing for *decades*, but it has already become another bust with far more pain still coming for the state.

◆ The Bank of America's Merrill Lynch division released a report last month quantifying recent years' record easing by world central banks. It was stunning. Since the failure of Bear Stearns in March 2008, the central banks around the world cut rates a staggering *637 times!* These were so extreme that 489m people now live in countries with official negative rates. NIRP is underway in the Eurozone countries, Japan, Sweden, Denmark, and Switzerland. A staggering $8.3t of government debt is currently yielding 0% or less, which forces investors *to pay for* the privilege of lending their own hard-earned capital to countries. I suspect they will get fed up of losing money by buying bonds sooner or later, sparking a flight out. In addition to the crazy-low rates, central banks have been printing money with reckless abandon for 8 years now. Their total asset purchases via quantitative-easing campaigns have been *a mind-boggling $12.3t!* Yet all that epic inflation has accomplished seems to be levitating stock markets all around the world. The vast majority of this new money meant to stimulate economies has instead deluged into speculations, seriously distorting asset prices. Merrill Lynch sees a big risk of traders starting to view all this extreme central-bank action as one giant "quantitative failure". A loss of confidence in central banks' ability to manipulate the markets will lead to continuing outflows of capital from overvalued stocks. And gold will continue to be a major beneficiary. It is hard to imagine a better place to invest in a NIRP world of extreme QE inflation!

◆ In a sign of how uneasy Tehran's truce with Washington is, Iran is demanding oil payments be made *in euros*. All recently-signed oil contracts have a clause saying that oil will be paid for in euros based on the dollar exchange rate at delivery time. Iran is even asking India to pay in euros for $6b worth of oil Iran delivered to it during the sanctions years. Tehran wants to lessen its dependence on the US dollar in case any future tensions lead to more US sanctions against Iran. Around $100b of Iranian assets were frozen abroad before the last sanctions were lifted. Iran wants the whole global oil trade to shift to euros!

The Parting Shot…

February was a magnificent awakening for the precious metals, and this long-overdue mean reversion higher is only just beginning. In 2012 before the Fed started radically distorting financial markets with its unprecedented open-ended QE3, gold, silver, and the HUI averaged $1669, $31, and 465. There's no doubt they'll regain those levels in the next year or two. But mark my words, *it won't be an easy ride!* This has always been an exceedingly-volatile sector, and we'll see brutal selloffs periodically to bleed off excess greed. Those will yield mass stoppings of our trades, and weed out all but the toughest contrarians. Major bull markets try to shake out traders, and this sector does it in spades. If you are new to this sector, feel free to deploy capital into any of our open trades on Page 7. But make sure you stay diversified, allocating equally to at least 5 different stocks to mitigate individual-company risks. The main reasons that naive traders get slaughtered are using leverage and not diversifying their holdings.

May God make His face shine upon you and your capital! Adam Hamilton ☺