ZEAL SPECULATOR

Brave When Others Are Afraid, Afraid When Others Are Brave

ZS Open Spec Positions

- RIC (9.2.15 @ $2.50 • $5.24 • +110% • Stop ↑$4.11 *25%*)
- CGG.TO (9.8.15 @ $1.78 • $2.20 • +24% • Stop ↑$1.85 *25%*)
- OGC.TO (9.29.15 @ $2.00 • $3.98 • +99% • Stop ↑$3.14 *25%*)
- KGI.TO (11.3.15 @ $5.49 • $8.82 • +61% • Stop ↑$6.68 *25%*)
- KDX.TO (11.17.15 @ $2.73 • $3.73 • +37% • Stop ↑$3.03 *25%*)
- MVG (11.24.15 @ $6.85 • $7.97 • +16% • Stop $6.19 *25%*)
- AR.TO (1.12.16 @ $0.92 • $1.69 • +84% • Stop ↑$1.35 *25%*)
- SLW (1.12.16 @ $11.19 • $16.42 • +47% • Stop ↑$13.30 *25%*)
- AG (1.19.16 @ $2.51 • $5.29 • +111% • Stop ↑$4.10 *25%*)
- ASR.TO (1.19.16 @ $2.17 • $2.70 • +24% • Stop ↑$2.23 *25%*)
- BTG (1.19.16 @ $0.66 • $1.28 • +94% • Stop ↑$1.04 *25%*)
- EGO (1.19.16 @ $2.13 • $3.47 • +63% • Stop ↑$2.79 *25%*)
- NGD (1.19.16 @ $1.80 • $3.63 • +102% • Stop ↑$3.00 *25%*)
- TAHO (1.19.16 @ $6.86 • $9.24 • +35% • Stop ↑$7.47 *25%*)
- FSM (1.26.16 @ $2.43 • $3.88 • +60% • Stop ↑$3.20 *25%*)
- IAG (1.26.16 @ $1.42 • $2.20 • +55% • Stop ↑$2.08 *25%*)
- SSRI (1.26.16 @ $4.11 • $5.82 • +42% • Stop ↑$5.44 *25%*)
- PVG (2.23.16 @ $4.52 • $5.11 • +13% • Stop ↑$4.37 *25%*)
- PPP (3.2.16 @ $1.57 • $1.88 • +20% • Stop ↑$1.49 *25%*)
- SPY Mar 200 Puts (10.13.15 @ $9.83 • $3.61 • -63%)
- GDX Mar 14 Calls (11.10.15 @ $1.27 • Sell Now @ $5.35 • +321% FINAL)
- QQQ Sep 101 Puts (2.23.16 @ $7.11 • $5.35 • -25%)
- SPY Sep 191 Puts (2.23.16 @ $12.04 • $8.61 • -28%)
- IWM Sep 106 Puts (3.8.16 @ $7.03 • $7.03 • +0%)

ZI Open Spec Positions

- CGG.TO, RIC, OGC.TO, KDX.TO, KGI.TO, ASR.TO, BTG, IAG, TAHO, EGO, PVG, PPP
- GDX Jun 14 Calls, SPY Sep 193 Puts

Good evening fellow speculators! It's been a great week for gold and gold stocks, even with the SPX bear-market rally running on fumes. A major test for world stock markets is coming on Thursday, when the ECB meets amid high expectations for it to unleash major new easing. If the ECB fails to live up to Draghi's big jawboning as usual, the lofty and very-overbought stock markets are in trouble. And of course the Fed follows that with a huge meeting next Wednesday, again another big risk for very-overextended stock markets.

While last Tuesday was covered in last week's ZS, there are a couple more things. Gold's *Golden Cross* arrived that day, one of the most powerful technical buy signals. It happens when a price's 50dma crosses back above its 200dma from below following a major low. That key event will really help technically-oriented traders warm to gold whether they follow it or not. Tuesday also marked the end of gold's latest CoT week where it edged up 0.4%, and as always that CoT report wasn't released until days later on Friday afternoon.

And during this high-consolidation week, the American futures speculators weren't buying much. They shed 2.5k contracts on the long side, while covering 10.8k short ones for a total CoT-week gold buy equivalent to just 25.8t. This group of traders so critical for igniting and fueling new gold uplegs in their initial months *is getting tapped out*. Their total long-side bets are now only 14.2k contracts below their 2009-to-2012 normal-years average, and their shorts are 37.5k contracts above that baseline. Thus speculators merely need to buy the equivalent of another 160.8t of gold to complete the mean reversion of their bets to 2009-to-2012 averages.

For a reference point, back on December 15th just a day before the Fed's rate hike and two days ahead of gold's 6.1-year secular low, this total mean-reversion buying left to go was way up at 668.3t. So *over 3/4ths* of speculators' high-probability gold-futures buying has already been expended in the 10 weeks ending last Tuesday! This is not necessarily bearish for gold though, for a couple key reasons. First, the role of futures speculators is to ignite new gold uplegs out of major lows through short covering, and then fuel their initial months through new long buying. After that, *investors* must take the baton before the relatively small pool of buying from futures speculators is exhausted. Thankfully for the first time since early 2009, that handoff has happened. GLD's gigantic capital inflows prove investors are buying aggressively.

Zeal Speculation Matrix

	Relative Indicator			Trading Range			Multiple Extremes (6 months)			
	Level	Multiple	Bias	Oversold	-	Overbought	Low	Date	High	Date
SPX	1979.26	0.979	Short	<0.95	-	>1.10	0.899	2.11.16	1.023	11.3.15
VIX	18.62	1.002	Long	<0.75	-	>1.75	0.865	11.2.15	1.989	9.1.15
USDX	97.18	1.002	Short	<0.97	-	>1.08	0.981	10.14.15	1.038	11.30.15
CRB	170.08	0.887	Long	<0.85	-	>1.05	0.776	1.20.16	0.943	10.9.15
Copper	$2.22	0.965	Long	<0.85	-	>1.05	0.794	11.23.15	0.990	3.7.16
Crude Oil	$36.24	0.832	neutral	<0.70	-	>1.10	0.556	1.20.16	0.975	10.8.15
XOI	1032.61	0.902	neutral	<0.85	-	>1.10	0.742	1.20.16	0.984	11.3.15
Gold	$1260.80	1.111	Long	<0.90	-	>1.05	0.912	12.2.15	1.116	3.7.16
Silver	$15.32	1.022	Long	<0.80	-	>1.10	0.882	12.14.15	1.042	2.11.16
HUI	171.68	1.342	Long	<0.65	-	>1.10	0.658	9.14.15	1.392	3.7.16

Zeal Subscriber Charts
www.zealllc.com/s/subs.htm
User name: gold
Password: back

As of last Thursday, GLD's holdings had rocketed up by an astounding 25.9% over essentially that same 10w span! That's 163.2t of gold buying from investors' enormous pools of stock-market capital flowing into gold. This proves investors have taken the gold-buying lead from speculators, and once their buying starts *it tends to run for years*. This investor-gold-buying dynamic is exceedingly important to understand, and last week I just wrote a new comprehensive essay on it that *you really ought to read*. With investors back in the game in the biggest way since early 2009, early on in the last mighty cyclical gold bull, futures speculators are relegated to a distant second place if not total immateriality.

Also, there's no reason to expect American speculators' gold-futures buying to end at those 2009-to-2012 averages. Mean reversions out of extremes usually tend to overshoot proportionally towards the opposite extreme. So as long as gold's momentum remains decisively to the upside courtesy of investors migrating back in, speculators are going to shed shorts and more importantly add new longs. So certainly in the grand scheme, speculators' sub-average buying getting expended isn't very bearish. But the lower their shorts get, the deeper gold's inevitable bull-market corrections will fall. Low spec short-side bets ramps *short-term* downside risk.

Wednesday morning started the countdown to Jobs Friday with ADP's read on US private-sector jobs. It proved a sizable beat, coming in at +214k in February versus economists' expectations of +190k. That was also right where the Jobs Friday expectations were. There were some troubling internals in ADP's report, with manufacturing jobs falling by 9k which was their second most in 5 years. The SPX weakened out of the gates despite that beat, but rallied into the close for a 0.4% gain. The Fed's Beige Book came out at 2pm, the anecdotal report on economic conditions within the Fed's 12 districts that is released 2 weeks before all FOMC meetings to help with their decision process. Interestingly, it talked a lot about *rising wages*. That fuels inflation pressure which increased the odds of the Fed needing to hike again sooner than traders expect. It was a fairly-hawkish report.

Interestingly gold fared well on that, climbing 0.7% to regain $1240 despite some worrying that a March rate hike is back on the table. It was awesome seeing gold so high with the stock markets so strong by 2016 standards. The SPX's rally was highly suspect, that was the lowest volume day of the year. And the last time the SPX closed around those same 1986 levels on January's third trading day, consensus earnings were 5% higher. Showing how much raw euphoria has been baked into the system by that bear-market rally, oil climbed 1.5% that day despite a crazy-bearish build. US oil inventories soared 10.4m barrels, triple the +3.6m widely expected, to an *all-time record* of 518m barrels! Oil should have collapsed that day, and would have if the SPX had not rallied. Oil is going to get obliterated when this bear-market rally in stocks soon rolls over. Not only are oil's fundamentals epically bearish with the global supply glut and production surplus, oil has always had a high correlation with major stock-market selloffs. Futures traders sell in sympathy with stock-market drops because they assume stock weakness indicates slowing economies, which would hurt oil demand.

Thursday was pretty interesting. Early on, JPMorgan's stock bias shifted to underweight for the first time in years. That's as close to a sell signal as Wall Street gets! The elite bank and stock-market cheerleader pointed out that the forward P/E of the SPX at 16.8x *was now higher* than its 16.6x on December 31st before 2016's sharp selling! That made for more-overvalued stock markets last week than as 2016 dawned, even in junk always-revised-down estimated-earnings terms. JPM also said *overweight gold*, giving cover for institutional money managers to up their buying tempo.

Gold was drifting around $1245 early in the day until the 10am release of the ISM services read. With manufacturing contracting in the US, services has been seen as a bastion of strength that can offset the manufacturing losses. But at a 53.4 read, services growth was waning. The employment sub-index of that ISM report came in at 49.7, below the 50 contraction line for the first time since February 2014. The competing Markit US services PMI actually showed overall contraction with a 49.7 read. These weak numbers for the supposedly-strong services ignited jobs worries, so traders saw lower odds for more Fed rate hikes anytime soon. That dovish sentiment really manifested in the dollar and gold.

Right after that ISM report hit the wires, the USDX started to fall and ended the day 0.6% lower. At the same time, gold caught a bid which propelled it to climb for the rest of the day. 10am NYT is also when the afternoon LBMA Gold Price auction happens, which boosted gold's momentum on that dovish jobs data. Even though the SPX's pattern of rallying out of early-day losses to up closes continued with its 0.3% gain, gold powered higher all day long. By the close of US stock markets, it had blasted 1.8% higher to $1263! It was a heck of an up day and important technically on multiple fronts. In addition to being its best close of 2016, and its best close of its new upleg, and a 12.9-month high, another far-bigger milestone was reached. Up 20.1% from its deep secular low the day after the Fed's December rate hike, the gold price had officially crossed the +20% new-bull-market threshold! With gold really in *a new bull market*, it is going to attract a lot more buyers. Fueling that was a 0.6% GLD build to an 18.1-month holdings high, more investor buying.

Gold-stock traders loved this gold breakout from its 3-week-old high consolidation, and quickly bid the HUI 4.5% higher to 173.4. This took gold stocks' gains to an astounding 72.1% in just 6 weeks since the HUI's fundamentally-absurd 13.5-year secular low! Aren't you glad I recommended aggressive buying *that very day?* The gains we're enjoying in our trades in this young mean reversion are epic. Being a contrarian is never an easy path, but the rewards when a long-overdue market finally turns make any necessary sacrifice well worth it. The early traders taking positions ahead of the crowd before it figures out an opportunity win huge.

With gold at major highs and stock markets getting really overbought and hyper-complacent, Jobs Friday posed serious risks on both fronts. Both could sell off on a great number paving the way for the Fed to hike rates sooner, maybe even next week. Given all the euphoria in stocks this bear-market rally has created, I certainly didn't expect an upside surprise at all. So I was shocked to see the actual read on February US nonfarm payrolls soar to +242k versus economists' expectations of +190k! On top of that, positive past-month revisions added another +30k jobs. It was *a crazy-hawkish* jobs report in Fed-rate-hike terms, which shouldn't have been good for high gold or overbought stock markets.

But the types of jobs created were very poor according to the report's internals. 189k of those 242k jobs created in February, nearly 4/5ths, were minimum- or low-wage jobs in the education, retail, and leisure industries. Like most of the jobs created since the [Fed's SPX levitation]() started with QE3 spinning up to full steam in early 2013, February's were the lowest-paying ones. That's hardly evidence of a strong US economy, more likely just the opposite. So the market impact of such a major upside jobs surprise was muted.

Gold fell by $12 or so to $1250 right after that report, but quickly recovered and surged to $1280 by that 10am NYT LBMA Gold Price auction in London. While it faded sharply from there to $1259, that was only a 0.3% loss on the kind of Jobs Friday data that's driven plenty of *2%+ gold drops* in the recent Fed-levitation years. Gold's resiliency in the face of such a serious selling catalyst was a testament to strong investment demand. Unlike speculators who are fixated on short-term momentum, investors are in for the long haul. It wasn't surprising the HUI followed gold's post-jobs surge as well as its subsequent slump, but that index still merely lost 0.8% on close. That was also a big technical victory.

While the stock markets didn't fall on all the Fed-hawkish implications of that big jobs beat, the SPX only rallied 0.3% on close. That stunned the bulls, that outstanding headline data on the most-important economic report couldn't spark a significant stock rally. Not only does this suggest that the markets are back into good-news-is-bad mode following the sharp bear-market rally, but that low-volume short-covering-driven event *has exhausted itself*. With the VIX slumping to 16.8 that day, complacency is extremely high again. That is a dangerous portent in radically-overvalued stock markets that remain early on in a [major new cyclical bear]().

Yesterday was pretty quiet, but certainly highlighted just how complacent traders have become. Yellen's right-hand man, Fed vice chairman Stanley Fischer, came out hawkish in a speech at an economic conference. He said, "We may well at present be seeing the first stirrings of an increase in the inflation rate." With the headline unemployment rate of just 4.9% so low, the lack of headline inflation has been the Fed's main justification for waiting so long to hike rates and to raise them so slowly. If top Fed leadership sees inflation growing, it will be far more likely to hike rates faster than the markets expect. That news should've easily crushed overbought stock markets, yet the SPX edged 0.1% higher.

At its 2002 close, the SPX's bear-market rally since February 11th swelled to 9.4% in just 3 weeks. Given the low-volume buying that drove it, short covering that soon burns itself out, this sharp bear-market rally is looking exceedingly precarious. It should have stopped at the SPX's 50dma a week or so earlier. But last Tuesday's big first-day-of-month upside bias on pension-capital inflows blasted the SPX to a 50dma breakout. And ever since that giant 2.4% up day, it is increasingly clear *momentum is slowing*. The widespread fears of a new bear market in early February have been all but eradicated. The shift to bullishness over that short span has been incredible. Yesterday Goldman Sachs advised its portfolio-management clients that, "S&P 500 calls are more attractive now than at any time on record." Are they totally insane? An overvalued, overbought stock market following an artificially-extended monster cyclical bull is about as risky as stocks can get. They're overdue for a serious selloff.

And odds are it's coming soon. As discussed in ZS last week, the ECB is likely to disappoint again just like it did in early December after the last time big-talking Draghi really built up expectations he couldn't meet. Thursday's meeting is a major potential downside catalyst for stocks. The ECB would probably have to *massively expand* its QE monetizations to satisfy traders, but it's far more likely to only slightly expand its QE *or merely extend it again* as done in December. The European stock markets have surged in the same bear-market rally in recent weeks as the SPX. But with the DAX trapped much lower just over its 50dma, the downside risks are serious. The ECB could spark a global selloff!

And with the FOMC meeting next week, along with Janet Yellen holding a quarterly press conference and the Fed releasing its quarterly dot-plot rate projections, it's certainly in stock traders' best interest to throw a temper tantrum ahead of that. The worse the stock markets fare *over the coming week*, the more dovish the FOMC and Yellen will prove. It's important to remember early 2016's whole sharp selloff was driven by Fed-rate-hike-cycle fears. So if the FOMC comes in more hawkish than traders expect, selling is highly likely to resume with a vengeance. Shorting will lead the way.

Gold and the HUI climbed 0.6% and 3.6% yesterday to new upleg highs of $1267 and 178.1. As seen back in early February, sharp stock-market weakness really boosts gold demand. So gold is likely to thrive again as the stock markets inevitably roll over sharply soon here. Gold continues to have a strong inverse correlation with the SPX on many trading days, becoming more pronounced on stock selloffs.

On the trading front, the Russell 2000 small-cap stock index is ripe for shorting. These companies will be hit hard as the SPX bear-market rally fails. So we're adding puts in its leading ETF, the IWM iShares Russell 2000 ETF. And with our GDX calls expiring next week, we're really pushing our luck here. We need to realize these gains, as even a minor gold-stock selloff will slash them this late in this trade. With [gold seasonals]() weakening in mid-March, I'm going to hold off for a bit on reloading new GDX calls. Gold could take a short-term hit if the ECB's action hammers the euro sending the USDX surging, or if Yellen or those dots are more hawkish than expected. And given the HUI's strong rally over the past week, there's no hurry to add new gold-stock positions today. Let's watch how the ECB and Fed play out first.

Godspeed and good trading! Adam Hamilton ☺