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The following is part of *Pivotal Events* that was published for our subscribers March 20, 2014.

"Gravity Waves"

Signs Of The Times

"Fresh loans in China's banking system evaporated to almost nothing from $160 bn in January."

– The Telegraph, March 10

"Commodities and equities slide amid broad risk aversion."

– Financial Times, March 11

"Italy's biggest bank posted a $21 bn fourth quarter loss as it set aside money for bad loans and wrote down goodwill from past acquisitions."

– Bloomberg, March 11

"China is studying the default risk to companies that use iron ore as collateral."

– Bloomberg, March 13

"A Whole New Inflationary Threat Is On The Horizon"

– Business Insider, March 10

"But if the Fed can pull it [QE] ***off, it will go down as one of the greatest discoveries of our time."***

– Business Insider, March 12

The exclamation was by Jeff Gundlach and he boasted that the accomplishment would rank with Morse's development of the telegraph. Somehow Grundlach missed that Misselden had the revelation that throwing credit at a credit contraction would make it go away. His was inspired by the financial collapse that began in 1618. Then, Walter Bagehot had a similar vision during the 1873 Bubble. While Bagehot did not know what the 1873 panic would lead to he was convinced that it or any panic could be prevented.

Our view has been that the bull market in stocks and lower-grade bonds has made the Fed's QE to look successful. The long decline in metal prices suggests the link from Fed excess to soaring prices is doubtful.

Meanwhile, our friends over at Portales Partners, who cover the banking scene, came up with (on March 13th) ***"Some banks could be too-big-to-manage."***

Were they thinking about the Fed?

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Stock Markets

It is interesting that stock markets were hit with disquieting reports from Ukrainia. As we have been noting, stock markets became so excited as to become vulnerable. These are cyclical excesses and not likely relieved by an outbreak of margin calls on suddenly offside accounts in Moscow. Or by more prolonged offside positions in China.

This week, the NYSE has resumed its version of perpetual motion as astrophysicists announced proof of gravity waves. At some point lofty stock markets will discover the forces of gravity.

Somehow a "gravity wave" seems more gentle than gravity actually is. Particularly when one tries to defy it.

Currencies

The DX has continued to suffer some gravity as it tests support at the 79 level. The decline has been with little drama but both Daily and Weekly RSIs are getting down to a level that has ended similar declines over the past 18 months.

Within the action, the charts are registering a "Sequential Sell" on the euro and the "Buy" on the dollar.

The reversal could have profound consequences and could happen within a couple of weeks.

Commodities

It was fun while it lasted and now most commodities deserve a well-earned rest. The CRB rallied from a double bottom at 272 set in November and early December to 308, almost two weeks ago. In November this page started on the "Rotation" theme whereby most commodities could rally from a very oversold condition.

Agriculturals (GKX) were the most oversold, with the best chance of rallying. The low was a double bottom in January at the 340 level and it has gained 15% to 407. The Weekly RSI is up to 72, which exceeds the momentum reached with the big drought rally in 2012.

Within this our favourite was coffee as it soared from 1.01 to 2.10 on March 13, with a Weekly RSI of 87. This was the highest such reading in 20 years. The ETF is JO.

An agriculture ETF is DBA and it has soared from 24 in January to 29 last week. The Weekly RSI reached 82, which compares to 78 with the cyclical peak in 2011 and 90 with the big cyclical peak in 2008. On the drought rally the Weekly got to only 66.

In December the natural direction would be up. Now the natural is down.

Copper popped with the party and rallied from 3.12 in November to somewhat overbought at 3.47 at the end of December. The rest of the action has been the decline to 2.91 yesterday. The RSI is down to only 18 on the Daily and at 29 on the Weekly copper is oversold. The problem has been forced liquidation of China's unusual "investment" positions. The metals index (GYX) is not nearly as oversold.

The upshot is that copper could rebound, but the sector is facing the prospect of a firming US dollar and a slowing economy. Dollar strength showed up yesterday and declining business activity should be visible by the end of the summer.

Crude oil reached an overbought at the end of February at 105. Now it is hanging out at support at the 98 level. Our "Peak Oil" study of February 19th provided the big picture and it is bearish for petroleum prices. Including gasoline and natural gas.

Lumber set a big momentum high at 412 in March 2013 and sold off to 276 in June. The next rally made it to a rounding top at the 380 level in November-December. Over the past two years the 50-Week ma held significant corrections. Last week it was taken out at 342.

Yesterday's hit took it down to 325 and somewhat oversold on the Daily RSI.

The "Rotation" into commodities has generally worked out with copper taking an early dive. Last week's view was that quite likely the best was in for sentiment and momentum. It could take a couple of weeks to determine that a significant high is in.

Cycle "junkies" could get interested in something that has been going on since 1995. Just discovered it yesterday. Every three years there has been a high in the Weekly RSI. Dates are: March 2005, March 2008, March 2011 and March 2014.

On the 2005 example the momentum high and the price high were virtually at the same time and the CRB clocked a tradable decline. In 2008 the CRB high followed by a couple of months. However, base metals and agriculturals peaked with the RSI in that fateful March. Precious metals peaked in the equally fateful July.

This time around, Weekly momentum and the CRB have set highs in the same week. The GKX is working on this and the coffee barista is showing remarkable timing. "JO" set price and momentum highs in the same week. Base metals (GYX) are not in the play.

The pattern suggests a couple of possibilities for the CRB. A decline of a couple of months which sets up a new bull market. Or that a cyclical peak has been set.

It will take a number of months to determine what Mother Nature has in mind.

Link to March 21, 2014 Bob Hoye interview on TalkDigitalNetwork.com:

http://talkdigitalnetwork.com/2014/03/markets-facing-bubble-of-aggression/

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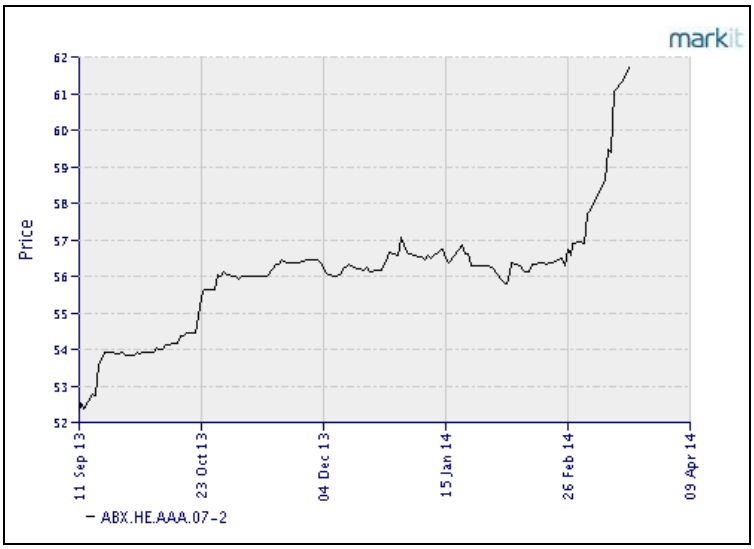
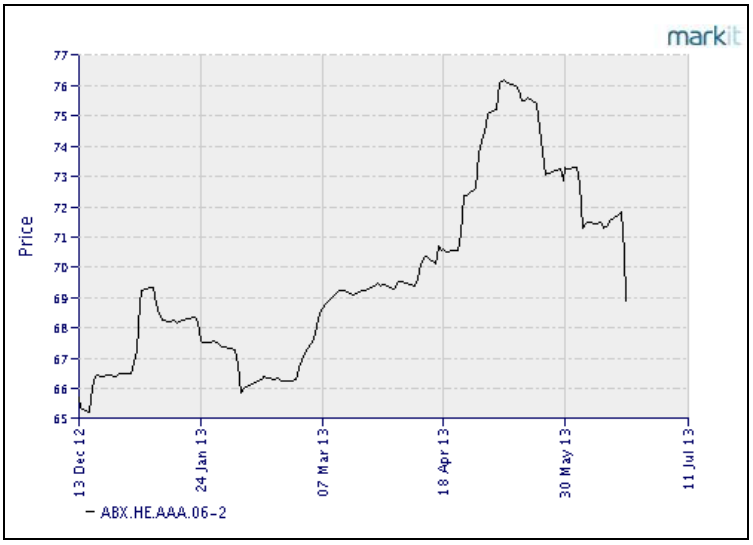
Spring Rally In Sub-Prime Mortgages

Now

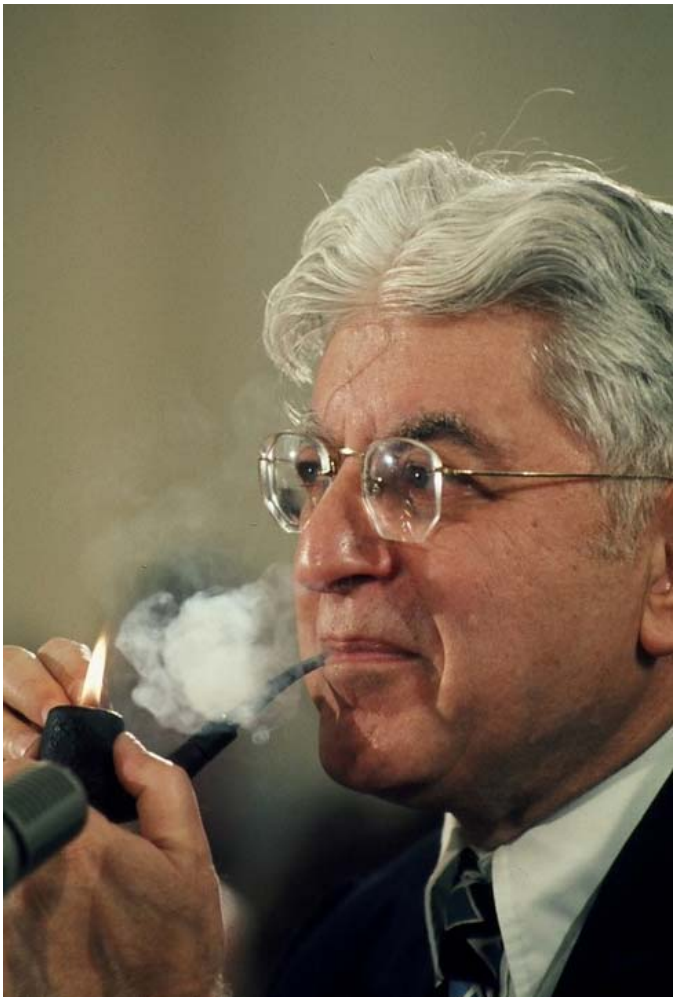


2013



- Last year's rally on the representative issue accomplished 7 points on a 69 price.
- It was reported that the Fed was buying heavily the week of the initial decline.
- The decline was a fast 7 points.
- It is uncertain how long this rally will last but it is in the season when rushes are followed by chagrin.
- The bubble in low-grade bonds has continued and this rally has added 5 points to a price at 55.9.
- Fed buying did not prevent last year's hit.

Arthur Burns, Fed Chairman 1970 to 1978



- The discerning eye can see the "$" sign.
- Actually, there was a cartoon of Burns walking away from a meeting with smoke and "M"s trailing behind. Could not find it.
- That was when serious discussions were going on about all the "M"s that defined money supply. Should have been called credit supply.