STRETCHING THE RUBBER BAND

For the past several weeks, we've been showing key markets developing contra-trends. That is, a correction within a primary trend.

These contra-trends seem to have reached the end of the road. The rubber band has stretched to its max and it's time for a snap.

The Fed's Yellen, who spoke to the Economic Club of New York yesterday, re-confirmed the lackluster outlook for the global economy and a change in stance with interest rate hikes (2 in 2016 as opposed to 4.) And although the unemployment rate, the Fed's lone ranger of positive economic outlook, continues to decline, so does the Fed's key number for maximum employment (now at 4.8%).

Interest rates continued to decline, breaking below a key uptrend since Feb. The resurgence of Treasuries has put downside pressure on yields, and after these dovish comments by Yellen, the tendency is likely to continue.

Rising contra-trends in the stock market, crude and interest rates are near their end which means we could see primary trends resume their course. That is, down for these markets.

Concerns for increasing deflationary pressures have intensified, adding appeal to gold as a safe haven and economic uncertainty. Gold's $15 rise yesterday was impressive, but the gold share rise to the recent highs was more impressive.

However, gold and gold shares remain extremely overbought and our indicators continue to show limited upside for both.

Contra-trends in gold and gold shares haven't yet developed. But, we could see them kick in, if key resistance levels are not surpassed.

Gold´s rise was capped at a key downtrend near $1245 yesterday.

Failing to break above this initial resistance in the next couple of days could see gold resume its decline from the Mar highs, see C on chart.

The chart shows gold starting to decline in a downward correction (contra-trend.) This weakness could take gold down to test the Dec uptrend near $1140, or lower in a worst case scenario. We'll keep our positions, but we'll wait to buy more at lower levels.

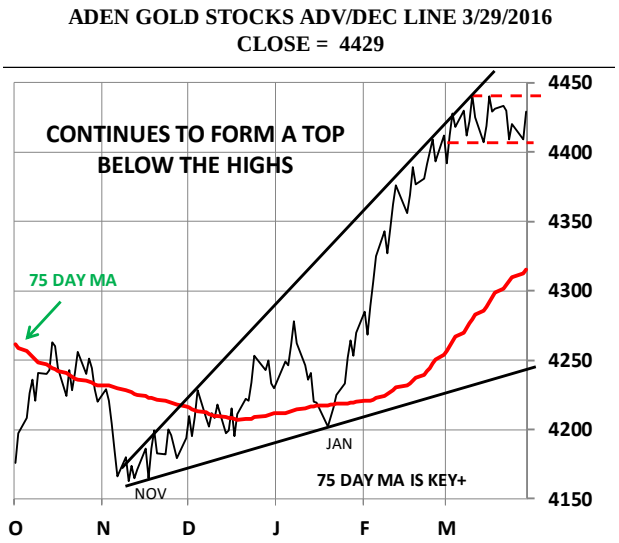
We recommend buying some near $1200 and more below $1175. We'll also keep our bear put spread for now to take advantage of any further weakness in gold. It should offset any losses from our current long position in an upcoming decline.

Yesterday's gold share rise was impressive, but the technicals are telling us gold shares remain within a topping pattern after peaking earlier this month.

The A/D Line has been most telling and continues to show telltale signs of an intermediate top which could eventually ignite a long awaited correction.

Notice the A/D Line moving in a sideways pattern even after HUI went on to reach higher highs in Mar. This non-confirmation exposed a bull trap in gold shares showing limited upside for the move.

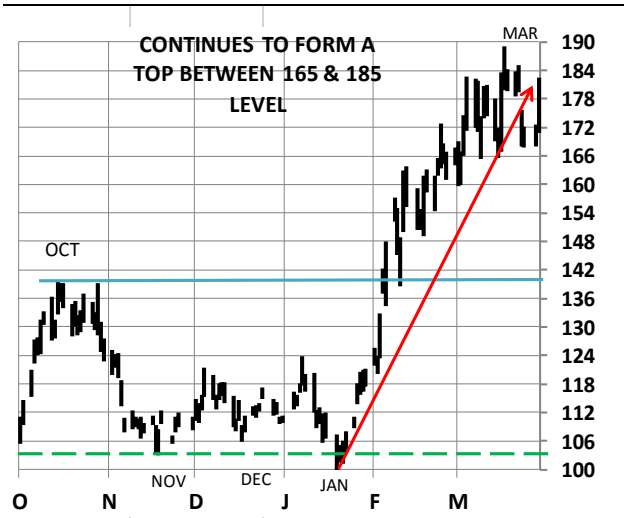
HUI then declined below it's 5wk MA for the first time since the rise started back in Jan but the A/D Line didn't break down to lower lows. It held above the bottom side of the band, a bear trap exposed?



Volatility in gold shares has increased at current highs. Usually a sign that a shift in trend is in the works. Time will tell if this is true. One thing seems for certain, the A/D Line will continue to lead the way. Keep an eye on the the A/D Line's band. Whichever way it breaks, will likely mark the next intermediate move in gold shares.

Keep in mind, a A/D Line break below 4400 on a 2dc could push it to the 75 day MA near 4325. A decline of this nature is likely to coincide with a decline in HUI to the 140-150 level. Coincidently, a 50% retracement for HUI.

HUI GOLD BUGS INDEX (HUI) 3/29/2016
CLOSE= 181.51



Silver declined after the resource sector showed signs of weakness this past week. It declined to the Jan uptrend after failing to break a resistance above 16.

Silver is now flirting with its uptrend and support near $15. A break below this level would confirm weakness likely pushing silver lower to the $14 level.

SILVER MAY 2016 (SIK16) 3/29/2016 CLOSE= 15.233

On the upside, by silver holding at its Jan uptrend near $15, it'll show strength with more potential for upside.

Notice silver's Spinner as it continues to rise within a steady uptrend since Nov. <u>This tells us momentum continues to increase on a larger scale despite Spinner's recent decline below zero.</u>

Some of you may have bought silver when it neared $15. If you're not in, silver is a good buy near $15, and if silver declines further to the $14 level, buy with both hands!

The U.S. dollar index continued its weakening pattern, see the chart below.

<u>The year-long-sideways band/topping-pattern seems to be getting heavier as downside pressure increases</u>. Spinner also continues to show a weakening tendency as it continues to resists below a year-long downtrend. Spinner is now resisting below zero which adds to the pressure.

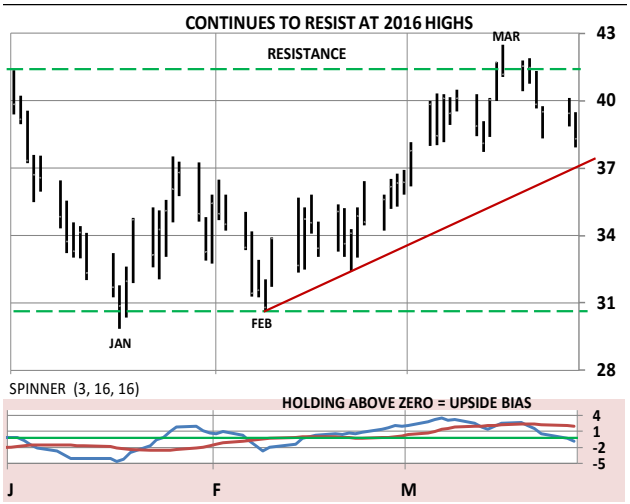
Interestingly, the dollar has held above a key bullish support level at 93.75 for the past year. This tells us the dollar is weak, but it still remains strong relative to most currencies. <u>Gold's surge during 2016 exposes dollar weakness.</u> We'll continue to keep a close look at the dollar's 93.75 support level to confirm a shift in trend.

U.S. DOLLAR INDEX JUNE 2016 (DXM16) 3/29/2016 CLOSE= 95.1

Crude started to decline after failing to break above a key resistance level near $41.50.

Spinner turned bearish today as crude approaches the Feb uptrend near $37. This tells us downside pressure is increasing as crude approaches a key ST support level. <u>A break below $37 on a 2dc could push crude back to the Jan/Feb lows near $31</u>.

LIGHT CRUDE OIL MAY 2015 (CLK16) 3/29/2016
CLOSE= 38.28



On the other hand, if crude holds above $37 and continues to rise, it'd be forming a bullish ascending triangle that could be very powerful. It'd show crude could then be poised to break above the $41.50 resistance.

However, lackluster growth worldwide coupled with a negative environment to cut down production considerably will continue to put pressure on crude.

<u>We recommend buying Nov 2016 crude put spread at 33/30 for an approximate $600</u>. This means that if crude declines to the targets at $33 and $30, our trade could be worth tenfold while our total exposure would be $600 per spread purchased.

It's a low risk way to play the downside on declining crude.

The rise in stocks seems to have reached a halt at a key resistance. Our indicator is showing an extreme overbought level in the Industrials showing limited upside, to possibly the May downtrend.

<u>Important to note, Transports have continued to decline</u>. They have been weaker than the Industrials. This is key as Transports tend to lead the Industrials.

And weakness in Transports together with an overbought Industrial Average

could be the perfect storm for a decline.

We've secured a position in SDS near a key support level. This ETF moves inversely to the S&P 500. We recommend keeping it because downside risk is starting to outweigh upside potential in the stock market. Moreover, a weakening crude price could also put downside pressure on the stock market.

Our Positions

We remain mostly on the sidelines with some exposure in TMV, DUST and SDS, gold and silver.

We recommend holding your gold and silver positions for now.

But contra-trends in most markets seem to be reaching a halt. Interest rates being the most noticeable one, which is why we recommend selling your position in TMV for a small loss.

Conversely, UBT (Bond ETF) rose with strength, breaking above resistance. Once again, not allowing us to secure a position. We recommend raising your entry level and buy on a decline below 85.

DUST, an inverse ETF to HUI, declined to a key support and our stop loss. However, it didn't break below it and, if contra-trends begin to develop in gold and gold shares, we could see DUST surge to our profit target. Keep your position.

Similarly, we've added to our position in SDS. Remember SDS is an inverse ETF to the S&P 500. In this particular situation, the stock market seems to have exhausted its bear market rise (contra-trend) and it's likely to resume its decline. Keep your positions.

We continue to have open orders ready to buy several gold shares on weakness.

AEM started to decline this past week, but erased losses today as it surged with the rest of gold shares. It has reached the top side of a month long

sideways band near 37.50. A clear break above this level would be bullish. But if AEM resists, we could see it decline to the lower side of the band near 33 (our initial entry level).

NGD broke below its bearish upside wedge showing bias towards the downside. This will be true especially if NGD stays below 4. We've adjusted our entry level to 3, just above the bearish upside wedge target.

GG also broke below a bearish upside wedge showing a decline ST is likely despite today's rise. We recommend keeping your entry level near the wedge target and support near 13.

DGP (2x ETF for gold) is forming a bearish flag with downside at the 21 level (Dec uptrend). We recommend buying on a decline below 22.

Our strategy for this week is to be observant because contra-trends are maturing. Primary trends are likely to resume and we'll be looking to take advantage of them. Gold, silver and gold shares have remained strong, but they're extremely overbought and their own corrections are lagging.

Good luck and good trading,

Omar Ayales
Chief **Trading** Strategist
GCRU
www.goldchartsrus.net
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