Notes From The Rabbit Hole

***e*Research Corporation** is pleased to provide an article, courtesy of NFTRH.com, and written by Gary Tanashian, with a bio on the Author provided at the end of the article.

The article, starting on the next page, is entitled:
"Gold Ratios; Beware the Inflationists"

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Along the way, a geek-like interest in technical analysis, a long-time interest in human psychology, and various unique macro market ratio indicators were added to the mix, with the result being a financial market newsletter (and dynamic interim updates), Notes From The Rabbit Hole (NFTRH) that combines these attributes to provide a service that is engaged and successful in all market environments by employing risk management first, and opportunity for speculation second.

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Bob Weir, CFA
Director of Research

Gold Ratios; Beware the Inflationists

By **Gary Tanashian** (bio at the end of the article)

February 7, 2018

Too many gold bugs are either still pimping the 'inflation trade' or digitally pleasuring other gold bugs with predictions based on inflation. From my favorite example of this behavior just yesterday (he of the *"drop dead gorgeous bull wedge"* for GDX that failed into a miserable bear market extension a few years ago). Just yesterday…

> "I have announced a long-term target for GDX of $15,000. That really isn't very high… given the strong inflation numbers that I am projecting for America in the years ahead."

I don't use the guy's name because he is not a big public figure like Dennis Gartman or Doug Casey. But he is highly visible within the gold ~~cult~~ err, *"community"* and he uses a lot of ***!!!!!*** when trying to hammer his points home to greedy gold bugs (the only kind, I assume, who take him seriously). Exclamation points are a sign of someone who really… really, I mean ***REALLY*** wants you to get their point**!!** (ha ha ha).

And there is always a current story to go with the reasons to buy gold stocks for a grand new era. For this guy, it had been China/India growth and the *"love trade"* associated with both countries. Evidently, now it has morphed into something more US-centric.

> "Gold stock enthusiasts need to watch Powell's actions, because they are the catalysts that will push GDX above $26 and officially begin that fabulous era. Gamblers can buy call options on a two-day close over $26. I have urged long term investors to be aggressive buyers in my $23 – $18 tactical accumulation zone. The bottom line is that it is the cusp of a new era for gold stock investors, and Powell officially launches it on March 21!"

My $23 – $18 tactical accumulation zone? My? Really? How about the accumulation zone of everybody who has seen the long consolidation from the 2016 up-surge and can easily plot its highs and lows? That would be most people with a weekly or monthly chart.

Okay, I went too far off track with this post that was really not going to be about the pompom wavers but was going to be about inflation, gold, and how a lot of gold bugs get hood-winked by focusing on inflation.

If strong inflation numbers come in per the first quote above, GDX is not going to 15,000 (it is not going anywhere near there anyway, under any circumstance, that is gold bug porno); at best, it is going to be an also-ran to Pallookaville and, at worst, gold mining operations would be impaired by high costs of materials, fuel, and even financing (part of the pitch after all is out of control long-term interest rates).

No, folks, the time to get excited about the gold sector is when the latest inflation falls apart. The liquidation can be painful for gold bugs as it would be for players of most categories. Mr. Powell could well be at the center of a next leg-up in the miners but it would be amid failing economic signals and, possibly, even a deflation of the inflated assets of the post-2008 period. That would be the inflation rooted primarily in stocks and other risk assets that the Bernanke Fed put everyone into.

The gold sector could well lead a new ‘inflation trade’ one day, just as it did in Q4/2008 as it liquidated, bottomed first, and led commodities, stocks, and global asset manias of all stripes to this very day. But the ‘inflation trade’ we have got going now has been gauged as a little hysteria to go along with Amigo #2’s ride to the Continuum’s limiters, which was projected against the broad, inflation-fueled bull market’s manic phase. So far, so good.

But the gold sector will be special if/when the inflation fails, yields are limited and liquidity concerns hit the global landscape. Thus, these are a few of the gold ratios to follow in that regard…

Gold vs. Palladium (a counter-cyclical vs. a cyclical precious metal) was our cross-reference indicator to the bullish Semi Equipment sector readings in 2013. It has been down-trending during the inflated bull market, just as it should have been. The move above the SMA 50 is impressive but the trend only changes with a sustained move above the SMA 200 (black line) that eventually turns both MAs up.

<continued>

$GOLD:$PALL Gold - Continuous Contract (EOD)/Palladium - Continuous Contract (EOD) CME
© StockCharts.com
6-Feb-2018
Open 1.34 High 1.35 Low 1.32 Close 1.33 Volume 52 Chg +0.03 (+2.50%)
$GOLD:$PALL (Daily) 1.33
MA(50) 1.25
MA(200) 1.39
EMA(20) 1.26
EMA(10) 1.28
1.68
1.66
1.64
1.62
1.60
1.58
1.56
1.54
1.52
1.50
1.48
1.46
1.44
1.42
1.40
1.38
1.36
1.34
1.32
1.30
1.28
1.26
1.24
1.22
1.20
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2018
Feb
MACD(12,26,9) 0.019, 0.008, 0.011
0.02
0.01
0.00
-0.01
-0.02
-0.03
-0.04
RSI(14) 66.10
EMA(20) 54.27
90
70
50
30
10
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2018
Feb

Gold vs. Industrial Metals (incl. Copper) is more lame at this point. Gold is in a downtrend versus the metals complex amid a minor inflationary phase, just as it should be.

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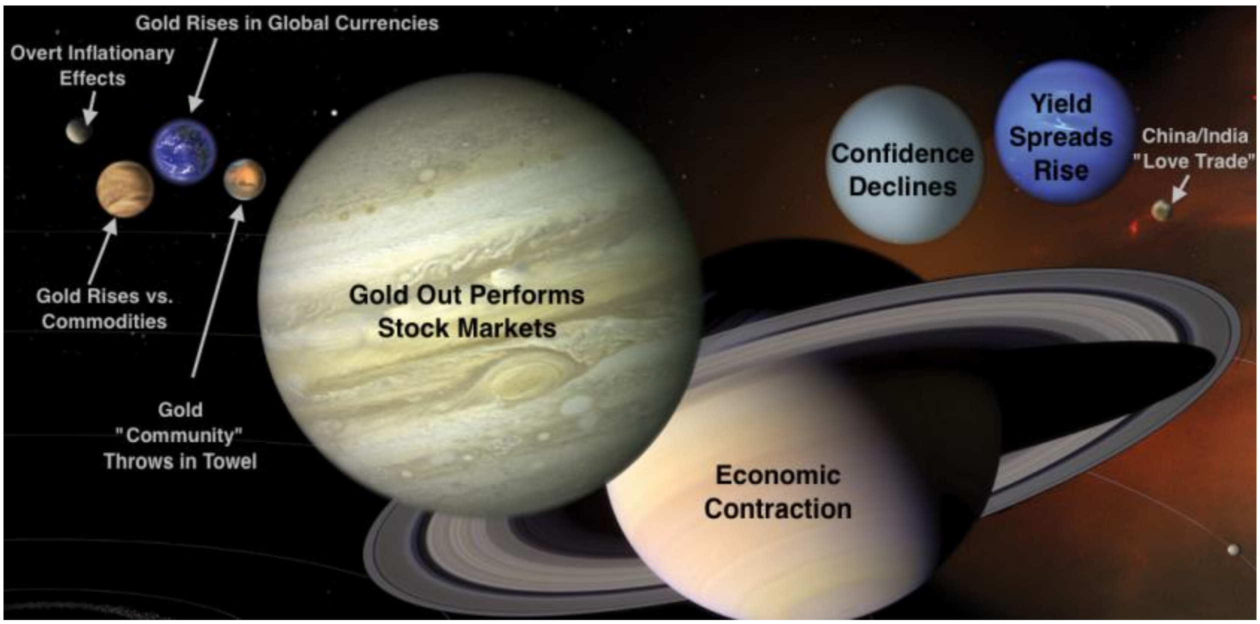
Gold vs. the Materials (stock) Sector (just for fun) exploded upward and got hammered half of the way back down on yesterday's market reversal. It is a down-trend and the point being that many of these materials inform the cost structures of mining operations, as they do most large-scale industrial or infrastructure operations.

Gold vs. Oil is important as fuel is a real cost driver in mining operations. As gold declines vs. oil (usually during inflationary phases) that aspect of mining operations is impaired.

Gold vs. the Stock Market (as represented by the S&P 500). It is none other than **Amigo #1**. The ratio rammed upward during the stock market's fears over first interest rates (Amigo #2) and, second, the uproar about some volatility products blowing up. But I will tell you what, if the market goes on to recover, Amigo #1 is going back to Pallookaville.

Finally, let us take a look at an admittedly crude view of **Gold vs. Financing Costs** as noted earlier. Oh, yeah, gold just loves rising long-term interest rates**!!!!!** Gold will eventually like a steepening yield curve (ah, there's **Amigo #3!!!!!**) but I suspect it will steepen under pains of liquidity contraction as opposed to inflation. But we will see on that.

And that is the story folks. Gold, the relic of stability when things fall apart, will not be ready for prime time until it is ready for prime time. The reason that the pompoms wave non-stop and others obsess on the sector, as if it is the only one in existence, is that they desperately want you to find reason to be pro-gold. But it is best to wait for the right reasons. Inflation promotion is not the right reason.



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See NOTES, and Author on the following pages.

NOTES

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Biiwii.com is proud to be included in the **50 Blogs Every Serious Trader Should Read** from TraderHQ.com.

See **ABOUT THE AUTHOR** on the following page.

ABOUT THE AUTHOR

Gary Tanashian is a financial market analyst, writer, and editor. He provides "Accurate financial market analysis and commentary focused on unbiased reality as opposed to preconceived assumptions."

As a long-time participant in financial media (published at leading outlets like SeekingAlpha, Investing.com, and many more), Gary has learned how to communicate with people about often-complex material. He knows that it requires hard work, but he believes that there is no other way in order to provide the highest quality service to the public.

Gary is the owner of Biiwii.com (launched in 2004) and, later, NFTRH.com (launched in 2014).

Biiwii is a financial website that got it RIGHT in the run up to 2008, unlike many in the financial services industry.

He is the owner and publisher of the weekly premium financial market report Notes From The Rabbit Hole, which was launched in September, 2008.

Notes From The Rabbit Hole is a premium newsletter service (including detailed in-week updates) for people who care more about financial market realities than having their preconceived notions reinforced. http://nftrh.com/nftrh-premium/

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