The Goldenbar Report
GoldenBar.com
An International Finance Magazine

5 February 2002
Highlights: Prisoner's Dilemma has Been Resolved...

Daily Global Market Outlook

SUMMARY: Anglogold, and fresh bearish winds in US equities breathe new life into the gold markets; Gold prices only $4 away from $300, while gold bourses are leaving bottoms behind; Banks, Insurance, and Investment Dealers' shares continue to break down; Johnson and Johnson rollover is a big blow to bullish sentiment; US dollar sensitive to falling yields, returns

Gold prices have risen back to back for six days running. Starting at $277 early last week, the nearest contract is up $20, or nearly 10%, to $297 this morning.

As we already noted last week, the tape is acting differently than usual. It has been acting as if we were in a gold bull market. Both gold and share prices have been running away from suitors awaiting another dip. Bulls have sliced past resistance between $280 and $290 as if it was only butter, and they were equipped with red-hot knives.

Today they soared through resistance at $295/296. Momentum is coming into this market. Speculative interest is beginning to emerge.

Durban Deep and Golden Star Resources rose 37% and 16% Monday respectively.

Heavy weights Newmont, Placer Dome, and Anglogold are right at 52-week highs while the medium sized gold producers like Agnico Eagle, Harmony, Meridian, and Gold corp. are in the most vertical ascent I've seen since looking at an upside down chart of Enron.

The AMEX gold bugs index and the TSE Gold's (representing less hedged production than XAU/SP Gold index) have broken well away from late last year's trading range, and are making new two year highs, while the relatively hedged XAU and S&P Gold's are now starting to break away from a six month corrective phase.

The bulls have all but wrestled control away from the primary bear market. What is going on? There is always the possibility that something is happening we aren't yet aware of. For instance, the gold market was already in full swing five days before we found out that Anglogold planned to announce that it is looking to scale back its own hedge book over the next 12 months, after having admitted (a week earlier) in their profit report that earnings would have been better were it not for its outstanding hedge book.

The news is profoundly bullish. The reason is that the market has attached a higher risk premium to producers with hedged production. Anglogold's announcement was a pledge to the market, and represents a resolution to the prisoner's dilemma, which until now has kept most (hedged) producers silent about their predicament, or what they planned to do about it.

However, now that the cat is out of the bag there is incentive for producers, vying for new shareholders and higher share prices, to reverse their hedges. So the game is on, and we're looking for a bull run at primary trend resistance levels:

- 80 on the SGOLD (25% rally)
- 93 on the XAU (43%)
- 100 on AMEX HUI (19%)
- 7500 on the TSE Gold index (25%)

I really don't know when they'll get there, but they are coming off their long-term bottoms like bats out of hell. If they do make it, we'll be talking about a new bull market shortly. I think they'll make it for the 1,000,001 reasons discussed last year.

The US stock market down turn this week is bearish, because it comes on a failure to refute last Tuesday's sell signal. The major US market averages were down from 2% to 3% yesterday giving back anywhere from half (Dow) to all (Nasdaq) of last week's gains. Leading the bears in the Dow were AT&T, GE, JP Morgan, American Express, Honeywell, and Citigroup. While GE and Honeywell recovered some lost ground this morning, JP Morgan just made new three-year lows.

Citigroup bears took out the last highest low in the post September intermediate bull sequence yesterday, and continue to hammer the stock this morning. Other banks such as Bank of America, Bank of New York, and the investment dealers such as Goldman Sachs and Morgan Stanley either followed or already broke down with JP Morgan late January.

This is a blow to overall bullish sentiment as it implies lowered expectations for returns in these core market businesses.

Honeywell bulls are making a valiant attempt to reverse early January's sell signal, but the resistance implicit in the neckline of a five year head and shoulders top (that neckline provided meaningful support for the market in four of the past five years) is proving overwhelming.

So far they've failed to inspire the necessary conviction.

$31 is key for this chart, representing the last highest low in the very short eight-session comeback rally, which also was the last highest low in the entire post September bullish sequence. The bulls must defend that or face a test of September's low.

Microsoft, on the other hand, went off to fresh lows and continues to confirm the mid January break down in the Nasdaq averages, and other technology names. In fact, the Nasdaq break down preceded last Tuesday's blue chip sell signal.

In what may become another blow to bullish sentiment, bears have their sights set on Johnson and Johnson, and have forced bulls down and out of a 3 month neutral chart formation, whose implied objective is to take out the last highest low of the post September bullish sequence. If this stock reverses course it will be both, about time and extremely dangerous for bullish sentiment, since it is only one of three Dow components (MMM, Alcoa are the other two) still making new all time highs, last year, and still in a primary bull market as of today. It has gained in every year since 1994.

Alcoa is the most expensive at better than 30 times trailing earnings, but its earnings are forecast to grow 160% by 2003, giving it a 13 times forward PE. They wouldn't lie of course because O'Neill is head of the Treasury now.

Perhaps that has something to do with why earnings will grow so much.

Anyhow, the Asian markets were down swiftly overnight. The Nikkei is practically at September's low, and declined 1.62% Tuesday morning. European bourses fell hard too, getting their inspiration from US equity trends. The French CAC is confirming its December breakdown, down 2% this morning, while the German DAXX and FTSE100 have landed on key support, down 1.1% and 1.4% respectively.

Still, without a break in the Transportation and Utilities averages this may not qualify as a Dow theory sell signal, but that said the utilities charts, while skewed by several factors, have already been in a pre and post September downtrend. All we're really holding out for is a primary break down in JNJ, as well as a short-term reversal in Honeywell and the Transports (both are already in a primary bear market).

Key support for the blue chip Dow average is at 9525, which is last week's low. A decline through there with a reversal in the Transports should be enough to inspire a vicious bear attack that ought to provide the additional catalyst gold bulls are looking for in the dollar. As we write, the price of gold churns away at $299 on the nearest contract, and Wall Street bulls are trying to get their bums off the floor.

Good day,
Ed Bugos

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