

INSTITUTIONAL ADVISORS

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SIGNS OF THE TIMES:

"Market's Best Start In 25 Years"

– Financial Post, January 20

The probability of a rising, but choppy stock market from October until around January seems to be working out.

"China's December home prices posted their worst performance last year. New home prices in the nation's four major cities declined for a third month."

– Bloomberg, January 20

"The Bank of Japan will maintain its zero interest-rate policy."

– Bloomberg, January 20

This policy has been in effect since 1990 with little effect.

"About one of every 125 retired federal civilian workers collects more than \$100,000 in benefits annually."

– Bloomberg, January 19

And that is from a pension system that faces a \$674 billion shortfall.

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Perspective

Last week's view was that the rally in stocks, commodities, corporate and municipal bonds could continue into February.

Choppy action ended at Christmas when a rally developed. This week's slide in the dollar (finally) is adding to confidence as European downgrades become so "last month".

Some technical "alerts" have registered on the stock market and we are watching for key excesses.

CREDIT MARKETS

Financially speaking, grave concerns through Christmas prevented a "Joy to the World" condition. With Italian bonds, for example, plunging in yield "Joy" has arrived. However, it is selective as Portuguese yields soar to new highs. Charts follow.

Longer-dated spreads for corporates continued their favourable trend. The price rise includes the strong rally in Municipals – enough to register a weekly Upside Exhaustion. It could take a few weeks to complete the move, but the first slide says "game over".

Even the dreadful mortgage-backed bonds are coming back into favour. The one we follow has rallied from 38 in October to 51. Risk is back on.

The shorter end of the market such as Libor and the Ted-spread turned positive at the end of December.

The chart action in Municipals could provide the technical sell signal on all of longer-dated risk stuff.

CURRENCIES

It took a few weeks for the DX to roll over and the decline could run into February. With this the Canadian dollar has bounced up to par with the US.

COMMODITIES

Agricultural prices (GKX) continue to work on the test of the high of 445 set at the beginning of the month. The rally has been weak, but it could firm up as the dollar slides.

Base metals (GYX) have performed well since mid-December and momentum has surged up to 74 on the RSI. This is close to the level that has ended such rallies in the past.

Crude oil has been likely to consolidate for a while yet. Saber-rattling by Iran will continue to prompt "good days". Seasonal strength will follow.

Natural gas has enjoyed a sharp rally to the 20-day moving average and some consolidation is likely. The advance could run through February.

Ross's January 14th review of the extremely oversold condition has been very timely.

Link to January 27, 2012 'Bob and Phil Show' on TalkDigitalNetwork.com:

<http://talkdigitalnetwork.com/2012/01/fed-follows-as-usual/>

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JOY! Italian Bonds



OOOPS! Portugese Bonds

