

Japanese Yen & Nikkei: The Latest Global Crisis? **Shanghai Composite: Is China the New Lehman?** **Time For a Yen-Assisted Silver Bullet?**



May 31, 2012

YEN/NIKKEI & DOLLAR

For some time, I have discussed the **Yen's** counterintuitive co-directionality with the **Dollar**. This time, however, going the same way may be a hitchhiker's coincidence, too.

To appreciate the bigger picture of this aspect of the global crisis' puzzle, we must also note the countertrend reality of the Yen versus the Nikkei, as well.

To complete the setting of the stage....

April 1, 2012

"The **Nikkei** has peaked, just as the **Shanghai Composite** is putting in an important bottom.

"Major support is at 9100, while my target for later this year is around 13,000. Stay tuned, however, because the world is a dangerous place."

Reports since the end of the year, then, have identified the Nikkei's bottom (retest of the tsunami low), it's peak after its 2000-point rally, and subsequent decline. However,

the Nikkei's drop has revisited December's apex at 8500, as opposed to stopping at 9000.

The weakness reflects major problems, such as unsustainable corporate yield spreads, which suggests that Japanese firms may run out of the capacity to borrow and send the country into an economic abyss. And this is where the Yen drama comes in.

The only choice the Bank of Japan (BOJ) has is to join the Americans, Europeans and the British in printing massive amounts of paper. Hence, a collapse in the Yen and a soaring Nikkei.

The latter is now trading for less than book value, while short interest has achieved levels ordinarily associated with bottoms. The former point is our interest today, however.

If firms can't borrow, who cares about the value of the assets? However, the printing press will not only give the appearance of fixing the problem, it will also create the liquidity to whipsaw the Nikkei significantly higher.

In terms of sentiment, despite being the 1st quarter's best performing major index in the world (NOT the Dow), investor attitudes remain utterly disinterested; they will again miss a major takeoff.

2-year FXY chart (Japanese Yen ETF).



The FXV has rallied back up into its neckline, created a double-divergence in the stochastic, retraced a Fibonacci-significant percentage of its decline from the peak, AND created a rising wedge, a dangerous pattern that ordinarily declines sharply (annotations not shown this month).

The latter point is also consistent with the news background that is easily imagined, as a result of almost-certain BOJ policy.

Now, please note the countertrend move of the Nikkei (**2-year chart below**), bullish factors for which were cited on p.2, and the picture starts to come into even greater focus, particularly for **precious metal** (PM) bulls who seek to cheer the next wave of central bank printing.

Of course, all eyes have been on the European and American central banks, while no one seems to be expecting the PMs to celebrate the inevitable BOJ actions.



Further, with a return to its January apex, the Nikkei's 2-year triple-bottom is set to perfectly line up with the picture painted on the preceding page for the Yen!

Finally, the **Dollar index** has come into resistance and can now fall with the Yen, maintaining its co-directionality. Everything is aligned to satisfy "**Japanese Yen & Nikkei: The Latest Global Crisis?**"

4-year Dollar index chart (p.4)



Wherever the Nikkei ends up, this is a **Yen currency crisis**, and one that will have been a contributing factor in the **PM crisis** that the "authorities" have been working so hard to mask with **massive gold futures sales**.

CHINA

I could never do justice to the story that exposes China as a grand Lehman story of still greater proportions.

Therefore, I strongly encourage all to carefully examine the linked piece below, so as to fully appreciate how and why the coming global financial and economic collapse will have been the greatest in the history of the world, as calamity finds its source **EVERYWHERE**.

<http://chovanec.wordpress.com/2012/05/19/no-guarantee/>

Yet, for you hedge fund traders, our focus for now remains on what I have believed will have been a 25% rally from bottom to top. The announced stimulus will be meted out well enough to support such a rally, unless the lows are taken out.

I don't expect the bottom to be taken out, so it's worth a shot (in this perverse world). For perspective:

December 27, 2011

"The Shanghai index is in a serious and ongoing decline, the worst of which will be over by their New Year."

February 29, 2012

"Therefore, I conclude that a spike lower toward the bottom, in the index above (Morgan Stanley China A Share), will mark a right-shoulder-low that may be used to go long Shanghai-related indices versus European (Western) ones, as is the case with the Nikkei, as well, of course."

April 1, 2012

"Being off-cycle, the suggestion is that Shanghai will rally 25% soon! Indeed, this is what I believe." (Target 2650)

Looking at the **1-year Shanghai Composite Index** chart below, the forecasts immediately above were borne out, so let's see if this foolishness can play out.



SILVER (SLV)

The BOJ, European, US and British central banks will have printed more "money" very soon (mostly without choice), spurred by worsening news regarding the world economies, as well as desperate financial realities, the latter underscoring what I forecasted for years regarding this time period in which we presently find ourselves:

This is a balance sheet story, period. And that's why there's an economic crisis in the first place.

May 4, 2012

"The latter would be consistent with previous analysis that the 1st-quarter rally in silver was a wave-1, implying a wave-3 explosion from these levels, suggesting a trampoline effect: **the harder one jumps and the closer one gets to the hitting the ground, the greater the liftoff.**"

Despite the full triple-bottom retest of the lows, the sentiment picture could not possibly be more bullish (open interest, Commitment of Traders Reports, etc.), but I'd like to draw attention to what is observed less (as opposed to the preceding, which everyone who reads SKGS follows).

The **4-year SLV chart** (silver ETF) below illustrates a time cycle that bottomed every 5-6 months during the period. We are now in that time window.

Given the 1-year triangle pattern, this could be time for a silver bullet to the upside. Let's hope, eh.



ASSET ALLOCATION

As a percent of all liquid wealth, the best overall mix remains:

- 50% gold**
- 25% Swiss Franc**
- 25% Dollar**

Sid Klein

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