GOLD: *An Update*

January 10, 2017

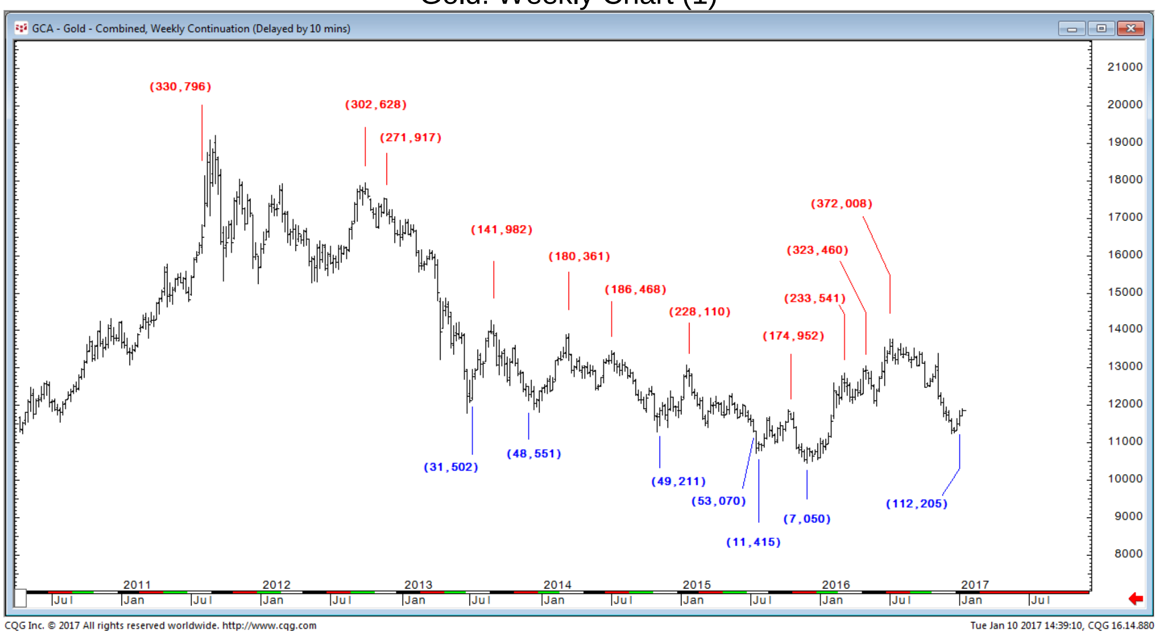
It’s hard to believe we have not written about the yellow metals since October. The market then was in the early stages of what would become a fairly significant decline following a 31-week rally of over $331. One of our concerns in late October was the relative magnitude of some of the major liquidations which had periodically occurred in the gold market and whether this time around was going to be any different. In the June/early July period, bullish sentiment had swelled and so too had the net commercial short position in the market which reached a record. We can obviously state that that it was not any different this time around as the market has undergone a significant liquidation. The extreme bullish sentiment readings of summer have come around full circle to the opposite extreme in winter. It’s time we think to take a look at some of the relevant technical factors given what has transpired during the 23-week price decline into December. Listed directly below is the Table from our October Focus Article, *Different This Time Around?* We quantify 9 previous liquidations in the market utilizing the commercial net position data.

	GOLD: Net Commercial Short Liquidations							
	Date	Position		Date	Position		Percent	Weeks
1	3/14/03	-126507		4/15/03	-48622		-61.60%	10
2	4/6/04	-225609		5/18/04	-70223		-68.90%	6
3	11/16/04	-217564		2/8/05	-67765		-68.80%	12
4	10/11/05	-227566		10/10/06	-79030		-65.30%	52
5	2/26/08	-268158		11/11/08	-59204		-77.90%	37
6	8/2/11	-330796		5/29/12	-124039		-62.50%	43
7	10/2/12	-302628		7/9/2013	-31502		-89.60%	40
8	1/27/15	-228110		7/28/15	-11415		-94.99%	26
9	10/13/15	-174952		12/1/15	-7050		-95.90%	6

As of Tuesday, January 3 the net position is down 69.8% from its peak reading in early July. Could it go lower? Of course it could but the decline we would point out is similar percentage wise to 5 of the 9 observations (Column 6). Additionally, the average duration of the liquidations averaged 25.8 weeks. The current liquidation is has been 26 weeks thus far.

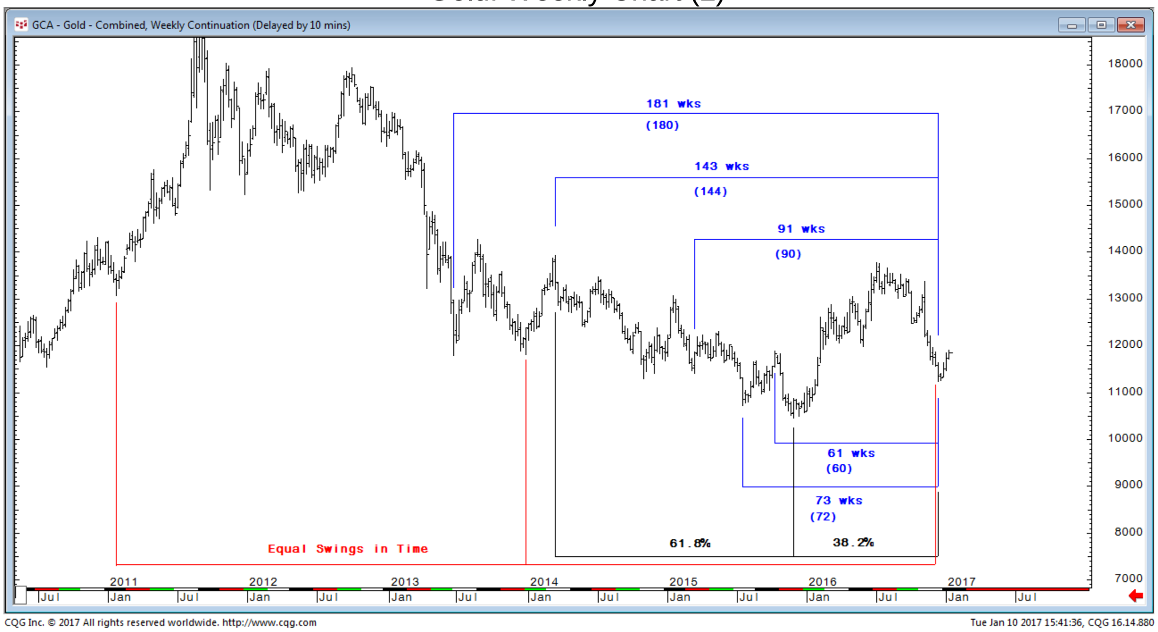
From a slightly different perspective we illustrate below the highs and lows in the net commercial position through last week. The large peak net shorts are in red and smaller peak net shorts are in blue. The red tend to form near the price highs and the blue near the price lows. The only material factor to be aware of is that the current net short of 112,205 contracts and delta weighted options is larger than the other readings for the time period shown. (In the 2001-2013 period, low readings implying the end of a liquidation phase tended to range from net 58,000 short to net 70,000 short. If that is going to repeat, gold prices could go lower.)

Gold: Weekly Chart (1)



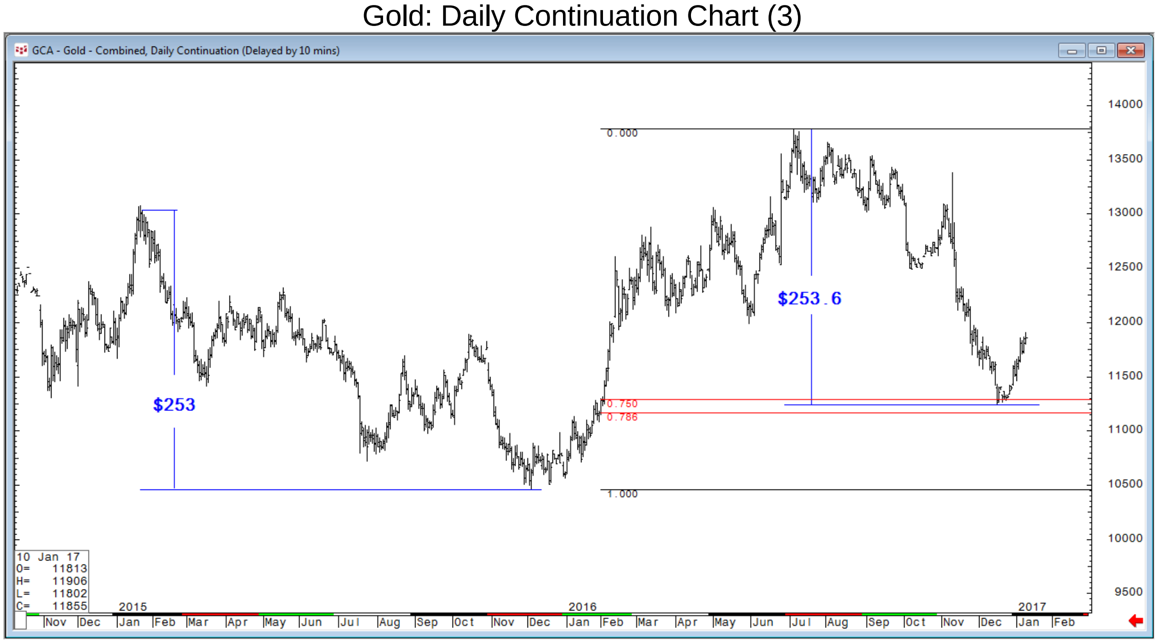
On our next chart which follows below, we are looking at ***time***. We want to explore the possibility that the recent low is coincident with or near a cluster of time cycles. We did not find anniversary dates on the weekly chart but we did see a number of Gann cycles, each of which was exactly 1 week off the ideal (shown in parenthesis). When dealing with time, a normal or allowable variance would be plus or minus week. The weekly chart implies the market turned on a cluster of time cycles. Additionally, there is also an equal swings move (1 week off) and a Fibonacci golden section which were coincident with the low.

Gold: Weekly Chart (2)



We have one last chart today which is a daily continuation. It follows below. On this chart we have noted, relative to the 2016 rally, where the 75% and 78.6% retracement levels are located. These are the 2 red horizontal lines. Gann used eights in his work and six-eights equals 75%. The 78.6% retracement is the square root of the golden Fibonacci ratio of 61.8%. The precise price levels basis the nearby equate to ***$1129.0*** (75%) and ***$1117.1*** (78.6%). ***The mid-point is $1123.05***. The recent low was ***$1123.9***.

Gold: Daily Continuation Chart (3)



The other factor we thought was very interesting on this chart was to take the 2015 decline starting from the high of the first day that penetrates the absolute low of the rally high day ($1299.2), and then measuring to the December low of $1046.2 for a move of

$253. We then subtracted that $253 move from the 2016 high ($1377.5) and arrived at ***$1124.5***, not far from the recent ***$1123.9*** low. We are mathematically concluding that the current decline in gold prices duplicated the last large price decline into the 2015 low.

If we simply illustrated today that the net commercial position had declined in percentage terms similar to other historical liquidations, we might not have a very strong nor reasonable case for a gold low. If we add price and time considerations, we think it is certainly warranted to consider that possibility and to start looking for the market to confirm it.