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Technical observations of
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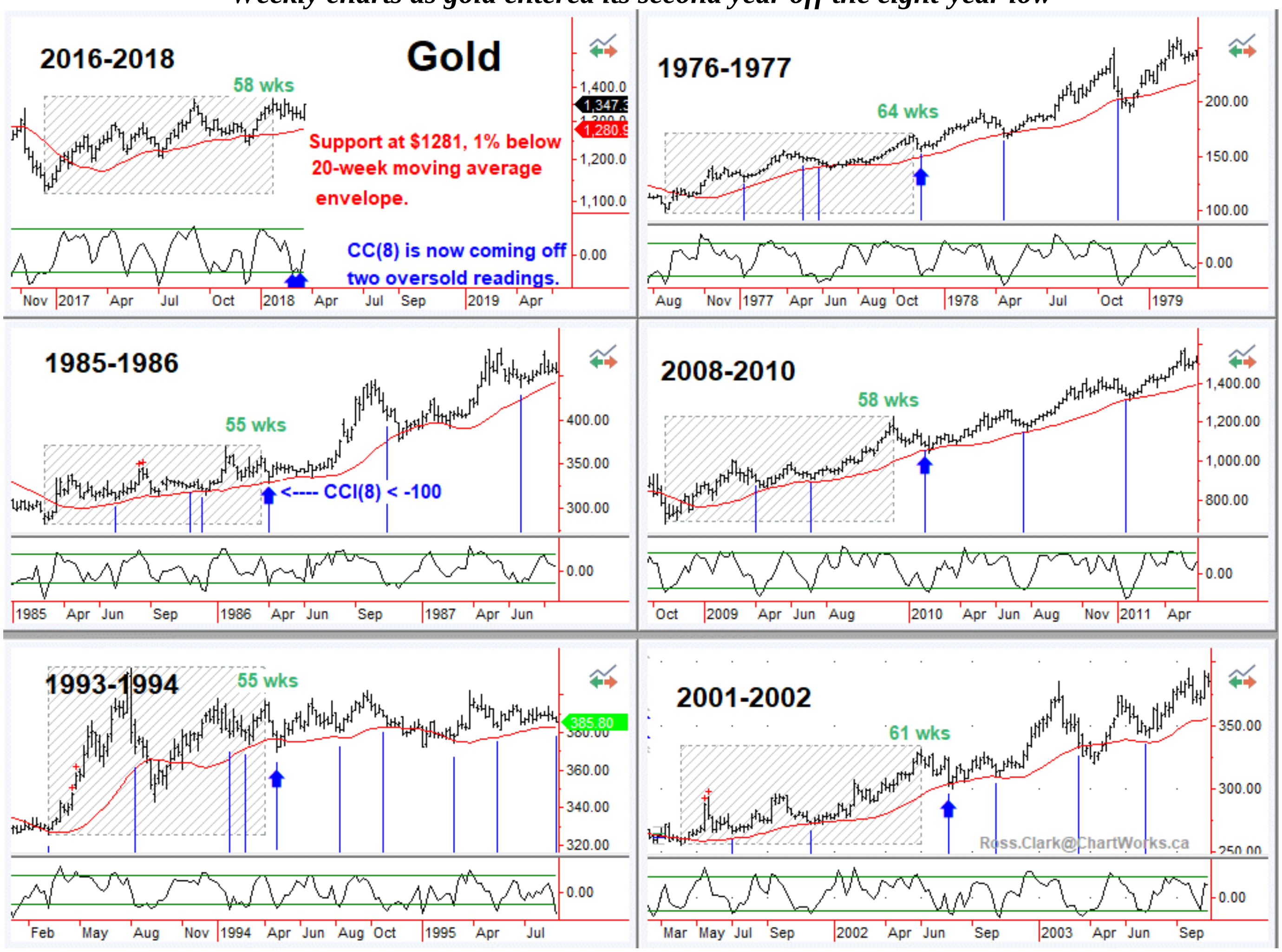
Gold: Pattern Development

Gold made a marginally lower low last week and then reversed through the previous week's high after the FOMC announcement on Wednesday. The rally carried to within $10 of the key resistance at $1360. In downtrends (price below 50-week average) outside reversals tend to have one week of follow-through and then fade. In rising trends, such as now, the price may pause as it did ten times from 2001 to 2011, but then continue higher. The 1993-1996 period had six such reversals and 1976 to 1980 had four.

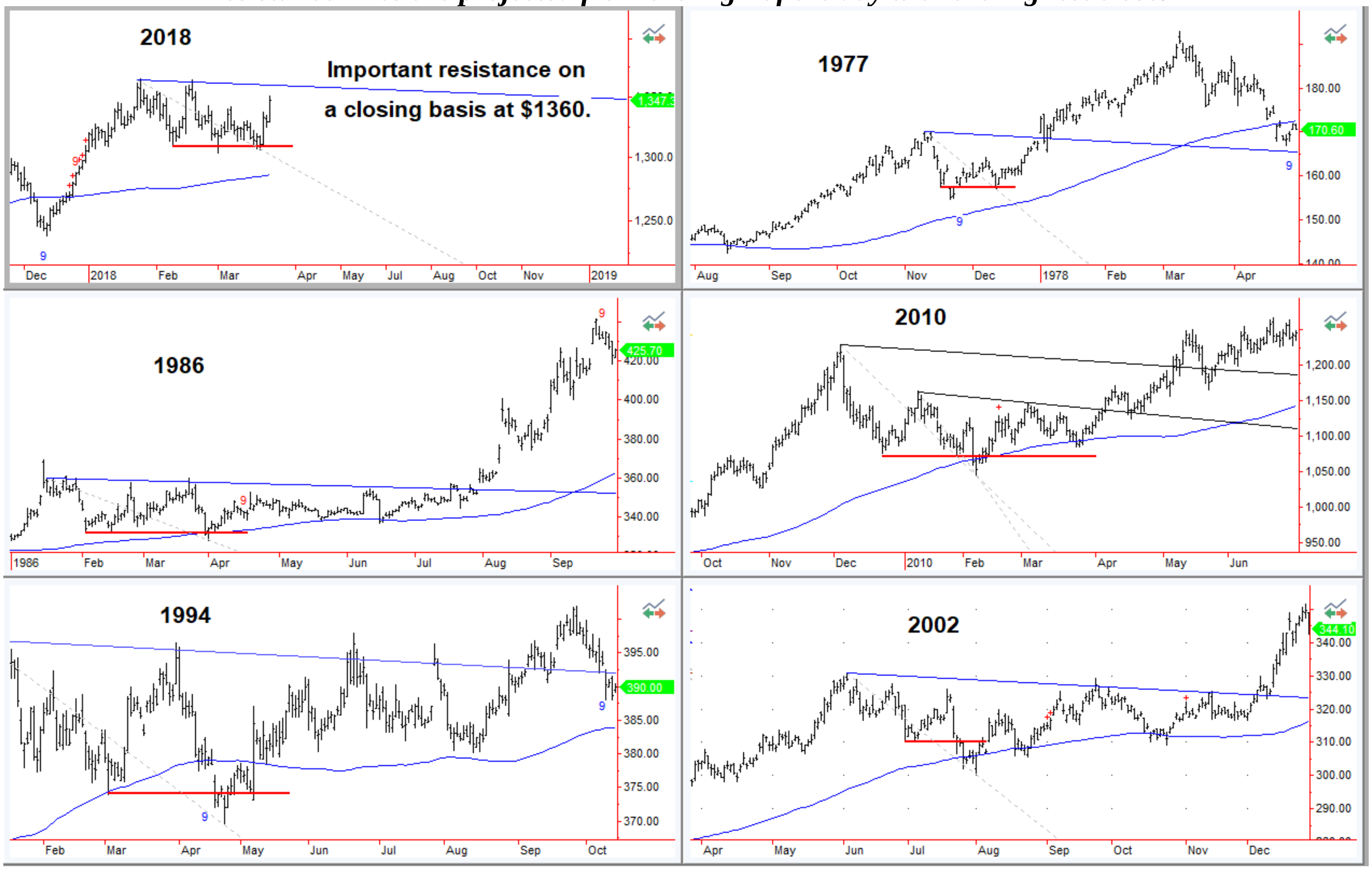
We continue to be of the view that the eight-year cycle bottomed in December 2016 (*not the premature low in December 2015*) and that prices will gain momentum on the upside in the next few years. The two oversold reading in the weekly CCI(8) this month held exceptionally well. It most resembles the 1977 correction that did not drop to the lower moving average band (currently $1281).

Weekly charts as gold entered its second year off the eight-year low



The correction into February 8th held at $1309. This 'needed' to be violated to maintain its tight correlation at this point in the cycle. (red lines). What we did not see was a deep correction to the moving average band.

Resistance lines are projected from the high of the day with the highest close.

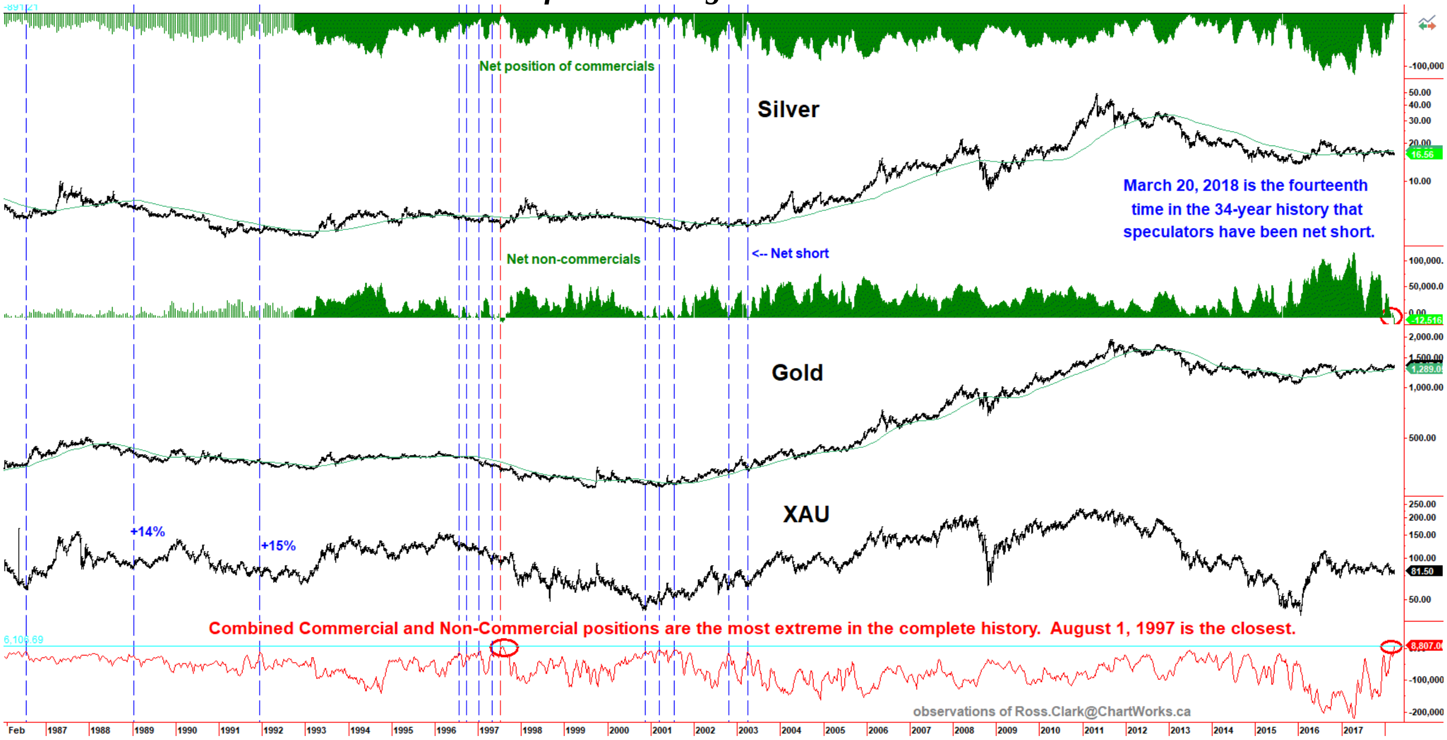


John Paulson has closed down his gold fund. This is reminiscent of the launch of a new precious metals fund some fifteen years ago when the major institutional backer pulled its order at the last minute and the fund could not meet its minimum size for a listing on the exchange. Gold was at $360. *It never went any lower.* Bull markets tend to start when investors are least interested in the product.

This negative sentiment is even more apparent in silver. Non-commercials (speculators) have the first net-short position in the futures market (12,516 contracts) since 2003. A net short in non-commercial positions is one thing, but when it also coincides with such a small net short position for Commercials it is even more interesting (see next page).

Such Silver anomalies worked well for Gold in 1986, 2001, 2002 and 2003 when it was above its 50-week moving average. The typical rally from here was four weeks or more.

COT of Silver along with Gold and XAU



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