TECH FOCUS

Richard A. Lorusso

METALS: *Dollar Pressured*

May 08, 2018

With the U.S. Dollar this week posting its largest cumulative rally since topping in early January 2017, the predictable effect on the metals has been weakness in gold and silver prices. The dollar rally basis the index continuation chart has retraced 44.6% of the multi-month decline, or 460 points in 56 trading sessions. This has been as of today, the largest dollar rally in both magnitude and duration since the high. Obviously, gold and silver have each experienced pressure on the downside. The question today is whether the dollar is approaching a near term rally high. implying the metals are nearing a low, *or does the dollar rally have far more time to run*. We find from experience that the obvious correlations work just so long, before the discounting mechanism in the market begins to take hold. With that possibility approaching, we wanted today to simply take a look at some gold and silver futures charts. Our first chart today is a weekly gold.

Gold: Weekly Chart (1)

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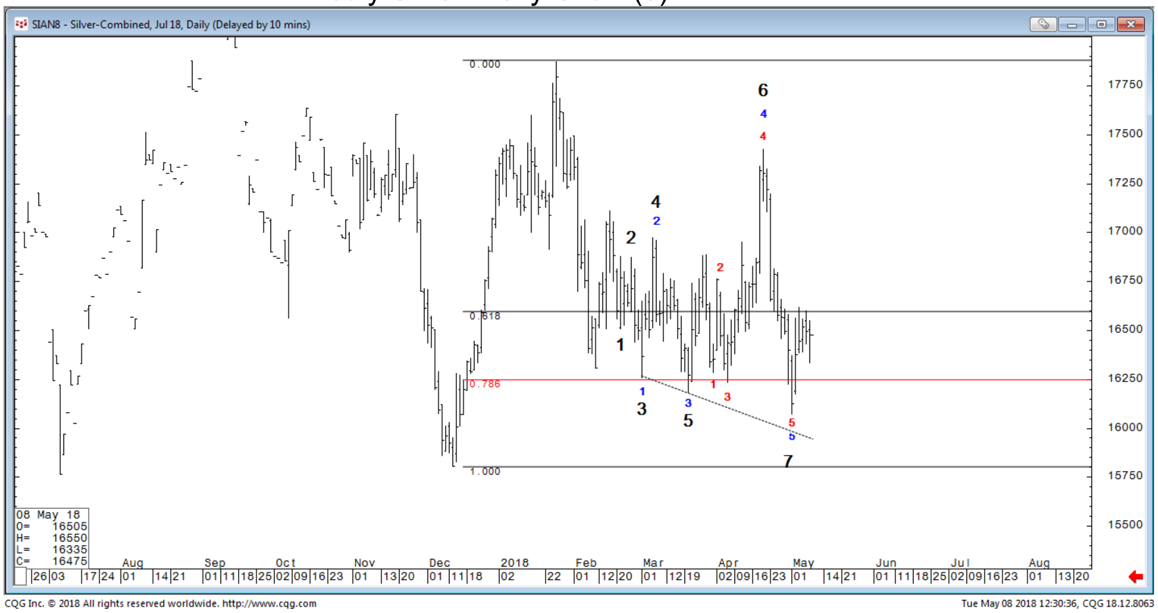
The chart above notes the tendency of price to experience turns at 30-week intervals and multiples of that period. The more intervals that are present and closely clustered, the higher will be the probability of a turn. Prices are currently moving down while in a time cluster of 30, 60, 91 (off by 1) and 180 weeks from previous turns. The observations are sufficient in number to consider the market is entering a period for a low. We have also added the 144-week Gann cycle and interestingly, the half-cycle of 72- weeks which has been accurate. The solid red line supports the idea that a major base of four years has been forming and is now maturing. Our next chart is the daily June contract.

June Gold: Daily Chart (2)

Our focus on the gold chart above is the potential for two 5-point reversal patterns to be coincidentally terminating. Both have met their minimum structural requirements for a low with point -5 trading under its respective point-3 low. The pattern boundaries which are reached approximately 66% of the time define the range of ***$1,288-$1,298*** basis the June contract. We are illustrating a couple of harmonics on this chart of which the 69-session appears particularly time relevant.

We turn our attention now to silver and the daily July chart which follows on the next page. There are two 5-point patterns suggesting lows and a much larger third 7-point pattern. Note that at the recent spike low, the market temporarily traded beyond the Fibonacci 78.6% retracement of the December/January rally but that price extreme proved short lived. A low may have in fact arrived here in the silver although strong confirming evidence remains thus far lacking.

July Silver: Daily Chart (3)

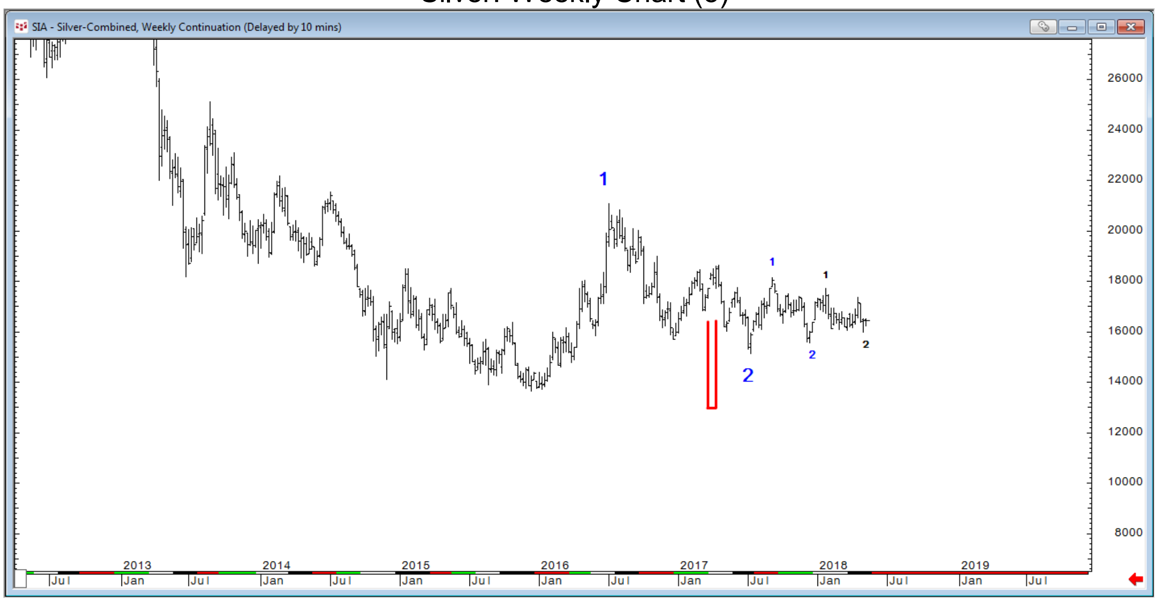


Our last chart is a weekly silver chart. We will illustrate it twice with two interpretations. The first chart addresses the conspicuous triangle which has short term bearish implications as most often triangles appear in the 4th wave position of a 5- wave progression. The chart is labeled to reflect this implying a final leg down for wave-5 lies ahead. At a Fibonacci 61.8% of the net decline of waves 1-2-3, a retest of the ***$14*** level would be expected for wave-5.

Silver: Weekly Chart (4)

On the final chart below, also a weekly silver, we attribute a great amount of importance to the quality and nature of the silver rally from the December 2015 low to the January 2016 high. We likened it to the first shot across the bow of the bear market. Everything since that time has been a nesting of smaller waves-1 and 2 to the upside. You will note that there are two dark red vertical lines in time which correspond to 4-weekly CFTC Commitment of Traders Reports. Two of those weeks contained the lowest (if not the record lowest) net commercial short positions ever recorded in silver. The commercials have never been net long. Of course it would have looked more impressive 10 or 11 weeks later (at the **2** low) on the chart, but we can't change history.

Silver: Weekly Chart (5)



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If we had to venture a guess, we think the month of May will be the time to exercise a heightened sensitivity to the metals activity for a potential low and not necessarily late in the month.