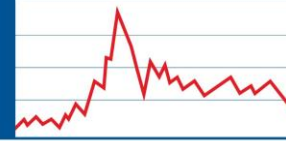


# TECH FOCUS

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## GOLD: *Look Similar?*

July 3, 2018

Gold prices have been in a rapid decline since the middle of June when the market came very “close” to exiting an established down trend channel. “Close” however was not good enough as on the very next day, prices gapped lower and thereafter lost \$29.8 from the preceding day’s settlement. This gap down opening (boxed) had appeared twice before within the channel at B1 and B2 where the daily loss was \$10.5 and \$28.1, respectively. The current gap (B3) we are speculating may have started a climactic sell-off which often ends with an important low.

August Gold: Daily Chart (1)



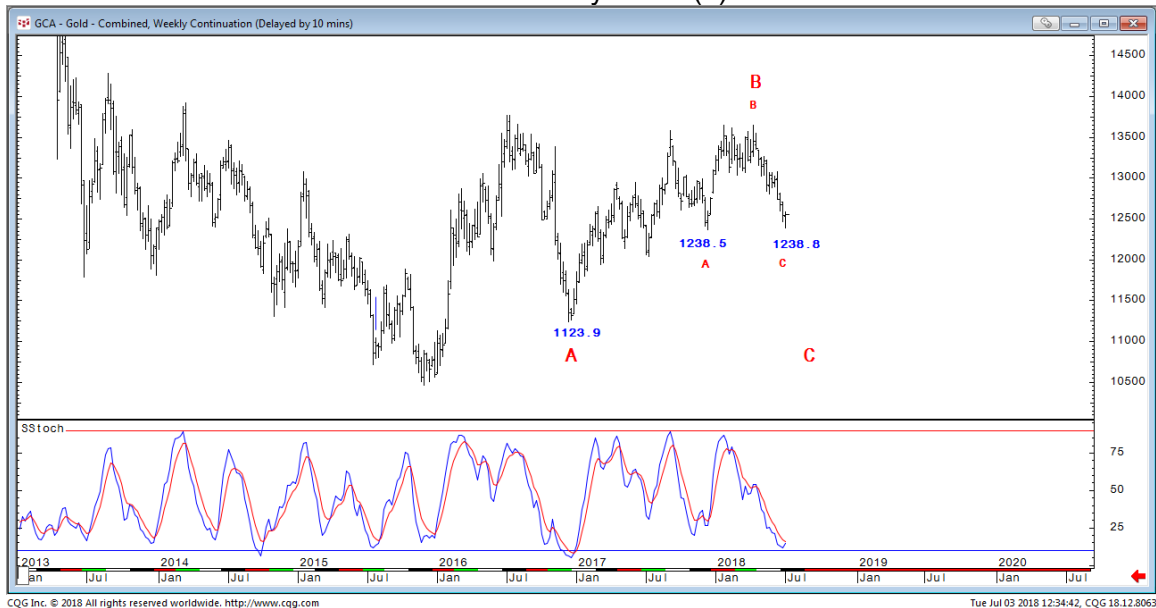
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In our June 29 Daily Financial Guidelines comment, we felt the need to consider from a wave perspective, what this weakness could conceivably represent. On the following

weekly chart we noted two reasonable possibilities. Both considered that gold prices were in a “flat” **A-B-C** corrective pattern. The weakness implied that nearby prices were in the **C**-wave down and were going to *either* to the **\$1238.5** low to complete the smaller pattern *or* eventually to **\$1123** to complete the larger one. ***It was one pattern or the other, a small correction or a very big correction, but not both.*** We closed that daily comment relating that we thought the more relevant and deciding evidence would be in the weekly CFTC Commitment of Traders reports as opposed to canned technical indicators.

Gold: Weekly Chart (2)



The nearby futures today traded down to **\$1238.8**, a few cents from the first of the patterns noted above. It's time to take a look at the market's composition and specifically the CFTC data. We pulled all of our previous historical observations together and updated the more recent movements in the following Table.

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
10	7/5/16	-372,008		1/3/17	-112205	-69.80%	26
11	6/6/17	-225841		7/11/17	-70306	-68.90%	5
12	9/12/17	-291622		12/12/17	-119607	-59.00%	13
13	1/23/18	-315365		6/26/18	-86431	-72.60%	22

We should probably start by relating that the **liquidations noted in the net commercial short position** that have tended to correlate with periods where price lows materialized. Secondly, we like to see as much similarity as possible between variables before concluding that the move is over. From the most important to least important, those variables would be the percentage decline in the position (column 6), the absolute position level at which the liquidation ended (column 5) and to a far lesser extent, the duration of time required in weeks.

Today we can also point out that previous to the current observation, liquidations which began **from above net short 300,000** futures and delta weighted options **number only 3**. For those 3 observations, the percentage decline in position averaged **73.9%**. The absolute ending position level averaged net short **89,248**. And the time duration averaged 36 weeks (one of 26 and 2 of 40 and 43 weeks).

*Let's understand that we cannot be conclusive.* We can only look at the parameters and make a reasonable judgement call. The current decline started from a commercial net short position of **315,365** in January 2018 and **using last week's data shows a decline of 72.6%**, to a possible tentative ending position of net short **86,431**, in 22 weeks.

We would have to say **the decline statistics are very similar to other completed liquidations that started above 300,000 net short**, and given today's low price at **\$1238.8**, we should now be awaiting confirmation that the smaller **A-B-C** pattern has bottomed. The key now will be price confirmation.

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