TECH FOCUS

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GOLD: *Was that the low?*

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In early 2018 the sentiment on gold was running high. After failing on multiple attempts to deliver new highs, that began to gradually change. The net commercial ***short*** position in the metal grew to a level in excess of 300,000 futures and delta weighted options. Prices eventually turned down. At first it appeared normal but as mid-April arrived, the market started to move lower and into an acceleration phase of approximately 17 weeks. Sentiment by the end of that period had completely reversed course.

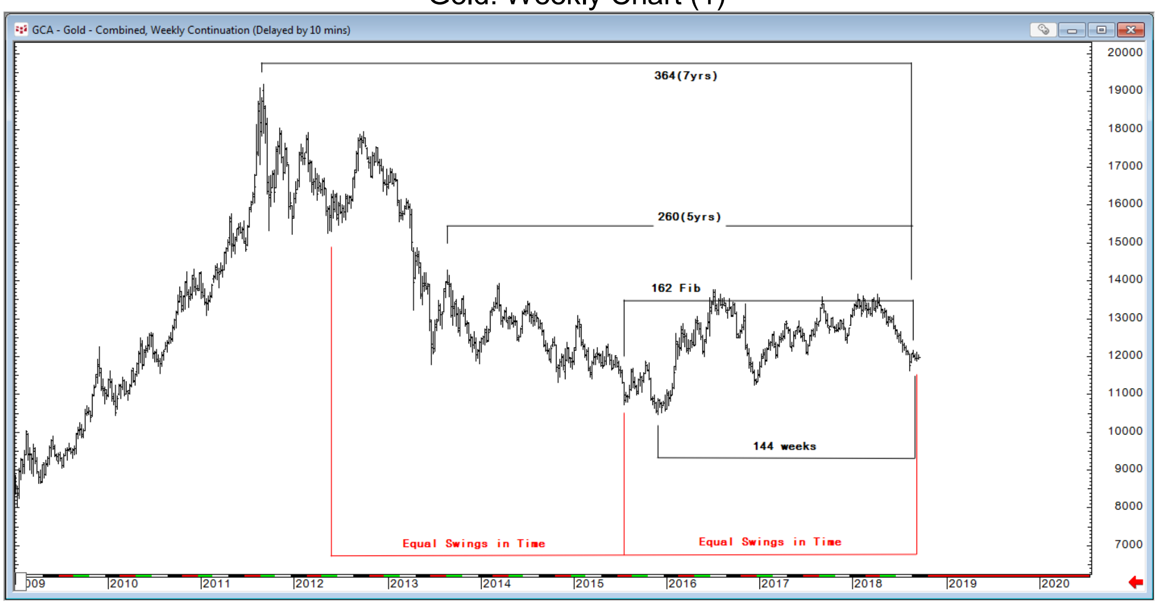
Today there are a number of factors we would like to focus on which collectively suggest the possibility of a low. Given that gold seasonally often forms a low in July or August, it seems timely to review some of these factors. We'll start with our historical table on the behavior of commercials in the market. Readers have seen this table before, it has been updated.

	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		8/14/18	11573		100.00%	29

Not all commercial net short positions reach or exceed 300,000 futures and options but that area appears to be where the market reaches a critical mass. Prices decline and eventually the position is greatly diminished over time. In mid-August, our last line entry shows that not only has the position been totally liquated (100%), but that a marginal net long was established. The net long has increased in the last couple of weeks. *It is their first net long position since 2001*. Our data starts in 1998 and before we move on we'll relate what the eventual peak net long position reached and the month and year when that occurred. The five observations are 51,220 (3/1998), 76,329 (9/1998), 91,690 (4/1999), 42,590 (5/2000) and 67,526 (2/2001).

Does the foregoing mean that the market will remain at current or lower price levels until a larger net long position is achieved? We can’t answer that question *but siding with behavior 18 years ago is probably not wise.* Thankfully have other factors to consider. Our next focus here will be on the market from the perspective of **time and price**.

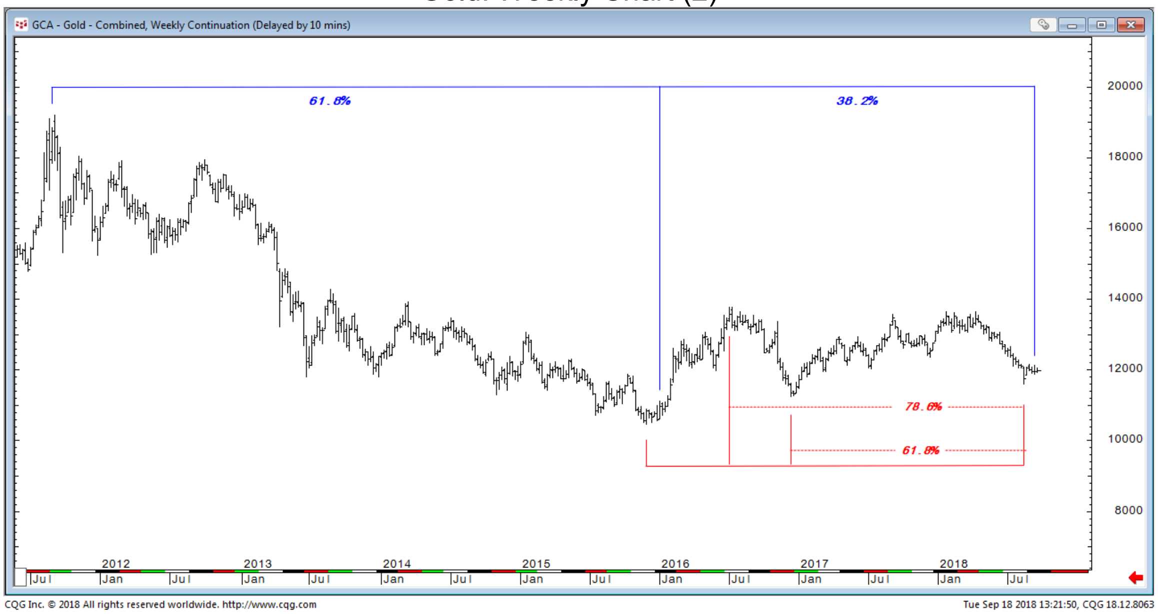
Gold: Weekly Chart (1)



The weekly chart above considers the market is in a fairly tight cluster of time where a change may be expected. The 7-year period from the high is an important Gann cycle as well at the 144 week interval from a previous significant low. Equal swings in time, the Fibonacci ratio expressed in weeks, and a 5-year anniversary from a high complete this picture.

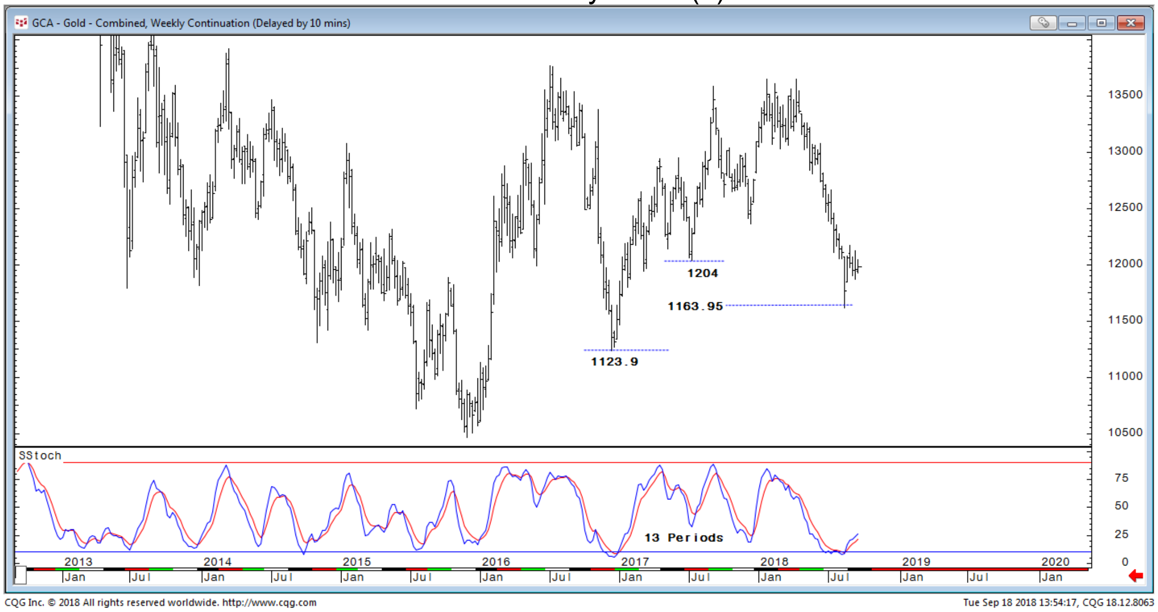
In the weekly chart which follows below we have significant Fibonacci timing which originates with the weekly high close in 2011. It relates to the secondary higher low in early 2016 and appears to be in a similar position now. The smaller red sequence relates the Fibonacci golden ratio (.618) and the square root of the ratio (.786) to the high and low in 2016 with that of the recent low in August 2018.

Gold: Weekly Chart (2)



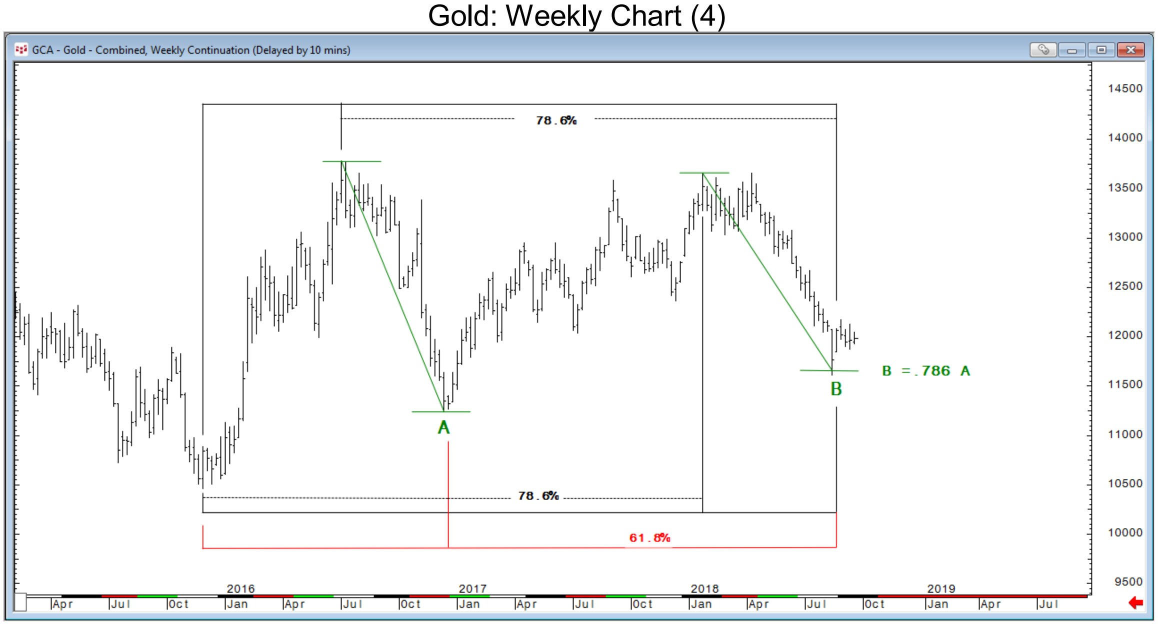
On the weekly chart which follows we illustrate an old pattern which often does a great job at defining a potential low or high. This is purely price oriented and in this case is concerned with the most recent low. The pattern starts with a significant low, in this case 1123.90 in December 2016. The market trends higher and sometime later, forms a higher reaction low than the initial low. This second low is 1204 and occurs in July 2017, 6 months later. The market continues upwards and eventually after peaking, declines. A third low will materialize usually far removed in time from the first two lows. Our observation is to focus on the mid-point between the first two lows plus/minus some increment. On this chart, the mid-point was **1163.95**. The low to date was **1161.40**. Had the market continued lower, the exercise would entail using the November 2015 low and the December 2016 low as the first 2 lows.

Gold: Weekly Chart (3)



On our next chart which follows below we illustrate a time and price relationship each of which is based on the Fibonacci ratios. It may be thought of as having price and time coming together. *That strongly implies watching for a trend change.*

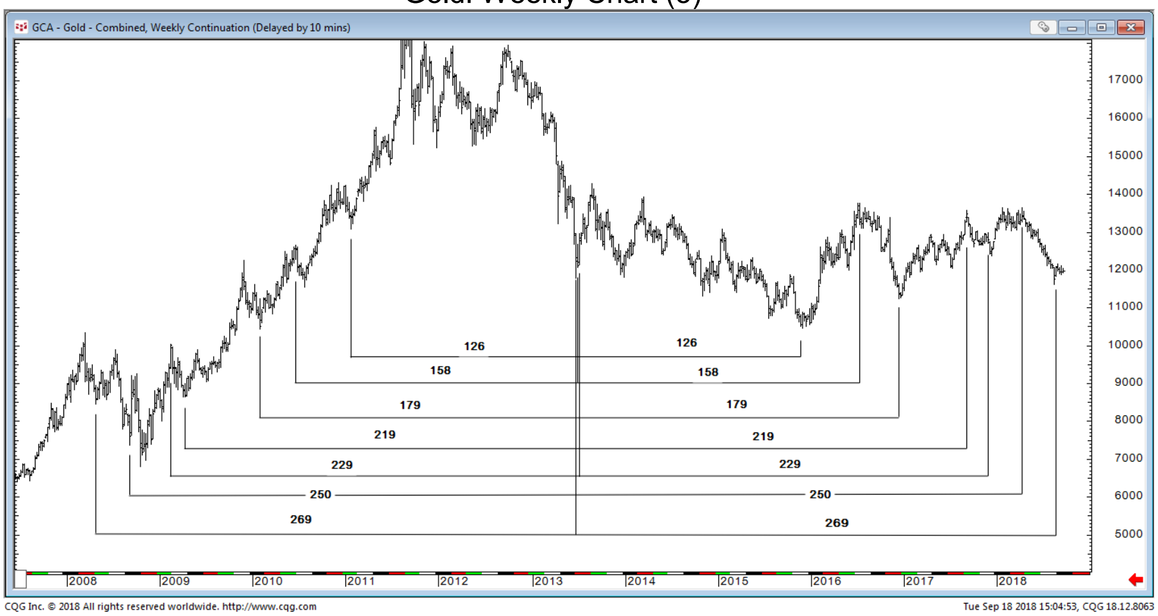
Gold: Weekly Chart (4)



The entire period in ***time*** from the 2016 low to the most recent low divides into 61.8% and 78.6% segments each of which corresponds to a very important price turn on gold. On the ***price*** scale, letting the **B**-leg down equal 78.6% of the preceding **A**-leg down results in a projection to the 1166.1 level. The low was 1161.4.

Our next chart is a weekly mirror image chart of gold where we basically have defined a vertical point around which a market will form turns at equal time increments both before and after the focal point. The focal point in this case is a 3 week period. It does allow for some latitude but it tends to be a strong confirmation if one is expecting (or better yet perhaps not expecting) a market turn. The latest indication arrived one 1 week after the August 2018 low which supports the possibility of a low. What also makes this chart very interesting is the fact that there are many accurate turns which have occurred.

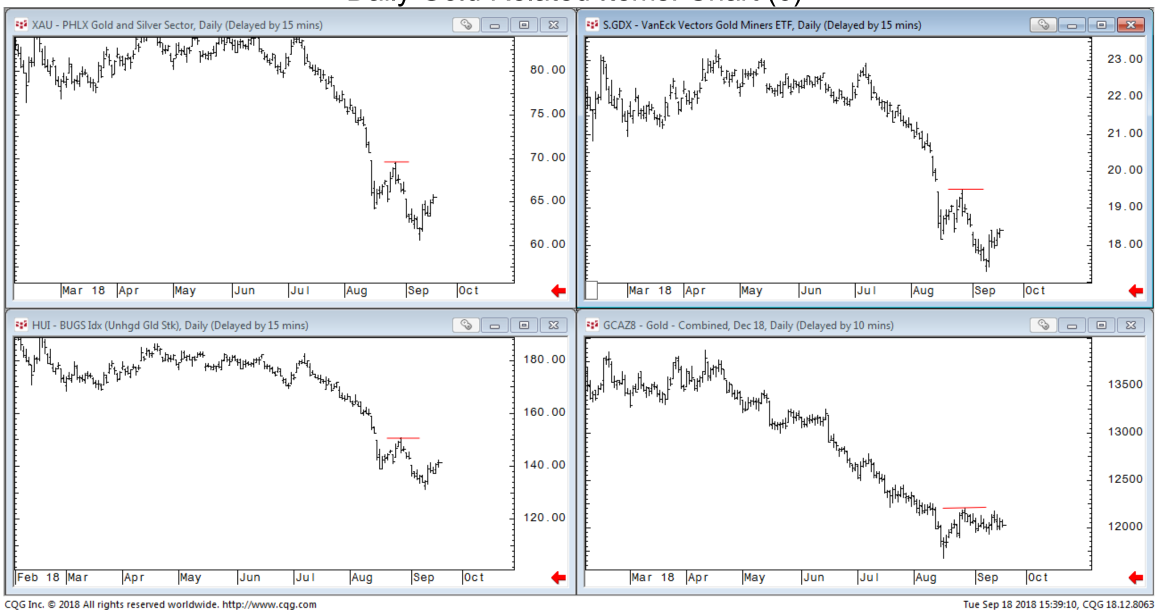
Gold: Weekly Chart (5)



Our last chart today is a composite of daily charts which follows below. We are illustrating the Philadelphia Gold and Silver Index (top left), the Bugs Index of unhedged Gold Stocks (bottom left), a Gold Miners ETF (top right) and the daily December Chart of Gold futures (bottom right).

In the first 3 cases, each index scored a low on September 11. Ironically, the gold did not. It scored its low on August 16. It is obviously divergent behavior and equally important it has been in place for a while. Divergences occur at important market turns between related items in a particular sector. This is another indication of a potential gold low.

Daily Gold Related Items: Chart (6)



What we have done today was to bring together several factors which relate to either price or time and the gold market. Some of the items were previously illustrated in our daily Guideline comments but a few were not. We cannot state this is a compelling case for gold but we can say that it covers many different factors. Perhaps some are not stand alone but collectively they warrant serious consideration. If we had to pick one item to be a ***confirmation*** trigger, it would be each of the four daily charts above being able to close over their recent highs indicated with a short red line. The levels are respectively 69.58 on the XAU, 150.77 on the Hui, 19.48 on GDX, and 1220.7 on December futures.