TECH FOCUS

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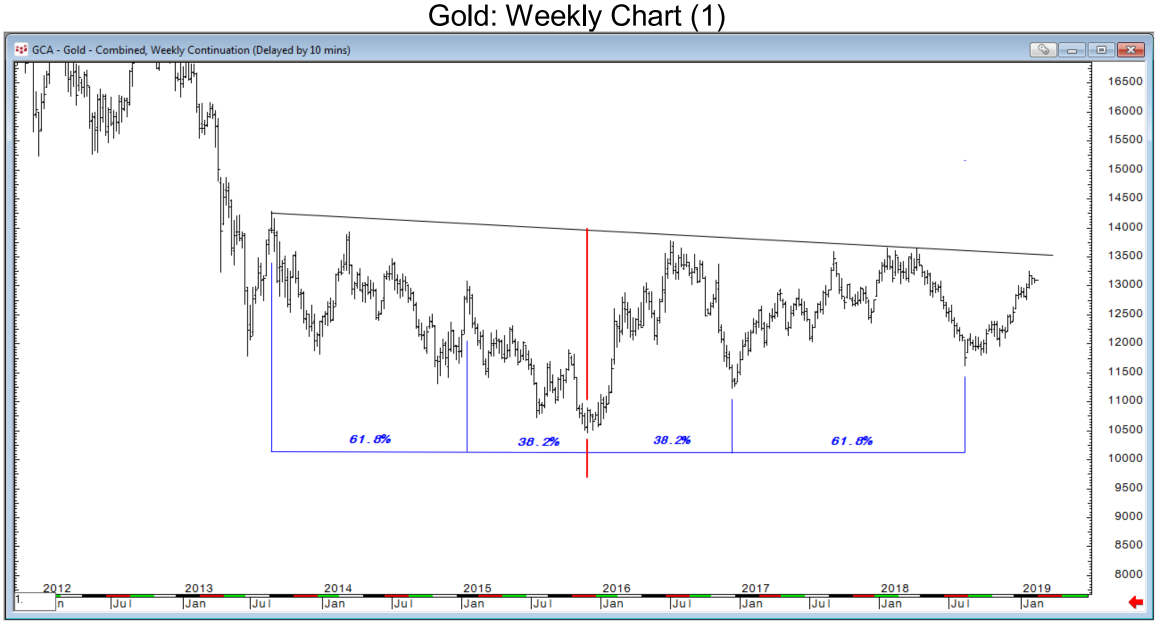
GOLD: *New Input*

February 12, 2019

Our last article on the gold market was on December 4, 2018, (**GOLD**: ***It's About Time and Other Things***). We closed with the conclusion that the market was working on a larger bottom than could be appreciated from strictly looking at the daily charts. Timing and other factors suggested a low formed in November at higher than the 2 previous lows of August and September and it justified initial positions on the long side while risk was relatively low. On December 4, the nearby close was $1,241.1. The low which followed 8 sessions later was $1,234.1. Prices have been on a steady rise since reaching the recent high at $1,325.4. During the intervening two-month period, additional evidence has continued to support the case for a new upward move in progress. Let's start today with a weekly chart.

Gold: Weekly Chart (1)



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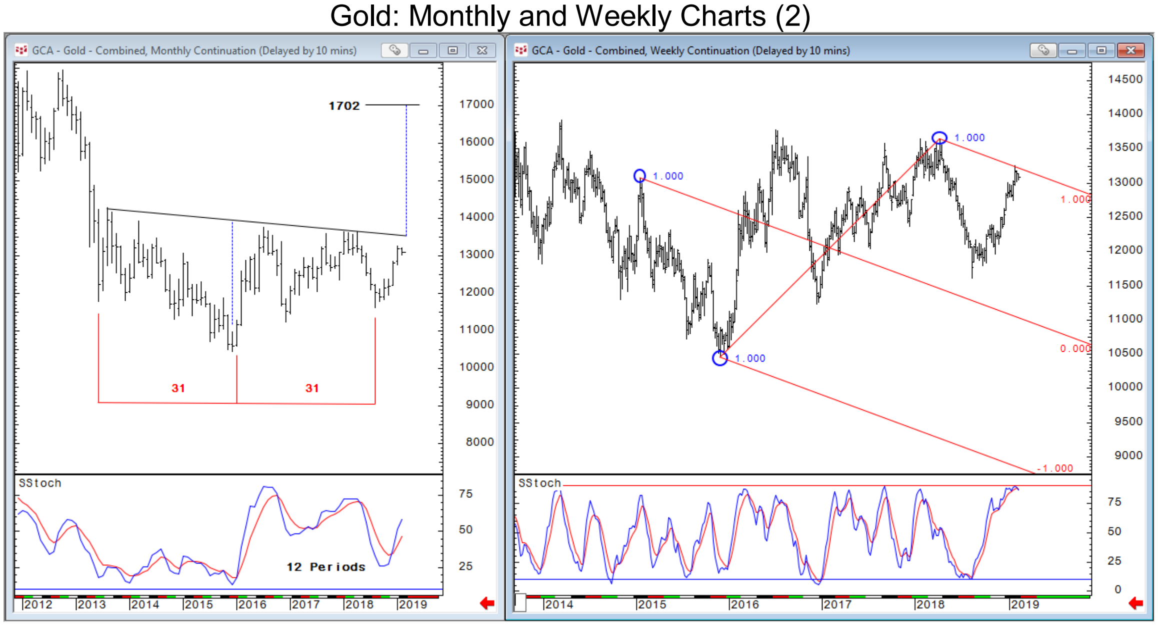
The chart above emphasizes a 5-year base has been building. We may have referred to this a Fibonacci base at some point as important price turns within this pattern have aligned with the Fibonacci ratios of 61.8% and 38.2% left and right of the absolute low (vertical red line). Note the 2 highs are identified left of the low and are followed by the 2 lows right of the low, quite symmetrical. The pattern is massive and capable of supporting a long extended trend once completed.

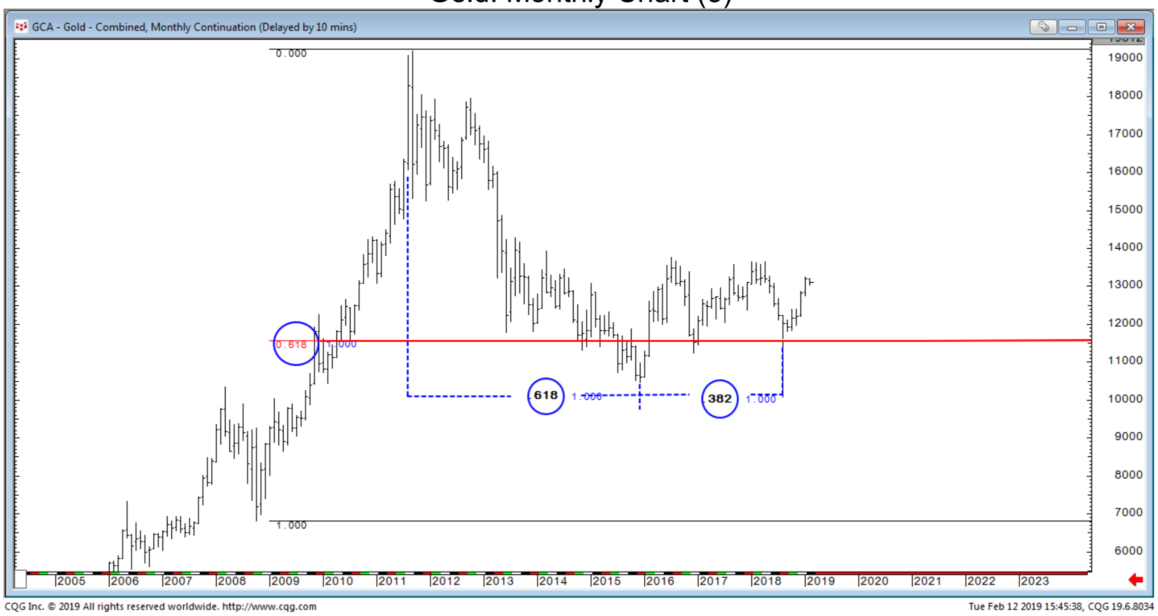
On the next 2 charts below we take a quick look at a monthly and a weekly. The monthly (at left) presents an inverted head and shoulders pattern with the neckline currently at 1352 basis a monthly close. If one was not impressed with symmetry of the "Fibonacci view" above, the monthly chart has approximately 32 months of time before and after the head. The presence of time symmetry in a head and shoulders supports its validity. The minimum upside projection from the pattern is $**1702**. On the weekly chart (at right), we have constructed an Andrew's pitchfork. Prices have pushed to the upper pattern boundary implying resistance coincident with an overbought situation. A near term pause or correction although not guaranteed should not be ruled out.

Gold: Monthly and Weekly Charts (2)



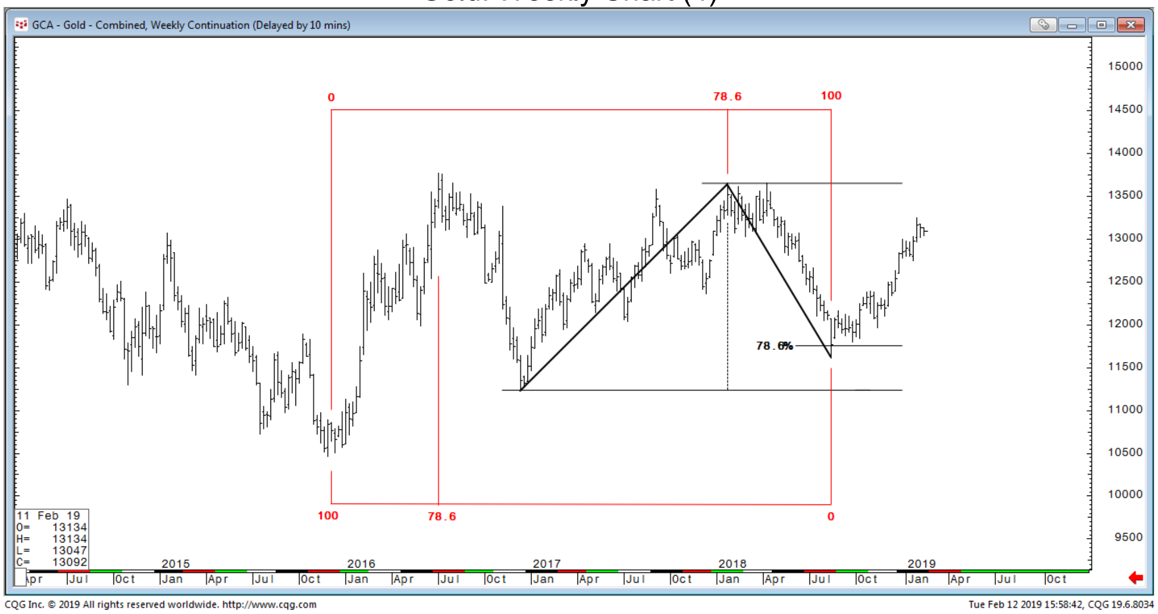
In the next 2 charts which follow we want to add strong supporting evidence that the August 2018 low was extremely significant. Our first chart is a monthly and basically squares price and time but it does so using the Fibonacci 61.8% ratio. When price and time square (or equalize), the market turns. Gold retraced 61.8% of the 2008-2011 last bull market rally leg on the red horizontal line. Applying the 61.8% to the time from the all-time high to the August 2018 low is the gold low in 2015. The all-time high close and the multi-year 2015 low are significant, and so too is August 2018 which relates them in time.

Gold: Monthly Chart (3)



The second of our related charts is a weekly and follows below. Here, we used the Fibonacci 78.6% ratio (the square root of 61.8%) to square price and time. The market rallied from December 2016 to January 2018 (black rising line) and then retraced 78.6% of that move basis the close at the August low. Applying 78.6% to the time interval from the 2015 low to the August 2018 low results in the January 2016 high. If we take that interval and reverse the starting point to August 2018 and then measure back to the 2015 low, 78.6% results in the July 2016 high.

Gold: Weekly Chart (4)

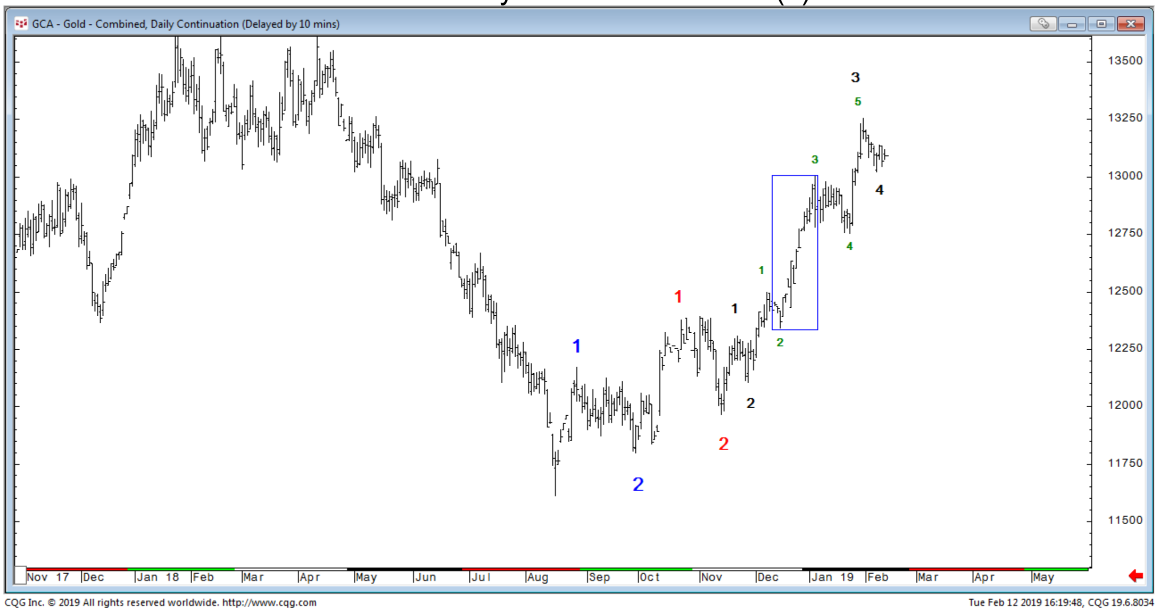


If the August low is important, what does it represent? Is it the start of an acceleration? Is it the start of the rally which exits the 5-year basing pattern? We think we have a good possibility based on the wave assessment which follows below.

What follows is highly subjective but also reasonable based on the observations we will make. It will also be supported by another chart which will follow. The daily chart appears to us to show prices are sub-dividing in a move up. The color coding of the waves should make it relatively easier to ultimately identify **5** large waves and a series of smaller 5-waves. We could not have considered this as a possibility a few weeks ago but the key here is the activity in the vertical rectangle. ***It is the strongest portion of the current move and that normally occurs in the very middle of wave-3***. Here, as we have labeled it, the rectangle contains wave- **3** of wave-**3** of wave-**3** of wave-**3**. If one follows the logic implied by the colors, the next high will coincidentally be wave-**5** of wave-**3**. This count would be a very bullish situation and certainly in keeping with the first couple of charts illustrated in this article re the 5-year base and a head and shoulders bottom.

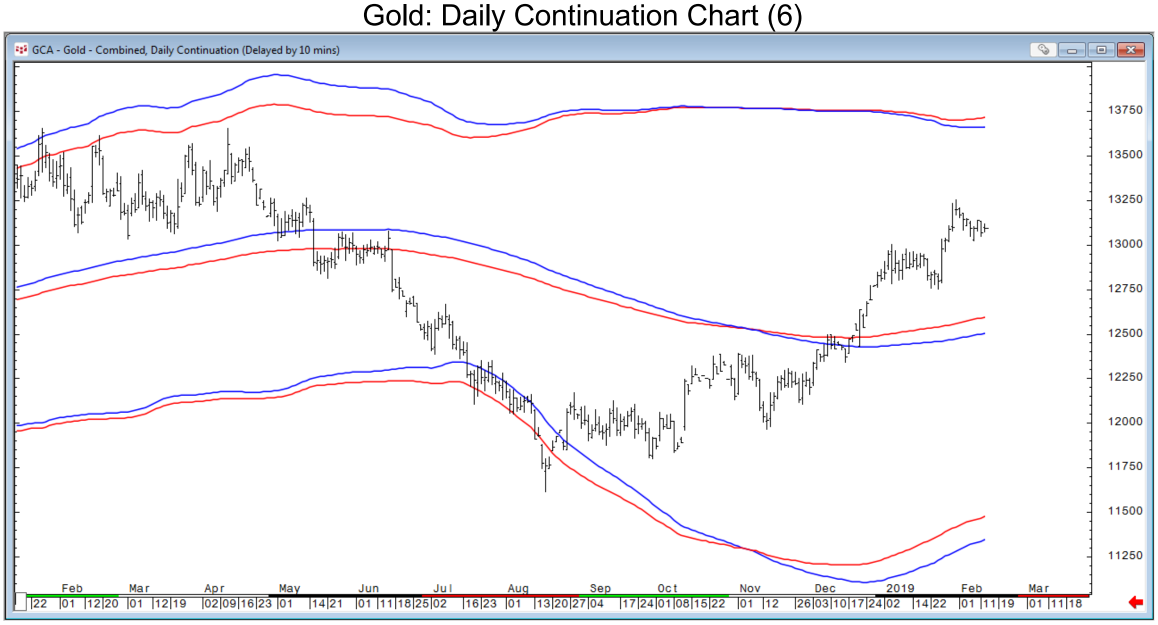
Before moving on, if we compute the exact mid-point of the rectangle and the distance it is from the August low, and then project that up from the middle of the rectangle, the resultant price level is **$1373**. There will be other perhaps more accurate projections available as prices progress higher in the wave count.

Gold: Daily Continuation Chart (5)



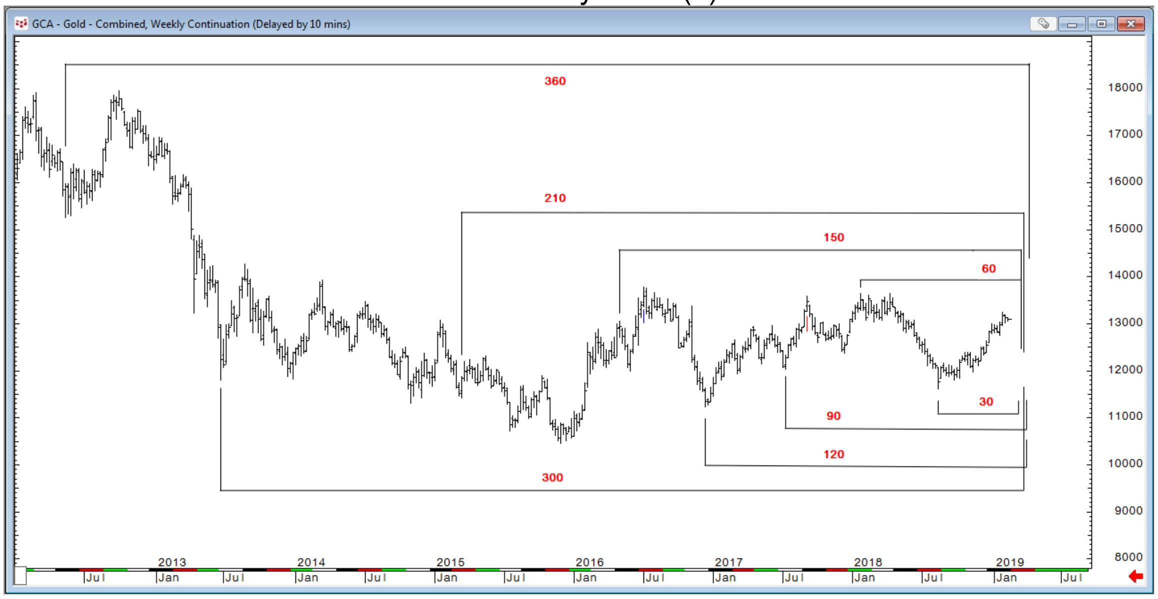
Our next chart today also appeared in our December article and follows below. It is a daily continuation chart of the gold with a one –year mean value calculated in 2 ways and then surrounded by two (+/-) 2.2 standard deviation bands. Statistically, prices should trade inside the outer bands 98.6% of the time. One can see that in mid-August 2018, values had dropped to an extreme. Since then, there has been a mean reversion rally (middle bands), and much more than that since late December. The current upper band values are **$1366** and **$1371**. Those values will rise if prices move higher.

Gold: Daily Continuation Chart (6)



We are going to close our article with something we found years ago indigenous to the gold market. There is a tendency for prices to turn at 30-week intervals and multiples of 30-week intervals measured from previous market turning points. This tendency works best when a cluster of time containing multiple measurements exists. The weekly chart below will illustrate.

Gold: Weekly Chart (7)



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There are 8 intervals shown. Six of the observations are between the weeks beginning **March 18 and ending April 5**. When working with time we use a plus/minus 1 week variance. If we tinker with the data and subtract 1 week from those that are further out in time and add 1 week to those that are closer, we can conceivably tighten our “window” to 5 observations in the week beginning April 1. We would not ordinarily do that but it might prove worthwhile.