Watch the Metal; It May Soon be Time to Pedal

Martin Pring | November 09, 2021 at 05:06 PM

The gold price zig-zagged its way down between August of last year and April of this one. Since then, it's really been in a trading range and now looks poised to break out. Whether it will or not is another question that only the market can decide.

I'll start off by taking a look at the longer-term picture. In that respect, Chart 1 compares the price (on a quarterly basis) to its Coppock Curve. The green-shaded areas flag periods when the Coppock is in a rising mode, a condition that, since the 1970s, has enabled gold to participate in every major rally, except the early 1977 and 2009-2011 advances. Equally as important, this technique has avoided all major declines. Despite the 2020-2021 correction, the indicator remains in a rising and therefore bullish mode. It is also above its 9-quarter MA.

Chart 1

Chart 2 features another long-term indicator, a PPO, using the 6- and 15-month parameters. This oscillator is bullish for gold when it is above zero (i.e. the 6-month EMA is above its 15-month counterpart). This approach also captures the majority of the advances and sidesteps serious trouble. One of its joys is that it has only experienced three whipsaw signals since 1977. They have been flagged by the two red and one green arrows. The oscillator is above zero at present, but barely so. It has, though, tentatively penetrated the 2014-2021 up trendline, which could prove to be a problem should its condition worsen. The oscillator's overall technical position is therefore still bullish, but definitely in need of an imminent rebound.

Chart 2: Gold vs. the CPI

Chart 3 shows that if the price breaks to a new CPI-adjusted high, that could be a very big deal as far as inflation is concerned. That's because the price recently touched a trendline joining the 1980 and subsequent highs. The line's 40-year length means that it represents very significant resistance. From a technical perspective, a successful upside penetration would suggest that a major rally had begun. Given gold's penchant for discounting future inflation, it would be a very worrying development. I am not predicting that it will happen, as there is insufficient evidence at present to come to such a conclusion. However, it's certainly something worth watching.

Chart 3

Gold vs. Commodity Prices

The arrows in Chart 4 show that gold has a strong tendency to lead commodity prices at major turning points. The problem is that those leads vary considerably. Additionally, it is possible for the magnitude of these to diverge considerably. Look at the relatively small gold drop in 2008 compared to the devastating bear market that the CRB Composite experienced.

It seems that this relationship is useful for predicting the direction rather than magnitude of a move. Nevertheless, that can be a very useful piece of information.

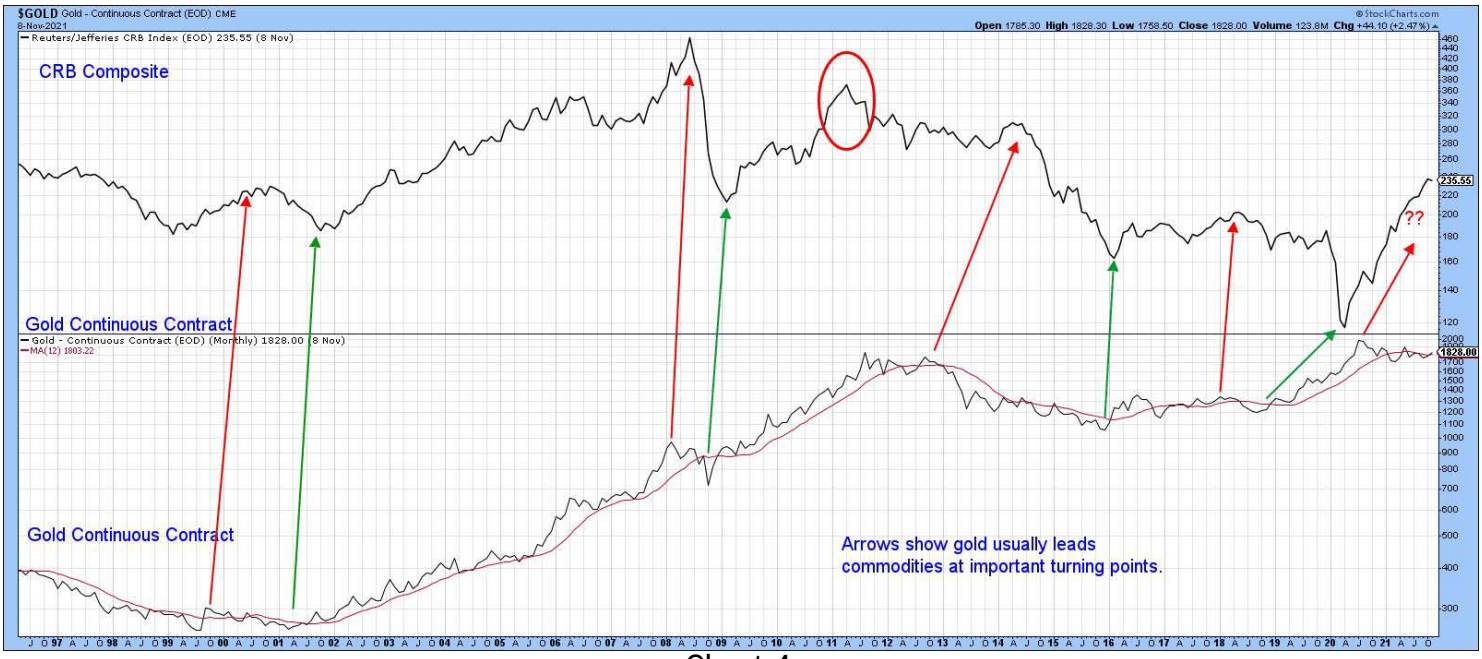

Chart 4

That's where the relationship between gold and commodities comes in. For example, the arrows in Chart 5 approximate points where the KST of the ratio crosses above its MA, thereby indicating that gold has started to outperform the CRB. Note that, in the vast majority of situations, these crossovers are followed by a gold rally. That was not the case in 1990 and 1998, and for a short period in 2015. By and large, though, the odds favor firmer gold prices when the ratio is moving in gold's favor. Currently, the KST is still declining, but it is starting to stabilize.

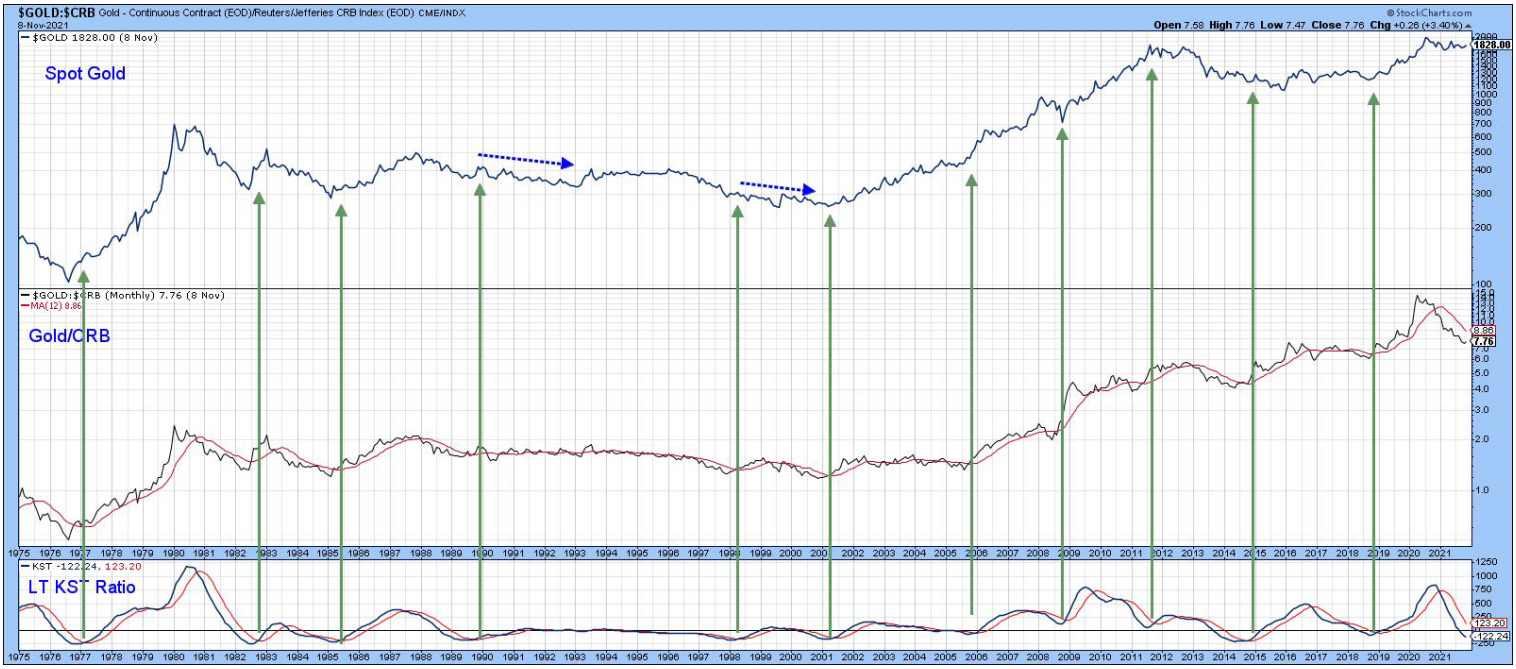

Chart 5

Chart 6 says that negative condition could be about to improve, as the ratio between the SPDR Gold Trust and the DB Commodity ETF (GLD/DBC) is right at its 2021 down trendline. The gold price itself is at a comparable juncture point. The green arrows show that similar setups, **when completed**, were followed by a gold rally of intermediate significance.

Chart 6

Gold and the Dollar

Most of the time, gold and the dollar move in opposite directions. At the moment, the Dollar Index is bullish, as it is above its 12-month MA and its long-term KST is rising. That could be a problem for gold. *Nevertheless, there are some periods when these two markets move in the same direction.* When that direction is up, it simply means that gold rallies in other currencies but less so when expressed in dollars. That **may** well be the case currently, as Charts 7 and 8, featuring euro- and yen-based gold, are starting to break to the upside.

Chart 7

Euro gold (Chart 7) has already experienced a decisive break above the green correction trendline. It has also begun to edge above the neckline of a potential reverse head-and-shoulder pattern. The rising short- and intermediate-term KSTs do not guarantee a breakout, but certainly increase its odds.

Chart 8

Positive momentum is also a factor for gold expressed in yen, as the price is trying to edge its way above the top of what could turn out to be a triangle formation. One caveat on Charts 7 and 8; they are based on Friday close data and these charts have only been plotted until Tuesday.

Conclusion

Gold should be monitored very closely for a **possible** upside breakout in all three currencies. Should that happen and CPI-adjusted gold moves above that resistance trendline in Chart 3, it would represent a strong signal in my book that the recent jump in the CPI is a little more than transitory.

Good luck and good charting,

Martin J. Pring

About the author: Martin Pring is one of the most prominent names in the industry. A master technical analyst and educator extraordinaire, he is the award-winning author of numerous books on Technical Analysis, including Introduction to Technical Analysis and Technical Analysis Explained. The latter is now used by several international technical societies for training and for several decades was one of the three core books for Level 1 CMT certification with the Market Technicians Association. Translated into over 7 languages, the book is, as quoted by Forbes, *"widely regarded as the standard work for this generation of chartists"*.