GOLD MARKET UPDATE

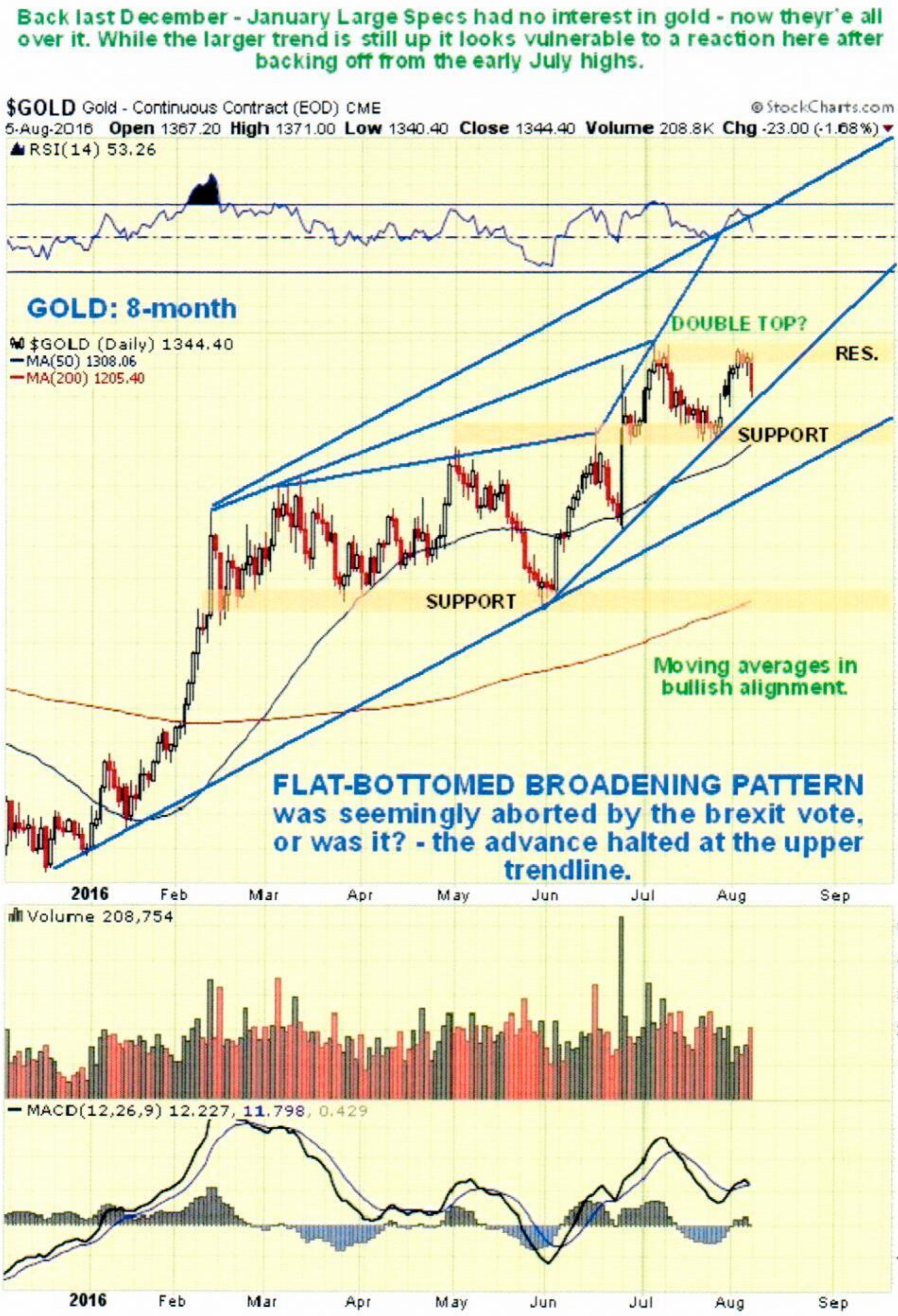
originally published August 7th, 2016 in the Various Reports Sector
Click here for a printable version of this article.

Because it is now "politically incorrect" to be bearish on gold, it makes it more likely that a sizeable correction will occur soon, and there are a number of technical indicators at extremes suggesting that a correction is imminent, which we will look at in this update.

We'll start by looking at gold's latest charts beginning with the 3-month. On this chart we see that gold mac only very limited gains following its Brexit vote surge, and it has just failed at resistance at its early July higl with a sizeable down day on Friday, so that it is now stuck in a rectangular trading range, which could be either a continuation pattern or an intermediate top.

Gold just failed at resistance near to its early July highs, a development which means that an intermediate Double Top may be forming, which is made more likely by recent extreme COT readings. Needs to stay above the support level shown or a more severe decline could occur.

The 8-month chart shows all of the action since gold's new bullmarket commenced following its December low. Overall, this chart looks positive, with a steady, measured advance following the January – February surge, although it perhaps surprising to learn, given what has happened to Precious Metals stocks during this period, that gold has only risen by about $100 since its February peak, a period of a little less than 6-months. Breaking it down we can see that a flat-bottomed Broadening Formation developed following th January – February surge, which is normally bearish, but it appeared to break out of it to the upside on the Brexit vote, which really "put the cat among the pigeons", although this pattern may have a higher bounda shown by the upper trendline, in which case it hasn't. However, since this possible breakout it has moved sideways in a rectangular pattern with clearly defined support and resistance, and is now at an important juncture – it needs to hold this breakout to maintain upward momentum, which is made more likely by seasonal factors, which are now positive, but a breach at the support at the lower boundary of the Rectangle could trigger a sharp selloff, and this is made more likely by current COT extremes and PM stocl sentiment extremes, and the fact that gold has arrived at an important target on its 10-year artithmetic chart, which we will now proceed to look at.

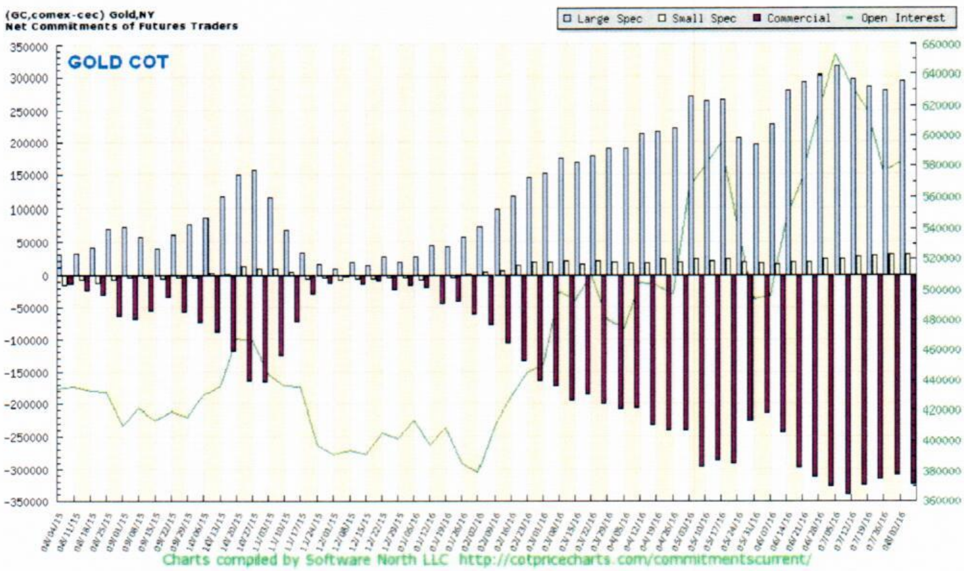


The 10-year arithmetic gold chart provides useful perspective as it enables us to see the bearmarket from 2011 in its entirety, which might also be viewed as simply a big correction within a major bullmarket, simila to the correction in the middle of the great 1970's bullmarket. On this chart we see that gold has arrived at trendline target, which is a good point for it to react back, which is made more likely by the latest extreme COT and sentiment readings. Should it succeed in breaking above this trendline, there is a resistance level not far above, and more serious resistance further up in the $1550 area.

Gold has hit a trendline target on its long-term arithmetic chart, which could force it into reverse, made more likely by current COT and sentiment extremes. If it should succeed in breaking above this trendline, it will run into resistance not far above, with a more serious resistance level still higher in the $1550 area.

The latest COT chart shows that very high Commercial short and Large Spec long positions persist. The wa to look at this is to think of it as you would a pendulum – the further it swings in one direction, the more likely it is to reverse and head back in the other direction, which it will do of course when gold drops in price. It is noteworthy that when gold was bottoming last December, the Large Specs had virtually no interest in it, but now it has risen by $300 they are all over it, which we take as a warning.

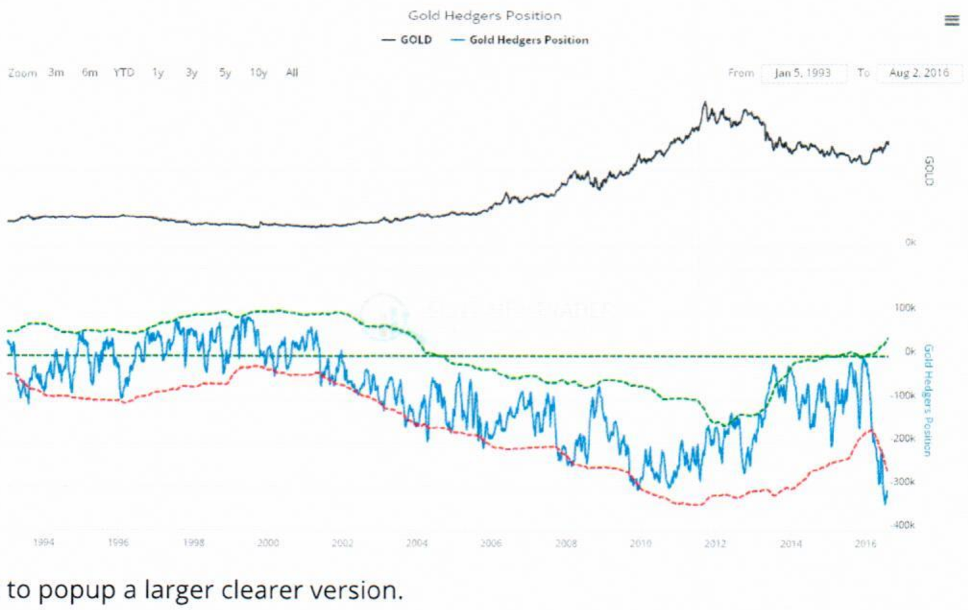
Current COT extremes make it very likely that an intermediate top is forming.



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
07/05/16	374	389,590	73,627	84%	119	123,735	463,942	21%	50789	26,545	66%	652,971
07/12/16	396	378,081	80,618	82%	118	123,258	448,710	22%	52553	24,564	68%	633,020
07/19/16	390	366,871	80,960	82%	112	119,433	434,910	22%	55614	26,048	68%	617,069
07/26/16	362	347,426	68,471	84%	115	117,420	426,443	22%	55829	25,761	68%	576,325
08/02/16	377	365,801	71,618	84%	108	113,911	437,938	21%	54451	24,607	69%	582,211

Click on chart to popup a larger clearer version.

The current COT extremes are put into long-term context on the Hedgers chart, which is a form of COT chart. Such readings usually, but not always occur at a top or ahead of a reaction or period of consolidatio On rare occasions they don't, and there are many who claim that "it's different this time". This is a dangerous expression that has gotten a lot of people into a lot of trouble, but we can easily see why it real might be this time, with the world economy teetering on the verge of a collapse that may only be delayed l the advent of "helicopter money" and the drift towards major wars etc. Even so, these things don't happen all at once, and a correction could occur in the meantime.



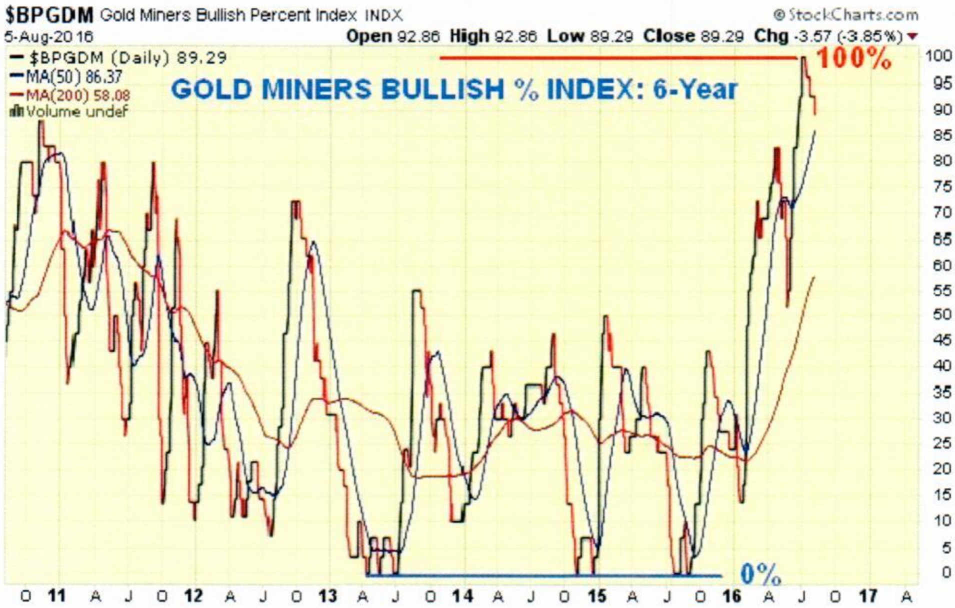
Click on chart to popup a larger clearer version.

Chart courtesy of www.sentimentrader.com

While gold's advance since mid-February has been at a measured rate, the same cannot be said for Precio Metals stocks, which have continued in higher within a quitter strong uptrend, as we can see on the 8-month chart for the GDX below. The reason for this is that gold and silver stocks had become ridiculousl undervalued relative to the metals, and furthermore, surviving producers had slimmed down their operations and reduced costs as much as possible, which meant that any improvement in metal prices would flow straight through to their respective bottom lines, so the big improvement in prices is justified.

However, any retrace by gold is likely to lead to a breach of the uptrend in PM stocks and a possibly steep reaction. This is made more likely by the fact that the vast majority of investors are now bullish on the PM sector, with a current 89% bullish reading, after 100% at the start of July, as revealed by the Gold Miners

Bullish % Index shown below. Although it has eased somewhat, the current reading is still very high and increases the risk of a significant correction soon. Holders of PM stocks at this point can either take some profits here, or buy on a dip to the lower channel boundary, with a close stop beneath it, and take profits i a more serious manner if the clearly defined uptrend fails.



End of update.

The above represents the opinion and analysis of Mr Maund, based on data available to him, at the time of writing. Mr Maund's opinions are his own, and are not a recommendation or an offer to buy or sell securities. Mr Maund is an independent analyst who receives no compensation of any kind from any groups, individuals or corporations mentioned in his reports. As trading and investing in any financial markets may involve serious risk of loss, Mr Maund recommends that you consult with a qualified investment advisor, one licensed by appropriate regulatory agencies in your legal jurisdiction and do your own due diligence and research when making any kind of a transaction with financial ramifications. Although a qualified and experienced stockmarket analyst, Clive Maund is not a Registered Securities Advisor. Therefore Mr Maund's opinions on the market and stocks can only be construed as a solicitation to buy and sell securities when they are subject to the prior approval and endorsement of a Registered Securities Advisor operating in accordance with the appropriate regulations in your area of jurisdiction.

EXPLORE

About Clive P. Maund

Preview The Site

Subscribe Now

Member Login

SILVER MARKET UPDATE

originally published August 7th, 2016 in the Various Reports Sector
Click here for a printable version of this article.

Having hit a target silver has formed what is believed to be an intermediate top over the past 5 weeks or s which it should soon start to descend from.

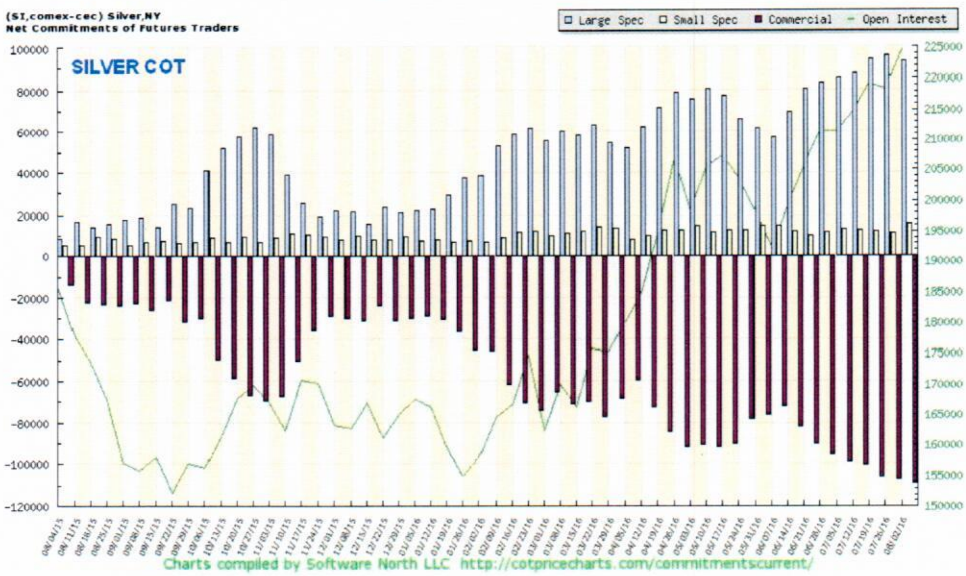
On its 3-month chart we can see this presumed topping pattern started with the appearance of a promine "Gravestone Doji" or "Shooting Star" candlestick early in July, with its negative implications being amplified by its having occurred on very high volume. While moving averages are in bullish alignment, the now yawning gap between the 50-day and 200-day makes a correction likely. After dipping back during August, the price rallied towards the highs early this month, and then failed, dropping hard on Friday, making it ve likely that a Double Top is completing.

On the 8-month chart, we can clearly see why silver is likely to form an intermediate top here – it has risen up to become very overbought at the top of the expanding channel shown. A reasonable objective for a correction is the support level shown at and below $18 and the lower boundary of the channel not far beneath it and it could drop further. With the dollar turning higher and silver latest COTs at frightening extremes it is not hard to see why it might drop soon. Normally such COT readings would lead to severe losses.

The long-term 10-year arithmetic chart gives us a much broader perspective. This is actually a very positive chart overall, for as we can see silver's bearmarket phase from 2011 has definitely ended. However, it has risen quite sharply in recent months to arrive at a zone of significant resistance, so it is quite normal for it consolidate or react back here, before later breaking above this resistance and continuing higher.

The latest COT chart shows that Commercial short positions have achieved a new record extreme, which last week was due to the Small Specs pitching in in a big way. The Commercials appear to have been wrong up to now, but 9 times out of 10 things work out in their favor, so this looks like a truly menacing setup for longs. If you think the Large Specs are right, you ought to ask the question "Where were they when silver was bottoming last December and January??"

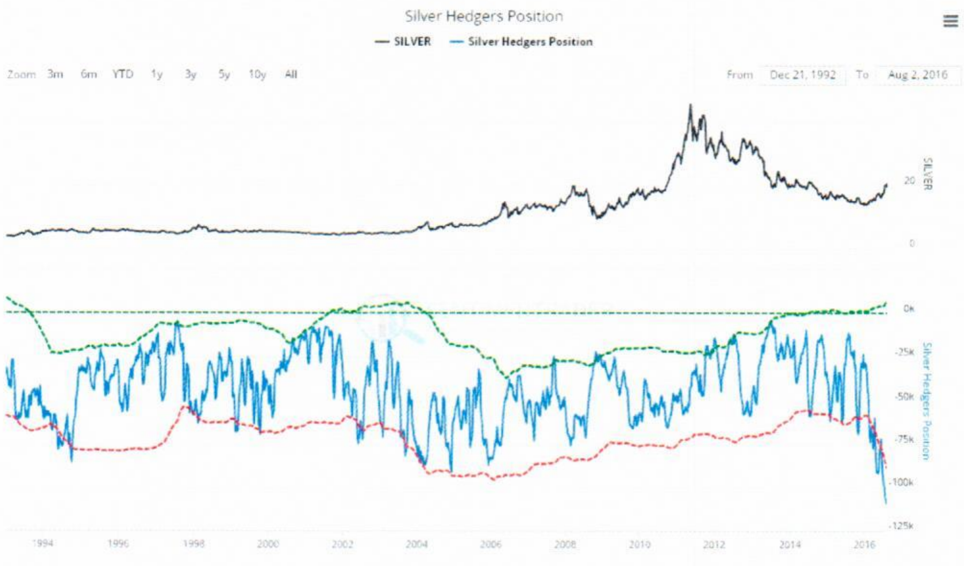
Since it is now politically incorrect to be bearish on silver, and the Specs are now record long, we have a potentially dangerous setup for longs here. The Commercials have been on the losing side of the trade for some time now, but unless it really is different this time, that is not likely to be the case for much longer.



	--- Large Speculators ---				------ Commercial ------				-- Small Speculators --			Open
	#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest
07/05/16	214	111,348	25,594	81%	85	55,718	154,486	27%	25873	12,859	67%	211,347
07/12/16	212	114,376	26,724	81%	82	54,035	154,155	26%	26591	14,123	65%	214,617
07/19/16	221	120,839	26,449	82%	77	50,379	156,634	24%	26626	14,761	64%	219,206
07/26/16	212	123,737	27,660	82%	76	48,115	155,238	24%	25124	14,078	64%	218,299
08/02/16	231	122,676	29,242	81%	81	49,123	158,244	24%	28250	12,563	69%	224,540

Click on chart to popup a larger clearer version.

If you think the last chart looks scary, then try this next one for size. On the long-term Hedgers chart, a for of COT chart, we can see the Hedgers short positions dropping off the edge of the chart. Could it really be different this time, so that they are forced into a short covering panic? Well, maybe, since we know some things are showing signs of unraveling, like the European banks, the trend towards helicopter money and the drift towards major wars, but these things like time, and the price charts we have looked at above suggest that now is a very risky time to bet against these big money players. The red dotted line on the Hedgers chart is a bearish extreme, and remember, that is not my determination, but that of sentimentrader.com



Click on chart to popup a larger clearer version.

Chart courtesy of www.sentimentrader.com

End of update.

The above represents the opinion and analysis of Mr Maund, based on data available to him, at the time of writing. Mr Maund's opinions are his own, and are not a recommendation or an offer to buy or sell securities. Mr Maund is an independent analyst who receives no compensation of any kind from any groups, individuals or corporations mentioned in his reports. As trading and investing in any financial markets may involve serious risk of loss, Mr Maund recommends that you consult with a qualified investment advisor, one licensed by appropriate regulatory agencies in your legal jurisdiction and do your own due diligence and research when making any kind of a transaction with financial ramifications. Although a qualified and experienced stockmarket analyst, Clive Maund is not a Registered Securities Advisor. Therefore Mr Maund's opinions on the market and stocks can only be construed as a solicitation to buy and sell securities when they are subject to the prior approval and endorsement of a Registered Securities Advisor operating in accordance with the appropriate regulations in your area of jurisdiction.

© 2016. All rights reserved.