Our Guides - the **Technical Trader's Guide** and the **Macro Trader's Guide** both deal with these and many other markets in much more detail over multiple time- frames. **Key Trades Bulletins** subscribers receive a detailed report on every trade we enter for our Key Trades Portfolio. More details about all these products: CLICK HERE

Market Update 4th March 2010

Why Gold bulls should be excited

The Technical Trader's view

DAILY CHART

The market took it's time to break free of the Prior high Pivot from 1980 at 873.

The consolidation of the market at that level was unambiguously left behind last month.

So the next bull leg is ready to begin and there is good support on any pull backs at both 1033.90 and 873.

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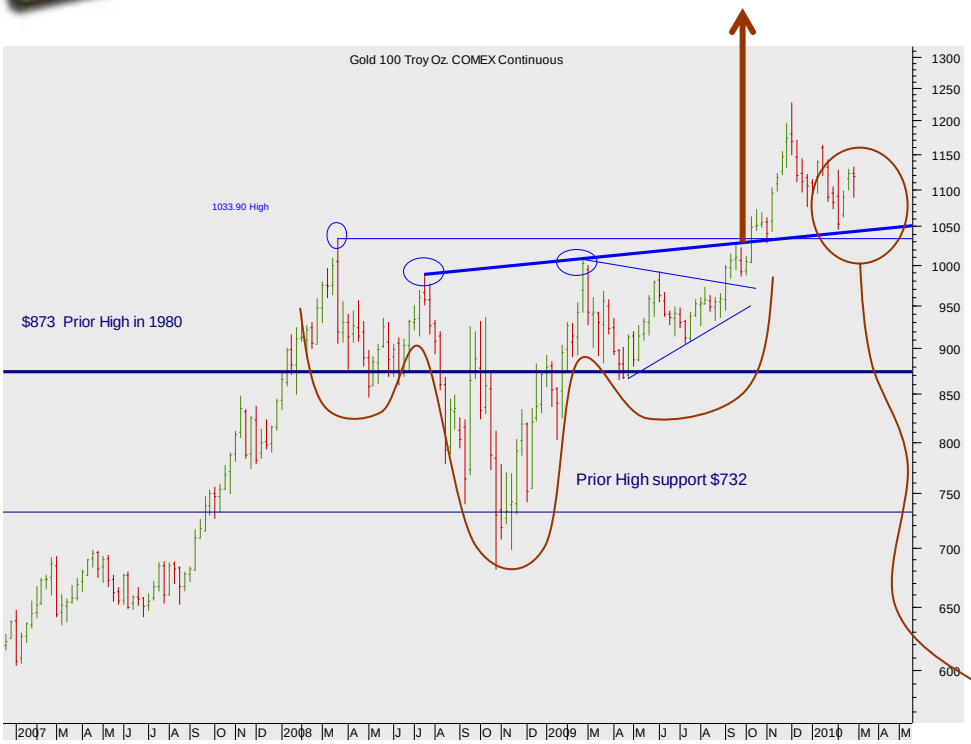
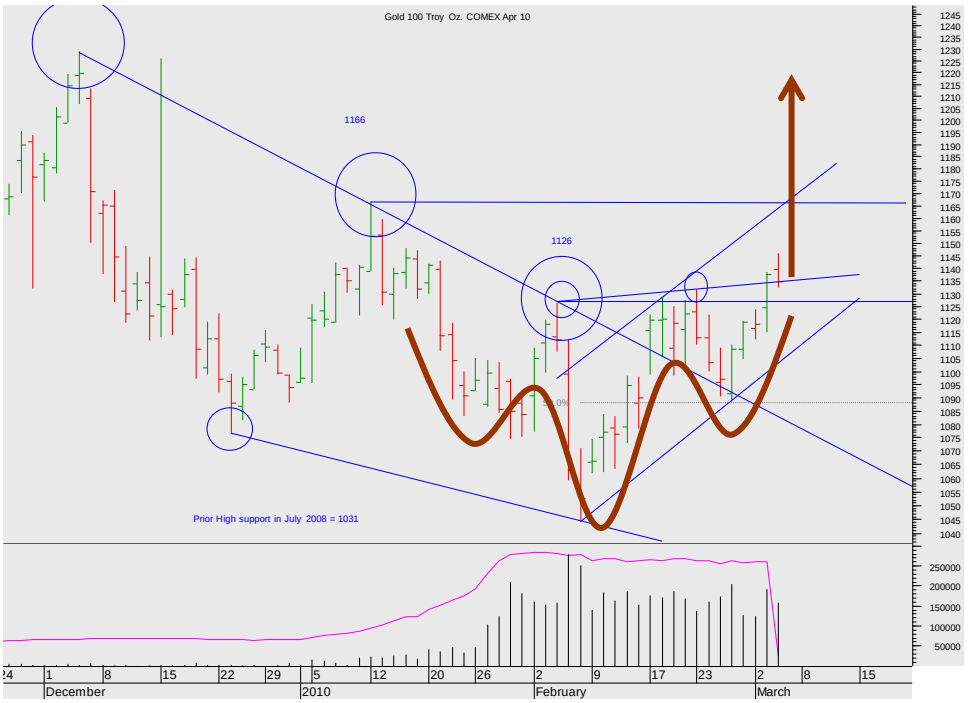


DAILY CHART

The catalyst for the market's surge away from the 873 Prior High was the formation of a Head and Shoulders Continuation pattern that completed in September 2009.

The initial surge fell well short of the minimum measured move (up to about 1340), and fell back to the Neckline where there was good support.

Check out the detail of the bounce from the Neckline.



DAILY CHART

Certainly there is a completed bull falling wedge – not the most reliable of patterns - note well the completed Head and Shoulders Reversal – in the last few days….

The neckline support for the H&S pattern is at 1135 or so.

The horizontal support at 1126 beneath.

Minimum measured move?
Short-term as far as 1220….

The Macro Trader's view:

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The Gold market has held our attention for several years now and during that time we have been long-term bulls of the market, despite several corrections lower during its long march higher. We believe the recent period of weakness in this market has been a correction.

As we have explained in previous commentaries on Gold, we believe the correction was started by a surprisingly stronger US non-farm payroll report at the beginning of December last year.

The release of that number began a strong rally in the Dollar as traders began finally to believe in the US economic recovery, which appeared to rob gold of the safe haven status it had enjoyed during the years of Dollar weakness. But when, over the last few months, a run of mixed data from the US and elsewhere placed a question mark over general recovery the Dollar rallied further as a safe haven and Gold was sold again.

The final phase to date has been the Greek debt crisis, which at its height forced a selloff in several asset classes as traders cut risk and fled, again, to the relative safety of the US Dollar and Japanese Yen.

Now we see Gold once more attempting to go higher. The fears over Greece haven't gone away, but traders currently judge the wider sovereign credit default they feared now looks less likely. Greece has embarked on a tough austerity program, which has calmed markets to the extent that traders are again moving back into riskier asset classes, stocks and commodities among them.

Gold has resumed its position of hedge of last resort formerly enjoyed at times of Dollar weakness. But the Dollar is well-supported now, so that relationship seems to have changed. The reason for this seems to be down to market perceptions of how and when the authorities, will seek to withdraw the massive stimulus injected into the US and Global economy to guard against financial market meltdown.

The US and UK have governments are reluctant to withdraw the fiscal stimulus for fear of precipitating an economic relapse, despite evidence of economic revival, which in the US looks very strong; Q4 GDP @ 5.9% annualised equivalent to just under 1.5% q/q.

Moreover the monetary authorities, the Fed and Bank of England, are reluctant to adjust monetary policy. Both Central Banks continue to see a risk of relapse. In the US this is mainly due to the high level of unemployment that resulted from recession. And with inflation still benign the Fed has the luxury of time on its side. In the UK inflation is higher, but the Bank

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dismisses this as due to one-offs that will correct. And with a large output gap in the UK, economy policy makers' judge that they too, have the luxury of time.

But note well how when risk aversion recedes as traders become more confident about recovery, Gold now rallies. The reason is that markets do not trust the authorities to time their exit strategies in such away to avoid inflation.

So although the Dollar remains supported, Gold too looks set to rally further, independently of the price action in the Dollar, as the body of evidence supporting a strengthening recovery builds.

We believe the correction in Gold to be over.

Mark Sturdy

John Lewis

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