the technical analyst AWARDS 2011 FINALIST

21st March 2013

Market Update:

The Gold bulls are stirring!

UPDATE
Technical
Fundamental

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WEEKLY CHART

The market's **medium-term solidity is impressive. The horizontal from the Prior High at 1580 has been tested four times….**

DAILY CHART

The day chart shows a healthy bounce from the recent test of the 1580 level. A double bounce in fact.

But bulls should note the resistance above the market at the lows at 1627-1638.

And note too that before too long those levels will coincide with the bear trendline resistance from the September 2012 high .

Only a break of all those levels will really convince the bulls.

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FUNDAMENTALS:

The Cyprus crisis which has occupied headlines for the last week or so has served as a timely reminder of the broader Eurozone sovereign debt crisis. Just when it seemed the Eurozone had managed to find enough fingers to plug all the financial holes in its dykes, the tiny economy of Cyprus has risked re-igniting the Euro zone debt crisis once more.

Indeed, what only a few weeks ago looked like yet another small peripheral economy pleading for aid to avoid bankruptcy, has turned into a much bigger political and financial drama.

The conditions demanded by the Eurozone/Germany for a rescue were always going to be harsh, but to punish savers seemed a step too far. After all it wasn't savers but borrowers that brought about the crisis and to hit deposits below the Euro 100K guaranty threshold seemed especially harsh.

In fact, the Cypriot Parliament threw out the proposal leaving Cyprus on the brink of bankruptcy and begging Russia for help.

What has all of this to do with Gold?

Simply, the attempt to raid bank deposits as a condition of the rescue plan will cause depositors in other Eurozone economies that have sought aid to consider the safety of their own deposits. Imagine the damage a run on the banks of Italy, Spain and Portugal would cause the whole Eurozone banking system and, by contagion, globally.

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FUNDAMENTALS: CONTINUED

Place this risk next to the political ramifications of a Eurozone banking collapse with Russia perhaps already aiding Cyprus and seeing further distress as a means of weakening the political cohesion of the wider EU.

But that is but one reason why Gold bulls could soon be sending the yellow metal higher.

In the US the economy is clearly moving up through the gears. But the Fed wants to be certain, especially given the latest Cyprus-driven twist of the Eurozone debt crisis. Their response at Wednesday's FOMC meeting was to re-commit to their QE3 policy of buying US85B of US bonds per month.

Abroad, the ECB is still committed to its bond buying program. The UK is setting the stage for the Bank of England to buy yet more government bonds and the Japanese government have installed a new governor at the Bank of Japan who is willing to pump out however much money is needed to defeat deflation and get that economy moving.

In short, <u>what we are seeing on a global scale is the wholesale monetisation of developed world government debt</u>. Right now, inflation may seem a very remote risk except if you live in the UK. But at some point inflation will result if economic recovery ever takes hold, as it should, given the wall of money that could potentially hit.

Investors in Gold see it as the ultimate hedge against harmful government policies. It is government policies in the US, UK, Euro zone and Japan that are leading the world into the financial crisis in the first place through inadequate regulation of financial markets of all kinds (now out of desperation) and faced with citizens/voters unwilling to bear the pain of austerity over a prolonged period. Policies are being adopted that gold investors judge will lead to a future of uncontrolled inflation fuelled by debt monetization.

In short, the bull run in Gold isn't over and a new leg could soon begin..

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SEVEN DAYS AHEAD
Authorised and Regulated by the FSA
124 REGENTS PARK ROAD LONDON NW18XL
TEL +44 (0) 7849 922573 E-MAIL msturdy@sevendaysahead.com,
jlewis@sevendaysahead.com pallwright@sevendaysahead.com
WEB SITE SEVENDAYSAHEAD.COM