13th August 2015

the technical analyst
AWARDS 2011
FINALIST

Multi-Asset Update:

UPDATE
Technical
Fundamental

Gold: the bears are in charge

Full performance of our Key Trades recommendations 2006-15 here

Mark Sturdy
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Disclaimer

Gold: the bears are in charge

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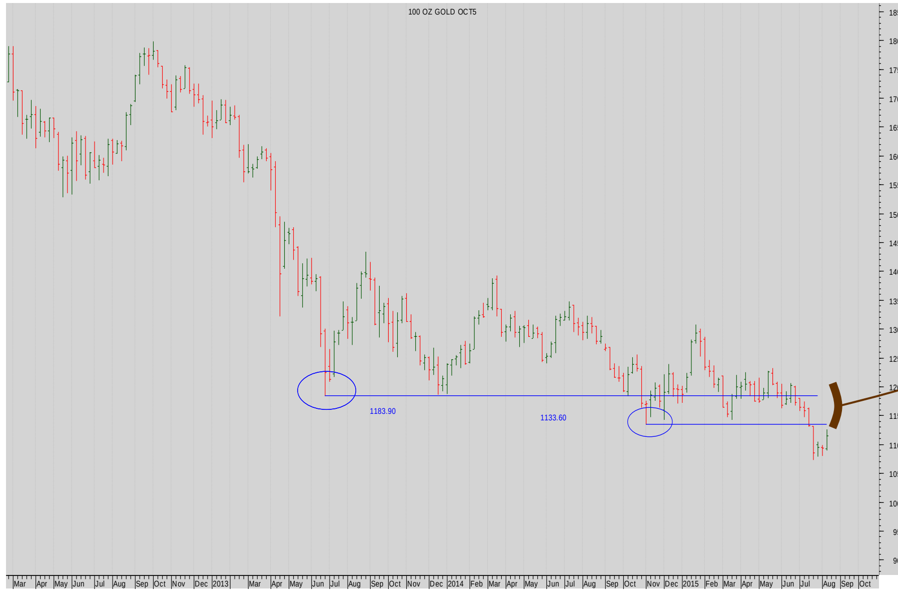

Gold weekly chart

The push beneath the two prior Lows in the weekly gold chart has created massive overhead resistance at both levels – best seen as a band of resistance 1133-1183.

Gold daily chart

The catalyst for the push beneath 1135 was the completion of a bear continuation triangle (or rising wedge).

The rally of the past few days is a perfect opportunity to get shorts on … and anyway it's summertime!

Disclaimer

More

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FUNDAMENTALS:

Although Gold has long been off its highs, it has enjoyed a degree of support around the current broad trading range. Gold barely moved even during the recent Greek crisis, which has only just been resolved.

More recently, as speculation grew that the US Federal reserve was getting closer to raising interest rates most likely in September (speculation fuelled in no small part by Fed policy makers), Gold began to probe the down side as the Dollar strengthened against the other major currencies.

But in the last couple of days the Dollar has corrected and so too has Gold. The reason is largely the weak Chinese economy, which prompted the Chinese authorities to devalue their currency.

Traders are now worried that China's weakness will feed into the global economy and even affect the US, possibly causing the Fed to delay hiking rates.

In truth, the current case for higher US interest rates is slightly questionable. The US economy isn't exactly roaring away, the authorities there describe growth as moderate and inflation in the US and else where is at best subdued.

With the current renewed sell-off in oil, inflation is unlikely to become a problem of any sort in the short, medium or long term.

However, the Fed's motive for starting to normalise policy is also based upon the realisation that it has so bloated its own balance sheet that if conditions demanded an aggressive rate hiking policy response it would struggle. Markets would be upset. So it is inclined to begin the normalisation sooner rather than later in any event.

FUNDAMENTALS: CONTINUED

So who is now in the ascendance in the Gold market; the Bulls or the Bears?

Lets look then at the bull case. Gold is usually regarded as the last refuge in a crisis, whether it be financial or in times of heightened geopolitical tension, but the financial crisis that struck around 2008/09 has passed and although the Euro zone and Japan are still suffering from the hangover with weak economic recoveries and inflation at or close to zero, the situation is largely under control. So no visible financial crisis exists.

What then of the geopolitical situation? Apart from ongoing tension in the Middle East, the stand-off between Iran and the major powers over Iran's nuclear ambitions seems to have been resolved. And although tension remains between the western powers and Russia over the crisis in Ukraine, war is not considered an option. Ukraine isn't a N.A.T.O. member state, so apart from words of support and western sanctions imposed on Russia, there seems little to justify piling into Gold.

What then of the bear case? This is largely dealt with by exploring the strength of the bull case which clearly doesn't stand up.

The Chinese economy may well be going through a period of softer growth, but was it reasonable to expect that economy to continue for ever to grow at its previous breakneck speed?

And although inflation is subdued and likely to remain so as a result of the falling price of oil, economic growth will surely receive a boost from lower oil prices, meaning the Fed is right to begin the slow gradual process of normalising monetary policy.

In summary, the events that drove gold up to US$2000 from around US$400 have passed. There are no compelling reasons to hold an asset that provides no income. The Bears will increasingly control this market and force it lower.

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SEVEN DAYS AHEAD
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