7th September 2015

the technical analyst AWARDS 2011 FINALIST

Multi-Asset Update:

UPDATE
Technical
Fundamental

Gold remains weak

Full performance of our Key Trades recommendations 2006-15 here

Mark Sturdy
John Lewis

Disclaimer

Gold remains weak

Gold futures monthly chart

Gold has pull back to the 50% Fibonacci support around 1100.

<u>And beneath that there is good support starting at the Prior High support at 1034….</u>

So the Gold bulls may have gained some long or medium-term comfort from the long pause around these levels.

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Gold futures weekly continuations pattern

Bu the breakdown of July broke out of the trading range.

Note that the market as rallied back to the band of resistance 1133-1183 and looks to be failing there.

Disclaimer

More

Gold remains weak

Gold futures daily pattern

That faltering rally in greater detail.

A push beneath 1116 would signal the failure of the two attempts to break higher and a renewed thrust lower.

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FUNDAMENTALS:

The sell-off in equity markets that began mid August, driven by fears about the health of Chinas economy and its potential negative impact on the Global economy, threw Gold something of a life line.

As Chinese equity markets sold off relentlessly leading China to devalue her currency, questions were asked about whether the Fed would carry out its stated intention to begin gradually hiking rates, starting at the up-coming September meeting.

The Dollar was an immediate casualty, selling off against the other major currencies; the Euro, Yen and Sterling. Gold bulls saw this as a new signal to go long and indeed the market enjoyed a bounce.

However, the rally failed to follow through despite the continued weakness in equity markets. The reason is probably the recovery of the Dollar. Although Friday’s headline non-farm payroll report fell short of consensus, the unemployment rate dropped by more than expected to 5.1%, additionally average hourly earnings were stronger, but what made the report look a little stronger was the 44k upward revision to the previous two months.

This, together with the stronger than expected ISM non-manufacturing survey, has turned the spot light squarely onto the Fed. Will they hike after all at this months meeting?

On one level a case can be made for the Fed to leave policy unchanged.

Gold remains weak

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FUNDAMENTALS: CONTINUED

US Inflation remains subdued and growth only moderate. But elsewhere the picture is less rosy. In China the PMI manufacturing survey flags a contraction, in Japan underperformance and zero inflation continues and in the Euro zone economic under performance persists.

Consider too, the weakness of global trade. In the post WW11 era global trade has been much stronger than global GDP and acted as a significant engine of expansion, that is currently no longer the case. Then there is the collapse in the price of oil which continues to bear down on inflation, so the Fed can afford to wait.

However, policy makers are concerned that if they do not soon begin returning US monetary policy to a more neutral level soon, and that may be as low as 2.5 – 3.0%, they may have to take much stronger action if they delay and growth really starts to motor. The decision is made all the more difficult by the size of the Fed's balance sheet which is bloated by three rounds of Quantative easing.

The September FOMC decision clearly has serious implications for many markets both domestic US and abroad and that includes gold. Currently we think the scales are just about tipped in favour of a Fed rate hike, and it may only be a symbolic 10 basis points. But for gold and gold bulls it will surely mark the end of the period of exceptionally low interest rates and rob gold of one of its key reasons for being held: financial crisis. The other reason to hold gold is geopolitical crisis, which currently is also absent.

In summary, we judge gold's tepid response the sell-off in stocks reveals weakness. We expect the market to resume a sell-off in the medium term.

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SEVEN DAYS AHEAD
Authorised and Regulated by the FCA
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

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