

Technical Analysis: Gold

The recent rally might be fading off for now

COMMODITY | GOLD | TECHNICAL ANALYSIS

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- Sturdy rejection off the 200 Weekly moving average once again
- Gold could turn down from here in the short run to search for the cycle bottom

The obsession with the 200 weekly moving average

Gold respected the 200 weekly moving average throughout history, going as far back as 1994. It would usually repel off the 200 weekly moving average back into the preceding trend.

On the flip side, the first sign of a trend change is shown by the convincing break and close away from the 200 weekly moving average on the other side. The trend reversal would be more or less confirmed after price retest the 200 weekly moving average.

Significance of the 200 weekly moving average from 1994 – 1996 (Gold Weekly chart)



Green line = 200 Exponential Moving Average, Source: Bloomberg

- 1) The underlying trend was up from 1993 onwards and the initial test of the 200 weekly moving average on 02/01/1995 supported and propelled price higher, back into the uptrend.
- 2) The second rejection off the 200 weekly moving average took place around 24/06/1996 where price retrace slightly before moving back down.
- 3) The strong bearish close below the 200 weekly moving average on 28/10/1996 was the first sign that price was possibly heading into a trend reversal. The confirmation came after price retested the 200 weekly moving average on 11/11/1996 and failed to break above it. Gold fell and turned into a new downtrend subsequently.

Short term: Bearish
Long term: Bullish

Tradable instrument:
Proshares Ultrashort Gold–(AMEX:GLL)

GLDUSD (Phillip Futures)

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Significance of the 200 weekly moving average from 1999 – 2002 (Gold Weekly chart)



- 4) Moving into the first test of the 200 weekly moving average on 27/09/1999, price was trending down. The reaction off the 200 weekly moving average is the same. There was a close above the 200 weekly moving average on 04/10/1999 but buyers failed to hold onto their gains. The subsequent close below the 200 weekly moving average on 18/10/1999 shoved price back into the downtrend.
- 5) The false breakout off the 200 weekly moving average caused price to tumble after price closed back below the 200 weekly moving average on 14/02/2000, 21/05/2001 and 08/10/2001.
- 6) The first sign of the trend reversal came after price close significantly above the 200 weekly moving average on 04/02/2002. The retest of the 200 weekly moving average on 04/03/2002 confirmed the trend reversal after price rejected the 200 weekly moving as a support area.

Significance of the 200 weekly moving average from 2008 – 2011 (Gold Weekly chart)



- 7) The rejection off the 200 weekly moving average on 20/10/2008 was perfect as price soared back into the preceding uptrend for 180%.

Significance of the 200 weekly moving average from 2013 – Current (Gold Weekly chart)



- 8) The bearish close below the 200 weekly moving average on 15/04/2013 signals a trend reversal on the preceding uptrend and the subsequent retest and close below the 200 weekly moving average confirmed the bearish sentiment.
- 9) The spot on rejection off the 200 weekly moving average on 26/08/2013 and 17/03/2014 resulted in price falling approximately 17.5% and 18.5% respectively back into the downtrend.

Currently, we are getting the same kind of rejection off the 200 weekly moving average once again. The 200 weekly moving average has been capping price down since 08/02/2016 and price has failed to close above it significantly. The firm bearish rejection and close on 21/03/2016 could turn price back into the downtrend and kick start the next leg down.

Using the 2 most recent rejections off the 200 weekly moving average where price fell approximately 17% off their respective highs, the current move could take price down to around the 1072.00 to 1046.00 previous low area. Price could also face some trouble around the 1180.15 and 1142.65 support area on the way down.

On a side note, look out for price to close significantly above the 200 weekly moving average to spot for potential trend reversal.

In conclusion, the current price action suggests further downside in the short run which ties in nicely with the longer term view of price forming a cycle bottom around in May to October 2016 where we expect the start of a whole new bull market to begin.

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