

Technical Analysis: Gold

More signs of a cyclical bottom

COMMODITY | GOLD | TECHNICAL ANALYSIS

02 August 2016

- The Gold/Silver ratio signals a similar conclusion to the [8 year cycle](#) and the [Moving Averages studies](#) where Gold is ready to take off in a whole new bull market
- Further upside to \$1920 is expected on Gold in the long run

Gold/Silver ratio

From the past historical studies, we have seen how Silver tends to lead Gold at the start of a major bull market in both Gold and Silver. The easy way to look at this is to observe the price action of the Gold/Silver ratio.

The Gold/Silver ratio basically tells us how many ounces of Silver can 1 ounce of Gold buy and it's derived from dividing the price of Gold by the price of Silver. The outperformance of Silver to Gold is shown by a declining Gold/Silver ratio.

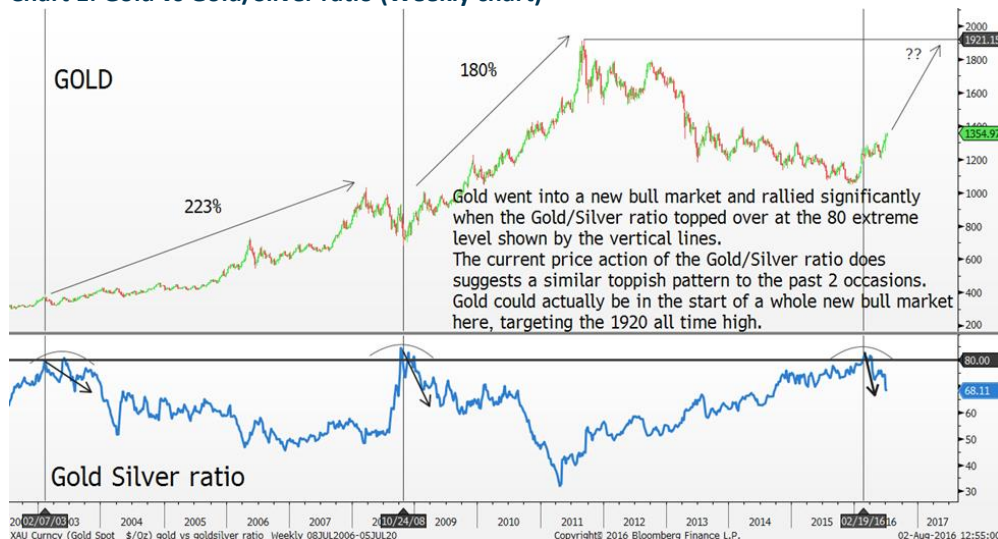
On chart 1, the top panel depicts the price of Gold while the bottom panel depicts the Gold/Silver ratio. It is obvious that the 80 level in the Gold/Silver ratio appears to be an extreme overbought area as the Gold/Silver ratio tends to peak out after overshooting above the 80 level. A reading of 80 in the Gold/Silver ratio tells us that 1 ounce of Gold can buy 80 ounces of Silver.

Notice how perfectly Gold bottomed out when the Gold/Silver ratio peaked over after testing the 80 level on the week ending 7 February 2003 and 24 October 2008 confirming that Silver tends to lead Gold in the start of a major bull market. Gold rallied for a whopping 305% and 182% respectively for both occasions.

Fast forward to today, the Gold/Silver ratio overshot the 80 level on the week ending 19 February 2016 to a high of 82.72 and subsequently tumbled back below the 80 level to around 68. The stark fall from 82.72 to 68 suggests that the Gold/Silver ratio had indeed formed a top and the trend is likely to reverse lower next.

If the peaking over of the Gold/Silver ratio holds true, then we could expect Gold to begin ascending in the likes of the bull market from February 2003 and October 2008 and that should take Gold to retest the 2011 high of \$1920.

Chart 1. Gold vs Gold/Silver ratio (Weekly chart)



Source: Bloomberg

Tradable instrument:

SPDR GLD US\$ – (SGX:O87)

SPDR Gold Trust – (AMEX:GLD)

SPDR Gold Shares (GLD) is an exchange-traded fund (ETF) that offers investors an innovative, relatively cost efficient and secure way to access the gold market. SPDR Gold Shares are intended to offer investors a means of participating in the gold bullion market without the necessity of taking physical delivery of gold, and to buy and sell that interest through the trading of security on a regulated stock exchange.

GLDUSD (Phillip Futures)

Ishares Silver Trust – (AMEX:SLV)

The Ishares Silver Trust (SLV) is an exchange-traded fund (ETF) that seeks to reflect generally the performance of the price of silver

SLVUSD (Phillip Futures)

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The Gold/Silver ratio analysis holds true for Silver as well with Silver gaining 375% since 30 May 2003 and 488% since 10 October 2008 where the Gold/Silver ratio peaked over. The peak of the Gold Silver ratio since 26 February 2016 indicates that Silver is undergoing a major trend reversal to the upside and the new bull run should take Silver to retest the 2011 high of \$49.70.

Chart 2. Silver vs Gold/Silver ratio (Weekly chart)



Source: Bloomberg

Price action

Gold and Silver have rallied remarkably after breaking above the \$1300 area on Gold and \$18.50 on Silver as mention in the previous report, [The CYCLE BOTTOM is in](#). Moreover, the bullish close above the \$1300 psychological round number on Gold and \$20.00 psychological round number on Silver on the monthly basis for the month of July signals a tremendous shift in sentiment.

Year to date, Gold and Silver are up 25% and 45% respectively, reaffirming a bull market is taking over as technicians usually see a trend reversal in the range of 20% to be a start of a whole new raging market.

Looking at the price action, the 20 and 60 day moving average have been supporting price firmly in the uptrend for both Gold and Silver. The recent bullish break above the pullback line on 27 July 2016 should propel price higher in search of higher highs as price closed back above the 20 day moving average. The uptrend will remain steadily intact as long as the 20 and 60 day moving average continues to support price.

[VanEck Vectors Gold Miners ETF – \(AMEX:GDX\)](#)

The VanEck Vectors Gold Miners ETF seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the NYSE Arca Gold Miners Index. The Index is intended to track the overall performance of companies involved in the gold mining industry.

The NYSE Arca Gold Miners Index is a modified market capitalisation weighted index primarily comprised of publicly traded companies involved in the mining of gold and silver.

[VanEck Vectors Junior Gold Miners ETF – \(AMEX:GDXJ\)](#)

The VanEck Vectors Junior Gold Miners ETF tracks a market cap weighted index of global gold and silver mining firms, focusing on SMALL-CAPS.

GDXJ covers precious metals mining firms below the market cap cutoff for GDX.

Its portfolio sometimes has more market risk due to the riskier nature of these smaller miners.

Chart 3. Gold Daily chart

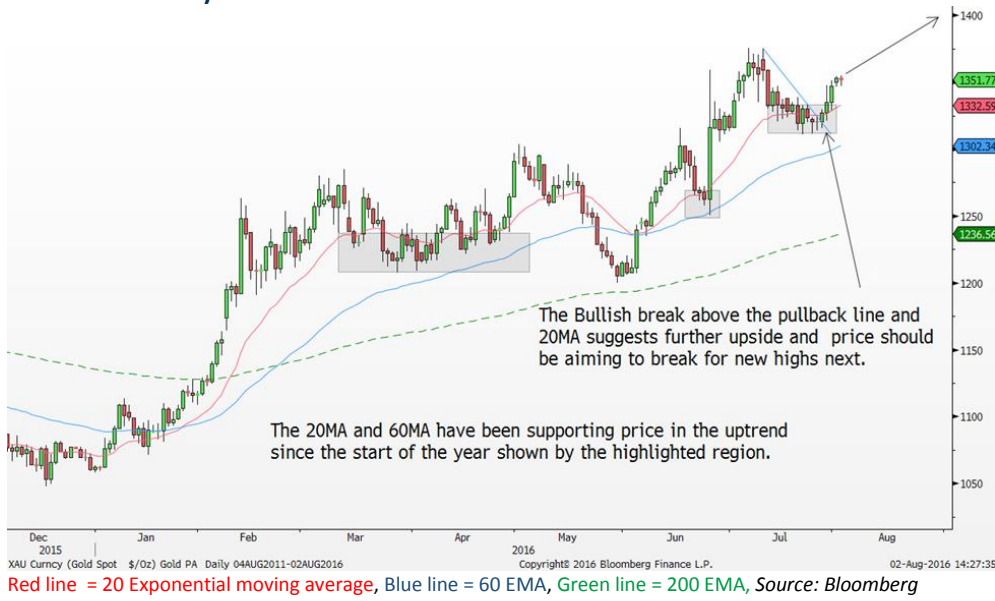
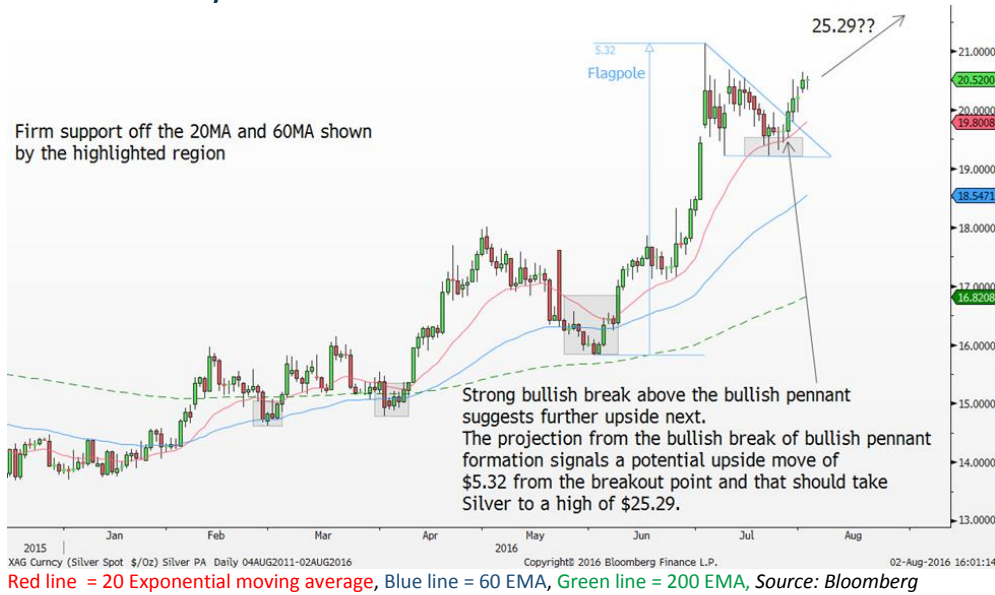


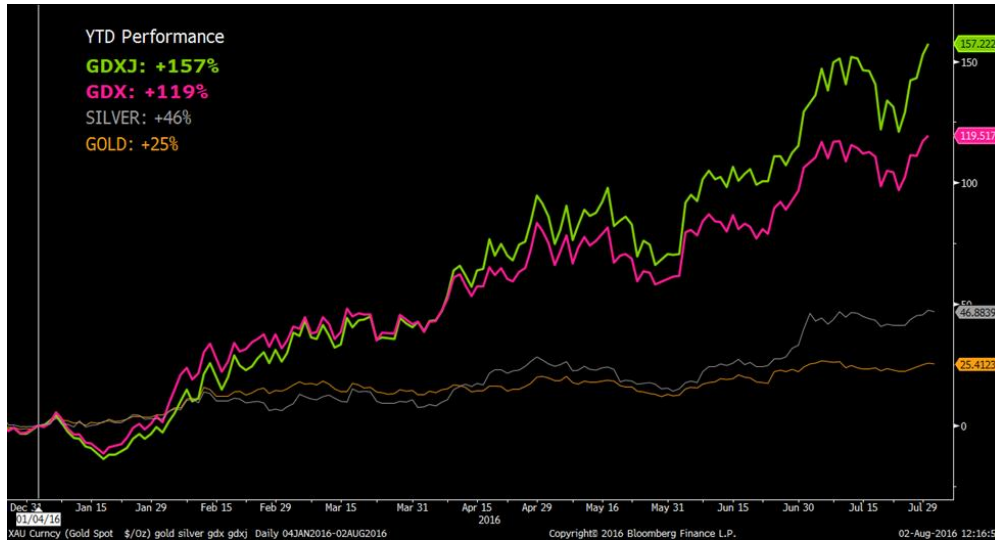
Chart 4. Silver Daily Chart



Leverage play on Gold and Silver (GDX, GDXJ)

For higher risk appetite investors who wish to participate in the precious metals rally, the VanEck Vectors Gold Miners ETF (GDX) and the VanEck Vectors Junior Gold Miners ETF (GDXJ) would be a good option.

Chart 5. Year to Date Performance

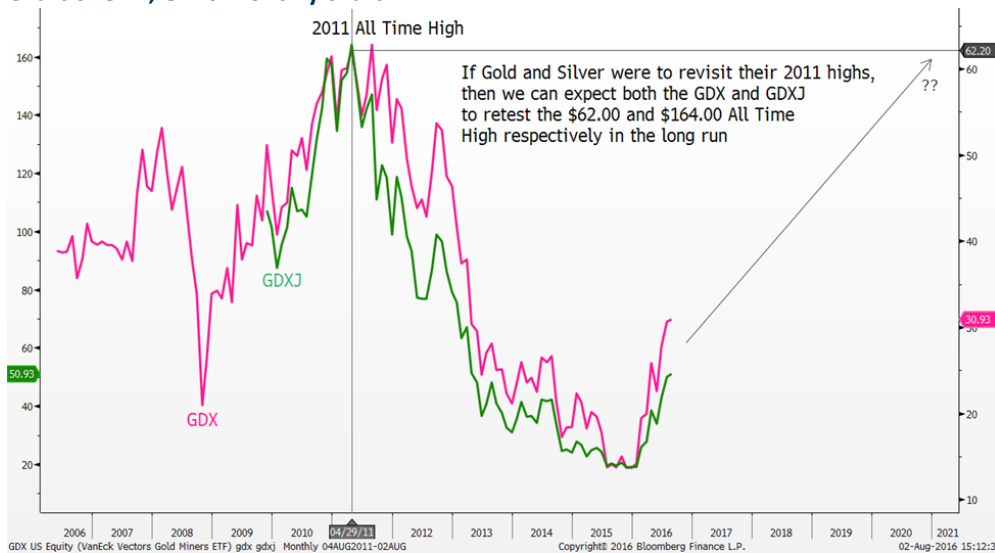


Source: Bloomberg

From the chart above, we can see how well the Miners have performed as compared to the underlying Gold and Silver. On average, the Basket of Miners in GDX and GDXJ have outperformed Gold and Silver by around 3.5 times Year to Date.

If Gold and Silver were to retest their 2011 highs, then we highly believe that the GDX and GDXJ would also retests their 2011 highs of \$62.00 and \$164.00 respectively. In other words, there is a potential upside move of 100% and 220% for GDX and GDXJ respectively based on the last close price of \$30.93 and \$50.93.

Chart 6. GDX, GDXJ Monthly chart



Source: Bloomberg

Related Reports:

[Technical Analysis: Gold – Limited downside and it’s time to start loading up](#)

[Technical Analysis: Gold – The recent rally might be fading off for now](#)

[Technical Analysis: Gold – The CYCLE BOTTOM is in](#)

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