

Technical Analysis: Gold

Buy the dips

COMMODITY | GOLD | TECHNICAL ANALYSIS

02 November 2016

- Both Gold and Silver have broken out of their respective range simultaneously to the upside with great momentum
- A bottoming process might be forming here as the RSI rebounded back above the 30 oversold region
- Hold firm on our belief that Gold and Silver have entered into a new bull market

Gold suffered huge losses after the 1300 critical support gave way on 04 October 2016, triggering all the stop losses below it. As a result, Gold was flushed down 5% to a low of 1241 within 4 days where it consolidated subsequently.

Nonetheless, from a wider perspective, we believe that Gold is only in the midst of a correction phase to the healthy bull market that just started in December 2015. The [8 year cycle](#), [200 Moving Average](#) and [Gold Silver ratio](#) studies have shown that Gold has already turned into a bull market.

With that in mind, the current correction presents a good buying opportunity to hop back on-to the uptrend. Buying the dip should be the current strategy for Gold and Silver and that led us to take a deeper look into the past 10 year Relative Strength Index (RSI) performance to optimally time the market.

Relative Strength Index performance

We did a study on the RSI, specifically to spot buying signals when the RSI rebounds back above the 30 level after dipping into the oversold region. A RSI reading above 70 indicates overbought territory while a RSI reading below 30 indicates oversold territory.

For this study, we analysed the data going back to 2006 where Gold and Silver experienced both Bull and Bear market.

Entry criteria:

- 1) Wait for an oversold period, RSI below 30
- 2) A buy entry would be triggered after the RSI closes back above the 30 oversold region
- 3) The return is calculated as the difference between the respective highs to the close of the signal bar

During the booming bull market from 2006 - 2008, the RSI did not even tested the 30 oversold region. The lowest it tested was the 33.67 area and the average oversold region hovered around the **35.50** area.

Tradable instruments:

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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Chart 1. Gold (Daily chart)

Source: Bloomberg

Once the RSI hits the oversold region again after a bull market, it tends to signal a trend reversal, suggesting the prior uptrend might be weakening.

A bottom tends to emerge after a few tests of the oversold region where it presents the optimal location to reposition back into the uptrend

The bottom showed itself after the third attempt where it rebounded off the oversold region in October 2008 where it embarked into a whole new raging bull market until 2011.

Once again, during the whole period since 2011, the RSI has never tested the 30 oversold region. The lowest it tested was 30.58 which only happened once while the average for the oversold region was around **37.00** where the rebound signalled ample opportunities to rejoin the uptrend

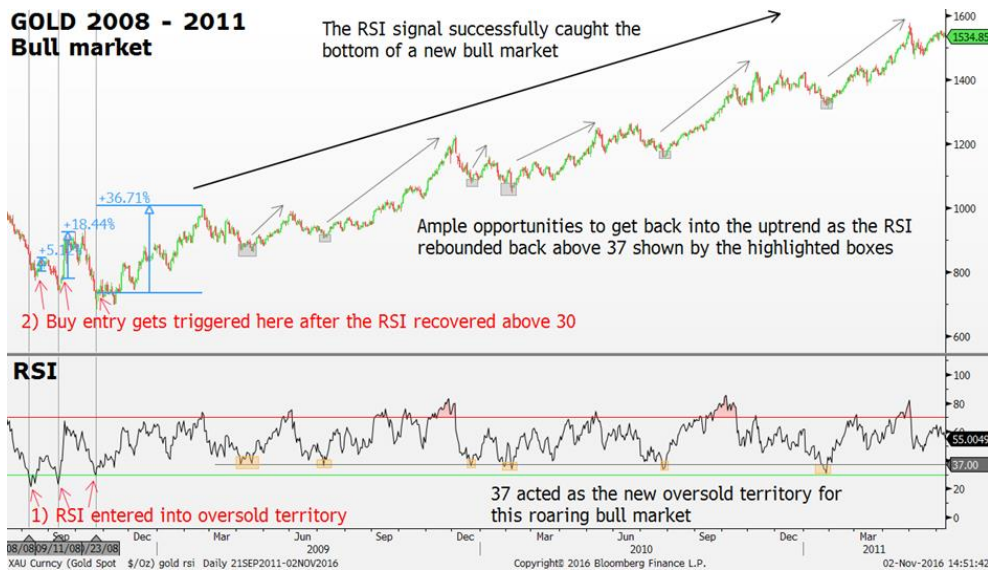


Chart 2. Gold (Daily chart)

Source: Bloomberg

Overall, the return during the bull market ranged from 3.44% to 36.71% and the average was 15.88%.

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.

On the flipside of the equation, the performance of the RSI provided less appealing signals during a downtrend since Dec 2012 where the return ranged from 0.53% to 21% and the average return stood around 6%.

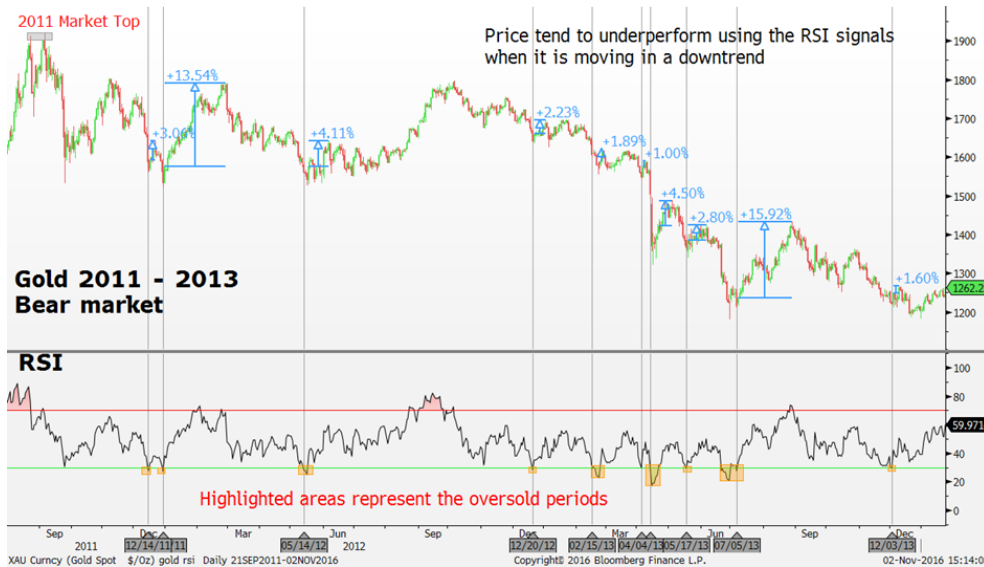


Chart 3. Gold (Daily chart)

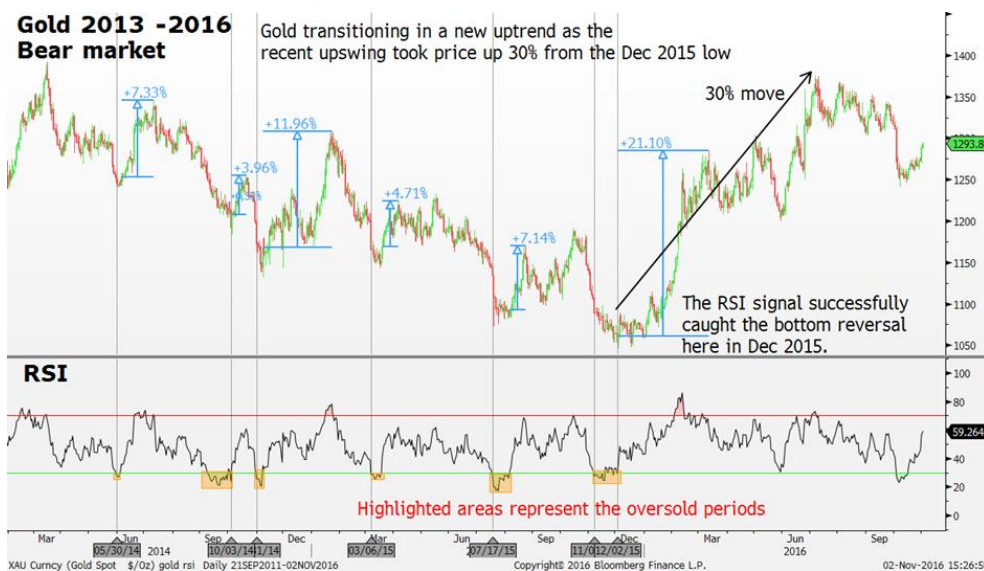


Chart 4. Gold (Daily chart)

Source: Bloomberg

In summary, this RSI method managed to catch the bottom for gold when it enters into a deep correction.

- -25% correction in 2006 followed by a 90% recovery.
- -34% correction in 2008 followed by 180% recovery.

From the above results, we can see that the RSI performed better at catching bottom after a prolonged period of correction and performed mediocly when Gold is stuck in a downtrend. For a sturdy up trending market, it would be wise to buy the dips when the RSI reversed from the range of 35.50 – 37.00.

Hence by looking at the current price action, Gold offers a good buying opportunity. The sharp sell off since 04 October 2016 took the RSI down with it where it hovered below the 30 oversold region for 9 days. The lowest RSI reading during that period stood at 22.93. Eventually, buyers prevailed and successfully lifted the RSI back above the 30 oversold region on 18 October 2016 gesturing the first bottoming sign. Moreover, the bullish follow through that came along effectively broke and close price above the 1277 range high and 200 day moving substantially on 01 November 16, further confirming the bullish intent and bottoming process. We believe that Gold has highly likely formed another Higher Low (HL) point on 01 November 2016 off the 1265 area and price should continue to swing higher from here on to target the 1375 resistance area next. Our long term target for Gold remains unchanged at 1920.

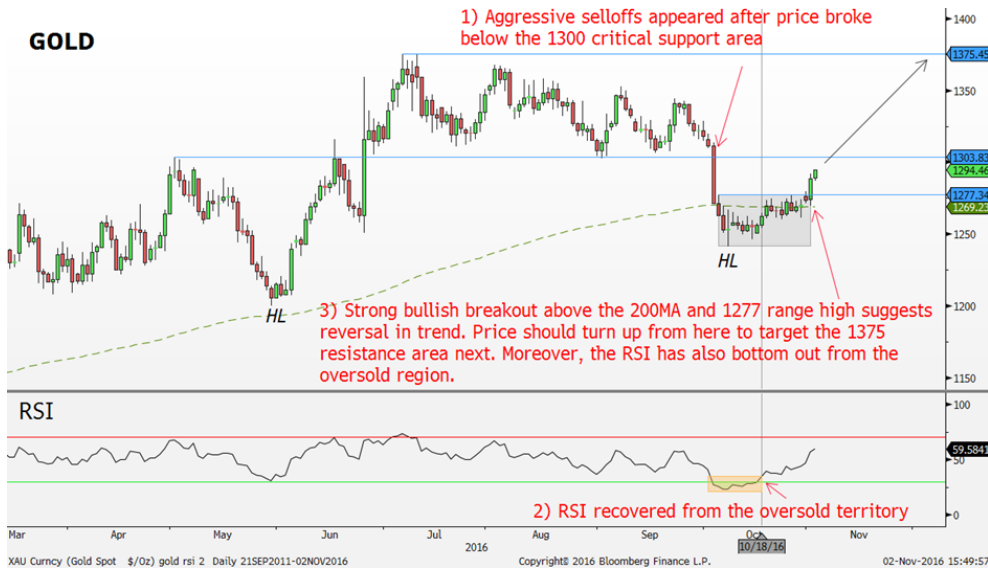


Chart 5. Gold price action (Daily chart)

Source: Bloomberg

Silver

Silver is also showing the same kind of bottoming sequence as the RSI recently recovered back above the 30 oversold region on 10 October 2016. Additionally, the bullish breakout above the 17.82 range high and 200 day moving average happened with accelerating momentum on 01 November 2016.



Chart 6. Silver price action (Daily chart)

Source: Bloomberg

Likewise for Silver, we believe that the 06 October 2016 lows successfully established itself as another Higher Low point where higher prices should be expected. The next likely target for Silver would be the 20.00 resistance area followed by 21.14 resistance area.

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](#)

[Technical Analysis: Gold – More signs of a cyclical bottom](#)

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