Technical Analysis: Gold

The CYCLE BOTTOM is in

COMMODITY | GOLD | TECHNICAL ANALYSIS

- The north bound train is leaving the station
- The strong close above the 200 weekly moving average and the cross over between the 20 weekly moving average and 60 weekly moving average to the upside suggests a whole new bull market is ready to take off
- Long term target for this bull market is the 1920 all-time high resistance

Huge shift in trend

Following up with the last report on GOLD "*The recent rally might be fading off for now*", we have seen how gold prices continued to rally instead of fading lower. The bearish follow through after the week ending 25/03/16 was remarkably weak and the 1200 psychological round number support area succeeded in forming a near term bottom on the week ending 03/06/16.

We have shown how important the 200 weekly moving average is in the previous report where a close in the opposite side of the 200 weekly moving average provides quite a reliable warning sign of a major trend reversal from the prior trend.

Fast forward to today, there were 2 instances where price closed significantly above the 200 weekly moving average, specifically on the week ending 29/04/16 and 10/06/16 signaling a massive shift in sentiment.

Strong bullish close above the 200 weekly moving average (Gold Weekly chart)

Green line = 200 EMA, *Source: Bloomberg*

21 June 2016

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 crossover between the 20 and 60 weekly moving average

We have added the 20 and 60 weekly moving average into the equation to get a more complete view of the price action. The 20 and 60 weekly moving average appeared to be able to capture major trend change in the early stages accurately and this study stretches as far back as 1975. We present here the charts for all the crossover signals that were generated since 1975.

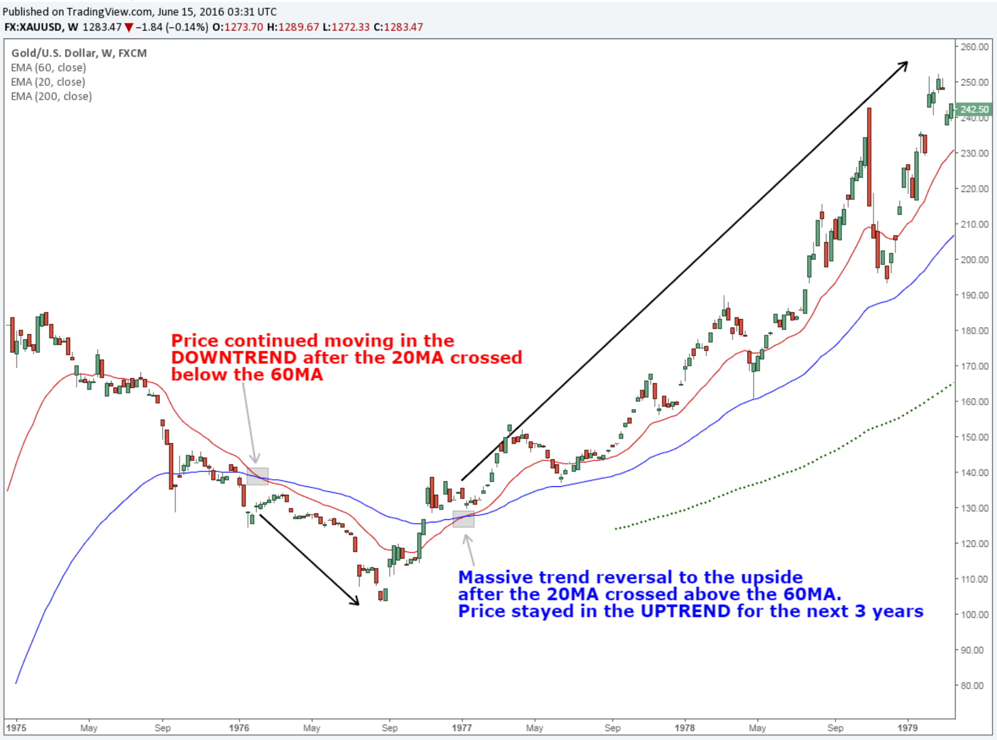
In total, there were 17 signals generated from the 20 and 60 weekly moving average crossover since 1975 and only one of the signal in September 2009 failed to provide a warning of a trend change.

There were 3 occasions where the trend reversal did a home run, namely the bull run in 1997, 2002 and late 2008.

A new DOWNTREND appears when the 20 weekly moving average crosses over the 60 weekly to the DOWNSIDE and oftentimes, price would continue moving in a downtrend

On the other hand, a new UPTREND appears when the 20 weekly moving average crosses over the 60 weekly moving average to the UPSIDE and oftentimes, price would continue moving in an uptrend.

Gold Weekly chart 1975 - 1979



Red line = 20 Exponential moving average, Blue line = 60 EMA, Green line = 200 EMA, *Source: tradingview*

The trend reversal to the upside in January 1977 moved price into a bull market which lasted for 3 years. Price started soaring after the cross over from 133 to a high of 850, a whopping 539% upside return.

Gold Weekly chart 1980 - 1985

Red line = 20 Exponential moving average, Blue line = 60 EMA, Green line = 200 EMA, *Source: tradingview*

Gold Weekly chart 1985 - 1989

Red line = 20 Exponential moving average, Blue line = 60 EMA, Green line = 200 EMA, *Source: tradingview*

Gold Weekly chart 1989 - 1992

Red line = 20 Exponential moving average, Blue line = 60 EMA, Green line = 200 EMA, *Source: tradingview*

Gold Weekly chart 1993 - 1997

Red line = 20 Exponential moving average, Blue line = 60 EMA, Green line = 200 EMA, *Source: tradingview*

Gold Weekly chart 1999 - 2001

Red line = 20 Exponential moving average, Blue line = 60 EMA, Green line = 200 EMA, *Source: tradingview*

Gold Weekly chart 2001 - 2005

Red line = 20 Exponential moving average, Blue line = 60 EMA, Green line = 200 EMA, *Source: tradingview*

The moving average cross over in September 2002 signaled the start of an extremely strong uptrend where price shot up from 286 to a high of 1032, a 260% return within a timeframe of 6 years.

Gold Weekly chart 2008 - 2011

Red line = 20 Exponential moving average, Blue line = 60 EMA, Green line = 200 EMA, *Source: tradingview*

There was a false signal generated in October 2008 as price failed to reverse into a downtrend after the 20 weekly moving average crossed below the 60 weekly moving average.

Nonetheless, the subsequent cross over in December 2008 took price back into the long term uptrend reliably. Price rose an amazing 119% from 875 to a high of 1920 within 2 years.

Gold Weekly chart 2012 – 2016

Red line = 20 Exponential moving average, Blue line = 60 EMA, Green line = 200 EMA, *Source: tradingview*

The current environment suggests the trend is ready to turn up again as the 20 weekly moving average recently crossed above the 60 weekly moving average on the week ending 18/03/16. Additionally, the resilient bullish close above the 200 weekly moving average on the week ending 29/04/16 and 10/06/16 reveals the bulls are well in control. There is a monumental shift in sentiment here.

Conclusion

To sum it up, all the stars seemed to have aligned themselves. An earlier report "Limited downside and it's time to start loading up" called for gold to bottom out around May to October 2016, gels in perfectly with the weekly moving average studies calling for a major trend reversal to the upside.

We believe that the cycle bottom in gold is already fixed around 1046.23 at the week ending 04/12/15 and a whole new wave of bull market for Gold is about to begin with a target of 1920 all-time high resistance area.

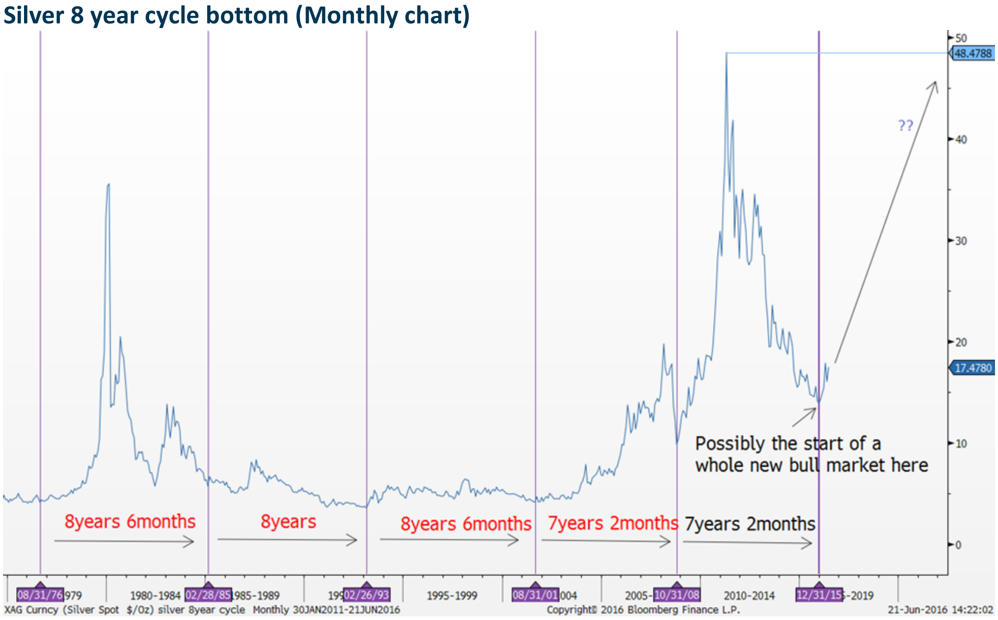
Price briefly breached the 1300 psychological round number last week but buyers failed to cling onto the gains and closed at 1297.

A significant close above the 1300 level on the daily and weekly timeframe is required before the floodgates for the bulls are released.

Silver, the wilder twin sister of Gold, tracks a similar 8 year cycle bottom pattern where it takes 8 years on average to form one bottom to the other.

The price action in Silver also suggests a cycle bottom has already been established in December 2015 at 13.60. It is highly likely that we are witnessing the start of a whole new bull market here where Silver should reach out to test for the 49.78 all-time high resistance next in the long run.

Silver 8 year cycle bottom (Monthly chart)



Source: Bloomberg

The critical area to watch for Silver is the 18.50 resistance area. Extreme upside move should follow once price clears the 18.50 area significantly on the daily and weekly timeframe.

Gold and Silver are ready to take off from the Launchpad.

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

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