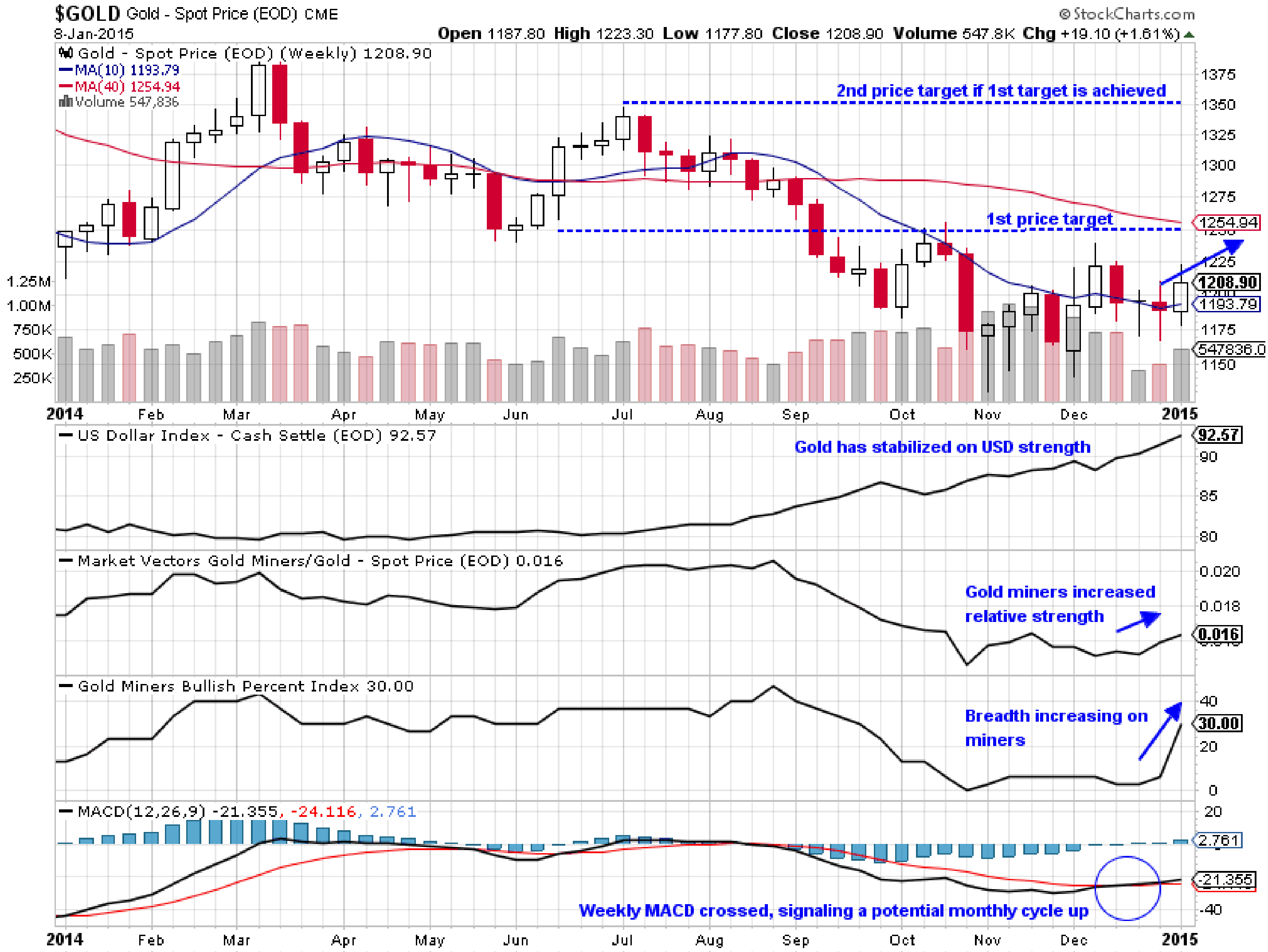
Technical Analysis: Gold

Has Gold reached an intermediate bottom? Soon, if not *now*.

| TECHNICAL ANALYSIS | GOLD| Technical Note

12 January 2015



Gold down 33% since Aug 2012. Time to go contrarian?

The first signs of the death of gold started back when gold was pushing $1800 back in August 2012. Since then, gold prices have dropped all the way down to 3 year lows of $1130 as recently in November 2014 due to a combination of a strong USD, low levels of inflation, the increase of risk appetite and a strong US economy that was pushing investor cash into equities. Gold companies have made cuts over the past couple years, and have collectively taken billions of dollars in write-downs. According to PWC's Gold, silver and copper price report 2015, their industry survey shows that only 20% believe gold price will increase in 2015, 20% are neutral, and 60% think prices will decrease. Yet, in terms of technical analysis, the bottom of prices is always characterized by pessimism, is it time to go contrarian? We list a couple of technical factors that hint that strength in the market is building within a long downtrend:

1. **Improving underlying technicals.**

- **Gold priced has stabilized even through the USD has strengthened.** A rising USD usually applies downside pressure on commodities like gold. Resilience of gold price in view of the strengthening USD is akin to increasing tension on a spring that adds strength to the upside move when it eventually occurs in the future.

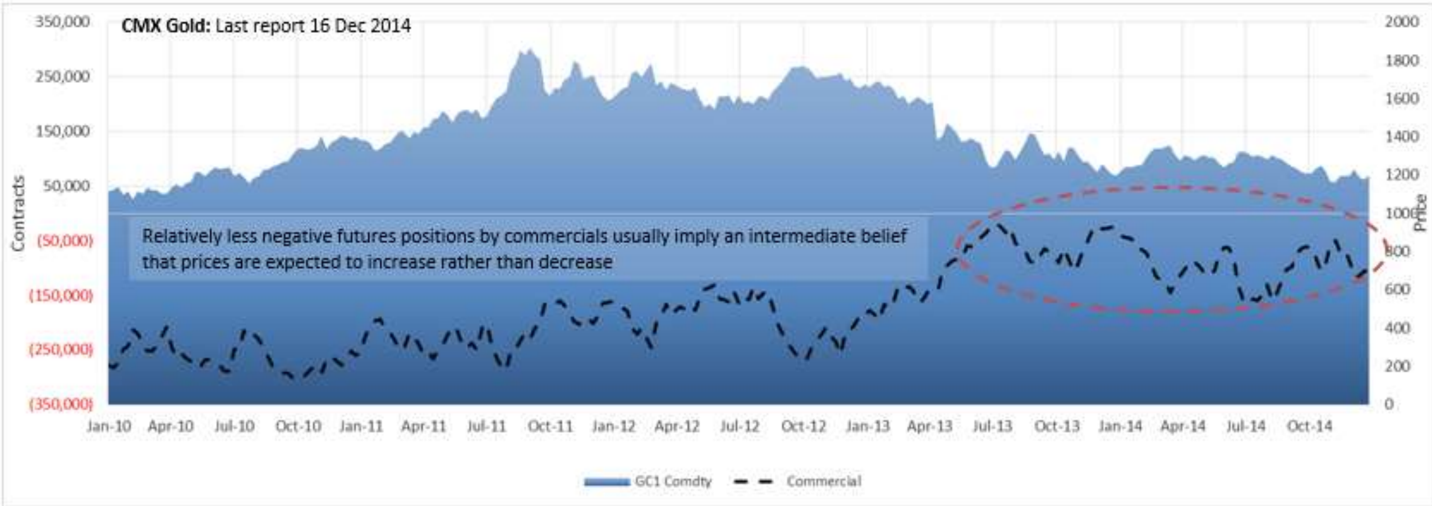
Kenneth Koh (+65 6531 1791)
kennethkohwk@phillip.com.sg

MCI (P) 020/11/2014
Ref. No.: SG2015_0002

- **Though nascent, gold miners price and breadth are slowly increasing their relative strength.** Stock prices can sometimes be affected first before the actual move of commodities as market participants are forward looking when making their investment decisions. The slight uptick adds encouragement to the bottoming view.
- **The bullish cross of the weekly MACD imply a potential upturn**. Unless price deteriorates sharply, causing technical damage that reaffirms the downtrend, the bullish cross implies at least a short term upturn, and a potential intermediate upturn that may last 1-2 months.

2. Gold commercials are hedging less at current prices.

Based on the Commitment of Trader's report, "commercials" are defined as entity that is commercially engaged in business activities hedged by the use of the futures or option markets. Commercial positions are usually more long term in nature and less speculative. The net futures position, since gold broke below 1400 in Apr 2013, has been significantly less negative as compared to prior years. This leads me to believe on a fundamental level, gold prices should start to see stability as the commercial market is not viewing current future prices for gold as expensive, hence they are hedging a lot less.



Source: Bloomberg

3. Since June 2014, high yield bonds have been on the downtrend.

Although the S&P500 has been on an uptrend, the iBoxx High Yield Corporate Bond Fund has actually decreased by 3% since June 2014. The divergence shows increasing risk within the system, which is coherent with recent geopolitical happenings such as the sharp fall in oil prices increasing the probability of defaults on oil exporting nations and oil producers with high cost of lifting. Any increase of perceived risk may cause increased gold prices capital looking for flights to safety.

However, we do note that gold is technically on a downtrend, and based on the market psychology of reflexivity or the feedback loop of cause and effect, downtrends can go on longer than expected. That said, based on the reasons above, we note underlying strength appearing within this downtrend. We are sticking our necks out with this call, as technically speaking, there is still no weekly upside breakout signal and trends tend to continue, yet we cannot ignore the improving underlying technical strength. Gold is also a crisis hedge if crude oil continues to fall in price, creating geopolitical instability.

We think there is a good chance gold's price should firm up again around current levels or maybe slightly lower. If gold cycles up, the first upside target is likely 1250. A successful break above this level signals completes a reverse head & shoulders pattern that started in Sep 2014 and implies a further technical upside target of 1350. A convincing price break below the 1150-1175 support on unexpected news will cause us to reevaluate this thesis.

Important Information

This publication is prepared by Phillip Securities Research Pte Ltd., 250 North Bridge Road, #06-00, Raffles City Tower, Singapore 179101 (Registration Number: 198803136N), which is regulated by the Monetary Authority of Singapore ("Phillip Securities Research"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below. This publication has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources, which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this publication are based on such information and are expressions of belief of the individual author or the indicated source (as applicable) only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete, appropriate or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the preparation or issuance of this report, (i) be liable in any manner whatsoever for any consequences (including but not limited to any special, direct, indirect, incidental or consequential losses, loss of profits and damages) of any reliance or usage of this publication or (ii) accept any legal responsibility from any person who receives this publication, even if it has been advised of the possibility of such damages. You must make the final investment decision and accept all responsibility for your investment decision, including, but not limited to your reliance on the information, data and/or other materials presented in this publication.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this publication is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This publication should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks. Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this research should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this publication, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this publication.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold a interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this publication. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, which is not reflected in this material, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the preparation or issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this material.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction. Section 27 of the Financial Advisers Act (Cap. 110) of Singapore and the MAS Notice on Recommendations on Investment Products (FAA-N01) do not apply in respect of this publication.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.
This report is only for the purpose of distribution in Singapore.

Contact Information (Singapore Research Team)

Management
Chan Wai Chee
(CEO, Research - Special Opportunities) +65 6531 1231

Research Operations Officer
Jaelyn Chin +65 6531 1240

Macro | Equities
Soh Lin Sin +65 6531 1516
Bakhteyar Osama +65 6531 1793

Market Analyst | Equities
Kenneth Koh +65 6531 1791

US Equities
Wong Yong Kai +65 6531 1685

Finance | Offshore Marine
Benjamin Ong +65 6531 1535

Real Estate
Caroline Tay +65 6531 1792

Telecoms | Technology
Colin Tan +65 6531 1221

Transport & Logistics
Richard Leow, CFTe +65 6531 1735

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES
Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA
Phillip Capital Limited
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

SRI LANKA
Asha Phillip Securities Limited
No-10 Prince Alfred Tower,
Alfred House Gardens,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

INDIA
PhillipCapital (India) Private Limited
No.1, 18th Floor
Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY
PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI
Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895
Website: www.phillipcapital.in