ChartWorks

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Updates: Mid-March Lows in Precious Metals, Megaphone, Deflated Prices & Multi-Year Base

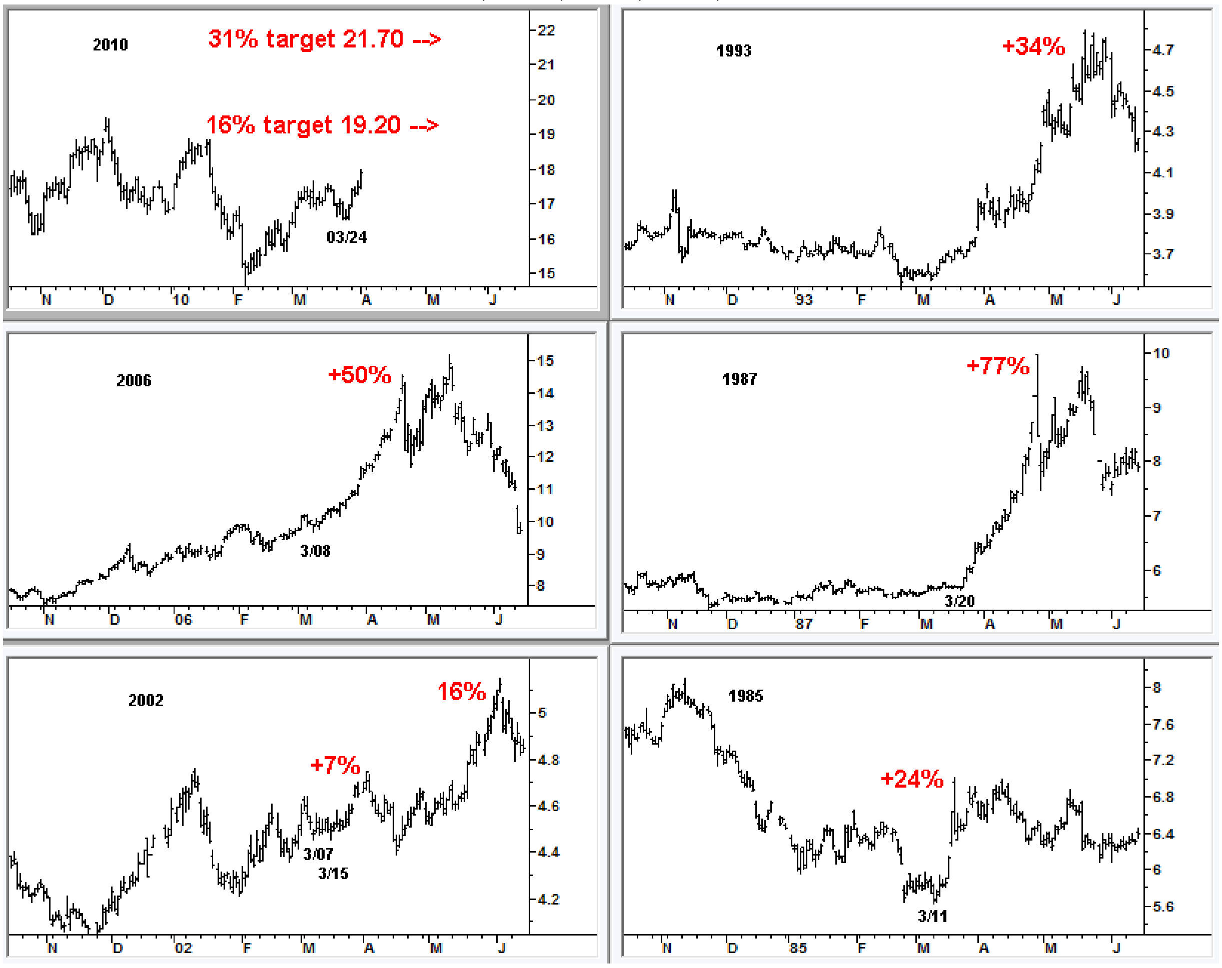
The 'big picture' continues to build towards a dramatic advance in precious metals over the next few years. The analysis in the latter half of this report should give readers a sense of the longer term patterns while the earlier material deals with the near term considerations.

Mid-March low: Gold is now breaking out of the mid-March bottoming pattern. Initial resistance is anticipated at $1182 (*the 7/8 speedline from December 3rd to February 5th*). The normal rally out of a March low is 14% to 19%. These percentages target a range of $1236 to $1290, however each phase of the bull market from $253 has seen progressively larger moves into the interim highs so don't be surprised if these targets are exceeded. Rallies from the 'tested low' in March are normally nine to eleven weeks so we are looking at a window of May 26th to June 9th. Stops for traders should now be raised to just below this week's low ($1101).

Mid-March bottoms in gold: 2010, 2006, 2002, 1993, 1987 & 1985

Mid-March bottoms in gold saw even higher percentage gains in silver. The average rally was 31% (*excluding the 77% in 1987*).

Silver: *2010, 2006, 2002, 1993, 1987 & 1985*

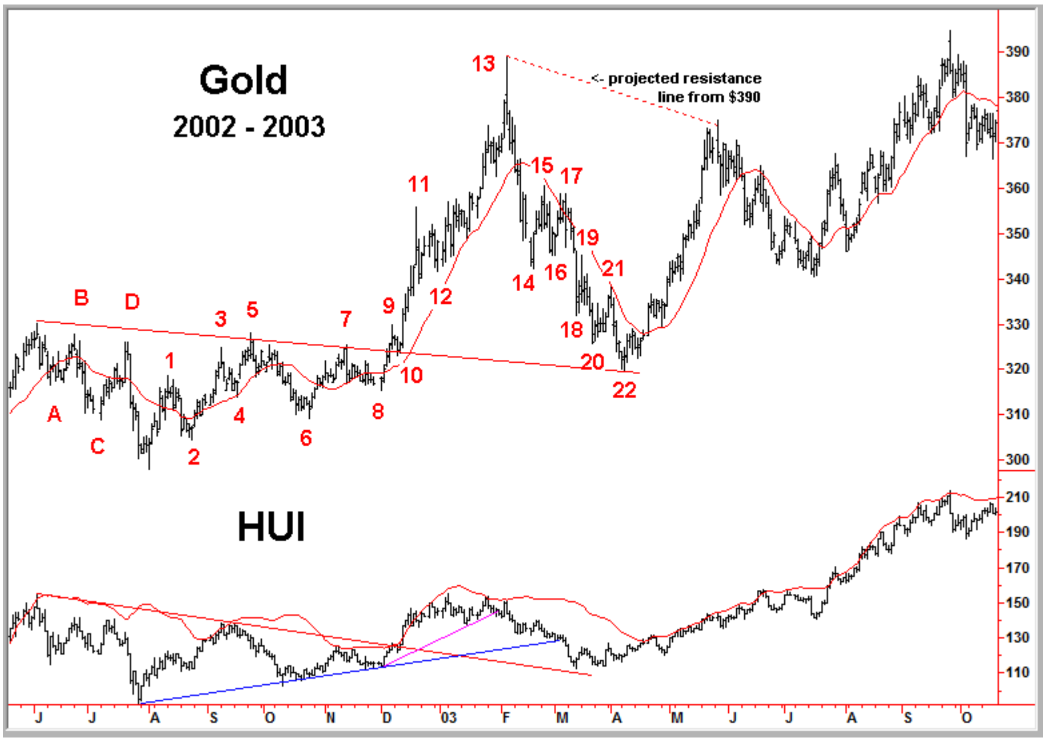


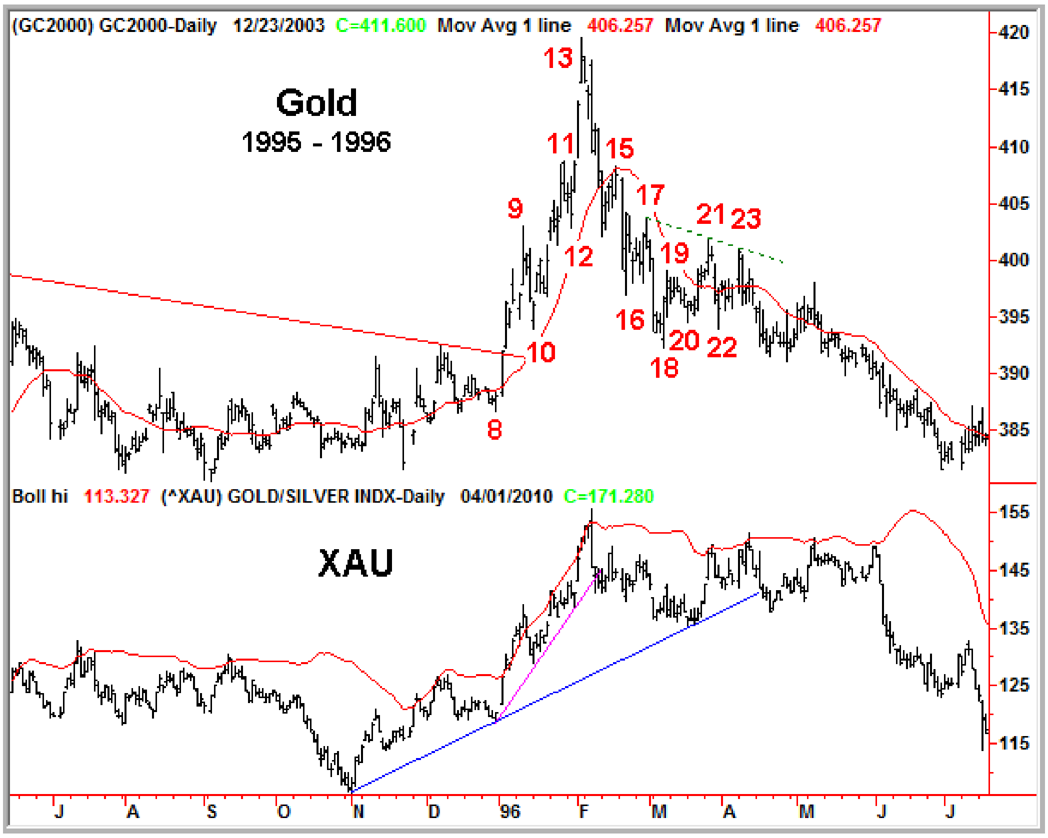
Megaphone: At this time last year we were monitoring the expanding triangle (*labeled an A-B-C-D-E to the bottom of the megaphone*) as it related to previous action in gold. The labeling in each example called for a pause in February '09 from point 5 and then a breakout to the upside following point 8. We are at a critical juncture because the patterns now begin to diverge. Point 22 (*$1085 on March 24th*) is the spot from which the current rally must come to life and take out the recent highs of $1127 and $1145 if the bullish pattern is to prevail.

The related stock indices (HUI, XAU, GDX & GDXJ) put in a higher low on March 25th verses February 25th thereby establishing a bullish divergence against gold which was making a lower low. This bodes well for an upside breakout.

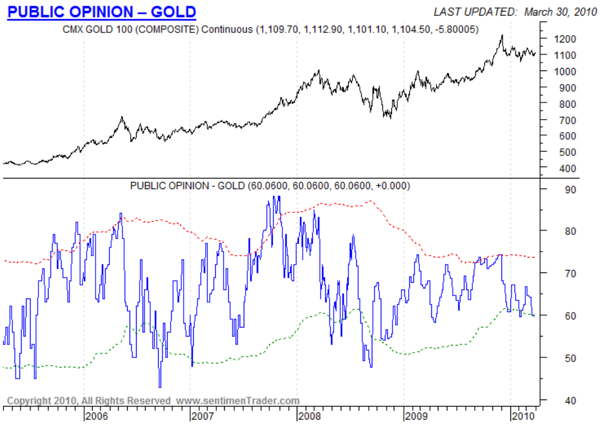
However, now is a time to be diligent and control risk as we similarly advised on September 7th when gold closed above $990. All the technical pieces were presented to justify a large upside move so we asked the question: **But what if all the best laid plans fail to produce upside action?** A 50% correction from the breakout at $968 or a test of the 20-day exponential moving average would be deemed healthy, but a violation of $968 would not. The average was kissed in late September but $968 wasn't even tested.

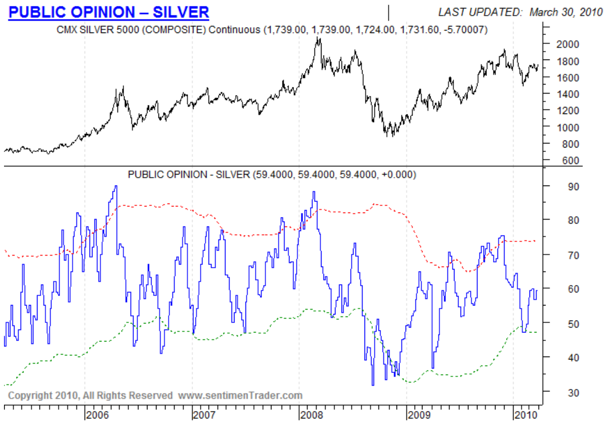
In today's environment a correction of more than 70% of the rally from March 24 (*currently $1098; 70% of $1085 to $1127*) or a violation of this week's low *($1101)* would put the bearish intermediate term pattern into play. We are currently both short and long term bullish, but remember "let's be careful out there".


Gold
2002 - 2003
<- projected resistance
line from $390
HUI
13
11
15
17
19
21
14
16
12
9
18
20
22
10
B
D
3
5
7
1
A
C
2
4
6
8
J
J
A
S
O
N
D
03
F
M
A
M
J
J
A
S
O
390
380
370
360
350
340
330
320
310
300
210
190
170
150
130
110

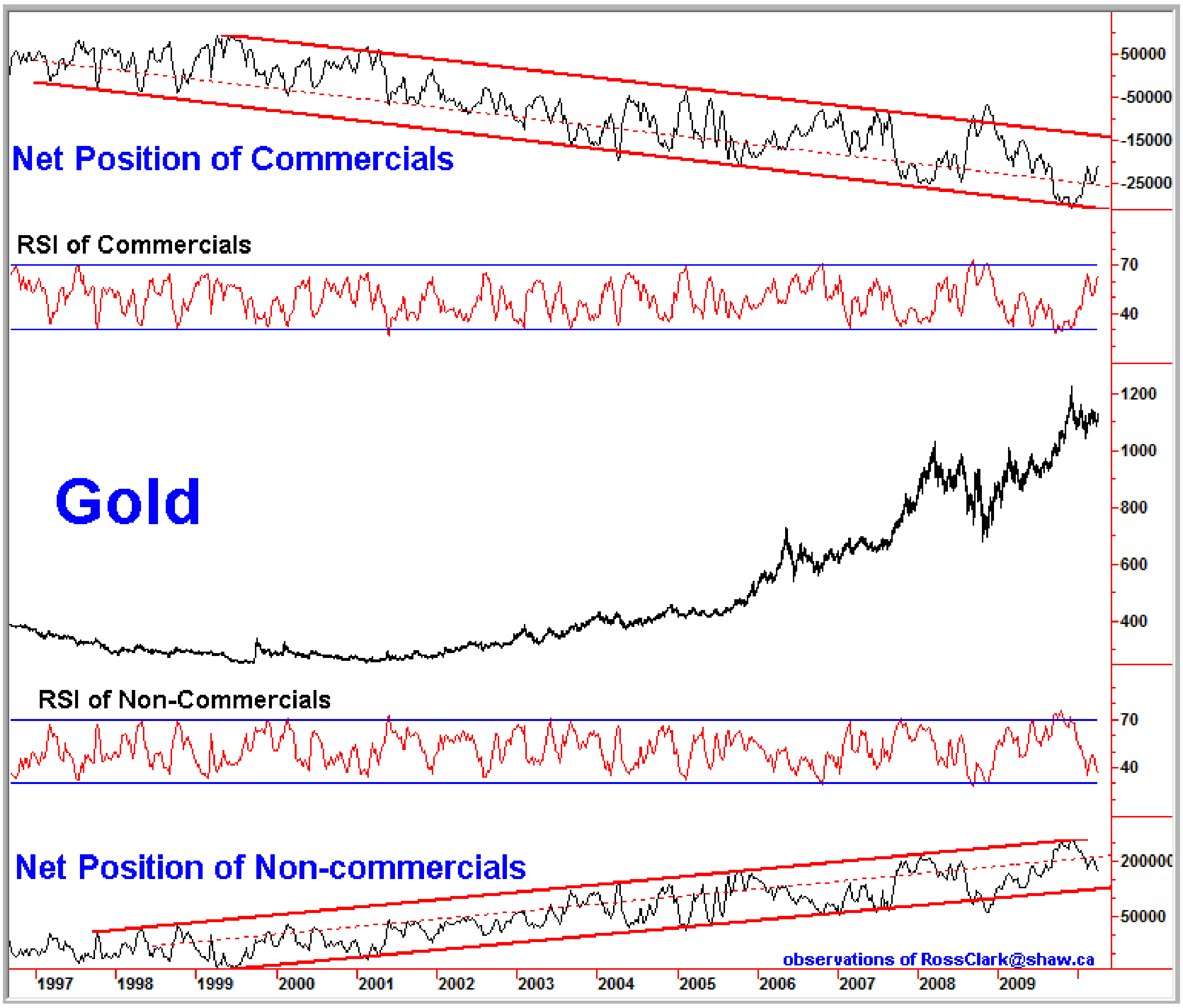

(GC2000) GC2000-Daily 12/23/2003 C=411.600 Mov Avg 1 line 406.257 Mov Avg 1 line 406.257
Gold
1995 - 1996
13
11
15
17
21
23
9
12
19
16
20
22
18
10
8
Boll hi 113.327 (^XAU) GOLD/SILVER INDX-Daily 04/01/2010 C=171.280
XAU
J
A
S
O
N
D
96
F
M
A
M
J
J
420
415
410
405
400
395
390
385
155
145
135
125
115

Sentiment levels (www.sentimentTrader.com) are low enough to allow for a multi-week rally.

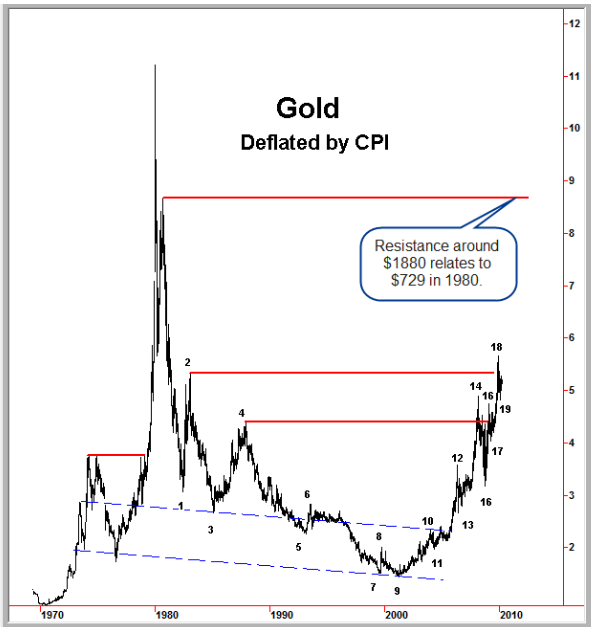




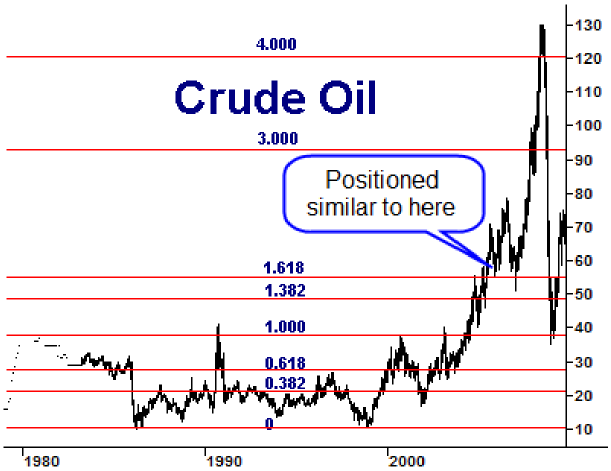
As of the March 30th report from the CFTC the commercials and non-commercials reduced their net respective futures positions to -207,691 and 173,766 contracts. Both are down by 33% from their extremes in December to **levels not seen since July**. The RSI's are at levels that would easily permit the gold price to rally.



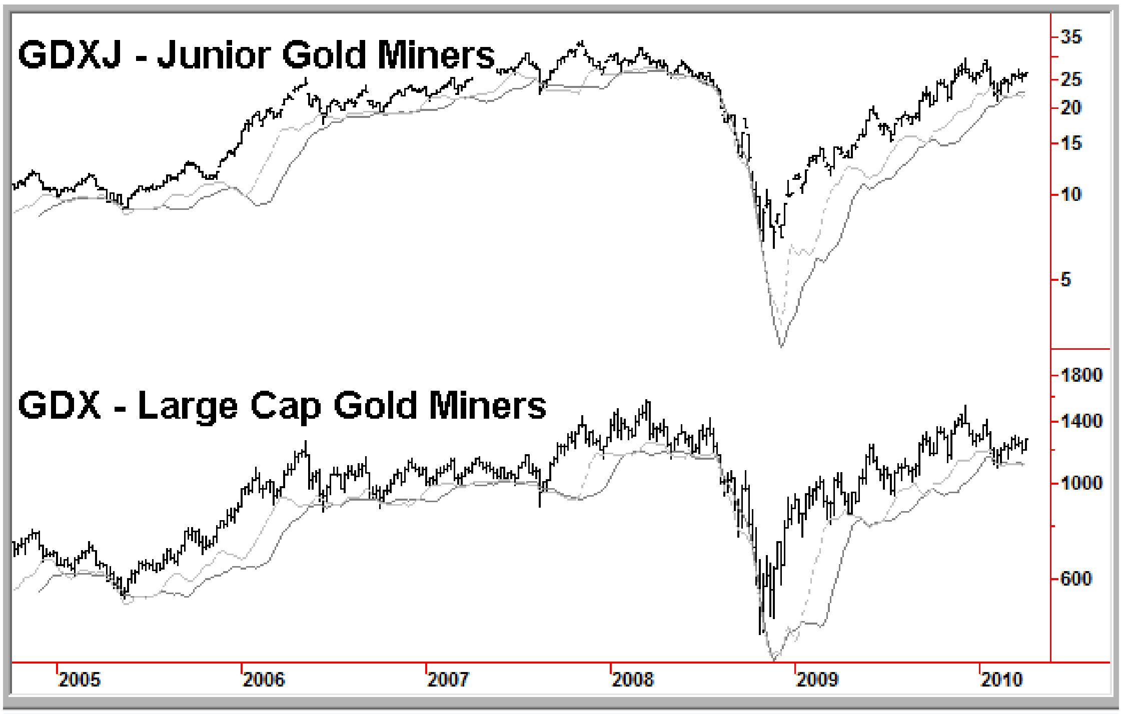
Deflated prices: There is much controversy over the validity of the Bureau of Labor Statistics Consumer Price Index; however we have found the support and resistance levels of the deflated price charts in gold and silver related to this index to be of significance. Notice how well the rounding basing action of the past three decades in gold correlates with the action in the Dow Industrials leading up to the dramatic rally in the second half of the 1990's. The current level of gold relates to the $520 high in February 1983. The next level of any importance is $1880, the equivalent of $729 in 1980.

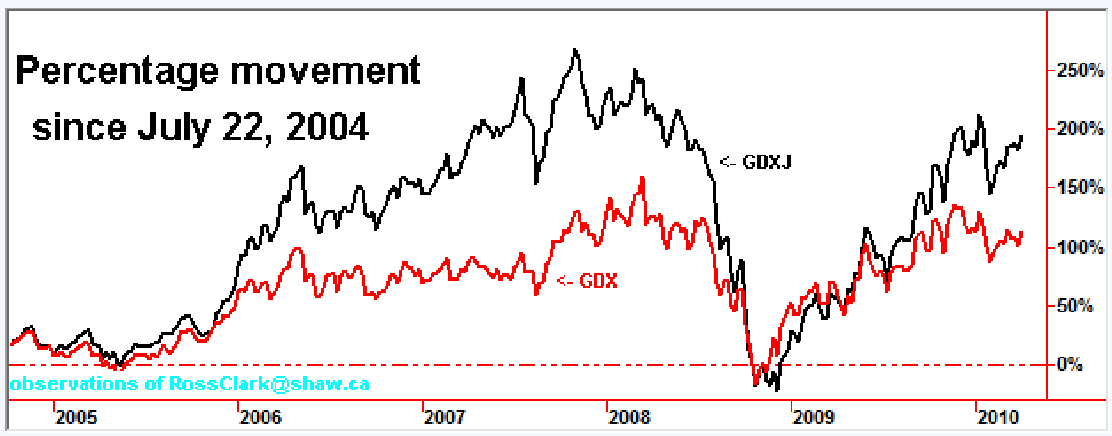


Multi-year consolidations are capable of pushing prices up by a minimum of three times the height of the base. Once gold broke out of its $253 to $730 base in 2007 and successfully held for eighteen months the stage was set for a move through $2,000 in the coming years.



The junior mining index continues to outpace the seniors (as seen in the US indices below). The recently listed Canadian ETF of juniors (ZJG.TO) traded at a new high for the year this week. We look for the junior producers to continue to outperform the seniors.





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