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Technical observations of
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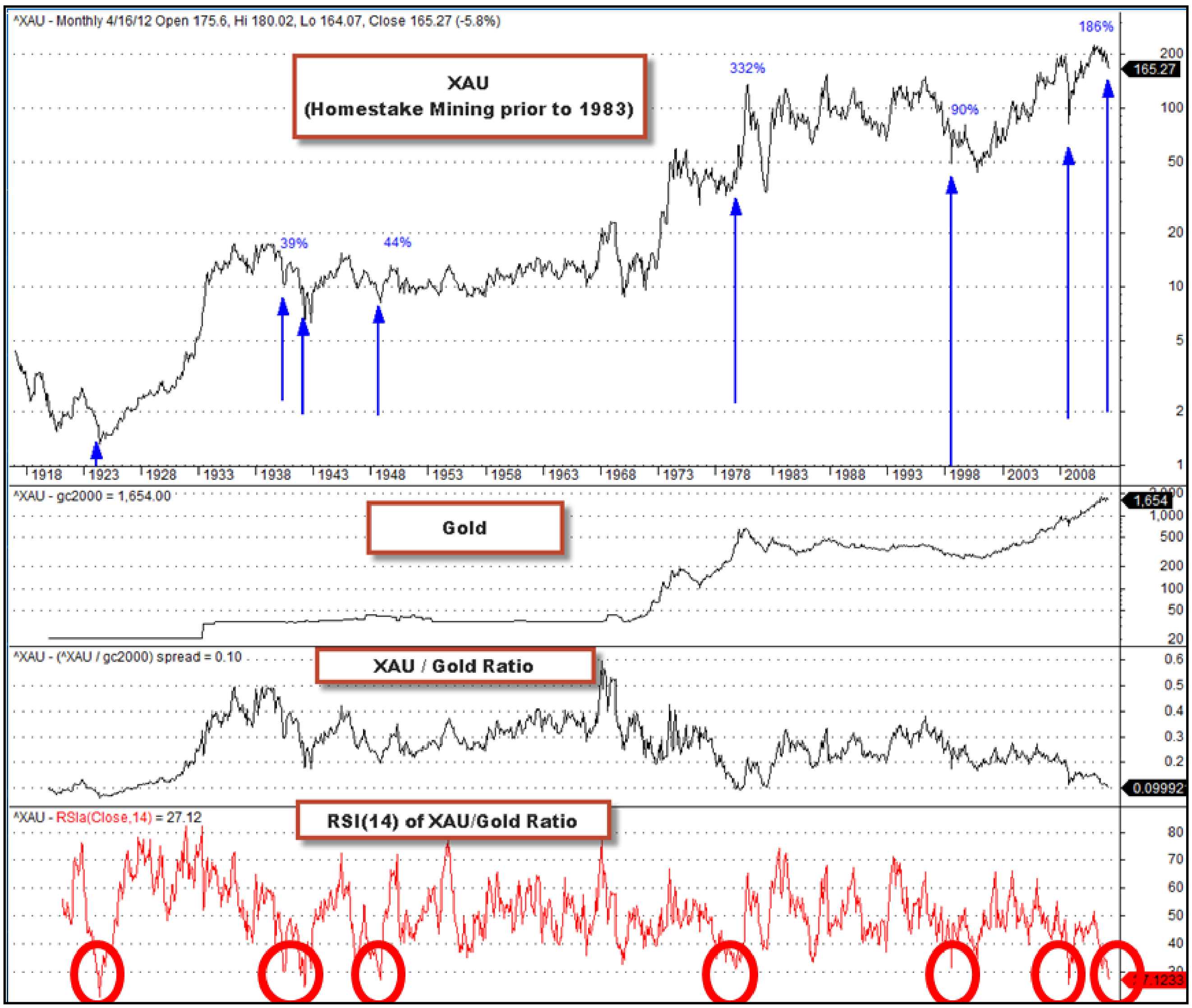
Gold Consolidation Approaching an End

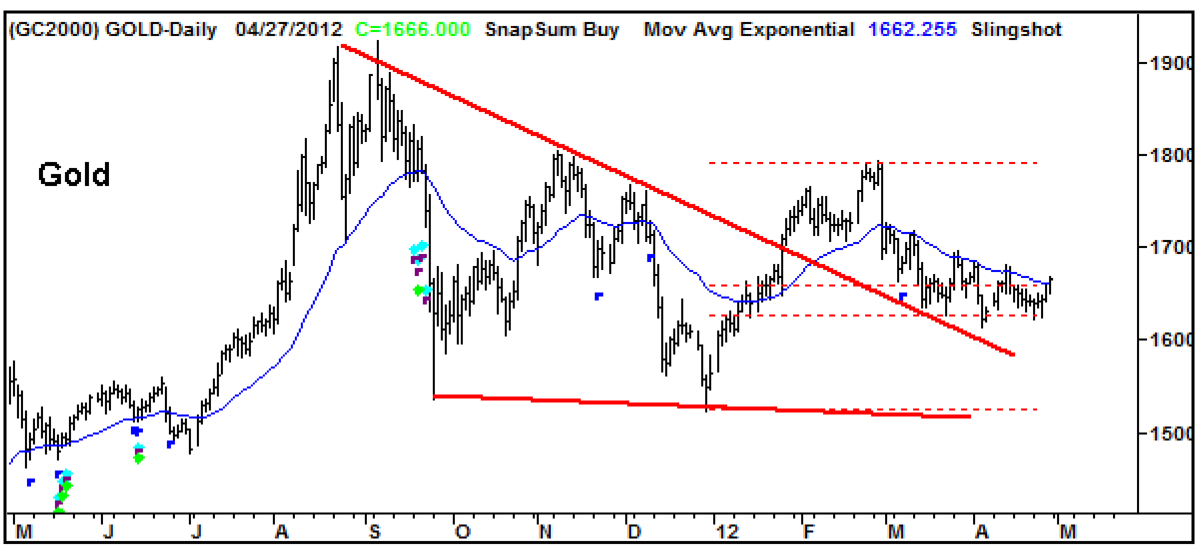
One year ago the precious metals were at an extreme. Silver was $48 and gold was $1500. The silver/gold ratio was at its highest level since the early 1980's and had an RSI(14) reading of 90. Upside Exhaustion alerts were occurring on the weekly gold chart and a "Trifecta alert" was being generated in Silver (*upside exhaustion alerts on daily, weekly and monthly charts*).

Fast forward to April 2012. Silver is down 35%, the senior mining indices 25%, juniors 46% while gold is up 5%. The relative strength of the mining shares to the gold bullion price is at extremes only seen five times in the past one hundred years. This is clearly an attractive time to be accumulating positions.

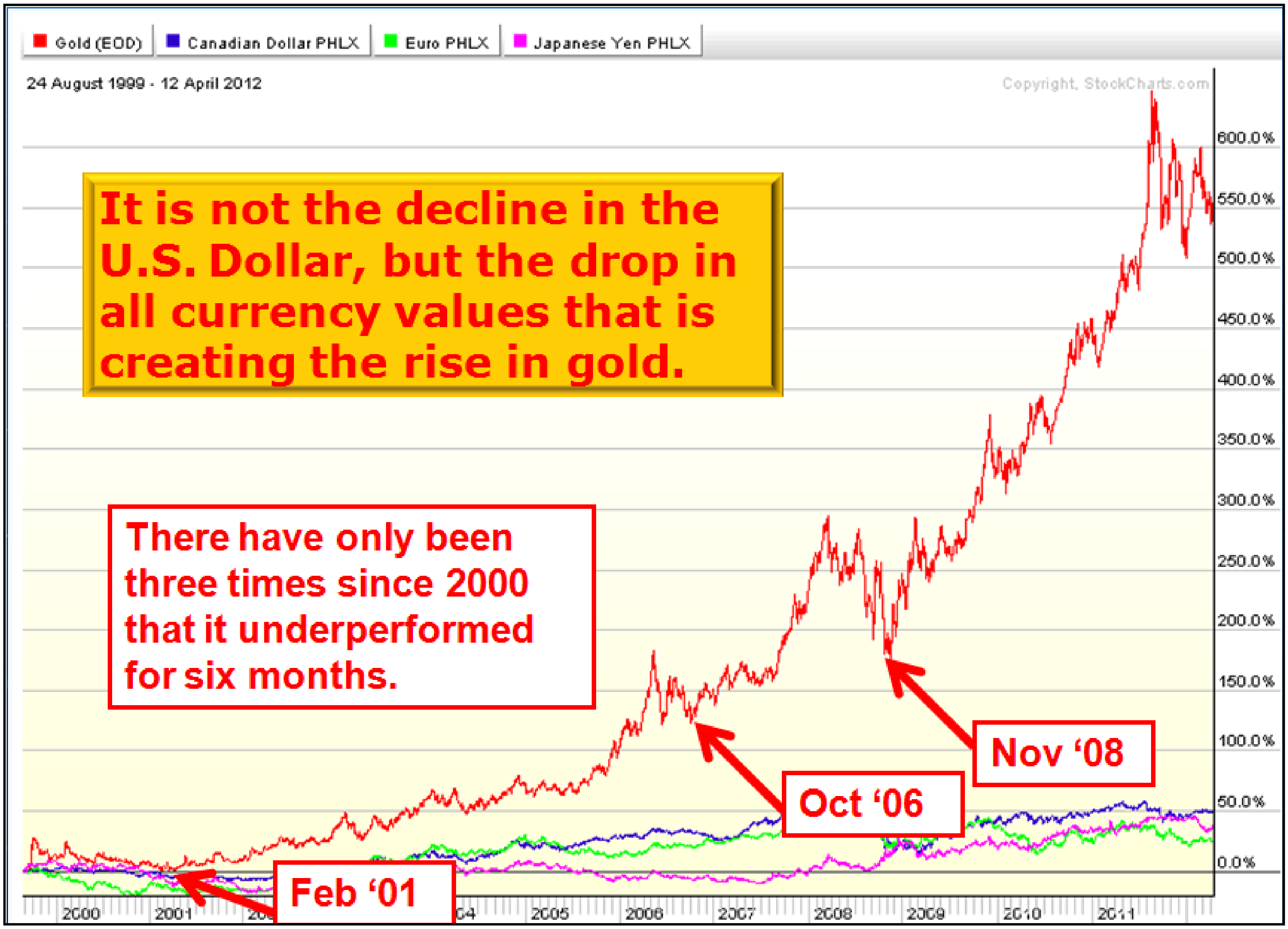


The weekly charts of the mining indices are producing the most oversold readings since November 2008. The first week with a higher close would indicate that the downside momentum has come to an end. While there could be a re-test of support as experienced in 2008, we'll look for the 50-week exponential averages to provide the first significant resistance.

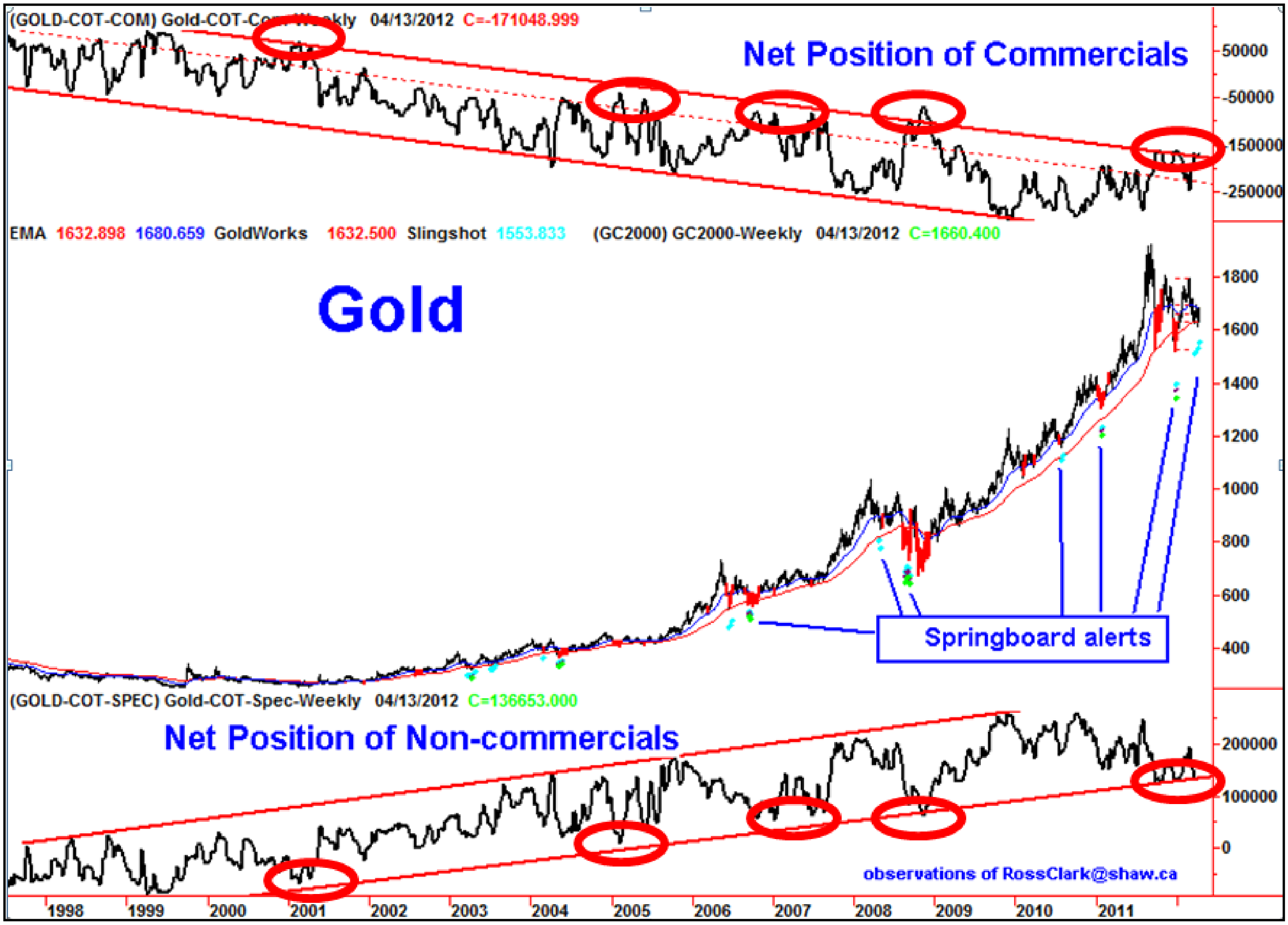
Following the breakout of the descending triangle, Gold bullion has flirted four times with the 61.8% support ($1625) of the December through February rally. A close through $1690 on expanding volume would suggest that a base is nicely in place.



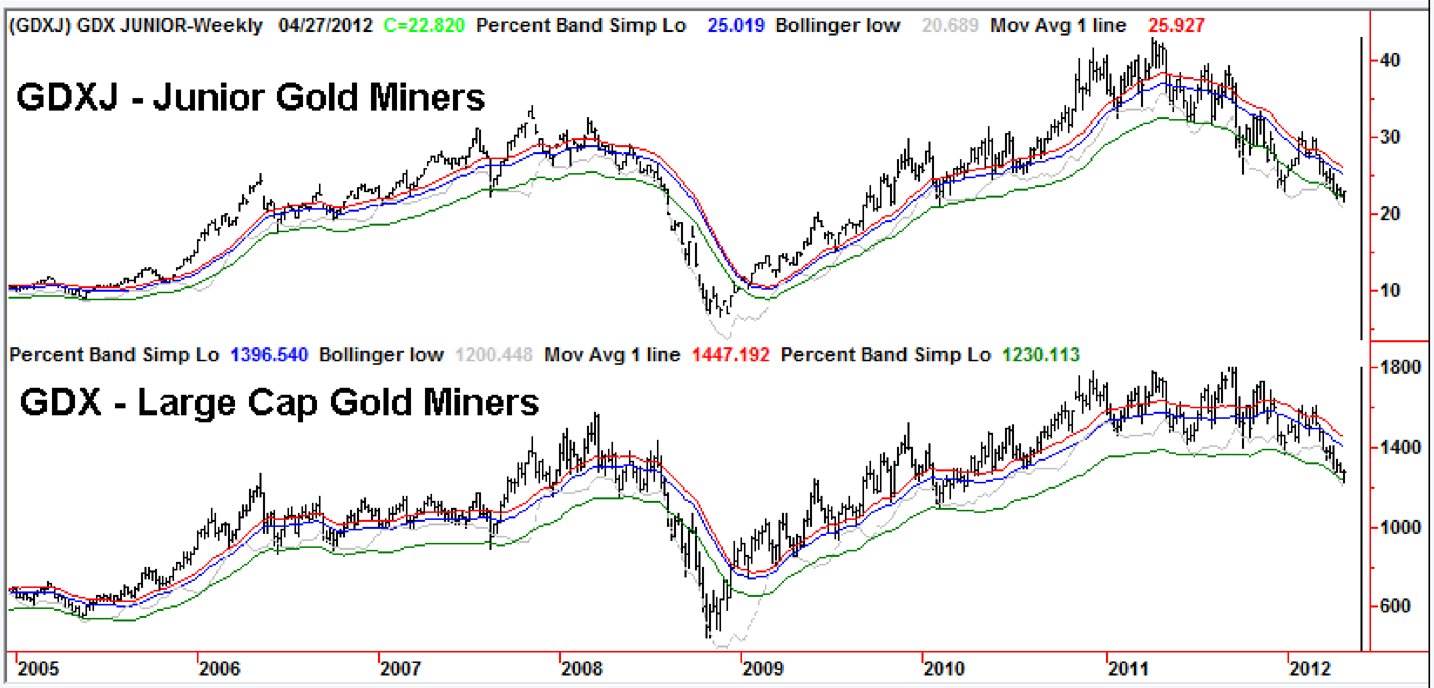
The pause in gold's advance relative to most currencies since September is comparable with the three previous consolidations that have been experienced since 2000.

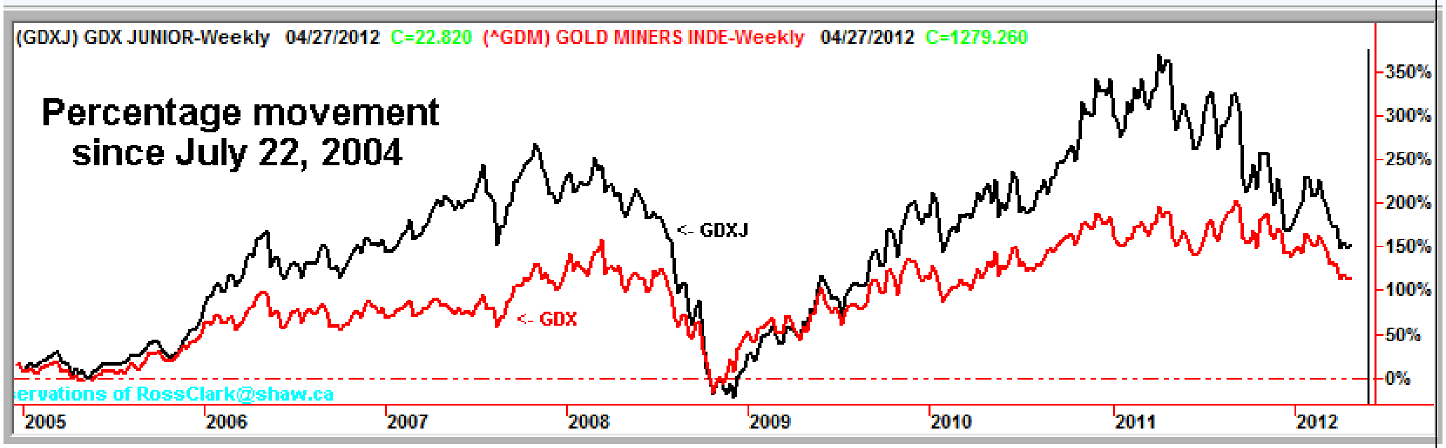


The Commitment of Traders data shows that the decline in open interest has taken both 'net commercial short positions' and 'net speculative long positions' to the outer extremes of the channels of the past decade (red circles). Such declines in positions were common prior to the resumption of the uptrend in 2001, 2005, 2006 and 2008.



As always, look for the juniors to provide greater price action relative to the seniors.





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