ChartWorks

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Gold – We Could Stage a Big Rally Now, But More Likely Later

We envision a move through $2,100 next year, but with a 15%+ correction along the way

The gold market rallied nicely through the end of last week. Having marginally exceeded the minimum of a targeted 14% rally ($1236) from the March low on May 12th a pullback to $1166 was acceptable and the timing of the three day break below $1200 was nicely triggered following our upside Exhaustion Alerts in the U.S. Dollar Index on May 18th. That analysis anticipated a subsequent recovery rally through last week and then the possibility of a retest or minor violation of the $1166 low. For now it appears that the current rally could stretch a few more days.

The big picture measures toward levels above $2100 in the next eighteen months, however it won't come without a significant correction. We are once again presenting our view that the multi-year consolidation of 1980 through 2007 in gold compares to similar long consolidations and super-cycle rallies in other markets of the past forty years. We view the $253 to $730 range as the 'base' for this super-cycle rally.

There are two scenarios as we progress through $2,000 in 2011

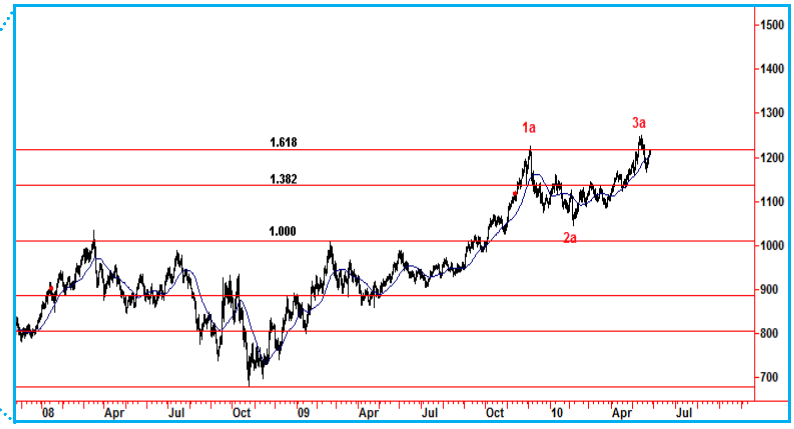
The multi-year consolidations and super-cycle rallies in the following examples peaked at Point 1, a Fibonacci 38.2% or 61.8% above the height of the base. The March 2008 move through $1,000 hit the mark. The common thread from the previous examples was a test of the breakout (Point 2). The September and October lows of 2008 did just that. The subset charts on the right show the next phase. The rally into December 2, 2009 generated a new high at $1226 (Point 1A), followed by a test of the breakout on March 5th (Point 2a) and then a test of Point 1A on May 14th (Point 3a).

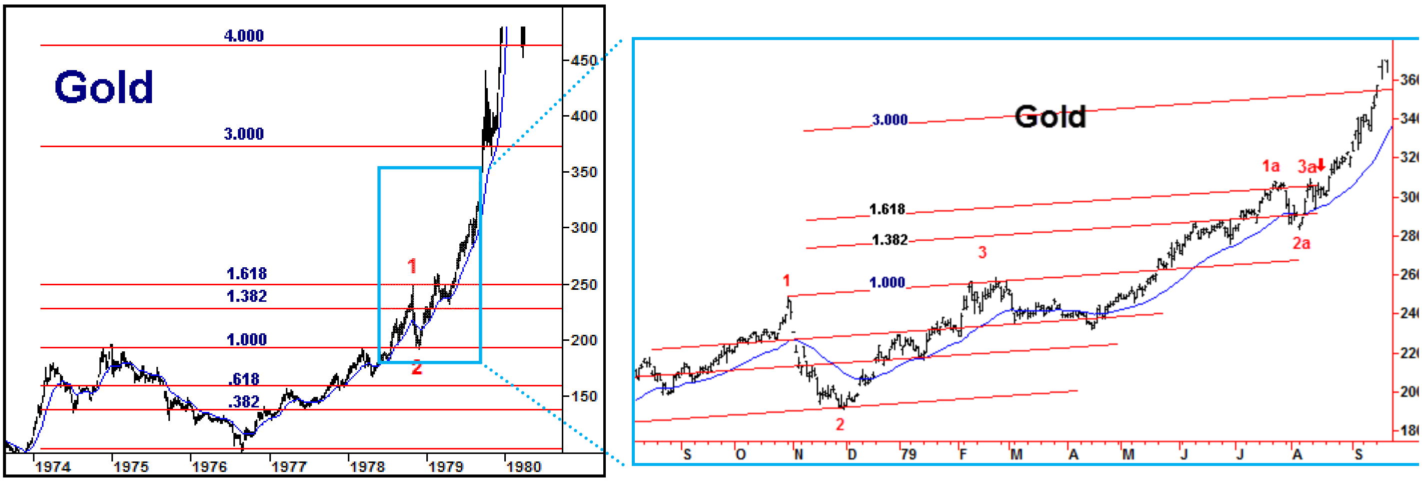
From here the short-term patterns deviate, but end up with the same significantly higher results in eighteen months. The recent examples of Copper and Crude made secondary tests of Point1 before continuing on to the primary upside target ($2100+) while the earlier examples made new highs and did not look back until they had reached 200% of the height of the Point 1 to Point 2 trading range; $1,680.

Seasonality calls for a top soon and the May 18th analysis of the U.S. Dollar and Gold suggested that a test of the $1166 area was likely. If it does not hold then a deeper break would follow.

A separate seasonality report is attached.

Gold 1980-2010; Silver 1968-74, Gold 1974-79, Dow Industrials 1966-1987, Copper 1989-2006, Crude 1980-2006




Gold
4.000
3.000
1.618
1.382
1.000
.618
.382
1
2
1974
1975
1976
1977
1978
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1980
Gold
3.000
1.618
1.382
1.000
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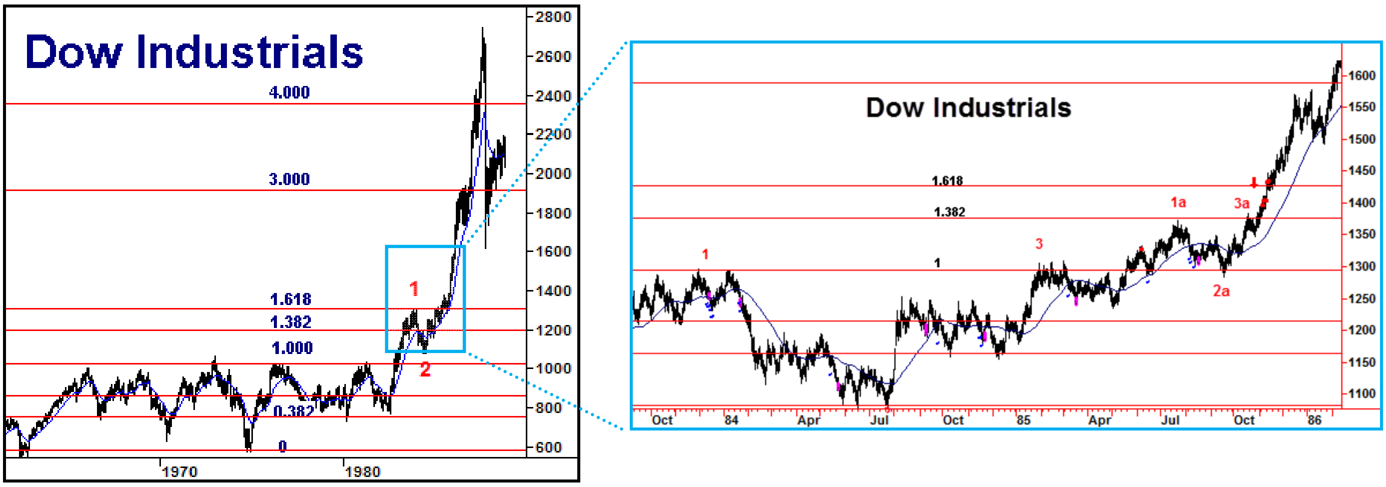
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3.000
1.618
1.382
1.000
0.382
0
1
2
1970
1980
Dow Industrials
1.618
1.382
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3
1a
3a
2a
Oct
84
Apr
Jul
Oct
85
Apr
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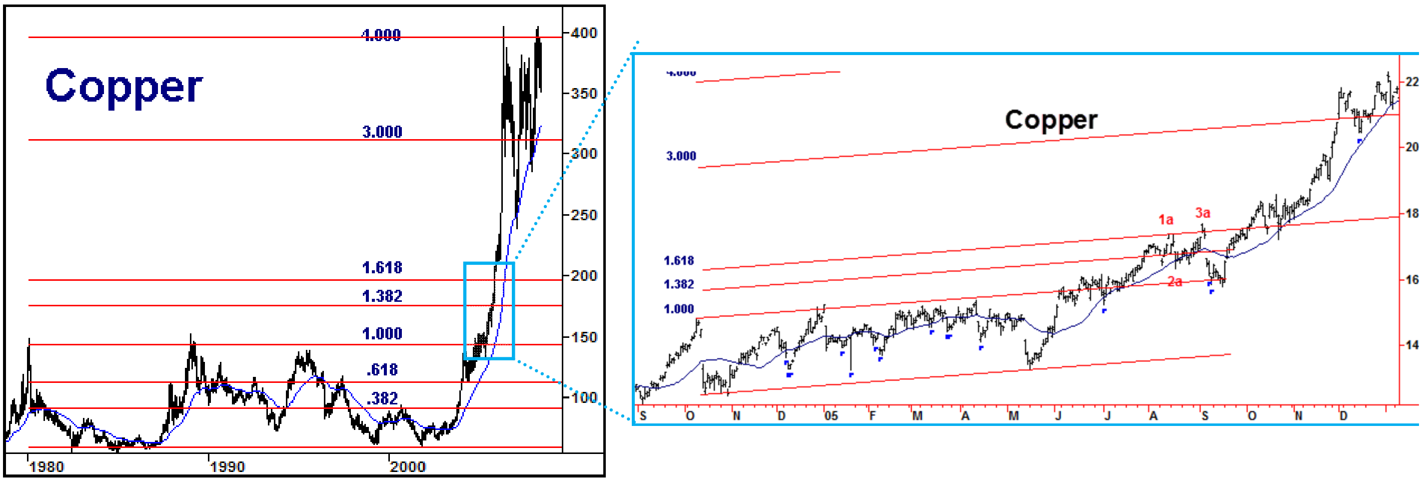
Oct
86


Copper
4.000
3.000
1.618
1.382
1.000
.618
.382
1980
1990
2000
Copper
3.000
1.618
1.382
1.000
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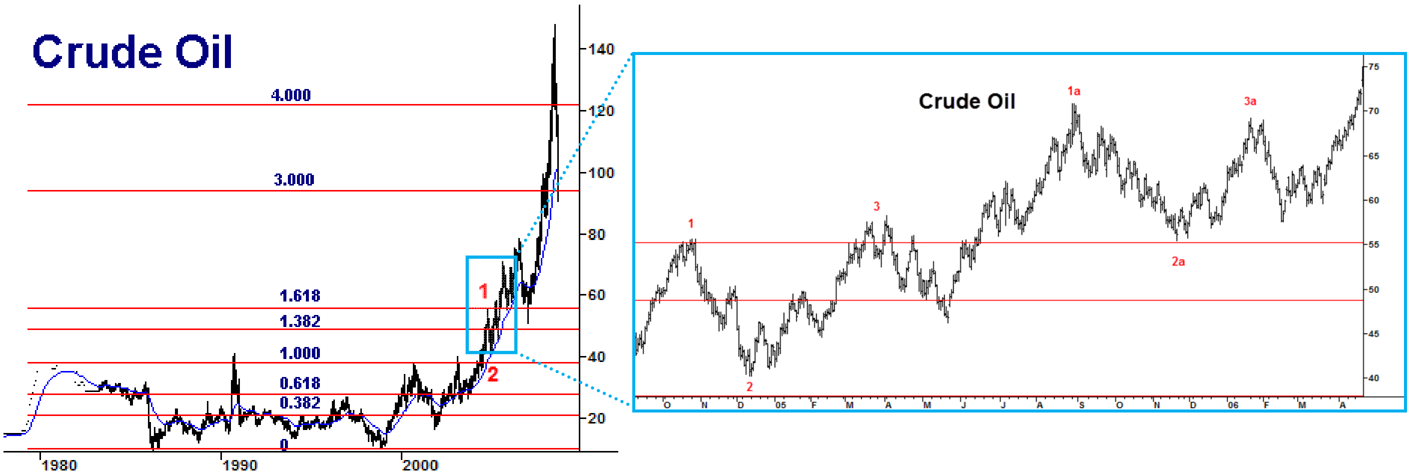

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