

ChartWorks

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Gold

The outside reversal in gold on June 3rd (a multi-week high followed by a close below the previous day's low) sets the stage for a downside correction this month. Our analysis suggests that this will provide a good opportunity to buy on a dip before prices make a challenge of the all-time highs.

Our comparison of the current fifteen month consolidation with the similar patterns of 1994, 2002 & 2007 implied that resistance on the rally from the April bottom would be found starting in the \$950 to \$960 range. All three models illustrated that prices should not close above the February 2nd high before a healthy correction. Prices paused at \$960 and then overshot for three days, closing within \$20 of the February levels.

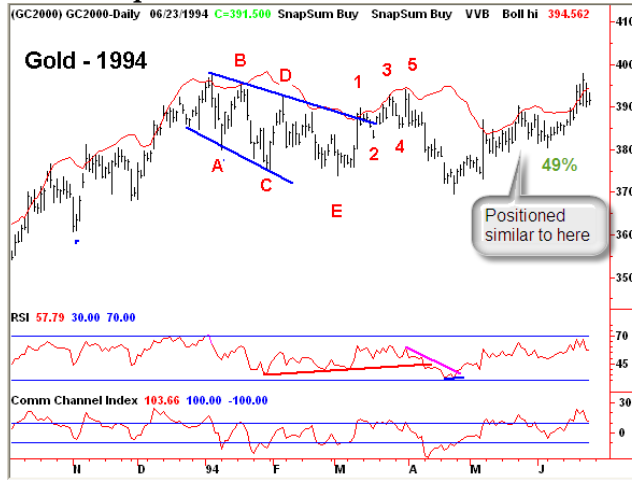
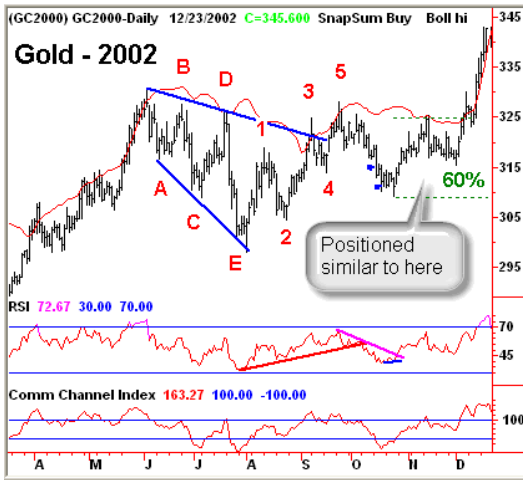


A test of the lower 20-day Bollinger Band that also approaches \$930 should be viewed as support. Ideally it will be coupled with an RSI(14) in the low 30's. The indices of senior stocks (XAU, HUI, GDX, XGD.TO) should straddle their lower Bollinger Bands.

Seasonally, a low should be in place within ten weeks. However, in the best bull markets the low comes early.



Similar consolidation patterns



The seven week rally in gold prices has attracted a lot of new participants. The Commitment of Traders data shows a 60K increase in net speculative long positions (*to the highest level since August*) and a 73K increase in net short positions by commercials. A reduction in the speculative position by 40K would put enough traders back on the sidelines and provide ammunition for the next assault on the highs.

Independent of the absolute numbers, the Relative Strength readings of the COT numbers (69 and 32 respectively) are at levels that typically make the market vulnerable enough for a downside move to the 20-week moving average (*currently \$917 and rising at \$5 per week*).

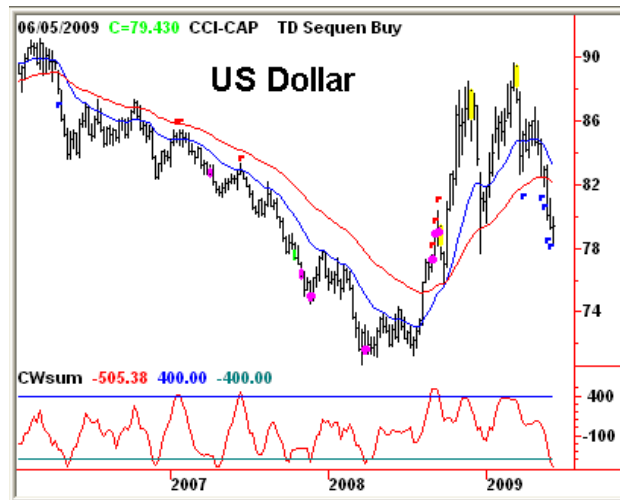
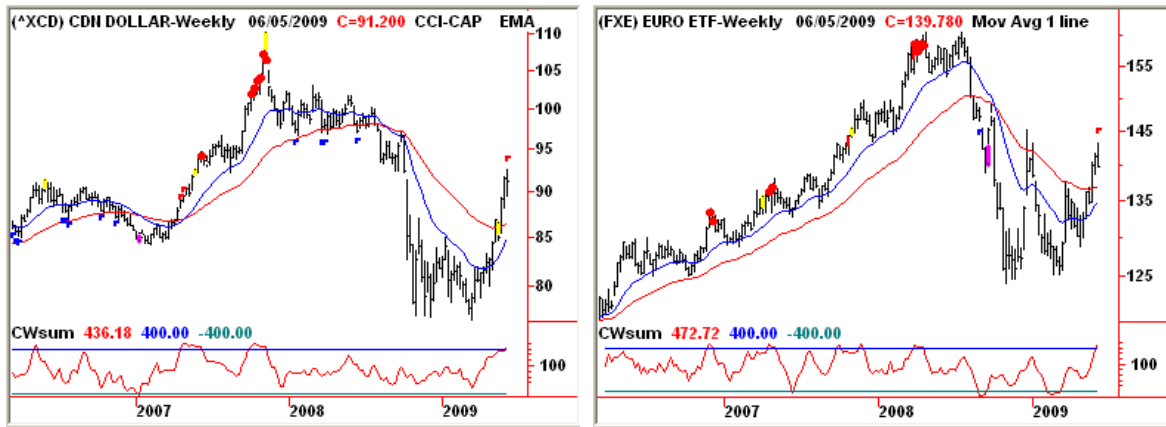


The Silver / Gold ratio has been a good indicator at interim highs in the metals. When the RSI of the ratio peaks in the mid 80's we see large price corrections in the ensuing months. When the RSI peaks in the mid 70's we tend to see minor price corrections. The current peak was at 76.



Currencies

The Euro and Canadian Dollar are into overbought conditions on the weekly charts. The US Dollar is the most oversold since the bottom in 2008. These conditions also support the premise of a correction in the U.S. gold price.



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