ChartWorks

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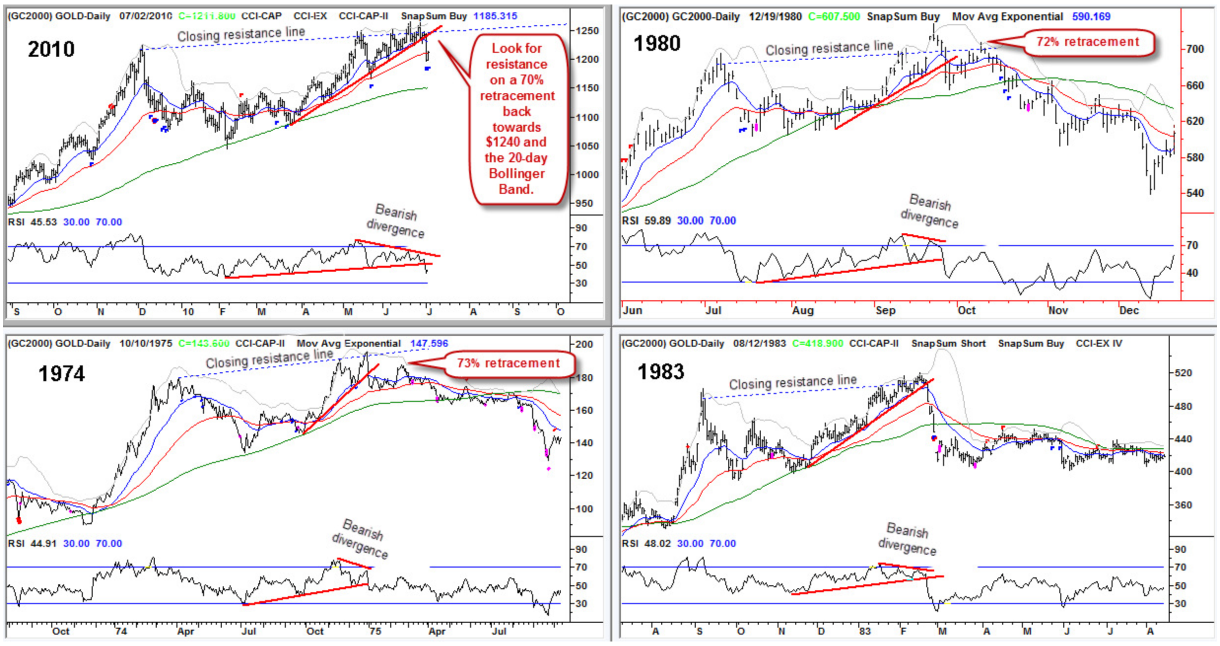
Golden Parameters

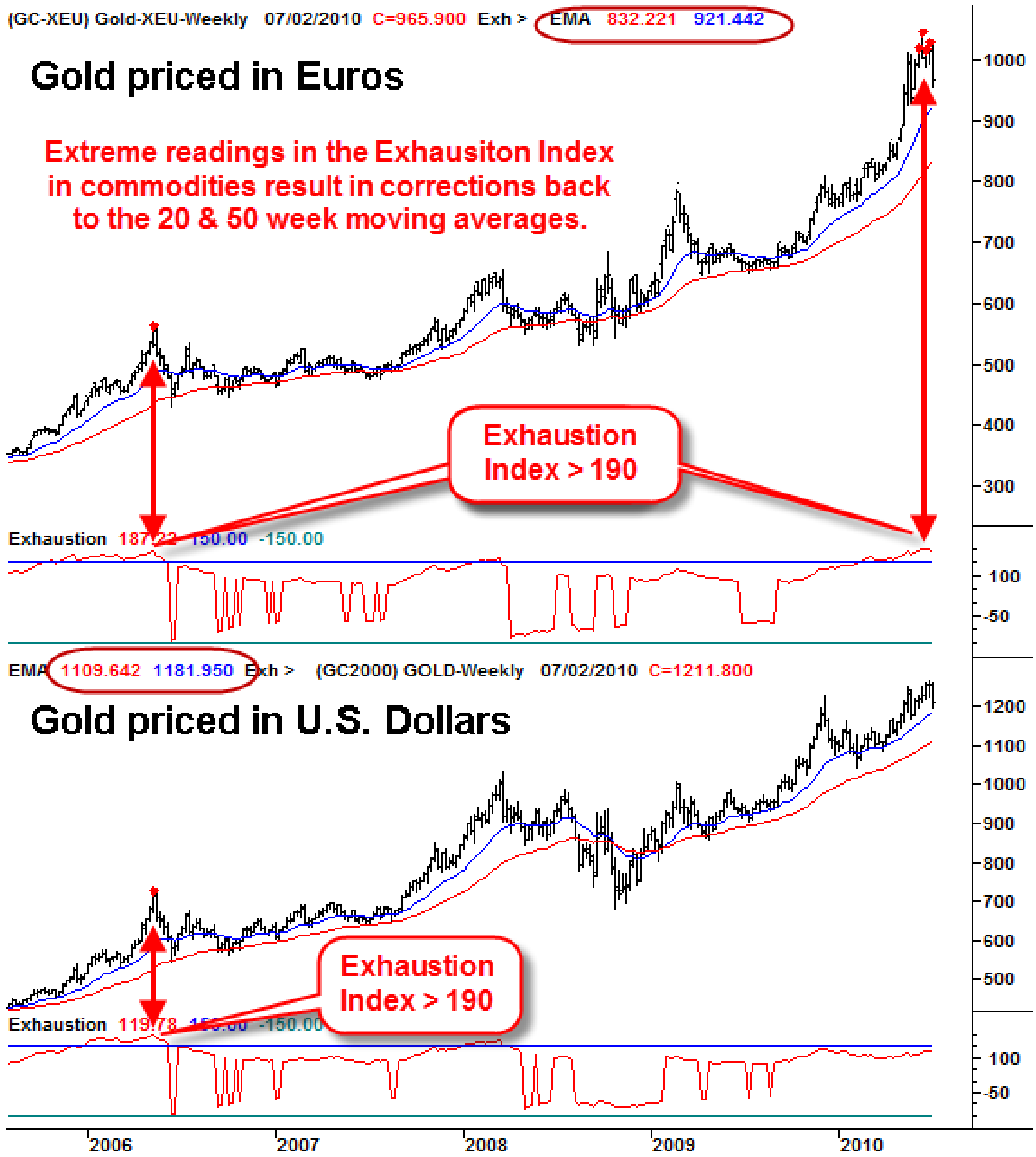
Now that Gold's support line from March has been violated we can provide the parameters to be monitoring in the coming weeks. The failure of the 'Cup and Handle" to gain upside acceleration turns this into a distribution pattern signifying that another deep/prolonged correction is to be expected.

The break to $1197 created enough of an oversold condition to allow the market to bounce, permitting a retracement to as high as $1244 ($47 of the $1262 to $1197 decline). The upper Bollinger Band (20, 2) should become a formidable resistance over the next month as the band rolls over. It would take a definitive move through $1260 to negate the current distribution pattern.



Even more dramatic than Thursday's $46 decline in gold is the drop of €90 in the price since June 7th. Over the past six weeks the U.S. gold price generated a rising wedge pattern with negative divergences in the RSI, Stochastic and MACD while the Europeans saw the culmination of a classic blow off. (In the past year the Euro-Gold price appreciated by over 60%.) Our June 3rd report warned of an imminent reversal in the Euro-Gold price because of the level of our Exhaustion Index: "In most instances an extreme of this level will result in the price reversal within one to three weeks. The last time it was this high in Gold was May 12, 2006 and prices dropped by 24% in Euros and 25% in U.S Dollars within nine weeks, testing the 50-week moving averages."

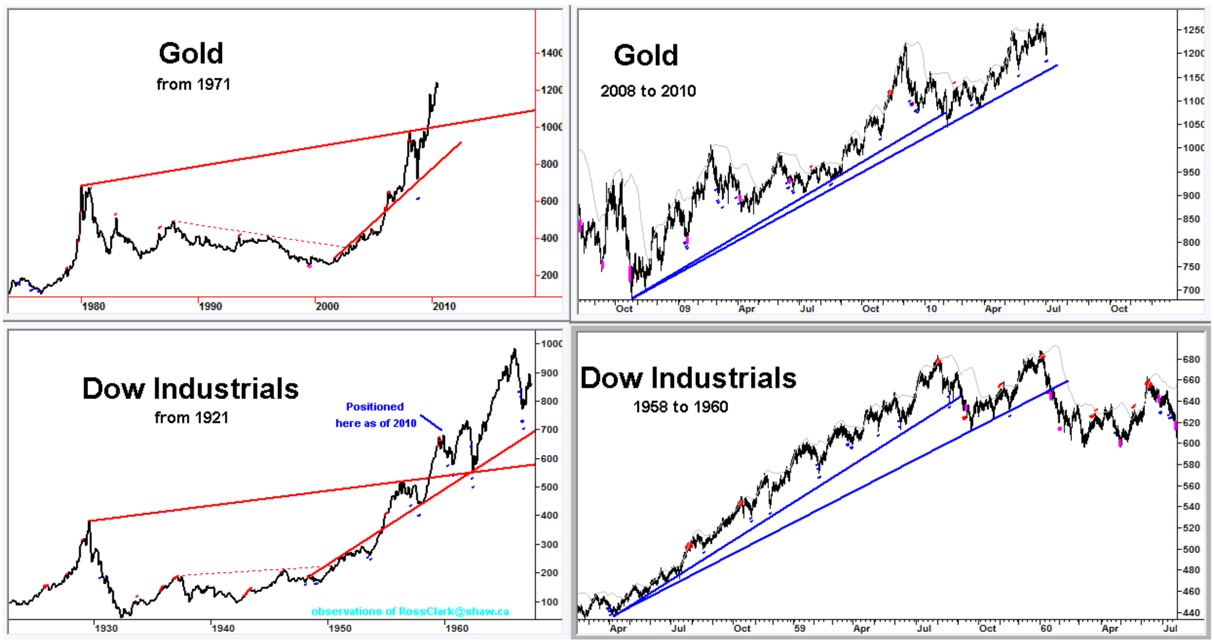
The experiences of spike highs in platinum, silver, copper, natural gas, crude oil, wheat and rice over the past decade are also helpful. While the 20-week moving average should produce some support and a possible bounce, the 50-week average could easily be tested in the next two months (*currently €921 & €832*). As can be seen on the following chart a low in the Euro-Gold price in June 2006 against the 50-week average coincided with a low in the US Gold price.


(GC-XEU) Gold-XEU-Weekly 07/02/2010 C=965.900 Exh > EMA 832.221 921.442
Gold priced in Euros
Extreme readings in the Exhausiton Index in commodities result in corrections back to the 20 & 50 week moving averages.
Exhaustion Index > 190
Exhaustion 150.00 -150.00
EMA 1109.642 1181.950 Exh > (GC2000) GOLD-Weekly 07/02/2010 C=1211.800
Gold priced in U.S. Dollars
Exhaustion Index > 190
Exhaustion 119.78 -150.00
1000
900
800
700
600
500
400
300
100
-50
1200
1100
1000
900
800
700
600
500
100
-50
2006
2007
2008
2009
2010

Our larger model of the 27-year base clearly allows for deep corrections on the path to $2100+, (*as seen in crude oil on its way to $147*).

An even longer perspective

The build up to the 1929 top in equities, subsequent bear market and new bull market into the 1960's has significant correlations with the gold market of the past forty years. A deep correction in the second half of this year would fit well.



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