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Technical observations of
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Capitulation Mode in the Precious Metals Sector

The COT data for gold shows that the net commercial and non-commercial levels are at the lowest readings in two years. The speed of the move puts them outside the Bollinger Band (50,2) and the RSI(14) parameters of 63/37. Such extremes are seen around interim and major lows.



June 2013 was the last time that both the net commercial and non-commercial COT readings moved outside the Bollinger Bands **and** they generated ob/os readings in the RSI. The XAU rallied 38% in the next nine weeks.

The previous occurrence in a downtrend was in 1997 when the XAU rallied 29% over 12 weeks.

Gold and Miners Show Capitulation

Our Exhaustion and Summation Indices are designed to identify extremes in the intermediate and short-term movement of markets. When they reach simultaneous extremes on the downside we classify the market as into Capitulation. Gold and the miners have generated such signals in the last two days.

These signals tend to be infrequent (seven in gold since 1970 and 30 in the XAU or Barron's Gold Mining Index).

Seven Capitulations in Gold since 1970





It is even rarer to find the bullion and miners Capitulating at the same time; December 1984 and September 1975. The 1975 example saw gold and the stocks rally for four weeks to the 50-day moving average before topping and moving lower. The 1984 signal saw the miners rally for a year. Gold gave up another 5% to \$297, consolidated for two months and then made a final low at \$283 as the US Dollar Index surged to its all-time high at 164.

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