

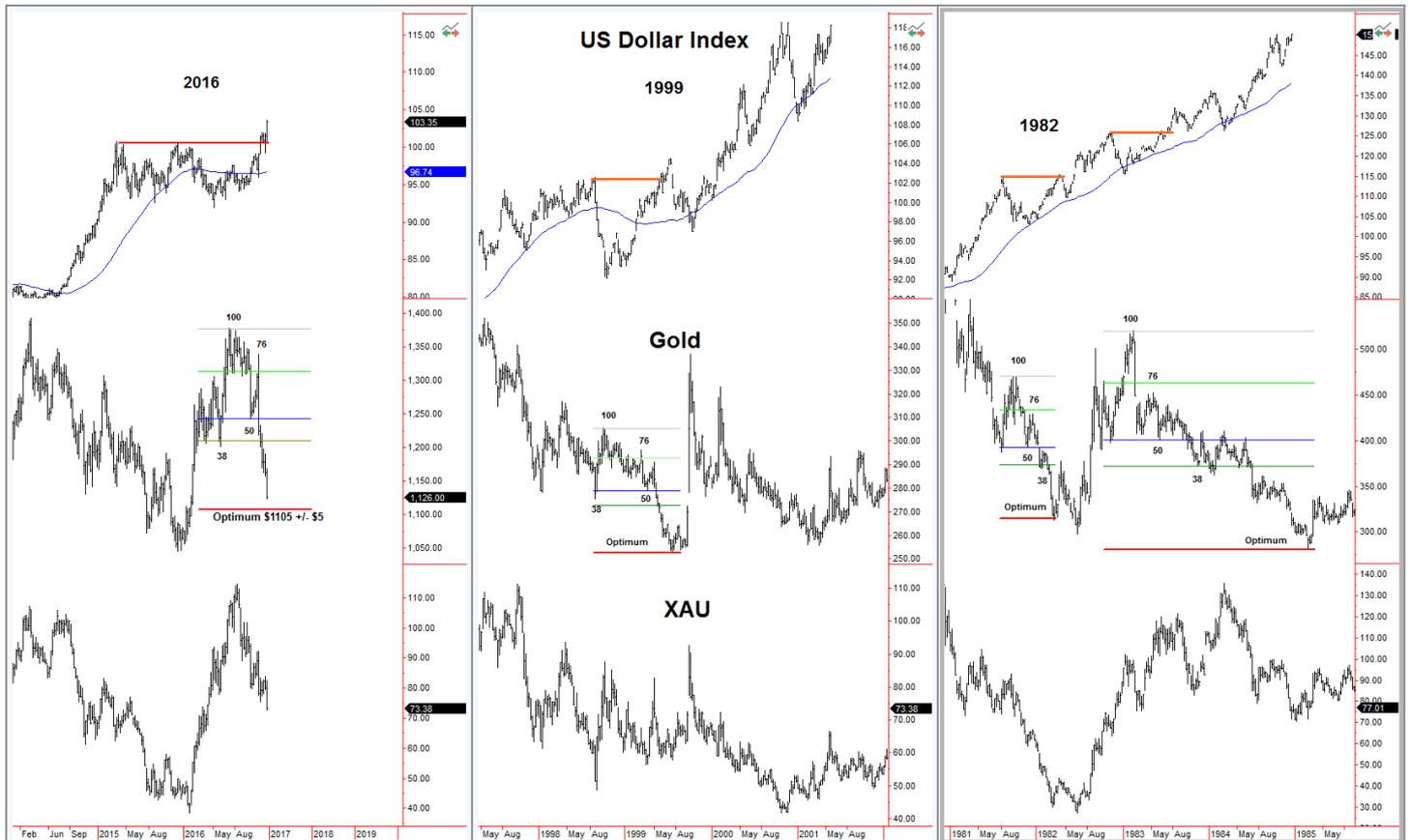
December 16, 2016

Technical observations of
RossClark@shaw.ca

US Dollar and Gold

We continue to monitor the seventeen-year cycle in the US Dollar Index and its relationship with gold. Looking at gold since the Dollar bottomed in May, the patterns of 1999, 1982 and 1983-85 are a close match. The Fibonacci levels come into play in each instance.

The October 7th low at \$1242 (labelled level 50 on the chart) was the last support before gold broke the May 31st low of \$1199. It is deemed to become the midpoint of the eventual decline. The resistance level at 76% was a test of the previous support around \$1310 during the summer. April and May become the 38% level in the pattern. The measured range for the downside move is \$1105 +/- \$5.



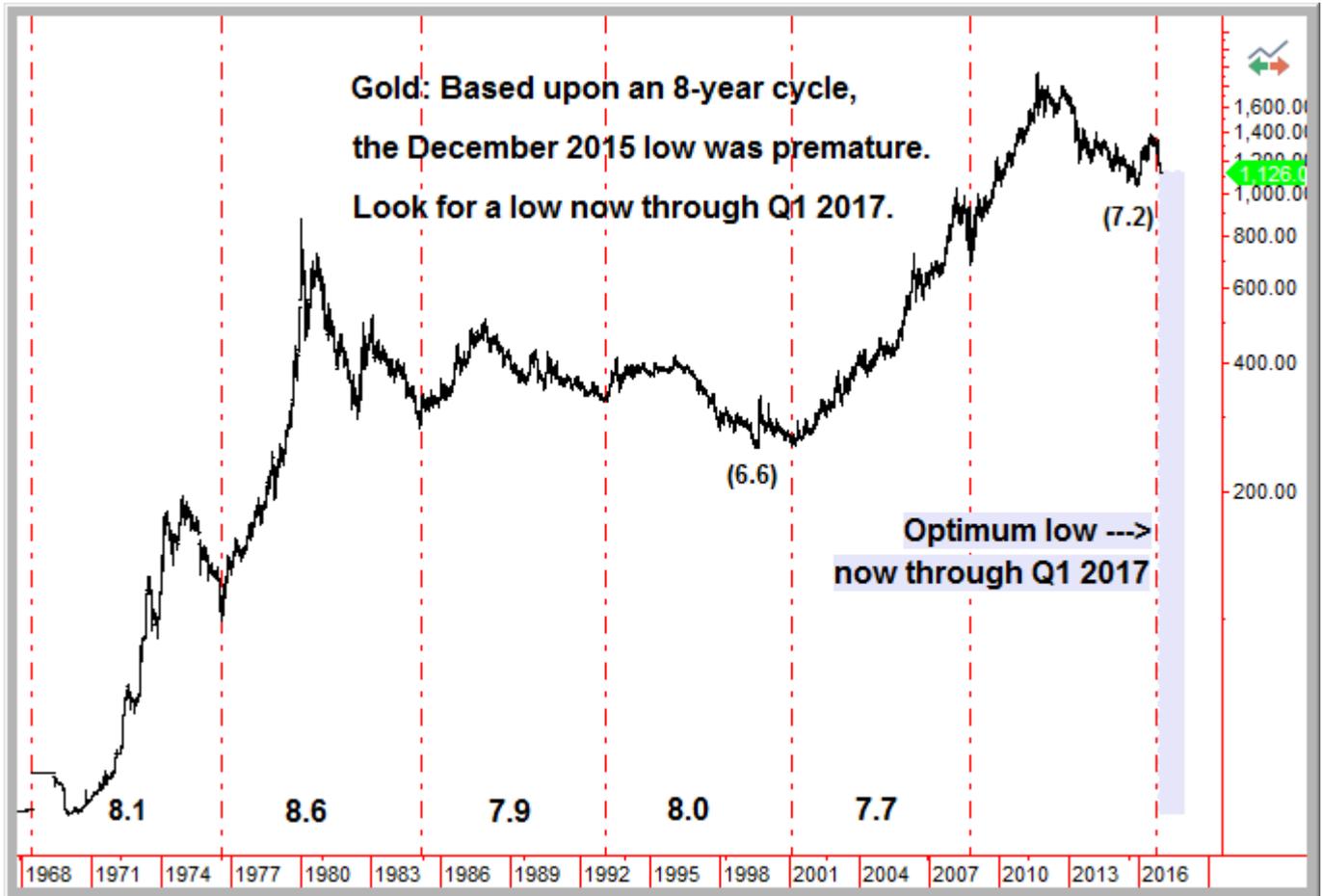
The sharp rallies out of the 1982 and 1999 bottoms were event driven;

- August 1982: Volker buys \$3 billion of Mexican bonds to protect US financial institutions from a sovereign debt default following a 20% decline in oil prices.

- September 1999: The “Washington Agreement on Gold” was created in response to the UK treasury announcement of its intention to auction off 58% of its gold reserves.

The February 1985 bottom coincides with gold’s eight-year cycle low and sees a methodical rise from \$283 to \$500 in a span of thirty-four months.

The XAU and Barron’s Gold Mining Index staged 190%-240% and 30%-55% gains coming out of the 1982 and 1999 bottoms. The rally out of 1985 was 36%.



As noted in previous reports, the eight-year cycle has bottomed in January/February when there was a failed rally in November. Even 1976 and 2008, which had already turned higher, staged January pullbacks.

Downtrends in December generally see a bounce before heading into a bottom. This month has been a disappointment.

December bounces in the 8-year cycle:

2008	up to 12/17	down to 01/15
2001	up to 12/21	down to 02/25
1993	up to 12/17	down to 01/18
1985	up to 12/26	down to 01/07
1976	up to 12/10	down to 01/10

A drop to \$1105 may provide a bounce for nimble traders before a move into a January/February low.

Let's watch for basing activity in the coming weeks.

Tax loss selling in the miners should also be viewed as an opportunity to find bargains in the next two weeks.

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BOB HOYE, INSTITUTIONAL ADVISORS
EMAIL bhoye.institutionaladvisors@telus.net
WEBSITE www.institutionaladvisors.com