Gold: Where to from here? **Copyright: Akhil Patel / Phil Anderson, Nov 12, 2013.**

This paper considers what the near and medium-term future holds for gold prices. It utilises an analytical approach based on cycles, technical analysis and fundamentals (including market inter-relationships) to provide clues on the future of this precious metal.

Key points:

- Gold exhibits similar 30 year patterns to other commodities. Price action from the 1980s and commodity prices in the 1950s and 1920s suggest that gold may see some near term upside (or support within a trading range) into 2014 but is likely to fall thereafter.
- The end of the decade (into 2019) could see a rise in gold prices
- Key technical levels to watch: a break of the 1180 level to the downside; a test of the 1490 mid-point between the 2012 high and June 2013 low; and a test of the 1800 level (4th attempt). A near-term break of 1200 would be bearish for gold. However, any successful support at 1200 after a possible near-term run to the upside could pave the way for a strong move into the end of the decade.
- It is possible that any Fed tapering and raising of interest rates would be bearish for gold.

The price of gold peaked in September 2011 at just over $1900/oz, following a decade-long bull market; a bull market that included prior peaks in early 2008, and late 2009. In 2011 many commentators, including large hedge funds and those "in the know" forecast much higher gold prices, possibly due to a mistaken conclusion about the inflationary impact of central bank actions.[1] However, since 2011 the gold price has been weak; and on two separate occasions it failed to get within $100/oz of the 2011 high price. Indeed, after it ran up from July to October of last year, when it peaked at just over $1800, gold lost approximately 33% of its value into June 2013, when the price fell marginally below $1200, before subsequently rebounding. (See Fig. 1, below.)

Cycles research

Cycles research holds that the past can prove to be a guide for the future; therefore the historical record is an important input into understanding what may unfold going forward. Cyclical analysis goes back in history to understand what might unfold – "history repeats" – being the maxim applied to this style of analysis (in reality history follows the same *rhythm*, but the actual events may differ substantially).

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[1] For example, billionaire hedge fund manager, John Paulson, reported losses of $736m on gold positions in Q2 2013 (link).

One analytical tool used here is to look at major turning points in the market of interest throughout history and then count forward in key time frames to see which years may bring similar turning points. This approach was a particular feature of the writings of W.D. Gann. For commodities key time frames to count include 144 years, 120, 60, 90 and 30 years in particular.

On the basis of past history, gold was primed for an emotional year (2013). The peak in 2012, in early October was almost exactly 143 years since the famous attempted corner of the gold market by Jim Fisk in 1869[2]. (EIS highlighted this probability shortly after the 2009 peak.) The pertinent question was whether this emotion for 2013 would be caused by a rapid increase or decrease in prices. Other important dates in the last three centuries for gold are set out at the end of this research paper.

As we know now, a rapid drop in prices brought on the emotion, taking place in the 144th year since that famous historical event (144 years from a key date often brings major emotion). Since the 2011 high, gold made three tests of the 1550 price level before breaking lower in April 2013 on the 4th attempt[3] and plunging down to 1200. In fact, within the space of less than two years (September 2011 to June 2013), gold has retraced to almost exactly 50 per cent of the gains it made through the entire bull market of 2001 to 2011.

Figure 1. Gold Futures Nearest, May 2001 – October 2013.

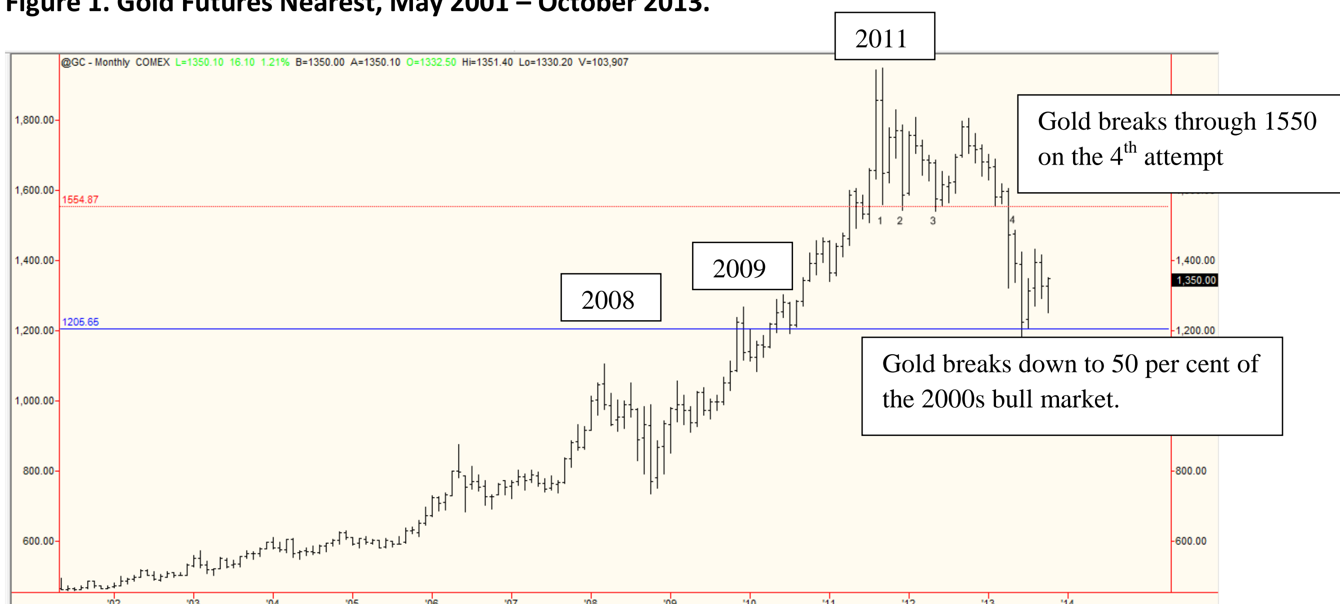

Chart courtesy of Tradestation

The cycle analyst, using Gann techniques, would now consider the gold price action in set 30 year time frames, i.e. 30, 60, 90 years back to provide possible guidance on what might unfold going forward. For Gold, however, prior to 1974 the official price was fixed, making it far more difficult to identify what happened to gold, just by looking at a chart, beyond this date.

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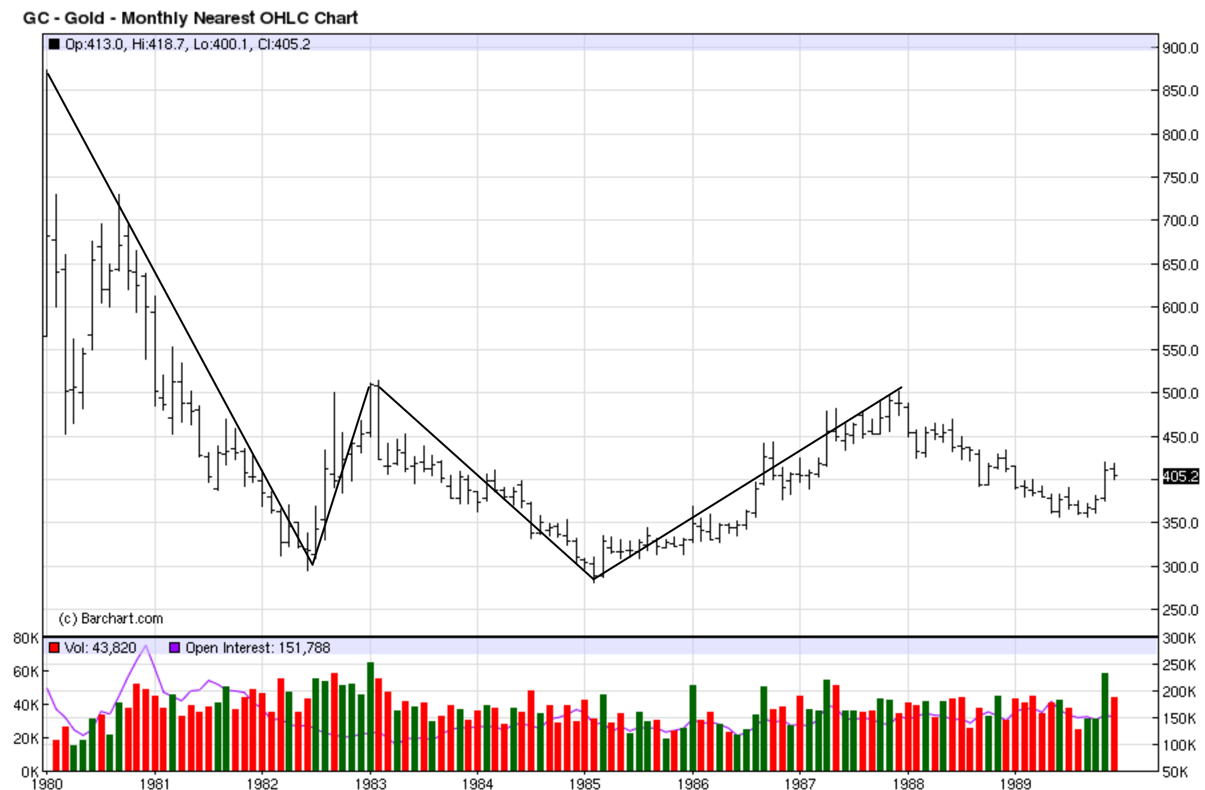
[2] See here for more information.

[3] Gann observed that markets always break through lines of support and resistance on the 4th attempt

As a beginning, we use the action 30 years ago to provide a start, and then we use other techniques to compare the action further back. The action 30 years ago is set out in Figure 2.

Figure 2. Gold Futures Nearest, 1980-1989

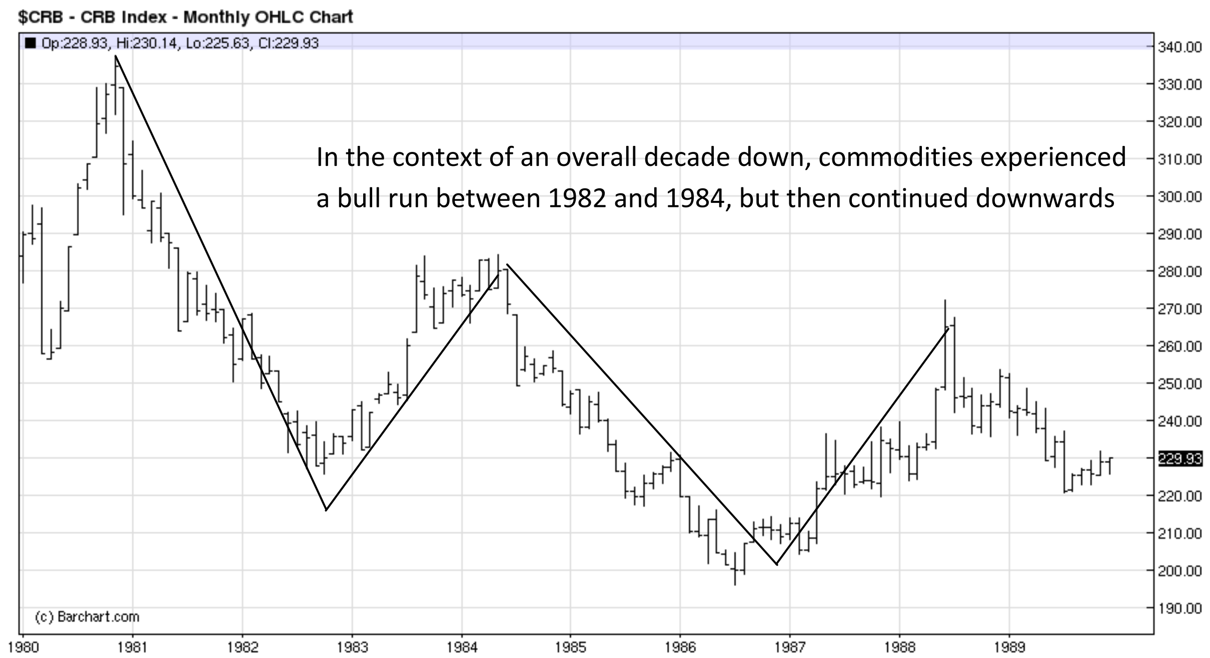


Interestingly, (as with the price action 30 years later), gold had a major peak in the early part of the decade (early 1980 vs. Sept 2011) and then was generally downward until early 1985 with a notable low in 1982. From its high in Jan 1980 it lost 67 per cent of its value into 1982; this compares to 38 per cent reduction in 2011/12. There was a major up-swing in gold prices between July 1982 and Feb 1983, which was matched 30 years later through the run up in gold that was experienced in 2012. It is important to focus on the patterns, not the relative size of swings – the greater reduction in the 1980s could be due to the fact that the global economy was on the downswing of a Kondratieff wave; the world is now on the upswing. The pattern 30 years ago suggests that there will be further downside to gold in the next couple of years, and then the final years of this decade perhaps seeing a reversal to the upside. Lows into 2015/16, higher prices into 2018.

Gold and commodities: 30 years patterns

The relevance of commodity prices to gold is that commodity prices also exhibit a distinct 30 year pattern. It is also observable that at the same time that gold was having its bull market run in the late 1970s into the 1980 top, other commodities did the same. This is demonstrated by the CRB commodity index, illustrated in Figure 3, below. Later in that decade, commodities had bull years into 1983 and 1984 – as gold did. An interesting feature of the 1980s commodities peak into 1983/84 was that a number of individual commodities showed strength in that period, alongside gold. At key cyclical turning points commodities move together. Finally, following a 1986 low, commodities generally showed strength into the end of the decade – as did gold.

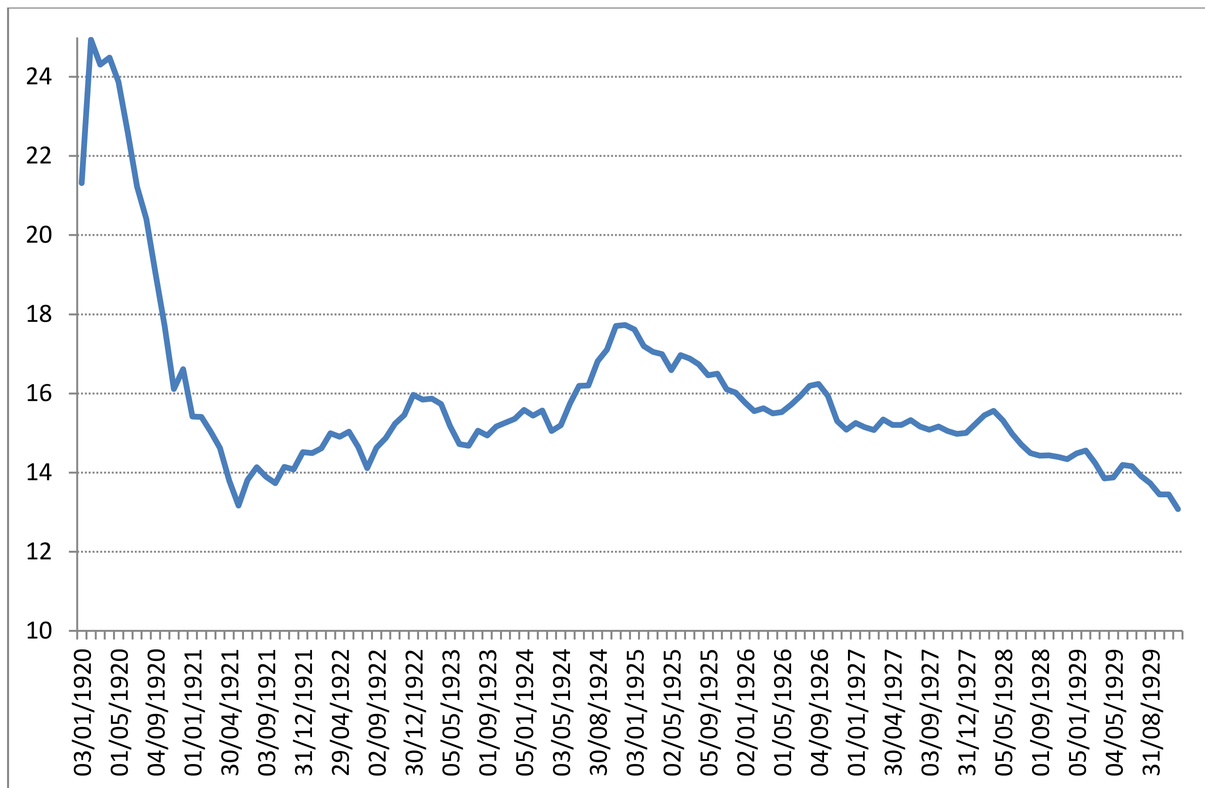
Figure 3. The CRB (Commodities) Index, monthly, 1980-1989



As mentioned, chart action is not available for gold in 30 year cycles prior to the 1980s. For the 1950s and 1920s, therefore, we will instead look to other commodities in those decades to see what they show, if anything: Figures 4 and 5.

Figure 4. The Economist All-Commodity Price Index, 1950-1959

Figure 5. The Economist All-Commodity Index, 1920-1929



The figures above clearly show that the commodities experienced bull runs into an early decade peak in both 1951 – 60 years ago – and 1920 – 90 years ago. Later in both of those decades, prices again peaked in 1954 and 1924. This suggests a consistent pattern that was confirmed in the 1980s in gold prices and is suggestive of what might unfold later in this decade. (Commodity prices were not particularly strong in the final parts of those decades, however, unlike the 1980s.)

From a cyclical point of view then, the 30, 60 and 90 year patterns in commodities, together with the 30 pattern in Gold point towards near term strength in gold into next year, 2014, followed by a low in the middle of the decade and then perhaps strength into the latter part of the decade.

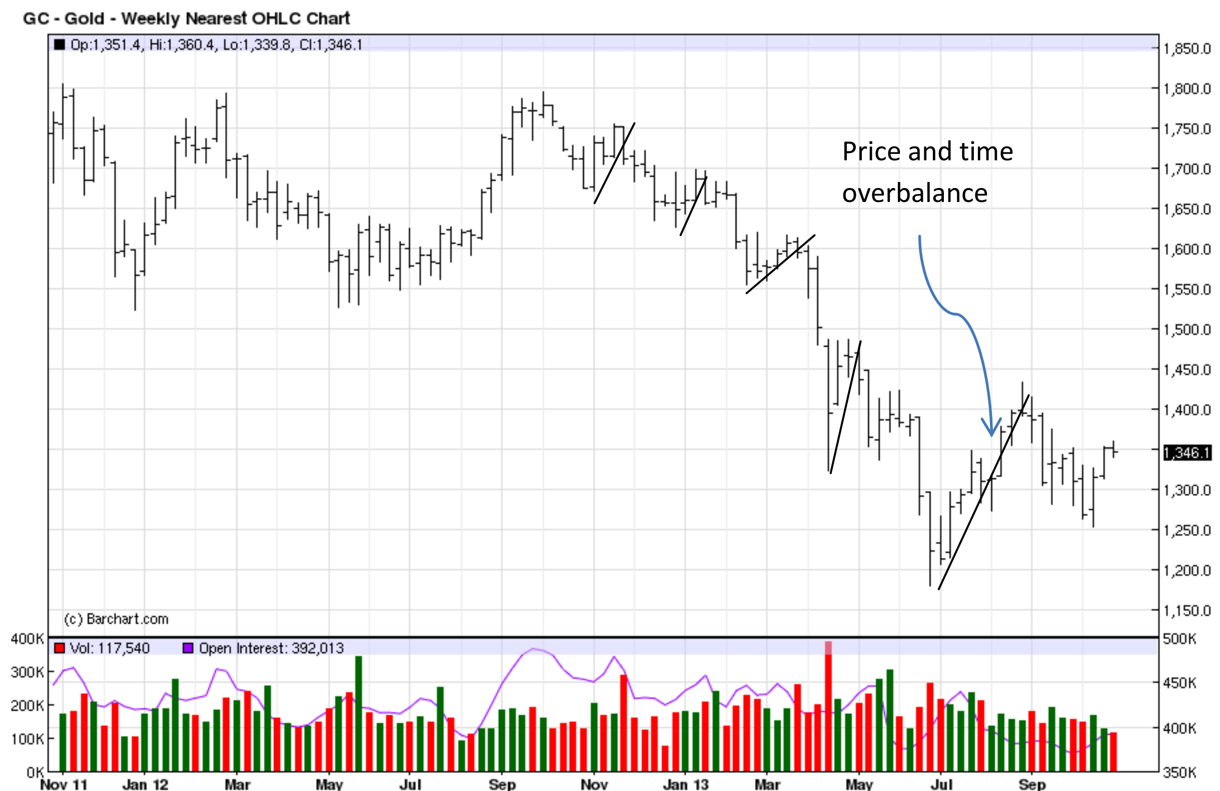
If there is not so much strength for Gold into 2014, the Gold decline will likely be stronger. These patterns always need to be considered within current market context.

Other comments:

Gold and technicals

For the moment, on the weekly chart (Figure 6 below), one can see a price and time overbalance of the ranges from 2012 high, which suggests that the bear run is over for now, weekly time frame. Nevertheless, while the bear run may have halted for now, gold prices are not looking bullish and are suggestive more of a sideways movement, trading within a range.

Figure 6. Gold weekly chart, price and time overbalance



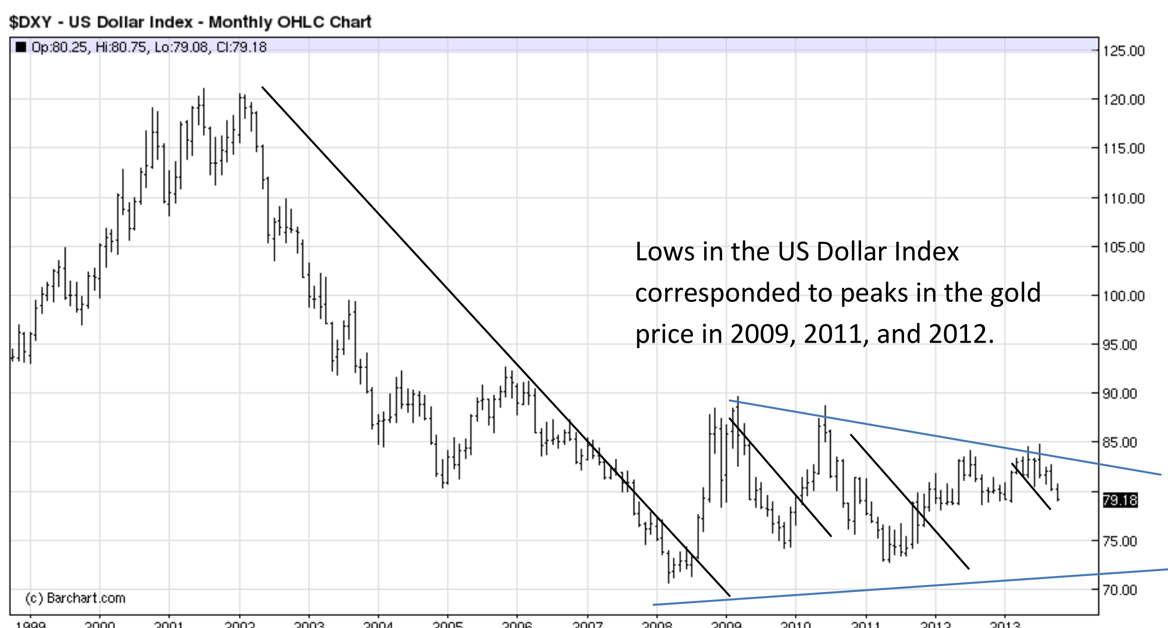
Gold and the US dollar

Since gold is priced in US Dollars, weakness in one should (other things being equal) lead to higher prices in the other. Figures 7 and 8 compare the US Dollar Index during the 1980s and 2000s, illustrating the strength of the US Dollar against a basket of other major currencies.

Figure 7. Dollar Index, monthly, 1980-1989

At the same time as the gold bear market after the 1980 high the US Dollar experienced a major strengthening against a basket of other major global currencies into early 1985. In fact the dollar peaked in Feb 1985 at 164.72, the same month that saw gold reach its bottom at around $280, a level it would not see again until 1998. In late 1985 the finance ministers of the (then) G5 nations signed the Plaza Accords to co-ordinate currency interventions to enable the dollar to weaken; a subsequent Accord in 1987 was signed to prevent any further weakening of the dollar. During this period the price of gold appreciated in inverse correlation to the US Dollar. In today's more complex world economy, which is less dominated by Western economies and with the presence of another major currency, the euro, the US Dollar's recent action is illustrated in the following figure.

Figure 8. US Dollar Index, 1999-2013.



The major gold bull-run during the 2000s was matched for the most part by a significant weakening of the US dollar from 2001 onwards; note the bottom of the US dollar (2008 – 2013 so far) in close proximity to the gold market peaks of 2008, 2009 and 2011. Interestingly, while those peaks were higher in the gold market the lows in the dollar index were higher. The rising lows in the US Dollar index may suggest that the US dollar will at least go sideways or may even appreciate against its peers over the next few years.

Figure 8 depicts the price of the US Dollar coiling in a contracting triangle pattern: any break to the upside out this triangle is likely to be bearish for gold prices.

Summary:

- Overall, the various elements of this analytical approach appear to confirm the following hypothesis: that gold prices could over the medium term (2-3 years) see further downside; but that over the more short-term (next 12 months) see some upside, (or at least sideways) based on the potential run up in commodity prices into 2014.

- This forecast medium term would also be consistent with a rise in US interest rates and the end of tapering in 2014 as the US economy continues to strengthen. In such a scenario, the US Dollar would strengthen against other currencies, which would put downward pressure on gold prices.

- Gold traders should watch the US Dollar index chart.

- Key levels to watch out for Gold would be the 1800 top reached in 2011 and 2012. Any test of this level would be the fourth attempt, with the potential for the market to break through this level; then a target beyond this would be a 1900 double top. If the gold price were to break the 1200 low reached in June this year, this would be a significantly bearish signal for gold, given that it would be breaking a 50 per cent point. Finally, if over the medium term gold prices held above 1200, this would be a bullish signal for the remainder of the decade – if, following the 30 year cycle, gold had a strong end to the decade.

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Some additional notes.

As noted above, Gold has been freely tradable only since 1974. Prior to this there are no charts in the sense that we are used to looking at. Nevertheless, an examination of emotional years can be undertaken, in a similar manner as has been done for the oil market, posted to the EIS site, here: http://www.businesscycles.biz/commodityresearch.htm. The oil study correctly anticipated the high oil prices set for 2008 and 2009.

Emotional past years for gold

1781 Highs in gold, from *Continental* currency troubles in the US. (I don't give a continental...)

1792 Bimetallic standard, gold at $US 19.30 per troy ounce.

1834 Price of gold raised to $US 20.67. (**42** years from 1792)

1837 The US lifts its buying rate to accumulate gold for coinage. (**45** years from 1792)

1852 Peak of the California gold rush (**60** years from 1792).

1864 Much of the US gold reserves, roughly $250 million, sold to England for $16 an ounce (**72** years from 1792).

1869 Jim Fisk corner.

1882 Second California gold rush (**90** years from 1792).

1919 September, London, gold agreed fixing of price, 1925 UK back on the gold standard. (144 years from 1781.)

1932/33 and 1934 US citizens banned from holding it, and the price set at $US 35 an ounce. (January 1934, effectively a dollar devaluation, designed to boost commodity prices.) This is **142** years from 1792.

1942 The US government shuts down the gold mining industry as non essential to the war effort. This is **150** years from 1792, 73 years from the Fisk Corner.

1968 Two-tier market established. (100 years from the corner.)

1971 August, the gold window closed, ('Smithsonian agreement'), gold price lifted to $38 per ounce, the US dollar becomes fiat (Nixon hails the agreement as '*the most significant monetary agreement in the history of the world*'). **180th** year from 1792.

1974/75 Gold allowed to find its own market level.

1980 The Iran hostage crisis (January) and 'Silver Thursday' related to the attempted Hunt brothers corner.

1999 June, gold price low, the so named 'Brown bottom'.

Other items of interest

The more recent price of gold, as a chart, inflation adjusted and in nominal prices, can be seen here: http://en.wikipedia.org/wiki/File:Gold_price_in_USD.png

You can buy a wall chart of gold's recent moves, here:
http://www.financialgraphart.com/goldchart.html

Prior EIS gold comments this year can be read here:
http://www.businesscycles.biz/2007emails/2013/62.htm

(Email to members, #62 for 2013; *Some dates forward off gold*)

END.