

# Ira Epstein's Gold Report

1-21-2016

## Will 2016 be Gold's Bottom?

This question is of course being tossed around at the beginning of 2016 given the 40% decline in gold since 2011, when prices hit 1920.7. Without inflation the answer is “*maybe*” which is a big change for me. I say this because as with other commodities that see prices fall low enough to cause marginal producers to stop producing, oil for example, gold producers are and continue to cut back on exploration. Global gold production is expected to fall 3% this year, according to a report by Thomson Reuters' GFMS metals research team, which if accurate would end a seven-year streak of rising gold supplies, which peaked in 2015 at 3,155 tones.

I've been looking to see when the impact of continued low gold prices would impact forward production of gold and believe we're finally found that infliction point. It likely took prolonged low oil prices to convince gold producers that world-wide inflation was not returning anytime soon, but seeing prices fall 40% from the peak was more likely the real culprit. Low interest rates have helped many producers to continue production, but like in oil, there's a point where it's better to leave production in the ground hoping for a better environment in which to produce.

At some point the rout in commodities will end. We continue to see large names like Glencore, Noble and so on bite the bullet and start to cut back on production of iron ore, copper and other commodities.

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**12-17-2015**

***US Federal Reserve  
embarks on first rate hike  
in a number of years***

***Commodity prices continue  
to fall sharply***

***Oil prices making new lows  
off need of OPEC members  
need for cash, which keeps  
production at an all-time  
high***

***US Dollar reigns supreme***

***CRB Index in free fall***

The gold club is in the same predicament. Finding financing for commodity projects is not easy, especially without immediate prospects for higher base prices.

Therefore, a new argument is surfacing. One that will impact the supply demand chain. That argument is lower supply. Supply is increased by simply pushing a conveyor button. It requires mine startups, new exploration and better technique as the easy to mine operations have been running out of low cost areas for some time.

This does not mean I have suddenly turned bullish. I haven't. However, given this is the first report of 2016 I wanted to point out what I think will ultimately become an important element in the gold trade later this year.

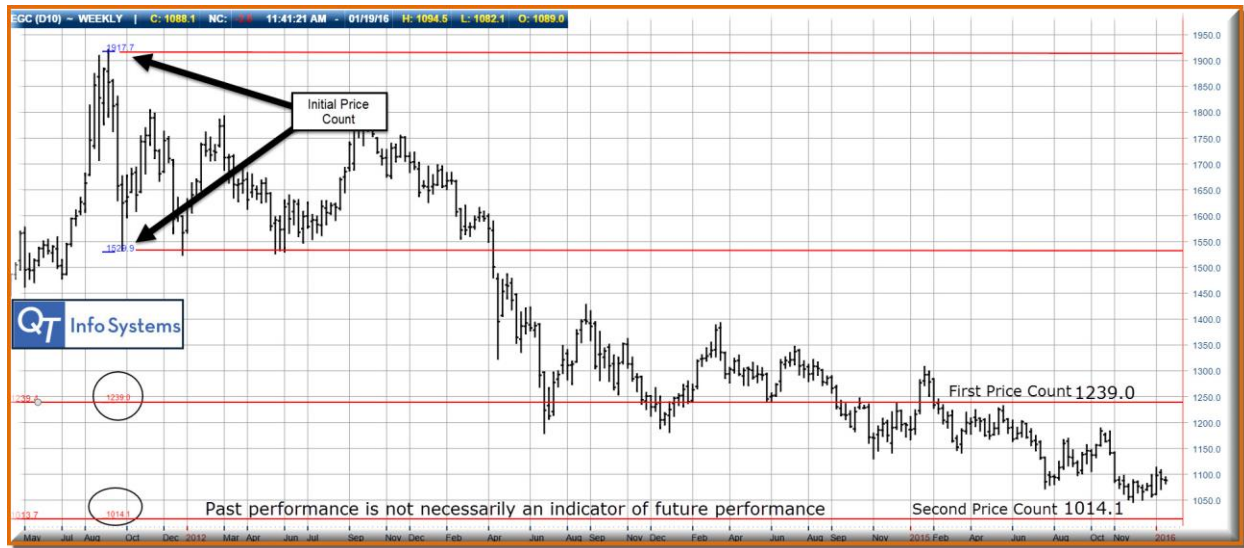
## ***Seasonal Chart***



In terms of seasonality, it's not uncommon for gold prices to peak in the current time frame and slip back down in April. In looking over "seasonality", the 15-year pattern has done the best in terms of holding onto price. Often it saw a bump in prices in March. In the 30 and 5-year patterns, the highs come in by month end.

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## PriceCount Chart



On the Weekly Gold Chart, the first PriceCount at 1239 has been hit with the Second PriceCount still open at 1014.1.

The odds still favor further downside as long as crude oil prices continue under selling pressure. From time to time we'll witness "safe haven" buying as was seen at the beginning of this year, but once that wears off bearish forces seem to return to pressure prices lower.

What we've learned is that the marketplace goes through bouts of adjustment to shockingly lower oil prices. Just recently \$30 a barrel scared the markets, so the Japanese Yen and gold became market favorites for a while. Now, as stability has come back, both gold and the Yen are giving back some of the safe haven bids they picked up.

However, the downside on the PriceCount Chart has not been violated which means the second PriceCount is still in play.

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## Daily Chart



Current chart action has an upside bias since prices are trading over the 18-Day Moving Average of Closes, which I call the "line in the sand". I call this moving average that since I believe that by nature there is a point on a chart that is bullish, bearish and neutral. I think this moving average is such a delineation point and as such, I think market prices work around it trying to establish the next wave of momentum.

When prices are over this moving average I have a short term bullish bias and bearish one when under it. If price are over it and break, a "logical" point for support is this moving average. The opposite is true when prices are under it.

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I teach this in my chart course if you wish to learn more about this theory and yes, I apply it daily to all my trade recommendations.

At this time the chart pattern is one of lower highs and higher lows. I've connected the points on the chart which are forming a "Triangle Pattern". Until the pattern resolves itself, breakouts to the upside should fail to make higher highs than the most current previous high and fail to make lower lows than the most current previous low.

What this formation leads to is prices narrowing in until a breakout one way or the other occurs.

## ***Conclusion***

As 2016 starts off, it's clear to me that crude oil prices and China are the events to keep your eye on.

Instead of gold tying itself to crude oil prices, it's responding to breaks in oil with rallies in gold as gold traders think that the risk to world economies is quite high if oil prices continue to work lower.

My guess is that crude oil is going to dominate the news for a long time. I expect each \$5 break, say from \$30 to \$25 to get lots of press and to act as a support to gold prices. The reason is that too low a price in crude oil means certain industries will be under severe strain which leads to a broad unknown. What I don't expect is to wake up and seen OPEC members cut back to make way for increased Iranian production.

Therefore, things have to play themselves out, which offers a bid to gold in the near term.

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