Ira Epstein's Gold Report

12-11-2014

Gold has rallied nearly $100 an ounce since Nov 30th.

Crude oil prices continue to crash, hurting economies dependent on higher energy prices for their budgets.

Russia's Ruble is in a free fall

Deflation pressures are likely to drive the European Central Bank into a full blown quantitative easing stance.

In my last report I covered the topic of gold being at a crossroad in terms of a Switzerland deciding to go back to a gold standard. Switzerland did not pass the reform, yet the next morning gold prices bottomed and have rallied ever since. That was on November 30th.

So what happened? Clearly another bullish prop was removed with the failure of the referendum to pass. Was it a case of the "sell the rumor and buy the fact"? Probably, given that polls taken just a few days prior to the vote gave passage of the referendum little chance of success.

Is it that simple? I doubt it.

If you look at what's been taking place in the energy markets, you're seeing a re-pricing of that sector. In the end this is deflationary so that shouldn't support gold.

The Dollar remains king of the hill, which doesn't support gold.

So what could it be?

My guess is that it's due to fear that the drop in oil prices could trigger a number of financial disasters.

Nothing else makes sense to me.

We'll get to know more when the Fed next meets as well as analysts are focused on the wording of the Fed's next statement, particularly wording about "considerable time" which deals with how long the Fed will hold its course of near zero interest rates.

When the Fed changes its wording, it will be to move rates higher, which should boost the value of the Dollar and be bearish gold, since gold is priced in Dollars. This brings something else to mind. Gold can and has risen as the Dollar rises. There's nothing new about that, it's a fact. However, I believe that occurs at a different part of the economic cycle, not one where deflation has grabbed hold, yes, I'm using the past tense here as deflation has grabbed hold in many economies.

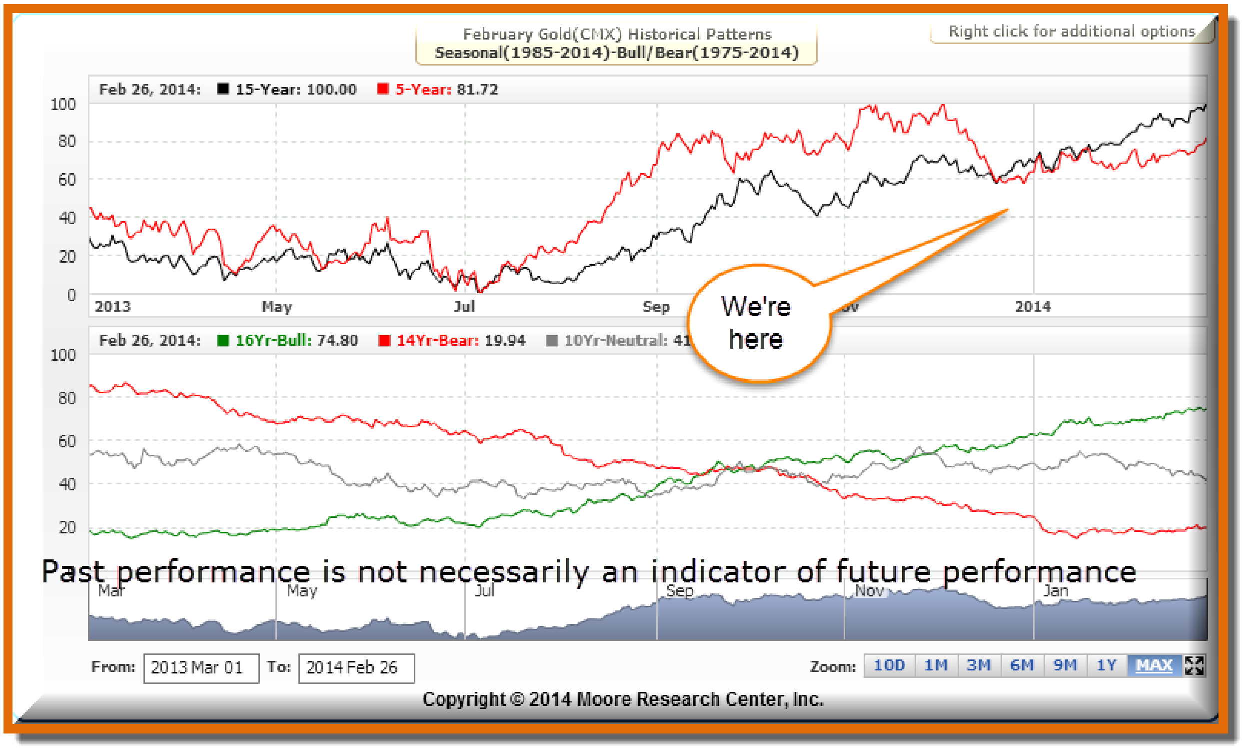
Sixty Dollar oil prices are going to take European inflation levels negative, which will likely result in the European Central Bank enacting a full blown quantitative easing program. You'll know the start of this as the bank will announce its initiating the purchase of sovereign debt in order to swell its balance sheet, in the same way that the US did over the past five years. There's no guarantee this will pull the economy out of its slump, but it seems to be the road the bank is about to go down. There simply aren't a lot of other choices that can get things going.

Gold investors are probably looking at this and buying gold as a safe haven against currency drops, which will likely kick in when the European Central Banks announces its buying sovereign debt.

I doubt that this will hold gold up in the long run, but in the short run it's the only thing I see that explains the rally of nearly $100 an ounce in the past couple of weeks. As a chartist, I really don't care about the reasons, as by the time I understand them the market has discounted that in. Yes, charts lead the fundamentals from my point of view. When the two get in synch, longer term trends kick in.

From a charting point of view, there's no reason to be bearish gold at this time. The question is should you be bullish, which I'll devote the rest of this letter to discussing.

Seasonal Gold Chart



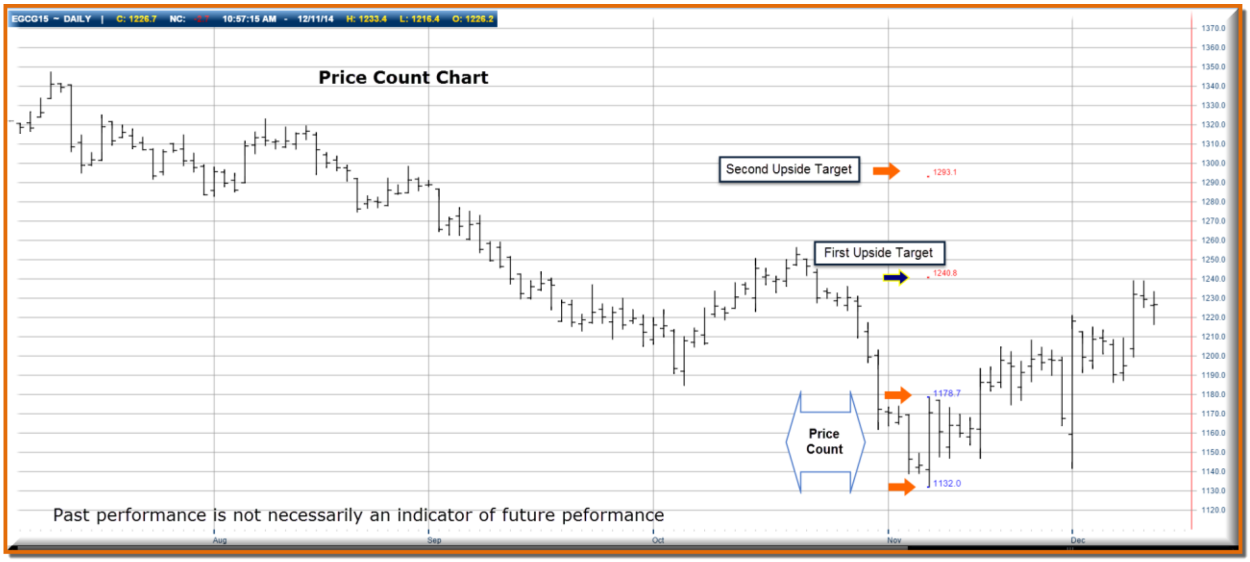
Here's what I wrote in my last Gold Report. "*In my last report I pointed out that the market often rallied into early November. That's now occurred. The question is whether or not the outcome of the referendum props prices or pulls out the prop and prices move down as they have over the past five years as seen the top graph on the above chart.*

There are now no further gold seasonal trends to play going into year end. The last seasonal gold signal did carry prices higher from the break low of 1133 but for all purposes that move is past and now the market needs new input. "

As you can see, the top part of the chart often sees prices rally into year end. So far that's the pattern prices are following.

The lower part of the chart, in bear market years which this one is, often sees prices continue to fall, which isn't occurring. Therefore the bulls get the nod.

Price Count Chart



The agove chart has a new Price Count that set itself up when prices bottomed out at 1132 and moved to 1178.7.

The initial upside target, the first Price Count Objective is 1240.8. This price has not been hit, but Price Counts aren't always about hitting a number on the head. They're an indicator of where prices might go, a zone if you will, as to where prices might be headed if a trend holds together.

The second upside target is 1293.1.

Since these targets remain open, this chart is still bullish.

If prices were to get back under1186.4 the remaining upside counts would be negated.

Let's put this chart in the bull camp.

Weekly Chart

The Weekly Chart trend is up.

The current Swingline Indicator pattern is one of a higher high, 1238 and a higher low, 1141.7. This means the Swingline Indicator is in an uptrend as I define what a trend is. The key to trending is the plural of highs and lows.

Higher highs and higher lows (an uptrend)
Lower highs and lower lows (a downtrend

The Neutral Point, as I like to call it would be the 18-Week Moving Average of Closes, 1221.7. Therefore, with prices at 1225.3 as of this writing, the short term trend is up. Swingline is making higher highs and higher lows and prices are trading over the 18-Week Moving Average of Closes.

Momentum as measured by the oscillator called the “Slow Stochastic Study” is pointing higher. The Slow Stochastic Oscillator is made up of two lines that criss cross each other. The red line, the “K line” moves around the blue line, the “D line”. These lines are ascending and the shorter term line, the “D” is over the longer term “K” line. The market is also not overbought.

This chart is now in the bull camp.

Daily Gold Chart

The Swingline Study on the Daily Chart is in an uptrend as it has a pattern of higher lows, shown by the two small arrows above and higher highs.

Prices are trading over the 18-Day Moving Average of Closes, which is bullish as well.

The dashed lines on the chart represent the Bollinger Bands. Bollinger Bands are an algorithm designed to keep prices trading between the upper and lower bands, 95% of the time. When prices first hit the band, I teach that that is where the "smart money traders" takes off part of their long positions, assuming they were long. Think of the upper band as resistance and the lower band potential support when first hit.

The last part of the puzzle is momentum. I use the Slow Stochastic Indicator to do that, which I explained in the Weekly Chart section. This indicator is overbought and trying to convert to an embedded status. By converting, I mean that the current market condition is very overbought, as most times this doesn't result in an embedded state. When it does embed, the chart picture changes to a very bullish one until the K" line, the red line closes back under an 80 reading.

Conclusion

In my last report conclude that there was nothing new to do. Since that time I have advised my subscribers, a trade which is still working well.

As seen in the beginning of this report, I am of the opinion that the break in crude oil has driven investors into gold, looking for gold to protect them from whatever fallout the crash in oil prices brings on. Whether I am right or wrong on this is pretty immaterial to me as I follow chart action when making trade recommendations.

The charts above all point to the market being in an uptrend. The last part, the Slow Stochastic Study on the Daily Chart needs to embed. If it does I will issue a buy signal with a specific entry point. The exit point will be directly tied to when the embedded Slow Stochastic reading is lost. Upside targets are mentioned above.

If the Slow Stochastic reading doesn't embed, I will not issue a buy signal.

This leaves tomorrow as a very important day.

If you haven't had the opportunity to obtain our Price Count write up, please click here and include your name, mailing address and phone number. We'll get this out to you and can also set you up for a Free Trial to Market Center where you can apply the study. Our staff will even setup a Join.Me Meeting to teach you how to apply and use the study in Market Center.

I also hope you like the new look of my gold report. It goes hand-in-hand with the total new look of the Ira Epstein Division of the Linn Group, Inc. Website.

You can call us at 1-866 973 2077 or simply click here and include the information in the e-mail message. Be sure to include your phone number in the e-mail as we need it to setup your Free Trial to Market Center.