Ira Epstein's Gold Report

11-5-2015

Bank of England gives up on raising interest rates any time soon

Fed Chairwoman describes December FOMC Meeting as having "Live Possibility" of interest rate increase

Oil prices staying low

Iranian oil expected to soon start flowing

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How much lower for gold?

We're going to be on Fed Watch for the next five weeks as we head into the December Federal Reserve Open Market Committee Meeting (FOMC) which starts on December 15th and ends on December 16th.

This provides us with not only tomorrow's Employment Data but all the normal economic data reports between now and that meeting. There will even be another Employment Data Report to get through in the early December before the next FOMC Meeting.

For whatever reason, the marketplace is fixated on employment, forgetting in large part that inflation is just as important to the Fed given their dual mandate concerns inflation and employment. Without doubt, employment has been and continues to do well. I expect Friday morning's Employment Report to continue along that vein.

What's missing is inflation!

Today the Bank of England surprised the marketplace by announcing that it was pushing back into late 2016 and possibly early 2017 the raising of its base interest rate(s). This is a shocker as they have been jockeying, at least in the press as to whether they or the Fed who would be first to raise interest rates.

Bank of England (Super Thursday)

- Kept interest rate unchanged at 0.5%
- Takes early rate hike off the table
- Doesn't expect a rate hike until late 2016
- Slowdown in China impacting markets
- Lack of inflation is a problem
- Assets bought under their purchase program won't be sold back to investors until its benchmark interest rate moved back to 2% and above

The problems the BOE is facing are very similar to the problems we are facing. No inflationary pressures other than in services, worries about China, emerging market issues and so on.

For the time being I remain in the camp that seems to be getting smaller and smaller of those who think the Fed is going to stay on hold through December. In fact, until a clear trajectory of upward inflation shows up, I think the Fed's hands remain tied well into 2016.

Saudi Arabia lost crude oil market share in China when Russia signed contracts with China to increase Russian oil sales by 13%, year over year. The Saudi's in response are turning to Europe and offering concessions to European countries for contracts at substantial discounts from current prices to offset the sales lost in China.

Regardless of how governments fudge the importance of energy in their data numbers, the simple fact is that energy costs impact all aspects of life in developed countries. As such, when its price declines, so does the decline in a major component of inflation.

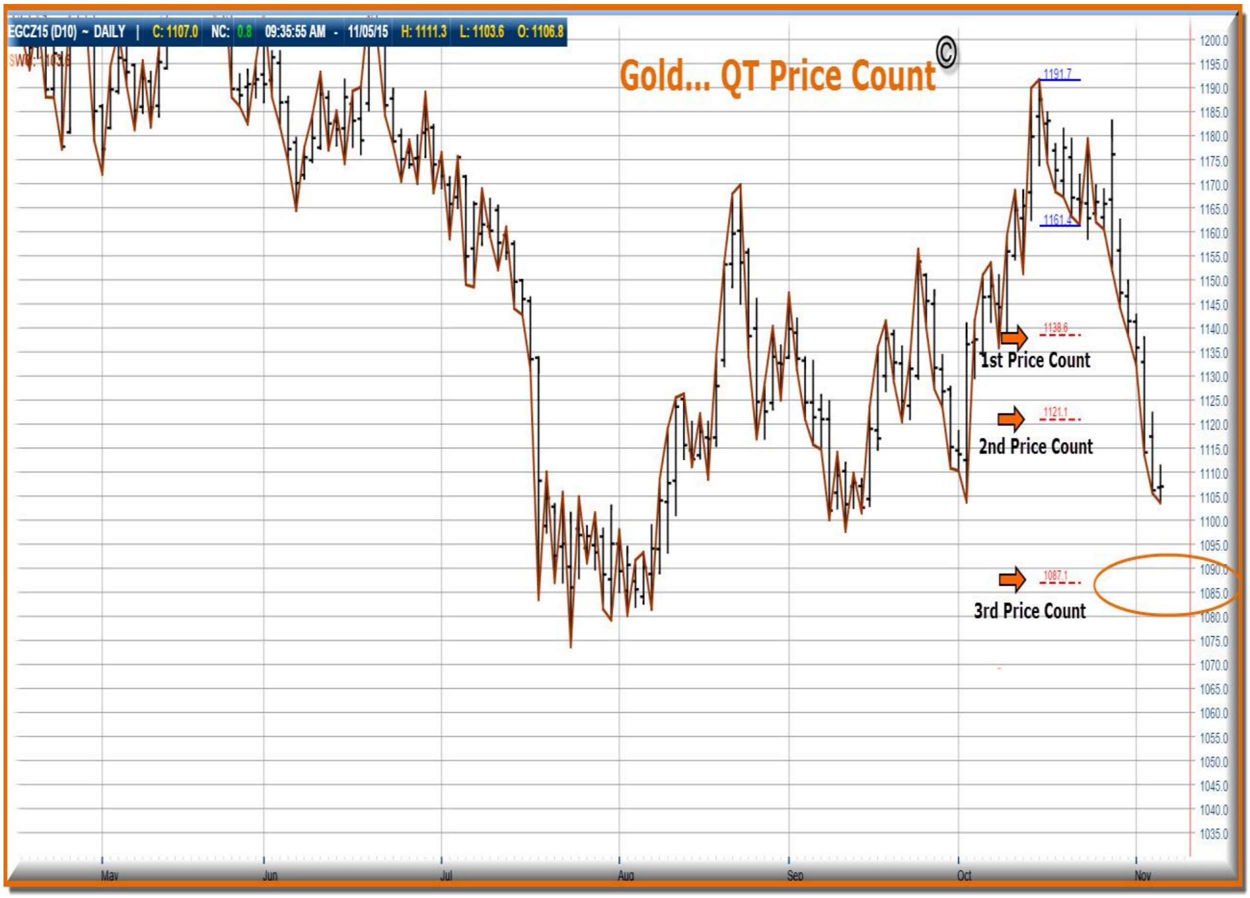
Countering this is the value of the US Dollar given that gold is priced in Dollars.

The world is in a currency war. The US began it back in 2008 when we boldly embarked on a series of quantitative easing programs to stabilize our economy. Given we are the largest economy in the world, without us the rest getting our house stable, others were doomed. So what we (the USA) did is lower interest rates and with them the value of the US Dollar.

We succeeded to a large degree. In the process, quantitative easing stabilized our real estate markets and swelled corporate balance sheets. US stock markets remain in a bull mode, with the NASDAQ hitting new all-time highs this week.

What we also did is provide a model to Europe and others looking for ways to stabilize their economies. Yes, the Eurozone is unique in that it's a banding together of independent countries just learning how this banding works. However, the zone's key bank, the European Central Bank has come full circle and is now working within the confines of its charter following the US example. Simply put, the bank is working on creating interest rates so low as to break the value of the currency while picking up export trade, which in turn creates jobs and wealth. I'm certainly being over simplistic in this explanation but you get the point. Lower your interest rates in an effort to steal trade from areas where the difference in currency values makes goods the price of goods higher than yours and hope your economy does better.

Short Term Gold Price Count



On this Daily Chart of December Gold, the 2nd Price Count has been reached. Reaching the third is often a struggle. Obviously tomorrow's Employment Data will impact the US Dollar which in turn impact gold. Assuming the data is good, meaning solid job growth and a stable to lower employment number, gold will likely move lower. Just how much lower prices may go given the 3rd count comes in at the 1080 level.

Seasonal Gold Chart

A situation similar to my September 9th point is approaching. If you look on this chart you'll see that September 9th was a lift off point for Gold. Gold peaked on October 15 and is now in the time frame where it often starts higher again.

I will not be surprised if tomorrow's Employment Data is the catalyst that culminates this current breakdown in gold. I will cover why in my Conclusion.

Conclusion

For those of you that subscriber to my Market Research, you know that I have stayed out of gold for quite a while. When I wrote my last report I said I did not want you to chase gold and looked to be a buyer on a price break. I frankly didn't expect the break to be nearly $85 an ounce. The good news is that I never issued a buy as the trend turned down.

Prices are now approaching levels last seen in July and September. Each challenge of those levels resulted in sharp rallies, but not a longer-term change in the trend, which on a longer-term basis still remains lower.

In the short term gold has to make a decision. Does it find reason to bounce or lock in a bearish posture going into year end? The seasonal chart points to a bounce. The Daily Chart might develop a bearish embedded reading, which means prices are very oversold right now. The key looks to be where the market closes in tomorrow's trading range.

Without much of a rally by days end tomorrow, it's likely that my most bearish of my trading signals might kick in. That of the bearish embedded Slow Stochastic readings, which subscribers to my research or those who took my Charting Course are familiar with. This signal, if it develops, will mean rallies should continue to be sold.

If the signal doesn't develop, the odds are that a short covering rally will kick in and prices will likely move $30-50 an ounce higher.

Tomorrow will be key to my analysis.

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