Ira Epstein's Gold Report

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

12-17-2015

Smooth sailing for Fed Chair Yellen

After months of the Federal Reserve preparing us for a Fed rate hike, it's here, done and gone. The day after impact of the first rate hike is resulting in lower commodity prices, a strong US Dollar and little impact on stock indices.

Fed Chairwoman Yellen did a fine job of delivering a much anticipated rate hike, but the hike itself leaves those who didn't think it necessary still in a lurch.

What's missing is inflation!

What the Fed did was move from its well-advertised "*data driven decision process*" to one of guessing what the future trajectory of inflation might be based on a strong and improving labor market. In the Fed Announcement, the Fed says it will watch outside forces, but thinks the threat from emerging markets, China and Europe is now small. The Fed also thinks the impact from lower commodity prices, namely energy prices is transitory. Here's my take on why they see energy prices as being transitory.

Oil prices today are trading under $40 a barrel. With the US about to change its laws which will allow US oil exports, the spread in price between Brent and WTI Crude Oil has narrowed in to less than $1.50. Just over a year ago the spread was in double digit territory.

My guess as to why the Fed thinks inflation might move higher and why energy prices are transitory goes along these lines. No one knows how low oil may go, but my guess is that over time there's a lot more upside than downside. This doesn't mean I'm bullish right now as I'm not but that's not what the explanation of transitory means. With WTI Oil trading at $37.00, the impact on inflation next year could move higher. For example, a move back to $45 a barrel, which isn't that much in today's market would represent a price jump of %25. In terms of headline inflation numbers, this is a big number. Next year we'll be measuring month against month against 2015, not 2014 which had very high prices. In 2015 prices fell hard therefore; we'll be measuring against much lower numbers. Getting a jump of double digits in energy prices will fit into the Fed's idea that the transitory phase from high to low will have run its course.

If you buy into this thinking, which I do, what it's about is a worldwide "resetting" of commodity prices. Future price measurements against 2015 when prices cratered will fall right into the thinking of a Federal Reserve that is looking under the carpet for inflation. In everyday terms, it's clearly not here at this time but after a year of falling prices, arguing that prices won't go lower forever is what transitory means to me. The transition will happen after a bottom is seen and the Fed thinks oil prices won't stay this low very long if they're betting on energy being "transitory".

Currency Impact on Gold

What's clear now is that over the near term the US and its trading partners are going down different paths. The US announced to the world yesterday that it's embarking on a longer term, gradual cycle of increasing interest rates while most of our counter parts are either holding interest rates steady or moving to lower them.

In simplistic terms, there remains a currency war at work whereby China and the Eurozone are lowering the value of their currencies in order to stimulate demand for goods from their respective economies.

This should provide the US Dollar with a bid and other currencies with an offer. A stronger Dollar without inflation is not friendly to gold prices.

Near-term Gold Pressure

I've recently written about how gold would likely return to moving in $25 pricing increments. By this I mean that when gold approached $1000 an ounce, getting large 50 to 100 Dollar price swings is not as easy as when prices are at $1500 an ounce. The volatility due to price shocks is simply dampened because prices are trading nearly 50% off the $1920 high made in 2011. On a longer term basis, gold has been in a long-term downtrend since 2013, when prices crossed and closed under $1526.

Gold Price Analysis

I'm going to present gold in a couple of charts below. The first will be on the Monthly Chart, which is the longest term I will use. After that I will show the Weekly and Daily Charts in an attempt to find areas of support. I say support since no matter how I look at it, gold is in a downtrend and as such, the exercise should be in seeing how much further down it might go in an effort to determine if selling it short makes trading sense and when to do so.

Monthly Price Count

One of the most important indicators I use when trying to figure out where a market might go is the Price Count. Price Counts are not an entry point trading tool. Rather it is a measurement tool that helps me see where prices might find support or resistance depending on market direction.

The "count" begins with a point from high to low. This is all explained in detail in a PDF and video series we make available to our readers and offer at the end of this report. We even provide the charting software for you to work with to do your own Price Counts.

The key on this chart is that the Price Count was setup when the market peaked at 1920.7 and broke down to 1596.8. I am displaying three Price Counts, but there can be up to 5. It's very rare to hit a fourth or fifth Price Count, so I am not showing them.

The first and second downside counts have been hit. As you can see, once prices hit 1165 some sideways action developed and now the market is in the midst of breaking down again.

Will the third Price Count of $802 be hit? Third Price Counts do get hit but not as often as first and second ones. My guess is that if oil gets down under $30 a barrel, the answer is yes, it comes into play. Without that occurring , its unlikely.

I prefer to use Weekly and Daily Price Chart counts over the much longer term Monthly Chart.

Weekly Price Count

The key on the Weekly Chart is that the second Price Count is coming into play. It comes in at 1016.6. I did not show the third Price Count as it comes in at 582.1, which I don't see taking place due to how far down it is. Therefore, the objective currently in play on this chart is 1016.6.

Daily Price Count

1026.3 is the first Price Count on the Daily Chart. I'm not showing the second Price Count due to scaling size issues which would create a chart that would not read well in this report. However, it comes in at 984.9 and is a number I think in play.

Conclusion

The two Price Counts, one on the Weekly Charts of 1016.6 and one on the Daily Charts of 1026.3 put this price zone in play as the logical spot whereby prices meet further downside price objectives. If they give ground, they are backed up by 984.9. There's a lot of Price Counts between 1026.3 and 984.9. All centering on or around $1000 an ounce, which is a nice even number. Can you see the headline? ***Gold breaks under $1000 an ounce!***

As you can see I remain bearish and will stay in this camp from a fundamental point of view until inflation starts to show itself. I continue to see deflation as the threat in the commodity arena and see nothing taking place just yet to change that.

All said, I think

Have a great New Year and Holiday Season.

Price Count Offer

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