The Atlantic GOLD & SILVER CENTRE

F E B R U A R Y 2 0 1 6

Technical Update.

Written by David Ford

The last 6 months

Well, its been over 6 months since the last newsletter, and the simple reason is that there has been very little NEW in the precious metals markets worth reporting, or which could be classed as News. The fundamentals for investing in Gold & Silver have not changed one bit over this time, and the economic outlook has continued to deteriorate in the same fashion as for the last few years. Yawn, nothing to see here.

Then just before Christmas, despite under delivering on promised Interest rate hikes for some time, the US Federal Reserve finally did it. An end to the 'zero bound' rate with a breathtaking (NOT) rise of 0.25%.

The traditional view is raising interest rates is bad for gold, but once the initial reactions died down, and the dust settled, people realized the truth. The bubble in stock market pricing has been solely due to an abundance of 'free' money for Wall Street banks to chase prices ever higher ! Now the 'free' money is gone, gravity is starting to re-exert itself.

And what is bad for stocks is almost always good for Gold. However, this is not just another bear market in stocks, there is much more going on. We have interest rates at historical lows in US & Canada, coupled to global markets with negative rates in Europe and Japan. We have collapsing oil prices, which will spell disaster for energy companies and anyone who has loaned them money (think Canadian Banks), as well as sovereign nations who have relied heavily on oil exports (Venezuela). We have large scale social upheaval in Europe with the biggest refugee crisis since World War II. We have so many parties militarily involved in Syria and the middle east that it is probably the most dangerous flashpoint in the world right now. The dramatic decrease in world trade is triggering widespread currency imbalances, with producing countries like Brazil suffering 10% inflation – something we may see soon in Canada unless the exchange rate improves (unlikely). With the Chinese, Indians & Russians all now net importers of Gold, and dwindling supplies in registered warehouses in the US, the stage is set for quite a turn around.

Back in 2008, the US Dollar was the go-to currency as the rest of the globe looked weak. However, as other pundits have said – it is just the cleanest dirty shirt in the room ! The competence of the US Fed is being called into question, and this is why we're now seeing such a strong bid for Gold.

Where are we now ?

As I said, the fundamental reasons for owning precious metals are unchanged, and only getting stronger. However, it is worth looking at a the charts to see if the technicals are now becoming supportive of the fundamentals.

Weekly Chart

The key indicator on this chart is the solid orange line. This is the 200 day moving average, and represents the traditional divide between bull & bear markets. We have been in a bear market for most of the time since prices peaked at just over $1900 in September 2011. There were a few precipitous drops up to mid 2013, and since then there has been a fairly slow but steady decline of around 20% over 2-3 years shown by the channel on the chart. During this time, the price has occasionally risen above the 200 day MA, but not stayed there for long.

Daily Chart

Switching to the daily chart though, we can see just how strong the recent price rise has been. The price moved up over $100 in 2 weeks, and shot $72 above the 200 day moving average. This is the strongest move since the last bull market. There was no resistance between the 200 day MA and the recent top at $1190 – so it was a clear run !

Market participants can get 'exhausted' after such a breathtaking move, and we can certainly expect consolidation of prices for a while, especially now we have entered the $1200 zone – where you can see prices remained congested for some time on the way down (at the left of the chart).

What next ?

Back in Summer 2015, I said to several clients that should gold regain $1200, then I though that would signal the end of the recent bear market. Well, we are there now, and don't forget we are still up 200% from 2005 when gold was $400. So this should be looked at not as the end of a bear market, but the re-assertion of the existing longer term bull market !

We will only know for sure later in 2016, but here are some things to watch out for…

- Prices consolidate around or above $1200, and do not drop below $1150.
- The 200 day MA may be re-tested, but prices should not remain below for long.
- US Fed releases increasingly worrisome news & does not raise interest rates further.
- Gold get mentioned positively on mainstream investment news sites/shows.

Finally

In our stores over the last few weeks we have seem a marked increase in interest from existing investors, as well as a strong influx of new buyers. There has been a refreshing air of optimism amongst buyers, which we have not seen for a couple of years. The very sudden moves of the last 2 weeks (+$100 gold and +$1 silver) have left many people quite shocked. However, you can bet that if you are standing on the sidelines thinking about buying, there are dozens more people like you all waiting for a dip in the price !

Our Canadian Dollar has strengthened marginally recently, insulating us from some of the rise. However, there is reason to be very concerned – the news from oil producers is increasingly desperate, and Gold & Silver in Canadian Dollars could get very expensive if the loonie falls again. 1oz Gold Maples are now over $1700 in Canadian Dollars, up around $200 on last year ! If gold rises further, and our dollar weakens, we will very soon be looking at $2000 gold in Canadian Dollars ! For those who are looking for wealth preservation from collapsing currencies, here is the evidence that Gold is doing its job.

Author David Ford is the founder, owner and President of The Atlantic Gold & Silver Centre. He is experienced in commodities & future trading, banking and insurance. He has been actively investing in gold and silver bullion since 2000.