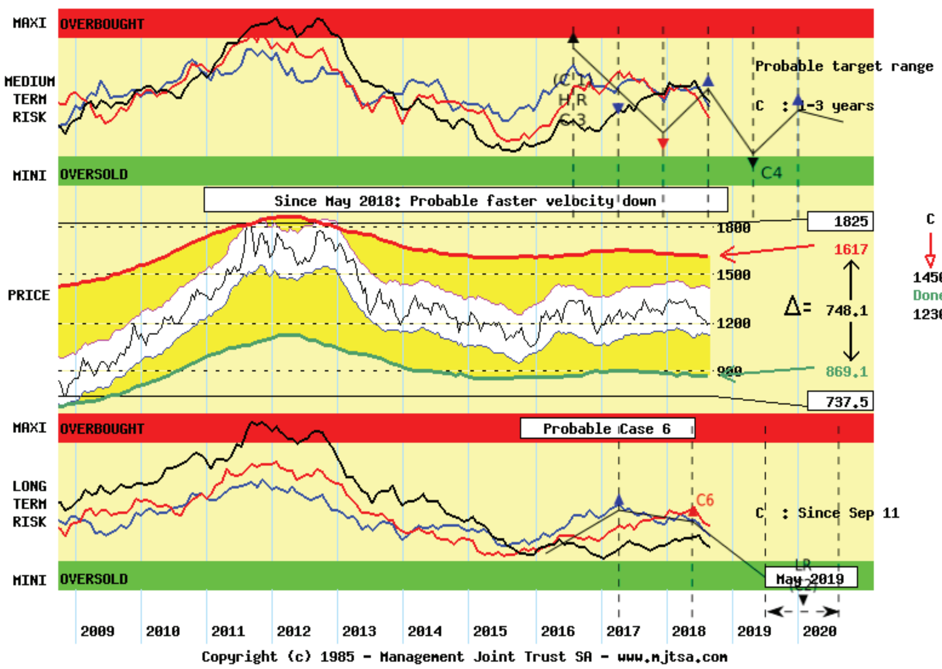
# 35 / MJT - TIMING AND TACTICAL INSIGHT

## Gold is still stuck between a rock and a hard place

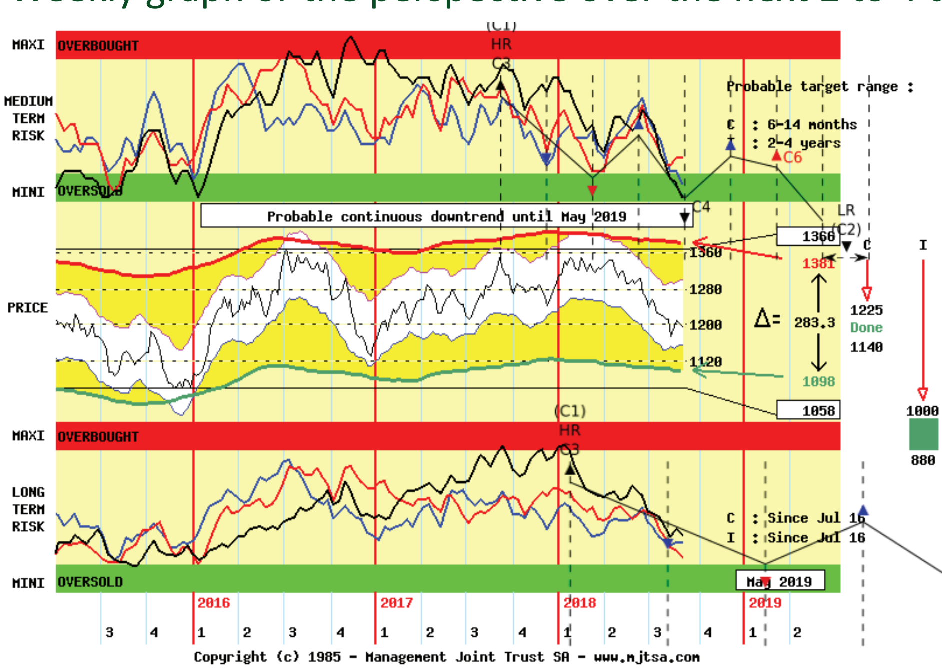
**Our last three The Capital Observer publications highlighted the negative path for Gold we expected during the Summer claiming that it was first in line to suffer from the strong US Dollar rally we then expected. Our projections also pointed to September as a possible period when Gold could bounce as the US Dollar started to retrace. For now, the consolidation down since mid August on the US Dollar is looking rather weak, and the Greenback now appears that it may continue to push higher, possibly into early next year. In this article, we consider Gold in light of this strong Dollar scenario and will try to assess when/if Gold can break out of this negative correlation as the cross asset environment gradually turns more defensive.**

## Gold spot (USD/oz)
## Bi-monthly graph or the perspective over the next 1 to 2 years



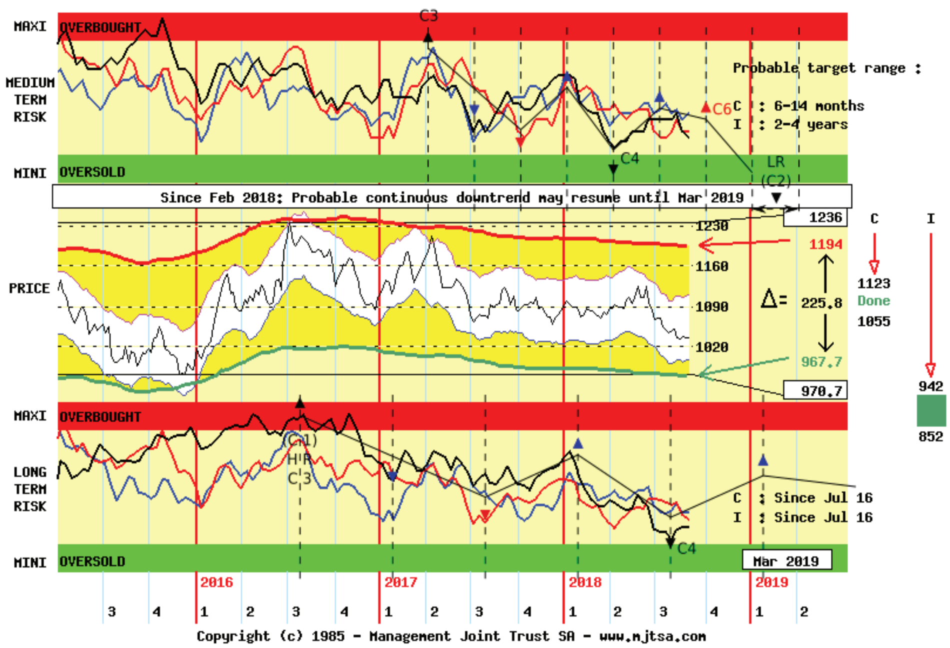

**On this long term graph of Gold, the bounce since late 2015 is looking rather weak. Indeed, on both oscillator series (lower and upper rectangles), the sequences we show are projecting a negative path for Gold at least into Spring next year**. Since it started to correct down in late 2012, Gold has found support many times below the lower end of our C Corrective targets to the downside (1'230; right-hand side). Each time, up to now, it has managed to bounce back. Yet, according to our methodology, once price move below the C Corrective targets to the downside, it theoretically opens the door to much lower levels i.e. to our I Impulsive targets to the downside, which, at the moment, would calculate to levels well below 1'000 USD/oz. Hence, over the next few months, we can only hope that Gold manages to climb back up once more above our 1'230 support. **At best, the situation on Gold looks quite uncomfortable at the moment**. This is rather counter-intuitive given the defensive shift we expect on risk assets over the next couple of quarters.

## Gold spot (USD/oz)
## Weekly graph or the perspective over the next 2 to 4 quarters



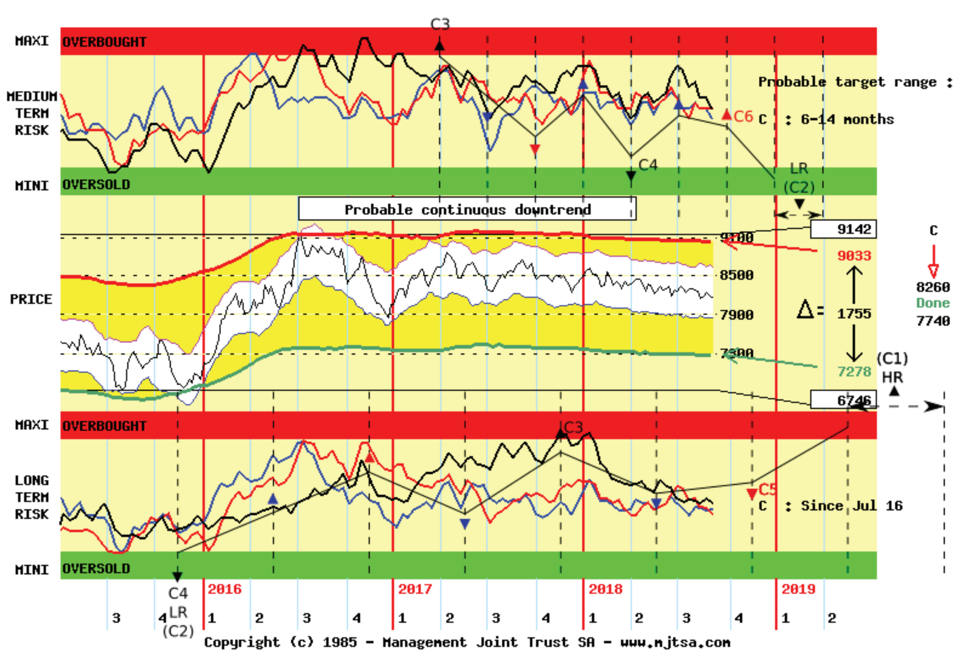

**Turning to the Weekly graph, our medium term oscillators (upper rectangle) may have reached an intermediate low mid August and could bounce into the Fall.** For now, Gold has also held above the lower end of our C Corrective targets to the downside, above 1'140 (right-hand scale). This is rather reassuring. **That said, Gold's price action since February has been quite synchronized with the ones of most currencies vs the US Dollar, and we are currently considering that their downtrend may continue into early next year. This is the scenario we show on our long term oscillator series (lower rectangle), where the current bounce dies our quite rapidly and Gold continues to liquidate.** Any price action below 1'140 would probably confirm these negative dynamics, and could justify our I Impulsive price targets below 1'000 USD/oz. **Hence, we are treating the recent low on Gold (and the subsequent bounce since mid August) with extreme caution as we doubt it will hold.**

## Gold Spot in EUR (EUR/oz)
## Weekly graph or the perspective over the next 2 to 4 quarters



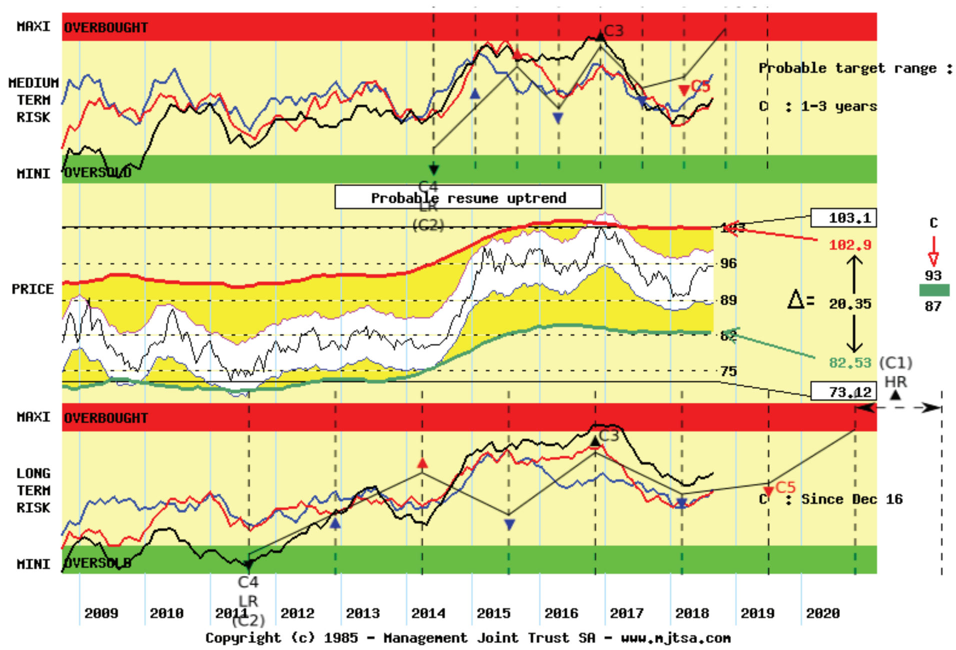

Looking at Gold in EUR doesn't really brighten the picture. Our long term oscillators (lower rectangle) have reached an intermediate low and may be getting ready to bounce into Q1 2019, yet our medium term oscillators (upper rectangle) rather suggest a continuation of the downtrend until then. Gold in EUR is now also below our C Corrective targets to the downside (right-hand scale). **We hence cannot exclude that Gold in EUR reaches down into our I Impulsive targets to the downside in the 942 – 852 range. Again an uncomfortable situation, which for now should discourage any bottom fishing.**

## Gold Spot in Yuan (Yuans/oz)
## Weekly graph or the perspective over the next 2 to 4 quarters



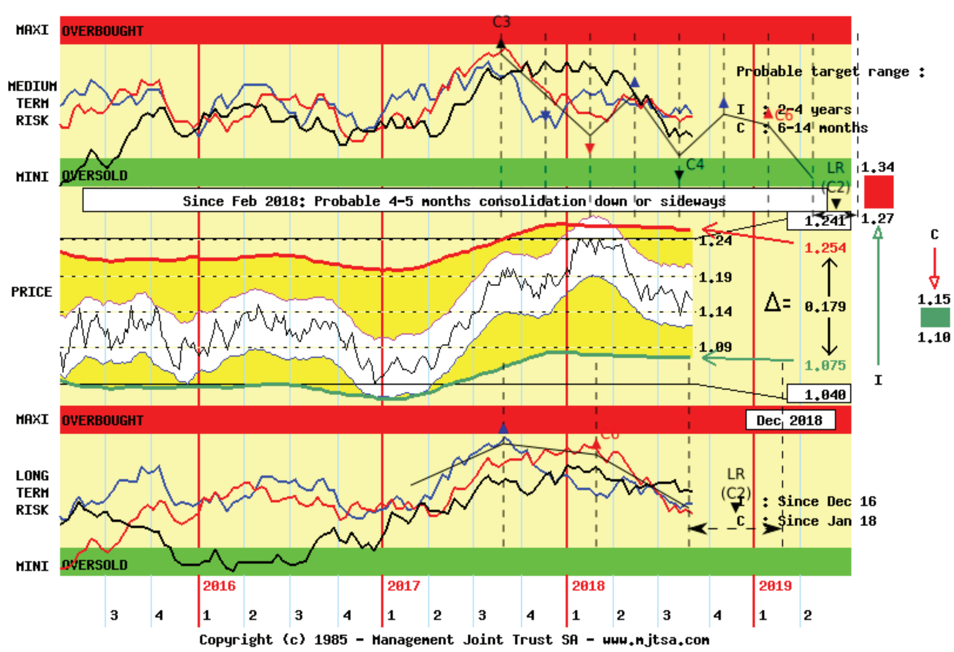

**Since this Spring, it has been widely noticed that Gold has followed the USD/Yuan exchange rate down quite closely. In this graph, we hence consider Gold in Chinese Yuan to assess their relative strength. Even against the Yuan, the Bullish case is not straightforward.** While our long term oscillators (lower rectangle) may be pointing to a support point towards November this year, the sequence we show on our medium term oscillators (upper rectangle) is still descending towards early next year. Gold is also approaching the support of our C Corrective targets to the downside (right-hand scale), yet given current developments, it is difficult to assess if these levels will hold. Indeed, **Gold is following is the same descending path that the Yuan vs the US Dollar, yet its volatility seems slightly higher to the downside, for now at least.**

## Dollar Index
## Bi-monthly graph or the perspective over the next 2 to 4 quarters



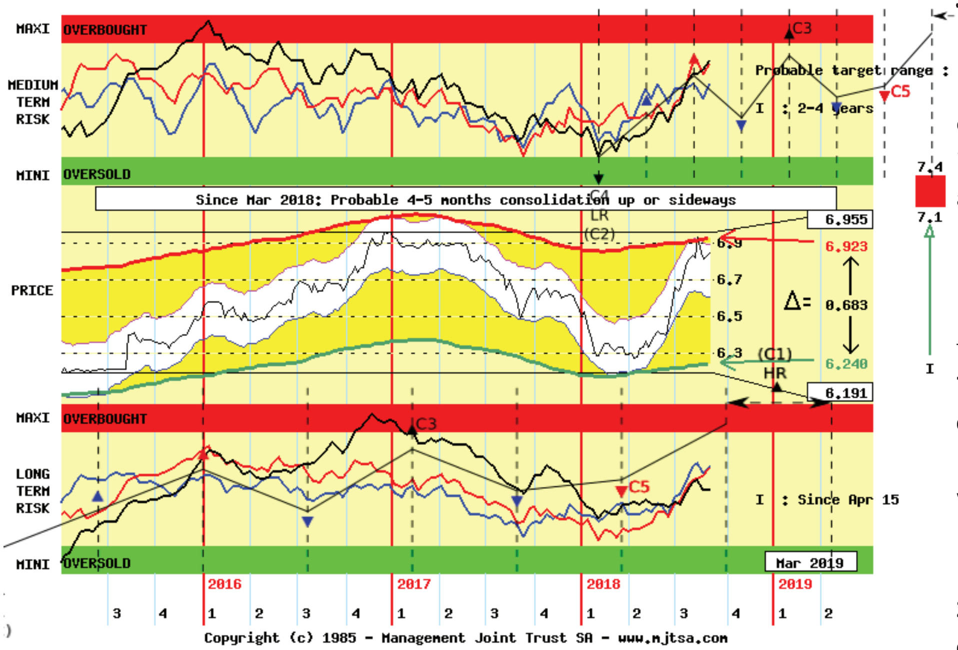

We now turn to the US Dollar, which has been the main negative factor for Gold since it bottomed last February. On this long term bi-monthly graph of the Dollar Index, **the correction down during 2017 found support this Spring within our C Corrective targets to the downside** (right-hand scale). On both oscillator series (lower and upper rectangles), **it is now resuming up probably towards next Spring (upper rectangle) and eventually much further into 2020 (lower rectangle).** The fact that we never made it below our C Corrective targets to the downside (i.e. below 87) during the 2017 sell-off, would confirm that the uptrend since 2011 is still in place. **For now, we remain bullish on the Dollar Index into next year.**

## EUR/USD
## Weekly graph or the perspective over the next 2 to 4 quarters



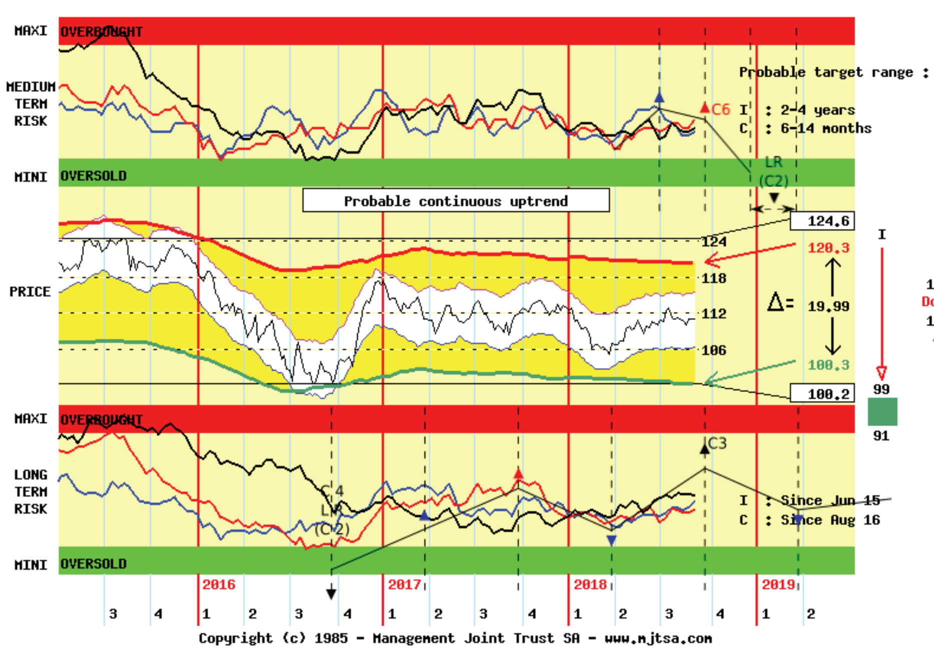

This Weekly graph of EUR/USD zooms into the 2017 US Dollar correction and the corresponding rise in EUR/USD. On this time-frame, the 2017 EUR/USD uptrend may still look impulsive, and could theoretically still justify the I impulsive targets to the upside, above 1.27, that our system is calculating (right-hand scale). Yet, in The Capital Observer issues published in Q1 this year, we had been reluctant to confirm these targets. Rather, we chose to concentrate on the retracement down we expected during Q2 and Q3 this year. This choice was based on the bi-monthly Dollar Index graph above, which was still holding above its C Corrective targets to the downside (as mentioned in its commentary). **Since February, EUR/USD has seen quite a strong retracement. We now believe that this retracement could continue into early 2019.** Indeed, on our longer term oscillators (lower rectangle), the Q1 2018 oscillator top came in below the Q3 2017 one. This is a sign of weakness, which could justify, that despite its strong price move, the EUR/USD uptrend during 2017 was just a correction. It is now in the process of reversing down. As with Gold in USD, our medium term oscillators (upper rectangle) may have reached an intermediate low mid August. Yet we are not convinced it will hold, and from early Q4, we expect it resumes lower towards Spring next year. **A break below our C Corrective targets to the downside (below 1.10; right-hand scale) would provide a final confirmation that the long term trend on EUR/USD is now heading down again.**

## USD/CNY
## Weekly graph or the perspective over the next 2 to 4 quarters



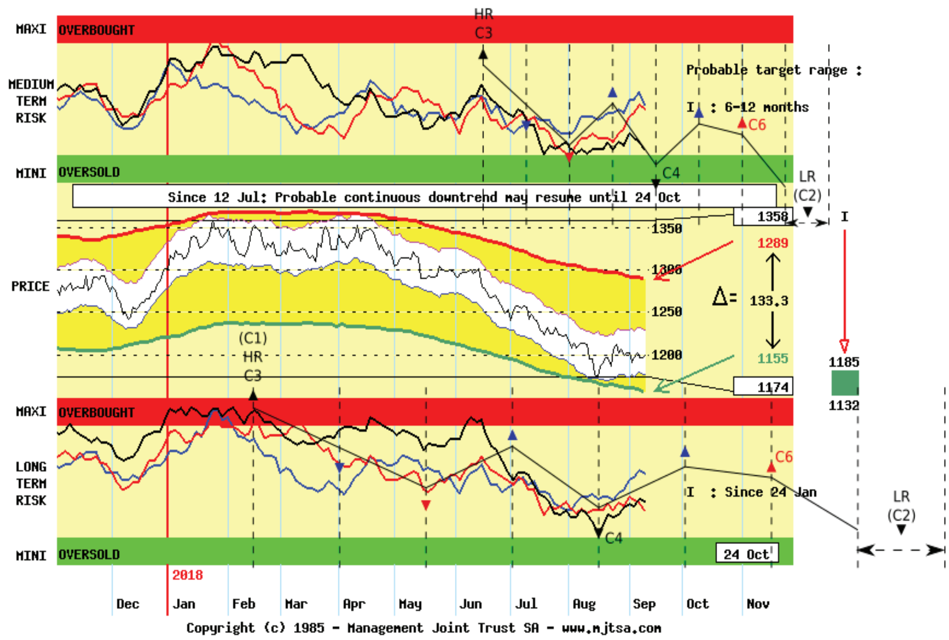

The analysis on USD/CNY is similar to the EUR/USD in reverse, yet also ahead in terms of confirmations. Indeed, since it bottomed between February and April, USD/CNY has shot back up into impulsive territory, and our price targets (right-hand scale) are now projecting that **the pair could reach the 7.1 – 7.4 over the next few quarters**. Our long term oscillator series (lower rectangle) would justify a similar argumentation that on EUR/USD in reverse, i.e. **the uptrend during 2015 and 2016 saw a strong correction down in 2017, yet has since resumed up in force. Our medium term oscillators (upper rectangle) would confirm this uptrend, probably into early, perhaps late next year. This is rather scary for Gold if the current positive correlation between the Yuan and Gold continues to hold.**

## USD/JPY
## Weekly graph or the perspective over the next 2 to 4 quarters



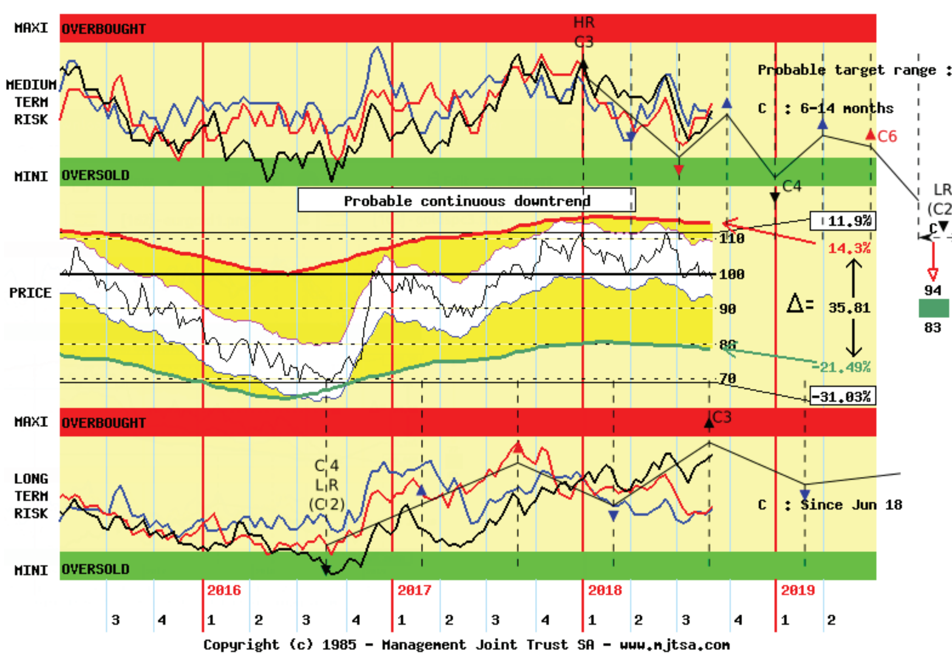

The story-line on USD/JPY is somewhat different as the Yen is historically a very defensive currency. In times of trouble, it tends to strengthen against the US Dollar even if EUR/USD is weakening. At least this is what happened during the 2018 financial crisis. **In 2016, USD/JPY bottomed with interest rates. It has since been correcting up. The move has been rather weak and choppy and we believe it may be coming to an end soon.** This is what we confirm on both our oscillator series (lower and upper rectangles). **Following that, over the next few months, we expect the long term downtrend on USD/JPY to resume.** Our I Impulsive targets to the downside between 99 and 91 (right-hand scale) are quite aggressive. **This is good news for Gold as traditionally it was very much correlated with the Yen. Yet, since this Spring, the Yen has proven much more resilient vs the US Dollar than Gold, and they may take several months to resynchronize.**

## Gold Spot (USD/oz)
## Daily graph or the perspective over the next 2 to 3 months



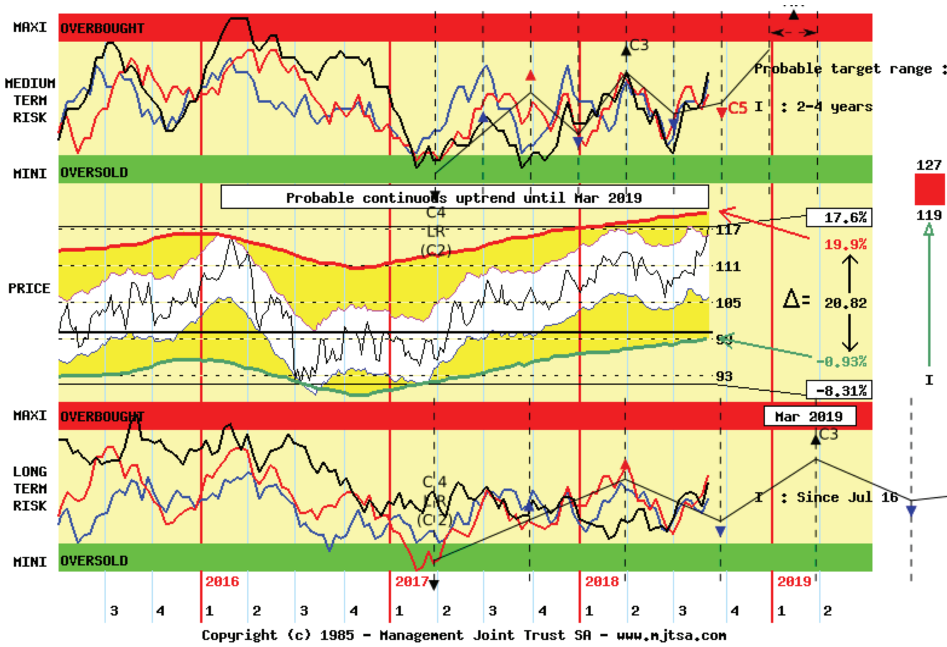

We now focus on the shorter term trend of Gold with its Daily graph. The sell-off since April reached an intermediate low in August. Gold has since been rebounding. As with EUR/USD, the rebound is rather unconvincing for now. Both oscillator series (lower and upper rectangles) suggest that **Gold may hold into the end of September, perhaps early October, but that it then resumes its downtrend towards new lows (right-hand scale) into November or even year-end. Hence, for now, we believe it is still too early to consider it as a worthwhile defensive play.** Indeed, it is still very much correlated with Emerging markets, the Yuan or the Euro and along with them should continue to suffer against the Dollar.

## Copper Spot (LME, USD/ton) vs Gold Spot (USD/oz)
## Weekly graph or the perspective over the next 2 to 4 quarters



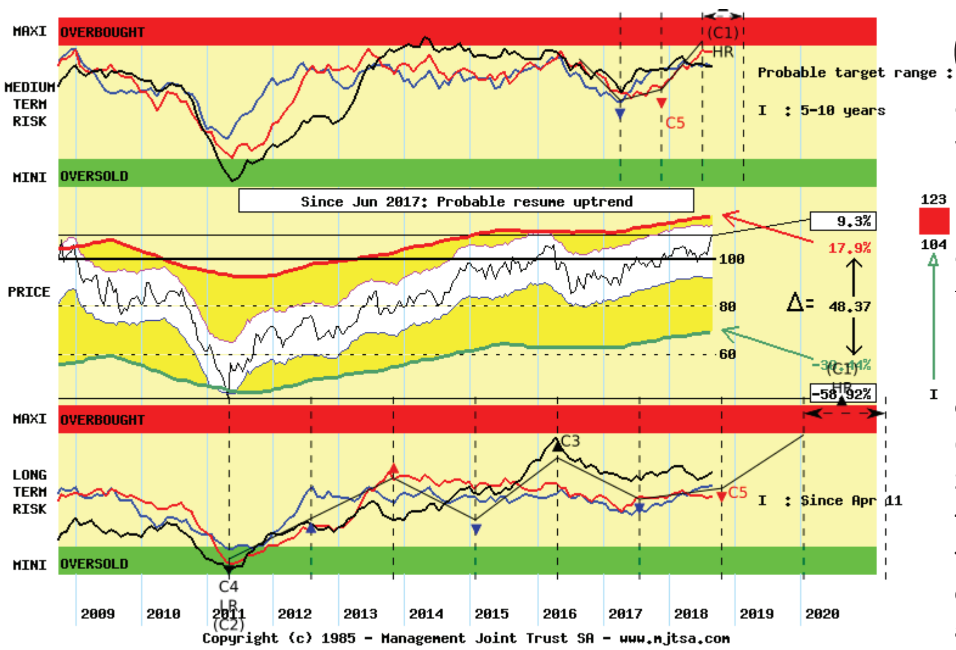

On the other hand, **Gold has started to reverse up vs other metals. We believe this spells the end of the reflation trade as Gold is usually considered as one of the most defensive commodities. The Copper to Gold ratio we show here topped out in June,** and on both oscillators series (lower and upper rectangles), **we now believe that the ratio is getting ready to resume lower, probably into year-end / early 2019.** According to our C Corrective targets to the downside (right-hand scale), the next support levels for the Copper vs Gold ratio may be as much as 17% lower. This projection synchronizes quite well with the continued sell-off we expect on China and related assets in this issue of The Capital Observer.

## Gold Spot (USD/oz) vs Silver Spot (USD/oz)
## Weekly graph or the perspective over the next 2 to 4 quarters




Against Silver, Gold has been in a strong uptrend since early 2017. **Historically, Silver is stronger that Gold during the early stages of the business cycle, while both are moving up, and then suffers dramatically against it during risk-off periods. We believe such a period lies ahead of us.** Both our oscillators series (lower and upper rectangles) are indicating that the Gold to Silver ratio should continue to accelerate up at least until early next year. Our I Impulsive targets to the upside (right-hand scale) are suggesting that Gold could outperform Silver by a further 10% over the coming months.

## Gold Spot (USD/oz) vs Silver Spot (USD/oz)
## Bi-monthly graph or the perspective over the next 1 to 2 years




Our longer term bi-monthly graphs confirms this view. Following a sell-off during the early stages of the last recovery while both metals were moving up (2009 – 2011), the Gold to Silver ratio then resumed its uptrend until 2016. Then, following a slight dip during the early stages of the 2016 reflationary recovery, the ratio continued to move up. Both our oscillator series (lower and upper rectangles) indicate **that the ratio should now continue higher into early next year at least (upper rectangle) and potentially until end 2019 (lower rectangle). If we are correct in forecasting a strong risk asset correction over the next few quarters, the ratio seems to indicate that it may take well into 2019 before a recovery actually materializes.**

### Concluding remarks

**The rebound on Gold since mid August is rather weak and bottom fishing it against its recent downtrend still seems quite uncomfortable. This is the case in US Dollar terms, but also in EUR or even CNY terms, as Gold is negatively correlated to the US Dollar, yet with a stronger volatility than these currencies. Going forward, we expect the US Dollar to remain strong, probably into Q1 2019 at least. This will put additional pressure on Gold, and in the current context, a capitulation below 1'000 USD/oz cannot be excluded. We would hence stay away from it for now, this despite the defensive cross asset shift we expect. It's a question of timing within the downtrend cycle. Gold is currently getting stronger vs Copper, which suggests the end of the reflation trade, yet it is also accelerating up vs Silver, which usually happens when both are precious metals are declining. In 2008 for example, Gold and Silver started to react up very late in the year, following the Lehman crisis and only once the TARP rescue program was put in place. Gold and Silver then accelerated up during the first years of QE, Silver more than Gold, and the Gold to Silver ratio declined. Our graphs suggest that this is unlikely to happen at least until next year. The fact is that Gold in a monetary phenomenon, it reacts to the cure (monetary easing), rather than the crisis itself. With the FED and the ECB still on the tightening path, Gold should remain under pressure for now. This will continue to be the case until these Central Banks start to flinch. Given our negative scenario on risk assets over the next few quarters, this is not implausible, yet it may take a few more months/quarters to actually materialize.**