

## Gold – Potential Retracement Levels Relative to 2008/2009 Lows

Uptrend evolution in the ongoing long-term up cycle in gold prices is presently stalled just above the \$1900 level (the historic high-to-date is \$1920.70 basis the nearby Comex futures). As we write, prices are in a second pullback after failing to hold above \$1900. Spot month October futures are currently trading \$1738. The immediate downside price vulnerability is an August 8, 2011 gap at \$1678 – 1663, shown below on the daily continuation chart. Just below the gap is the rebound line (B at \$1642) of the 2009 – 2011 up channel that represents a potential support area. If uptrend dynamics that have propelled prices from the July lows around \$1500 are still viable, prices should find support in the gap/rebound line area and then begin another aggressive advance.



However, longer-term technical forces may be coming into play that could frustrate any uptrend resumption in the near-term. The monthly continuation chart of Comex gold, below, shows that prices are starting to respond negatively to an "overbought" and bearish price/momentum divergence that is evident on the accompanying 14-period stochastic oscillator (see arrow on indicator). As we have previously noted, recent stochastic readings are higher than those that occurred at the 1980 cyclical price peak.



Although substantial time (more than a week) remains between now and month-end, outright market action raises the prospect that a monthly top reversal range will be established. When examining the monthly chart we can note that, more often than not, significant downside price corrections start with a monthly top reversal. Therefore, in anticipation that the market is starting an intermediate-term correction, we want to consider underlying levels that could prove to be the terminal area of such a correction.

In the above chart we are dealing with a price move to the recent August high that, in absolute terms, began in October 2008 (annotated point A in green). A second way of looking at the price move is to determine its inception from where it left the previous corrective phase. That was in August 2009 (annotated point A' in dark red).

Using those two inception points results in price moves AB and A'B that covered \$1239 and \$988 respectively to the August 2011 high at \$1920,70. We have plotted commonly used retracement levels at 38.2%, 50% and 61.8% and 50%, 61.8% and 78.6% (green and dark red horizontal dashed lines, respectively). Notable in our opinion is the near proximity of retracement lines irrespective of which plot is used. For example: 50% of distance A'B is roughly coincident with 38.2% of distance AB, shown as area F1; 61.8% of A'B is coincident with 50% of AB, shown as area F2; and 78.6% of A'B is near 61.8% of AB, shown as F3. Areas F1, F2 and F3 are \$1445 – 1425, \$1305 – 1302, and \$1155 – 1149, respectively. Therefore, one of those areas will most probably mark a corrective intermediate-term low.

For our analytic purposes we are concerned with area F1 at \$1445 – 1425. Why? First, we intuitively think that a corrective phase that retraces either 38.2% or 50% of a dynamic price move such as has been seen over a 2+ year period would be substantial enough to set the stage for uptrend resumption. Second, the major correction seen in

the up cycle to date was during 2008. In that phase, prices dropped from \$1014 to \$681, which was, in absolute terms, nearly a 33% selloff ( $1014 - 681 = 333$ ;  $333 \div 1014 = 32.8\%$ ). Given the ongoing uptrend evolution, we doubt that the market will now see a percentage break as large as 33%. However, we do think that an absolute decline in the 25% range is possible. In that scenario, the market could trade to the \$1440 area ( $1920 - 1440 = 480$ ;  $480 \div 1920 = 25\%$ ). Note how that would fit nicely with the Fibonacci-related retracement area of \$1445 – 1425 (values shown in inset box on chart).

In summary, the gold market is consolidating an aggressive two-month run-up from around \$1500 to just above \$1900 that is part of an even larger move that began in either 2008 or 2009. So far, prices have traced out broad swings between \$1920 and \$1702. A second pass at the lower level is underway. If uptrend dynamics that caused the run-up are still in force, then current weakness should be exhausted quickly. Near-term downside vulnerability might hold above \$1702 but could extend to the \$1678 – 1642 area. If the latter occurs then prices should not spend much time there. If uptrend dynamics are undergoing an intermediate-term change, then price vulnerability should be well below that area. In that case we would be focusing on \$1455 – 1425 as a probable intermediate-term bottoming zone.

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