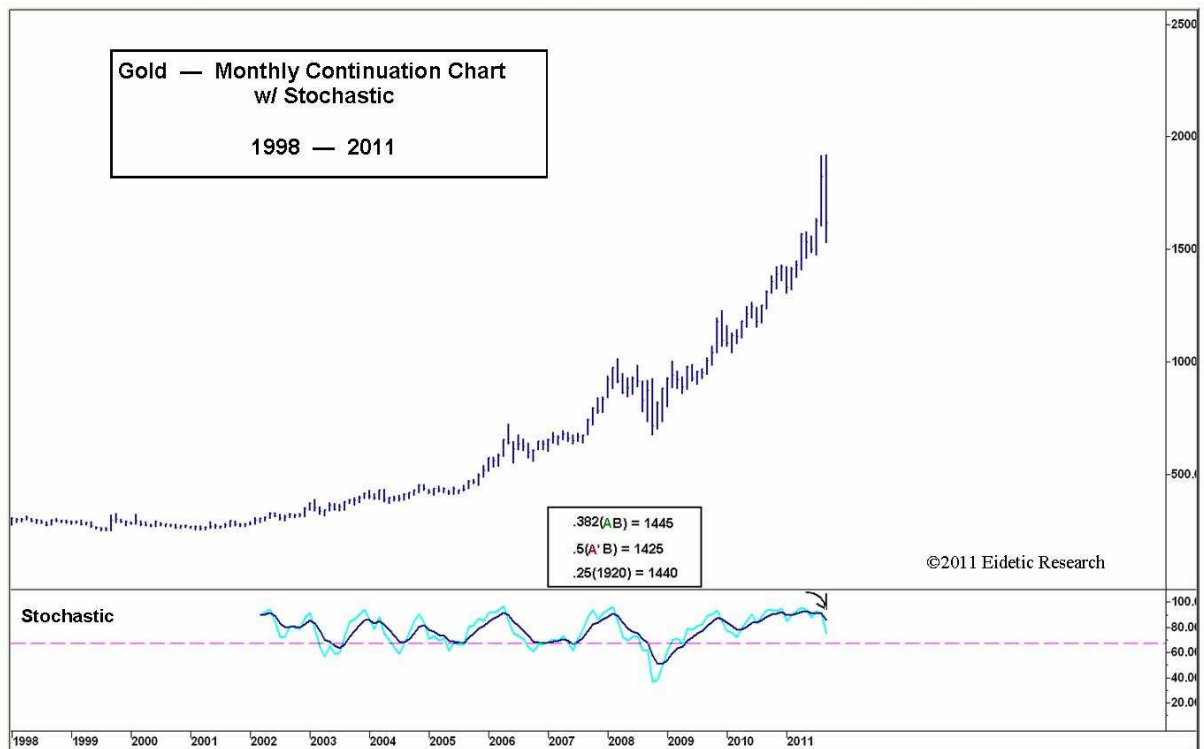


**Gold – September 2011 Month End Developments – Gold at \$1624.70**

**September 30, 2011**

Today marks both a monthly and a weekly close on the continuation charts. Since notable factors have occurred in both timeframes, we want to present a quick look at both charts. The monthly continuation chart below provides some longer-term momentum perspective and price action analysis.



The monthly chart is much as we showed it in our September 22, 2011 comments except that we have omitted various annotations that referred to retracement potential relative to the high-to-date in the uptrend phase that dates from either 2008 or 2009. We did leave those potential retracement values in the inset box. Readers may refer to that box to keep in mind where the gold market may go in the event that factors, discussed below, influence prices further to the downside.

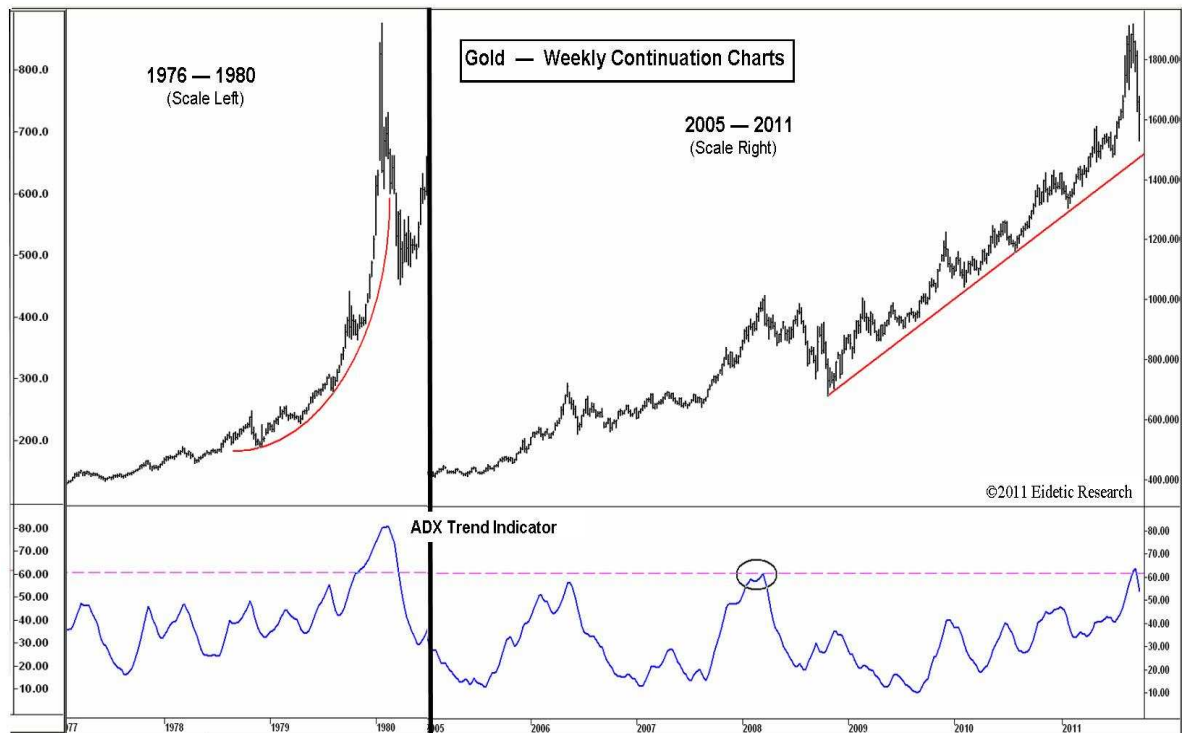
With September finished, we can see that the long-term momentum backdrop is now negative. The monthly 14-period stochastic oscillator has decisively turned down (arrow on indicator). Indicator readings are declining at elevated levels (dark blue line %D = 86) that imply an "overbought" momentum backdrop and thus the potential for downside price vulnerability. Note the dashed magenta line at the 68 level on the indicator. That is the minimum %D value that occurred before prices bottomed on significant corrections during the 2001 – 2008 uptrend phase. The sole occasion during the entire up cycle to date where indicator

values were below 68 was at the 2008 low. The %D reading then was fractionally above 50. We interpret these factors to imply that the gold market has started either a period of high level consolidation or an outright corrective phase that will include a price level below the September low (\$1532.70 basis the nearby Comex futures).

With that prospect in mind, let's discuss September price action. First, the market reached a new high (\$1920.70) for the entire up cycle that has followed the 1999 price low. Second, buyers were unable to keep prices at an elevated level: the subsequent sell-off from that high reached below the previous month's low and September's close is below that of August. Trading in September thus established an expanded "outside" range top reversal. Some analysts would call that a "key" reversal that signals the end of the underlying uptrend but the term "key" is meaningless to us since much time must pass before one can determine that a long-term underlying trend has been reversed. However, regarding top reversals in general we will state that in our experience it never pays to downplay the negative trend implications of a reversal.

During September prices traversed \$388 from high to low, surpassing the size of the, until now, record large range of January 1980. September's range was also greater than the entire range of the 8-month long correction of 2008. Note that the up price cycle that topped in 1980 did not feature a monthly top reversal but the January 1980 range was \$332 (we are using the "true" range value since there was a gap between the December 1979 close and the January 1980 low). September's range was preceded by August's also large range of \$307.90. The combined back-to-back August-September sequence is comprised of two out of three of the market's historically largest ranges. That sort of price volatility is more often associated with interim price tops than interim price lows.

Shifting to the weekly gold charts below, we want to focus primarily on trend momentum. We are using a 10-period ADX trend indicator that is shown beneath the weekly price continuation charts.



As you can see on the right inset chart, the indicator peaked the week ended September 16, 2011. The peak reading was fractionally below 64 and it was the highest reading in this weekly indicator since the 1980 price cycle high when there were three consecutive weekly readings above 81. The dashed magenta line on the indicator shows maximum readings (61.5) that have been associated with interim price highs that have occurred in the advance that started in 1999. In only one instance, shown circled in 2008, has the indicator turned down from above 60 then quickly scored a new high. Thus, a weekly ADX downturn from

above 60 is probably not a whipsaw. Thus the indicator downturn of 2 weeks ago implies that the uptrend phase that preceded price highs above \$1900 is unlikely to see a quick resumption. For informational purposes we have included most of the 1980 price cycle as well as its ADX indicator that we scaled the same as the 2005 – 2011 indicator (left chart). Please realize that the ADX shown is not an uninterrupted series even though it appears to be so.

Before moving on we want to make a quick observation about outright uptrend development. Observe the 1978 – 1980 period. We drew a freeform red curve below progressively higher price lows. Uptrend development in this case accelerated through time: the higher prices went the faster they climbed. Now look at the 2008 – 2011 timeframe. Here we drew a red straight line below progressively higher price lows. We could not configure a curved line. The contrast in the two time periods is significant in that the move up to the 1980 high was clearly a classic case of an accelerating blow-off whereas the move up to the September 2011 high, while remarkable in its magnitude, does not have the appearance of being a blow-off.

To summarize, both monthly and weekly momentum conditions in gold have begun to deteriorate against the backdrop of record price volatility with prices at new all-time highs. In the dynamic environment in which we are now operating almost any imaginable, and some not so imaginable, macroeconomic or geo-political event can occur that might propel gold prices further into new high ground above \$1920. However, as we currently weigh intermediate- and long-term technical developments we conclude that traders and investors who are counting on quick and sustainable uptrend resumption are likely to be disappointed.

We have previously discussed potential downside price prospects relative to the current uptrend that dates from 2008-09. Technical conditions have not improved since then. Based on the analysis in this essay we expect further volatile high level consolidation that is, at best, contained within the September extremes at \$1920 and \$1532, basis the nearby Comex futures. Before the current consolidation/correction is over we expect that the market will establish at least 2 monthly closes that are progressively lower and that are below today's close at \$1624.70. Additionally, monthly 14-period stochastic %D values should decline to the 68 area, in a best-case scenario, before prices develop lasting upside potential and to the 50 area in a more protracted corrective scenario.

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Note: Some price points in the inactive front month Comex futures may have been extrapolated from prices in the first active month and may reflect either the official exchange session or electronic data that occurs after official exchange hours.

Charts constructed with Omega Research SuperCharts and Equis MetaStock.  
Data Source: Commodity Systems Inc; Reuters DataLink

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