# TECHNICAL INSIGHT

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## CAN GOLD FIND A HIGHER RANGE? IT NEEDS A SILVER LINING

- Monday's close above USD1,272/oz (50% of range since Oct.) opens a potential Head-and-Shoulders pattern with a target of USD1,365/oz-70/oz.
- Dips ought to remain above USD1,278/oz to allow gains to continue, with stops against a failed pattern below 1,265.
- Interim hurdles lie at USD1,292/oz and USD1,308/oz (see Figure 1). A close above these hurdles would underscore the potential that a broader basing structure has been underway since June 2013.
- The push higher in Silver this week is welcome, but it still needs to make a more concerted break higher to confirm the moves in gold.
- This will still be seen as a consolidation rally (establishing a trading range) rather than a reversal of gold's declines from 2011's USD1,921/oz high.

**FIGURE 1. GOLD DAILY BAR CHART WITH RSI & S.STOCHASTICS**


Source: Bloomberg, ANZ

The break higher this week could trigger a series of gains, through the hurdle zone of USD1,292/oz-1,308/oz, towards USD1,365/oz within a broader USD1,180/oz-1,430/oz trading range established last year. Dips should ideally remain above USD1,270/oz.

Figure 1 shows the potential of a Head-and-Shoulders (H&S) pattern which has been forming a base since November. Ideally such a basing pattern would have a downwards sloping neckline (the red-dashed line in Figure 1) with the right "shoulder" (preceding the break) basing slightly lower than the left shoulder did. The above pattern is therefore not seen as potentially powerful as a reversal pattern, but should still allow for gains to develop through the range of the past eight months.

Figure 1 also shows that Gold peaked with a similar (mirrored) H&S pattern in August. This highlights an important aspect of H&S patterns. They are more often formed within broad consolidations (effectively corrective patterns) than forming dynamic reversal patterns. The fact that the current basing-H&S does not conform to the classic pattern suggests that it is a corrective pattern as well.

Nevertheless, this should allow for a break from the dull price action of the past few months and trigger a move through the former support of USD1,292/oz and 50% of range since June at USD1,308/oz.

The broader view within Figure 2 shows how price action has developed since the 2011 peak. The break below USD1,525/oz effectively triggered a range flip to just below USD1,200/oz. Weekly momentum is supportive and the current rebounds have the potential to repeat the rebound of mid-2013 and so trigger a retest of the USD1,434/oz high of August 2013.

**FIGURE 2. GOLD WEEKLY BAR CHART WITH RSI & S.STOCHASTICS**


Source: Bloomberg, ANZ

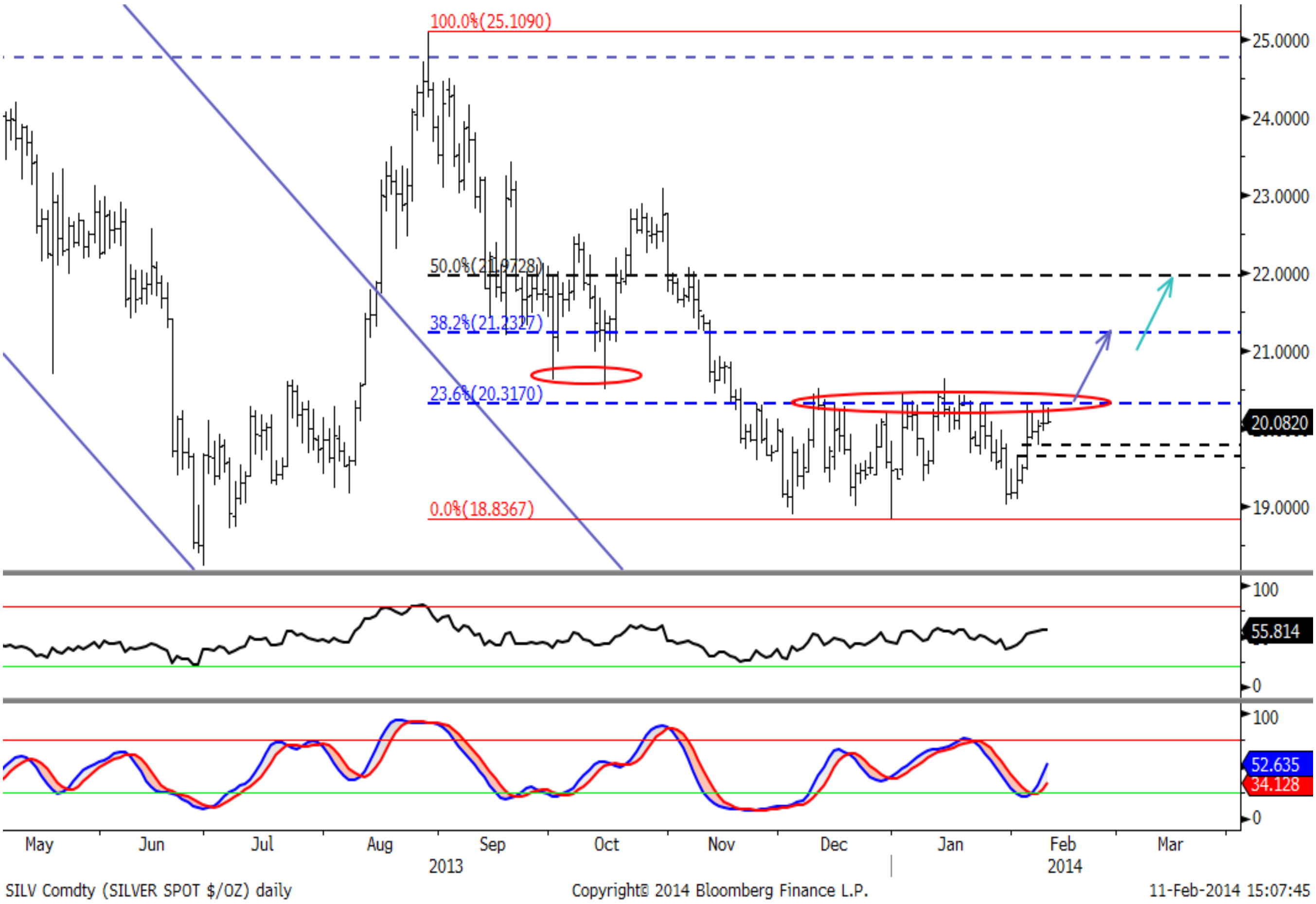
Although price action should form some decidedly positive moves in the near term, it is still seen as forming a corrective rebound. This implies that the setbacks from the 2011 high formed only the initial leg of a much longer term consolidation pattern. The recent lows are therefore seen as forming the base for a series of range-defining rebounds over the next 12 months rather than setting up gold for a return to the major rally which dominated the preceding ten years.

Once again it should be noted that the USD1,292/0z-USD1,308/oz area may act as a considerable hurdle for further gains and any slippage below USD1,265/oz will undermine the near-term positive profile for gold.

When looking at potential break outs, technical analysts should look for confirmation of such a break. Momentum indicators are used to assist in this, but like instruments, are also used to provide a degree of confidence in a potential break. This is a fundamental principle of Classic Dow Theory.

In the case of gold, silver is often used as a means of confirming a potential break. Figure 3 shows the price action of silver over the past nine months in order to assess how convincing the break higher in gold will be.

**FIGURE 3. SILVER DAILY BAR CHART WITH RSI & S.STOCHASTICS**




Source: Bloomberg, ANZ

Although silver has rebounded relatively soundly off its recent USD19.01/oz low, it has once again faltered at the minimal expected retracement resistance level (23.6% on the price range of the past eight months) of USD20.32/oz. Daily momentum indicators may be supportive, but a clear break and close above USD20.32/oz (ideally with follow through above USD20.65/oz.) is needed to suggest that silver can also form some decent upside retracements with targets of USD21.24/oz (38.2%) and USD21.98/oz-USD22.00/oz.

Failure to gain a close above USD20.30/oz will reduce the confidence in the current break higher in gold. Also, a slide below USD19.78/oz. (confirmed below USD19.64/oz.) would undermine recent gains and would suggest that both gold and silver are likely to remain within shallower ranges and could even suffer yet further retests of recent lows.

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