

GOLD COMMENT

THE CURRENT CONSOLIDATION HAS BEEN LONG AND TIRING BUT IT SHOULD GIVE WAY TO A STRONG RALLY

March 8, 2010

Our Gold Comment has been marching along with the current bull market since its early days, back in 2002.

One of the main features of the secular bull market is its ability to mask its bullish intentions. What better way of doing that than injecting some doubt and confusion into the market? The recent correction did just that. While the strong advance of late 2009 quickly turned the bullish thermometer red hot, the December-February pullback brought back wintery cold and chills. In fact investors' sentiment did such a U-turn that some commentators tossed in the term "bubble" in reference to the decade-long bull market in Gold. What music to our bullish ears!

Looking at the Gold sector, as measured by the XAU and HUI indices, the market action of the last few weeks has followed a similar pattern:

- The Indices and stocks pulled back in the classic "A-B-C" or "down-up-down" fashion.
- The respective pullbacks have taken the indices near their rising 200-day moving averages, but without threatening those averages.
- The leading Gold stocks successfully re-tested their major support levels.

As anticipated in our previous Gold Comment, this corrective action was followed by a brief base-building effort. It comprised the initial low of February 4th and a recovery rally toward the 50-day moving average in mid-February, then was followed by another decline which successfully re-tested the previous low.

Since then, the Gold sector has been on the rise, not only overtaking the previous high but also climbing back above the 50- and 200-day moving averages. Most importantly, the 50-day moving average has started to flatten out which, combined with rising 200-day moving average, could be the harbinger of a new up-leg. The November high should be viewed as the objective of a possible rally.

Looking at the larger picture, the majority of big-league stocks such as Barrick Gold, Goldcorp or Newmont Mining have been locked in consolidation patterns that date back as far as 2004. Breakouts from those massive formations would not only mark the end of a range-bound trading for these stocks but spark a runaway rally in the entire Gold sector. Look for a move above \$50 for Goldcorp, above the \$57-60 range for Newmont and \$50-54 for Barrick Gold (for more details look for upcoming stock reports on those names).

In the meantime, investors should continue to focus on smaller names with strong chart patterns like Fronteer Development Group, Gammon Gold, Golden Star Resources or Semafo, to name a few.

Despite the bullish prospects for 2010, investors should be aware of the possibility of a trend reversal at any time. Any sustained declines below the rising 200-day moving average would demand close attention.

The recent action in Gold stocks suggests that the corrective period should give way to a rally with, November 2009 highs as an objective. Higher targets are also clearly visible.

Olaf Sztaba



GOLD

Weekly chart with 50- and 200-day moving averages



Our previous Gold Comment stated that the main objective of the recent pullback was to align Gold with its 200-day moving average and to test the 1000 level (resistance becomes support). Both of those goals have been met. The recent pullback took the form of a classic three-way or “down-up-down” format. The decline was followed by an advance powerful enough to overtake the 50-day moving average and turn this intermediate-term average up. Most importantly, Gold broke out above the descending trendline that stretched from the December 2009 and January 12, 2010 highs. Although some backing-and-filling is possible, the next major move should be up toward the next targets of 1300 and 1600.



XAU

Daily chart with the 50- and 200-day moving averages



Like Gold, the XAU index underwent a three-part corrective move (A-B-C) toward its 200-day moving average. Then the index had a recovery rally toward its 50-day moving average, followed by another decline, which culminated slightly higher than the previous low. The successful re-test has set the stage for the most recent advance above the rising 200-day moving average and the 50-day moving average, ultimately turning it up. Now, the index is most likely to cement its current position by undergoing some backing-and-forth in preparation for the next up-leg, which should challenge the December high.