Trade Booster

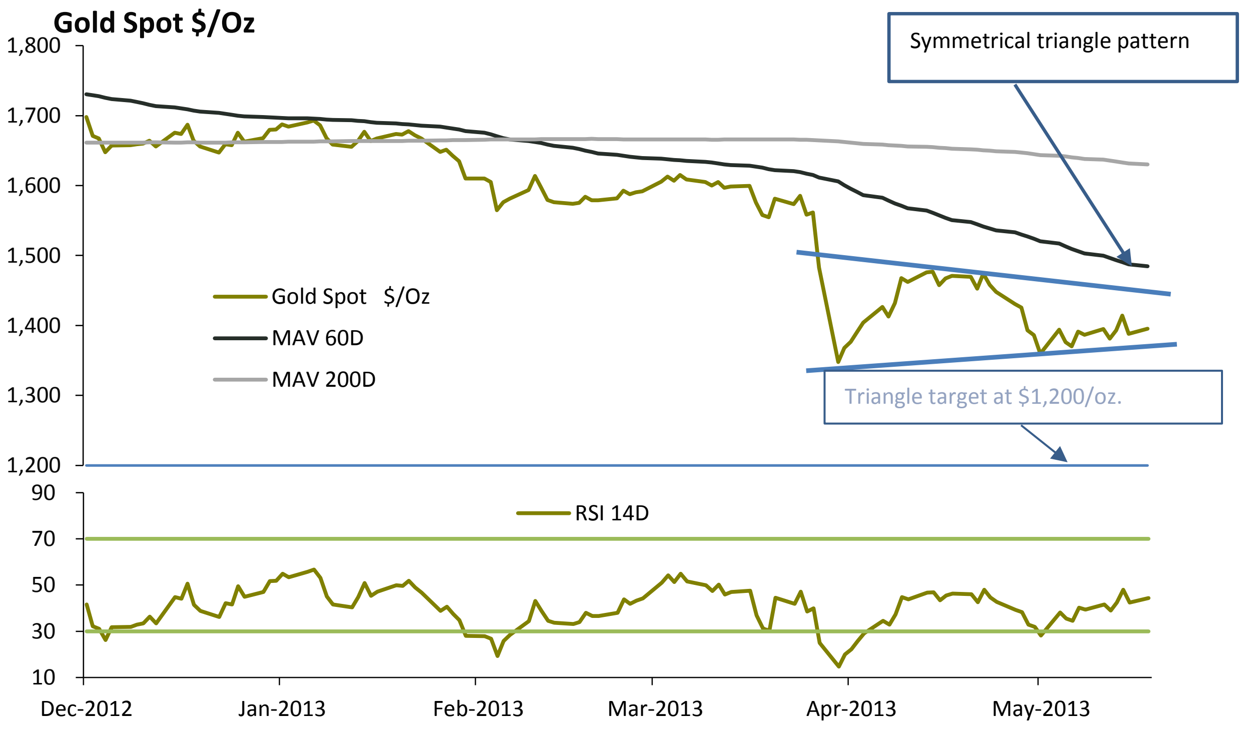
05 June 2013

Gold price rally lacks momentum

Three-thinking ETPs

Summary

- **The muted recovery in gold prices in May contrasts to the steep gains in mid-April**
- **The subdued bullish sentiment is typical of a symmetrical pattern, with a fall to $1,200/oz. possible over the coming weeks**
- **Investors who believe gold prices will fall may consider the Boost Gold 3x Short Daily ETP (3GOS)**



Source: Bloomberg

The rebound in gold prices seen in May was muted relative to the sharp recovery seen in April. This suggests that price gains may have been corrective in nature and that further weakness in the gold price may be seen. A symmetrical triangle pattern is forming which suggests that a breakout below $1,350/oz. could see further weakness down to the next support level of $1,200/oz.

Gold prices have been under pressure for much of 2013 and this may continue. The 60-day moving average crossed below the 200-day moving average in late February and the current gold price remains below both these levels, an indication of a bear trend. The steep rise in the 14 day RSI, (which is a measure of momentum), in April was not matched in May, even though the indicator returned to the same area. Both of these support that the underlying trend is bearish.

The price consolidation in mid-May is forming a symmetrical triangle pattern, a useful forecasting tool for technical analysts. A fall below the support near $1,350/oz. would suggest a triangle breakout to the next major chart support level of $1,200/oz. Chart resistance is seen near $1,440/oz. from this pattern.

Appendix

Symmetrical triangle – This is a consolidation pattern which typically forms after a sustained rally or fall in the underlying asset price. The symmetrical triangle forms as prices consolidate after a sharp price move but the range of the consolidation narrows. The centre point of the consolidative range should be relatively horizontal so that price activity is generally 'going nowhere' during this period. The highs should be declining though and the lows should be rising – which gives the pattern the form of a falling resistance line (connecting the relevant highs of this consolidative period) and a rising support line (connecting the relative lows) which are converging. The symmetrical triangle is deemed to have more significance if prices break out of the triangle before 2/3rds of the triangle has been covered. A break out after this – or through the apex of the triangle, is a sign of a weak trend or a very flat trend. Chartists would usually expect the symmetrical triangle to be broken in the direction of the price action seen before the triangle formed.

Triangle breakout objectives – Triangles, whether they are descending, ascending or symmetrical, have their price targets calculated in the same way. The height of the triangle (the difference between the highest price and the lowest price that defines the start of the triangle pattern) is extended from the triangle breakout point in the direction of the breakout. Prices are expected to trend towards this objective and not return into the triangle pattern. In the case of the symmetrical triangle forming in gold (above) the height of the triangle is taken as the difference between $1,480/oz. and $1,330/oz. (start of the triangle). This difference ($150/oz.) is extended from the breakout point (currently at $1,350/oz.) to give a target at $1,200/oz.

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