Ira Epstein's Gold Report

12-29-2014

What will be the key to gold's price moves in early 2015?

Will it be…?

Inflation

Deflation

Oil's decline

Economic Growth

Russia…a wild card

Quantitative Easing

We're now two years into the bear market in gold, with prices *not* paying attention to a series of normally bullish events. This was the year that Russia invaded the Ukraine, the Middle East saw the rise of ISIS, we witnessed a crash in the price of oil, US interest rates defied expert projections by dropping hard, we witnessed a crash to record lows in European interest rates, we saw the end of Quantitative Easing in the USA, a worldwide rise in deflation is taking place, a slowdown in Chinese economic growth continues to unfold, Japan's money presses to inflate its economy and the European Central Bank finally acknowledging that the fight against inflation was the wrong fight.

I'm sure I've left out some other important events, but you get the point. Events that normally are bullish gold haven't been while events that are normally bearish, gold are working.

I think it smarter to try to figure out what gold will try to do in the first part of 2015 rather than the whole year. It's easier to look at gold on a month to month or quarterly basis; given that it's sensitivity to normally bullish events did not hold it up this year and there aren't a lot of new bullish events on the horizon. Keep in mind that last year, gold saw its best gains right after the first of the year and spent the last six months of the year falling in price.

Rising Dollar Impact: The impact of a rising Dollar should continue to exert a bearish influence on gold because gold is priced in Dollars. The higher the Dollar goes, the more negative impact seen on gold. Whether or not the Fed raises interest rates anytime soon, the Dollar gets a bid because our economy is improving as other competing economies are shrinking. If there are any surprises in store for interest rates, it will center on when the European Central Bank lowers interest rates and when the US raises them. This is Dollar positive.

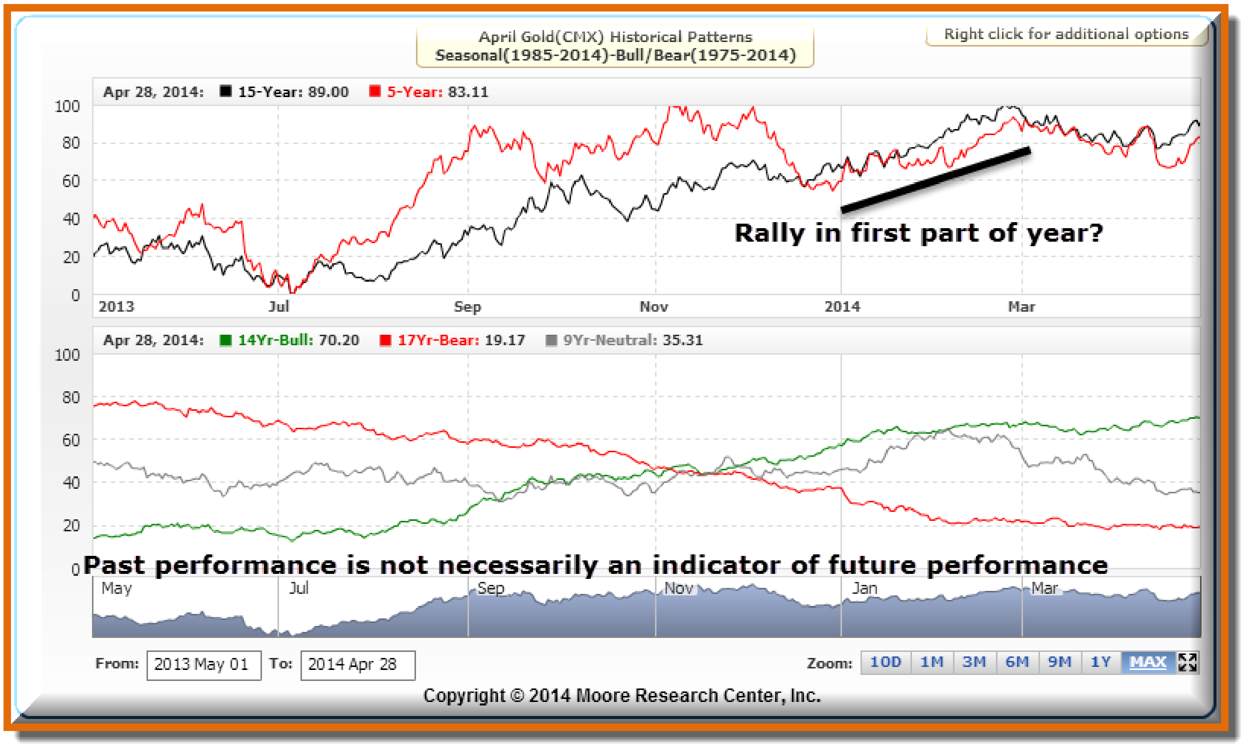
Falling Oil Prices: The surprise of the year has to be the speed and magnitude of the drop in crude oil prices. Lower energy prices offer a "tax" break to consumers while it robs income to producer countries. The break in large part is due to the USA becoming in but 5-years as large an oil producer as Saudi Arabia. This change means the US does not import as much foreign oil as it once did, which makes that oil available to others who don't need it due to their economic slowdowns. Because producers need the income, producers haven't cut back enough on production to cause prices to rally. Therefore, this is a deflationary event that is not bullish gold, although any "surprise announcement" by OPEC members, including Russia or Mexico could put a floor in oil and would be positive gold prices. For the time being, production is not being cut.

Chinese Demand: China is the number two consumer of gold. Price break in gold will likely see China and the number one consumer, India, support gold on price breaks. It does not appear that India is likely to change its policy of imposing gold duties even though the government there had been discussing do so in late 2014.

Foreign Debt: Russia is witnessing either a planned event by the Saudi's and US to economically cripple Russia or Russia is simply running into headwinds of its own choosing. If Crude Oil prices don't rally from the $60 a barrel area, Russia will find itself looking at a decline of 4% in its 2015 GDP according to the Russian government. Venezuela will likely declare itself bankrupt if prices stay at $60 or lower. If Russia sells gold in place of currency reserves to support the ruble, that supply coming to market might be considered bearish.

Deflation: This year I spent time laying out my case that the upside catalyst gold needs to see in order to mount a sustained rally is inflation. None of the world's major 20 economies are experiencing inflationary pressures. If anything, its deflation that's taking place, which is not friendly to gold pricing. The latest round of the price break in crude oil is just being factored in and it won't be inflationary. If anything, it will add to deflation pressures.

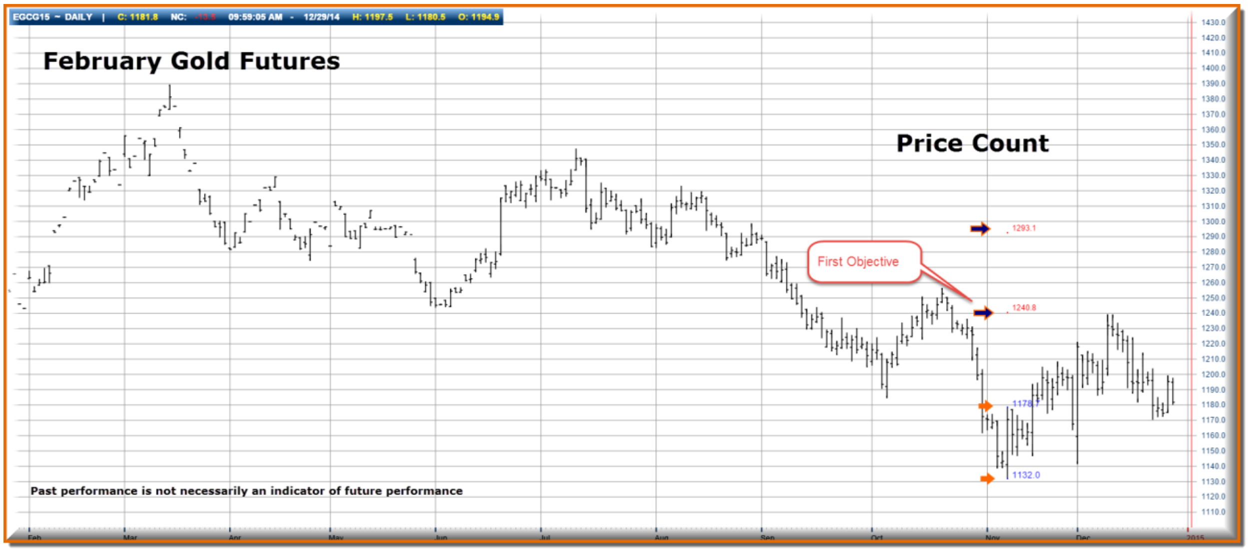
Seasonal Gold Chart



Last year we witnessed new lows being made into year end. After the beginning of 2014, gold turned around and soared sharply, rallying into the mid-year before topping out and breaking into new lows at the end of 2014.

Prices are once again acting poorly even with today's failure of Greece politicians to elect a new president. This failed election triggered what's called a "snap election" which means the government has to be dissolved within 10-days and new elections held, likely at the end of January. The outcome could end up yielding power to ant-austerity independence parties, which would deal a sharp blow to Greece's international bailout program. The radical left opposition, the Syriza Party has threatened to tear up the current economic overhaul and austerity program that has accompanied the country's international bailout. Syriza is currently leading in polls. Yields on the country's 10-year bonds rose to a more than 18-month high of 9.3%.

Past Upside Price Count Chart



The above chart **had** a Price Count that set itself up when prices bottomed out at 1132 and moved to 1178.7. I am showing it simply to show how it was derived, that an upside target zone was hit and that the pattern is no longer valid.

The initial upside target, the first Price Count Objective is 1240.8 and was just missed as prices hit 1239 and have since fallen. Keep in mind that Price Counts aren't about hitting a number on the head. They're an indicator of where prices might go, a zone if you will, as to where prices might be headed if a trend holds together. As far as I'm concerned, the Price Count zone was reached.

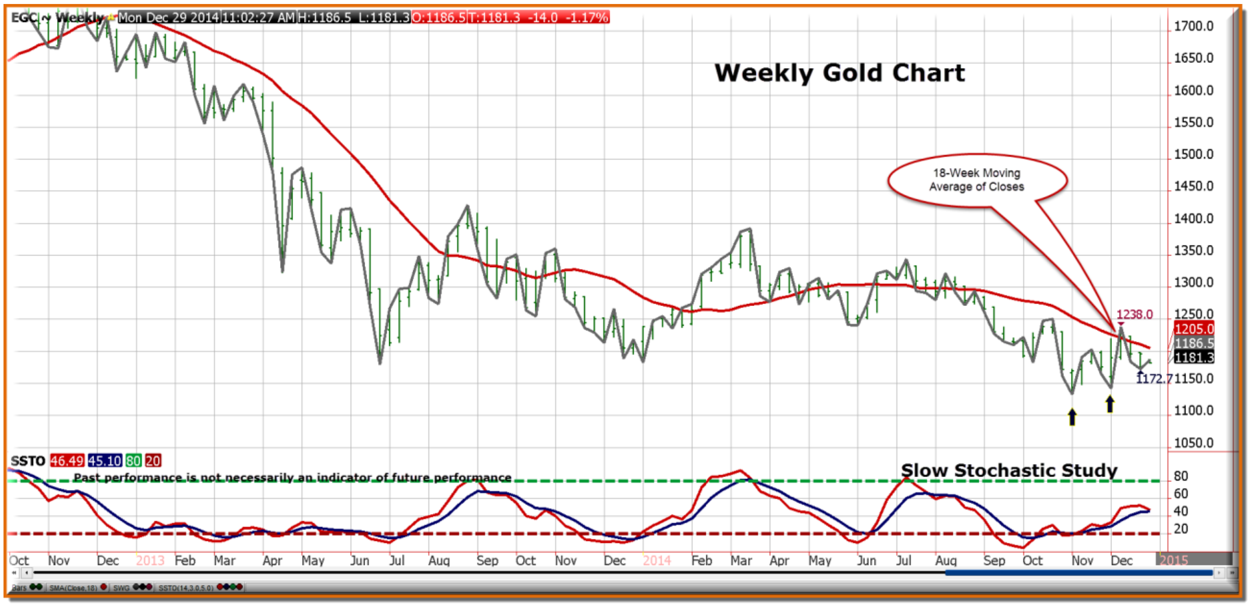
Now that the Swingline Study on the Daily Chart has turned down, the upper price counts are no longer in place. New lower Price Counts are. Let's take a look at them on the chart below. Keep in mind that the way I use Price Counts is heavily dependent on Swingline Studies as well as the Price Count formula.

Current Downside Price Count Chart

The current downside Price Count comes in at 1159.2. That's only $20 lower from this writing. The second downside count comes in at 1139.2. What would negate these counts according to Price Count Rules is to not take out the first reaction high which is 1213.9. Until violated, downside counts are active.

Weekly Chart

The Weekly Chart trend is up.



The current Swingline Indicator pattern is one of a higher high, 1238 and a higher low, 1141.7. This means the Swingline Indicator is in an uptrend, higher highs and higher lows.

Higher highs and higher lows (an uptrend)
Lower highs and lower lows (a downtrend

The Neutral Point, as I like to call it is the 18-Week Moving Average of Closes, 1205.0. I consider this moving average the “line in the sand”. When prices are over it, you look to be a buyer. When under it you look to be a selling. This moving average also acts as a master filter on the Swingline Study. When the Swingline is pointing up and prices are trading under the 18-Week Moving Average of Closes, the two indicators are fighting each other, which neutralized each’s price influence.

Therefore, this chart is void of trend.

Daily Gold Chart

I teach how to quickly look at charts in my Charting Course. In the case of this chart, my eye goes to the oversold condition of the Slow Stochastic Reading, as seen on the lower part of this chart.

Slow Stochastics are made up of two lines using the same formula with one different variable. That of time is the variable that sets part the "K" line, the one in red from the blue one, the "D" line. The difference is that the K line uses 3 time frames and the D line uses 5 time frames. Since this is a Daily Chart, 3-days versus 5-days.

When either of the lines have a reading under 30, I call this oscillator oversold. Oversold conditions can resolve themselves in one of two ways. The market can rally, causing both the oscillator numbers to get back over a 30 reading or the market can work lower, causing both numbers to get under 20. At the moment of this writing, the market is simply oversold.

The Swingline Indicator is bearish. It has a pattern of lower highs, shown by the down arrows and lower lows if you look at the lower apexes. Prices are trading under the 18-Day Moving Average of Closes, which is bearish as well.

Conclusion

For the moment, gold is caught in no man's land. It has a downside bias caused by prices trading on both the Daily and Weekly Charts under their respective 18-Day and 18-Week Moving Average of Closes.

Crude oil, gasoline and heating oil continue to decline. This decline is bearish gold as its impact on consuming countries is deflationary.

Russia might sell gold from its reserves to support the ruble when the ruble comes under attack again in 2015. You'll notice I said "when" not "if" as I think another assault by short sellers will be in the cards due to lower energy prices. Generally lower prices end with a bang or some type of headline event. We haven't seen that yet so I think energy prices have lower to go.

I don't expect Greece to be a market supportive event for gold. Now that Spain and Ireland seem to have gotten their economies back from the edge, Greece's problems will not be as important to the Eurozone as they were just a year ago.

The European Central Bank is likely to enact Quantitative Easing (QE) measures in early 2015. Some think it might come as soon as the upcoming January meeting takes place. QE should not at first add to inflation pressures in Europe. Down the road if the measures are successful, QE will be inflationary; I doubt they will be at first.

So what's left is the historical tendency of gold prices to advance in the first quarter of the year. Look at the Seasonal Chart at the beginning of this report and you'll see gold has a tendency to rally in the quarter.

Given that the Daily Chart is oversold, it either embeds over the next week or prices are likely to rally. If prices go sideways or break and embed, you sell gold, looking for contra seasonal move to the downside even if the Weekly Chart stays as is with the bullish Swingline reading. The reason is because prices staying under the 18-Week Moving Average of Closes combined with a bearish embedded Slow Stochastic reading on the Daily Chart, should it develop is bearish.

As for the bull case, I don't have one since gold is not trading over its key moving averages which is the first step needed to develop a bullish scenario.

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I also hope you like the new look of my gold report. It goes hand-in-hand with the total new look of the Ira Epstein Division of the Linn Group, Inc. Website.

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