Ira Epstein's Gold Report

2-5-2015

Crowded Trades

Europe embarks on QE

Greece

Seasonality

Deflation

Oil

Energy prices

Up until February 3, gold witnessed an overall strong bid. That's now changed and has left me leaning to expect lower gold prices in the first half of 2015.

Europe continues to provide gold with a bid. It's not Chinese or India buying in my opinion. Rather its concern about the fallout of the quantitative easing program the European Union is about to embark on along with fallout from Greece's confrontation with its lenders and falling oil prices.

The month long rally in January was partly due to traders looking for investment opportunity in gold. US stock prices began correcting shortly after the beginning of the year, culminating in a drop of approximately 6% from January 1st through February 2nd. Prices reversed their break on beginning this past Tuesday and have rallied sharply since then.

The impact from falling oil prices have been going on for months, dropping inflation rates around the world in the process. At the same time in countries that are oil exporters and corporations that depend on oil prices greater than $45 a barrel there's been lots of hurt.

The US consumer and consumers for that matter around the world have benefited to varying degrees from lower energy prices, but those saving haven't been translated in increased consumer consumption according to a recent US government report. Add to this mix concerns the Russian-Ukrainian situation, a strong US Dollar and interest rates at historic lows and you end with up cross current that have gold slipping into and out of short term trends.

In my December 29th Gold Report I offered up my thoughts on the impact on gold from:

- **A rising Dollar**
- **Falling Oil Prices**
- **Chinese demand for gold**
- **Foreign Debt**
- **Deflation**

All in all, the write-up I did back in December remains the same and the impact from each component remains unchanged at this moment in time.

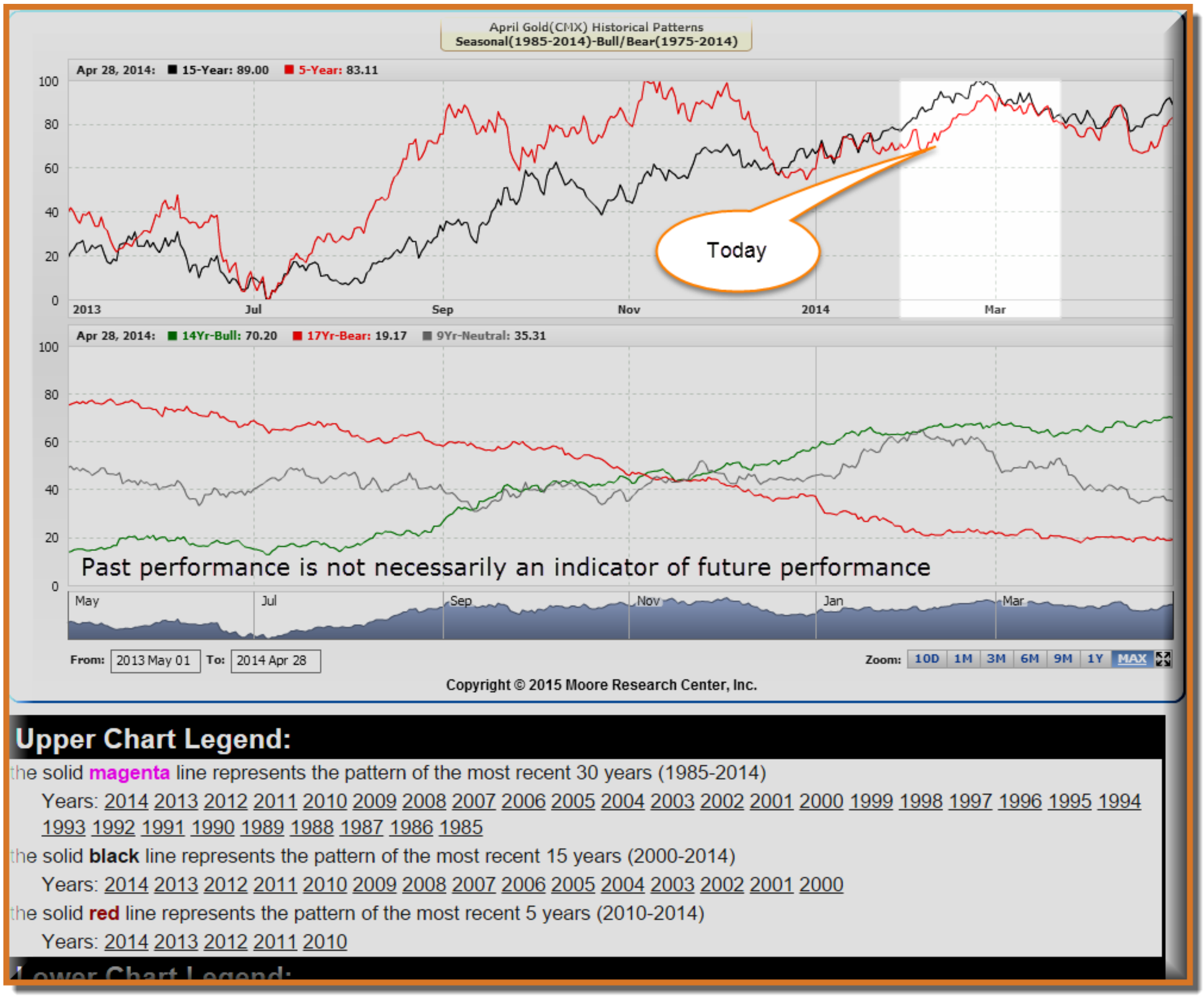
This past Tuesday saw rather dramatic moves in a number of futures markets. Gold sold of rather hard with sharp reversals taking place in the US Dollar, oil prices, bonds, notes and stock indices. However, as I see it the larger picture still remains as it did in December. This implies that the Dollar will remain the currency of choice, oil may have gotten too cheap at $43.50 a barrel but prices over $60 a barrel are probably too expensive at this time, foreign debt problems have not been addressed, China continues to see its economy slowdown and deflation numbers continue to worsen in G-20 countries.

At time trades get what we in the business call "**crowded**", which means too many people on the same side of a trade idea. Another way to explain is that a trend that has been running without much in the way of a correction finally enters a correction mode. Tuesday's correction was probably due to just that as the overall fundamentals haven't changed and no, Greece simply isn't important enough to the US economy to move US stocks or US treasury instruments as took place on Tuesday.

The recent 25% rally in oil is impressive, but keep in mind that it comes from a $43.50 price level and doesn't come close to the $100 a barrel loss in oil prices over the past 7-months. Therefore what Tuesday represented to me was the end of crowded trades and puts markets that were in them into a state of flux for the moment.

Gold needs to see or suspect that China and Europe have turned the corner in terms of growth before a lasting rally takes hold. There will be spurts where safe haven status makes sense, but they will be spurts, not lasting trends. Deflation remains the story along with a relatively strong Dollar and low interest rates. As a group, these elements are not long term friendly gold, but they do set up conditions where the drive in lower currency values that these elements create against the US Dollar eventually boosts inflationary expectations. The problem is that this is not where the world is in the cycle…yet.

Seasonal Gold Chart



As you can see on the above chart, there's a little time left before the seasonal trend turns down in terms of time, but not much. February 24th according to the above chart is often the high point. A strong seasonal move to the downside kicks in at month end and often lasts through March. In the past 15-years, this pattern has worked 13 times, or 80% of the time.

Weekly Chart

The Weekly Gold Chart trend is up.

The current Swingline Indicator pattern is one of a higher high and higher low, with the current low number being 1251 as labeled on the above chart. When 1251 is taken out, my expectation is for a move down to the 18-Day Moving Average of Closes, shown as the red line on the above chart.

The black dashed lines are Bollinger Bands. The upper band has done a nice job, as it's designed to do containing price rallies. I expect that once prices close back under the 18-Day Moving Average of Closes, a move down to the lower Bollinger Band will become the immediate downside target. Remember that these numbers change on a daily basis, but the overall game plan I'm laying out will follow very close to these parameters.

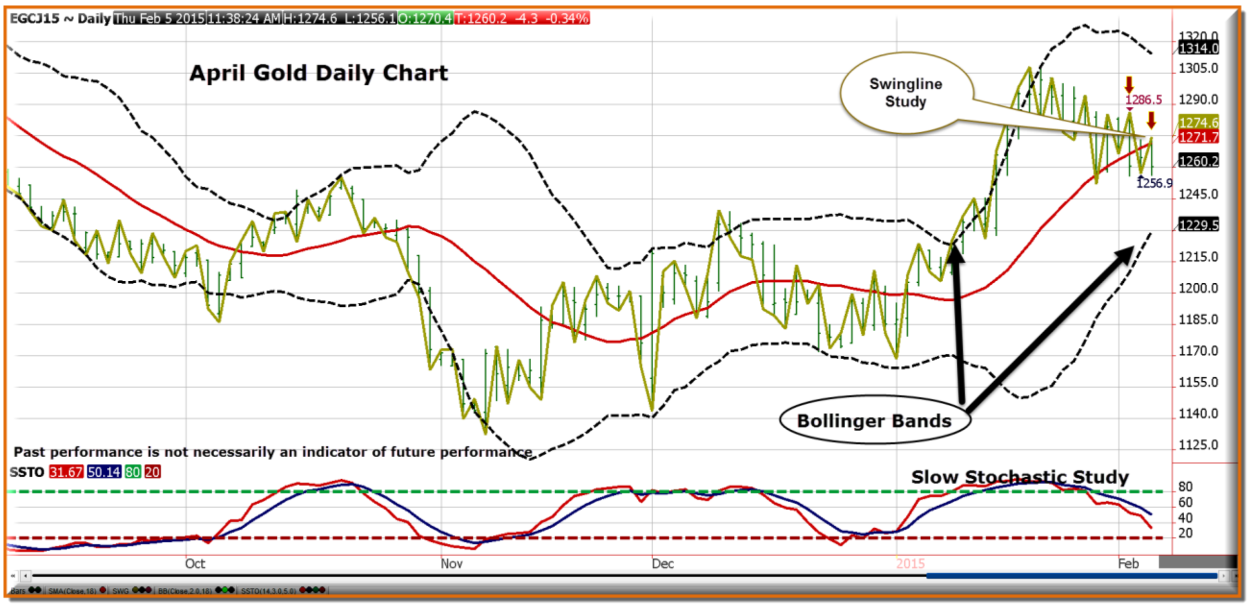
This chart is now in the bull camp.

The Swingline Indicator is currently in an uptrend. The key to its trending is the plural of highs and lows.

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

Momentum as measured by the oscillator called the “Slow Stochastic Study” is now in overbought territory. The Slow Stochastic Oscillator is made up of two lines that criss cross each other. The red line, the “K line” moves around the blue line, the “D line”. These lines are ascending and the shorter term line, the “D” is over the longer term “K” line. I consider a reading over 70 as being overbought. A sign that the market is weakening will be triggered when the “D” line gets under the “K” line.

Daily Gold Chart



The bias has shifted to the downside on the April Gold Daily Chart. Prices are trading under the 18-Day Moving Average of Closes. When this occurs I teach in my charting course that you turn your eye to looking for reasinsto be short. When prices are over this moving average, I shift to looking for reasons to be long. In other words, the 18-Day Moving Average of Closes is a filter I use to determine if I want to be long or short.

The Swingline Indicator is what the 18-Day Moving Average of Closes filters. When it’s down, I look to see if prices are trading under or over this moving average. If under, as is the case now, I look to see what number would negative the downtrend in the Swingline. That’s the risk factor.

As I'm writing this report, it near 11:00 AM, today's chart action is one of an Outside Day Down, which means the market has taken out the previous day's high and low and trading under yesterday's closing price. What we don't know at this time is whether or not the close will be higher or lower. That will be determined at 12:30 AM CST, the settlement time for the gold contract. That's the key to knowing if the Swingline will have lower highs and lower lows, the element of a downtrend. A higher close will drop the line that makes up the Swingline from attaching itself to 1274.6, today's high so far to whatever today's low ends up being. Therefore the key to me is today's close.

Conclusion

It's highly likely I will be issuing a signal to go short late today or tomorrow. The only thing that would stop this if prices closed lower today would be where the Slow Stochastic reading comes in. I don't want to initiate new sell signals into an oversold condition. Therefore, I have my parameter set and will act on this idea if everything comes to together as laid out in this report.

As usual, the way to keep up with my trades is through my daily updates.

If you haven't had the opportunity to obtain our Price Count write up, please click here and include your name, mailing address and phone number. We'll get this out to you and can also set you up for a Free Trial to Market Center where you can apply the study. Our staff will even setup a Join.Me Meeting to teach you how to apply and use the study in Market Center.

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.

You can call us at 1-866 973 2077 or simply click here and include the information in the e-mail message. Be sure to include your phone number in the e-mail as we need it to setup your Free Trial to Market Center.