Ira Epstein's Gold Report

10-14-2015

The Fed held steady in September and will likely do so again in October

China's economic data continues to point to a slowdown that will likely result in 6.8% 3rd Quarter GDP growth

As expected, the Iranian Deal passed Congress since my last Gold Report.

Expect Iranian oil to soon start flowing and keep energy prices down for the foreseeable future

10-14-2015

Could this be where gold climb back into and holds a bull market setup?

US Economic Data

The main problem facing the US which is directly and suddenly impacting gold is the flatness of the US economy. Our economy is stable, which is great but it's not firing on all cylinders. Inflation is not apparent in goods, services or wage growth. While some companies are trying to increase prices, like insurance companies, there are plenty of choices to move to leaving even them without a lot of pricing power.

Watch your bills. I do with mine and call my providers if they try to increase my service fees. So far, I've succeeded in holding a number of them flat or actually getting them lowered. I do this by threatening to move to another provider and when necessary, doing so. Look at your natural gas bill if you use natural gas. My budget price for the upcoming year fell nearly 30% for the upcoming gas season, which gets budgeted now by my utility now.

I'm not going to spend much time here about my expenses or yours. Rather, I'm pointing out that raising prices is hard for service providers. Manufacturers are finding their costs stable or lower. They're not seeing much in terms of wage inflation, cost of raw materials, power to run plants, cost to ship goods and so on. This is holding back inflation. It's a given that parts of this equation will change over time. We're now seeing the impact on Walmart which got clobbered today. Fiat Chrysler is in contract negotiations that will result in higher prices and so on.

While US employment is for all practical purposes at government targets, without inflation the Fed's hands remain tied as their mandate is the combination of full employment and control of inflation. Without inflation, they have no reason to raise interest rates other than this monetary environment is not normal, but hey, since 2008 nothing has been normal. Yes, their desire is there to get back to a normal environment, one where the Fed Fund rate is not near 0, but desire must be balanced with data and the data doesn't support a rate rise.

Energy prices are not rising. Yes they have stabilized as they aren't making new lows. However, once Iran's oil comes to market the market will see more supply unless other producers decide to cut back, which isn't likely given the slow-down in economies that rely on energy exports for their funding.

I am in the camp that does not expect the Fed to raise interest rates in October or December. This could change if, and that's a big "if" US economic data were to suddenly change and consumers started spending in waves. Today's PPI data didn't show that so the market will have to wait on October's data to see what December may hold, which I don't think will cause a rate hike in December.

US Producer Price Index (PPI) Headline Recap released on 10/14/2015

- September PPI Final Demand: -0.5%; expected -0.2%
- September PPI - excluding food, energy, services: -0.3%; expected +0.1%
- September PPI Personal Consumption: -0.6%; prior month +0.2%

China's Economic Data

Let's look at data released today about China's economy.

China

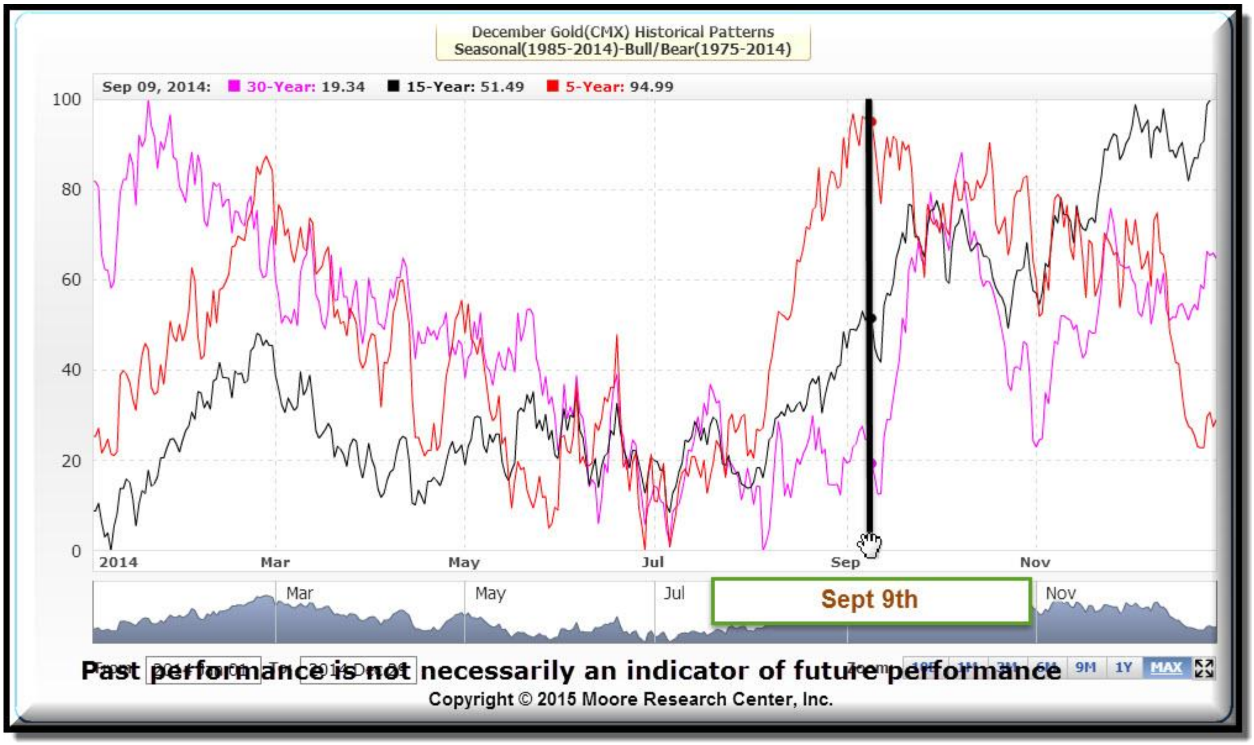
- September consumer price food index was up +2.7% from the year ago month
- Nonfood prices rose only +1.0% on the year.
- September consumer price index rose +1.6% from the year ago month, slightly below the +1.8% rise expected
- CPI on month over month basis was +0.1%
- January through September period CPI was up +1.4% on the year

Economists are forecasting next week's Chinese retail sales pace, on annualized basis, to come in at 10.8% in September, unchanged from the previous month.

Poll of economists expects next week's Chinese 3Q GDP data to show growth around 6.8%, below the psychology important level of 7.0% and if realized would be the lowest since the first quarter of 2009 when the pace was only 6.2%.

If the Chinese are content with this growth, don't look for more stimuli from them. Given that the Chinese government has decided to turn inward, building the country not necessarily their export machine, the world might not get the rounds of buying of raw materials it was and is looking for. Over time this may change, but the Chinese work according to their clock, not that of others. We in the west would love to have 6.8% growth. Maybe the Chinese will end up happy with low material prices, low energy prices, improving internal real-estate prices. Sounds to me like that's a possibility we aren't fully taking into account.

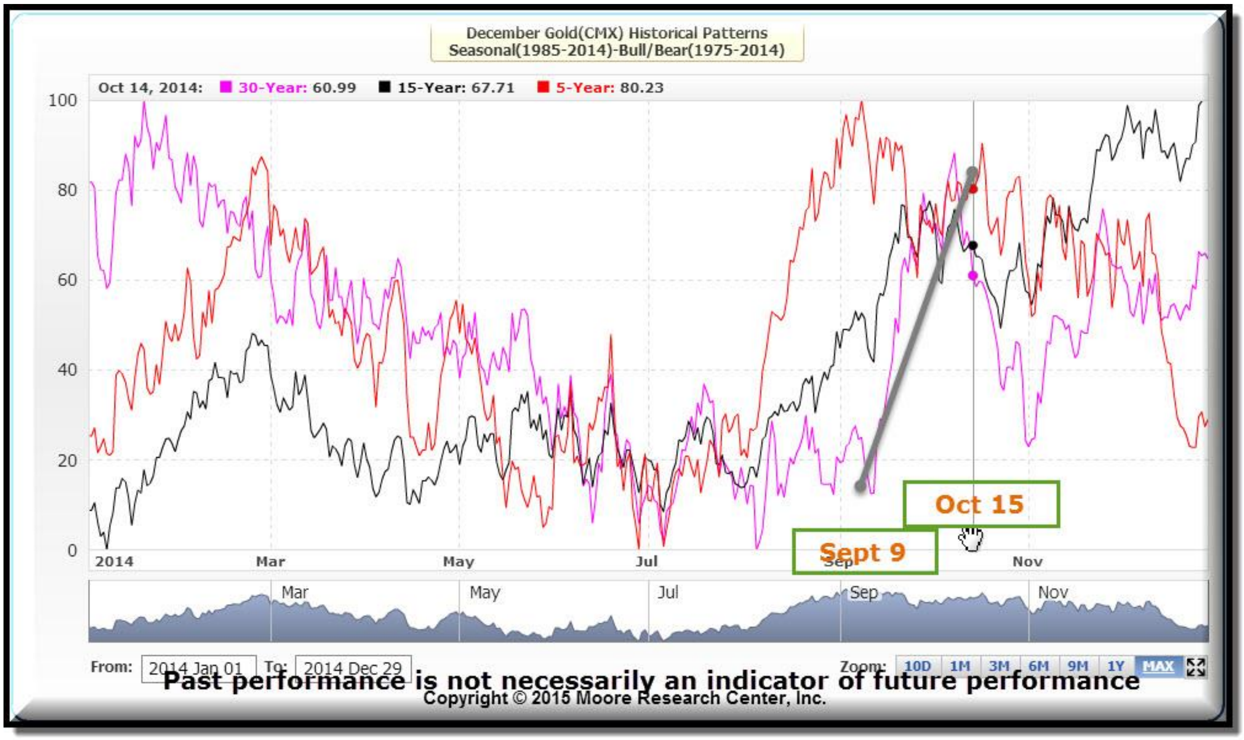
Gold Seasonal Chart



In my last Gold Report, I stuck my neck out and pin-pointed the week of September 9th at the likely time for a market low. That chart is shown below.

Let's fast forward now to a month later.

Disclaimer: This publication is strictly the opinion of its writer and is intended solely for informative purposes and is not to be construed, under any circumstances, by implication or otherwise, as an offer to sell or a solicitation to buy or trade in any commodities or securities herein named. Information is taken from sources believed to be reliable, but is in no way guaranteed. Chart data is courtesy of Linn IraCharts. No guarantee of any kind is implied or possible where projections of future conditions are attempted. Futures and Options on Futures trading involve risk. In no event should the content of this market letter be construed as an express or implied promise, guarantee or implication by or from The Ira Epstein Division of Linn & Associates, LLC or Linn & Associates, LLC that you will profit or that losses can or will be limited in any manner whatsoever. No such promises, guarantees or implications are given. Past results are not indicative of future performance.



What can't be denied is that the seasonality is in fact working as it has in all time categories that the Moore Research Center portrays as lines on the above chart.

- 30-year
- 15-year
- 5-year

The seasonality also calls for a peak hit just days from now. In fact, the above chart often peaks out on this leg of the rally on October 17th. Given the current rally with today gains of over $14 an ounce, the odds of a price peak in the near term stands a good chance of taking place.

What's important to understand is that no matter what you see or believe on these seasonal charts, past performance is not necessarily an indicator of future performance. As I employ it, I find it a useful guide, but not one that stands on its own. If that were the case and seasonal trades "always worked" there would be a lot more success in trading than there is.

Therefore, pay attention to charts like these but don't rely solely on them. Given that by month's end China will be releasing their 3rd Quarter GDP, the Chinese reaction to their economic numbers and how financial market's think China will react to them going forward could end up being the catalyst that offers a buying opportunity on breaks, assuming a correction sets in.

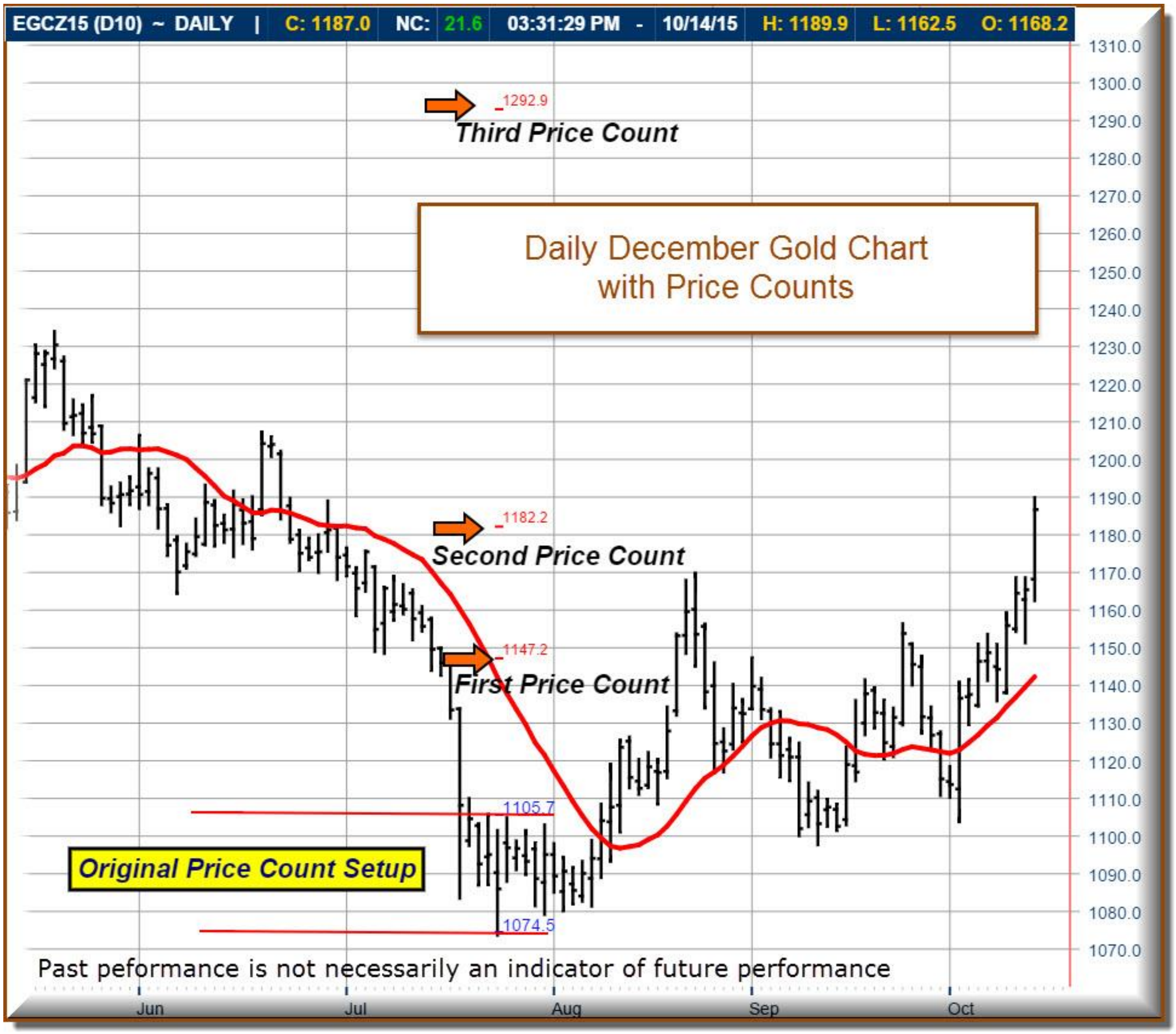
This leads me to state that I am in the bull camp for the duration of the year unless prices were to drop dramatically. Saying that, let's see why that's the case.

Weekly Chart

As I see it, an argument can be made that first, the only price count so far that's been hit is the First Price Count that came in at 1241.7.

Second, prices have now gotten back over the all-important 18-Week Moving Average of Closes, which provides the market with upside bias. Support comes in at this moving average, which is currently at 1137.9. It would not surprise me if on a market break; this becomes a key support number.

Daily Gold Chart with Price Count Study



With today's rally, the second Price Count of 1182.2 has been hit. This leaves open the third Price Count up at 1292.9. The third count is harder to hit than the first or second, but until 1080.0 is taken out it will remain active and an overall price target.

The daily chart below zeros in on important moving averages.

Daily Gold Chart with Moving Average of Closes

There's a couple of important events that are taking place on this chart.

First, I've also labeled the 200-Day Moving Average of Closes which is important to technicans who look at longer term events. I use this average when looking at the longer term as it often acts as a pivot point of resistance or support points, depending on where it's at on a chart.

In this case, it's been over current market prices since February. Now its being challenged. The first attack often results in prices osciallating on both sides of it for a while. Ideally prices will fall back towards thei convergent point of the 18 and 100-Day Moving Averages, which I think would offer a buying opportunity. Given that the 200-Day Moving Average of Closes hasn't been challenged since February, prices have begun to move up in the last quarter of the year as they often do.

Another important event took place if you're a follower of moving averages. Today witnessed a convergence of the 18 and 100-Day Moving Average of Closes (MAC), with tonight's action, we're witnessing a "Bullish Crossover". When moving averages converge and prices are over the convergent point, that is a bullish sign, one that I expect will lead to new highs for the current move sooner rather than later.

In additon the convergent point offers support between the two moving averages. Expect the 18-Day Moving Average to quickly move higher and away from the 100-Day Moving Average of Closes. This is normal. Unfortunately prices rarely drop back that point immediately, if the uptrend takes hold and lasts. Therefore I use the zone between the convergence as an important support zone.

The point I want to make, is that the above two charts offer plenty of reasons to believe higher prices are coming.

Gold ETF…GLD

The chart of the ETF GLD is:

- In an uptrend
- Overbought
- Trading over its Upper Bollinger Band
- About to have a bullish Moving Average Crossover

Like the futures contract, the trend is up and prices bottomed around September 9th. I have a steadfast rule about not initiating new buys over upper Bollinger Bands and will adhere to that given that prices only stay over this algorithem 5% of the time. How much of a price break to expect is the question. Buying into the 110 level would be nice, but I doubt it will be offered.

That measn we wait for a bullish embedded Slow Stochastic reading to set in or wait on a price correction to get long. Getting long is the game plan.

Conclusion

I have no intention of chasing gold at current price levels, but do want to be a buyer on a break.

As I see it, the US Dollar is going to remain under pressure for a long time. The US needs to see economic improvement in terms of inflation. The Fed does not have to wait for inflation; it can act once it has reason to believe that the trajectory of inflation is higher. This eludes them and for that matter, all other central banks in developed countries that make up the basket of reserve currencies have the same issue…little to no inflation.

I expect to see growing divisions in the Federal Reserve, ones that unsettle financial markets. While it's not uncommon for regional presidents of Federal Reserve Banks to disagree with the governing board, seeing governing board members disagree on Fed policy as much as they are in public is unusual.

Gold has come alive since I pin-pointed the September 9th bottom in this report. If my analysis is correct, prices have moved high enough for a correction to soon set in. It's on that correction that I think purchases will make sense.

What's interesting is that when the Fed first moves to raise interest rates, that move will likely cause the Dollar to initially rally which is likely to be taken bearish for gold at first. However, the reason the Fed will move will also become the reason to buy gold. Why you ask. The answer is because inflation will have taken hold. That's the one story that's eluded gold for years. Once inflation kicks in, gold bulls will start their calls for a move back to the highs of $1900.

We're clearly not there so don't get overly excited. Rather, this exercise is about understanding what's likely to become the forces that move gold, most likely in gradual steps once a longer term uptrend has set in which is what the market is now trying to do.

We're in the early stages of a bottom in gold, but one that has shifted me back to the bull camp. If that changes, subscribers to my research will be notified in the Daily Updates I post Sunday's through Friday each week.

Price Count Offer

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.

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.