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LE COIN TECHNIQUE

GOLD – Waiting for a Breakout

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The Gold daily chart gives us a short-term view of the narrowing Bollinger Bands, which took place after the sizeable advance from 1450 to 1788 from mid-March to mid-April. This narrowing of the bands resulted also from a ranging pattern in the form of a triangle, whose upper trendline is defined by the top at 1788 and by the recent spike at 1775, while the support trendline was constructed by a line passing via 1666 and 1676 in April and not broken since on a close basis. The technical analysis literature suggests that a triangle tends to break out between the 2/3 and the 3/4 of their length. 2/3 would be by the first days of June and 3/4 would be by June 15. If Gold is breaking out of its triangle, the classic target is the base of the triangle, namely \$122 from 1788-1660 applied to the break out points, i.e. on the upside near 1770 giving a 1992 target or on the downside near 1712 giving a 1590 objective.

On the upper panel, Gold in Swiss Franc is shown (orange line) but a closing new high has not been recently an early indication of a breakup. Also, the ratio of Small caps versus Large caps (ETF SML divided by OEX – S&P100) shown (green dotted line) seems to be less useful recently, as it usually rises when Gold rises. In the past two weeks, the ratio is rising but Gold had been declining from 1775.

Therefore we need to be patient to get a signal: as Gold rebounded again on the

support trendline on May 27, a rise toward 1745 is possible along a crossing up of the daily STO on the lower panel. If gold then manages to advance above 1745, then a test of the Upper B-Band (1757) is likely and later a test of 1770 should open further upside acceleration toward a breakup. However, a failure to rise above 1745, would maintain a bearish tone along with the more medium-term daily crossing down MACD toward 1712, the trend support. Below 1704, the door opens on a close basis toward 1590.

Graph:

Gold continuous contract CME in daily candlesticks with moving average 20 days surrounded by 2 Bollinger Bands. Further are displayed the Ichimoku Cloud which is well below current triangle formation. Narrowing Bollinger Bands may soon present a break-out potential for a new directional move. On the upper panel is represented the price of Gold in Swiss franc holding within a flat trading range for 6 weeks (orange line) and the Relative Strength of Small Caps versus Large Caps (green dotted line). On the lower panel is the momentum indicator Slow Stochastic at neutral level after hitting overbought area and the MACD, which turned down in a positive area, suggesting slowing momentum.

Source: Stockcharts.com Support lines & parameters are provided by BEST.





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