In Gold We Trust® Report

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Showdown

incrementum

Ronald-Peter Stöferle
& Mark J. Valek

The Midas Touch Gold Model™[89]

> *"The markets are the same now as they were five to ten years ago because they keep changing – just like they did then."*
>
> Ed Seykota

Per usual, it's time for an update on the current status of the Midas Touch Gold Model™ as well as a short- to medium-term outlook from Florian Grummes. The Midas Touch Gold Model illuminates the gold market from many different perspectives, with a rational and holistic approach. It convinces with its versatility and its quantitative measurability. While rooted in extensive data, the model excels at distilling a comprehensive in-depth analysis into a succinct and lucid table, ultimately arriving at a decisive and clear conclusion.

Gold in USD (Monthly Chart)

Source: Midas Touch Consulting, Tradingview

Over the past year and a half, we have consistently advised patience and anticipated that the breakout from the massive cup & handle pattern in the gold market would take longer to materialize. After gold failed to surpass its all-time high in March 2022, our Gold Model definitively shifted to a bearish mode by April. However, we did not expect a six-month pullback, with prices ultimately dropping to USD 1,615. But the most aggressive rate hiking cycle in history led to a severe and deep correction across all market sectors, including the gold market, of course. Fortunately, the Midas Touch Gold Model, combined with our technical analysis, kept us mostly on the sidelines, aside from a one-month summer rally.

By mid-October 2022, short-selling and hedging positions among retail investors had skyrocketed to historic highs, creating a dismal sentiment in the markets that hinted at an imminent recovery. Consequently, the clear triple bottom at USD 1,615 marked the turning point for a new uptrend in the gold market.

[89] We would like to thank Florian Grummes for this digression. Florian is the founder and CEO of Midas Touch Consulting (www.midastouch-consulting.com). Our readers can sign up for free updates and the associated newsletter at the following link: http://eepurl.com/ccKg2r.

In the first step, a swift rebound was accomplished, as gold reached its 200-day moving average as well as the psychologically important level of USD 1,800. Amid a market environment still characterized by fear and skepticism, gold prices then managed to hold above the USD 1,800 mark throughout December, hence setting the stage for the next phase of the recovery rally at the beginning of January 2023. This next wave up propelled gold prices quickly to USD 1,959, bringing them within sight of the magical threshold of USD 2,000. After a rise of 21.22% or USD 243 in just three months, however, bears temporarily resurfaced in February, pushing gold prices mercilessly down to USD 1,804.

One characteristic of successful traders is that they function flawlessly when they are not trading. When the markets calm down and enter a consolidation or correction phase, these traders engage in various activities, such as exchanging ideas with colleagues or conducting research. Traders who struggle to endure inactivity inevitably feel the urge to trade, even when there is often no real reason to do so. For them, the loss of money is less burdensome than boredom.
Dr. Brett Steenbarger

Following the bank run on Silicon Valley Bank and the ensuing banking crisis in the US, gold prices quickly turned around in early March and then sharply surged higher once again, reaching USD 2,009 within a mere three weeks. Since then, gold prices have experienced fluctuations but managed to improve further, reaching as high as USD 2,067. While the spot market has yet to hit an all-time high, the June future achieved a new record high at USD 2,085.

Despite its strong performance, the gold market has gradually lost momentum in recent weeks. The upward movement appears increasingly sluggish, with negative divergences becoming more prominent. It is important to recognize that the rally from USD 1,615 to USD 2,067 (+USD 452 or +27.86%) over the past six months has taken a significant amount of energy, and historically, the months of May, June, and July tend to be relatively weak for gold. Consequently, we have been warning for several weeks about a potential *topping process* in which gold prices could stall out around the USD 2,050 mark, followed by a pullback. Under normal circumstances, this correction would likely lead prices back to the range of USD 1,900 to USD 1,920. It would not be unusual or unwelcome to witness a reunion with the swiftly rising 200-day moving average (currently at USD 1,820) by mid-summer. In the best-case scenario, we may already see a resurgence of buyers outweighing sellers around USD 1,970. In this case though, the correction would primarily be resolved over the course of time and not price, extending until mid-summer.

Alternatively, if the bears make a forceful return, gold prices would likely have to endure a significant decline, too. There are sufficient reasons for a deflationary second half of the year, although these factors are already known and priced in. Furthermore, the number of pessimists continues to clearly outweigh the optimists. Therefore, it would not be surprising if the crash that everyone talks about already occurred in 2022, with the markets being further propelled upwards by the covert implementation of new money-printing measures.

Midas Touch Gold Model™

The Midas Touch Gold Model™ May 13th, 2023 — Version 1.3

Gold USD - Monthly Chart	USD 2,011.01	Buy signal 02/28/23, reversal @ USD 1,658.93	Bullish		
Gold USD - Weekly Chart	USD 2,011.01	Buy signal 03/13/23, reversal @ USD 1,915.85	Bullish		
Gold USD - Daily Chart	USD 2,011.01	Buy signal 05/02/23, reversal @ USD 2,002,15	Bullish		
Gold Volatility CBOE Index	17.37	Falling and neutral volatility, no panic buying		Neutral	
Gold CoT-Report	-222,515	Commercial shortposition too high			Bearish
Gold Sentiment	60	Sentiment is neutral		Neutral	
Gold Seasonality	May	Until at least end of June negative seasonal cycle			Bearish
Ratio DowJones/Gold	16.49	Buy signal 01/03/23, reversal @ 17.56; Gold outperforming Dow	Bullish		
Ratio Gold/Silver	83.62	Buy signal 03/27/23, reversal @ 88.49; Silver outperforming gold	Bullish		
Ratio Gold/Oil	28.84	Buy signal 05/01/23, reversal @ 24.29; Gold outperforming oil	Bullish		
Ratio Gold/Commodities (GNX)	3.75	Buy signal 11/07/22, reversal @ 3.48; Gold outperforming commodities	Bullish		
Ratio Bitcoin/Gold	13.34	Sell signal 01/09/23, reversal @ 12.40; Bitcoin outperforming gold			Bearish
SPDR Gold Trust Holdings (GLD)	937.54t	Plus 11.3t during the last two weeks	Bullish		
Gold in $, €, £, ¥	1 out of 4	Gold up against EUR, GBP & JPY, down against USD over one month		Neutral	
Gold in Indian Rupee	INR 165,419	Buy signal 05/03/23, reversal @ INR 163,327	Bullish		
Gold in Chinese Yuan	CNY 13,992	Buy signal 05/03/23, reversal @ CNY 13,747	Bullish		
GDX Goldminers - Daily Chart	USD 33.60	Sell signal 05/11/23, reversal @ USD 36.20			Bearish
GDX Goldminers Sentiment	38.69	Sentiment is neutral		Neutral	
US-Dollar - Daily Chart	USD 102.51	Buy signal 05/12/23, reversal @ USD 105.52; bearish for gold			Bearish
US-Dollar CoT-Report	-12,626	Commercials shortpositions on the US-Dollar rather small		Neutral	
US Real Interest Rate	-1.600%	3-month T-bill yield (5.25%) - change in the CPI (6.85%)	Bullish		

Gold Model is in buy/bullish mode since March 10th, 2023

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Source: Midas Touch Consulting

The Midas Touch Gold Model™ switched from neutral to bullish on March 10th, 2023. Hence, the model caught an increase of around USD 200 in the past two months in the gold market. However, the situation has significantly deteriorated in the last trading days, with a new sell signal for the GDX Gold Miners ETF and a buy signal for the US dollar. On the daily chart for gold in US dollars, there is not much left until a reversal signal is reached at USD 2,002.15. At that point, the Midas Touch Gold Model™ would also shift to neutral. Silver appears to have already reversed, with a large red daily candle on May 11th, leaving a small double top around the USD 26 mark. However, the gold/silver ratio has not yet switched from bullish to bearish.

Overall, the following conclusions can currently be drawn from the Midas Touch Gold Model™:

- **Both the monthly and the weekly charts still have active buy signals.** In particular, the buy signal on the monthly chart remains strong and would currently only reverse with prices below USD 1,658.93. However, the buy signal on the weekly chart could flip during a multi-week spring correction. Currently, this would occur if gold prices were to reach USD 1,915.85. This threshold increases by approximately USD 15 per week.
- **Seasonality clearly advises caution, restraint, and above all patience.** Statistically, the precious metals sector does not enter a favorable phase until the middle or end of July. June, in particular, is traditionally a weak month for gold prices.
- **Despite the strong upward movement over the past six months, sentiment remains neutral.** There is (still) no euphoria or greed, and the rally has received little attention in the mainstream. These are ideal conditions in the medium term for a sustained breakout above the major resistance zone around USD 2,050 and a multi-year bull market.
- **Since the beginning of the year, gold has clearly outperformed the Dow Jones.** In the big picture, compared to the peak in September 2018, the Dow Jones/gold ratio only reached lower highs in December 2021 and October 2022. A downtrend is slowly but surely taking shape. The next step would be a lower low in the coming year. This means that gold would have to outperform

stocks even more strongly, and the Dow Jones/gold ratio should be heading towards 12:1.

- **Since the buy signal on November 7th, 2022, gold has strongly outperformed all other commodities.** In the coming weeks, a shift in favor within the commodity sector can be expected as part of a correction in the gold market. In particular, the oversold copper price could now take the lead for a while. Subsequently, it is possible that the oil price may take over.
- **The rally of the past six months was not driven by gold ETFs.** For example, the holdings of the largest gold ETF, GLD, only increased by approximately 22 tonnes in the past six and a half months. It is likely that gold ETFs will contribute to additional demand only at higher prices.
- **While gold almost reached a new all-time high, mining stocks (GDX) are trading around 20% below their peak in August 2020.** The Gold Miners ETF already reversed upwards in September 2022, delivering a 68.47% gain and providing a leverage of 2.4 times the gold price. Despite this clear outperformance over the past six and a half months, the performance over the past three years has been disappointing and has clearly lagged behind the gold price. Since May 11th, the Gold Miners ETF (GDX) has triggered a new sell signal. A healthy minimum correction could easily lead the ETF to the 38.2% retracement (to USD 30.62) of the upward movement over the last six months. This would correspond to a correction potential of at least 8%.
- **After a decline of 12.2% within seven months, the US Dollar Index now has some potential for recovery.** With a new buy signal on May 11th, 2023, the greenback could at least recover to its slowly declining 200-day moving average (USD 105.85) in the coming weeks. A slightly stronger US dollar is likely to have a negative impact on the gold price.

Gold in USD (Daily Chart)

Source: Midas Touch Consulting, Tradingview

On its daily chart, the gold price has been getting more and more stuck around the USD 2,050 mark in recent weeks. At the same time, a bearish wedge has formed, while several indicators such as the Stochastic Oscillator have failed to confirm the new price highs (negative divergence). With a weekly closing price of USD 2,010.90, gold has slightly broken out of the wedge to the downside. The wedge formation suggests a correction target around USD 1,825.

Currently, the rapidly rising 200-day moving average (USD 1,821) is also within this range. By mid-July, however, and towards the end of the negative seasonal phase, this important moving average is likely to reach approximately USD 1,900. Ideally, the gold price should test its 200-day moving average before the start of the next wave up. Therefore, along with the 38.2% retracement of the entire recovery rally (from USD 1,615 to USD 2,067), the range between USD 1,900 and USD 1,920 appears to be an ideal target zone for the suspected correction. This would represent the middle ground between a major correction that could disrupt the favorable technical chart pattern and a shallow consolidation primarily over time above USD 1,970, which may not sufficiently cleanse the overheated gold market.

Anticipation is the greatest pleasure.
German proverb

Overall, gold is likely to digest or correct its impressive recovery rally in the next one to three months. The pullback does not necessarily have to be very deep. In the best-case scenario, buyers could emerge significantly around USD 1,970. However, it would be better if the pullback ran towards the range of USD 1,900 to USD 1,920 and closed the open mini gap in gold futures. Subsequently, the breakout above the three-year resistance zone around USD 2,050 to USD 2,075 would be on the agenda, triggering the massive cup and handle formation to the upside. This pattern has accumulated a tremendous amount of energy in the gold market since 2011, which could potentially drive gold prices beyond USD 2,500 in the fourth quarter of 2023. For this feat to be accomplished, it is crucial for the gold price to take a healthy breather in the coming weeks via a significant pullback. If this fails, the breakout above USD 2,075 is likely to be less exhilarating.

Conclusion

Remember – if I am right at the wrong time, I am wrong.
Matt Kenah

Despite some weaknesses, technical analysis is a useful tool for determining the location and timing of investments. It is always important for us to understand the *big picture,* not only from a fundamental but also from a technical perspective.

The secret to being successful from a trading perspective is to have an indefatigable and an undying and unquenchable thirst for information and knowledge.
Paul Tudor Jones

The analysis of market structure, sentiment, and price patterns lets us come to a slightly positive technical assessment. Since the all-time high in August 2020, a speculative shakeout has taken place, which culminated in a final wash-out in the fall of 2022. The Coppock indicator remains at buy, but has formed a small divergence. The resolution of the long-term cup-handle formation is proving to be much tougher and more protracted than expected.

The sentiment is in no-man's land. Given the fact that the gold price is trading just not far from its (USD) all-time high, we interpret this as extremely positive. The combination of continued relatively low interest in gold and silver on the part of investors, and the lack of price fantasy on the part of analysts is, in our opinion, a good foundation for a breakout from the multi-year cup-handle formation. **However, it seems quite possible that this breakout could still take some time as the short-term technical setup has weakened over the course of the last couple of days.**

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