GOLD / XAU:USD

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Introduction

The weekly chart below illustrates my primary view of how I expect the price action in gold to play out over the next few months. In the daily chart which proceeds it, I will illustrate the smaller details of how I derived this larger time frame. Please follow the commentary below along with the corresponding chart and the Elliott wave analysis therein.

Beyond my primary expectation, which is for a move up to around $1,600 p/toz (*per troy ounce*), I do also have two other views, one which is very bullish and one of which is bearish and projects the price of gold continuing to fall to around $850 p/toz. I shall illustrate the bearish view at the end of this section.

Elliot Wave Analysis

Primary View

My primary view is that we have completed or are very close to completing the first part of the corrective move that we have been witnessing in the price of gold since the 10th July high. I am expecting an imminent correction to take prices to between $1,220 and $1,240, to complete the first leg of the current bearish move. Thereafter, I expect prices to get to around $1,120 for the final leg down and remain above the end of 2015 lows.

If I am correct, the low at around $1,120, which is the Fibonacci 76.4% retracement level, should conclude the final leg in the correction and result in price action which takes gold to around $1,600. At this point, I would expect to exit all long trades from any gold miners or gold mining indices, such as GDX (*NYSEARCA:GDX - Market Vectors Gold Miners ETF*)

Figure 1 - Gold weekly chart, Bullish

Below is the daily gold chart with Elliott wave labels, illustrating further detail corresponding to daily price action.

Figure 2 - Gold daily chart, Bullish

As can be seen, I believe today's low gave us the fifth and final wave for the wave C. Gold did bounce immediately, however, we need to see another 60+ pips to the upside to get us through the important $1,220 level.

For those that are keen to take advantage of the potential upside target and have a spread trading account, or an account like that provided by interactive brokers with the ability to buy options, I suggest you buy at the money March CALL options.

For the time being, I do not see any reason to change my primary view as I cannot see any price action which has negated my Elliott wave count. However, if the price action over the next few days fails to move above the $1,220 level for gold, or indeed moves below today's low impulsively, then I suggest we move to a neutral position and await further price action to tell us what the most likely outcome might be.

The break above the $1,220 price level is extremely important right now, as such a move would eliminate the bearish view and give us confidence that we have seen a three wave correction (counter trend in Elliott wave theory) from the November high (marked as red 'B'). Without the move above $1,220 there is still an opportunity for the price action to take us swiftly to $850. Given the very bullish moves in the major US stock indices and the US dollar index, there is little resistance to the projection of new lows from a fundamental analysts view point.

In the next section I will discuss the main alternative view that I have, which is bearish; if this analysis is the correct one to follow, we will likely see prices reaching the $850 level in gold.

Secondary Bearish view

In figure 1, the weekly chart above, I have a light blue zone at the beginning of the chart on the far left and have marked it with the text '*problem zone*', the same section exists in my alternative bearish view.

The two images below, fig. 3 and fig. 4 are a zoomed in view of the problem zone in both charts marked 'Bullish' and 'Bearish'.

Figure 3 - Bullish

Figure 4 - Bearish

The difference in the two charts is the Elliott wave labelling of the second leg down. In the bullish view, I have marked the move as part of the correction back up after the initial drop, however in the bearish view I have marked it as another **'degree'** in the EW count.

Figure 5 - Gold weekly chart, Bearish

As a result of marking the second leg down as a new degree in the EW analysis, it transforms our current move up as only the 4th wave in the move down from the 2011 highs. As such, if this view turns out to be the correct one of the gold market, then we require a new low to complete the five wave impulsive sequence down for the first part of the correction to around the $850 level for wave A (Red, figure 5).

Summary

- To date, the primary EW analysis in the gold market has been accurate so I will continue to use it unless it is invalidated. I do not recommend that we move in to any instrument until we see somewhere around the $1,220 in the next leg down after a correction up to and above $1,220.

- Over the next few days/weeks, the form of the EW patterns should let us determine if the primary view will continue to hold and help us get in to the instruments we wish to acquire for the potential move up to $1,600 in gold.

- If price action should continue taking the price of gold down then we shall take a neutral view and consider other options, including the bearish view illustrated above.