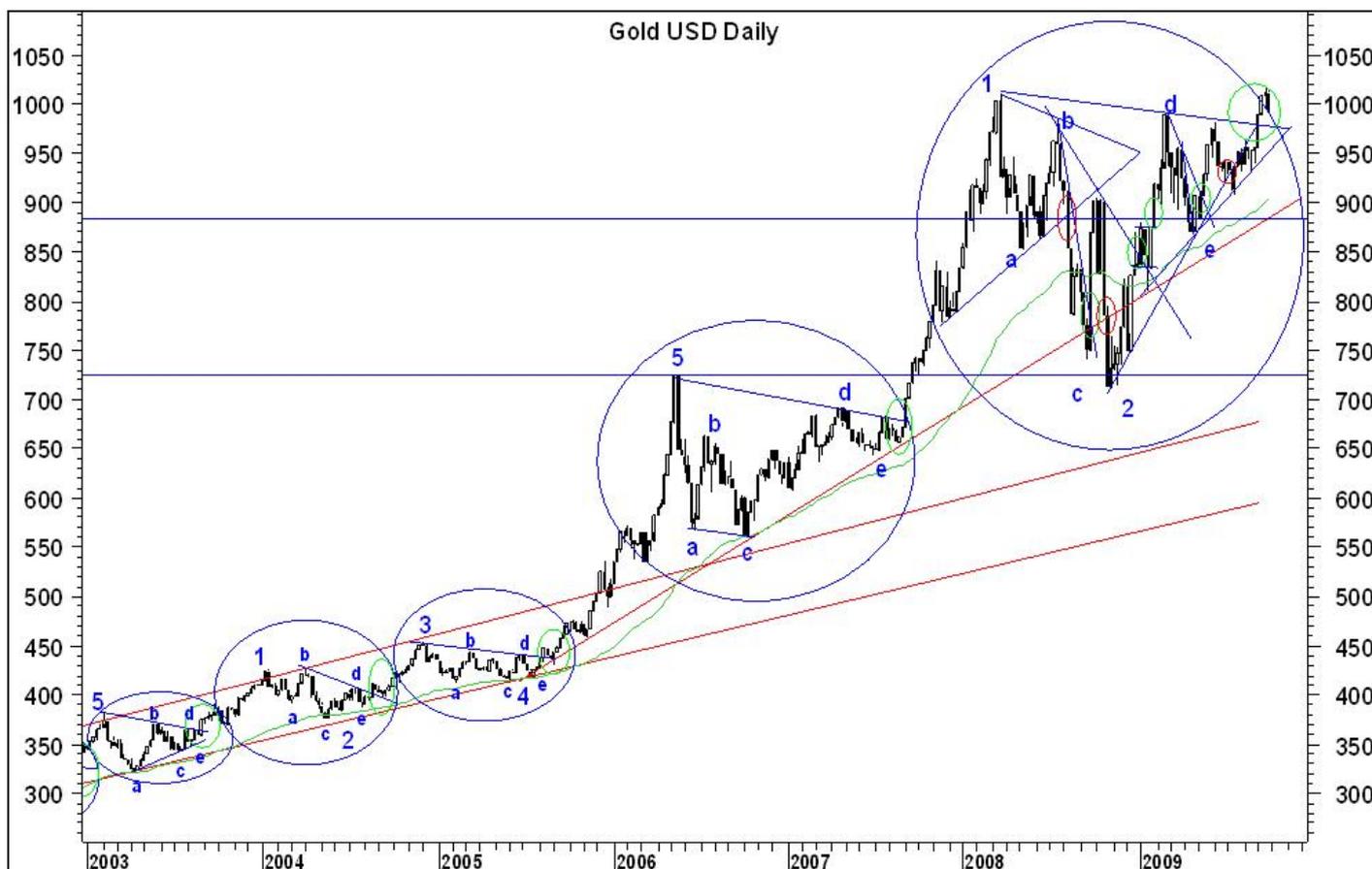


GOLD PRICE CONSOLIDATION ANALYSIS

It's been some time since I last wrote an article on the gold price. The gold price, up until recently, has been in one of its usual consolidation patterns after making all time highs back in March 2008. For those of you who have followed gold's bull market run since it began in 2001/02, you would be all too familiar with what we have just seen. The last 5 consolidation periods graphically look like this:



When gold is trading in one of these consolidation patterns (typically an abcde movement) what tends to be of interest includes:

1. At what point will the gold price bottom?
2. At what point will the gold price complete and break out of the consolidation pattern?
3. When will the gold price make a new high signaling the commencement of the next stage higher?

A summary of the last 5 consolidation patterns make for interesting reading.

GOLD PRICE CONSOLIDATION PERIODS

Period	High	Price	Breakout	Price	Time (days)	New High	Price	Time (days)	Average Gain
2003	07-Feb-03	373.25	29-Aug-03	375.60	203	29-Aug-03	375.60	203	14%
2004	09-Jan-04	423.35	20-Aug-04	410.55	224	29-Oct-04	425.55	294	13%
2005	26-Nov-04	451.00	12-Aug-05	447.25	259	16-Sep-05	457.20	294	7%
2007	12-May-06	725.00	07-Sep-07	701.00	483	21-Sep-07	737.00	497	61%
2009	14-Mar-08	1,003.50	04-Sep-09	989.00	539	11-Sep-09	1,008.25	546	38%
Average					342			367	27%

Please note that each consolidation begins with a high being made and ends with a breakout from the abcde pattern demonstrated in the chart above. Confirmation occurs when the old high gets taken out. Some interesting things to note are:

1. The number of days from when the gold price high was reached to the completion of the consolidation and subsequent breakout has trended higher over time. The 2006/07 and 2008/09 consolidation periods have taken almost twice as long no doubt frustrating many investors (sentiment in the sector is still fairly subdued). This is not surprising when you consider the price movements that preceded them were significantly larger (61% and 38% respectively).
2. When studying breakout dates, you can see that they occur with regularity around the strongest seasonal period for gold in the August/September period. Our recent breakout has been no exception occurring in early September.
3. Generally speaking, once a breakout has occurred, a new high has registered shortly after within a 25 day period. Again, our recent new weekly high was within a week of the breakout.

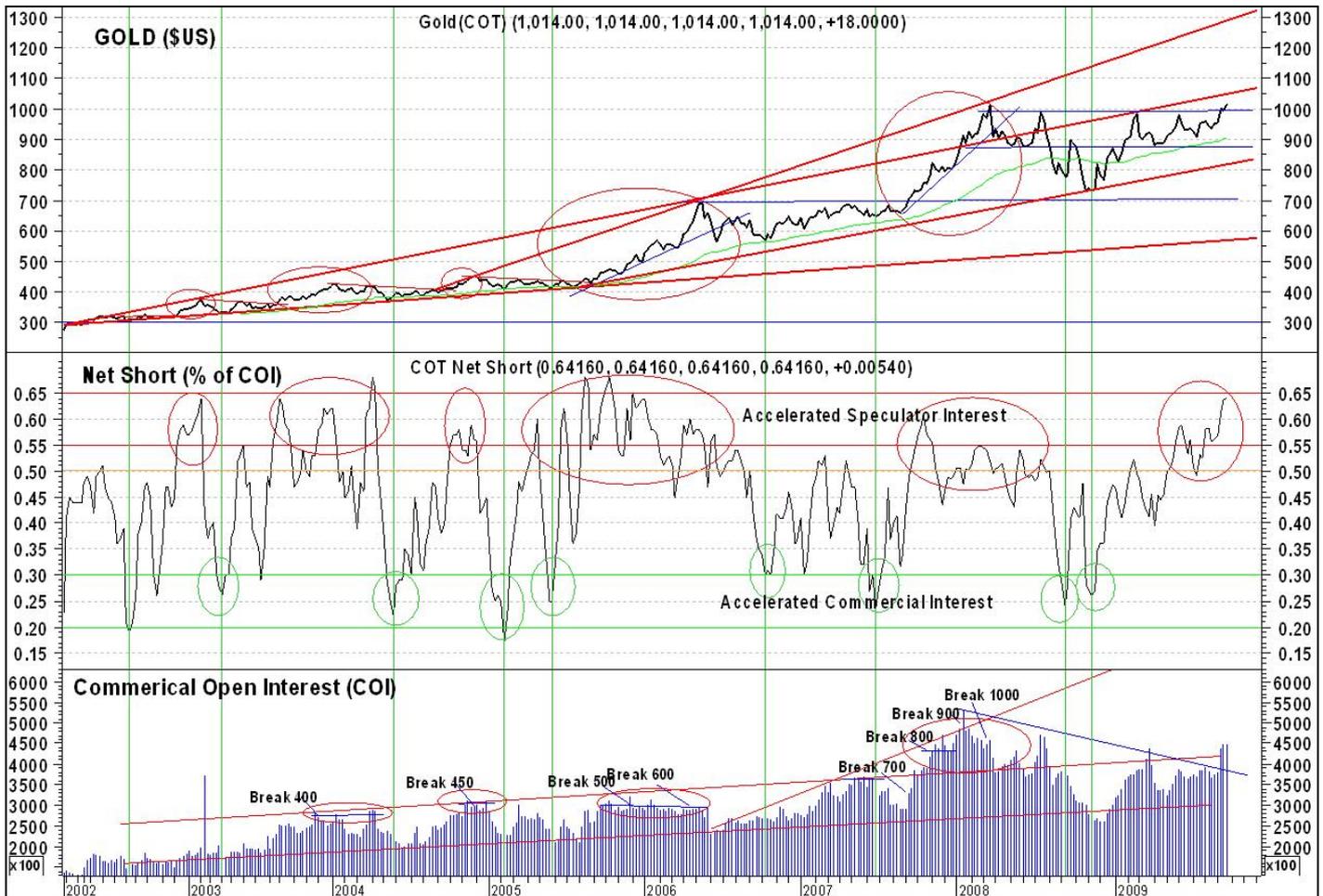
Taking the above into account, the probability of a new run in the gold price over the coming months looks very high. Everything is as you would expect based on past form. The prior resistance of the consolidation pattern should now provide strong support and is presently at around US\$975. A break of this support would be a cause for concern and require a reassessment of the situation. Volatility will continue to be a key part of the landscape and threaten to shake out many.

There are many analysts right now looking at the COT information and claiming the commercial net short position is high and a correction in the gold price is imminent. Let's now briefly take a look at what the net commercial short positions were as a % of the commercial open interest (COI) as each of the new highs were being made post consolidation:

- 2003: 26 Aug 03 – 59% net short (% of COI)
- 2004: 26 Oct 04 – 58% net short (% of COI)
- 2005: 20 Sep 05 – 62% net short (% of COI)
- 2007: 25 Sep 07 – 54% net short (% of COI)
- **2009: 15 Sep 09 – 63% net short (% of COI)**

Each new run in the gold price has always started with a commercial net short (% of COI) position of close to 55% or above. To see a graphical representation, look at the chart below. The middle section of the chart shows the commercial net short position as a % of the COI, the top section shows the gold price and the bottom section the commercial open interest (COI). Notice how these net short positions remain in the 50 – 65% range for the duration of each run up in the gold price (red circled areas). We have seen this time and time again. There is no question the risk of a shake out in the gold price is highest when these commercial net short positions are at these level. As you can see however, this characteristic also corresponds with the most significant moves higher in the gold price.

GOLD COMMITMENT OF TRADERS CHART



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