Chart-in-Focus

November 2023

Precious Returns: Gold's Technical Case

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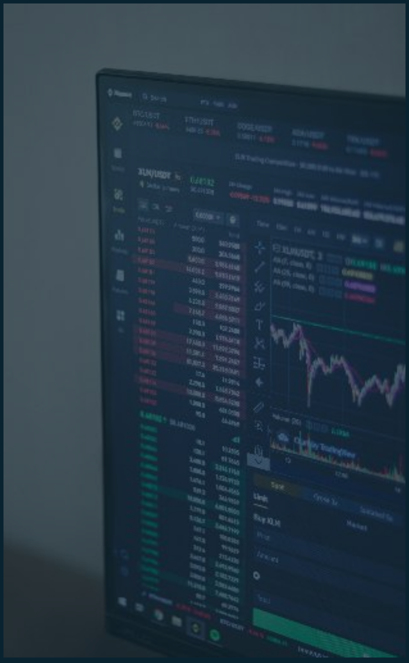

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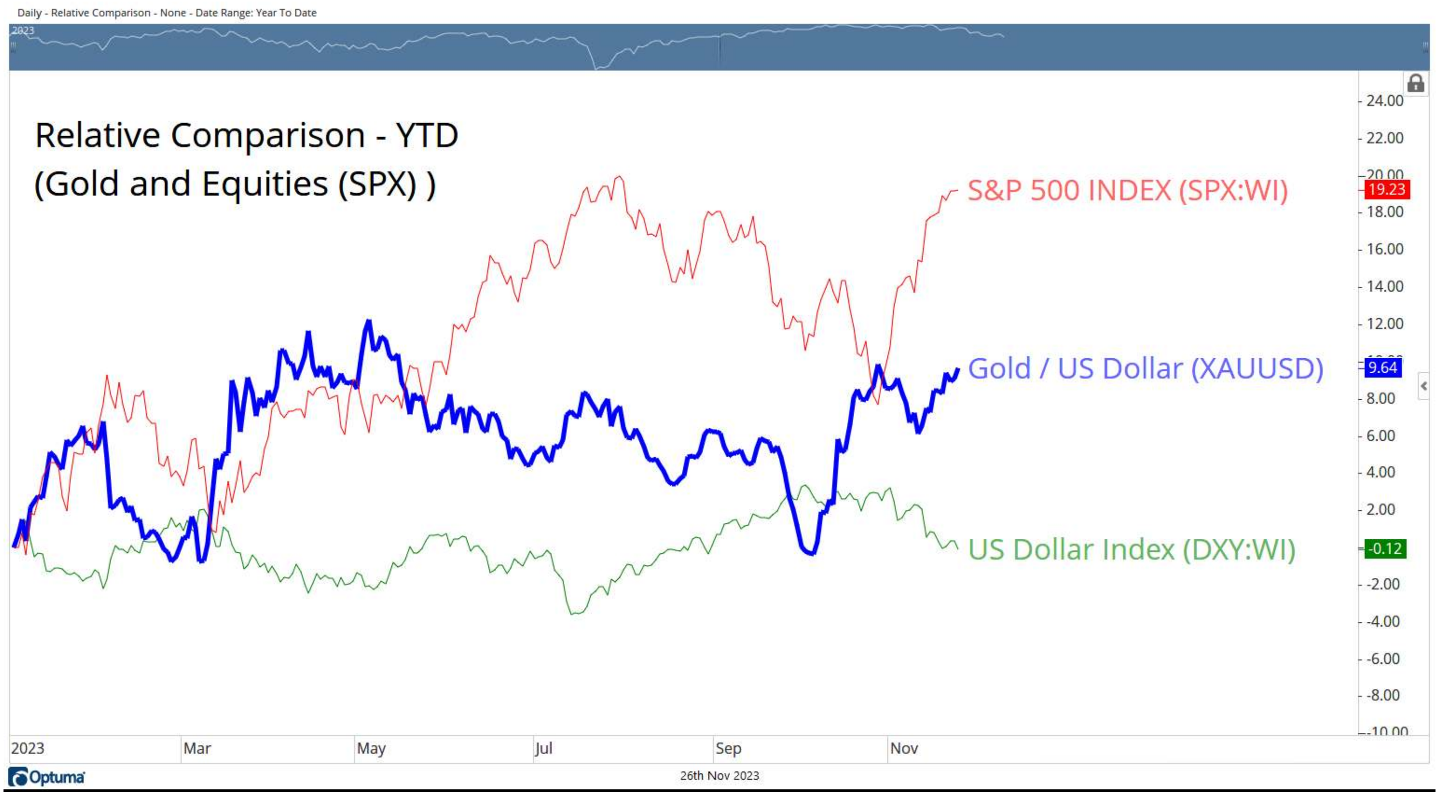
Chart-in-Focus: Precious Returns: Gold's Technical Case

The price of **Gold**, represented by the **XAUUSD** ticker, is influenced by a myriad of factors, making it a complex and dynamic commodity in the financial markets. One key determinant is market demand, which can be driven by various factors such as geopolitical tensions, economic uncertainty, and inflationary pressures. Gold has traditionally been regarded as a safe-haven asset, particularly during periods of inflation. Investors often flock to gold as a store of value in times of economic instability, seeking a hedge against the erosion of purchasing power. This inherent characteristic positions gold as a valuable asset in diversified portfolios, contributing to its demand and subsequent impact on its price.

Furthermore, the relationship between the U.S. Dollar Index (DXY) and gold prices is notable. The inverse correlation between the two is often observed, as a stronger U.S. dollar tends to exert downward pressure on gold prices. This is because gold is priced in U.S. dollars, and a robust dollar makes gold relatively more expensive for investors holding other currencies. Conversely, a weaker dollar can enhance the appeal of gold, making it more affordable for investors outside the United States. As a result, fluctuations in the U.S. Dollar Index play a significant role in shaping the pricing dynamics of gold in the global markets. Investors keenly monitor these interconnected factors to make informed decisions in the ever-evolving landscape of gold trading.

The examination of the comparative performance of Gold (XAUUSD), Equities (SPX), and DXY, along with an assessment of the Federal Reserve's anticipated interest rate path, underscores a compelling argument in favor of Gold. The meticulous analysis of Gold's (XAUUSD) technical setup across various timeframes points to its strong potential. This positions Gold as an ideal inclusion in the portfolio, and for existing allocations, a warranted increase is advisable.

Relative Comparison (Gold, Equities, and Dollar Index)



Looking at the relative performance of Gold on a Year-to-Date (YTD) basis, Gold has returned 9.64%. It has underperformed the equities represented by SPX (S&P500 Index) as SPX has returned 19.23% over the same period. The value of US Dollar also affects Gold price. The Dollar Index (DXY) is influenced by a multitude of factors, with key determinants including U.S. economic indicators such as GDP growth, employment data, and inflation rates. Additionally, global geopolitical events, interest rate differentials, and market sentiment toward the U.S. dollar play pivotal roles in shaping the fluctuations of the Dollar Index. DXY has stayed flat returning a negative return of just (-0.12%) returns.

A Technical Look At Gold (XAUUSD)

On YTD basis Gold (XAUUSD) may have lagged Equities in terms of returns by returning 9.64% against the equities returning 19.23%. However, over the past couple of months, the technical setup in Gold is getting bullish while Equities continue to consolidate. Comparing relative returns over the past **Quarter**, Gold has outperformed the Equities. While Equities, represented by SPX (S&P500 Index) returned 3.59% last quarter, Gold has mildly outperformed returning 4.59% over the same period. The Dollar Index (DXY) has stayed flat returning a negative return of (-0.65%).

The examination of the long-term monthly charts shows that the strong multi-year uptrend that began after 2008 halted when Gold tested the levels of USD 1908 in August 2011. Beginning that point, GOLD faced good amount of corrective retracement and lost a bulk of its value by 2015 and stayed sideways until 2018. This decade was the one when Gold severely underperformed the Equities where a strong bull run was in place. Gold started to perform again from the middle of 2019. It went on to test 1900 levels and create a classical double top by July 2020. This was a major double top resistance that was tested after nearly 12 years.

Notable point is that Gold saw just broad ranged consolidate and did not see any major retracement even after testing and resisting a 12-year old major double top resistance. The precious metal did made incremental highs and a high of 2070 but it largely traded between 1900-1600 zone and made multiple attempts in between to cross above 1900 levels. However, a clean breakout continued to elude. The 10-, and the 40-period MA also share a very important relationship. Presently, the 10-month MA trades above 40-month MA and the prices rule above both these MAs which are placed at 1941 and 1845 respectively. Presently, going by the price action, so long as the prices keep their head above 1900-1940 zone, higher are the chances that they will go towards their all time high levels of 2070 and eventually breakout above that.

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Zooming out to weekly chart presents an equally encouraging picture. The price action over the past 18 months has led to the creation of a large bullish ascending triangle. While this formation was developing, 10-week MA witnessed a crossover twice on either side. Presently, 10-week MA which is placed at 1944.50 is about to cross above the 40-week MA which is at 1945.75. Historically speaking a positive crossover; i.e., the 10-week MA crossing above the 40-week MA has had positive fallouts for the precious metal.

Conclusion:

The technical charts of Gold (XAUUSD) suggest that if the precious metal is able to maintain certain levels, it may be in a strong trending move on the upside. If the prices crosses above USD 2020 and stays above that, there would be higher chances of it traveling towards its all-time high levels of 2070. The observation of price behavior of the Gold above the levels of 2020 and near 2070 would be extremely important. Some amount of consolidation and ranged moves between 2000-2070 may not be ruled out but any cross above 2070 is set to lay ground for a strong and structural breakout in Gold. There are all chances that the precious metal may give equities, as an asset class, a run for its money over the coming months.

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