THE SWISS FOREX BANK

GOLD'S MOUNTAINOUS PEAK
AT RISK OF AN AVALANCHE DECLINE BENEATH $ 1600

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Gold's mountainous peak remains at risk of an avalanche decline having triggered a **confluence of overbought signals amidst the all-important psychological $2000 glass-ceiling**. Moreover, the CME's 55% hike in margin requirements is likely to suffocate even the largest of gold-bugs and ultimately weaken any new long positions. This would explain Gold's current weakness, despite increased safe-haven flows after the Swiss National Bank's unprecedented intervention on the EURCHF rate and heightened worries on the EU debt crisis.

Long-term cycles favour a major gold peak, marking this latest parabolic "throw-over" move as a high risk zone. In Elliott Wave terms, the move is potentially the end of a mid-stage (wave 3) impulsive rise. **A weekly confirmation below $1600 offers a sharp price fall worth up to 28%,** which would likely develop an important low by early 2012 and a very profitable buying opportunity.

Meanwhile, various sentiment proxies have reached extremes and need to cool down. Speculative liquidity flows are of concern after yet another peak and is now heading toward a critical downside structural level. **Over two years of sizeable long gold positions will be under threat if this area were to breakdown.** This would place gold's bullish macro drivers temporarily on ice as the market shifted to a large technical unwinding of overcrowded positions.

Growing economic and political turmoil is forcing investors to scramble for more attractive safe-havens. But **the world is running out of safe places to hide money,** with the Swiss authorities leading a currency war against the franc's haven status, Japan still vigilant of their strong yen (around historic WWII levels) and commodity currencies mean reverting from trend extremes. The US dollar may benefit from this domino flight to safety effect, coupled with Gold's potential decline and unwinding of global risk appetite. Technical projections suggest the **DXY may gain up to 30%** in value from oversold momentum extremes.

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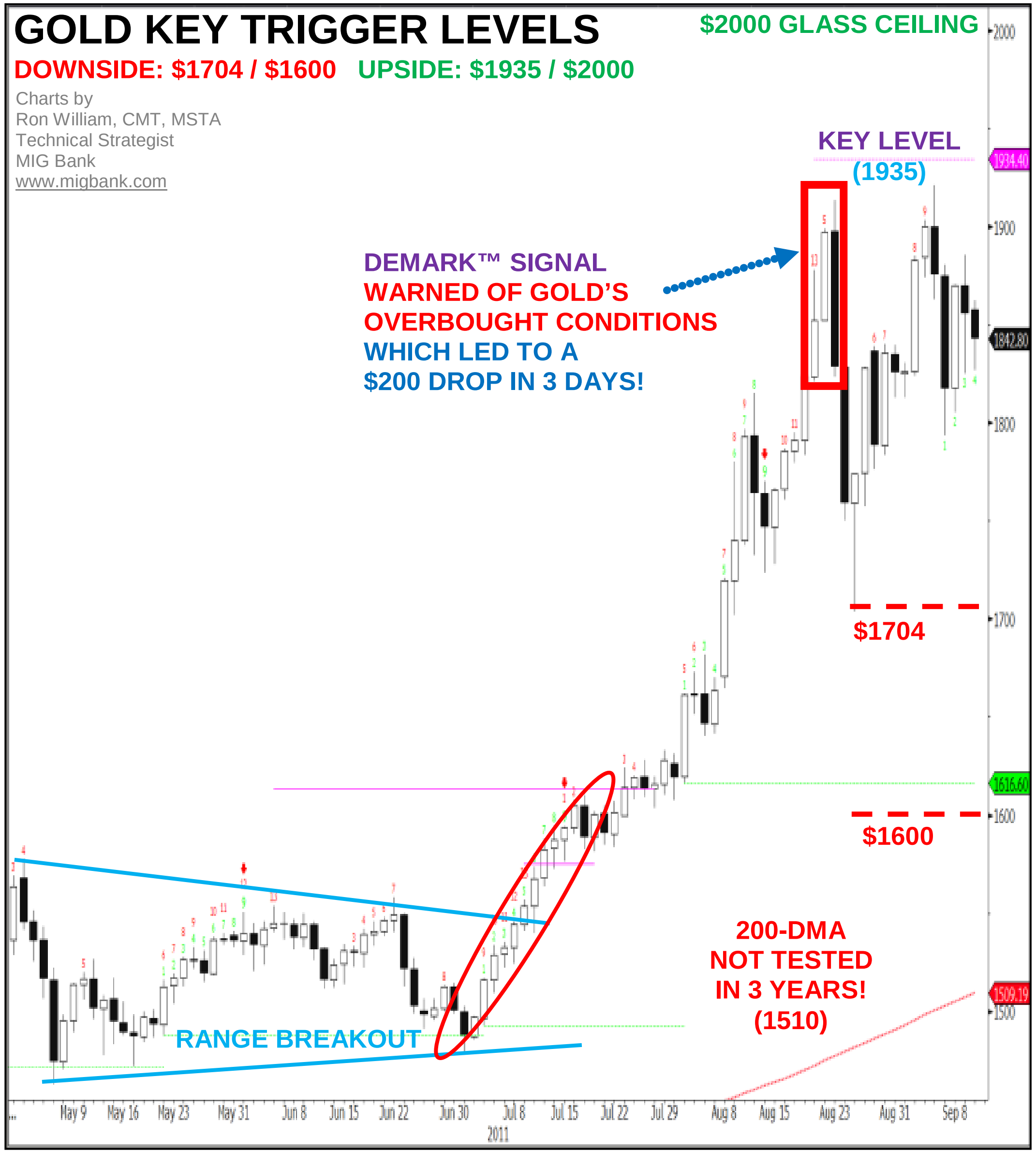

Figure 1. GOLD daily chart with DeMark™ Signal and Key Trigger Levels, Bloomberg Finance LP

Gold's Avalanche Signal

- Gold's mountainous peak remains at risk of an avalanche decline having triggered a **confluence of overbought signals (notably DeMark™ momentum filters) amidst the all-important psychological $2000 glass-ceiling**.
- The latest DeMark™ signal of price exhaustion led to a triple-digit $200 drop in only 3 days and was further magnified by the CME's 55% hike in margin requirements on Comex future contracts. **A series of margin hikes (in a short timeframe, at trend extremes) can lead to major highs** (akin to Silver's historic crash in late April which was precipitated by an 84% margin increase as it accelerated into its historic $50 level).
- Such powerful headwinds at trend extremes are still likely to suffocate even the largest of gold-bugs and ultimately weaken any new long positions. This may also explain **gold's current weakness, despite increased safe-haven flows** after the Swiss National Bank's unprecedented intervention on the EURCHF rate and heightened worries on the EU debt crisis.
- Market timing suggests **gold will break out of its short-term trading range in the next week or so.** This may inspire a temporary spike (on weaker long positions) into what is likely to prove to be an emotionally charged $2000 barrier. Expect a final stage buying climax that would hit a large amount of stops, before reversing sharply lower to **key downside trigger levels at $1704 and $1600.**
- Insightful historical parallels can be drawn to when gold hit its equally formidable $1000 level for the first time in 2008. **The transitional experience led to an 8-month price consolidation before resuming the major uptrend higher.**

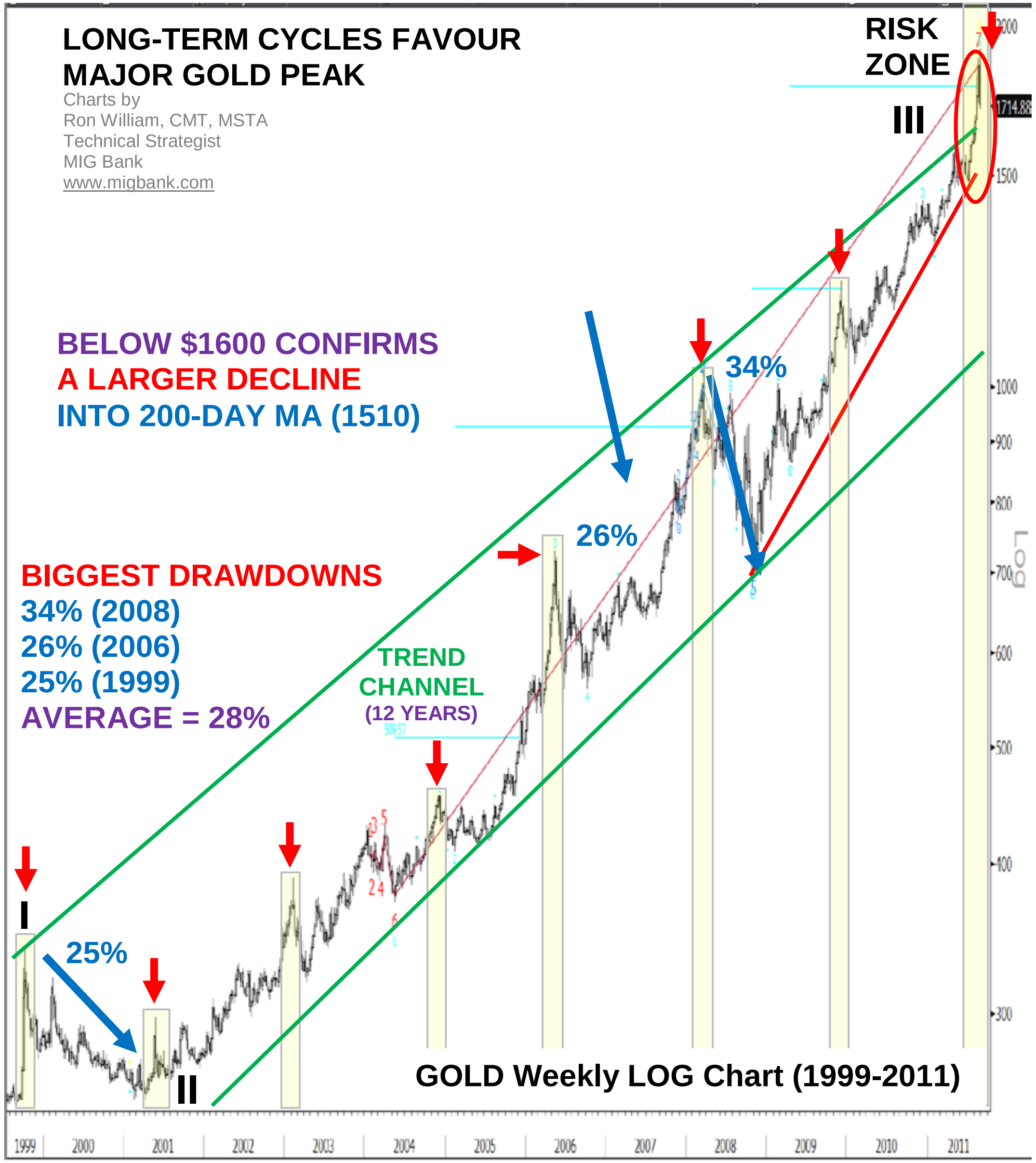

Figure 2. Long-term chart highlighting Gold's bull trend-channel, Bloomberg Finance LP

Long-term Cycles Favour A Major Gold Peak

- Long-term cycles favour a major gold peak, marking **the latest parabolic "throw-over" move as a high risk zone.** This is also pressured by a unique long-term DeMark™ Megaphone exhaustion signal and the likely end of a primary degree impulsive third wave within an Elliott Wave Structure.
- The tendency for cycle alternation favours a sharp corrective fourth wave, (opposite to wave two sideways correction in 2001), which would help **develop an important low for early 2012**. This potentially offers a valuable buying opportunity for what is likely to be the most profitable future rise in gold.
- **A weekly confirmation beneath $1600 would signal Gold's avalanche decline.** Closer examination of the largest price falls during gold's bull market (34% in 1999, 26% in 2006 & 34% in 2008), equates to an average drawdown risk of 28% from Gold's all-time high at 1921.15. This would trigger a sharp decline into **Gold's long-term 200-day MA, currently at $1510 (which has not been tested in over 3 years!)**

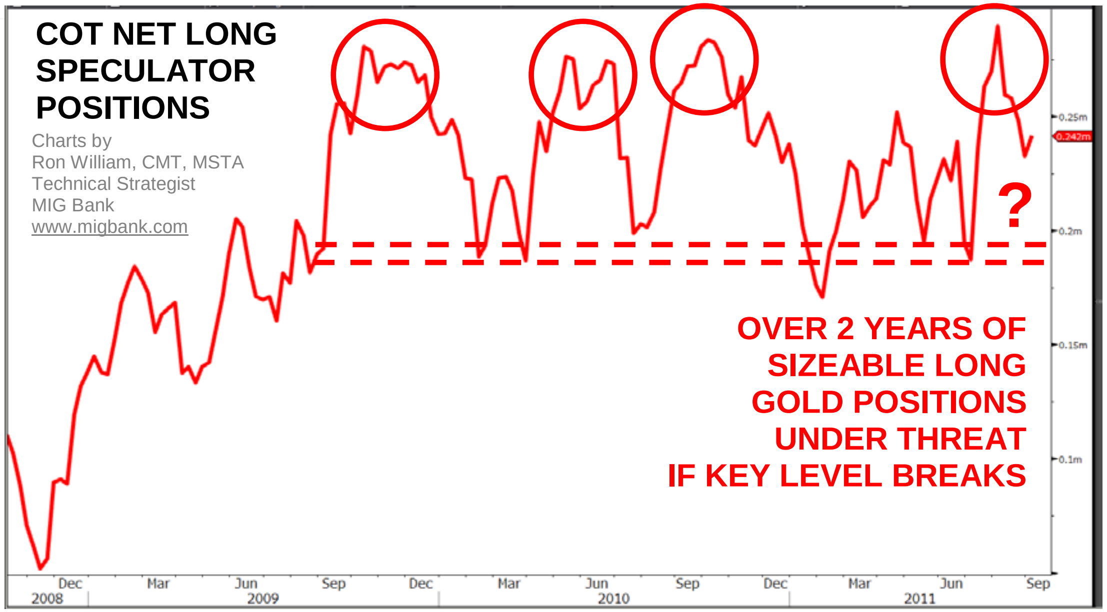

Figure 3. Gold's COT NET Long Speculator positions, Bloomberg Finance LP

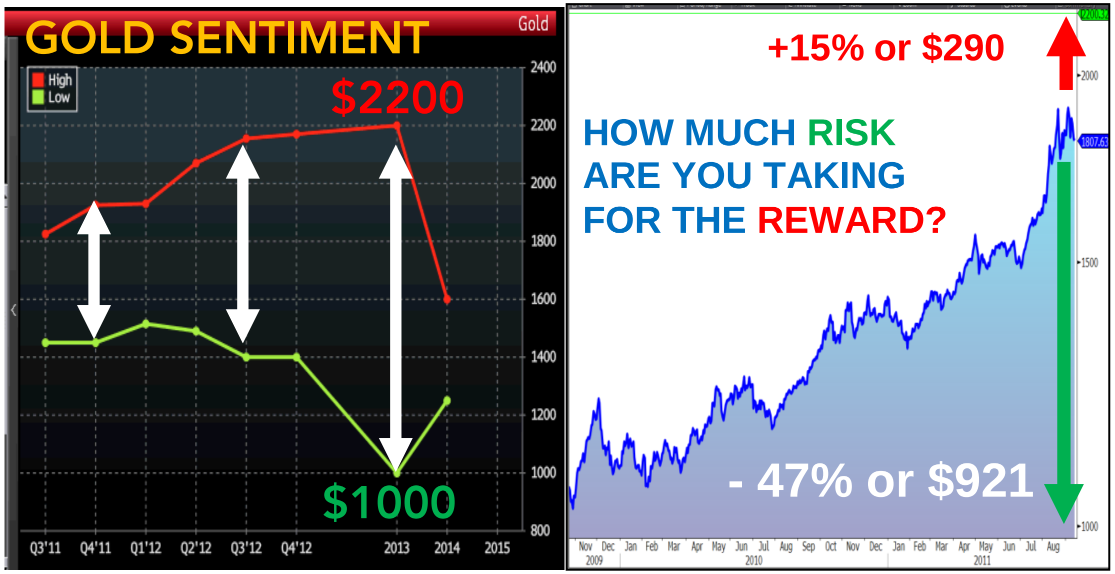

Figure 4. Market Sentiment on Gold and the risk-reward, Bloomberg Finance LP

Sentiment & Liquidity Risks

- Speculative liquidity flows are of concern after yet another peak and is now heading toward a critical downside structural level. **Over two years of sizeable long gold positions will be under threat if this area was to breakdown.** This would place gold's bullish macro drivers temporarily on ice as the market shifts to a large technical unwinding of overcrowded positions.
- Various sentiment proxies have reached extremes and need to cool down. **Growing divergences can be seen on Bloomberg's market expert indicator,** which surveys leading professional institution around the world on their quarterly Gold forecasts.
- Results are noticeably skewed, with the **most optimistic (red) ONLY targeting $1925 by the end of this year and $2200 in $2013!** Bearish forecasts (green) are priced in in the low $1500s for over one year, with the worst case scenario coming in at $1000.
- **The risk/reward ratio is very poor with optimists only pricing in a +15%/$290 gain vs. -47%/$921 loss** (from gold's latest all-time high). This is a strong contrarian bear signal, telling us **the long-term uptrend, at this stage in the cycle, rather overcrowded and unsustainable.**

Figure 5. US Dollar Index long-term chart from 1980, Bloomberg Finance LP

Safe Haven Flows To Refuel US Dollar Recovery

- Growing economic and political turmoil is forcing investors to scramble for more attractive safe-havens. But **the world is running out of safe places to hide money** with the Swiss authorities leading a currency war against the CHF haven status, Japan still vigilant of their strong JPY (around historic WWII levels) and commodity currencies mean reverting from trend extremes.
- In a relatively weak beauty contest, **the US dollar, which is in a polar opposite technical setup, may benefit from this domino flight to safety effect**, coupled with Gold's potential decline and unwinding of global risk appetite. Investors will be forced elsewhere with **capital ALWAYS searching for the most attractive home** (especially during uncertain times). Technical projections suggest the **DXY may gain up to 30%** from very oversold price conditions which are currently mean reverting from record net short liquidity flows and bearish sentiment extremes.
- This potential **macro bearish environment would be similar to 2008**, when gold tested its formidable psychological $1000 level. As previously stated, after temporarily spiking above this level, the gold market embarked on an 8-month consolidation which lost up to 34% in value, while still maintaining its uptrend.
- The key lesson from history is that despite gold's seductive "haven" qualities, there are exceptions to the rule, when **gold CAN fall in value during CERTAIN periods of economic and political uncertainty.** Back then, and perhaps now, the underlying driver was a **big liquidity squeeze** where investors and traders were forced to scale down after a profitable bull-run on popular "risk" markets.
- Remember that accelerated price moves, no matter how robust, inevitably prove unsustainable in the short to medium-term. A healthy unwind of gold's overcrowded rise will help **offer a great buying opportunity in the near future.**

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