When dealing with markets, one must avoid, as much as possible, emotional responses and simply focus on the facts before us. Last weekend, I presented my “factual” analysis of the market, and explained why I have retained a larger degree bullish perspective. I suggest you review what I wrote so you can understand how I weigh the pros and cons in the complex, and why I have come to the conclusion I maintain. Moreover, within the analysis I have been providing for the last month, I have been suggesting that another drop will likely be seen in the GDX and silver, and this past week that has finally been seen.

With the drop this past week in silver and GDX to lower levels below the November lows, the market has just about completed the pattern I have been tracking to end this correction which began in August. As I noted during my mid-week update, the initial rally off the Jan/Dec lows took 8 months, and the correction has now taken half that time. This is quite normal for timing on corrections, so there is nothing unusual about the timing aspect of the correction.

What is unusual about this correction is the depth of the drop in gold. While it has clearly broken below ideal support in the 111/112 region, it has been the one issue which has caused me concern about the market holding support on this correction for weeks now. But, if I were to base my entire analysis on simply silver and GDX, as well as the mining companies we track, I would be strongly confident of the bullish bias I have still retained. Yet, this one factor has shaken that confidence, as I have been noting for the last two weeks since we broke below the 111/112 support region.

So, in attempting to avoid any “emotions” of concern I feel for the GLD chart, allow me to explain what I am seeing in the GDX and silver charts which cause me to retain a strong bullish perspective in those two charts.

As you can see on the GDX daily chart, we have strong positive divergences in the MACD on the daily chart. Moreover, the pattern to the downside seems to be completing its “final squiggles” in its Elliott Wave count. That means that, if we are correct about this market bottoming, we are likely only within days of the completion of this downside correction (if we do not have a truncated bottom already), and we should see a very strong move higher over the next week or two.

Some of you have asked me why I still retain a bullish bias if we have broken below the .618 retracement, which was my ideal target for this correction. When the market as a whole maintains a
certain expectation, price will usually push you beyond the overall market expectation or simply does not meet the expectation to begin with. You see, markets do not give the majority what they seek. And, for some reason, there have been many in the market that expected the .618 retracement to hold, at least from what I have been reading in the analysis on the net. So, just like the market was certain in 2011 that we were heading over $2,000 in gold, or in 2015 that we were heading below $1,000, I think too many believed that the .618 retracement would hold, and we needed to undercut that level to develop even more bearishness to support a 3rd wave higher. (And, now, the majority seems to be certain of going below last year’s lows . . . so consider what that may mean yet again).

Moreover, for those of you who saw the movie The Pirates of the Caribbean, when asked about the Pirate Code, Captain Jack Sparrow noted that they were more like guidelines rather than rules. I view the retracement levels similarly as guideposts rather than lines in the sand, whereas the Elliott Wave structure is much more important to me, and the rules which govern Elliott Wave analysis are the lines in the sand.

While the Elliott Wave structure looked like it needed an undercut of the .618 retracement in order to complete the corrective structure, we are almost out of room on this downside structure if the market has an intention of turning higher. Should the market begin to accelerate in the coming week below the 17 level, then that will likely turn me much more bearish, and view the potential for lower lows in a much more real sense. Yet, my primary expectation right now is that the final squiggles in what I still view as a corrective pullback “should” complete in the coming week, and we will see a strong turn back up in this market before the end of the year.

Silver looks the same as the GDX. The daily silver chart is exhibiting the same positive divergences seen on the GDX daily chart. It is also suggestive of being in the final squiggles of its Elliott Wave downside count as well if we are truly bottoming. Moreover, our 144-minute silver chart has provided advance warning of each and every bottom we have seen over the last year in the metals complex. As you can see, the lower lows we have recently struck have positive divergences on the MACD relative to the lows struck in November. Moreover, with Friday’s consolidation, the MACD has turned up and suggests that either we have already bottomed in a truncated fashion, or we have one more micro-spike down which will provide us with even further positive divergences. If the market will react as we have seen all year based upon this set up, then it supports our expectations for a strong turn higher over the next week or so in this chart as well.

Now, I have noted how the GLD has been getting me VERY concerned due to the depth of its pullback. And, this past week, Garrett Patten, one of our analysts at Elliottwavetrader.net, made a very astute point after reviewing the long term gold chart. He reminded us that in 2001 the gold market retraced almost 100% of the rally which topped in 1999. And, that reminded me that the gold market usually moves in extremes, both to the upside and the downside. That may very well explain why gold has retraced so deeply on this current pullback.

For those of you that are big fans of the inverse relationship between how the metals and the US dollar trade, I will provide you with one more point. Back in July of 2011, I expected a multi-year rally in the DXY from the 72 region, while the rest of the market was looking for a crash. And, my target for the wave 3 of that multi-year 3rd wave I expected from the 72 region was between 103.50 (1.618 extension) and 106.32 (1.764 extension). Yes, this was my market expectation from over five years
ago. And, this past week, the market hit a high of 103.56. While the dollar chart can also support a few more squiggles which should complete within the next few days – if it has not done so already – I think the dollar is likely within days of commencement of a larger degree correction.

So, I have to sideline my “feelings” of concern in the GLD chart when providing you with analysis on the market, and have to still maintain my overall bullish bias until the end of the calendar year. Should the market not provide us with the final squiggles and bottoming that the Elliott Wave count suggests, then I will have to reconsider the case that the entire complex will see lower lows. But, for now, I will be watching for the “final squiggles” and a strong reversal of this downside pattern which has now lasted approximately half the time taken by the rally which began last year at this time.

See charts illustrating the wave counts on the GLD, GDX and Silver (YI) at https://www.elliottwavetrader.net/scharts/Charts-on-GDX-GLD-Silver-201612181449.html .

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