## What next for the metals?

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MARKET RESEARCH

The precious metals performance has been very subdued at the start of the year. In a climate of crashing oil prices and volatile equity markets one would have expected a stronger reaction from gold and silver. Both metals currently reside at key resistance levels and should the metals fail to move above such levels, they could finally be setting up the decline which is likely to mark a long term bottom. Fears of a hard landing in China coupled with the market reaction to the U.S. Federal Reserve rate hike have put markets on edge however gold has so far failed to manage much of a safe haven bid.

**Oil prices & equity markets**

Whilst correlations amongst markets come and go - and therefore traders should not draw any definitive conclusions as such – it is rather bizarre that the metals have been meandering in tight ranges whilst oil and global equity markets have been extremely volatile. U.S. oil opened the year at $37.60 a barrel and has traded as low as $27.55 as fears of an over supply and slowdown in China have weighed heavily on the market. In an environment of rising interest rates and low oil prices against a backdrop of slowing global economies the threat of deflation comes into play. It is no secret that the Fed fears a deflationary cycle and that is one of the major reasons for them embarking on all the quantitative easing programs that we have seen to date. Should growth in economies remain sluggish and weakness in the oil price persist, it seems highly likely that the Fed will have to abandon its rate raising cycle and we could be set for QE4 before the next rate hike. Metals tend to benefit in low rate environments and should the Fed's hand be forced into further easing it is likely to bolster the metal complex in the medium term. In the immediate term the threat of a global slowdown could have a knock on effect across all markets as investors race for liquidity and the markets look to be setting up such an event which could be the catalyst for a final drop in prices.

**China**

At the beginning of the year George Soros shocked investors with his damning review of the Chinese economy. He emphasised the current problems that China are facing and stated what many people have feared for a long time that China may be heading for a hard landing. He spooked investors by adding: "China has a major adjustment problem; I would say it amounts to a crisis. When I look at the financial markets there is a serious challenge which reminds me of the crisis we had in 2008." Global equity markets have been on the defensive this year and the nature of the markets feel very different to the last couple of years when equity markets have been outperforming. Fears in China and global uncertainty is likely to benefit the metals, at least in the medium term, and should a major shock come out of China it could be the metals that investors turn to.

**Technical**

Gold edged higher in January breaking the immediate downside technical setup the market had in place, however as the yellow metal approaches resistance the market is reaching an inflection point. $1137 is the first major resistance target for gold followed by the $1150 level. Whilst gold remains below such levels, the risks of a strong downside move targeting a final bottom around the $1033 is my primary expectation. Only a move above $1200 will have me of the belief that the market has finally bottomed.

Silver's technical structure is weaker than gold's at present with the market currently overbought and struggling to gain any traction to the upside. Whilst silver did manage to claim the key $14.24 resistance level, upside follow through has been absent. Ideally silver could be targeting the $14.72/$15.02 resistance zone before a sharp reversal. Should silver break below the $13.78 level I will strongly believe that the market could be targeting my long term bottom target around the $12.60 support level. Only a strong move that takes out $15.02 decisively will have me of the belief that something more bullish is playing out and should this occur then buying the pull back could be a prudent investment decision.

**Summary**

Metals have started the year trading in tight ranges and I believe this is likely to change quite soon. My preference is for the metals to run out of steam at the resistance levels stated above and turndown to new lows which could mark the long term bottoms. However should metals rally and take out the resistance levels then clearly something more bullish may be playing out. The markets are currently at key inflection points and investors need to be on their toes as the slow moving markets could soon becoming to an end.

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