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Gold Now Bound to the Yuan

***e*Research Corporation** is pleased to provide a weekly commentary, authored by Tom McClellan, entitled "The McClellan Chart-In-Focus", which is a free technical analysis article published each week.

In this article, Mr. McClellan reviews the ratio of the Dow Jones Industrial Average to the price of Gold. At some point, the DJIA will turn down and Gold will out-perform. Question is: When?

The article is reproduced below, beginning on the next page, or you can use this link to go to the article directly: <Ctrl-Click> **HERE**

You can also visit the McClellan Financial Publications Home Page at the link below. This is a subscription service, and there are two publications which can be subscribed for: (1) **The McClellan Market Report**; and (2) **The Daily Edition**.

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September 20, 2018

The McClellan Chart-In-Focus

by Tom McClellan (bio at end)

Gold Now Bound to the Yuan

Old-school monetarists have longed for a return to having gold as the real reserve currency. So, here is a fun quandary: suppose you are a hard-core auriphile, longing for a return to gold being the world's reserve currency. Suppose you could get what you have longed for, but with a price: China gets to call the shots. Do you accept the deal?

This week's first chart below (from January 3, 2018) shows that the movements of gold prices are pretty tightly tied to the movements of the Chinese yuan.

So, if gold prices are ever going to start trending higher again, then the yuan is going to have to go along for the ride, or perhaps even lead the way.

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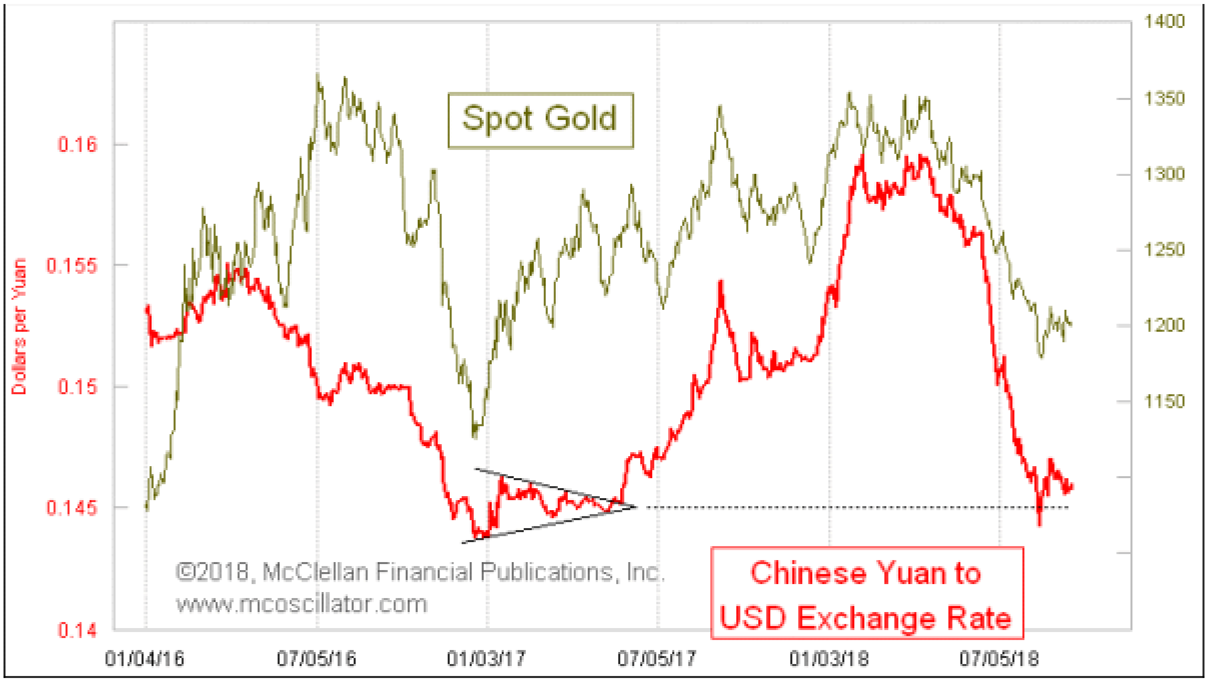
That is assuming that the correlation continues to hold up as it has been doing since around August 2016 (see the chart on the next page, from January 4, 2016).



Before then, the pattern correlation was a bit more random. What the event was that caused these two to fall into a strongly positive correlation is a topic up for contemplation. I don't have the explanation; I just see that it is so.

It is further interesting that the rapid drop in the yuan during 2018 appears to have halted itself at the level equating to the apex of a symmetrical triangle which formed in early 2017 (see chart above).

Apices (plural of apex) have a proven talent for showing future importance. Sometimes that takes the form of marking the moment of a turning point, and at other times the apex marks a new support or resistance level which did not exist before. The latter case seems to be working for the yuan, after a year's delay.

The yuan seemed to be in a big hurry to drop back to that level, and it took gold lower in sympathy. Bloomberg (and others) reported on September 19 that Chinese Premier Li Keqiang has said that his nation would not devalue its currency in order to make its exports more competitive. But not mentioned in that story is the point that the yuan has already been devalued, and at a rapid rate.

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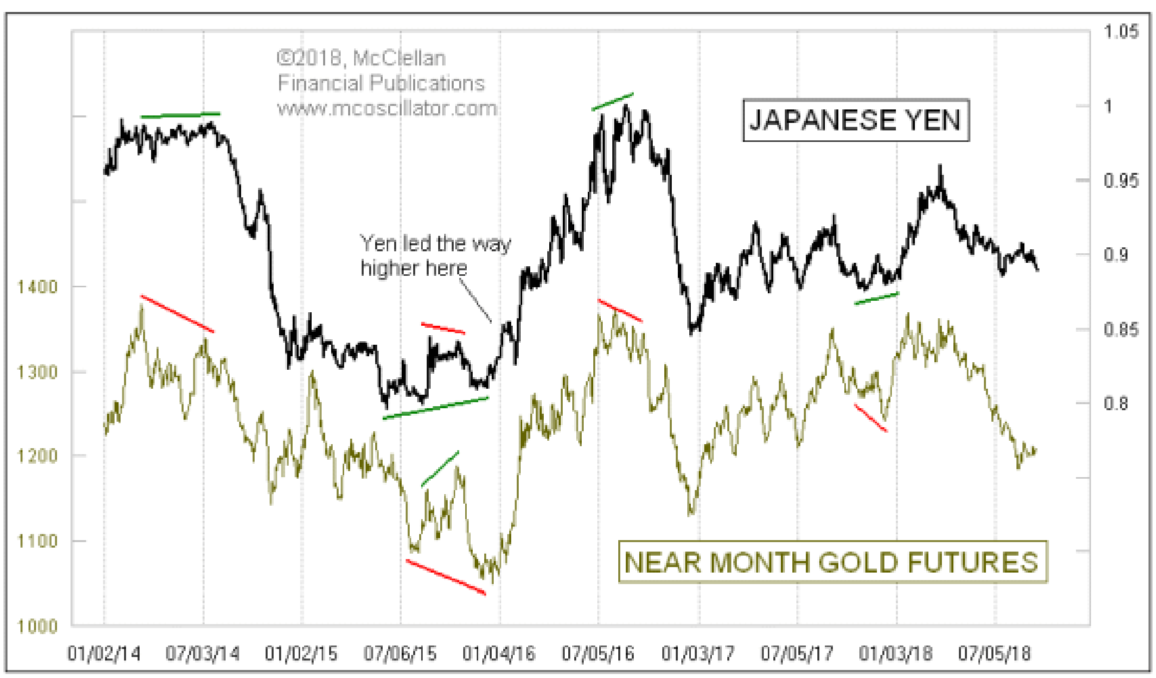
Scaling back to an even longer time frame (from January 3, 2007), we can see that the level where the yuan's drop ended is even more interesting:

From 2008 to 2010, the People's Bank of China held the exchange rate fixed at 6.83 yuan per dollar. Somebody evidently really liked that exchange rate, because that is about where it is again now in 2018. And we see the yuan arriving back there just as gold prices are testing the top side of the long downtrend line, which it broke out above back in mid-2017.

It used to be that the price of gold tracked strongly with the Japanese yen, and that relationship was interesting for the additional answers it could give us. Occasionally the price patterns would disagree, and when they did it was usually (but not always) the yen which ended up being right about where the two were headed.



That correlation appears to be breaking down now, as the yuan has become much more dominant in terms of explaining gold's price movements.

The key take-away point from all of this is that if you are bullish or bearish on gold prices, then whether or not you know it you should be holding the same view for the value of the yuan.

If gold prices are ever going to go higher again, as the COT Report data are strongly saying that they should, then the yuan is going to have to give its permission for that move to take place.

Tom McClellan, Editor,

The McClellan Market Report

BW: Information on Tom McClellan and *The McClellan Market Report* and *The Daily Edition* is provided on the following page.

ABOUT THE AUTHOR

Tom McClellan

Tom McClellan has done extensive analytical spreadsheet development for the stock and commodities markets, including the synthesizing of the four-year Presidential Cycle Pattern. He has fine-tuned the rules for inter-relationships between financial markets to provide leading indications for important market and economic data.

Tom is a graduate of the U.S. Military Academy at West Point, where he studied aerospace engineering, and he served as an Army helicopter pilot for 11 years. He began his own study of market technical analysis while still in the Army, and discovered ways to expand the use of certain indicators to forecast future market turning points.

Tom views the movements of prices in the financial market through the eyes of an engineer, which allows him to focus on what the data really say rather than interpreting events according to the same "conventional wisdom" used by other analysts.

In 1993, he left the Army to join his father in pursuing a new career doing this type of analysis. Tom and his Father spent the next two years refining their analysis techniques and laying groundwork.

In April 1995 they launched their newsletter, The McClellan Market Report, an 8-page report covering the stock, bond, and gold markets, which is published twice a month. They utilize the unique indicators they have developed to present their view of the market's structure as well as their forecasts for future trend direction and the timing of turning points.

A Daily Edition was added in February 1998 to give subscribers daily updates on their indicators and also provide market position indications for stocks, bonds, and gold. Their subscribers range from individual investors to professional fund managers. Tom serves as editor of both publications, and runs the newsletter business from its location in Lakewood, WA.

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