

Euro Gold Records 2

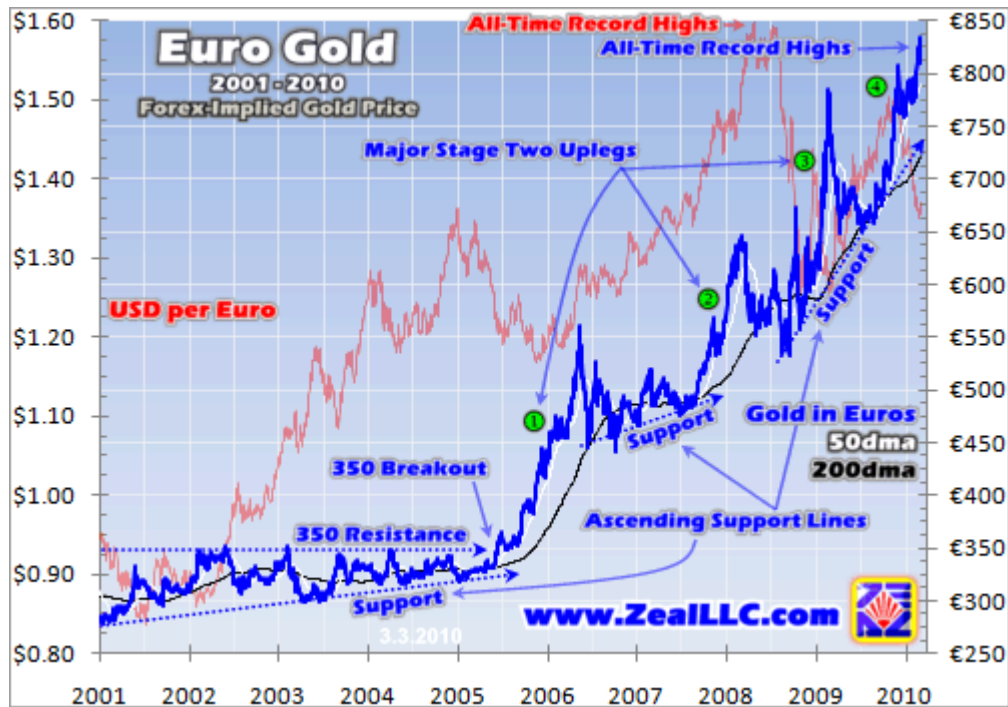
After spending our entire lives in a dollar-dominated world, we Americans naturally view gold through a dollar-centric lens. We assume the gold charts we're seeing are universal. But this isn't the case, as investors around the globe view gold in their own local currencies. Recent developments in euro gold highlight the importance of keeping this truth in mind.

While gold continues consolidating high here in the States, the Europeans just saw euro gold hit new *all-time-record highs*. At €834 per ounce this week, euro gold has never traded higher. Remember that the composite euro currency is a relatively new creation, born in January 1999. So today's secular gold bull is the first that this young currency has witnessed.

Why do euro-gold records matter if you aren't European? Record gold highs in any major currency have big implications for investors worldwide. Gold investment is driven by psychology. New highs spark excitement, generate bullish financial-media coverage, and put gold on more investors' radars. There is no better advertisement for any bull market than new highs, which entice in ever-growing pools of capital.

Just like investors anywhere, European investors are far more likely to add to their gold positions when this metal looks exceptionally strong and inviting. Around 325m Europeans, and 175m *more* people living in countries with currencies pegged to the euro, see gold in this euro context. New highs in any major currency lead to bullish psychology for a sizable fraction of the world's investors. Their resulting buying adds marginal new investment demand that helps drive gold higher worldwide, benefitting everyone.

This week's dazzling euro-gold highs got me thinking about euro gold again. It's been a couple years since my [last essay](#) on it. How's the euro-gold bull doing? How well did euro gold weather the global stock panic? And most importantly of all for us American investors, how is gold looking in *dollar-neutral* terms? Euro gold offers a unique perspective, effectively filtering out the US dollar's impact on gold.



While the dollar-denominated secular gold bull we are all familiar with launched in April 2001, euro gold got off to a late start. For *several* years in the early 2000s, euro gold refused to break above €350. This led European investors to believe the young gold bull that we American contrarians were so enamored with was merely an illusion. They understandably dismissed it as little more than a dollar bear in disguise.

And there was plenty of truth in that. The [initial stage](#) of a secular gold bull is indeed a devaluation in the dominant currency, the US dollar. The bull doesn't really get moving until global investment demand ramps up in Stage Two. At that point gold starts climbing *in all major currencies*, driven higher by its own intrinsic [fundamental merits](#). Euro gold €350 was crucial in this transition between stages.

For years before this breakout, I argued we'd know Stage Two was here when we finally saw euro gold break decisively above €350. So when this long-anticipated [€350 breakout](#) finally came to pass in June 2005, it was a very exciting time. And indeed in hindsight €350 marked the transition to today's powerful global-investment-driven Stage Two gold bull. Euro gold, and gold in every other currency, has never looked back since.

Since that fateful summer of 2005, euro gold has blasted higher in three major Stage Two uplegs. And given the new euro-gold record highs we've seen recently, the fourth major Stage Two upleg looks to be well underway today. This bull market has been very powerful, with relentlessly higher lows marked by

ascending support lines and relentlessly higher highs as seen by the periodic new high-water marks.

This secular euro-gold bull is awesome in isolation, but it becomes remarkable when you consider it happened during a strong secular bull in the *underlying euro currency* itself! The light red line above tracks the progress of the euro relative to the US dollar, which is mired in a [long secular bear](#). Not only was gold getting stronger in euro terms, but the euro itself was getting stronger as well. European gold investors have enjoyed *enormous* purchasing-power gains far beyond what euro gold itself suggests.

Between July 2001 and December 2004, the euro currency powered 62.8% higher in US-dollar terms. Yet over this long several-year span, euro gold did absolutely nothing, up 2.2%. For the rest of the world, the real gold bull hadn't even started yet. It hadn't migrated beyond its early Stage One dollar-devaluation days to its Stage Two investment-demand-driven days. Still, euro gold showing so much resiliency for European investors in the face of such a strong currency was impressive.

A second massive euro cyclical bull ran from November 2005 to April 2008, a huge 37.0% run higher. Despite this currency strength, euro gold still powered 42.9% higher over this exact span. This is an important lesson for gold investors now, especially Americans. Today you can't listen to CNBC for an hour without hearing some analyst claim gold is in trouble because the dollar has rallied. Nonsense.

It is global investment demand, not fiat-currency fluctuations, that ultimately drives gold in a Stage Two secular bull! As long as investment demand is healthy and growing, gold will rise *no matter what* the underlying currencies do. Strong euro gold *despite a strong euro* illustrates this. While the US dollar's meanderings do still affect gold on a short-term basis from time to time, ultimately the dollar no longer matters for this gold bull. As long as investors want to buy gold, its price will be driven higher on balance.

And while we are discussing euro-gold records, I would be remiss in not mentioning euro gold €1000. Still almost 20% above this week's highs, we are still a ways out yet. But there is no doubt at all that €1000 will be achieved, maybe even later this year. Investors can't overestimate the importance of this critical event, it will drive frenetic new gold demand from mainstream European investors like nothing else could.

It's hard to believe today with dollar gold so comfortable in the \$1100s, but as recently as last summer \$1000 gold had virtually never been witnessed. In July well before the decisive \$1000 breakout, I wrote [an essay](#) explaining why \$1000 would soon fall technically and how the resulting bullish psychology would drive huge new investment demand. Indeed it came to pass. Less than 3 months

after \$1000 was hit in September, dollar gold had already soared over \$1200 on the resulting investment-demand spike.

So when €1000 is achieved, watch out *above*. It is going to be a major mainstream news event in Europe, the world's second-largest economy full of investors with a far-greater natural affinity for gold than Americans will ever have. The influx of new capital suddenly chasing gold above €1000 should drive a massive rally globally. And lest you think the 20% gain from here necessary to reach this fabled milestone is too large to worry about anytime soon, consider euro gold's major uplegs so far in this bull.



Since 2005, euro gold has completed three major uplegs and is well into its fourth today. Between January 2005 and May 2006 the first upleg at the dawn of Stage Two rocketed a mind-blowing 75.9% higher! Interestingly, look at the sharp spike once €500 was achieved in April 2006. Rather than collapsing at that milestone after what was already a huge rally, euro gold then surged to €561 *in under a month* before a healthy correction took control. Overshoots are common on big psychological milestones.

After consolidating those epic early-bull gains, euro gold's next major upleg soared 35.9% between June 2007 and March 2008. While considerably smaller than euro gold's initial upleg, this one was still impressive since it happened in the face of a very strong euro. Of course both the euro and gold share a common nemesis in the US dollar, which happened to be relentlessly falling to new [all-time lows](#) at the time.

Euro gold's third major upleg blasted 47.4% higher between September 2008 and February 2009. This one is the most important of all since it actually spanned the brutal global stock panic. Remember all the angst among gold investors in the States when dollar gold actually fell sharply during the panic instead of soaring as it ought to in extreme times? This American gold perspective was skewed because of the wild dollar's temporary impact on gold.

Thanks to flight capital fleeing stocks and flooding into short-term US Treasuries and the US dollar, our currency had its *fastest rally ever*. The US Dollar Index rocketed 22.6% higher in just 4 months, a staggering bear rally. This heavy dollar buying led to heavy gold selling among US futures traders, driving down its price in dollar terms. While dollar gold averaged \$836 in August 2008 prior to the stock panic, by its November low it had plunged to \$711, down 15.0%. Many Americans gave up on gold.

But this was just a stock-panic-driven [dollar anomaly](#), gold was simply caught in the crossfire. In August 2008 before the panic hit, euro gold averaged €559. Its panic low of €533 was achieved very early on in mid-September, a relatively trivial 4.7% selloff. And the day dollar gold bottomed in mid-November, euro gold closed at €569 which remained *above* its pre-panic average price! In dollar-neutral terms as illustrated by euro gold, gold actually fared exceptionally well throughout that whole panic episode!

Note also that the euro currency utterly collapsed during that stock panic in the face of that gigantic US dollar rally. The European stock markets plummeted too, right in line with the brutal plunges in American stock markets. So in dollar-neutral terms, gold did *exactly what it was supposed to do* during that once-in-a-lifetime panic event. Euro gold rallied sharply, hitting new record highs no less, when the bottoms were falling out of everything else. Euro gold saved its investors.

Born and raised in the States, I've never invested in fiat foreign currencies. Only when I traveled overseas did I pay attention to them. So it is hard for me to overcome the tyranny of assuming my dollar worldview is the only one that matters. Investors who didn't grow up in the US are seeing gold charts *significantly different* than ours that are driving their gold-investment decisions. We American investors have to cast aside our parochial nature and start broadening our perspectives if we want to thrive in today's global markets.

The average gain in these three major euro-gold uplegs was 53.1%. If we discard the giant first one because huge early-bull gains are much easier off a low base, we get 41.7% across the second two. Since July 2009, euro gold has already powered 28.2% higher at best in what is certainly its fourth major upleg. And if this one ultimately catches up with that middle-two-upleg average, it is still only 2/3rds done. At +41.7%, it would carry us to €922 which isn't far below the fabled €1000 in percentage terms.

And provocatively, most world currencies' [gold charts](#) mirror euro gold's far more closely than they do dollar gold's. The only exceptions are currencies that are effectively pegged to the US dollar. So most of the world's investors are seeing this same excitingly bullish gold picture that the Europeans are. Since nothing begets new investment demand like record highs, all over the world investors who never invested in gold before are starting to consider it. And existing investors are eagerly adding new capital.

It is really important for American investors to keep this dollar-neutral gold perspective in mind. Our criminal politicians in Washington are working overtime to destroy the US dollar. They are spending money and multiplying debt like there is no tomorrow, leaving no way out except endless fiat-paper [inflation](#). Running the printing presses 24/7 to expand dollar supplies when global dollar demand is *waning* can only lead to a continuing secular dollar bear. And bear markets are known for their wild volatility.

Unfortunately these sometimes-extreme dollar gyrations are distorting American investors' perceptions of this in-progress secular gold bull. They are exaggerating its technicals, temporarily throwing gold out of trend at key times and scaring technically-oriented investors. A great way to effectively filter these dollar-driven distortions out of the gold chart is to view gold in euro terms. It gives you a cleaner gold-bull perspective in volatile dollar times, and even offers excellent insights into buy and sell timing.

At Zeal we are always trying to integrate broader perspectives into all our investing and speculating. We maintain large high-resolution gold charts in [ten major currencies](#) for our subscribers. We have been blessed with so much success trading this gold bull over the last decade because we study gold in the context of many other markets that affect it. Studying dollar gold in isolation is myopic, as it fails to recognize other external forces exerting varying degrees of influence on gold-investment psychology.

If you want to greatly increase your understanding of what is driving gold and why, [subscribe today](#) to our acclaimed [monthly](#) or [weekly](#) newsletters! For as little as \$10 a month, you can apply our vast market knowledge, wisdom, and trading experience to your own worldview and trading on an ongoing basis. Lately we've been aggressively buying elite gold stocks and silver stocks in a new campaign, for [technical reasons](#) unrelated to euro gold. Integrating different threads of analysis yields great fruit.

The bottom line is the new record highs in euro gold prove this secular gold bull is even healthier than today's admittedly-impressive dollar-gold prices indicate. Euro gold effectively filters the wild dollar volatility out of the gold chart, leaving a cleaner dollar-neutral view. And today this is showing gold continuing to power

higher in its fourth major Stage Two upleg despite its consolidation in dollar terms.

And as the dollar's latest [bear-market rally](#) rolls over, this international strength should soon spill into dollar gold as well. As American investment buying is added back on top of European investment buying, we ought to see some really impressive gold gains in the coming months. Investors would do well to keep an eye on euro gold, as it offers an important perspective that a myopic dollar-only view cannot.

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Questions for Adam? I would be more than happy to address them through my private consulting business. Please visit www.zeallc.com/adam.htm for more information.

Thoughts, comments, or flames? Fire away at zelotes@zeallc.com. Due to my staggering and perpetually increasing e-mail load, I regret that I am not able to respond to comments personally. I will read all messages though and really appreciate your feedback!

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