David Kerly's

Gold – Silver – Shares Markets

9 FEBRUARY 2016 **TECHNICAL ANALYSIS OF GOLD AND SILVER SHARES** **Issue 2**

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In our 2nd issue we look at the remaining producers of gold and silver that were not covered in the first issue. Since then, gold has SURGED, piercing October 2015's key high and slicing through the 200 day moving average to hit US$1200 per ounce. THE TIDE IS TURNING!!!

Rather like the receding waves on the sea shore, the price of gold has ebbed far enough out, and now a stronger wave than normal has started to turn the tide. Also we havn't forgotten that J. P. Morgan have loaded up their boat with the largest hoard of silver in history, worth around $5-$6 billion dollars. Blue chip gold and silver shares Randgold Resources and Fresnillo (covered last month), for example, have risen 44% and 20%, respectively, since the end of 2015. However, they, along with most other gold and silver stocks have probably seen the swell of their waves reach their high points and some subsidence is naturally to be expected before the next up waves begin in earnest.

Gold surged over the last five weeks and has begun to prove its strength by breaking October's rally high and the 200 day moving average. We think a new bull market began in December, but we wouldn't chase it higher now. Wait for a reactive phase lower to buy.

Silver has completed an 11 week base and is currently Dr Watson to Sherlock Holmes! (Sherlock being gold). Nevertheless, Silver's time will come. Silver now tests 61.8% retrace (US$15.30) and 200 day/260 day m.a.'s, but a reaction is due. Support at US$14.40 / US$14.66.

Hochschild (HOC.L) 59.25p **BEAR TREND HOLDS FOR NOW**

Hochschild Mining has been locked in a declining trend channel for three years after breaking key horizontal support around 400p, early in 2013. The weekly candlestick chart above has a log scale, so we can see the detail within the bear trend. This does of course mask the extent to which this silver miner has plunged since the end of 2012.....92% to be precise.

The 2008 low of 66p had provided a strong support area in early 2015 and later on in the year at 65p, and decent rallies followed for several weeks. However, overall bearish influences were too strong for these rebounds to be sustained, and the top of the bear channel and falling 40 week (200 day) moving average reversed the market, and the key 65p level gave way in November.

However a bullish weekly candlestick pattern in the second week of January, from the low of 38.75p which began from the bottom of the bear channel support, has turned the multi-week trend higher. It is too early to tell whether Hochschild has bottomed, only a decisive break of the blue downtrend channel resistance can do that, currently around 74p. **It has to at least get back up above the 66p level, (which is also a 50% retracement of the decline from the October high of 93.75p) to signal a potential false downward break, which of course would swing the odds in favour of the plunge to 38.75p being the bottom. We think it may suffer a correction back to the 43p-50p area before it can eventually surmount the channel resistance, and thus set it on its way to higher targets at 72.75p (61.8%), 82p (78.6%), then the October highs around 90p-92p.**

Orosur Mining (OMI.L) 7.25p **DIAMOND BASE TARGETS 12.5p**

Orosur Mining has, like many small mining company shares, plunged almost into oblivion during the past multi-year time frame. A 97% drop in the last decade we think is a large enough decline to warrant such a statement! However, there are now signs that a turnaround in the share price trend from down to up may just be around the corner. From such depressed levels gains of 100% can be achieved very quickly.

Once again we show a chart with a logarithmic scale to show the detail which you would undoubtedly miss from the small chart on the left, though that chart of course neatly shows the rally in 2010 and subsequent gold price inspired collapse that befell Orosur into 2013.

Note the diamond shape chart pattern bounded by the four green lines. This increase in volatility which began with the October 2015 rally, signals a battle between buyers and sellers. Such activity occurs in only three places. At a top, a bottom, or during a trend. The downside target from this pattern is zero, but as we don't think Orosur is going bust, then it's not that one. The same would also apply to it being within a trend. That just leaves a break to the upside! We think this is what will transpire. Note the bullish divergence on the RSI and the 2nd piercing of the red downtrend line since December.

Clearing resistance at 8.25p will confirm the pattern is completed and then open a move towards the diamond pattern target level of 12.5p. This is also resistance from the late 2014/early 2015 highs. Any near term dips would be opportunities to buy.

Pan African Resources (PAF.L) 13.125p TARGETS @ 14p-16p after 9p-10p

Pan African Resources

has surged 67% already this year after forming a 6 month base pattern over 6.25p, a five year low and close to a 78.6% retracement of the four year bull market from the November 2008 low near 2p. The gap up ahead of the 13p closing level looks a bit euphoric, though this was a very strong move and is believed to be the start of a longer bull phase in this stock.

The 200 day moving average has been left well behind, though this has not yet turned higher. Therefore, we would expect a period of "mucking about" to consolidate this bull run as more underlying support is laid down, but probably no lower than the 9p-10p level. This is the upper region of a sometimes seen at bottoms – 'head and shoulders base'.

Also, and most importantly, the four year downtrend from the November 2012 high of 21.75p has been well 'smashed' and the **monthly** MACD and RSI indicators show distinct losses of downward momentum – as shown by the two small black circles. **Ultimately, this share price chart has 'legs' to at least test the 2012 high of 21.75p, though maybe not just yet! We had forecast a move to test the 10p area when the stock was 7.40p, so if you got in around there well done. If you are still long, it may be worth taking some profits and looking to buy back on a corrective move. Looking further out, targets sit at 14p and 16p, close to 50% and 61.8% retracements, respectively. Strong resistance is noted between those levels, but once over the latter, then this stock could fly to challenge the 2012 high.**

Patagonia Gold (PGD.L) 2.25p **BULLISH TRIANGLE NEAR 2.20p**

Patagonia Gold has fallen remorselessly for four years, peaking at 71p in September 2011 and touching a low of just 1p exactly 48 months later. Bull divergence on the daily slow stochastic (small chart) last October coincided with the low near 1p and a five wave move to the upside, and a peak of 2.55p followed.

The five wave advance shows that this was impulsive and a further recovery, after a corrective phase, is to be expected. That corrective phase is now underway and has taken the form of a bullish flat topped triangle with rising reaction lows. There is resistance at 2.125p-2.25p.

You can also see (on the smaller chart) that there are several intraday spikes up to 2.20-25p and the initial move up to 2.55p in October. **Until the stock can close over 2.25p there is a risk that, particularly as the 200 day moving average which is still falling and near the price, of a setback perhaps to 1.3p-1.5p before a successful upward break opens the triangle measured move target to 3.625p. Above that target and resistance level, and a stronger move to challenge the 6.20p level could follow further into 2016.**

Petropavlosk (POG.L) 6.34p **RANGE BOUND BUT COULD DOUBLE**

Petropavlosk, as anyone who follows gold mining stocks will know, almost went bankrupt early in 2015. Worries over not only the falling gold price, but also a massive overhang of debt nearly sunk the company. However, at the 11th hour it successfully re-financed and the share price has settled into a tight sideways range between 5.20p and 7.80p. Fundamentally it looks to have turned the corner, though as yet on the chart it is still locked in this sideways range.

We have put volume on the charts and you can see there have been several times last year when weekly volume topped 150 million shares. This was mainly buying and occurred near the range lows or during a swing towards the range highs. So, most likely the stock is being accumulated, though at only 5p-6p, the value of the weekly volume is not massive at about £11m.

The current upward swing from just under 5.20p is becoming a bit overbought and volume is very low. Also, with three levels of overhead resistance not too far away at 6.70p, 7.00p and 7.30p, then the odds of a bullish breakout would appear pretty slim, not completely ruled out, but slim at present. So we wouldn't chase the stock now, preferring to wait for corrections back towards the 5.40p to 5.80p support region. Of course when the breakout does occur, quite possibly in the first half of this year, then it could easily double in fairly short order, so buying at the upper region of the trading range would not be a disaster.

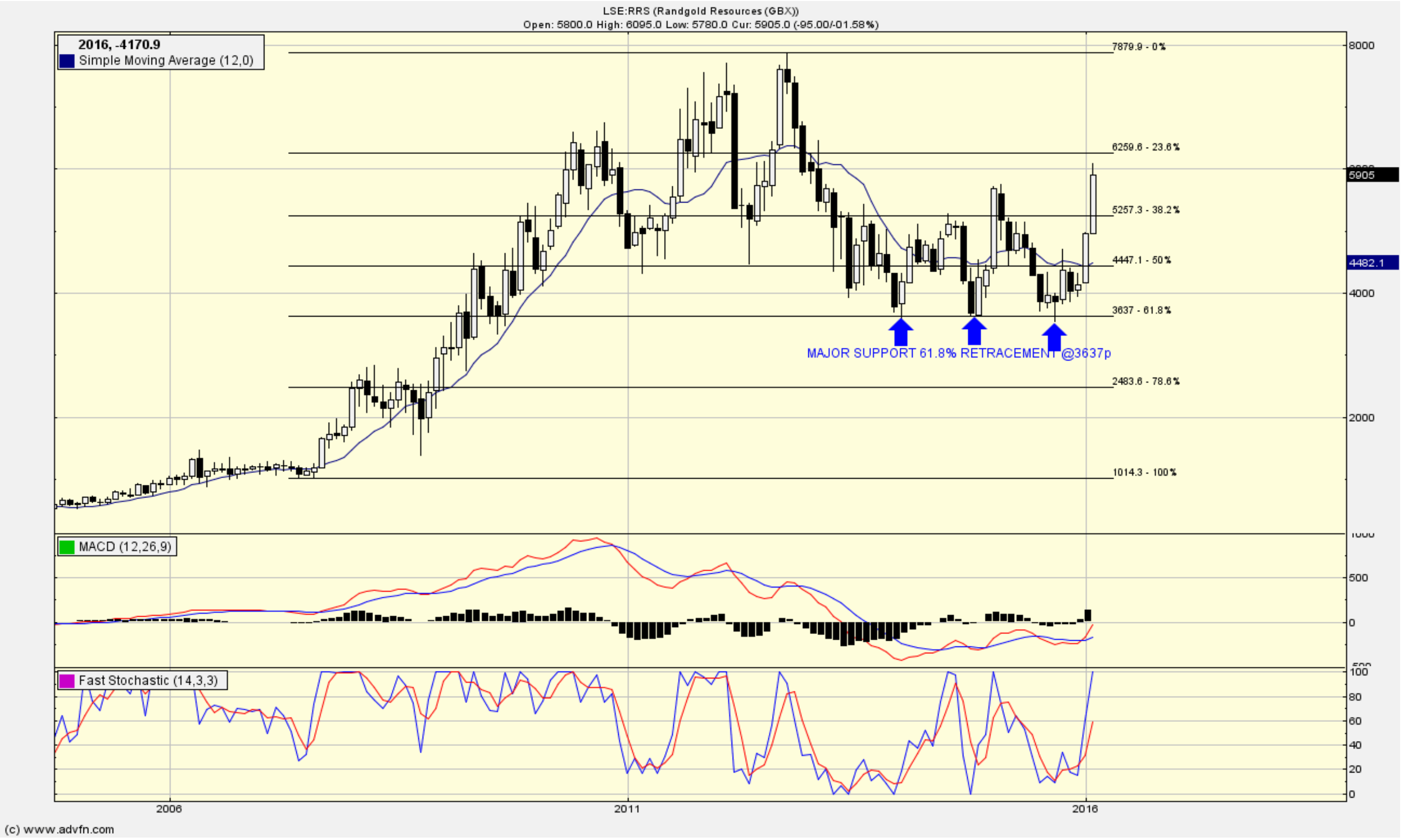
Polymetal (POLY.L) 606.25p BLUE CHIP STOCK BREAKOUT SOON

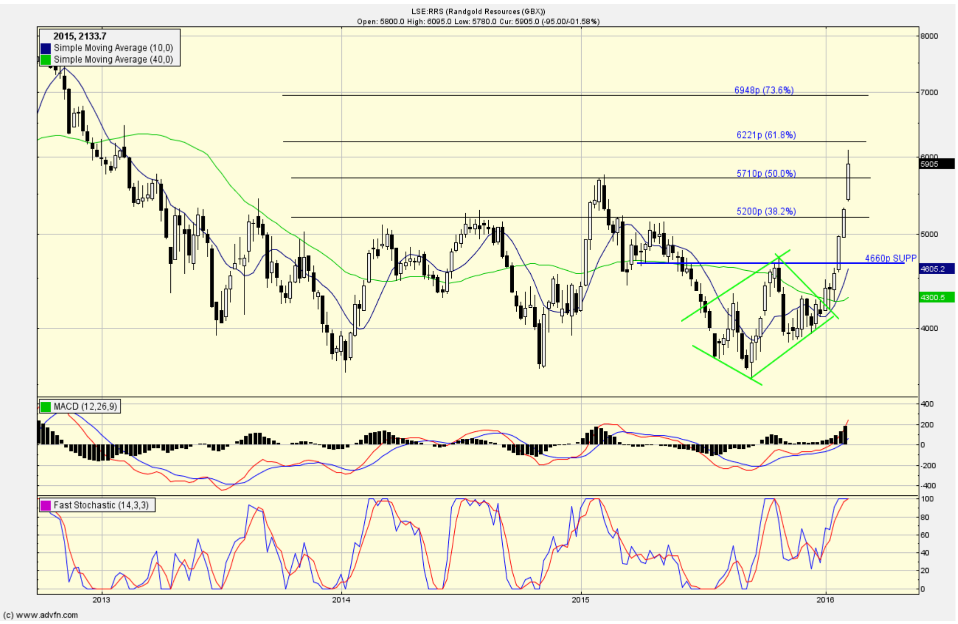
Polymetal is a blue chip gold mining stock and has suffered less than smaller gold producers during the four year plus gold bear market. Polymetal's bear market looks different to most, having fallen by 65%, less than the majority, and only for six months to the June 2013 low of 440p. Since then the stock ranged within boundaries of the mid-400p's to the mid-600p's, particularly in the last two years.

It did break the range low (as shown by the blue line) last July, but this was very brief and the return back above the blue line left a false downward break. As often happens with false downward breaks the price advanced smartly and tested the upper region of the range at 634p-645p, as denoted by the first red line.

We note that the MACD has moved back above the zero line into bullish territory and the RSI has become 'oversold' quite close to the mid-point of the scale, rather than the typical '30' area, a sure sign that the trend has become more bullish of late. **It looks to us that the move up from the July low could be wave one up of five, and the three part pullback to the early January low an A-B-C correction (in effect wave 2) . Therefore the current rise may be the start of wave three up. We note it has started to meet resistance at 635p and could see a pullback before fresh strength. A reasonable place to buy would be in the 542p to 573p support zone as identified on the small chart. A weekly close over 645p should trigger a wave of new buying and then targets open up to 690p initially ahead of 732p (38.2%) and then 827.5p (50%).**

Randgold Resources (RRS.L) 5910p PULLBACK DUE BEFORE HIGHER





Randgold Resources

fell only just over 50% from its October 2012 high, during the gold bear market. A very resilient performance from this heavyweight blue chip gold stock. Outperformance over its peers is the name of the game for Randgold and this is evident in this bullish chart.

From the June 2007 low (where we have drawn the Fibonacci retracements from), the gold induced correction met repeated support on the 61.8% level, shown by the three blue arrows. The current surge began after a brief failed downward break (sound familiar) of the 61.8% level and also completion of a diamond pattern base, which we have highlighted in green.

We note that the rise has gone slightly parabolic and with weekly and monthly stochastics overbought, the odds of a correction, probably sharp, over coming weeks is pretty high. If you have these shares, then some top slicing would seem appropriate, with a view to buying back in lower down. We think that this latest rise from the diamond pattern is wave three, particularly as it is clearly very impulsive. A corrective wave four should unfold very soon, we suspect, and would be looking for this to bottom out in the 4660p to 5200p support area. Thereafter, we'd be looking for the next advance to have a crack at the 73.6% Fibonacci retracement level of 6948p.

Serabi Gold (SRB.L) 3.00p HEAD AND SHOULDERS BASE FORMING

Serabi Gold has been locked in a falling downtrend channel since 2010/2011. This has taken the form of a bullish falling wedge, and as such one should be looking for clues when the breakout will come. We think we have that clue, though of course commonality with a bullish gold mining sector does strongly hint that the time is now sooner rather than later.

The clue is the monthly 'doji' candlestick during January. These are quite rare as you have to wait a whole month for the close to be exactly the same as the open. When you spot one, it often creates a decent tradeable move, the last one occurred in April 2014 which led to a 3-4 month rise. The latest has begun from the bottom of the channel (blue line) and, if one looks at the smaller chart directly above, **there is a potential 'head and shoulders' base 2/3rds of the way through its formation. We have drawn in a possible course that the share price could take over coming weeks and months. No doubt we won't get it completely right, maybe not at all, but there does look to be scope for a break over the key 3.75p resistance level. This is the March 2009 low and also the monthly highs of October and November 2015. Clearing that will be technically very significant and should open the door to 5.375p and, with a fair wind, the August 2014 high at 7.375p.**

Shanta Gold (SHG.L) 7.875p TARGETS TO 8.625p-11.25p BUT DIP FIRST

Shanta Gold broke a near four year bear trend in September 2015 when it cleared 5p after posting a six year low of 4.00p in that same month. The initial rally to 7.25p was reversed by the then falling 40 week (200 day) moving average and, by December, the price had dropped back towards, but not quite to its earlier starting point. The MACD was at a higher point in December than September and was thus indicating scope to rebound again, which of course it has, rising towards the key 8.625p resistance level, the mid-2013 and late 2014 lows.

This latest five to six week rise has been strong enough, along with the earlier rally, to flatten out the 40 week moving average and also turn up the 10 week (50 day) moving average and trigger a golden cross buy signal. Also, the MACD has surfaced above the zero level and entered bullish territory for the first time in 19 months. We can only view these technical developments with very positive implications for the coming months.

In the near term however, it is clear, particularly if you look at the small chart on the left, that an extended and overbought state will need to be corrected before a break over the key resistance at 8.625p can be sustained. Indeed the daily MACD is already rolling over and the RSI has been overbought for two weeks. Tuesday's spike peak another sign that a pullback will follow. We'd look for this to bottom in the 5.50p to 6.50p region before buyers start returning and revive scope to break over 8.625p and the next upside target at 11.25p.

Trans-Siberian Gold (TSG.L) 31.75p SURGES, BUT RISK OF 18p-21p

Trans-Siberian Gold

peaked at 100.5p in April 2011 after which the trend turned down when a 17 month head and shoulders top was completed in April 2012 on the break of the 64p neckline. After hitting its low of 8.75p, late in 2014, TSG tracked sideways, forming a base pattern, following which a 2nd dip towards 8.75p in August led to a reversal and completion of the two year base pattern over the 16p neckline.

Some shares, when completing bases, move up in a measured pace. However, TSG, is not conformist in that way, **having soared in the last three days. A move which extracted a statement by the company confirming that it is not aware of any reason for the movement other than the recovery in the gold price and the general macroeconomic environment.** So, pure speculation then.

It has a history of sharp price moves, as can be seen during 2009 when it rose similarly on two occasions, only to fall back, admittedly more slowly, but still retracing a fair proportion of the prior surges. This time we think it is also likely to retrace some of the latest surge before advancing strongly, as is probable given the wide two year base pattern.

We would not be tempted to chase this higher in the short term, preferring to bide our time and await evidence of fresh support building potentially in the 18p to 21p region where it spent four weeks before the latest sharp rise.

VAST Resources (VAST.L) 0.65p **NO SIGN YET OF A REVERSAL**

VAST Resources spiked up to just over 7p in February 2013 before plunging precipitously to test the 2012 lows of 2.125p several months later. That level eventually gave way towards the end of 2013 before lows of just 0.50p followed in late 2014. That proved to be a solid floor from where a recovery later followed. This got back to the prior breakdown level of 2.125p also where an 18 month bull channel intersected (circled) and spiked briefly to 2.25p before leaving a failed break.

As with failed breaks, decisive moves in the other direction follow, VAST being no different. The channel support was tested, a brief rally seen to 1.35p before breaking down in December. While the lower side of the 32 week base area that formed in the latter part of 2014 over 0.50p has been entered, there is no sign yet that a trend reversal to the upside is forthcoming. If you are thinking about buying this, we would suggest that being a bit more patient would be sensible, given the lack of a bull signal at present.

As can be seen (or rather not seen) on the small chart above there is no sign from either the MACD, RSI or the chart itself of a trend reversal. We may be close to one of course, but until we get one, leave well alone. We could get a spike down to or even just under 0.50p, which if followed by a swift rebound would be the first clue that a reversal could be underway. Currently, we would need to see the 1.075p resistance cleared to confirm that a recovery was getting underway.

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