

Gold price fall puts dent in Newcrest's progress

TECHNICAL ANALYSIS ROD MYER



IT IS often said the gold price does well when the rest of the economy looks shaky, as investors flock to what for millenniums has been seen as the ultimate store of value.

But with all the turmoil in recent weeks something unusual has happened: the gold price has dropped.

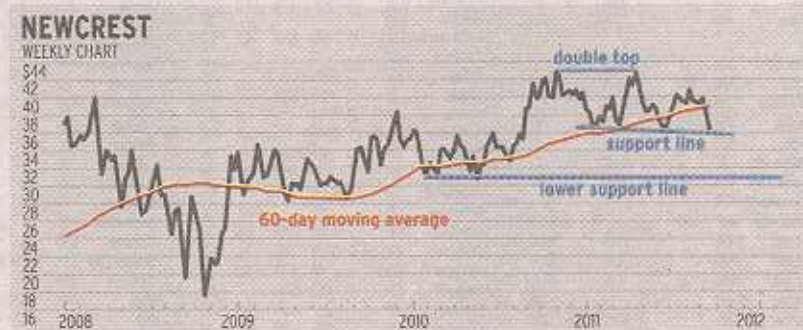
Since highs in early September of \$US1881.54 an ounce, gold has fallen to below \$US1600 — at the Sydney close yesterday. Given those circumstances, it is timely to look again at how Australia's No. 1 gold producer, and indeed the

world's No. 3, Newcrest Mining, is progressing.

As the weekly price chart from Paul Ash, Victorian president of the Australian Technical Analysts Association, shows, Newcrest's share price was on a steady up trend from October 2008 until earlier this year. This is demonstrated by the meandering upward direction of the red line on the chart, the 60-day moving average and the fact that Newcrest's share price was making "higher highs" and "higher lows".

Much of this was driven by a gold price that was rising until recent weeks and the fact that Newcrest's output of gold had also been rising.

Looking at the chart we can also see that Newcrest's progress seems to have



reached an apex with a "double top" formation, reached on November 5, 2010, and April 21 when the stock reached \$42.80.

Since that April peak, we can see some weakness beginning to emerge in the Newcrest chart. The peak was followed by a significant fall in the price and the moving average is now

starting to level off. Since April there has been a rising number of "lower highs" and "lower lows".

The last time Newcrest's moving average flattened out was in May 2010, but this was followed by a rally that resumed the upward trend. This seems unlikely now, Ash says, as demonstrated by the distance between the weekly

share price and the moving average line.

Weakness is indicated in the chart by the appearance of a downward-sloping support trend line. For the current weakness to end, Ash says this support line would need to hold around levels of about \$36 at week's end. "I feel this is unlikely because of the strong downward momentum of the share price," Ash says.

Given that, the next support level of any significance will be at \$31. Following that it's \$28.50 and the news is unhappy for Newcrest shareholders.

Neither BusinessDay nor Paul Ash is offering investment advice. Investors should seek professional counsel and do some homework. rodmyr@ozemail.com.au