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Gold Market Overview From An HFT Perspective

November 2, 2012, at 7:46 pm
by **Jim Sinclair** in the category **General Editorial** | **Print This Post** | **Email This Post**

Jim,

Here is an overview of market action for gold longs from a HFT perspective. If you plan to trade on my information, then the trade is: Buy physical gold. Any HFT worth their salt (or silicon) already knows what I have written here.

TAKE HEART GOLD LONGS, THE PAIN IS ALMOST OVER. The next leg of our journey takes us to $1800 and over, probably in time for Christmas. The best advice I ever received in gold is: "Your emotions are always wrong." This was from a highly skilled trader named Jim Sinclair. Thank you, Jim.

Here is what is going on:

Market releases are important, and NFP is the most important.

NFP (non-farm payrolls) is the most volatile of all data releases. Every HFT (algo and human) trade it. The high risk trade is to short bonds or long S&P prior to the release. The HFT method is to close your position pre-release and have your finger on the mouse ready to pounce. Failing that, the human method is to fade the spike and profit from mean reversion.

On a ladder, you can see 1 min before a data release that orders are pulled and volume is barren. As the data is released, algos get it first. They slam orders into the market. A second (or less) later, humans add to these orders at market and the algos sweep their profits. This drives the price as stops are crossed and slow traders enter.

For this NFP release, everyone knew the data release would be the same as October. It's an election year. The number may be revised in a week or 2, but that won't matter after the election.

Knowing in markets is a powerful thing. Most trading is guessing and hoping, so knowing is a comfort rarely experienced.

When the release happens, the gold market got slammed. The previous day, traders were pulling their longs from $1725, causing the price to drop. For the release, the shorts know that longs have stops under $1700. This is a human "line in the sand". So the goal is to cross $1700. You can see the stops trigger to $1696. From there, longs feel the pain and close positions, allowing the shorts to hit the price again into the next level $1678. These were the levels in my last email, and nothing has changed. The short goal is $1650, but won't get a chance to push $1650 and here is why:

China demand. The Chinese government has encouraged it citizens to buy gold. This is a saving culture with little faith in governments and currency. These avid savers have already bought large amounts of gold and will be buying more under the assumption that "If the price was good at $1750, then it's great at $1700!" This is how value buying works.

Come Monday, Asian value buyers will be into the market. Some may want to try to get $1650 prices or wait until Tuesday to get a better price, but will quickly snap up gold as they see the price start to go up. These physical buyers will be buying on as the price starts to press $1700 for fear of missing this BREIF pullback in price.

CIGAs should also be value buying at these levels.

On Monday, shorts will try to breach $1678. They may get it to fall (briefly) but that level won't hold. Spec shorts will be closing positions and adding longs at these prices. Spec shorts don't want to get caught behind the wave of big money value buyers. High volume VALUE traders will be back into the market on Wednesday, after the election smoke clears. These traders will be snapping up every pullback of gold, knowing they can reap a big profit before the end of the year. This starts the gold run to $1800 (short term, ie Christmas) and $2000 close behind. $2000 is a low estimate with a looming fiscal cliff and rabid money printing.

It is an election week. All eyes (news coverage) will be on the election, with real news hidden in the folds. No matter who wins, nothing will change.

If Obama wins, Bernanke will continue QE as normal, secure in his job. If Romney wins, Bernanke will increase QE in an attempt to keep his job. Either way, the printing press rolls on devaluing in the dollar and increasing the book price of hard assets. Markets know this. Knowing something in a market is a strong motivator.

There is NO scenario short of an election coup d'état of congress that can stop the presses.

If you are NOT buying gold at these prices, you have NO insurance for what is to come.

If you are long physical gold, turn off the tape and come back to it on Thursday when this paper BS is over.

Jim, thank you for all of your wisdom and advice.

Cheers,

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