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# The Kaufman Report

Trade what you see, not what you think.

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Monday July 26, 2010

Closing prices of July 23, 2010

Since mid-May we have discussed the lack of visibility environment which coincided with various negative factors such as the sovereign debt crisis and the nauseating gulf oil leak. We commented that when earnings season finally unfolded investors might recognize that stocks were cheap and could drive them higher. Hopefully that has begun as equities responded to good news coming from company earnings reports and better than expected economic news coming out of Europe to send the S&P 500 up 3.55% last week.

The week's positive action went a long way towards repairing the technical damage equities have suffered over the past few weeks. **First of all, a new up trend has been established with the daily charts showing a higher high and a higher low after the bottom of July 1<sup>st</sup>.** Also, the down trend line which goes back to the top on April 26<sup>th</sup> has been broken. Another positive is that small caps led the major indexes last week, rallying 6.13%. Small cap leadership is usually a good indication of plentiful liquidity and the willingness to take on more risk on the part of investors.

Still, stocks are not out of the woods just yet. For the S&P 500 (1102.66) there is important resistance just above current levels in the form of the 200-day moving average (currently at 1113.42) and the June high of 1131.23. That June high is also the right shoulder of the head and shoulders formation we have discussed. In addition, we remain in a period where 90% days, both up and down, continue to send investors running for Dramamine.

We are 35% into second quarter earnings season, so a lot of news is yet to come. Until we get further along and more of the recent technical damage is repaired our strategy is as follows: **the new uptrend and the recent strong market breadth give us reasons for optimism, but until proven otherwise, this remains a short-term trader's market with aggressive traders able to play long or short based on overbought or oversold conditions.**

**Based on the S&P 500 the short-term and intermediate-term trends are up, while the long-term trend is down.**

## IMPORTANT DISCLOSURES

I, Wayne S. Kaufman, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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**S&P 1500 Data:** (Data available daily at John Thomas Financial)

P/E: 15.85 FP/E: 13.79

Percent over 10-sma: 82.13%. Percent over 50-sma: 62.8%. Percent over 200-sma: 54.13%.

13-Week Closing Highs: 99, most since 123 on 5/12. 13-Week Closing Lows: 16. 52-week closing highs: 77. 52-week closing lows: 9.

Kaufman Options Indicator: 1.01. Put/Call Ratio: 0.84.

New High Reversals: 1. New Low Reversals: 7.

Volume: -6%% versus yesterday. 102% of the 10-day average. 101% of the 30-day average.

Up Stocks: 88.59%. Up Volume: 70.35%. Up Points: 90.92%. Up Dollars: 96.67%, 153% of 10-sma. Dn Dollars 8% of 10-sma.

Earnings: 175 of the S&P 500 have reported so far this earnings season. 77.7% have had positive surprises, 9.1% have been in line, and 13.1% have had negative surprises.

Federal Funds Futures project a 63.4% probability of no change to the current 0.25% target rate and a 36.6% probability of a decrease to 0.00% when the FOMC meets on 8/10. For the meeting of 9/21 the probabilities are 60.5% for no change, 32.7% for a decrease to 0.00%, and 6.8% for an increase to 0.50

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## Indexes, Sectors, and Industry Groups

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
S&P Smallcap 600	349.22	2.13%	6.13%	6.13%	6.48%	6.48%	4.99%	396.63	4/26/2010	280.35	7/23/2009
S&P Midcap 400	763.51	1.46%	5.03%	5.03%	7.28%	7.28%	5.07%	852.90	4/26/2010	600.41	7/23/2009
Bank of New York Mellon ADR	124.73	0.75%	4.28%	4.28%	10.37%	10.37%	-8.52%	142.19	1/11/2010	109.79	5/25/2010
Nasdaq Composite	2269.47	1.05%	4.15%	4.15%	7.60%	7.60%	0.01%	2535.28	4/26/2010	1924.77	7/23/2009
Nasdaq 100	1875.38	0.66%	3.99%	3.99%	7.83%	7.83%	0.81%	2059.42	4/26/2010	1561.54	7/23/2009
NYSE Composite	6965.11	0.92%	3.81%	3.81%	7.66%	7.66%	-3.06%	7743.74	4/15/2010	6151.41	7/23/2009
S&P 1500	253.75	0.92%	3.76%	3.76%	6.99%	6.99%	-0.41%	281.21	4/26/2010	217.40	7/23/2009
S&P 500	1102.66	0.82%	3.55%	3.55%	6.98%	6.98%	-1.12%	1219.80	4/26/2010	953.27	7/23/2009
Dow Jones Industrials	10424.62	0.99%	3.24%	3.24%	6.66%	6.66%	-0.03%	11258.01	4/26/2010	8866.44	7/23/2009

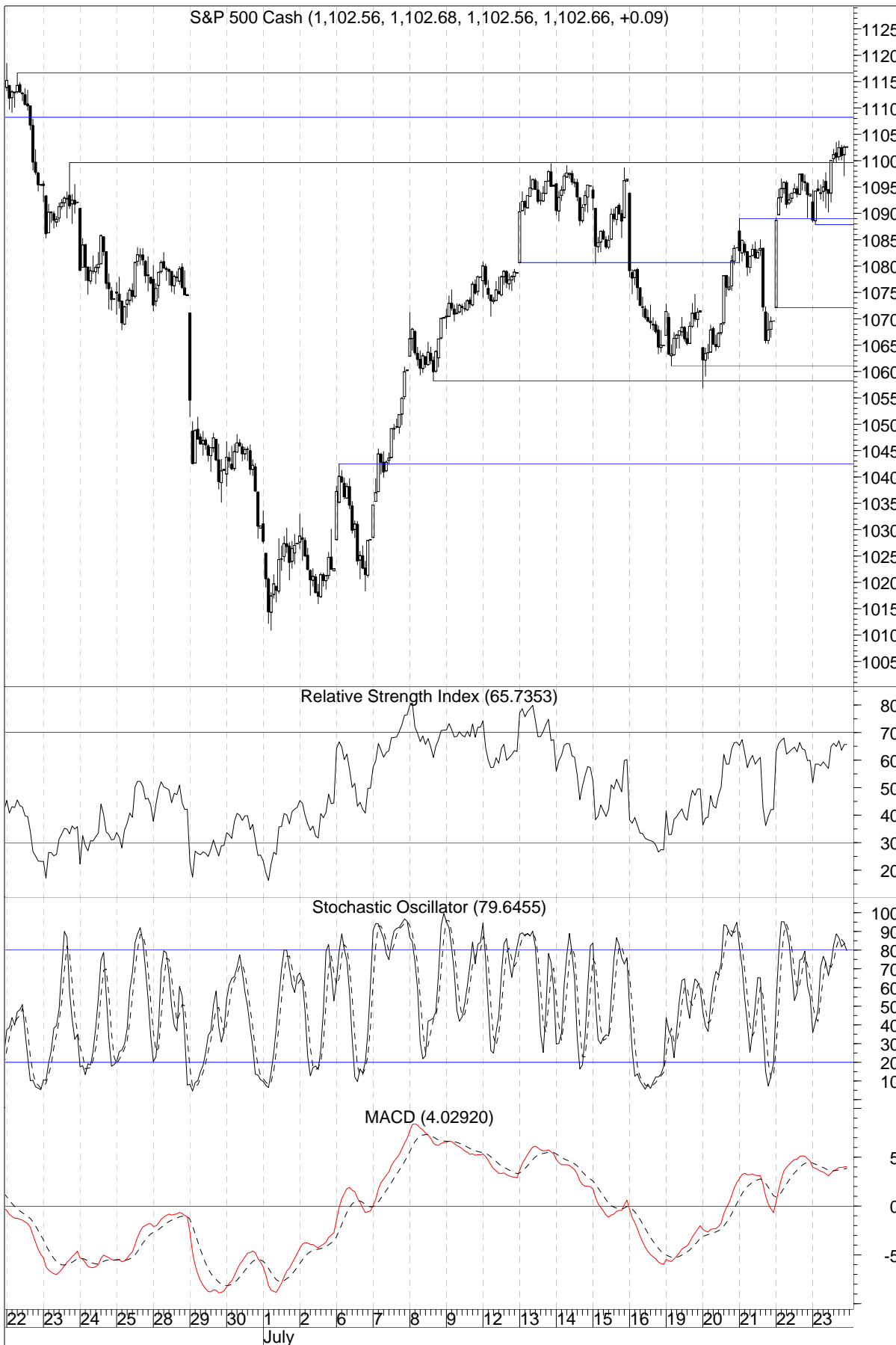
	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Industrials	260.94	2.00%	7.16%	7.16%	9.51%	9.51%	7.39%	292.21	4/30/2010	197.99	7/23/2009
Materials	193.84	1.97%	7.09%	7.09%	12.39%	12.39%	-2.99%	213.87	4/26/2010	165.58	7/23/2009
Consumer Discretionary	248.45	1.29%	5.02%	5.02%	8.16%	8.16%	5.69%	284.57	4/26/2010	191.18	7/23/2009
Energy	402.30	0.27%	4.02%	4.02%	7.75%	7.75%	-6.43%	464.76	4/26/2010	365.74	7/1/2010
Telecom Services	108.35	1.17%	3.86%	3.86%	6.18%	6.18%	-5.49%	117.00	1/5/2010	98.67	5/6/2010
Information Technology	359.37	0.57%	3.72%	3.72%	8.92%	8.92%	-3.06%	397.46	4/26/2010	307.61	8/17/2009
Financials	195.94	0.71%	3.17%	3.17%	5.55%	5.55%	1.11%	230.45	4/15/2010	162.66	7/23/2009
Utilities	154.82	0.09%	2.63%	2.63%	7.93%	7.93%	-2.01%	161.50	12/14/2009	138.57	5/25/2010
Consumer Staples	279.73	0.97%	2.37%	2.37%	6.51%	6.51%	1.98%	290.45	3/23/2010	246.96	7/23/2009
Health Care	329.93	0.08%	-0.67%	-0.67%	0.94%	0.94%	-8.91%	384.95	1/20/2010	311.76	7/23/2009

	Price	Daily	WTD	5-Days	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Automobiles & Components	91.27	1.87%	9.92%	9.92%	20.81%	20.81%	17.40%	107.25	4/26/2010	58.53	7/23/2009
Capital Goods	281.17	2.18%	7.59%	7.59%	9.65%	9.65%	7.66%	318.38	4/30/2010	209.29	7/23/2009
Materials	193.84	1.97%	7.09%	7.09%	12.39%	12.39%	-2.99%	213.87	4/26/2010	165.58	7/23/2009
Real Estate	107.30	1.20%	6.65%	6.65%	9.14%	9.14%	13.93%	114.48	5/3/2010	65.85	7/23/2009
Transportation	278.20	1.50%	6.14%	6.14%	9.57%	9.57%	9.14%	304.63	5/3/2010	212.75	7/23/2009
Consumer Durables & Apparel	139.64	1.72%	5.98%	5.98%	6.41%	6.41%	6.51%	164.51	4/26/2010	103.33	7/23/2009
Commercial & Professional Services	134.56	1.37%	4.99%	4.99%	7.60%	7.60%	0.56%	144.95	4/26/2010	116.49	8/6/2009
Media	176.62	1.91%	4.98%	4.98%	9.01%	9.01%	7.97%	192.83	5/3/2010	128.65	7/23/2009
Retailing	408.17	0.88%	4.50%	4.50%	5.79%	5.79%	-0.72%	499.94	4/26/2010	340.54	7/23/2009
Energy	402.30	0.27%	4.02%	4.02%	7.75%	7.75%	-6.43%	464.76	4/26/2010	365.74	7/1/2010
Semiconductors & Equipment	314.54	0.18%	3.90%	3.90%	10.70%	10.70%	0.71%	348.04	4/15/2010	264.50	11/3/2009
Software & Services	453.42	0.85%	3.87%	3.87%	8.98%	8.98%	-8.69%	512.69	4/15/2010	398.38	8/19/2009
Telecom Services	108.35	1.17%	3.86%	3.86%	6.18%	6.18%	-5.49%	117.00	1/5/2010	98.67	5/6/2010
Consumer Services	407.37	0.53%	3.67%	3.67%	7.73%	7.73%	9.96%	446.11	4/26/2010	318.46	7/23/2009
Technology Hardware & Equipment	394.18	0.39%	3.50%	3.50%	8.25%	8.25%	1.19%	431.10	4/26/2010	324.54	7/23/2009
Insurance	172.53	0.88%	3.29%	3.29%	3.05%	3.05%	4.69%	189.97	4/26/2010	132.67	7/23/2009
Banks	134.90	0.57%	3.29%	3.29%	5.38%	5.38%	7.62%	165.92	4/21/2010	104.95	7/24/2009
Food & Staples Retailing	175.70	1.99%	3.23%	3.23%	6.86%	6.86%	-4.03%	196.37	3/30/2010	162.45	7/1/2010
Food, Beverage & Tobacco	320.16	0.57%	2.93%	2.93%	7.31%	7.31%	4.46%	324.19	3/23/2010	275.04	7/23/2009
Utilities	154.82	0.09%	2.63%	2.63%	7.93%	7.93%	-2.01%	161.50	12/14/2009	138.57	5/25/2010
Diversified Financials	307.30	0.58%	2.44%	2.44%	6.23%	6.23%	-4.44%	382.07	4/15/2010	278.96	7/23/2009
Household & Personal Products	369.08	0.93%	0.39%	0.39%	4.43%	4.43%	2.31%	383.05	3/23/2010	310.55	8/6/2009
Pharmaceuticals, Biotech & Life Scier	310.00	-0.19%	0.02%	0.02%	1.38%	1.38%	-8.75%	359.71	1/20/2010	299.26	7/1/2010
Health Care Equip & Services	315.15	0.63%	-2.04%	-2.04%	0.07%	0.07%	-9.24%	371.77	1/20/2010	281.15	7/23/2009

## INTERNATIONAL ETFs

	Price	Daily	WTD	MTD	QTD	YTD	52H	High Dt	52L	Low Dt
Brazil EWZ	69.47	0.64%	8.29%	12.36%	12.36%	-6.89%	80.93	12/3/2009	55.37	7/29/2009
Latin America ILF	46.27	0.50%	7.86%	11.71%	11.71%	-3.18%	50.25	12/4/2009	36.44	7/29/2009
Russia RSX	31.51	1.35%	7.84%	12.34%	12.34%	1.03%	36.91	4/14/2010	21.13	7/29/2009
Chile ECH	63.10	0.80%	7.50%	11.31%	11.31%	15.17%	63.31	7/22/2010	27.27	5/6/2010
BRIC EEB	41.03	0.56%	7.04%	8.69%	8.69%	-3.37%	44.90	12/4/2009	23.23	5/6/2010
China 25 FXI	41.46	0.83%	7.02%	5.95%	5.95%	-1.89%	46.66	11/16/2009	36.24	5/6/2010
South Africa EZA	60.18	1.09%	6.57%	14.30%	14.30%	7.52%	62.76	4/5/2010	23.00	5/6/2010
Emerging Markets EEM	41.15	0.69%	6.47%	10.26%	10.26%	-0.84%	46.66	4/9/2010	34.12	8/17/2009
Australia EWA	21.31	1.67%	6.34%	12.28%	12.28%	-6.70%	25.14	1/11/2010	17.70	5/25/2010
Turkey TUR	60.77	-0.39%	6.00%	14.81%	14.81%	12.75%	63.27	4/14/2010	40.81	7/23/2009
South Korea EWY	48.85	1.08%	5.35%	9.26%	9.26%	2.54%	53.15	4/26/2010	39.15	8/17/2009
Spain EWP	38.94	1.56%	5.33%	22.34%	22.34%	-18.94%	52.67	11/25/2009	29.85	6/8/2010
Mexico EWW	51.32	0.61%	4.76%	7.16%	7.16%	5.01%	61.60	5/6/2010	39.36	7/29/2009
United Kingdom EWU	15.28	1.33%	4.73%	13.69%	13.69%	-5.68%	17.20	11/16/2009	13.25	5/25/2010
Thailand THD	49.52	1.19%	4.72%	7.49%	7.49%	16.55%	49.98	4/6/2010	33.75	8/17/2009
Austria EWO	17.50	0.75%	4.60%	14.60%	14.60%	-10.53%	23.59	10/15/2009	14.91	6/8/2010
Hong Kong EWH	15.83	1.34%	4.49%	7.18%	7.18%	1.09%	16.89	4/14/2010	14.08	5/21/2010
Indonesia IDX	77.02	-0.12%	4.32%	7.37%	7.37%	23.89%	77.35	7/23/2010	48.50	7/23/2009
France EWQ	22.15	1.05%	4.24%	13.24%	13.24%	-14.31%	27.32	1/11/2010	19.24	5/25/2010
Netherlands EWN	19.50	1.35%	4.17%	13.97%	13.97%	-4.69%	21.51	10/15/2009	16.53	7/23/2009
Taiwan EWT	12.31	0.65%	4.06%	9.91%	9.91%	-5.09%	13.46	1/6/2010	10.60	8/27/2009
Italy EWI	15.90	0.32%	3.99%	15.22%	15.22%	-18.50%	21.77	10/19/2009	13.21	6/7/2010
Sweden EWD	26.23	-0.10%	3.76%	14.89%	14.89%	11.62%	27.42	4/26/2010	19.00	5/6/2010
Belgium EWK	12.18	1.00%	3.48%	12.32%	12.32%	-4.55%	13.95	10/19/2009	8.93	5/6/2010
India IFN	31.79	0.31%	3.34%	5.08%	5.08%	3.54%	33.08	4/14/2010	25.17	8/19/2009
Malaysia EWM	12.04	0.50%	2.82%	5.24%	5.24%	13.37%	12.17	4/30/2010	9.47	8/19/2009
Canada EWC	26.39	0.61%	2.76%	6.11%	6.11%	0.23%	29.00	4/15/2010	22.56	8/17/2009
Germany EWG	20.65	0.98%	2.63%	10.37%	10.37%	-7.98%	23.40	10/21/2009	17.97	5/25/2010
Vietnam VNM	25.42	0.32%	2.62%	1.92%	1.92%	-0.27%	32.15	10/22/2009	22.55	5/21/2010
Japan EWJ	9.58	1.48%	2.49%	4.13%	4.13%	-1.64%	10.71	4/15/2010	9.15	6/7/2010
Singapore EWS	12.09	0.50%	2.37%	7.56%	7.56%	5.22%	12.36	4/14/2010	9.66	8/17/2009
Switzerland EWL	21.16	-0.47%	1.15%	5.85%	5.85%	-4.94%	23.63	4/15/2010	18.61	7/23/2009
Israel EIS	48.58	-1.38%	1.02%	6.61%	6.61%	-10.70%	60.68	3/26/2010	43.74	7/23/2009

S&P 500 Cash (1,102.56, 1,102.68, 1,102.56, 1,102.66, +0.09)



The 30-minute chart of the S&P 500 shows it broke through resistance at the 1100 level. There are plenty of resistance levels up to the important 1131.23 June high.

S&P 500 Cash (1,092.17, 1,103.73, 1,087.88, 1,102.66, +8.99)



The daily chart of the S&P 500 shows it is back above the 20 and 50-sma. The 200-sma is at 1113.42. The 50% retracement level of the downtrend from April 26th to July 1st is 1115.35, and the 61.8% level is 1140.

The definition of an up trend is a series of higher highs and higher lows. Therefore, a new up trend has begun.

Daily momentum indicators are not yet overbought.



The weekly chart of the S&P 500 shows the 20, 40, and 80-week moving averages are converging with the index pinched in the middle. This won't last much longer. Last week's rally erased the bearish shooting star candle of the prior week.

Weekly momentum indicators are at neutral levels and look poised to move higher. A positive crossover by the MACD would be a plus.

S&P 500 Cash (1,031.10, 1,103.73, 1,010.91, 1,102.66, +71.95)



The monthly chart of the S&P 500 shows that so far July is printing a bullish engulfing candle.

Monthly momentum indicators are mixed



NASDAQ 100 (1,851.81, 1,875.38, 1,846.32, 1,875.38, +12.28)



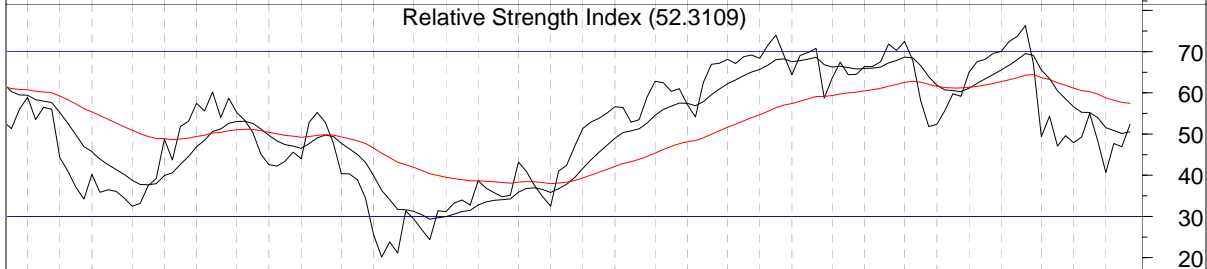
The daily chart of the Nasdaq 100 shows it breaking the July top. Again, a higher low and a higher high.

Daily momentum indicators look positive with the RSI breaking out.

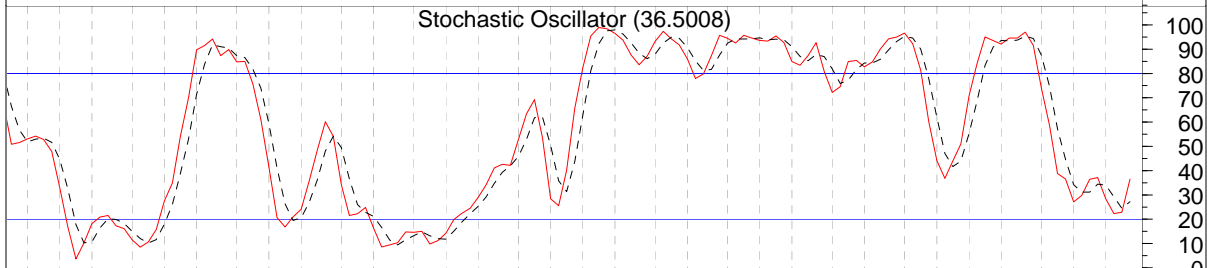
NASDAQ 100 (1,807.99, 1,875.38, 1,784.55, 1,875.38, +71.90)



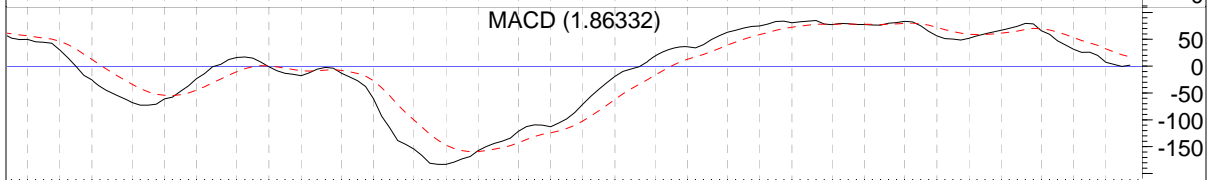
Relative Strength Index (52.3109)



Stochastic Oscillator (36.5008)



MACD (1.86332)



Weekly momentum indicators are moving up from low levels. A MACD crossover would be a plus.

D 2008 M A M J J A S O N D 2009 M A M J J A S O N D 2010 M A M J J

NASDAQ 100 (1,741.93, 1,875.38, 1,700.04, 1,875.38, +136.24)



A mixed picture here.

S&P 1500 (251.43, 253.94, 250.06, 253.75, +2.32)

% Over 10-Sma (82.1300)

Relative Strength Index (57.0289)

Stochastic Oscillator (85.3421)

MACD (0.13418)

13-Week Closing Highs (99), 13-Week Closing Low (16)

Price Oscillator (0.30695)

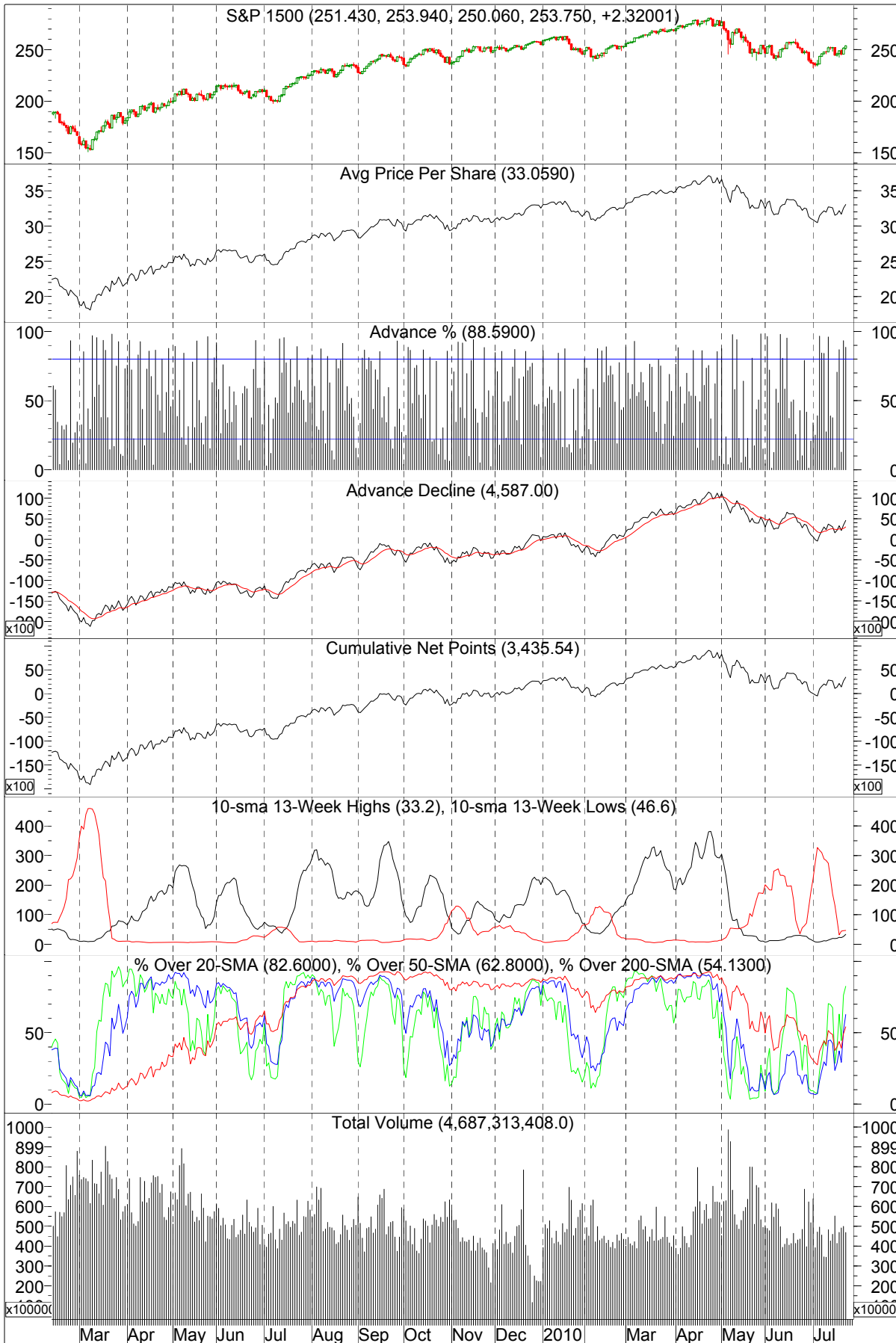
The percent over 10-sma is entering the overbought zone.

Daily momentum indicators look good.

Friday's 99 13-week closing highs was the most since 123 on 5/12.

Our price oscillator, a good indicator of trends, has given a buy signal by moving nicely into positive territory.

un Jul Aug Sep Oct Nov Dec 2010 Feb Mar Apr May Jun Jul



Average price per share is breaking out with the S&P 1500 index.

Friday's 88.59% advancing stocks continues the recent pattern of strong breadth.

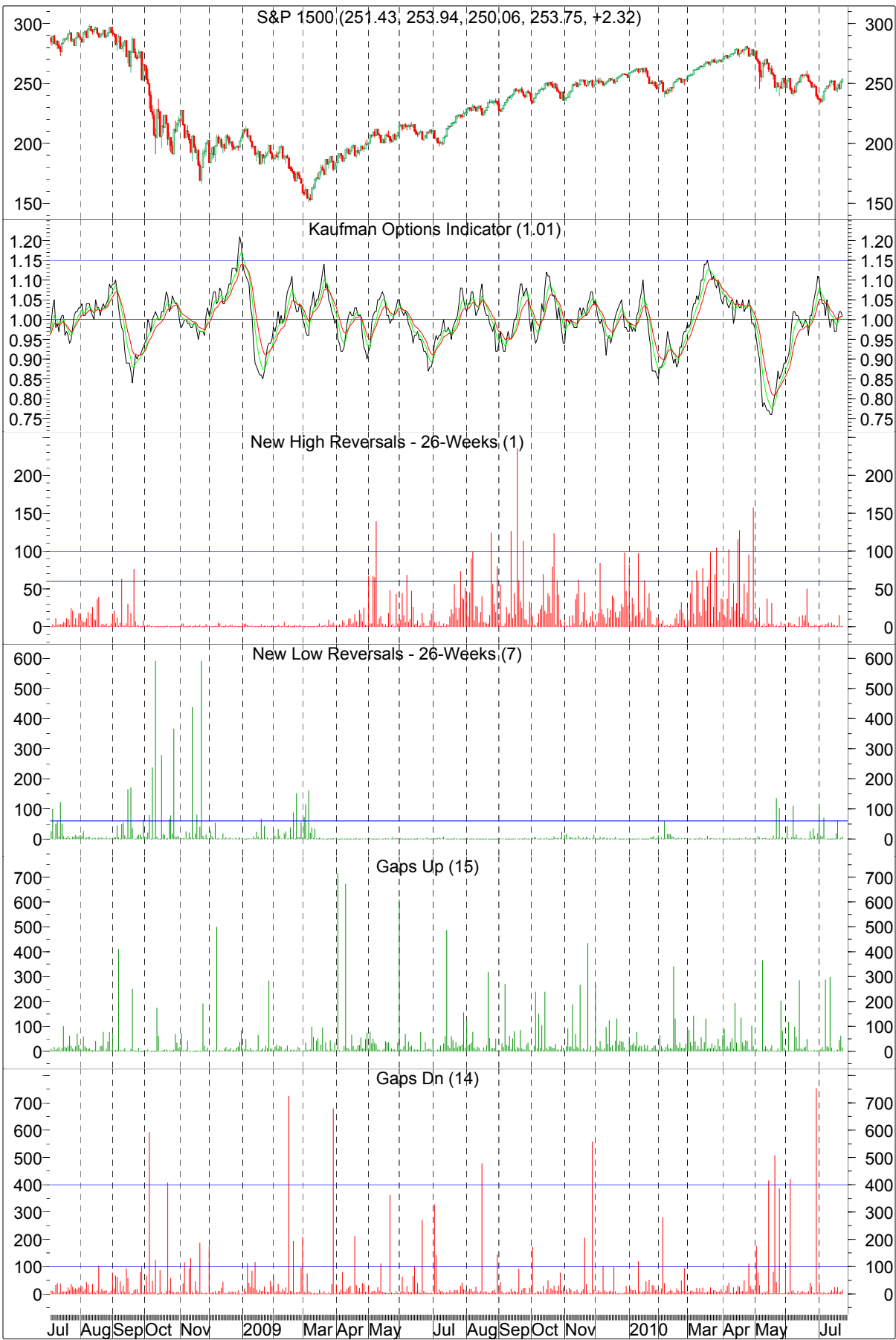
The AD line is breaking out, confirming the index.

Cumulative net points is breaking out, confirming the index.

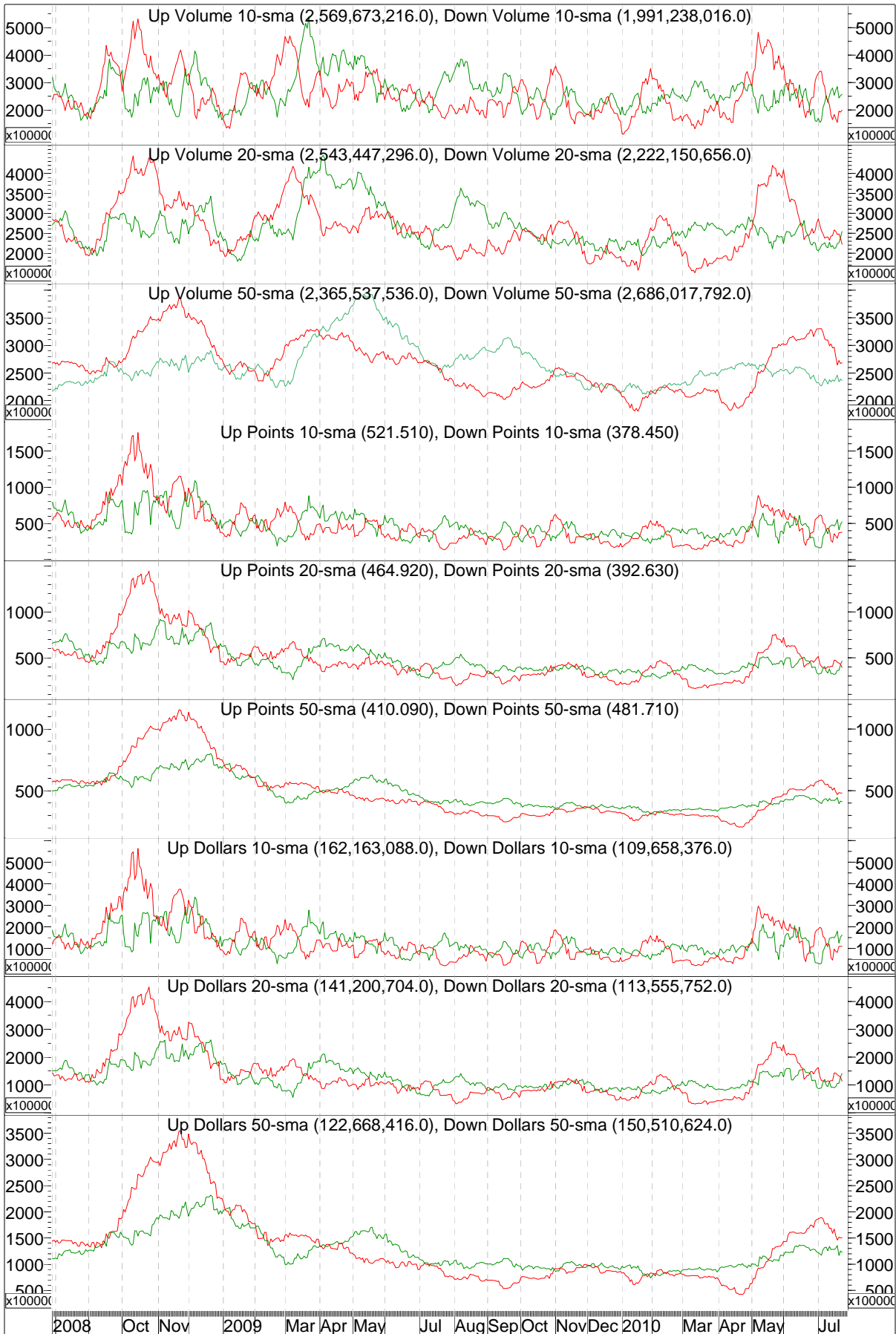
Not far from a positive crossover of the 10-sma of 13-week highs versus lows.

A big improvement here, with the percent over 200-sma at 54.13%, the best since 6/21.

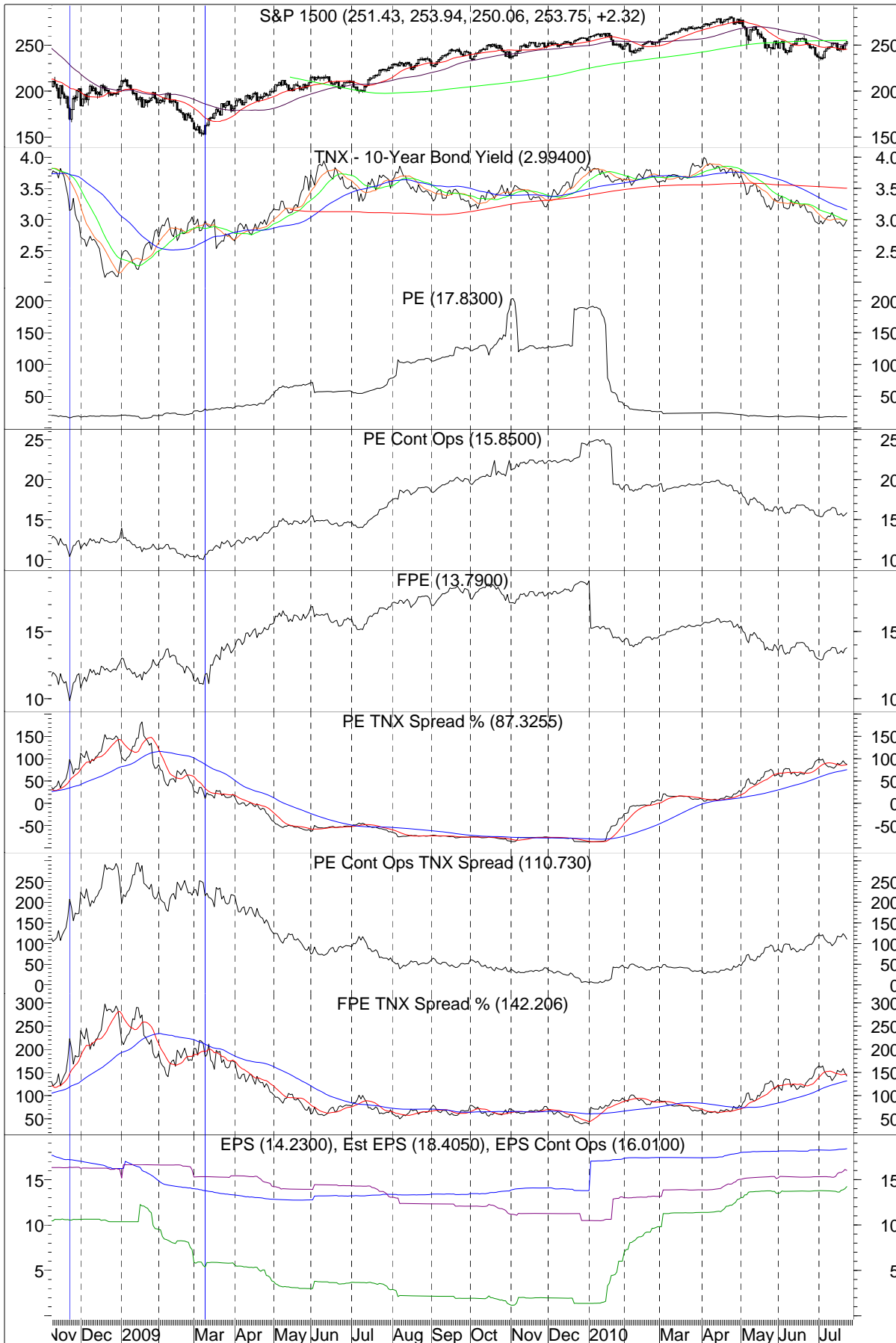
The Kaufman Report - Wayne S. Kaufman, CMT



Our proprietary options indicator is about neutral, with the lack of overbullishness allowing the rally to continue.



Our statistics of supply (red) versus demand (green) show the 20-day statistics have joined the 10-day statistics in showing positive crossovers. We are still not seeing a big increase in buying enthusiasm, but hopefully the next few sessions will give us a range breakout in buying along with a further decrease in selling stats.

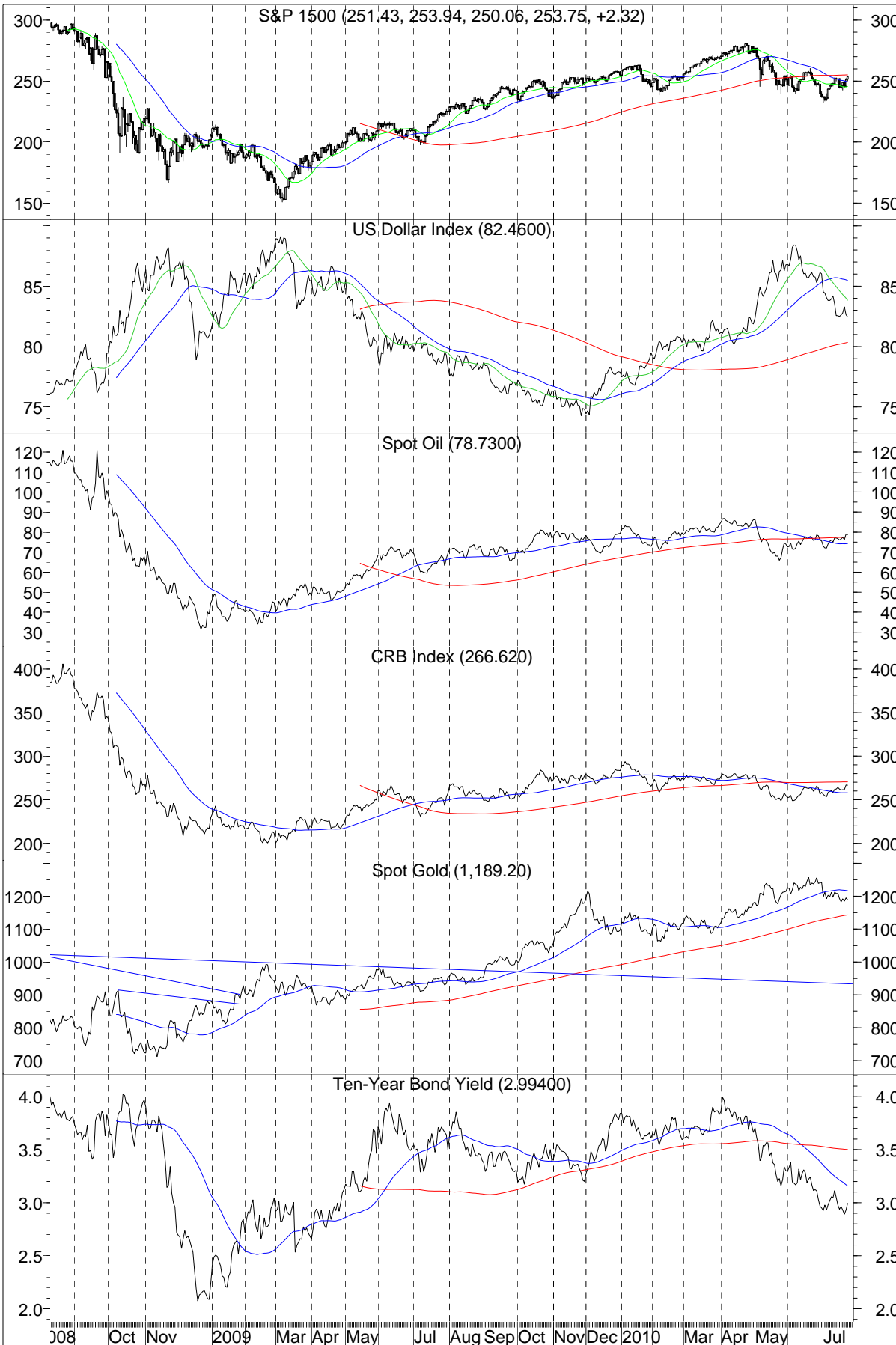


P/E ratios remain at low levels relative to their recent ranges.

Spreads between bond and equity yields remain at levels where stocks should be attractive.

Earnings metrics are moving up as we are one-third of the way into earnings season.





The U.S. Dollar Index remains near oversold levels on the daily chart, but not on the weekly. It is at an area of potential price support, so a bounce can occur at any time.

Crude oil is breaking out of its recent range, but has some price resistance just overhead. It is above important moving averages and is not overbought on daily or weekly charts.

Gold remains below its 20 and 50-sma. It is not oversold on the daily or weekly charts. Sentiment remains bearish for gold, so we keep watching for an entry point if a leg up begins.