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ABC Bullion Monthly Precious Metals Technical Analysis Report

October 2021

Gold – In Brief

Inflation has been the theme that has energised gold – particularly in the sense of really testing the ‘transitory’ beliefs deployed by the Federal Reserve. The key risk is that inflation expectations are derailed, and higher prices become embedded in wages and along supply chains. Inflationary expectations are rising, and the labour market looks tight, so the drive for equality and bringing more of the US labour force back into the labour market may leave the Fed on the wrong side of the policy river if prices continue to rise.

This has bought an inflow of 4.85 million FTozs of fresh Managed Money longs into the market over the 02–16 November period. [Open Interest dropped by 4,310,000 FTozs between Wednesday 17th and Monday 22nd, a figure which may understate the amount of long liquidation as fresh shorts almost certainly arrived during that span. If so, the significant inflow of Managed Money longs over the period 02-16 November may have been eroded considerably.]

Additionally, gold ETFs attracted the biggest daily inflow since mid-January (327,437 FTozs).

The technical view shows gold rallying very powerfully after a break of the key US\$1,833-1,835 level, reaching the top of the Weekly Cloud top resistance (US\$1873). Gold failed to close above the Weekly Cloud, making a high very briefly at US\$1,877, before a weak close. The resurgence of the USD (the EUR made a low of 1.1231 so far, with the DXY Dollar Index reaching 96.549) has smashed gold back to the Weekly Cloud base as the time of writing, with support at US\$1,797-1,801 initially, and deeper support back in the crucial US\$1,760-1,770 zone.

Declining growth expectations and inflation

Turning back to inflation: right now, the non-transitory camp looks a touch more confident. On the ‘transitory’ side of the inflation argument, the plunge in the Chinese Credit Impulse, the decline in the Baltic Dry Index (a China phenomenon, largely, with the index affected by sharp declines in Capesize and Panamax, reflecting bulk cargoes that are driven by Chinese demand), suggests that demand may be cool, easing supply chain hold-ups and reducing price pressures.

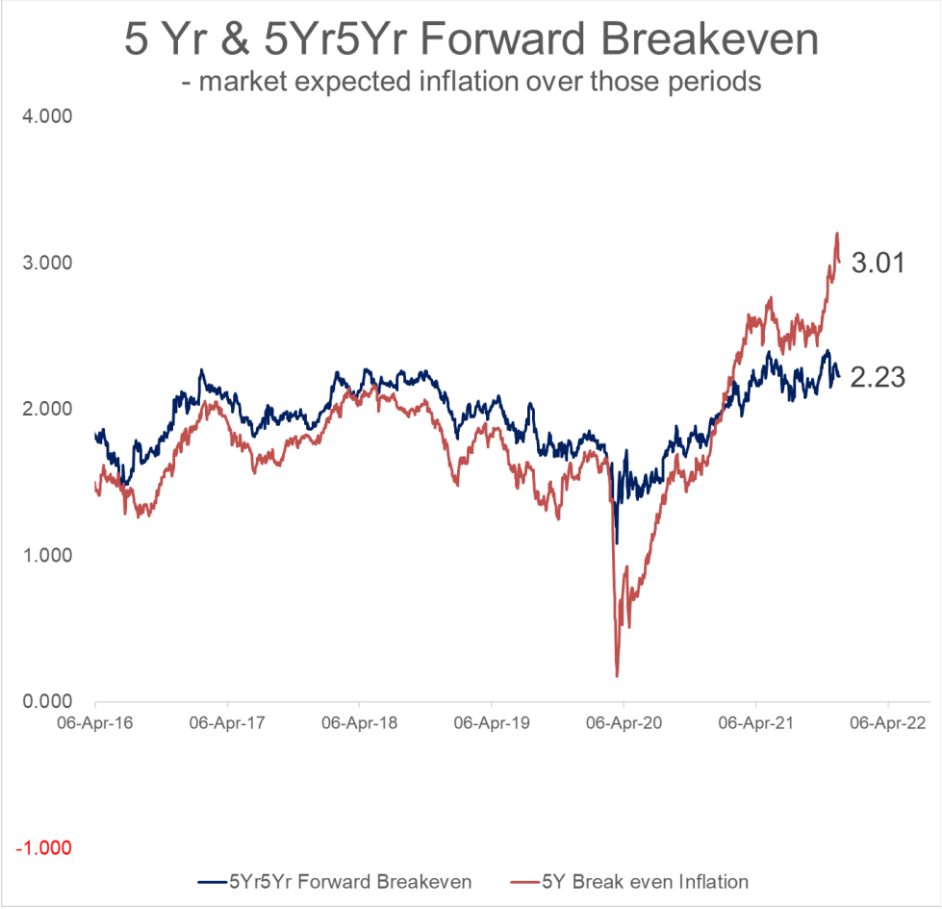
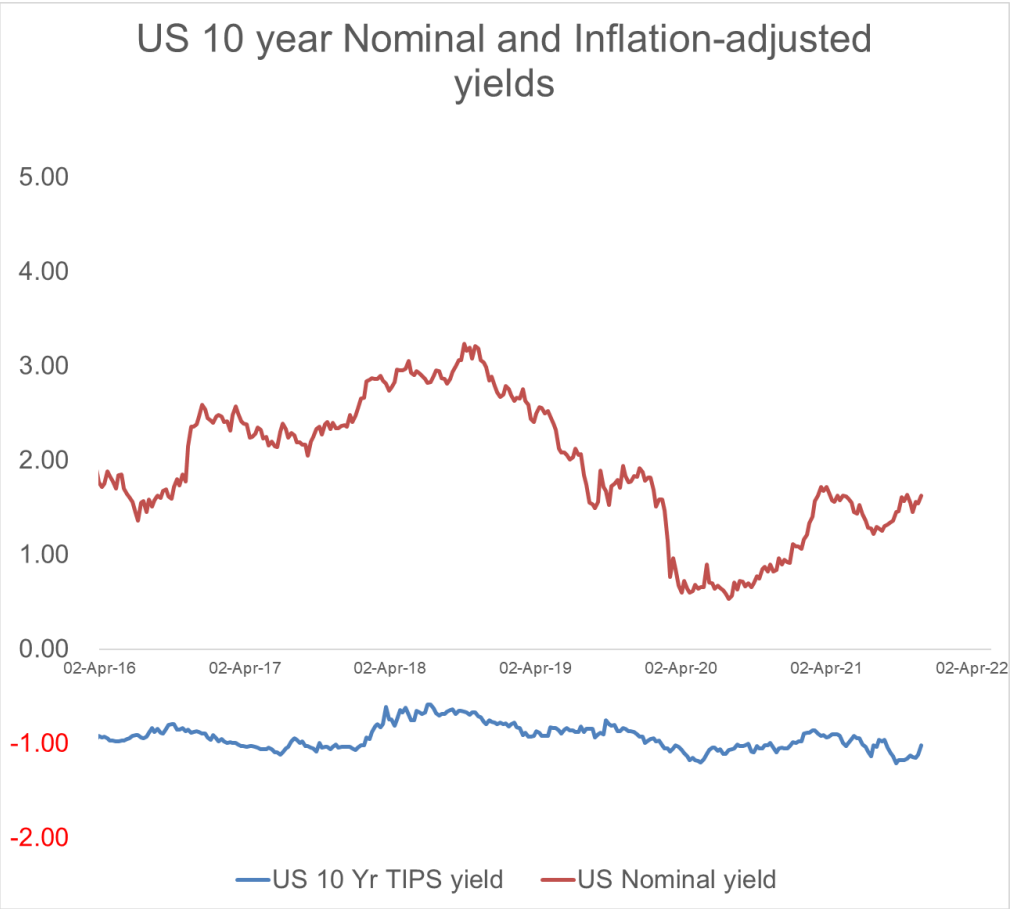
The Philadelphia Survey of Professional Forecasters – someone has to do it – forecasts US real GDP growth of 3.90 % in 2022. That's a 0.60 % decline in US real GDP expectations for 2022 [philadelphiafed.org/surveys Q4 2021](https://philadelphiafed.org/surveys/Q4-2021). This underlines the risk of a slow-down in the two largest economies next year, a forecast that has a counterpart in the declining 2-year - 10-year US yield spread.

Fed News

President Biden keeps Jerome Powell in place as Fed Chair. Lael Brainard takes Richard Clarida's position as Vice Chair and not the vice-chair for Supervision, which has surprised close watchers of the Fed, given her interest in and record of dissenting over regulatory issues.

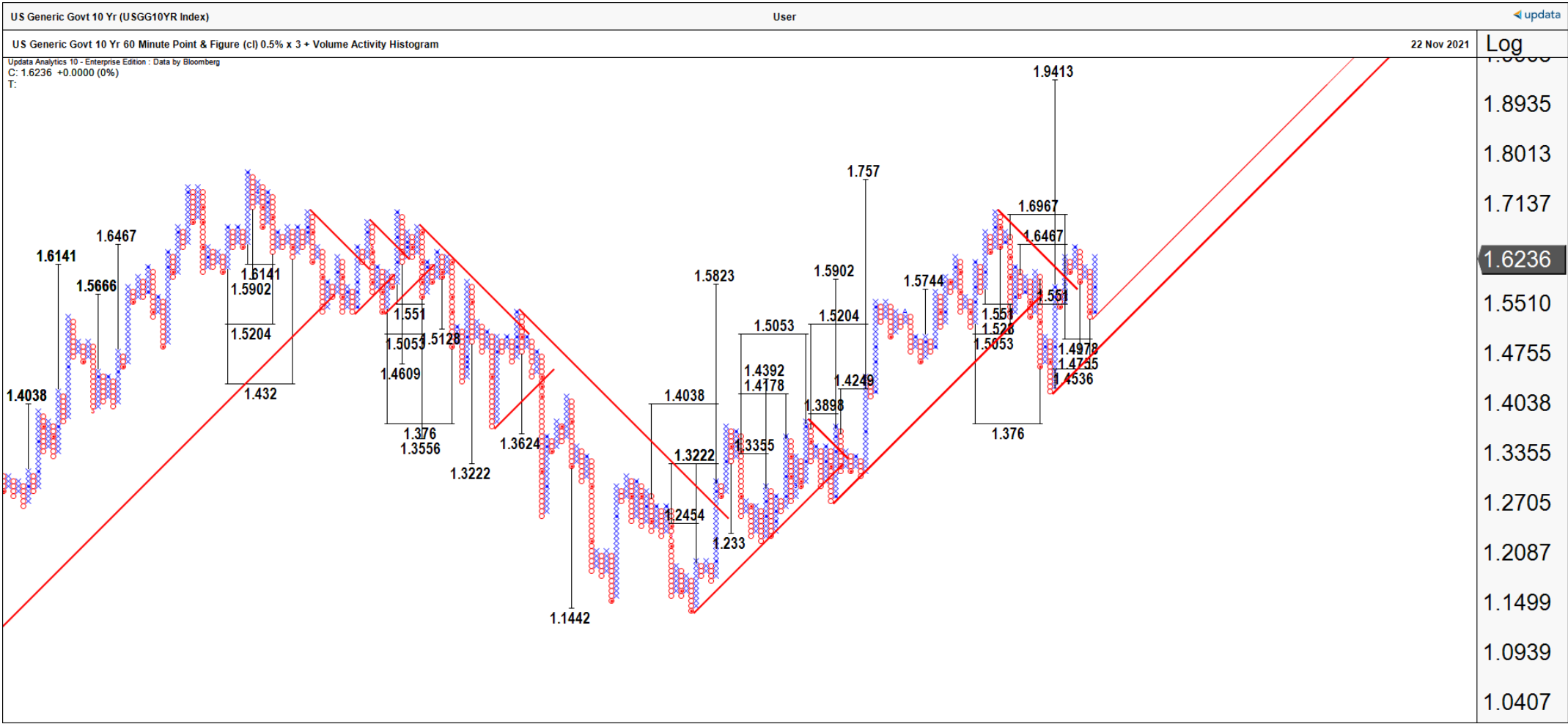
Money and yields

US five year inflation expectations rose fast, now moving lower. Real yields via US Treasury inflation-linked yields moved slightly higher, blunting gold's rally. Nominal yields helping to explain some of the USD's strength in 2021...



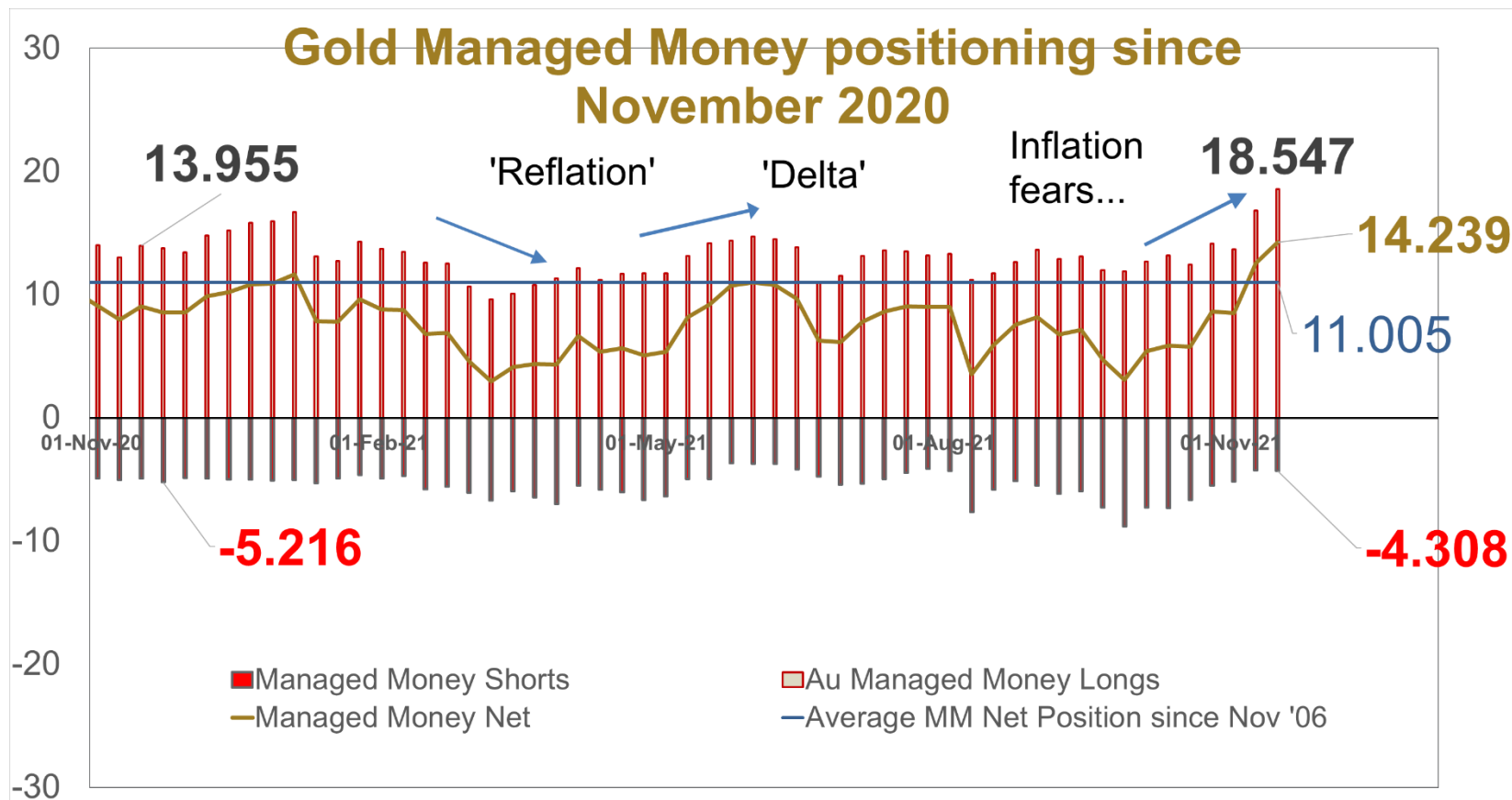
10-year US Yields

10-year yields touched 1.70% before rolling lower, helping gold rally towards the recent high. Recent price action suggests another move lower in bonds/higher in yields.



Overview of Managed Money Positioning in Gold

CME Gold Managed Money futures up to November the 16th. A major influx of longs has taken Managed Money length to the highest since Q1 of 2020. The VWAP table will reveal more...



Precious metals positioning and Volume-Weighted Average Pricing (Tables)

Volume-weighted Average Price - GC

Published 23 November, 2021

	Weekly Change in Managed Money Positions (Futures only)			
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 16 November 2021	\$1,853.99	1,733,500	56,000	1,677,500
Tuesday, 9 November 2021	\$1,798.80	3,118,900	-918,200	4,037,100
Tuesday, 2 November 2021	\$1,793.33	-433,600	-321,300	-112,300
Tuesday, 26 October 2021	\$1,791.05	1,672,000	-1,184,300	2,856,300
Tuesday, 19 October 2021	\$1,776.35	-710,800	-638,800	-72,000
		5,380,000	-3,006,600	8,386,600
Gold ETF Change in position				-565,391
Total change over period				7,821,209

Volume-weighted Average Price - SI

Published 23 November, 2021

	Weekly Change in Managed Money Positions (Futures only)			
Week ending on:	US\$VWAP	Longs	Shorts	Net change
Tuesday, 16 November 2021	\$24.97	43,405,000	3,195,000	40,210,000
Tuesday, 9 November 2021	\$23.91	2,795,000	-13,600,000	16,395,000
Tuesday, 2 November 2021	\$24.01	-11,275,000	14,540,000	-25,815,000
Tuesday, 26 October 2021	\$24.25	13,030,000	-35,445,000	48,475,000
Tuesday, 19 October 2021	\$23.28	12,965,000	-58,940,000	71,905,000
		60,920,000	-90,250,000	151,170,000
Silver ETF Change in position				-3,042,624
Total change over period				148,127,376

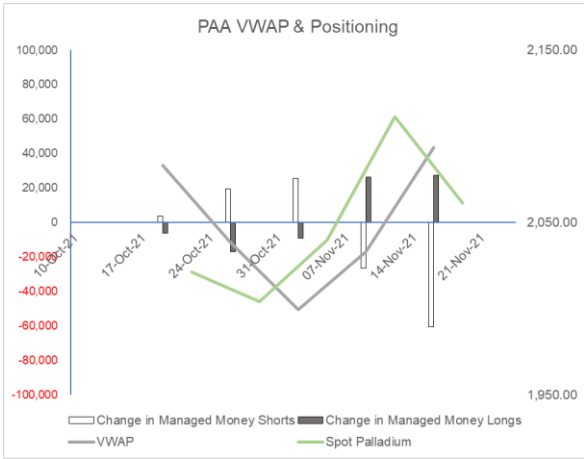
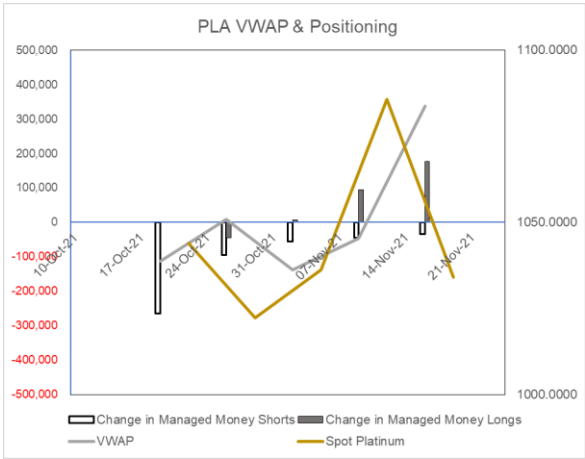
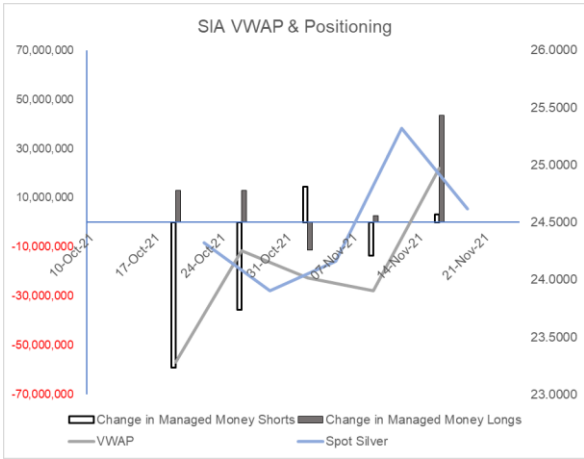
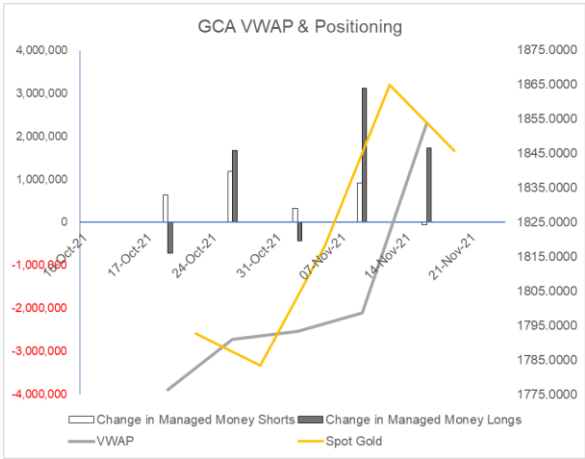
Volume-weighted Average Price - PLA

Published 23 November, 2021

	Weekly Change in Managed Money Positions (Futures only)			
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 16 November 2021	\$1,083.68	176,750	-33,500	210,250
Tuesday, 9 November 2021	\$1,045.42	93,900	-45,500	139,400
Tuesday, 2 November 2021	\$1,036.18	6,800	-54,850	61,650
Tuesday, 26 October 2021	\$1,050.84	-44,100	-94,700	50,600
Tuesday, 19 October 2021	\$1,038.66	1,700	-264,000	265,700
		235,050	-492,550	727,600
Platinum ETF Change in position Ftozs				-44,471
Total change over period				683,129

	Weekly Change in Managed Money Positions (Futures only)			
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 16 November 2021	\$2,093.47	27,600	-60,600	88,200
Tuesday, 9 November 2021	\$2,033.08	26,300	-26,400	52,700
Tuesday, 2 November 2021	\$1,999.45	-9,000	25,600	-34,600
Tuesday, 26 October 2021	\$2,038.39	-17,000	19,500	-36,500
Tuesday, 19 October 2021	\$2,083.27	-6,100	3,700	-9,800
		21,800	-38,200	60,000
Palladium ETF Change in position Ftozs				-14,547
Total change over period				45,453

Precious metals positioning and Volume-Weighted Average Pricing (Charts)



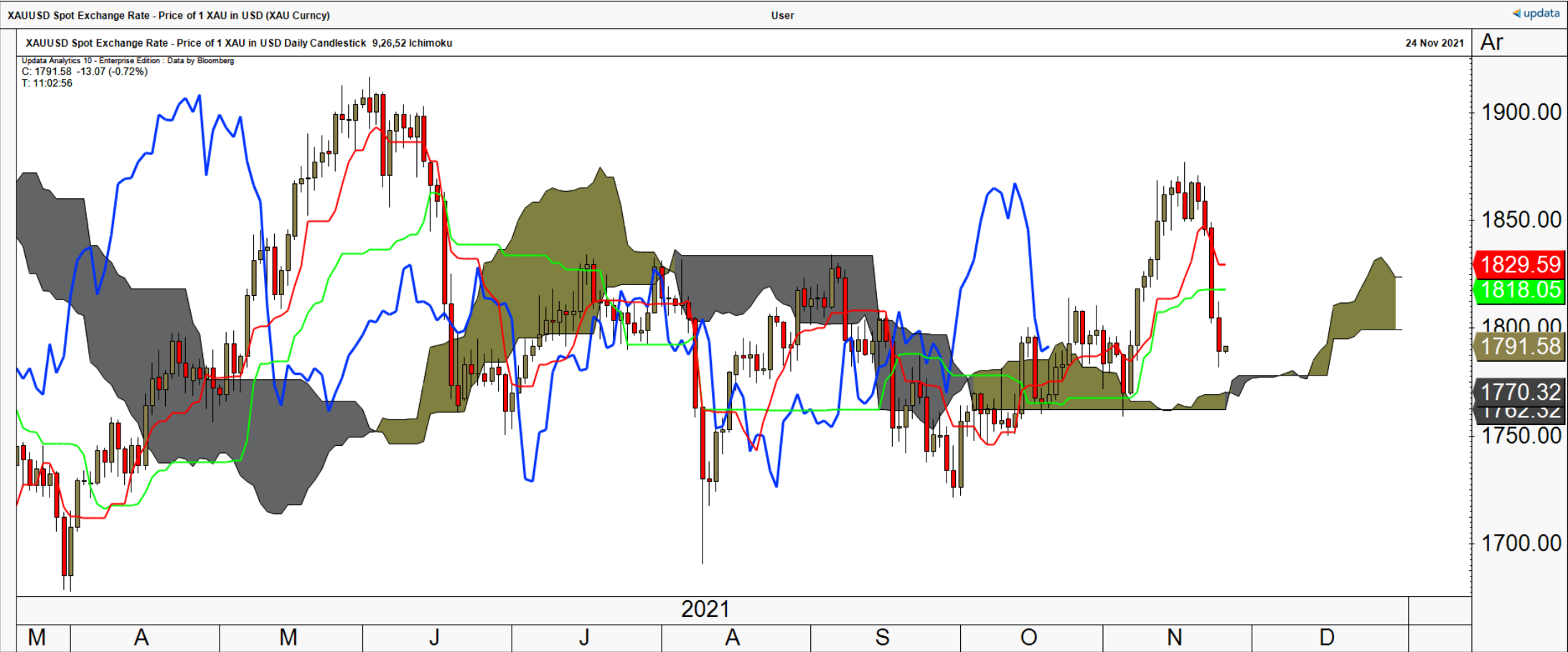
Weekly Ichimoku Cloud Chart

Gold finally broke above the key US\$1,835 level and, probably assisted by some one-off stop-loss action, the price travelled straight to the Weekly Cloud top, failing there and then swiftly dropping as recent longs who entered at a VWAP of US\$1,854 (and later arrivals at an even higher level) were placed under pressure. Now the price is below the Weekly Cloud support, the important US\$1,760 level comes back into play.



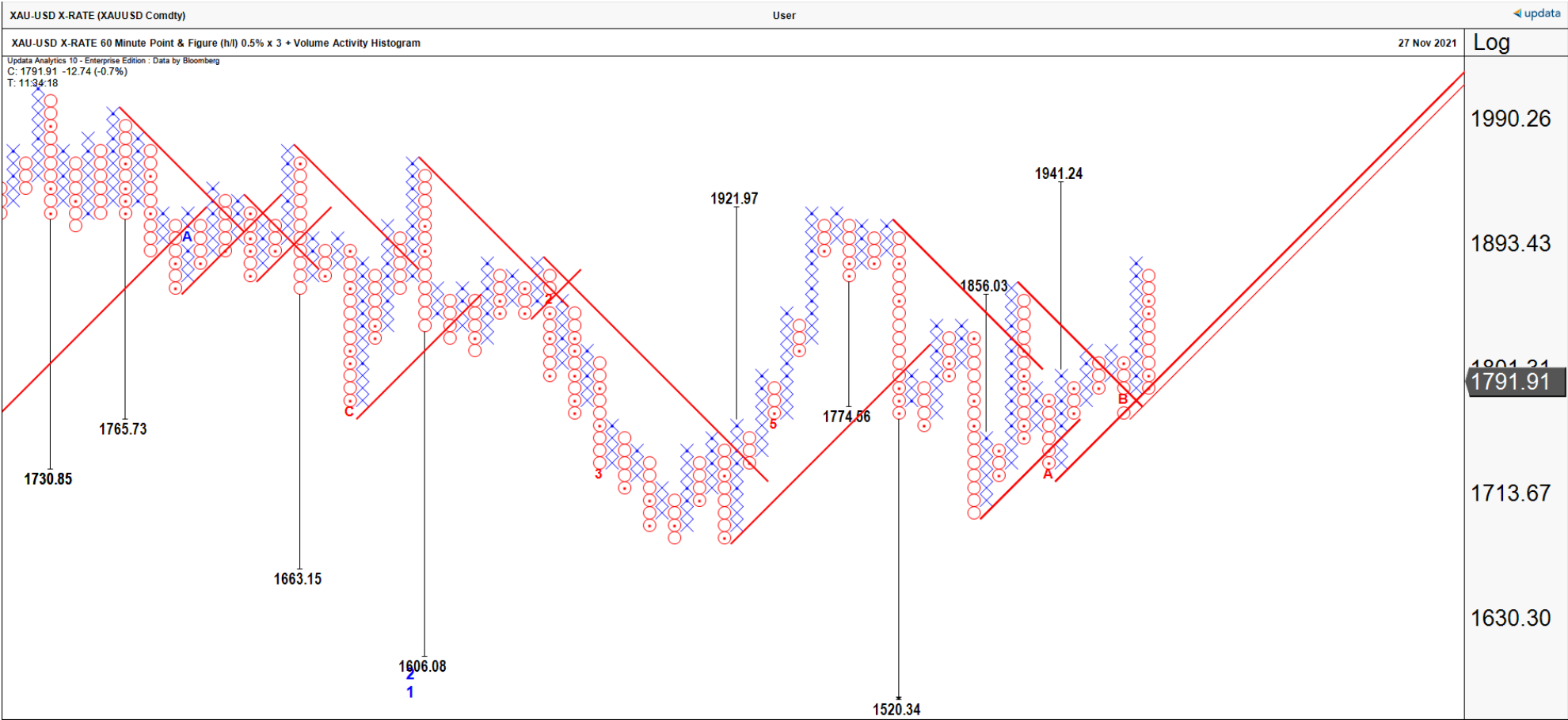
Daily Ichimoku Cloud Chart

Bullish with support at US\$1,762, rising slightly over the next week. Expect short-term rallies to be capped at US\$1,818, initially.



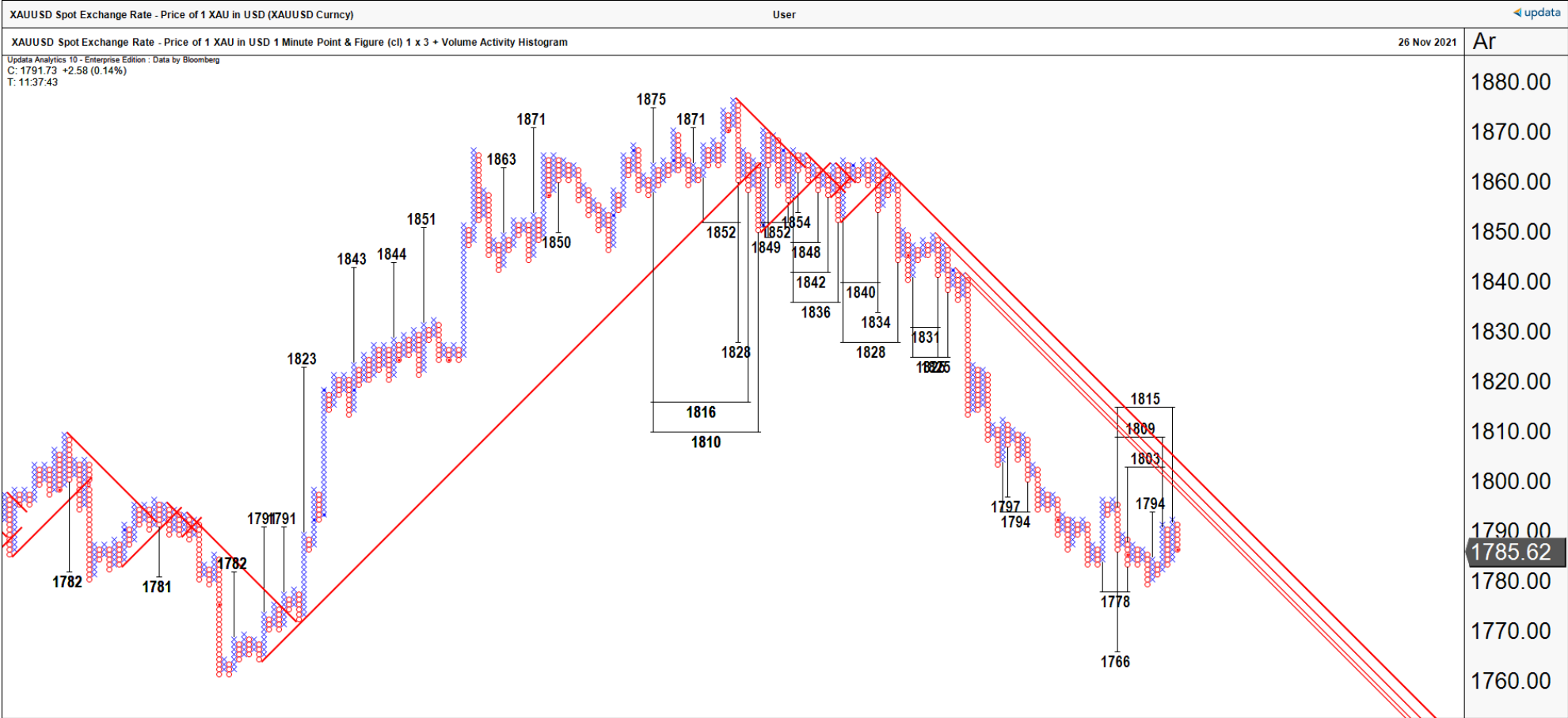
Gold Hourly Point and Figure – Medium Term

Not adjusted for the recent volatility but left at 0.50 %. Notably, lying at trendline support, bullish, with a plausible target to US\$1941. Looks like a decent medium-term entry level with a sub US\$1760 stop?



Price Targets via Point and Figure – Short Term

Above the base of the pattern (c. US\$1778) look for a recovery into the low 1800s.



Gold in AUD via Weekly Ichimoku Cloud

Aussie gold managed to close above the Weekly Cloud, which was positive, but then made a distinctive ‘doji’ candle last week, which is often a warning of an imminent reversal. The next candle was a strong decline, which has so far found support at the Weekly **Turning Line**. Expect volatility within the cloud.



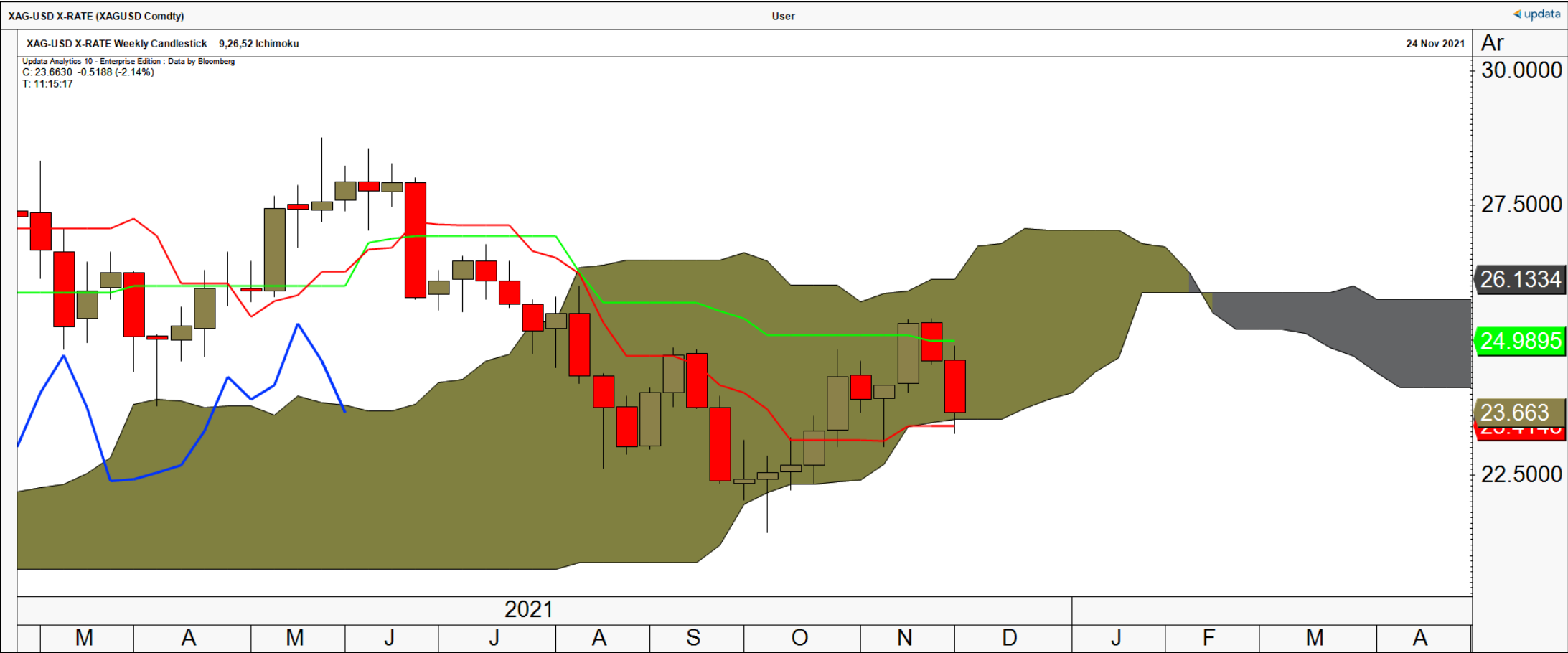
Gold-Silver Ratio

Silver underperformance almost to 81, before rolling back and powering through to 74, where resistance to silver outperformance cuts in around 73. Scope for a possible move to 70-71.



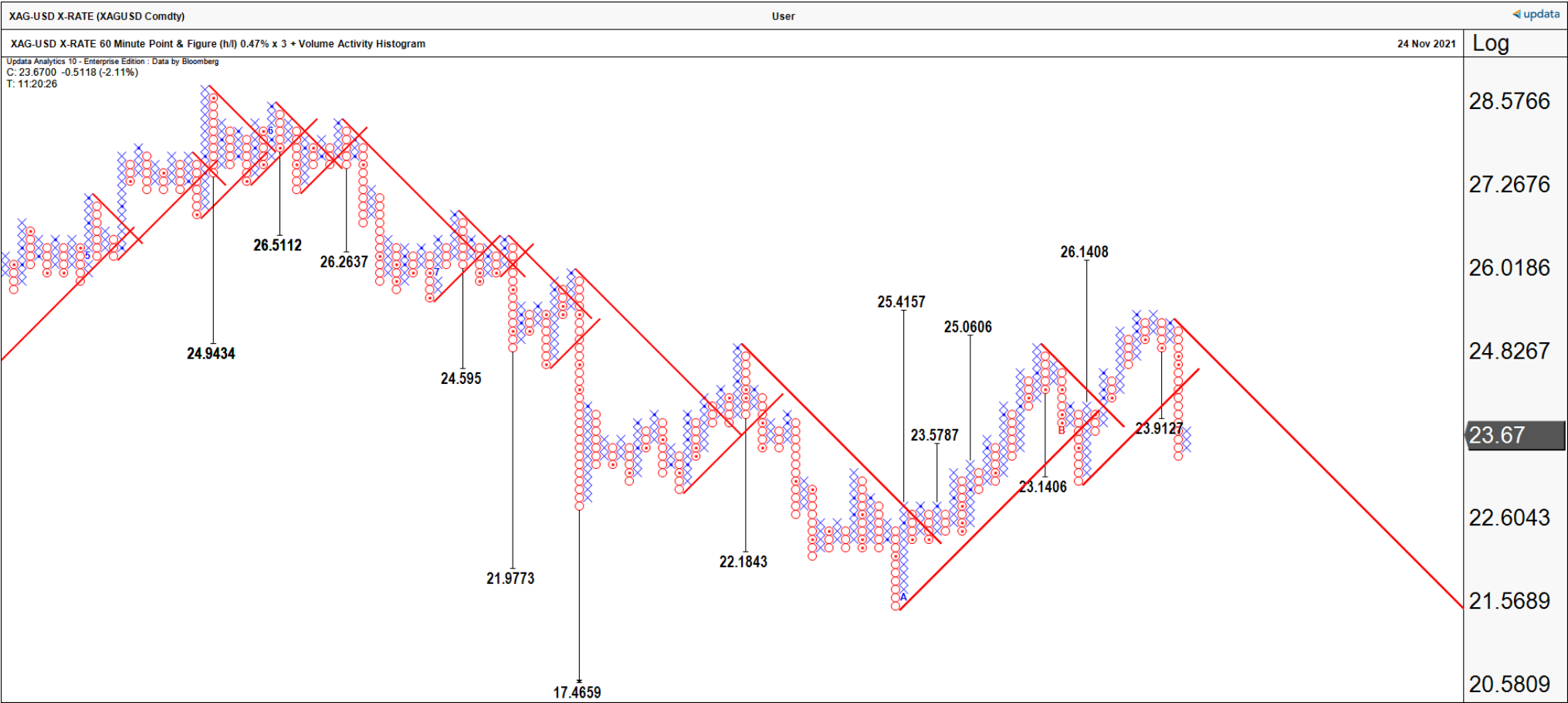
Silver in USD (Weekly)

The macro view of silver. The recent slide has held above the Weekly Cloud support, (so far) despite a brief dip below this week. Resistance at US\$25.00 and US\$26.74 in December. Bullish, but challenged. A close below US\$23.40 would be concerning for the bullish outlook.



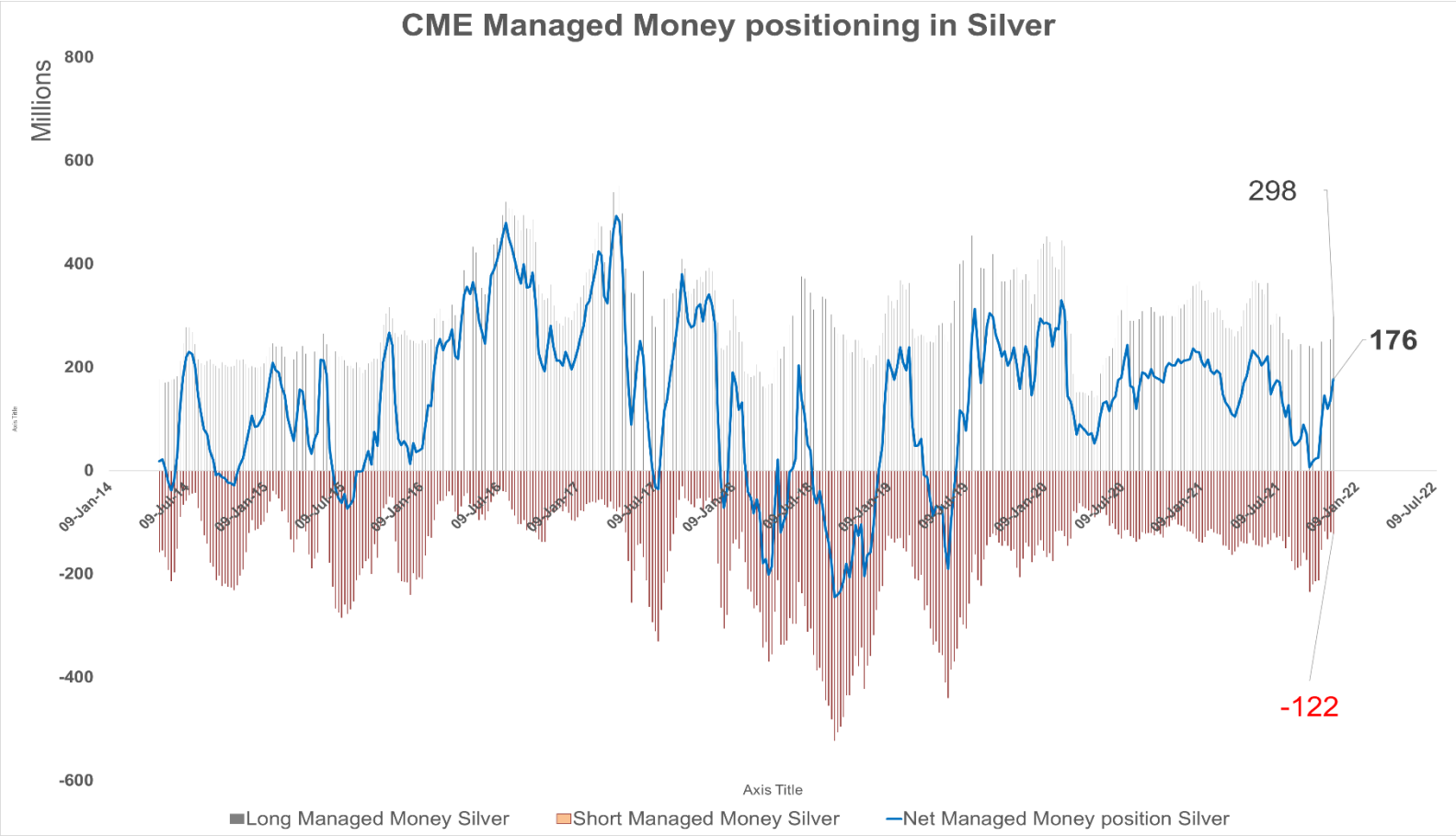
Silver in USD – Hourly Point and Figure

Targets for the XAGUUSD medium term. Silver made it to US\$25.39 before rolling over. Negative trend, but likely to retest the congestion area around US\$24.70-25.00.



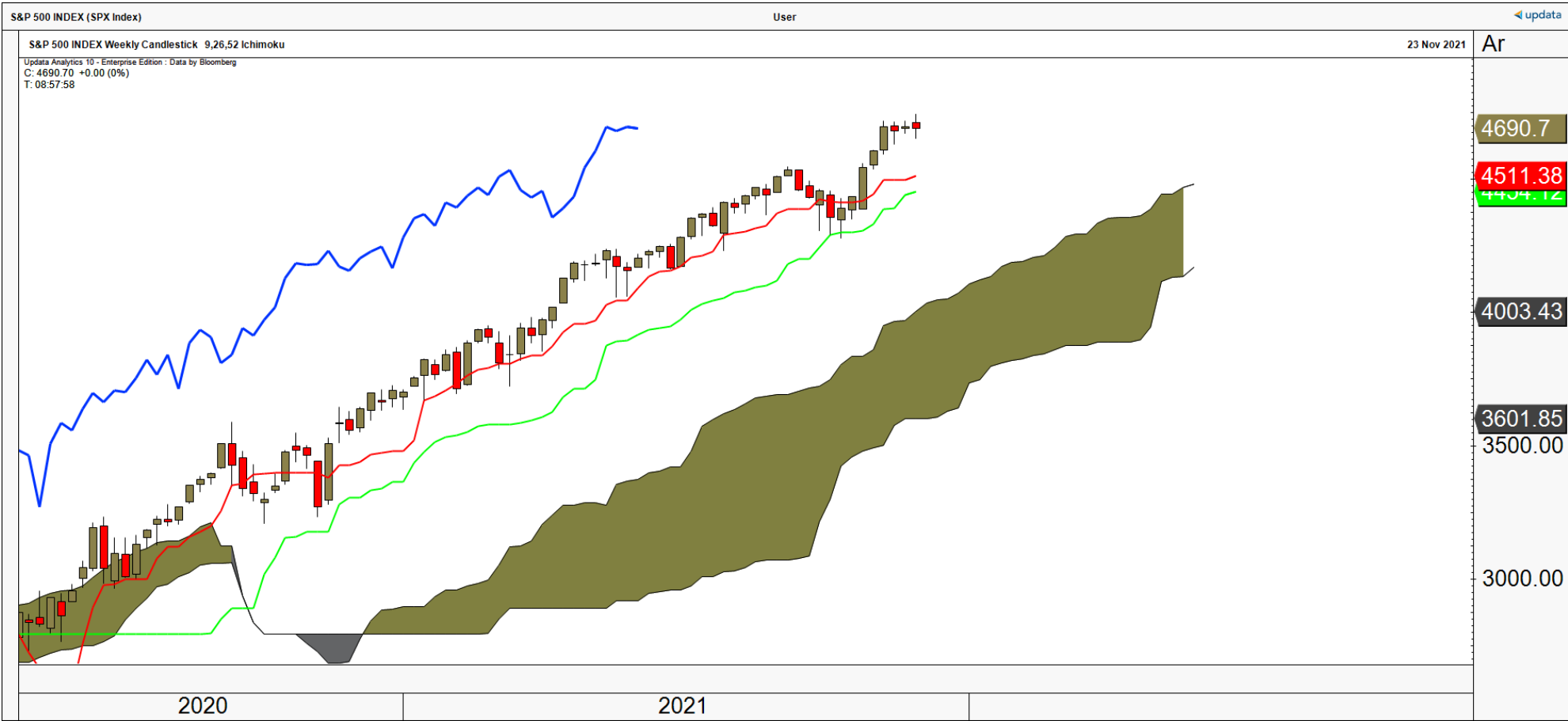
Overview of Managed Money Positioning in Silver (Futures only)

Managed Money silver longs added 61 million Tozs, whilst shorts bought back and decreased their positions by 93 million, leading to a rapid rise in net length to 176 million Tozs as investor sentiment grew much more positive since the October 5th CFTC numbers.



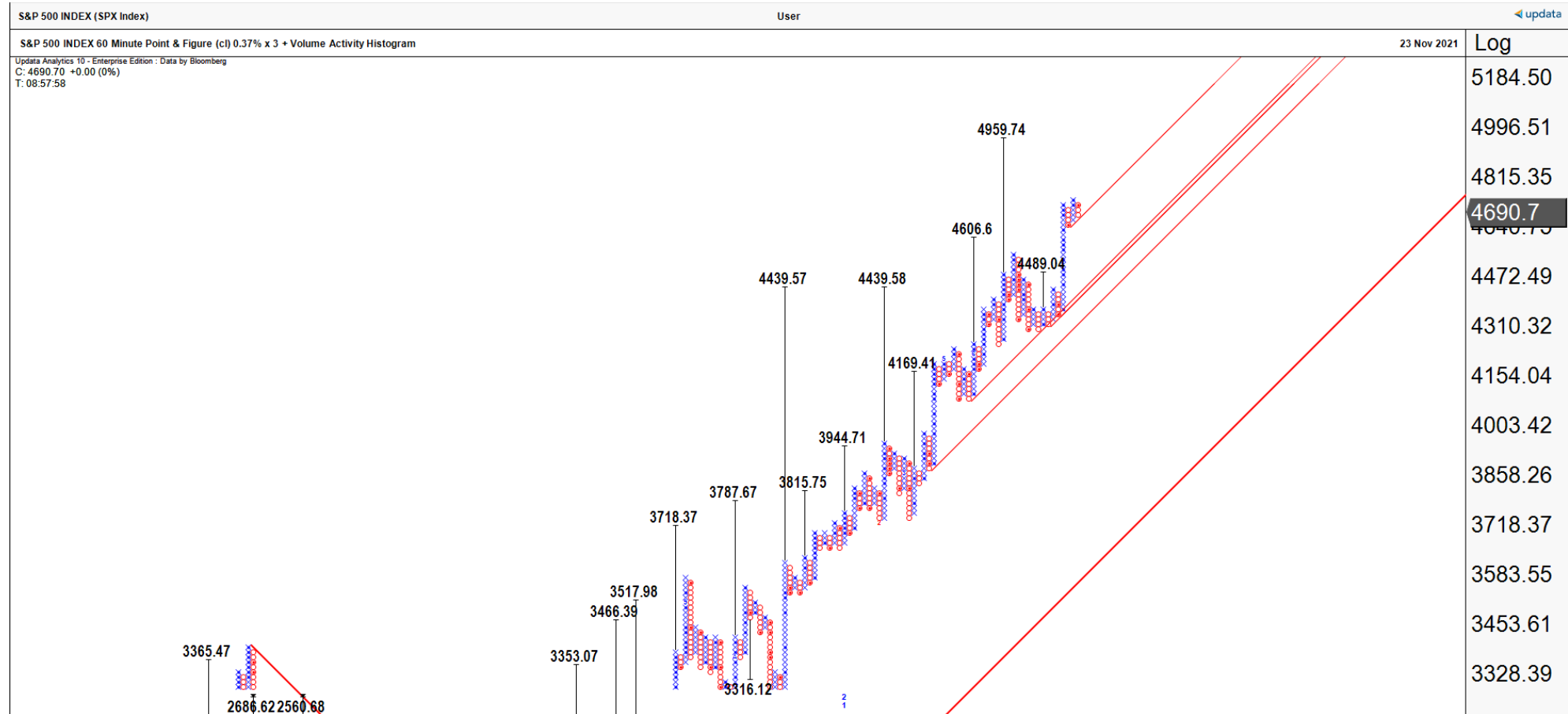
Equities - the SPX

Good earnings helped the SPX rally off Weekly Standard Line support, briefly challenged in early October. The rally continues, but note that there are concerns over the breadth of the rally – with fewer companies driving the index higher.



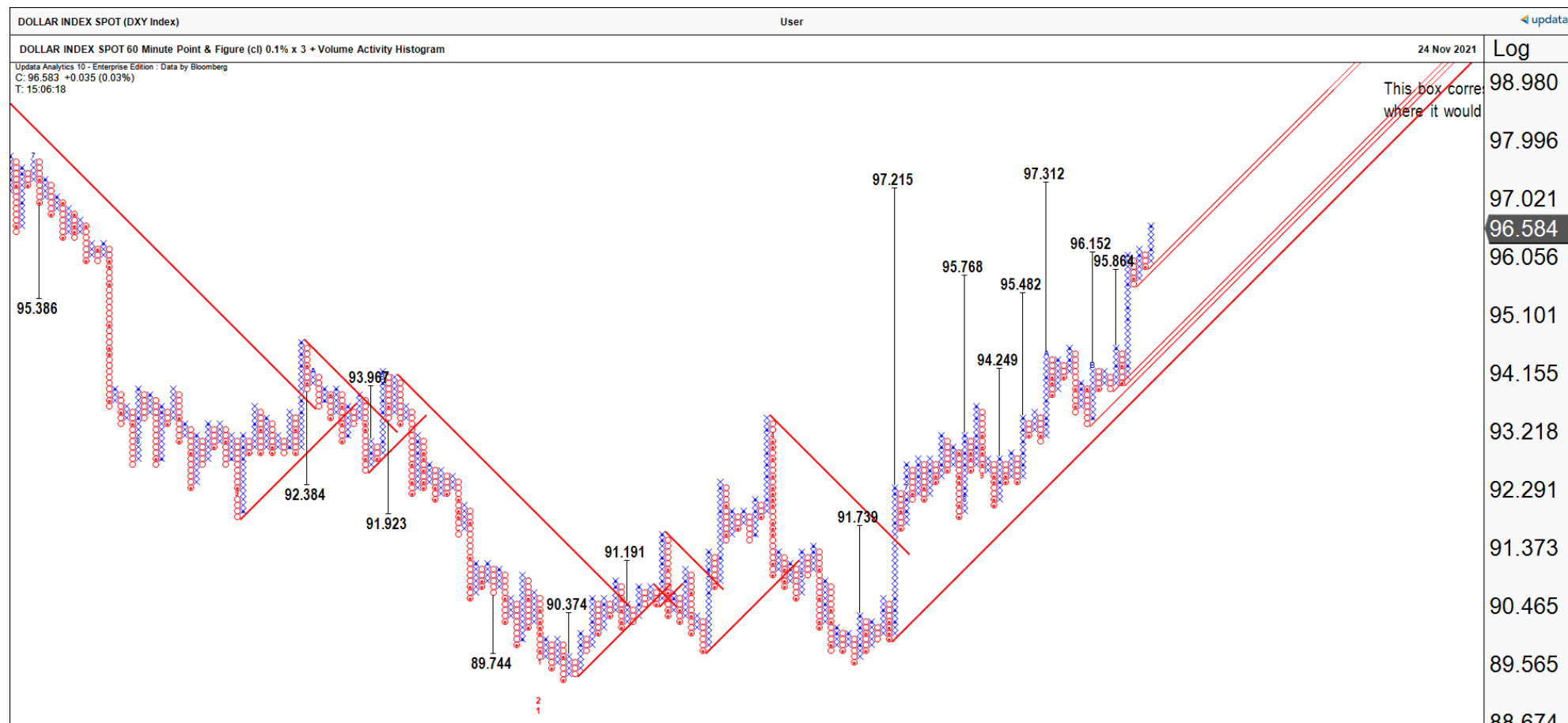
SPX Hourly Chart with Targets

Price action created a new downside target which, if achieved, would take the SPX to close to the Weekly Cloud top support level, which is rising through 3830. The last time the SPX was at that level was in mid-July of last year when the SPX weekly cloud top was around 3100.



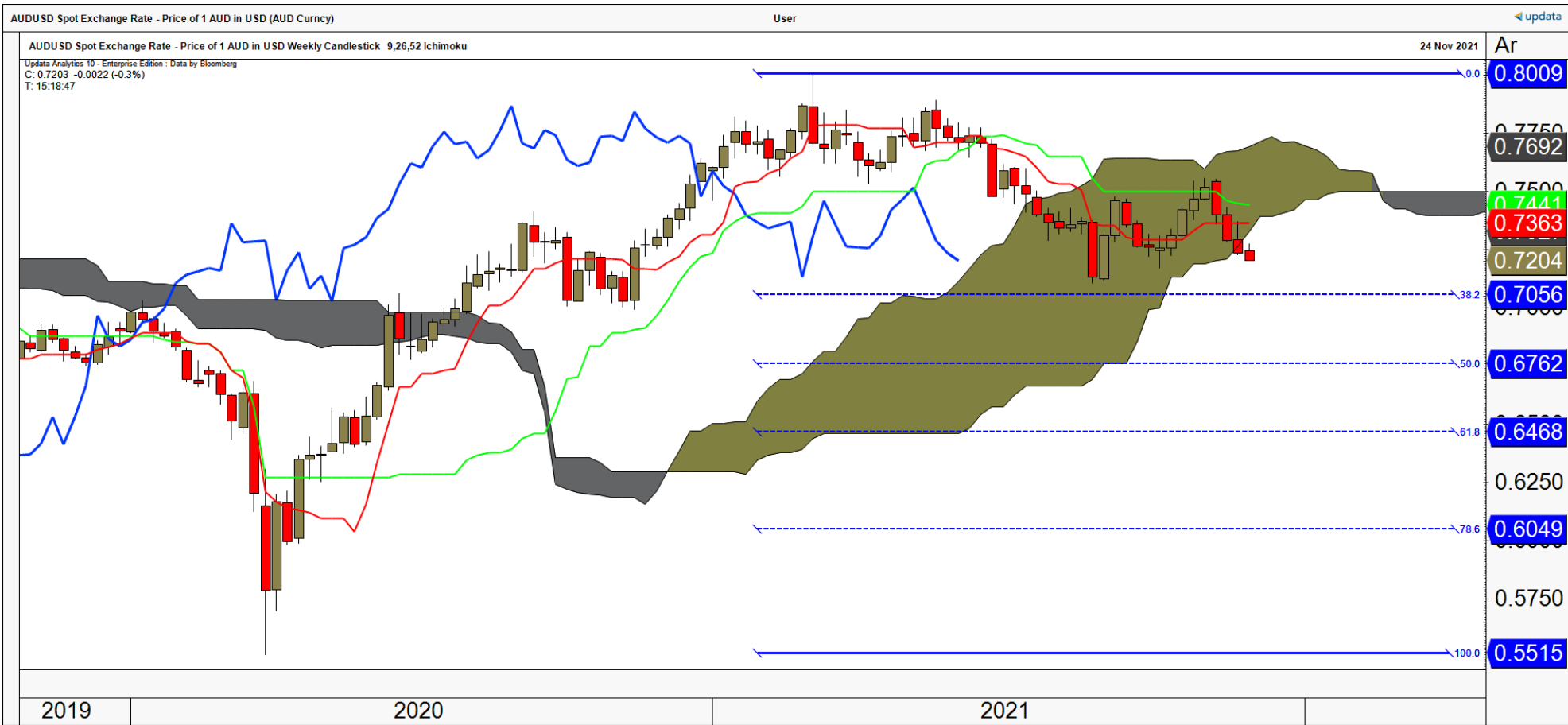
The US Dollar – DXY

Hourly Point and Figure. The DXY rally continues, and pushed past the Weekly Cloud top. Targets to 97.20-97.31.



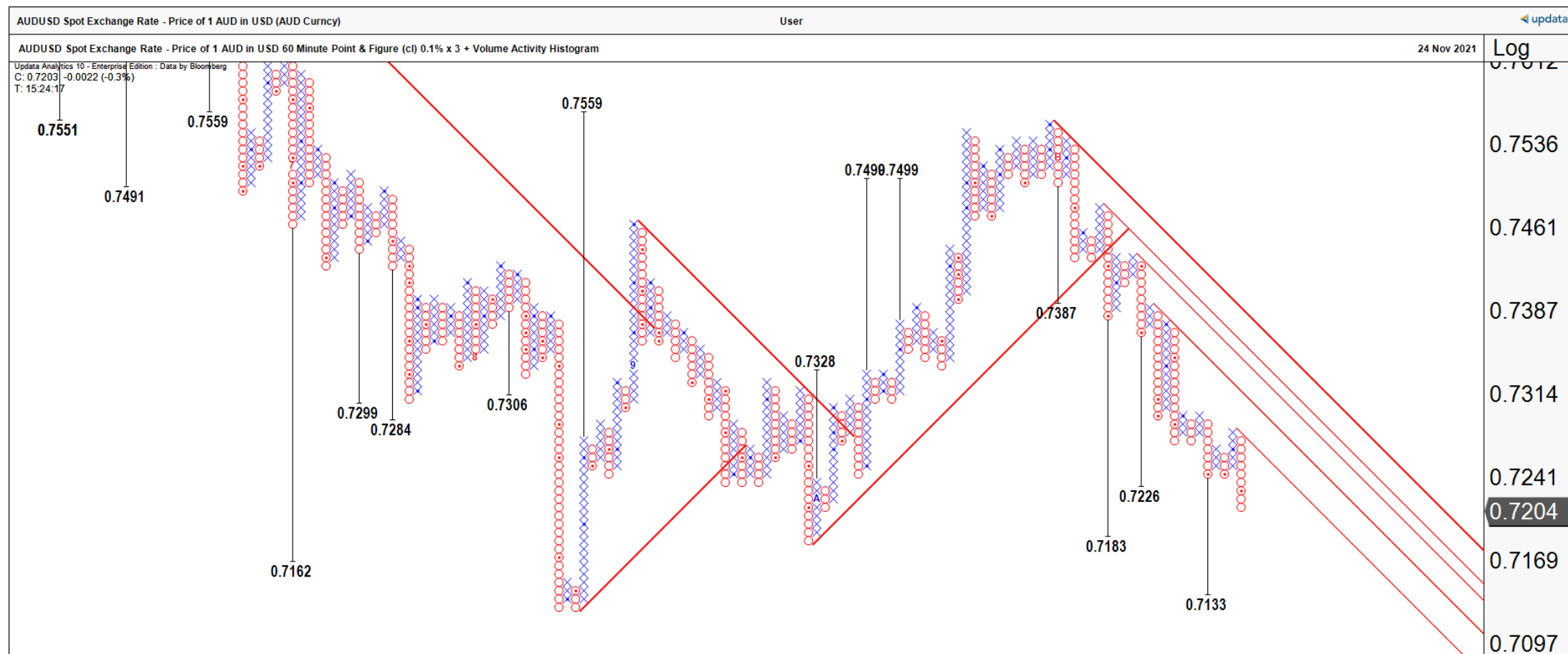
AUD Weekly Ichimoku Cloud

The AUD rallied to top-most target indicated in last week's Hourly Point and Figure, before sinking back as a continuation of negative Chinese news impacted on the AUD. The price has weakened below the Weekly Cloud base, a negative sign. There may be decent support at 0.7056, the 38.20% Fibonacci retracement of the 2020-2021 move up.



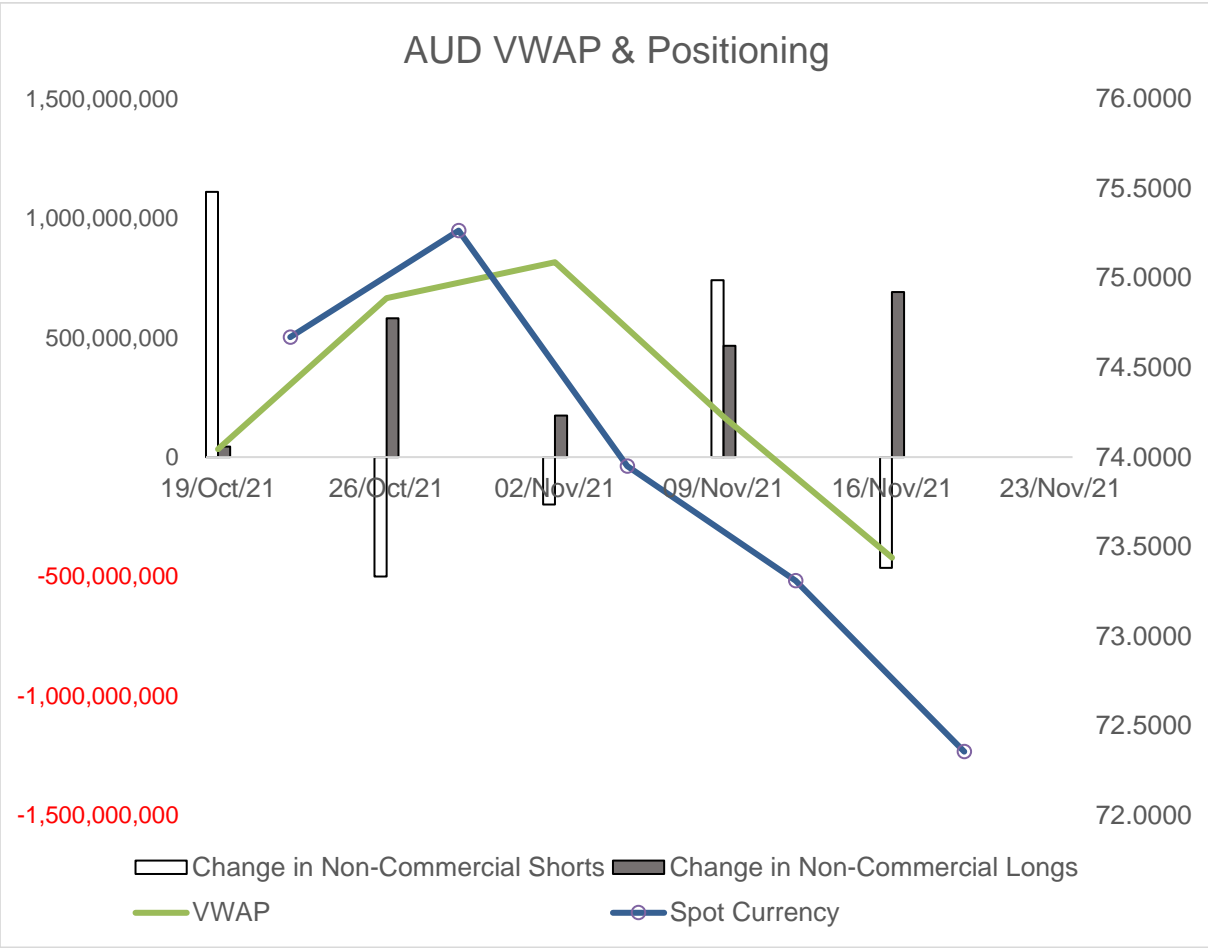
The AUD Hourly Point and Figure

The AUD made a high at 0.7555 before rolling over. Looking for weakness to extend to 0.7180 and 0.7130. Recent CFTC data shows both non-commercial longs and shorts extending their positioning, with both arriving at a VWAP of 74.2253 and 73.4383 in the weeks ending 9th and 16th November respectively.



AUD Positioning and VWAP

The blue line shows the progress of the AUD (very coarsely). Recent longs look a little on the defensive at current AUD price levels, in a reversal of last month's picture.



Where to From Here?

US\$1,873 – the Weekly Cloud top – thwarted an impressive rally, after gold managed to break through the important US\$1832-35 barrier.

Gold caught a substantial bid on the back of worsening inflation fears, but the rally proved relatively short-lived as both rates and the US dollar rose as the possibility of increasing the size of tapering, in theory bringing forward the scope of the Federal Reserve to tighten. Sticking with Jerome Powell as Fed Chair has probably helped too.

The market is now fairly close to the key US\$1,760 area. Open Interest dropped by 4,310,000 FTozs between Wednesday 17th and Monday 22nd, a figure which may understate the amount of long liquidation as fresh shorts almost certainly arrived during that span. If so, the significant inflow of Managed Money longs over the 02-16 November period may have been eroded considerably.

‘The immediate threat to asset market instability, the US debt ceiling, has been pushed back in the calendar until December. It is still a significant area of concern, although hopefully much of the conflict remains performative in nature.’

If anything, the Biden Presidency may be perceived as weaker than it was even a month ago, and this may embolden Republicans with regard to the debt ceiling.

Physical demand in Asia remains decent – especially now that the price has retreated significantly.

Until next time,

Nicholas Frappell
Global General Manager, ABC Bullion



Resistance

US\$2,172	Next as-yet unachieved target on the Daily 2% Point and Figure
US\$2,076	Recent high
US\$1,897	78.60% Fib retracement of the November '20 high.

Supports

US\$1,676	Just under recent low, adjacent to June 2020 lows.
US\$1,587	Sept. intersect of Monthly trend line extending from 2018 lows

Targets (Upside)

US\$2,340	Basis Daily US\$20 box size (Delta basis 1 yr Exp.)	12%
US\$2,172	2% Daily Point and Figure. (Delta basis 1 yr Exp.)	3%
US\$1,941	Basis hourly chart above (0.50 % box size) 3 mo. Exp.	18%

Targets (Downside)

US\$1,580	Daily US\$20 Point and Figure (Delta basis 1 yr. Exp.)	19%
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Nearby target probabilities basis spot US\$1,795 for 3 months and created by solving for option delta on the Bloomberg option pricer.

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