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Monthly Precious Metals Technical Analysis

February 2022

Gold – In Brief

Gold in January made a spot high of US\$1,853.87, just within US\$10 of the Weekly Cloud top, a key resistance level for gold in recent months, before sliding off over sixty US dollars to a wan-looking close at around US\$1,791, the weakest close since early December. Crucially, the spot price held above another important line that has been supportive of gold since mid-December, and despite rising real rates, gold managed to recover again, tentatively at first and then aggressively with the increase in Russian aggression towards the Ukraine.

Movements in the gold price will remain tied to the ebb and flow of news around Russian forces and dialogue or lack thereof between the Russia and the West. (For an informative take on this, Anne Applebaum's Twitter feed is well worth looking at.)

Gold has now broken up decisively. The top of the Weekly Ichimoku cloud (US\$1,834.70) is now well behind and gold is now hauling closer to the US\$1,900 level.

The 'risk on' price thematic that seemed to define gold's performance through 2021 did not suddenly reverse with the increase in pressure on equities (and in particular the technology sector and crypto) as the Fed pivoted to an earlier rates lift-off and the anticipation of a more aggressive start to lift off.

There has been talk of a 'whale' bidding in the gold market. The ocean is big enough to hide whales, but at the same time, such things usually leave a trace, somewhere. For now, I remain agnostic on the matter, and have not succumbed to Ahab-like tendencies to wander the seas in search of bitter revenge and vindication.

Gold without Ukraine – and the effects of coordinated tightening

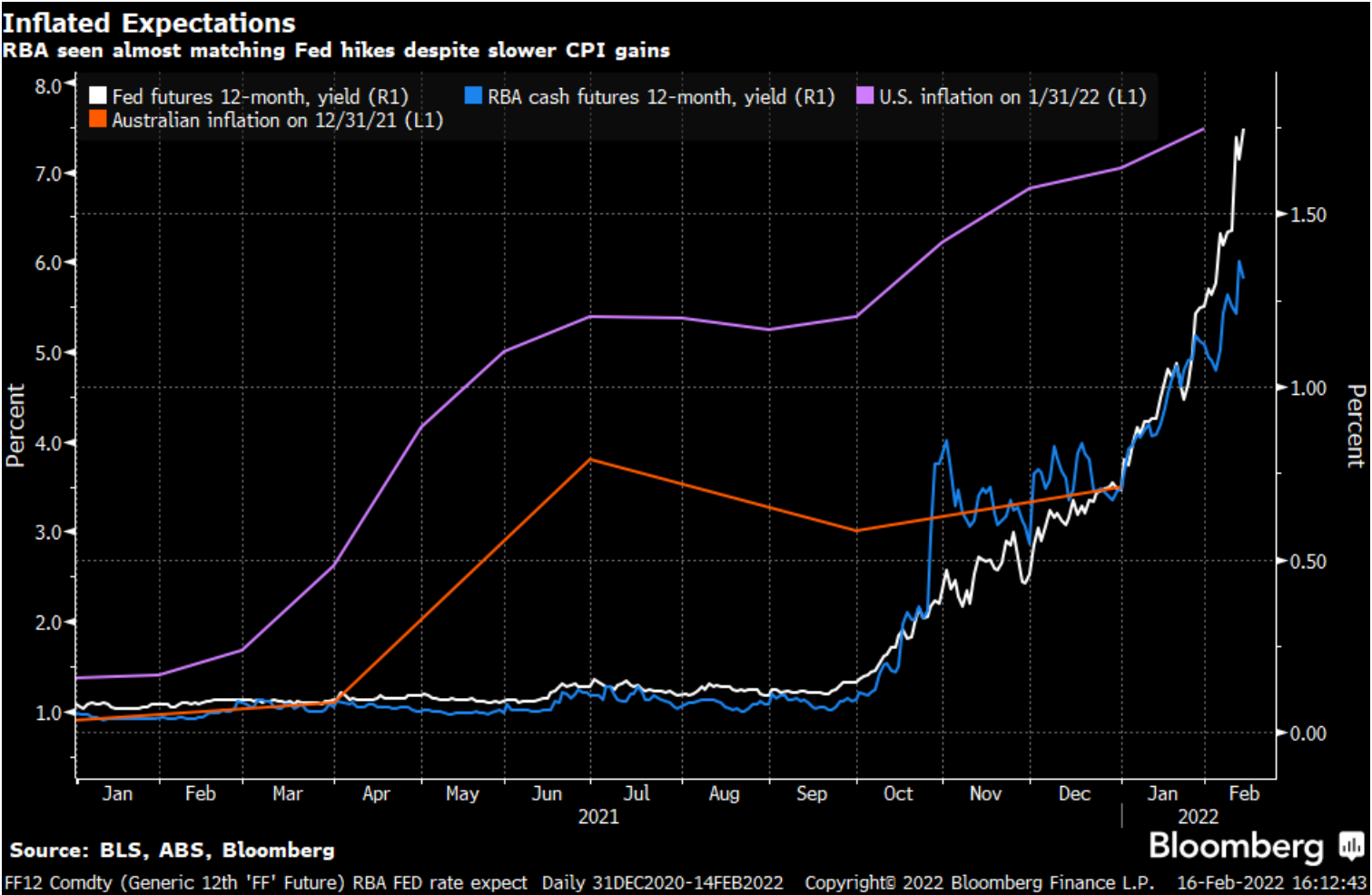
Take out the risk of a confrontation and everything else suggests lower. Higher real rates, a recovering USD and a broad consensus that tightening will be faster and farther – even the gradualists are not denying the likely steady pace of tightening, rather their lack of desire for immediate shock and awe. Jim Bullard (St. Louis Fed) is a keen exponent for 'front loading' rate raise between March and the beginning of July. He is of the view that the US faces a 'second re-opening' as the omicron variant fades, and that a re-pricing of the corporate sector is a price that may have to be paid. Others are more cautious, but risk being seriously behind the curve on inflation.

The RBA continues to be cautious over tightening. One consequence is that the RBA may face a shorter cycle within which to tighten and potentially less control over events. Additionally, the dovish approach is keeping net positioning in the AUD extremely low by historic levels. The gap between the RBA's rhetoric and market expectations is quite stretched – see the chart below for market expectations of both Fed and RBA rates. Rising inflation and rising expectations around interest rate hikes are likely to increase asset market volatility, including gold and silver. The move above recent technical resistance is promising for gold and a boon for producers. Resistance around the November 2020 high (US\$1877) and just sub-US\$1900 are the short-term calls, with support at US\$1825-1835.

For an interesting look at how the unwind of QE may affect equity market valuations, and by extension, asset markets more universally, the 'In Search of the Origins of Financial Fluctuations: The Inelastic Markets Hypothesis'¹ which implies a much larger impact from loose monetary policies than hitherto suspected.

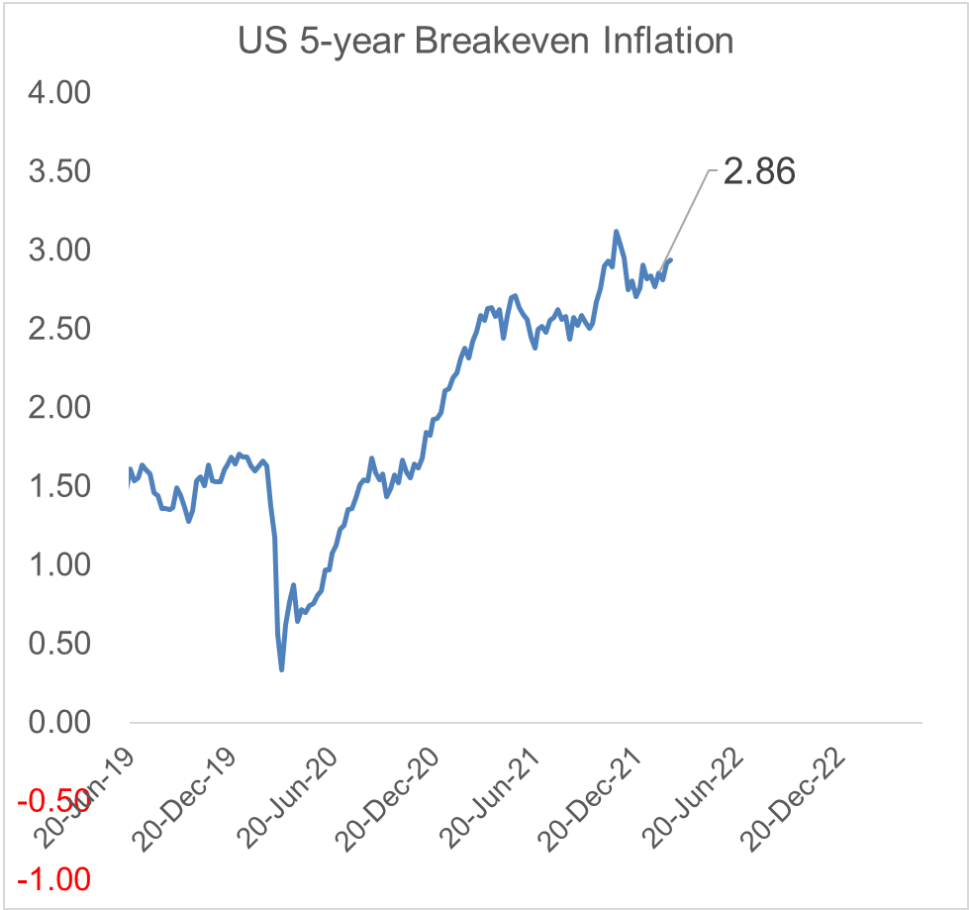
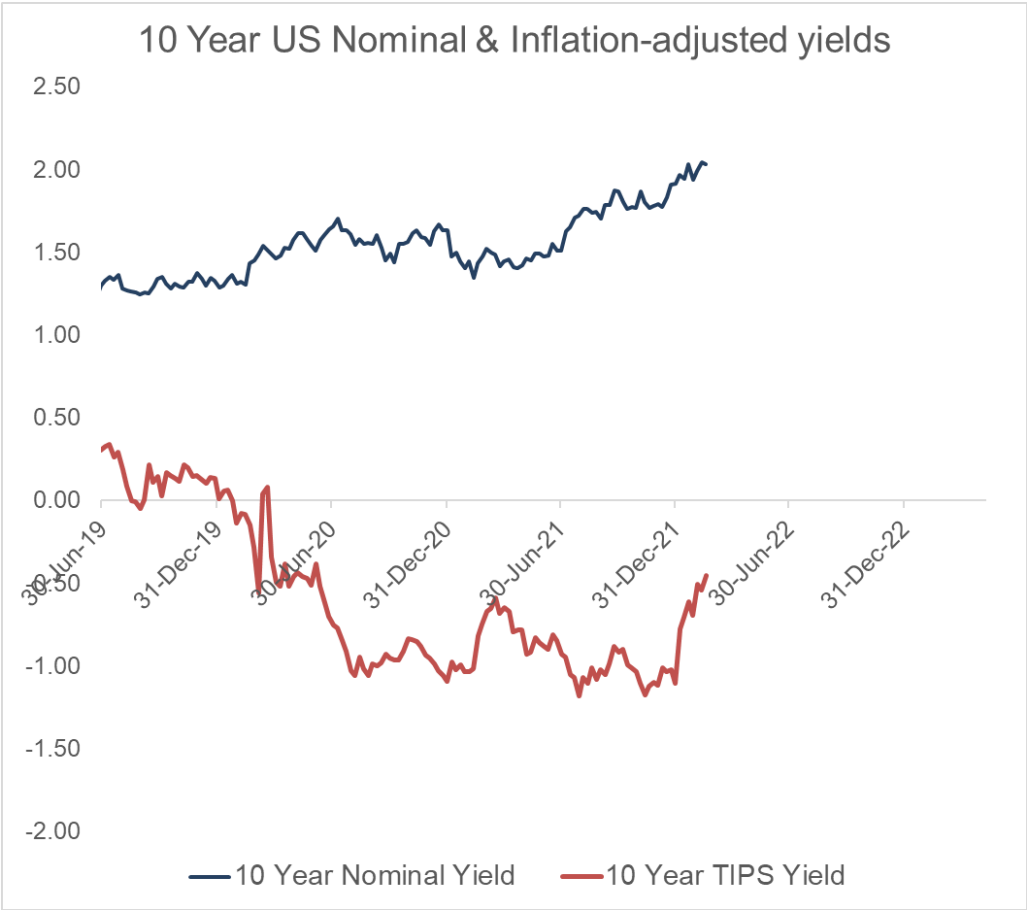
¹Gabaix, Xavier and Koijen, Ralph S. J., In Search of the Origins of Financial Fluctuations: The Inelastic Markets Hypothesis (June 11, 2021). Swiss Finance Institute Research Paper No. 20-91, Available at SSRN: <https://ssrn.com/abstract=3686935> or <http://dx.doi.org/10.2139/ssrn.3686935>

Market expectations for USD Fed Fund and AUD cash rates.



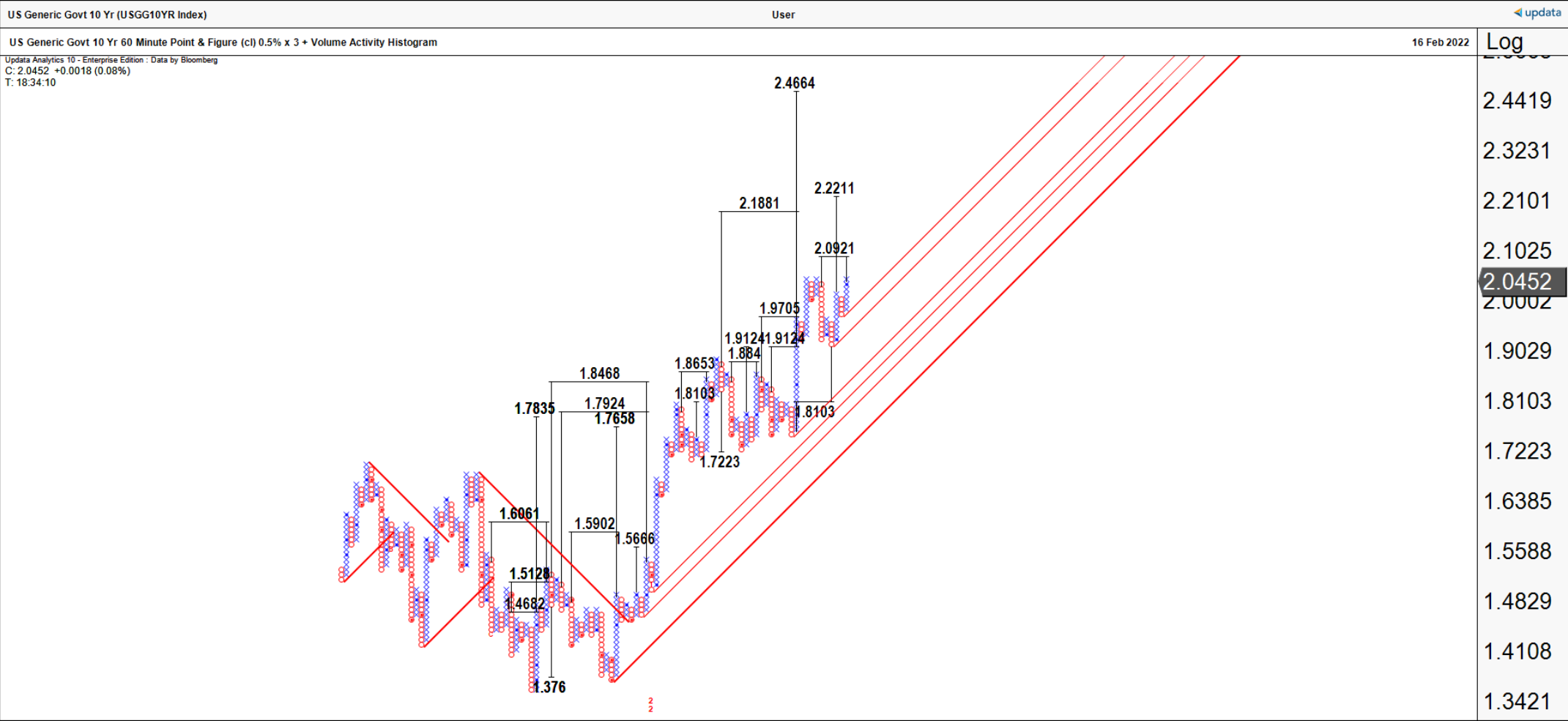
Money and yields

US 10-Year TIPS moved continue higher, creating a negative background for gold absent the ongoing hum of geopolitics. US 5-year breakeven inflation is no higher, and whilst above the Fed's target rate, continues to imply the market pricing a slow-down in yields down the track.



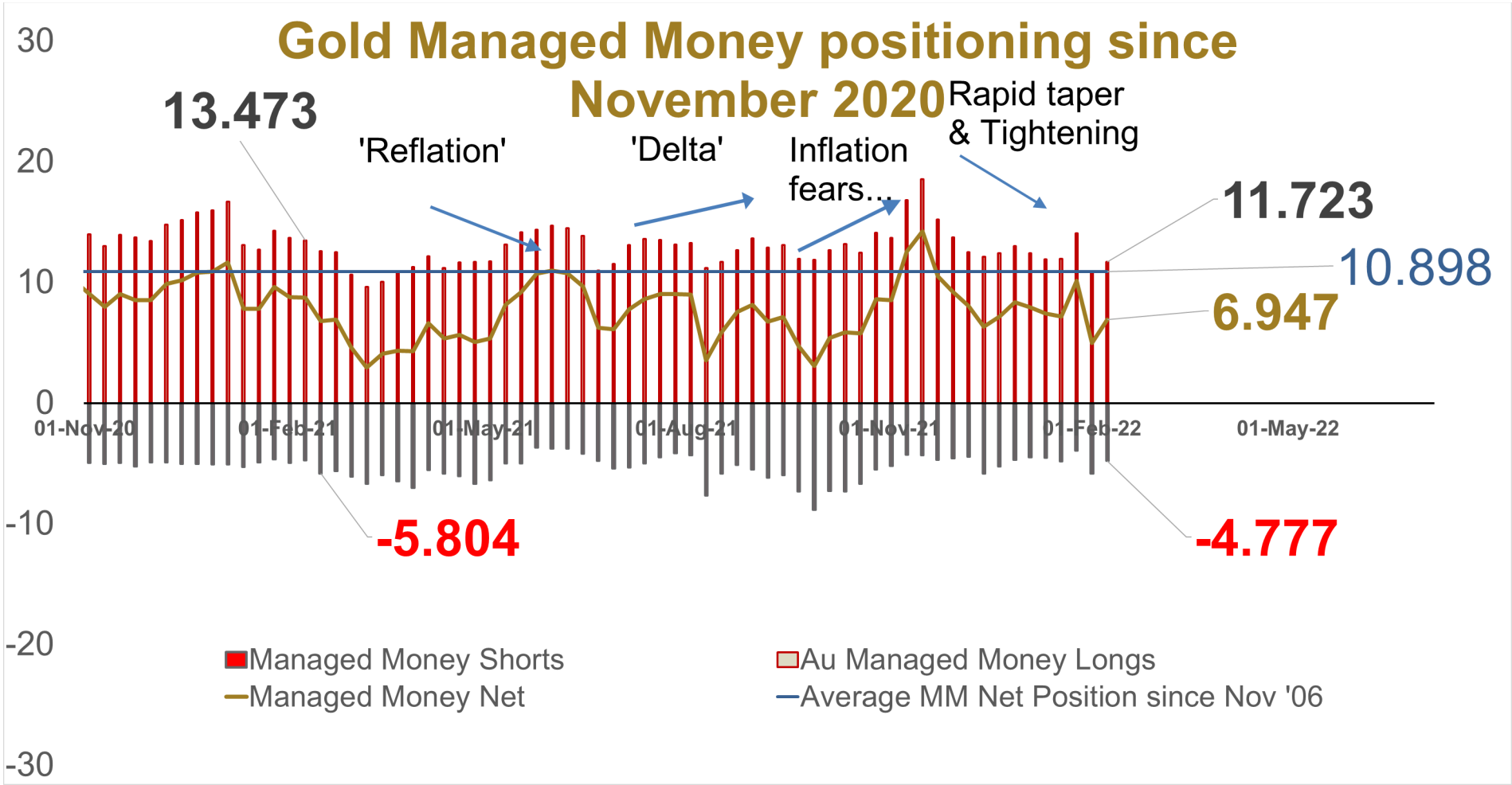
10-year US Yields

10-year yields: higher, as the pivot towards monetary tightening marches on. I will add 'real yields' from next month.



Overview of Managed Money Positioning in Gold

CME Gold Managed Money futures up to February the 8th. MM longs remain nonchalant in the face of geopolitical angst, suggesting that tightening and a rising USD remain the chief concern. Rising prices have prompted short covering, however. The Net position remains stuck far below the long-term average...



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

Volume-weighted Average Price - GC

Published 16 February, 2022

	Weekly Change in Managed Money Positions (Futures only)			
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 8 February 2022	\$1,808.86	892,500	-1,062,800	1,955,300
Tuesday, 1 February 2022	\$1,813.92	-3,233,100	1,913,000	-5,146,100
Tuesday, 25 January 2022	\$1,833.89	2,083,300	-874,900	2,958,200
Tuesday, 18 January 2022	\$1,817.80	51,000	302,700	-251,700
Tuesday, 11 January 2022	\$1,803.02	-495,500	24,300	-519,800
		-701,800	302,300	-1,004,100

Gold ETF Change in position	1,509,176
Total change over period	505,076

Volume-weighted Average Price - SI

Published 16 February, 2022

	Weekly Change in Managed Money Positions (Futures only)			
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 8 February 2022	\$22.68	-14,245,000	-5,255,000	-8,990,000
Tuesday, 1 February 2022	\$23.05	-27,605,000	49,695,000	-77,300,000
Tuesday, 25 January 2022	\$23.96	-7,605,000	-26,120,000	18,515,000
Tuesday, 18 January 2022	\$23.08	14,135,000	-15,435,000	29,570,000
Tuesday, 11 January 2022	\$22.54	-6,395,000	13,480,000	-19,875,000
		-41,715,000	16,365,000	-58,080,000

Silver ETF Change in position	14,218,255
Total change over period	-43,861,745

Volume-weighted Average Price - PLA

Published 16 February, 2022

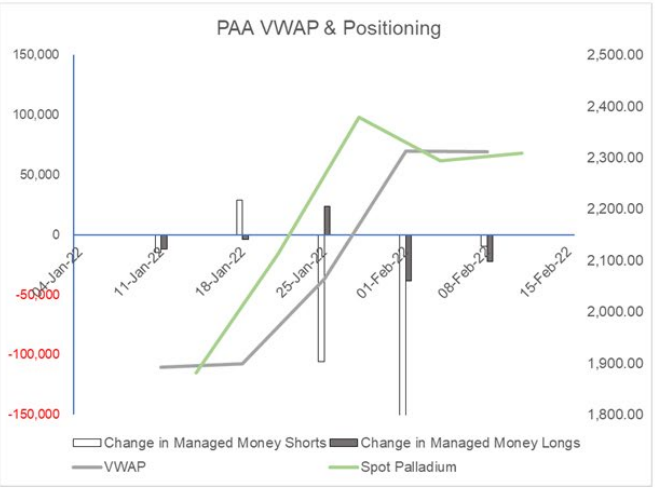
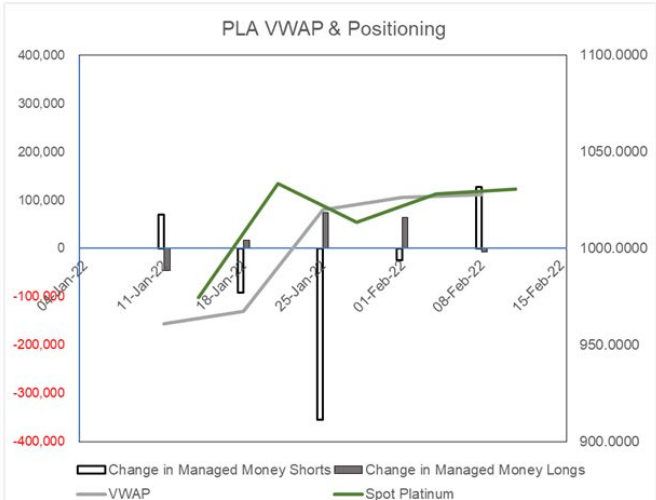
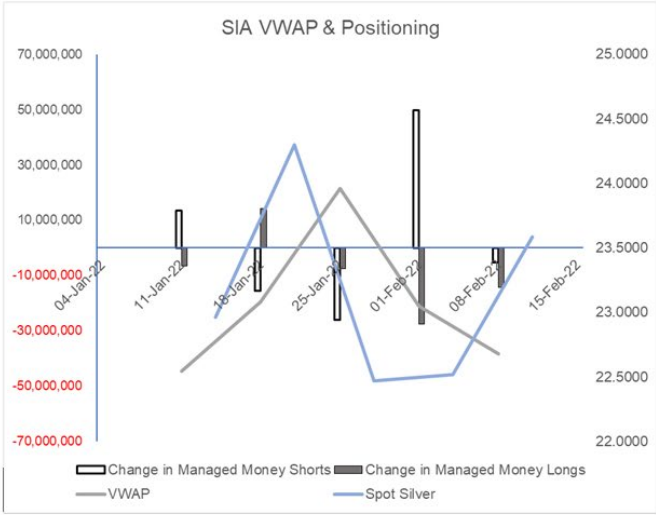
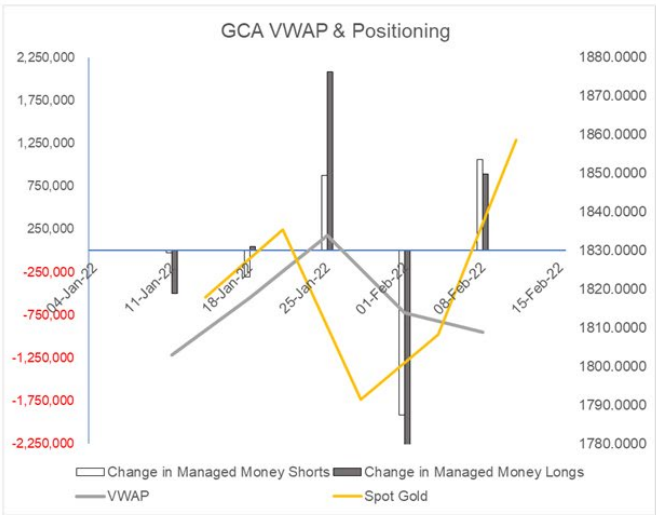
	Weekly Change in Managed Money Positions (Futures only)			
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 8 February 2022	\$1,027.95	-7,250	127,750	-135,000
Tuesday, 1 February 2022	\$1,026.39	63,600	-23,900	87,500
Tuesday, 25 January 2022	\$1,020.10	74,950	-354,000	428,950
Tuesday, 18 January 2022	\$967.50	16,700	-92,050	108,750
Tuesday, 11 January 2022	\$961.17	-46,350	69,700	-116,050
		101,650	-272,500	374,150

Platinum ETF Change in position	20,367
Total change over period	394,517

	Weekly Change in Managed Money Positions (Futures only)			
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 8 February 2022	\$2,311.16	-22,200	-9,700	-12,500
Tuesday, 1 February 2022	\$2,312.91	-38,200	-172,700	134,500
Tuesday, 25 January 2022	\$2,064.52	23,600	-106,000	129,600
Tuesday, 18 January 2022	\$1,899.36	-3,900	29,000	-32,900
Tuesday, 11 January 2022	\$1,892.08	-12,200	-15,100	2,900
		-52,900	-274,500	221,600

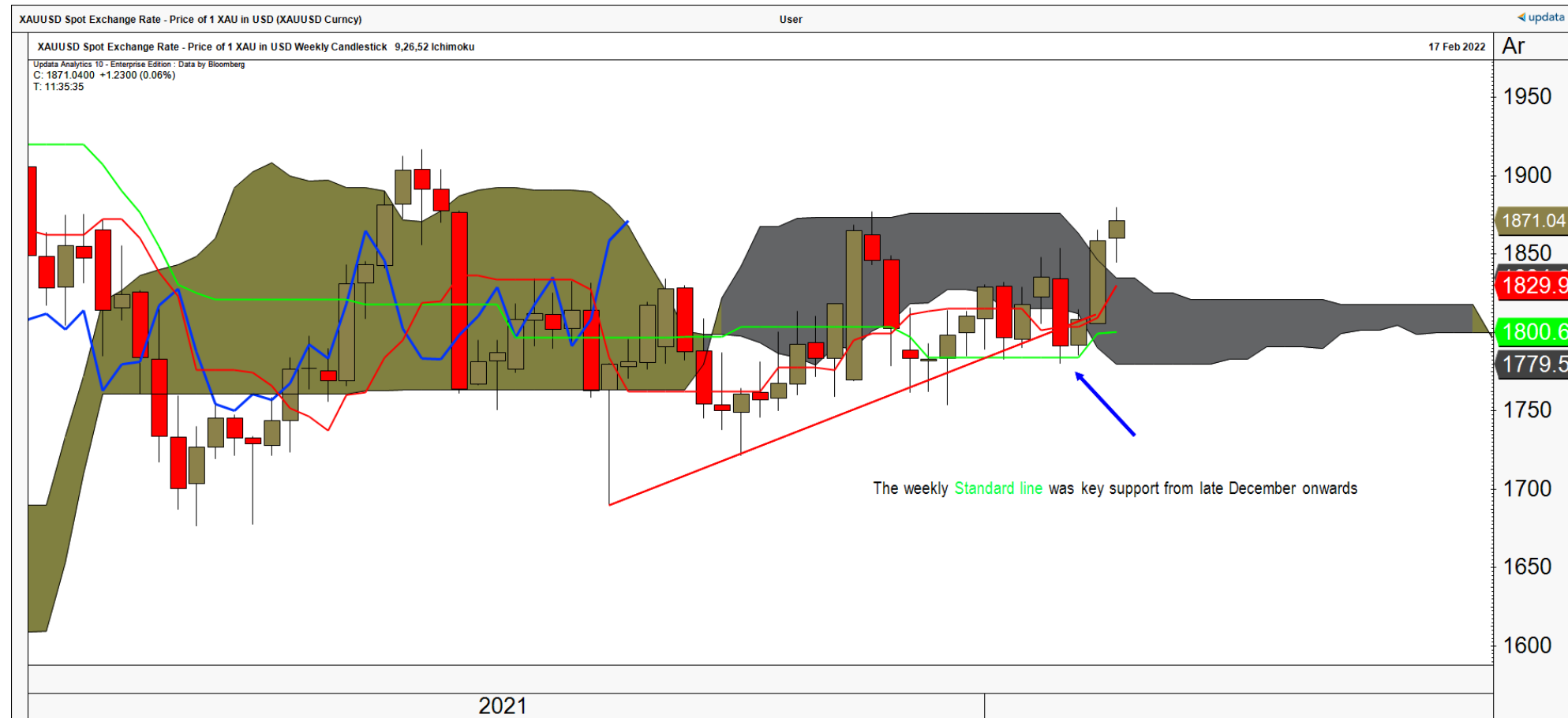
Palladium ETF Change in position	6,160
Total change over period	227,760

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



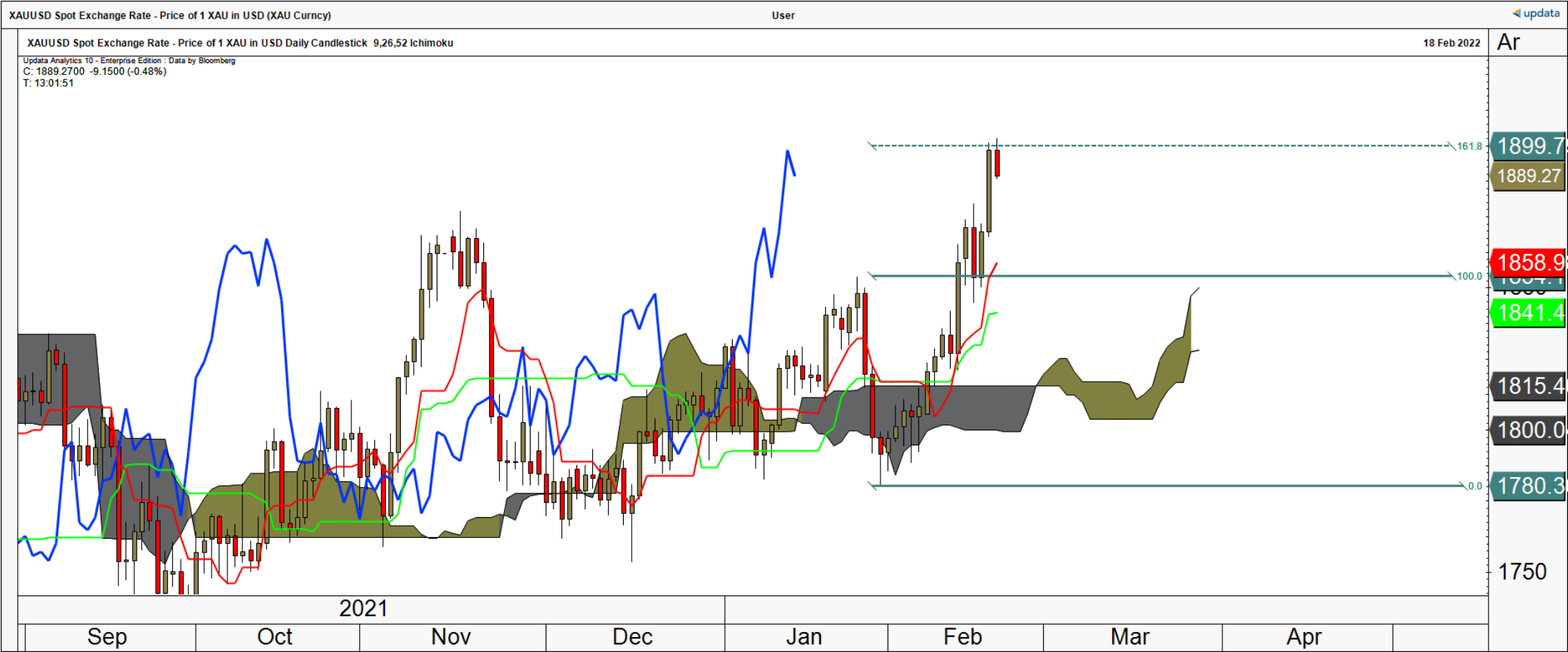
Weekly Ichimoku Cloud Chart

Gold rallied through the Weekly cloud top and pauses at the November high. Note the level of support provided by the Weekly Standard Line over the last 6 weeks or so. The move above the cloud top 'should' open the way to higher from a technical viewpoint and indicates that the medium-term outlook is bullish. Support at US\$1,825-1,830 initially.



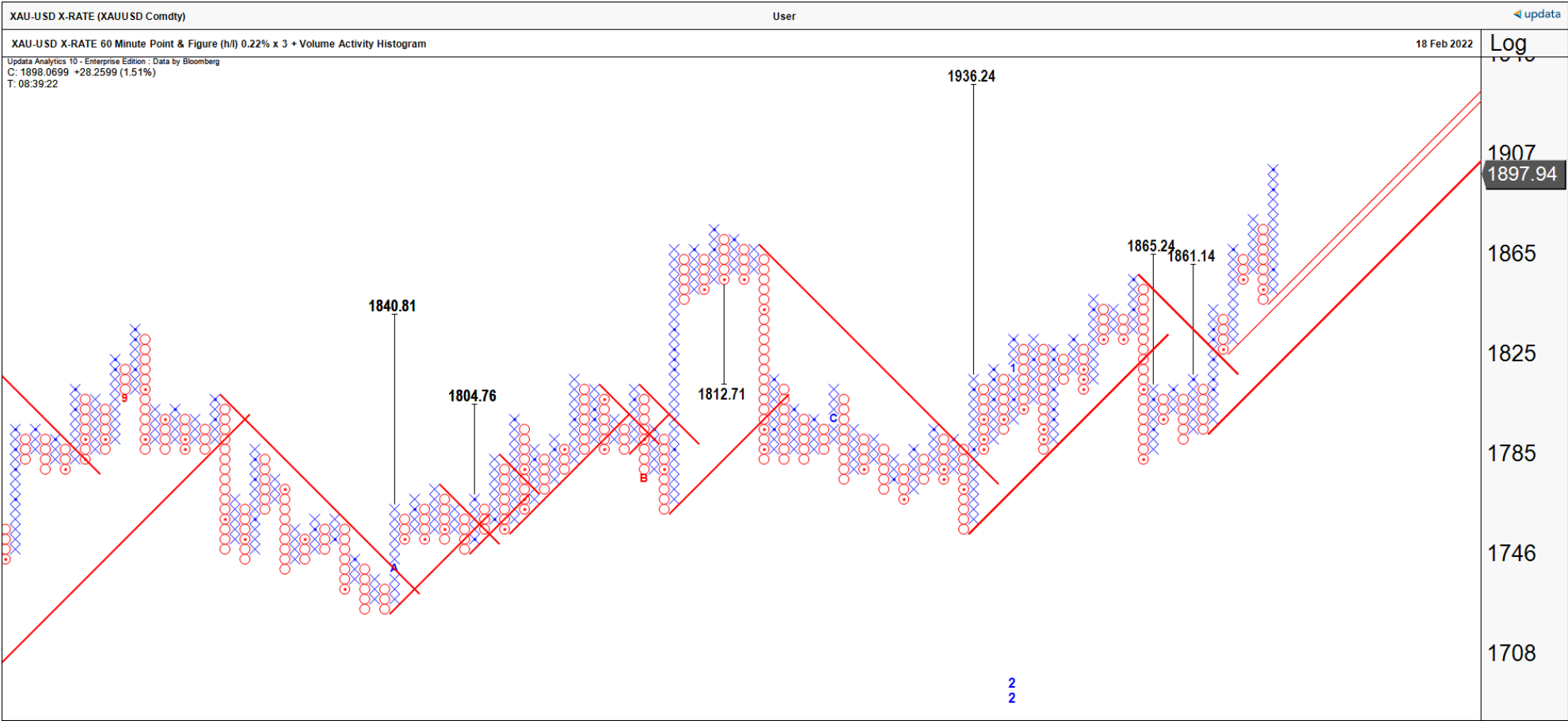
Daily Ichimoku Cloud Chart

Gold moved decisively up through the Daily cloud top – clearly short(-er) term bullish and the Fibonacci extension suggested a move to US\$1,899. What next?



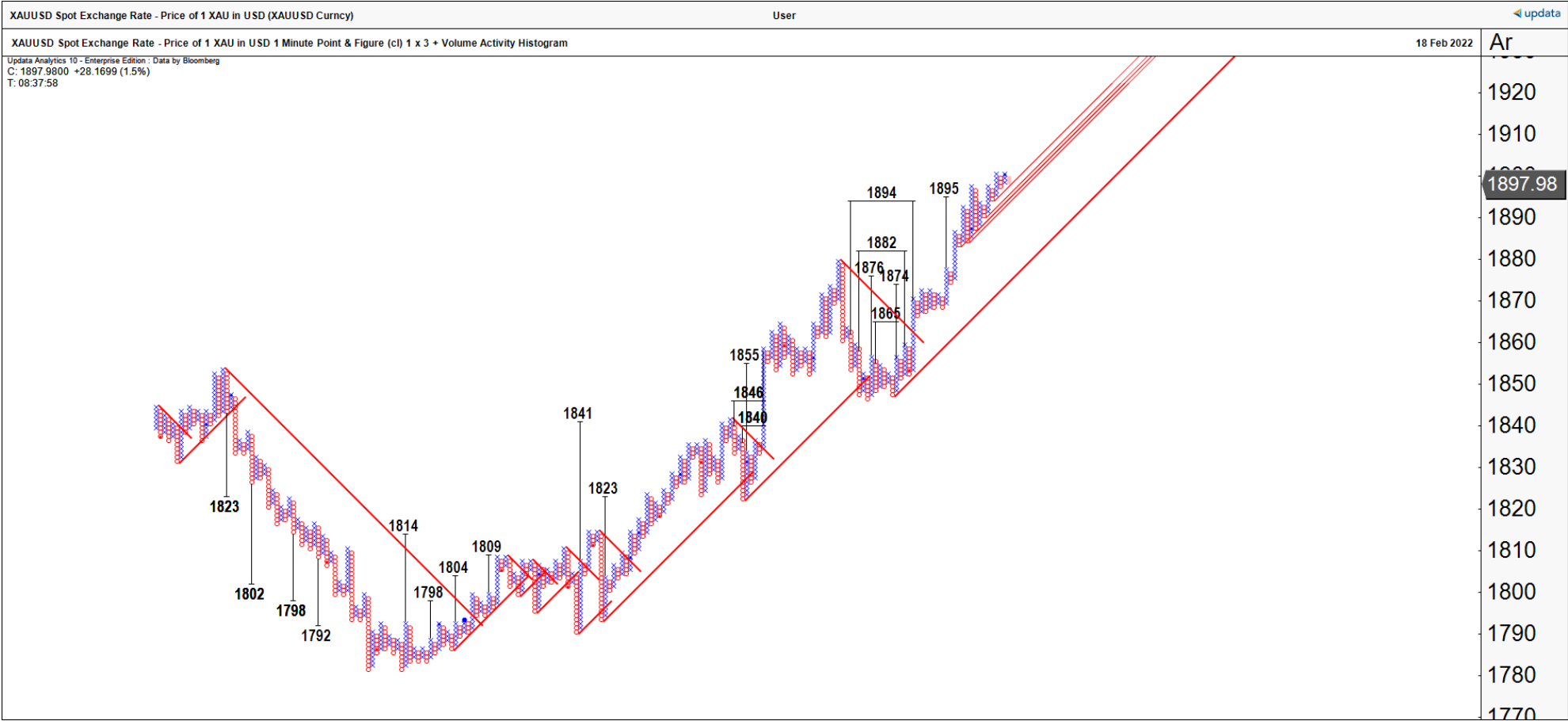
Gold Hourly Point and Figure – Medium Term

Adjusted for the recent volatility. The US\$1,936 targets looks plausible. Recent downside targets have been knocked out after the price exceeded the preceding column.



Price Targets via Point and Figure – Short Term

Targets cluster just south of that big ‘round number’ at US\$1,900, where gold may temporarily lose some upside energy. Short term, look for support at US\$1,866 and US\$1,859 on choppy pull-backs. (Busy updating short term charts as that upside target was met overnight, in a sign of the times.)



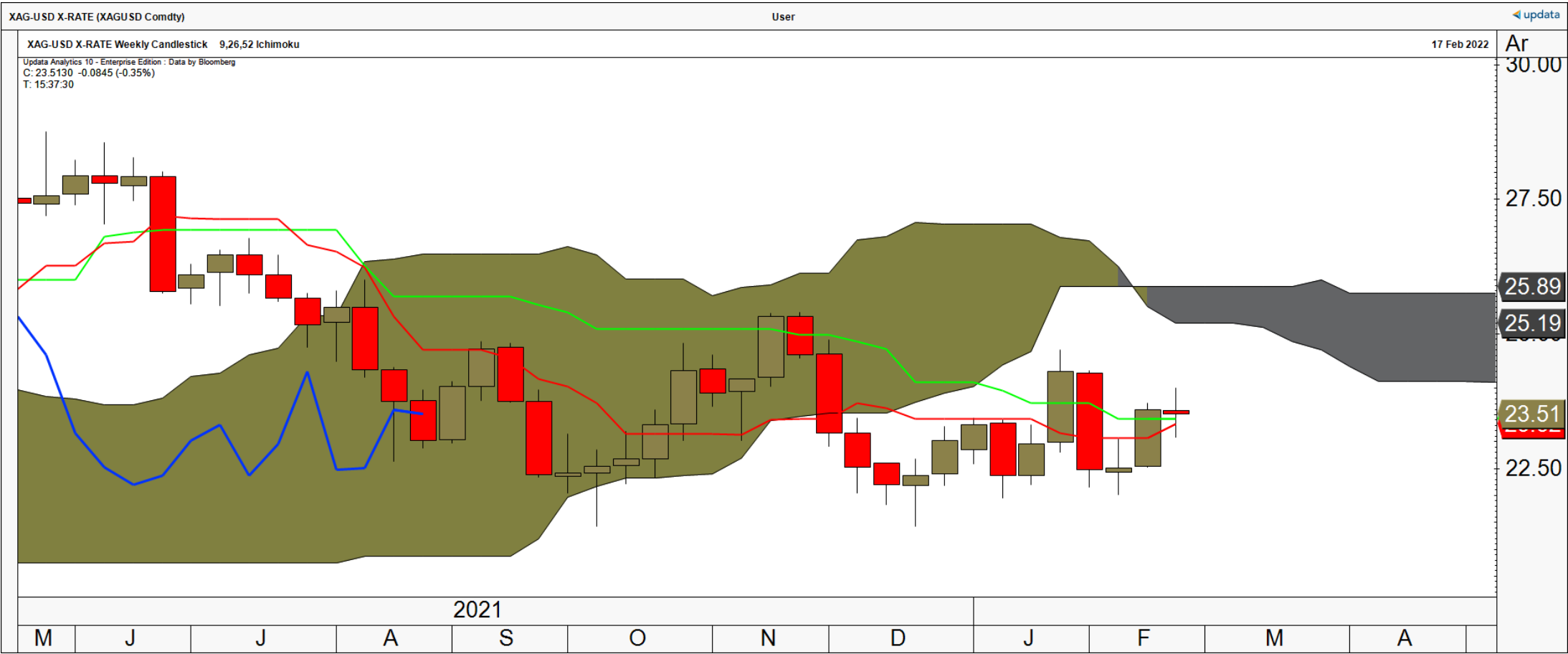
Gold in AUD via Weekly Ichimoku Cloud

Aussie gold remains above the Weekly Cloud top resistance at A\$2,531. The initial move through at January-end was helped by the weakening AUD, but the rest is gold of course. The blue lagging span emerging through the cloud top on the left is another positive note.



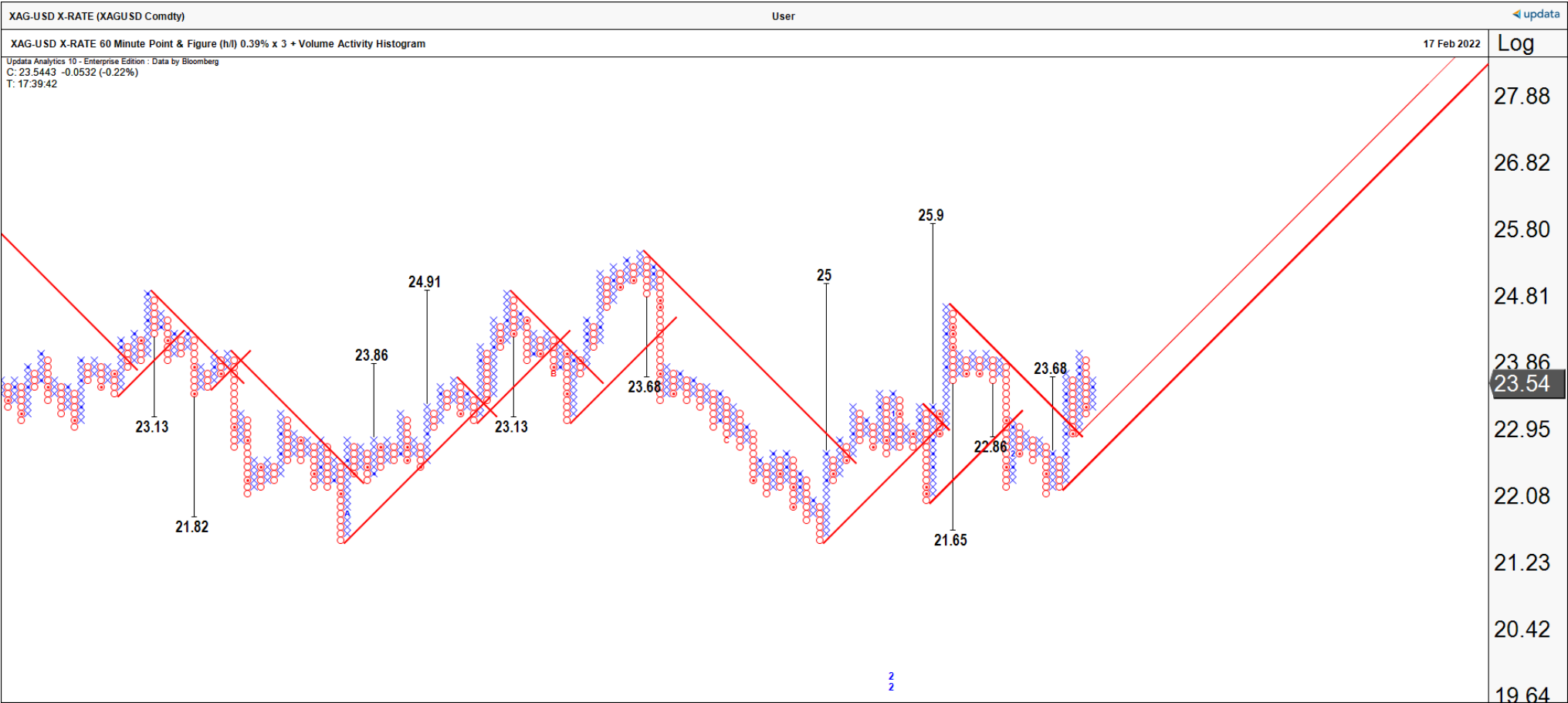
Silver in USD (Weekly)

The macro view of silver. Above the Weekly Turning and Standard lines. The next major resistance is now at US\$25.19. Silver lies below the Weekly cloud hence is still medium term bearish basis the Ichimoku cloud.



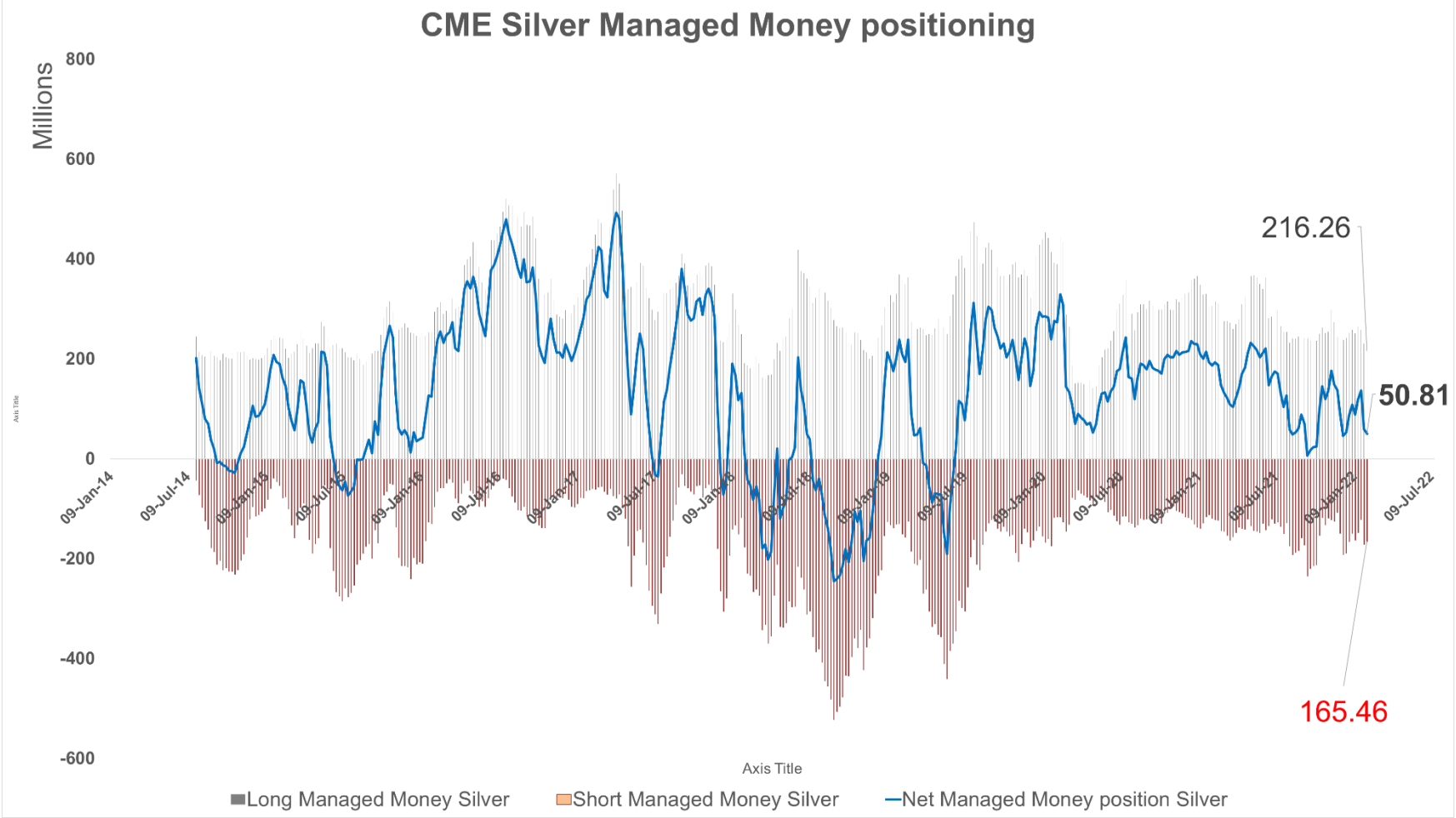
Silver in USD – Hourly Point and Figure

Targets for the XAGUUSD medium term. After a burst of volatility, a more confident pattern of price action that may challenge the Weekly Cloud resistance?



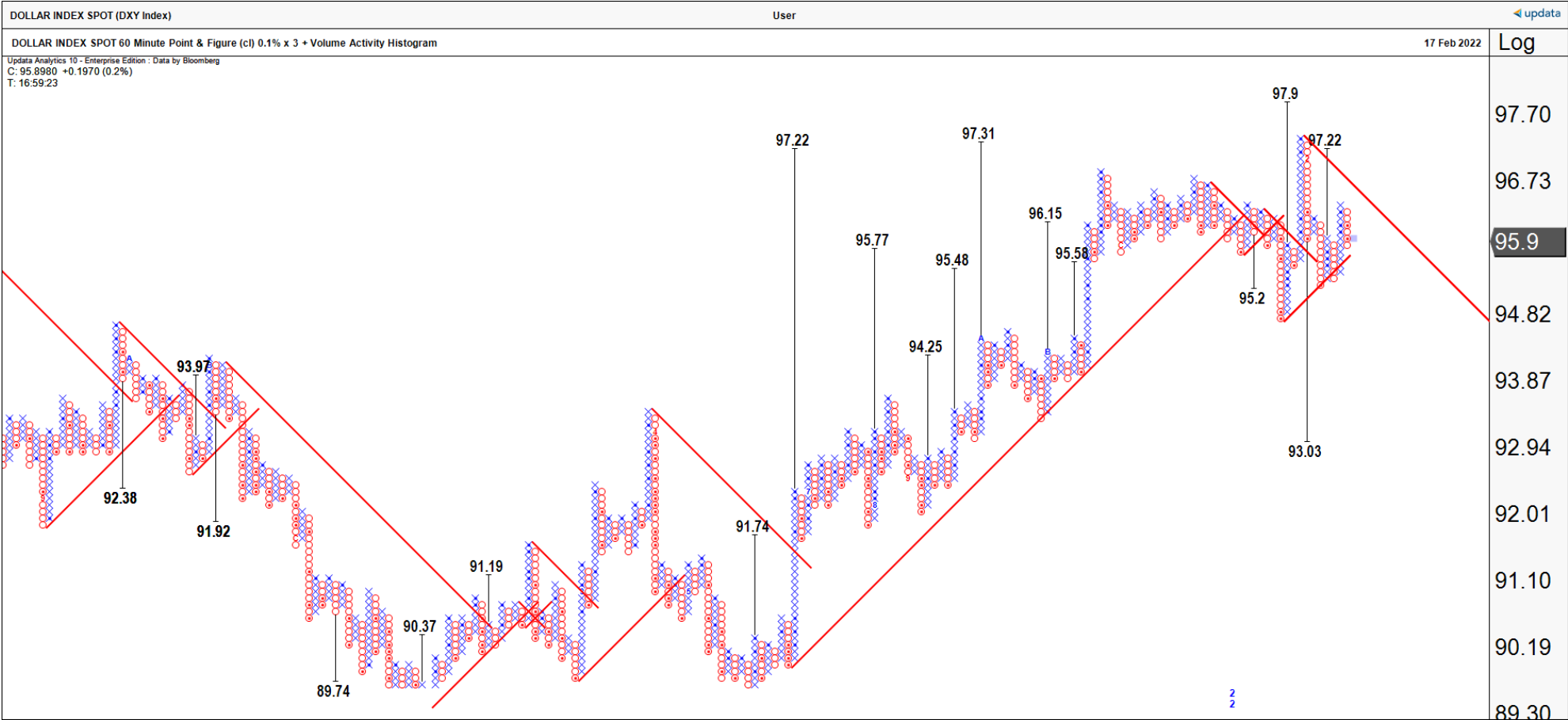
Overview of Managed Money Positioning in Silver (Futures only)

Silver net positioning declines slightly as Managed money longs declines by 14 million Tozs and shorts reduce by about 5 million – with the early February increase in shorts still hanging out there at a VWAP of US\$23.05.



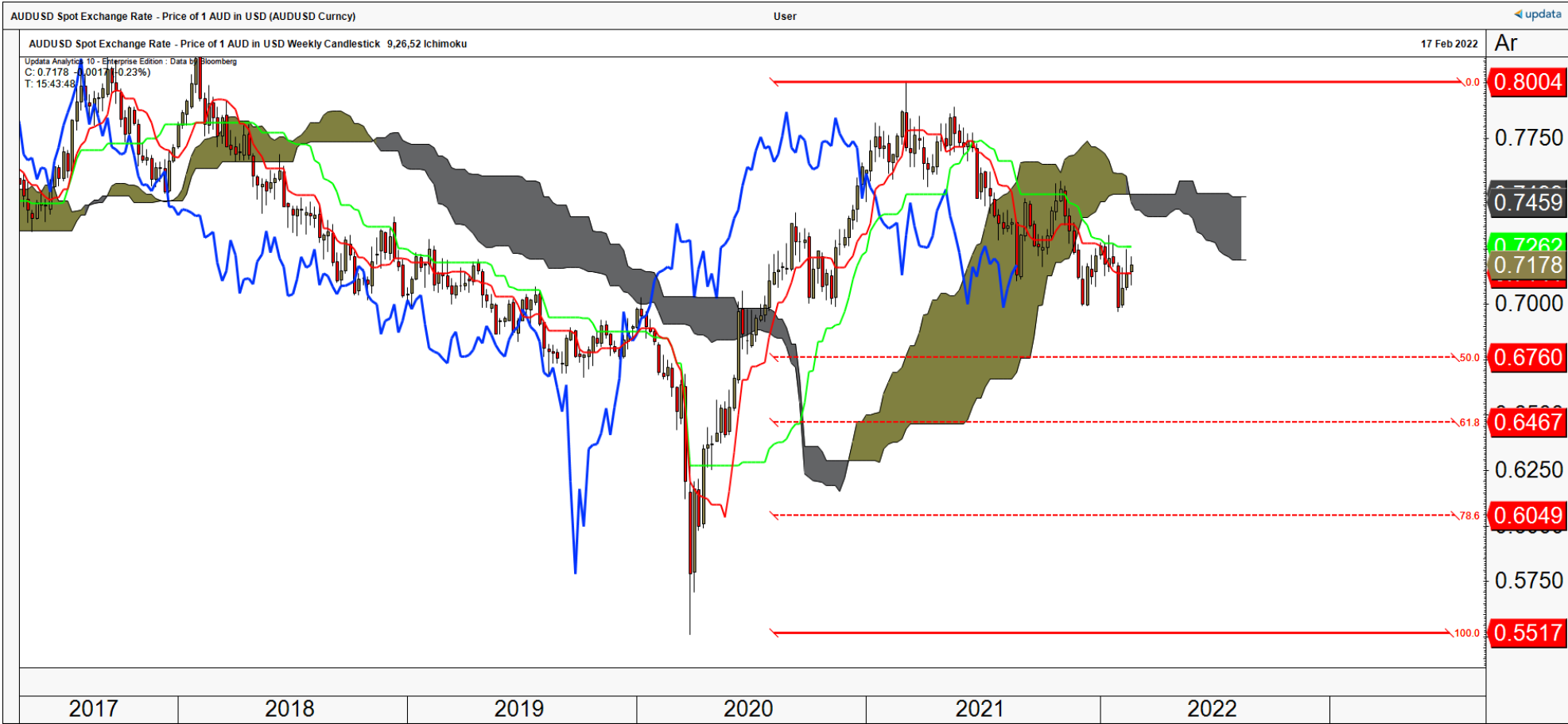
The Dollar – DXY

Hourly Point and Figure. At a macro level, the broad Dollar index ran out of momentum after net capital outflows of US\$53 billion in December, the first significant outflow since September 2020. The subsequent rally fulfilled the targets to 97.22 and 97.1. Despite the bearish trend line, the targets to 97.90 and 97.22 look plausible.



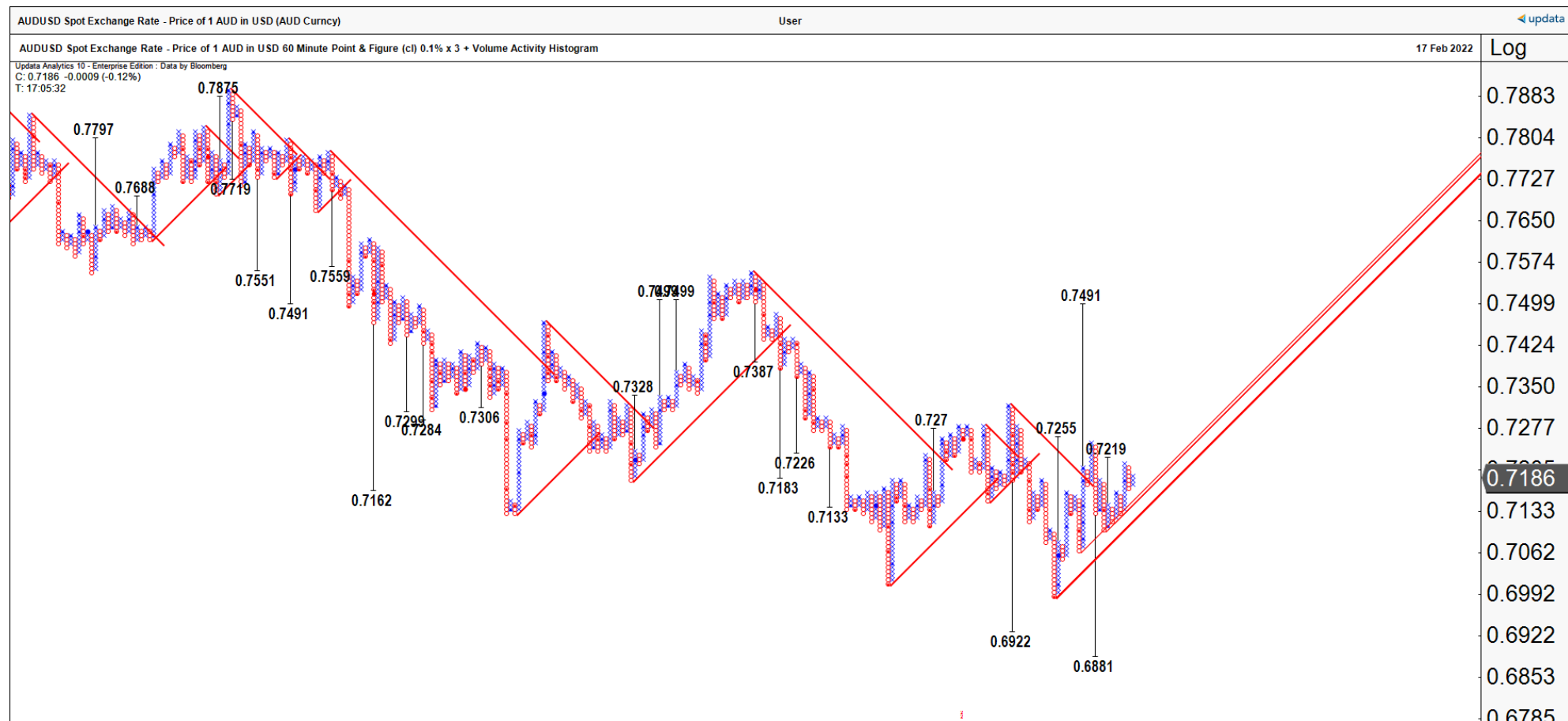
AUD Weekly Ichimoku Cloud

The AUD Weekly Standard line (green) remains a barrier to AUD rallies. AUD positioning is still incredibly weak, which allows for sharp short term rallies 0.70 levels still well supported.



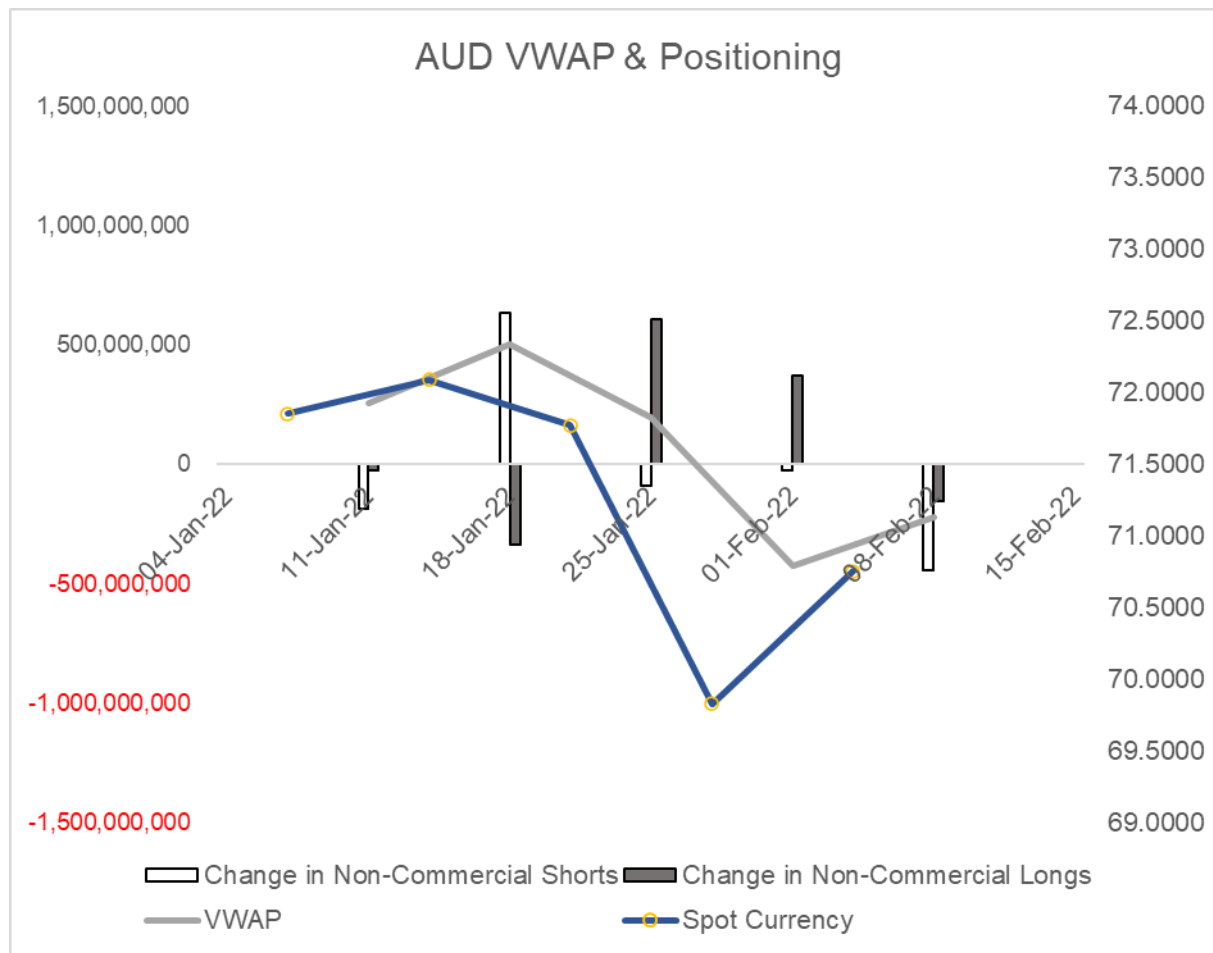
The AUD Hourly Point and Figure

The AUD made another sub-0.70 low in January. A sharp (China-led) plunge in the price of Iron ore and risk-off sentiment is negative for the AUD, however the extremely low net positioning in the AUD means bad news is quite easily absorbed for now.



AUD Positioning and VWAP

AUD Longs have started to venture in again, while shorts have mainly bought back, winding back the net short from the extremely extended positioning to something slightly less extended. Early February and shorts started to sell again, possibly responding to easing signals from the People's Bank of China and accordingly expectations for a reduction in Chinese demand in 2022.



Where to From Here?

Gold pushed through the Weekly Cloud top and gained upside momentum.

Russian military threats to the Ukraine are the dominant factor in higher gold prices as outside of the geopolitical arena, gold faces traditional headwinds from rising real rates and a likely continuation of broad US Dollar strength as the American economy continues to strengthen and yields increase on American fixed income.

(February experienced a weaker USD which helped gold break higher but seen in the context of monthly progress, this is more of a reflection of the move higher in January, where the DXY almost touched the 61.80 % retracement of the February 2020-January 2021 down move.)

Gold is therefore at a highly interesting juncture whose opaque calculations are yet to be fully revealed.

Support at US\$1,834 and the important Weekly Standard line comes in at US\$1,801.

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.)	16%
US\$2,172	2% Daily Point and Figure. (Delta basis 1 Yr Exp.)	25%
US\$1,933	Basis hourly chart above (0.50 % box size) 3 mo. Exp.	36%

Targets (Downside)

US\$1,580	Daily US\$20 Point and Figure (Delta basis 1 Yr. Exp.)	13%
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Nearby target probabilities basis spot US\$1875 for 1 year (or 3 months if indicated) and created by solving for option delta on the Bloomberg option pricer.

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