



**ABC**<sup>®</sup>  
REFINERY

# ABC Refinery Monthly Precious Metals Technical Analysis Report

July 2022

# Gold - In Brief

Good day and welcome to the July monthly report, looking at gold, silver, the Dollar Index and the AUD via a more or less technical lens.

As always, [The Pod of Gold](#) podcast with Shae Russell is great for a discussion on gold, silver and wider macro themes in between each monthly report.

## Macro Themes.

The USD continues its powerful rally. Why? The yield gap between the Dollar and its major trading pairs continues to dominate. The ECB is also not only slow to tighten, but the Eurozone also faces serious trade balance issues (see chart in the slides below) that arise directly from the tripling of energy imports. Markets await expected ECB tightening on July 21<sup>st</sup>, with markets pricing in a move from **-0.50 %** to **-0.30 %**. (Yes...) Will Nordstream 1 come back online on Thursday the 21<sup>st</sup> after scheduled maintenance? (Most likely yes... it's a huge FX earner for Russia, and winter hasn't yet come...)

Likewise, the BOJ doesn't see the wage pressure that would justify tightening.

I have added some extra charts to show the both effects.

**Gold** The real yield / Dollar interaction pushed gold down again as gold continued to look like an outlier compared with typical spot gold levels for given 10 Year TIPS yield.

**Silver** Silver is closely linked to moves in the price of LME copper, still, with Copper anticipating a slow down in 2023.

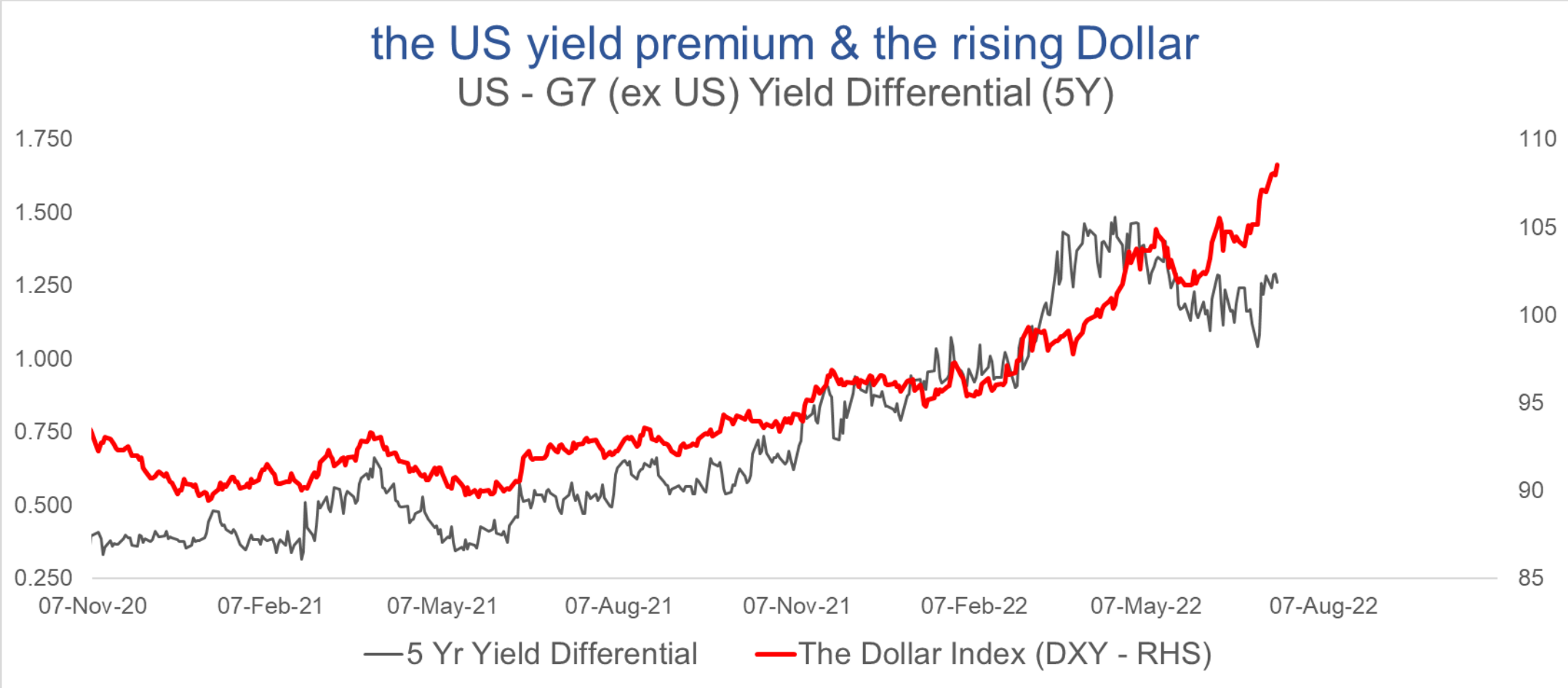
US real yields via the US 10-year TIPS continued higher – much higher- to make a high so far of 0.877 pct. Yields have come off slightly but the macro theme is still aggressive monetary tightening with the potential for a recession – which means markets are now pricing in lower US rates from the second half of 2023. The volatility of 'expectations' around the degree of nearby tightening is intense, and probably tells you more about asset markets now than almost anything else.

China had a serious miss in Q2 GDP at 0.40 %. Import growth slowed to 1%. There are signs that the property crisis is now spreading to the banking sector directly (not just via fixed income and defaults) via fearful retail depositors at the regional bank level. What if the 'mortgage payment strike' spreads more widely?

The AUD may take some comfort from China taking our coal, but iron ore prices in Dalian send a negative signal and recession fears should keep the AUD on the defensive.

# Drivers of Dollar strength

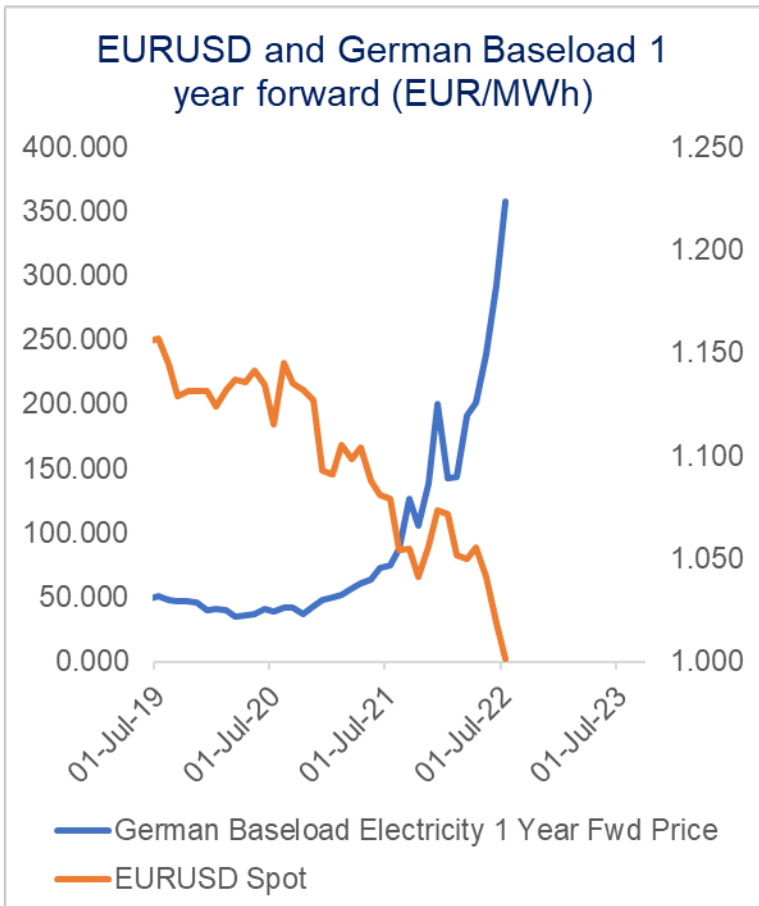
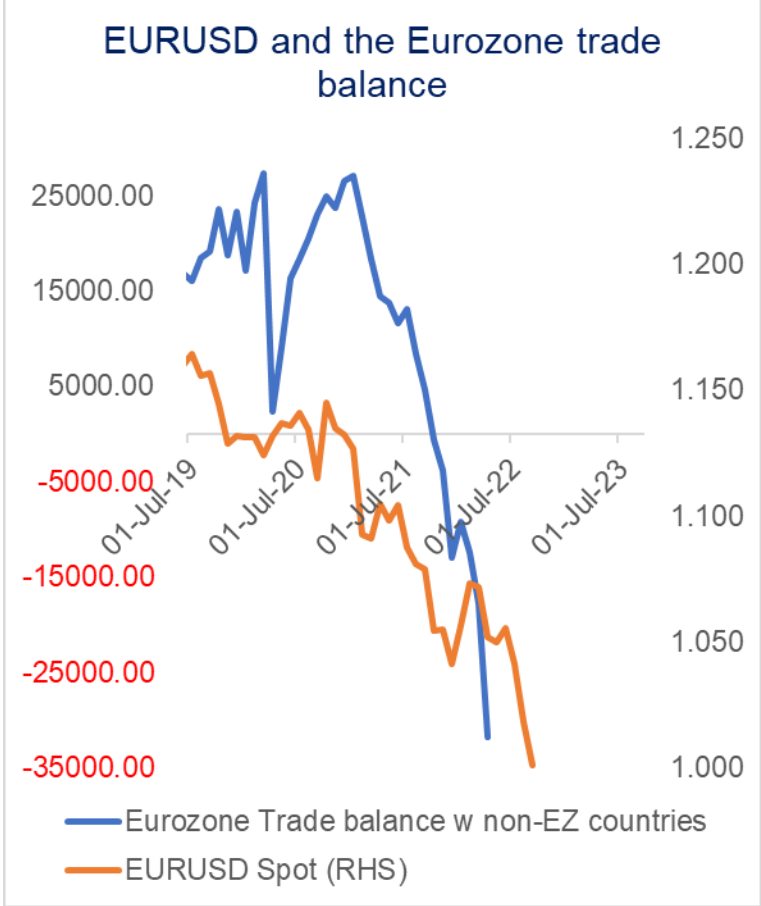
Higher yielding USD relative to other G-7 currencies drives the Dollar higher, with a notable rise in the yield gap this month.



Source: Bloomberg / ABC Refinery.

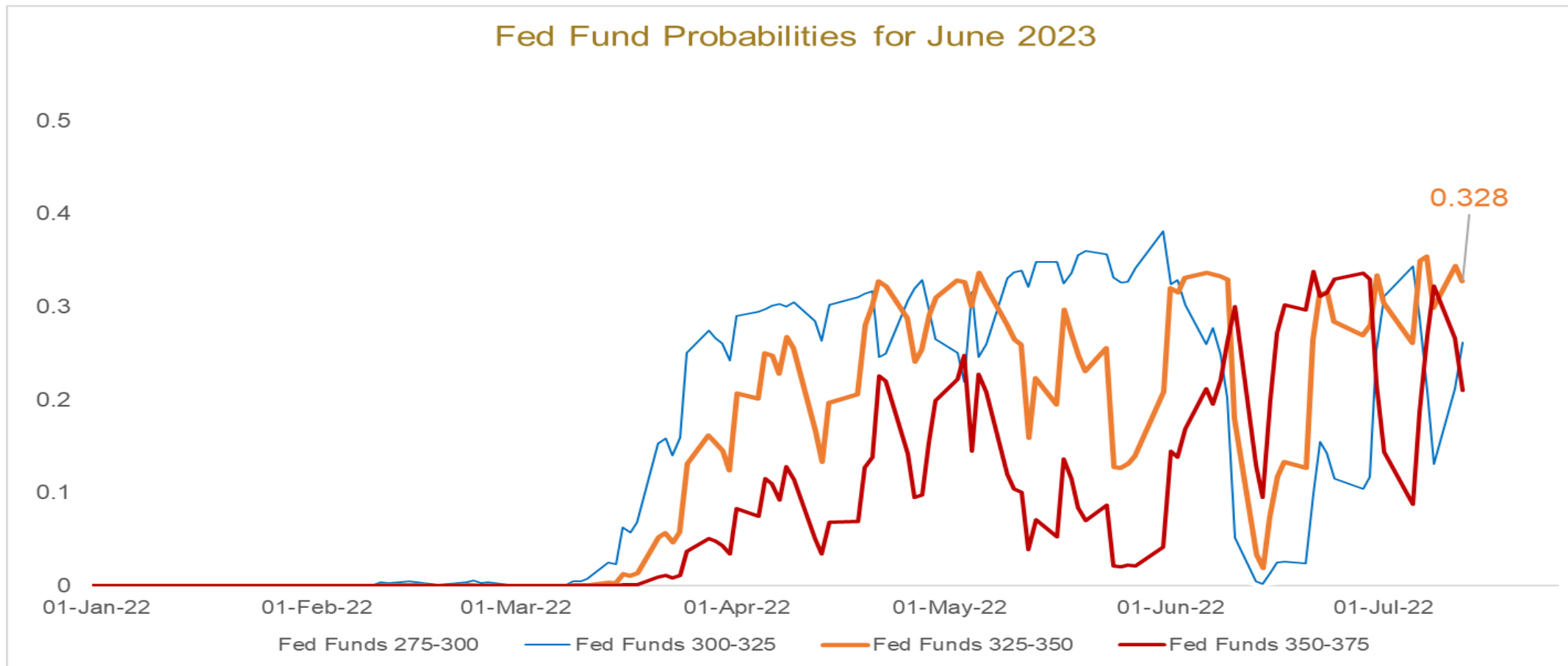
# Drivers of EUR weakness

Roaring energy costs both now and via 1 –year baseload prices in Germany. The ECB has an inability to rapidly tighten. Meanwhile the collapse in EZ terms of trade is pushing the EUR sharply lower. Source: Bloomberg – OTC composite prices / Eurostat / ABC Refinery.



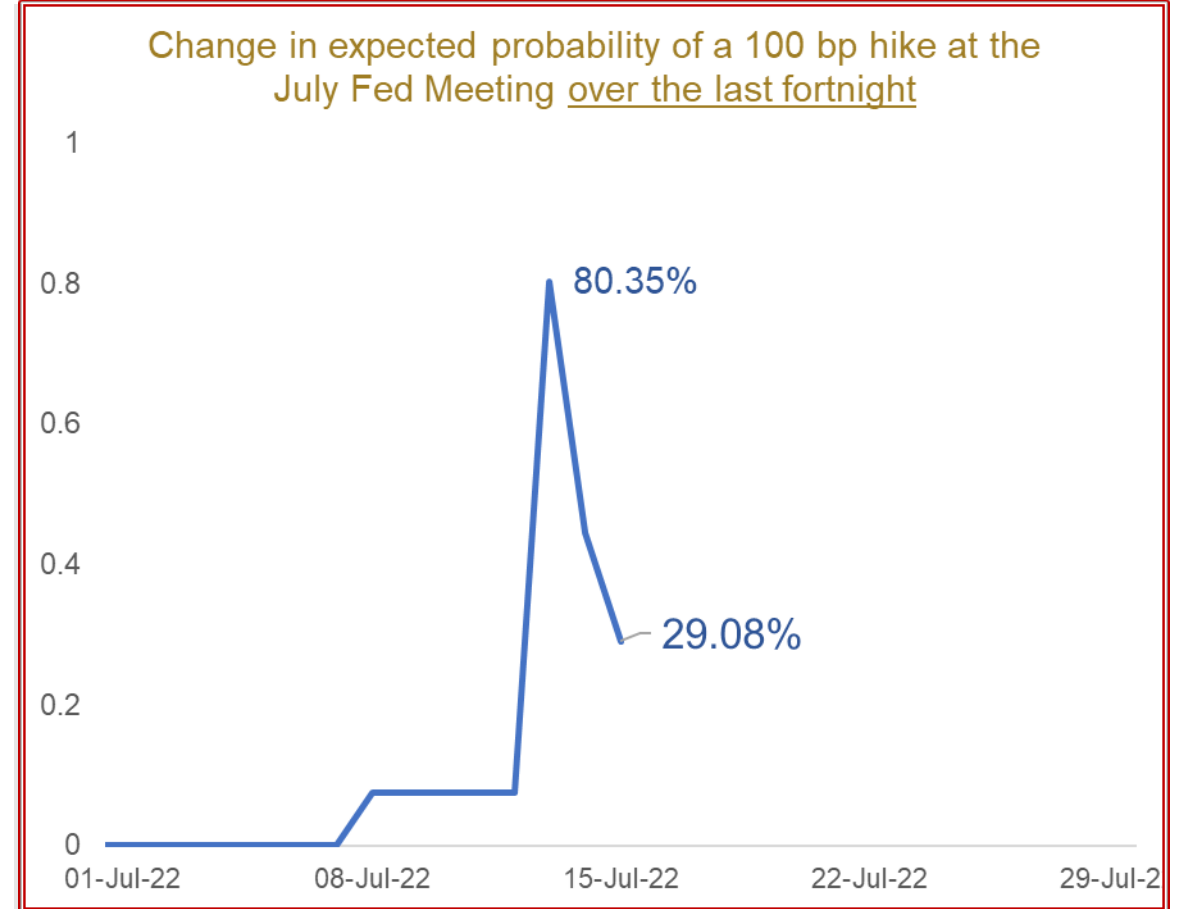
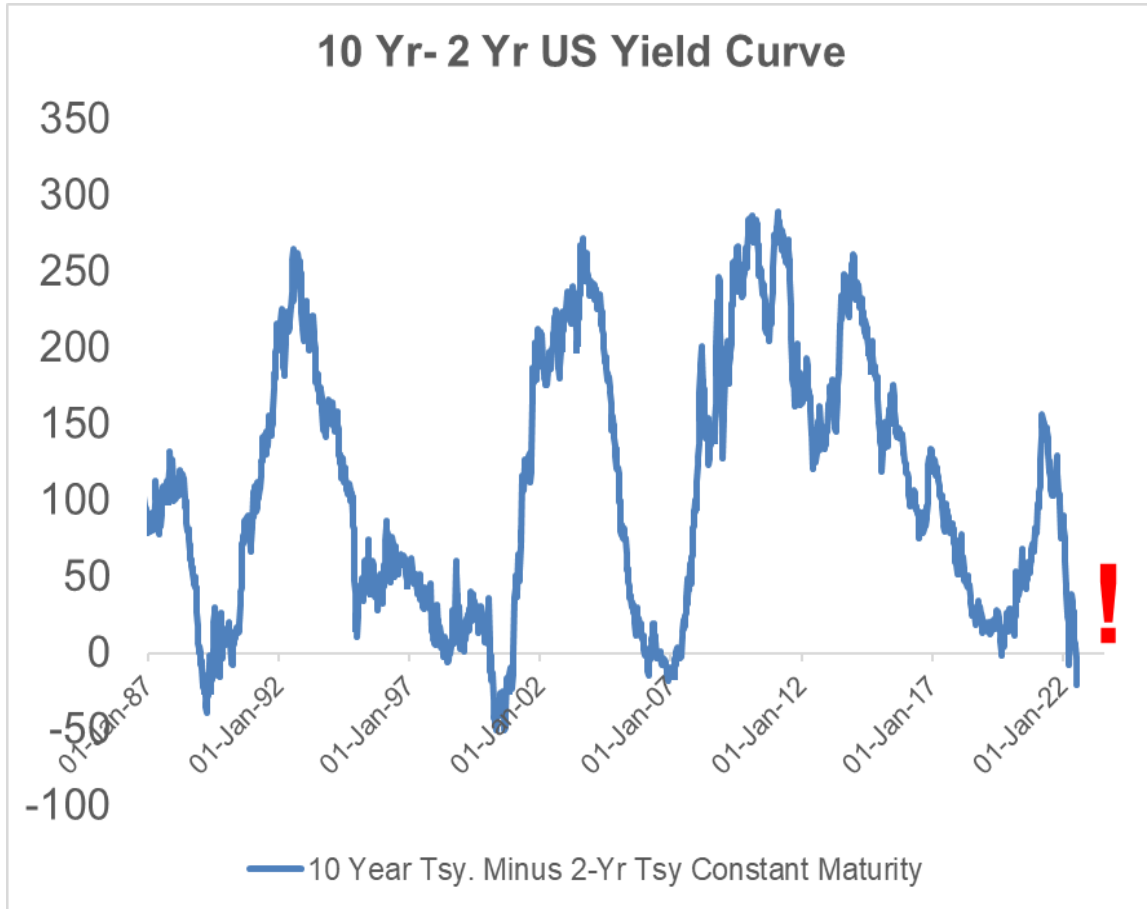
# Market expectations for USD Fed Funds – June 2023

Market-based pricing showing the expected probabilities of Fed Funds a year hence. There are other potential outcomes, hence the values do not sum to 1. Expectations have shifted to 3.25-3.50 % again. Both levels have risen 'at the expense of' the 2.75-3.25 % expectation. *Source: CME Fedwatch tool/ABC Refinery.*



# Money and yields

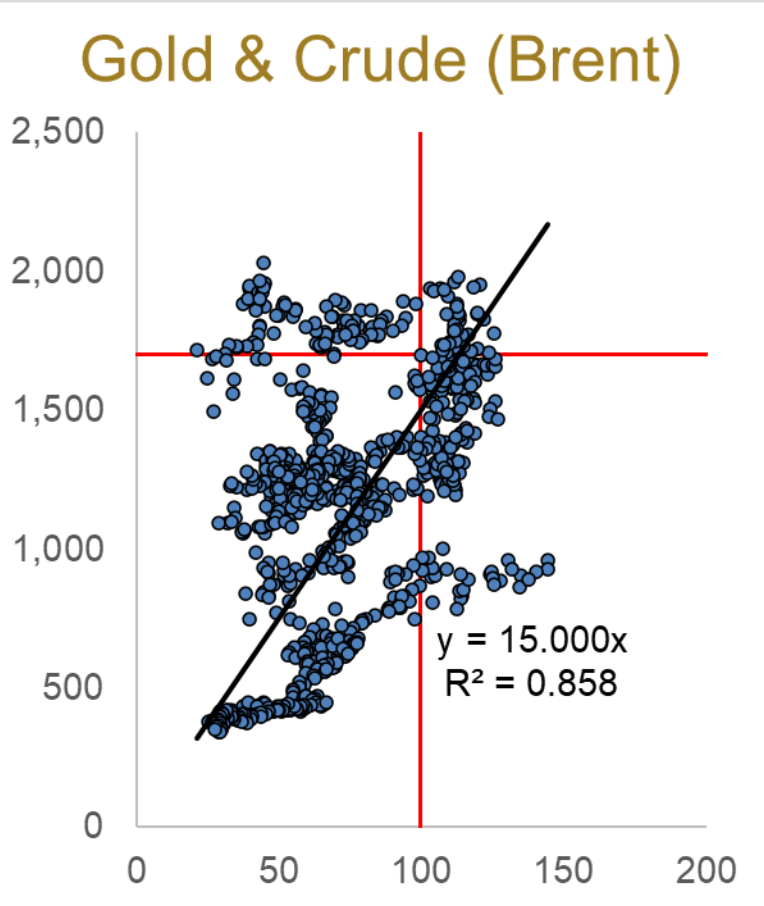
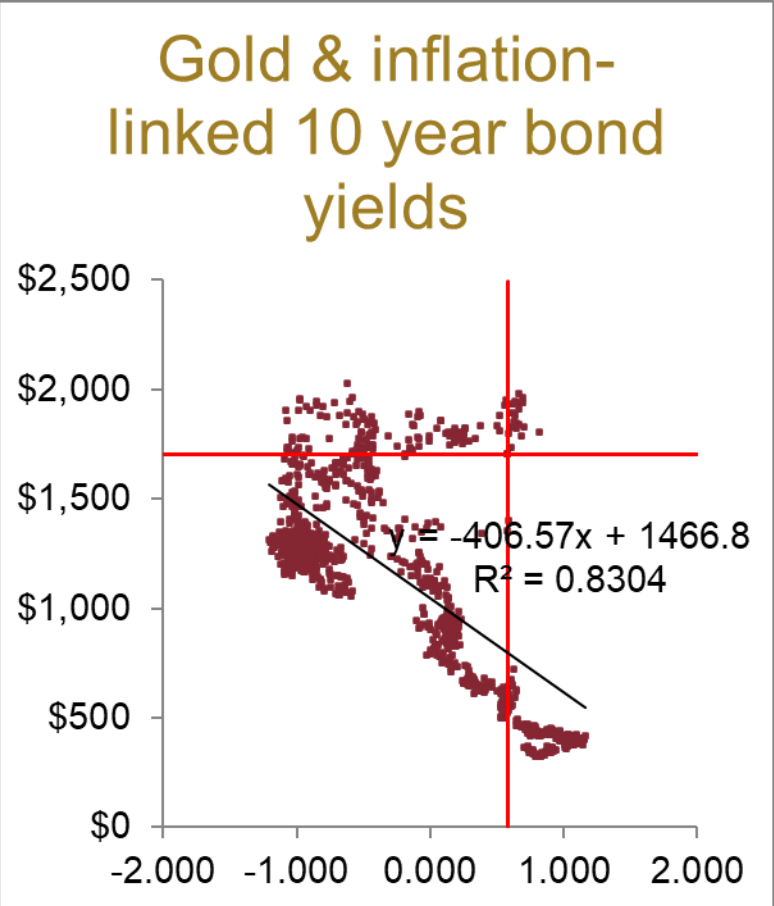
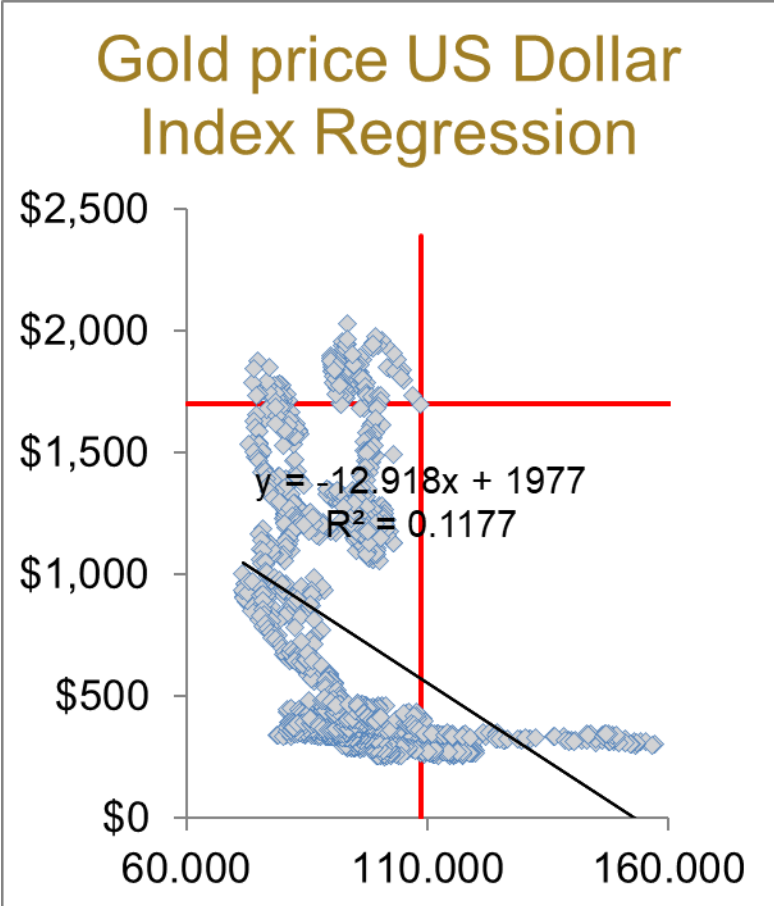
The 2s-10s spread turns negative, signaling expectations of a recession in the US – people talk of little else it seems . To the right is possibly one of the most telling graphics in this month's report: the change in expected probability of a 100 bp rate hike at the July FOMC, which may go some way to explaining the current very difficult trading environment for all asset classes.



Sources: Bloomberg, CME FedWatch, ABC Refinery

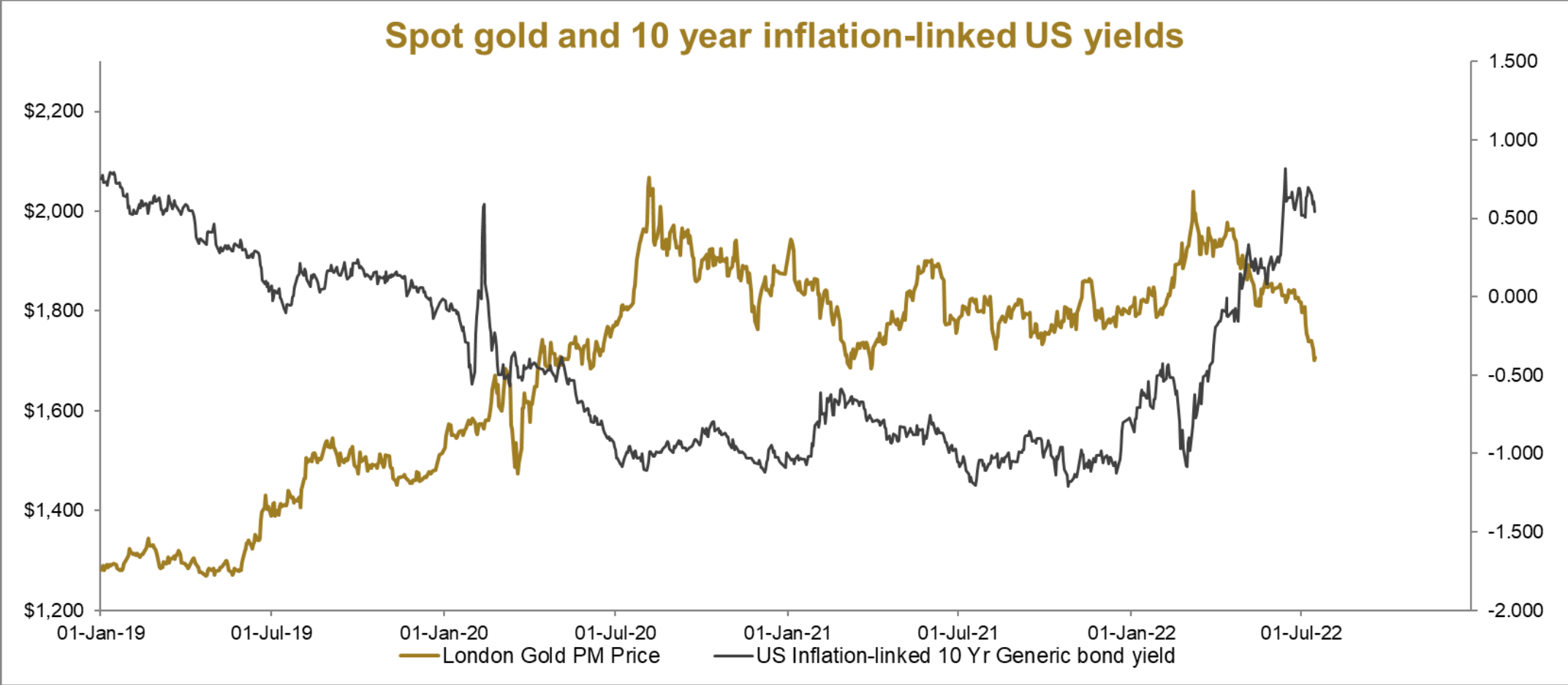
# Gold and key variables

The takeaway is that gold looks highly valued when compared with the DXY, 10-year TIPS yields and to some degree, compared with crude, and this puts gold's weakness into context despite ugly-looking inflation prints.



# 10-year US Yields (TIPS)

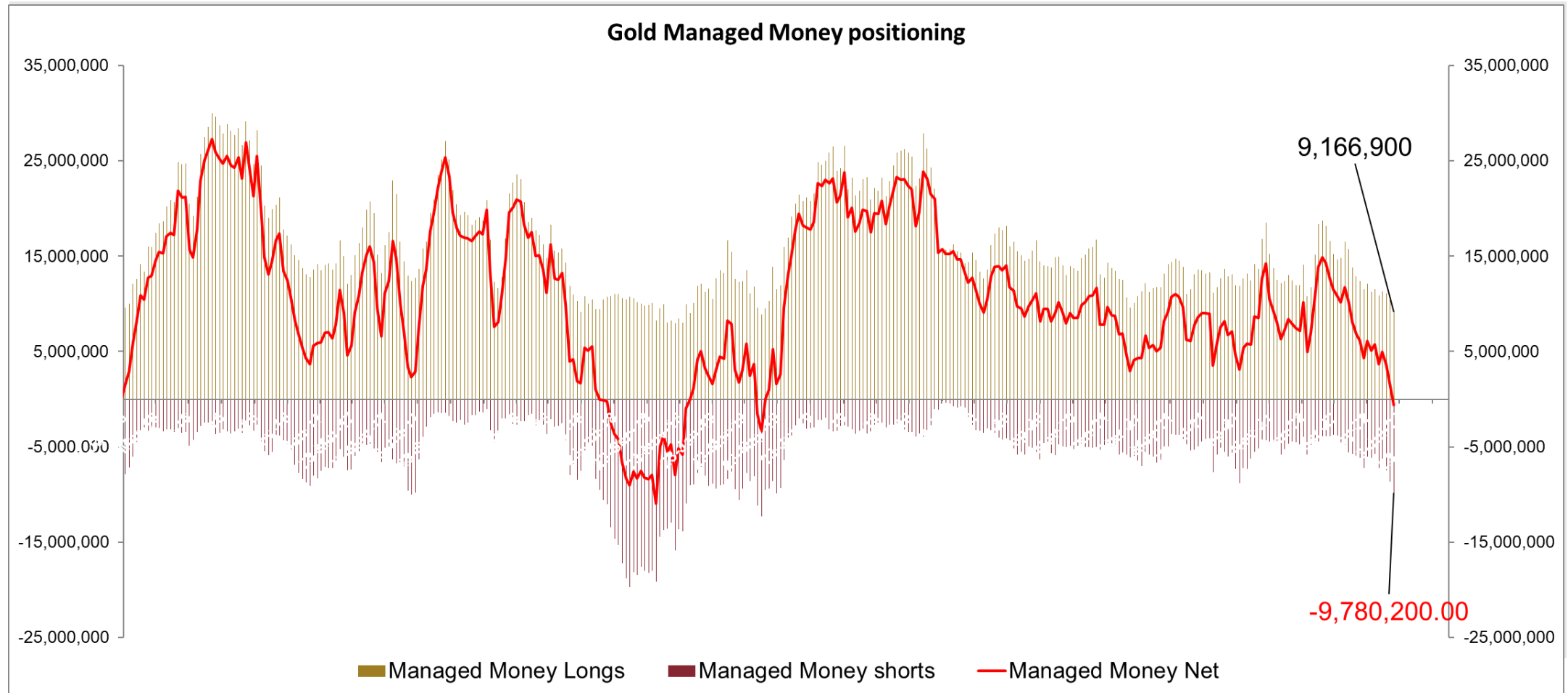
10-year real yields forged even higher, although now giving gold a chance to breathe after the June highs as yields consolidate after their huge run.





# Overview of Managed Money Positioning in Gold

Longs decline. Shorts grow to the largest level seen since December 2018, the last time the Federal Reserve explicitly tightened.



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

Gold longs reduced steadily. Shorts increased their negative bets at comfortable levels (see table) . Silver shorts have grown again. The previous large shorts no longer look vulnerable. Tremendous short selling in platinum.

## Volume-weighted Average Price - GC

Published 02 June, 2022

Week ending on:	Weekly Change in Managed Money Positions (Futures only)			
	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 12 July 2022	\$1,750.74	-1,180,300	1,136,400	-2,316,700
Tuesday, 5 July 2022	\$1,805.90	-737,800	1,169,000	-1,906,800
Tuesday, 28 June 2022	\$1,833.12	-237,000	1,133,100	-1,370,100
Tuesday, 21 June 2022	\$1,833.79	410,900	-878,900	1,289,800
Tuesday, 14 June 2022	\$1,845.18	-610,400	1,452,200	-2,062,600
		-2,354,600	4,011,800	-6,366,400
Gold ETF Change in position				-2,017,827
Total change over period				-8,384,227

## Volume-weighted Average Price - SI

Published 02 June, 2022

Week ending on:	Weekly Change in Managed Money Positions (Futures only)			
	US\$VWAP	Longs	Shorts	Net change
Tuesday, 12 July 2022	\$19.19	-1,135,000	7,380,000	-8,515,000
Tuesday, 5 July 2022	\$20.19	-8,585,000	38,865,000	-47,450,000
Tuesday, 28 June 2022	\$21.25	-1,830,000	30,595,000	-32,425,000
Tuesday, 21 June 2022	\$21.53	-6,535,000	-34,640,000	28,105,000
Tuesday, 14 June 2022	\$21.60	310,000	26,425,000	-26,115,000
		-17,775,000	68,625,000	-86,400,000
Silver ETF Change in position				-34,145,030
Total change over period				-120,545,030

## Volume-weighted Average Price - PLA

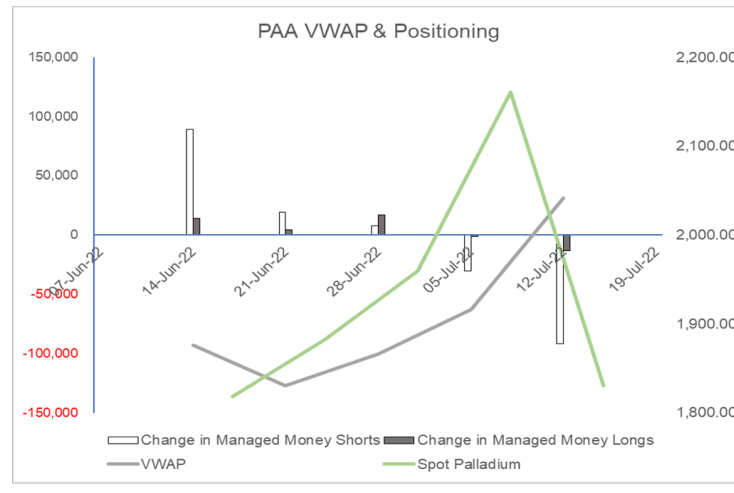
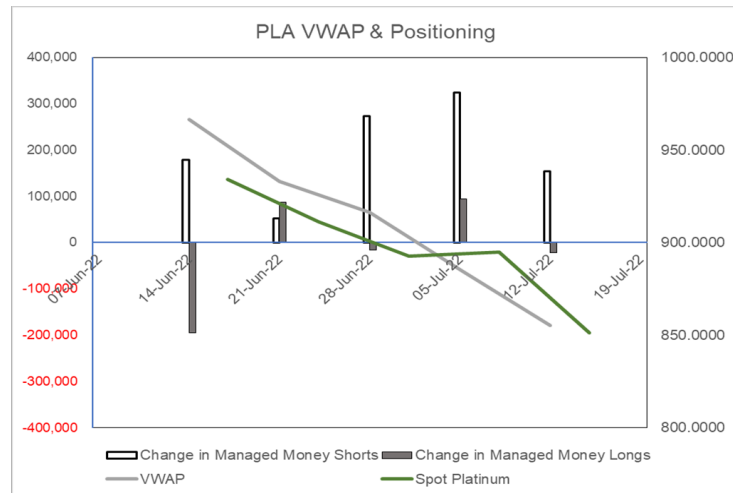
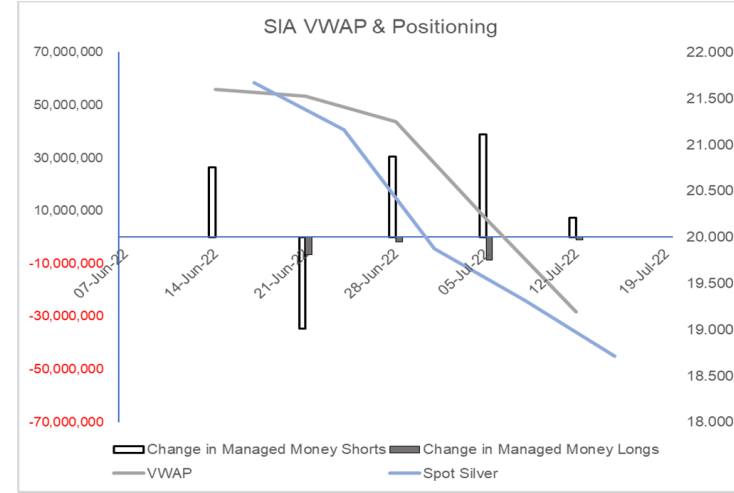
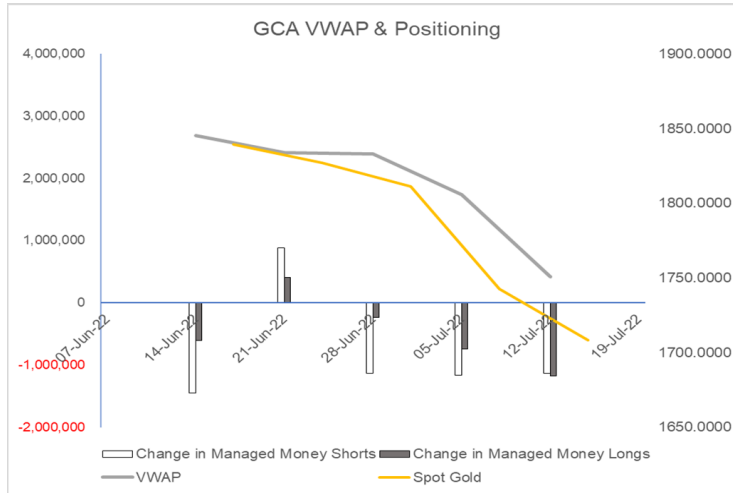
Published 02 June, 2022

Week ending on:	Weekly Change in Managed Money Positions (Futures only)			
	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 12 July 2022	\$855.13	-21,700	154,250	-175,950
Tuesday, 5 July 2022	\$885.55	94,450	323,900	-229,450
Tuesday, 28 June 2022	\$916.18	-15,700	273,750	-289,450
Tuesday, 21 June 2022	\$933.17	87,200	52,500	34,700
Tuesday, 14 June 2022	\$966.64	-194,750	178,900	-373,650
		-50,500	983,300	-1,033,800
Platinum ETF Change in position				-72,399
Total change over period				-1,106,199

Week ending on:	Weekly Change in Managed Money Positions (Futures only)			
	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 12 July 2022	\$2,041.72	-13,100	-91,700	78,600
Tuesday, 5 July 2022	\$1,915.94	-1,400	-30,500	29,100
Tuesday, 28 June 2022	\$1,866.03	16,900	7,800	9,100
Tuesday, 21 June 2022	\$1,830.15	4,200	19,300	-15,100
Tuesday, 14 June 2022	\$1,876.18	13,800	89,200	-75,400
		20,400	-5,900	26,300
Palladium ETF Change in position				-13,589
Total change over period				12,711

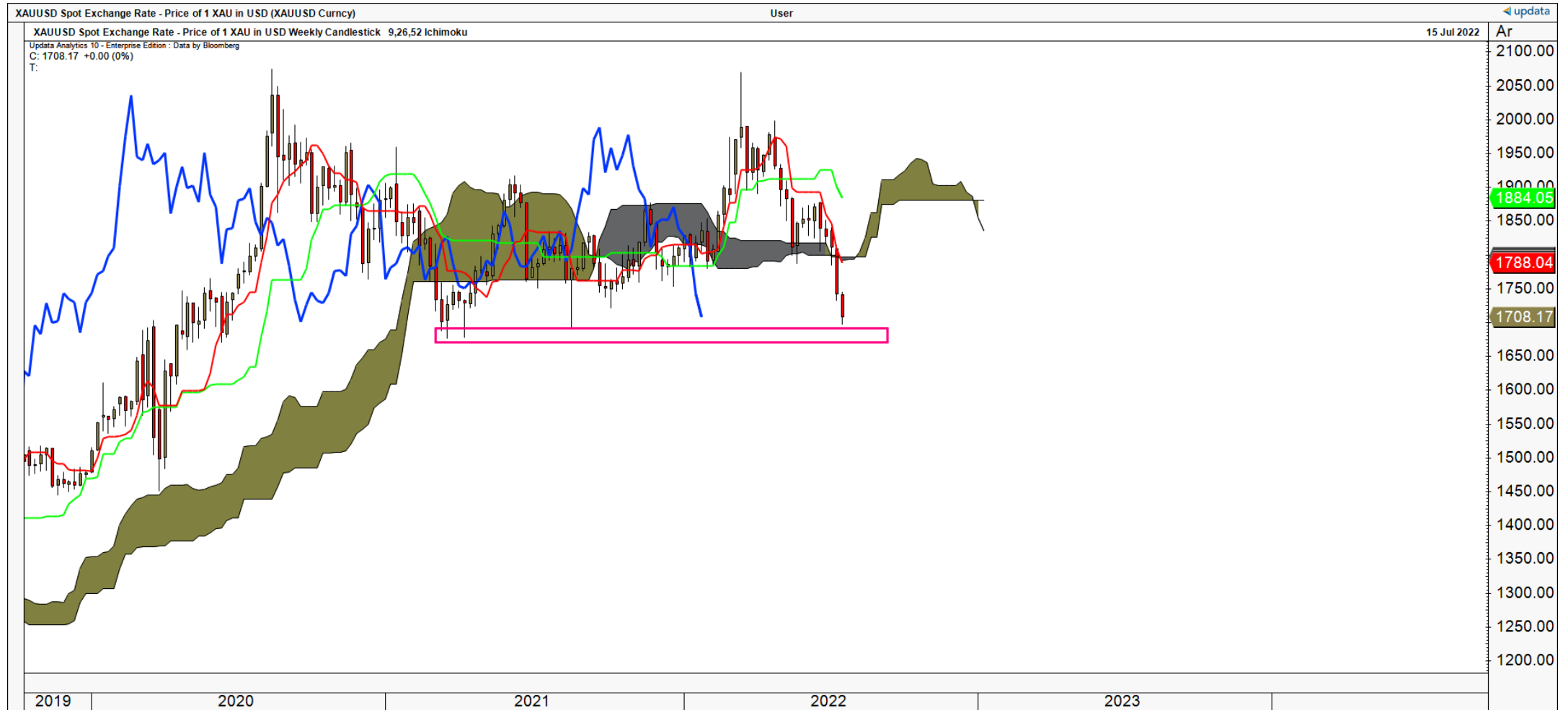
# Precious metals positioning and Volume-Weighted Average Pricing (Charts)

Changes in positioning and VWAP compared with the spot price represented visually.



# Weekly Ichimoku Cloud Chart

Gold in USD failed after multiple assaults on the Weekly Cloud base. The magenta boxed area (US\$1670-1695) has been good support over the previous 18 months, but in the current strong dollar / rates environment is by no means a sure thing.



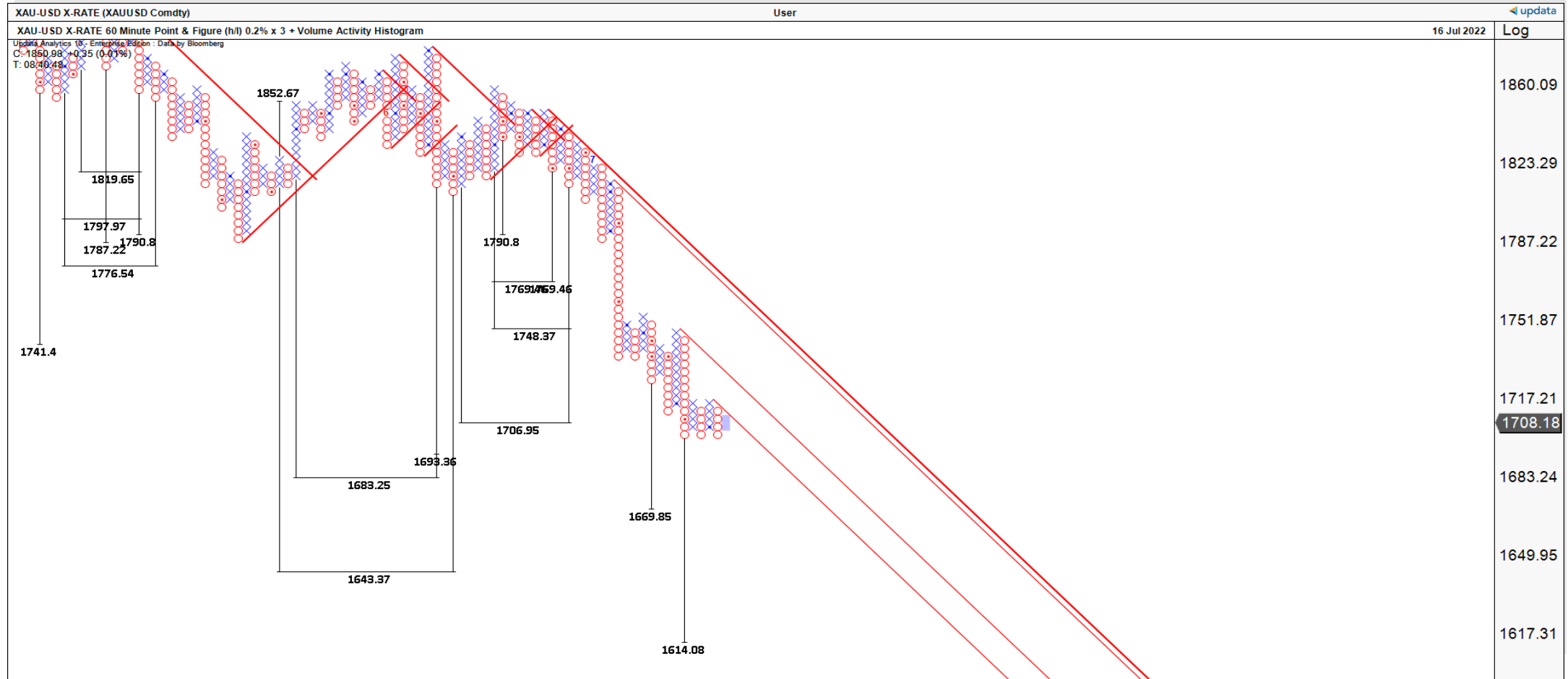
# Daily Ichimoku Cloud Chart

Gold's savage run on the downside pretty much a reflection of EURUSD. Takeaways from here are that any significant bounce will encounter resistance in the US\$1750-1780 band.



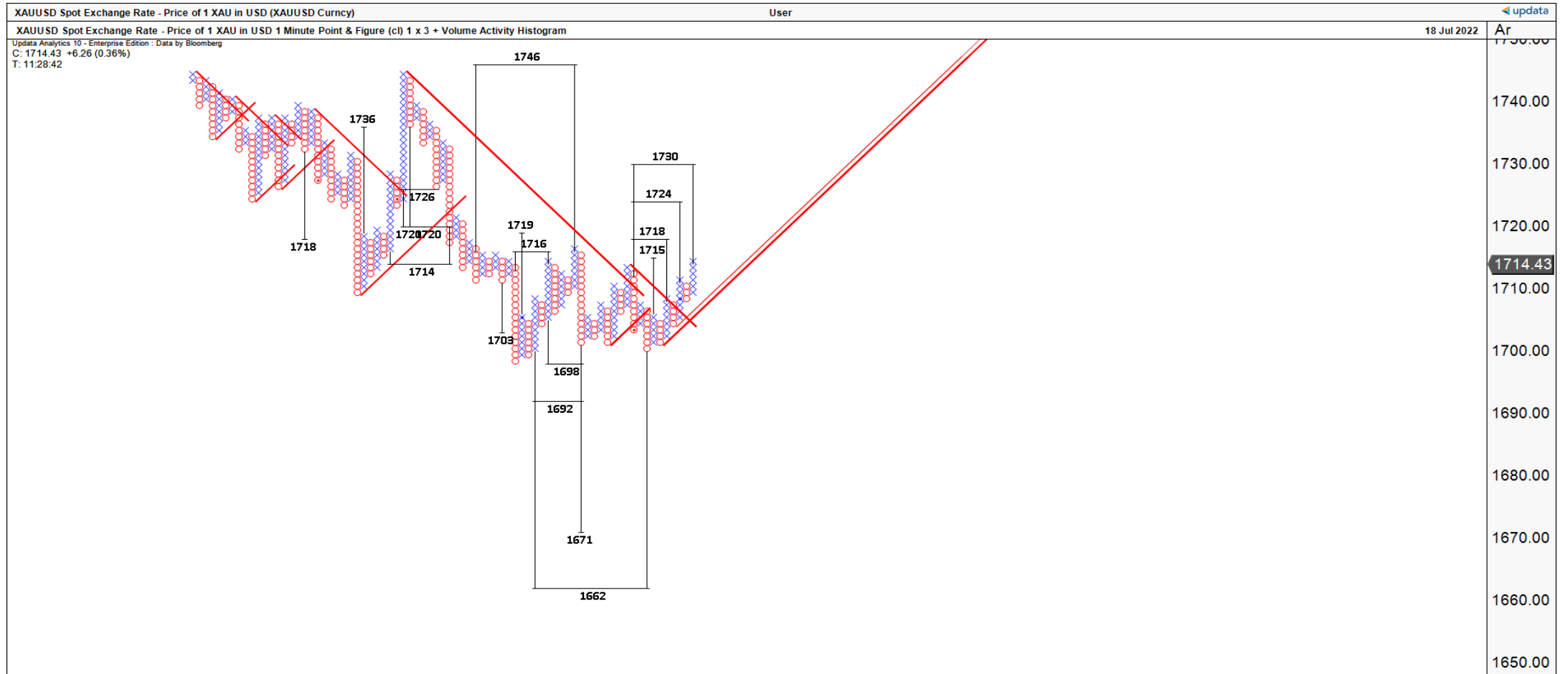
# Gold Hourly Point and Figure – Medium Term

'The medium term suggests lower and underscores that US\$1868 is very key'. At least that part was right. Targets made in mid June have been achieved with the exception of some 'upper US\$1600' levels, suggesting caution. Bounces off the US\$1700 level have been short-lived so far .



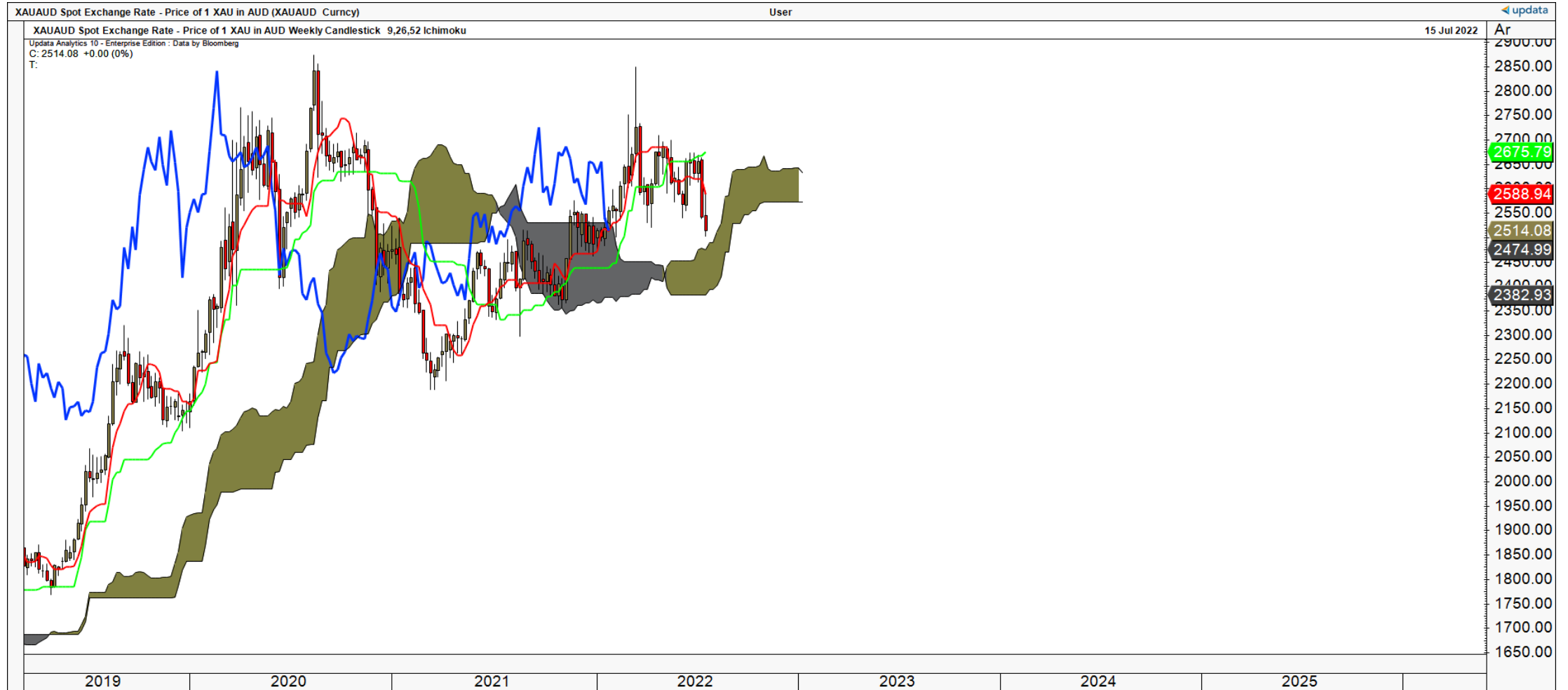
# Gold Point and Figure – Medium Term

XAUUSD: signs of recovery and basing out in short term gold near the USD1700 level. There seems to be good open interest in USD 1700 option strikes that might keep gold trading around this level in the short term?



# Gold in AUD via Weekly Ichimoku Cloud

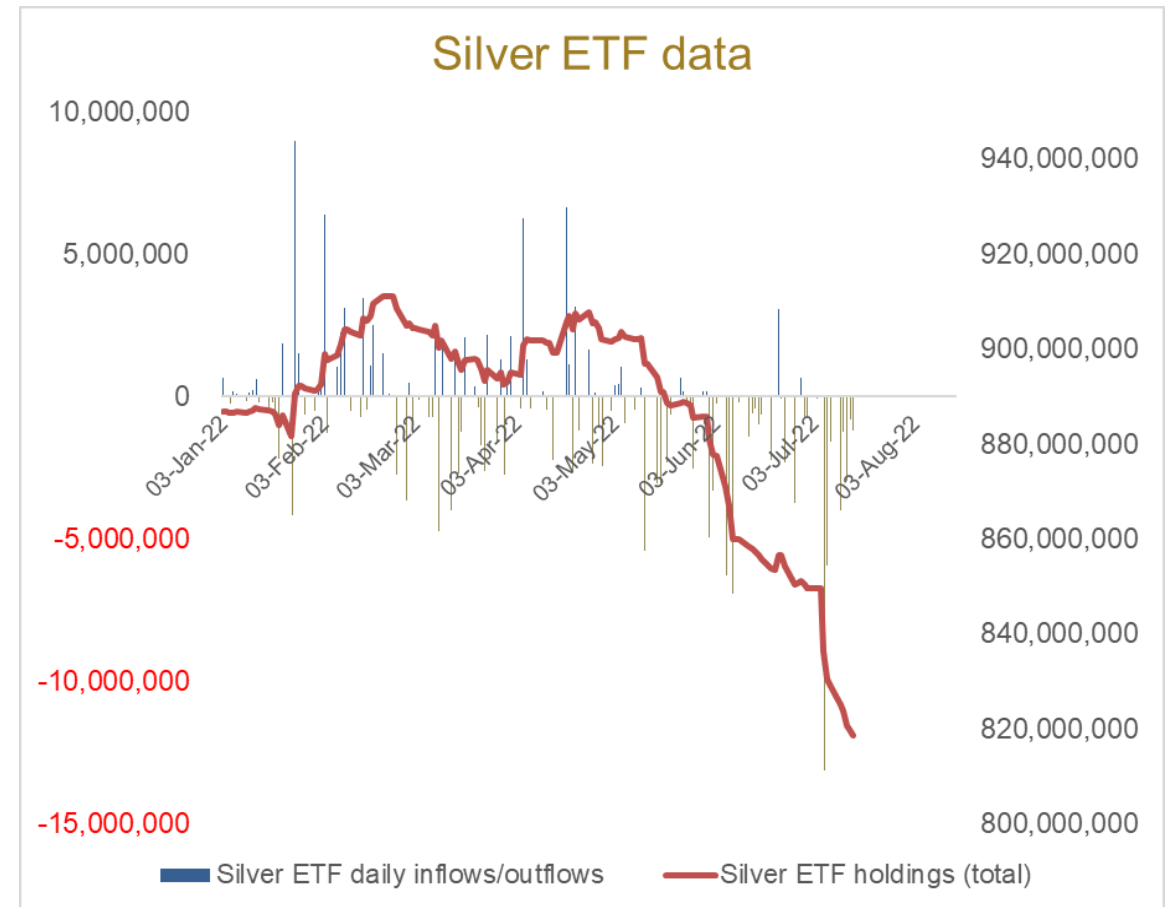
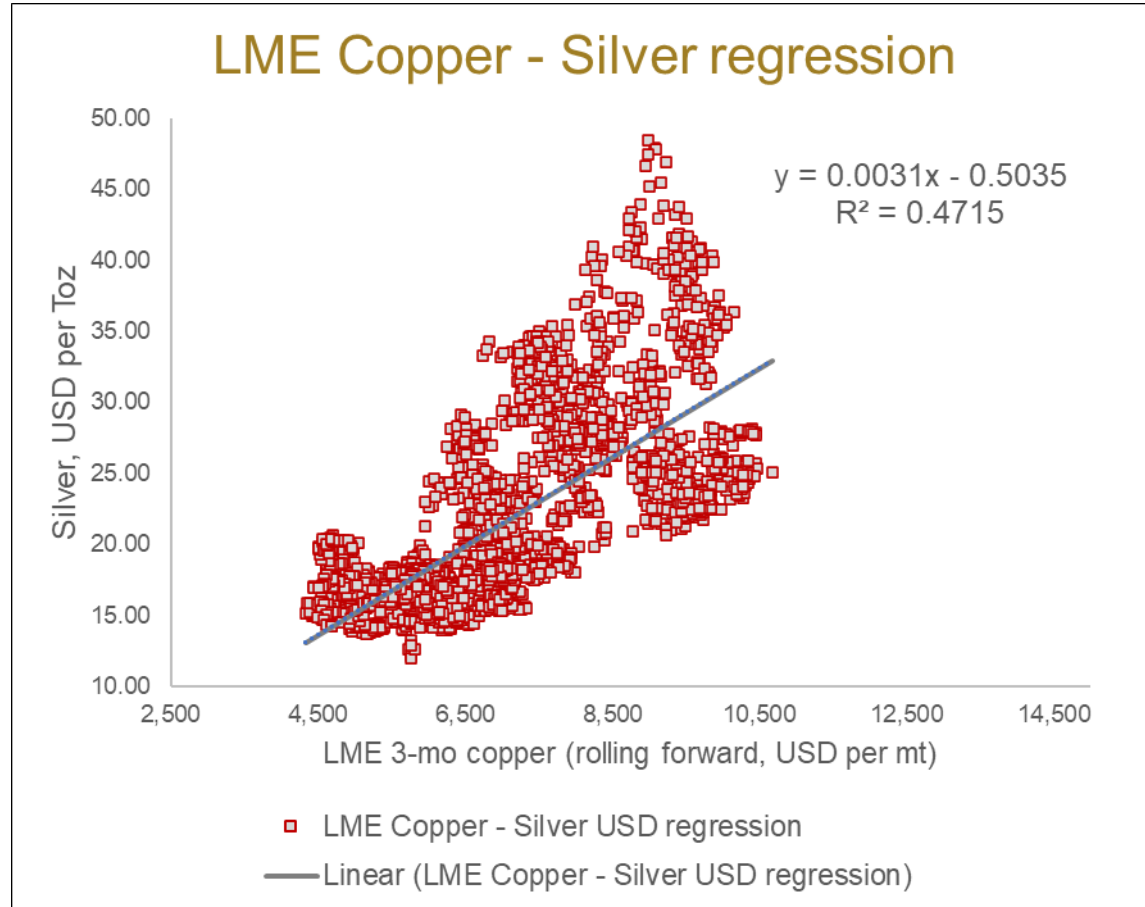
XAUAUD: despite the recent plunge, the bigger picture suggests trend support at A\$2480 and a potential climb up the Weekly cloud base, supported by a generally weak outlook for the AUD.





# Silver

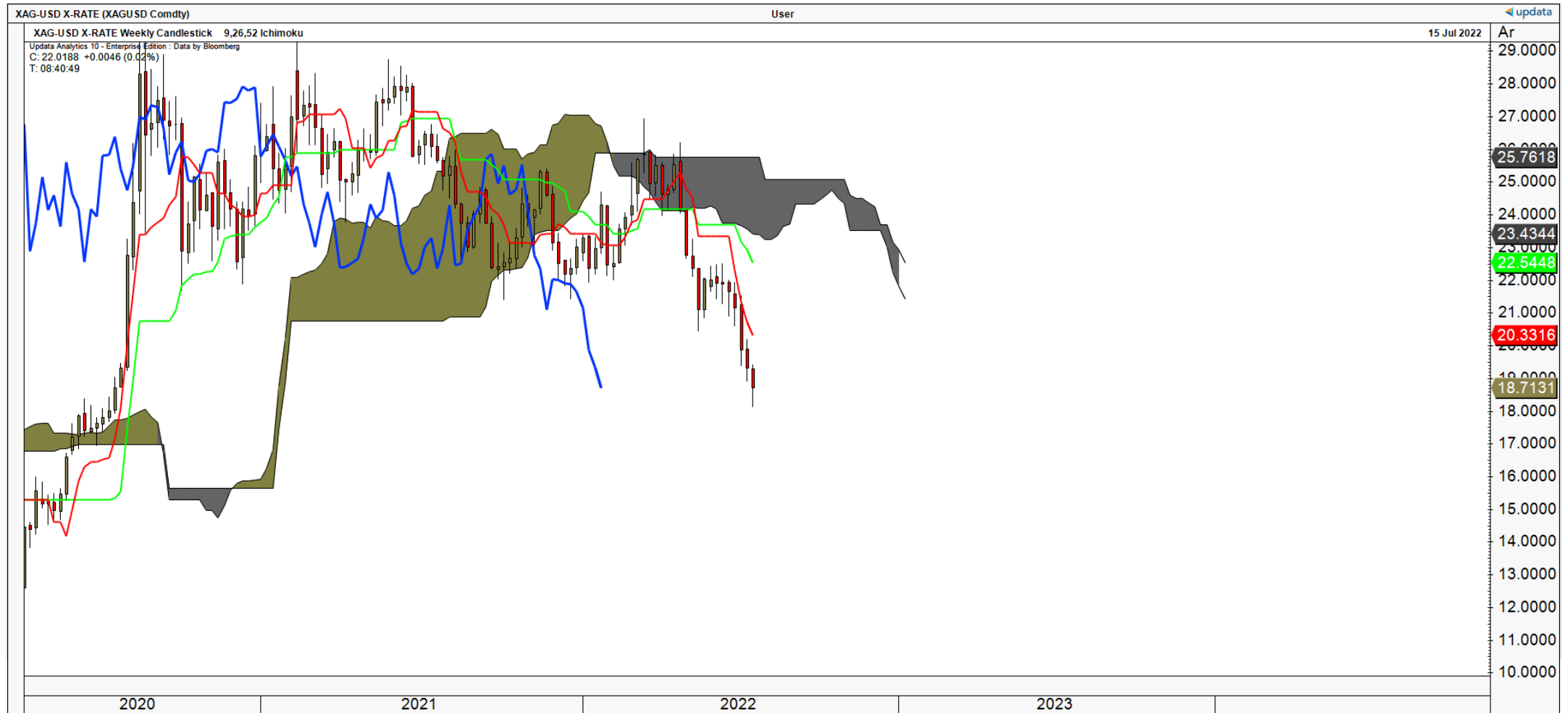
Silver taking a lead from copper still – which itself is a keen forecaster of economic activity. There are some defects in the (long run) data sample, but the essential truth of the regression is preserved. Silver ETF holdings continue to see significant drawdowns that started to gain momentum in June.



Source: Bloomberg, LME

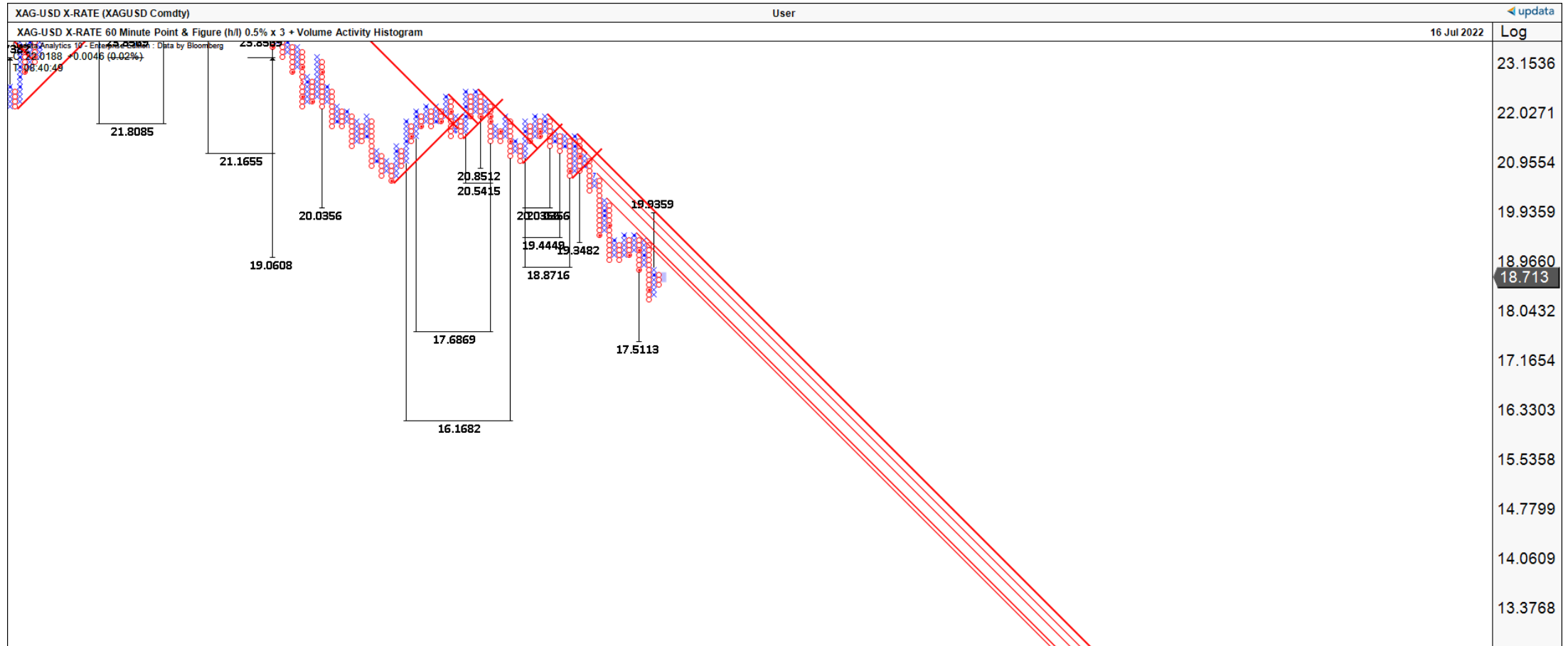
# Silver in USD (Weekly)

Silver continues to do badly. Resistance at 20.33 and 22.55 initially. Possible signs that the June/July 2020 resistance has turned into support. ETF outflows continue unabated, and there is still scope for net Managed money positioning on COMEX to decline further – slide 20 shows the history of investor/CTA positioning since 2015 for reference.



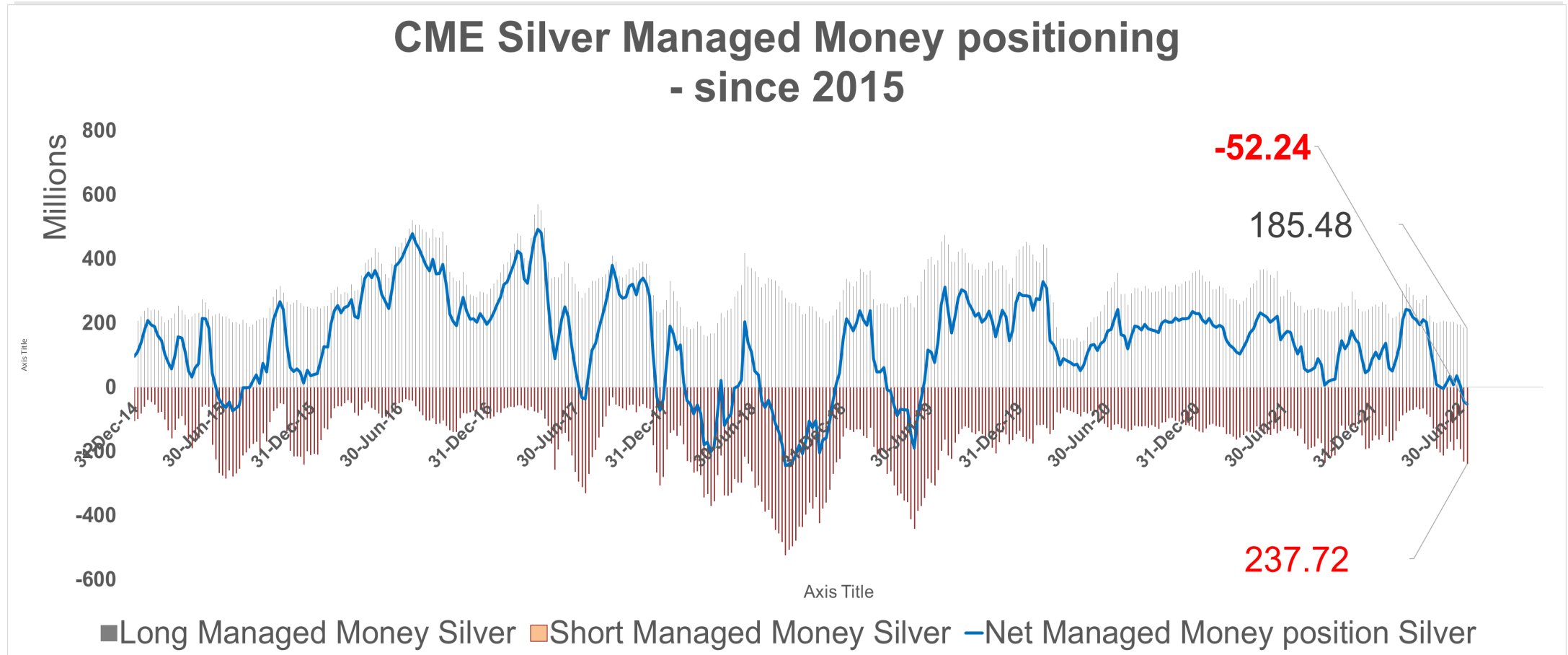
# Silver in USD – Hourly Point and Figure

The bounce or recovery that I had expected didn't materialize and the downtrend continues. The positive spin is that most of the downside targets visible here have been achieved, and silver net positioning is negative – very low by historic standards. US\$22 is the level to break above to shake off some of the recent bearish tone.



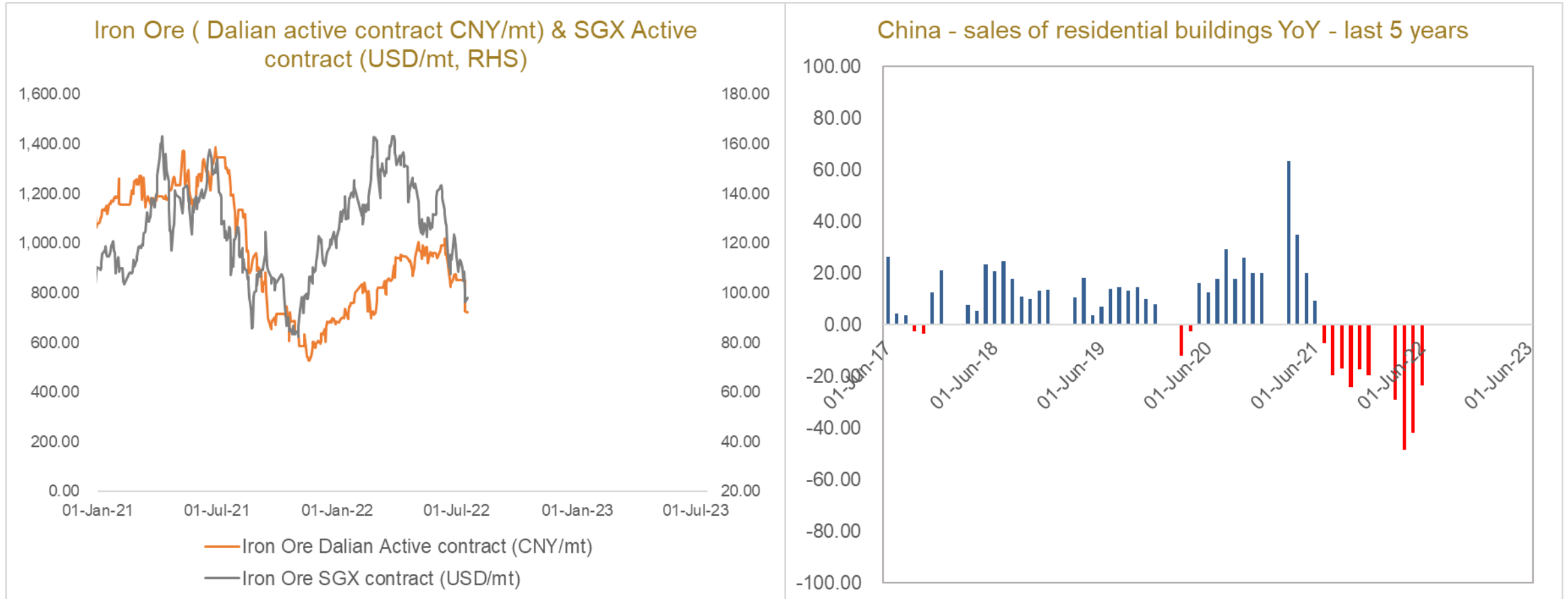
# Overview of Managed Money Positioning in Silver (Futures only)

Long Managed Money positions finally lowering and shorts on the increase. Net positioning the lowest since June 2019, a decline of 380 million Tozs from the February 2020 level of 329.76 million Tozs.



# AUD and selected Chinese economic data

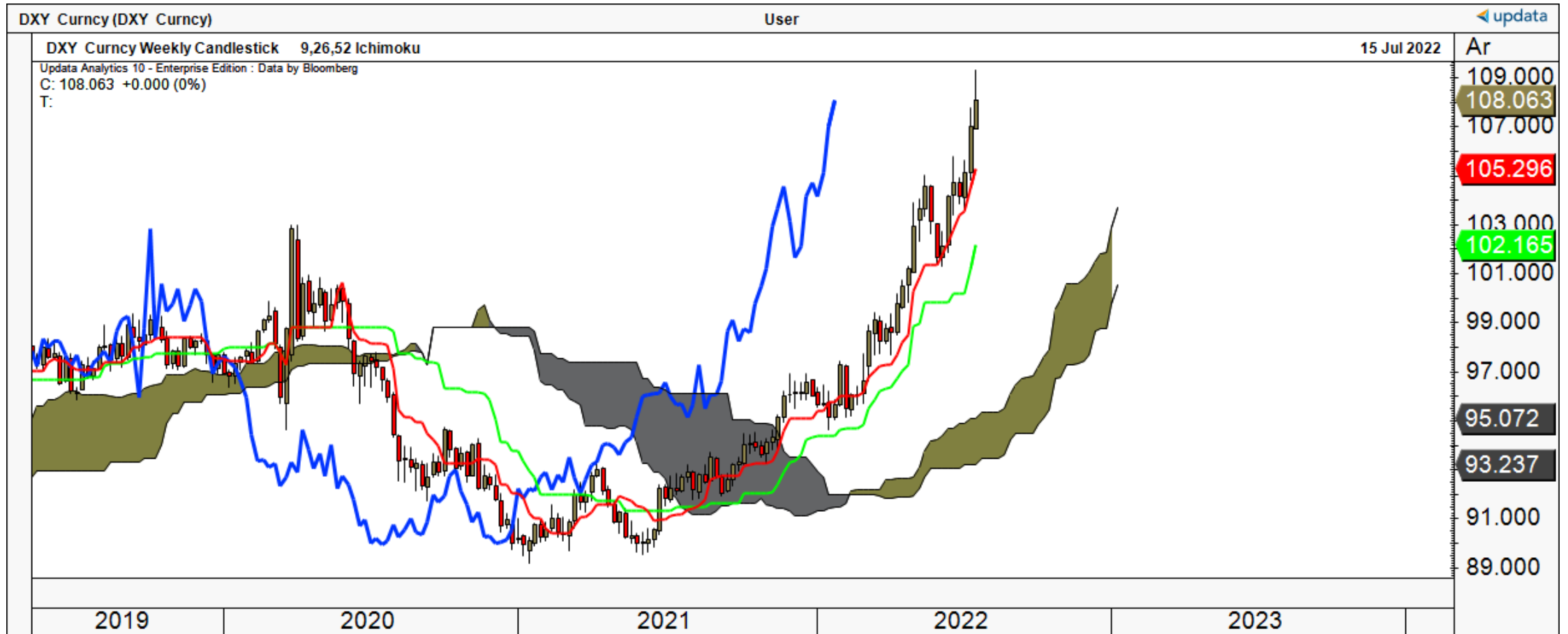
No end of data to choose depending on which narrative you favour, however, as Michael Pettis (Beijing U.) summarises: "China's slowdown is the almost automatic result of problems that have been building up for over a decade...it will take a huge shift ..to prevent growth from slowing much, much more." Iron ore seems to agree that recent policy tinkering isn't a 'huge shift.'



Sources: Bloomberg, , CRIC (China Real Estate Information Corp.), ABC Refinery

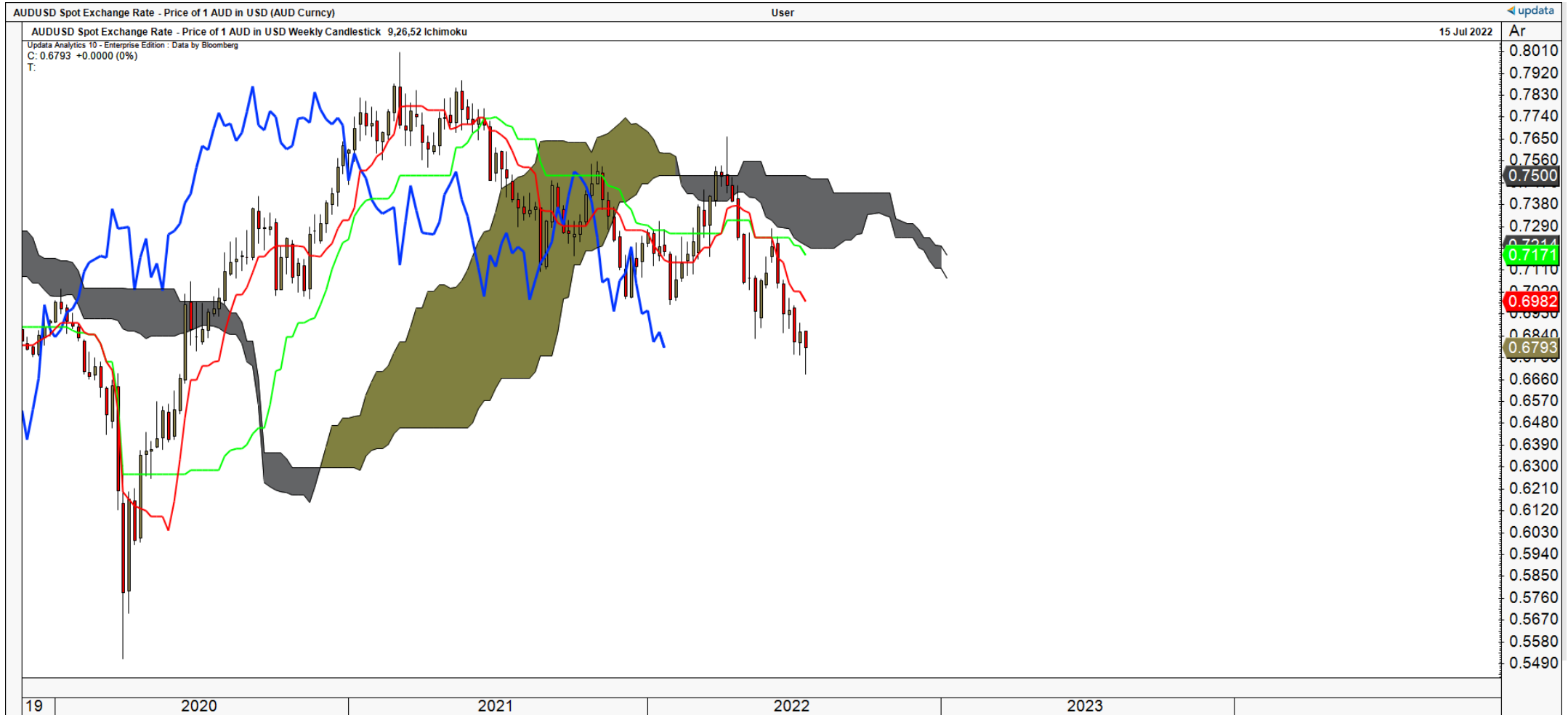
# The Dollar -DXY

Turning line support and a significantly worse take on the EUR and the JPY means the ferocious rally only paused to regain energy. The red turning line remains the first important trend support.



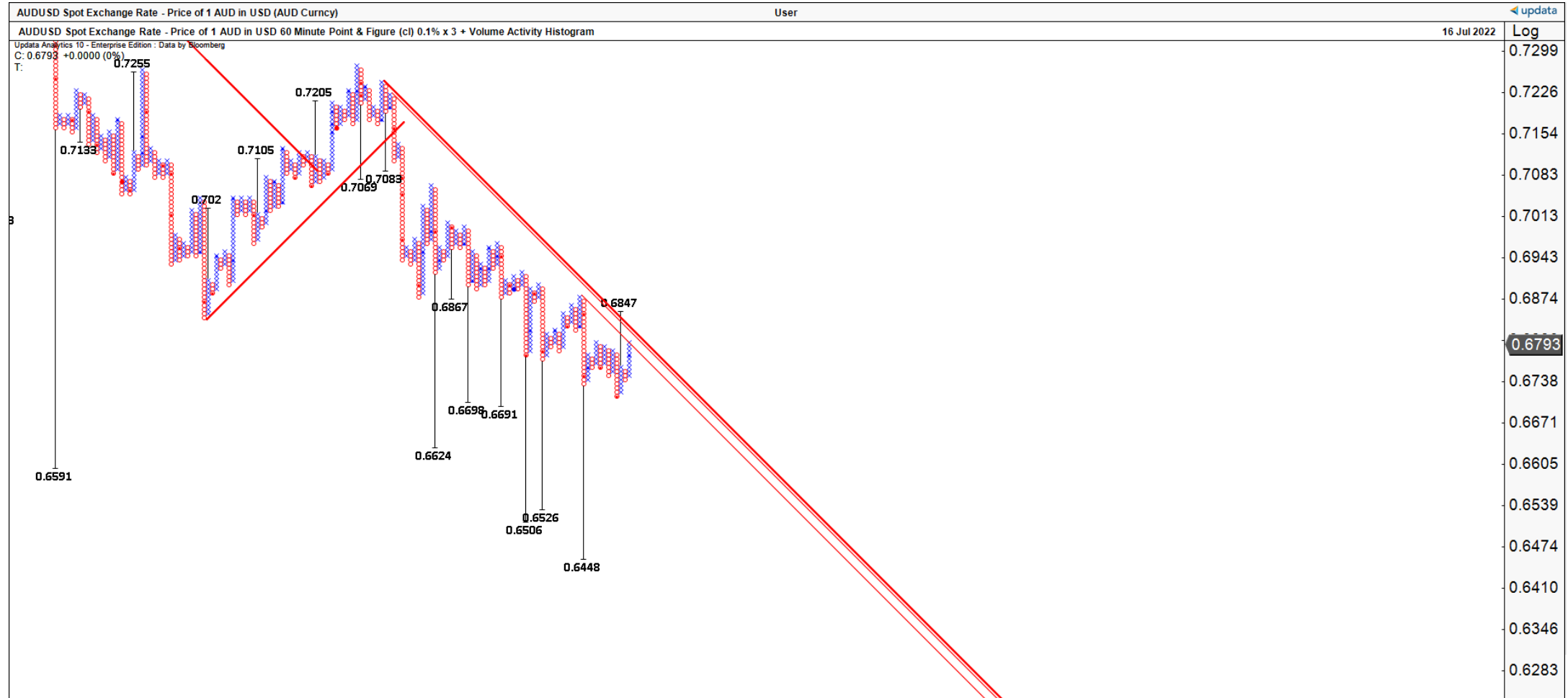
# AUD Weekly Ichimoku Cloud

The trend remains 'down'. Still believe longer term support at 0.653. RBA tightening is increasingly supportive, however recession fears and China a headwind despite the good news on coal exports.



# The AUD Hourly Point and Figure

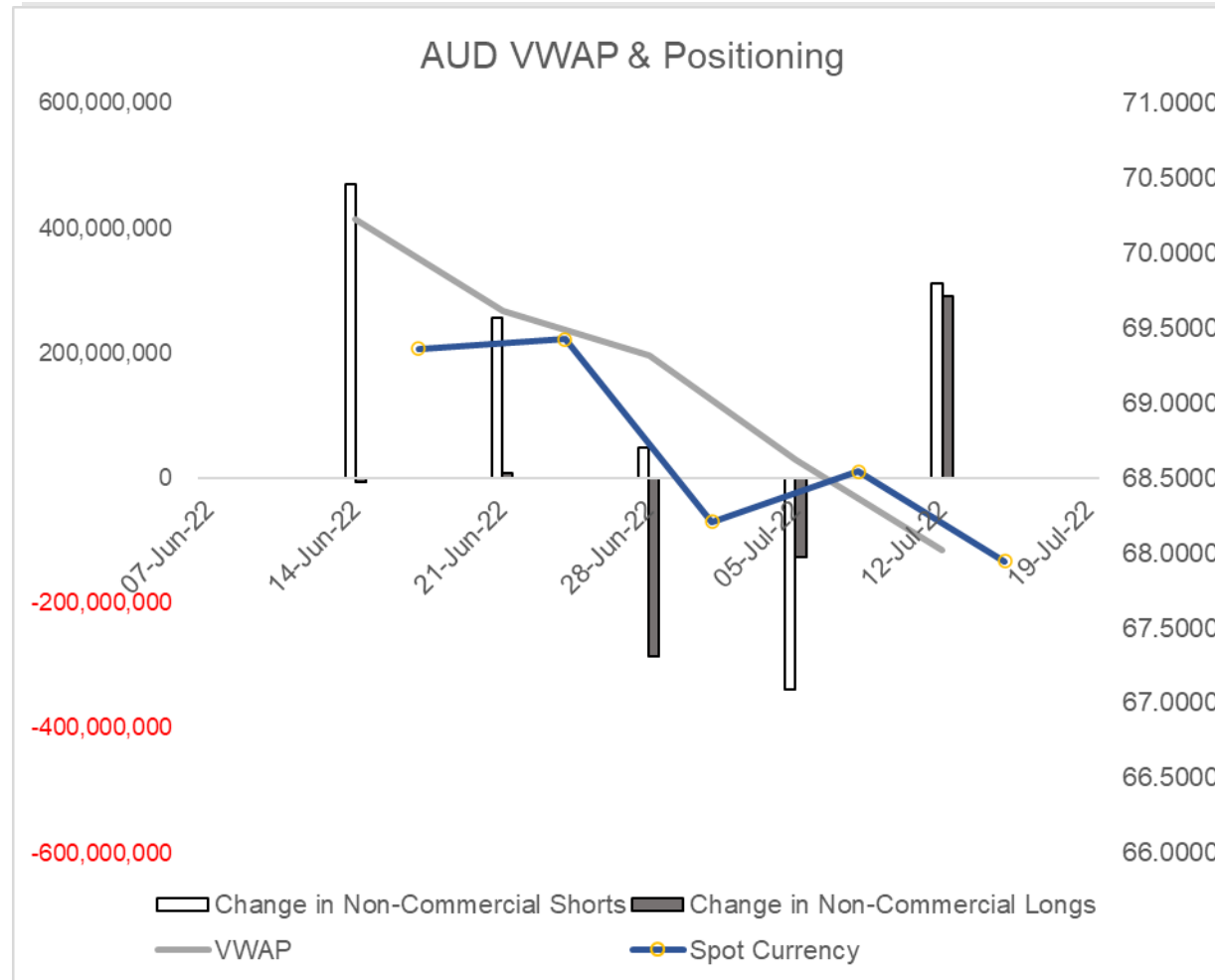
The previous 0.733 target not quite attained before the AUD rolled lower. Plenty of downside targets to choose from. Expect a recovery of some kind if the 0.65 level is reached.





# AUD Positioning and VWAP

The change in AUD positioning has been more about shorts buying back in mid to late June, then some long liquidation, followed by a round of more shorts who then chose to cover alongside some fresh longs arriving.



# Where to From Here?

Gold came under significant pressure from the continuation of the rise in the USD and real yields. Breaking below support at USD1790-1810 took gold to USD 1700.

The environment remains hawkish and Dollar-driven given the policy constraints of the ECB and the BOJ in particular. Positioning and macro-scale investor activity in gold and silver place both metals on the defensive until we see evidence of investor rotation back towards the sector.

On the positive side, longer term targets suggest that the recent move lower in XAUUSD has largely played out. The intensity of the USD tightening cycle is also shifting market expectations to 'lower rates' in the coming year as the affects of an aggressive tightening cycle work through the system. That does hinge on whether tightening – and higher prices - are sufficiently destructive of demand. The evidence from the US suggests it is.

Best regards,  
 Nick Frappell  
 Global Head Institutional Markets, ABC Refinery

Resistance	
\$2,172.00	Next as-yet unachieved target on the Daily 2% Point and Figure
\$2,076.00	2022 high
\$1,777.00	Daily Ichimoku Standard line as of 18 July 2022
Support	
\$1,676.00	Just under recent low, adjacent to June 2020 lows
\$1,587.00	Sept. intersect of Monthly trend line extending from 2018 lows

## Targets

Upside		Probability
\$2,278.00	Basis 1 % Daily Point and figure	17.00%
\$2,172.00	Basis 2 % Daily Point and figure	20.65%
\$1,746.00	Basis 2 USD 1 min Point and figure (1 month prob.)	33.00%

## Targets

Downside		Probability
\$1,670.00	Basis 0.20 % Hourly Point and figure (1 month)	33.53%
\$1,624.00	Basis 1 % Daily Point and figure (6 months)	29.13%
\$1,515.00	Basis 1 % Daily Point and figure	19.08%

All target probabilities basis spot: **\$1,700.00**  
 for 1 year (or shorter as indicated) and created by solving for option delta on the Bloomberg OVML function.

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