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ABC Refinery Monthly Precious Metals Technical Analysis Report

November 2022

Gold - In Brief

Good day and welcome to the October/November 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. (Please bear in mind that I have been travelling for much of the last 4~5 weeks so this links to the latest podcast in early Nov.)

Gold looking forward The rally in November has created new targets to USD1796, 1879 and USD 1907. Downside targets towards USD 1730, 1703 and USD 1697. USD 1732 is key.

The move higher was notable for the sharp reduction in Managed Money shorts and the reduction in ETF holdings, at least up until the 15th of November. 77 % of the 6.083 million Tozs increase in Managed Money positioning was down to short-covering. After the inflation miss earlier in Nov gold snapped higher based on expectations of a smaller December hike, looking forward signs are of a 'slower path to higher' Terminal levels.

Macro Themes

Rates markets re-assessed the pace of Fed tightening and discounted the probability of a 75 bp rise in December. That helped bring the Dollar lower and gold higher. Probabilities of a 75 bp hike have inched a little higher. President of the St. Louis Fed James Bullard stressed that markets are under-estimating the degree of aggression needed to manage inflation downward. His colleague John Williams at the NY Fed indicated that restrictive policies would remain in place for 'some time' and market expectations via futures expect a Terminal rate of 5.00 % with the Fed Funds Target rate (FFR) at 4.46 % in January 2024, as of November the 28th. This compares with the end of September curve with a Terminal rate of 4.40 % and a Jan 2024 rate of 4.17 %.

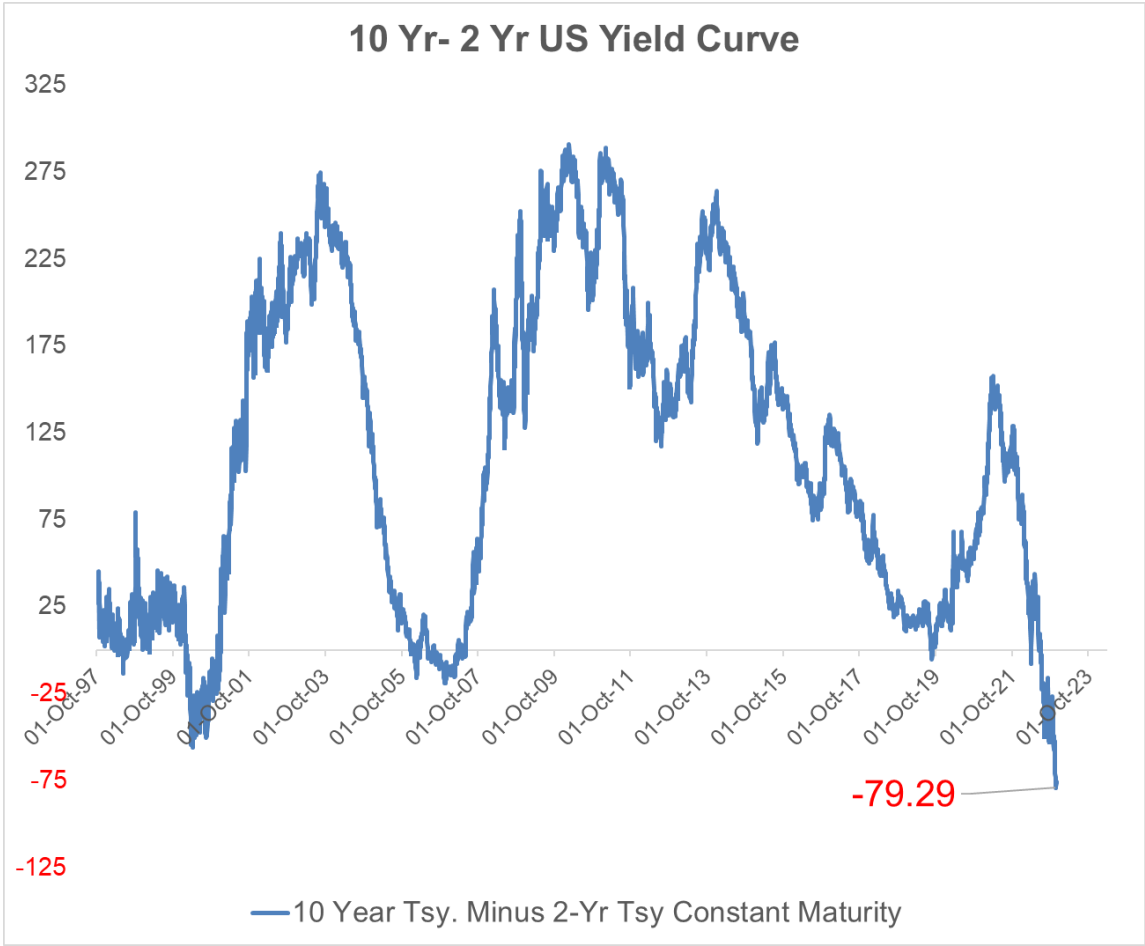
The Dollar eased as participants re-evaluated the future strength of the yield gap between the US and major components of the Dollar Index. Asset managers reduced short positions in the EUR significantly since mid-October, while adding to longs less aggressively overall. Expectations of a milder winter in Europe combined with decent natural gas inventories helped give the EUR a boost. Those expectations are likely to be subverted on persistent US economic strength.

China: Headlines concentrate on low-level (but geographically widespread) protests. Lock-down measures, pay conditions in some cases and frustration with the CPP. Markets appear (overly?) positive about re-opening, ignoring backward-looking (but ugly...) data such as Nov PMI at 48 and Non-Manufacturing PMI at 46.70. Many analysts' expectations are that re-opening will be more gradual. Property will continue to be a drag, despite support packaged from central government.

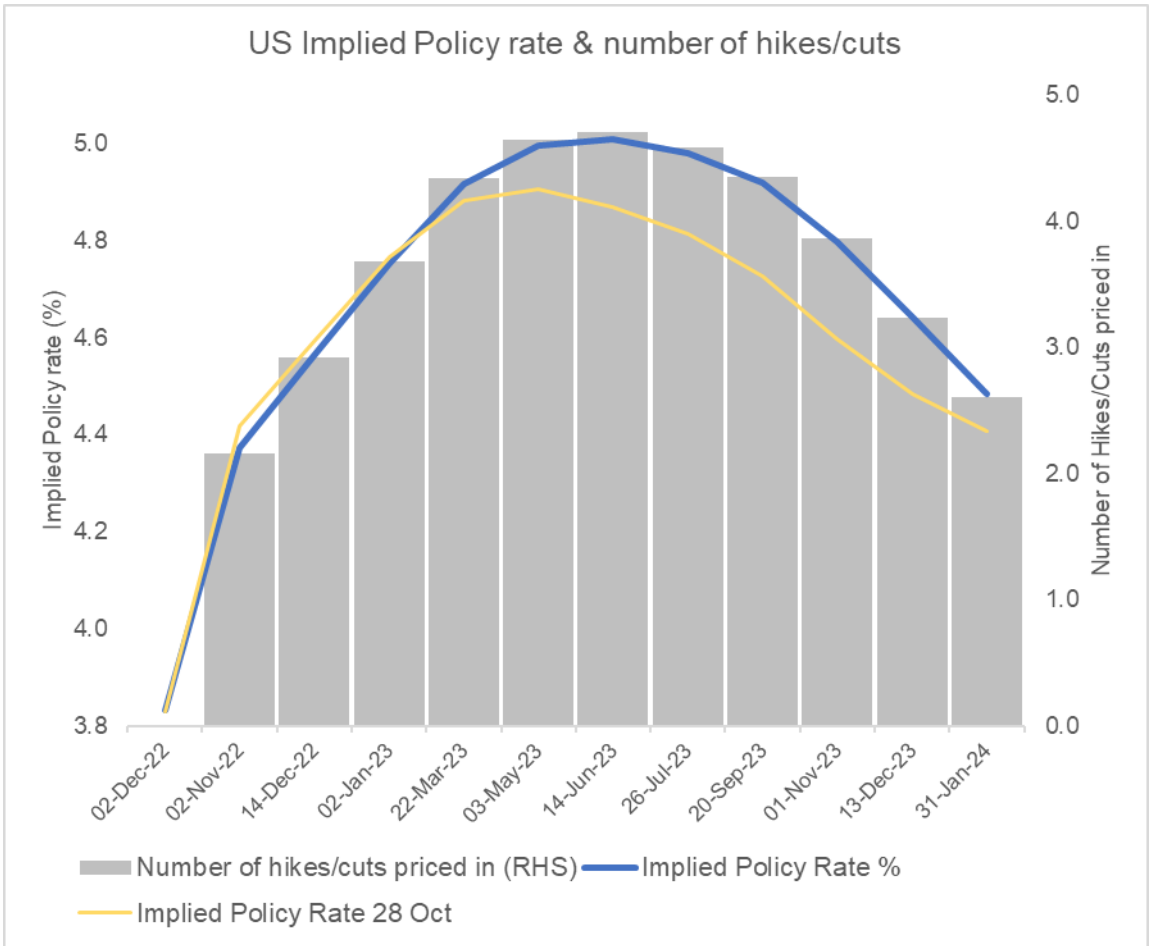
Summary The only certainty is uncertainty.

Money and yields

The 2s-10s spread drops to – 79 bp as of 29 November, which is exceptionally low. Currently, US Futures markets price in a terminal rate of 5.00 pct at the June '23 FOMC. The yellow line shows the implied rates from October the 28th. Still higher for longer.

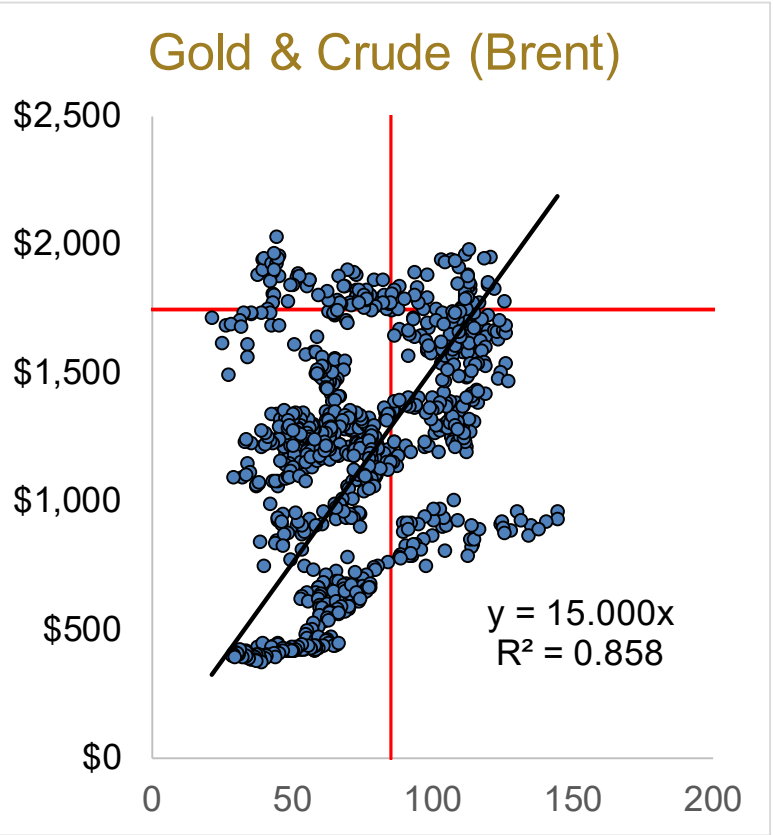
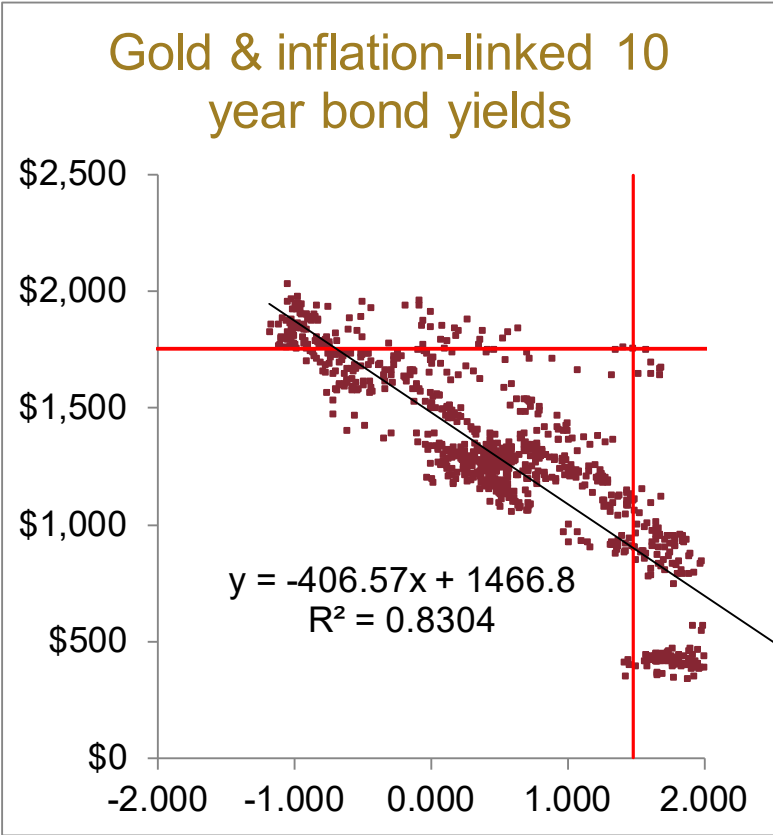
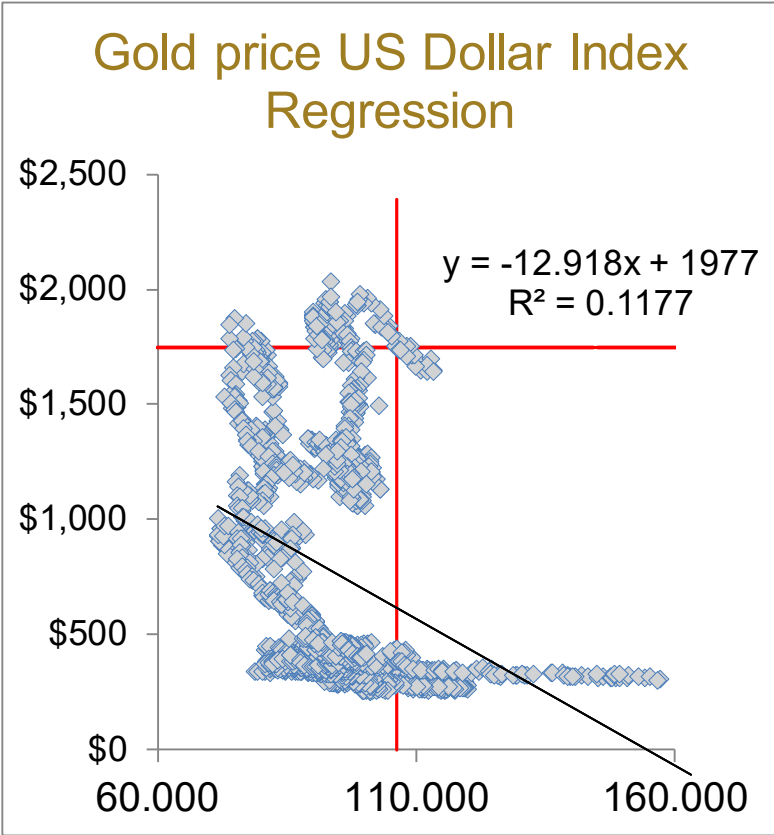


Sources: Bloomberg, CME FedWatch, ABC Refinery



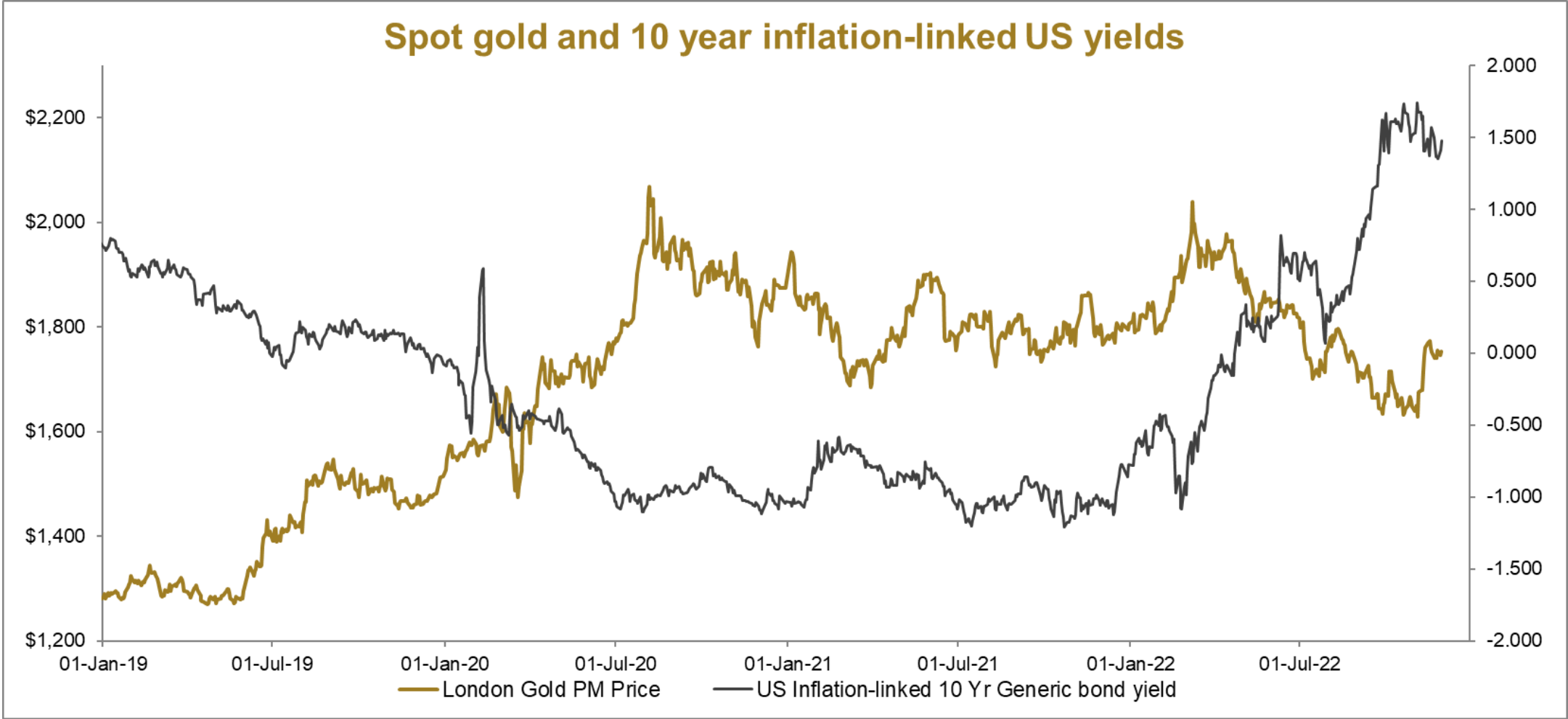
Gold and key variables

Gold via the USD, inflation-linked bonds and Crude. Crude buffeted by China policy uncertainty, with crude imports expected to dip below 9 mm bbl/day on a delayed reopening. OPEC cuts helped by crude moving into a contango, providing cover for the market being well supplied.



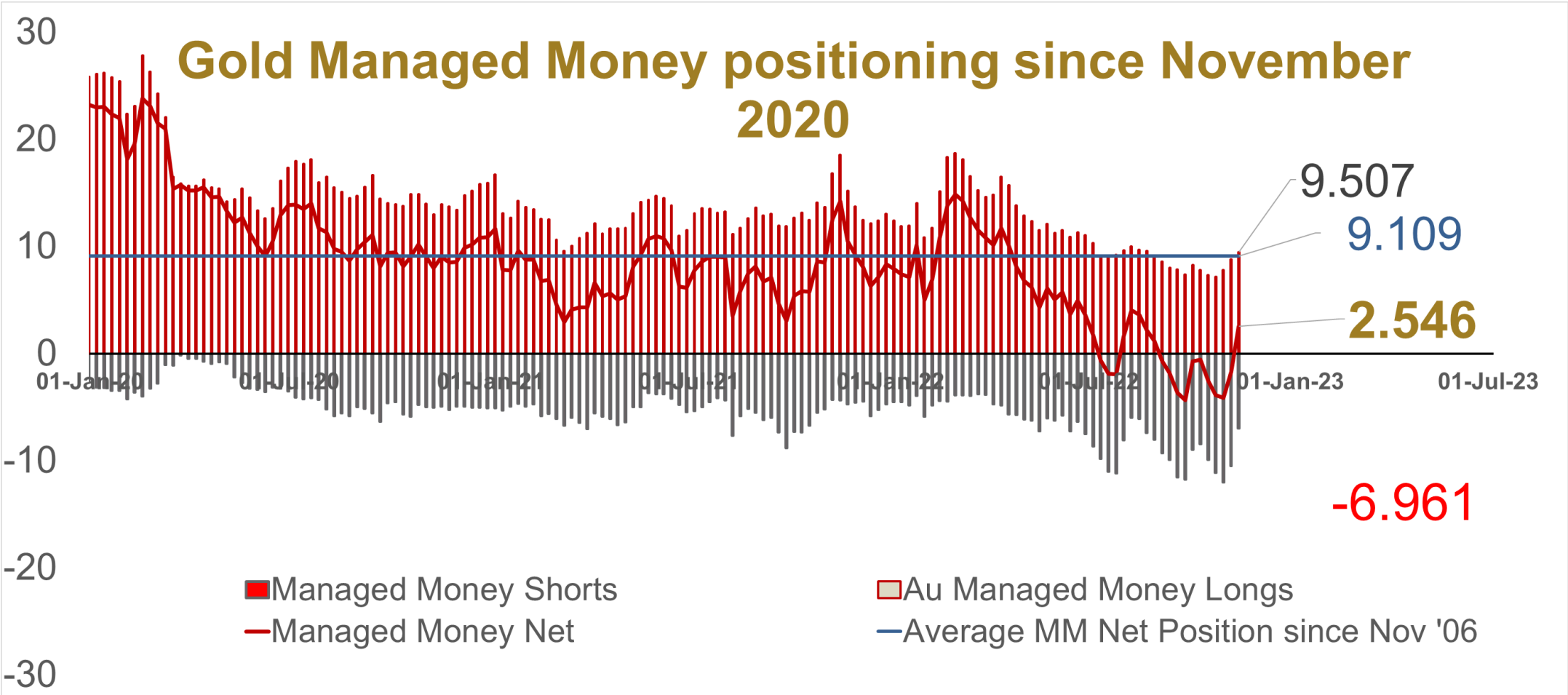
10-year US Yields (TIPS)

10-year real yields consolidate and turn lower, and gold recovered accordingly. Long term Point and Figure does have a target down to 0.80 pct, which seems a bit outlandish until you recall that 10-year TIPS yields blew through this level in September.



Overview of Managed Money Positioning in Gold

Finally longs rise and the shorts get chased out in a hurry. Net positioning turns positive, but still far from the long-term average.



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

Gold was distinguished by short-covering since late October, particularly in November. The almost 100 million Tozs move in net silver positioning was almost entirely a short-covering event.

Volume-weighted Average Price - GC
Published 30 November, 2022

| Week ending on: | Weekly Change in Managed Money Positions (Futures only) | | | |
|-----------------------------|--|-----------|------------|------------|
| | US\$ VWAP | Longs | Shorts | Net change |
| Tuesday, 22 November 2022 | \$1,765.00 | -290,400 | 312,200 | -602,600 |
| Tuesday, 15 November 2022 | \$1,741.72 | 700,600 | -3,479,700 | 4,180,300 |
| Tuesday, 8 November 2022 | \$1,663.56 | 984,600 | -1,520,900 | 2,505,500 |
| Tuesday, 1 November 2022 | \$1,656.64 | 619,700 | 881,000 | -261,300 |
| Tuesday, 25 October 2022 | \$1,647.83 | -132,800 | 1,176,200 | -1,309,000 |
| | | 1,881,700 | -2,631,200 | 4,512,900 |
| Gold ETF Change in position | | | | -1,235,190 |
| Total change over period | | | | 3,277,710 |

Volume-weighted Average Price - PLA
Published 30 November, 2022

| Week ending on: | Weekly Change in Managed Money Positions (Futures only) | | | |
|---------------------------------|--|---------|----------|------------|
| | US\$ VWAP | Longs | Shorts | Net change |
| Tuesday, 22 November 2022 | \$1,004.85 | 33,700 | 36,250 | -2,550 |
| Tuesday, 15 November 2022 | \$1,025.75 | 131,950 | -24,000 | 155,950 |
| Tuesday, 8 November 2022 | \$960.35 | 104,450 | -65,300 | 169,750 |
| Tuesday, 1 November 2022 | \$945.64 | 48,050 | -220,450 | 268,500 |
| Tuesday, 25 October 2022 | \$913.63 | 138,150 | -93,700 | 231,850 |
| | | 456,300 | -367,200 | 823,500 |
| Platinum ETF Change in position | | | | -51,283 |
| Total change over period | | | | 772,217 |

Volume-weighted Average Price - SI
Published 30 November, 2022

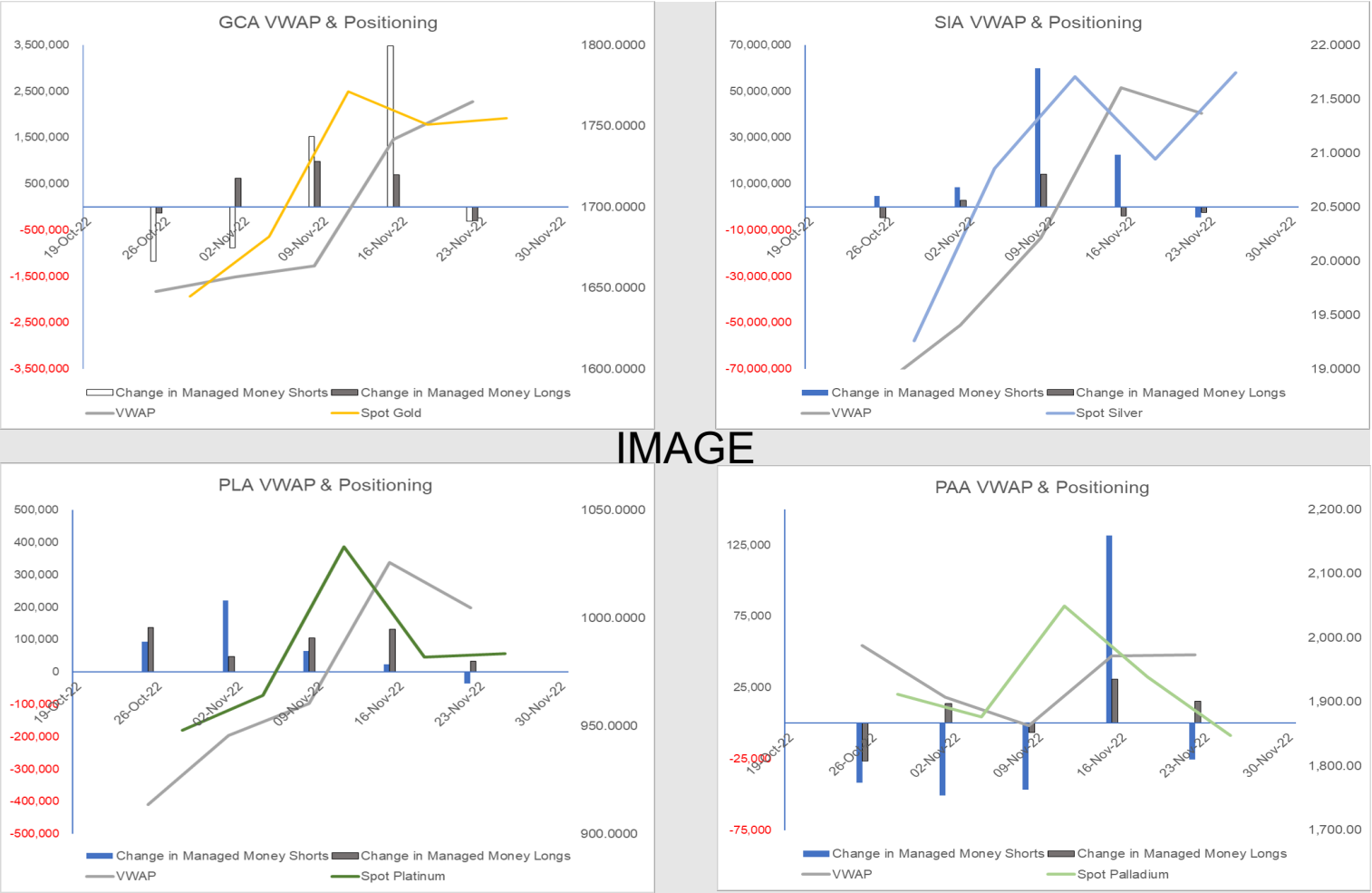
| Week ending on: | Weekly Change in Managed Money Positions (Futures only) | | | |
|-------------------------------|--|------------|-------------|------------|
| | US\$ VWAP | Longs | Shorts | Net change |
| Tuesday, 22 November 2022 | \$21.37 | -2,410,000 | 4,640,000 | -7,050,000 |
| Tuesday, 15 November 2022 | \$21.61 | -3,850,000 | -22,435,000 | 18,585,000 |
| Tuesday, 8 November 2022 | \$20.21 | 14,255,000 | -59,880,000 | 74,135,000 |
| Tuesday, 1 November 2022 | \$19.40 | 2,985,000 | -8,430,000 | 11,415,000 |
| Tuesday, 25 October 2022 | \$18.84 | -4,685,000 | -4,655,000 | -30,000 |
| | | 6,295,000 | -90,760,000 | 97,055,000 |
| Silver ETF Change in position | | | | -7,821,818 |
| Total change over period | | | | 89,233,182 |

Volume-weighted Average Price - PAA
Published 30 November, 2022

| Week ending on: | Weekly Change in Managed Money Positions (Futures only) | | | |
|----------------------------------|--|---------|----------|------------|
| | US\$ VWAP | Longs | Shorts | Net change |
| Tuesday, 22 November 2022 | \$1,972.99 | 15,600 | 25,600 | -10,000 |
| Tuesday, 15 November 2022 | \$1,971.36 | 31,000 | -131,600 | 162,600 |
| Tuesday, 8 November 2022 | \$1,863.28 | -6,500 | 46,500 | -53,000 |
| Tuesday, 1 November 2022 | \$1,907.05 | 13,700 | 50,800 | -37,100 |
| Tuesday, 25 October 2022 | \$1,988.03 | -26,300 | 41,900 | -68,200 |
| | | 27,500 | 33,200 | -5,700 |
| Palladium ETF Change in position | | | | -7,473 |
| Total change over period | | | | -13,173 |

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

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



IMAGE

Weekly Ichimoku Cloud Chart

Below the weekly cloud, the price remains in a bearish configuration. The rebound in prices has stalled (for now) at the 38.20 pct retracement of the drop from the March highs. Next major resistance would be USD1843, USD1880 (from the cloud base) and USD1902. Support nearby at USD1747 and at USD 1702.



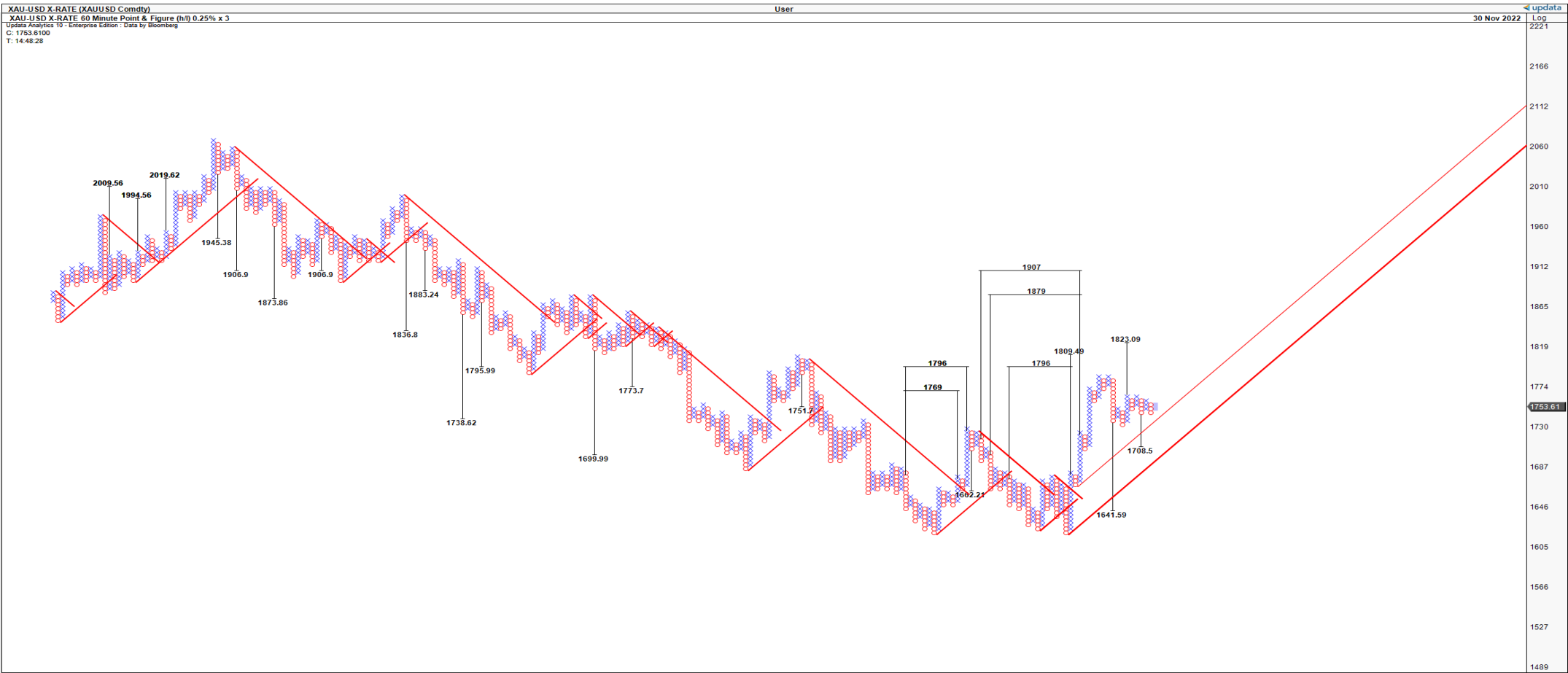
Daily Ichimoku Cloud Chart

Breaking out through the daily cloud and trend line resistance. Support at USD1702.



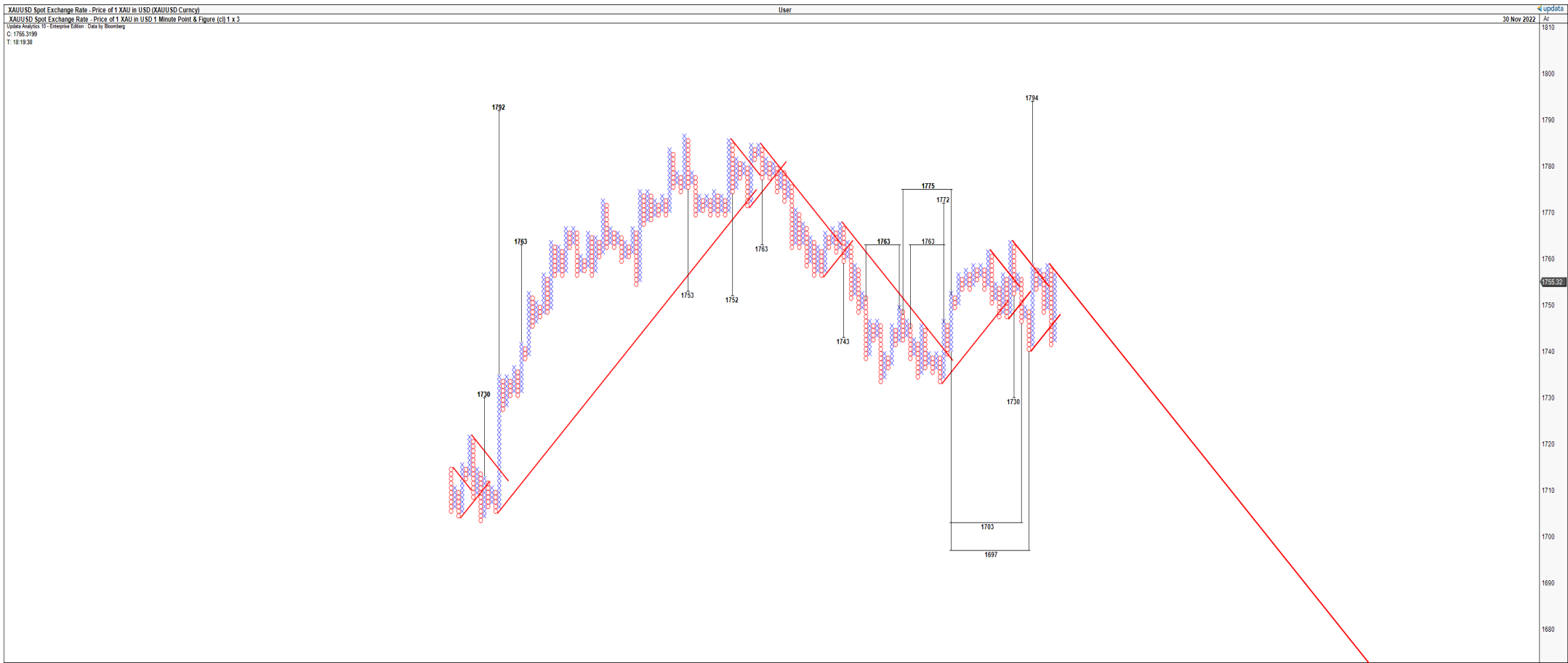
Gold Hourly Point and Figure – Medium Term

Held above the USD 1600 support, gold has targets back to the 61.80 pct retracement of the March-September move. Any move to the downside target of USD 1708 looks well-supported.



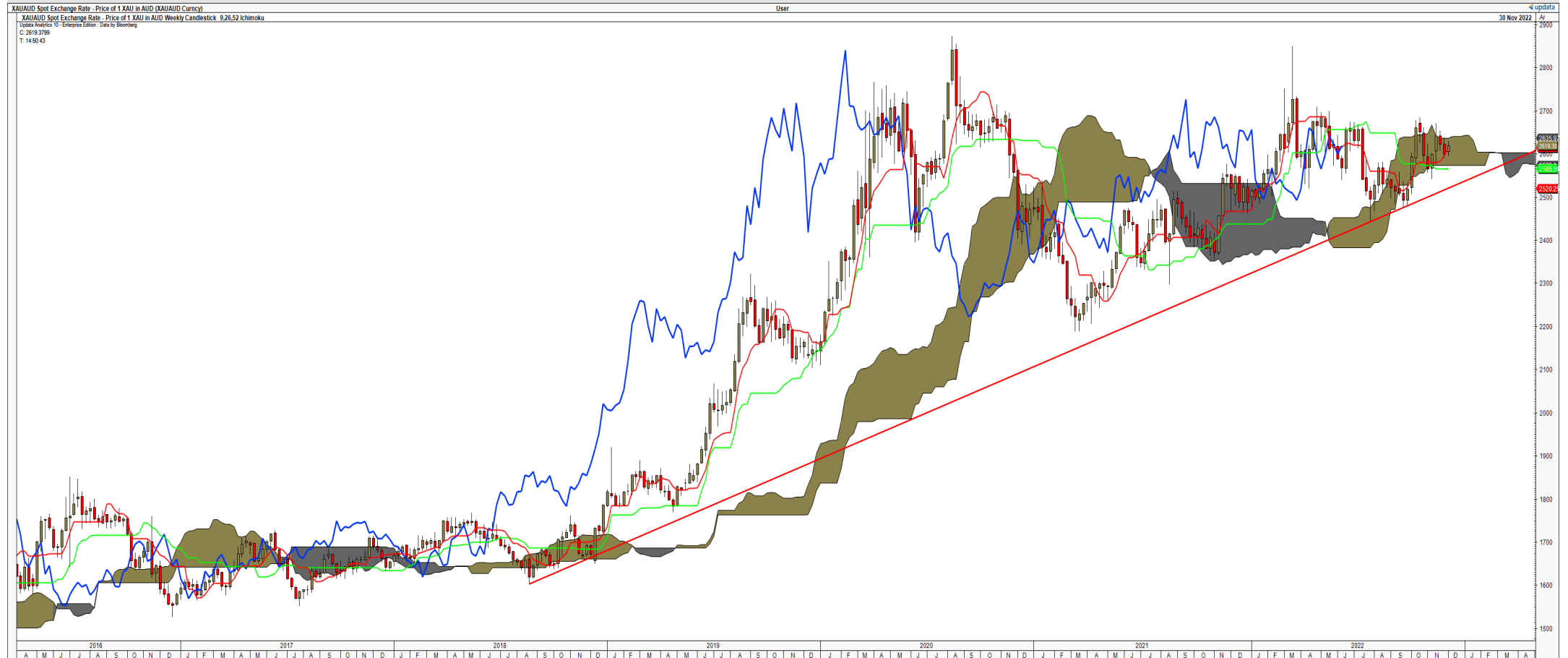
Gold Point and Figure – Shorter Term

After hitting the USD 1763 level, there has been some consolidation which challenges the upward narrative and provides downside targets that allow for a natural re-test of the original break-out



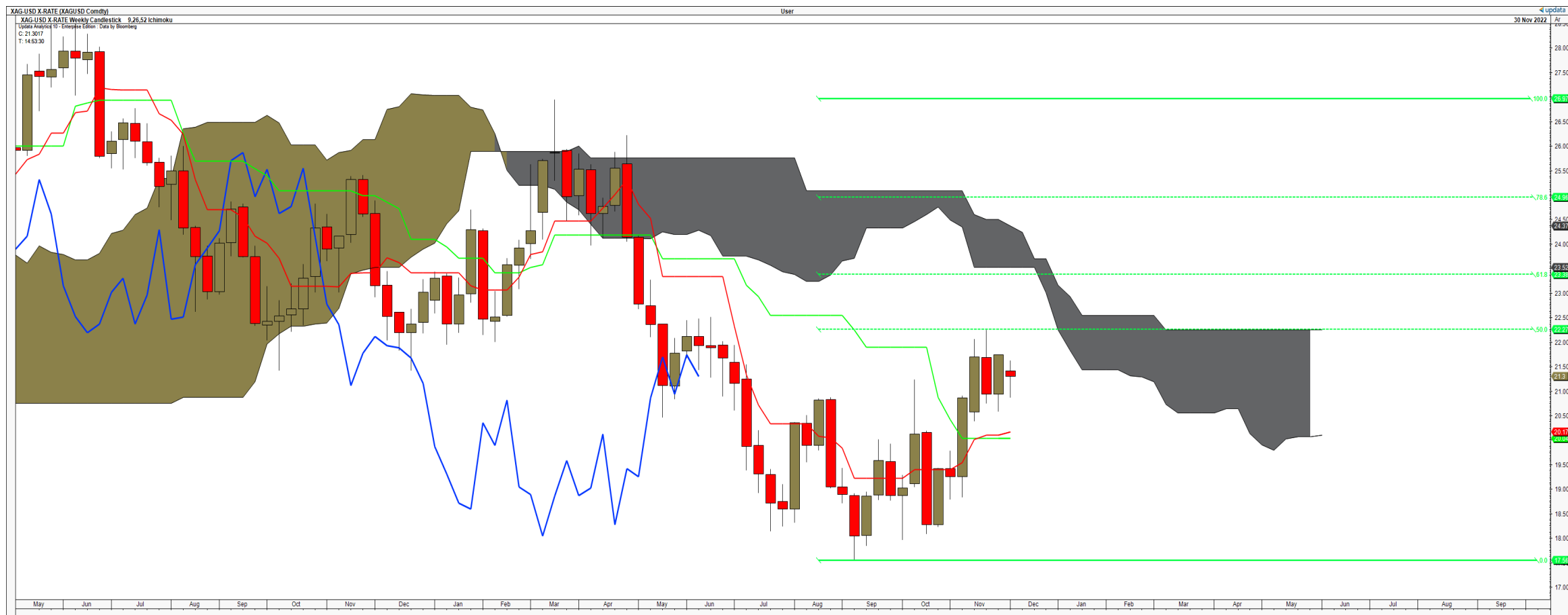
Gold in AUD via Weekly Ichimoku Cloud

XAUAUD: Gold in AUD moved back into the Weekly Cloud but fails to break higher as the AUD stages a gentle recovery. Support at AUD 2565-2575.



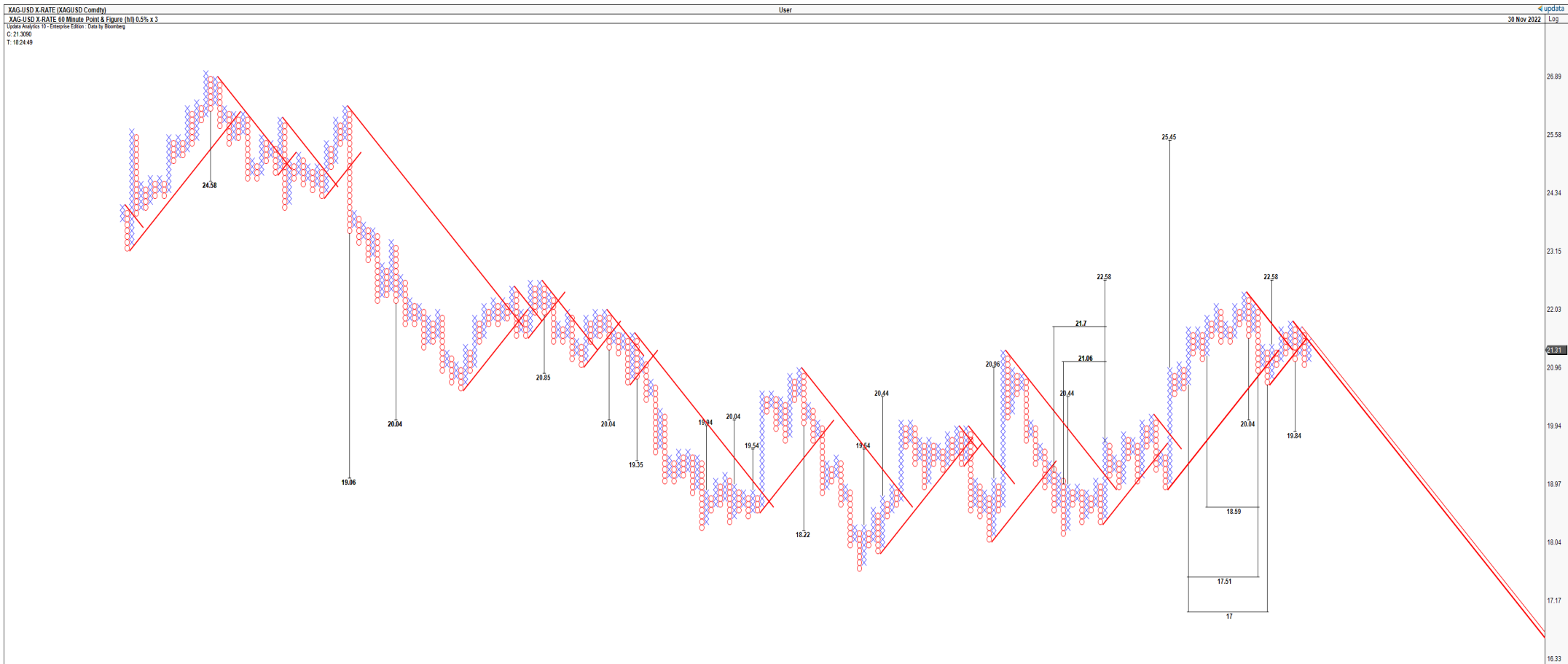
Silver in USD (Weekly)

Silver – the short-covering rebound stops at the 50 pct retracement of the March high. Look for support at USD20.10-20.17 and resistance at USD23.38 and USD 23.54.



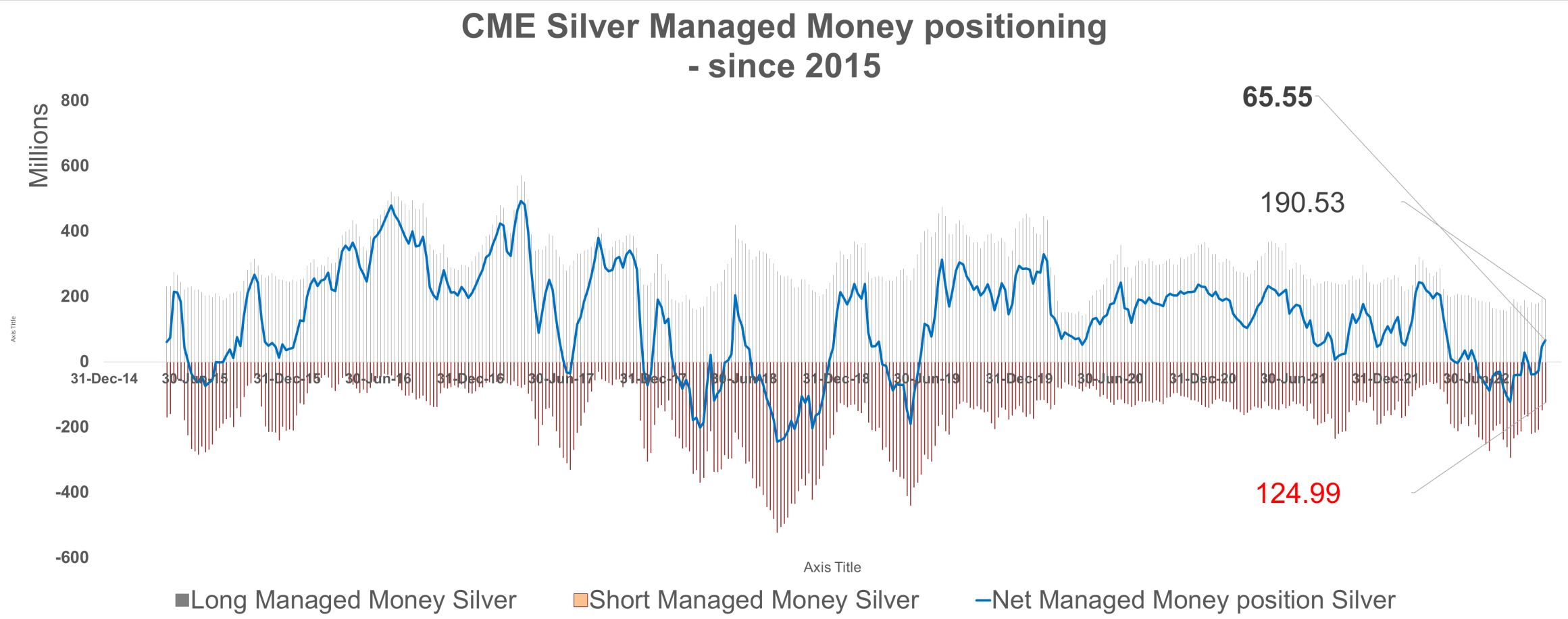
Silver in USD – Medium term via Hourly Point and Figure

Despite the more optimistic view in the Podcast”: Podcast wins! The targets mentioned there did come good with copper, gold and the Dollar all helping. Price action since mid November has created significant downside targets (again) so the key level is USD 21.90. Above there and downside targets are knocked out.



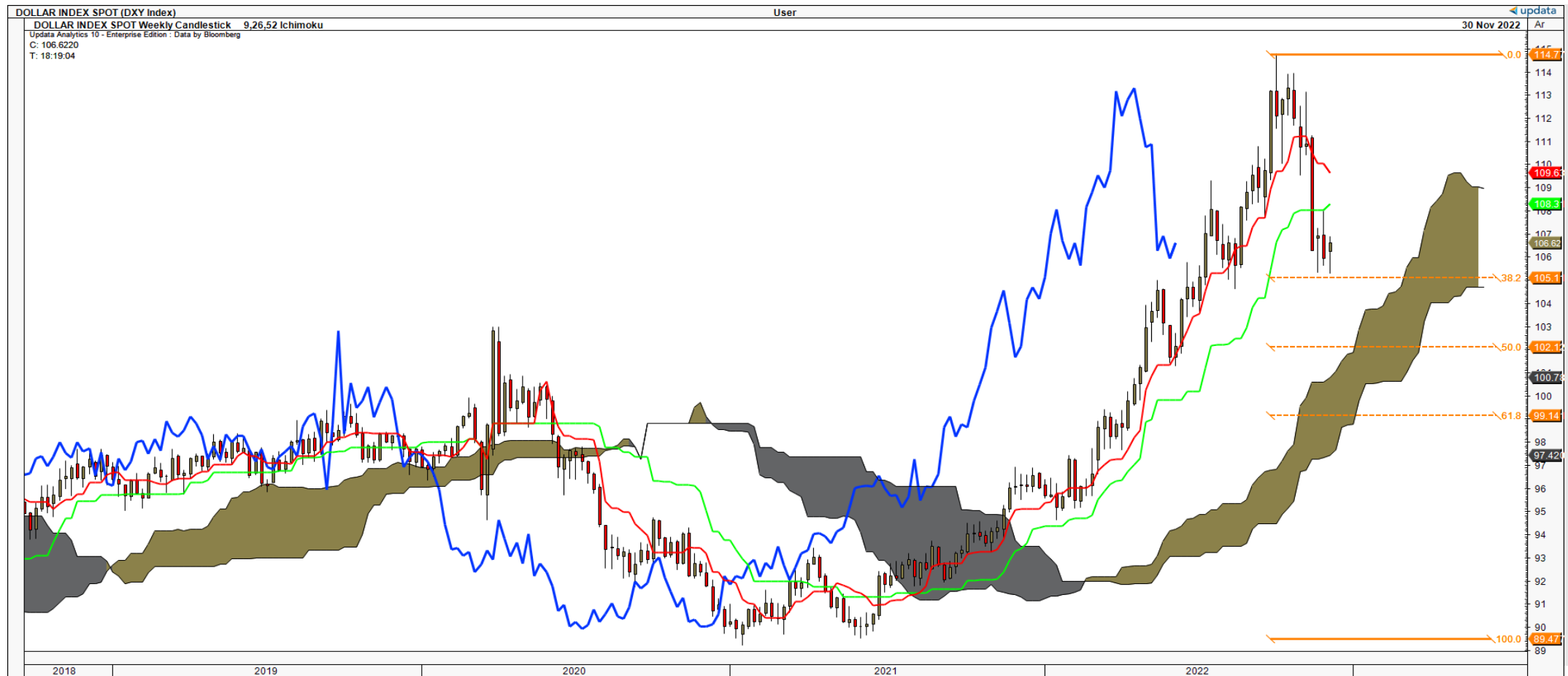
Overview of Managed Money Positioning in Silver (Futures only)

Negative net positioning turns positive. Substantial short covering has driven net positioning higher. Longs reduced very slightly in the week ending the 22nd of November.



The Dollar -DXY

“105 should provide good support in the event of a step back.” So far so good as the Dollar Index reaches back to the 38.20 pct Fib retracement of the climb from May 2021. A mere trifle when viewed in the context of such a protracted rally. Some resistance at 108.30 from the Standard Line in green. Support around 101.00 in late December.



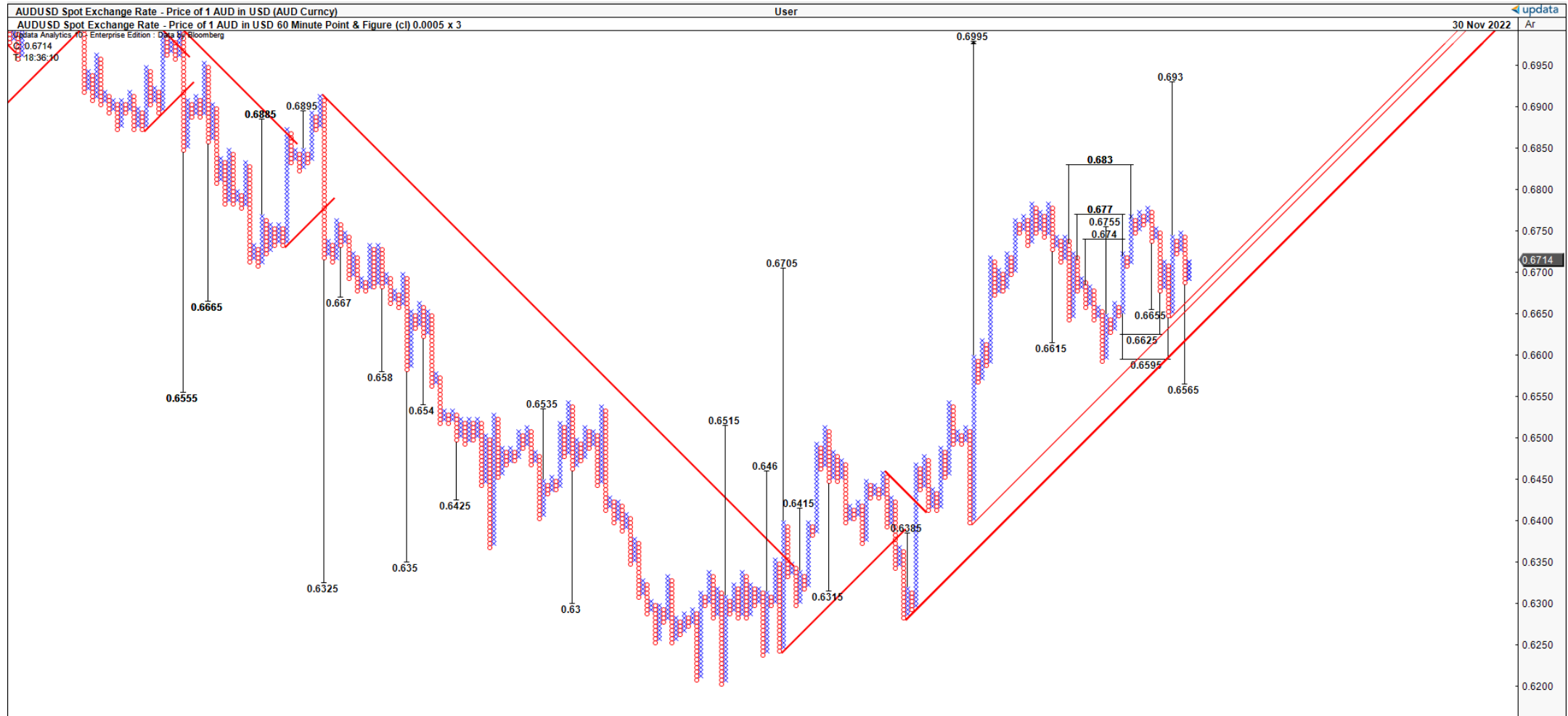
AUD Weekly Ichimoku Cloud

The downside targets almost achieved at the low of 0.617. The next area of resistance around 0.69 as the AUD benefits from USD weakness and an optimistic take on Chinese re-opening?



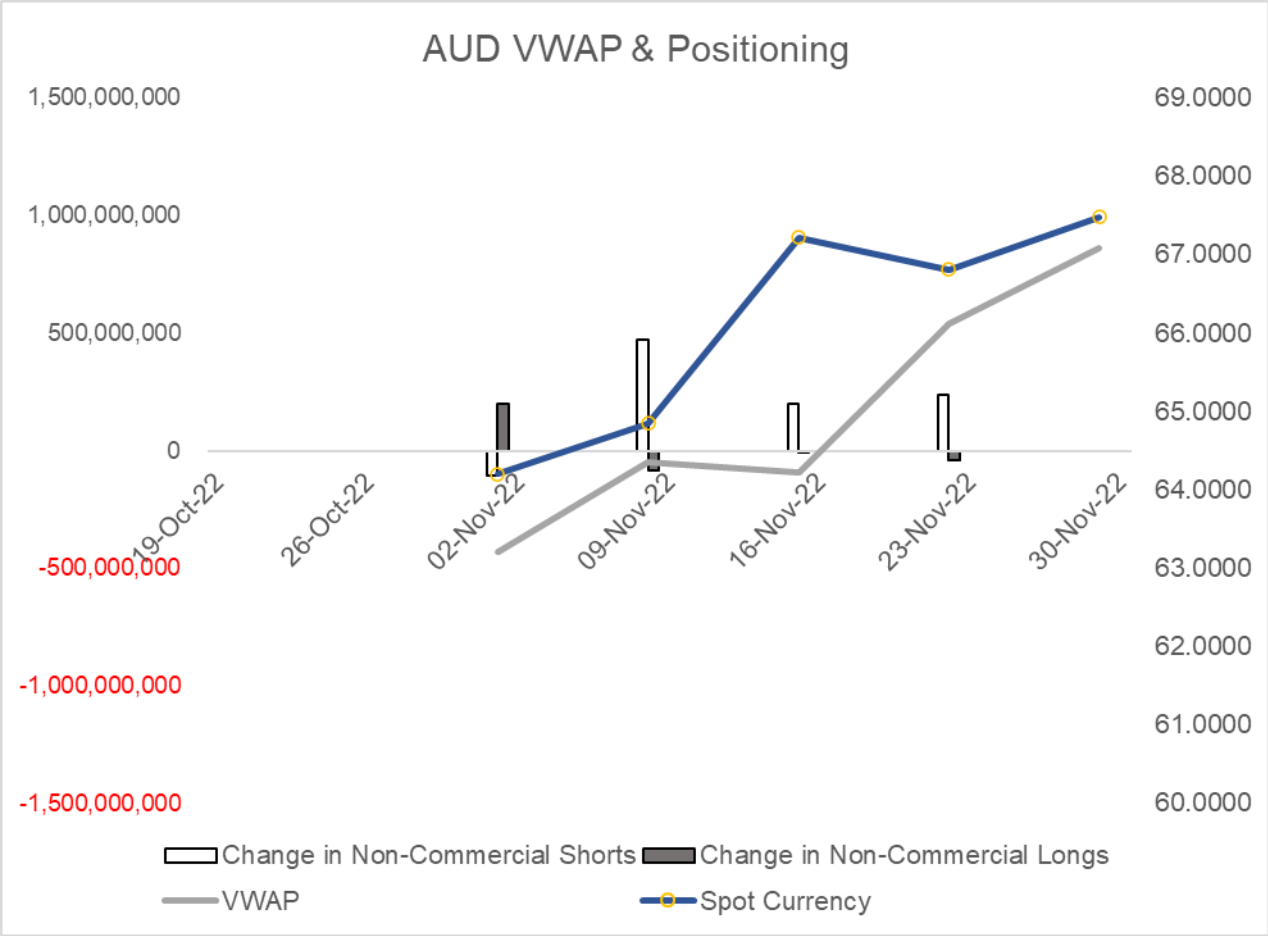
The AUD Hourly Point and Figure

Cycling back towards 0.68 and 0.69 within medium-term bearishness, but for this chart at least, the AUD has some scope to run further, although... perhaps not much further. AUD bears have been buying back over recent weeks having extended their shorts through October. (Mainly via the 'Asset Manager' category in the Commitment of Traders statement.)



AUD Positioning and VWAP

Short-covering. The rise in the AUD primarily a function of the weaker USD. China remains a vulnerability.



Where to From Here?

Finally change came, with the Dollar rally being questioned. Nothing goes on for ever, although the principal driver of USD strength remains the divergence of interest rates that I don't see being challenged until later in 2023, given the strength in the US economy relative to others and the recent commentary from the Fed reminding markets that the Fed remains highly committed to winning the inflation battle – despite the policy setting being rather low by some estimations. (Baseline estimates for the US using the Taylor Rule suggest a policy setting several % higher than current.)

Gold benefitted from the reappraisal of the USD rally, largely via shorts de-risking in quantity. There is certainly scope for the rally to push higher, pace the targets discussed in the slides above, however the Dollar index is staging a minor comeback, and if nothing else should retest the t-line breakdown. That would give credence to expectations of USD 1730-1703. The AUD has recovered but the core risks remain and the pace of any recovery is likely to remain marred by the back and forth over re-opening.

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 | |
| \$1,842.00 | 61.80 pct Fib retracement of March-September | |
| Support | | |
| \$1,621.00 | Long term trend line support | |
| \$1,599.00 | Monthly Ichimoku cloud base | |

Targets

| Upside | | Probability |
|------------|--|-------------|
| \$2,278.00 | Basis 1 % Daily Point and figure (12 months) | 18.00% |
| \$2,172.00 | Basis 2 % Daily Point and figure (12 months) | 23.00% |
| \$1,907.00 | Basis Hourly Point and figure (1 month) | 30.00% |

Targets

| Downside | | Probability |
|------------|--|-------------|
| \$1,708.00 | Basis 0.34 % Hourly Point and figure (1 month) | 25.00% |
| \$1,515.00 | Basis 1 % Daily Point and figure (12 months) | 12.00% |
| \$1,428.00 | Basis 1 % Daily Point and figure (12 months) | 5.00% |

All target probabilities basis spot:
for 1 year (or shorter as indicated) and created by solving for option delta on the
Bloomberg OVML function for GCZ2

\$1.00

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