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ABC Bullion Monthly Precious Metals Technical Analysis Report

September 2021

Gold – In Brief

The debt ceiling problem has been delayed by around seven weeks to December 3rd as 11 Republicans joined the Democrats to break the Republican filibuster. US\$480 billion was added to the statutory debt ceiling, and the US avoided the October 18th crunch date at least. The vote was contentious, as expected, and even higher levels of brinkmanship are likely at the end of next month. Minority Leader Mitch McConnell has burned through political capital with his own party after compromising to avert a bust.

Talk of a US\$1 trillion platinum coin designed to swerve around this collision of borrowing and politics was dismissed as “a gimmick” by the US Secretary of the Treasury. At the heart is a proposal to mint a coin with a face value of US\$1 trillion whose seigniorage would fill a trillion dollar hole in the deficit. However, as Brendan Greeley of the *Financial Times* writes, the seigniorage on this coin and the seigniorage routinely earned on quarters are both types of seigniorage “...in the way that a wanton mistake at an office party and a secret family in another city are both types of adultery.” The legal ‘possibility’ of creating a trillion dollars via a coin shouldn’t obscure an economic ‘fiction’ which is very distinct from creating US dollars via Treasury markets where holders of US treasuries possess a distinct asset.

Evergrande: the slow propagation of toxic news from the slowing heart of China’s economic growth story via real estate developer and supply chain arteries to the capillaries of homebuyers continues.

- Luxury developer Fantasia Holdings Group failed to repay US\$206 million in bonds due on October the 4th.
- Modern Land (China) Co. wants to extend the repayment schedule of Senior Notes due Oct 25th by three months.

Alarming data shows that:

- total sales among China’s top 10 developers dropped 44% year-on-year in September and by 36% among China’s top 100 developers.
- Beijing new home sales declined by 391,000 square meters last week. (*Bloomberg*/<http://www.cricchina.com/research/>) in what is normally ‘silver’ month for sales.
- Total Chinese RE developer debt is estimated by Nomura to be **US\$5.20 trillion**, slightly larger than Japan’s total GDP in 2020. That’s a bit sobering.
- 36% of the CNY175 billion (US\$27.10 billion) of onshore defaults arise from the property sector. (*Bloomberg*)

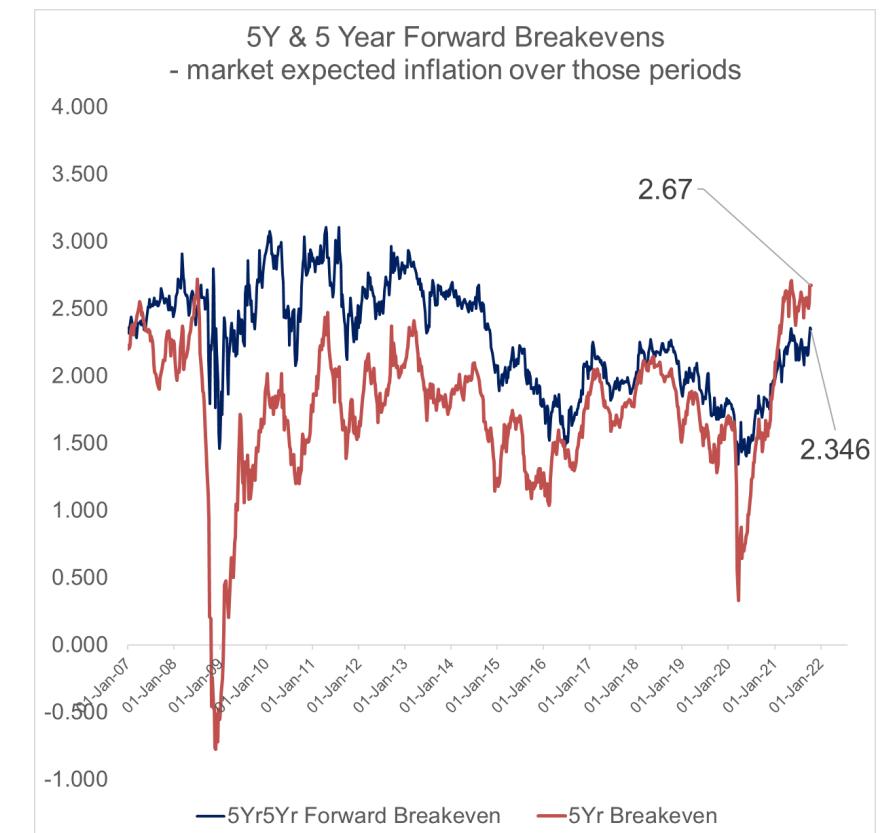
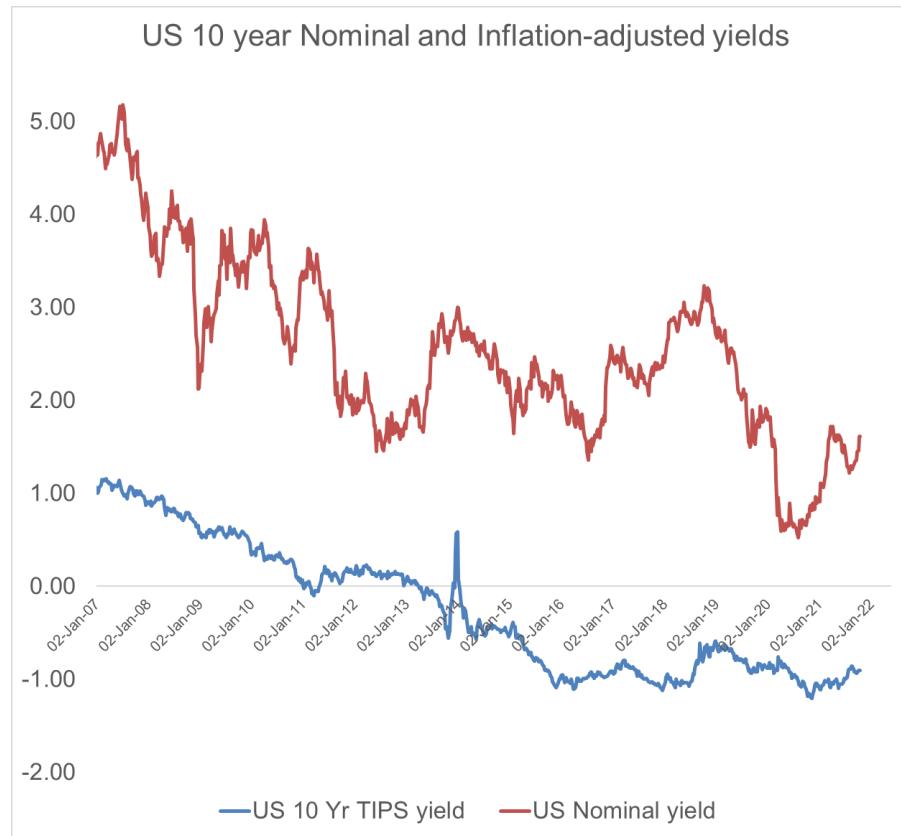
On balance, not good for the AUD, and possibly not good for underlying physical gold demand if financial stress impacts the mainland Chinese economy.

Inflation hangs around for longer than a ‘transitory’ guest might be expected to, as ‘re-opening’ related price rises segue into tightening energy markets, with weather events in the Gulf of Mexico and China helping to push energy costs higher.

Weak NFP numbers: the ‘miss’ on Friday is unlikely to be evidence of weak demand. OECD calculations show US private sector job vacancies = 9.88 million, plus 1.05 million government openings, for a total of 10.934 million just two months prior to the numbers. Tapering is on, as expected.

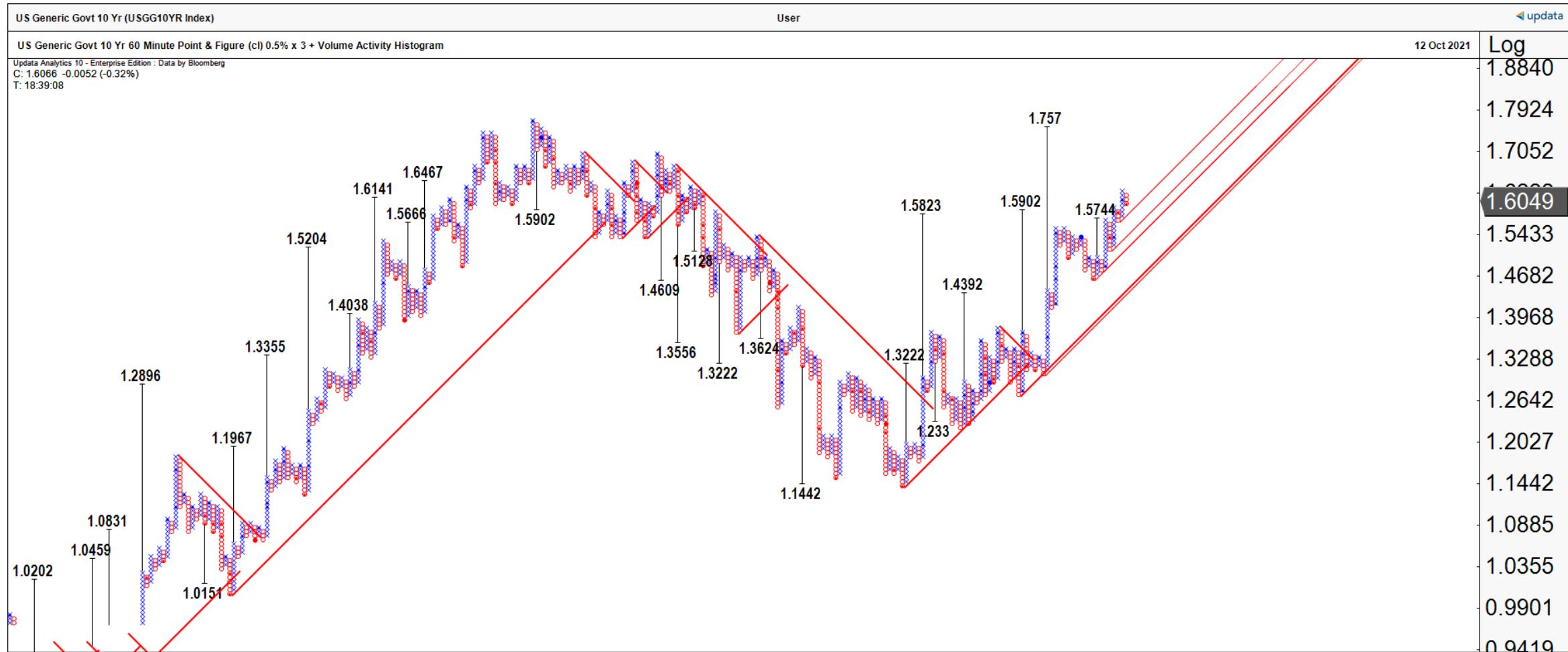
Money and yields

US inflation expectations rising, is the Fed behind the inflationary curve, as it was in the 1970s, immediately post Bretton Woods? Real yields remain rich, but again, the TIPs market is a relatively small and crowded space.



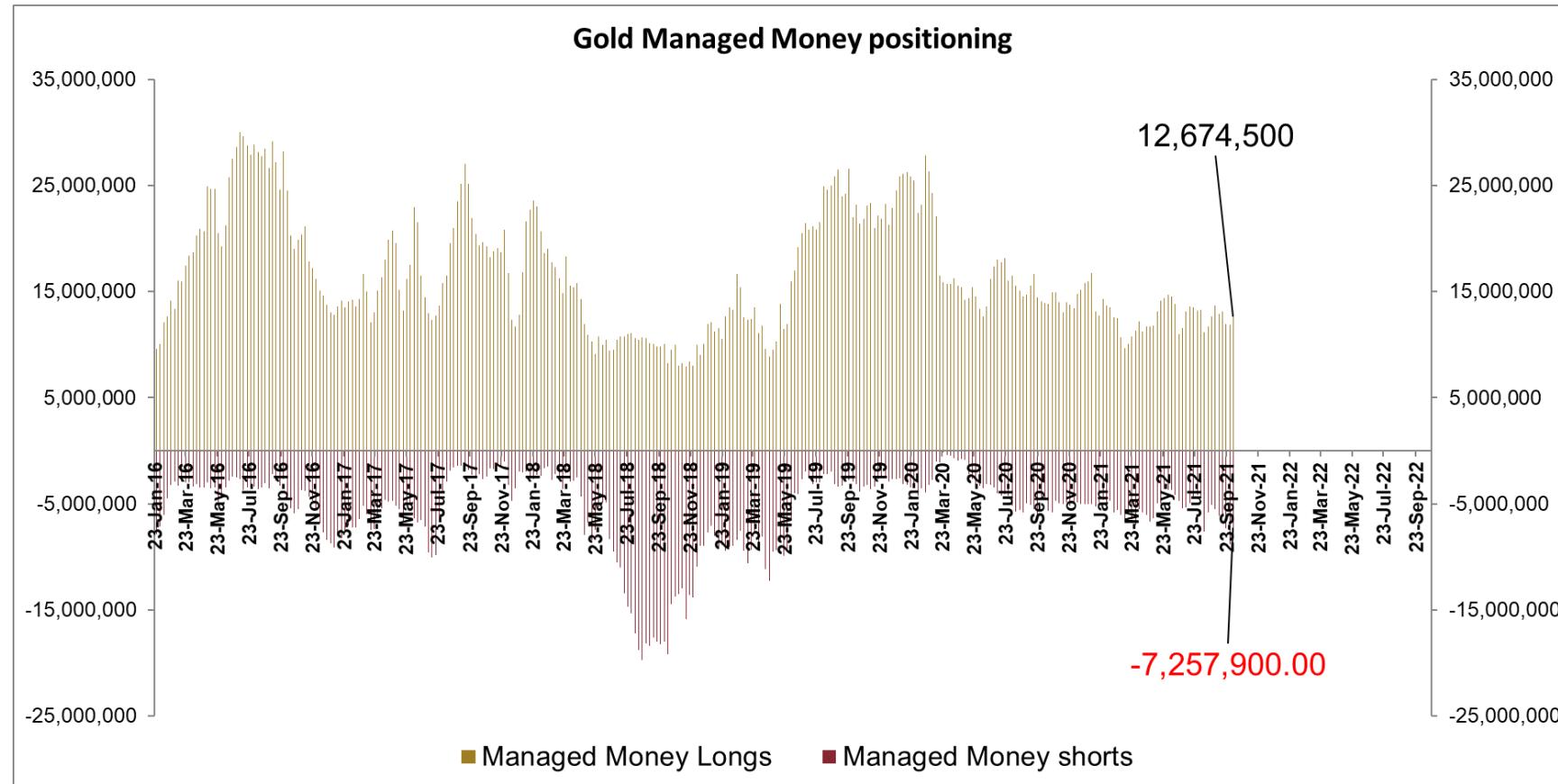
10-year US Yields

The trend towards higher yields remains in place, with 10-year nominal yields targeting 1.75% basis this medium-term guide.



Overview of Managed Money Positioning in Gold

CME Gold Managed Money futures up to October the 5th. VWAP table to follow. Shorts have been the major change, while longs remain uncommitted relative to historic levels. This could provide some support to the market.



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

Volume-weighted Average Price - GC

Published 12 October, 2021

Weekly Change in Managed Money Positions (Futures only)				
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 5 October 2021	\$1,747.50	782,200	-1,548,300	2,330,500
Tuesday, 28 September 2021	\$1,757.12	-85,400	1,512,900	-1,598,300
Tuesday, 21 September 2021	\$1,774.29	-1,106,000	1,331,800	-2,437,800
Tuesday, 14 September 2021	\$1,798.43	179,300	-183,400	362,700
Tuesday, 7 September 2021	\$1,816.30	-751,100	657,100	-1,408,200
		-981,000	1,770,100	-2,751,100
Gold ETF Change in position		-862,346		
Total change over period		-3,613,446		

Volume-weighted Average Price - SI

Published 12 October, 2021

Weekly Change in Managed Money Positions (Futures only)				
Week ending on:	US\$VWAP	Longs	Shorts	Net change
Tuesday, 5 October 2021	\$22.15	105,000	-5,495,000	5,600,000
Tuesday, 28 September 2021	\$22.57	-3,955,000	-15,025,000	11,070,000
Tuesday, 21 September 2021	\$22.96	-1,825,000	62,055,000	-63,880,000
Tuesday, 14 September 2021	\$24.05	-4,040,000	14,410,000	-18,450,000
Tuesday, 7 September 2021	\$24.30	1,990,000	-25,525,000	27,515,000
		-7,725,000	30,420,000	-38,145,000
Silver ETF Change in position		1,225,861		
Total change over period		-36,919,139		

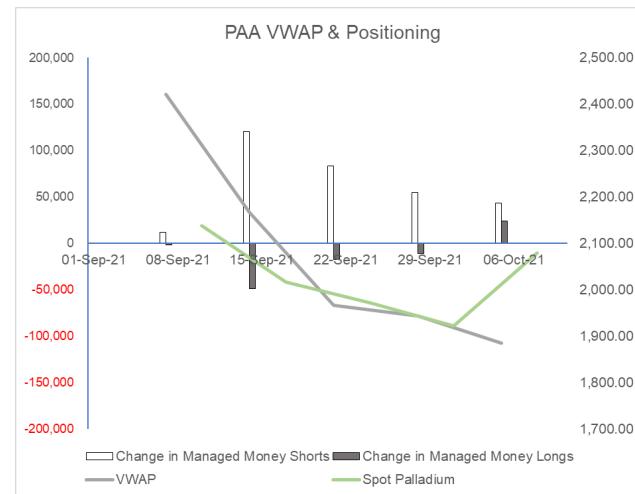
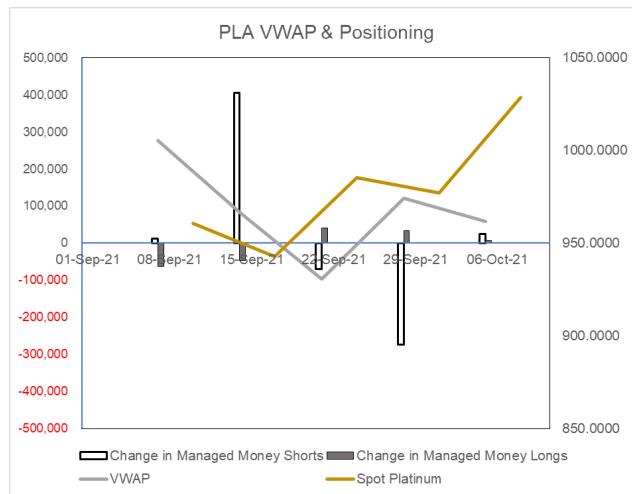
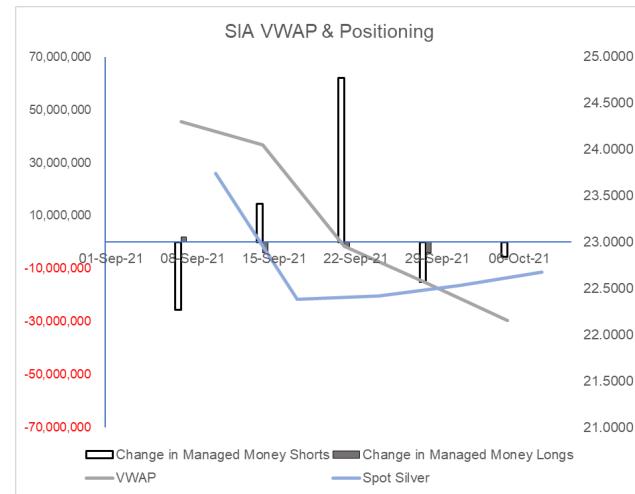
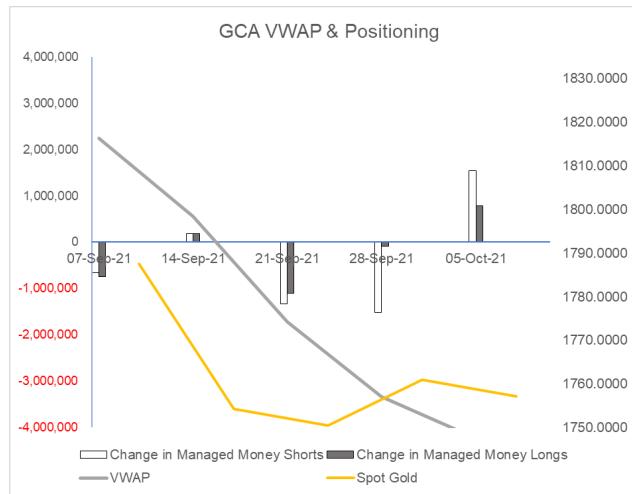
Volume-weighted Average Price - PLA

Published 12 October, 2021

Weekly Change in Managed Money Positions (Futures only)				
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 5 October 2021	\$961.80	7,300	24,500	-17,200
Tuesday, 28 September 2021	\$974.17	33,250	-273,900	307,150
Tuesday, 21 September 2021	\$930.52	40,950	-70,300	111,250
Tuesday, 14 September 2021	\$966.95	-45,700	405,650	-451,350
Tuesday, 7 September 2021	\$1,005.42	-63,100	12,500	-75,600
		-27,300	98,450	-125,750
Platinum ETF Change in position Ftozs		-52,555		
Total change over period		-178,305		

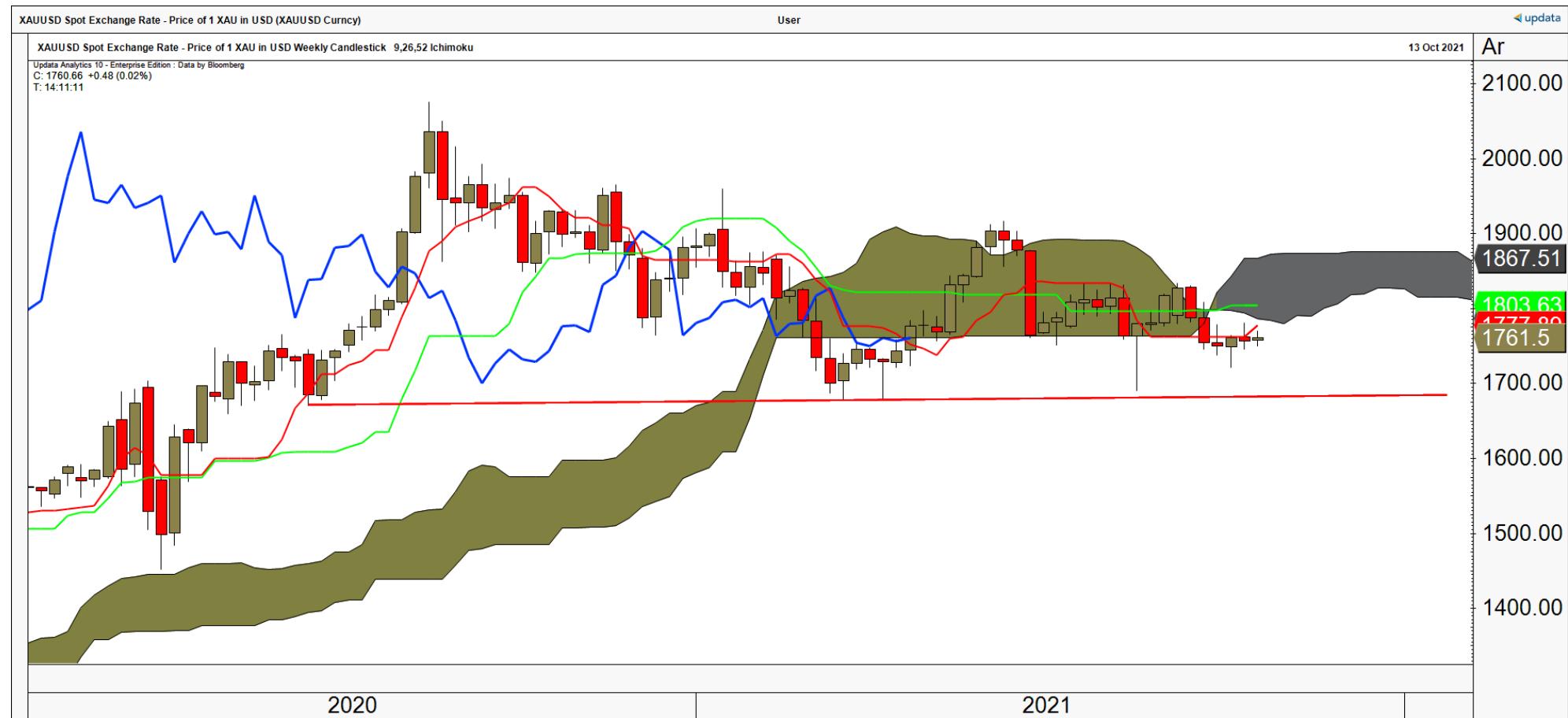
Weekly Change in Managed Money Positions (Futures only)				
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 5 October 2021	\$1,884.96	24,300	43,200	-18,900
Tuesday, 28 September 2021	\$1,944.25	-10,700	54,600	-65,300
Tuesday, 21 September 2021	\$1,966.60	-17,400	83,700	-101,100
Tuesday, 14 September 2021	\$2,167.17	-48,500	120,500	-169,000
Tuesday, 7 September 2021	\$2,421.94	-1,900	11,700	-13,600
		-54,200	313,700	-367,900
Palladium ETF Change in position Ftozs		-14,428		
Total change over period		-382,328		

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



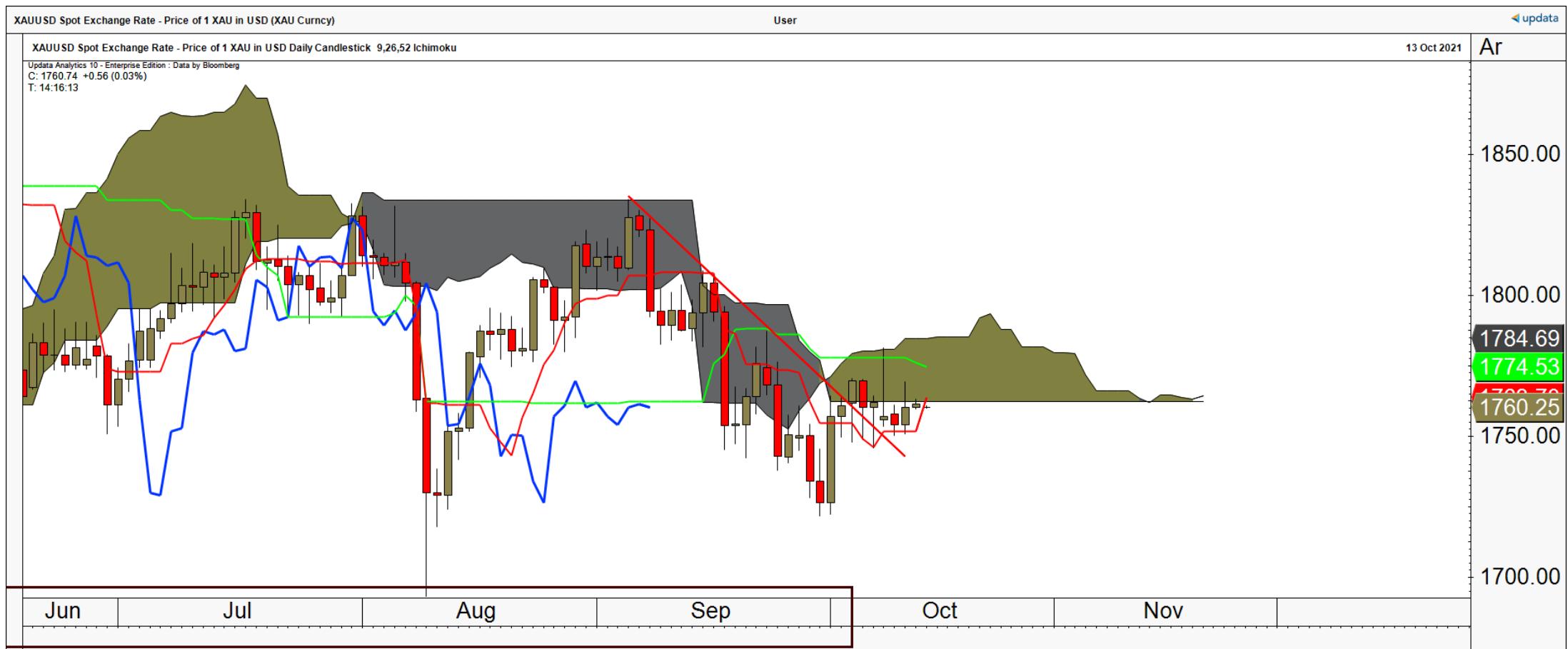
Weekly Ichimoku Cloud Chart

Gold failed to break above the US\$1,830-1,834 level and weakened below the Weekly cloud base in bearish behaviour as the US dollar strengthened and Treasuries weakened. Resistance in the US\$1,786-1,792 band, and then US\$1,830-1,867.



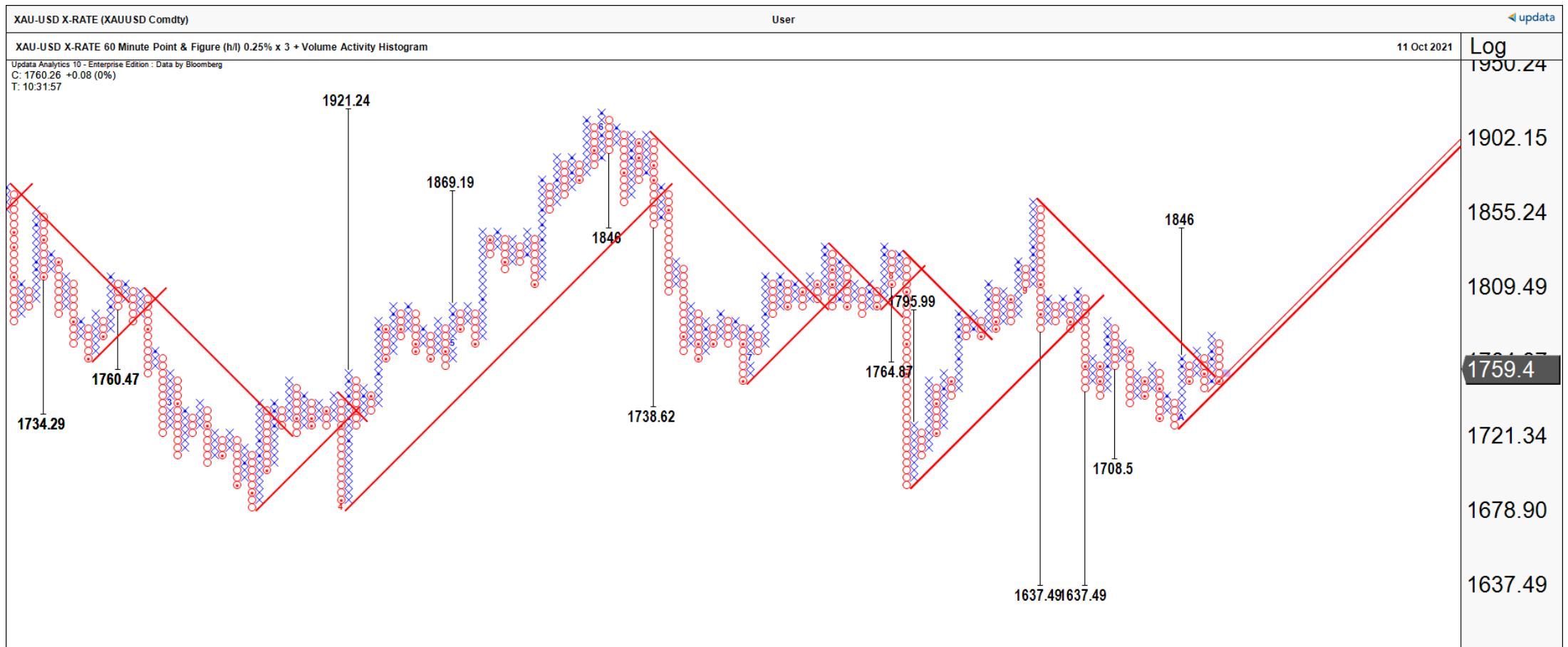
Daily Ichimoku Cloud Chart

A retreat beneath the Daily cloud. The recent rally stopped right at the top of the daily cloud, just as the high made on the 3rd of September did, and I would expect decent resistance on any more to US\$1,786. If the price closes above US\$1,834, there is scope for gold to target US\$1,948.



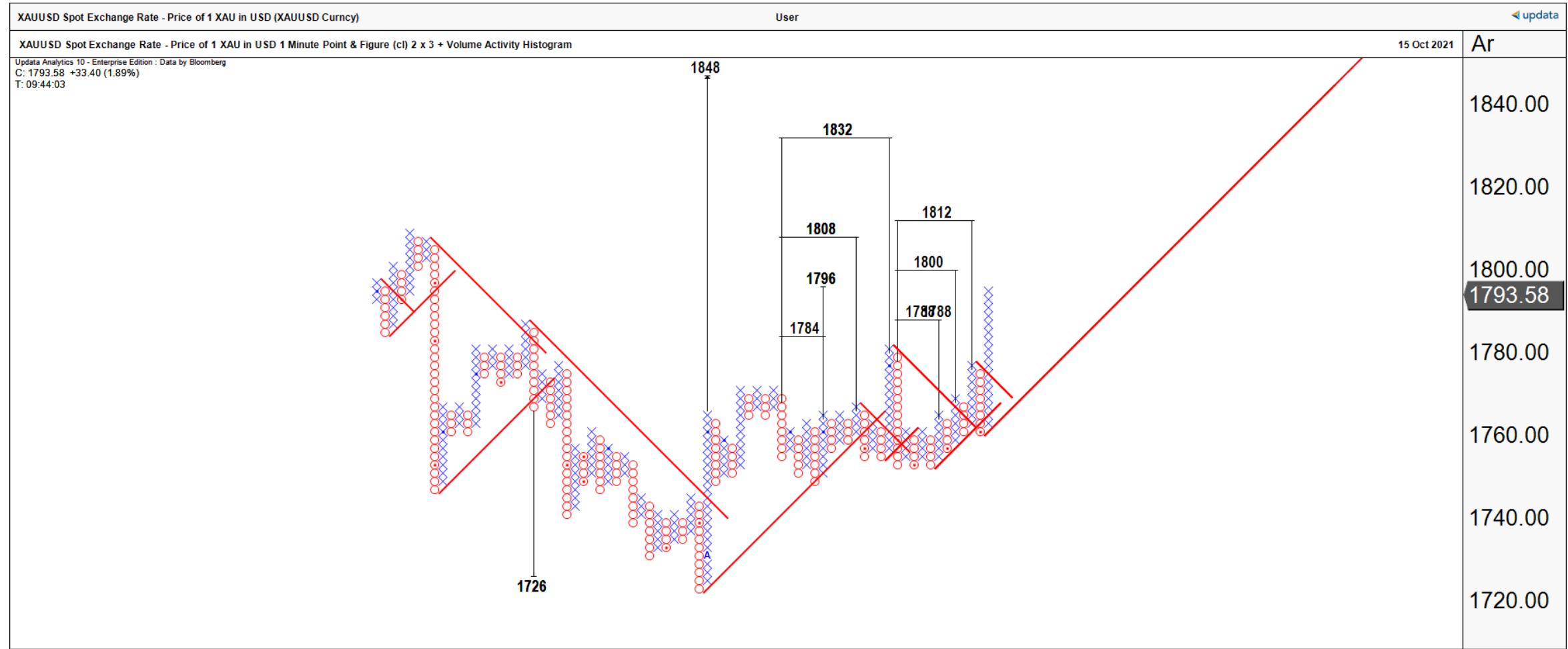
Gold Hourly Point and Figure – Medium Term

Adjusted for the recent volatility again. Currently on trendline support, with the latest target suggesting a decent attempt to break into the Weekly Cloud resistance. Overall, the price level feels 'middle of uncertain range' but judging from the price action, some confidence in a bullish outcome, especially above US\$1,725.



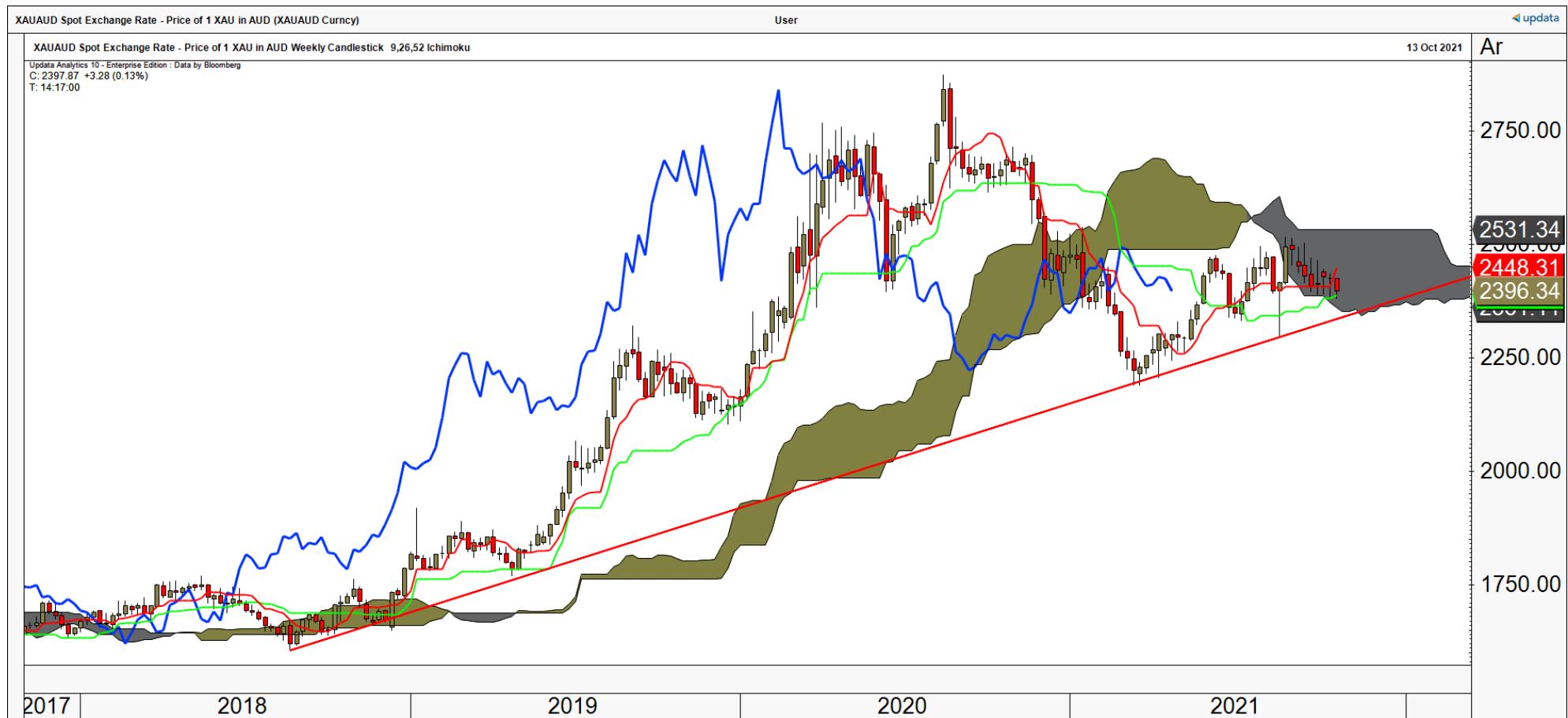
Price Targets via Point and Figure – Short Term

The downside was explored a bit more vigorously than even last months chart suggested. The cycle back higher was quicker and short-lived so far. Plenty of new upside targets to pay attention to. (Ed note: This chart was changed after the overnight move – the spot price is now close[er] to resistance at US\$1,803.)



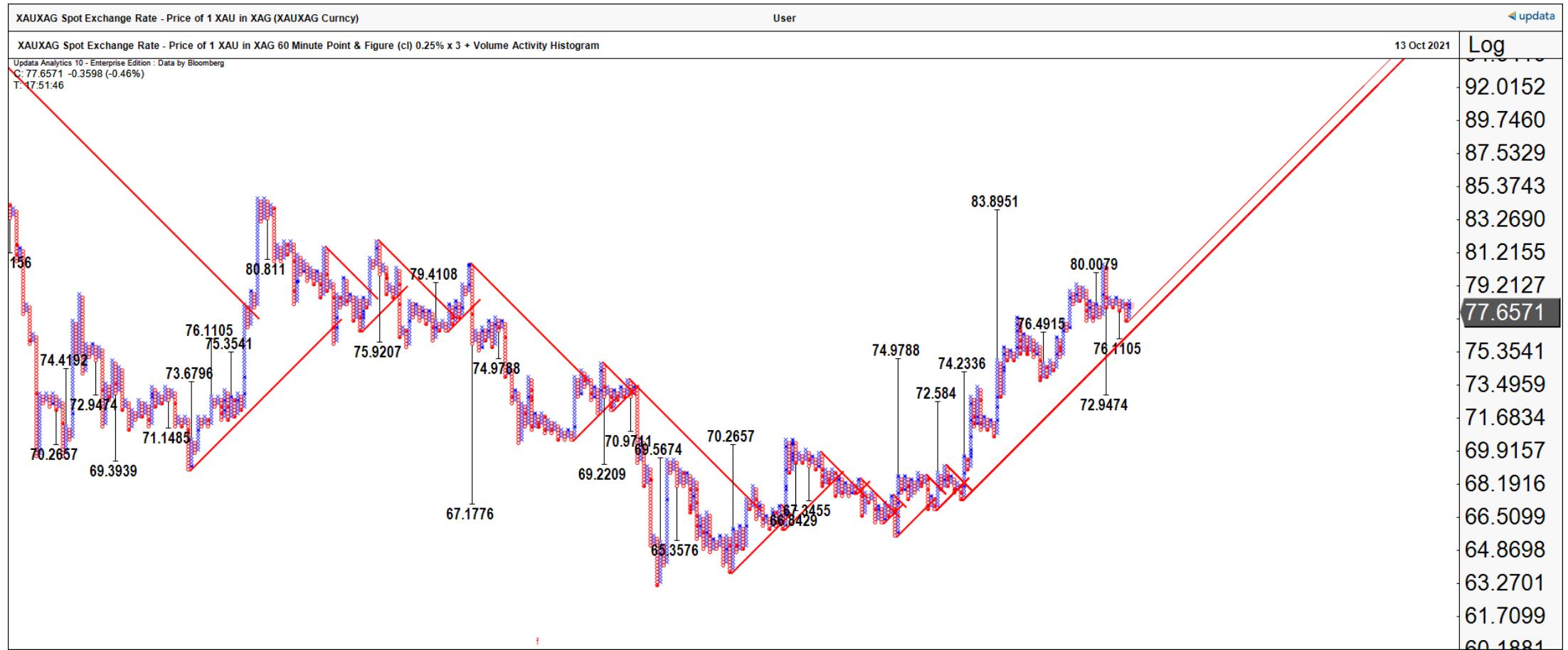
Gold in AUD via Weekly Ichimoku Cloud

Losing upward momentum after entering the resistive Weekly cloud. A\$2,532 the level to beat. Support at A\$2,388 and A\$2,355. There is the possibility of a 'head and shoulders' neckline being approached and if gold failed below A\$2,500, and that would be via a powerful rally in the AUD, rather than via weakness in USD gold.



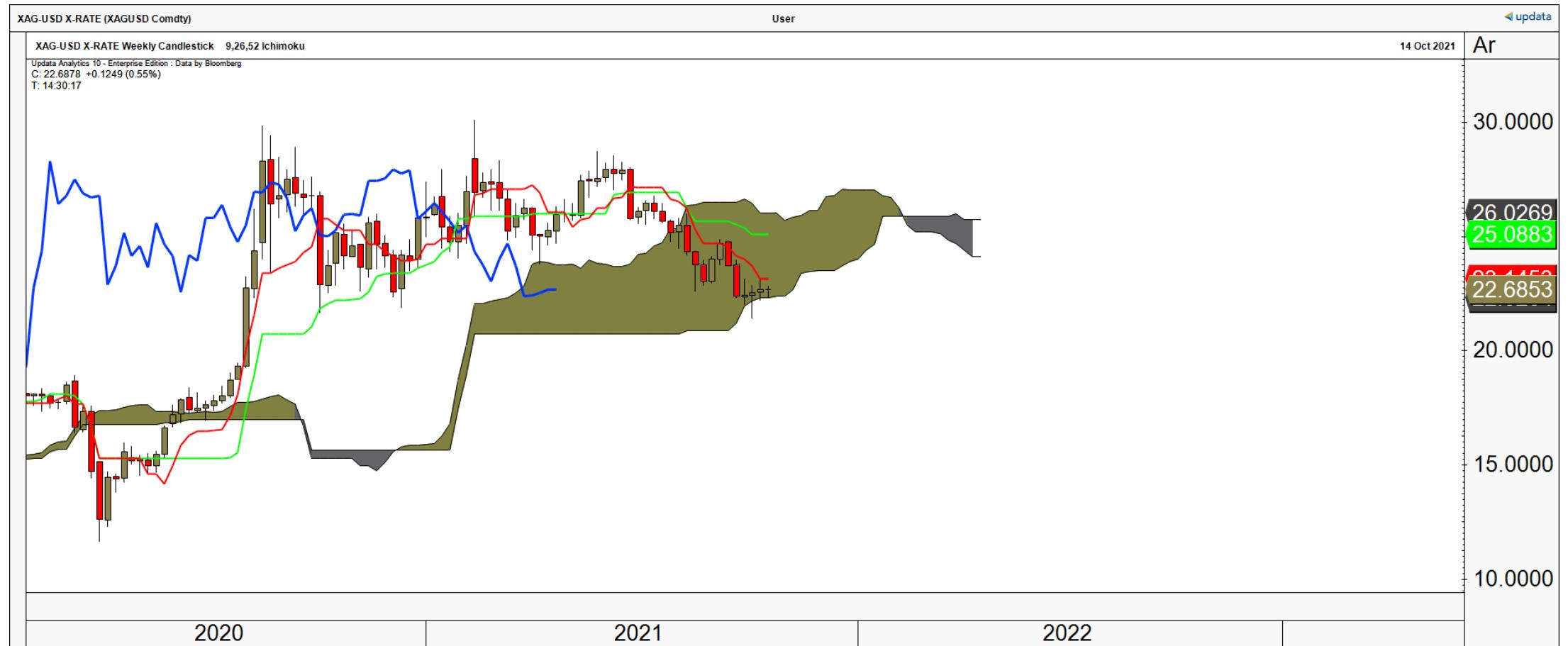
Gold-Silver Ratio

Silver underperformance remains the trend, with targets towards 84, trendline support at 76 plus, but a few recent targets suggesting silver may enjoy some relative strength, which would most likely come via improving economic prints.



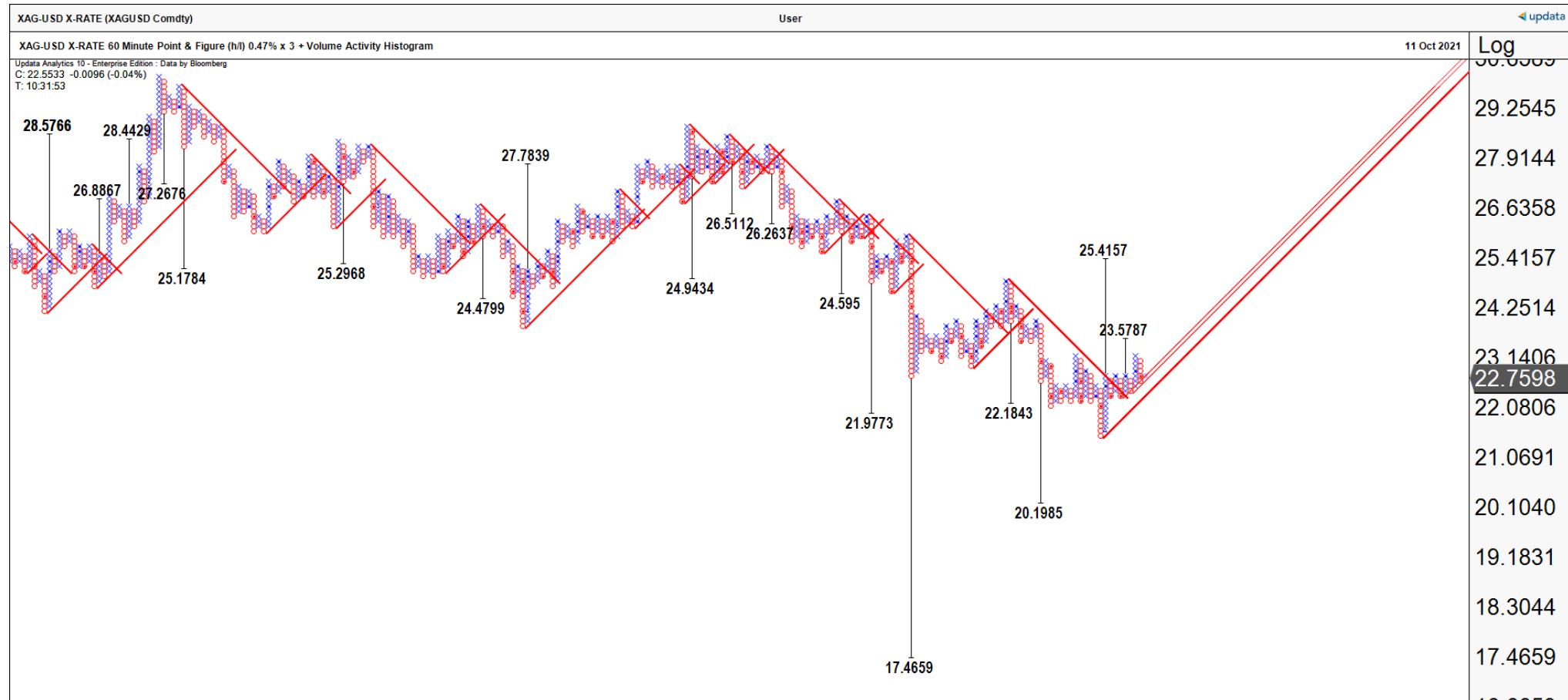
Silver in USD (Weekly)

The macro view of silver. Holding on to that weekly cloud support, and so far, silver hasn't closed beneath that level. Resistance comes in quite close at US\$23.15, then US\$25.08 for the longer term. These are key levels for silver bulls.



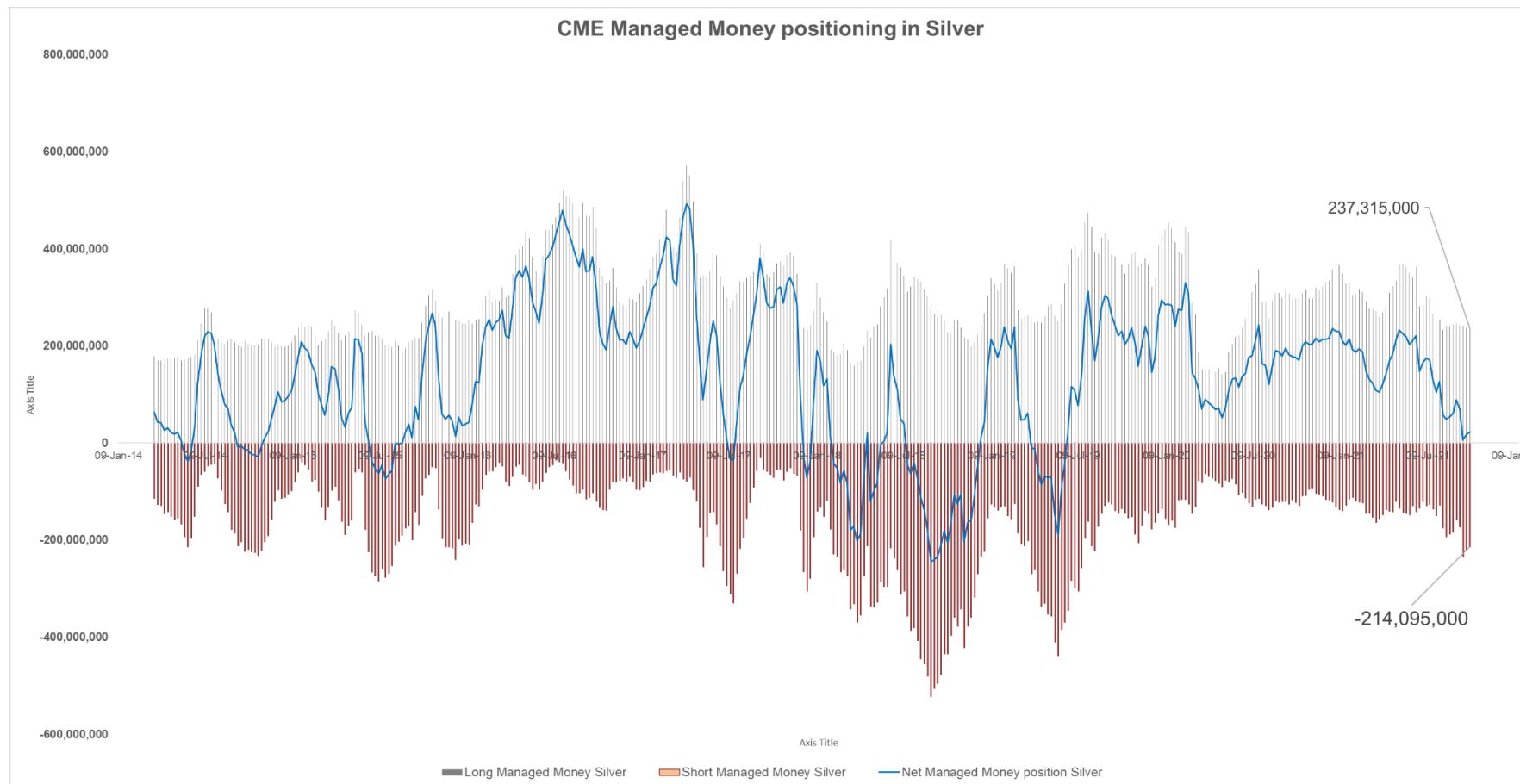
Silver in USD – Hourly Point and Figure

Targets for the XAGUUSD medium term. The medium-term trend points to a recovery in silver, although beware remaining downside targets. A move through US\$24 negates the target to US\$20.20. Resistance at US\$23.20-25 in the short term.



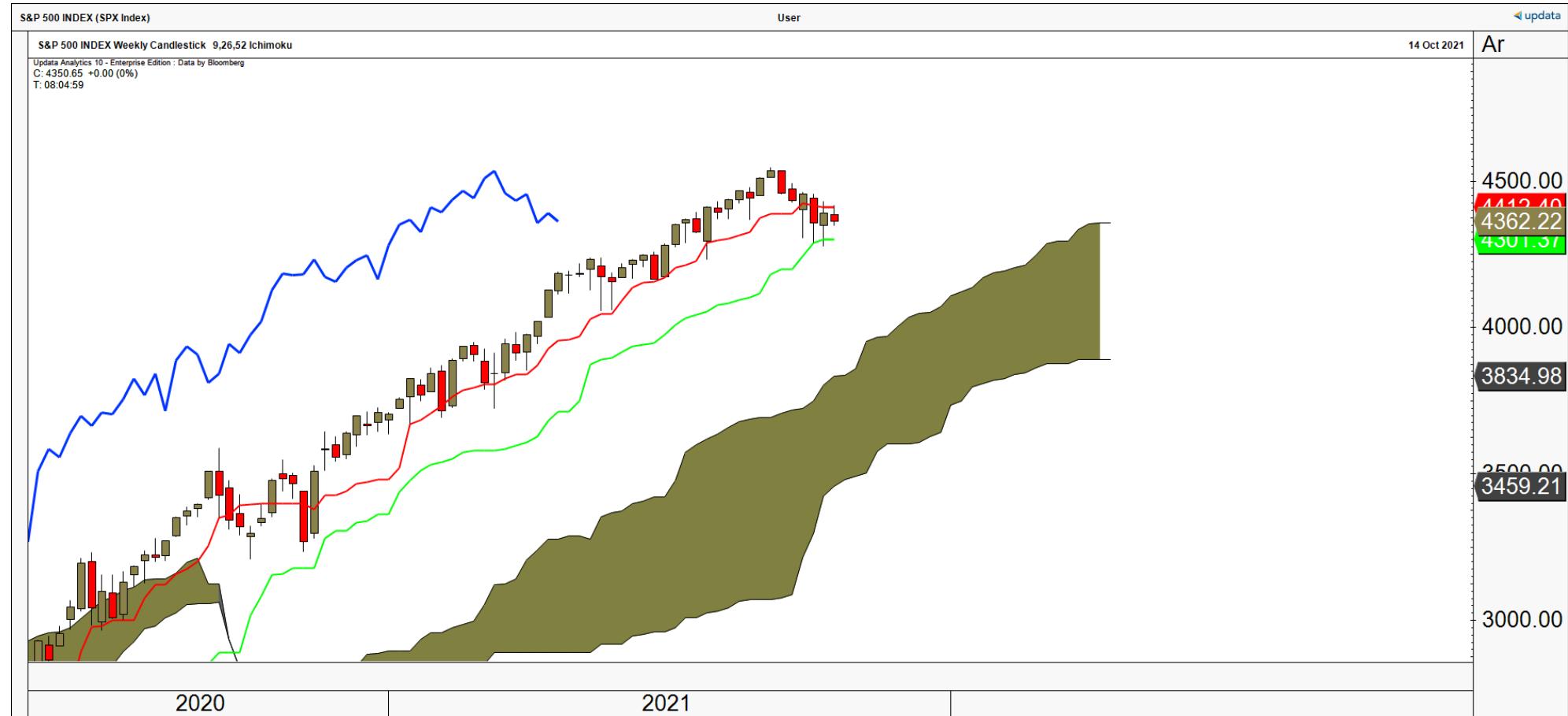
Overview of Managed Money Positioning in Silver (Futures only)

Managed Money silver longs remain largely unchanged. Shorts increased by 76 million Tozs through mid-September, before a 20 million Tozs reduction as some of the shorts entered into at a VWAP of US\$24.05 & 22.96 were bought back at a VWAP of US\$22.57 & US\$22.15, in aggregate. Net positioning (blue) basically neutral.



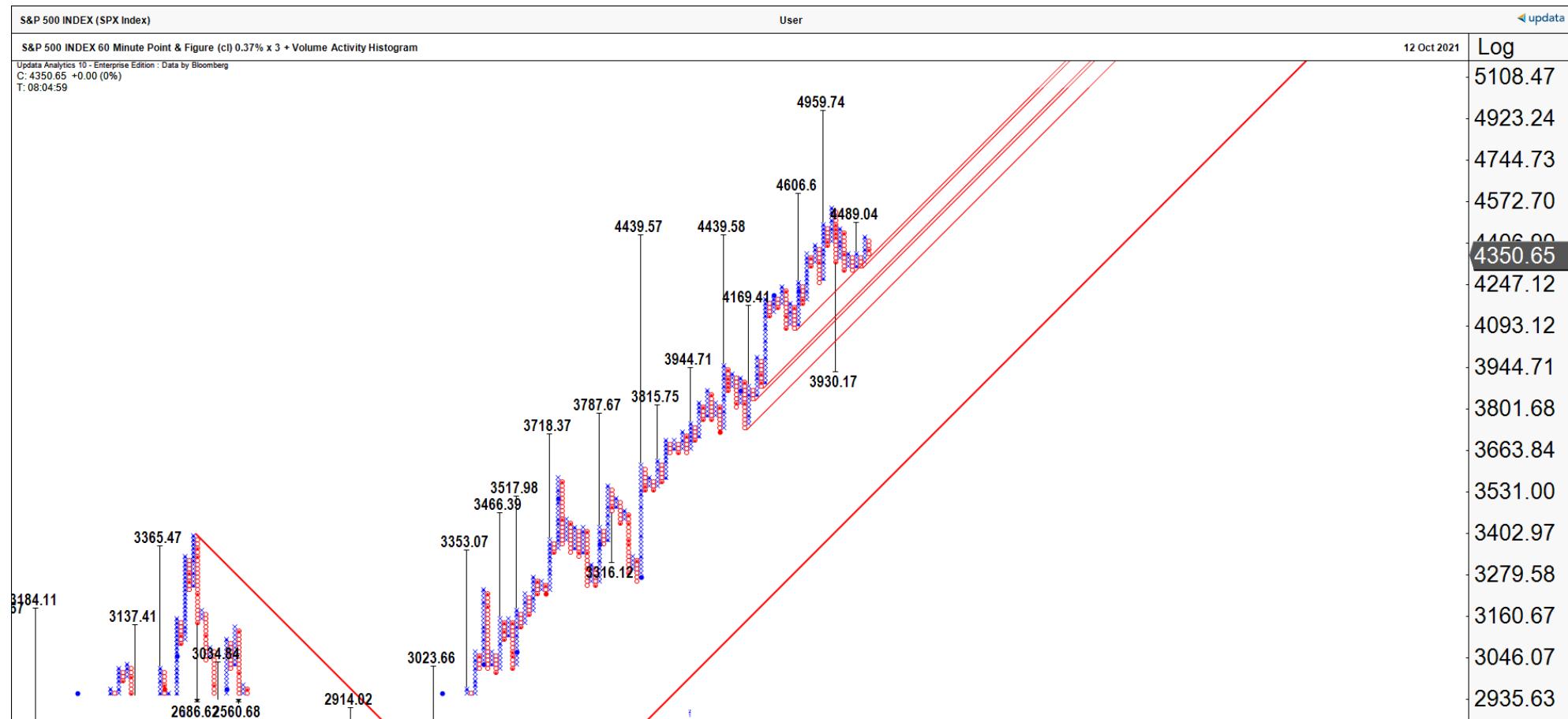
Equities - the SPX

Finally: with a degree of earnings re-rating going on the index is softening. **DataTrek** analysts say that in every US economic expansion or recovery phase since the 1990s, Q3 earnings are higher than Q2, so with US earnings season kicking off today (Wednesday the 13th of October) the moment of truth is at hand.



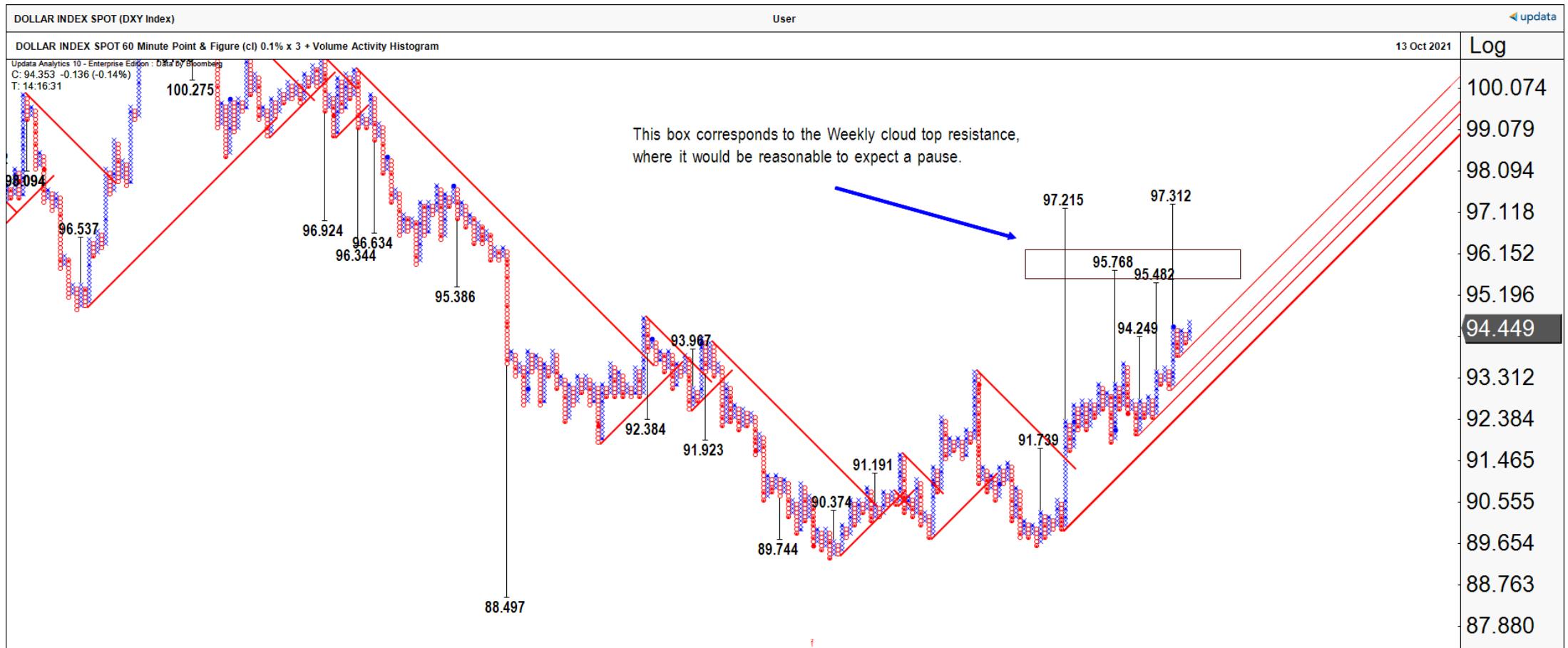
SPX Hourly Chart with Targets

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.



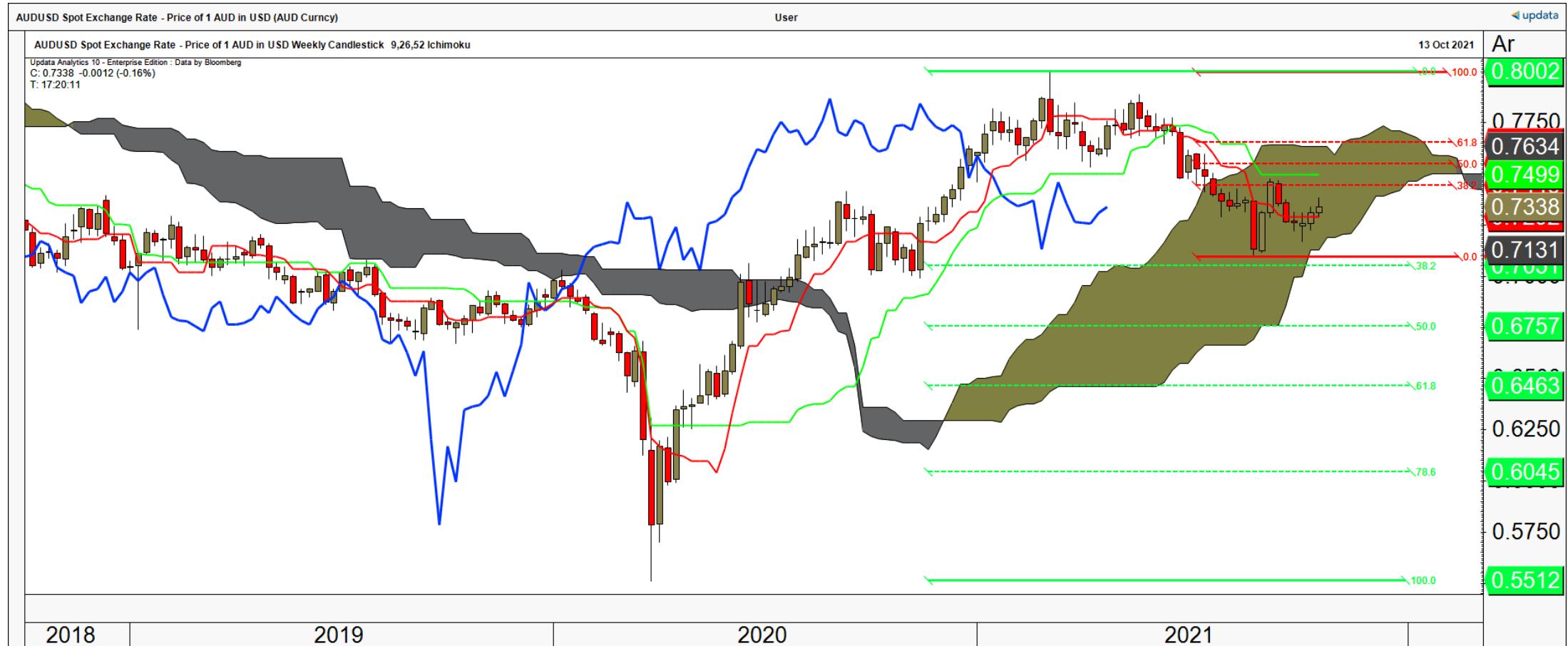
The Dollar – DXY

Hourly Point and Figure. The DXY rally continues, with notable clustering of targets around the Weekly cloud top resistance, (Weekly ichimoku cloud not shown here) and just over 97, the June 2020 highs. Likely to continue to be a head wind for the gold price.



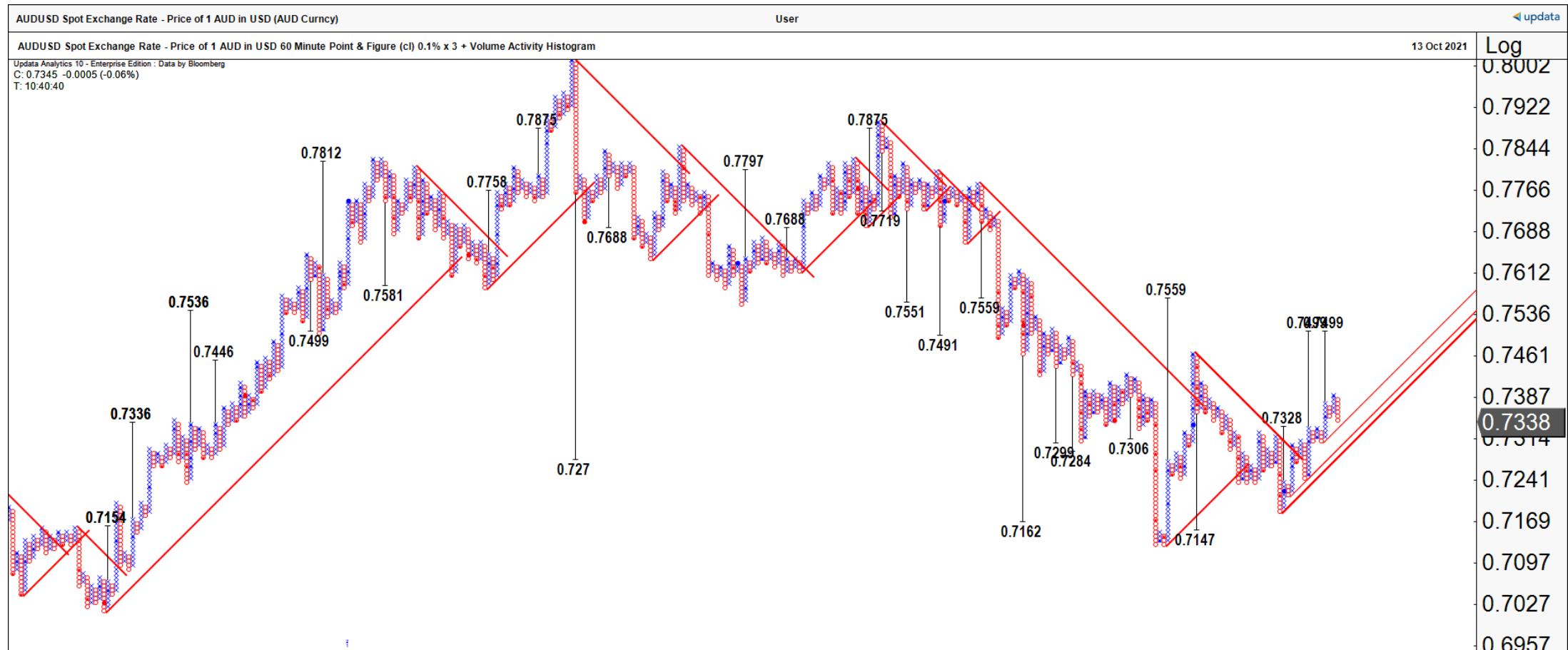
AUD Weekly Ichimoku Cloud

The AUD appears to be ranging on risk-on/risk off flows as uncertainty still clouds the global growth picture. Positives include a partial recovery in iron ore prices and re-opening in NSW, negatives include China sentiment around heightened real estate debt risk and an energy squeeze impacting demand.



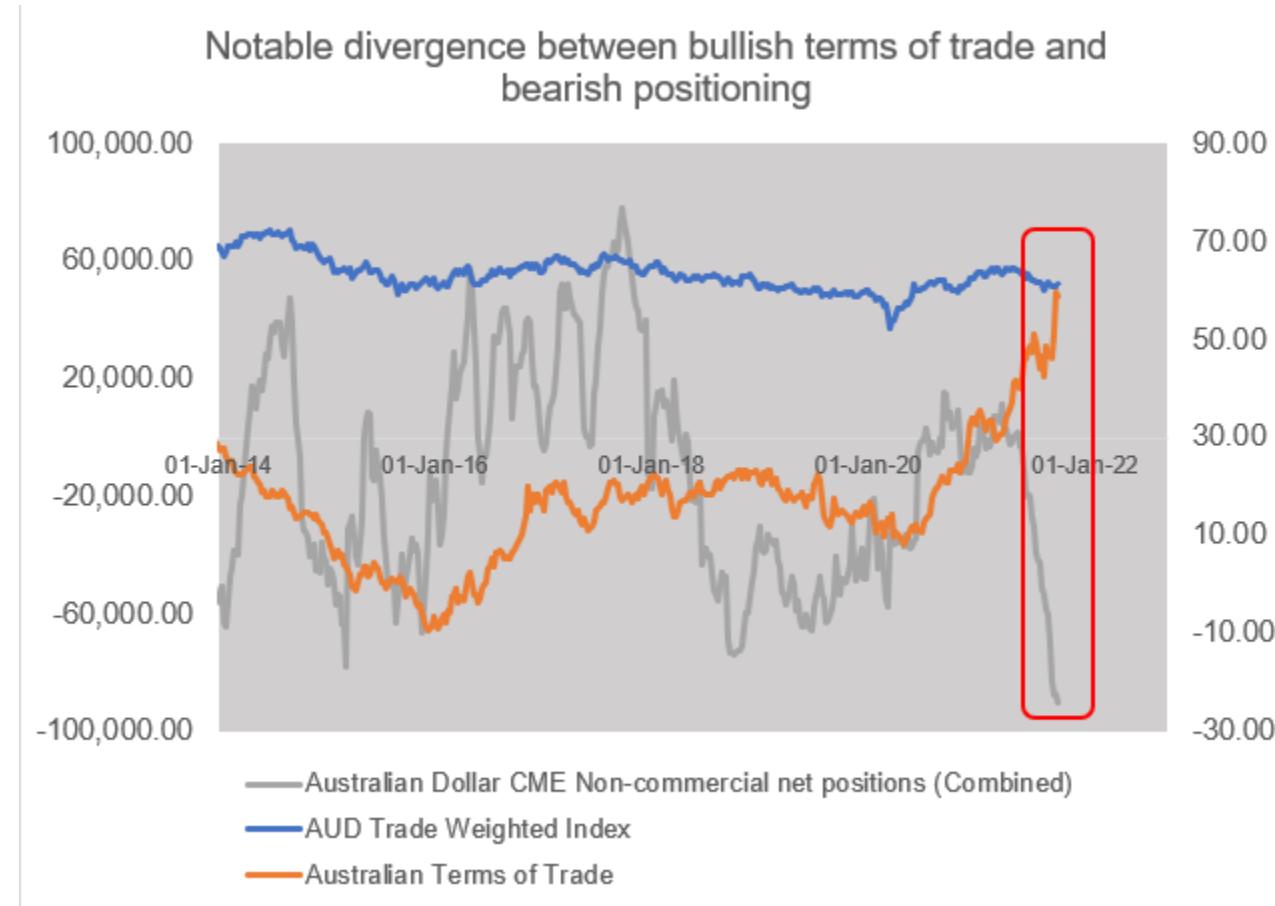
The AUD Hourly Point and Figure

So far fairly limited upside targets but so far the medium term suggests a relatively firm AUD, with the rebound since the last report aided in part by the recovery in iron ore from the US\$90.00 per mt low to US\$137.60, before iron ore rejected the 38.20% Fib retracement of the drop from the July highs and sank back within the Weekly Ichimoku cloud...



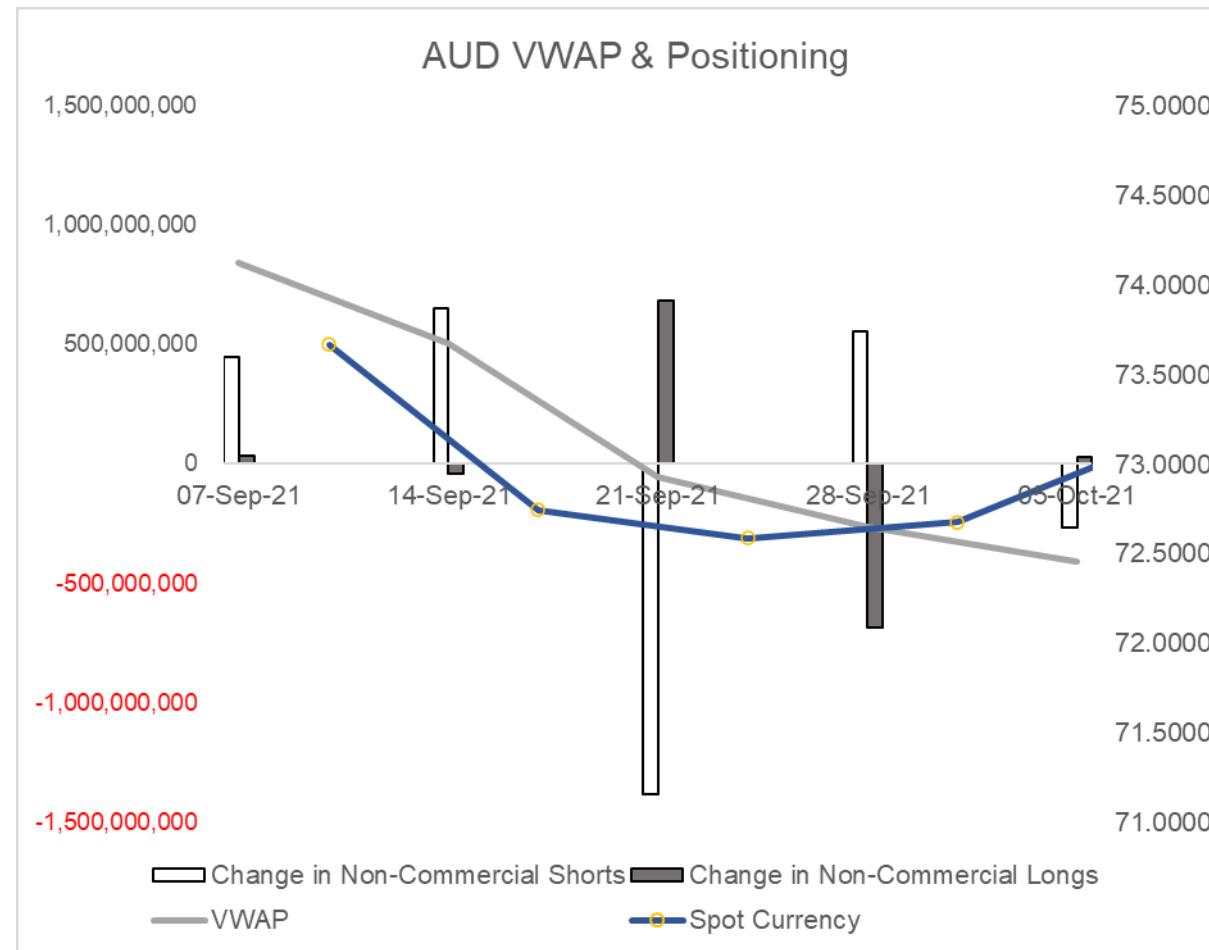
Australian Dollar Trade weighted index (TWI) and net positioning

Hat-tip to Deutsche Bank Sydney for the AUD chart shared below, which shows the strong divergence between how short investors are of the Aussie and the strong terms of trade number, which implies that the AUD 'should be' stronger overall, and that a move higher might be amplified by powerful short-covering. (The counter-argument may be that Australian terms of trade may deteriorate going forward and then there are well-known issues around property and the (short term?) energy constraints faced by our largest trading partner.)



AUD Positioning and VWAP

The blue line shows the progress of the AUD (very coarsely). Recent shorts look a little on the defensive at current AUD price levels.



Where to From Here?

US\$1,830 still matters this month too, as does US\$1,790.

Headwinds for gold consist of a strengthening US dollar, itself propelled higher on yields and oscillating risk-on, risk-off sentiment. Tapering is expected in November, irrespective of the recent miss on the US Non-Farm data.

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.

Investor positioning is fairly neutral, with recent shorts trimming their positions on dips.

Physical demand in Asia remains decent.

Again, a close above US\$1,840 (at least) or sub US\$1,690 looks necessary to change this dynamic.

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 (newly created) 20% in 24 mo.	0 %
US\$2,172	2% Daily Point and Figure.	2 %
US\$1,846	Basis hourly chart above (0.25% box size)	27 %

Targets (Downside)

US\$1,580	Daily US\$20 Point and Figure – less remote now.	9 %
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All target probabilities basis spot US\$1760 for 3 months and created by solving for option delta on the Bloomberg option pricer.

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