ABC Bullion Monthly Technical and Precious Metals Positioning Report - Gold - April 2020

By Nicholas Frappell

Gold – In Brief

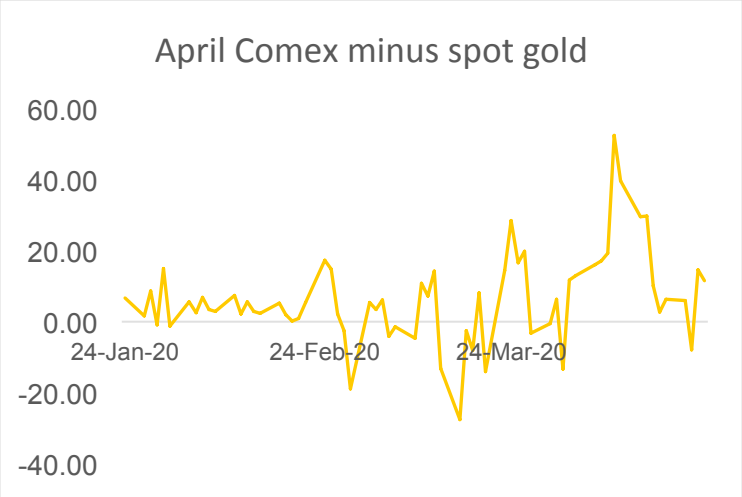
Gold and global equities rocketed higher from the lows, perhaps in the overall monetary response to the coronavirus. The IMF estimates that monetary stimulus, fiscal expansion, and debt forbearance amount to around 9.50 pct. of global GDP, or US$5 trillion USD. (see Johns Hopkins CSSE for the latest data.)

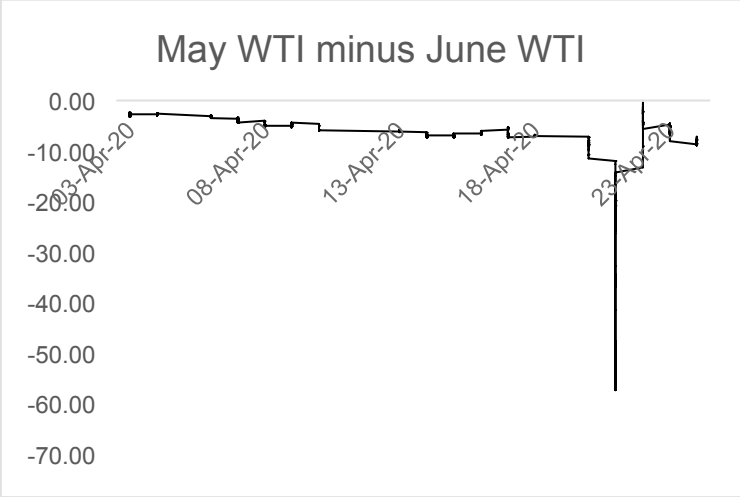
US Steel production – 33 % down from early January, oil rigs – 43 % from early January, mortgage applications -43 %, 26.50 million jobless claims processed since mid-March, expected Q1 GDP -3.50 %...(sourc+e: Bloomberg)

A Tale of Two charts…

'It was the worst of times and it the worst of times…' to mangle Dickens just a little bit. As Coronavirus forced the shut-down of a number of large refineries, a shudder of fear passed through the Comex shorts as concerns rose over the ability to deliver into April and subsequent contracts, causing the contango to spike aggresively. The Daily chart below captures some but not all of the carnage, as it obscures some of the intra-day peaks. With June delivery some two months away, uncertainty is likely to keep spreads high and volatile.

Crude saw the reverse problem: with titanic demand destruction causing a flow of WTI into Cushing, which rapidly hit 'tank tops' if not literally, then at least figuratively in terms of leased space. As WTI became spot physical delivery, prices crashed into negative territory, swinging into the minus thirties before recovering…Brent, by far the more international contract, does not have the same storage constraints as West Texas, traded down to (positive) US$15.98 as June WTI made a same-day low of US$6.50, possibly driven by traders fearing a repeat when the June contract rolls into settlement.





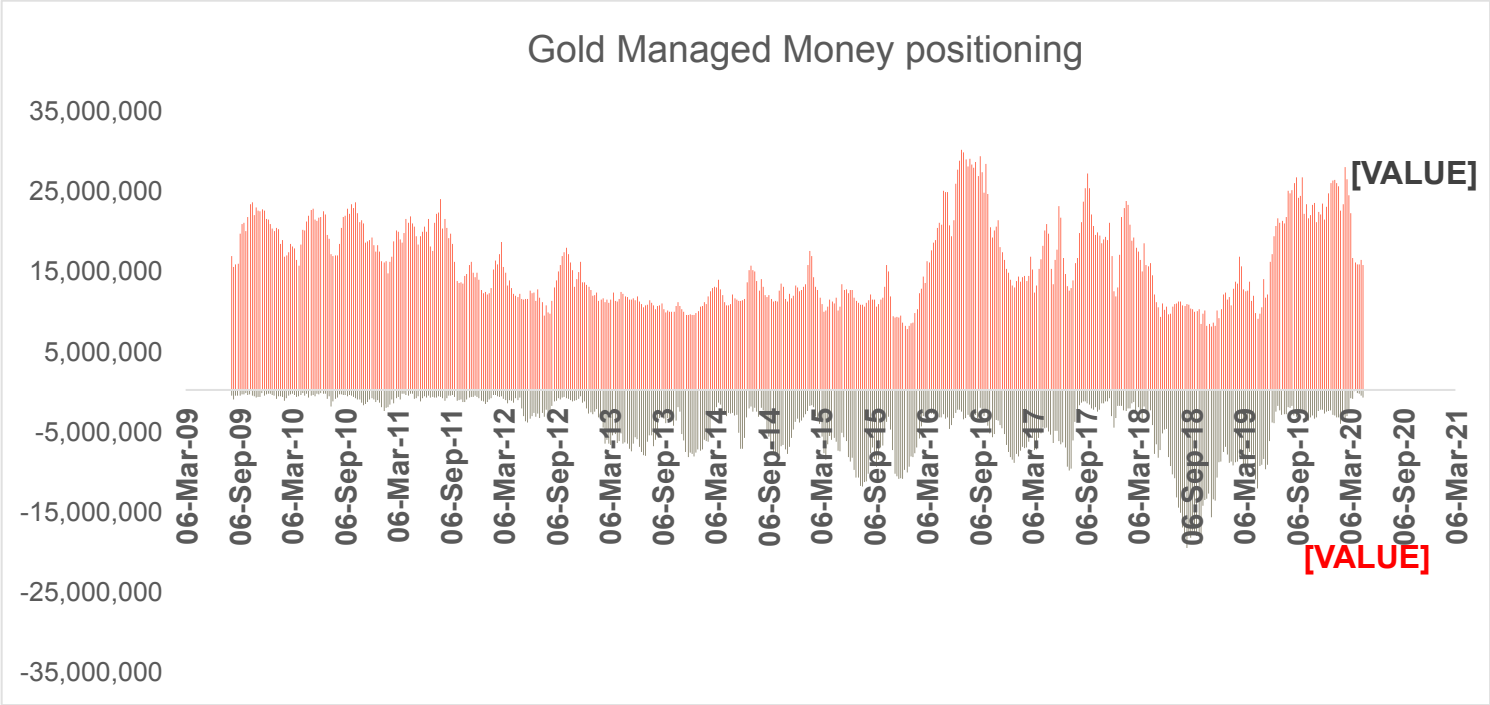
Both contracts display massive contango, but it made more 'visual' sense to subtract the June WTI from the May contract to imply the depth of the discount at physical delivery.

Source: Bloomberg

Money and interest rates

Quick overview of Managed Money positioning in gold. (See page 3 for weighted average prices and shifts in weekly holdings)

Managed money length declined by about another 0.95 million FTozs in the weeks spanning 17th March to the 21st April, and therefore reduced by 12.25 million FTozs since the 18th of Feb peak. Managed Money shorts reduced by 1.113 million FTozs, buying into the recent rally. Since the 21st of April, total Open Interest has shrunk by about 6,270 lots, or 0.627 million FTozs, which looks like the buyers have returned to some extent, although volumes were quite light.



Gold positioning and Volume-Weighted Average Pricing

The last six weeks have seen long liquidation from Managed Money continue in aggregate. There has been a tentative increase in managed money short through April. Gross length was last at these levels (15.55 million FTozs) at the beginning of June 2019.

VWAP for the Week ending on:	US$ VWAP	Longs	(Futures only) Shorts	Net change
Tuesday, 21 April 2020	$1,727.44	-692,000	922,100	-1,614,100
Tuesday, 14 April 2020	$1,729.30	540,700	264,500	276,200
Tuesday, 7 April 2020	$1,645.18	18,500	30,100	-11,600
Tuesday, 31 March 2020	$1,640.30	-214,500	266,600	-481,100
Tuesday, 24 March 2020	$1,530.95	-601,400	-934,400	333,000
Tuesday, 17 March 2020	$1,573.88	-5,566,300	44,300	-5,610,600
Tuesday, 10 March 2020	$1,657.52	-2,227,900	-1,710,300	-517,600
		-8,742,900	-1,117,100	-7,625,800
Gold ETF Change in position (Since March 27th) FTozs				5,429,008
Total change over period				-2,196,792

Weekly Ichimoku Cloud chart

The hammer candle in the week ending the 17th of April implied a weakening trend, but after a soft start, gold rallied to almost challenge the previous high, so let's assume that's a spurious signal for now.

Below the recent high, look for support at US$1634. Support from the Weekly Turning and Standard lines comes in at US$1600, and the 50 % retracement of the move up from the mid-March low.

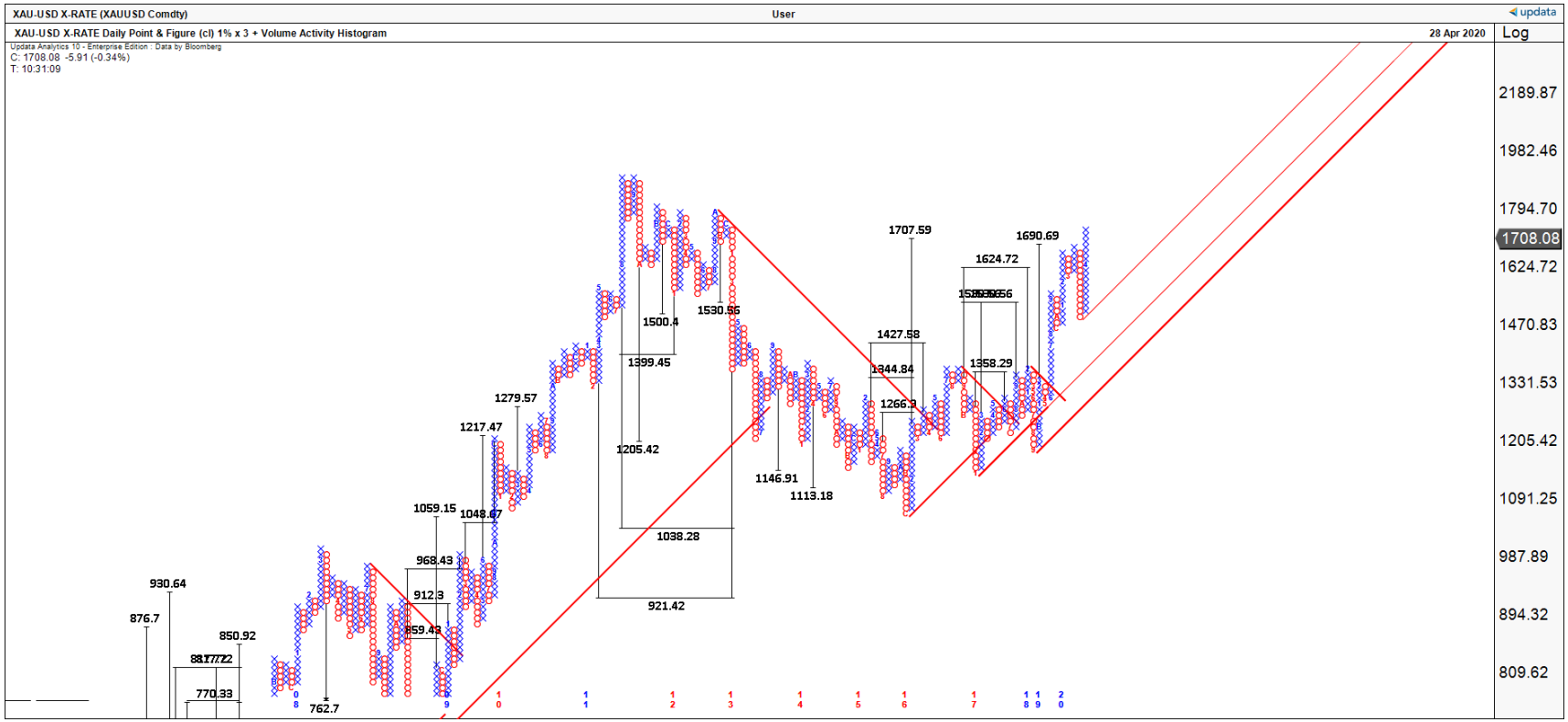
Daily Ichimoku Cloud chart

The daily chart reveals the huge volatility in March-April, and the support level from the October – November lows.

Some short-term support at US$1699 from the Daily Turning line, then US$1650 from the Daily Standard line. The clouds are bullish.

Daily Point and Figure log 1 %

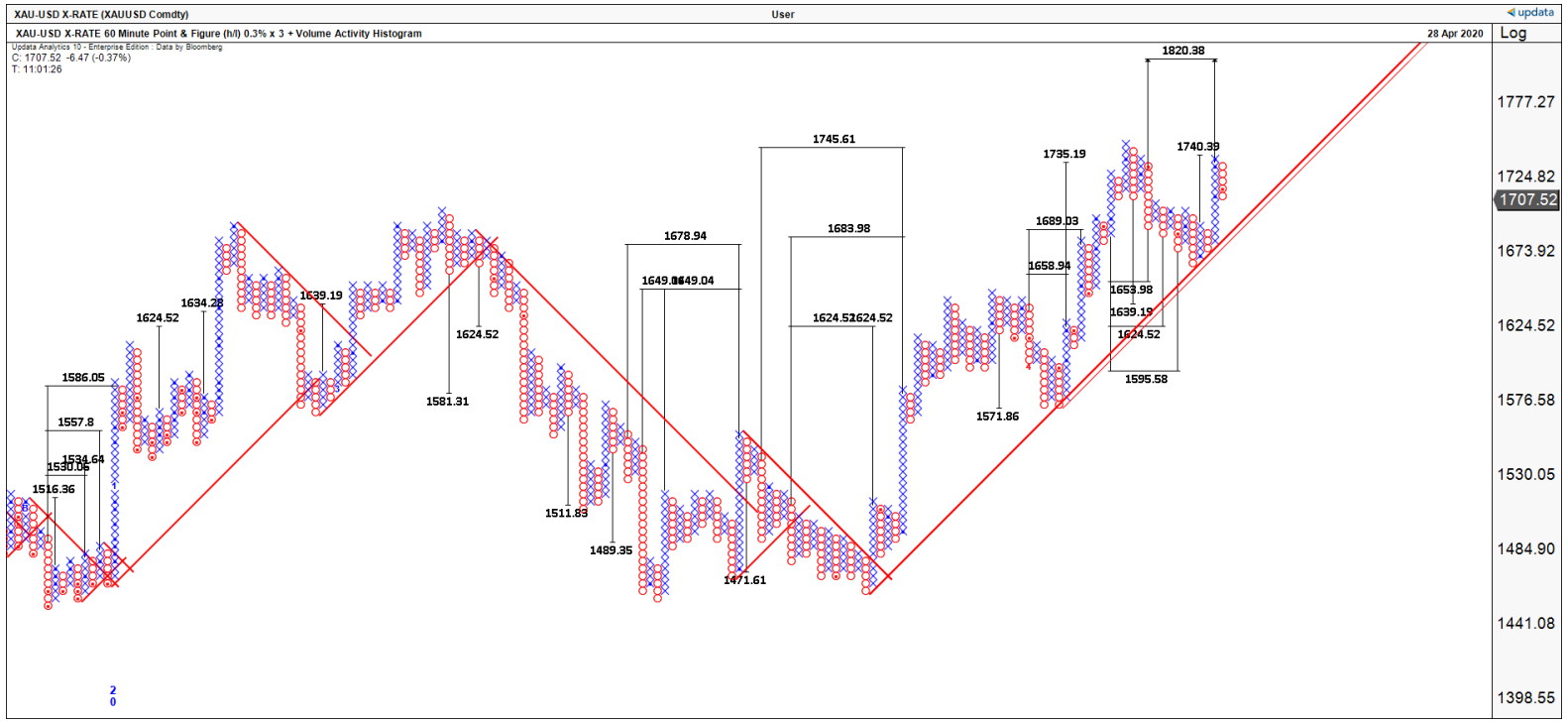
Using the 1 % box size the current column is bullish, however there are no targets above the US$1708 level, and that price has clearly been achieved recently. Using different box sizes and different time frames you can get plenty of upside targets, but the 1 % has been a steady guide to the long-run evolution of the price.



Gold Hourly Point and Figure – medium term

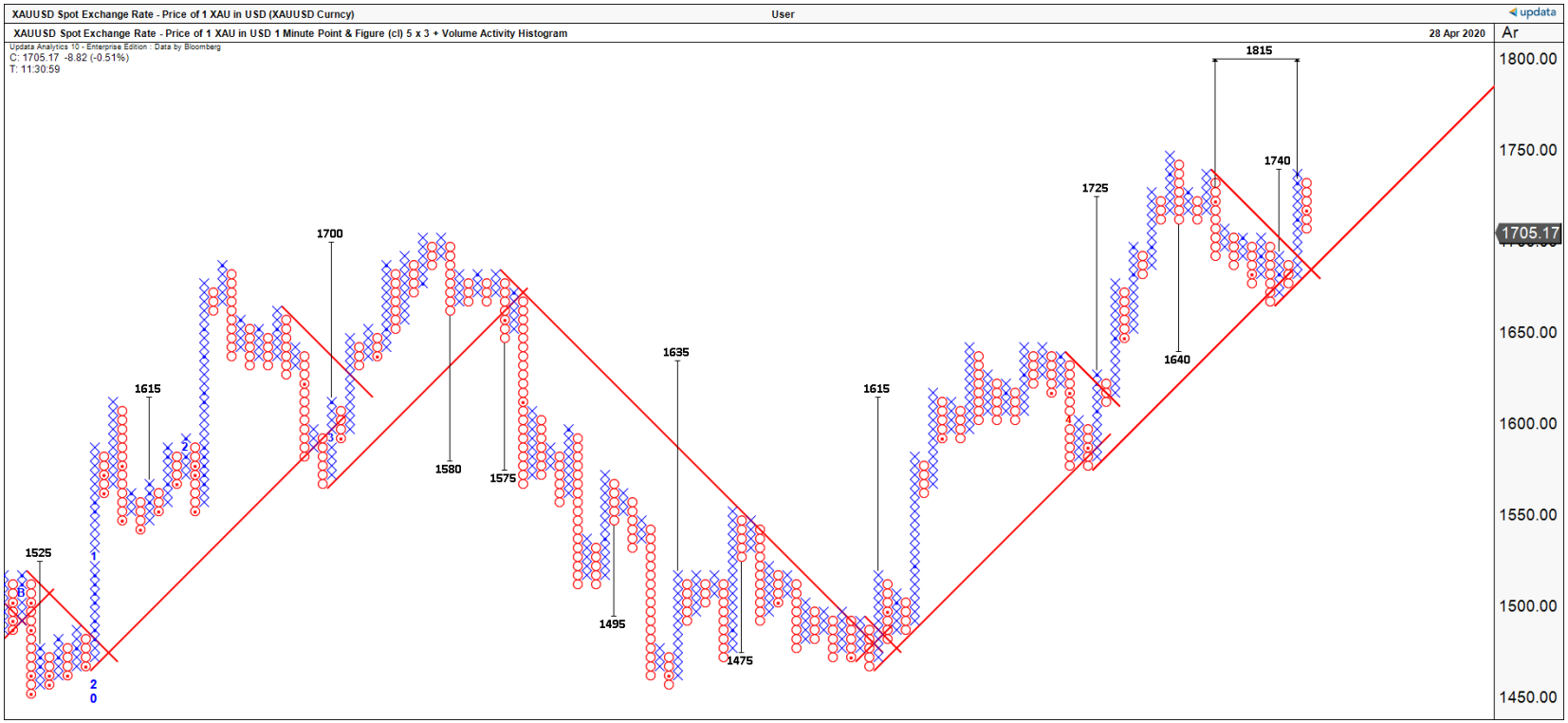
The trend is upward, but it is interesting to note the number of counts that congregate around the US$1435-1475 level, which was reached by the 14th of April. This suggests that the market has expended energy to reach this point and that unless gold see a new item of news that propels a clear break out to the upside, the tendency may be for weakness. Right now however, the trend is positive.

Support at US$1683-86, then the most aggressive downside target intersects the 50 % retracement of the March-April rally.



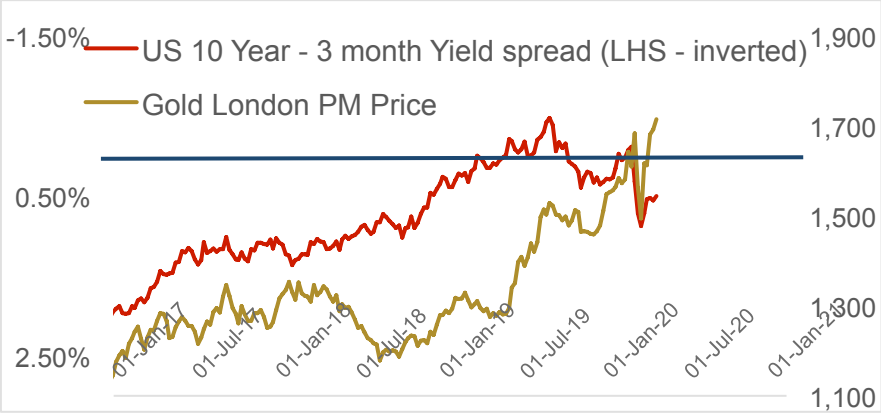
Price targets via Point and Figure – short term

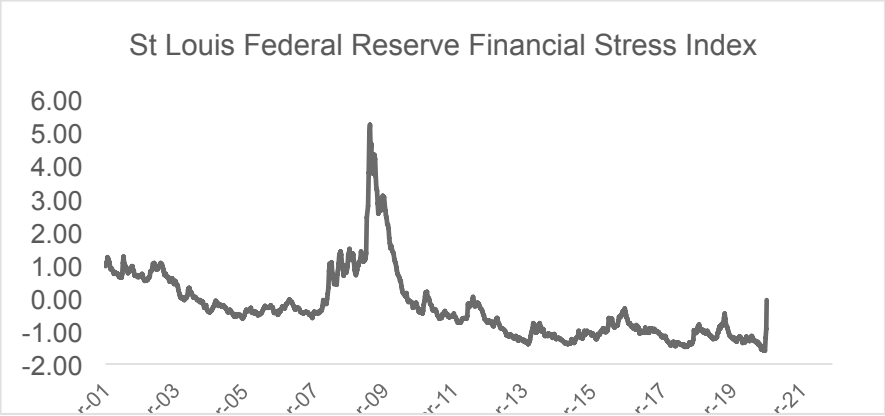
The US$5 box size still giving a good overview of the market in the short-term, Congestion in the US$1665-1685 zone provides near-term support.



The Inflation-linked bond yield & the US yield curve

Gold appears to be somewhat ahead of the 10Y – 3 mo yield spread, but probably helped by the spike in financial stress.



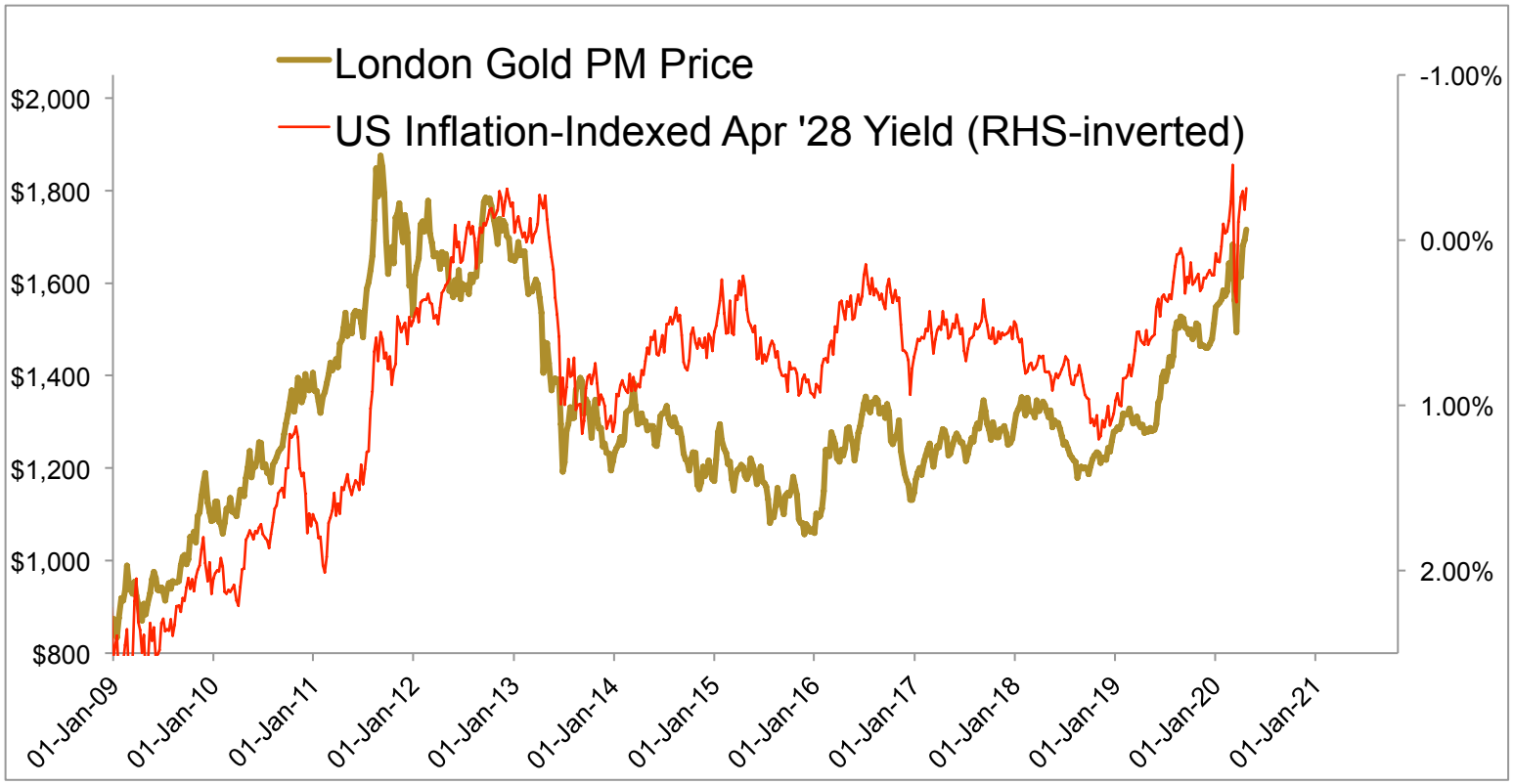


The spike in the stress index seems relatively benign compared with the GFC, however it's a trade-off between the size of the stimulus so far, and the likely impact on bank balance sheets and access to fixed income markets as the size of the economic contraction plays out in Q4 2020 and beyond?

Source: Bloomberg, St. Louis Fed. Rese

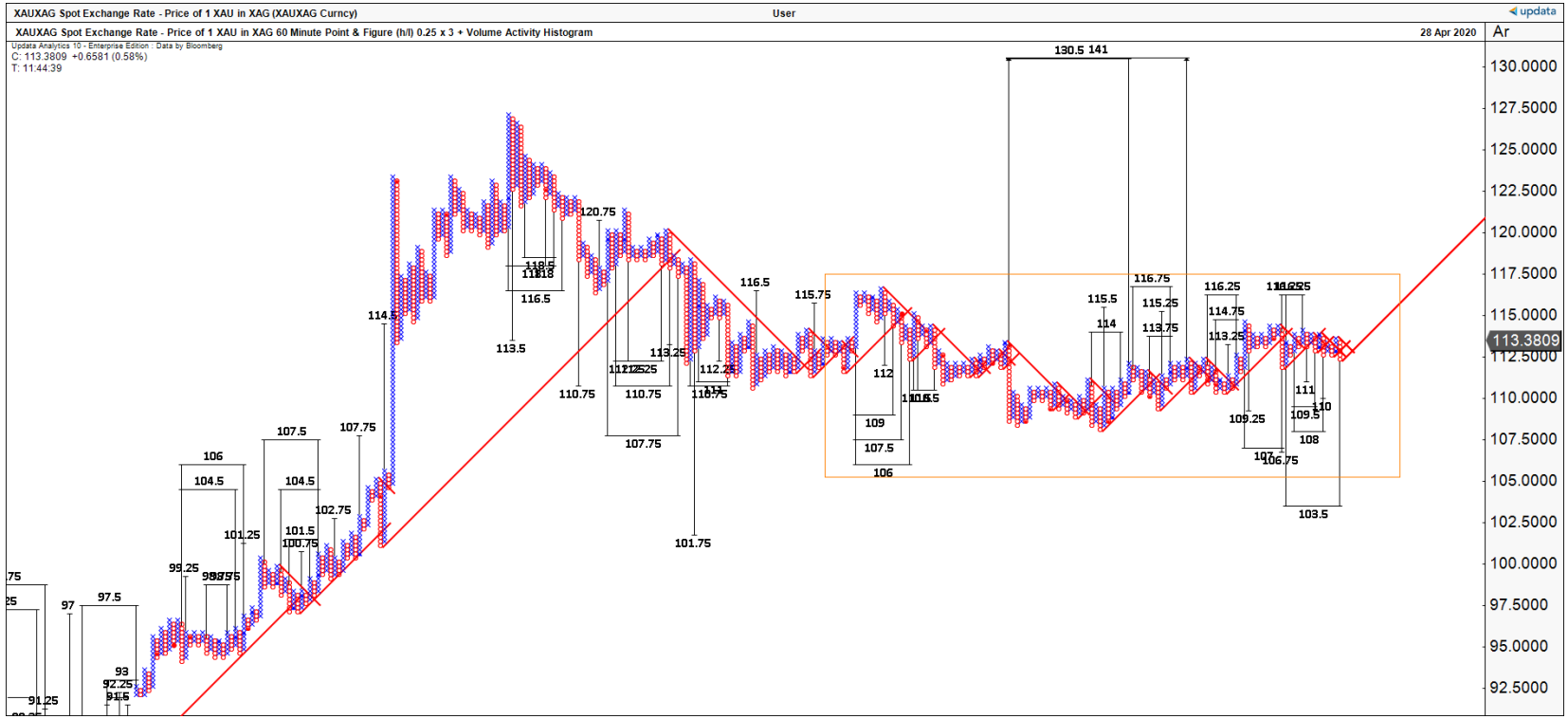
Gold prices and the yield on the April 2028 US inflation-linked bond

The spike up in yields hit gold hard in late March, but the recent decline in the inflation-linked yield is supportive of gold.



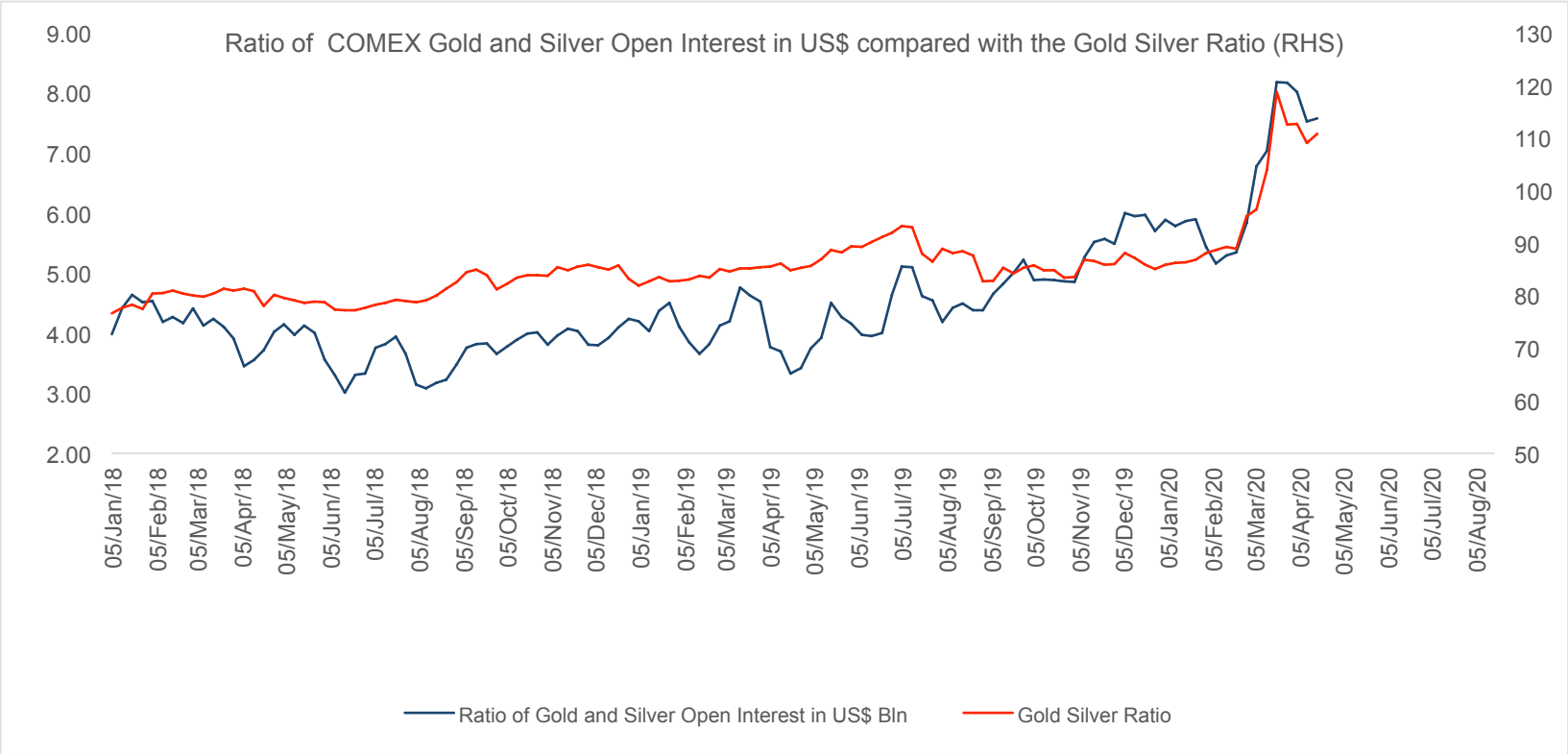
Gold-Silver ratio

The likely range in the near term appears to 106-117, with a target up to 130/141, which I would have considered spurious if it wasn't for the recent history of 127. For believers in mean-reversion, the 12-month average is 92, and the 5-year average is more 80 than 79…



Gold-Silver ratio (Continued)

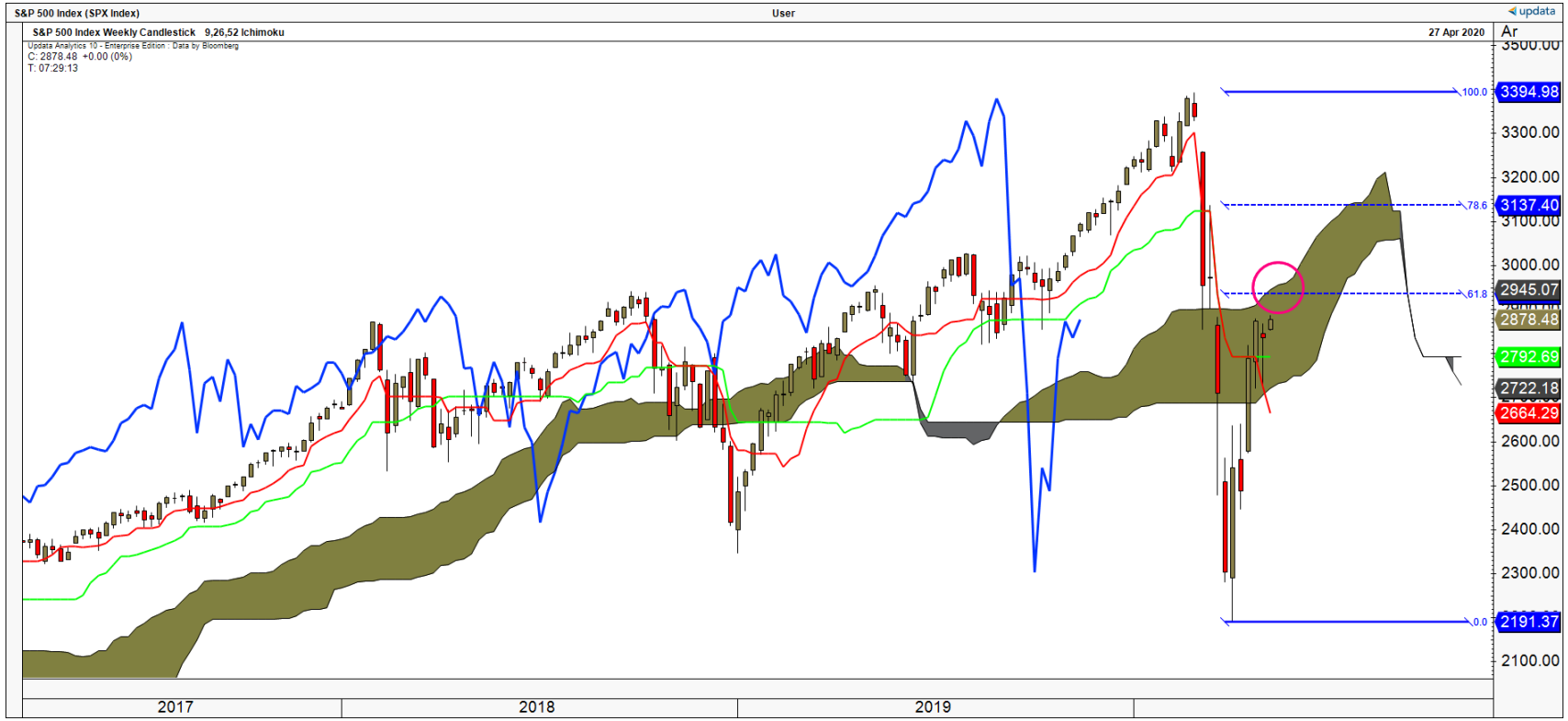
Given that the recent history of industrial and investment demand for silver seems to say very little that is informative at first glance with regard to the ratio, the chart below shows how the ratio is driven on the margin by the relative open interest in COMEX, when open interest is measured (in rough) US$ terms/



Equities - the SPX

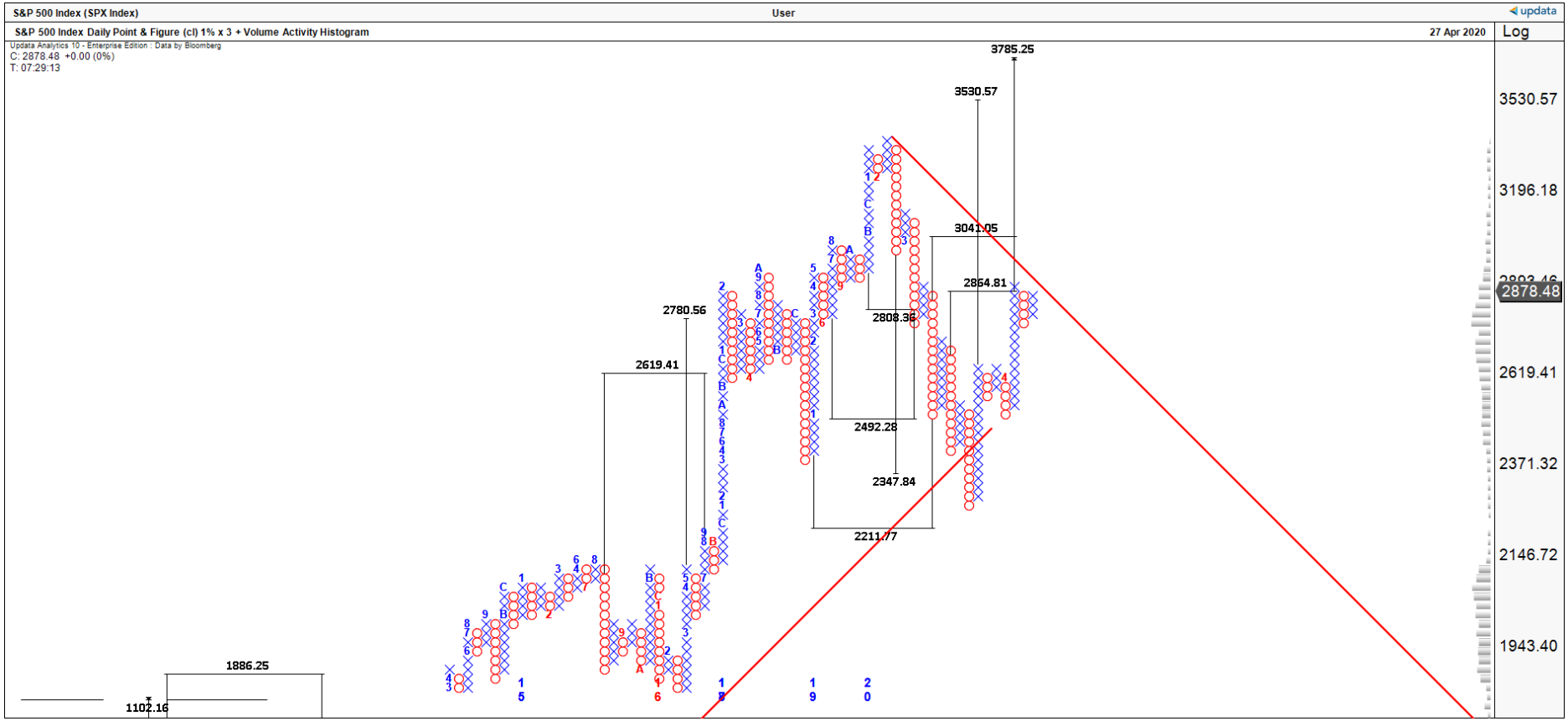
The fantastic rebound looks like running into resistance at the Weekly Cloud top and the 61.80 % Fib retracement.

Note that the price has narrowly exceed the price target on the Daily point and figure below. The next target is 3,041 which is roughly where the Cloud top is located in early June.



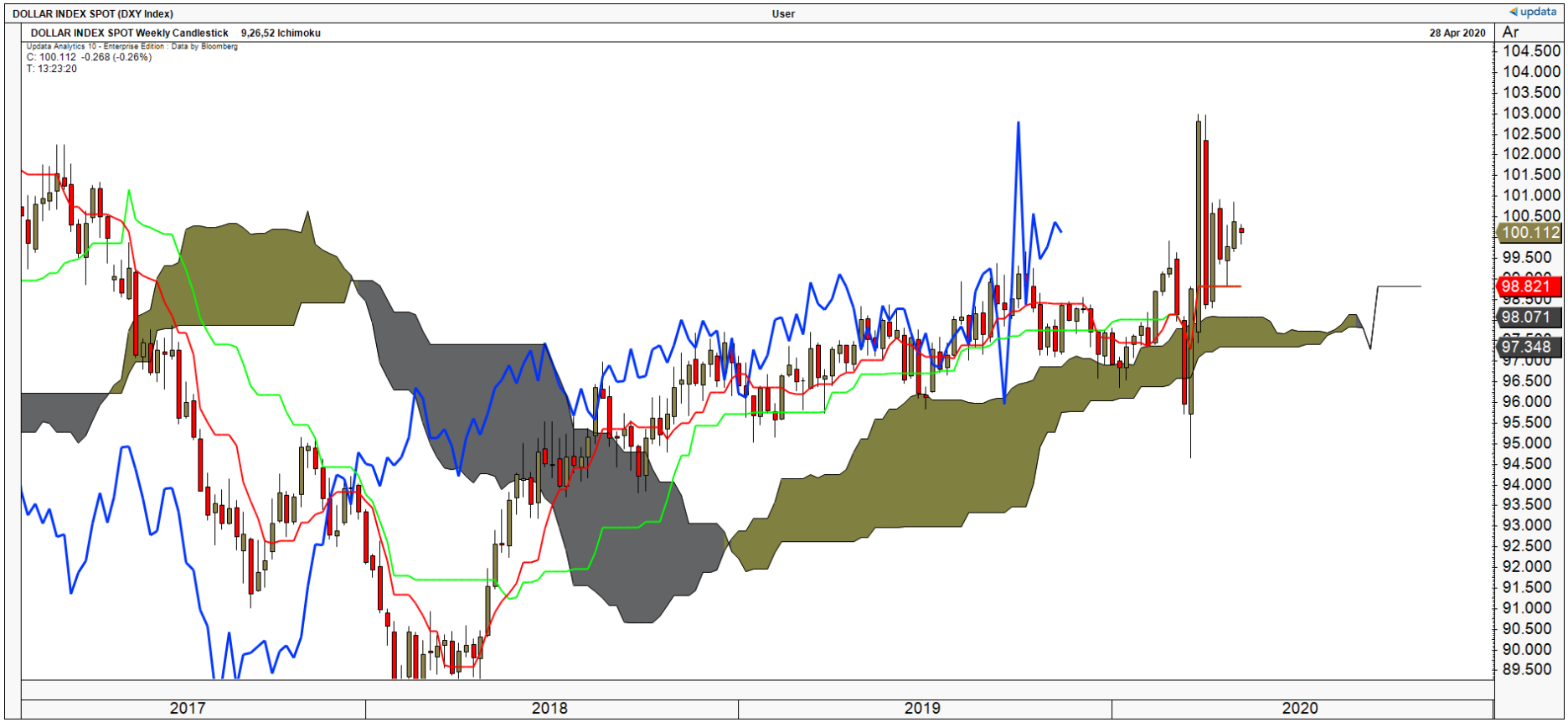
SPX Daily Chart with targets

Running into trendline resistance now and has hit an upside target. Weekly correlations over the last twelve months have increased to 0.53 for gold and 0.74 for silver, so watch for any equity weakness.



The Dollar – DXY

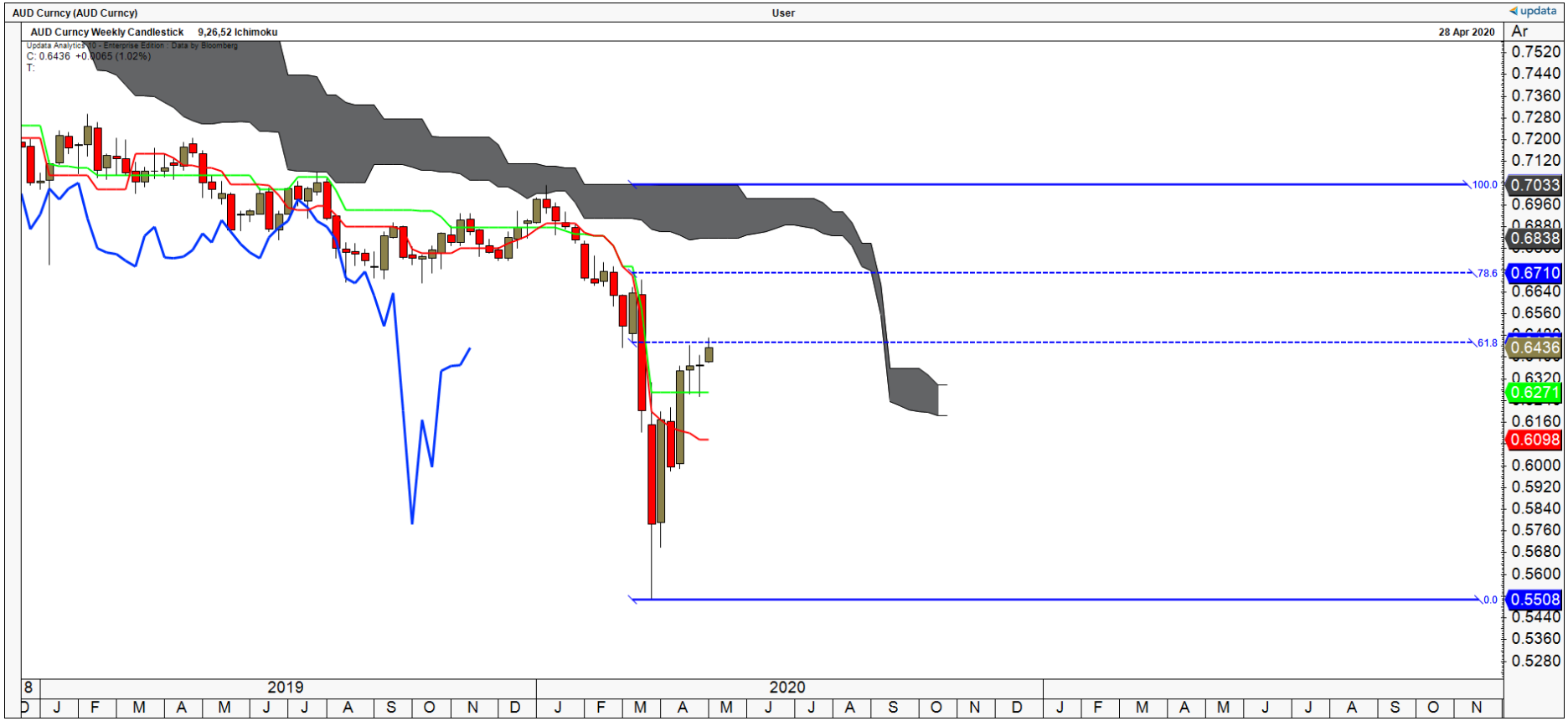
January 2017 highs proved tough for the DXY. Weakening towards 97 again?



AUD Weekly Cloud

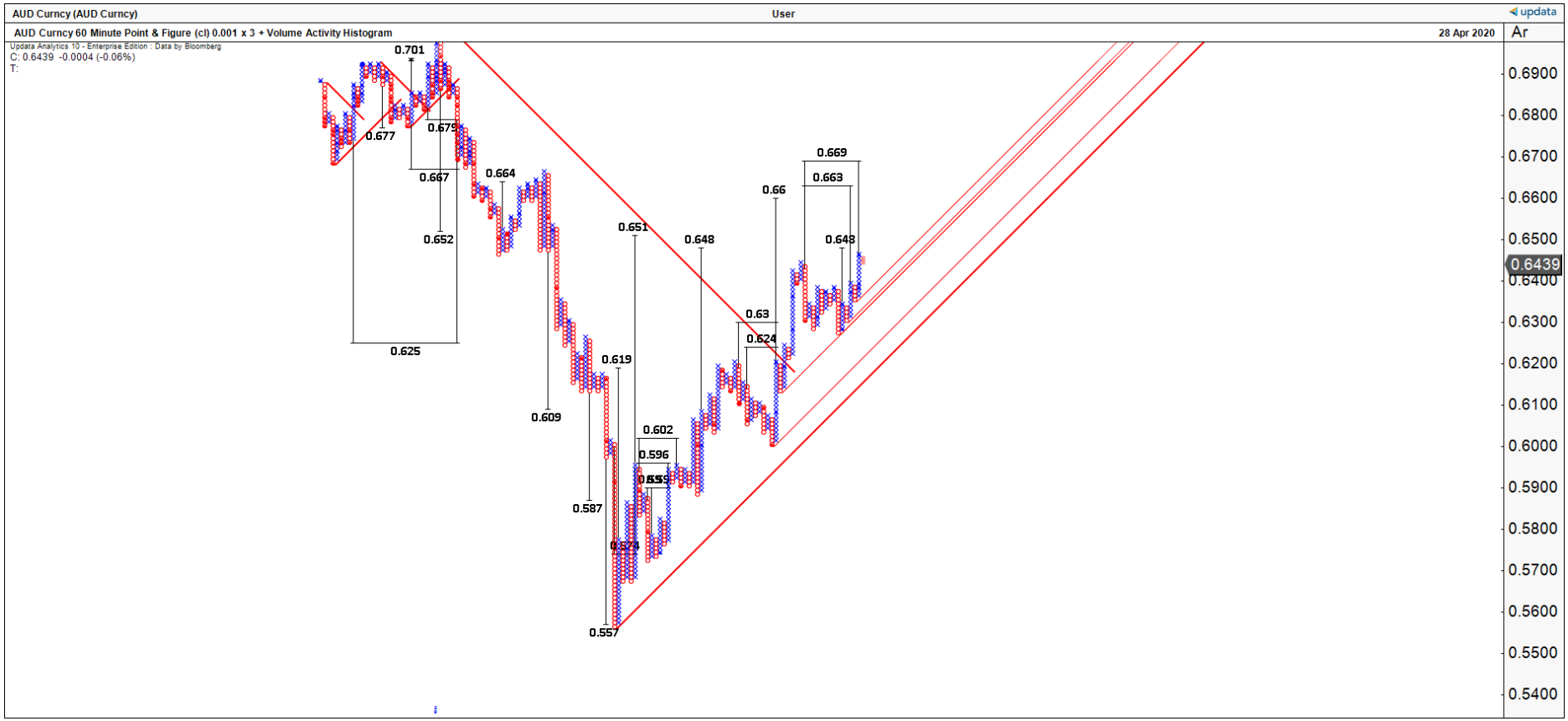
The ‘slight rebound’ has proved to be quite aggressive after a strong short-covering rally after pretty much touching the major 0.545 target.

Resistance expected at the 0.646 and 0.684 level.



The AUD Hourly Point and Figure

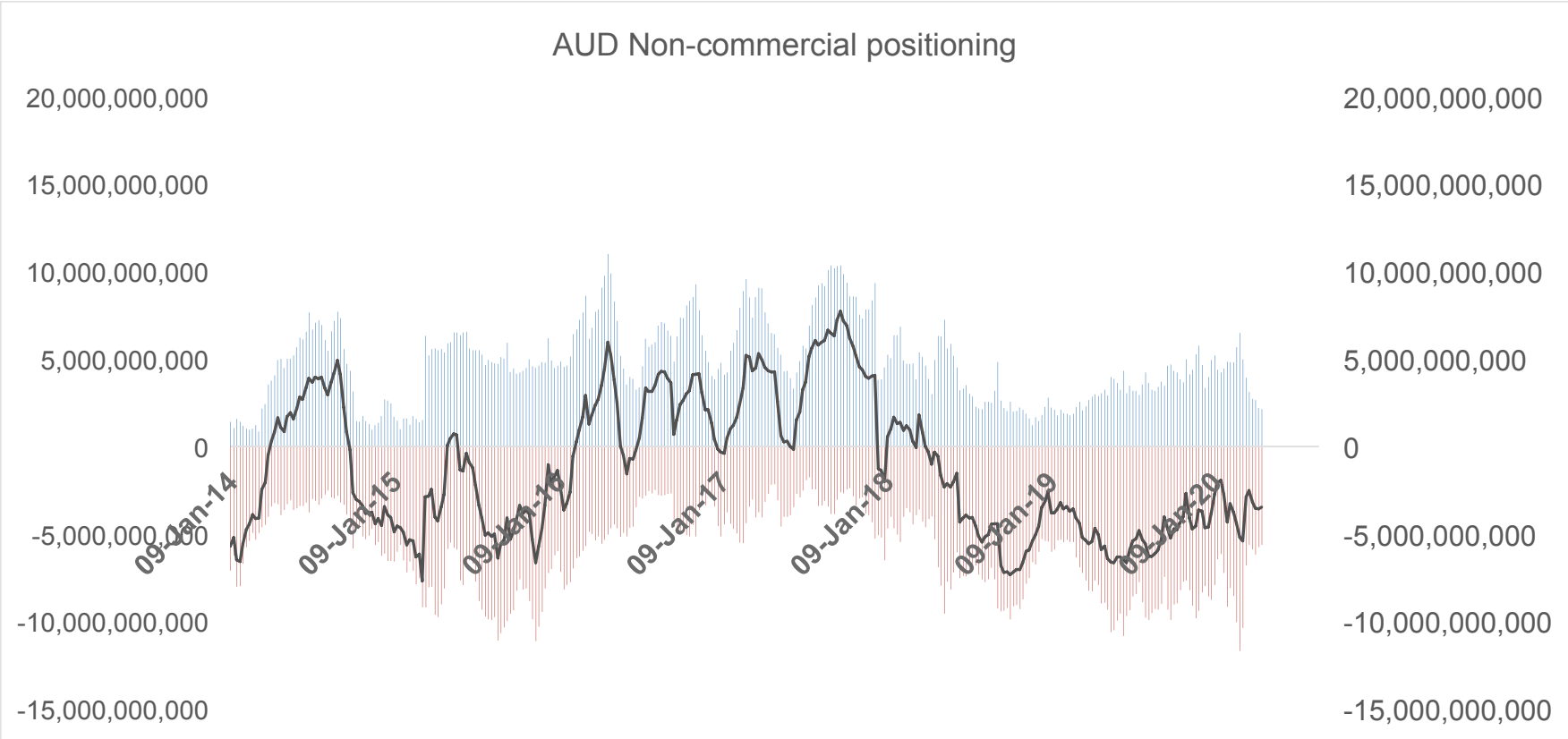
From last month: “Showing price action from mid-March onwards, this excerpt from the Hourly Point and figure indicates the chances of a recovery back to 0.62 and 0.651 within a longer-term bearish structure.“ Targets below extend to 0.66/0.67 before running out, suggesting that the powerful rebound may be in its final phase? (Hostage to fortune alert!)



Positioning in the AUD vs the USD

A sharp reduction in non-commercial short positioning since early March.

Note that so far there has not been an accompanying increase in long positioning, suggesting that confidence in the AUD is a one-way thing at the moment, and that shorts who had sharply increased their positions at a VWAP of 0.6634 and 0.6720 started buying back as a group at 0.619 and 0.586.



Where to from here?

After a huge round of volatility and a counter-intuitive drop in mid- March the market has rallied on a return to lower yields, large scale fiscal actions, and a continuation of massive jobless claims in the US all imply support for gold.

Data shows a steady withdrawal from the COMEX market by Managed Money speculators from the February commitments, with gross long positioning around 55 % of the recent peak.

Technicals are bullish, but it is reasonable to say that they allow for a move lower in the price. This allows for those who are bullish to be patient.

The recent run up in US equities may have reached the top of the post-dip recovery.

As ever, news flow around Coronavirus and the re-opening or otherwise of major economies will dominate asset markets.

Resistance		US$1734-40	78.60 % retracement of the 2011-2015 move, and a target on the US$15 Daily gold point and figure			
			The vicinity of the recent highs.			
Supports		US$1678	Hourly Point and Figure trend line			
		US$1635	38.20 % Fibonacci retracement			
		US$1600	50 % Fibonacci retracement and Weekly Standard and Turning Lines			
		US$1455	Weekly Cloud top			
Targets	**US$1820**	**Medium term (Hourly) Point and Figure**		**17 %**	**Basis spot US$1695**	**1 month**
		US$1745	**Medium term (Hourly) Point and Figure**	**(34 %)**		
Targets						
(Downside)		**US$1640**	**Medium term (Hourly) Point and Figure**	**28 %**		
		US$1515	**Daily Long term**	**6 %**		