

# ABC Bullion Monthly Precious Metals Technical Analysis Report

## May 2020

### Gold – In Brief

Gold spent much of the month trading in a narrowing pattern that resembled a pennant, which looked like a consolidation phase after the rapid recovery from the mid-March crash. Last week the price tested the break-out of that pattern and rallied higher, although failed to make new highs. If this break-out from the consolidation pattern follows past behaviour, then a rally to the high US\$1900's may unfold.

The principal drivers have been a deterioration in Sino-US relationships, a sharp decline in the Dollar index, rising unemployment and a contraction in economic activity more or less everywhere.

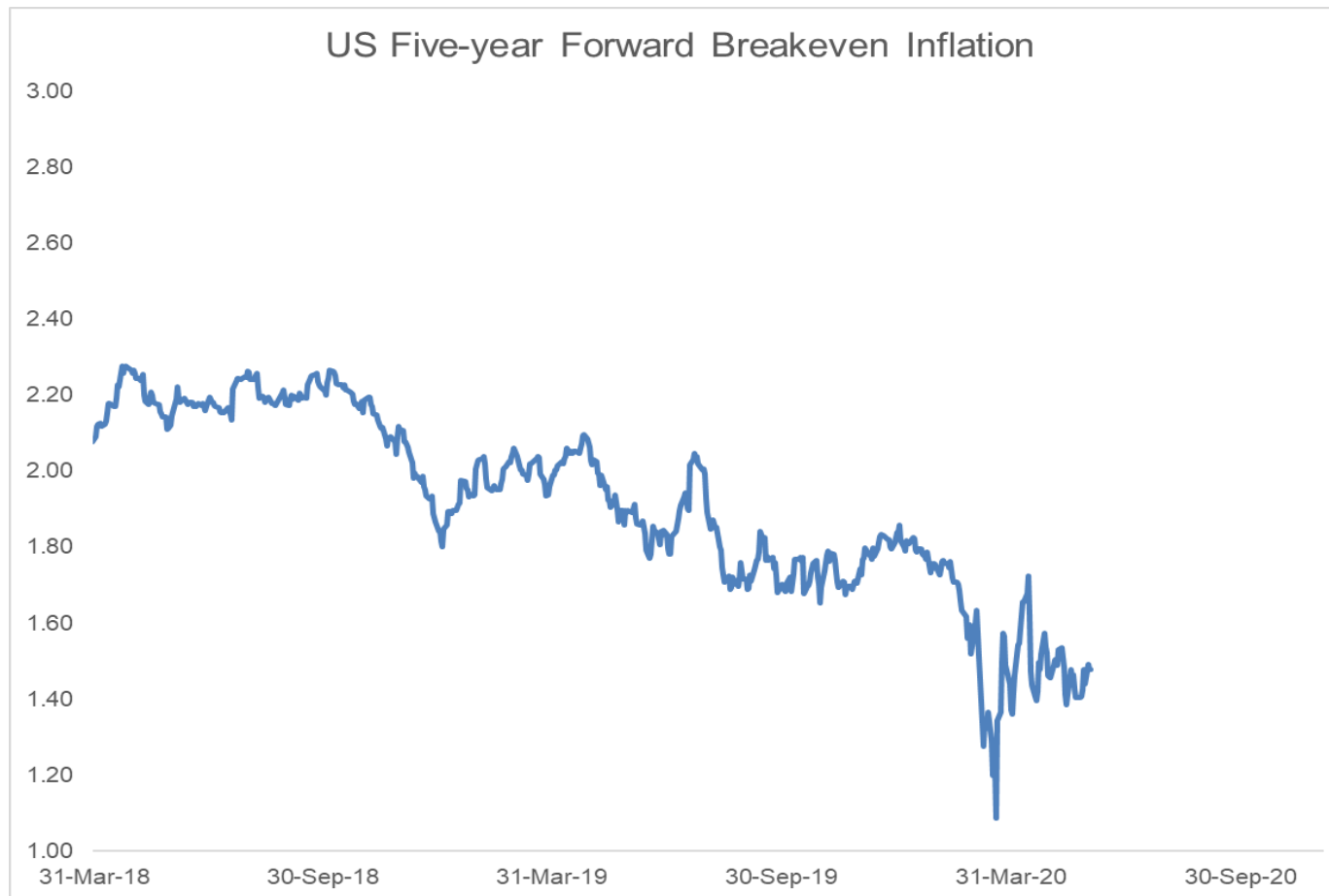
A summary of US economic data shows the extent of the collapse.

30 April Initial nowcast	-12.10 pct.
01 May ISM Manufacturing Index	-16.60 pct.
04 May Manufacturing Auto Sales	-17.40 pct.
05 May ISM Non-Manufacturing Index	-17.60 pct.
08 May Employment situation, wholesale trade	-34.90 pct.
13 May Producer Price Index	-35.20 pct.
15 May Retail Trade, Ind. Production etc.	-42.80 pct.
19 May Housing Starts	-41.90 pct.
21 May Existing Home sales	-41.50 pct.
28 May GPD, Advance durable Manufacturing	-40.40 pct.
29 May Advance economic indicators	-51.20 pct.
01 Jun ISM Manufacturing Index, Const. spending	-52.80 pct.

Asset markets now seem optimistic about a post-CoVid recovery, and discounting second-wave impacts as various economies ease lockdown restrictions.

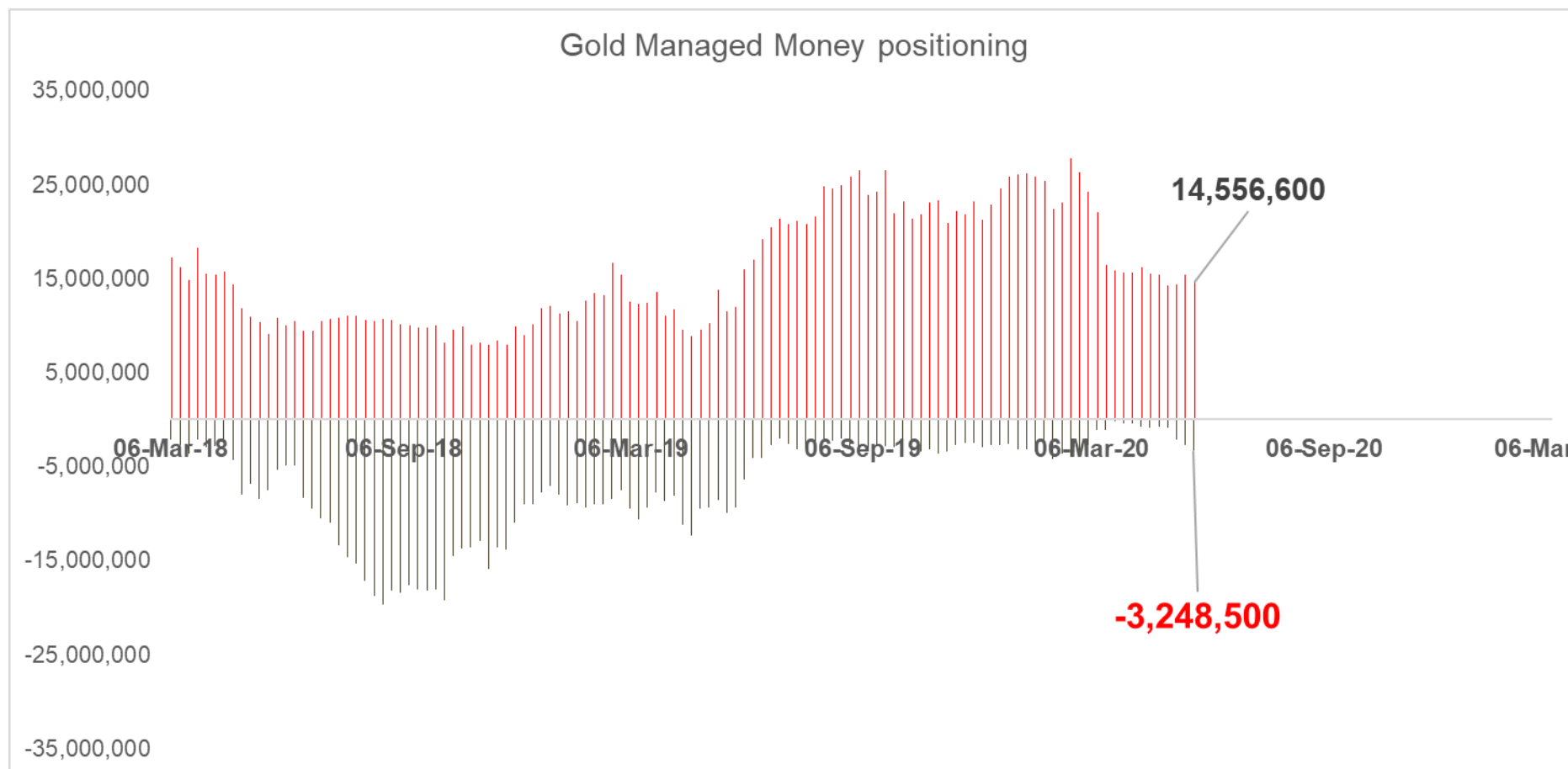
## Money and Interest Rates

Whither inflation? Several commentators have put forward lucid arguments for a bout of post-CoVid inflation, however those arguments aren't feeding into markets yet. Below is the US 5-year 5-year forward breakeven, a guide to market expectations of US inflation five years hence. So far nothing has troubled the weak downward trend of recent times.



## Quick Overview of Managed Money Positioning in Gold

Gold longs rapidly decreased with the swift rise in the contango as the roll yield turned very negative very quickly. Shorts started to increase in turn. Managed money longs appear to have stabilised at around 14 million Tozs.



## Gold Positioning and Volume-Weighted Average Pricing

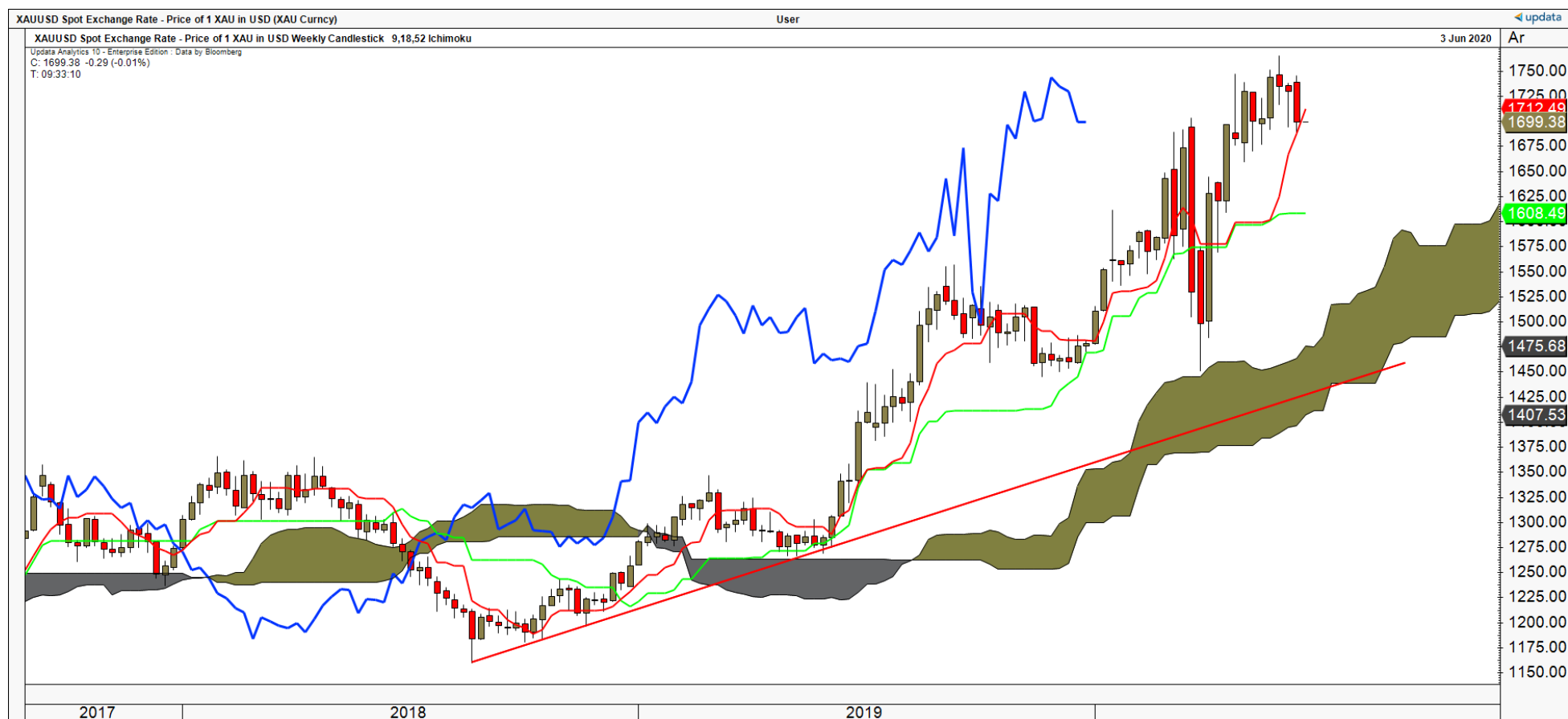
The net outflow from the CME has been more than matched by the inflow into total ETFs over the same period, as carrying longs on the exchange becomes more expensive and shorts are rewarded for rolling their positions forward.

As the EFP narrows, longs may venture back and vice versa.

VWAP for the Week ending on:	Weekly Change in Managed Money Positions (Futures only)				
	US\$ VWAP	Longs	Shorts	Net change	
Tuesday, 2 June 2020	\$1,738.27	0	0	0	(Published 5th June)
Tuesday, 26 May 2020	\$1,735.56	-839,500	558,800	-1,398,300	
Tuesday, 19 May 2020	\$1,735.19	994,600	509,900	484,700	
Tuesday, 12 May 2020	\$1,708.18	168,900	1,271,300	-1,102,400	
Tuesday, 5 May 2020	\$1,710.78	-1,169,900	146,600	-1,316,500	
Tuesday, 28 April 2020	\$1,724.45	-146,700	-160,200	13,500	
Tuesday, 21 April 2020	\$1,727.44	-692,000	205,300	-897,300	
		-1,684,600	2,531,700	-4,216,300	
Gold ETF Change in position (Since April the 21st ) FTozs				5,835,291	
Total change over period				1,618,991	

## Weekly Ichimoku Cloud Chart

Profoundly bullish looking basis the cloud, Standard and Turning lines – but only inching forward in terms of fresh highs, after the violent rebound off the top of the Weekly Cloud in March. The price has weakened to test the Weekly Standard line (red) When looked at in conjunction with the Daily Point and Figure below, which lacks upside targets, beyond US\$1755



## Daily Ichimoku Cloud Chart

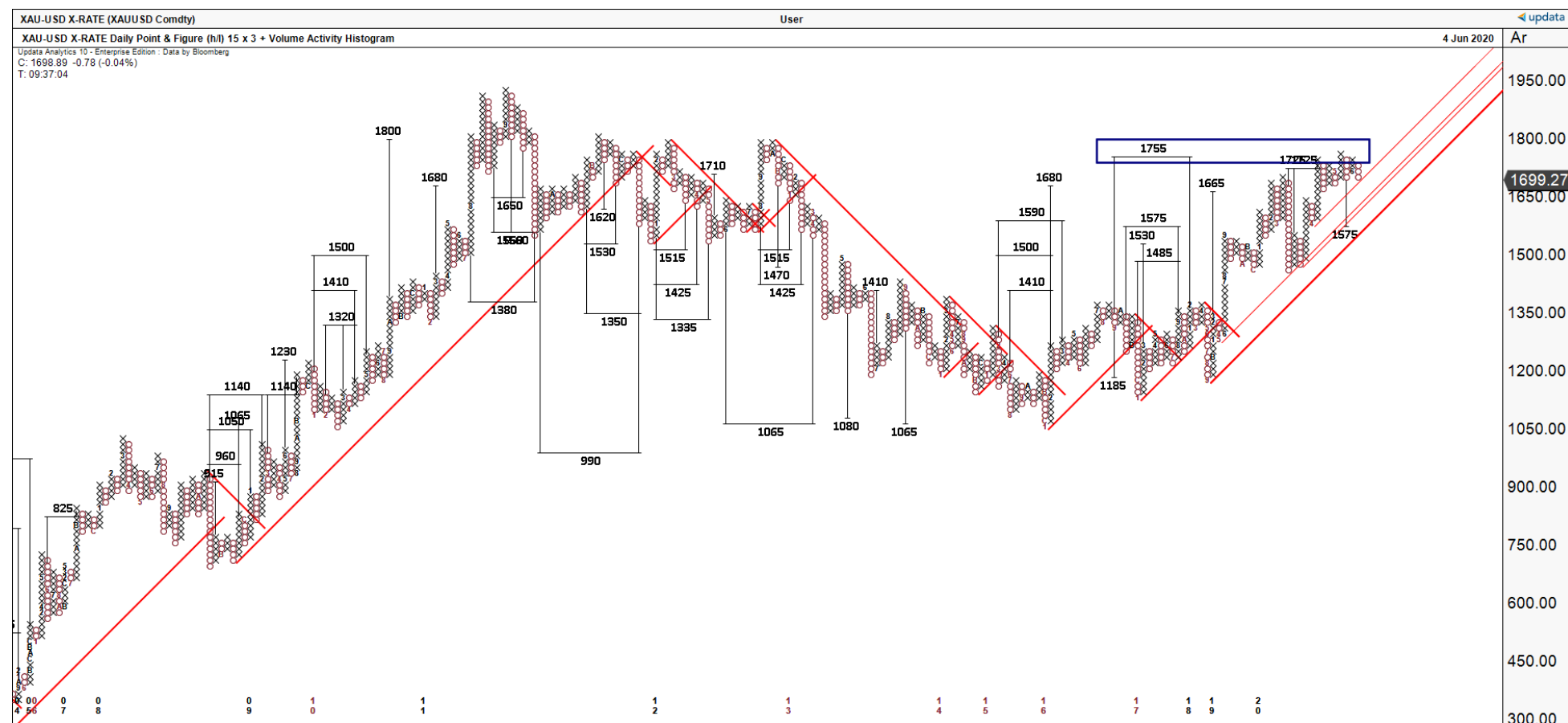
The breakout and successful re-test of pennant pattern implies a significant leg higher from here, although current price action looks unfocussed and the price has swiftly returned to the lows of the week. Support at the Daily Cloud top (US\$1678)



## Gold Daily Point and Figure – Long Term

Using a US\$15 box size, this very long-term chart is bullish, but shows a striking lack of targets above the US\$1755 level. See the level in the blue box.

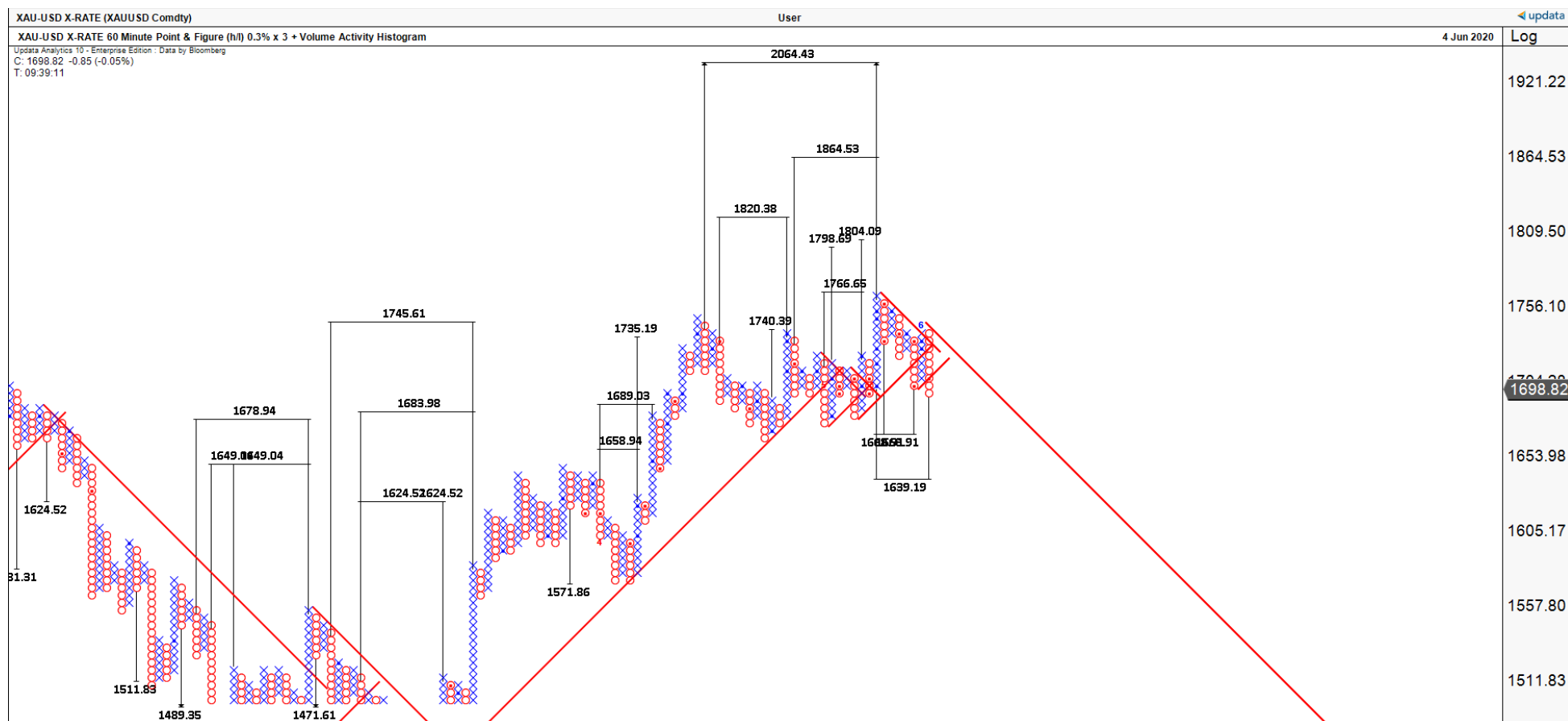
Worth bearing in mind.



## Gold Hourly Point and Figure – Medium Term

The price did initially break out of a bullish pattern but has swiftly weakened. is breaking higher out of a bearish pattern.

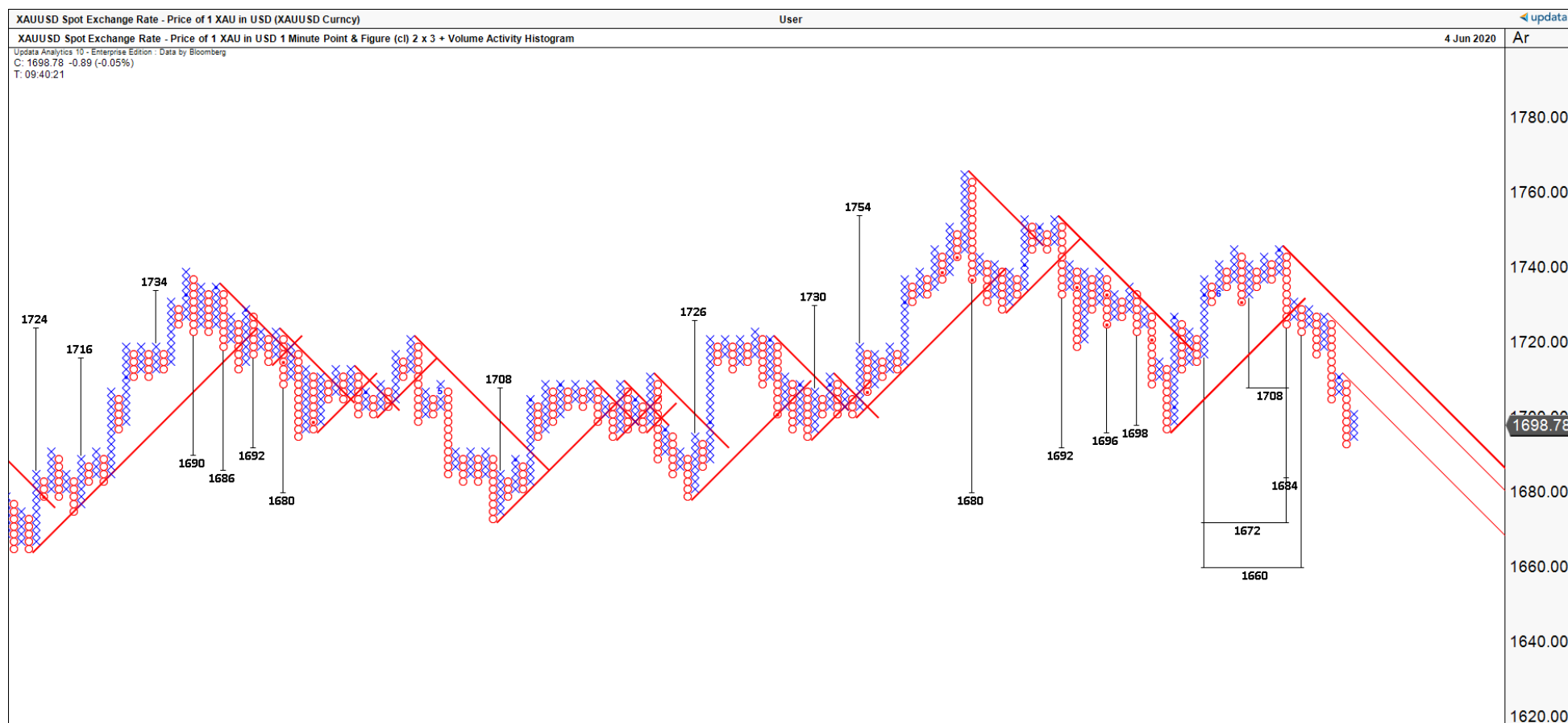
Targets to US\$1773-1791, then another cluster at US\$1805-1809. Downside targets to US\$1640





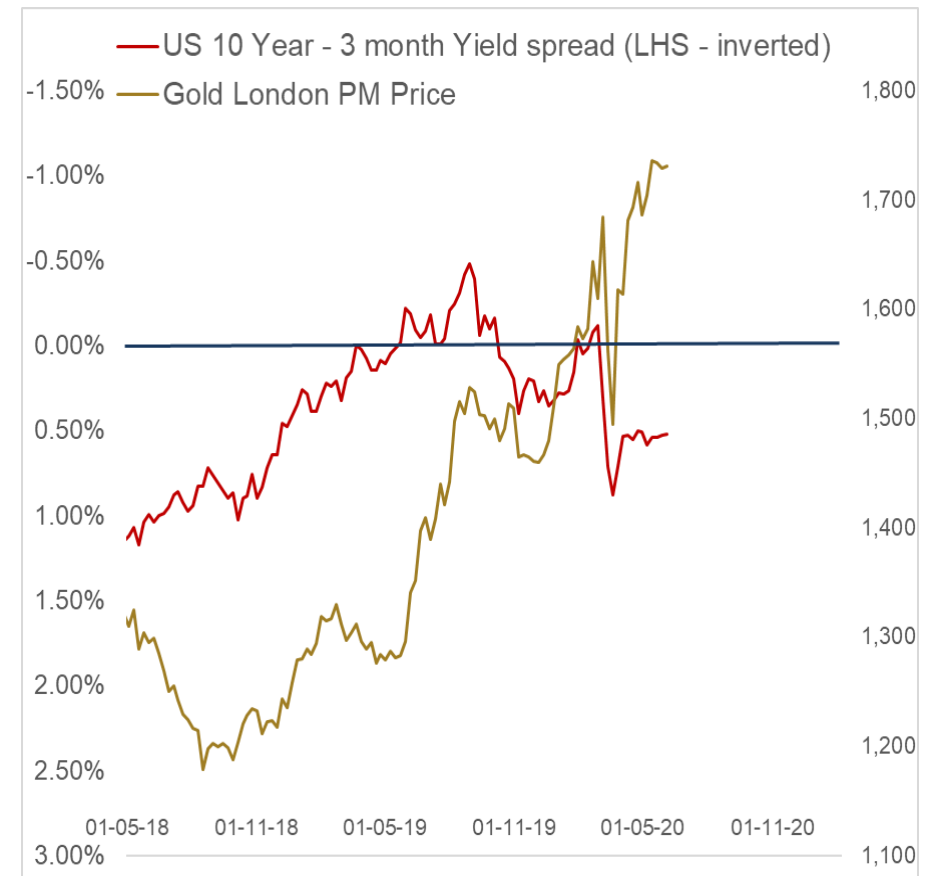
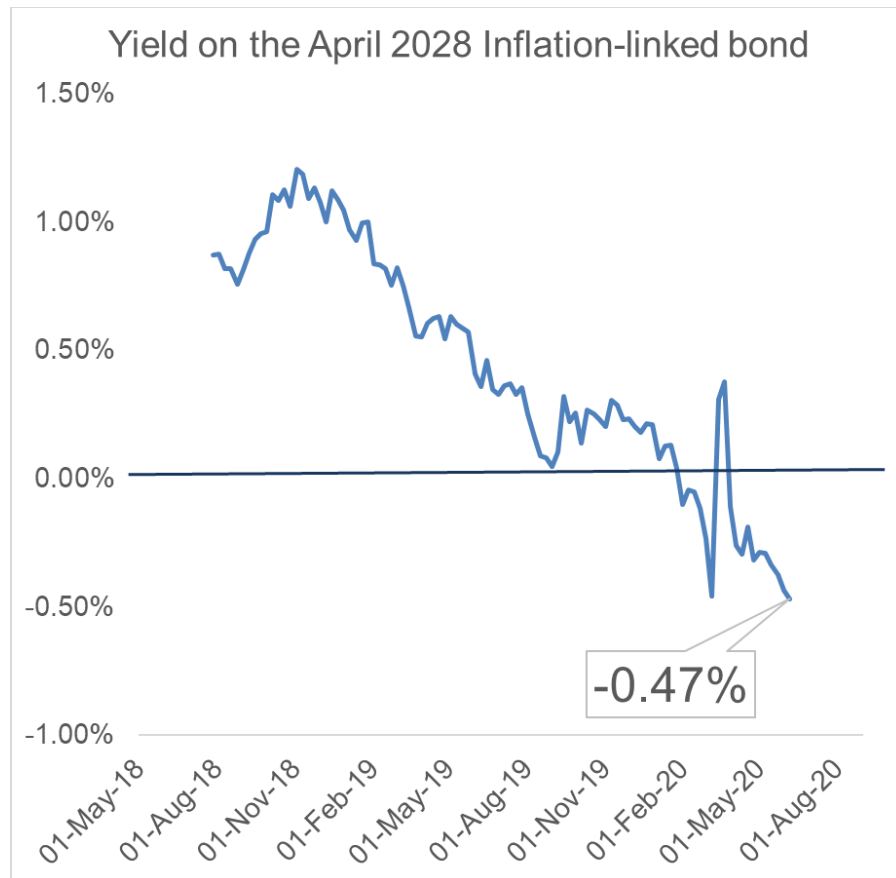
## Price Targets via Point and Figure – Short Term

Moving back to a US\$2 box size, it is possible to see where the market traded down the cluster of downside targets around US\$1692-1698, making a low at US\$1694, before cycling back into a brief bullish phase. Despite successive buy signals as the 'x' columns progressed upwards, price action rolled over and the market looks set to try the downside targets set out below.

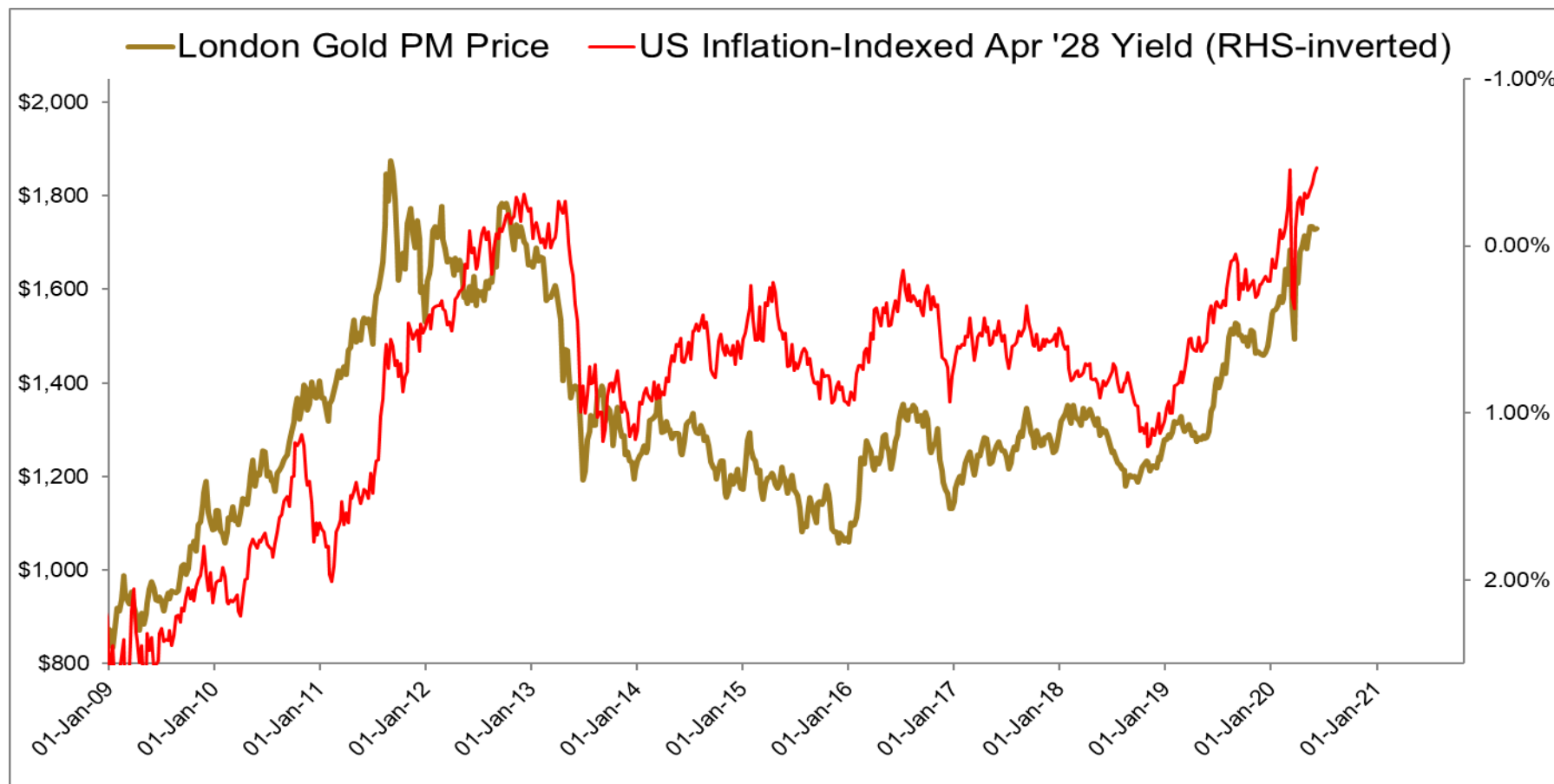


## Inflation-linked bond yields & gold

The return of the negative yield on the 2028 inflation-linked bond has helped gold. The yield curve spread has diverged from the gold rally. Is gold getting ahead of itself, or is the yield spread only a semi-reliable guide?

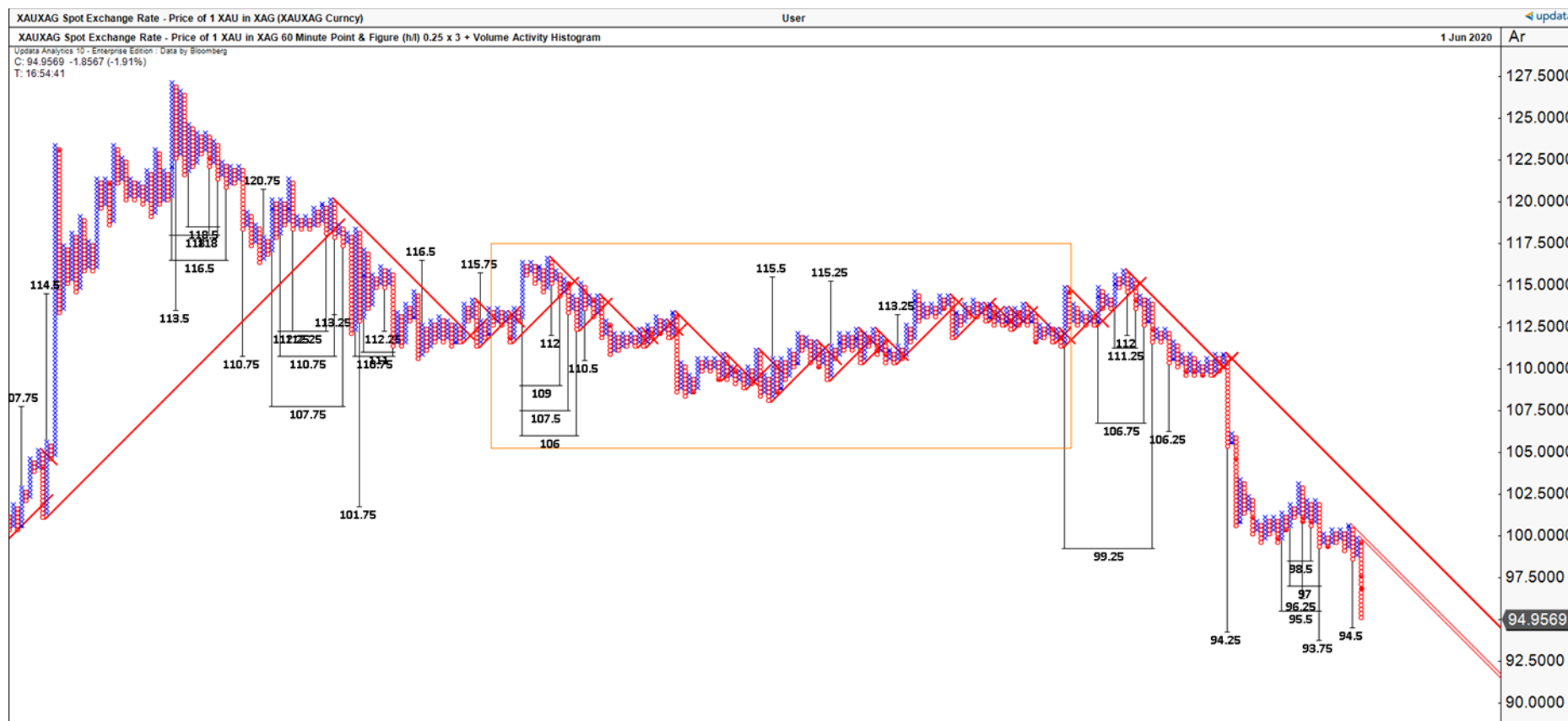


The relationship still holds well. Regressing gold prices on the yield shows that the inflation-adjusted yield can explain about 75 % of gold's moves.



## Gold-Silver Ratio

Mid-May sees the return of a 'double digit' ratio, after a lengthy time spent above 100. The short term move to 94-95 levels appears to be played out. Longer term, you might expect 88-90.



## Silver Weekly Ichimoku cloud

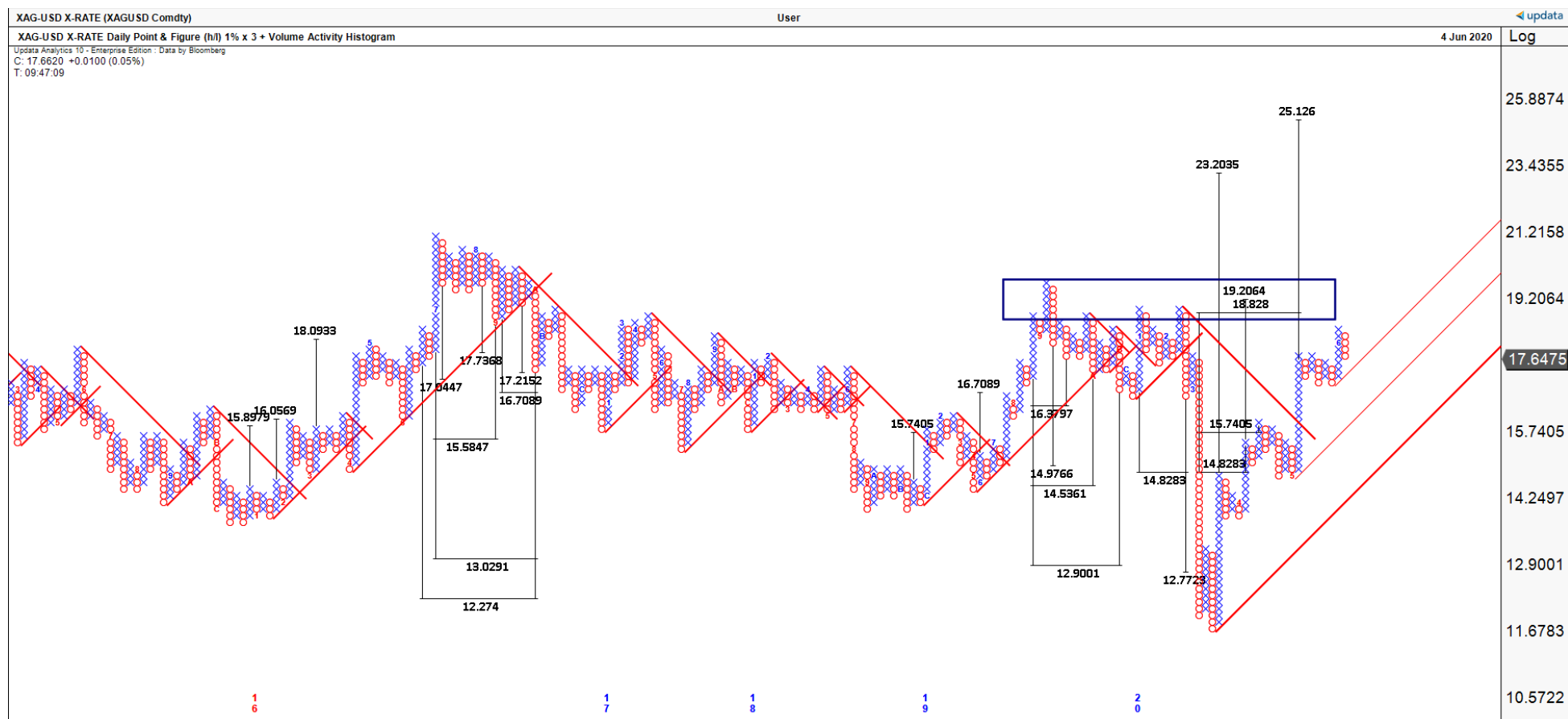
Silver is breaking out of the weekly cloud, turning bullish for the first time since early March. Note some likely resistance from the nearby trendline. Support at US\$17.32, US\$16.97, US\$16.46 and US\$15.82.



## Silver Daily Point and Figure – Long term

Targets clustering in the US\$18.80-19.21 zone, where silver would expect to find resistance from former highs, as denoted by the blue box.

Note that the price action in Q3 2019 and February 2020 gave a strong warning of the sub-11 move in early to mid-March.



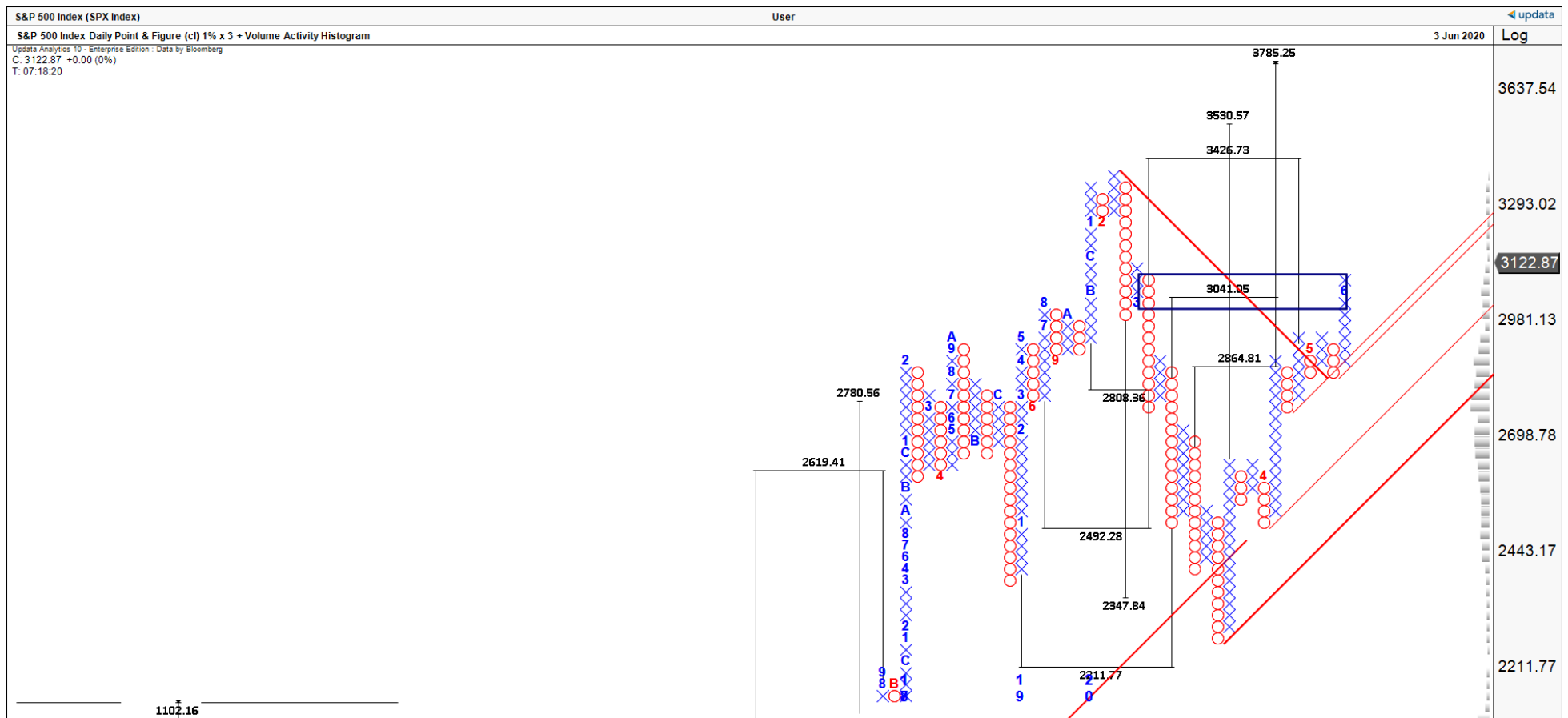
## Equities - the SPX

After sitting under the 61.80 pct. level for the first half of May, the SPX broke up through that level, and up through the weekly cloud top resistance, as investors interpret fiscal and monetary responses to the coronavirus and the prospect of some domestic re-opening economies.



## SPX Daily Chart with Targets

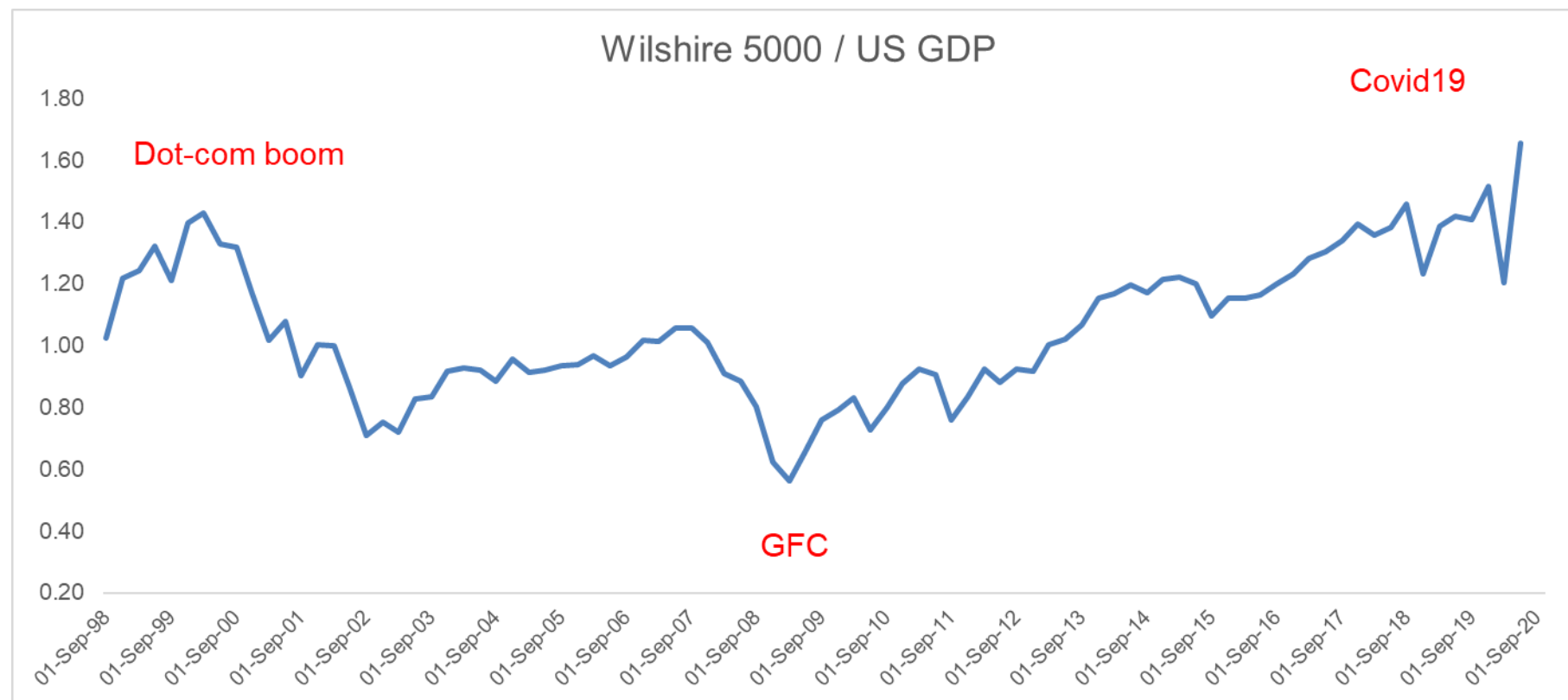
The rebound to 2900 that was suggested in the last market report has been reached. The recent high made on the 28<sup>th</sup> of May at 3,068 just exceeds the target to 3041 created by late April. Although the above weekly Ichimoku chart shows the stock index emerging from the cloud top in a bullish looking fashion, the price has achieved a major hurdle, and may fade slightly.





## A macro look at US equity valuations

Using the Wilshire 5000 to capture the value of total market capitalisation of most publicly traded companies in the US, the index divided by US current-dollar GDP is a great 'at a glance' valuation metric. The GDP figures lag by a quarter so I have used the Federal Reserve Board of Atlanta's 'GDPNow' forecast for Q2 to bring the numbers to June. Whichever way you look at it stock valuations are not looking cheap.



## The Dollar – DXY

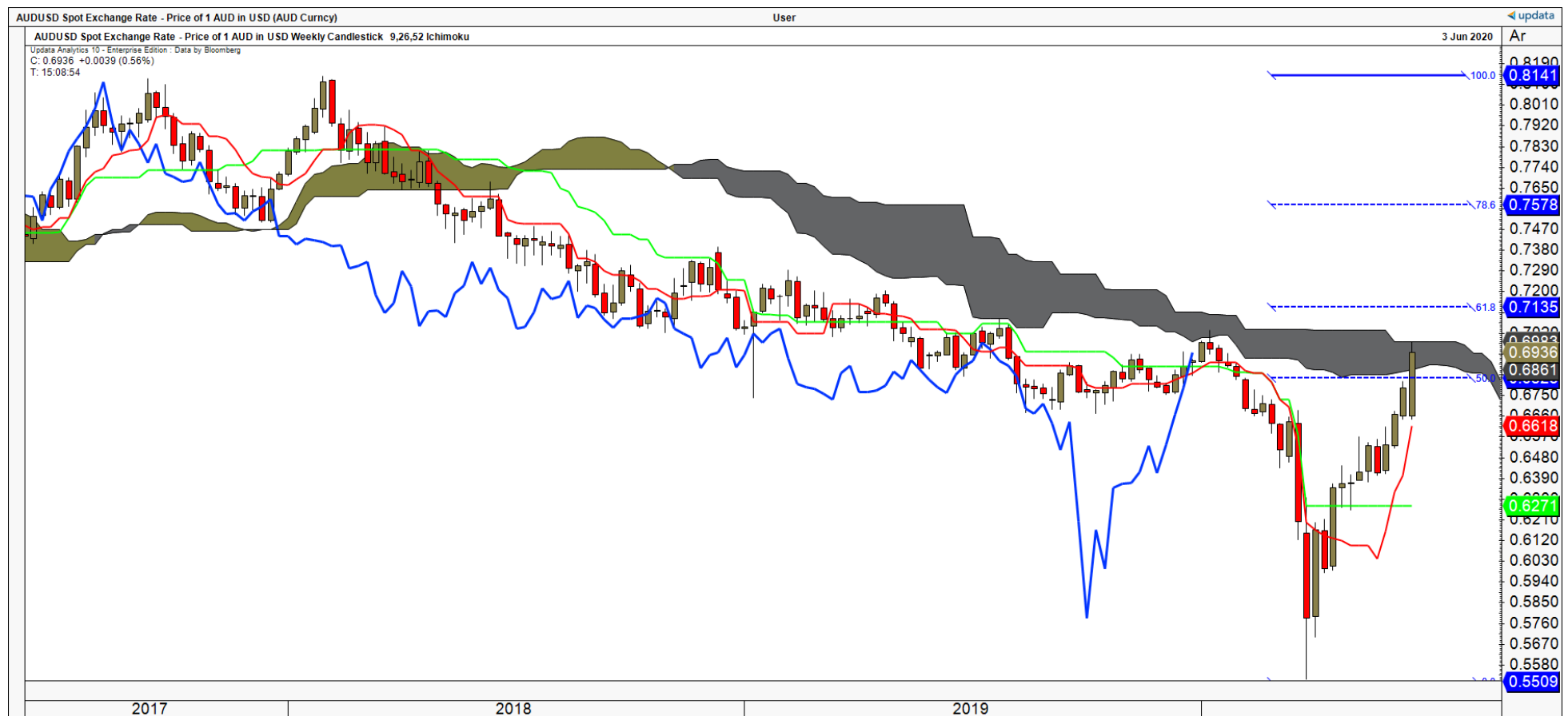
The DXY is taking support at the Weekly Cloud top and the 61.80 retracement of the violent swing up within the March trading range. What looks like strong support at 96.85 and 95.70 if the weekly cloud support is breached.



## AUD Weekly Cloud

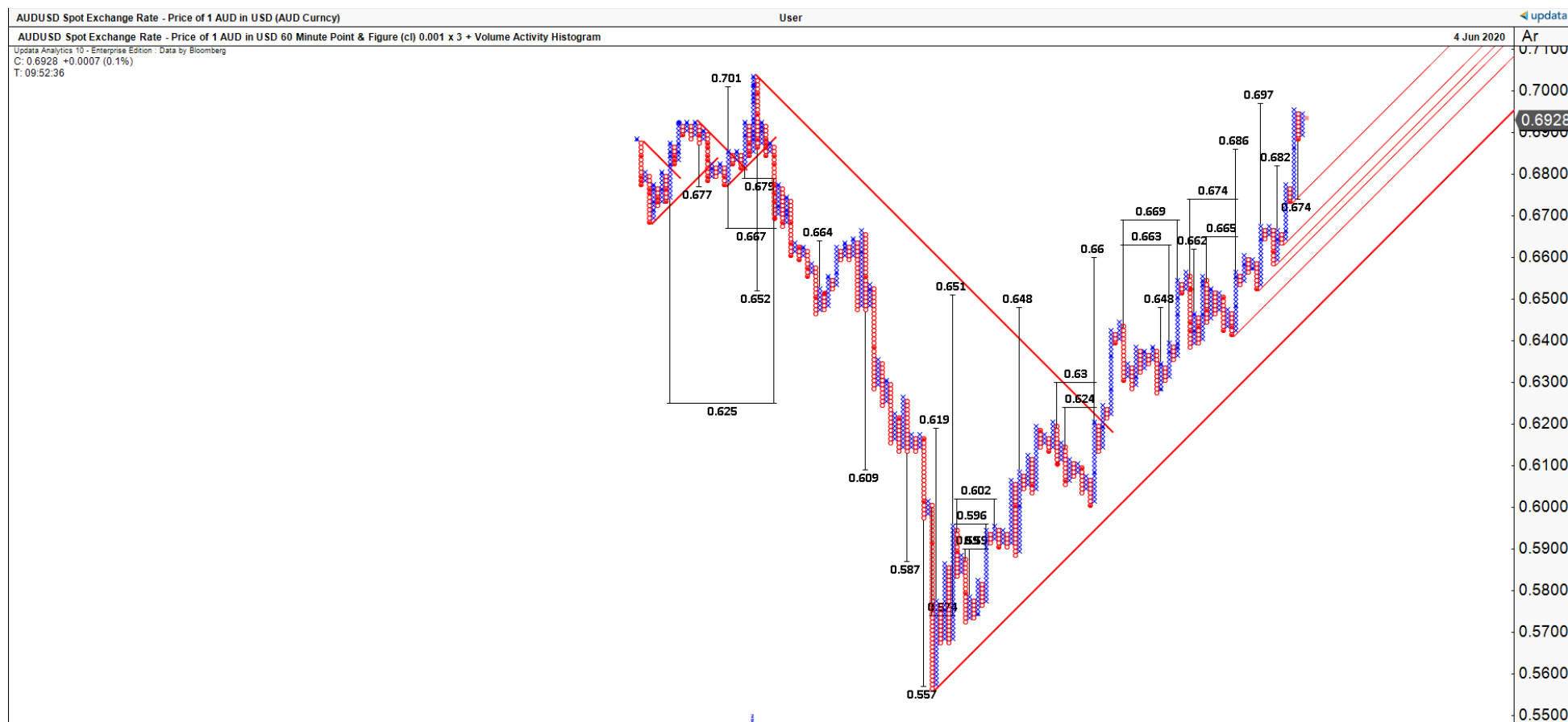
The rebound in the AUD has been helped by record trade surplus and a broad reduction in shorts until early May, with non-commercial shorts now reappearing. Shorts have been added at a VWAP of 64.77 and 65.686 in the weeks ending the 19<sup>th</sup> and 26<sup>th</sup> of May respectively, so they will be coming under pressure now.

The price broke through the key 0.6854 level, the 50 % retracement of the January 2018 – March 2020 move. That level intersects the base of the Weekly cloud and now the price has (so far) found resistance at the top of the weekly cloud, as below. 0.7135 the next key level beyond the cloud top.



## The AUD Hourly Point and Figure

Targeting 0.686 and 0.697. A powerful rebound that appears to have run much of its course. Possibly. An initial downside target to 0.674 has emerged that remains valid below the recent high.



## Where to from Here?

Gold is clearly bullish and has seen net inflows that are justified via an expansion of monetary and fiscal objectives driven by the economic contraction arising from CoVid19.

However, although the price is trading relatively close to recent highs activity, short-term action doesn't feel particularly buoyant, perhaps because bullish markets 'climb a wall of worry'.

The very short-term technical outlook is weak, against the background of a positive long-term outlook.

## Resistance

US\$1912	2011 high
US\$1864	Target on Hourly Point and Figure
US\$1802	Vertical target on Hourly Point and figure
US\$1765	Recent highs

## Supports

US\$1712.00	Weekly Turning Line
US\$1608.50	Weekly Standard Line
US\$1440-50	Band of support November 2019, successfully tested March 2020
US\$1430	Major trendline support
US\$1345-75	Top of 2016-2018 range

## Targets (Upside)

All target probabilities basis spot US\$1,725 for 3 months

US\$1800	Hourly Point and Figure (0.30 % Log)	33 %
US\$1864	Hourly Point and Figure (0.30 % Log)	22%

## Targets (Downside)

US\$1668	Hourly Point and Figure (0.30 % Log)	32%
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Until next time,

Nicholas Frappell  
Global General Manager  
ABC Bullion

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