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ABC Refinery Monthly Precious Metals Technical Analysis Report

September 2022

Gold - In Brief

Good day and welcome to the September 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.

Gold looking forward Gold faces significant pressure from a broad-based rise in the Dollar linked to both yield disparities and a flight to safety, along with a rise in real yields.

'Long duration' assets, which include gold, long-dated bonds, tech stocks and crypto (...) all face headwinds in a tightening cycle, unavoidably. Geopolitical tensions are positive for gold, but usually short-lived.

Macro Themes A beat on US CPI for August defined the middle of September – the figure itself wasn't a fresh high on CPI, but came in above consensus, and importantly was broad-based, with 60 % of categories that make up the CPI exceeding 4 %. Markets quickly repriced the probability of 100 bps in this weeks FOMC. Weaker data (Philly Fed Manufacturing Index, US Core Retail sales) dented the more hawkish tilt however the CME Fedwatch calculations still indicate a 1 in 5 probability of a 100 bp rise in FFR, down from 1 in 3 after the CPI release. The expected 'Terminal Rate' nudges 4.50 %. Rising 'shelter' costs suggest inflation is likely to be stickier relative to other components in the inflation index, and messaging from the Federal Reserve is that Fed Funds will remain above 3 % through 2025. We are shifting from a world of not just significant tightening, but for longer. US 2 year-10-year yield inversion is now -0.42 %, which in plain English, has not been that inverted since August 18, 2000, when it was briefly -0.51 %. A clear majority of observers polled recently expect inversion to increase, essentially expecting monetary tightening to result in a recession. Despite the gloomy outlook in Fixed income circles, US Employment data is strong and continuing unemployment claims (~1.40 million) are still low by historic standards, which helps maintain the Fed's confidence in a hawkish stance. The pathway to a hard landing may be convoluted but as Jan Hatzius noted last month, it is certainly narrow.

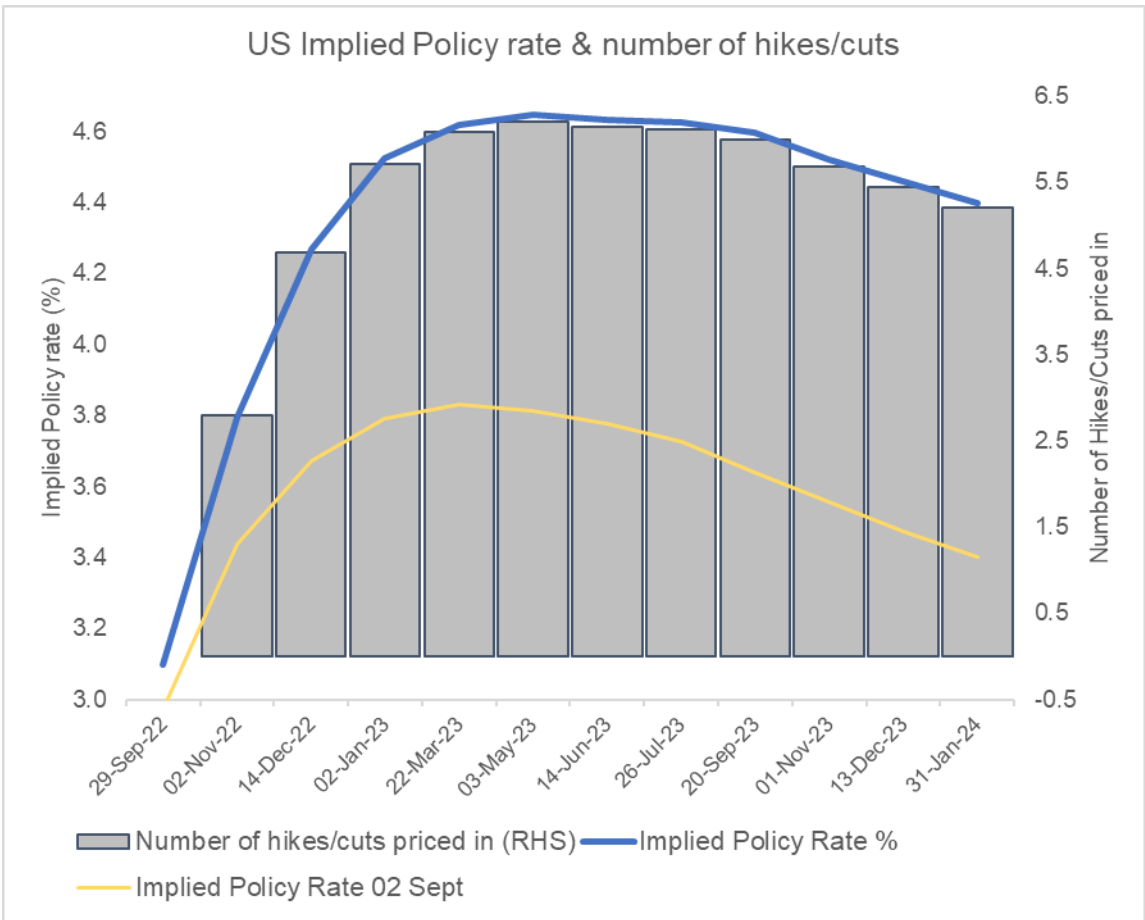
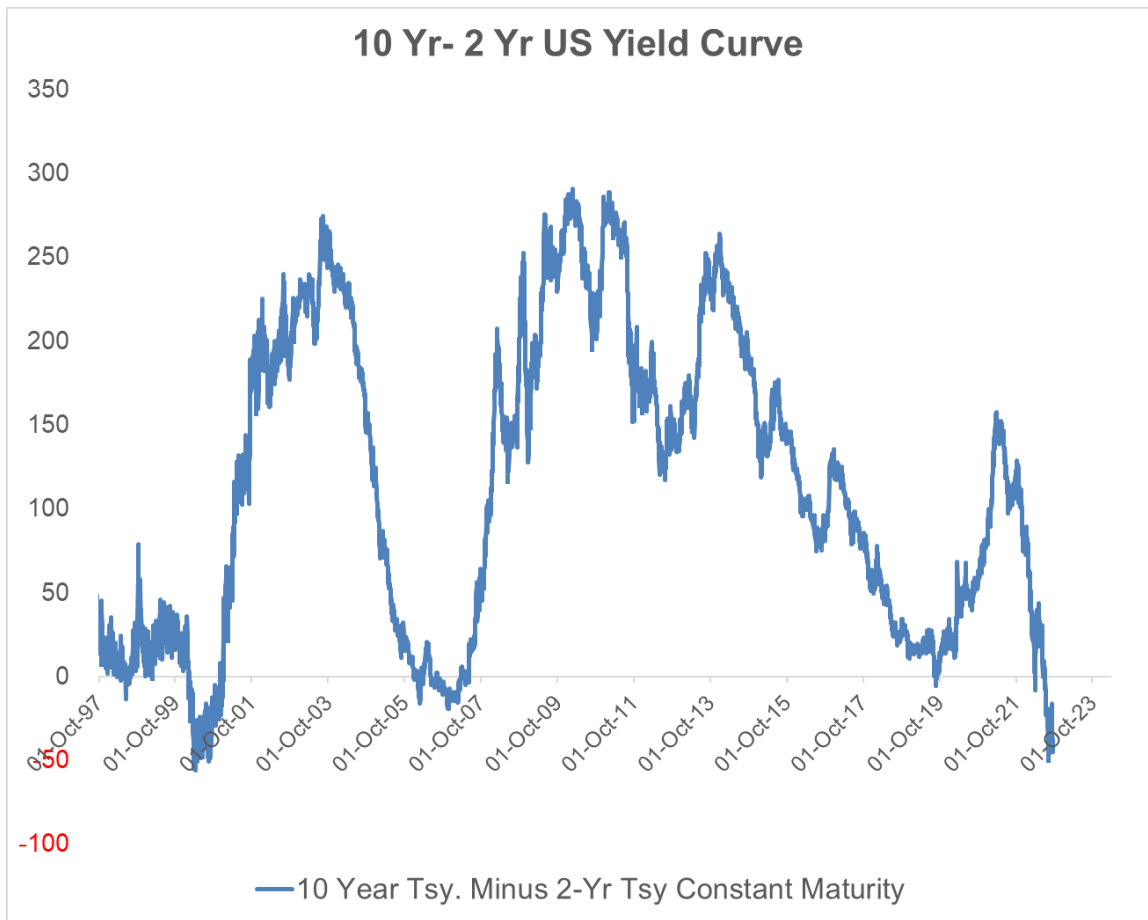
China: GDP projections decline again, to sub 3.50 %. Signs of significant spare capacity rippling out from construction-related sectors such as steel and cement. Domestic sales of new heavy trucks down 74 % y-o-y in Q2 (ACT Research *China Commercial Vehicle OUTLOOK*) sales Some data points to a notable fall in trans-pacific shipping volume in Q2.

Summary Multiple economic risks include a rising US Dollar causing significant stress in Asian and EM FX, the potential to over-estimate the chances of a Fed 'pivot' to monetary easing, and ultimately the chances of a policy error through over-tightening.

Ukrainian successes after a well-telegraphed campaign to attrite Russian logistics and capabilities in the rear areas has prompted Putin to 'protect his right flank' back in Moscow with a partial mobilization. Alarming, but doesn't solve a host of essentially logistic and quality issues that have plagued the armed forces and are unlikely to be resolved by the arrival of reservists. Nonetheless, the announcement put a bid under gold.

Money and yields

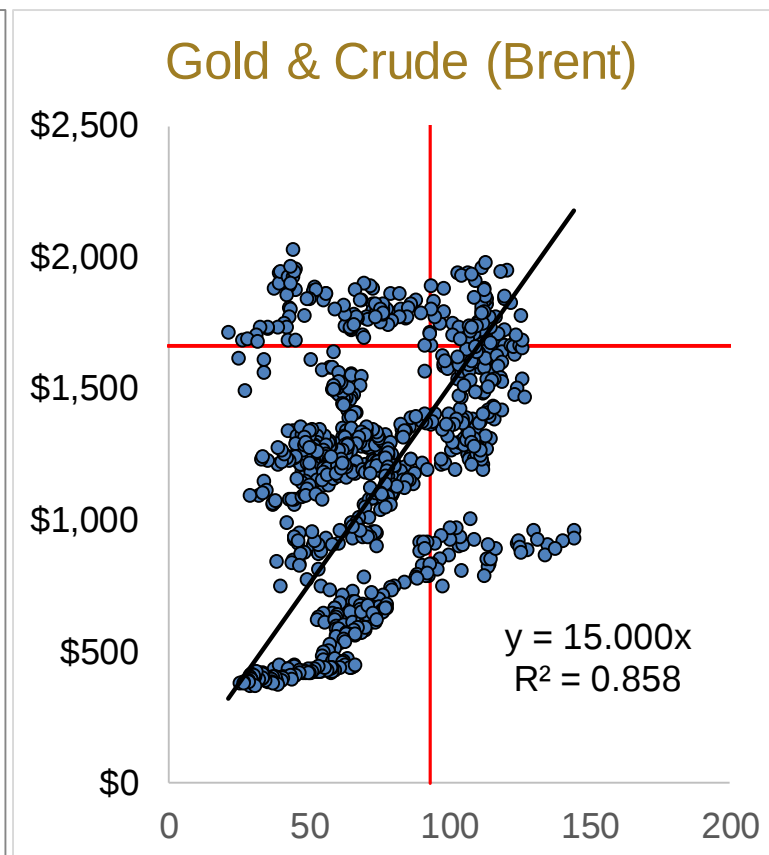
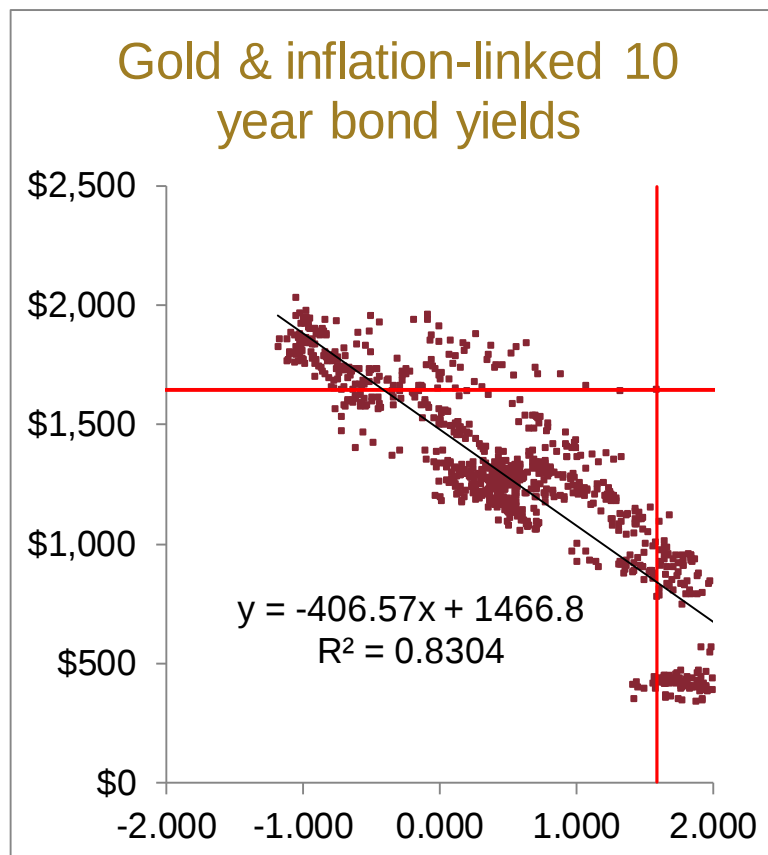
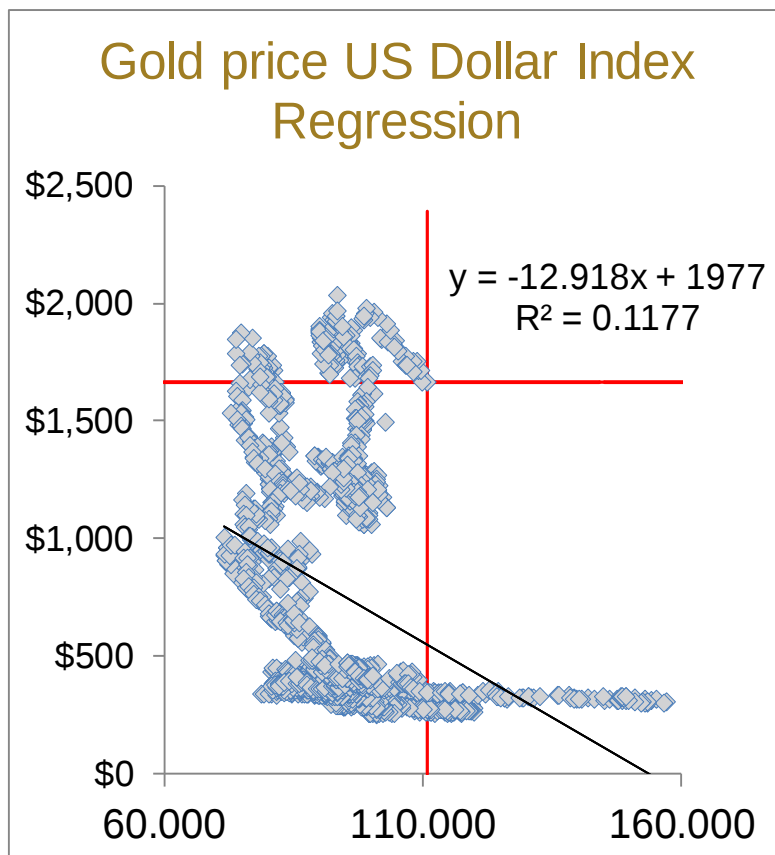
The 2s-10s spread drops to – 44 bp as of 27 September, a likely recessionary signal. Currently, US Futures markets price in a terminal rate of 4.655 at the May '23 FOMC. You can see from the yellow line below the difference a month makes in terms of the terminal value and expectations of higher for longer that prevail past last weeks meeting.



Sources: Bloomberg, CME FedWatch, ABC Refinery

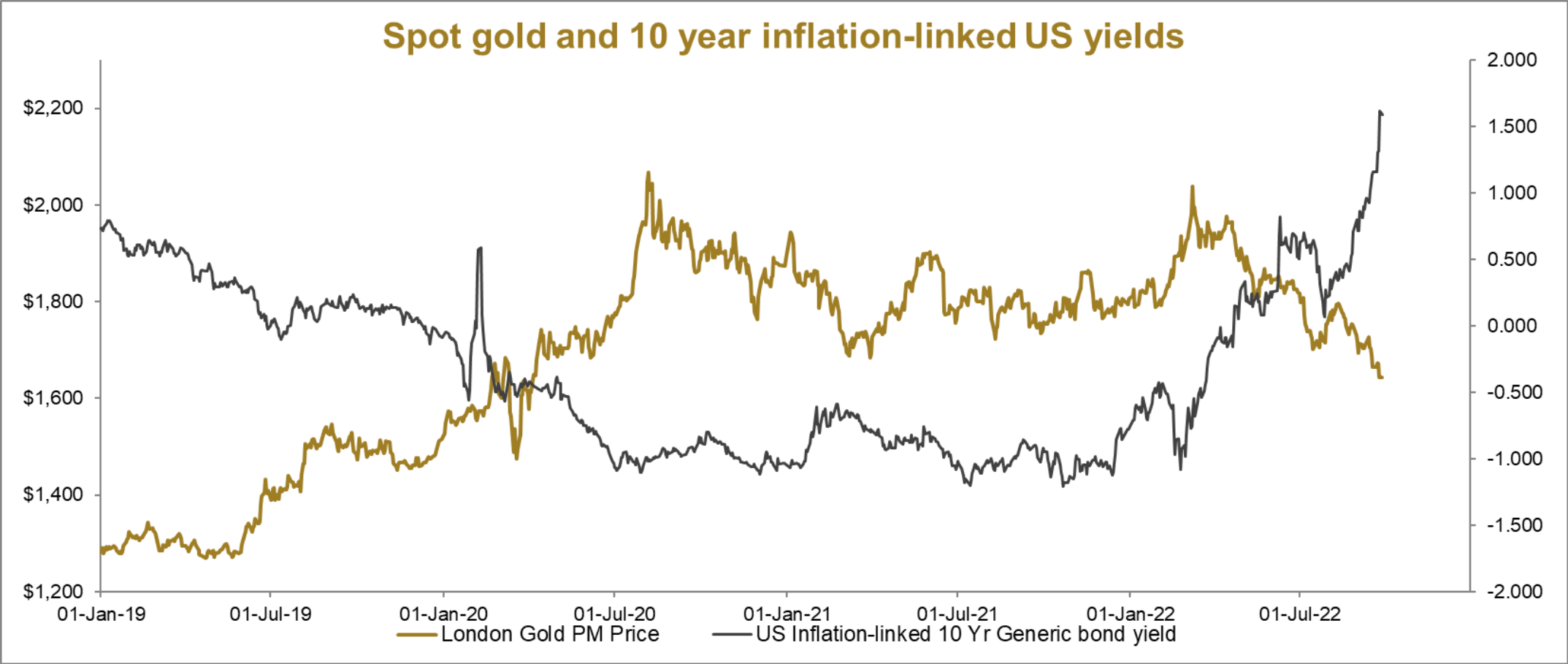
Gold and key variables

Gold not looking cheap despite the recent sharp move lower. Although DXY a significant driver of headlines and asset market disruption, it's the yield and crude that carry the more meaningful relationships.



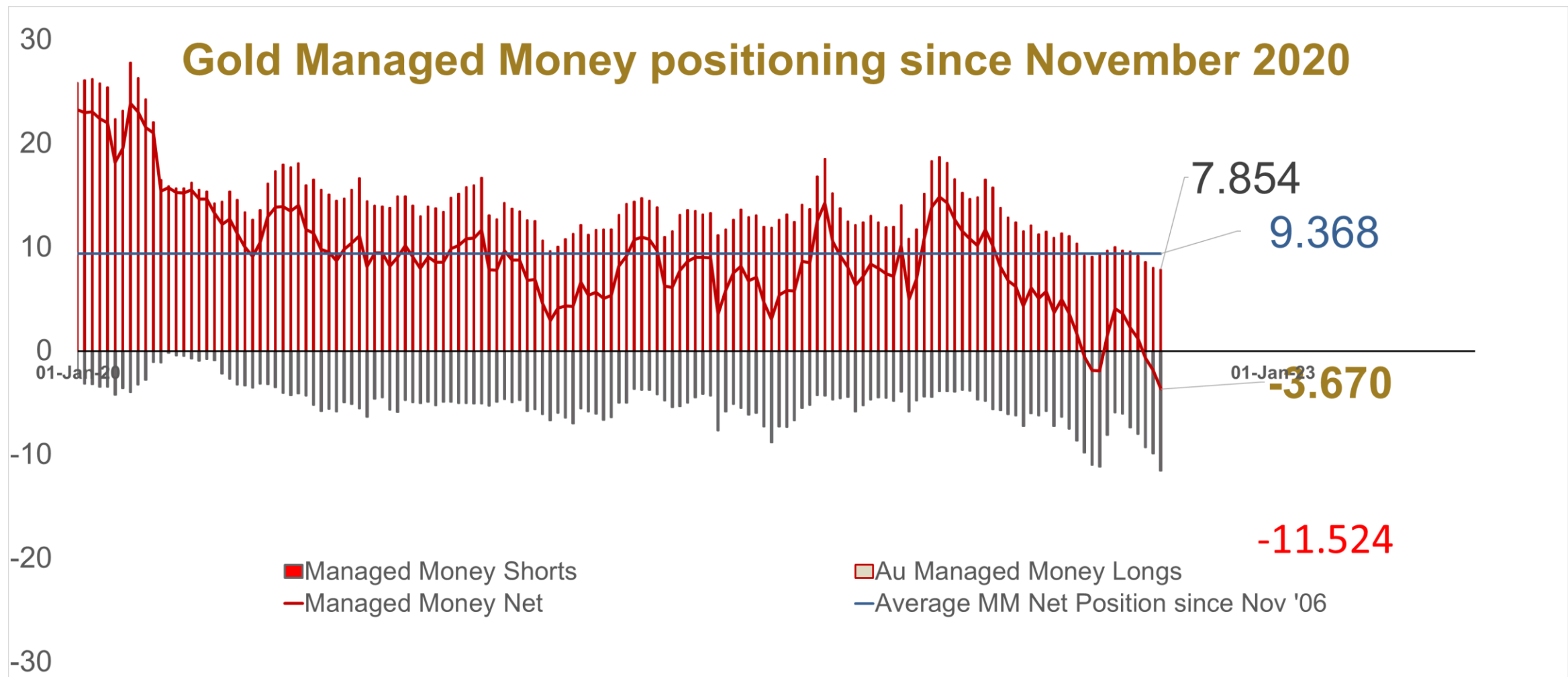
10-year US Yields (TIPS)

10-year real yields rocket higher, and gold weakens although not as dramatically as the rise in yields.



Overview of Managed Money Positioning in Gold

Longs decline, shorts grow. Net positioning is -3.67 million Tozs compared with a long-term average of + 9.368 million.



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

Gold sees a significant reduction in positioning since mid-August. In aggregate, silver positioning changed little over the same period, but short sellers turned buyers as the price rallied in mid-September above early September sales levels.

Volume-weighted Average Price - GC

Published 26 September, 2022

	Weekly Change in Managed Money Positions (Futures only)			
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 20 September 2022	\$1,692.62	-175,600	1,660,200	-1,835,800
Tuesday, 13 September 2022	\$1,724.72	-554,200	583,300	-1,137,500
Tuesday, 6 September 2022	\$1,722.71	-591,900	1,283,100	-1,875,000
Tuesday, 30 August 2022	\$1,754.80	-408,900	623,400	-1,032,300
Tuesday, 23 August 2022	\$1,768.74	-91,500	1,334,700	-1,426,200
		-1,822,100	5,484,700	-7,306,800
Gold ETF Change in position				-1,511,112
Total change over period				-8,817,912

Volume-weighted Average Price - PLA

Published 26 September, 2022

	Weekly Change in Managed Money Positions (Futures only)			
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 20 September 2022	\$904.33	-27,750	-428,700	400,950
Tuesday, 13 September 2022	\$871.24	35,000	-399,100	434,100
Tuesday, 6 September 2022	\$825.39	103,650	276,150	-172,500
Tuesday, 30 August 2022	\$859.30	32,500	378,700	-346,200
Tuesday, 23 August 2022	\$896.72	-49,350	198,550	-247,900
		94,050	25,600	68,450
Platinum ETF Change in position				-19,841
Total change over period				48,609

Volume-weighted Average Price - SI

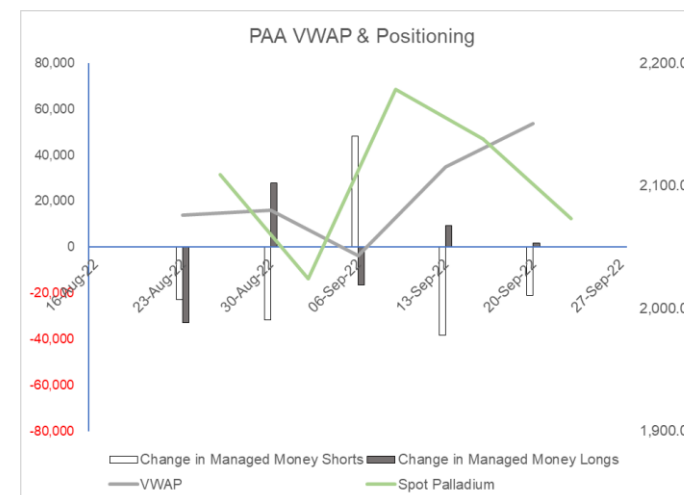
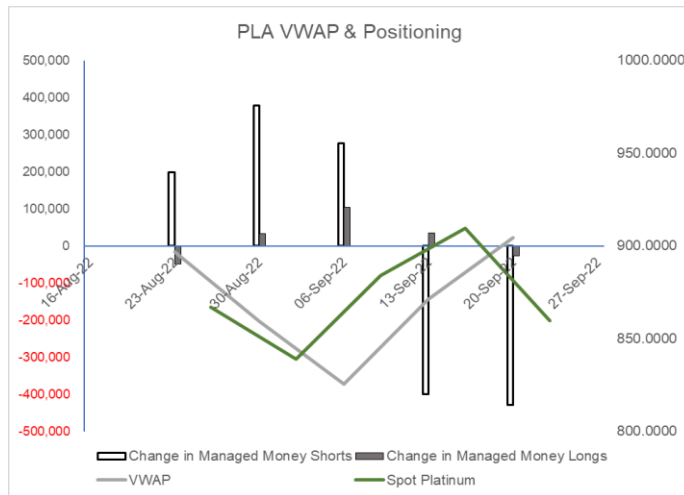
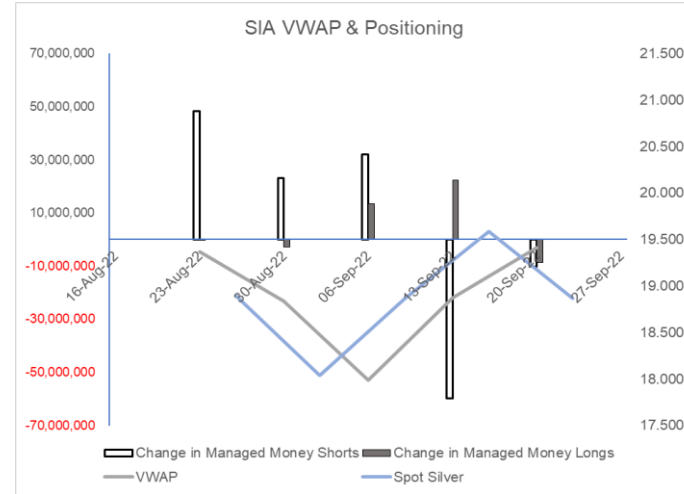
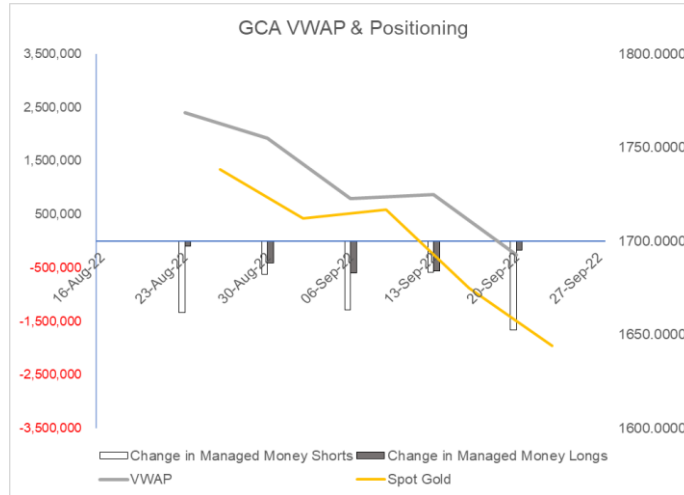
Published 26 September, 2022

	Weekly Change in Managed Money Positions (Futures only)			
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 20 September 2022	\$19.41	-8,790,000	-10,110,000	1,320,000
Tuesday, 13 September 2022	\$18.87	22,475,000	-59,815,000	82,290,000
Tuesday, 6 September 2022	\$17.98	13,590,000	32,150,000	-18,560,000
Tuesday, 30 August 2022	\$18.84	-2,820,000	23,215,000	-26,035,000
Tuesday, 23 August 2022	\$19.37	-390,000	48,275,000	-48,665,000
		24,065,000	33,715,000	-9,650,000
Silver ETF Change in position				-16,319,714
Total change over period				-25,969,714

	Weekly Change in Managed Money Positions (Futures only)			
Week ending on:	US\$ VWAP	Longs	Shorts	Net change
Tuesday, 20 September 2022	\$2,150.36	1,800	-20,900	22,700
Tuesday, 13 September 2022	\$2,115.59	9,300	-38,400	47,700
Tuesday, 6 September 2022	\$2,043.12	-16,400	48,200	-64,600
Tuesday, 30 August 2022	\$2,079.93	27,800	-31,800	59,600
Tuesday, 23 August 2022	\$2,076.16	-33,000	-23,000	-10,000
		-10,500	-65,900	55,400
Palladium ETF Change in position				-12,117
Total change over period				43,283

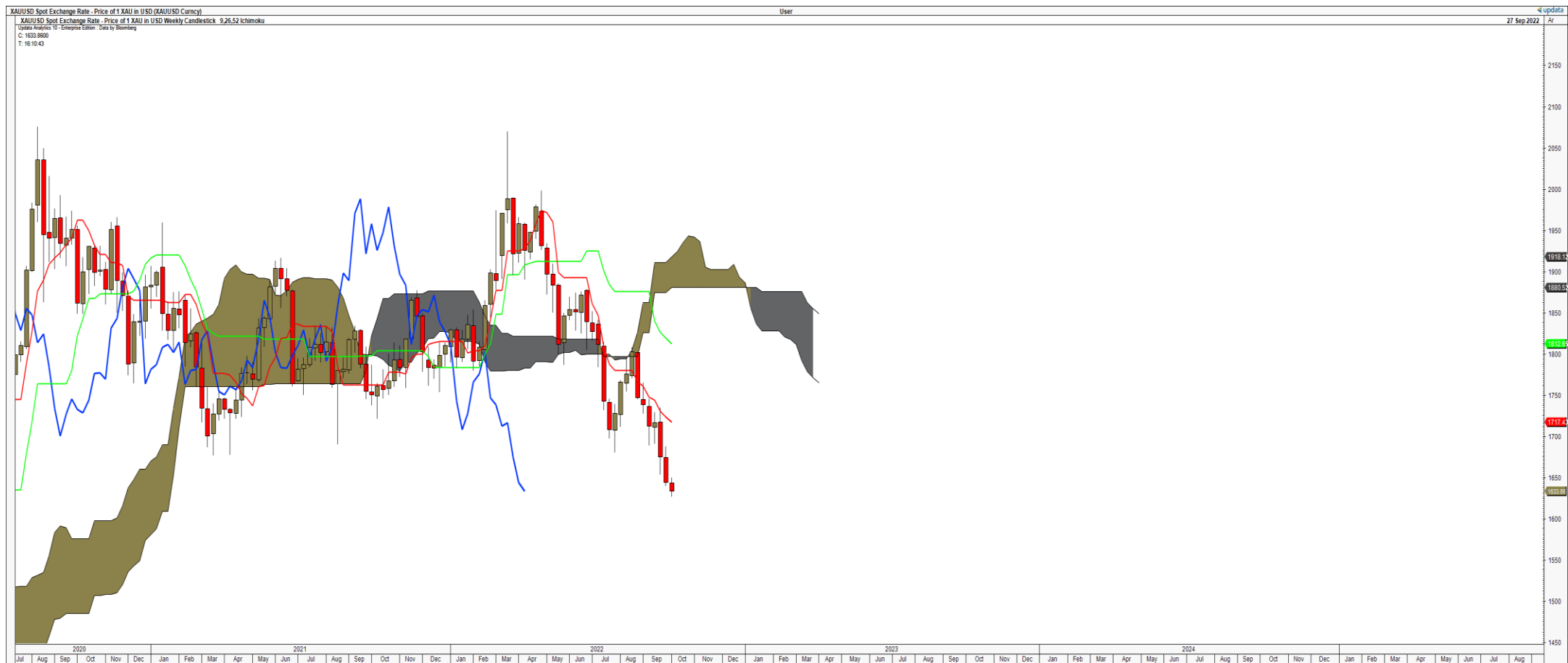
Precious metals positioning and Volume-Weighted Average Pricing (Charts)

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



Weekly Ichimoku Cloud Chart

Below the weekly cloud, the price remains in a bearish configuration, with support at US\$1595-1615. Resistance at US\$1717 and a very distant-looking US\$1812.



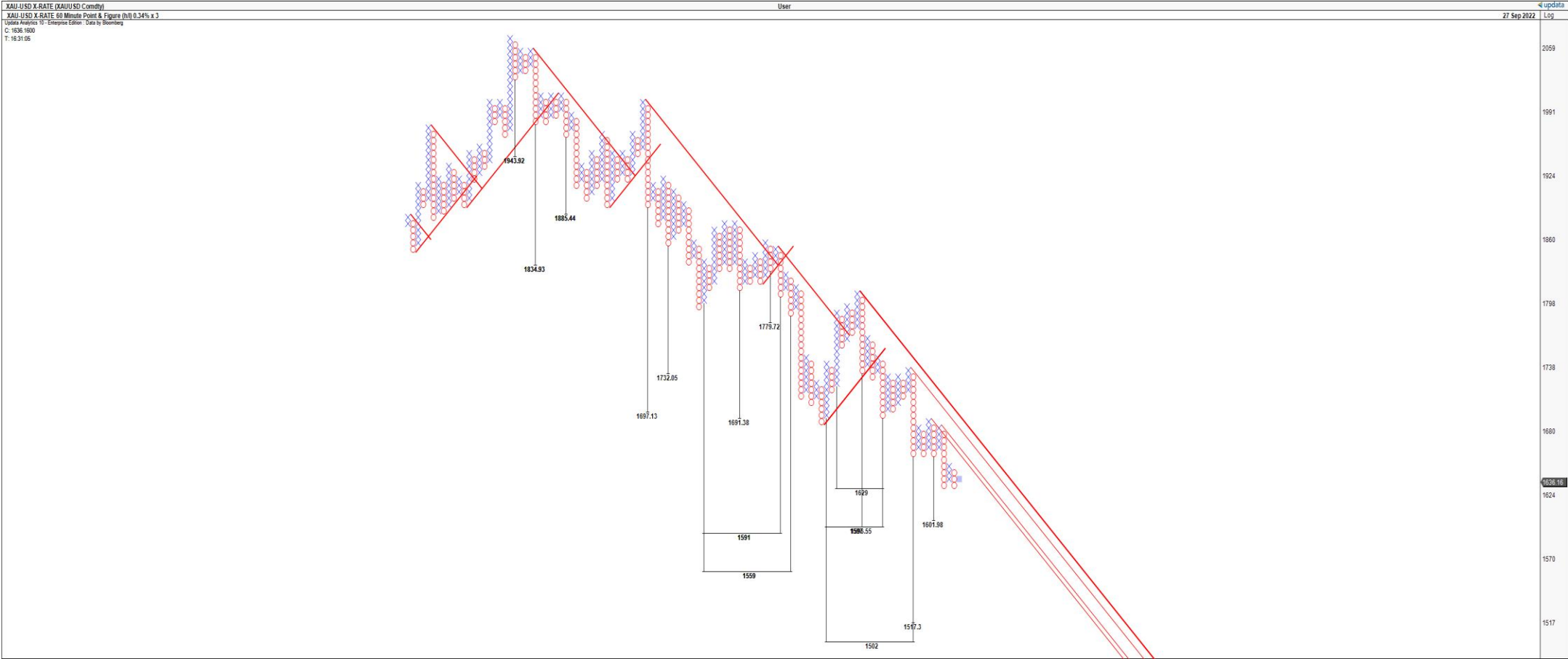
Daily Ichimoku Cloud Chart

The decline continues in the face of Dollar strength and rising yields. Shorter term resistance at US\$1655 and US\$1692, and ultimately the overhanging Ichimoku cloud.



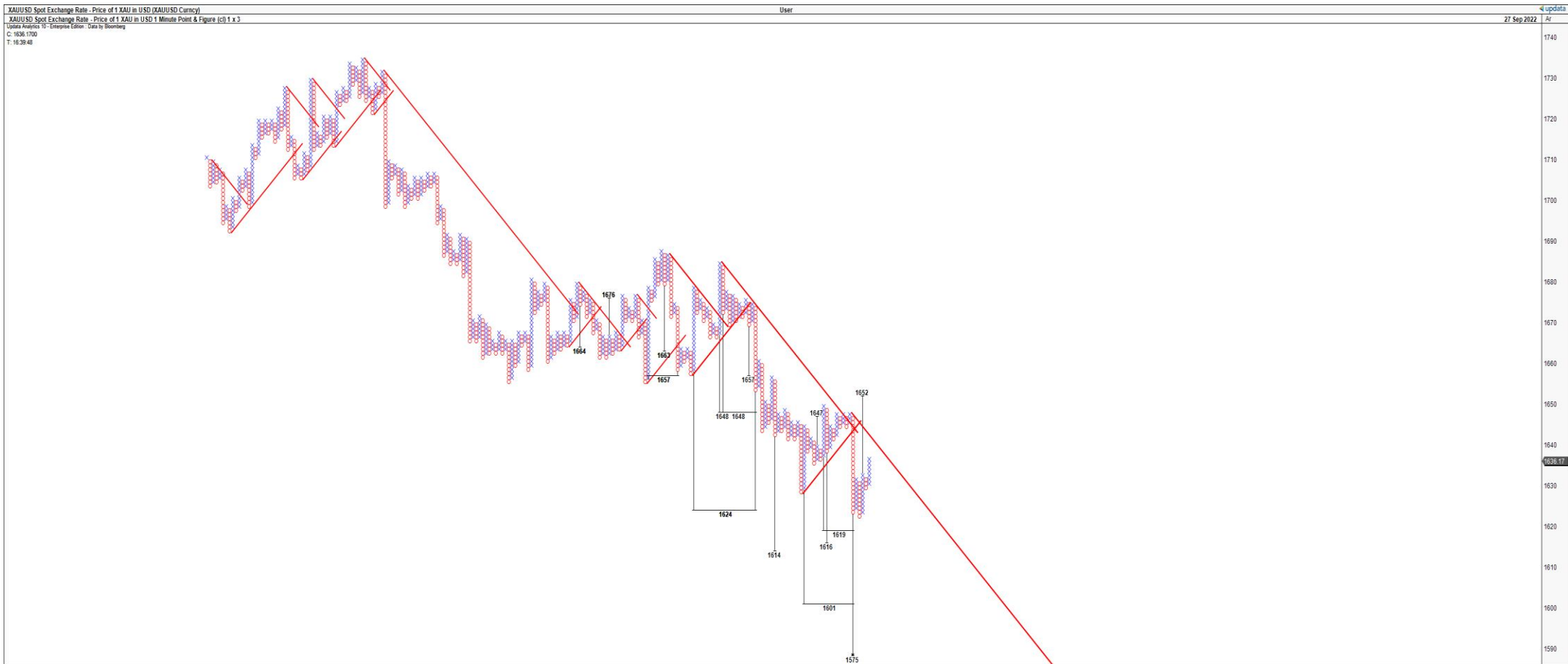
Gold Hourly Point and Figure – Medium Term

Medium term chart with strong targets lower - again. As implied in the previous report, the breach of the former low has created significant new targets to the downside and a likely test of round-number support at US\$1600.



Gold Point and Figure – Shorter Term

The US\$1623 target hit, gold looks like cycling higher to test short term resistance at the base of the US\$1650-1680 congestion zone.



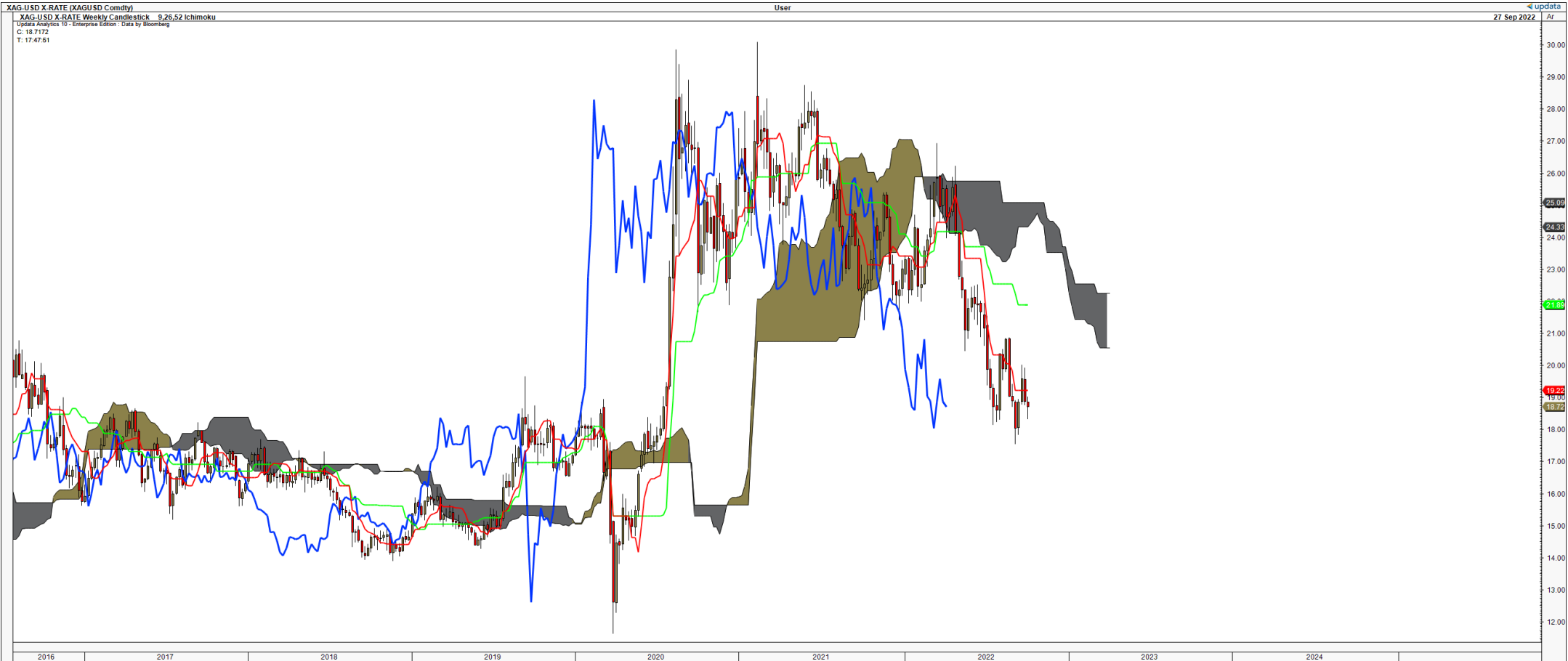
Gold in AUD via Weekly Ichimoku Cloud

XAUAUD: Gold broke down through cloud support but weakening AUD has helped protect XAUAUD from further decline .



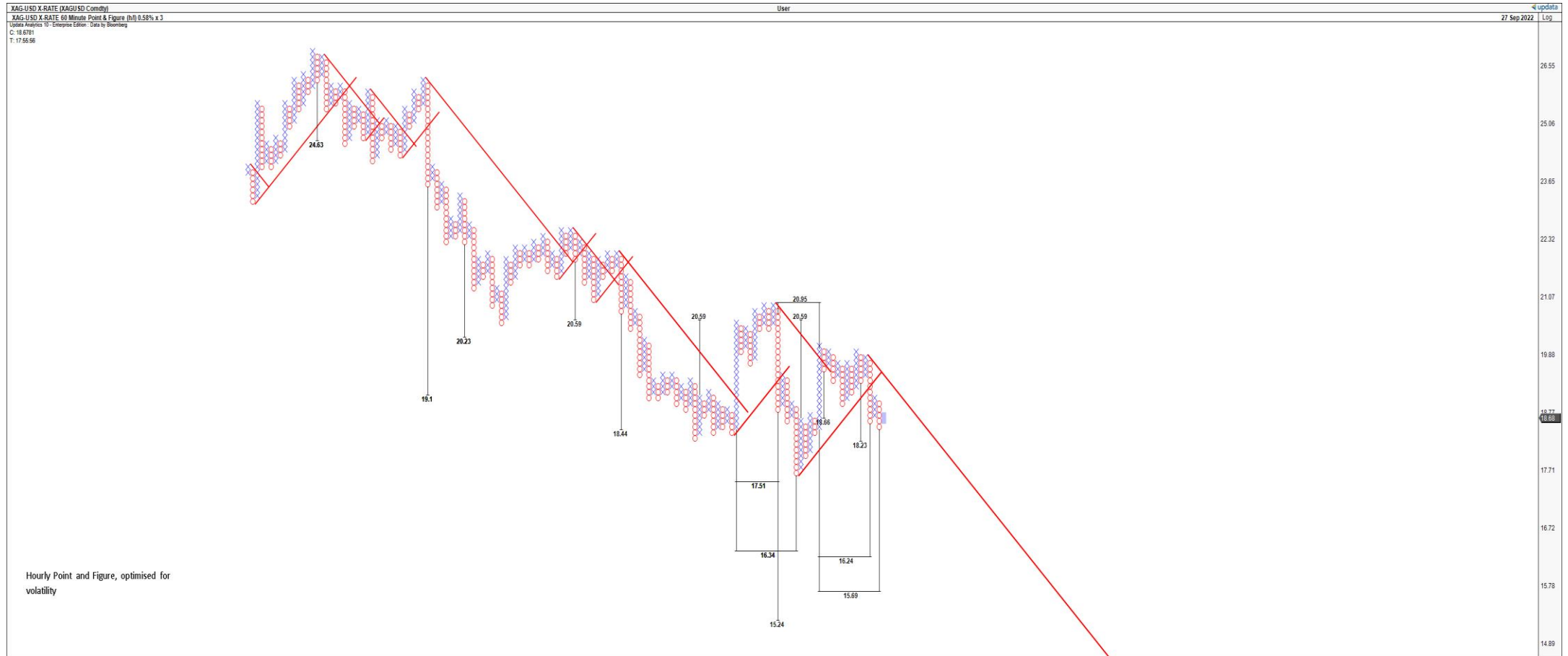
Silver in USD (Weekly)

Silver – despite notable physical demand the price remains in a negative trend with the recent rally reflecting significant short-covering relative to fresh buying.



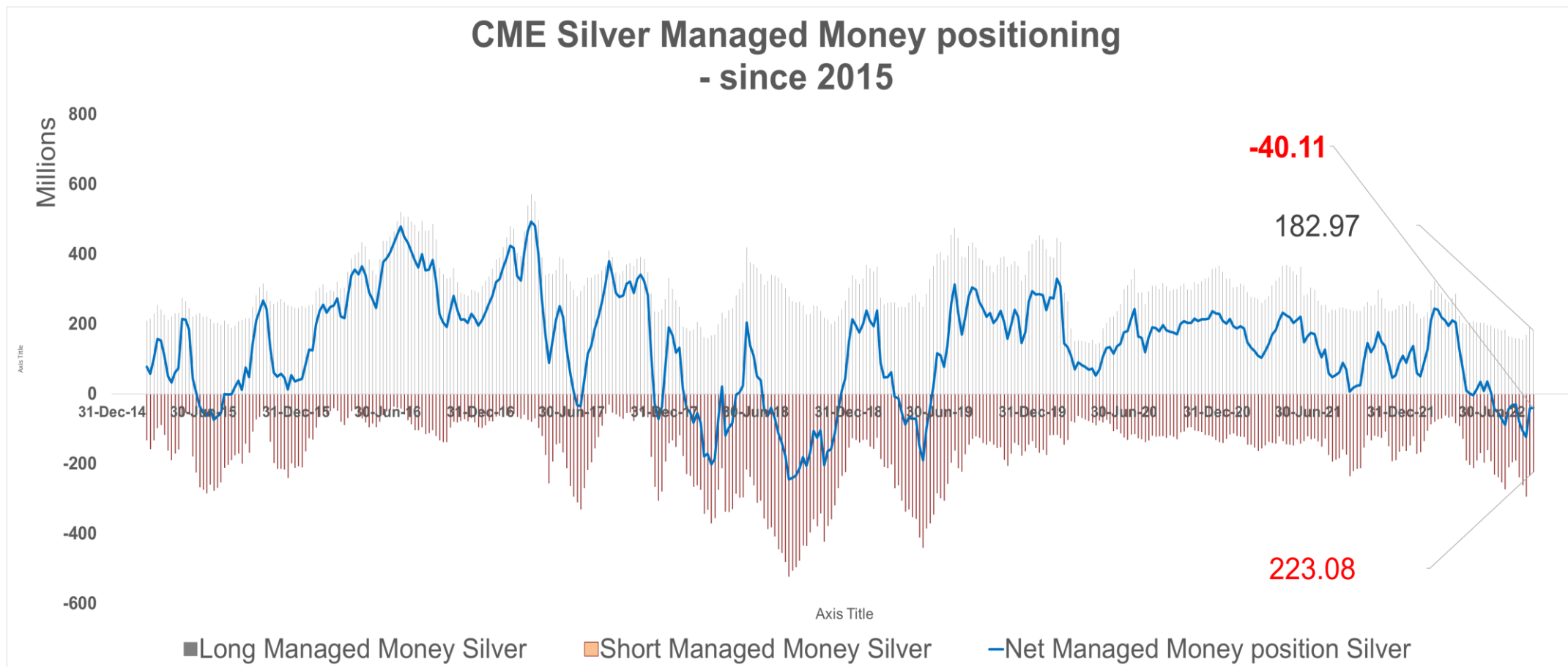
Silver in USD – Medium term via Hourly Point and Figure

Despite the more optimistic view in the Podcast, subsequent moves lower have taken out the low of the pattern that produced those more optimistic targets and generated more bearish targets that reinforce the view that silver will find support in the US\$15-16 area.



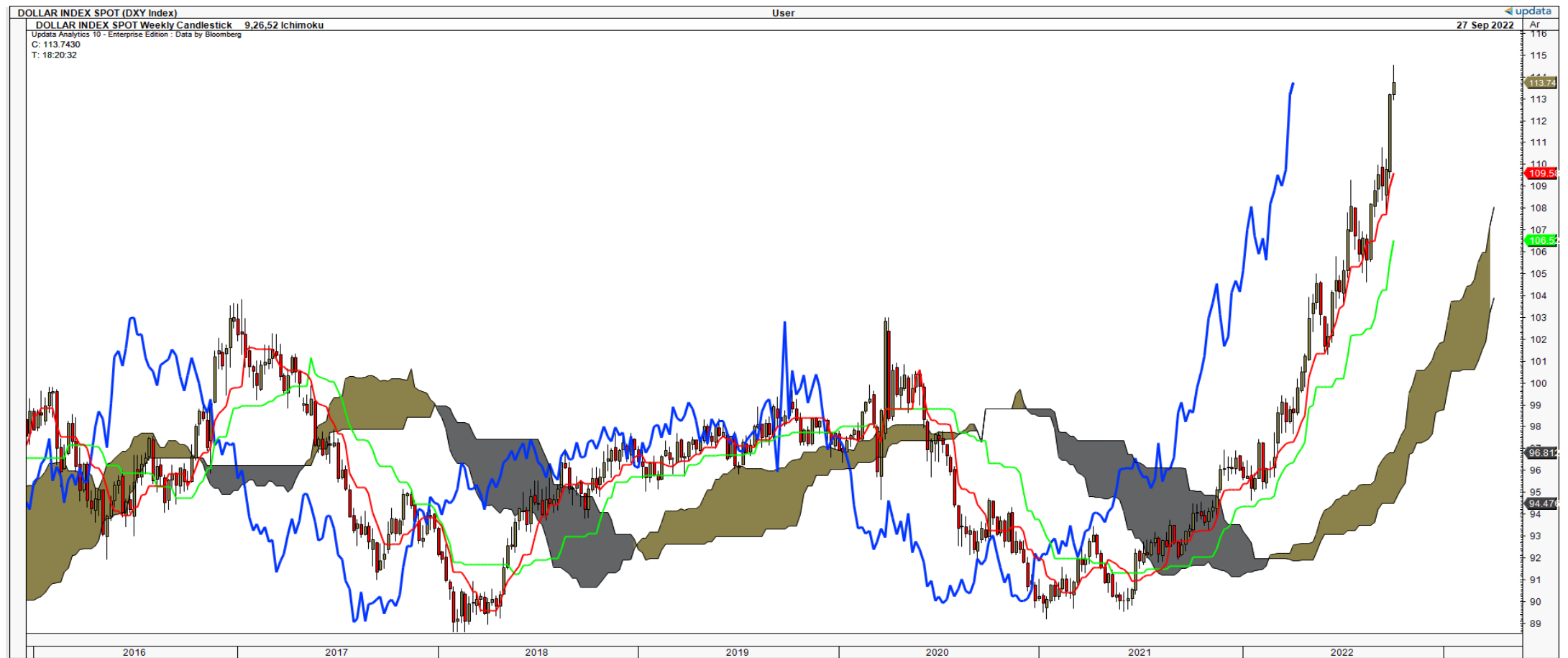
Overview of Managed Money Positioning in Silver (Futures only)

Negative net positioning declines as MM shorts buy back – they have bought back 70 million Tozs between the 6th and the 20th of September, while longs added 36 million, probably supported by the rise in copper prices previously and signs of major re-stocking by consumers



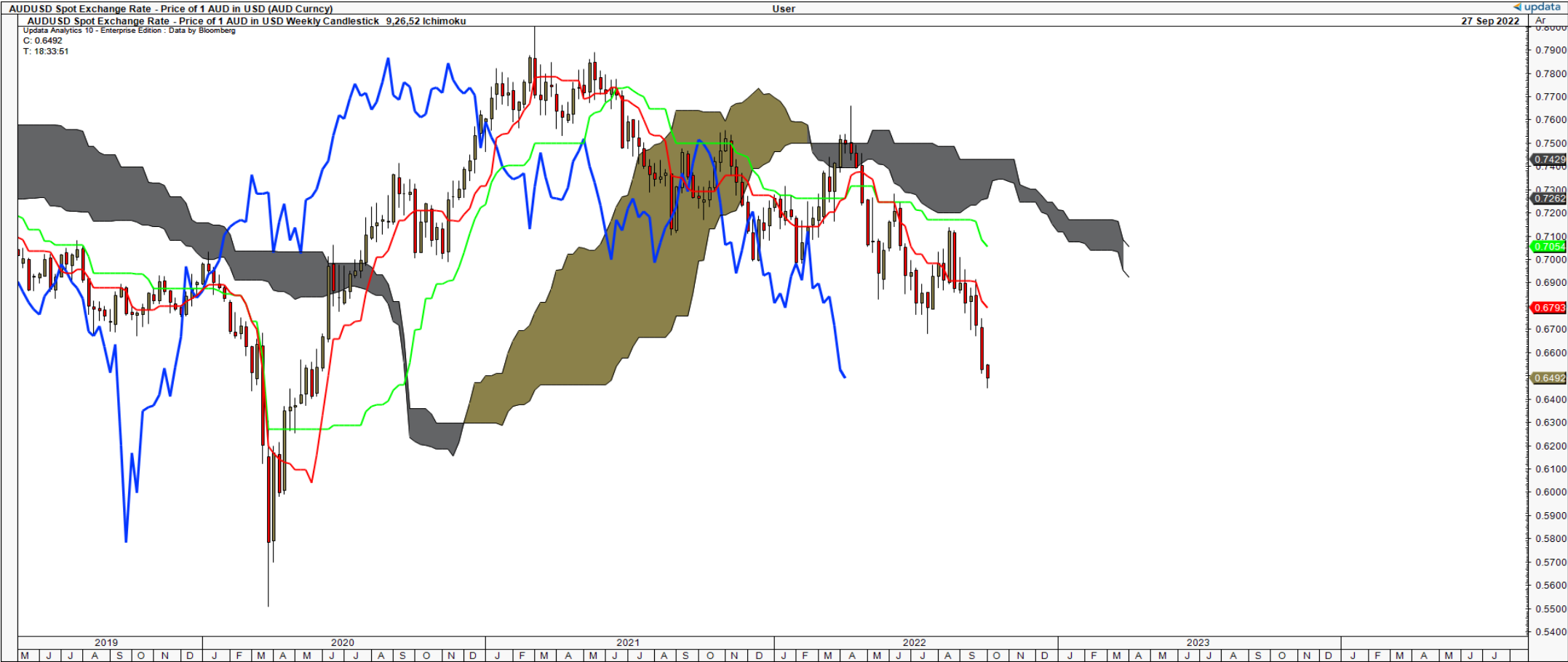
The Dollar -DXY

The Dollar continues on in a once a decade rally. 105 should provide good support in the event of a step back.



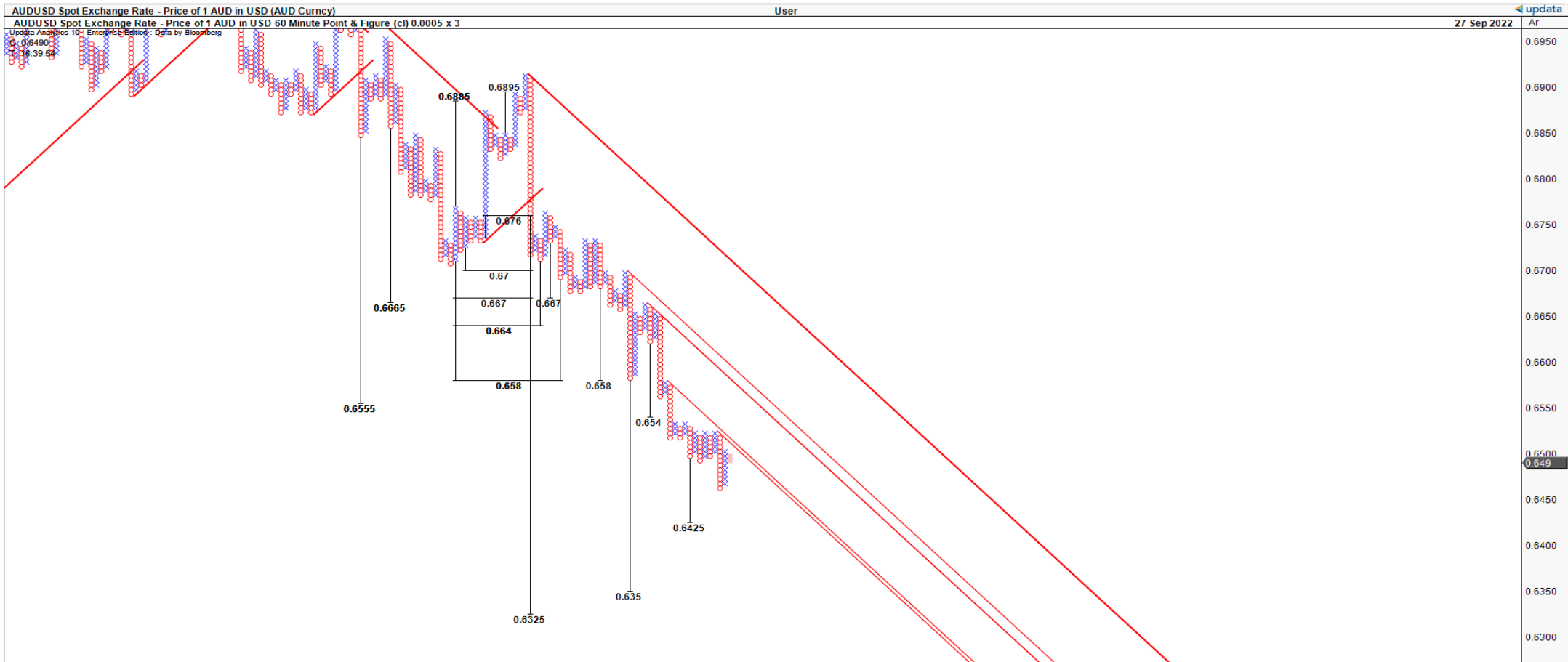
AUD Weekly Ichimoku Cloud

The key 50 % retracement (0.6759) level of the up-move from the huge 2020 low decisively broken. 0.6465, The next key level mentioned in last month's report was easily reached. Major point and figure targets generated from May 2021 onwards lie at 0.5983 through to 0.6134.



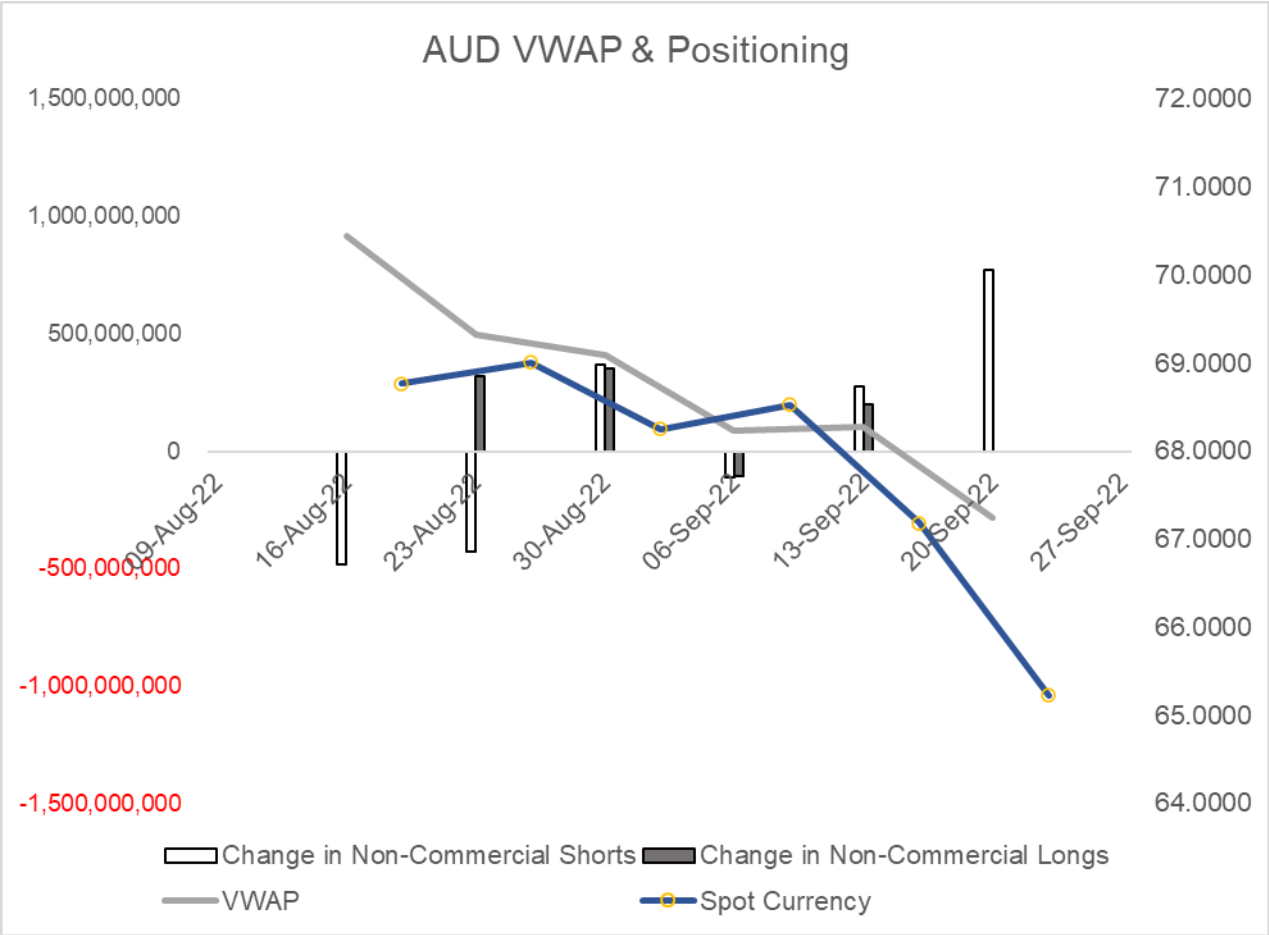
The AUD Hourly Point and Figure

The medium-term outlook contains multiple downside targets, and the cluster mentioned last month at 0.655 has been reached. The next levels are 0.6325-0.6350. Resistance at 0.654 and 0.673.



AUD Positioning and VWAP

Some fresh longs. Recent short selling has been reduced in the week ending the 20th September. Net positioning in the AUD, which is short overall, has reduced by a third between the 28th of August and the 20th of September.



Where to From Here?

Not much has changed since the last report Gold *still* remains under considerable pressure from the hawkish monetary environment.

Tempting to consider US\$1595-1615 supportive but gold relative to current 10-year TIPS yield still looks richly valued.

The AUD is likely to remain under pressure and those external factors remain the same – aggressive monetary policy from the US and a poorer trade outlook.

Eventually the drivers of USD strength will dissipate but until that point is reached, the current trend is likely to continue.

Bear in mind that a strong Dollar will promote stresses elsewhere that may give rise to a volatility event that may favor gold as a refuge, and the risk of China making a pivot away from zero-covid in Q4, boosting domestic demand and a reappraisal of asset valuations.

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	
\$1,690.00	Daily Ichimoku Standard line as of 27 September 2022	
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)	13.00%
\$2,172.00	Basis 2 % Daily Point and figure (12 months)	17.00%
Targets		
Downside		Probability
\$1,602.00	Basis 0.34 % Hourly Point and figure (1 month)	30.00%
\$1,515.00	Basis 1 % Daily Point and figure (6 months)	20.00%
\$1,428.00	Basis 1 % Daily Point and figure (6 months)	11.00%
All target probabilities basis spot: for 1 year (or shorter as indicated) and created by solving for option delta on the Bloomberg OVML function.		\$1,640.00

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