Gold technicals—always worth respecting when they're this sharp

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Given both the magnitude of the Gold price breakdown at well-known and respected floors ($1800, $1750, then again at $1700), it simply showcases that this was a statement repricing indicative of a macro regime shift. Typical low volatility, safe haven, reserve currency assets such as Gold, usually do not gap into new territory unless there's a high conviction reason, even despite the liquidity short-comings. The market believes and has confidence that the Fed will be ahead of the inflation curve and that it'll prove transitory. We disagree—inflation is not transitory, the Fed will embark on only a token taper and/or rate hike before US midterms, lower (real) rates for longer are entrenched—but for now, sentiment and repositioning is playing for a repeat of 2013 (Gold lower, rates & USD higher into the official taper announcement). Given this extreme move lower in Gold, its thus worthwhile to analyze the technical landscape and assess where any critical inflection points lie.

Known Gold participants are long or short at:

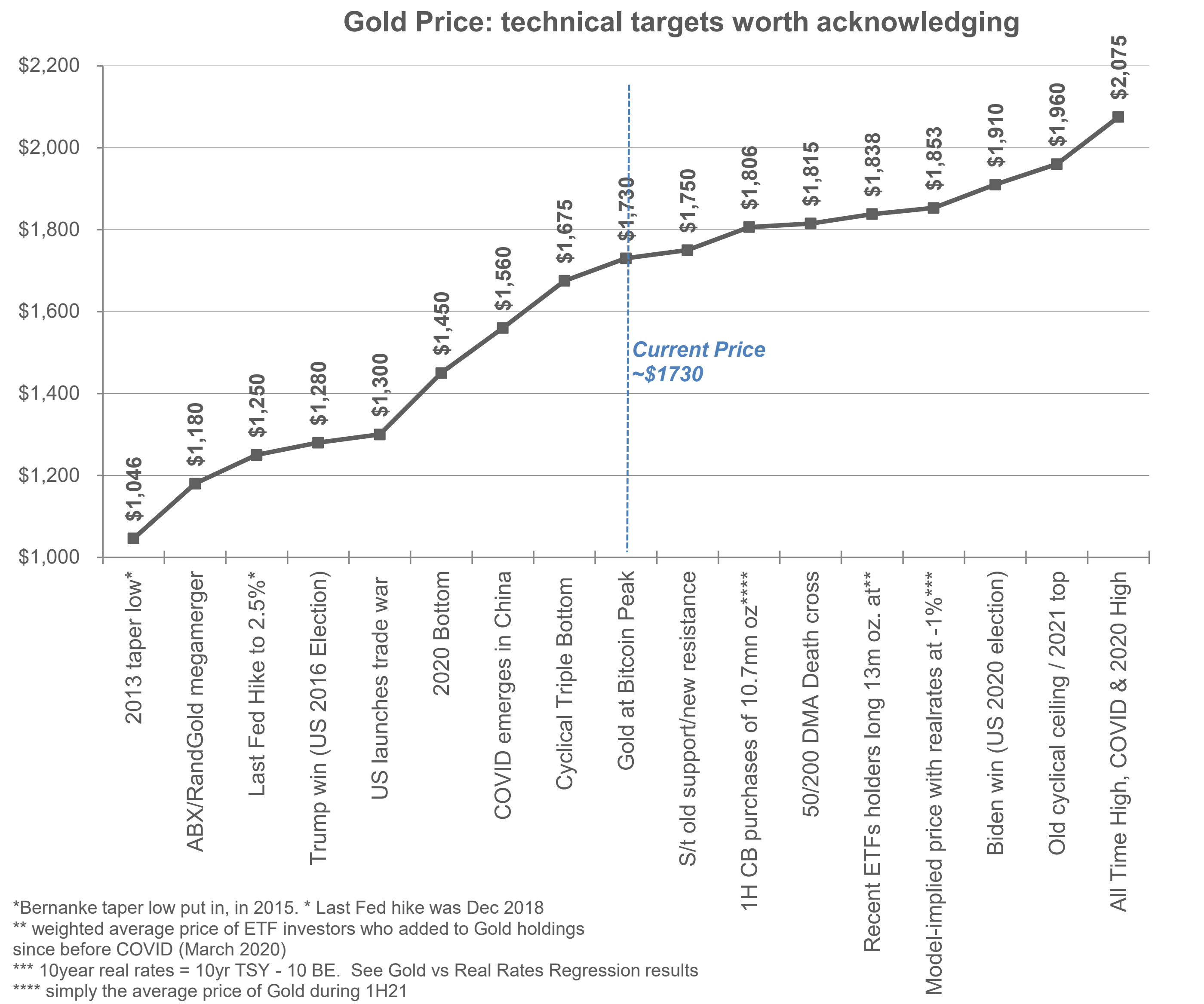
- ETF holders have purchased 13m oz since COVID, and are well offsides with the weighted average price of daily purchases sitting at $1838, $100 higher than current prices.
- Similarly, CB global reserves expanded by 10.7mn in 1H 2021 (~40% higher vs the 5yr average), with notable purchases by Thailand, Hungary and Brazil. These recent entrants are, very roughly (!) long Gold at an average price of $1806.
- Fast-money investors (COT ex options) owned 9m oz up until where Gold touched $1800. That's around the 10yr average, but still a 1/3rd of peak positioning, providing some insight that plenty of investors were not directionally positioned (ie: short) for this breakdown; it was a move missed by many... While the risk of further Gold liquidation is pinned on potential COT long liquidation, the likely culprits are either late OTC buyers, ETF holders or fresh COT shorts. Gross managed money shorts are currently short 4.3mn oz of Gold, an increase of 15% (+600K oz) since the pivotal hawkish FOMC in June 2021. By comparison, gross managed money shorts were short 2.7mn oz at the January 2013 FOMC (the 1st hint of a taper back then) and increased their positioning by over 200% (+5.6mn oz) into the official taper seen in Dec 2013; net COT can run net short of up to –10mn oz.

MACRO, the FED and other key numbers:

- Usually a $ and/or rates breakout *precedes* a range repricing in $-sensitive assets like Gold. However, this time around, Gold seems to have led any technical breakout, and essentially has provided the greenlight for much larger tankers (FI and USD) to turn and follow suit (ie: reprice higher as expected into a Fed taper). A dump in Gold—arguably seen as “smart” and forward looking—essentially has shown the way.
- The past December Fed hikes (Dec ‘15, ‘16 & ‘17) were unequivocally bullish Gold within the first 40days. The last Fed hike was Dec 2018 and Gold was $1280 then; its essentially got $500 worth of COVID, macro fear and Fed easing priced in (this peak premium was over $800 when it hit ATHs in 2020).
- Gold has currently repriced to the level ($1730) when XBT hit ATHs of >$60K seen in April 2021. Bitcoin was a non-influencer of Gold while it remained contained $30-$40K, but its recent breakup/out certainly entices in FOMO participants and is a potential detractor (again) for Gold exposure.
- Gold has convincingly not traded above $1910—the level when Biden won US elections — despite several attempts during this Fed easing cycle; that is very surprising given the political/spending shift left & persistently bigger gov policies.

Technical compression broken & nearby inflection points

- Gold traded in an increasingly tighter $40 range for over a month, between $1790 & $1830 (cash basis), before caving in as, quite simply, it failed to go higher given starkly low real rates.
- Topside targets: short-term old support/new resistance at $1750, $1800 and the old convergence of 50 and 200 DMA ($1815).
- Downside targets: the triple bottom at $1675 is increasingly cited, after that, the 2020 low of $1450 opens up and essential implies all COVID premium is erased (Gold was $1560 when COVID first emerged in China).



*Bernanke taper low put in, in 2015. * Last Fed hike was Dec 2018
** weighted average price of ETF investors who added to Gold holdings since before COVID (March 2020)
*** 10year real rates = 10yr TSY - 10 BE. See Gold vs Real Rates Regression results
**** simply the average price of Gold during 1H21

Source: Bloomberg, MKS PAMP Group

Respect Golds technical breaks; theyre aligned with major Fed pivots

GLD chart with Gold equivalent levels

Source: MKS PAMP Group, Bloomberg

GLD US Equity (SPDR Gold Shares) GLD tech5 Monthly 07JUL2009-11AUG2021 Copyright© 2021 Bloomberg Finance L.P. 10-Aug-2021 16:11:02

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