# Gold Bull Mojo Not Lost, Just Resting

BI Commodities, Global Dashboard

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Gold Bullish Mojo Not Lost, Exit From Narrowing Cage Likely Soon

(Bloomberg Intelligence) -- Gold is increasingly akin to a compressed spring waiting to uncoil, in our view. An over extended bull upon the initial step-up to $1,500 an ounce a few months ago has had ample rest-and-refresh time for the next step of the rally to proceed. Extreme net longs are in decline, and fundamentals favor price advances. (10/08/19)

## 1. Gold Getting Antsy to Exit Its Cage

Gold is poised to exit its narrowing cage soon, with the path of least resistance tilted higher, in our view. Essentially pivoting on $1,500 an ounce since Aug. 7 has resulted in the metal's 40-day Bollinger Bands compressing to the narrowest since June, just before the breakout above $1,300. The bull is getting close to having rested sufficiently to take its next step higher, if history is a guide.

Since gold's first close above $1,500 this year, the Federal Reserve has commenced an easing cycle, bond yields have declined, stock-market volatility has increased, total known exchange-traded holdings of the metal have steadily gained and elevated managed money net-long positions have declined. The high since Aug. 7 has been $1,557; $1,459 is the low. These levels mark the first good resistance and support. (10/08/19)

Gold Stair-Step Pattern Set for Next Step

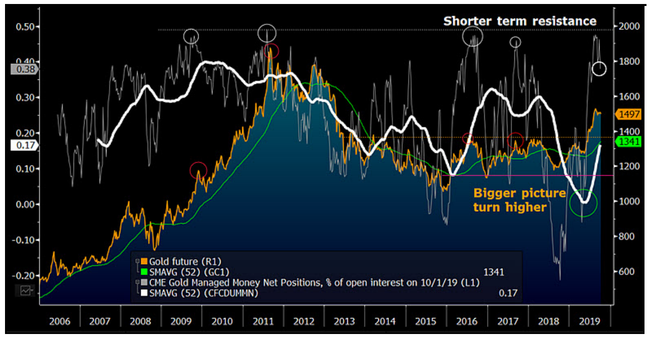

Source: Bloomberg Intelligence

## 2. Gold Hedge Fund Positions Less Extended

Gold is still overbought, based on extended managed-money net longs, but the shorter-term condition is moderating. At about 40% of open interest, CME traded net-gold longs are down from the peak near 50% in August and should drop another notch this second week of October. Indicating the potential longer-term upside in the gold price and net positions, the 52-week average appears in early recovery days from reaching the lowest in the database (2006) earlier this year.

This is part of the recovery hangover from achieving record net shorts about a year ago, which helped to launch the current bull market. Further back-and-fill is likely, but gold prices are showing divergent strength. Since net longs first reached about 40% of open interest on June 28, prices have continued to advance. (10/08/19)

Short-Term Extended, Long-Term Recovery



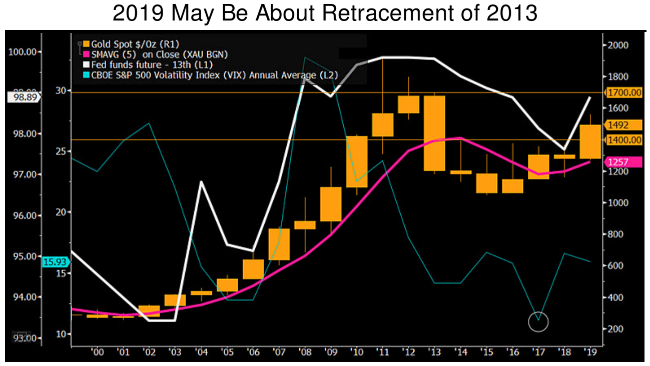

Source: Bloomberg Intelligence

3. Lucky 13 Guiding Gold Toward $1,700 Resistance

Gold prices have strong tailwinds from declining rates and increasing stock-market volatility. Our graphic depicts the metal in the process of retracing the big 2013 plunge, which began about $1,700 an ounce. Gold has recovered above the key resistance around $1,400 since the decline six years ago that ended 12 successive years of gains. The Fed shifting to ease, as depicted by the increasing one-year-out Fed funds future and the CBOE S&P 500 Volatility Index (VIX) recovering from life-of-index lows about two years ago are strong forces for advancing gold prices.

Primary forces to reverse the metal recovery would be stock-market volatility rolling over and staying very weak and sustained strength in the dollar. Both are unlikely, in our view. (10/08/19)

2019 May Be About Retracement of 2013



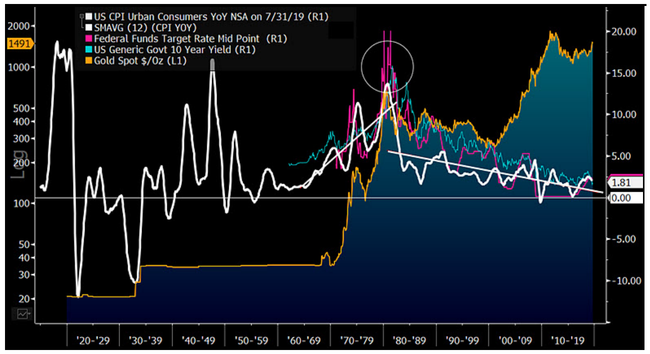

Source: Bloomberg Intelligence

4. Gold Bull Market May Be in Early Days

Rallying gold and bond prices appear to be looking ahead to potential opposite extremes in the monetary-policy restraint that squashed inflation almost 40 years ago. Our graphic depicts entrenched trends in declining interest rates and consumer prices that may not reverse until the Fed funds rate is lowered to a discount that matches its premium in 1980-81. That extreme tightening cycle proved inflation can be readily controlled by the Fed, which should embolden much lower and negative rates to shift the receding tide.

With negative rates in much of the rest of the world, rallying dollar-denominated precious-metals prices may be anticipating similar in the U.S. A primary difference from 40 years ago is U.S. debt-to-GDP was about 30% then, vs. 100%-plus now. Periods of negative CPI were common before 1955. (09/12/19)

End the Trend - Fed Funds Discount May Be Required



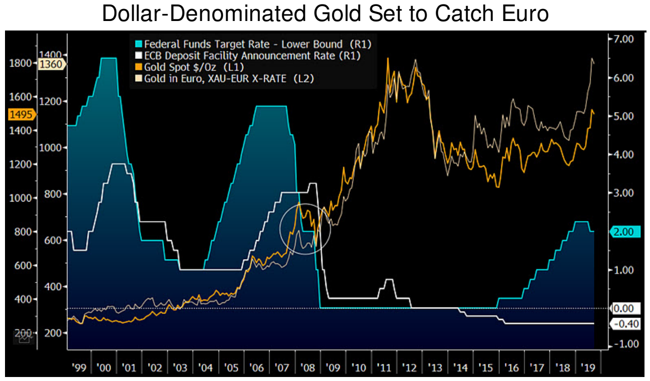

Source: Bloomberg Intelligence

5. It's Not Complicated: Rates Down, Gold Up

The ECB and Fed cutting interest rates in the same month for the first time since the financial crisis is a tailwind for gold prices. Our graphic depicts the Fed funds rate beginning the process of potentially catching up to the negative ECB Deposit Facility Announcement Rate. A potential next iteration is the dollar-denominated price of gold following the euro value toward record highs. The primary question is what it might take to end these trends.

A definitive U.S.-China trade agreement would help but is unlikely. The trend in recovering gold prices was firmly entrenched before the May 5 tweet from President Donald Trump announcing negotiations had broken down and tariffs would be levied. (09/12/19)

Dollar-Denominated Gold Set to Catch Euro



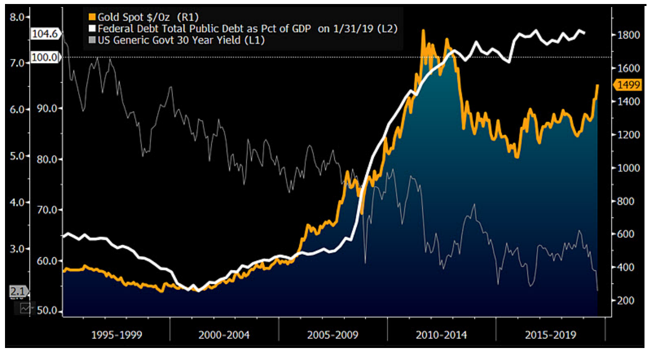

Source: Bloomberg Intelligence

6. Gold Looks Too Cold vs. Rising Budget Deficit

If gold catches up to its relationship with the increasing U.S. budget deficit, its price should appreciate toward $1,800 an ounce. At almost 105%, the rising trend in total debt outstanding vs. nominal GDP appears entrenched, notably as the economic expansion reaches a record length. Declining bond yields are potentially more significant. The fiscal discipline needed to address increasing deficits is unlikely to occur until markets force a change, via bond yields reversing higher and/or the dollar declining.

Both scenarios reflect inflationary conditions, which are typically the most supportive of gold prices. Unless some unlikely forces manage to reverse the trend in increasing debt-to-GDP, gold should continue to appreciate. Acceleration of the trend appears likelier. (08/21/19)

Seemingly Unstoppable Debt-to-GDP Supports Gold




Source: Bloomberg Intelligence

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