

# Gold: Monitor

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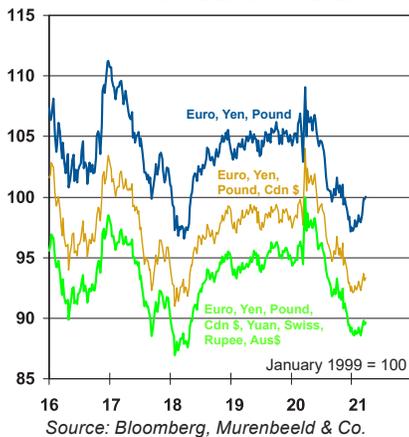
## GOLD PRICE



	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Gold - LBMA PM Price	1723.65	1735.00	1729.65	1725.90	1735.20
Gold - COMEX	1729.20	1730.90	1727.10	1732.50	1741.20
Silver - HH	2611.50	2595.50	2597.50	2623.50	2623.50
Platinum - NYME	1209.50	1219.10	1199.30	1217.50	1197.10
Crude Oil - NYME	65.39	64.80	64.60	60.00	61.49
CRB Bridge - NYBOT	193.42	193.43	192.68	187.14	188.79
US \$ Index (EFXR0C)	100.26	100.28	99.90	100.16	100.24
Fed Funds (Overnight)	0.07	0.07	0.07	0.07	0.07
US 10-Year TIPS Yield	-0.67	-0.69	-0.67	-0.59	-0.58
TSX Global Gold Index	291.82	290.70	296.89	292.98	294.65
S&P 500	3968.94	3962.71	3974.12	3915.46	3913.10

Source: Bloomberg, Murenbeeld & Co.

## US DOLLAR INDEX



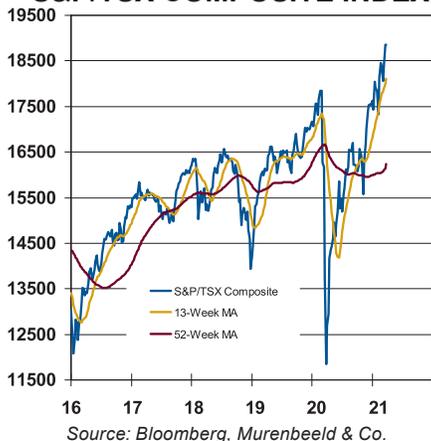
## Review

by Martin Murenbeeld

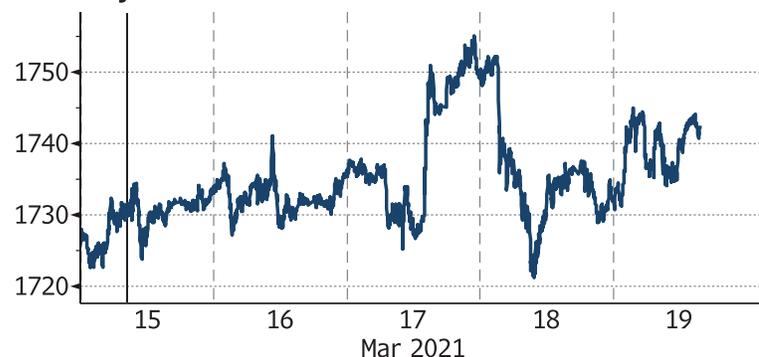
The Federal Reserve met this week and the impact of its statements, projections and press conference can be seen in the 5-day chart herewith. Gold rose Wednesday afternoon, post-meeting, but then sold off again on Thursday when US long-term Treasury yields, and the 10-year TIPS yield, continued to rise. There

was little follow-through on yields Friday however, which allowed gold (given that it was fixed at \$1704.80 last Friday) to post its **best week of the year to date** with today's pm fix of \$1735.20. (To be sure, a weekly rise of \$30.40 is a modest rise in the scheme of things – there were 16 weekly rises over \$30 in 2020 for example – but that

## S&P/TSX COMPOSITE INDEX



## Gold Price Last 5-days



shows how badly this year to date has gone for gold).

I don't know if we want to go so far as to suggest that the bottom of this downward leg is now behind us (i.e., \$1687.05 on March 8) but I do find it noteworthy that gold managed to post its best weekly gain of the year in a week when both the US dollar and US interest rates rose (if not also bitcoin).

We discuss the Fed and inflation below. To summarize, we are of the strong opinion that the Fed will not raise rates until late 2022 at the earliest – if then – and that the Fed will not concern itself with whatever the inflation rate might be in the meantime. *Maximum employment* is the

Fed's overriding objective, not inflation and not any specific unemployment rate. *The Summary of Economic Projections* (SEP) released at the end of the meeting foresees an unemployment rate of 4.5% at 2021-end and 3.9% at 2022-end, but foresees no change in the FF-rate!

(The simplest definition of *maximum employment*, by the way, is the 152.5 million people employed in February 2020, when the unemployment rate was 3.5%. That's almost 10 million more people employed than currently!)

**The Fed**

The table below is our version of the Fed's dot plot, a chart that indicates what

each FOMC participant (18 in total) thinks will be an appropriate FF-rate at year-end 2021, 2022, and 2023. All 18 participants thought there should be no change in the FF-rate by this year-end, 14 of 18 thought there should be no change through 2022 and 11 of 18 thought no change would be appropriate through 2023.

We calculate a weighted-average FF-rate from these data (i.e., .32% at year-end 2022 for example), and compare this weighted average with the 18 participants' median PCE inflation rate to come up with a real FF-rate estimate. As the reader can see, the real FF-rate is expected to be -2.15% at 2021-end, -1.68% at 2022-end, and -1.57% at 2023-

FOMC Projections for Federal Funds Rate																
September 2020						December 2020						March 2021				
Target FF					Long	Target FF					Long	Target FF				Long
Year-end	2020	2021	2022	2023	Run	Year-end	2020	2021	2022	2023	Run	Year-end	2021	2022	2023	Run
0.00						0.00						0.00				
0.25	17	17	16	13		0.25	17	17	16	12		0.25	18	14	11	
0.50				2		0.50			1	3		0.50		3	1	
0.75			1	1		0.75				1		0.75		1	1	
1.00						1.00						1.00			3	
1.25						1.25				1		1.25			2	
1.50				1		1.50						1.50				
1.75						1.75						1.75				
2.00					1	2.00					1	2.00				1
2.25					3	2.25					3	2.25				4
2.50					9	2.50					9	2.50				9
2.75					1	2.75					1	2.75				1
3.00					2	3.00					2	3.00				2
3.25						3.25						3.25				
3.50						3.50						3.50				
3.75						3.75						3.75				
FOMC	17	17	17	17	16	FOMC	17	17	17	17	16	FOMC	18	18	18	17
FF-Rate						FF-Rate						FF-Rate				
W-Ave	0.25	0.25	0.28	0.38	2.50	W-Ave	0.25	0.25	0.26	0.38	2.50	W-Ave	0.25	0.32	0.53	2.49
Median	0.10	0.10	0.10	0.10	2.50	Median	0.10	0.10	0.10	0.10	2.50	Median	0.10	0.10	0.10	2.50
Headline PCE	1.20	1.70	1.80	2.00	2.00	Headline PCE	1.20	1.80	1.90	2.00	2.00	Headline PCE	2.40	2.00	2.10	2.00
Core PCE	1.50	1.70	1.80	2.00	-	Core PCE	1.40	1.80	1.90	2.00	-	Core PCE	2.20	2.00	2.10	-
Real FF	-0.95	-1.45	-1.52	-1.62	0.50	Real FF	-0.95	-1.55	-1.64	-1.62	0.50	Real FF	-2.15	-1.68	-1.57	0.49

Source: Federal Reserve, Murenbeela & Co.  
 (How to read the table: Each column indicates the number of Fed participants who feel the accompanying FF-rate (upper bound) is the appropriate rate for year-end. For example, at the March 2021 meeting all 18 participants deemed 0.25% to be the appropriate FF-rate at year-end 2021. A similar analysis holds for 2022 year-end, 2023 year-end, and the Long Run

end. Except for 2023, these real rates are lower than those calculated from the December dot plot! With the exception of the real FF-rate at 2021-end, the changes in the real FF-rate from that of December are not significant.

The message we can draw from this exercise is that a large majority of the 18 FOMC participants do not think it is appropriate to raise the FF-rate before yearend 2023, despite the slightly higher inflation outlook and the general improvement in the economic outlook!

And what of interest rate caps, a possible Fed response to the rise in long-term interest rates and the inherent threat thereof to the economic outlook? Chair Powell was specifically asked about this by CNBC's Steve Liesman at the post-meeting press conference (bolding added):

*Liesman: ... other central bankers have expressed concern about what's happened to yields in their countries and even some have taken action, but not you. Could you give us your general idea or orientation towards the idea of coming into the market and affecting a particular tenor of the bond market? Do you like that idea? Do you not like it? Is it at the top of your toolbox? Or is it something that you think is at the bottom of the toolbox?*

***Powell: ... I would be concerned by disorderly conditions in markets or by a persistent tightening of financial conditions that threaten the achievement of our goals ...***

*Liesman: ... Could you give us an idea of how you sort of feel about that tool, of being able to come into a particular part of the market and either doing an operation twist or something like that? Is that something you feel to be the top of your toolbox or something that you don't really prefer?*

*Powell: ... You know, the tools we have are the tools we have. What I'm telling you is that the stance of monetary policy we have today we believe is appropriate. We think that our asset purchases in their current form, which is to say across the curve \$80 billion in Treasuries, \$40 billion in mortgage-backed securities on net, we think that that's the right place for our asset purchases. Now we can change them, of course, in a number of different dimensions should we deem that that's appropriate. But for now, we think that our policy stance on that is appropriate.*

In short, Powell did not answer the question – but neither did he rule out the suppression of long rates as a potential policy response.

The rest of the press conference went as anticipated; Powell reiterated in different ways that 1. now is not the time to consider tapering, 2. the Fed will remain patient, 3. the Fed wants to see maximum employment realized, 4. the Fed is not concerned about any trade-off between employment and inflation because the relationship has not held up in recent years, and 5. there will be a transitory inflation bump in 2021.

### ***Inflation***

We know the Fed is totally focused on employment, not on inflation; the SEP projections of a 4.5% unemployment rate at year-end and a 3.9% rate at 2022-end did not noticeably alter the Fed's outlook for the FF-rate. (The Fed is not focused on the unemployment rate, but on total employment; *maximum employment* can be loosely defined as 152.5 million, which was the level of US employment in February 2020, just prior to the pandemic, when the unemployment rate was 3.5%.)

But what of inflation? We think the Fed will be very tolerant of higher inflation over the next several years. The Fed has repeatedly stated that it wants inflation to average around 2%. Because the Fed has failed to meet this target for many years now (the PCE inflation chart herewith

shows that the Fed's preferred inflation measure has averaged 1.5% over the last 10 years), the Fed is very unlikely to respond quickly to an inflation rate of, say, 3% or higher, and certainly not if it fundamentally believes such a rise is temporary (which of course will be its initial assumption given the Fed is data driven, not forecast driven).

The second chart comes from the Federal Reserve Bank of New York; it is the FRBNY's *Underlying Inflation Gauge* (UIG). The blue line incorporates all the data that goes into this gauge (including non-price data), whereas the red line incorporates only the price components of the data set. Note that the blue line exceeded 3% in 2018. Did the Fed raise rates at that time?

Yes, the FF-rate was hiked from .25% in late 2016 all the way to 2.5% in 2019. But in July 2019 the Fed backed off and the FF-rate ended 2019 at 1.75%. Why did the Fed cut rates in the second half of 2019? Here is an excerpt from the October 30, 2019 Fed statement:

*Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending has been rising at a strong pace, business fixed investment and exports remain weak. On a 12-month basis, overall*

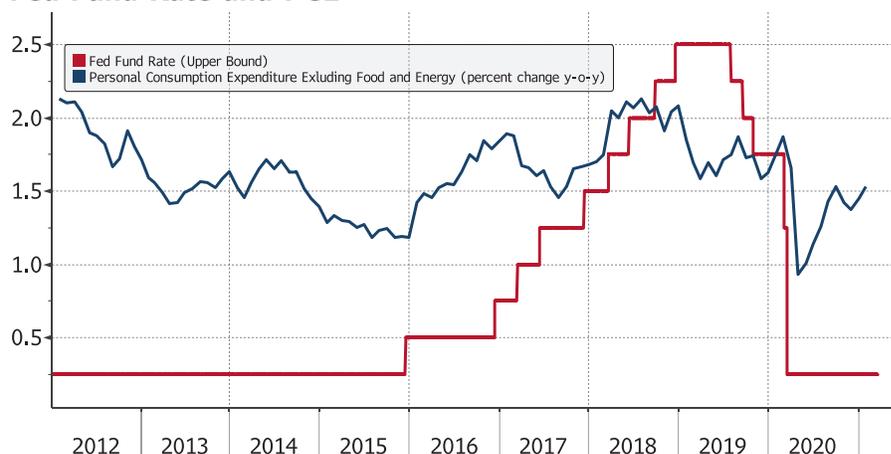
*inflation and inflation for items other than food and energy are running below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed.*

*Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In light of the implications of global developments for the*

***economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 1-1/2 to 1-3/4 percent (bolding added).***

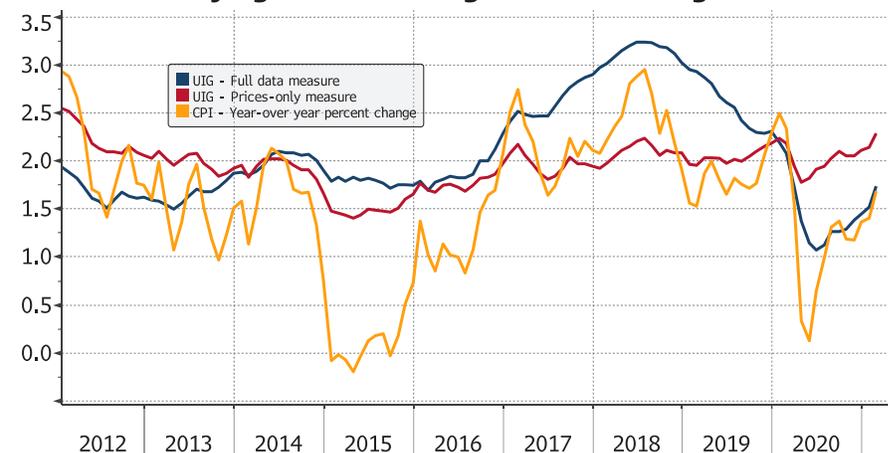
In other words, while US GDP was expanding at 2.3% (2019) and labor markets were strong (the unemployment rate was below 4.0%), inflation remained well contained. With international trade problems furthermore, the Fed

**Fed Fund Rate and PCE**



Source: Bloomberg, Murenbeeld & Co.

**NY Fed Underlying Inflation Gauge and the Change in CPI**



Source: Bloomberg, Murenbeeld & Co.

concluded that renewed FF-rate cuts were warranted!

A careful reading of Fed statements since then suggests that the Fed now feels: 1.) there may have been little point in raising rates so quickly in the first place; 2.) policy objectives needed a rethink (hence Fed's recent revisions in its *2% inflation target* and its

*maximum employment target*); and 3.) the economy should be allowed to run as best it might so long as there is labor market slack.

**Bottom line for gold:** The rate hikes of 2016-2019 were reversed quickly, even before Covid hit. The Fed learned a lesson, and will accordingly be in no hurry to raise rates this

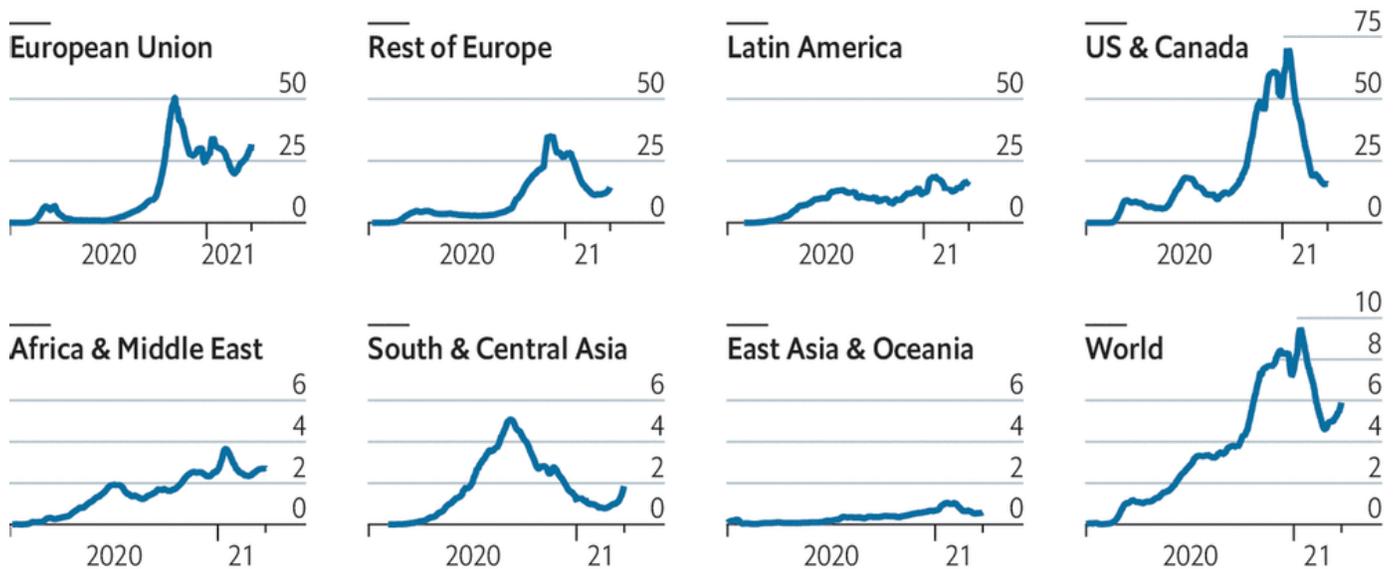
time around. Were long yields to rise in coming weeks to a point where the Fed felt this rise might threaten the economy, we expect the Fed to take counter-steps (which will include more QE and/or rate suppression). We do not see Fed policy as negative for the gold price; more likely Fed policy will be quite bullish for gold!

## Covid-19 cases are rising again in much of the world

More transmissible variants, rather than changes in behaviour, are largely to blame

### The comeback king

Covid-19 cases per 100,000 population



Sources: Johns Hopkins University, CSSE; *The Economist*

\*Seven-day moving average

Source: *The Economist*

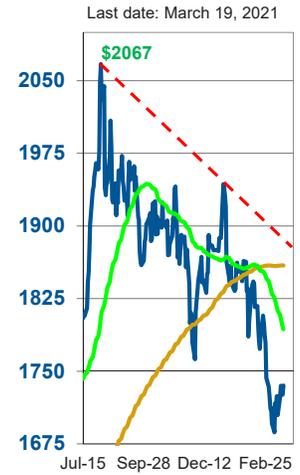
*One more reason for the Fed not to taper!*

**THE MEDIUM-TERM TECHNICAL PICTURE**

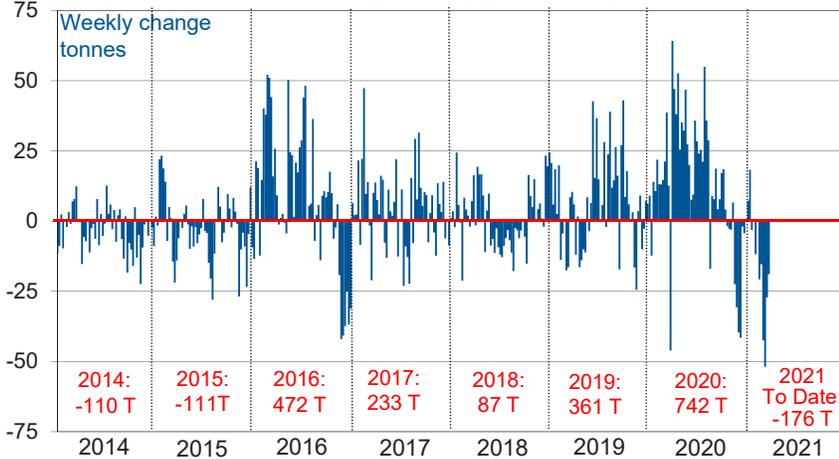


Source: LBMA, Bloomberg, Murenbeeld & Co

Last date: March 19, 2021



**CHANGE IN GOLD ETFs**



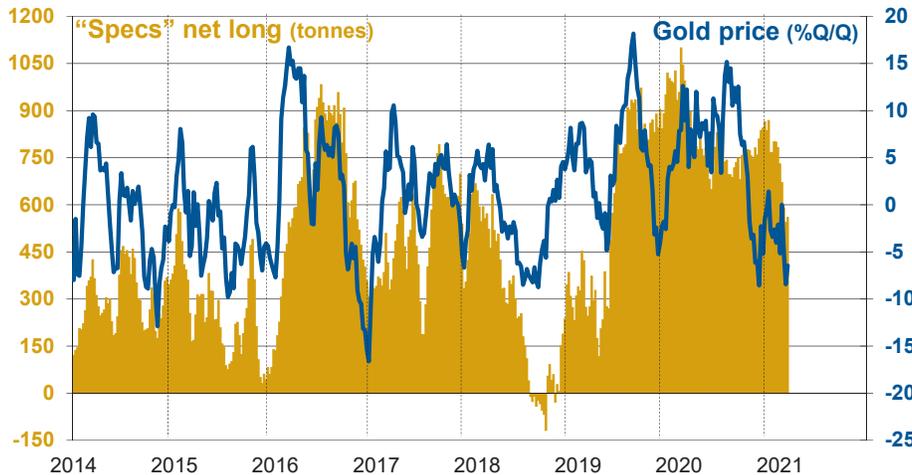
Source: Bloomberg, Murenbeeld & Co.

Last date: March 18, 2021

*The technical picture remains precarious; the trend remains downward, but the uptrend line since 2019 has not been violated.*

*The outflow of gold from the ETF sector declined in recent days ...*

**COMMITMENTS OF TRADERS DATA - GOLD**



Source: US Commodity Futures Trading Commission, Bloomberg, Murenbeeld & Co.

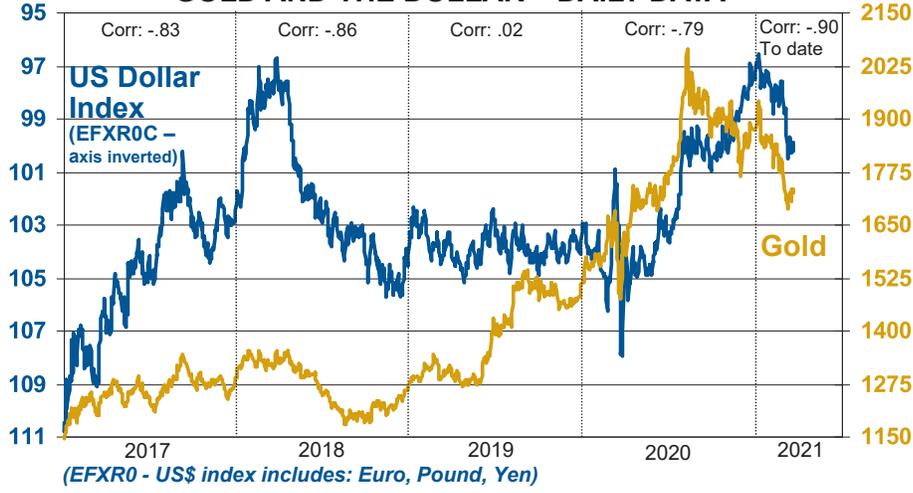
\*Futures Contracts: in tonnes-equivalent

Last date: March 16, 2021

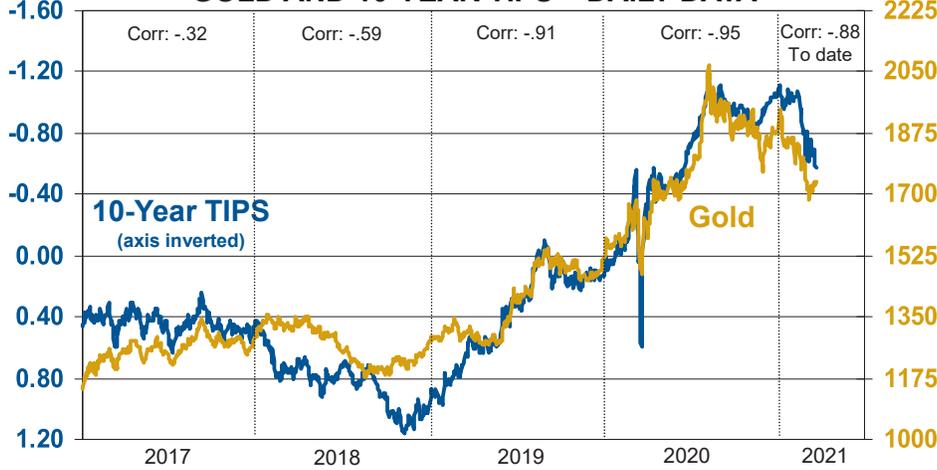
*... and the net-long position of the "specs" on COMEX increased in the week ending Tuesday.*

*A sign of improving sentiment?*

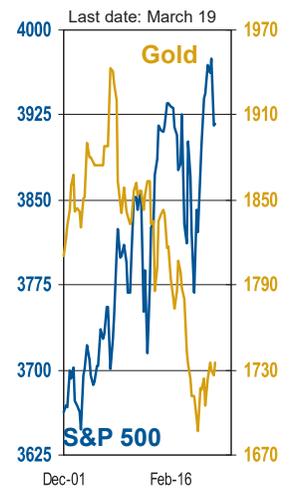
**GOLD AND THE DOLLAR – DAILY DATA**



**GOLD AND 10-YEAR TIPS – DAILY DATA**



**GOLD AND THE S&P 500 – DAILY DATA**



Source: Bloomberg, Murenbeeld & Co.

*The good news is that gold rose this week despite the rise in the dollar and the US 10-year TIPS yield!*

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