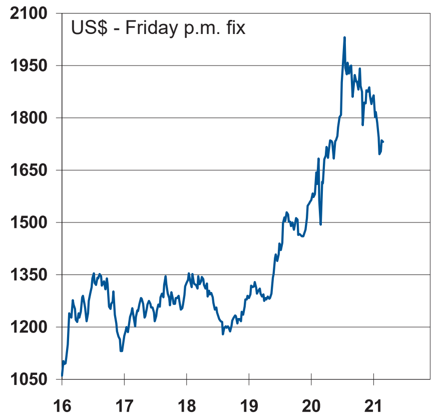
Murenbeeld & Co.
Gold: Monitor
Capitalight Research Inc.
March 26, 2021

Dr. Martin Murenbeeld
martin@murenbeeld.com
Chantelle Schieven
chantelle@murenbeeld.com

GOLD PRICE

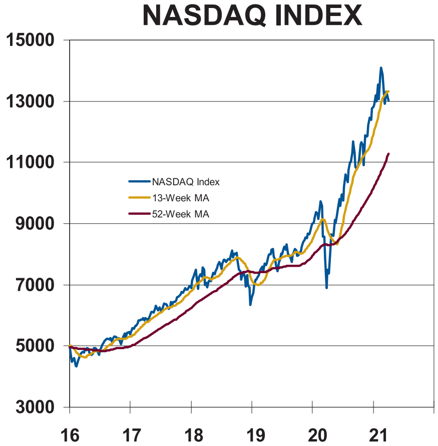


Source: Bloomberg, Murenbeeld & Co.

	Mar-22	Mar-23	Mar-24	Mar-25	Mar-26
Gold - LBMA PM Price	1736.15	1726.20	1730.50	1737.30	1731.80
Gold - COMEX	1738.10	1725.10	1733.20	1725.10	1731.30
Silver - HH	2569.50	2527.50	2524.50	2492.50	2506.50
Platinum - NYME	1184.00	1174.60	1180.20	1154.20	1186.50
Crude Oil - NYME	61.55	57.76	61.18	58.56	60.79
CRB Bridge - NYBOT	189.06	184.50	187.91	184.35	187.73
US $ Index (EFXR0C)	100.16	100.42	100.67	100.96	100.97
Fed Funds (Overnight)	0.07	0.07	0.07	0.07	0.07
US 10-Year TIPS Yield	-0.63	-0.68	-0.71	-0.69	-0.69
TSX Global Gold Index	291.21	285.41	283.18	281.59	286.43
S&P 500	3940.59	3910.52	3889.14	3909.52	3974.54

Source: Bloomberg, Murenbeeld & Co.

NASDAQ INDEX



Source: Bloomberg, Murenbeeld & Co.

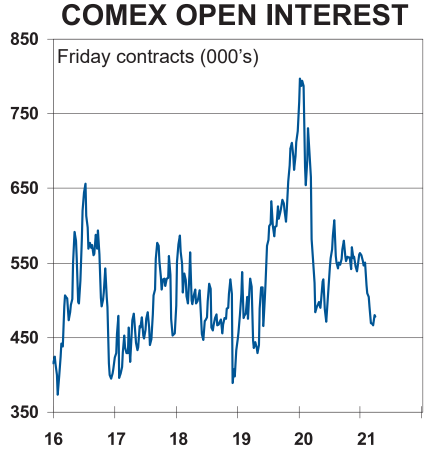
Review

by Martin Murenbeeld

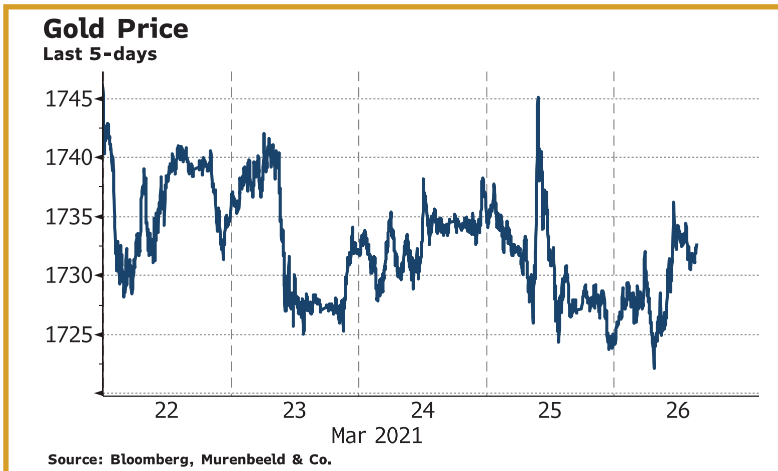
It was a mostly sideways week for gold; the Friday/Friday pm fix declined a modest $3.40. The chart below is testament to the rather narrow channel into which gold has slipped in recent days. Negative developments this week include a small rise in the US dollar index, but the impact thereof on gold was offset by the decline in the US TIPS yield this week (on the back of a decline in the US 10-year Treasury yield).

Below we highlight a few noteworthy events in this week's news stream, but we devote most of this week's report to charts that don't appear on a weekly basis.

COMEX OPEN INTEREST



Source: Bloomberg, Murenbeeld & Co.



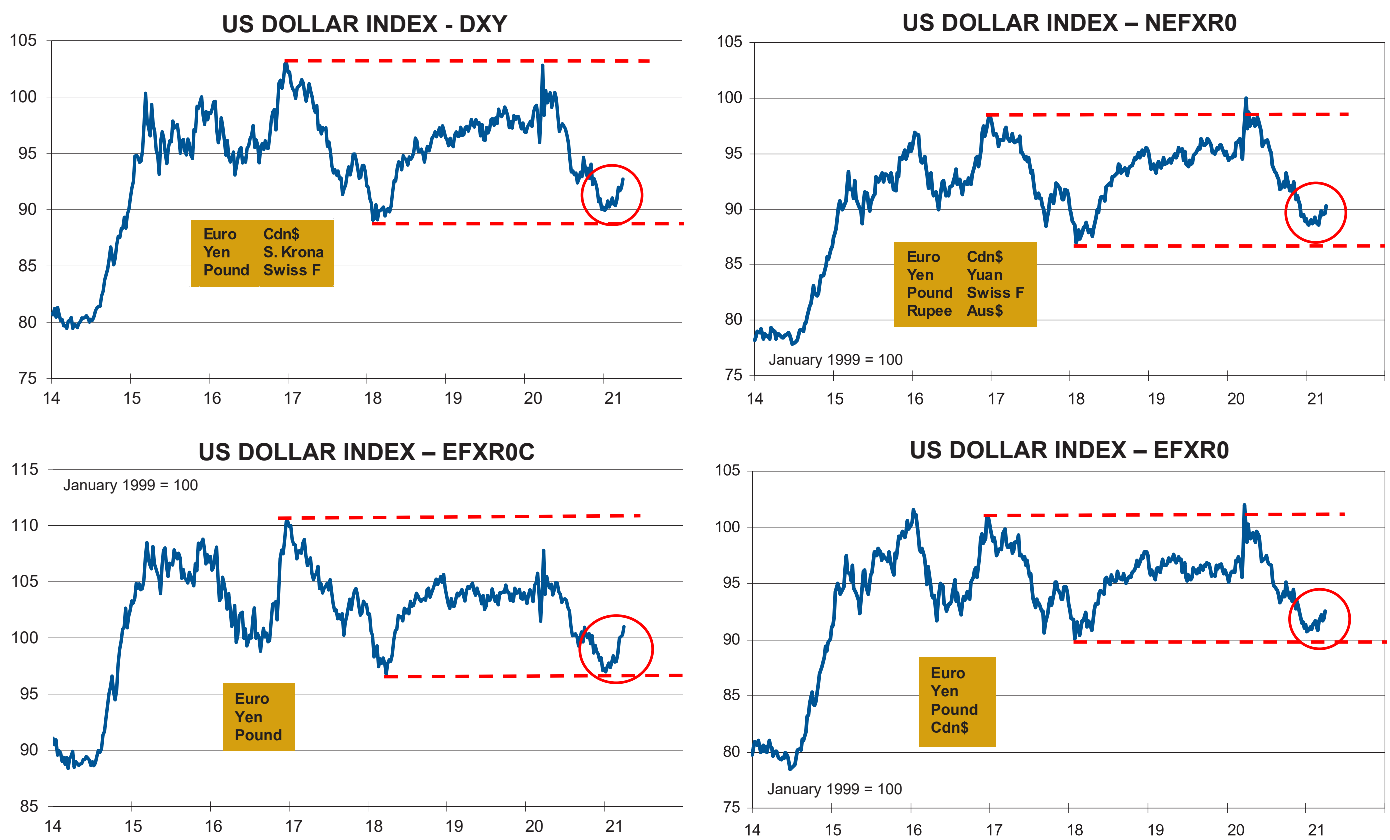
Gold remains somewhat undervalued according to our models but, as we have stressed in recent reports, gold market sentiment is not positive just now. Fed Chair Powell's comments (see below) suggesting bitcoin is a substitute for gold, not the dollar, further undermines gold market sentiment (in my opinion).

In the News

The dollar was in the news this week, not only because it has been rising this year to date (see charts below), but also because the US current account deficit for 2020-Q4 was released, and because *The Economist* noted this week that Asian foreign exchange reserves keep rising.

With respect to the latter, *The Economist* said (03/24): *Across Asia foreign-exchange reserves - a good proxy for currency intervention - have soared. Excluding China (where the data are trickier to interpret), reserves in the next ten largest Asian economies increased by about $410bn last year, the biggest annual jump on record, according to calculations by The Economist … The gains [in foreign exchange reserves] in richer countries—especially China, South Korea and Taiwan - look [somewhat] objectionable … Most notable is China, which appears to have taken steps to conceal its good fortune. Its central bank's foreign reserves have risen by $97bn since the start of 2020, making for a relatively modest increase of 3%. But there has been a marked jump in net foreign assets held by its commercial banks, which are up by $183bn, or 27%, over the same period. One possibility is that the commercial lenders have acted as proxies for managing*

US DOLLAR



Source: Bloomberg, Murenbeeld & Co.

Weekly, Last date: March 26, 2021

Our dollar charts confirm that the dollar turned upwards as 2021 commenced.

reserves. Currency traders in China say big state-owned banks have indeed been major buyers of dollars at moments of maximum yuan strength.

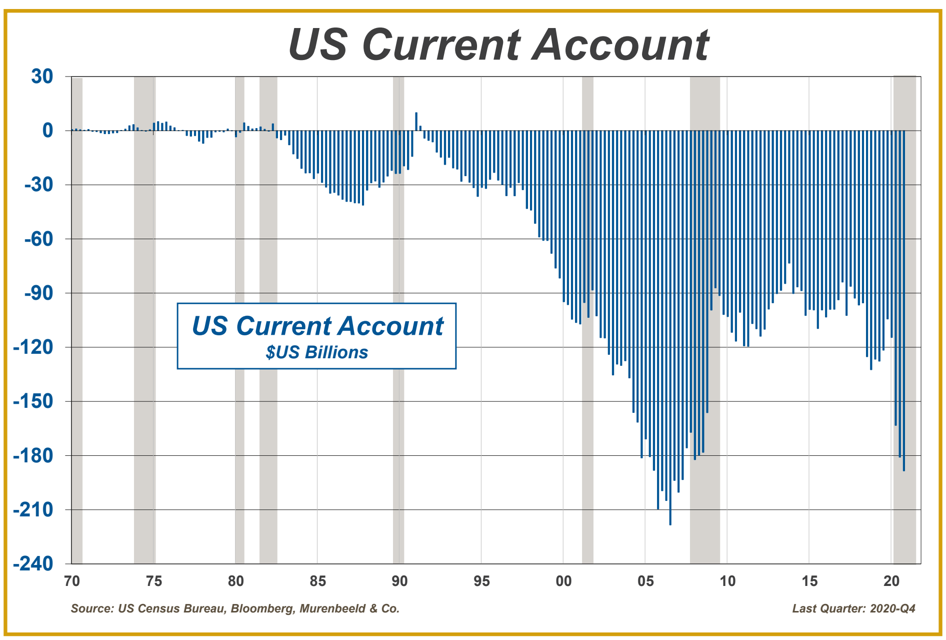
As we have explained numerous times here, FX intervention stops the dollar from declining as much as it other wise might (or stops it from declining at all). Since a stronger/weaker dollar is negative/positive for gold, foreign exchange market intervention in Asia has an indirect impact on the gold price.

Asian currencies are grossly undervalued, as we have also noted frequently. These currencies should be allowed to rise substantially versus the dollar, which would then improve the competitive position of US industry (current account deficit would decline). And gold would benefit.

Some modest level of FX reserves is warranted, of course, in the event global liquidity recedes for some reason. But the big Asian countries have far more reserves than classical yardsticks would suggest (i.e. 25% of one year's import bill, for example).

Potentially good news is that these hoards of dollar reserves could be diversified into gold reserves at some future time. But before then the dollar will remain significantly overvalued, to the detriment of the gold price.

The chart below highlights the US current account balance, which widened to -$188.5 billion in 2020-Q4 and to -$647.2 billion for all of 2020 (approximately 3% of GDP). The deficit will be larger again in 2021, because the more rapid growth in the US economy will suck more imports into the US. While the rest of the world loves this arrangement – the US economy acting as a locomotive for the world economy – the world economy has changed dramatically over the last 20 years and should be much less reliant on exports to the US.



As it stands the US is suffering from an overvalued dollar, a poor international competitive position, a lack of productive investment, and a crumbling infrastructure.

(As an aside we draw the reader's attention to a rant by Bill Maher on YouTube. It would be funny if it wasn't so true!)

The Fed was in the news too, of course. Notable were Powell's comments on cryptocurrencies at a BIS zoom meeting on CBDC (central bank digital currencies):

[Powell noted] that the U.S. is only at the beginning of its efforts to explore what a digital dollar might be, and that its work is not intended to disrupt the private financial sector, nor is it driven by the rise of private offerings like bitcoin. Many supporters of private cryptocurrencies seek to supplant government offerings, but Mr. Powell said that so far, these offerings aren't doing that … Private cryptocurrencies are "not really useful as a store of value and they're not backed

by anything," unlike the current dollar which has the support of the Fed, Mr. Powell said. "They're more of an asset for speculation, so they're also not particularly in use as a means of payment. It's more a speculative asset that's essentially ***a substitute for gold,*** *rather than for the dollar," he said.* (WSJ 03/22, bolding added.)

Even at the official level, in other words, bitcoin is seen as a substitute for gold – which supports our view that bitcoin has had a negative impact on the gold price in recent quarters (see *Gold Monitor March 5*).

Also noteworthy were Powell comments that: *He doesn't expect the $1.9 trillion stimulus package will lead to an* ***undesirable increase in inflation****, but he emphasized that the central bank has tools to deal with rising price pressures if necessary … "Our best view is that the effect on inflation will be neither particularly large or persistent," he said, reiterating comments he has made repeatedly since the measure was enacted earlier this month.* (WSJ 03/23, bolding added.)

In a speech entitled: *Remaining Patient as the Outlook Brightens* (03/23) Fed Governor Brainard expanded upon the Fed's policy strategy:

By focusing on eliminating shortfalls from maximum employment rather than deviations in either direction and on the achievement of inflation that averages 2 percent over time, ***monetary policy can take a patient approach rather than a pre-emptive approach.*** *The pre-emptive approach that calls for a reduction of accommodation when the unemployment rate nears estimates of its neutral rate in anticipation of high inflation risks an unwarranted loss of opportunity for many of the most economically vulnerable Americans …*

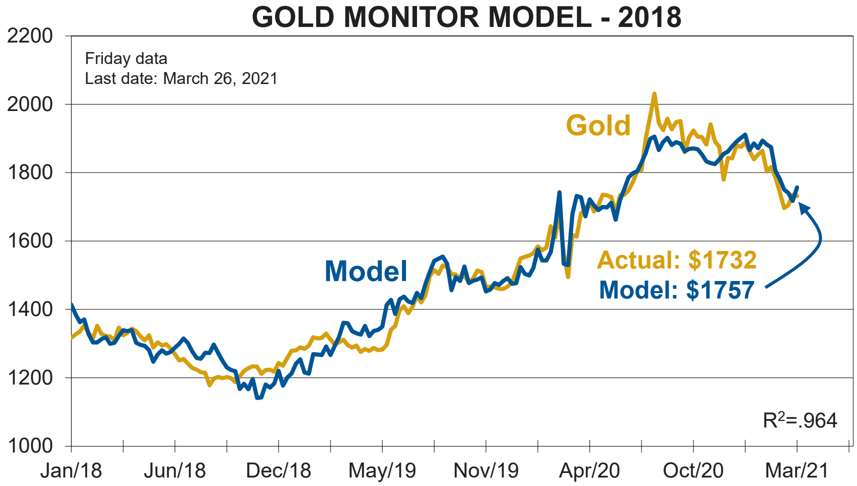
The nuance here is that the Fed will taper its QE and/or raise interest rates only after the data meets its policy goals – not on anticipation/forecasts that the data will meet its policy goals in the near future. The difference is that the Fed is now willing to let the economy run hotter than otherwise and risk falling behind the inflation curve.

Last, in an interview on *National Public Radio* (03/25) Chair Powell noted: "*There will come a time – and that time will be when the economy is back to full employment, and taxes are rolling in, and we're in a strong economy again – when it will be appropriate to return to the issue of getting back on a sustainable fiscal path," Mr. Powell said. "But that time is not now." … "Given the low level of interest rates, there's no issue about the United States being able to service its debt at this time or in the foreseeable future" …*

And with *Administration officials crafting a plan for a multipart infrastructure and economic package that could cost as much as $3 trillion and fulfill key elements of President Biden's campaign agenda* (WSJ 03/22), we expect US fiscal and monetary policy to be remain very expansionary for the foreseeable future.

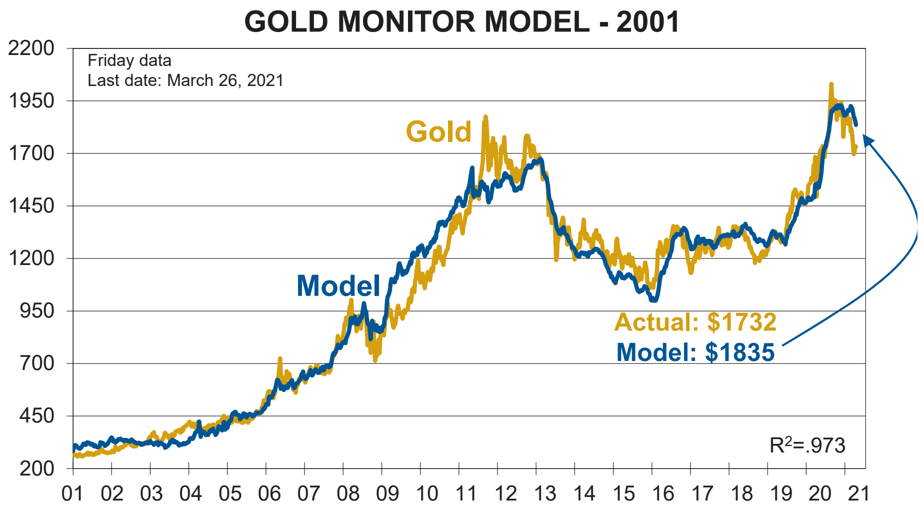
We'll see how this plays out for the US dollar and US real interest rates, arguably the two most important factors governing the gold price at this time. From a gold perspective, we'd like to see the dollar decline and inflation to substantially exceed nominal interest rates (which is also positive from a debt-reduction perspective), but markets are currently not cooperating on this front.

MONITOR MODELS



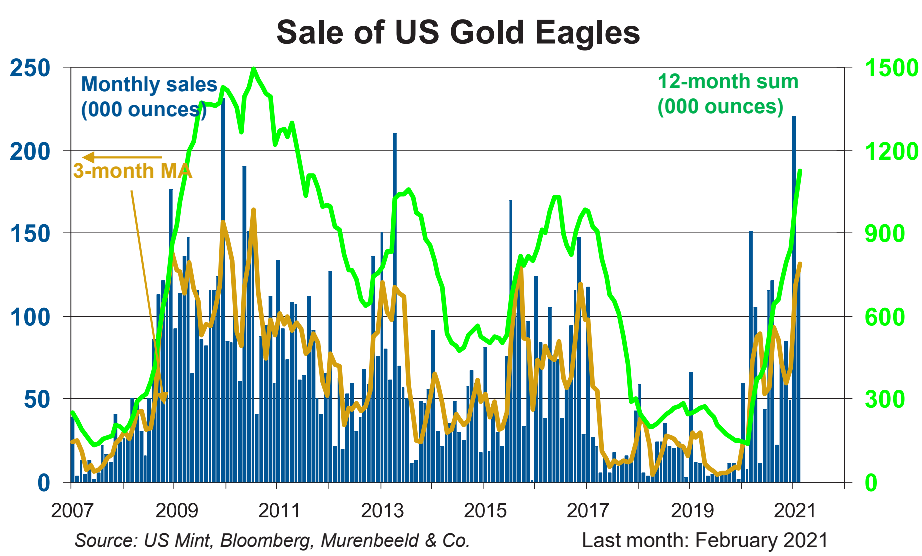
The two models herewith suggest gold is undervalued.

The short-run model suggests that gold is only modestly undervalued ...



... but the medium-term model suggests that gold might be undervalued by as much as $100 dollars at this time.

Gold coin demand has been strong so far this year.



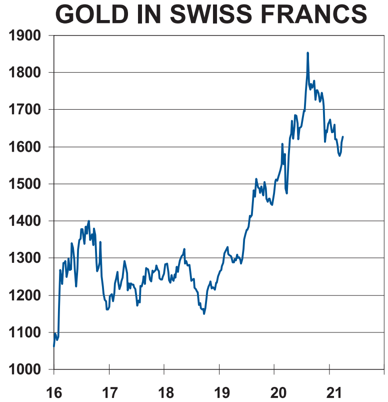
Gold Monitor

GOLD IN VARIOUS CURRENCIES

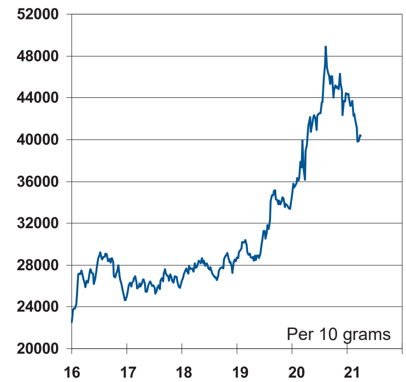
GOLD IN AUS $

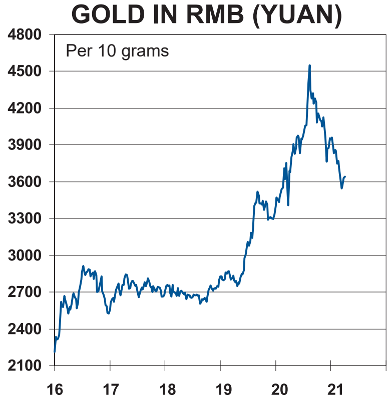

GOLD IN RAND

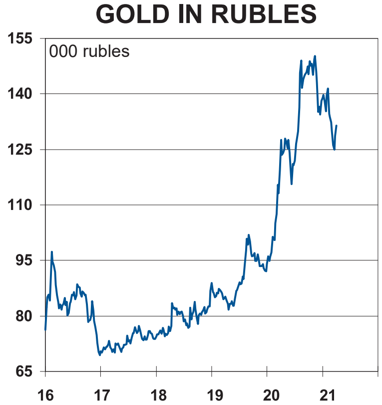

GOLD IN CDN $


GOLD IN SWISS FRANCS


GOLD IN EUROS


GOLD IN RUPEES


GOLD IN RMB (YUAN)


GOLD IN RUBLES


GOLD IN UK £


GOLD IN YEN


Source: Bloomberg, Murenbeeld & Co

Gold has slipped badly against all currencies since August 2020 ...

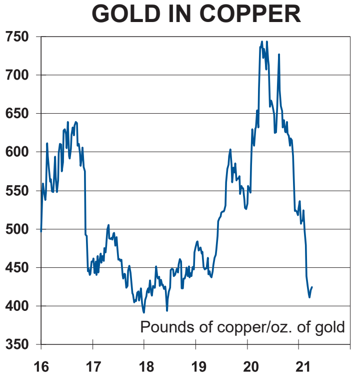
GOLD IN COMMODITY PRICES

GOLD IN SILVER

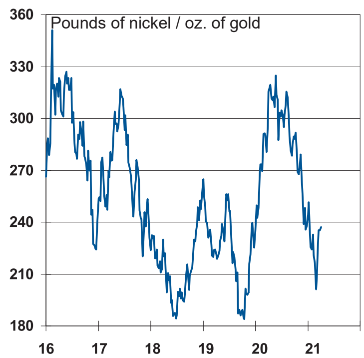
GOLD IN PLATINUM

GOLD IN PALLADIUM

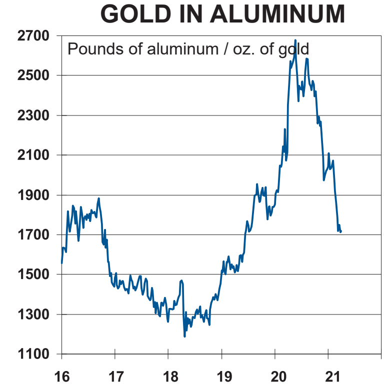
GOLD IN COPPER



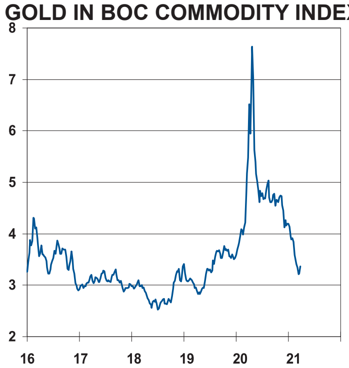
GOLD IN NICKEL



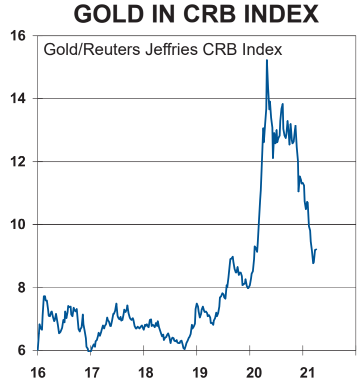
GOLD IN ALUMINUM



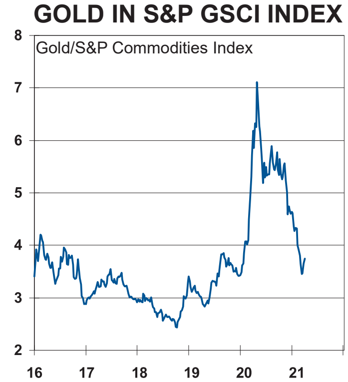
GOLD IN BOC COMMODITY INDEX



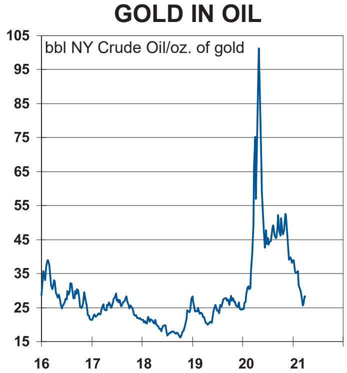
GOLD IN CRB INDEX



GOLD IN S&P GSCI INDEX



GOLD IN OIL

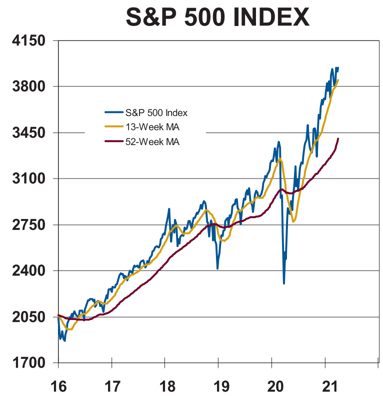


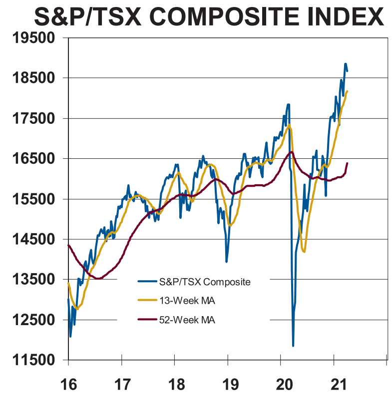
... and gold has also come down sharply against the major commodities ...

Not a bullish picture in other words!

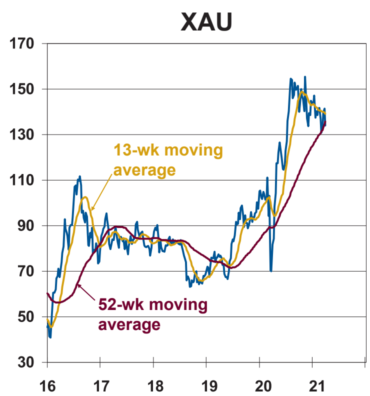
Source: Bloomberg, Murenbeeld & Co.

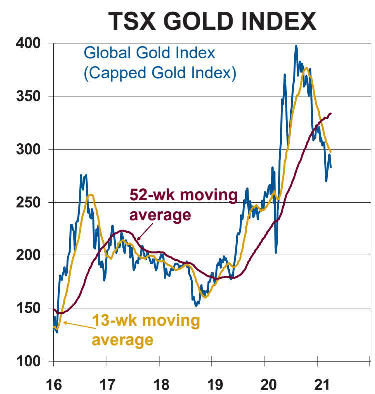
GOLD EQUITIES



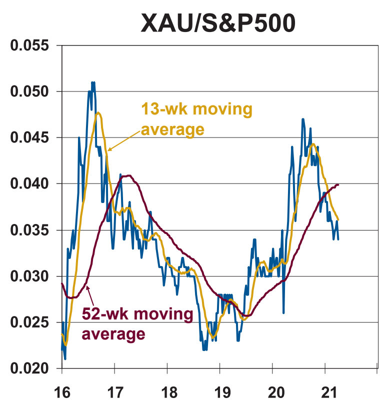


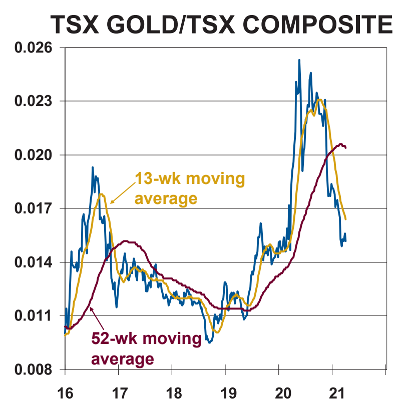
Equity indices have set new highs in recent days ...



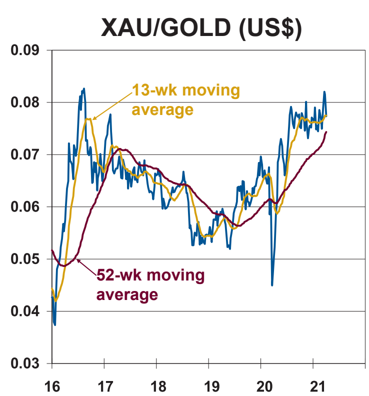


... but gold indices have not ...





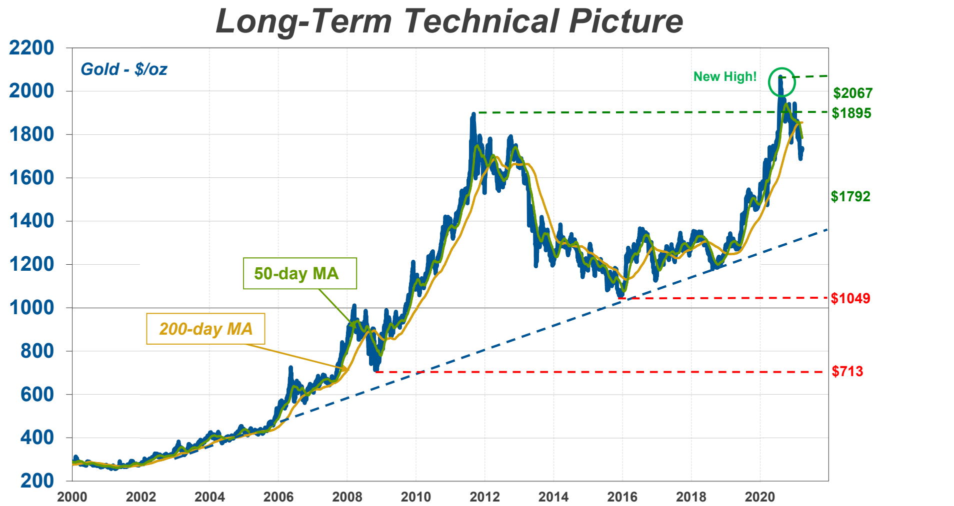
... indeed gold indices have declined sharply relative to the broader equity indices ...



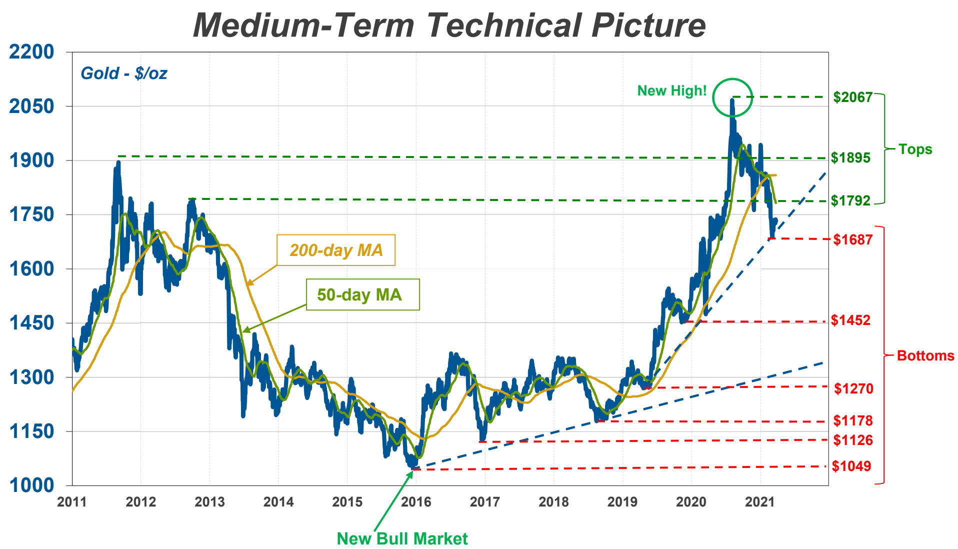
... and gold equities have not done that well relative to gold bullion!

Source: Bloomberg, Murenbeeld & Co.

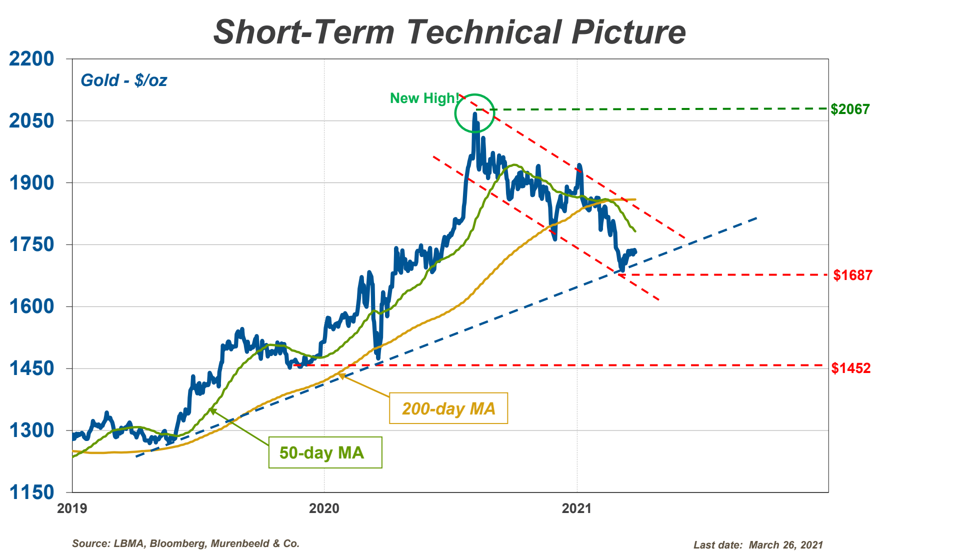
THE TECHNICAL PICTURE



The long-term technical picture indicates that gold is in a multi-decade bull trend ...

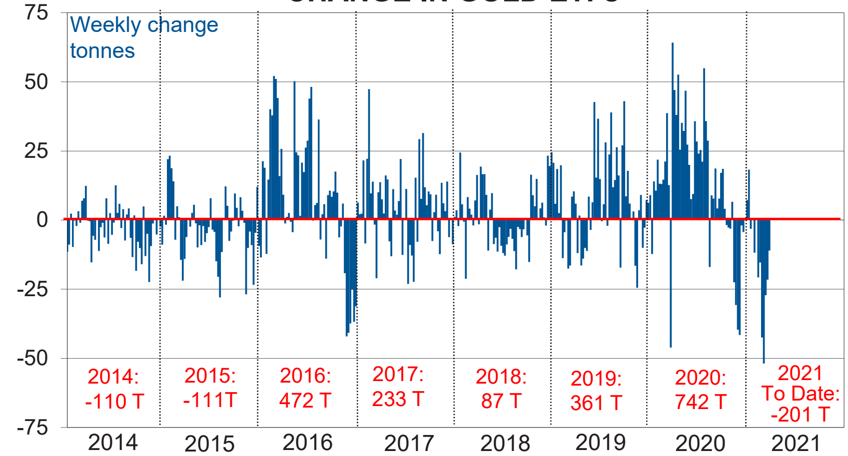


... the medium-term technical picture indicates that the most recent leg of that bull trend commenced in 2016 ...



... but the short-term technical picture suggests, with the 50-day MA below the 200-day MA and conflicting trend lines, that gold is at a critical technical juncture.

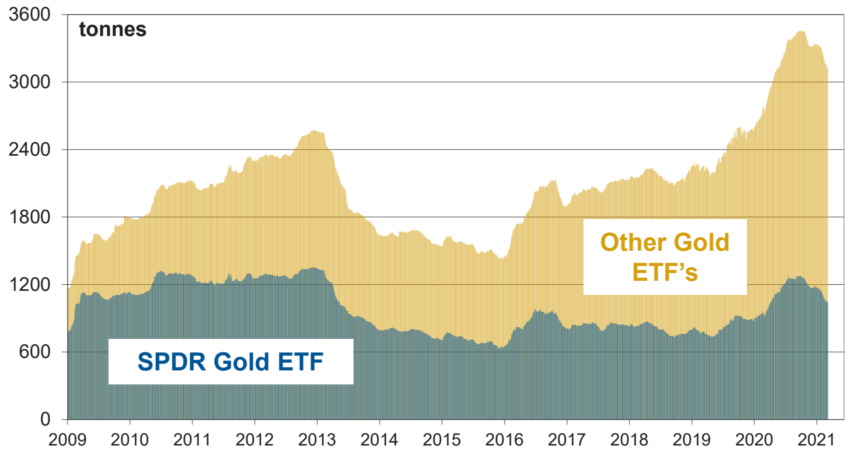
CHANGE IN GOLD ETFs



Source: Bloomberg, Murenbeeld & Co. Last date: March 25, 2021

The decline in gold ETF holdings has narrowed further this week ...

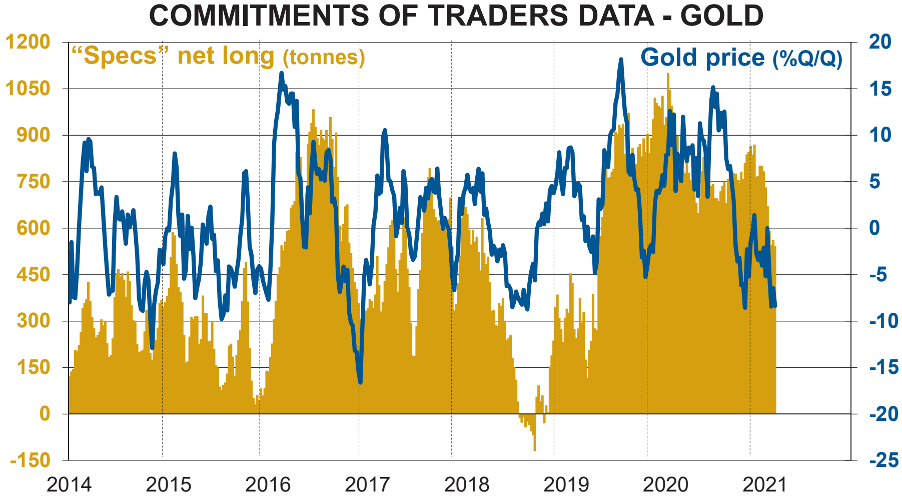
GOLD ETFs



Source: Bloomberg, Murenbeeld & Co. Last date: March 25, 2021

... but the decline since peak holdings (October 2020) is in the order of 340 tonnes.

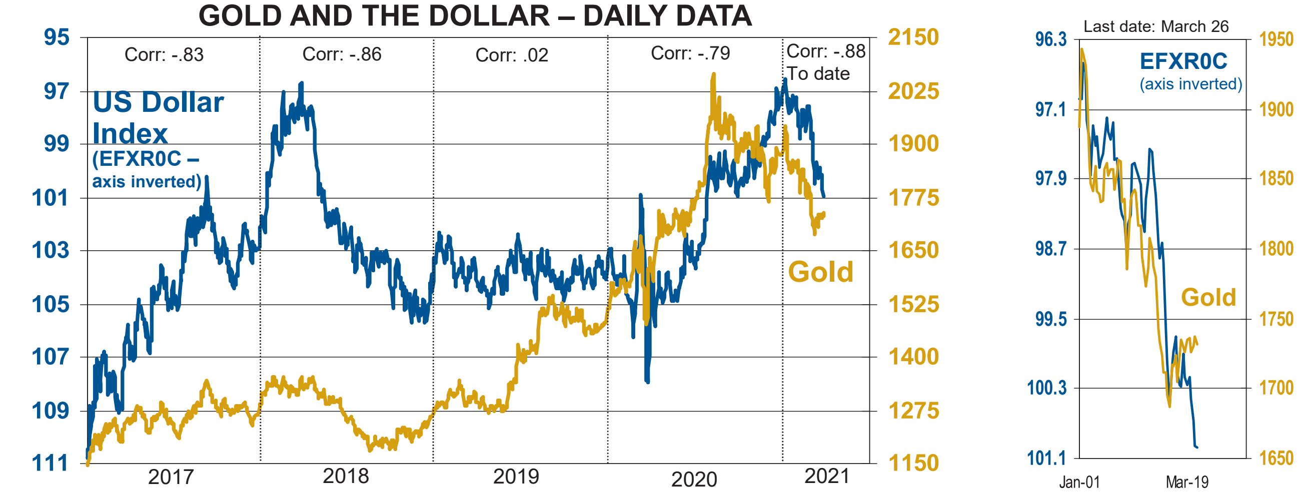
COMMITMENTS OF TRADERS DATA - GOLD



Source: US Commodity Futures Trading Commission, Bloomberg, Murenbeeld & Co.
**Futures Contracts: in tonnes-equivalent*
Last date: March 23, 2021

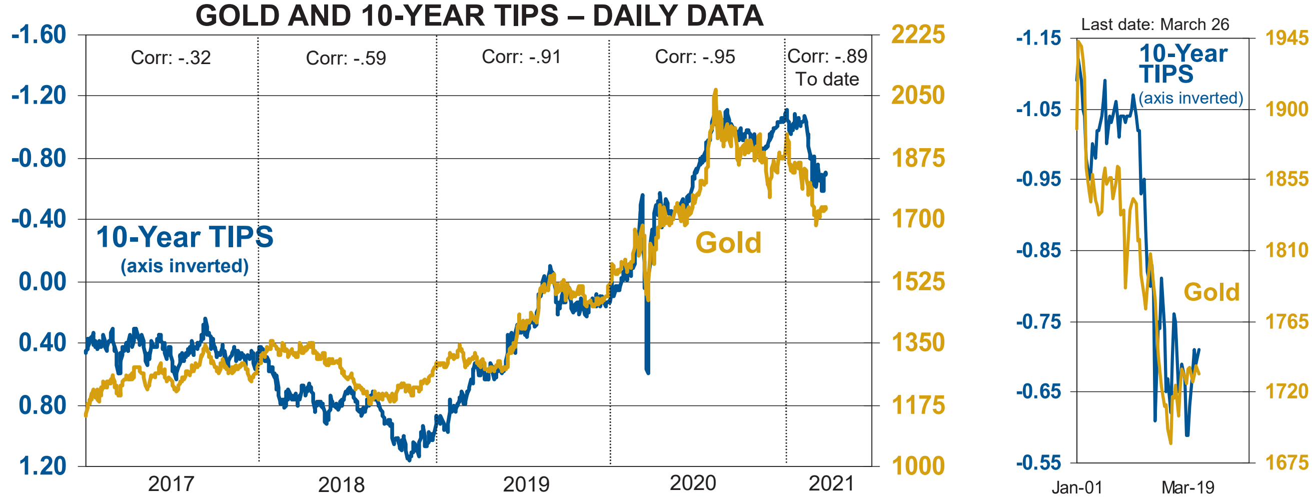
The net-long position of the "specs" on COMEX declined a modest 19 tonnes in the week ending last Tuesday....

GOLD AND THE DOLLAR – DAILY DATA

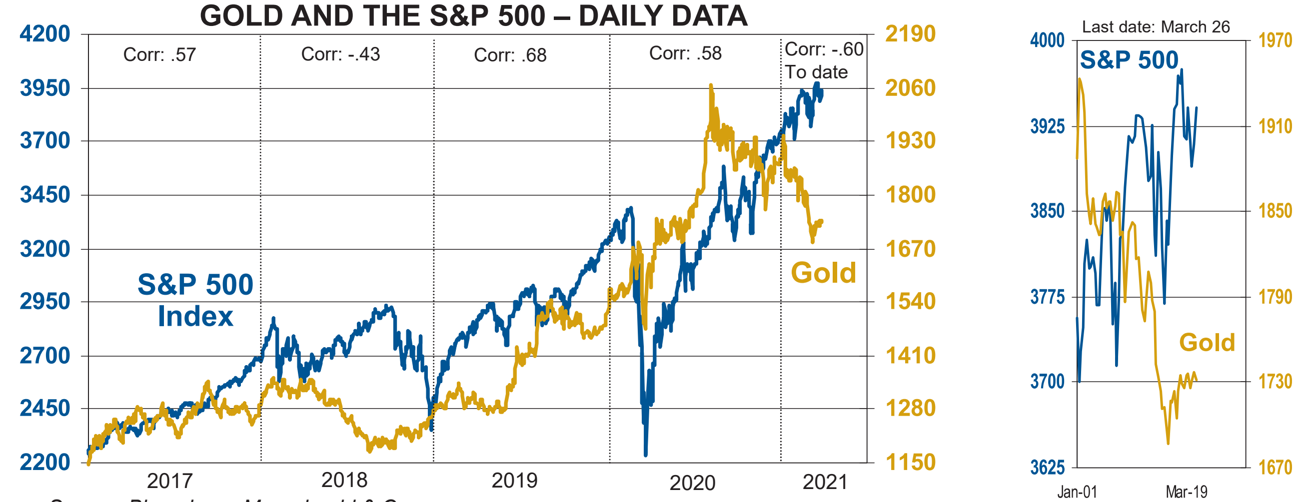


(EFXR0 - US$ index includes: Euro, Pound, Yen)

GOLD AND 10-YEAR TIPS – DAILY DATA



GOLD AND THE S&P 500 – DAILY DATA



Source: Bloomberg, Murenbeeld & Co.

Gold might have declined more this week due to the rise in the US dollar, were it not for the decline in the US 10-year TIPS yield.

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