Gold Technical Update: Should price action be respected?

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Given the extreme move higher in US yields last week and Golds somewhat muted response and preference to remain within its comfort range either side of $1200 for 8weeks now, its worthwhile to analyze the technical landscape and assess where critical inflection points lie.

Technically compressed:

- Gold has traded in a tight $30 range for over a month, between $1181 and $1215 (on cash basis). Its sitting comfortably below the 200 Weekly MA (at $1233) and the recent range is currently being capped by the 0-23.6% Fib retracement using Golds high/low yearly prints

Nearby inflection points: ***page 2***

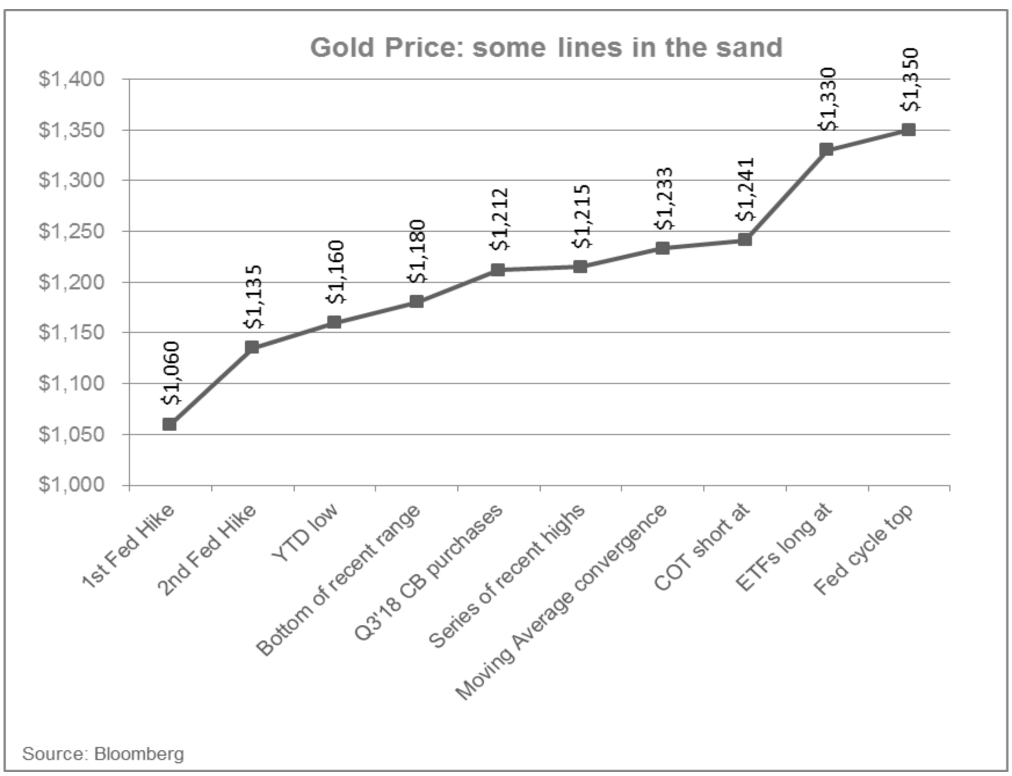
- Topside: recent series of highs ($1215), 23.6% Fib retracement resistance at $1208.90, $1233 (convergence of100 daily MA and the 200 weekly MA)
- Downside: $1180 (a weekly close beneath is bearish), $1160 (YTD low & 'max' discount to 200DMA) & series of lows clustered $1120-$1130. CNY 260 and €1015 are also short-term support levels of Gold priced in non-USD

known **Gold participants are long or short at: page 4**

- Most recently purchased ETFs are long ~4m oz of Gold at an average price of $1330
- Recent COT managed money participants are short >13m oz at an average price of $1241
- Central Banks who bought in Q3 will own Gold at average price of $1212

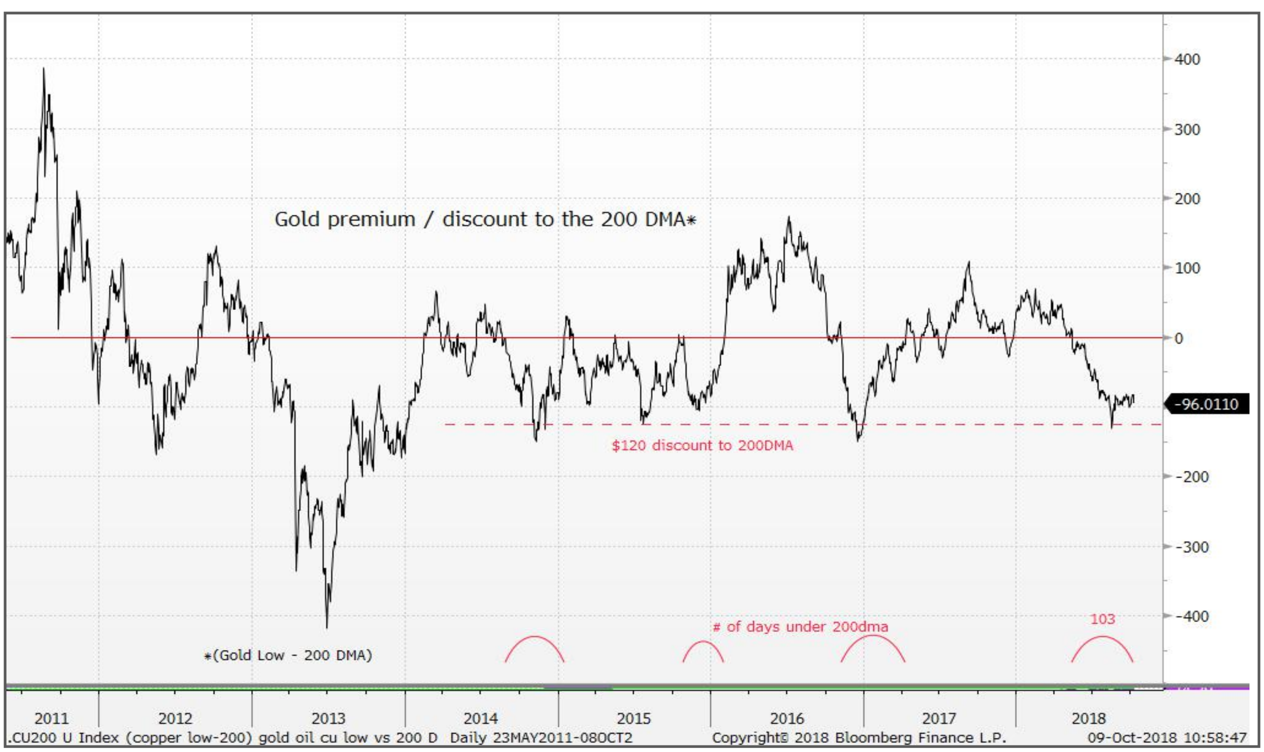
Fed levels: ***Page 3***

- The December Fed hikes (Dec '15, '16 & '17) were unequivocally bullish Gold within the first 40days.
- Floors in Gold at $1060 (1st Fed hike) and $1135 (2nd Fed hike) which Gold has not revisited reinforcing the lack of disinflationary trends and fact that
- Topside: Gold has never traded above $1350 during this Fed hiking cycle, despite several attempts



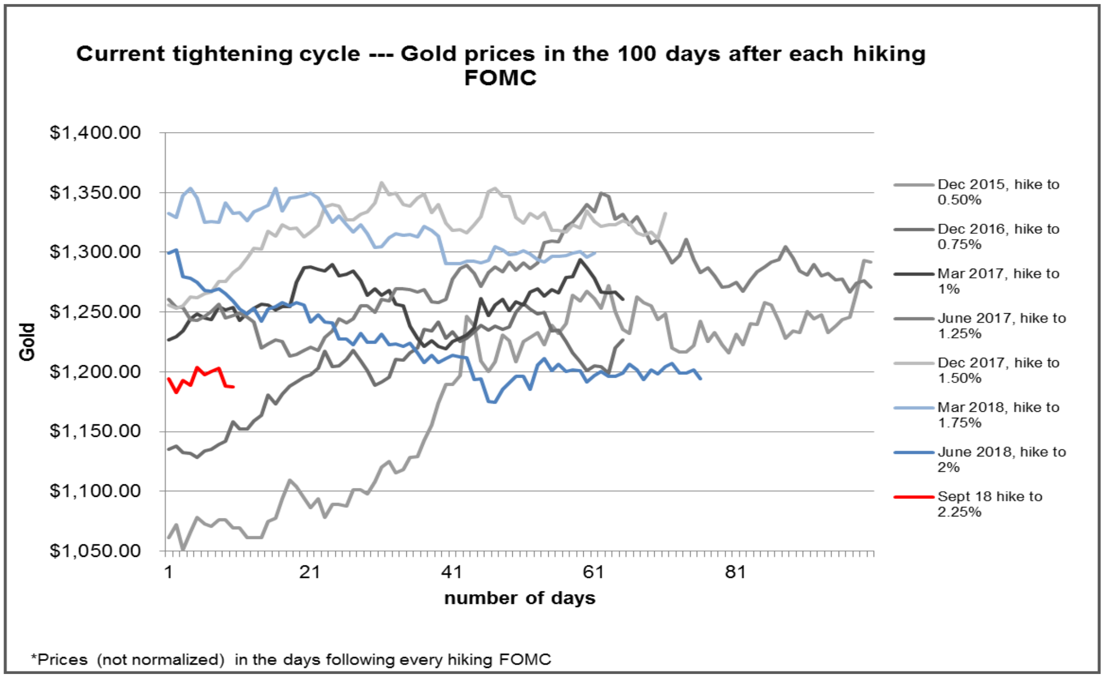
Nearby inflection points:

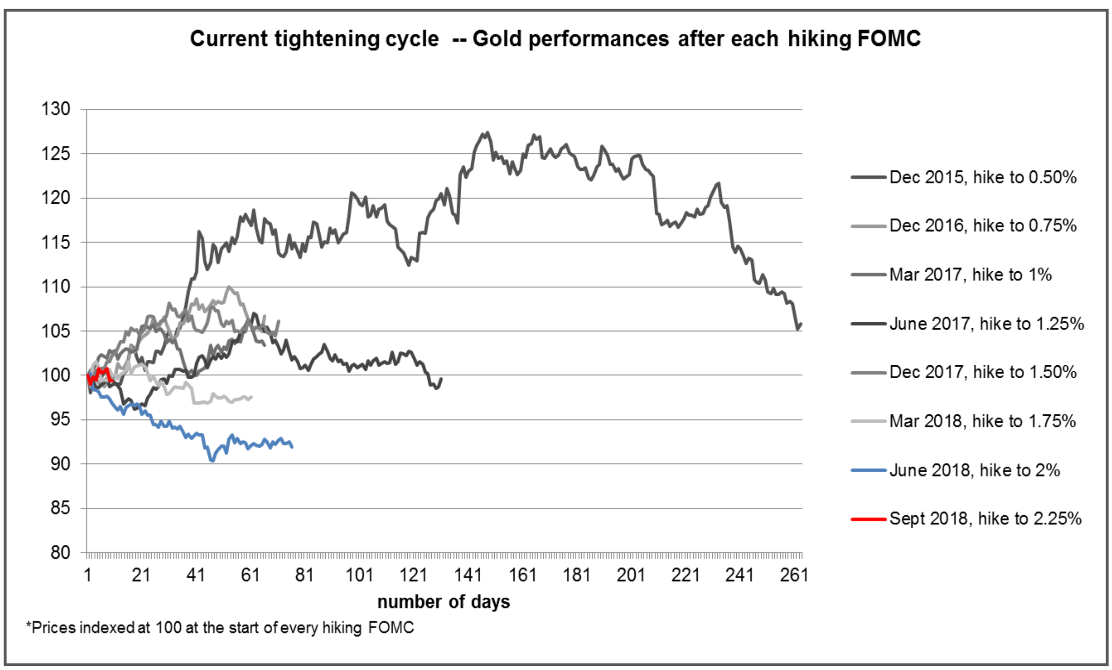
- A weekly close above both the recent series of highs ($1215) would put it above the 23.6% Fib retracement resistance and help ensure the next higher range of $1209—$1239 is forged.
- Alternatively, a weekly close beneath $1180, opens up a much deeper retraction taking aim at the series of lows clustered $1120-$1130
- Both the 100 daily MA and the 200 weekly MA converge at $1233 cash, a ceiling for now.
- Since falling below the 200 DMA in June '18, Golds spent >100 days beneath it, which is one of the longest stretches since the 2013 Gold rout. Gold also has a tendency, in this current regime to not extend its discount to the 200DMA beyond $120 for very long. Currently the 200 DMA sits at $1280 implying a technical floor of $1160 if the last 4years is any indication.



Fed Levels:

- The December Fed hikes (Dec ‘15, ‘16 & ‘17) were unequivocally bullish Gold within the first 40days. This can largely be explained by the fact that Gold traded heavily in the *lead-up* to a Fed hike, because 1) hikes were a new phenomenon, and 2) policy uncertainty and the *unknown* tightening cycle of future rate hikes, was more bearish than the actual hike.
- Now, given the markets reliance on the Feds dot plot to guide future economic forecasts (which arguably creates more certainty around future hikes), Golds become increasingly less bearish in the lead up to hikes and thus increasingly less bullish in response. Gold is used to this tightening cycle. Nonetheless, some key lines in the sand:
- The Dec ‘15 and Dec’16 have marked some solid floors in Gold at $1060 and $1135 respectively, perhaps reinforcing the lack of disinflationary trends.
- Topside: Gold has never traded above $1350 during this Fed hiking cycle, despite several attempts





Gold technicals in other terms: Gold levels in other currencies, or broad levels known participants—ETFs, managed money shorts and Central Banks—have recently entered or exited at:

XAUEUR: Given the return of debt crisis fears as the Italian budget standoff with EU intensifies, Gold priced in EUR, should in theory, be the best expression to hedge out uncertainty.

- **Old support-new-resistance at €1050.** The level was well protected in 2017, but with the summer '18 reprice lower across all metals, €1015 seems to have taken over the role as next support, with ~4 attempts (and subsequent failures) to convincingly break this level within the last 10days.

Gold in Yuan: Gold in CNY has been even more compressed (vs historical standards) compared to Gold in US$, largely trading 260-275 (CNY/gram*) the past 6months, compared to the 220-300 range seen in 2015/6 (SGE T+D contract).

- That's largely because the Dollar/CNH has been implicitly very contained around 6.80-6.95 (per US$) since August - something (yuan depreciation this summer) the US is carefully monitoring ahead of the Treasury's FX policy report due Oct 14 '18. **Support at CNY 260 that helps for almost 3years**

Gold ETFs have currently liquidated all holdings that were accumulated at the end of 2017 and beginning of 2018 (a total of ~4m was accumulated to a reach peak of 72m oz in May 2018). If one makes the very broad assumption that holders enter/exit on a LFIO basis (Last In First Out), and that theres limited data lag in the ETF reporting then:

- **analyzing the weekly inflows, one can estimate that the ~4m oz of ETF purchases, were bought at an average price of $1330** (largely because most of the sizeable weekly inflows occurred in Jan & April 2018 at $1340-1345…)

COT: Gross managed money shorts added >13m oz of net short positioning from mid June '18 until now.

- Analyzing the **COT weekly fresh shorts, they are short at an average price of $1241** (most of the large fresh shorts were ignited in Jun eat $1280 and and July at $1240 levels).

Central Banks who purchased Gold recently include:

- Poland: the first EU member to buy Gold since 1998. Over 9t onnes was bought in June (2t) and August (7t), **putting the weighted average at under $1220.**
- Russia, Turkey & Kazakhstan have dominated buying trends this year, together responsible for >225tonnes of Gold purchases.
- **While full Q3 CB purchases have not yet been released by the IMF, Gold averaged $1212 in Q3.**