Murenbeeld & Co.

Gold: Monitor

Capitalight Research Inc.

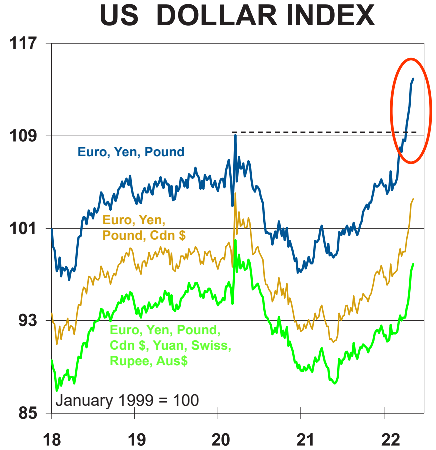
May 6, 2022

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

GOLD PRICE

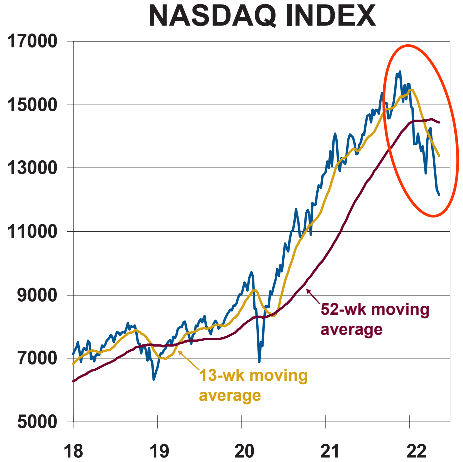
Source: Bloomberg, Murenbeeld & Co.

US DOLLAR INDEX



Source: Bloomberg, Murenbeeld & Co.

NASDAQ INDEX



Source: Bloomberg, Murenbeeld & Co.

	May-02	May-03	May-04	May-05	May-06
Gold - LBMA PM Price	-	1869.70	1863.65	1892.30	1882.35
Gold - COMEX	1863.60	1870.60	1868.80	1875.70	1882.80
Silver - HH	2269.50	2268.20	2242.50	2245.50	2246.50
Platinum - NYME	932.80	958.60	979.60	973.40	956.00
Crude Oil - NYME	105.17	102.41	107.81	108.26	109.77
CRB Bridge - NYBOT	309.16	306.78	314.27	313.87	311.32
US $ Index (EFXR0)	101.62	101.45	100.63	101.51	101.84
Fed Funds (Overnight)	0.33	0.33	0.33	0.83	0.83
US 10-Year TIPS Yield	0.15	0.14	0.05	0.18	0.26
TSX Global Gold Index	326.74	330.02	335.36	326.93	325.83
S&P 500	4155.38	4175.48	4300.17	4146.87	4123.34

Source: Bloomberg, Murenbeeld & Co.

Review

by Martin Murenbeeld and Chantelle Schieven

The gold price declined early in the week, but then rallied after the Fed's statement on Wednesday.

Bonds and stocks rallied Wednesday after Mr. Powell said officials aren't considering an even larger increase of three-fourths of a percentage point, or 75 basis points, at the Fed's June meeting. Bond markets in recent weeks had begun to bet on such a move (WSJ,05/04).

But that was Wednesday! The charts overleaf highlight the dramatic switch from optimism (Wednesday) to utter pessimism (Thursday). CNBC commentators were hard pressed to indicate when such a dramatic up/down in equity markets was last seen.

And how did gold fare? Up from just under $1870 right through $1900 after the Fed's press conference – driven by the same sentiment that sent equity markets skyward, then down sharply even before equity markets opened in NY on Thursday, closing below $1880 again at the end of the trading day. Gold ended the week at $1882.35 (pm fix), down $28.95 from last Friday's close of $1911.30. Turbulent times!

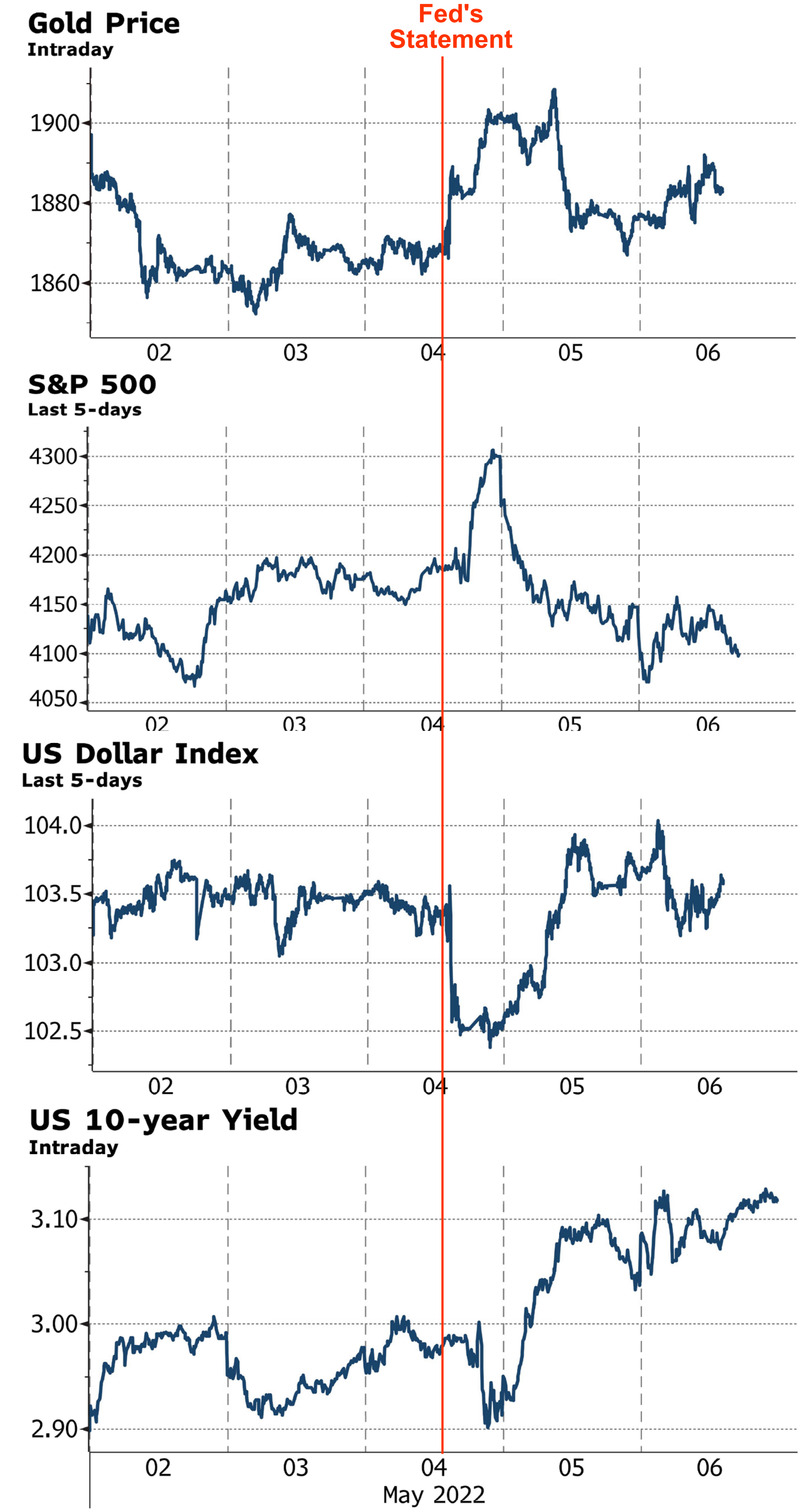
Errata: An unfortunate sign of the author's old age! We wrote last week that we would look for the Fed's *dot plots* at this meeting to gain further insight into the FOMC's views of inflation, GDP, and unemployment going forward – and how this might influence the appropriate FF-rate through year-end 2024. The error is that the Fed won't issue *dot plots* and projections until its meeting of June 14-15. We all missed the error – apologies.

The Fed

The Fed raised the FF-rate 50 -basis points as expected at its meeting this week. Below we highlight key remarks from Chair Powell's press conference. Starting with his comments on the prospect of a 75-basis point increase that sparked the market rally.

Key responses to questions from Powell's press conference:

On interest rate hikes: *… a 75-basis point increase is not something the committee is actively considering. What we are doing is we raised 50 basis points today. And we said that, again, assuming that economic and financial conditions evolve in ways that are consistent with our expectations, there's a broad sense on the committee that additional 50 basis increases should be on, 50 basis points should be on the table for the next couple of meetings … if we see what we expect to see, then we would have 50 basis point increases on the table the next two meetings …*



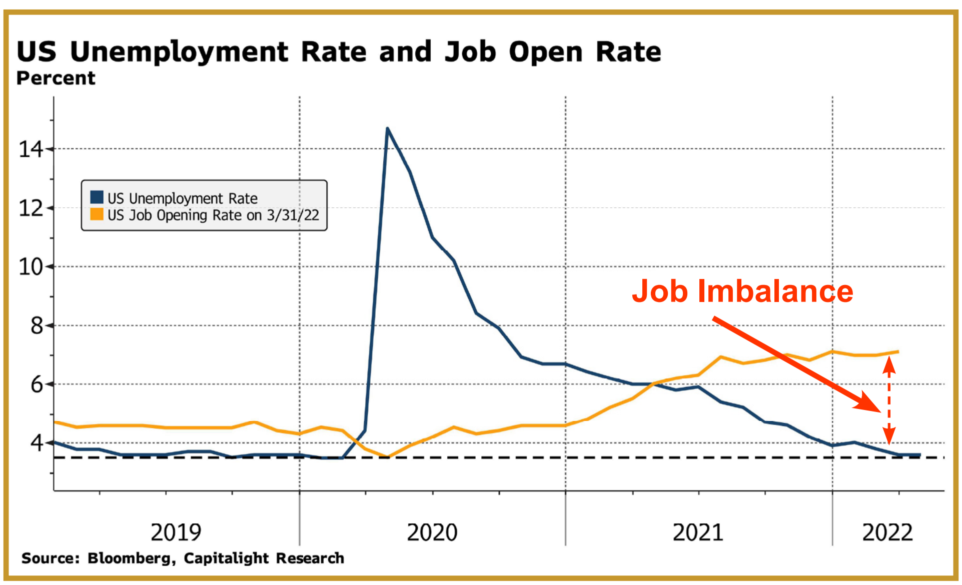
Source: Bloomberg, Murenbeeld & Co.

On supply shocks: *… our tools don't really work on supply shocks. Our tools work on demand. We can't really affect oil prices, or other commodity prices, or food prices and things like that …*

(Our note: The *CME FedWatch Tool* currently has an 82.9% probability of another 50-basis point increase at the June 14-15 meeting with a 17.1% probability of only a 25-basis point increase.)

Job imbalances: *… if you look at it's essentially almost two to one vacant job vacancies to unemployed people. There's a lot of excess demand. There are more than five million more employed plus job openings than there are the size of the labor force. So there's an imbalance there that will, that we have to do our work on …*

The difficulty of lowering inflation: *… basically we've been hit by historically large inflationary shocks since the pandemic … this isn't anything like regular business. … we have a pandemic, we have the highest unemployment, you know, since the Depression. Then we have this outsize response from fiscal policy and monetary policy. Then we have inflation, then we have a war in Ukraine, which is cutting the commodity patch in half. And now we have the shutdowns in China. So, it's has been a series of inflationary shocks that are really different from anything people have seen in 40 years. … we have to look through that and look at the economy that's coming out the other side. And we need to get, we need to somehow find price stability out of this … it's obviously going to be very challenging because you have numerous supply shocks, which are famously difficult to deal with …*



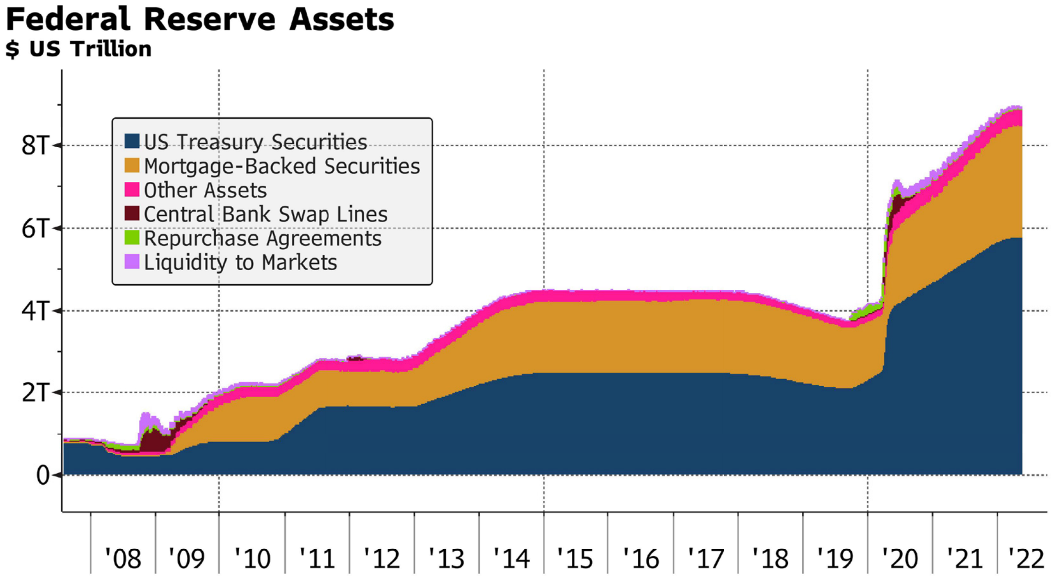
(Our note: The war in Ukraine has had a significant impact on energy and food prices that are exported from Russia/Ukraine, i.e., natural gas prices up 90%, nickel prices up 55%, Oil up 40%, wheat prices up 35% year-to-date.)

Balance Sheet Reduction: *The Committee intends to reduce the Federal Reserve's securities holdings over time in a predictable manner – with caps on monthly roll-off starting June 1. For Treasury securities, the cap will initially be set at $30 billion per month and after three months will increase to $60 billion per month … For agency debt and agency mortgage-backed securities, the cap will initially be set at $17.5 billion per month and after three months will increase to $35 billion per month …*

(Our note: This plan was well foreshadowed! At the planned rate it will take approximately four years to reduce the balance sheet the $4.7 trillion added since March 2020.)

This week we came across three comments on Fed strategy worth noting:

… Powell may have to consider a slowdown in the tightening pace by autumn. He probably will talk tough about inflation this week — and he should — but we think there are ample reasons to worry about over-doing the medicine …



Source: Federal Reserve, Bloomberg, Capitalight Research

The Fed has added $1.3 trillion in mortgage-backed securities and $3.4 trillion in U.S. Treasuries, for a total increase of $4.7 trillion since beginning of 2020 to its balance sheet.

Reasons include:

1. *China's economy may be headed toward a growth recession*
2. *Energy shortages are an increasing threat to growth*
3. *U.S. consumer psychology – think the economy/stock market are wobbly*
4. *growth of fiscal spending in the U.S. is dropping significantly*
5. *Supply chain gridlock – i.e., the semiconductor chip shortage is not over*
6. *The war in Ukraine may last for many more months*

(**Greg Valliere**, US Strategist, AGF 05/02)

… Given the intensity of inflation, the degree to which unemployment has been driven down – to bring that back into an equilibrium, it's unlikely the Fed is going to be able to manage that to a soft landing. The effect is likely to be a recession … For an economy that has accustomed itself to interest rates as low as they have been for as long as they have been, it doesn't take a very large nominal increase in interest rates to be a very significant percentage of debt service for a number of heavily indebted actors. The effect on the economy could be fairly strong …

(**Randal Quarles,** the Fed's former vice chair for supervision, Bloomberg 05/03)

By raising interest rates, the central bank is hoping to achieve a proverbial "soft landing" for the U.S. economy, in which it's able to tame rapid inflation without causing unemployment to rise or triggering a recession. The Fed and professional forecasters project that inflation will recede to below 3% and unemployment will remain under 4% in 2023 … Our recent research, however, suggests that engineering a soft landing is highly improbable and that there is a significant likelihood of a recession in the not too distant future. That's because high inflation and low unemployment are both strong predictors of future recessions. In fact, since the 1950s, every time inflation has exceeded 4% and unemployment has been below 5%, the U.S. economy has gone into a recession within two years.

(**Larry Summers**, A soft landing may be out of the Fed's reach, Conversation, 05/02).

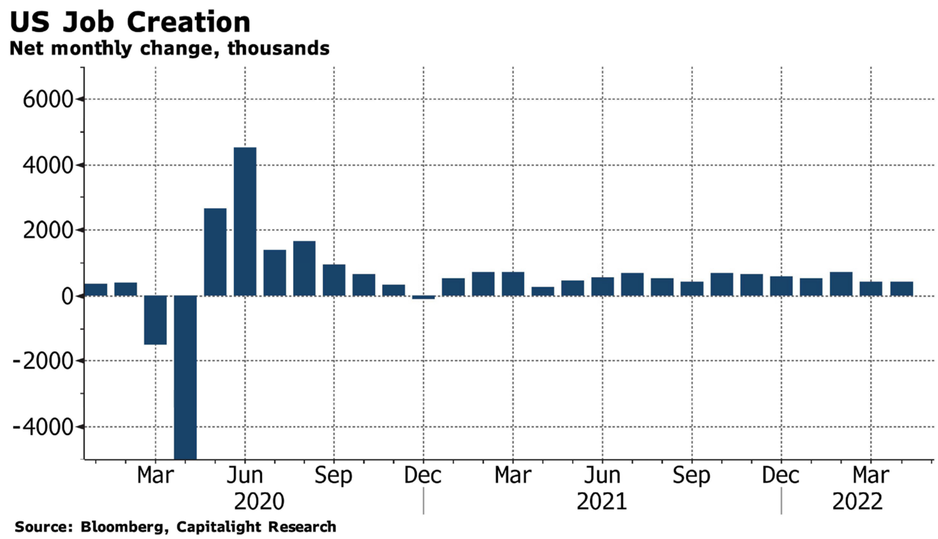
Bottom Line: We agree that it is highly unlikely the Fed can engineer a soft landing. And fear of recession could slow the Fed's interest rate increases and balance sheet reduction schedule. See our discussion in the April 15 Gold Monitor.

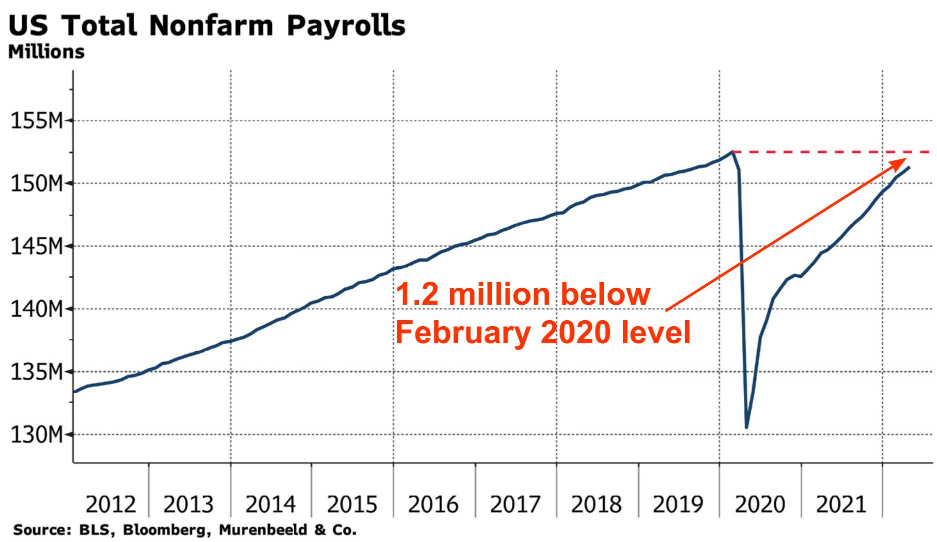
US EMPLOYMENT SITUATION

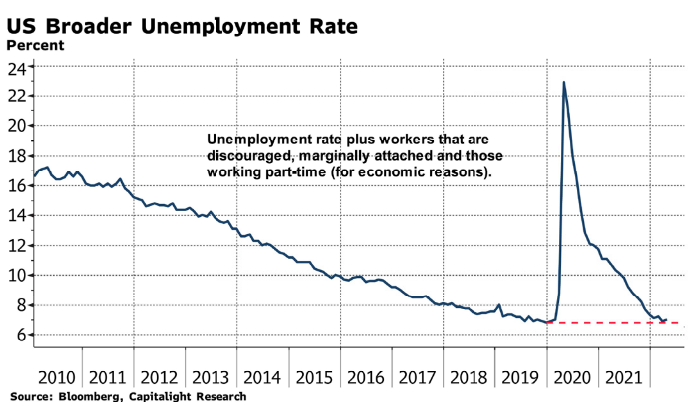
The US added 428,000 jobs in April. The change in jobs for February and March was revised down a total of 39,000. The average increase in jobs for the first four months of 2022 was 519,000 compared to 549,000 over the same time period in 2021. The total number of jobs remains 1.2 million below the pre-covid level.

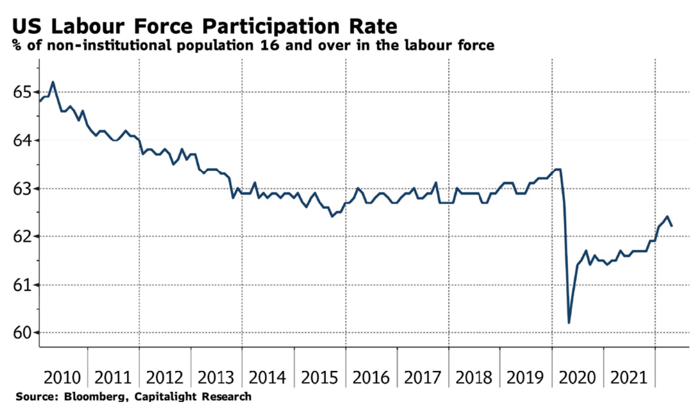
The broader unemployment rate increased to 7.0% from 6.9%. This indicator is roughly equal to pre-covid levels.

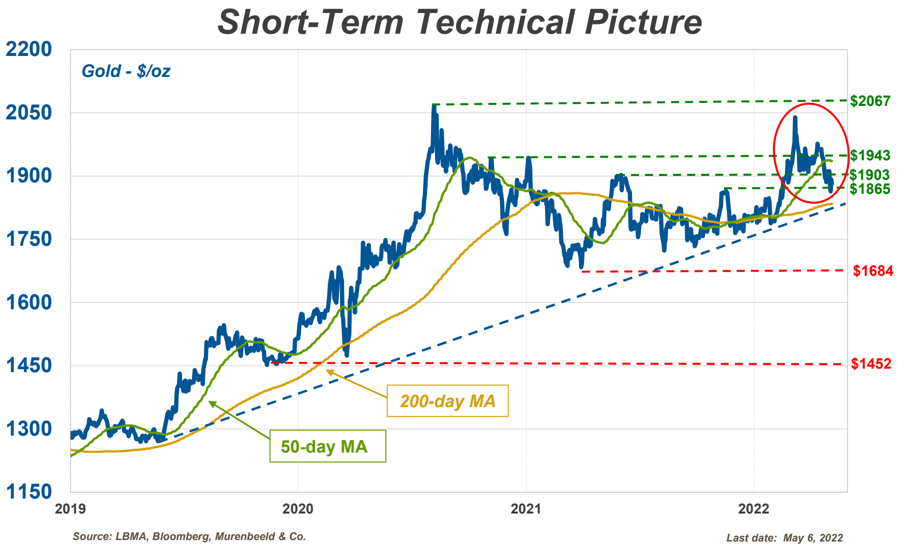
The labor force participation rate at 62.2% is 1.2% below the February 2020 level – meaning that a lower percent of the population is in the labour force.



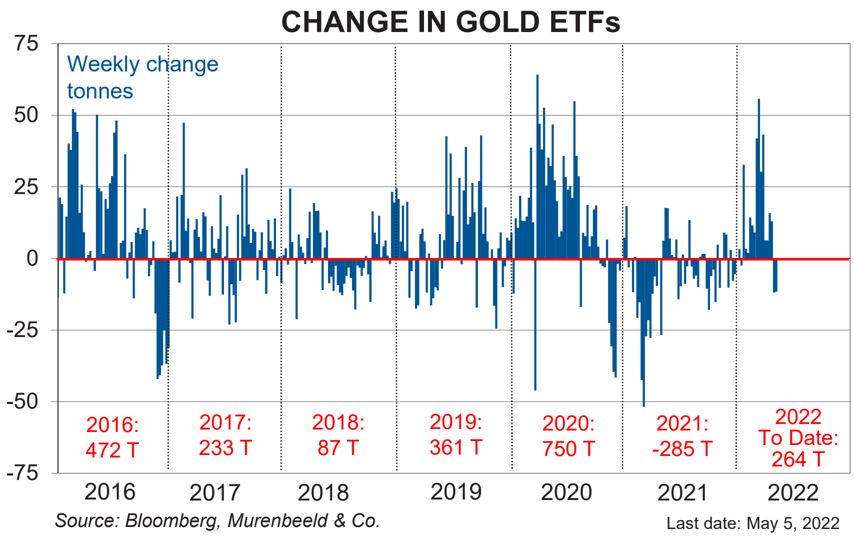




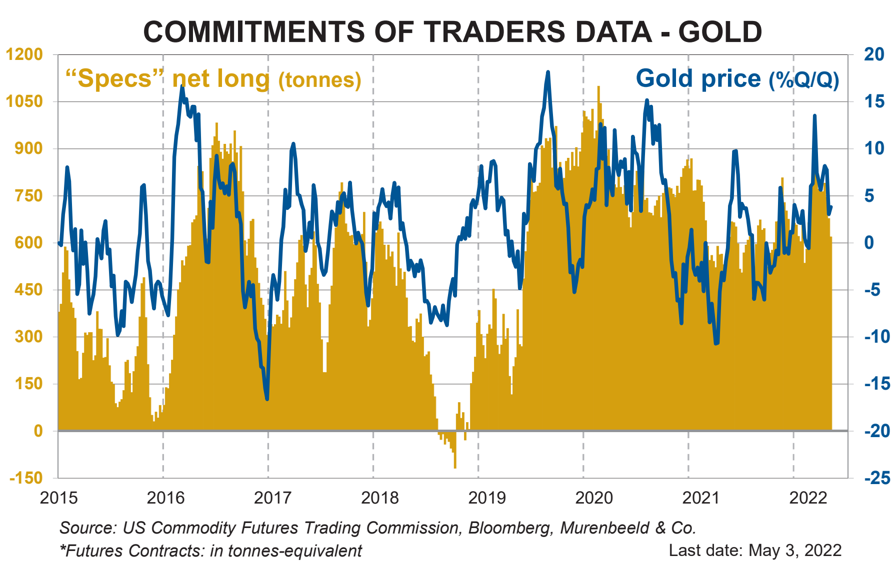




The technical picture continues to look weak. Gold is below its 50-day MA. The next level of support is the 200-day MA currently at $1834.

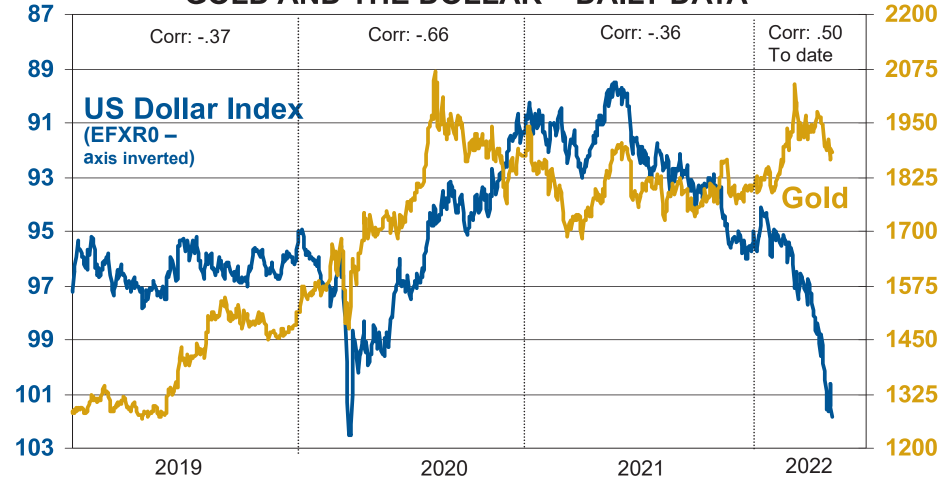


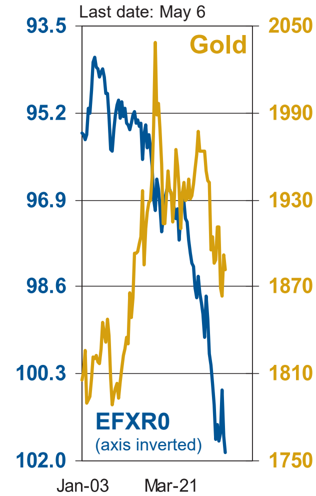
ETF demand declined for the second consecutive week ...



... the net-long position of the "specs" on COMEX declined another 59 tonnes in the week through Tuesday.

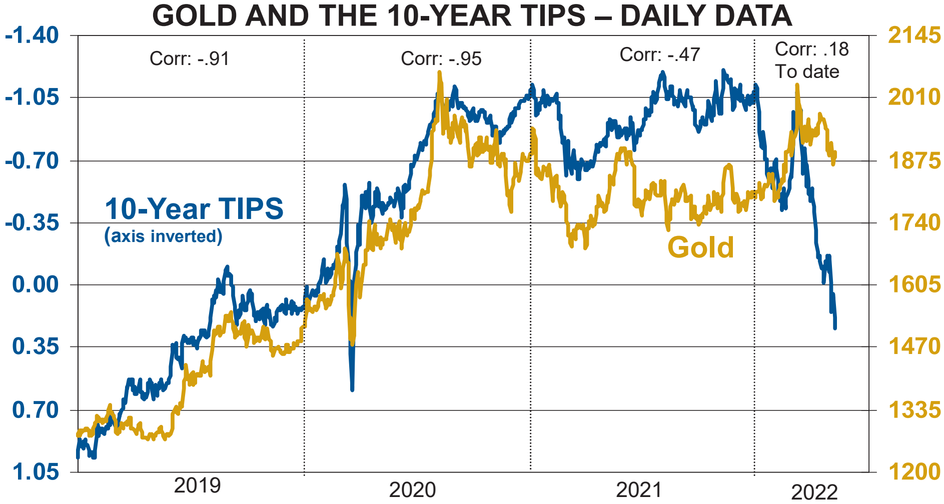
GOLD AND THE DOLLAR – DAILY DATA

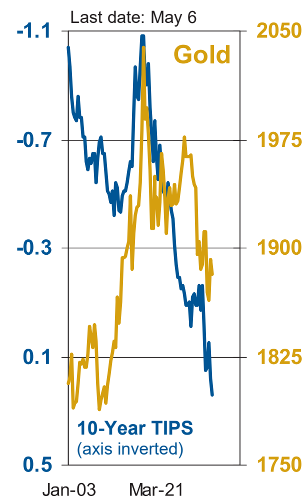




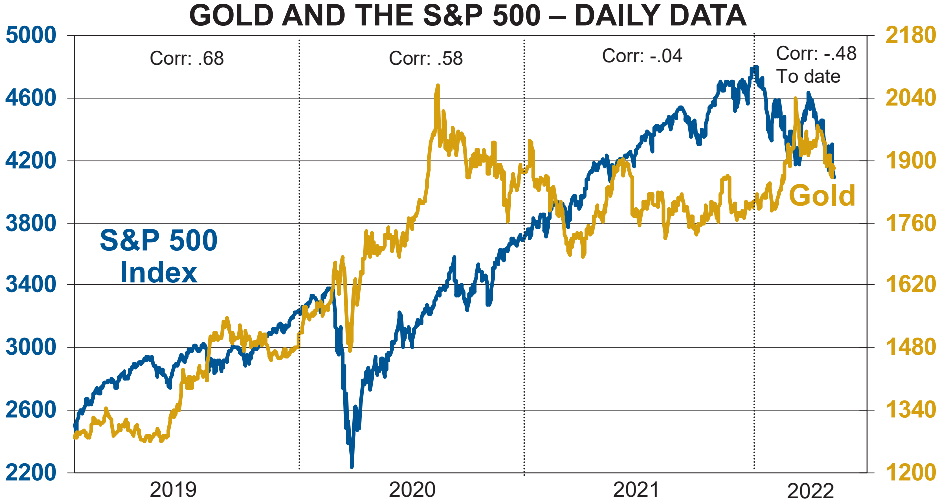
(EFXR0 - US$ index includes: Euro, Yen, Pound, Cdn$)

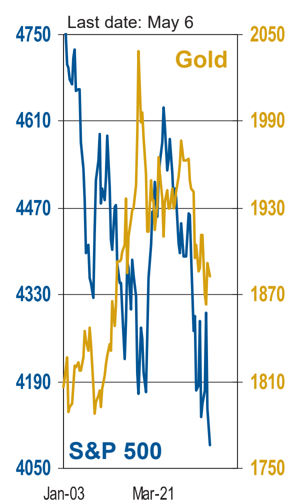
GOLD AND THE 10-YEAR TIPS – DAILY DATA





GOLD AND THE S&P 500 – DAILY DATA





Source: Bloomberg, Murenbeeld & Co.

The US dollar and TIPS yields continued to press gold lower this week.

Disclaimer
The views expressed in the research report regarding any particular company, security, industry or commodity price are the independent and personal opinions of the research analysts and their associates. Views expressed herein should not be considered as a recommendation to buy or sell nor should they be relied upon as investment advice. Past performance is not a predictor of future results. Individual investment results may vary, and all investing involves risk of loss. You are responsible for your own investment decisions. Information contained in this report is current as of the date of publication and has been obtained from third party sources believed to be reliable. Capitalight Research Inc., and its affiliates, do not make any representations regarding the accuracy, completeness or reliability of any information contained herein and does not accept any responsibility or liability for any loss or damage caused by a reader's reliance on any information contained herein. Research analysts and their associates are prohibited from trading against their investment opinion, if any has been expressed. The compensation of the research analyst and their associates are not linked directly or indirectly to their opinions or to the performance of any particular company or security. Capitalight Research Inc. has not provided any consulting, advisory, investment banking or paid-for research services to any of the companies named in this research report. The research analyst or associate do not own shares of the companies named in this research report. Capitalight Research Inc. maintains a Restricted List of securities with pending research reports. Any employees, including their spouses and dependents, that are aware of pending research reports are restricted from trading securities on the Restricted List until the research report has been fully disseminated. This research report is copyright and may not be reproduced, in whole or in part, without the written consent of Capitalight Research Inc.

Anti-Spam
You are receiving this material from Capitalight Research Inc. located at 130 King St West, Suite 1940, Toronto, Ontario M5X 2A2. Capitalight Research Inc. respects your time and your privacy. If you no longer wish us to retain and use your personal information for the purposes of distributing newsletters, reports or other commercial electronic messages, please let us know via email. For more information on our Privacy Policy please visit our website at www.CapitalightResearch.com.