MACRO AND PRECIOUS METALS

At the start of this month, a day after what has so far prove to be the bottom in the S&P500, I shared a 'shopping list' update where I noted the following: "We are working with two possibilities here and my task is to ensure that we find the right balance between protecting ourselves from the possibility of this being just a bounce and the market going lower soon, or that the bottom is now in after what was very quick ~9% peak to trough correction on the S&P500. Option 2 is absolutely a possibility for the reasons that I have highlighted in both of this week's newsletters as well, because I deem it highly unlikely that policy makers and the Fed will allow market dysfunction to continue for any prolonged period of time and especially given that we are in an election year."

It looks like that is exactly what has happened, because the moment that the MOVE index (which essentially tracks UST volatility) reached my target of 120 (pointing to UST dysfunction taking place), intervention happened and the market went up after the MOVE index peaked. While smaller cap and more risk-on equities that are not precious metals related are still chopping around after the big hit we saw, it's clear that policy makers and the Fed are focused on preventing UST dysfunction to the best of their ability and that bodes well for the market going forward. In fact, after that update, we have seen some big weeks for the market with an exceptional streak of green days. "What we've seen happen is a swath of recent data, which has eased fears about slowing US growth without stoking fears of re-accelerating inflation," said Kyle Rodda, a senior market analyst at Capital.Com Inc. On the other hand, stock volumes have been trending lower with investors reluctant to place big bets before central bankers gather for the Fed's Jackson Hole economic symposium this week. I will of course report on all of this and my macro road map for the market going forward on Friday.

On the precious metals front, gold keeps on gaining more and more traction. According to Bloomberg, who published a report following the precious metal reaching a new record of $2500+ (up $500-600 since I shared that I was going 'aggressively long' precious metals in Q1 of this year), there is more upside left on the table after an expected breather next week. It can then pick back up to my target of roughly $2700 or more around the end of this quarter/Q4 and hopefully it will also take silver with it. Due to silver's connection with the economy and being a more 'risk-on' asset though, it remains to be seen how strong the rally will be. Still though, my upside target for silver remains $42+ and I am looking to expand my silver exposure with the picks from the aforementioned shopping list here to capture any upside we may see over the coming months.

Sticking to gold for now though, as it is the leader of the pack, there are some key data sets to keep in mind that I will share over the coming few pages, courtesy of the aforementioned Bloomberg report. Before we jump into those however, I just want to note once again how important it is to have exposure to gold and silver equities in your portfolio (which is why I am preparing due diligence on a key new gold developer for the portfolio, but more on that in Friday's newsletter), because we are in a clear bull market and the underlying equities are still not participating as much as one would think given the price action of the metals year to date. This will change and when it does, the relative value will favor the equities in my view. It remains to be seen how far the metals will go and how long the rally in general will last, especially because I am expecting some sort of breather for the precious metals over the coming 2-3 weeks, but in general I expect that my upside target for gold will be reached in the second half of this year.

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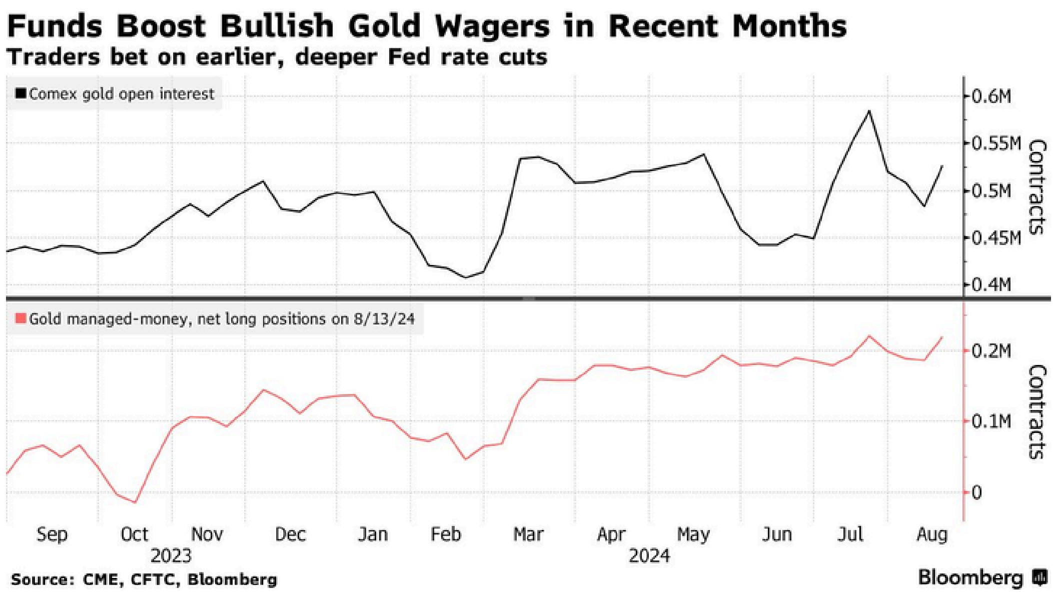
Gold's latest surge has come largely courtesy of expectations that US policymakers will start lowering rates soon, with a cut seen at their gathering next month. That narrative has dragged real rates lower, creating a more favorable environment for bullion, which doesn't pay interest. The recent moves — higher gold prices and lower rates — signal that traditional macro drivers such as bond yields are returning to the fore. Earlier this year, bullion advanced even as yields rose, an unusual pattern that surprised seasoned analysts. The decoupling at that point was largely due to strong central-bank buying, particularly in emerging markets.

Another chart to consider is that of fund positioning. As gold has pushed higher, hedge funds and speculators have been getting more engaged. Net-bullish bets on Comex futures stand close to the four-year high set in mid-July, according to Commodity Futures Trading Commission data. A 9% rise in open interest last week implies investors are getting more optimistic about bullion, rather than just closing out short positions. Still, in the near term, positioning now appears bloated (which may require a correction), and funds may be vulnerable, according to Daniel Ghali, senior commodity strategist at TD Securities. The next catalysts for a repricing of the Fed outlook will come at Jackson Hole, followed by the next US payrolls data, Ghali said.



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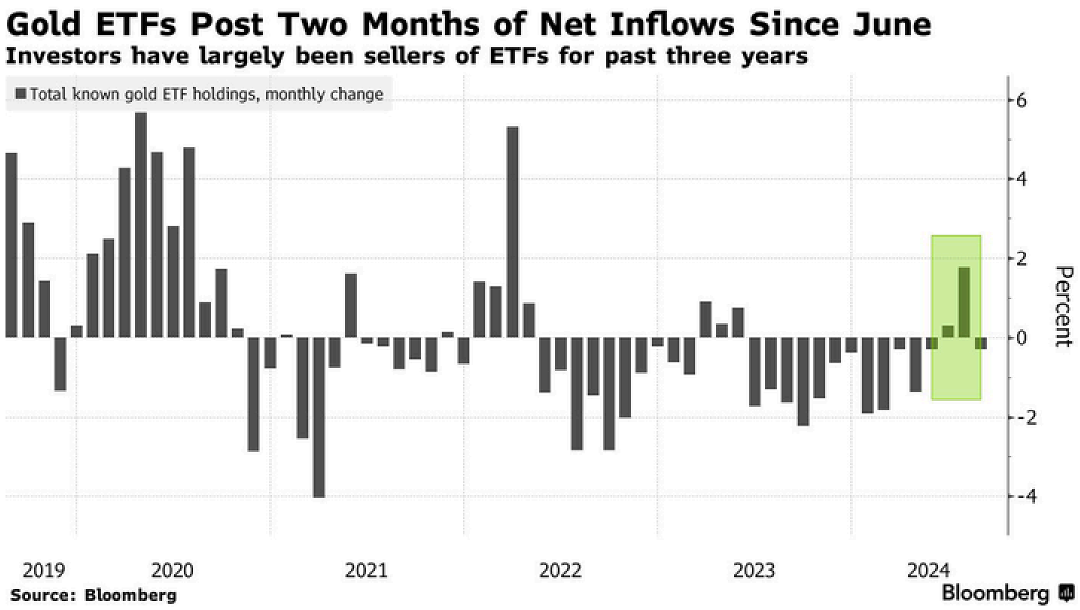
What about ETF investors then? A similar scenario may be playing out in bullion-backed exchange-traded funds, with signs of greater interest in recent weeks. While gold prices rose sharply in March and April, holdings in ETFs continued to see net outflows, with a global tally hitting the lowest since 2019 in mid-May. From June, however, the tide seems to have shifted, with ETFs posting two months of net inflows.



Lastly, let's look at OTC demand and the Shanghai Premium that were noted in the report. Demand in the over-the-counter market — where transactions are done through dealers or between buyers and sellers directly, without an exchange or clearing house — may be hard to track, but it's been an important feature this year. Strong physical bar-buying, particularly by family offices in Asia, helped gold consumption to register its best second quarter in at least 25 years, according to the World Gold Council. The association of producers says further demand growth in the OTC market, which also includes some central-bank buying, is expected to be a key driver of gold's rally. As for that Shanghai premium, while many indicators appear positive, some are not, including readings from China. Earlier this year, a buying frenzy by local retail investors — coupled with purchases by the People's Bank of China — helped to support prices. Since then, the PBOC has paused buying. In addition, premiums on gold in Shanghai have weakened, flipping to negative in July and August, indicating soft demand. My believe is that this will change in due course after we have seen the market take a bit of a breather, because it is clear that China is still very interested in increasing its gold positioning.

That marks the end of this macro and precious metals update. I hope that you are all holding up well out there amidst the volatility and that the balanced approach and associated cash position have served you well. The macro path going forward is volatile and uncertain, with several twists and turns as we have seen, but I hope these updates help get a good idea of what I expect going forward. I remain very overweight precious metals to capture the bulk of the rally we are seeing right now, but I am also wary of underlying macro issues that could knock the wind out of the sales of the market at any point in the second half of this year. Maintain that balance and try to avoid near term options and leverage. If I can help with anything else, please let me know. Have a good and healthy rest of your day and until Friday for another newsletter, cheers! ~Mart

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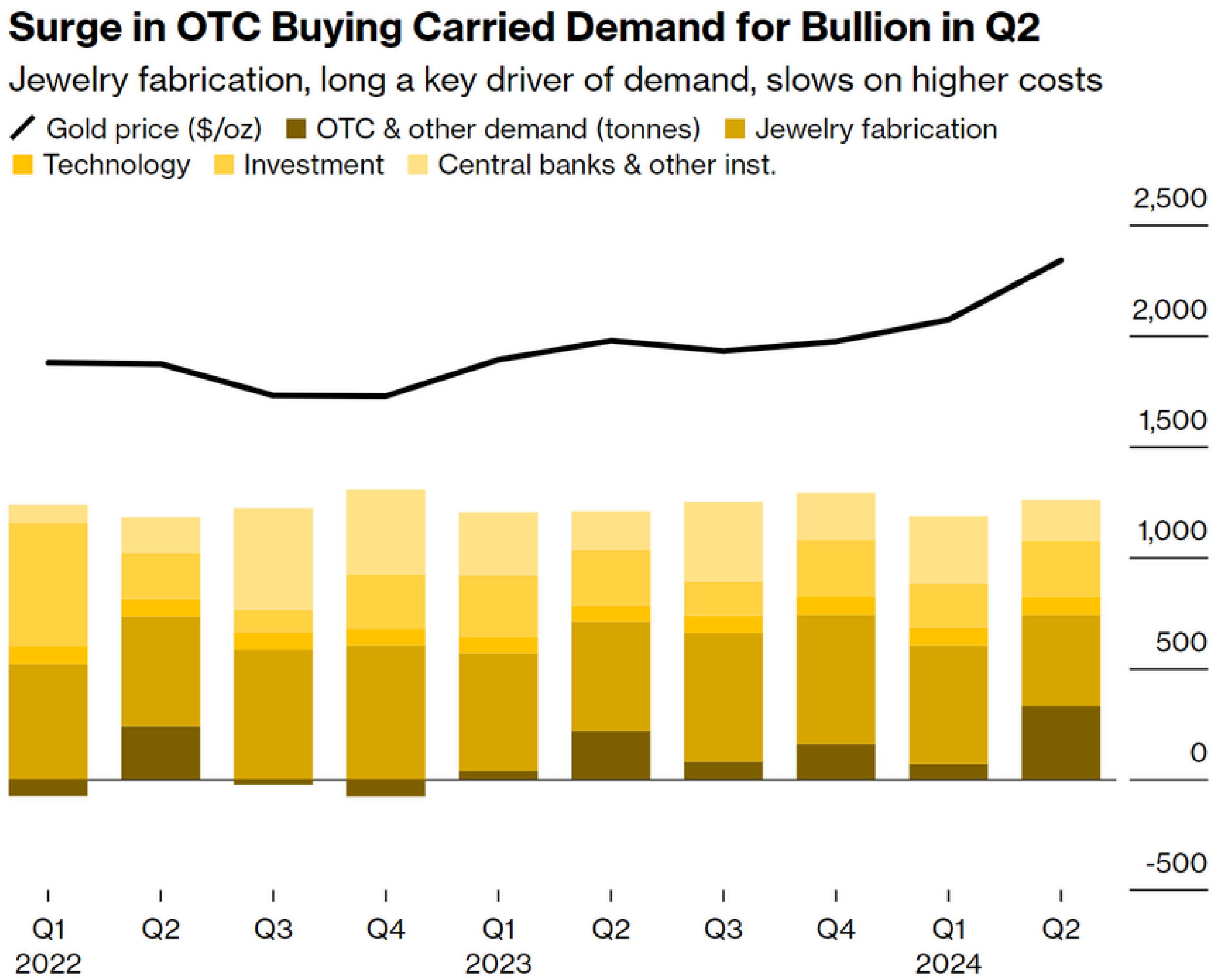

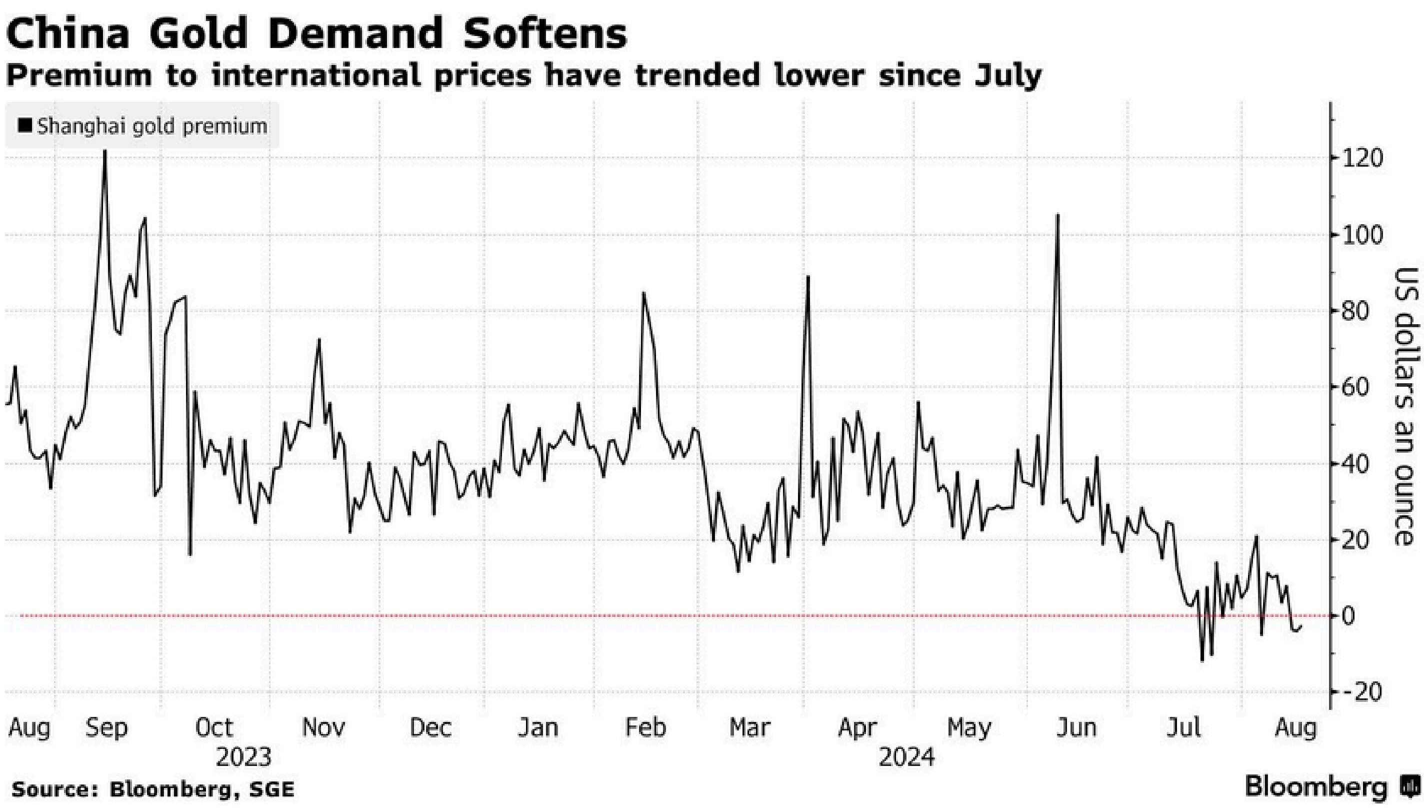

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