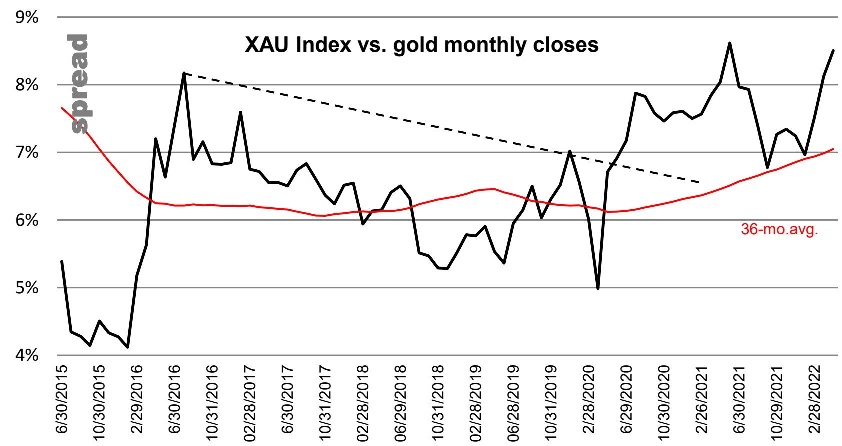
GOLD, SILVER & MINING

MSA

April 3, 2022

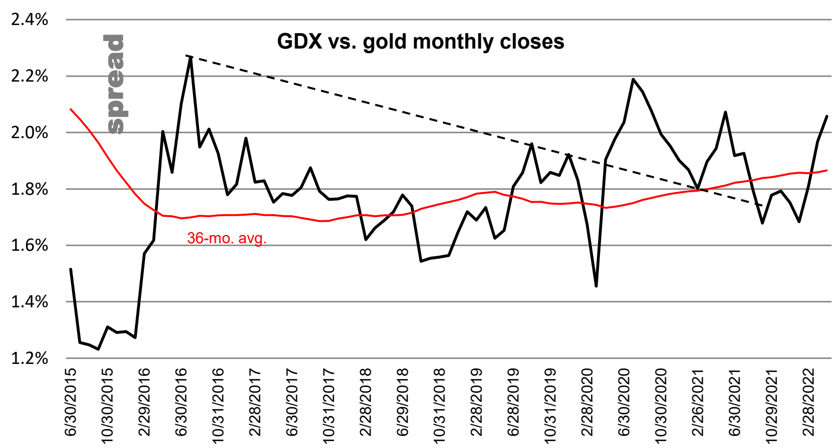
Weekend Report: focus on relative performance



Yes, gold is the Mama, but buy the miners instead!

A major technical to pay attention to is that the recent upturn in gold and silver and miners has apparently garnered the focus and participation of large asset managers. We infer this with reason.

Large fund managers are the sort of buyers who buy weakness instead of running in fear of declines—in those markets where they wish to establish positions. And it's that sort of buyer who's more focused on the major blue chip miners within the sector such as Newmont Corp. (NEM), which has now emerged well above its 2020 price high.



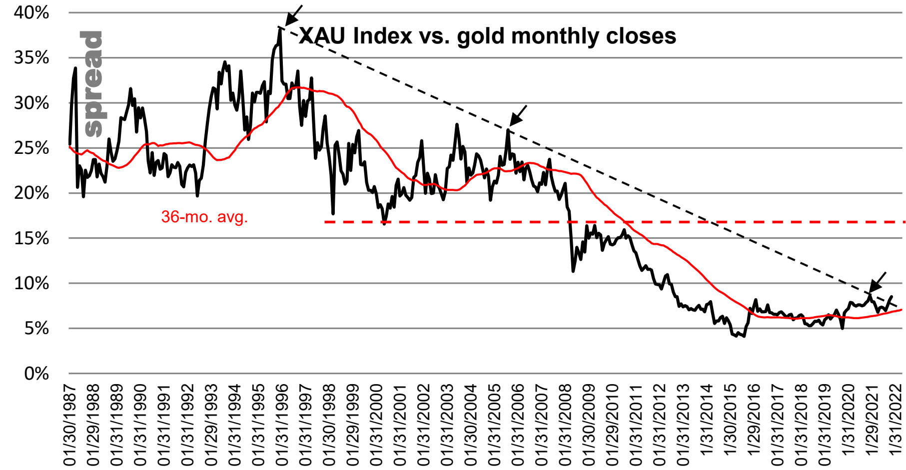
There has also been a clear tonal change among the miners as a group that indicates a determination to establish position in this small sector by buyers who aren't afraid of buying downticks, and hence provide a firmer tone under the miners for a change.

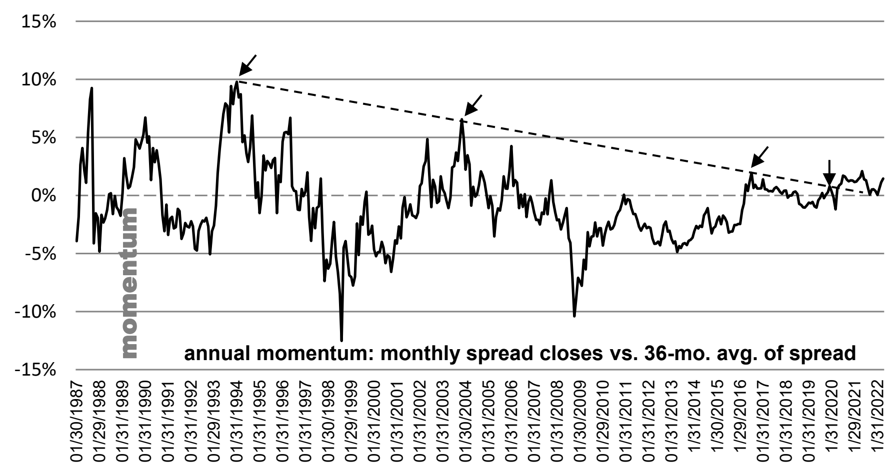
It's not only reflected in the price tone of the past month, but in the spread relationship between the miners and gold.

At the 2015 bear lows, XAU's price (**Philadelphia Gold and Silver Miners Index**) was trading at about 4% of gold's price. It then surged (doubled) to 8% in its first performance rebound. Action after that consisted of pullbacks that could never reach the 2015 bear performance low. Then from mid-2020 through early 2021 the XAU vs. gold spread made a higher high. Then again there was a pullback into late 2021, though a pullback that held at higher levels. Now the spread is rapidly back at the highs of the past six years.

GDX vs. gold spread has also recently surged, back to near its multi-year highs. Currently that spread is at 2.06% (price of GDX expressed as percent of price of gold). A monthly spread close at 2.27% clears all highs of the past six years.

Miners' relative performance was already positive in the mid-2020 breakout, despite the secondary pullback that recently ended. The recent rapid bolt back to the upside further indicates to MSA that our assumption that miners would outperform gold in the next upside phase was correct.





A longer-term vista of XAU Index (gold & silver miners) versus gold

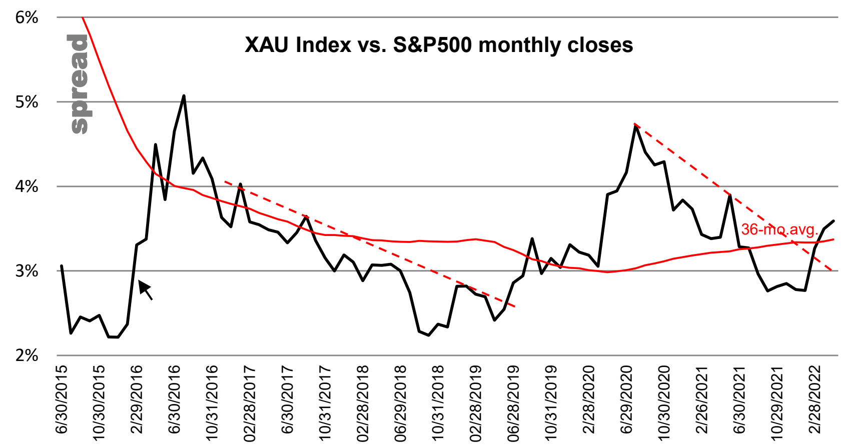
Going back thirty five years with the same spread and including annual momentum.

Momentum first. A clear and gradual downtrend is defined by four hits along that line. The 2020 surge in gold and the miners produced a breakout over that line—favoring the miners.

As is often the case, price action, or in this case **the spread chart** (difference between two prices), was lagged to that momentum breakout. But the action as of March moved the spread chart action above a three point downtrend going back to 1995.

Current spread reading (April 1st) is 8.5%. When we look at the spread chart we can identify a possible level of resistance around 16% to 17%, noted via the red horizontal.

Meaning, there is reason to assume that this upturn could see a doubling in the relative performance readings of the miners vs. that of gold before encountering resistance.



And just for fun, the gold miners versus the U.S. stock market

Objective reality. Not ticker tape-based feelings.

The bear low in gold (price) was in December 2015. The first week of February 2016 MSA issued its first annual momentum based buy signal for gold (and related) since our major sell signal in early 2012.

At that point, the end of the first week of February 2016, the spread between XAU and the S&P 500 was at the arrow (2.94%, meaning XAU's price expressed as a percent of the S&P 500's). XAU's price then was 55.30; now it's at 163.20. The S&P 500 then was 1880; now it's at 4545. Since that upturn the spread has lived in a range from roughly 2.5% to around 5%. Currently the spread is at 3.59%, or about in the middle of the multi-year range.

What this spread shows is that the current upturn (as of March's close) has broken out above its most recent down leg within that multi-year range. So XAU's performance is back to a positive upturn, and if it can also clear 5%, then the spread will complete a massive multi-year basing range with an even more important upside breakout.

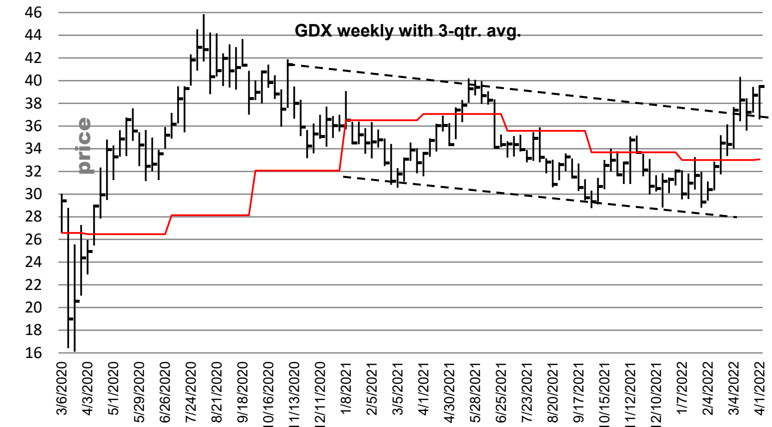
But the fact that there **was and is a range in the relative performance of XAU vs. the S&P 500** and the current readings are in the middle of that par range demonstrates that gold miners in the larger picture have actually matched the overall upside performance of the S&P 500 since late 2015 as we noted above. In fact, if you'd bought XAU in early February 2016 (when gold gave its annual momentum breakout signal), you'd be gaining more in percentage terms with XAU than if you'd bought the S&P 500 in early February 2016! And at many random points during the past six years you could have bought XAU and have matched or bettered the S&P500's publicly cheered gains as well.

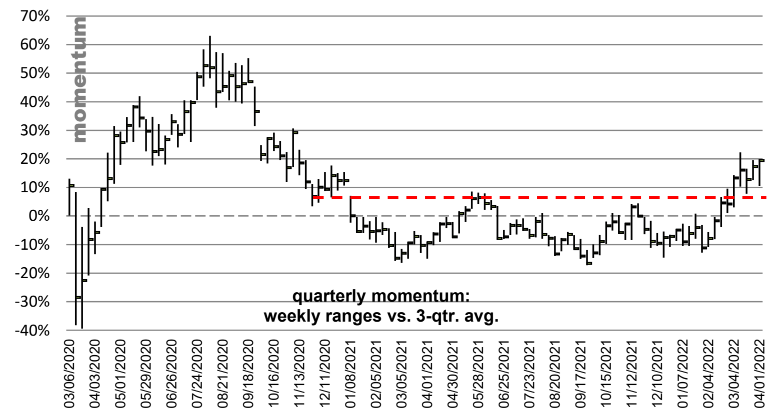
Few investors are aware of this fact.

GDX (VanEck Gold Miners ETF) quarterly momentum

Momentum broke out five weeks ago and continues to drive north. Price also had a parallel channel breakout.

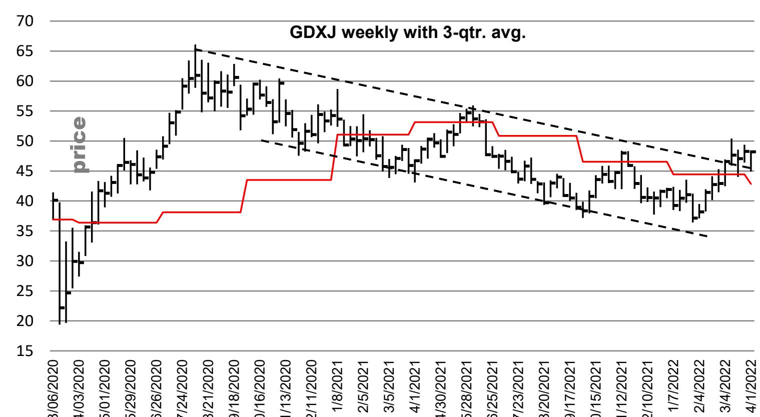
We suspect another trade up to $40 will likely spark an advance to the summer 2020 high. Note that the rally high four weeks ago was at $40 as was the high in May 2021. That recent surge followed by a $4 drop. Now headed back toward $40. Tag that $40 level again and expect a triple-top breakout to follow.

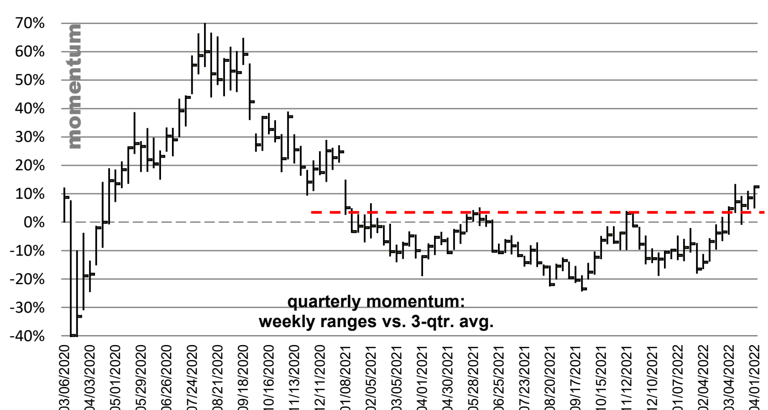


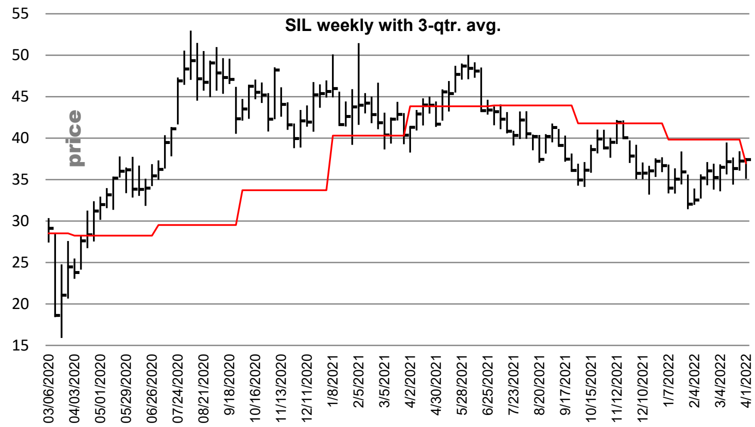


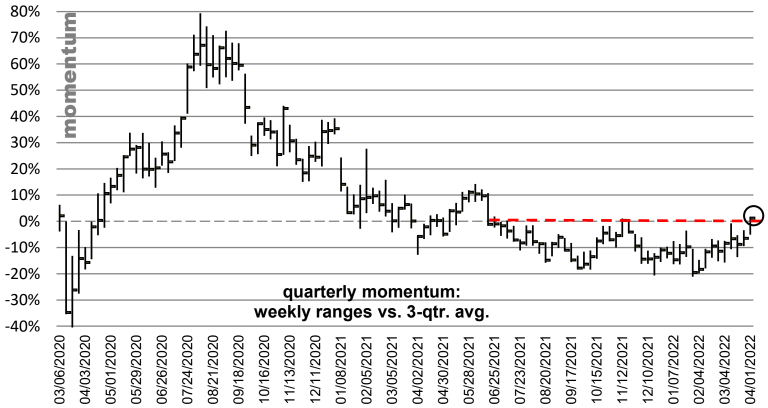
GDXJ (VanEck Junior Gold Miners ETF) quarterly momentum

There was a breakout five weeks ago on momentum. Also, a very clear parallel downtrend channel on price was overcome. The protracted corrective process is over.









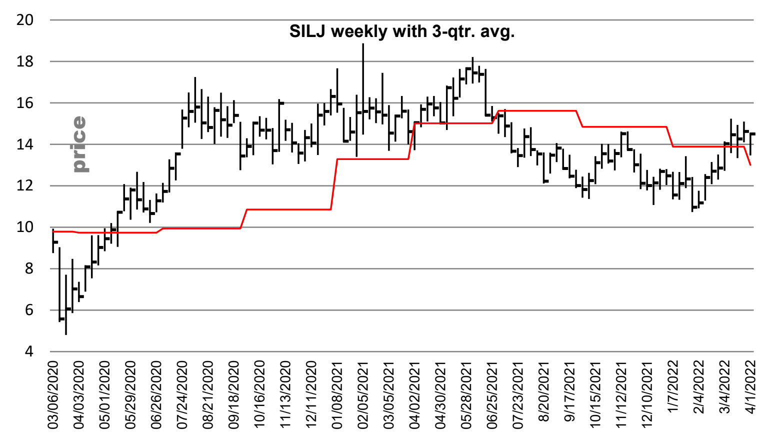
SIL (Global X Silver Miners ETF) quarterly momentum

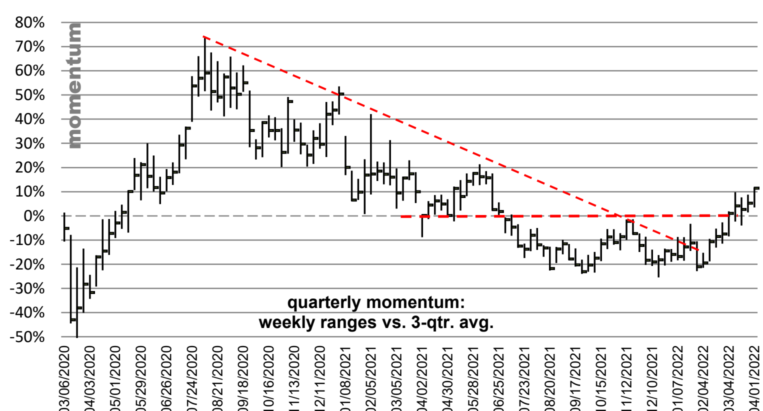
SIL's 3-qtr. avg. adjusted down this quarter to $36.97. Last week's close was credibly above that average/the zero line on momentum. SIL thus joined the already positive quarterly trend shifts in the other mining ETFs.

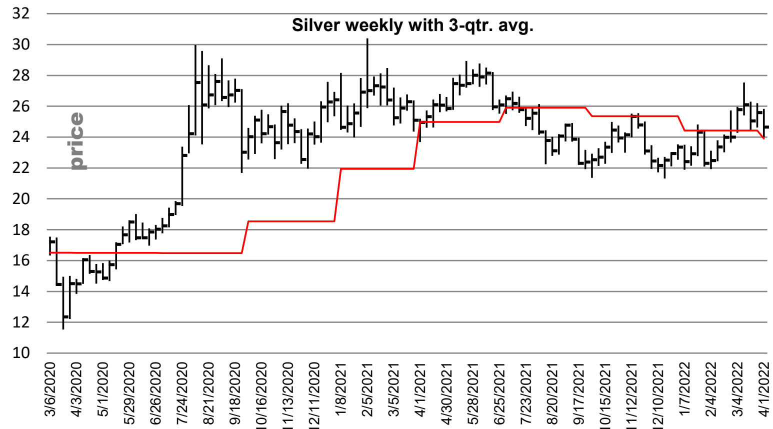
Again, the likely reason for SIL's lagged upturn was its prior heavy weighting in the Russian miner Polymetal International. That 12.1% holding was dropped back to a 1.3% weight some weeks ago.

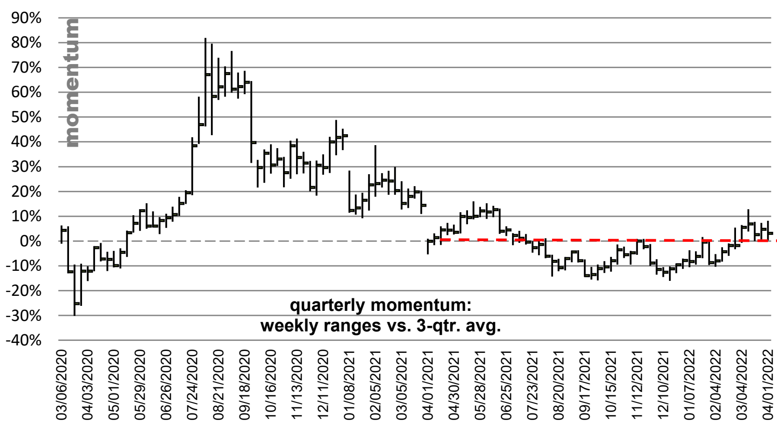
SILJ (ETFMG Prime Junior Silver Miners ETF) quarterly momentum

There was a breakout five weeks ago on momentum—above a clear balance point at the zero line. That breakout was indicated with the breakout over the downtrend in February.



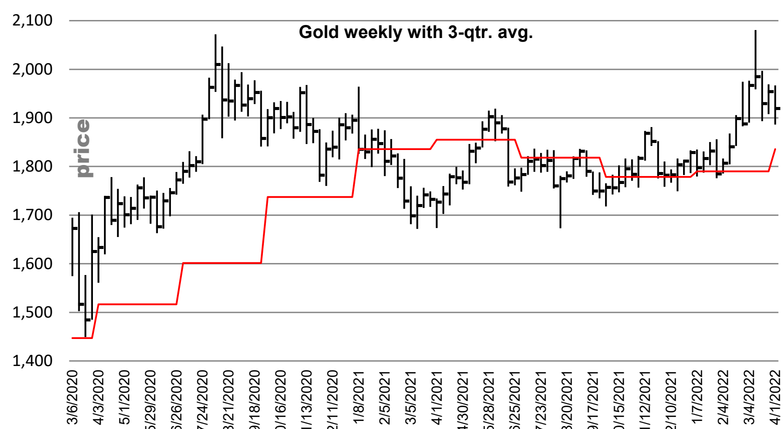






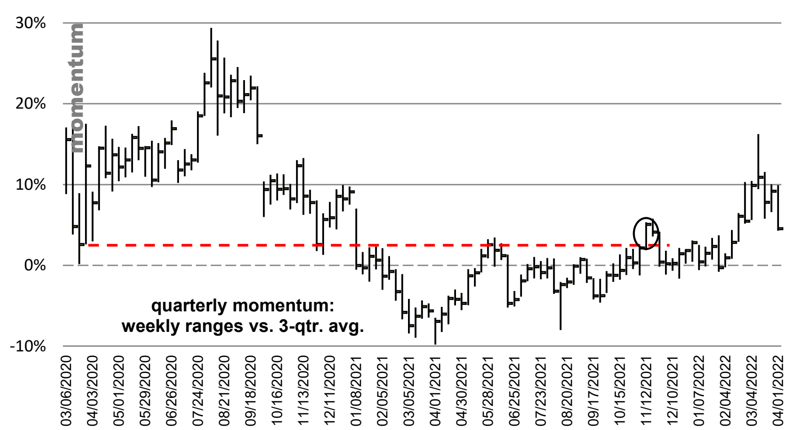
Silver quarterly momentum

The breakout was six weeks ago. Action has since held above the 3-qtr. avg./zero line. Last week's close was 3.1% above that new average (the 3-qtr. avg. this quarter is $23.90, adjusting down from its prior level at $24.43 last quarter).



Gold quarterly momentum

This broke out in November (circled) followed by a pullback to the zero line area. It reasserted itself in February and March. The current pullback is a function of some price drop last week, but largely due to the rise in the new 3-qtr. moving avg., which is now $1835.80, adjusted up from $1789.90 last quarter.



Positions in markets mentioned in this report: long GDX calls, long SLV calls