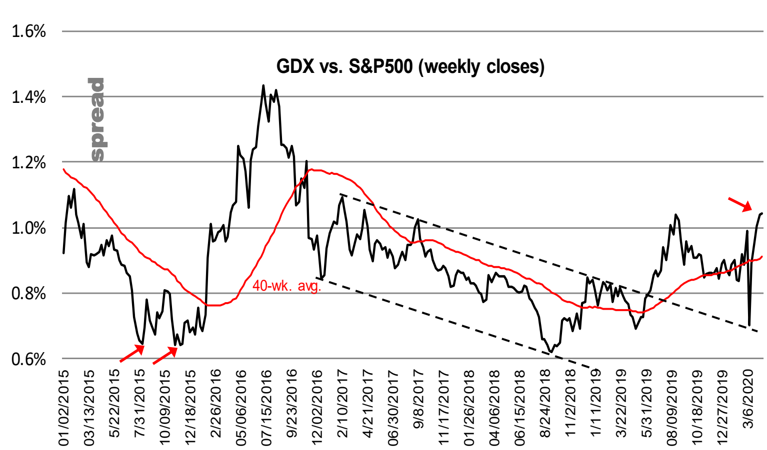
GOLD, SILVER & MINING

MSA

April 19, 2020

Weekend Report



GDX (VanEck Vectors Gold Miner ETF)

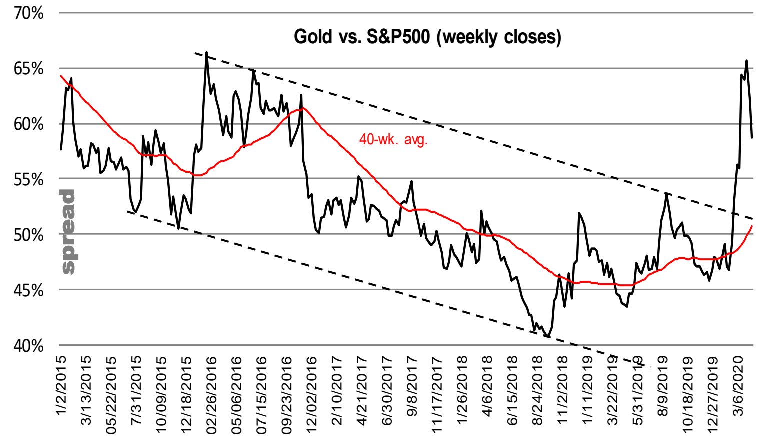
The gold miners have been schizo over whether they should trend coincident with the S&P 500 or with gold. Investors in this sector only seem to selectively remember 2008 when the S&P 500, gold and miners dropped together.

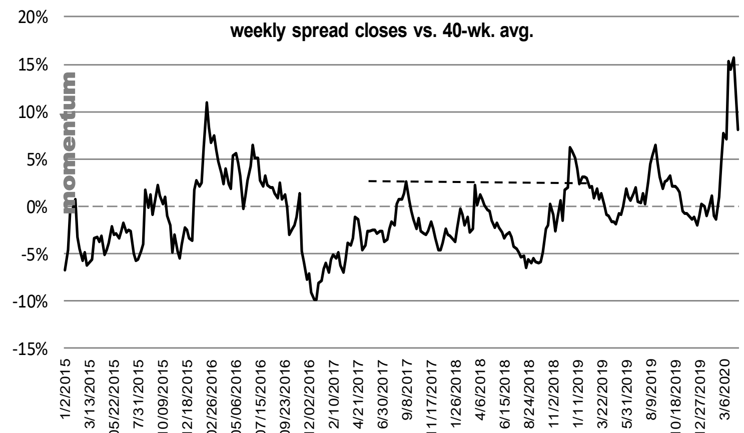
And so in mid-March as the S&P 500 was in full collapse mode—margin calls everywhere (!)—GDX collapsed big. (*MSA had predefined that drop as a likely major bear trap.*) And even GDX's spread vs. the S&P 500 dropped sharply. But then it dusted itself off—rapidly—and decided it was already into an outperform trend direction vs. the S&P 500 and that's where it belonged. Back up it went. Whoosh! No doubt leaving behind many stopped-out longs.

Last week's spread close was a marginal new high for this spread since mid-2017. And it did that even with gold having a down week (-2.7%) last week. Meanwhile, GDX's net price last week was +3.4%. (The XAU Index enjoyed a +6.1% week.)

Oh, yes, and if you go back to the spread lows in late 2015 (up arrows) and do some math, you'll find something that the forever longs will never believe. GDX's price at that last up arrow was 13.4 and the S&P 500 then was 2089. Both at low levels. Had you shorted the S&P 500 then and gone long an equal position in GDX (a market neutral position), you'd be losing 37.5% on the S&P 500 short side, but gaining 123.5% in your GDX long position (at the down arrow).

So many things are lost in the noise.





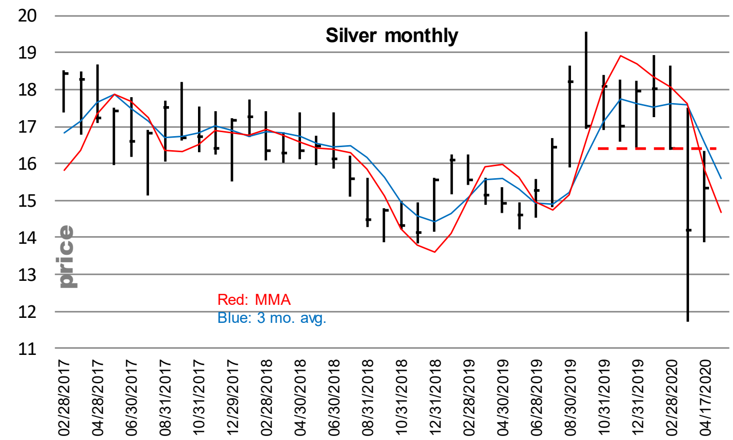
Gold relative performance vs. the S&P 500

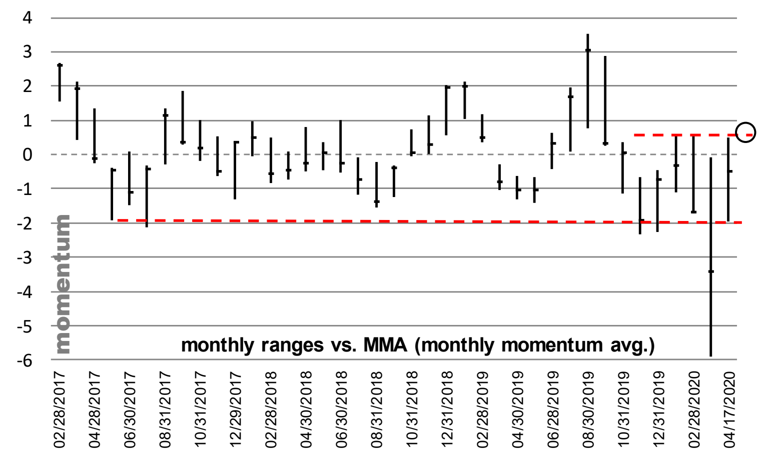
Obviously positive. In recent reports we've run an even longer-term version of this spread between gold and the S&P 500 using annual momentum. It clearly turned positive at the February close.

When we reference this spread's momentum using the 40-wk. avg., it actually broke out sufficiently in late 2018 to label that as a trend shift (the horizontal line came out), and it has persisted in legs of advance since, with the spread chart itself breaking over a three-year-old parallel downtrend channel in February.

In sum, a positive trend and not an old one either.

The pullback of the past two weeks in no way threatens the uptrend in the spread or its momentum. Buy the dips, as they say.





Silver: monthly momentum

In our April 5th Weekend Report, using weekly momentum, we argued that silver (then at $14.49 and only partly off its mid-March lows) would likely move above $16. The next week silver tagged $16.09 and last week it reached $16.30.

There's obviously distribution in the low $16 area and it's no surprise. Note the floor on **silver's monthly price** that prevailed from late 2019 until March (red horizontal). Therefore price chart folks have naturally been selling rallies to that level. "Price Chart 101" sort of behavior. By the way, GDX did the same thing around the 26 price level during its recovery, though obviously that level of resistance/ distribution (its prior floor) did **not** sustain.

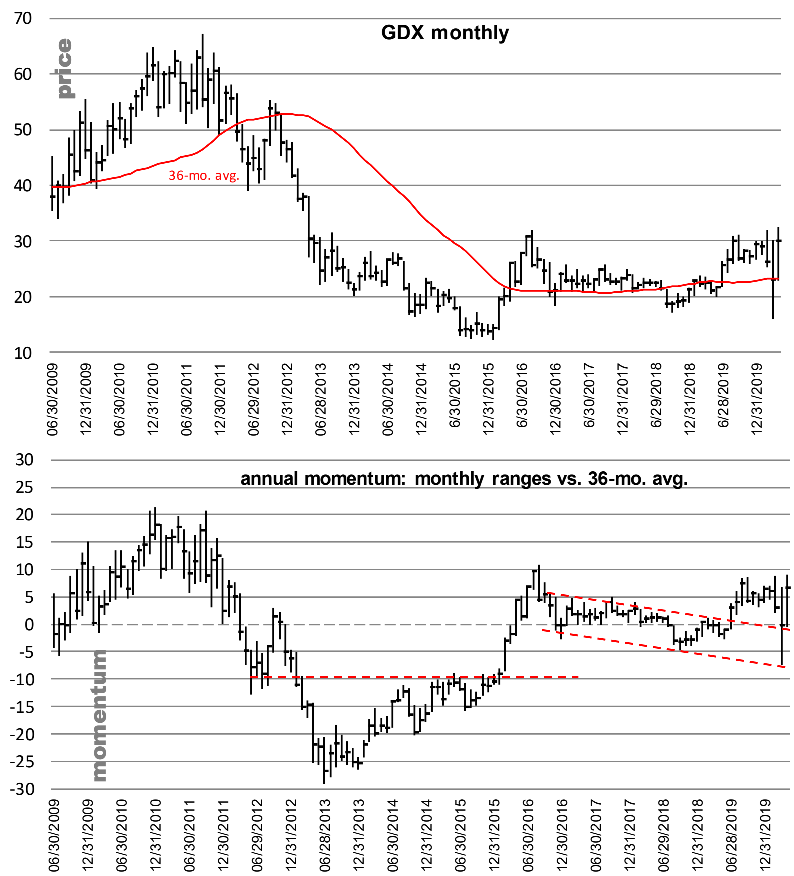
For silver's price action this +$16 area does not change. Either it holds up as a ceiling and silver turns down in a sustained way, or it's overcome and **further rapid upside** ensues. In fact, overcoming this level argues for a rapid assault on the upper $18/$19 area, which is a potent minefield of upside powder kegs.

But now look at MSA's **monthly momentum** chart of silver. This is a proprietary momentum chart, and it's not based on a moving average of price, but a moving average of momentum bar readings from the 3-mo. avg. oscillator (not shown here). That average of those momentum readings is then converted back to a price-equivalent number.

There are two major features to pay attention to here. First is that the major two-year-wide floor was blown out in March for a few weeks only, achieving vastly oversold readings. This month's action aborted back above that old floor, indicating the tantrum was over. Second is that this month's high reading so far is .48 over the zero line (48¢/oz). The highs of January and February were +.55 and +.56 respectively, meaning that around these very shallow levels, silver has been capped three times in the past four months. The ability this month to exceed this cluster of readings (trade .60 over for good measure) should unleash silver for more gains. To trade above that structure **in April** means to trade to a price of **$16.42**.

But … that MMA average (the zero line) is projected to drop for May, such that (and this is estimated) if silver is merely loitering around between now and May and finds itself trading **$15.27** (.02 below last Friday's close) anytime in May, then that multi-month shallow resistance structure on our monthly momentum chart will come out. **By default!** Bears need to keep a lid on silver and not let it trade around current price levels in ten trading days or later, or they'll find their selling efforts have failed.

A minor note, but based on several weekly momentum factors, we suspect that the range for silver this week (April 24th) will be from $14.80 to $15.80.



Gold Miners: take a pause

Here we show monthly price and annual momentum (arithmetic scale).

Sometimes in the midst of the noise it's worth pausing and taking a look at the big picture.

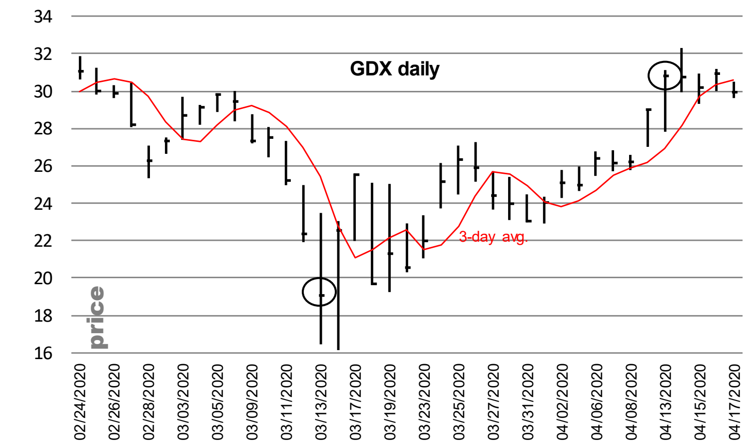
Yes, GDX just ran every sell stop it could possibly find (actually, the panic phase was confined to twenty-one trading hours in mid-March).

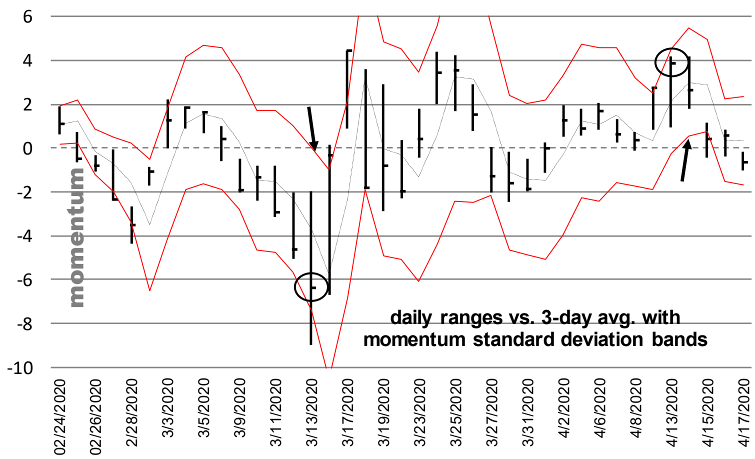
When it was over it was over. Yes, a zig-zagged recovery with a bad day or two here and there, but still a sharp and full recovery. Not just back to the highs at 30+, but a tick up to 32 to achieve a point-and-figure price chart breakout over all highs since mid-2016.

Then in an overbought daily condition (having run from just over 16 to 32...give it a break!), GDX and other miner indices and ETFs needed to cool. So they did, last week. But even with that cooling off the action was fairly tight—like a fist (see the daily chart on the next page).

As for annual momentum (which we often show in percent scale, but here it's in arithmetic or point scale), it's still positive and has been since 2016 and again with a breakout last summer.

GDX daily





MSA's daily momentum standard deviation band (upper band) dropped below the zero line after the March 13th close (the third big bad down day). The bands are plotted one day to the right of the day that produced the readings.

An oversold status occurs when the upper SD band drops below the zero line. Such short term "excess" indications will produce either a trend change or a simply a corrective pause in the existing trend. Given long-term factors, we strongly suspected that oversold situation in mid-March would do what a bear trap usually does—zip north and fast. And it did.

Finally, after a sharp but layered price advance over several weeks, GDX was making new price highs—above all highs since mid-2013 (see the price chart on the prior page). But daily momentum was then producing an overbought reading (as of last Monday's close) when the lower SD band rose above the zero line. Momentum began to correct, as it should have, but price has so far held a more or less sideways tone, with the action from Tuesday through Friday all in the upper half of Monday's surging price bar. So far a "standing in place" cooling-off process. And despite the overbought short-term status as of Monday's close, for the week GDX netted a gain of 3.4%. And that was more than the headlinr S&P 500 generated. Nice.