

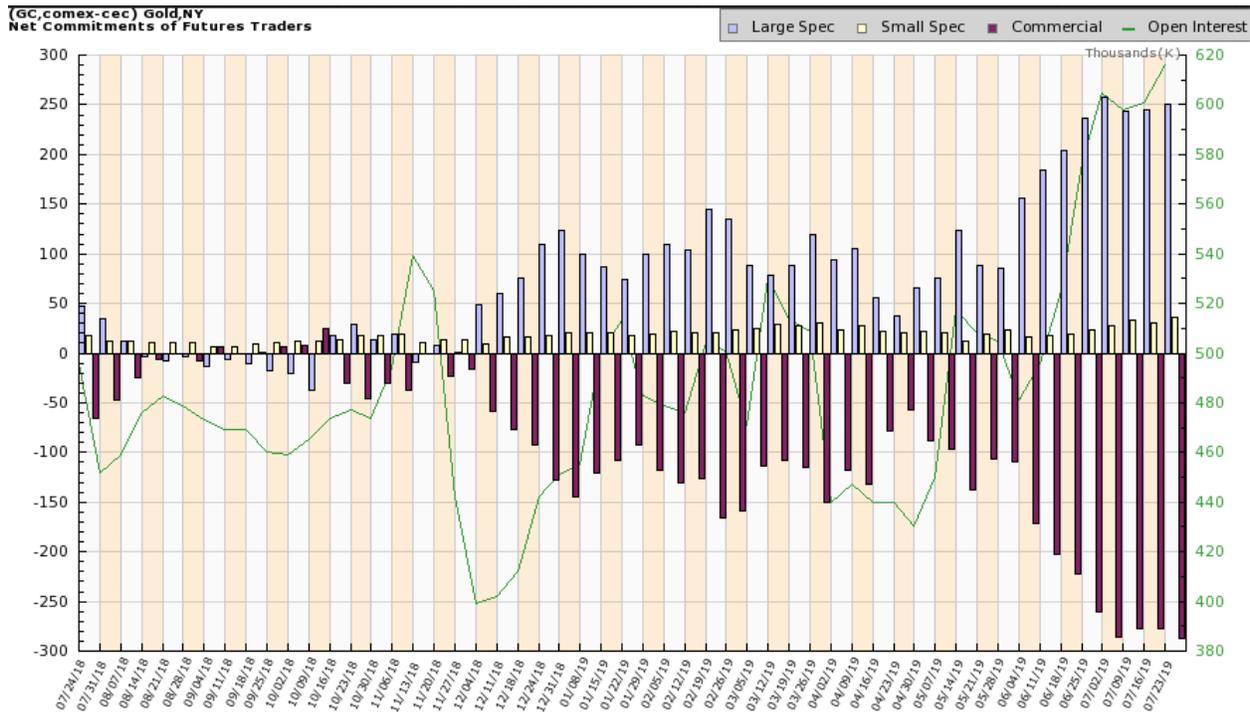
The Fed, The ECB and a look at Gold and Gold Miners

Tim Taschler, CMT, Sprott USA, 7-28-19

Two weeks ago the President of the NY Fed, John Williams, said that the “neutral” rate is 0.5%. The neutral rate is the Fed’s ideal target for interest rates. Williams’ statement is interesting because according to him, current rates (**2.25%-2.50%**) are about 5 times too high. Also, the “neutral rate” idea has been Fed Chair Powell’s obsession and throughout 2018 Powell has repeatedly said that the Fed would raise interest rates until they reached the neutral rate. Markets obviously reacted to William’s comments and the Fed was quick to issue a statement to walk back William’s comments by saying he was speaking “academically” and was not referencing current rates.

This past week, the ECB informed the world that they will soon be cutting interest rates again. This means EU rates will be going even further into negative territory from -0.4% where they are today. The ECB also told the markets that more QE will be coming, possibly as early as September.

On July 11th I wrote [my thoughts on gold and gold miners](#). Has anything changed? Not really. Let’s start with the COT which shows the commercial net shorts continue to hover around 290,000 contracts, very similar to how they were positioned in July 2016 and not far of their record short 340,000 contracts:



Charts compiled by Software North <http://cotpricecharts.com/commitmentscurrent/>

--- Large Speculators ---				----- Commercial -----				-- Small Speculators --			Open	
#	Long	Short	Bullish	#	Long	Short	Bullish	Long	Short	Bullish	Intrest	
06/25/19	356	298,108	61,554	83%	116	160,228	420,378	28%	59428	35,832	62%	577,605
07/02/19	359	312,702	53,756	85%	114	160,282	447,104	26%	61332	33,456	65%	605,949
07/09/19	365	306,105	61,342	83%	123	163,955	442,371	27%	66388	32,735	67%	598,977
07/16/19	367	309,535	64,034	83%	122	175,785	453,193	28%	68146	36,239	65%	601,900
07/23/19	375	311,881	60,631	84%	122	175,785	463,624	27%	72995	36,406	67%	616,859

Gold continues to chop around the 1415-1440 level:



source: StockCharts.com 7-28-19

The GDV gold miner ETF has made a marginal new high:



source: StockCharts.com 7-28-19

More importantly to the macro picture, the Dollar Index (DXY) has broken higher and looks to be making a run toward its 52-week high:



source: StockCharts.com 7-28-19

The 10-year interest rate (TNX) continues to build a rounding bottom:



source: StockCharts.com 7-28-19

Conclusion

The world awaits the FOMC decision and press conference on July 31st. Markets are pricing in a 25bps rate cut with some looking for a 50bps cut. What the FOMC does and says will, obviously, impact how markets trade. As we know, it's not what the Fed says or does that matters, but the market's reaction. My best guess is that the Fed will lower rates 25bps because they have set market expectations for 25bps and they tend to not ever want to disappoint the markets. The bigger question in my mind is what signals the Fed sends for the future: either that more rate cuts are planned or they will be in sit-and-watch mode. Regardless of the rate decision and commentary, expect volatility as the algos react to the words crossing the wire and then big players start positioning their books for what they think lies ahead.

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