# US/European Daily wrap

| | Correlation with DXY (weekly, 10yrs) | Model implied Prices, with current US$ price* | | % from CURRENT Price | Model implied Prices, with USD weaker (DXY at 90) | | % from CURRENT Price |
|---|---|---|---|---|---|---|---|
| GOLD | -0.22 | $ | 1,402 | -23% | $ | 1,437 | -21% |
| SILVER | -0.67 | $ | 18.8 | -19% | $ | 21.2 | -9% |
| PLATINUM | -0.91 | $ | 1,001 | 2% | $ | 1,161 | 18% |
| PALLADIUM | 0.29 | $ | 1,245 | -35% | $ | 1,119 | -42% |
| CRUDE | -0.88 | $ | 56.7 | -31% | $ | 69.8 | -15% |
| COPPER | -0.52 | $ | 6,367 | -36% | $ | 6,828 | -31% |

*modeled with DXY at 94.7
Source: MKS PAMP Group

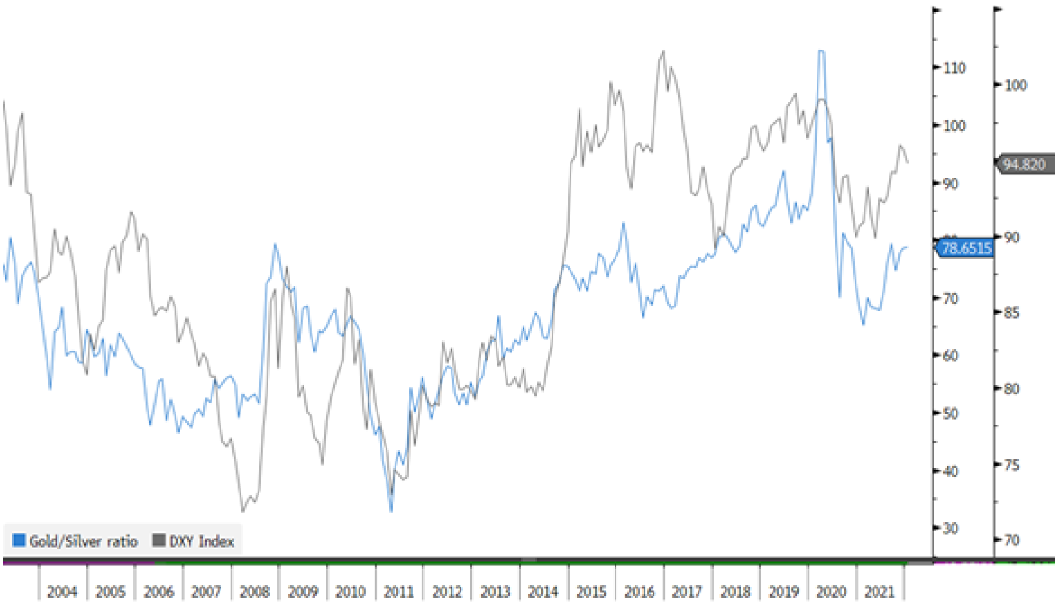
## DXY - no longer compressed given outsized moves in other mkts

**decidedly breaking down**

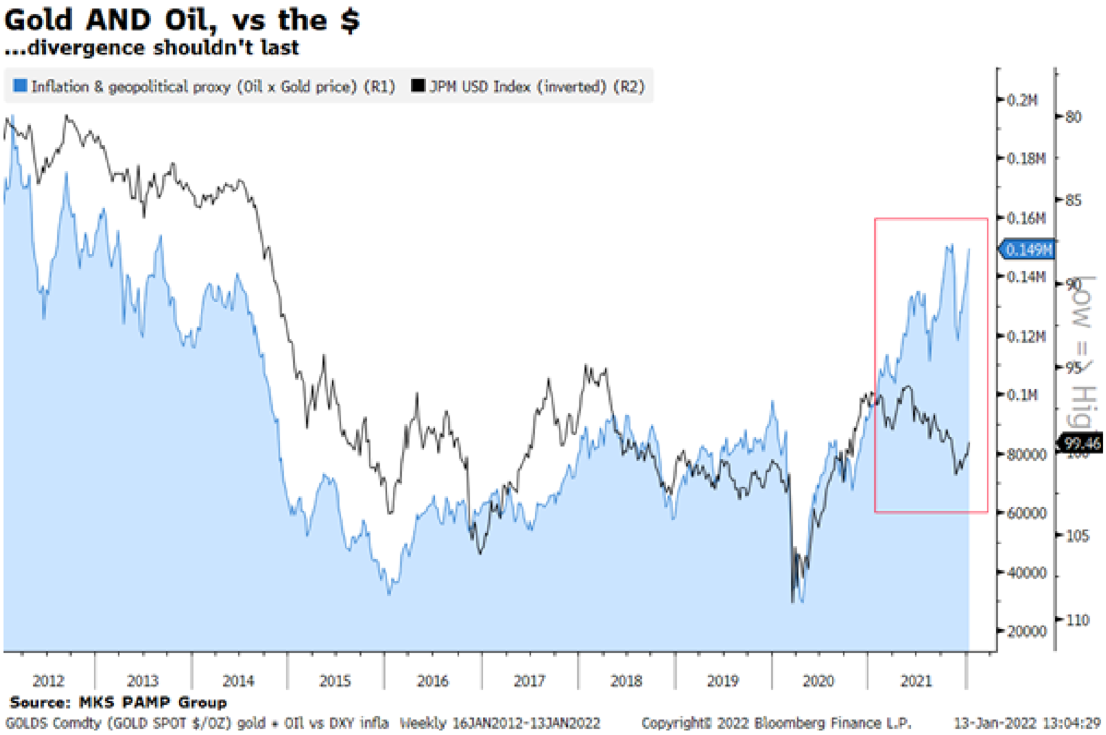

**Source: MKS PAMP Group, Bloomberg**
DXY Curncy (DOLLAR INDEX SPOT) DXY bull flag2 Daily 12AUG2016-13JAN2022 Copyright© 2022 Bloomberg Finance L.P. 13-Jan-2022 10:38:21

## DXY vs Gold/Silver ratio

**...a strong $ impacts Silver more so than Gold**




**Source: Source:Bloomberg, MKS PAMP Group**
.GCSI U Index (gold silver ratio) DXY gc/SI & Fed stim Monthly 18JAN2002-13JAN2022 Copyright© 2022 Bloomberg Finance L.P. 13-Jan-2022 13:07:22




"A growing chorus of investors is betting the world's reserve currency has reached a peak, in a dramatic turnaround from a month ago" when the consensual 2022 trade was being long the US$. (Bloomberg article).

The new bearish-US$ argument hinges on 1) global growth will play catchup (to a strong 2021 US recovery) creating value outside the US (where interest rates haven't caught up with inflation creating low real yields), 2) the Fed is now behind the inflation curve (vs being ahead relative to BOJ/ECB a month ago), 3) structural issues like a wider U.S. deficit, low real rates, large external negative balances, polarizing politics/upcoming midterms, 4) the unwind of Omicron/pandemic 'safehavenness' of the US$ has begun as the world transitions to an endemic, 5) the unwind of tactical hawkish Fed trades (which Powell didn't live up to during this weeks testimony) has more to go. And so, the range of opportunities to rotate into (from the US$) include EM stocks & credit, EMFX and commodities, on top of the current growth-to-value rotation thats occurring within equities . *Sell USDs buy stuff.*

With the DXY now convincingly through 95 *(led by NOK, GBP outperformance in G-10 & Latam currencies and ZAR in EMFX)* and consensus souring against it, its worthwhile to checkout correlations, where model-implied prices should be and other implications for metals/commodities. Graph 1, table 1.

Full note here

**Thoughts and takeaways from the tables/graphs attached.**

- If 2021 was the year unprecedented inflows charged into largely US equities (>$1tn, led by the retail investor into global equity funds, more than 25 years combined!), 2022 is the year a Fed shakeout will likely force a major rethink & rotation across and within asset classes, as is occurring.

- The 180 in the US$ thinking - from it being the bullish darling of 2022 (on Fed taper/hikes) to a consensual sell in 2weeks – is case in point, but also telling. While Bonds/FI were volatile and on the move in 2021, **FX is off to a volatile start (which will have knock on implications – higher volatility) for metals & commodities.**

- Gold has a very weak correlation with US$ at -0.22 (its a better fit with real interest rates, with a correlation with real 10year yields at -0.91). **The weekly correlation over the past 10 years with DXY is: Platinum -0.91, Crude -0.88, Silver -0.67, Copper -0.52, Palladium +0.29, Gold -0.22**

- Technically, IF this time really is different and DXY is forging a new lower range below 95 (vs being in the 95-100 seen in Q4'21) then **at current DXY prices, Gold should be 23% *lower*, Silver 19% *lower*, Crude 31% *lower*, Copper 36% *lower* and only Platinum 2% higher...** That outcome (even commodities with decent correlations - Crude, Copper & Silver - should all be *lower*, if US$ depreciates further) is completely counterintuitive but highlights a few key recent trends:

- **Commodities have led the move, and currencies are playing catch-up...** that was/is driven by idiosyncratic fundamentals (tighter balances) vs macro drivers (like US$ movement) in the case of utility commodities (Copper, Oil). In Gold / Silver, that's been driven by the extraordinary stimulus in 2020 which rerated prices.

- **There will a positive feedback loop if the US$ structurally weakens further, which will only accentuate the "commodity bull" call; inflows into commodity-linked currencies (ZAR, AUD, CAD) would create tailwinds for the precious complex.** Commodities even made it to Barrons front cover last weekend. Besides the obvious takeaway that frontcovers usually mark a sentiment top in any asset class, go back to point 1; **unprecedented amount of liquidity unleashed in the system is on the move, and commodities, being a niche asset class simply cannot handle the size of retail money, if it enters on a large scale** (as it did into equities).

- **The best upside potential on further $ weakness is Platinum.** It has the highest correlation of -0.91 and *should be* 18% higher (~$1160) if DXY weakens further. Even at current DXY prices, platinum is underpriced by 2% (fair prices are >$1000).

- **The DXY has long been decently correlated with the Gold/Silver ratio** (historically impacting Silver more so on any strengthening bouts. Graph 2). Theres also a similar recessionary predictive power about them both (Higher Gold/Silver & US$ are the ultimate recession havens). **Any further US$ weakness should drive the Gold/Silver ratio lower away from ~80 (1year highs), by virtue of Silver outperformance > Gold.**

- Graph 3 shows the USD vs 2 large common inflationary (and geopolitical) hedges --> Gold and Oil**. Either the combined price of Gold & Oil (gold x oil) is too expensive, highlighting entrenched inflation, OR or the $ is too expensive, given their close relationship and the short-lived nature of past divergences**. *FWIW, Markets are are in 'geopolitical recession' and are indifferent to that news cycle, so OilxGold is currently an inflation proxy.*

- **Overall, a weaker $ is first and foremost a structural tailwind for commodities (especially growth-on metals like Copper, PGMs, even Silver over Gold, in this thinking where global growth plays catch-up to the US). Secondly, it's a much less of a threat for US Stocks & risk appetite, but thirdly a weaker US$ (at the expense of stronger currencies especially in export-drive economies) will put itself back on the (geo)political radar**

*Approved for all external purposes*



MKS PAMP GROUP Limited | 103 Cannon Street – 5th Floor , London , EC4N 5AG United Kingdom