Daily European Wrap

	Safehaven / risk off proxies				Alternative currency proxies			Risk-on proxy			Physical demand (currencies)		Commodity Currencies	
	us 10yr yields	US 10yr BE	10yr real rates**	US 2yr yields	JPY	DXY	EUR	Bitcoin	SPX	HG Copper	USD/CNY	USD/INR	AUD/USD	USD/CAD
Current Correlation with Gold (post June FOMC*)	-0.12	0.31	-0.39	-0.47	-0.18	-0.61	0.66	0.00	0.27	0.20	-0.29	-0.18	0.58	0.39
Correlation with Gold (pre June FOMC*)	-0.64	0.04	-0.57	-0.63	-0.69	-0.69	0.64	-0.30	0.31	0.25	-0.53	-0.06	0.67	-0.55

*pre FOMC daily data May 2021-June 15 2021. Post FOMC data June 15 - July 2021

** 10yr yields - 10yr BreakEvens

Source: Bloomberg, MKS PAMP Group

As a follow-up to yesterdays email and as we await the FOMC, its worthwhile to evaluate typical Gold influences and see how correlations have weakened/strengthened in the leadup to the hawkish June FOMC and currently (from June FOMC inwards); lets 'test' to see what can cause or at least help Gold to break free.

Table below highlights the correlations across different assets (gold drivers) over these 2 time periods.

Takeaways:

- Golds correlation with traditional safehavens (10yrs, JPY) has weakened dramatically between those two timeframes; the daily correlation with 10yr yields has fallen from -0.64 to -1.12; from -0.69 to -0.18 with JPY. Thats a known, but this provide some quantitative support
- Gold correlation with the CAD has actually flipped. pre June FOMC, CAD strength (USDCAD down) = Gold strength, while currently any CAD strength is a headwind for Gold.
- Bitcoin was a mild detractor of Gold interest/participation (and thus price) pre-FOMC with a -0.30 correlation, but currently has little influence over it. That's proves our thinking that so long as XBT prices are $30-$40, its non-event/driver.
- Golds correlation with the yuan has weakened somewhat, from -0.53 to -0.29. Any further currency weakness, stemming from the ongoing crackdown/equity volatility will have less of a impact on Gold prices than originally thought.
- Overall, while Gold has lost core influencers, it has not really 'picked up' any other drivers. The assets who maintain the strongest correlations (in this exercise!) are 1) the EUR (+0.66), 2) AUD (+0.58) and 3) CAD (-0.39). Watch the currency space for inspiration.
- Risk (SPX, Copper, bitcoin) are not core drivers, nor are other haven assets.

REGRESSION MODEL			
Current Gold Price	$	1,798	**Correlation**
Short-term Model Implied Gold Price (using monthly ST real yields - CPI & 2yr yields)	$	1,939	**0.63**
Long-term Model Implied Gold Price (using weekly LT real yields - 10yrs & 10yr Break	$	1,885	**0.86**
Weighted Average Model Implied Gold price (using Correlations)	**$**	**1,908**	
*10years rolling regression. ST monthly data, LT weekly data			
Source: Bloomberg, MKS PAMP Group			

US yields and GOLD and why it doesn't respond....PDF

With the risk-off tone permeating the markets again (as the Chinese regulatory overhaul spooks investors & triggers a selloff across global equities*), US yields are under pressure, once again. Its been the worst 2day selloff in US listed Chinese stocks in 2 days since 2008 (although theres been some reprieve today), 10yr yields are being pressured to 1.22%, EM/FX is being hit, the VIX is creeping up on 20 and US TIPs hit another all time high. And so its just another frustrating instance for many gold bulls why prices are consistently lagging US (real or nominal) yields.

**Note a larger report on this dynamic – the growing Chinese crackdown on everything from commodities, property, technology, now education, as well as fragile & deteriorating US-Chinese political relations, even post Trump – is warranted and will be published soon. For now, the playbook is that riskier precious metals (PGM, Silver) will get caught up in 'sell-everything' trade; while positioning on SGE has halved over the past year, metal will be likely be sold for margin related cash. Gold remains quite bid since theres expiry & FOMC keeping it in play. Ultimately any additional macro equity volatility, a change of the complacent regime we've been in, will be bullish precious.*

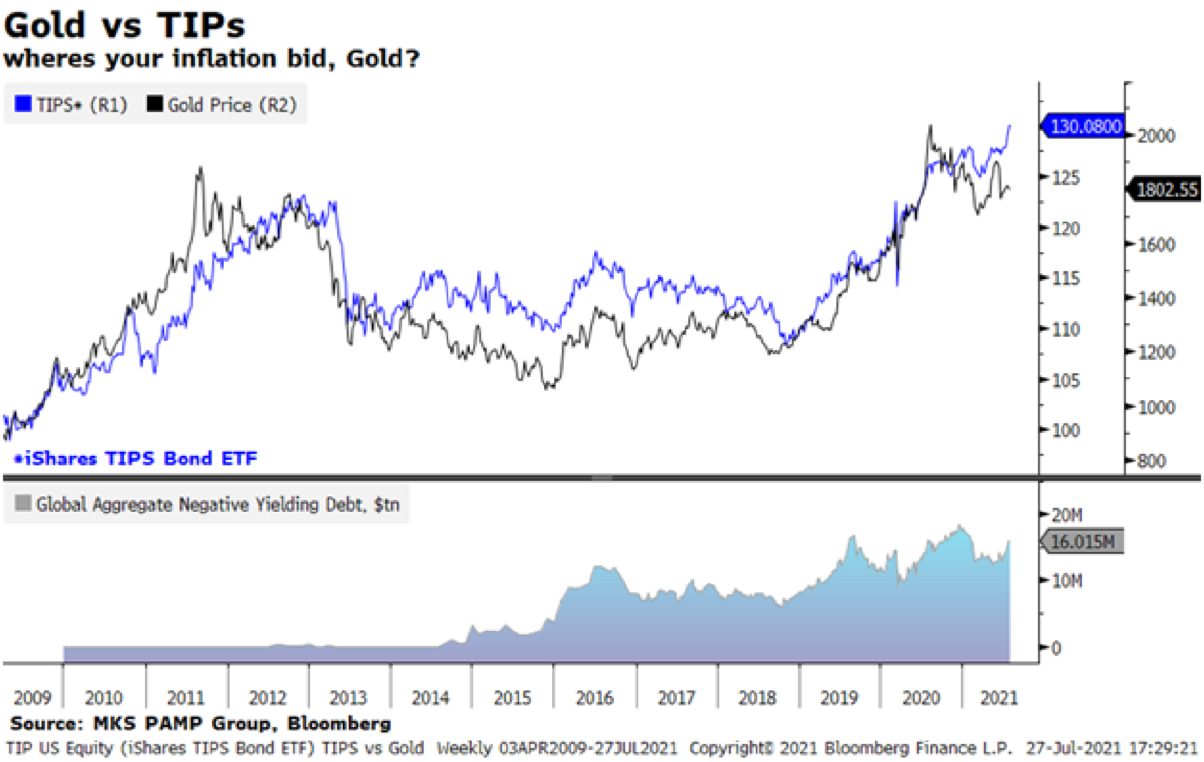
Given current yields today, the regression model implied Gold price is $1885, or $1940, depending on your choice of real yields; ultimately gold should be over $100 higher (using weighted average). No wonder there're many questions around why prices aren't responding higher… 3 simple explanations outline why its longtime preferred correlation has crumbled:

1. US$ remains pretty bid & strong; the accepted path is higher into a Fed taper. The DXY has made inroads through the key 93-handle, while the BBDXY remains near YTD highs.

2. Risk of a hawkish Fed, a low-probably (but high-impact) repeat of 2013 tantrum. While that was worth -$300 in Gold prices, and unlikely to repeat, as with US$, the path of least resistance is higher, not lower. That has kept core fast money investors anxious, sidelined and wary of any taper headline risk.

3. Few short-term technical dynamics (option expiry today, first notice on Friday, technically in no-man's-land $1750-1850), is keeping would-be buyers sidelined, and active in other trending assets.

A new bullish catalyst is required, and shortly, once the current event-risk is over, for prices to revisit newer territory ~$1900; because the market has increasingly respected the adage that what can't go up, must come down…



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