Daily European Wrap

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.

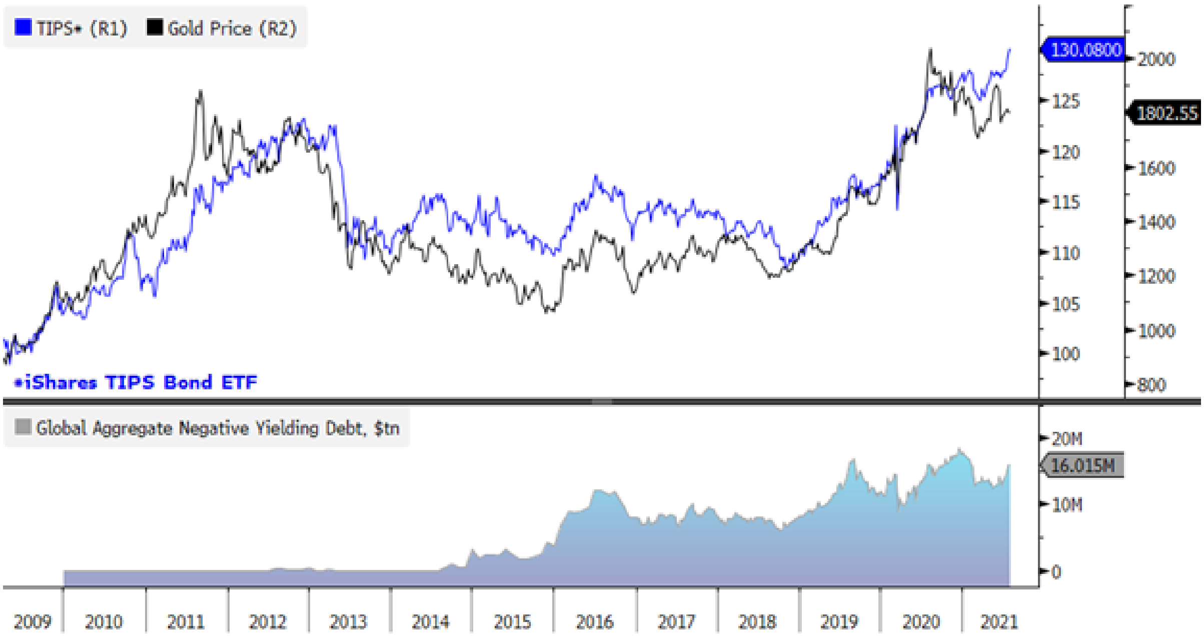
2. Risk of a hawkish Fed, a low-probably (but high-impact) repeat of 2013 tantrum. While that was worth -$300 in Gold prices, and unlikely to repeat, as with US$, the path of least resistance is higher, not lower. That has kept core fast money investors anxious, sidelined and wary of any taper headline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

Gold vs TIPs

wheres your inflation bid, Gold?



Source: MKS PAMP Group, Bloomberg

TIP US Equity (iShares TIPS Bond ETF) TIPS vs Gold Weekly 03APR2009-27JUL2021 Copyright© 2021 Bloomberg Finance L.P. 27-Jul-2021 17:29:21