Gold Update: whats going on in 1 chart & 1 page

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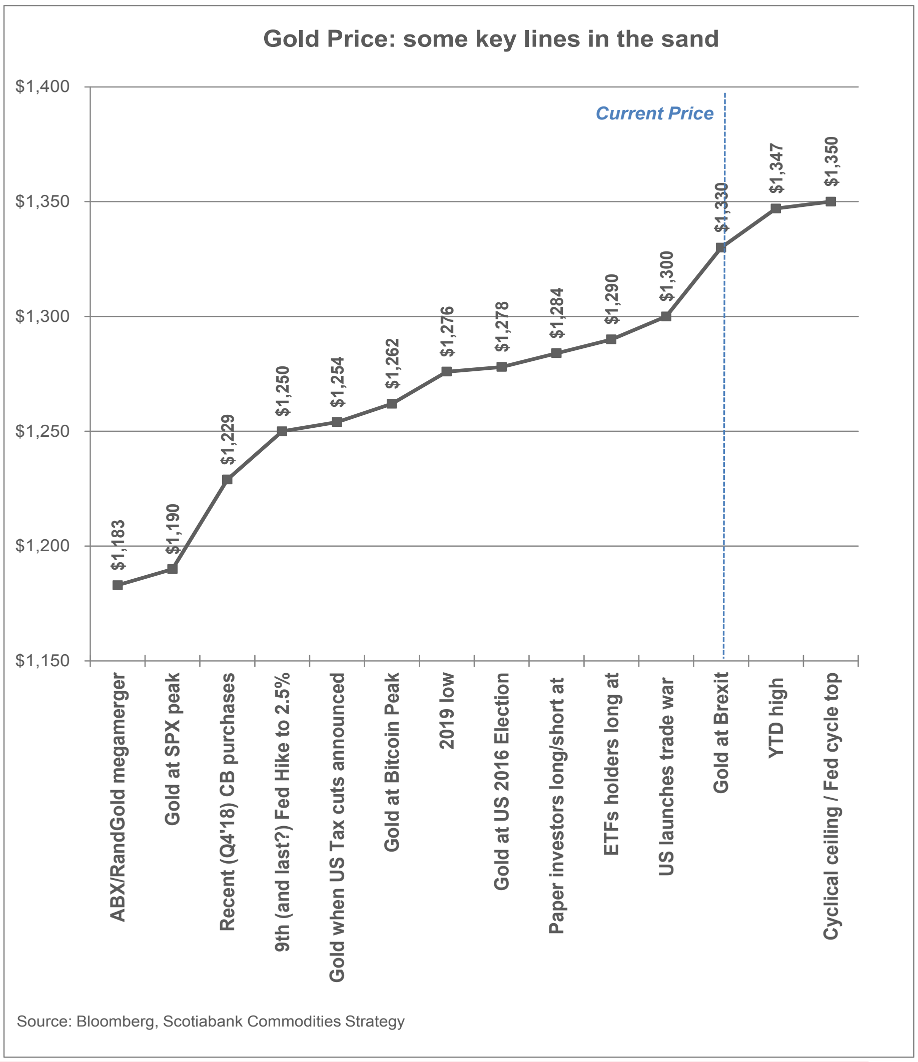
Sometimes a chart can sum up core themes and drivers of a market faster than pages of lines, so the idea is to bottle a mix of both tactical and structural drivers within Gold visually. The chart below touches on some known Gold bullish Gold drivers—a late cycle Fed pause, producer consolidation / M&A, the pullback (US equities) or collapse (bitcoin) of higher yielding Gold 'detractors', geopolitical uncertainties & trade war, MMT (Modern Monetary Theory), unsustainable US debt/fiscal path, a pickup in socialist rhetoric & the polarizing politics --- by labeling some landmark or key events. In essence participants should be asking themselves some bigger-picture questions such as:

- Should Gold prices be higher or lower than when Trump won the US elections, on Nov 2020?
- Is the PBOC's strategic (and statement) Gold purchase a nonevent or an important infection point, given current strained US-Sino relations?
- Should Gold reprice above $1350, a level its obeyed for so long as the Fed was hiking; and now they are not?
- Does the ABX/RandGold merger mark the bottom in Gold prices and top in Gold supply?
- Can the bitcoin bubble burst and/or churning US equity markets reignite those would-be (lost) flows for Gold?
- How much higher (or lower) should gold be vs levels when the US Tax & Jobs Act was announced kick starting the debate around deficits, debt & fiscal responsibility?
- How much would a far-left democrat presidential nominee be worth in Gold, if any?

The graph also quantifies levels where key recent flows (active CB purchases; strong ETF and some COT inflows) entered. Page 2 provides a brief summary and outlines the thinking around each point.



Source: Bloomberg, Scotiabank Commodities Strategy

Key macro (geopolitical & economic) & micro events:

- All December **Fed hikes** (Dec '15, '16 & '17 & 18) were unequivocally bullish Gold 2 months on, however, gold has never traded convincingly above $1350 during this current Fed hiking cycle, despite several attempts. Technically, Gold should reprice into a higher range if the Fed is systematically on pause closer to a 2006-2007 late-cycle hike *halt* (vs a 2016 rate *pause*); back then Gold rallied 10% before launching into its bull cycle. Its 1st attempt at breaking $1350 wasn't successful this week, but engrained resistance levels don't fall away that easily, unsurprisingly. Gold at >$1350 requires either 1) further data deterioration (even after this weeks weak round of US data which couldn't offset a perceivably "not as dovish as the FOMC could've been" Minutes) or 2). sustained **stimulus** talk (ECB restarting LTROS, PBOCs "targeted easing", Kuroda to mull more easing, unexpected cuts by ROW/EM CBs)

- The announcement by **Barrick to buy rival RandGold** for $6bn in Sep 2018, kicked off a buying spree and consolidation in an industry but also (so far) has marked a short-term price bottom as its signals / solidifies the structural idea of future chronic undersupply / "peak Gold supply".

- The US launched the **trade (cold) war** in June of 2018, solidifying that **geopolitical** tensions and uncertainties triggered in 2016 (with Brexit and US elections) are more bite than bark. Gold prices are only incrementally above both Nov 2016 levels (+4%) and trade war kickoff levels (+2%). Besides stimulating structural investor inflows into Gold as a geopolitical hedge, Central Bank buying trends were strong in 2018 (as typical and new countries accelerate de-dollarizing policies and diversify further away from the US / Trump); that should continue throughout 2019 especially given ongoing trade disputes, the US' fiscal path (see below), and US political polarization.

- The US's national **debt** recently hit a new record of $22tn, and the budget deficit is expected to widen to $900bn in 2019 (CBO), with plenty of leading figures voicing concern over the US' "unsustainable path". The large Trump tax cuts announced the end of 2017 is a major contributor and arguably could've marked a structural floor in Gold prices (at $1250) especially if economic growth doesn't prevail (to 'pay for' the widening deficits) and / or the belief that theres constraints to further Fed hikes in order to limit debt service costs.

- Gold (well commodities) are known non-yielding assets, so when theres consistent momentum in **risk assets**—from traditional SPX (which has mostly seen strong annual returns from 2009-2017) to non-traditional 'in vogue' assets like bitcoin (2017) or cannabis (2018), that simply detracts would-be generalist flows from "boring" Gold. Gold has historically contended with safe havens (Bonds, cash/$), currencies (CHF, JPY, Bitcoin), or commodities (Oil, Silver), so with XBT <$4000, this is simply 1 less competitor to deal with, while the break-up of the systematically 1-directional equity bull-run has woke the investor up to other alternative asset classes like Commodities / Gold.

- The Economist in their most recent edition wrote "Today, 30 years on {From the Soviet Unions collapse}, **socialism** is back in fashion." AOC has become a sensation as the growing field of Democratic presidential candidates for 2020 races further to the left, embracing a general focus on inequality and the environment (read: Green New Deal). Some of the prescriptions/solutions on how to solve whats perceived to be capitalisms problems are bullish-Gold such as a tax on wealth (AOCs 70% on the highest incomes) to inflationary MMT (the idea that governments can borrow to fund new spending initiatives by keeping interest rates low). Overall, the state of political discourse in the US (and globally) is now openly **polarizing**, reigniting Golds characteristic as a (geo)political hedge

Inflection points due to recent flows—where known Gold holders are long/short at:

- **ETF holders** have purchased 1.6m oz of Gold so far in 2019, which is both seasonal (start-of-the-year inflows) but at a pace that is the 4th strongest on record. Most of the inflows occurred in January; these 2019 ETF holders are long at an average price of $1290*

- **Investors** (proxied by *gross* COT longs) are long 14.7m oz, with +507k oz added this year at average price of $1284*. Similarly, shorts added at an average price of $1284.
    - Note we only have COT data up until Jan 29 (due to the Gov shutdown and the slow piece meal approach of releasing stats…) Nonetheless, investors currently hold on *net* 5.6m oz of Gold, DOWN from the beginning of the year as shorts have been adding to positioning at a faster pace (shorts grew by 2.2m oz) than longs are accumulating (+507K oz)

- **Central Banks** bought 4.9m oz of Gold in Q4'18, at an average price at an $1229**.Specifically, the largest purchases were 1). Hungary with 28.4t tonnes and Poland with 12tonnes both purchased in October, 2). Russia with 30t and 36.5t in Oct & Nov and 3). The statement purchase of 10t purchase by China in December 2018 (which could've occurred earlier, but was officially but not coincidentally (given trade dispute) released in Jan '18***

The very technical technical levels:

- Topside targets include recent and YTD high ($1347), next series of highs clustered around $1365, then 5year high at $1392.
- Downside targets include short-term trend support ($1313), 200 DMA its actually held since Mid Nov ($1292) and the series of recent lows at $1275.

*weight averaging the daily ETF changes, using cash settlement prices
**simply the average price of Gold in Q4'18
*** This was the first addition since 2016, and despite being relatively and historical small, was enough to boost sentiment.

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