

## Macro Update: Economic wars and Gold

Below is quick round up of the macro movers and events, since May has been crammed with market-moving Tweets that's kept many on their toes (besides Gold).

- The widening cold war accelerated with a “no trade deal” now the base case, after Huawei was black-listed, tariffs were upped and China continues to retaliating most recently with weaponizing rare earths; we are in a sustained global economic “us” vs “them” war (see Copper note which goes into more detail) with dire implications for both global growth (now) and inflation (later). Arguably, **asset prices are indicating that we are shifting from a local Trump reflation trade (tax cuts, deregulation, prospects of infrastructure bill), to a global Trump deflation trade (lower rates, lower growth/inflation, lower earnings, lower commodities)**

### CONTACTS

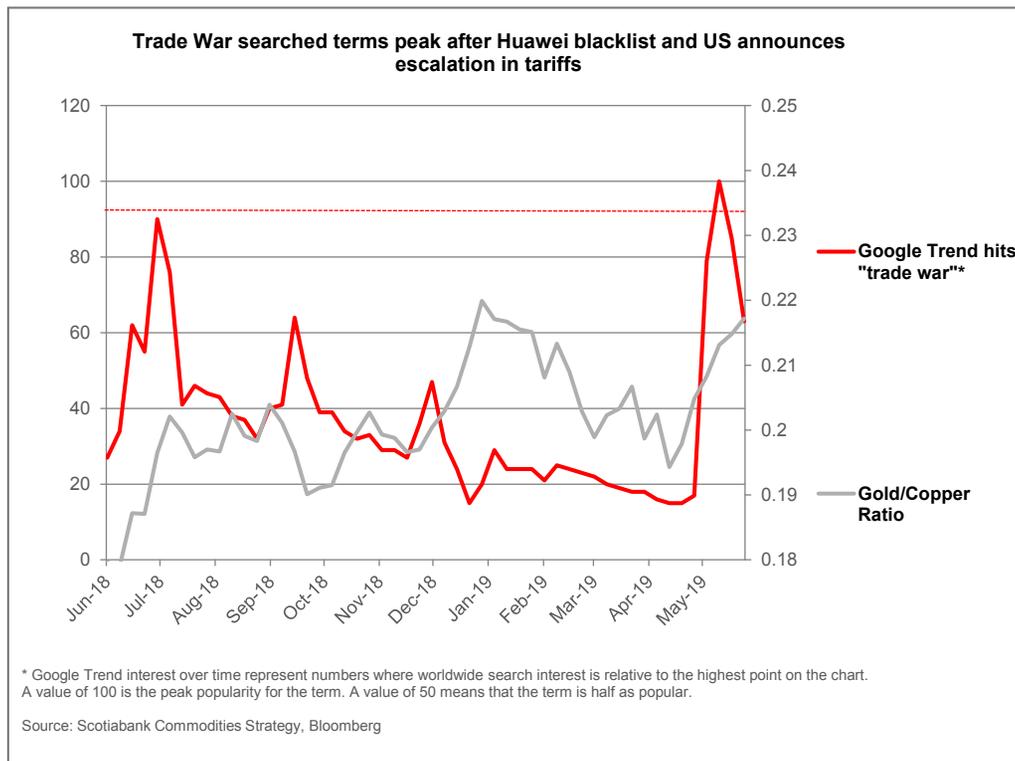
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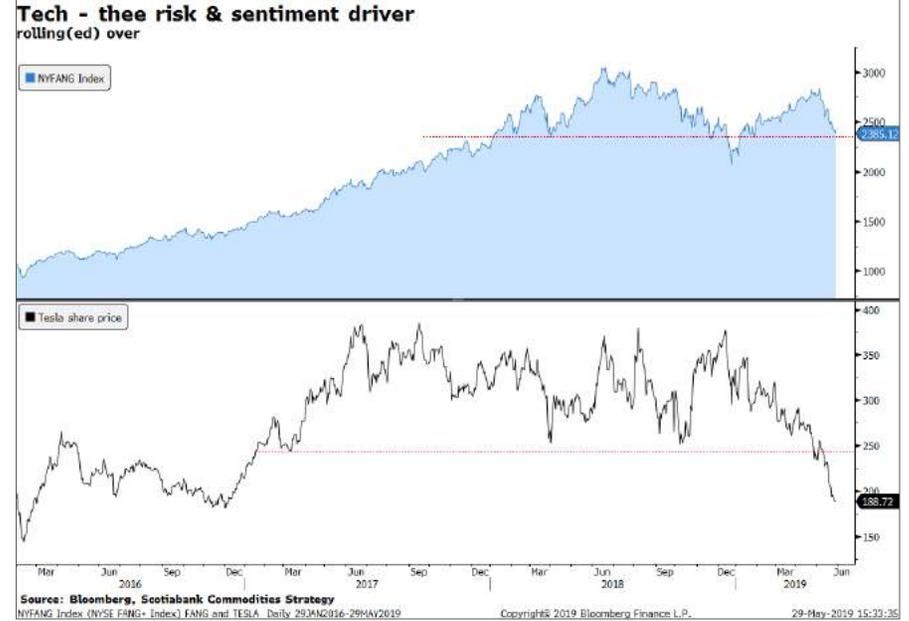
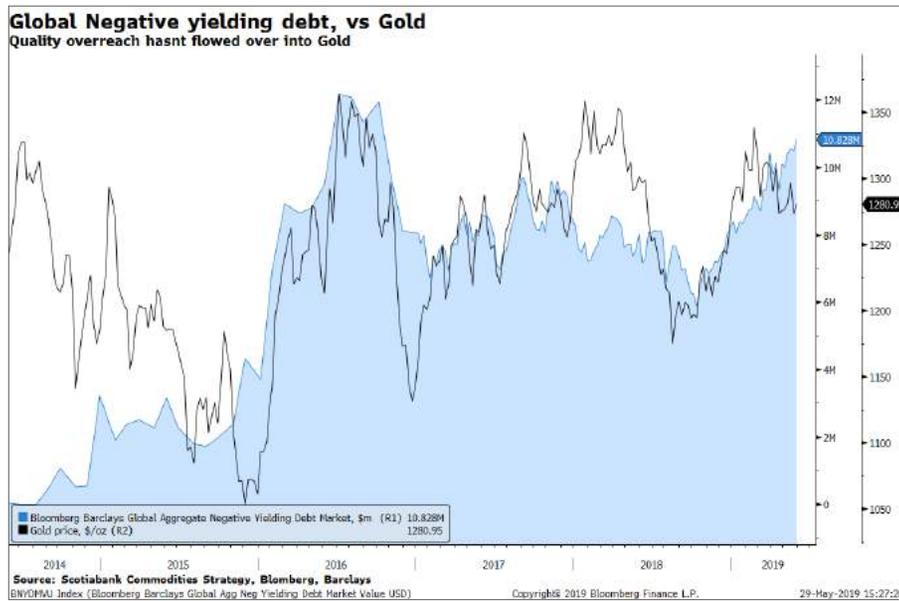
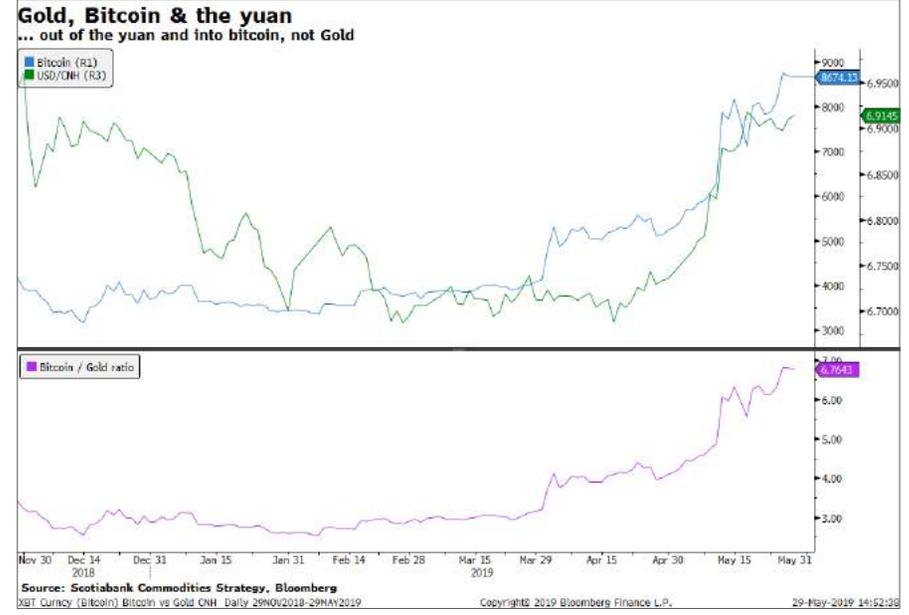
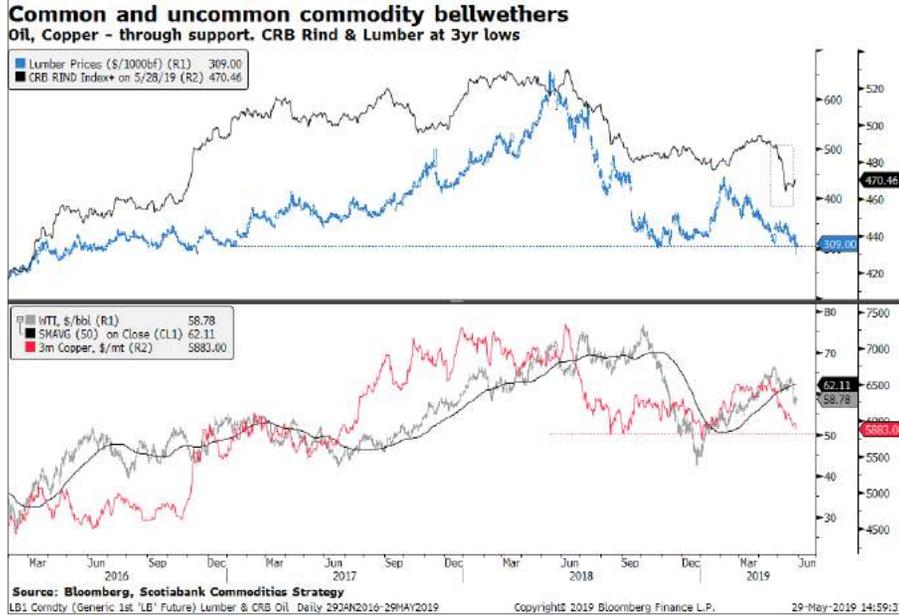
### SUMMARY:

While GOLD remains a safe haven its also has a rather boring profile (performance, vol etc) unless a sustained \$-negative or vol-positive catalyst evolves. If the macro belief is that this time is different (i.e: it is not another false breakout in the bullish VIX/bearish equities trade) with a “no trade deal” now the base case, then Gold vol and prices are cheap and underpricing the very real threat that the trade war simply ups recession risk.

The frustration around the lack of Gold reaction is palpable – a slight bid (today), but safehaven currencies (JPY, CHF and USD) and other quality assets (Treasuries, IG bonds) are deterring would-be haven flows into Gold. While theres potentially large liquidations going through (Central bank related selling or perhaps paper speculators exiting before 31<sup>st</sup>?), Gold requires a cleaner (positioning) slate, a softer \$ or a sharper selloff in risk/equities, before prices fire up... Obviously, the one persistent thorn in Golds side is the dreadfully strong \$, but at some point the fact that 2 large super powers are at economic war, in a dovish leaning monetary policy climate, should be internalized

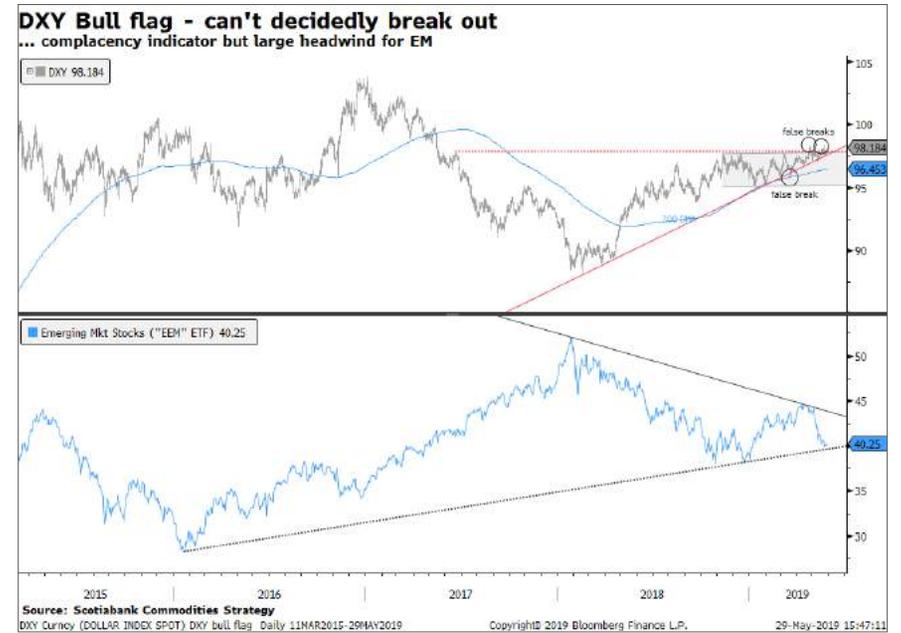
- **There's been some large moves in leading, sentiment driving or economically important trades and asset classes, that should be respected and monitored, *outside* of the overplayed recessionary flags (US yield curve inversion, yield spiking Gold/Silver ratio)**
  - There has been some outsized moves in very large, deep, respected asset classes (US Treasuries). Besides the re-inverting of the 3m-10yr yield curve (a widely watched recession indicator), as the market has begun to price in rate cuts this year (49% chance that the Fed cuts 2x this year as per Fed Funds), nominal rates have also crashed. IN the US, 10yr repriced toward 2.20 % and 30yrs toward 2.65%, while in Europe, German bunds fell toward -0.20% helping to drive a pool of negative yielding assets to \$11bn /near record highs.
  - Some under-the-radar but economically important assets—both Lumber prices and the CRB Rind Index—are putting in some telling performances and are at a deflationary 3 year lows. Lumber prices dropped dramatically at a time when demand is supposed to be perky, reflecting recent softer US housing data. That stands in stark contrast to corn, pork and iron ore prices which have been driven by specific micro supply-side events and are sitting near top-end of ranges.
  - There has been some large important moves in non-G10, nontraditional currencies — Bitcoin is re-approaching \$10K, not coincidentally just when the yuan eerily marches toward trigger 7 handle, as both retail and corporates rotate out of local currencies, into alternatives like Bitcoin (and not Gold, yet). The US Dollar: The first sign of macro vol popping started over a month ago in FX with DXY attempting to sustainably break up and out of a key & well cited resistance ceiling (see previous note here). While it was another false break, the trend has been palatable - the \$ is content consolidating in incrementally higher ranges, so long as the Fed remains on pause. For the \$ to sustainably reprice lower, the Fed needs to be the *only* cutting Central Bank in town and that's an unlikely scenario given how (indirectly) dependent global monetary policy is on the Fed's outlook.
  - Oil hasn't looked back since \$60 was breached (WTI); there's real & credible rising Middle East tensions (Iran) but the renewed uncertainty around OPEC (over both the outcome of the next meeting and date) and souring macro sentiment / growth concerns is pressuring (relatively overweight) Oil into a new lower range.
  - Large EM losses have extended into key trend line support reflecting a mix of external vulnerabilities —> higher oil prices (which have yet to feed through), an escalating US-China trade war but more importantly the stronger \$ as a haven which is burying any few individual country reform programs/stories.
  - Sentiment indicating or darling stocks are through key support— TESLA headed through \$200 and has kept bleeding, and Lyft & Uber haven't recouped their IPO levels.

**Overall, these repricings has driven large moves in important sectors — FAANG is putting lower highs drumming up “peak silicon valley” calls; both ShComp and SPX are still contained but clinging to key support handles (2800 in SPX, Shcomp pinned 2800-3000). While there are known economic risks in each of the worlds 3 largest economies —shaky banks in Europe, corporate leverage in the US, and a debt mountain in China—these idiosyncratic issues are being complicated by and shown up by trade and protectionist policies impacting business confidence and growth**



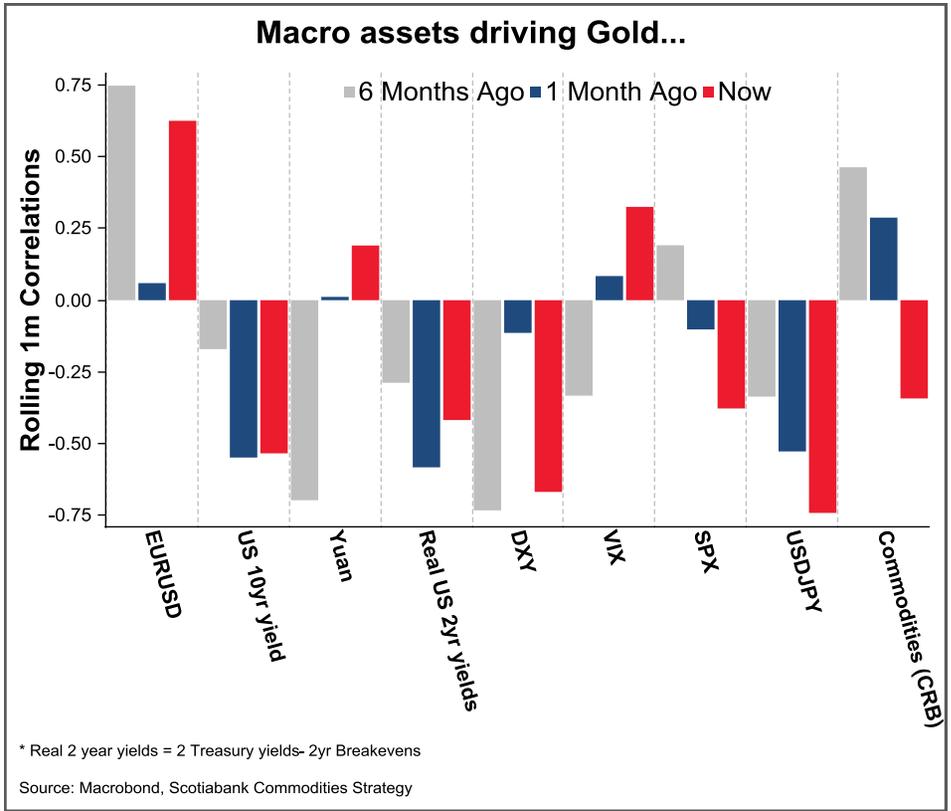
\* The CRB Index of raw spot materials contains a hodgepodge of commodities, with obvious and relevant ones like copper, but some esoteric ones such as hides, hogs, burlap & lard. It's a rather accurate (given most components are raw spot prices and not traded on exchange) barometer of global economic health.

- Politics:** Brexit has had its headlining casualties (Mays resignation, some unexpected outcomes in the European Parliament elections), but the it remains unresolved leaving a country is bitterly divided, with no 'closure' and cracks emerging in the 2-party political system with Labor & Conservatives increasingly polarized. In the US, the I-word resurfaced and is becoming louder after Muellers first public remarks today. It is arguably less about the findings in the Mueller report but an umbrella term for every way in which Trump has strayed from the presidential norm, as the race for the 2020 WH heats up. Nonetheless, while Gold is usually a good hedge for being broadly "short politics", trading politics has become tough as the markets (thanks to Brexit fatigue) have become easily acclimatized to Trump / political headlines. Its going to take a lot for risk to respond.
- The (lack of) growth, inflation and policy response:** Global Manufacturing PMIs have collectively rolled over, the market is undecided whether Germany could enter a recession as it becomes collateral damage in the trade and tech standoff between China and the US, and the OECD formally labels global growth as "fragile" in response to the trade tensions and called on governments to boost the economy by in order to avoid "longterm stagnation". So while global CBs have collectively embraced more of a dovish stance this year, helping to extend the cycle a little longer, market forces and pricing are desperately calling for a rate cut (Fed funds odds, yield curve inversion, slumping yields). A recurring feature of late cycles, is the battle between sustained 'melt-up' in risk prices due to monetary and/or fiscal policy which is punctuated by sudden growth/recession scares that come and go (i.e: Chinas economy losing steam, hawkish Fed). The key is figuring out which recession scare is not the false start and I guess Gold is currently internalizing that.



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