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Commodities Strategy | Metals Update
March 24, 2020

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Metals Strategy: Chart of the Week: Stimulus and Gold then (Lehman) vs now (COVID-19)

Scotiabank GBM
March 24 2020

Gold is up $120 in the last 2days – its major repricing reflects 3 rather momentous policy responses / turning points, and is confirmation that the majority of margin related selling is behind us. Gold positioning is thus a lot cleaner vs 2 weeks ago so with the confluence of stimulus efforts now deemed to have 'crossed the line' & going all-in (Germanys u-turn on fiscal side, Feds bazooka yesterday and US fiscal package that is imminent) AND some stabilization in risk appetite (with S&P futures limit up overnight, EuroStoxx up 5%, amongst other indicators*), this is the greenlight it's been waiting for.

While NO assets are out of the firing zone (US & NY case numbers still a runaway train, looming awful economic data such as the jobless claims on Thursday and rising risk of casualties/bankruptcies), it's worthwhile to revisit Golds response in Q4'08/09 once markets respected the stimulus efforts and had conviction enough to go back into the water. Graph 1 shows **Gold is likely bottoming earlier because of a much faster and larger policy response than markets could ever have anticipated**

Ultimately, from an macro financial perspective this is a perfect storm for Gold to begin an even more bullish longer-term trajectory vs the 2008-2013 bullrun; an L shaped recovery backdrop with the severity of recession still unknown, being fought with unprecedented inflationary stimulus measures; **'too much'** is being done on policy action, because developed economies (Europe and US) acted **'too late'** to stem the spread of the virus. If (when) equity market volatility subsides, and macro fear lowers from extreme levels, prices should find another leg higher, which it attempting to accomplish.

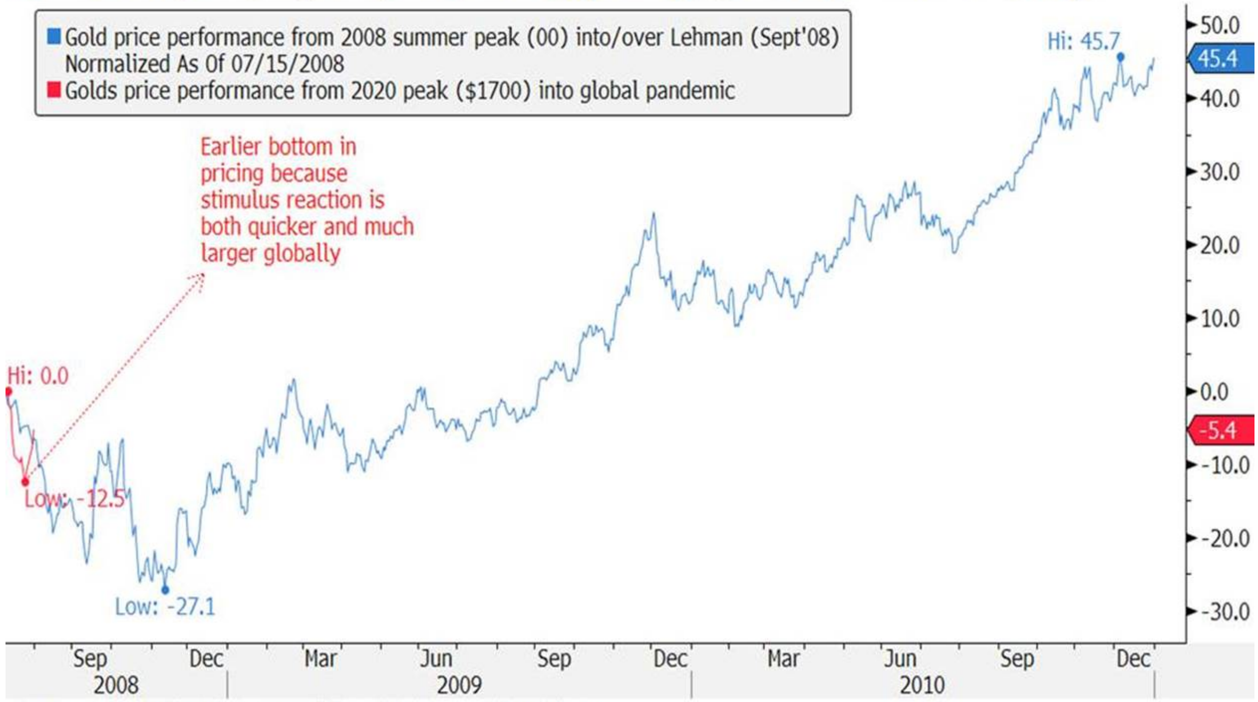
- *However, be wary that through a commodity lens, Golds profile is rather subdued – Asian physical demand remains lackluster and especially with parts of India shutting in (demand will likely be redirected to medicine and masks, not physical gold purchases as was witnessed in Asia). In addition, potential oil-sensitive Emerging Market CBs are likely to pull away and lower their pace of gold purchases, while the deflationary backdrop from energy prices paints a rather bearish picture, IF we get the turn from investors.*

- *That is not what's occurring in Europe & US with high retail demand for 1kg Gold bars/coins (see FT article here). Coupled with the temporary production shutdown of the 3 largest Swiss refineries due to the virus, there are retail delays and shortages of up to 15 days. That is NOT being reflected in the EFP, which perversely has blown out further into a contango (just a few days before the J/April futures roll)*

Overall, as day follows night, so inflation follows deflation, and Gold is not waiting around.

**VIX failed to set new daily highs, risk markets failed to stay halted/push lower yesterday (after limit down over night, some FX vol pairs have started to show stabilization AND importantly funding and credit markets have begun to ease up and react to yesterdays Fed moves (FRA/OIS coming off from extreme levels). H/T to Peter Choi on FX trading desk for the stats.*

Gold response into a crisis: into Lehman (2008) vs into COVID-19 (2020)
Most havens (excluding cash/USD) are dumped during EXTREME market volatility

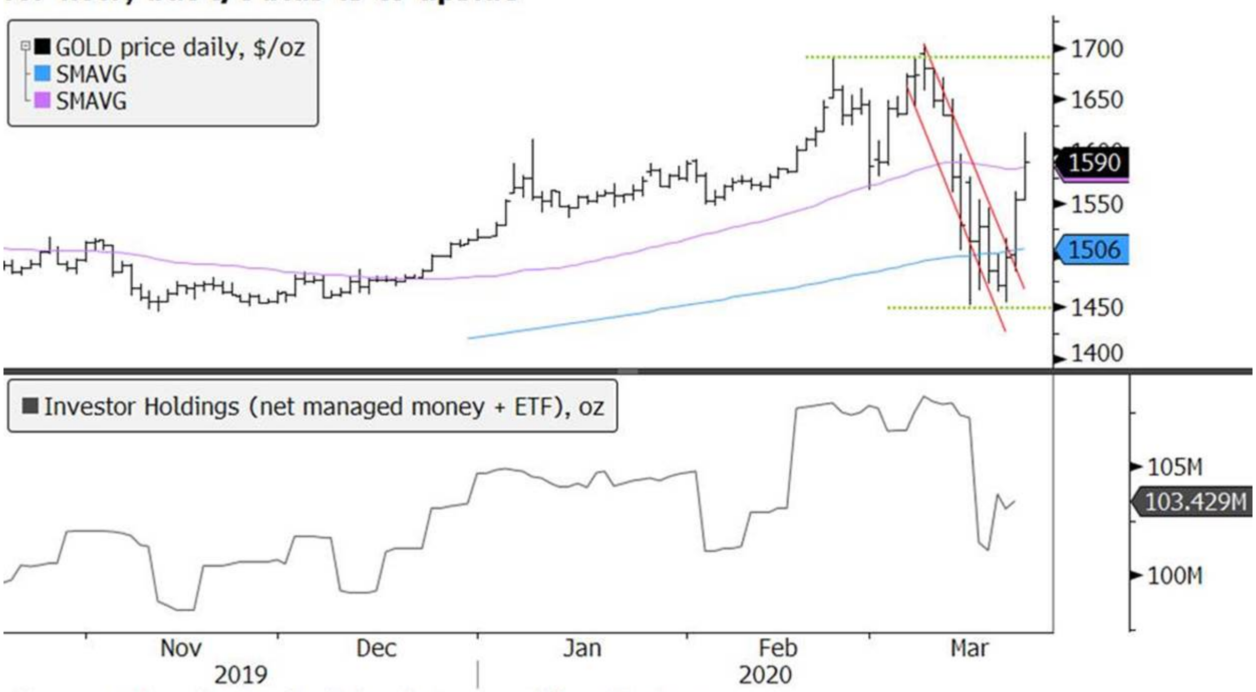


Source: Scotiabank Commodities Strategy, Bloomberg

GOLDS Comdty (GOLD SPOT $/OZ) COVID vs 2008 Daily 15JUL2008-31DEC2010 Copyright© 2020 Bloomberg Finance L.P. 24-Mar-2020 07:08:06

Gold: Technically happy $1450-1700

for now, but l/t bias is to upside



Source: Bloomberg, Scotiabank Commodities Strategy

GOLDS Comdty (GOLD SPOT $/OZ) Gold techs_daily YTD Daily 31DEC2019-24MAR2020 Copyright© 2020 Bloomberg Finance L.P. 24-Mar-2020 07:36:25