

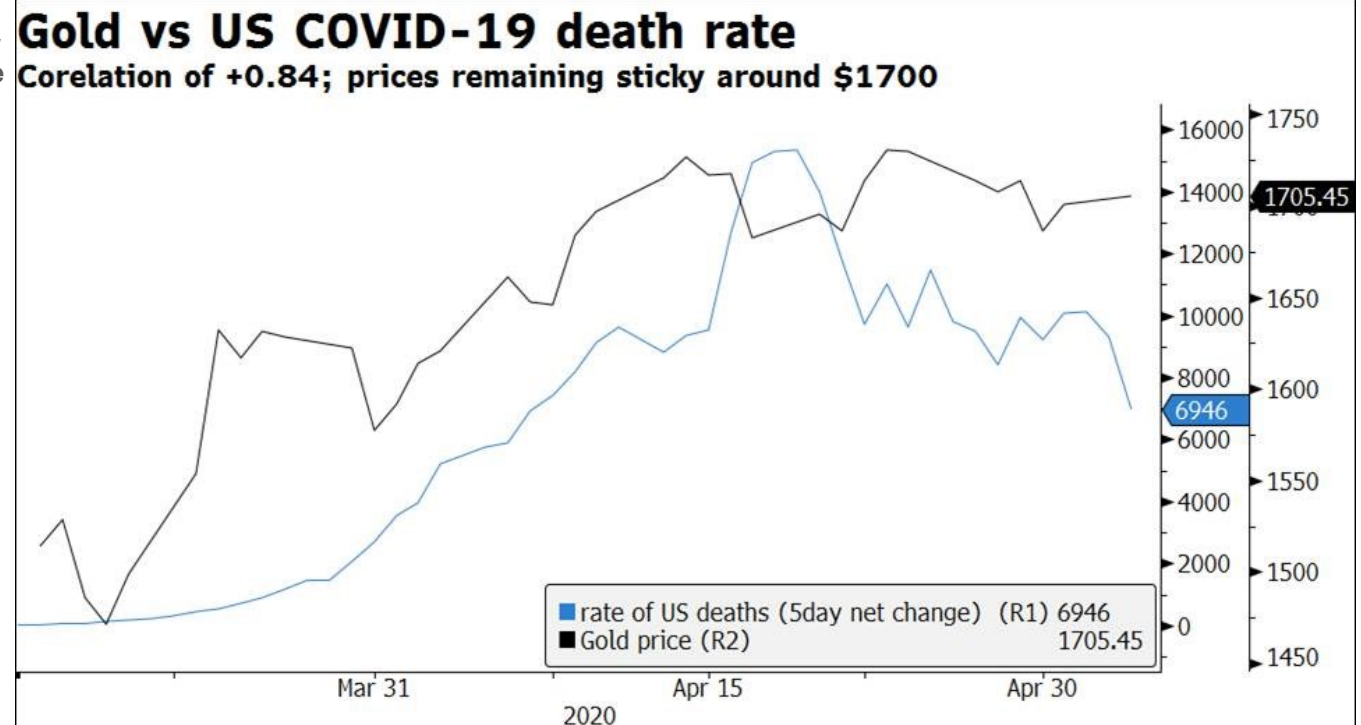
Metals Strategy: Gold - Virus risk falling, (geo)political risk rising

- The chart below argues in keeping things simple – bullish structural Gold drivers (unprecedented liquidity response from Fed, soaring Bal Sheets) is usually confused with the immediate fear driver (actual deaths). With a weekly correlation of +0.84 between weekly death rate in the US and Gold price, the COVID-19 Gold premium is approximately ~\$200 and holding up relatively well given the downturn in death rate. Any convincing unwind from sticky investors, which could be put to test this summer, will likely be sharp and painful (very limited physical support from Asia/CBs).
- HOWEVER, As Europe begins to re-open, lockdown agony in the US persists (eg: protests, increasing no of incidents between a very frustrated public and law enforcement). “Increased tensions between US & China” is trending up today as the market awaits the *conclusive* report that would officially label China as origin of the virus (“culprit”), while there is some talk about **voiding** government debt to China (*a sovereign default under Trump is not impossible*).
- ON risk, Buffet has exited one the main causality sector (airlines), and together with bubbling geopolitical tensions, the temptation to sell in May and go away is even more appealing. We have argued tariffs and COVID-19 are cousins (of protectionism), thus Gold – usually a decent macro leader – is maintaining some COVID-19 premium, as markets begin to price in what trade wars failed to do (an escalating US-China blame game, real bordering up of nations and economies where friends / supplies chains are carefully chosen)

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Source: Scotiabank Commodities Strategy, Bloomberg

NCOVUSDE Index (Coronavirus (2019-nCoV) U.S. Confirmed Deaths) US COVID DEATHS v

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Hat tip to Andy Smith for the chart idea

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