Daily Macro Insights: What weak gold prices tell us

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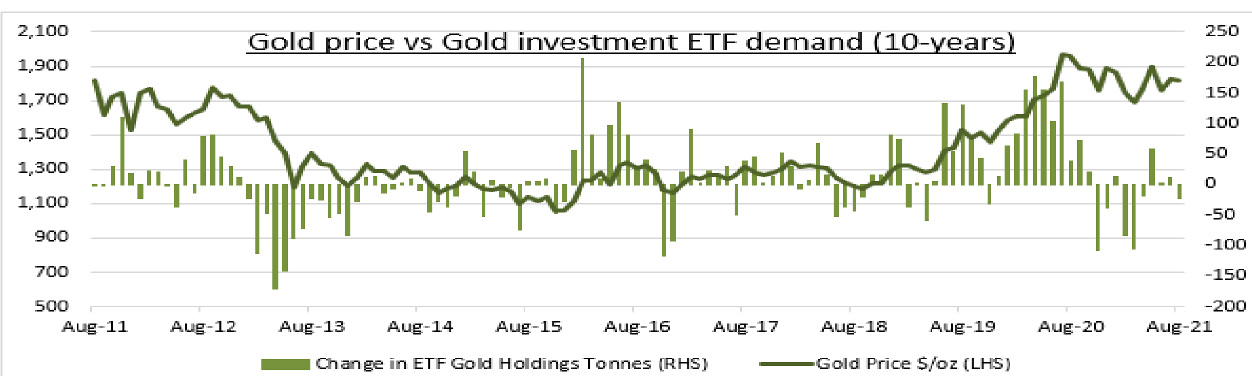
COST OF INSURANCE: Gold has fallen 6.5% this year, the worst performance of any asset class. This is disappointing for many, but not a total surprise given its long-standing negative correlation with equities (S&P 500 +18%), record of rising during the last five big S&P 500 corrections, and outpacing of surging inflation further back in the 1970's. This is partly the cost of diversification, but it also tells us 1) the low probability investors putting on an inflation surge or 2) of crashing markets. It may also reflect 3) the rise of crypto as a diversification alternative.

MISSING LINK: Jewellery and tech is 60% of gold demand, and rebounding. The weak link is investment demand, from ETFs (see chart) and central banks. This has troughed but is still half of Q2 last year levels. Investors may be held back by the stronger USD and outlook for higher bond yields, but we also see a clear signal they are relaxed about inflation (see stable 2.2-2.4% US market forecasts the last six months), the risks of a sharp market correction (with market still in its 8th longest ever uninterrupted rally), and with growing competition from the $2 trillion market-cap of crypto-assets, with their low equity correlation, and many with fixed supply.

GETTING INVESTED: We are positive equities and prefer diversification opportunities there, across high dividend yield, quality, and mid caps. Physical futures (GOLD) can be bought direct, or via the $200 billion GLD exchange traded fund. Gold equities offer equity leverage and some dividend income, such as GDX or @GoldWorldWide smart portfolio, or riskier juniors GDXJ.

TODAY: Growth fears somewhat eased yesterday with robust PMI reports from US (composite at 56) and EU (54.5). It is also clear that a number of central banks are moving faster than the dovish Fed and ECB, with Norway the first developed bank to hike, and BoE sounding hawkish.



Source: World Gold Council ETF flows, eToro calculations

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