

Peak Values Ltd

The Gold Contradiction

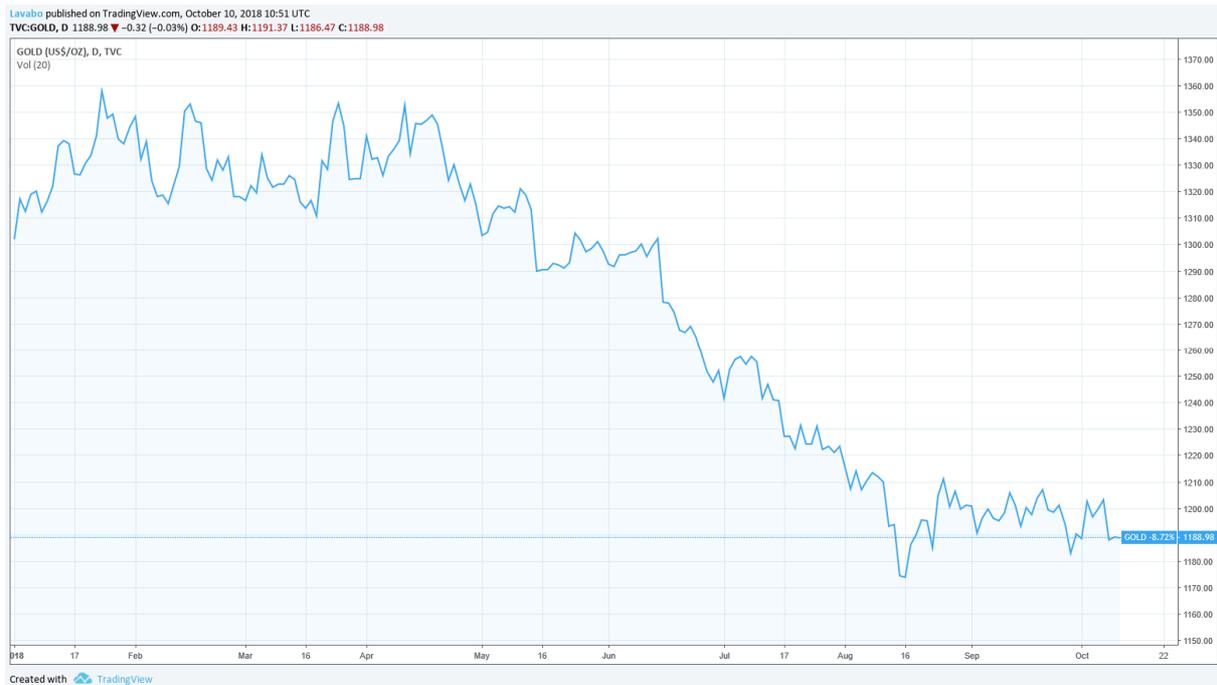
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Investment Committee



The Gold Contradiction

Gold is perceived as a safe haven asset thus as the worries of the global growth are mounting, we could expect Gold price to rise. Well not so, in fact to the contrary, ever since the beginning of the year, the shiny metal lost 8.7% of its value. A contradiction that merits a closer look.



Source: Trading View

We currently have a mix of reasons that lead to this contradiction:

- For various reasons emerging market currencies have lost in value since the beginning of the year, so far 16% on average. This resulted in a deterioration of their purchasing power resulting in lower demand, consequently lower Gold prices. Furthermore, in an attempt to support their own currency, several emerging market countries have sold Gold through their Central Banks.
- In an attempt to avoid an over heated US economy, The Federal Reserve has hiked twice its interest rates this year and is planning to do more before year's end. The faster increase of interest rates than inflation leads to higher real interest rates. This in return increased the appetite for Treasury Bills as they are: liquid, perceived as a safe haven asset and provide a yield, which Gold isn't providing.
- No one likes uncertainty, however despite the tangible tensions on the trade and geopolitical front, the US is enjoying a longest bull market in its history. Hence as long as investors are optimistic of the prospects of the Equity markets, they will not seek a safe haven by either cashing in or investing in Gold.

So what is next for Gold? Difficult to say, Gold prices are not likely to rise any time soon, however this can not be completely ruled as we need to watch the following factors:



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- The behavior of emerging markets currencies, mainly Yuan and Rupee, being the largest buyers of Gold.
- A decline of real interest rates. Real interest rate = Interest Rate - Inflation. This formula tells us what to watch for.
- A collapse of the stock market returns, ultimately leading to a recession and the end of the bull market. An increasing number of experts are raising concerns of an over heated US economy.



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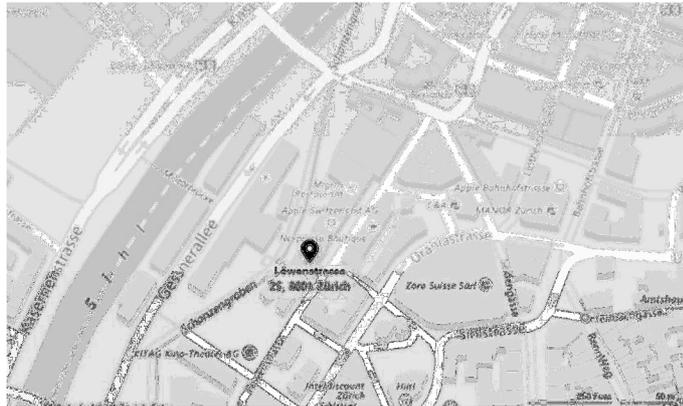
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