Always believe in...

Gold!

Source: shutterstock

These are my salad days...

Never has a song's lyrics made it into so many research notes - I won't be alone today by lifting the words of Gary and Martin Kemp - perhaps I should have done something with that Shirly Bassey classic to break out from the pack...any other suggestions welcome.

Anyway, normally I leave gold well alone, mainly because it does have a habit of arousing the fury of certain gold fanatics, and I can do without that sort of mail. And for the record, I do own a small amount of physical gold, bought following a very interesting conversation with a German investor at a presentation I gave in Athens about 10 years ago. Detlef, if you're reading this, thanks for the tip.

Why I hold gold may differ to the reasons why other investors have pushed the spot gold price right through $2000/oz without pausing, to sit at about $2024 as of writing. I wish I'd bought more. I may still do so. But the current reasons for buying it remain pretty strong. A weak dollar has been one of the factors for buying gold, but the dollar index has taken a bit of a corrective pause in recent days, so I don't think we can put the latest surge down to that. And the dollar is the one factor that could conceivably change substantially in the short term. We don't think it will, but it could. It's FX, and so anything is possible.

Negative real rates are a more compelling longer-term reason for holding gold. Policy interest rates and longer-term bond yields look to be locked down for the rest of this year and next, and maybe longer. There are some people still talking about inflation picking up at some point, which would undermine the negative real-yield argument. But then it would boost the inflation argument for holding gold. Owning gold as a hedge against inflation right now is, in my opinion, one of the silliest reasons for holding it. But I read an op-ed piece in the FT last night in bed (sad), talking up inflation prospects in the US stemming from the weaker USD, so these people are out there, even if they haven't been paying attention to how the economy has operated for the last ten years (currency pass through these days is negligible and almost totally absorbed in margins).

Ongoing quantitative easing (QE) and the debasement of fiat currencies remains one of the most compelling arguments. And though it isn't being pursued very hard right now (not necessary to drive bond yields down), I think any taper is years away, and consequently, any associated tantrum.

Gold even looks quite a good bet if we get a big market sell-off, though the warning here is that when margins need to be paid off in a hurry, its the stuff that is still worth something that gets sold, like gold. So the last time we had a market crash (March this year), gold initially did sell quite hard, before bouncing back strongly, so it is certainly not risk-free in the short term.

This is a macro note though, so what if anything can we read into gold's move? In short, I think the answer is very little. This does not, like a flattening yield curve, presage an imminent market or economic crash. All it tells you is that there is a very ample liquidity situation, which is generally good for risk assets - stocks for example. But global liquidity is so ample right now, that just about anything you can buy should go up. Basically, buy assets.

Which really means that everything will be fine until it isn't. In fact, what you might worry most about it a return to normality and prospects of a reversal of easy money. That was the undoing of US stock markets in 2018, leading to a rout in EM markets too and coinciding with a steady rise in the USD. At that point, you may be glad you bought that 5g ingot or stack of gold sovereigns.

Data day ahead

There is a bunch of service sector and composite PMI data out today across the world, including the G-7, and also in our part of the world, including the Caixin figures from China. Most of these are expected to remain in the high 50's, but maybe come off slightly from the previous readings. As these are essentially directional momentum indices, we should not be worried about slight declines in these numbers at these levels. You can't accelerate forever, and the worst of the lockdown-induced slumps are behind most economies.

There is also a bit of central bank (in)action today which Prakash Sakpal picks up below:

"**Thailand:** The Bank of Thailand policy decision should be out around 2 pm local time (3 pm SGT). A near-unanimous consensus of no change to the policy rate, currently at a record low of 0.50%, suggests it will pass as a non-event. While the argument for further monetary easing remains strong, there is not much easing space left for the central bank, which is why we consider the BoT is done with easing in this cycle (read more here). The THB should continue to be an Asian underperformer through the end of the year.

And in **Singapore:** June retail sales data is due. The reopening of the economy in June from the

Covid-19 circuit-breaker should have lifted demand, though not enough of a lift to swing the year-on-year sales growth back into positive territory. We are looking for a 32% YoY fall, shallower than May's 52% fall. As in prior months, we think supermarket sales continued to outperform non-essential consumer spending. Automobiles remained a weak spot as seen from a 77% YoY fall in new registrations in June. Private consumption will remain the main expenditure-side drag on GDP in the remainder of the year".

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