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Recommended Global Macro Trade

Start Re-BUILDing SHORT Gold Exposure

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Recommendations

- Move SHORT August Gold futures (GCQ5 Comdty) on strength at $3,490, with a stop at 3,630 (~4% above entry). Risk 20bps on this position.

- Move SHORT Gold relative to Silver (GCN5 Comdty & SIN5 Comdty) at current prices (ratio of ~99.6). Place stop at a ratio of 106 and risk 20bps on this trade.

Summary

- **Gold price action is poor.** After a 'blow off top' last month (on 22nd April), the price has trended down (with lower highs & lower lows, see fig 1). In recent trading days gold has tested (& failed at) the top of its downtrend channel.

Fig 1: Gold futures with 50 & 200 day moving averages (USD/oz)

Source: Longview Economics, Macrobond

- **The medium term macro backdrop is bearish for gold**.

  In the near term, there's a 'soft underbelly' to the US economy (and it's likely that markets bring forward the timing of Fed cuts). That may support gold prices (in the near term, hence we favour moving short on strength).

In the medium term, though, a **cyclical recovery in the US/global economy is brewing**. That is, given recent global central bank loosening, cycles in money and credit are starting to turn up. Yield curves are therefore normalising (for detail see last week's webinar on "The Changing Shape of Global Growth")*. The gold price often performs poorly during cyclical growth upswings (particularly when US macro data is surprising to the upside). As a key, forward looking asset price, therefore, and following a sharp rally earlier this year, gold is vulnerable to some giveback (i.e. as uncertainty falls and economic momentum builds).

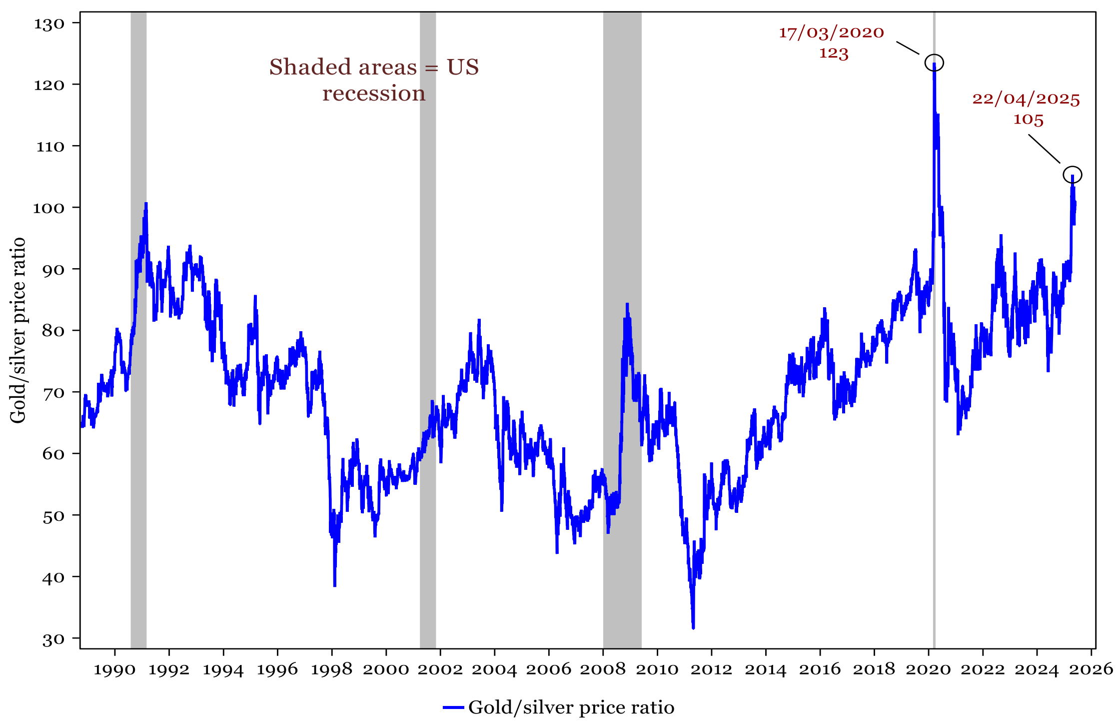
- Reflecting that macro backdrop, **silver is attractive relative to gold**. As we highlighted last week:

"Given the macro drivers of each commodity, it makes sense that this ratio would peak as the stock market nears its lows. That is, gold is a pure monetary metal – and generally rallies as the market prices in more policy loosening; while silver has some of those qualities but is also an industrial metal (i.e. sensitive, like copper for example, to the economic/industrial cycle)."

Source: Longview on Friday, 23rd May: "Bond Shenanigans & the 'Gold-Silver' Ratio - What Does it all Mean?"

The gold price has recently made multi-year highs relative to silver (highest since the pandemic, fig 2). Other prior spikes have been associated with major equity market lows (& often growth scares in the US economy). The macro backdrop therefore suggests that this ratio should fall/trend down.

Fig 2: Gold-silver price ratio, shown with US recession bands



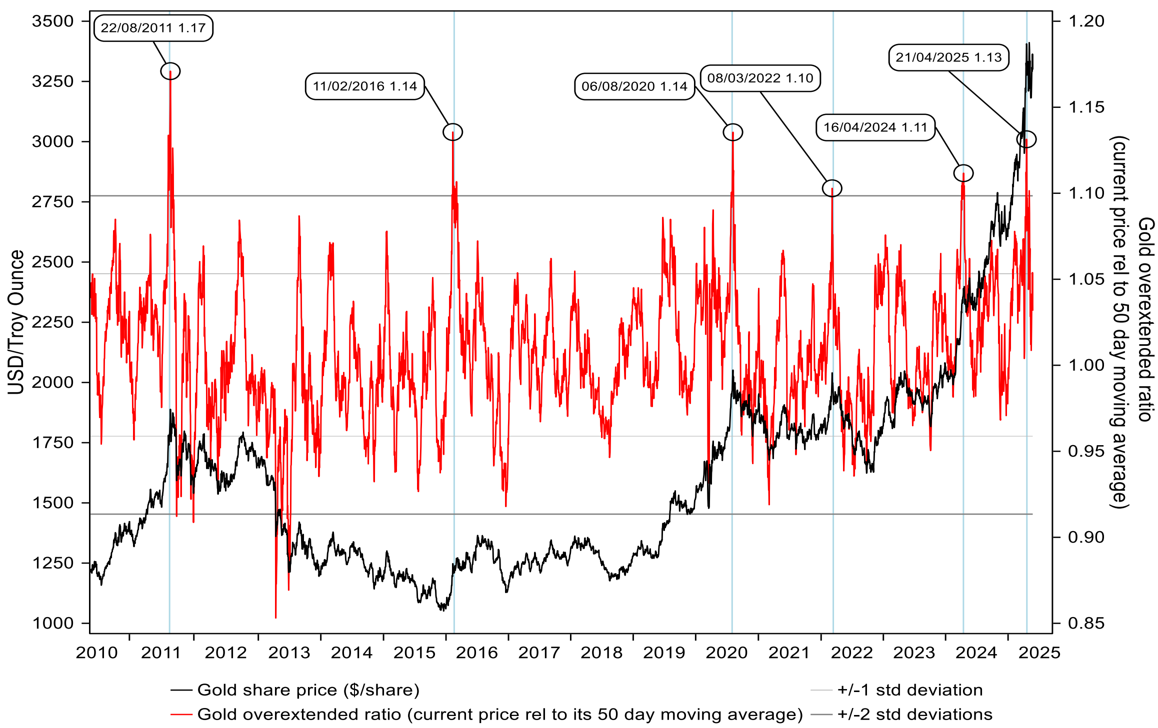
Source: Longview Economics, Macrobond

*For a copy of the recording please email research@longvieweconomics.com

- Gold was notably over-bought in late April, with several SELL signals from our technical, sentiment and positioning-based models. **Most of those models are still close to SELL**.

- In particular, our **gold 'over-extended' indicator** generated a rare (+2 standard deviation) SELL signal last month (fig 3). There have only been five of those in the past 15 years. All were followed by either (i) a phase of gold price consolidation, or (ii) meaningful giveback (see HERE for full analysis). Currently, therefore, the short gold trade offers an attractive risk reward.

Fig 3: Gold 'Overextended Indicator' vs. gold price (USD/oz)



Source: Longview Economics, Macrobond

- In a similar vein, **the US dollar is over-extended to the downside**, with several key indicators recently generating strong BUY signals (e.g. see fig 5). Those models point to a multi month rally in the dollar. Gold's (inverse) correlation with the dollar remains reasonably tight (fig 4).

- **Other key models** support the case for gold price weakness. Short and medium term technical scoring systems, for example, are on/close to SELL (see figs 6 & 7); while measured sentiment towards gold is bullish (a contrarian SELL signal).

- **We favour reinstating** short gold exposure** with (i) a short futures position (on strength); and (ii) a short 'gold-silver' ratio position (also using futures). Please see above for detailed recommendations.

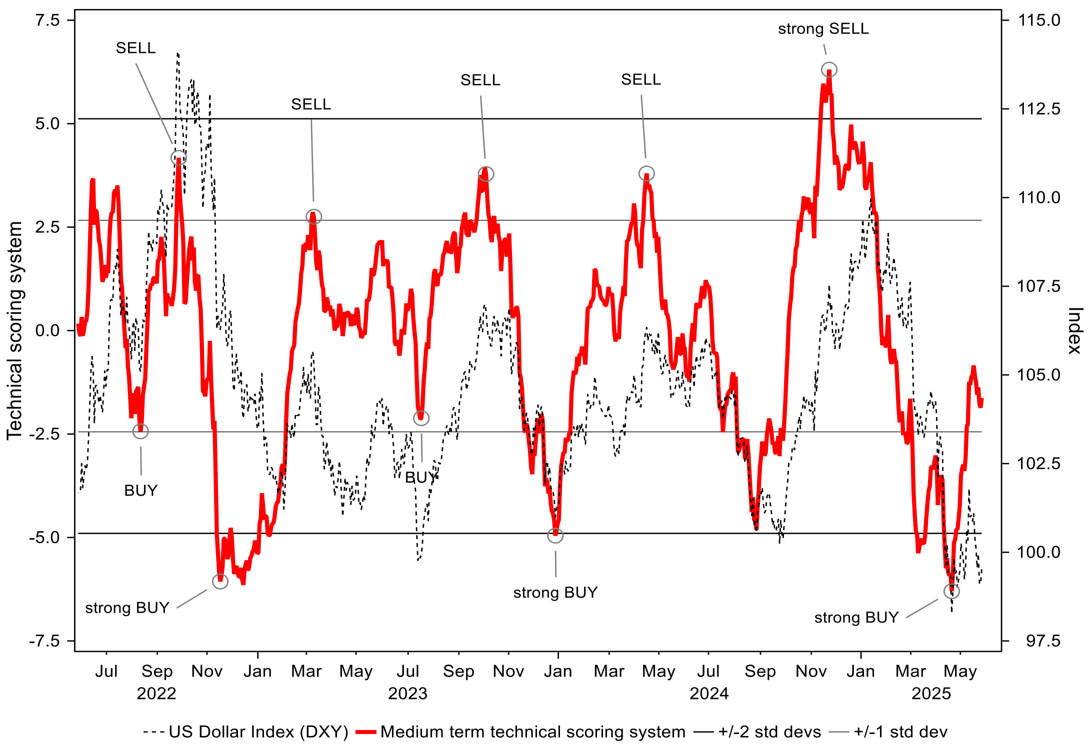
**In late April we moved long a June put spread (strikes at 3,100/3,090). That structure expired last week.

Key charts

Fig 4: US dollar index (scale INVERTED) vs. gold price (US$/oz.)

Source: Longview Economics, Macrobond

Fig 5: Medium term technical scoring system vs. USD



Source: Longview Economics, Macrobond

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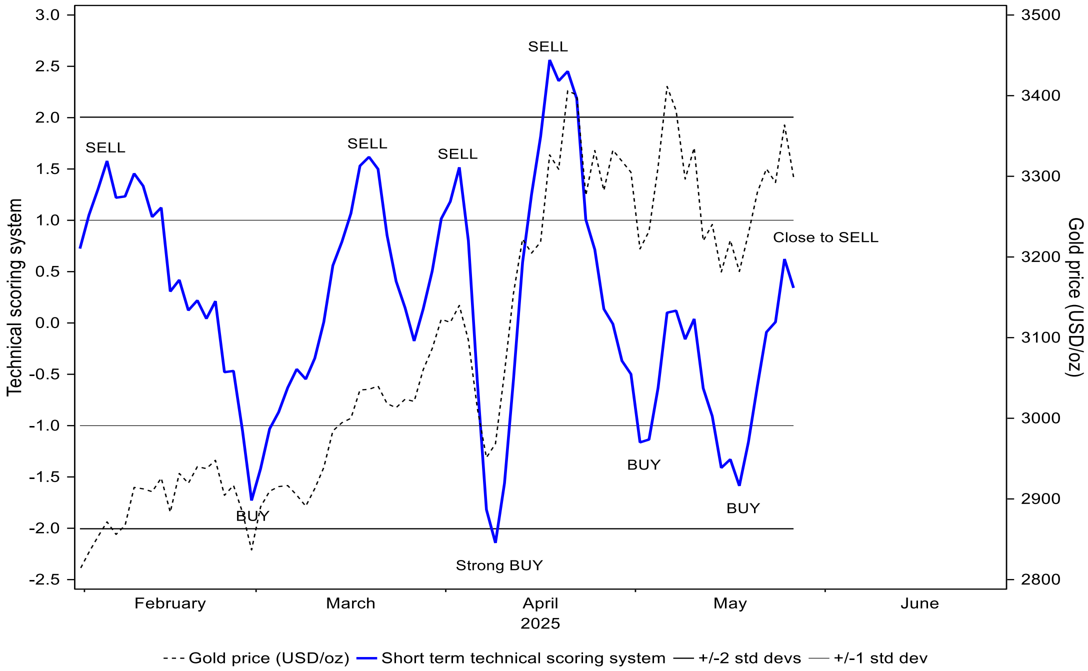
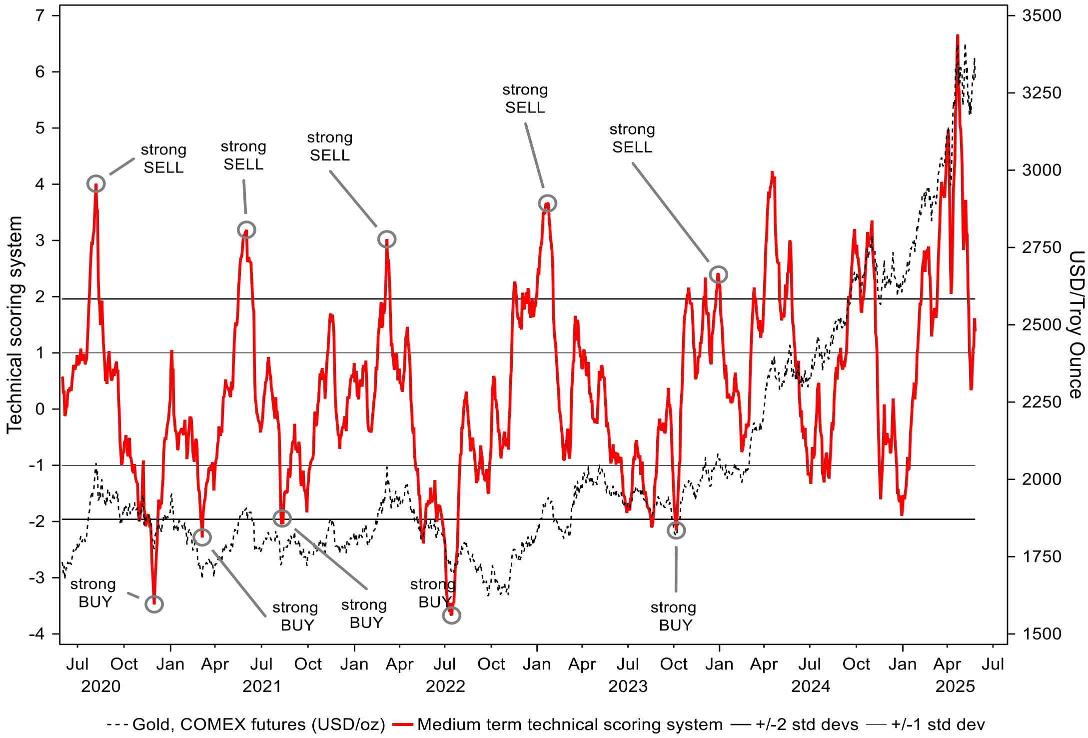
Fig 6: Gold **short term** 'technical' scoring system vs. gold price (US$/oz)



Source: Longview Economics, Macrobond

Fig 7: Gold **medium term** 'technical' scoring system vs. gold price (US$/oz)



Source: Longview Economics, Macrobond

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