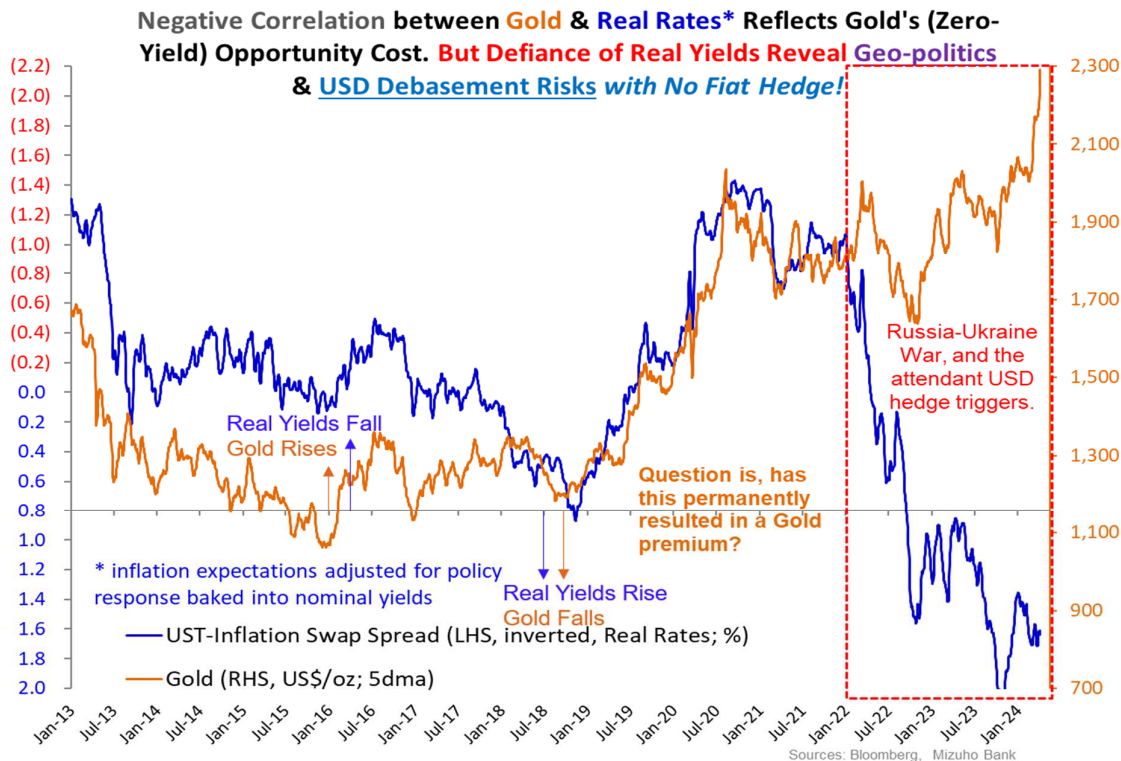


Gold's Geo-Political Shine & Anti-Fiat Super-power



“Gold is ... limited by nature ... costly to discover ... and cannot be created by political fiat or caprice” – Henry Hazlitt

In a Nutshell: Gold’s record surge in defiance of sharply higher real yields is seemingly confounding at first glance, but profoundly revelatory of tail geo-political risks and anti-fiat hedge. That’s to say, Gold’s defiance derives from geo-political (haven) shine and compelling anti-fiat insurance.

What It Is: Confounding Defiance of Real Rates

- To be sure, **received wisdom** is that *Gold is negatively* (and tightly) *correlated to real yields*.
- In other words, **when real yields rise**, as they have *brutally since 2022*, **Gold is expected to fall, not rise!** In which case, the staggering surge in Gold defying sharply higher real rates begs examination.
- This is reasonably **grounded in the opportunity cost of holding zero-yielding Gold**, which turns increasingly undesirable, (arguably prohibitive to financing) as real rates rise.
- And so, the extent of **Gold’s defiance of significantly higher real rates** appears **confounding**.

What It’s Not: Unambiguous Inflation Hedge

- The temptation to explain away **Gold’s surge in the face of real yield elevation**, by simply attributing it to **“inflation hedge”** is understandable, but nevertheless **flawed**.
- For one, real yields already account for *inflation*; thereby *irrelevant to Gold-real yield correlation*.
- Second, **Gold’s historically correlation to inflation** is **not unambiguous** (see Charts overleaf).

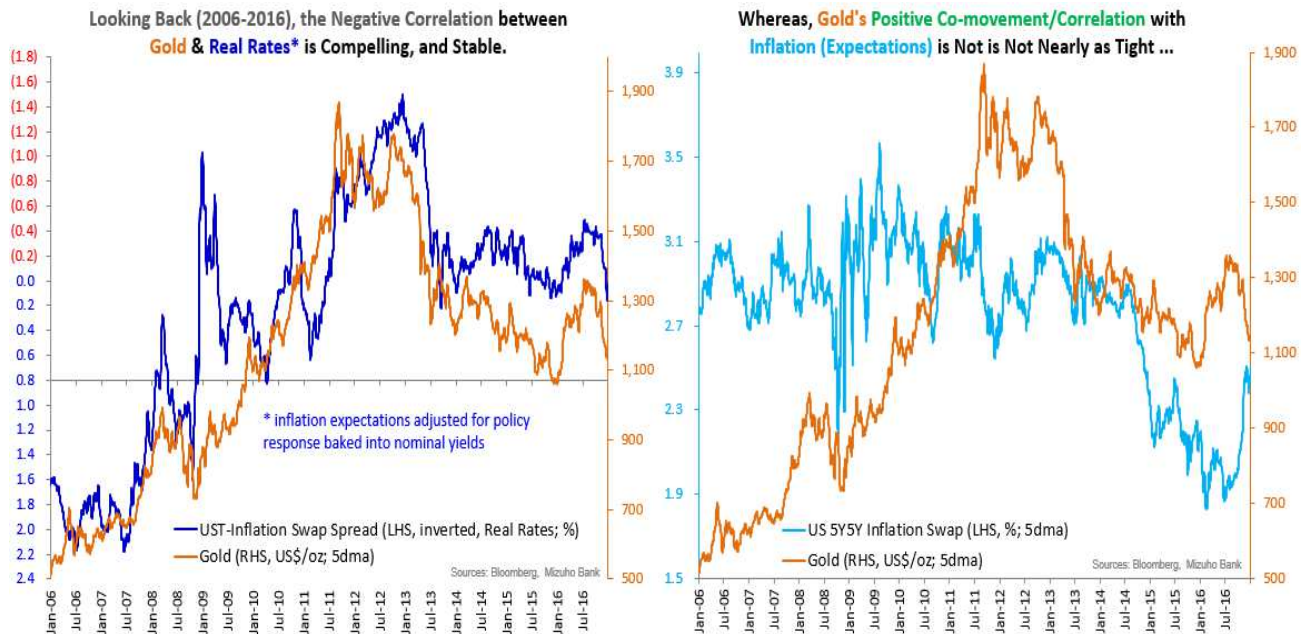
- In any case, the correlation is far less impressive or compelling compared to real yields and Gold.
- The reasonable conjecture, arguably conclusion even, then is that **Gold’s correlation to real yields is far more meaningful** as *Gold is not an unconditional inflation hedge*.

What is Obvious: Geo-political Haven Demand

- Instead, **Gold’s ability to defy sharply higher rates obviously reflects time-tested haven allure** in response to *acute geo-political risks*.
- It is **no coincidence** that *Gold’s sharp bullish divergence* despite sharply higher real rates **coincided with Russia’s invasion of Ukraine**; further **underpinned by the conflict in Gaza**.

What is More Insidious: Fiat Debasement Hedge

- But equally, and perhaps *most importantly*, **Gold’s enduring bullish break from the drag forces of real rates is defined by** its compelling proposition as an **insurance against USD/fiat debasement**.
- Fact is, mounting **concerns about unsustainable US debt trajectory**, have **intensified global demand for compelling hedge against USD debasement** (implied by inevitable debt monetization).
- Moreover, *US’ ability to exploit USD dominance to unilaterally cripple with sanctions* (think Russia) has *inadvertently accentuated* various global **impetus to hedge against USD dependence**.
- *But* the trouble is, there are *no compelling or viable fiat alternatives*. What’s more, *financial assets remain vulnerable to shocks to the USD or originating from the US*; even if non-USD denominated.
- All of which conspire to accentuate **Gold’s unique and compelling allure as a fiat (and USD) debasement hedge**. In particular, deriving from its key attributes: *real, durable, fungible, highly limited in supply* and *impervious to policy/political manipulations*.
- Henry Hazlitt’s point that Gold *“cannot be created by political fiat or caprice”* has notable currency; and goes a long way in unpacking the Gold puzzle.
- **FX Impact**: Interestingly, this sheds some light on *more insidious, stealth build-up of pressures on the USD, not yet expressed in FX markets* given conspicuous *absence viable fiat alternative*.
- **Rates Impact**: In addition, Gold’s resilience to higher rates may, on the flip side, explain **why structurally higher rates** might be **required to offset accentuated fiat debasement risks**.



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