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Dollars and Gold: Deja Vu All Over Again

A Monday Morning Musing from Mickey the Mercenary Geologist

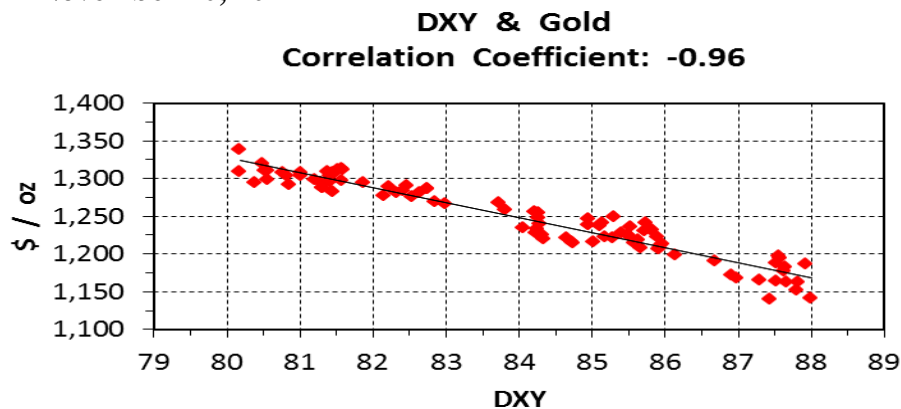
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Late in the fall, I published a series of charts for the dollar index, precious metals, copper, and oil that unequivocally demonstrated very strong inverse correlations since the dollar started its phenomenal rise on July 11 ([Mercenary Musing, November 24, 2014](#)).

This is a reprint of the correlation chart for gold from that musing:

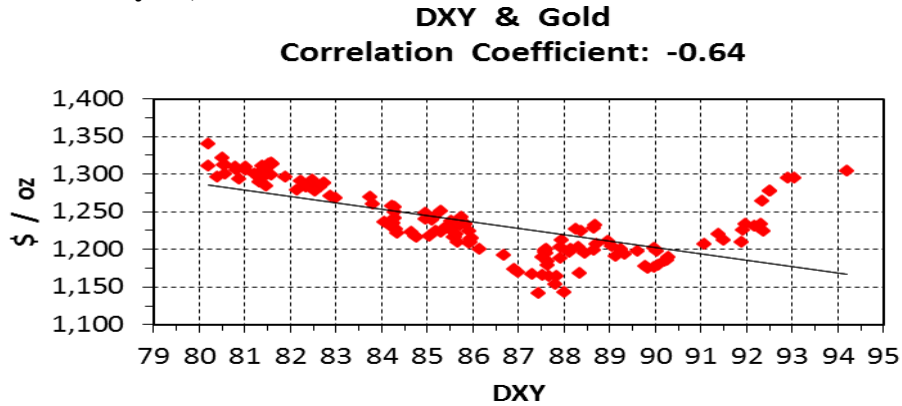
July 11, 2014 – November 20, 2014



Note that the negative correlation is almost perfect at -0.96.

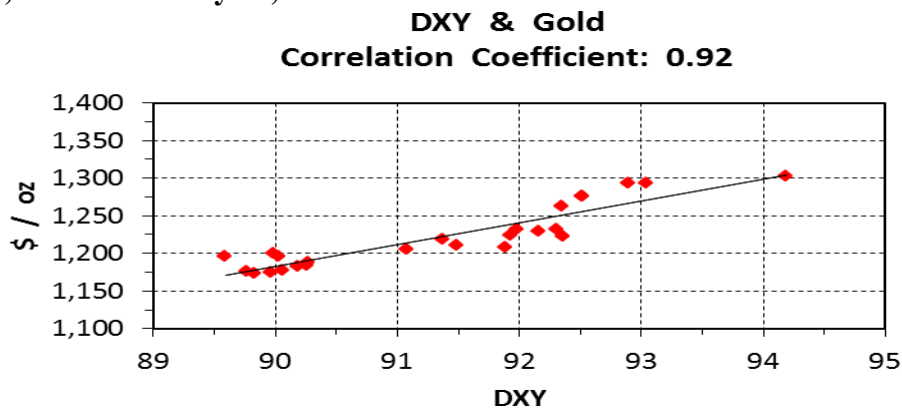
Now let's look at the current DXY-gold correlation chart from July 11 to January 23. Note that while the dollar and gold remain inversely correlated, the coefficient has weakened considerably over the past two months:

July 11, 2014 – January 22, 2015



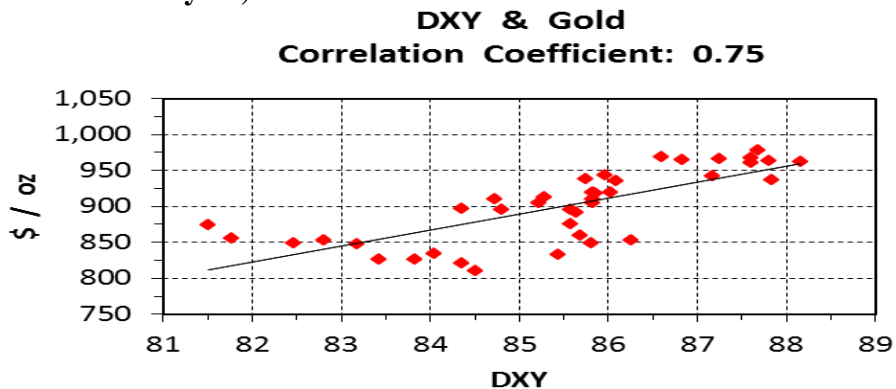
From the above chart, it is apparent the shift to an upslope, or positive correlation, commenced when DXY went higher than 89.5 in mid-December. Here's the correlation chart from that day to the present:

December 19, 2014 – January 22, 2015



During this time DXY rose from 89.6 to 94.2, while gold was up \$106, from \$1196 to \$1302. A strong positive correlation between DXY and gold is extremely rare. The last time that I remember this scenario over an extended period of time was in early 2009. In hindsight, the gold mining industry was foreshadowing commencement of a slow recovery from the worst of the global economic crisis:

January 2, 2009 – February 27, 2009



(Outlier from January 9 removed due to unusual volatility in DXY)

This is the question to ask: What is similar between today's economic environment and a two-month interval during the 2008-2009 banking debacle?

I submit the answer is simply fearful investors in the marketplace. Over the past two months we have witnessed a variety of unsettling economic and geopolitical events including:

- Mixed signals from previously bullish US major markets;
- Weakening of most currencies worldwide;
- Collapse of oil and gas prices;
- Five-year lows in other essential industrial commodities including iron ore, coal, and copper;
- Ongoing geopolitical tensions in the Middle East and the Ukraine;
- Terrorism by Islamic jihadists in France and other countries.

When markets are shaky and the six o'clock news is disturbing, banks, institutions, hedge funds, commodity speculators, the sheeple, and mom and pop investors tend to move with a herd mentality. They stampede into the world's monetary safe havens.

What asset classes do *you* want to own right now? If you think like me, you know that I want to own:

- Gold, because it is the only real money.
- The US greenback, because it is and will remain the world's reserve currency for the foreseeable future.

Rest assured, folks, that my piggy bank is full of both. I trust that yours is plentiful, too.

Ciao for now,

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Acknowledgment: Gwen Preston is the editor of MercenaryGeologist.com.

The [Mercenary Geologist Michael S. "Mickey" Fulp](http://MercenaryGeologist.com) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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