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What Trumps Dollars and Gold?

A Monday Morning Musing from Mickey the Mercenary Geologist

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I have commented and written extensively on the generally negative correlation of the US dollar and gold. In simple terms, when the US dollar moves up or down, the price of gold tends to do the opposite. This makes sense because the price of gold is quoted on world markets in good ol' American greenbacks.

That said, there are many other factors that contribute to the price of gold. These include: world economic health; geopolitical events; physical demand for jewelry, investment, hoarding, and industrial use; central bank buying and selling; ETF purchase and redemption; and speculative trading of gold in paper markets and derivative instruments such as futures and options.

Strong negative correlations of the US dollar and gold usually occur during times of volatility and sustained movements to the upside or downside in said fiat currency. United States dollar metrics are best determined by the dollar index (DXY), a weighted basket of six relatively stable, developed-world currencies that include the Euro (57.6%), Japanese Yen (13.6%), UK Pound (11.9%), Canadian Dollar (9.1%), Swedish Krona (4.2%) and Swiss Franc (3.6%).

Indeed, my friends at Kitco.com track the change in gold price attributable to the change in the US dollar index on a **daily basis**.

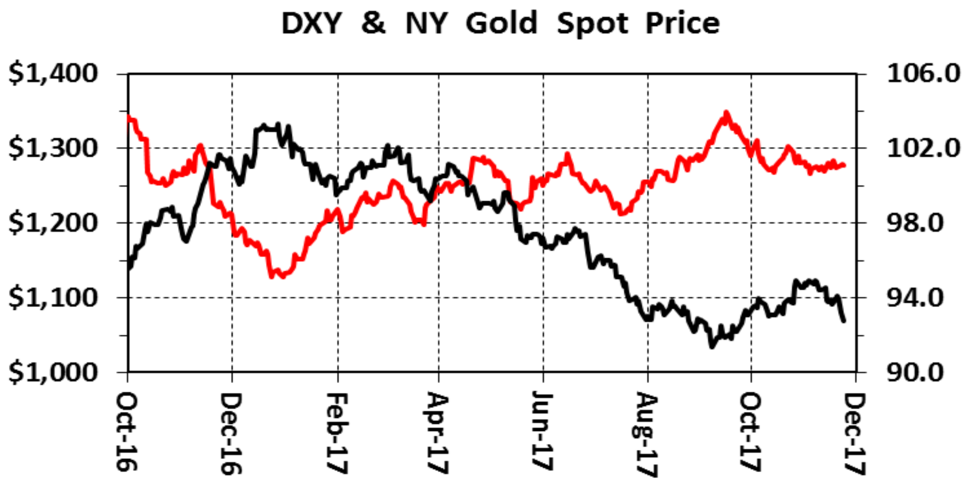
The benchmark price of gold in US dollars and other currencies is fixed twice daily (am and pm) by a consortium of 12 large banks and financial institutions and is based on the spot price of gold traded by the London Bullion Market Association (LBMA). The LBMA is a highly-leveraged, fractionally reserved, paper gold system with *daily* trading volumes averaging 1.7 times the amount of gold that is mined on an *annual* basis. In 2015, 88% of the world's paper gold trade occurred there.

Another daily metric for gold is the New York spot closing price, posted seven hours after the London afternoon fix. In the treatments below, I use NY close for both the dollar index and gold.

The correlation coefficient of DXY and Au is one of the derivatives that my research assistant compiles, tracks, and analyzes on a daily basis in our proprietary commodity and economic database.

Two variables with no relationship give a correlation coefficient of 0.0. A **perfect** positive or negative correlation is equal to $\pm$ 1.0. We define the threshold for a "significant correlation" at > $\pm$ 0.6.

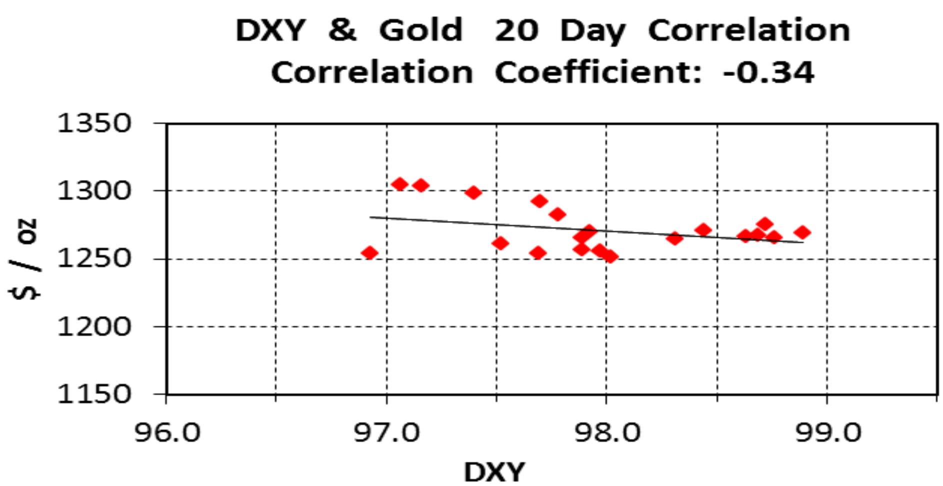
Today, I present our research on the relationship of the US dollar and gold price over the past 13 months. A composite chart of DXY values and Au prices since October 1, 2016 illustrates the on-again and off-again negative relationship of dollars (**black**) and gold (**red**):

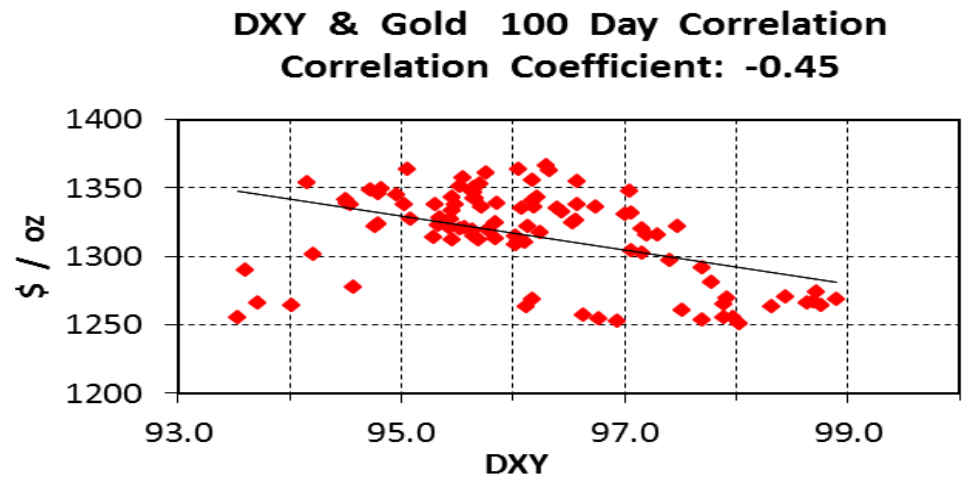


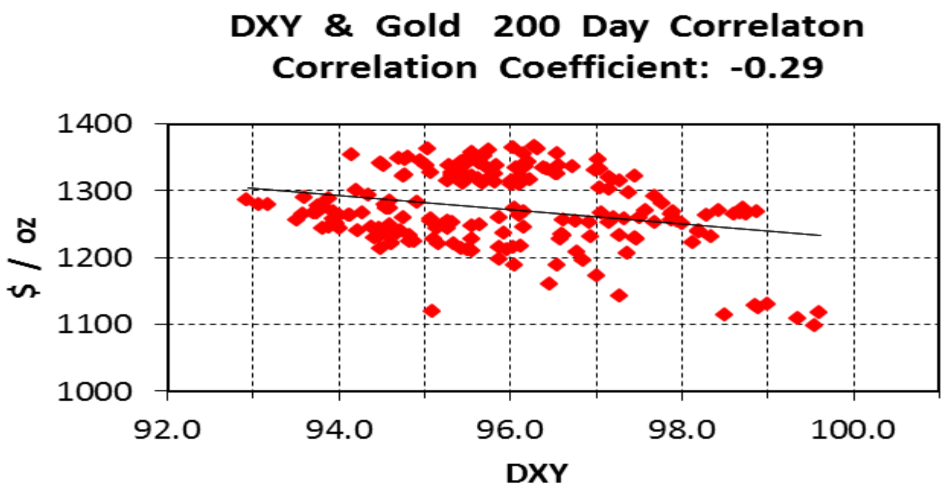
With this composite chart as background, let's go to the gist of my missive:

In a stunning upset a little more than one year ago, Donald John Trump was elected the 45th President of the United States of America.

Prior to his election on November 8, 2016, there was no significant correlation between the dollar index and the price of gold over short, medium, and longer terms as shown by the 20-day, 100-day, and 200-day DXY-Au correlation charts compiled for November 7, 2016:



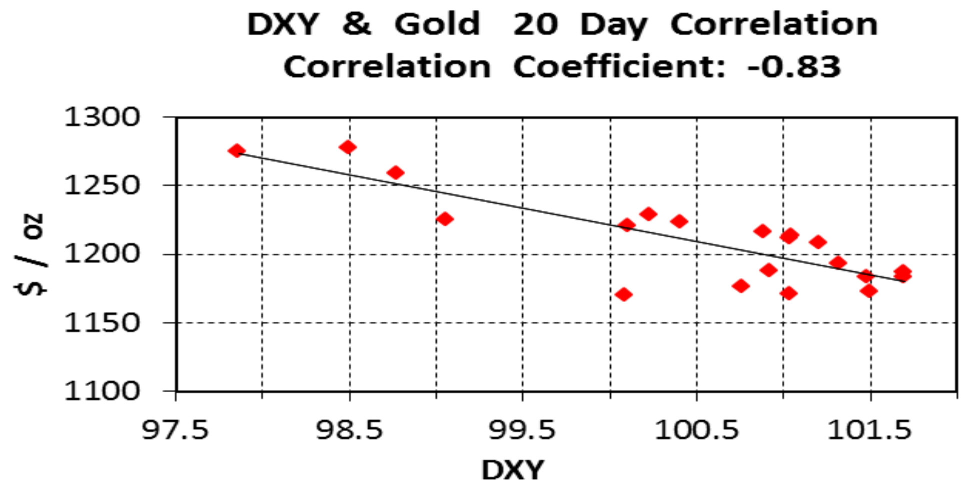




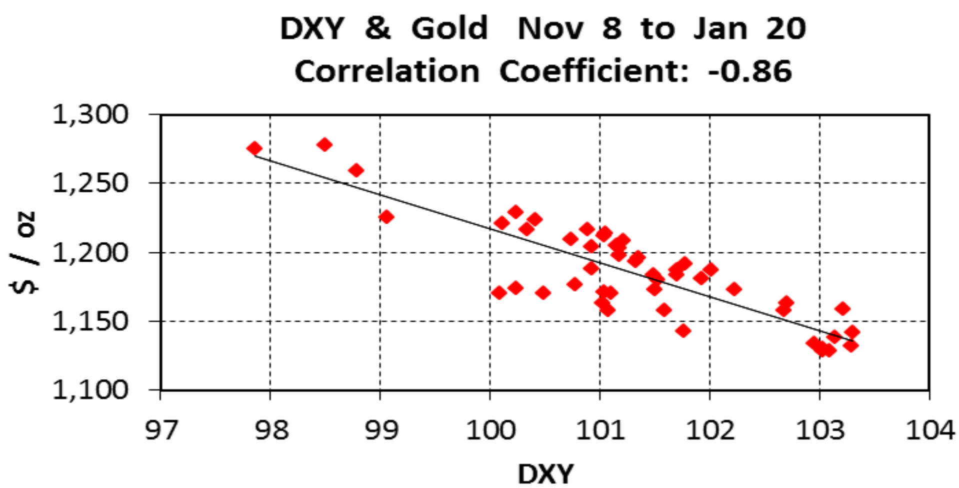
Investors know that markets do not like surprise or change. News of Trump's victory roiled markets overseas overnight but they started recovering once US equities markets and commodities exchanges opened the following morning.

After eight years of weathering Obama-style socialism with its onerous regulations and burdensome bureaucracies, savvy New York investors quickly realized that the new President would usher in a profound attitude change toward business and capitalism. Simply put, we would have a "can-do" versus a "can't do" executive branch of government for the next four years.

This correlation chart compiled for December 5, i.e., 20 trading days after the election, shows the dramatic shift to a very strong inverse relationship for dollars and gold:



Moreover, the robust inverse correlation between the dollar and gold continued for a total of ten weeks. Here is the chart from election day on November 8, 2016 to inauguration day on January 20, 2017:

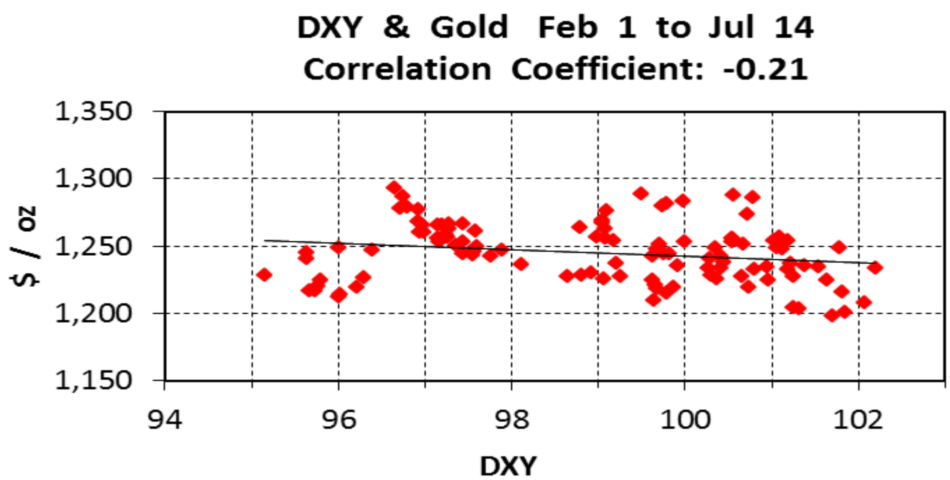


US markets ticked up and the dollar surged from less than 98 on November 8 to around 103 from mid-December to early January. Meanwhile, gold dropped from $1275 to seasonal lows below $1150 per ounce in mid- to late December.

After the New Year, the overbought dollar backed off and gold rose in its normal seasonal pattern. By inauguration day, DXY was below 101 and gold closed at $1210, $7 off its year-to-date high.

Once Trump took control of the executive branch, the strong inverse relationship of dollars and gold began to break down and it did so quickly.

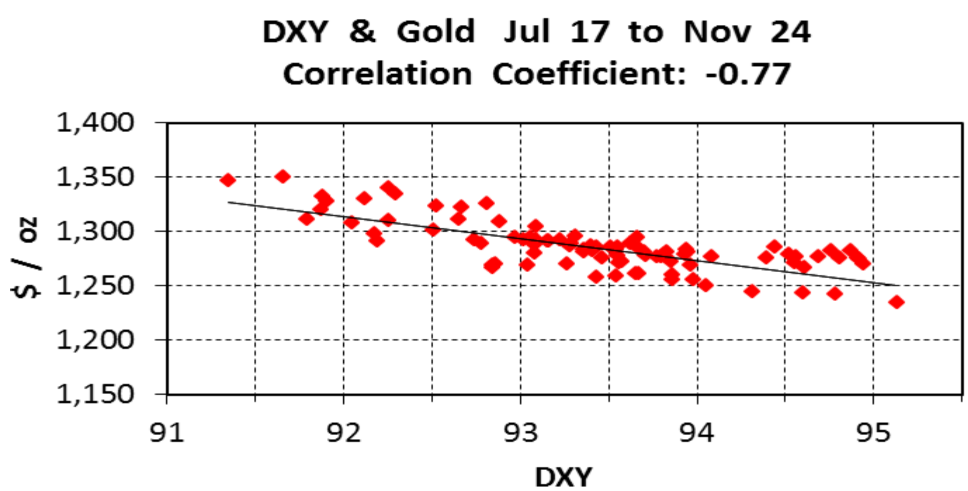
In stark contrast to the 10 week pre-inauguration period, dollars and gold subsequently recorded a 5.5 month period with no discernable relationship:



Both DXY (99-102) and gold ($1200-$1280) were range-bound, vacillating, and directionless from February thru mid-May.

Commencing in late spring, Trump's policy of a weak dollar to help mitigate the long-lived US trade deficit took effect. DXY lost over four points, from 99 in mid-May to 95 and change in mid-July. Meanwhile, gold fell from a high of $1294 in early June to its summer doldrums' low of $1212 in the first week of July.

From mid-summer to the present, gold has again inversely tracked movement in the US dollar index:



DXY was weak from mid-July thru mid-September, hitting lows below 92. Gold climbed steadily with the falling dollar and reached its yearly high of $1349 per ounce in early September.

By mid-September, DXY was oversold and speculators turned bullish. It steadily rose to just below 95 in early November while gold lost ground and bottomed at $1266.

For Friday's half-day session, the US dollar closed down sharply at 92.76, largely because the Euro was up on strong German economic data; gold settled at $1288 an ounce. The strong negative correlation continues.

With this series of correlation charts, I have shown that since Trump's election the relationship of dollars and gold can be broken into three distinct segments. Macroeconomic and geopolitical factors are in play for each time period and are discussed below:

- **November 8 to January 20: DXY-Au = -0.86.**

The euphoria created with a free-market capitalist occupying the White House thru 2020 caused US markets and dollars to surge. In mid-December, the Federal Reserve came in with its long-anticipated 0.25% interest rate increase and that also boosted the dollar to the detriment of gold.

Until the new year, Trump' platform of American nationalism, deregulation of business, corporate and individual tax reductions, infrastructure build-out, and repeal of nanny state-mandated health care favored the US dollar, US equities, industrial metals, and conventional energy markets at the expense of the precious metals.

Gold traded in its seasonal pattern, falling thru the third week of December as year-end international settlements were made in US dollars, and then steadily rising thru the third week of January in conjunction with a weaker dollar.

This period was widely recognized as "The Trump Honeymoon" but alas, was not destined to last.

- **February 1 to July 14: DXY-Au = -0.21.**

A modicum of reality set in by late January. While equities markets continued to boom, energy staples (oil, gas, and uranium) lost 15-20% over the next five months and industrial metal prices went flat to negative once Trump's infrastructure build-out plans were put on the backburner.

On the political front, Democrats and the left-leaning mainstream media relentlessly opposed and attacked everything Trump. Although attempts at health care reform took center stage, Senate Republicans were rendered impotent by internal factions and did nothing to repeal or replace Obama-care. Trump signed executive orders rolling back Obama-era regulations and that pleased small businesses, large corporations, and big equities markets.

The Federal Reserve feigned an interest rate increase but Old Yeller did nothing but vacillate in her monthly missives until mid-June when a 0.25% increase was approved. This event spawned a short interval when DXY and gold had an inverse correlation. However, since the markets had already baked in this increase, there was little movement in either dollars or gold.

Trump's administration implemented aggressive trade policies toward North American and Asia countries that helped bring an overpriced dollar down. Gold went up briefly then straight down despite the declining dollar from mid-May to mid-July.

- **July 17 to November 24: DXY-Au = -0.77.**

This period of strong correlation was initially influenced by geopolitical events that created safe haven buying of gold and a weakening US dollar. North Korea exploded a nuclear bomb and sent ballistic missiles flying out into the Pacific Ocean, including two over Japan. Tensions flared as Trump ridiculed Kim Jong-un, calling him "little rocket man' in tweets and speeches; North Korean responded by calling The Donald an "old dotard".

This incessant war of words gave currency markets the jitters and gold spiked to a 2017 high of $1346 an ounce. But after a couple of months, the soap opera went into seasonal reruns and financial markets became numb to the noise.

By mid-October when Trump announced he would undo Obama's Iran nuclear deal that was done without the approval of Congress, neither the dollar nor gold reacted to any significant degree.

Over the past month, as equity markets continue to set seemingly endless highs in a risk-on, low volatility trading paradigm, the dollar has fallen and gold has risen. With both moving in a saw tooth fashion, the strong negative correlation continues.

In this musing, I have focused on the apparent effects of the POTUS' platform, politics, and policies on the price of gold and specifically, its correlation to the US dollar.

Always remember though, that correlation does not imply causality. There are undoubtedly many other factors that I have not considered and are beyond the scope of my analysis.

Regardless of your personal views of the man, we can surely agree that Donald J. Trump has significantly influenced the relationship between the world's reserve currency and the world's only real money since he was chosen as our 45th President of the United States of America on November 8, 2016.

And finally, back to the beginning:

The Question: What Trumps Dollars and Gold?

My Answer: Nothing … Duh.

Ciao for now,

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Acknowledgement: Troy McIntyre is the research assistant for **MercenaryGeologist.com.**

The **Mercenary Geologist Michael S. "Mickey" Fulp** 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 highaltitude 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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