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'Safe Havens'

15 Fetter Lane, London, EC4A 1BW
Phone: +44 (0)20 3416 9143
Email: hello@dowgate.co.uk

The UK Budget Speech dominated last week's financial headlines. Yet, given Jeremy Hunt's fiscal constraints and the proximity of an unwinnable election, it was more about setting traps for the next lot than a genuine attempt at policymaking. The introduction of a British ISA is a modest concession to UK-listed equities.

More positively, the OBR nudged up UK growth prospects for 2024 and 2025 and confirmed that inflation would fall faster in the coming months than previously thought. However, the UK economy remains sluggish, and along with the Eurozone, it is crying out for lower interest rates. But they are not coming quickly.

The delay is due to Jay Powell, who testified to Congress last week. With US job openings running high and the economy running hot, the FOMC is in no mood to cut and run. Powell said it would only be appropriate to reduce the target range once there is greater confidence that inflation is moving sustainably toward 2%, which isn't happening soon.

This week's CPI and PPI prints have solidified the belief that inflation is proving persistent. The strengthening dollar tightens conditions elsewhere. Despite the discrepancy in growth prospects on either side of the Atlantic, the US dollar's dominance means that Europe and the UK will have to wait for the Fed's lead.

Curiously, the gold price pushed decisively through the $2,100/oz mark and moved to a new all-time high last week, signalling investors are seeking safety, but from what? Previous attempts to make new all-time highs occurred during last year's US regional banking crisis, 2022's Ukraine invasion, and the onset of COVID lockdowns in 2020.

This gold spike is trickier to explain. Media reports that investors are betting on an early rate cut sound implausible. There are certainly reasons for investors to worry, such as commercial real estate losses on bank balance sheets and the significant increase in US and other sovereign bond issuance in the coming months. But they are unlikely to be the proximate cause for gold's rally. Indeed, data show that Western investors have been net sellers of physical gold for the last few months.

No, gold's safety is being sought in China by its Central Bank and its citizens. And while this is not a new trend, it is accelerating, and the Shanghai gold premium has widened. As the West contemplates using the $300bn of Russia's seized dollar assets to fund the war in Ukraine, The People's Bank of China has been the most significant net buyer of gold reserves, among other central banks non-aligned with US policy. Meanwhile, Chinese citizens have increasingly turned to gold investment products and jewellery as their property and equity investments continue to deliver negative returns.

China's National People's Congress (NPC), an important annual event where the Chinese Communist Party (CCP) formally endorses its policy decisions, announced a 5% GDP growth target for 2024 last week, along with details of new government focus sectors and targets. A few years ago, investors would have been disappointed with 5% growth; today, most believe it is a stretch target, while many simply don't believe the numbers.

Among the NPC's policy announcements is growing assistance for China's beleaguered property-owning middle class and the indebted balance sheets of its regional governments, similarly, based on inflated real estate values. While trade and inflation data suggest that China's economy could be bottoming out, it is far too early to be definitive. Gold's continued push to new highs indicates growing demand for safety from the world's second-largest economy. Gold and other real assets remain sensible insurance policies for diversified wealth portfolios as the future path for China takes shape—a definitive determinant of the global economy in the years ahead.

In currency markets, the Japanese Yen strengthened last week on the renewed belief that the BoJ will look to raise its policy rates at the next meeting. The rapid repatriation of Yen based investments previously looking for yield overseas could destabilise developed world interest rate markets. As the remaining US excess liquidity is finally absorbed into burgeoning Treasury Bill issuance and the Fed contemplates tapering its balance sheet reduction programme (slowing down the run-off of its Treasuries), a coincident reversal of Japan's carry trade would be best unhelpful at worst destabilising.

Meanwhile, the UK pound Sterling is proving to be one of the strongest currencies in 2024 and the only developed market currency in Bloomberg's top decile of all currencies (140) YTD. As Bloomberg said, Britain's economy looks more resilient than feared, a refrain we have heard many times in the last couple of years.

As the world contemplates its year of elections, the UK stands out as unexceptional, with low political risk and decent outlooks for inflation and rates. There is growing evidence that global investors believe the UK economy and financial markets offer good value. This is not due to last week's budget or any proposal to improve our markets' attractiveness or operating efficiency. Instead, asset allocation algorithms in New York, Boston and Singapore have started to signal overweight portfolio positions due to lowly valued assets, better-than-expected performance, and lower risk. After eight years of despair and disappointment, the UK has become a safe haven.

Jeremy McKeown
Editor & Market Strategist
Jeremy.McKeown@dowgate.co.uk
+44 (0)7885 453777

JACKSON'S CHART - GOLD (WEEKLY)

An analysis by Jackson Wray

Source: [TradingView.com]

EXPLANATION

The last time we assessed the Gold chart back in December, price action had rejected the 2075 level for the 4th time. Since then, we have seen ranging price action between this and the 1990 level, until the first weekly close above 2075 occurred two weeks ago. Following five attempts at breaking this level down, sellers were finally overcome and a strong 4/5% move followed. Looking ahead, Gold is now in price discovery, with Fibonacci extensions up at 2250 and 2470. An ascending channel has also formed, which could provide a good guide to potential movement. However, after breaking such a significant resistance level, it would be expected that price would retest this as new support at some stage.

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FURTHER READING & LISTENING

- Pound Is Beating 92% Of Global Currencies On UK Economic Rebound
- The Coming Collapse Of Chinese Construction And Fed Rate Cuts Vs The Stock Bubble
- China's Gold Market In January: Wholesale Gold Demand Jumped, Official Gold Reserves Rose Further
- Gold's Mystery Rally Baffles Analysts
- A New Economic Dawn In Japan Could Spell Trouble For The West
- A Great British ISA Is A Risky Way To Boost Investment In UK Companies