

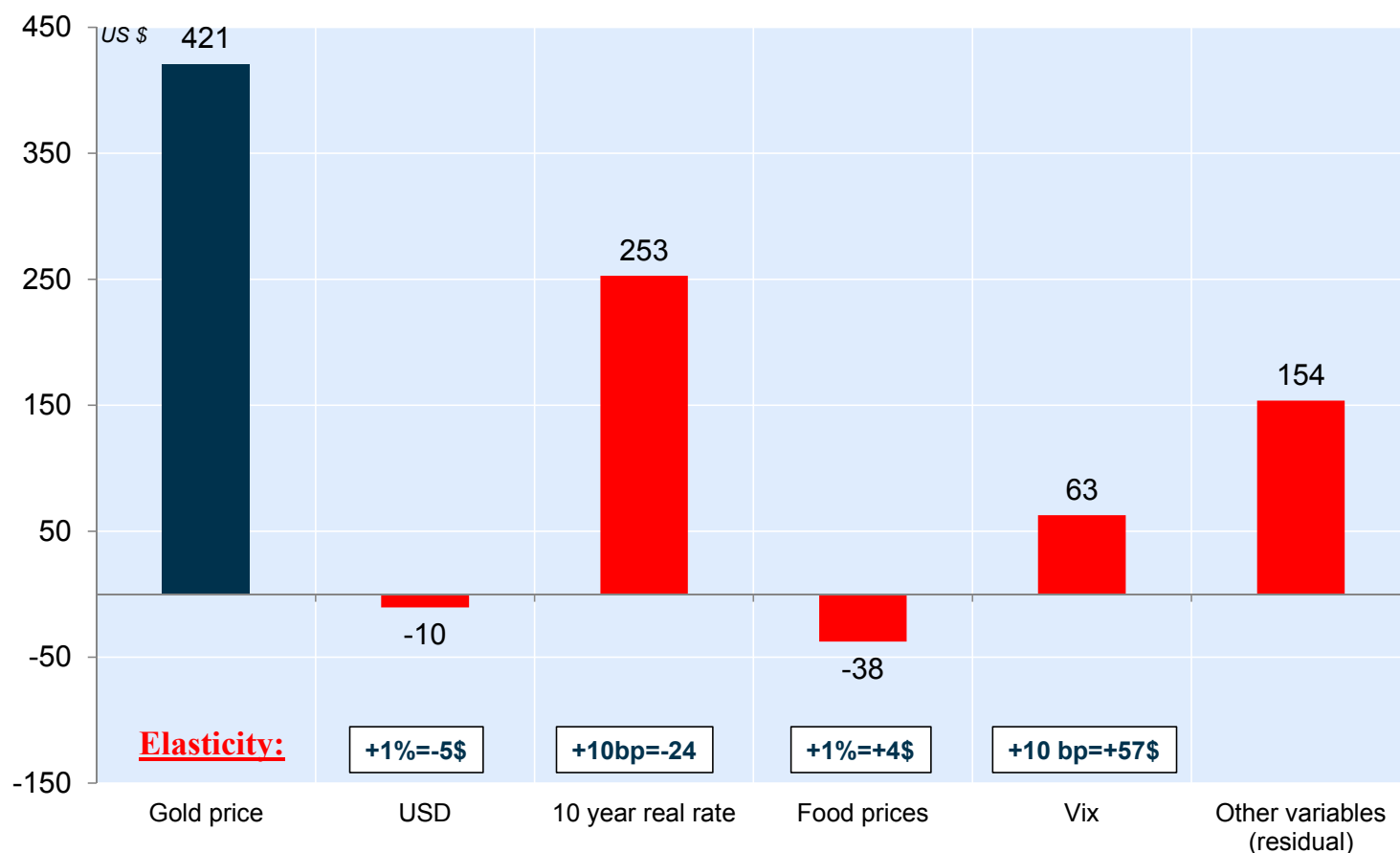
## Market Watch

By Matthieu Arseneau

Bullion tends to shine in periods of turmoil and this time is no different. Yesterday, the price of gold reached a new milestone thanks to a staggering rise of 28% so far in 2020. Our analysis has shown that the price of gold is best explained by four key variables in the past decade: the U.S. dollar (broad dollar index), stock market volatility (VIX), real interest rates (10-year TIPS), and inflation (CRB food price index). As today's Hot chart shows, our model estimates that no less than \$253 dollars of the \$421 increase can be attributed to the massive drop in real rates. The yellow metal has a propensity to rise when real interest rates decline as it reduces the opportunity cost of holding it. At yesterday's close, the yield on 10-year TIPS was at -0.90%, essentially matching the record low observed in December 2012. Is there a risk for a sharp reversal in real rates in the coming months as we've seen in 2013? We don't think so. As we noted in our May Monthly Equity Monitor, the last time federal debt in the U.S. was as elevated as it is now was at the end of the Second World War, after which long-term treasury yields were kept below inflation for a protracted period. With Congress set to unleash yet another round of fiscal stimulus to be financed by the Federal Reserve, we expect negative real interest rates to endure for the foreseeable future. Bullion has limited downside in such an environment.

## World: What's behind the surging price of gold?

Drivers breakdown contribution according to NBF model (as of July 27, 2020)





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