Thackray Report
Gold set to shine?

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In 2021, gold has followed its seasonal trend of being volatile in June. Currently, it is lower than its beginning of the month level and could be shaping up to be a good seasonal opportunity.

Gold has a strong seasonal period from July 12 to October 9. The long-term trend of rising gold prices at this time of the year is driven by increasing demand in the third quarter into the fourth quarter and the tendency for interest rates to decline in the third quarter.

Sometimes, gold can start its strong seasonal period early, in the month of June, which tends to be one of its more volatile months of the year. In other words, volatility in June can provide a good entry opportunity into gold bullion. It is possible that the latest downdraft in the price of gold could be providing a good early seasonal period entry opportunity.

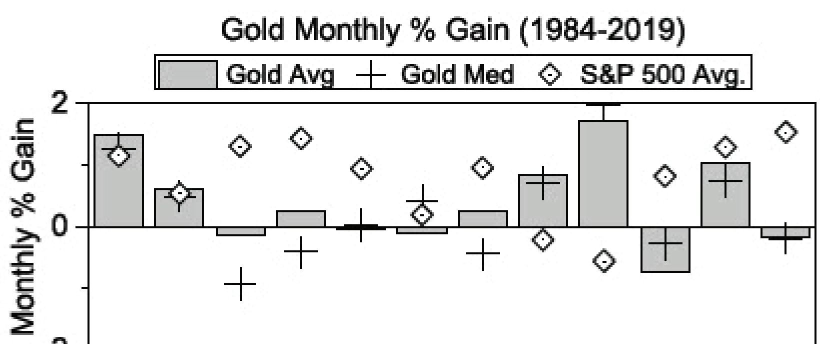
Investors are always trying to figure out what is driving gold prices. Two of the bigger factors driving the US dollar recently have been the US dollar, and the real interest rate. The graph above shows the movement of the gold price over the last two years. I have included a panel on the US Treasury 10-year yield and the US Dollar. Although the Treasury yield is not the same as the real interest rate, its movement tends to be negatively correlated to the price of gold in the short-term.

In early 2020 (blue box), the yield on the US Treasury 10-year was falling at the same time as the US dollar was strengthening. The net result of the two opposing forces was that the falling yield had a greater influence than the rising US dollar - gold increased in price.

In late 2020, the US Treasury yield was increasing and continued to increase into Q1 of 2021. At the same time in Q1 of 2021, the US dollar was increasing. In other words, gold had two negative factors working against it, rising yields and a rising US dollar. The result was a price decline in the price of gold in Q1 of 2021.

Very recently, in June, we have seen the yield on the US Treasury 10-year continue lower, but the US dollar has been rising relative to world currencies. After Powell's "hawkish" speech on Wednesday June 16, 2021, long-term yields fell and the US dollar increased in value rapidly. The end result was a sharp correction in the price of gold. So why did gold correct sharply as the yield on the US Treasury 10-year decreased? The rising value of the US dollar won the battle and pushed gold lower. In this case, it was not just that the US dollar rose in value, but that it rose rapidly, which outweighed the effect of falling interest rates.

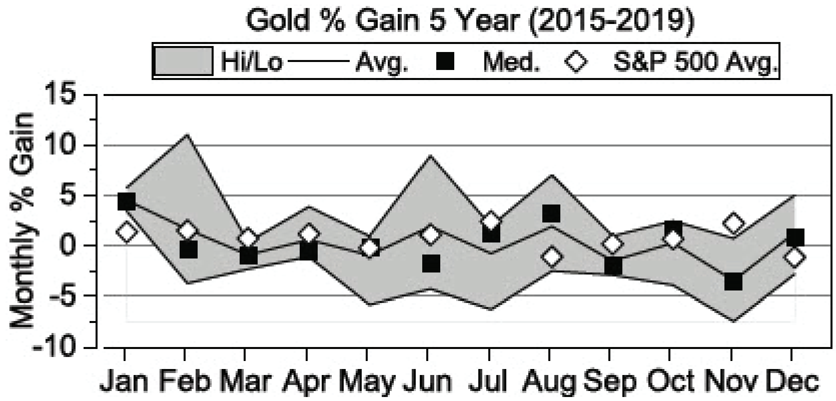
Currently, the yield has been trending moderately lower and the US dollar has stabilized. The test for gold will come with the next big risk-off move in equities which will probably once again drive down the yield on the US Treasury 10-year and simultaneously boost the value of the US dollar. The strength of the move of these two forces will probably be the arbiter of value for gold. The biggest risk to the price of gold is the strength of the US dollar. Relative to world currencies, the US dollar tends to be weak in the second half of July into the beginning of October, which is supportive of a stronger gold price.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Gold Avg	1.5	0.6	-0.1	0.2	-0.0	-0.1	0.2	0.9	1.7	-0.7	1.0	-0.2
Gold Med	1.3	0.5	-0.9	-0.4	0.0	0.4	-0.4	0.7	2.0	-0.3	0.7	-0.2
S&P 500 Avg	1.1	0.5	1.3	1.4	0.9	0.2	1.0	-0.2	-0.6	0.8	1.3	1.5

Source: Thackray's 2021 Investor's Guide

On a seasonal basis, from 1984 to 2019, gold has been slightly negative on average in June and slightly positive in July. On a median basis, gold is slightly positive in June and slightly negative in July. In July, the difference between the mean and the median indicate that a few large performing years pulled up the mean. The real sweet spot to the gold bullion trade is in August and September.



Source: Thackray's 2021 Investor's Guide

In recent years, August has been a strong month and September weaker than its long-term average compared to other months. The graph above shows the five year performance of gold on a monthly basis compared to the S&P 500. On a median basis, June has been one of the weaker months of the year, July has been one of the better months, August one of the best and September one of the weaker months. In other words, the seasonal trend has been finishing early for gold. This can be seen over the last two years in the first graph of this report. In 2019, gold finished its seasonal run at the beginning of August. In 2020, gold finished its seasonal run at the end of August.

So,where does gold stand right now? It is oversold on price momentum basis according to the RSI and the Full Stochastic Oscillator (first graph of report). An oversold condition can lead to a short-term bounce and is often a good partial entry point ahead of a strong seasonal period. If the US dollar does not rally strongly and/or the yield on the US Treasury 10-year does not rise dramatically, it could be a good time to take an initial allocation to gold bullion before the start of its strong seasonal period, which is just around the corner on July 12.

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