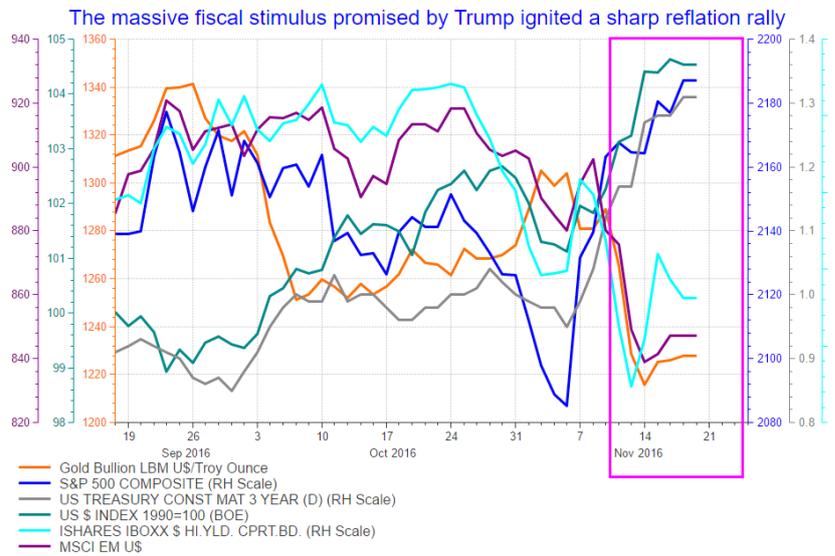


22 GOLD:

Gold had a phenomenally volatile day after the US presidential election, even more volatile than the famed Brexit gyrations. It rose as much as \$60, breaching \$1,300 an ounce, before ending the day sharply lower after U.S. equities rose and the US dollar strengthened. Since then, Gold continued to spiral lower and it is now trading at the \$1175 level. What happened? Gold was supposed to be a safe haven play, given the supposed uncertainties that a Trump presidency brings. But the market apparently did a rapid recalculation, and this is what we believe took place in the collective minds of investors. The reason for the whipsaw moves in Gold (which was true for the other assets as well) was that much of the initial reaction was completely emotional due to the surprise outcome of the election. But investors took a step back when they realized that Trump's plan to spend massive amounts on infrastructure was good for stocks and commodities -- in other words, it's risk-on. And gold (also

The reaction of major assets classes to the election of Mr. Donald Trump



EM, High Yield) did not figure much in those calculations (see graph Reaction of major asset classes).

But that is not the last, dismal word for gold. Mr. Trump's infrastructure programs require massive budget deficits. Also, Trump's "protectionist" policies could have a negative impact on global trade, on top of the increase federal deficits, and both would be supportive of gold. The link between wider budget US budget balances (higher budget deficits) is not difficult to show. It runs through lower short

term rates, which in turn act as headwind for the US Dollar, leading to the appreciation of gold prices (see chart below). Widening US budget deficits have historically produced the best bull markets for gold (and the largest bear markets for the US Dollar).

