Mizuho Brief: Gold

Economics & Strategy | Asia ex-Japan

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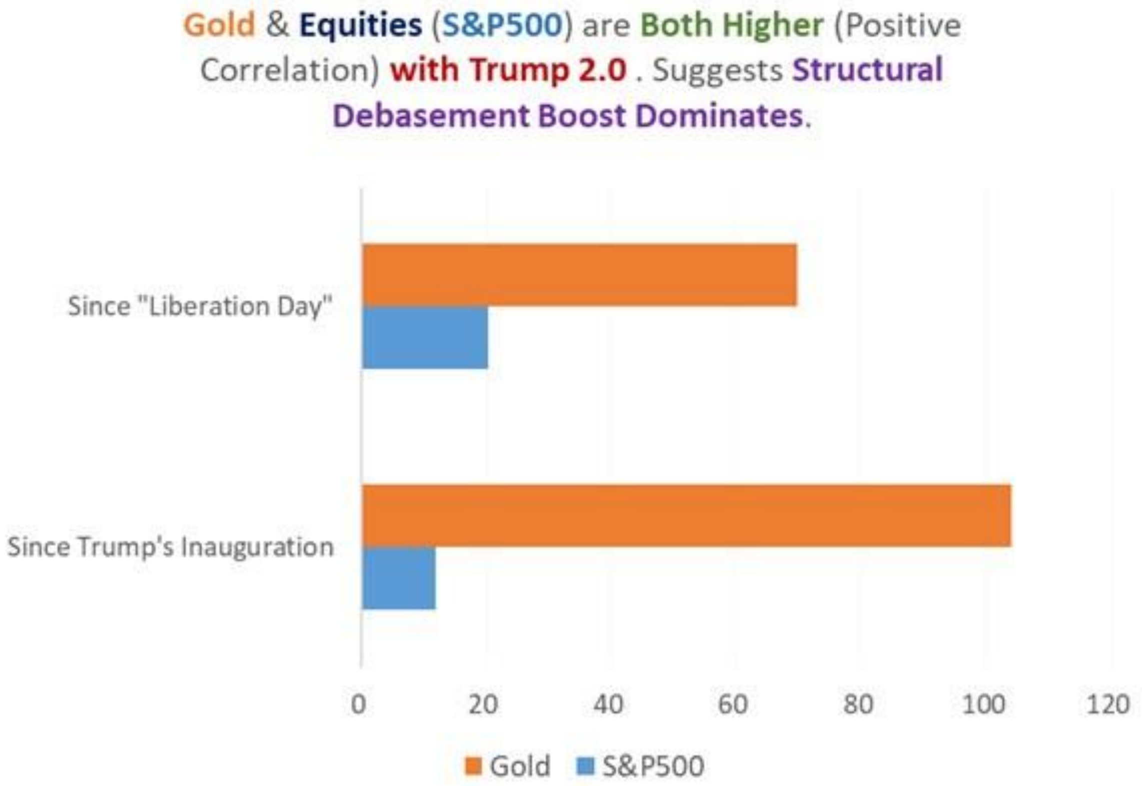
Midas & (Real) Money

In a Nutshell:

- **Gold's decisive surge past $4,000, led by anti-fiat/anti-inflation hedge** and enhanced by elevated geo-political uncertainty, **defying higher (long-end) real rates**.
- Coincident surge in equities ("risk on") suggest **headline haven allure is subordinated to structural debasement boost**. Hence, Gaza Peace deal may merely temper, not overturn Gold's bull run. Sectoral "Tides" that Lift (Many) Boats)



Touched by Midas - Turning to Gold

- In Greek mythology, **King Midas is granted his wish to have everything he touches turn to Gold**.
- ***Today,*** with **Gold's indefatigable surge decisively surpassing $4,000/oz**, it **appears markets have been touched by Midas**.
- At least insofar that **markets have insatiably been *turning to*** - *albeit in a slightly different sense of that phrase* - ***to Gold***.
- To be specific, turning to Gold; i) for hedge against latent inflation risks; ii) for haven refuge amid elevated geopolitical risks and; iii) ***above all,*** as protection/hedge against mounting fiat (led by USD) debasement risks.

- **So compelling is this primal (and powerful) allure of Gold**, driven by **instincts to protect wealth** and **seek refuge**, that it has ***overwhelmed the drag of elevated real rates (especially surging ultra-long-end) on Gold***.
- It was not too long ago - in fact, **just 7 months, back in March 2025** - that **$3,000/oz was a new psychological level surpassed**.
- And *if inflation-debasement risks* and *geopolitical uncertainty persist,* **even $4,000/oz may be a pit-stop** enroute to greater ascendancy.

Show Me the ("Real", Not Fiat) Money!

- Notably, **Gold's stellar run** has been **in tandem with**, ***albeit far superior to***, **a coincident surge in equities**.
- First, the **emphatic co-movement/correlation with the rally in equities** suggest that **haven the lift from Gold's allure plays second fiddle to** its compelling, if not **unmatched**, **debasement hedge boost**.
- ***If*** that was ***not*** the case, there is a higher probability that the positive ***Gold-S&P500 correlation would have*** significantly ***weakened or flipped even*** (with Gold up and equities down on "risk off").
- What's more, **Gold's spectacular outperformance** points to suggests ***emphatic debasement hedge*** (leveraging on its superior anti-fiat properties) being resorted to **as a complement to liquidity-driven, "post-Liberation Day" FOMO* rallies**.
- Simply put, this is a **conspiracy of Anti-Fiat "risk on"**, which wants **both the upside and the protection**.

* The solid rebound and sustained follow-up rallies after the initial sell-off from April's "Liberation Day" shocks prompted doubling down in "risk on" rallies to compensate (and keep up with benchmark performance).

Gaza Peace Deal to Temper, Not Topple

- And insofar as the compelling anti-fiat allure of gold is the dominant driver of its unfettered surge, Gold may be less susceptible to pullback in geo-political risks.
- That's to say, the any cyclical/headline-driven pullback in Gold expected from cooling geo-political risks may not permanently impair Gold's buoyancy, much less strike it down decisively.
- As a corollary, **any realization of a Gaza Peace deal** may **merely temper, but not topple Gold bulls**.
- Point being, while it may admittedly provide a profit-taking opportunity after such a significant run-up, it may not undermine the structural boost to Gold that may endure.

Global Reserve Managers Underwrite Gold's Shine

- Especially given that **Gold has risen in prominence** and in **stature with global reserve managers**.
- Specifically, as **mounting USD debasement fears** from US' policy adventurism.
- Point being, **global reserve managers are forced to confront dangers of wealth destruction** *from exchange rate risks associated with their massive stock of UST holding.*
- And given that when push comes to shove, global reserve managers will prioritize (wealth) preservation over income/carry, **Gold** *(and other real assets)* **must necessarily be re-weighted considerably higher in their portfolios**.
- That's to say, **global reserve managers** are the ones **underwriting the structural allure/ascendancy of Gold**, rather than headline-driven ebbs and flows of refuge seeking.
- And *"Sell America"* **from shockingly extractive US policies** makes this a *"You had me at hello" moment for Gold bulls.*

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