Falling Gold Prices Explained Before They Surge North

written by Egon von Greyerz | July 7, 2022

In this brief, 15-minute MAMChat, **Matterhorn Asset Management** (MAM) principals, Egon von Greyerz and Matthew Piepenburg address the current fall in gold prices within the sobering context of current and historical market forces.

Egon reminds that MAM was founded over 2 decades ago to protect investors against precisely the types of rising systemic, debt, currency, geopolitical and banking risks unfolding then and now. At the time MAM opened, gold was at $300 and global debt was at $100T. Since then, Gold has risen by more than 6X and global debt has passed the astounding Rubicon of $300T while derivative markets have reached the comical and fatal quadrillion levels. Meanwhile asset classes are now falling from unprecedented highs toward equally unprecedented lows.

As for Gold, Egon reminds that it is currently in a sideways trend at the tail-end of a typical downtrend in the background of a cyclical uptrend. Egon also explains that Gold can still go lower, but as markets stumble ever closer to capitulation and implosion, the kind of risk protection afforded by precious metals has never been more critical. In the context of such trends and risks, the daily (and admittedly emotional) price action of gold is irrelevant. Gold is as unloved and undervalued (in relation to global money supply) as ever, and as Egon concludes, there’s absolutely no reason to be concerned, as we’ve seen far bigger corrections in this asset class, which always rebound higher.

Matthew offers more empirical perspective and context in the background of a blender of emotional and objective market factors. Specifically, he addresses the three key forces impacting the current gold price, namely: recessionary trends, central bank policies and inflationary direction. Gold’s consistent behavior in these converging forces makes $2500 gold a conservative price target in the short/medium term. Compared to other asset classes and markets, gold’s relative strength is undeniable. As for current price pressures on gold, there’s no escaping the fact that combined QT and rate hike policies from the Fed makes the USD stronger and gold weaker. But as Matthew further reminds, such policies in the backdrop of $30+ trillion in public debt and 8.6% CPI levels makes them mathematically unsustainable. Debt and inflation are simply too high for central bankers to “cure” with rising rates. In fact, the only reason Powell is raising rates now is to have something (anything) to cut when markets fully tank in the near future, as Powell knows. Finally, Matthew addresses the importance of distinguishing the gold pricing forces which follow entrenched inflation expectations rather than just rising inflation data, citing the price cycles evident between 1971 and 1980, 2000 and 2010, and post 2015.

In short, inflation is here to stay. The post November 2020 commodities cycle

is just beginning, but not in a straight line, and despite the rising rate and rising USD policies of a desperate Fed, gold will push north as currencies continue their inflationary fall south. Long-term preservation investing (rather than short-term price emotion) has never been more important.