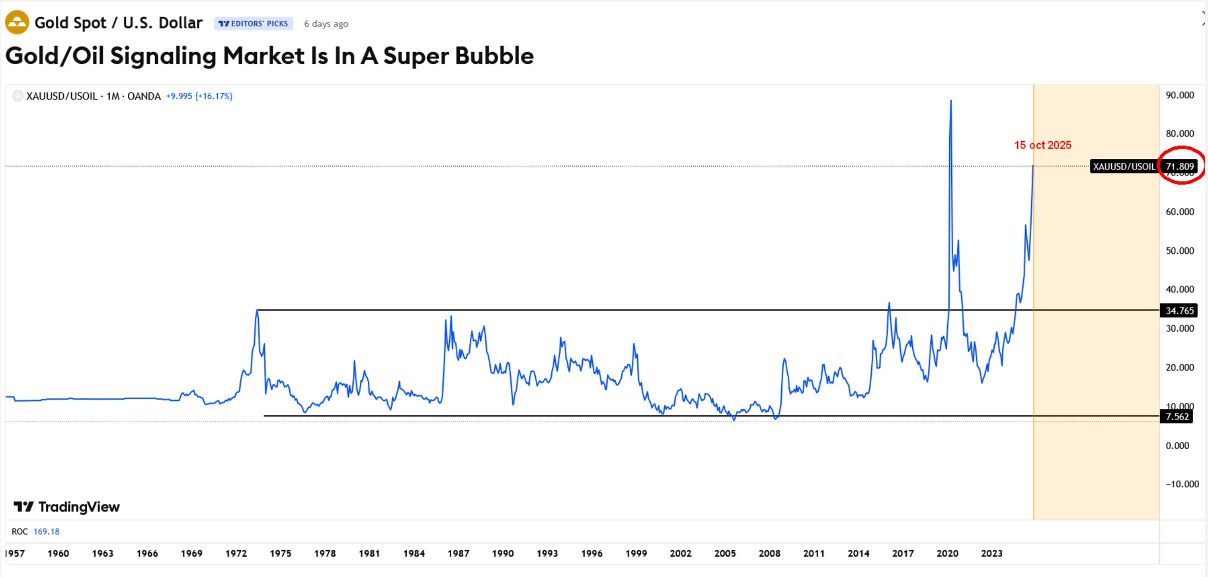
Gold/Oil Signaling Market Is In A Super Bubble



Oil = Economic strength
Gold = Fear (inflation, weak currency/economy, geopolitics, war, pandemic, etc.)

The gold to oil ratio is calculated by dividing the price of one ounce of gold by the price of one barrel of crude oil. This ratio is used as an indicator of market sentiment and economic health, as its fluctuations can signal economic downturns, inflation, or other geopolitical events.

We should not be witnessing such a spike today in this ratio. COVID made sense since the economy suddenly collapsed and fear skyrocketed.
But except for COVID we have never seen such an extreme reading. Yet people are buying up stocks like there is no tomorrow.

Considering the ratio was essentially range-bound between 7.5 and 35, to see a move this large suggests there is a problem. A lot of cash is going into gold, but not into oil.

Central banks can manipulate their rates but they cannot manipulate this global ratio. We are in a Super Bubble! TULIPS??

Why This Indicator Matters: Key Factors at a Glance

- **Gold's Surge Signals a Shift**
  Gold has soared nearly 60% year-to-date, adding a staggering $10 trillion in market capitalization. This rally effectively erases all the stock market gains made since May 2021, including those driven by AI enthusiasm and speculative tech runs. And Yes, unlike currencies and debt – which are claims on foreign governments or institutions – gold kept at home is not subject to political manipulation.

- **USD Can Only Be Measured Against Gold**
  As the world's reserve currency, the U.S. dollar's real value is best gauged in terms of gold. This is a critical point—because when gold rises this dramatically, it reflects monetary inflation. A large part of the stock market rally has been driven by an expanding money supply, not true value creation. Curiously, this inflation hasn't shown up in oil prices, which have collapsed, despite geopolitical risks.

- **The Dollar's Worst Year in Decades**
  2025 marks one of the most significant declines for the U.S. dollar in recent history. Its role as the world reserve currency (WRC) has diminished—from 85% in the 1970s to just 50% today. Trade wars and tariffs are only accelerating this trend.

- **Monetary Inflation Drives Stock Prices**
  Stock markets are being lifted by monetary inflation, not organic growth. Stocks can be created endlessly—unlike gold. That makes gold a true inflation benchmark. The stock market's rise is, in large part, a mirage, reflecting debased currency, not real productivity.

- **Oil Isn't Behaving as Expected—Why?**
  Typically, when the dollar weakens, oil prices rise—because more dollars are needed to buy the same barrel of oil. But right now, oil prices are soft. Why? Global demand is weak, outpaced by supply. Even the Russia-Ukraine war hasn't changed that dynamic. In fact, Russia is now importing gasoline, as Ukrainian forces continue to target and disable refining capacity.
  Here's why this matters: when oil wells are opened, they can't just be turned off. If the refiners are destroyed and the oil has nowhere to go—it's wasted. That's a strategic win for Ukraine.

- **The Disconnect Between Stock Prices and Profits**

While inflation has pushed stock prices higher, it hasn’t translated into equivalent profit growth.
Example: If a stock goes from $10 to $20 due to inflation, you'd expect earnings to go from $1 to $2 to maintain the same P/E ratio. Instead, the earnings yield is just 3.2%—a historical low. That’s a major red flag.

The Smart Money Knows What's Coming

As the imbalance grows more obvious, central banks and institutional investors are quietly increasing their gold holdings—well above the pace of supply growth.
Of course there is much about their involvement with gold that central banks don't want the public and the markets to see. Like their gold leases, swaps, other interventions, and their possibly desperate efforts to recover metal whose impairment they concealed.

To appreciate the magnitude of current central bank gold buying:

Period	Annual Average (tonnes)	Notable Characteristics
1980-2000	-160 (net selling)	Western central banks reducing gold holdings
2001-2009	+20	Transition from net selling to modest buying
2010-2017	+390	Emerging market-led acquisition phase
2018-2023	+800+	Broad-based global buying surge

This dramatic reversal from decades of net selling to aggressive accumulation signals a fundamental reassessment of gold's role in the global financial system—a shift that may have lasting implications for record gold prices and status.

Apparently broader confidence in the global financial system is weakening further, in a world of weaker growth and rapid rising debts.
When monetary expansion significantly outpaces productive economic growth, the value dilution becomes evident. This dynamic has been particularly pronounced since 2020 (COVID), with monetary aggregates expanding far more rapidly than corresponding economic output. The post-pandemic inflationary surge reminded central banks of the vulnerability of fiat currency reserves to purchasing power erosion. Apart from the so-called “war chest” argument, gold bullion is the only case of a financial asset with no counterpart liability.

Since its establishment in 2002, the Shanghai Gold Exchange (SGE) has grown from a local trading platform into a globally influential institution. Unlike Western exchanges that primarily trade paper contracts, the SGE emphasizes physical delivery.

At first the Chinese government strategically wanted to match the U.S. gold reserves, which are officially stated to be just over 8,000 tons. Later on, China's “Belt and Road” Initiative(BRI) launched in 2013 and the uprising of BRICS, gave way to a future with most probably a goldbacked currency as opposed to the world reserve fiat currency status of the USD.

The PBoC nowadays has a preference to buy gold using USD (getting rid of USD) and has significantly increased the official gold reserves since the early 2000s. China maintains separate accounting systems for monetary versus non-monetary gold holdings, creating analytical challenges for outside observers.

With a huge new vault in Hong Kong and gold contracts denominated in yuan rather than dollars, China has succeeded in her goal of internationalizing its currency with gold as the trust anchor. By building alternative trading mechanisms and physical infrastructure, China is developing a parallel system that operates under different rules and priorities than the Western-dominated markets. The old adage still applies today: "He who owns the gold makes the rules."

As a counter measure to China’s gold accumulation and the fear of them undermining the manipulated paper gold market (USD protection) the BIS initiated the Basel III. The BIS is an organization owned by central banks, and its services are designed to help them manage their foreign exchange and gold reserves. Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision in response to the Great Financial Crisis (GFC) of 2007-09 caused by the runaway money creation of western Commercial banks.

In December 2010, the Basel Committee on Banking Supervision published Basel III: A global regulatory framework for more resilient banks and banking systems. The Basel III countercyclical capital buffer consists entirely of Common Equity Tier 1 capital. As part of the "Basel III Endgame“ the BIS has officially elevated allocated physical gold to Tier 1, level 1 "High-Quality Liquid Asset" (HQLA) status in the US as of July 1, 2025. Paper claims on gold no longer qualify for this top-tier status and the gold cannot be leased out or used as collateral.

The world is shifting from 80 years of dollar dominance and US hegemony to a pluralist “Multicurrency Mercantilism”. Gold is coming back as a monetary instrument, in a recalibration of the global monetary system. And that’s the reason why every central bank on the planet is buying gold in large quantities

So when Gold/Oil (two important commodities) completely disconnect like this, and Gold explodes up like this, you'd better take notice!