

[Featured Insights]

Correlation Insights Across Fixed Income, Commodities, and Currencies

We frequently analyze the relationships among fixed income, commodities, and foreign currency markets. Here are some key observations:

Bonds: The yield on the 10-year US Treasury bond has settled into a range of roughly 4.00% to 5.00%, a level last seen before the Great Financial Crisis (GFC). Similarly, the 10-year TIPS yield has been fluctuating around 2.00% since late last year, mirroring its pre-GFC behavior.

Crude Oil: The spread between 10-year nominal and TIPS bond yields is a widely accepted indicator of the bond market's long-term inflation expectations. This spread shows a strong correlation with Brent crude oil prices, which significantly influences inflation rates.

If global economic activity remains weak, oil prices are likely to stay low, along with inflation expectations. This scenario aligns with the view that nominal bond yields will stay within their current range for some time.

Copper: Brent crude oil and copper prices are also closely correlated, with copper often leading. Both reflect the global economic activity's strength or weakness. The recent surge in copper prices was unexpected, given the weak oil prices, which align with the view of a sluggish global economy.

The spike in copper prices has been attributed to the rising demand for electricity from AI data centers. However, it could also be due to a temporary short squeeze on copper.

Gold: Gold prices are highly correlated with copper prices. Bloomberg reported that China's central bank halted its gold buying spree last month after 18 months. However, it is expected to resume purchases soon.

Dollar Index (DXY): Traditionally, the DXY and Brent crude oil prices have been negatively correlated. Recently, however, they have shown a positive correlation. This shift may be due to the US increasing its role as a major producer and exporter of oil and natural gas, boosting the demand for dollars to pay for these exports.