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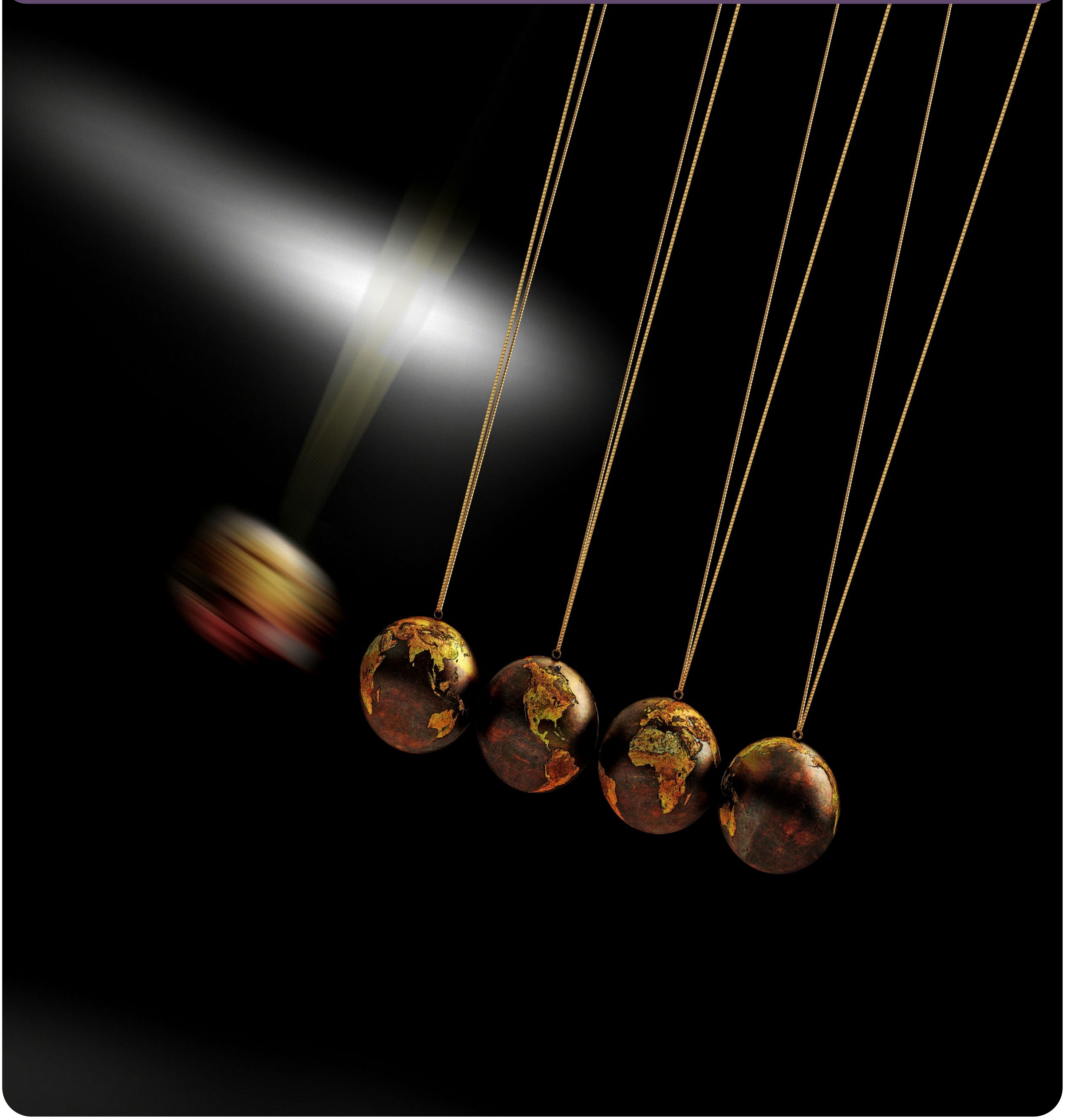
Gold Mid-Year Outlook 2024

In search of a catalyst



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A market in search of a catalyst

Gold has performed remarkably well in 2024, rising by 12% y-t-d and outpacing most major asset classes. Gold has thus far benefitted from continued central bank buying, Asian investment flows, resilient consumer demand, and a steady drumbeat of geopolitical uncertainty. As we look forward, the key question in investors' minds is whether gold's momentum can continue or if it's running out of steam.

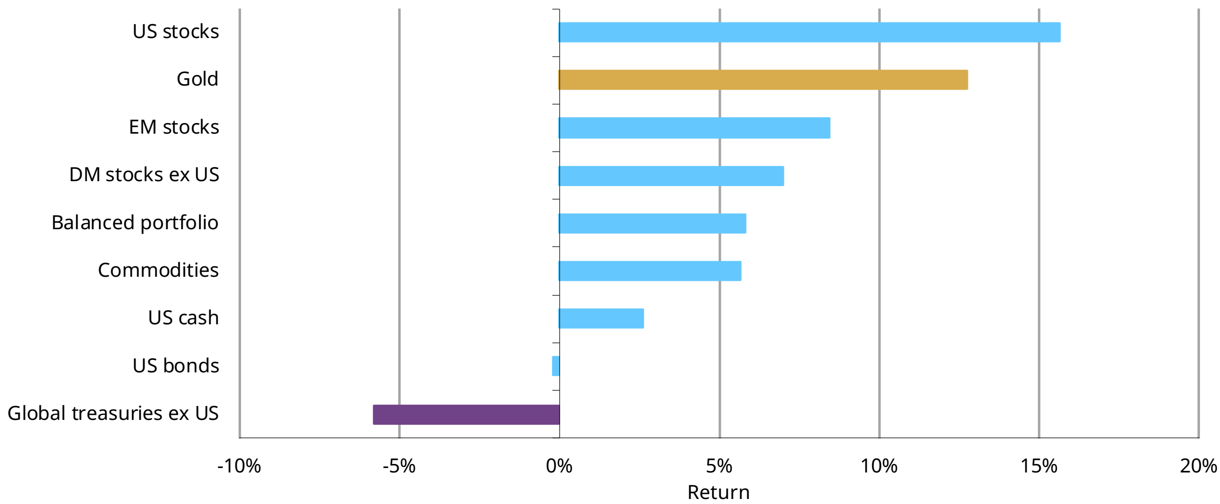
With a few exceptions, the global economy is showing wavering growth indicators – eager for rate cuts – amid lower but still uncomfortable inflation. And the market's outlook is not too dissimilar. Our analysis suggests that the gold price today broadly reflects consensus expectations for the second half of the year. However, things rarely go according to plan. And the global economy, as well as gold, seem to be waiting for a catalyst.

For gold, we believe the catalyst could come from falling rates in developed markets, that attract Western investment flows, as well as continued support from global investors looking to hedge bubbling risks amid a complacent equity market and persistent geopolitical tensions.

Gold's outlook is, of course, not without risks. A sizable drop in central bank demand or widespread profit-taking from Asian investors could curtail its performance.

As it stands, however, global investors continue to benefit from gold's role in robust asset allocation strategies.

Chart 1: Gold remains one of the best performing assets of 2024
Y-t-d returns for gold and key asset classes in USD*



*Data as of 30 June 2024. Indices used Bloomberg Barclays Global Treasury ex US, Bloomberg Barclays US Bond Aggregate, ICE BofA US 3-Month Treasury Bills, New Frontier Global Institutional Portfolio Index, MSCI World ex US Total Return Index, Bloomberg Commodity Total Return Index, MSCI EM Total Return Index, LBMA Gold Price PM (USD/oz), MSCI US Total Return Index.
Source: Bloomberg, World Gold Council

Table 1: Gold has had double digit returns across major currencies

Performance of gold in various currencies*

	USD (oz)	EUR (oz)	JPY (g)	GBP (oz)	CAD (oz)	CHF (oz)	INR (10g)	RMB (g)	TRY (oz)	AUD (oz)
Price at the end of H1	2,331	2,176	12,057	1,844	3,190	2,096	62,440	545	76,409	3,492
Average price in H1	2,203	2,038	10,795	1,742	2,994	1,961	58,944	511	69,868	3,347
Y-t-d return	12.1%	15.9%	27.8%	13.0%	16.1%	19.9%	12.3%	14.6%	24.8%	15.0%

*As of 28 June 2024. Based on the LBMA Gold Price PM in USD, expressed in local currencies.
Source: Bloomberg, ICE Benchmark Administration, World Gold Council

Setting the record straight

Gold has made headlines this year, breaking record highs multiple times between mid-March and mid-May. At the time of writing, gold is up 12% y-t-d and has been trading above US$2,300/oz for most of Q2.[1] It has also provided double-digit returns across multiple currencies (**Table 1**).

All this despite high interest rates globally, barring a few exceptions, and a strong US dollar – a combination that is often seen as a hostile environment for gold.

The relationship between gold, real interest rates and the US dollar is not "broken" as some market participants may think. In fact, this relationship has likely prevented gold from rising further. It is simply that, in the current environment, these factors have been offset by others that are more dominant.

So, what has been behind gold's record-breaking performance to date in 2024? Support has come from continued purchases by central banks, strong Asian investment and resilient global retail consumer demand.

H2: inflection ahead?

The global economy and financial markets are in a transitional period. Bond yields have moved generally sideways as Western central banks have kept policy rates on hold. But pressure is mounting on policymakers as they balance lower but stubborn inflation and signs of cooling labour markets. This is exemplified by the sooner-than expected rate cut by the European Central Bank (ECB), while the Bank of England and US Fed have so far stayed put. Meanwhile, India remains one of the economic bright spots, and China will likely continue to find alternative measures to invigorate growth.

In this context, we analyse how gold may react to current market expectations and explore the drivers that could lead to a different outcome.

A (largely) efficient market

Analysis based on Qaurum[SM] and our Gold Valuation Framework suggests that the gold price today broadly captures consensus expectations for H2 in relation to economic growth, interest rates and inflation (**Table 2**).

This, in turn, implies that **gold may continue to move in a similar range** to what we have seen in recent months. In other words, after gaining good momentum in the first half of the year, current market trends indicate a rangebound performance from its current levels during H2.

Table 2: Market consensus suggest rangebound performance for gold for H2

Consensus expectations and select gold drivers*

Expected Fed funds rate	Current 5.25% - 5.5%; 25bp lower by year end
Economic scenario	**Restrained recovery**
Opportunity cost	10yr: stable, marginally down
	Dollar: flat to slightly down
Economic expansion	Below trend but improving
Risk and uncertainty	Stubborn inflation
	Risk-on positioning
	Geopolitical risks
Momentum	Central bank purchases above trend
	Commodities down marginally
	Gold net positioning is high
Implied gold performance	Rangebound

*We group variables that influence gold into four drivers to understand its performance, namely: 1) economic expansion, 2) risk and uncertainty, 3) opportunity cost, and 4) momentum. See Qaurum[SM] and **Table 3** for more details.
Source: Bloomberg, Oxford Economics, World Gold Council

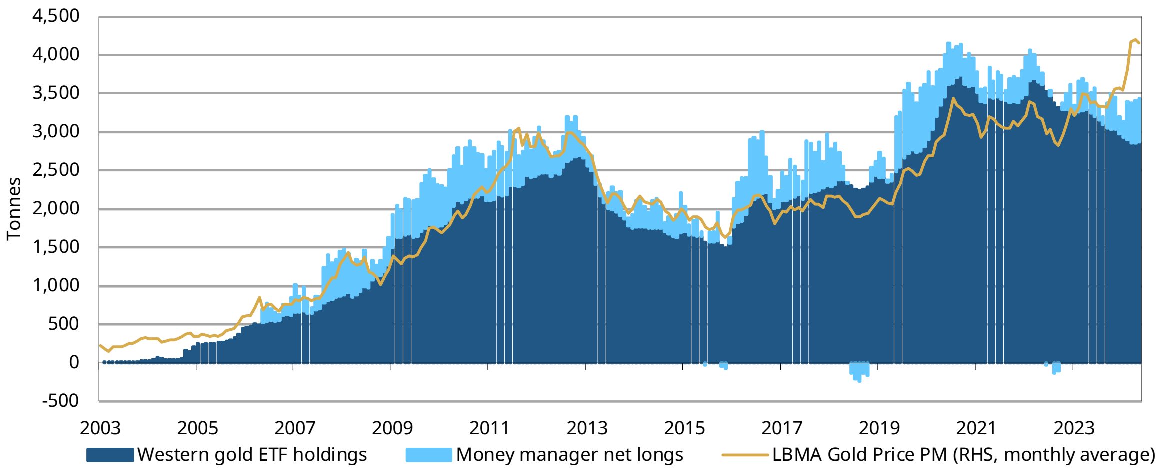
It's not the first time we have described a similar anticipated outcome for gold. And, at face value, a sideways move does not seem very exciting. But it encapsulates two important insights.

First, we are naturally using "expected" rather than "observed" values for each of the drivers; in this context, a rangebound return suggests that the gold market is fairly efficient and broadly reflects the available market information.

1. Based on the LBMA Gold Price PM in USD as of 27 June 2024.

Chart 2: Previous gold highs have coincided with strong Western flows suggesting that the gold market is not yet saturated

Physically backed gold ETF holdings and COMEX gold positioning*



*Gold ETF holding as of 30 June 2024; Western funds include North America and Europe. COMEX money manager net longs as of 25 June due to data availability.
Source: Bloomberg, COMEX,, Company Filings, ICE Benchmark Administration, US Commodity Futures Trading Commission, World Gold Council

Second, given that gold is already up by more than 10% and consensus suggests a similar result for the full year, it reiterates that gold – supported by contributions from other sectors – can perform well even when rates remain as expected.

Western investors: wanted

Given the inherent complexity in forecasting economic and financial variables, market consensus may be telling us more about the world today than looking ahead to H2. As such, it is important to understand the conditions that could divert us from the current view.

For gold, Western investors have been a missing part of the puzzle. While investors have been active – as denoted by high market volumes – retail investment demand has been low and gold ETFs have seen net outflows y-t-d. Gold's strong performance, despite the absence of strong Western flows, suggests that, unlike previous periods when gold broke record highs, the market is still not saturated and could see another leg up (**Chart 2**).

Demand from this segment of the market could be triggered from three key sources: interest rates, recession risks and geopolitics.

Interest rates

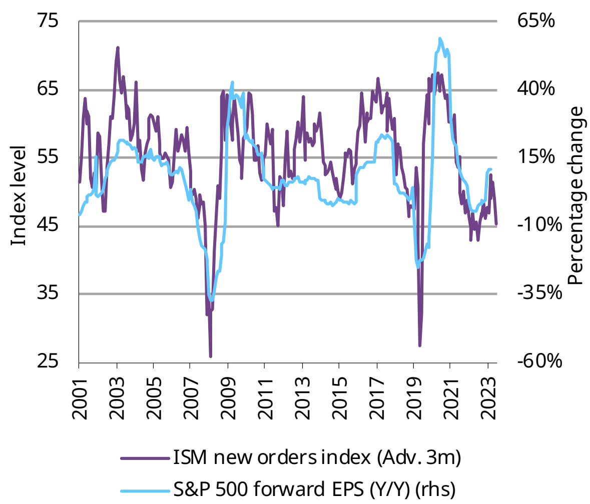
Since the rate cut by the ECB in May, European gold ETFs have experienced inflows. A continuation of this trend would provide further support. And while there's already a 25bp cut by the Fed priced-in by the market for later in the year, the actual policy decision would bring reassurance to investors about the direction of rates going forward, thus fostering sustained inflows. On the flip side, of course, higher-for-longer may deter some gold investors from entering the market.

Recession risks

While a recession remains a low probability in the immediate term, the global economy is not firing on all pistons and, with inflation above target, central banks are not ready to cut rates more aggressively just yet. There also seems to be some complacency in financial markets. Global stocks are doing well overall with US stocks – or a subset thereof – leading the pack. And volatility is near 30-year lows. Yet, historically, there's a strong relationship between the strength of manufacturing and company earnings and, at present, manufacturing is showing signs of slowing (**Chart 3**).

Chart 3: Earnings may need more than the AI boom to keep up from here

ISM new orders versus S&P 500 forward earnings*



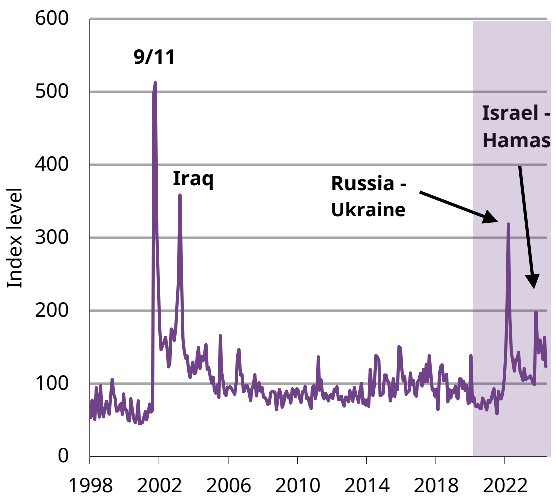
*Data as of 31 May 2024.
Source: Bloomberg, World Gold Council

Geopolitics

While the current unease could be seen simply as the new normal, geopolitical risk has been on the rise in recent years and is unlikely to abate anytime soon (**Chart 4**). Political polarisation, armed conflicts and erosion of globalisation in favour of nationalism and select alliances fuel economic instability. Geopolitical risk is particularly difficult to predict and may come from where it's least expected. What is true, however, is that gold reacts to geopolitics, adding 2.5% for every 100-points the Geopolitical Risk (GPR) Index moves up.[2] And while part of this effect can be transient, it could also be a trigger for deteriorating financial conditions, which may have a more lasting effect.

Chart 4: Geopolitical risk has been trending up

Geopolitical Risk Index (GPR)*



* Data from https://www.matteoiacoviello.com/gpr.htm as of May 2024.
Source: Matteo Iacoviello, World Gold Council

Emerging markets: gains and pains

While there's room for gold to move up, there are also factors that could curtail its strong run. Two stand out: central banks, and Asian investors.

Central banks

Central bank demand has been a key driver of gold's performance in recent years. We estimate that it contributed at least 10% to gold's performance in 2023 and potentially around 5% so far this year. However, the People's Bank of China (PBoC) has reported a deceleration in gold purchases over recent months, culminating in holdings that remained unchanged at the end of May.

This, combined with notable sales, has raised questions as to whether demand from the official sector may lose momentum. But we still expect central bank demand to remain above trend this year, a view that is shared by Metals Focus in their most recent Gold Focus report.[3] While reported gross purchases may be lower than last year, gross sales have also decelerated, primarily due to the absence of the hefty Turkish sales we saw in early 2023. Given that central bank demand is often policy driven, timing is difficult to ascertain, but our recent central bank survey provides some reassurance: gold reserves managers believe they will retain their positive outlook towards gold.

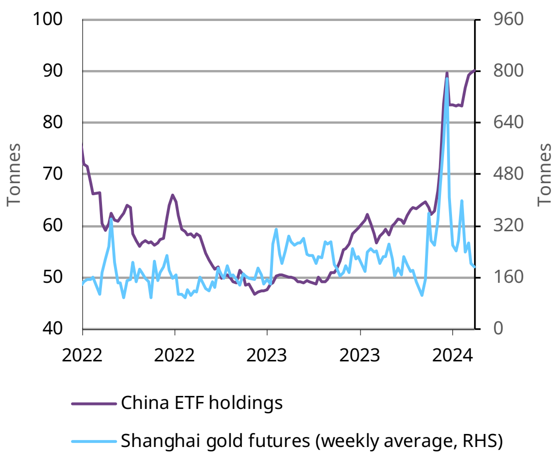
Asian investors

Asian investors have also been important contributors to gold's recent performance. This has been evident through bar and coin demand, gold ETF flows and, anecdotally, in the over-the-counter market.

In the past, Asian investors tended to buy on dips, but more recently, they have followed the trend. For example, we have seen meaningful AUM growth in both Indian and Chinese gold ETFs and gold's move up in early Q2 coincided with a spike in volumes in Shanghai futures (**Chart 5**). Chinese investor demand was partly supported by positive sentiment linked to central bank buying. So, while the fundamentals of gold ownership remain in place, the question is whether a pause by the PBoC may encourage profit-taking by more tactical investors.

Chart 5: Asian investors have contributed to gold's strong run

Chinese gold ETF holdings and futures positioning*



*Data as of 22 June 2024
Source: Bloomberg, Shanghai Futures Exchange, World Gold Council

2. The GPR index by Matteo Iacoviello measures both actual and perceived geopolitical tension. See: Geopolitical Risk (GPR) Index (matteoiacoviello.com)

3. *Gold Focus 2024*, Metals Focus, May 2024.

Table 3: Gold's performance in a given economic scenario is driven by the interaction of its four key drivers

Economic scenarios and factors that impact gold based on key drivers*

Expected Fed funds rate	Current 5.25% - 5.5%; 25bp lower by year end	More rate cuts priced in	5.5% - 6.5% by year end
Economic scenario	**Restrained recovery**	**Recession risk**	**Higher-for-longer**
Opportunity cost	10yr: stable, marginally down	10yr: lower	10yr slightly higher
	Dollar: flat to slightly down	Dollar: up on safe haven	Dollar up on rates differential
Economic expansion	Below trend but improving	Recession risks increase for 2025	Growth slows down
Risk and uncertainty	Stubborn inflation	Inflation drops but is above target	Inflation reaccelerates
	Risk-on positioning	Risk-off positioning	Market volatility
	Geopolitical risks	Geopolitical risks	Geopolitical risks
Momentum	Central bank purchases above trend	Central bank purchases above trend	Central bank purchases continue but at or slightly below trend
	Commodities down marginally	Commodities sell off	Commodities rebound
	Gold net positioning is high	Gold net positioning increases	Gold net positioning deteriorates
Implied gold performance	**Rangebound**	**Additional upside**	**Downside pressure**

Colour key (effect on gold):					
	Positive		Neutral		Negative

*Based on market consensus and other indicators. Size of gold drivers represents relative importance within each scenario. Impact on gold performance based on average annual prices as implied by the Gold Valuation Framework.
Source: World Gold Council

Consumers as price makers

It is often posited that consumers tend to be 'price takers' rather than 'price makers'. In the short-term, this may be the case. However, gold jewelllery and technology combined make up more than 40% of annual demand. As such, gold consumers play an important role in supporting – and sometimes slowing down – performance. And they usually respond to two key factors: price and income. In this case, the sharp upward trend in the gold price has dampened demand in some markets such as India and China. But positive economic growth can counteract some of this effect. In addition, possible gold price stability can lure back consumers who often respond more negatively to volatility than the level of the gold price. This may be particularly relevant for India, where expectations of economic growth are higher than other regions and gold's role as a store of value is well cemented.

Connecting the dots

Our analysis showcases gold's likely reaction to the underlying conditions behind market consensus, as well as alternative hypothetical scenarios (**Table 3**). While there appear to be many moving parts, Qaurum allows us to paint a clearer picture of these interactions.

In summary, gold may remain rangebound if current market expectations prevail. However, there's a clear path for gold to outperform from here, likely fuelled by Western flows. Conversely, in the event that central bank demand drops drastically, rates remain high for longer and Asian investor sentiment flips, we could see a pullback in the second half.

Overall, the extent of gold's reaction upwards or downwards will be a function of the magnitude by which each of the aforementioned factors – or a combination thereof – move.

It is also important to note that each of these scenarios has implications for other asset classes. A robust asset allocation strategy must take into account not just market consensus but alternative views. And in that context, our analysis shows that gold plays a key role as a diversifier and source of liquidity, coupled with its positive long-term returns.

World Gold Council

We are a membership organisation that champions the role gold plays as a strategic asset, shaping the future of a responsible and accessible gold supply chain. Our team of experts builds understanding of the use case and possibilities of gold through trusted research, analysis, commentary and insights.

We drive industry progress, shaping policy and setting the standards for a perpetual and sustainable gold market.

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