WORLD GOLD COUNCIL

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Gold Market Commentary

As the buck stops, more bite for gold

Gold return slows in May

Gold posted a third consecutive monthly gain in May, rising by 2% m/m to US$2,348/oz. Despite the more moderate gain compared to March and April, gold hit a new all-time high of US$2,427/oz mid-month before pulling back – likely reflecting some profit taking. But market activity remained supportive during the month, with net long managed money positions on COMEX hitting a four-year high and gold ETFs seeing net inflows (US$529mn) for the first time since May 2023.

Looking at our Gold Return Attribution Model (GRAM), there was no single variable that stood out as a key driver in May. Momentum and a weaker US dollar were positive drivers but their impact was marginal. And while the unexplained component of the model shrank considerably in May, it was still the largest factor by far. As we have noted previously, we believe some of this can be attributed to strong over-the-counter buying, including central bank purchases which have been a notable contributor to recent gold returns.

May review

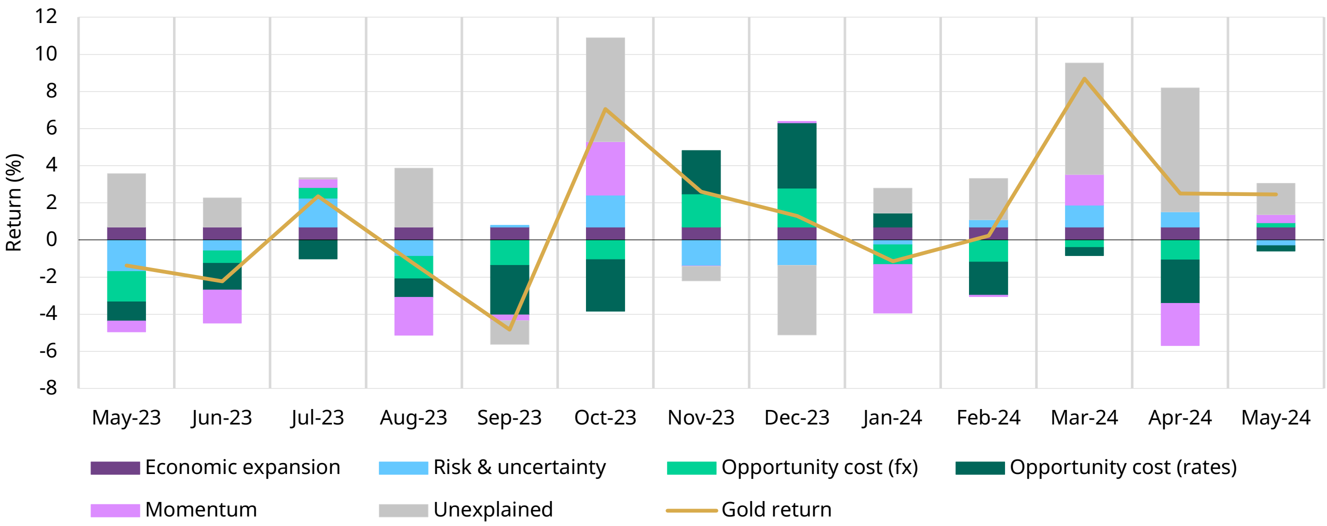
Gold rose for the third consecutive month in May albeit modestly, with COMEX net positioning hitting a four-year high and global gold ETFs seeing the first monthly net inflow for a year.

Looking forward

The US dollar bull narrative could be running short of arguments, and a dollar peak has historically been good for gold.

Chart 1: Over-the-counter and central bank activity still a key driver for gold in May

Multifactor model detailing attribution of gold's drivers on its monthly returns*



*Data to 31 May 2024. Our Gold Return Attribution Model (GRAM) is a multiple regression model of monthly gold price returns, which we group into four key thematic driver categories of gold's performance: economic expansion, risk & uncertainty, opportunity cost, and momentum. These themes capture motives behind gold demand; most importantly, investment demand, which is considered the marginal driver of gold price returns in the short run. 'Unexplained' represents the percentage change in the gold price that is not explained by factors already included. Results shown here are based on analysis covering an estimation period from February 2007 to May 2024.

Source: Bloomberg, World Gold Council

Table 1: Gold's strong y-t-d performance continued through May

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)
May price	2,348	2,165	11,877	1,843	3,200	2,119	63,014	547	75,726	3,530
May return	1.8%	0.2%	1.7%	-0.1%	0.8%	0.1%	1.8%	1.8%	1.3%	-0.8%
Y-t-d return	13.0%	15.0%	26.0%	12.9%	16.3%	21.2%	13.3%	15.2%	23.4%	15.7%

*Data to 31 May 2024. Based on the LBMA Gold Price PM in USD, expressed in local currencies.
Source: Bloomberg, ICE Benchmark Administration, World Gold Council

Looking ahead

US growth and inflation data continue to set the tone for currency markets, as well as most other asset classes. In fact, the dollar was, until recently, looking remarkably strong as US growth remained robust and the macro market narrative shifted from 'when' to 'whether' the Fed will ease this year (Chart 2).

The US dollar rally, however, went into reverse in May – falling for the first time in 2024 – as inflation eased, giving the Fed more room to cut interest rates (**Chart 3**). And as we look forward, the dollar bull narrative could be running short of arguments for the next leg higher, which, in turn, could be positive for gold.

First, as we discussed in last month's Gold Market Commentary, a 'no landing' scenario has been on the rise. To that end, as expectations reset higher, it will become progressively more challenging for the economy to deliver the upside surprises needed to extend the rise in US yields and the dollar. Second, and according to the BofA Global Fund Manager Survey, a soft landing continues to be the prevailing scenario among investors at this juncture, especially after the recent softer data (for instance, initial unemployment claims and ISM services PMI). As a result, we expect the US dollar to grow increasingly sensitive to weaker US data particularly as it remains close to the top end of its 52-week range (Chart 4).

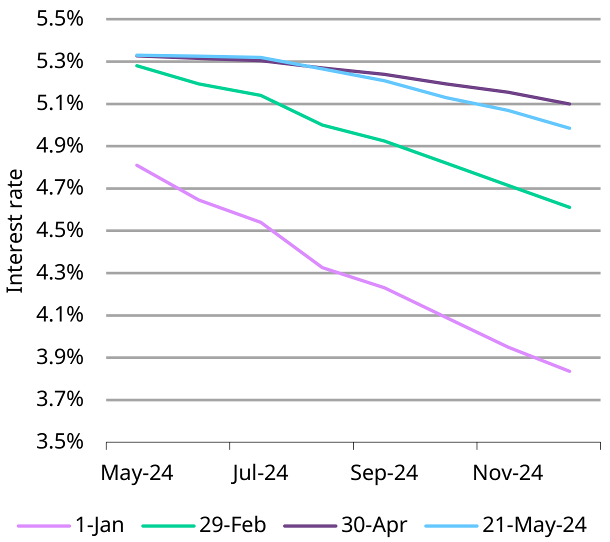
In addition, the ongoing improvement in global growth outside of the US could temper dollar performance as the currency tends to appreciate during times of risk and vice versa. For example, recent data showed that the eurozone grew by 0.3% in the first quarter of this year following five quarters of stagnant or negative growth. More globally, fears of a recession have also receded.

Finally, looking at the dollar (measured by the DXY Index) through a technical lens shows it has been in a short-term uptrend within a broader sideways range since 2022. Crucially, this recent uptrend is now showing signs of weakening and potentially reversing. The spotlight is now on key support levels including its 200-day average and up trendline from December 2023 (Chart 5).

And while gold has largely brushed off the stronger dollar recently as Eastern buyers have shifted their behaviour (buyers in emerging markets appear to be less attentive to the US dollar or Western monetary policy expectations), a weaker dollar going forward could bring back Western investors who are waiting for a trigger.

Chart 2: Higher-for-longer

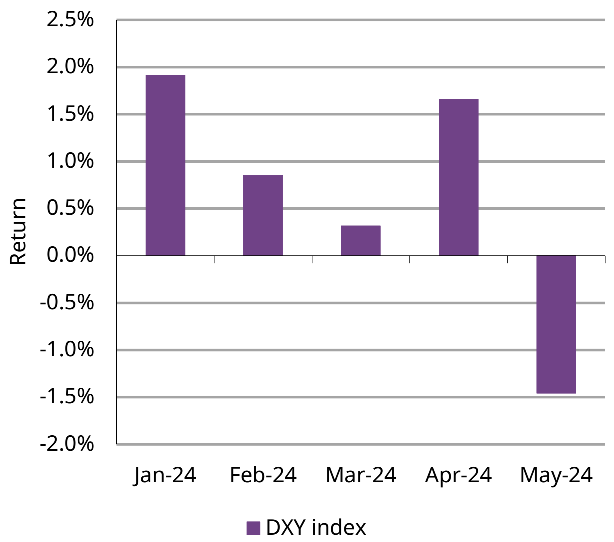
Fed implied policy rate*



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

Chart 3: The dollar goes into reverse

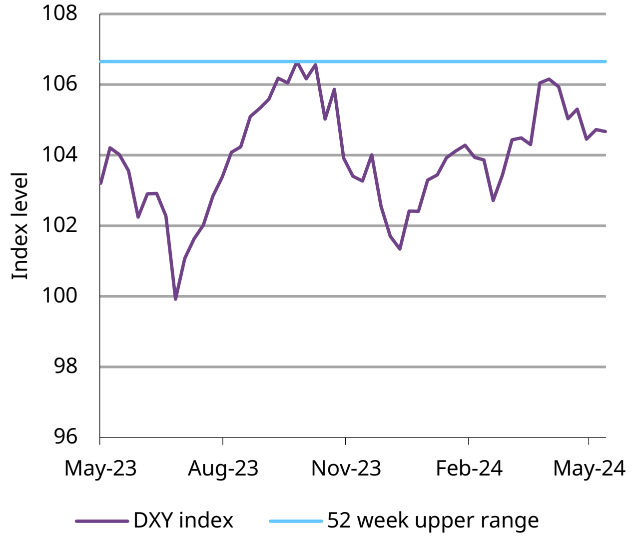
DXY index monthly performance*



*Data from 31 December 2023 to 31 May 2024.
Source: Bloomberg, World Gold Council

Chart 4: Dollar remains near top of 52-week range

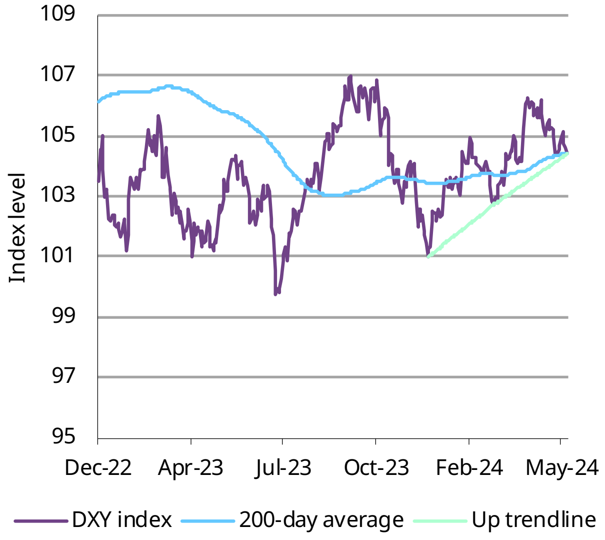
DXY index – weekly data*



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

Chart 5: US dollar testing key support

US dollar technical patterns*



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

Historical implications for gold

The period following a dollar peak has historically been good for gold. We assessed eight periods in history where the dollar experienced a prolonged contraction. The average duration of these pullbacks was roughly 22 months, during which the US dollar fell 23% and gold rallied 52%, on average (Chart 6).

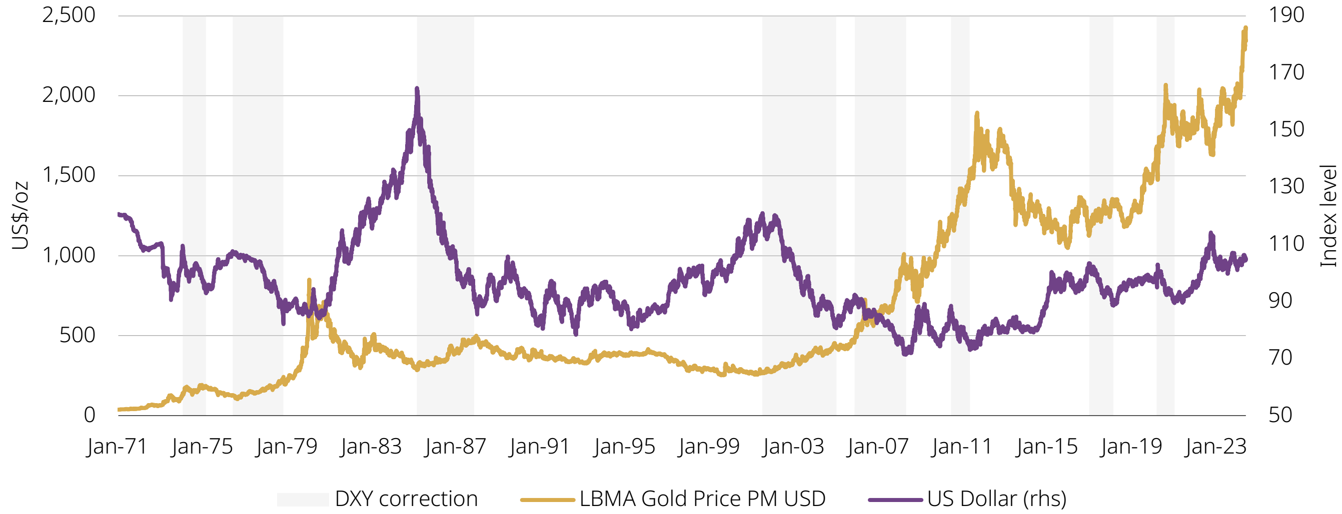
Taking a deeper dive, when the dollar has fallen by at least 10% over a six-month period since 1971, the average return for gold during these periods was +14%. Additionally, gold returns were positive 87% of the time.

In summary

It appears the US dollar is in a protracted range-trading environment but having performed well recently it could be due for a further pullback following its first down month of 2024 in May. And as highlighted in our analysis, any prolonged weakness in the dollar should, at a minimum, ease headwinds and provide potential upside for gold over the ensuing months.

Chart 6: Historically, a dollar peak has often been good for gold

DXY index and the gold price*



*Data to 31 May 2024.
Source: Bloomberg, ICE Benchmark Administration, World Gold Council

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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