WORLD GOLD COUNCIL

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Gold Market Commentary

January jitters

A season for giving (back)

Gold gave back a little more of its y-t-d gains in December, finishing down 1% on the month, but up 26% on the year (**Table 1**). See our recent blog on a FY review.

According to our Gold Return Attribution Model (GRAM), the primary driver for gold's decline was a strong rally in the US dollar index (*opportunity cost FX*) which finished the year at its high (**Chart 1**). Softening gold's drop were a rise in breakeven inflation expectations and the Geopolitical Risk index (*risk & uncertainty*), likely on the back of martial law declared in South Korea, as well as small global gold ETF inflows (*momentum*).

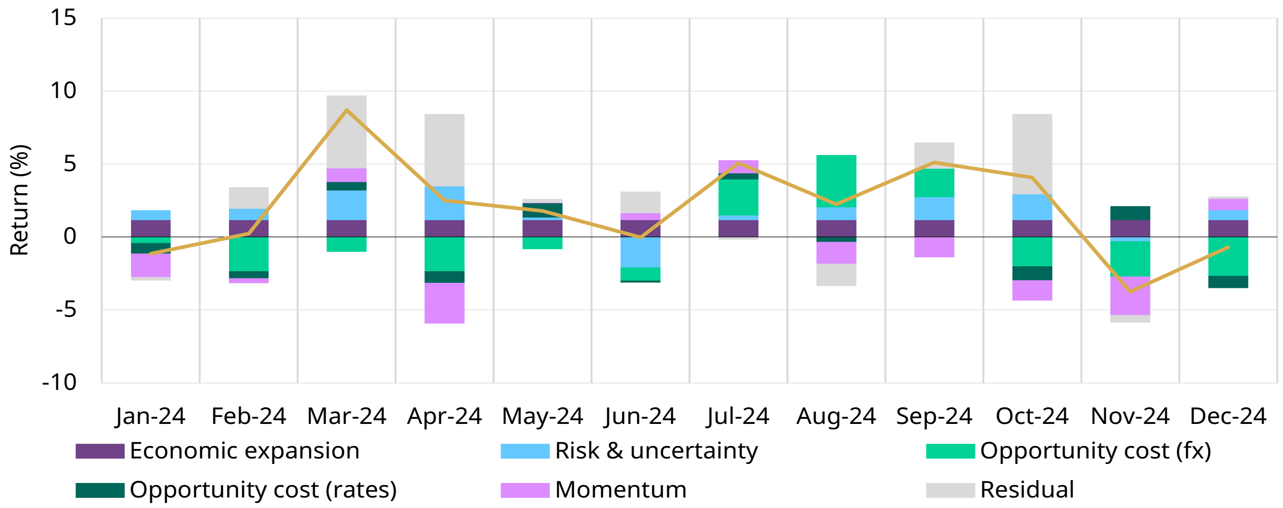
Global gold ETFs eked a US$778mn (4t) gain in flows thanks to strong Asian ETF buying, significantly offsetting outflows in North America during December. Those outflows were quite benign given the weakness in November and the prospect of profit-taking following such a strong year. A positive sell-side outlook for gold probably helped constrain a bigger end-of-year shift out of gold.[1] Profit-taking also likely occurred in futures, where somewhat extended managed money net longs shed US$4bn (-49t) over the month taking total net positions down to US$65bn (764t).

Highlights

December review
Gold gave back less than expected given a strong dollar and profit-taking, as a positive outlook and higher risk constrained outflows.

Looking forward
Uncertainty in bond markets is likely to fuel interest in gold in January, however technical signals pose a near-term headwind for gold.

Chart 1: Gold gave back a small portion of its 2024 gains in December, driven by US dollar strength



*Data to 31 December 2024. Our Gold Return Attribution Model (GRAM) is a multiple regression model of gold price returns, grouped into four 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 returns in the short run. 'Residual' captures the share of gold returns that is not explained by factors already included. Results shown here are based on analysis covering an estimation period from June 2019 to October 2024. We have reduced the estimated window to five years to better reflect current conditions.
Source: Bloomberg, World Gold Council

1. Gold set to rally further this year, say Wall Street banks | Financial Times.

Table 1: Gold dropped 1.6% in December but finished a stellar year up 26%, despite a stronger US dollar

Gold price and performance in key currencies*

	USD (oz)	EUR (oz)	JPY (g)	GBP (oz)	CAD (oz)	CHF (oz)	INR (10g)	RMB (g)	TRY (oz)	AUD (oz)
December-end price	2,609	2,521	13,201	2,084	3,754	2,369	75,913	616	92,275	4,218
December return	-1.6%	0.6%	3.4%	0.1%	1.1%	1.4%	-0.6%	0.1%	0.3%	3.6%
2024 return	25.5%	33.9%	40.1%	27.7%	36.4%	35.4%	20.6%	28.1%	50.4%	38.3%

*Based on the LBMA Gold Price PM in USD, expressed in local currencies, except for the India and China where the MCX Gold Price PM and Shanghai Gold Benchmark PM are used, respectively.
Source: Bloomberg, World Gold Council

January jitters

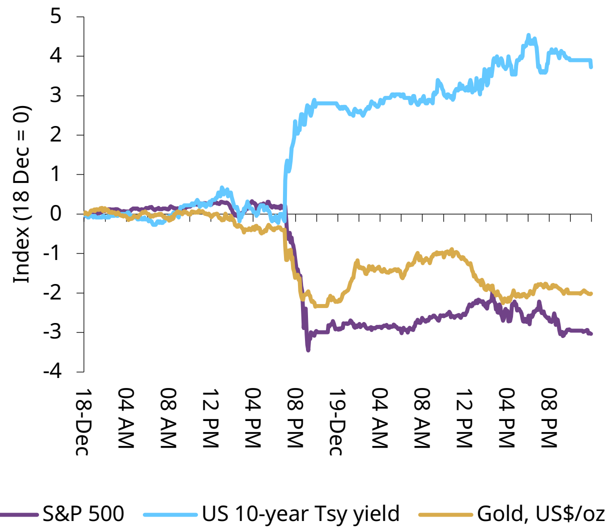
- Hawkish Fed spurs profit-taking but also signals interest rate uncertainty
- Bonds are set to stay on shaky ground, and this should help gold at the margin
- Short term, gold may need to consolidate in Q1 2025 as technicals signal that it resides in overbought territory.

Fed puts punch bowl back in the fridge

A 25bps Fed policy rate cut in December, doused with further hawkish guidance, resulted in sizeable intraday wobbles in equities, US Treasuries and gold (Chart 2). The S&P 500 fell by 3%, and the 10-year Treasury yield marked the largest FOMC-meeting move since 2013. Gold dropped by over 2%. Undoubtedly, the Fed's sober messaging prompted some investors to take profit following a stellar year for equities and gold, with tax-loss selling an additional incentive to cut equity exposure.

Chart 2: The Fed gave markets a reality check in December. Gold wasn't spared either

Intraday price reaction in US equities, Treasuries and gold following FOMC meeting in December*



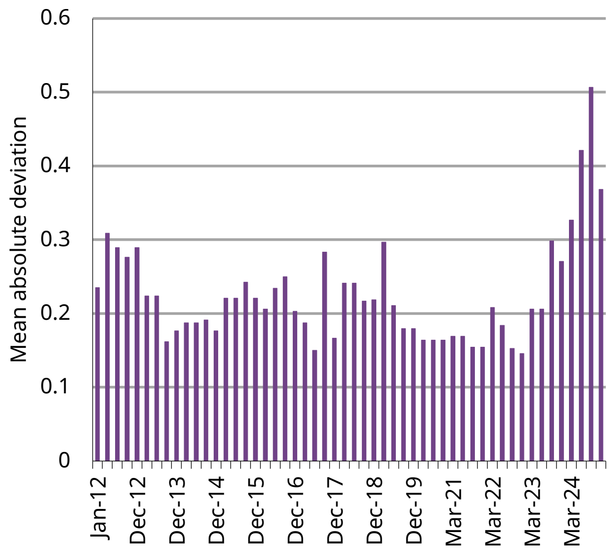
*Data from 18 December to 19 December, 2024.
Source: Bloomberg, World Gold Council

A high rate of uncertainty

The reaction probably also reflected some pent-up uncertainty that markets, as well as the Fed, soon face a change in personnel at the helm of the US economy come January 20. While the FOMC members are somewhat confident in where interest rates will be at the end of 2025 – they are unusually divided on where rates will be at the end of this cutting cycle (Chart 3).[2]

Chart 3: Fed officials are uncertain where this cutting cycle will end

Dispersion of FOMC outlooks for long-term policy rate*



*Data as of 17 December 2024. Dispersion is calculated as the mean absolute dispersion around the mode of expected long-term rates.
Source: Bloomberg, World Gold Council

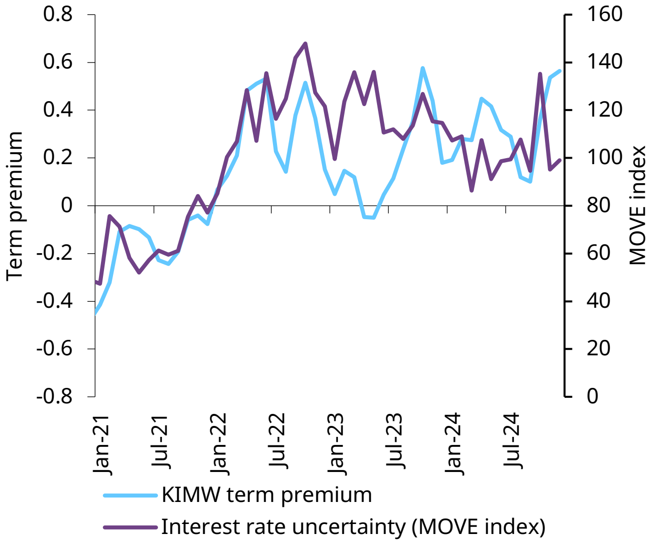
Interest rate uncertainty is also reflected in the elevated level of the MOVE index – an options-based measure of expected (implied) bond volatility. This is partly the result of two months of positive inflation surprises in the US. But elevated debt and deficits are arguably also factors.[3] Interest rate uncertainty should favour gold relative to bonds as it raises their associated premia, at least through January with debt ceiling wrangling and the US presidential inauguration on the cards (Chart 4).

2. Federal Reserve's flip-flops risk undermining US exceptionalism | Financial Times.

3. There is also a feedback loop from the Move index to the term premium, whereby increased uncertainty raises the compensation investors require from long duration bonds | BIS.

Chart 4: High interest-rate uncertainty goes hand in hand with a higher term premium

Long-term Treasury estimated term premium and interest rate uncertainty (MOVE index)*



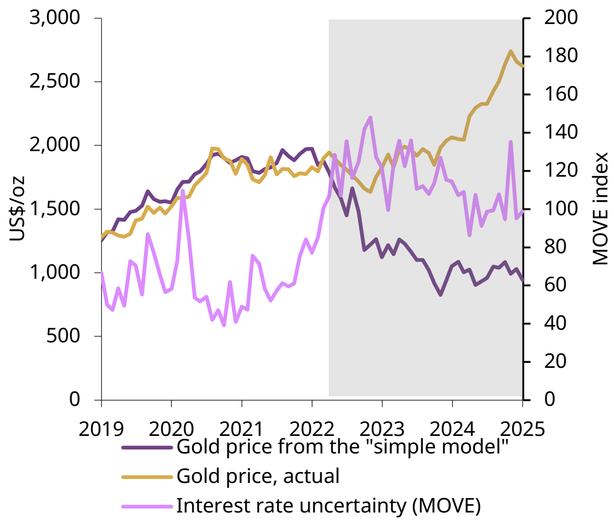
*Data to 31 December 2024. The term premium is estimated using the Kim-Wright model, which extracts the premium as the excess return required over rolling over expected short-term rates.
Source: Bloomberg, World Gold Council

Gold looks the other way

Over the past two years, a breakdown in the relationship between gold and real interest rates has been on display (Chart 6). We have in the past attributed the phenomenon largely to emerging market central bank buying and geopolitical risk premia. But perhaps bond uncertainty has also played a role.

Chart 5: Bond uncertainty may have played a role in the breakdown of the yield-gold relationship

Simple gold model, actual gold price (US$/oz) and MOVE index*

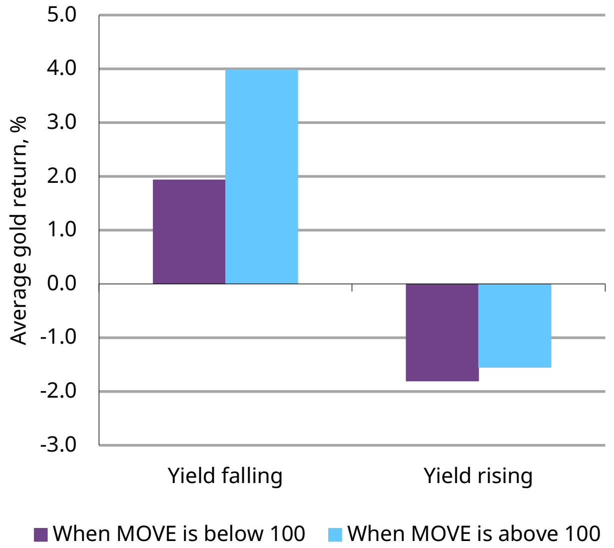


*Data to 31 December 2024. Model based on gold price as a function of US 10-year TIP yield and US dollar index (DXY), estimated to March 2022.
Source: Bloomberg, World Gold Council

Data suggests that when interest rate uncertainty – as measures by the MOVE index - is high, yield trajectory appears to exert less of a drag on gold returns than when it is low.

Chart 6: Yields less of a drag on gold returns when uncertainty is high

Average gold returns during yield and interest rate uncertainty (MOVE index) regimes*



*Monthly data from December 2007 to December 2024. Analysis done on discrete monthly values of gold returns, yield changes and levels of MOVE index.
Source: Bloomberg, World Gold Council

It also looks like this is a statistically significant difference, if we regress gold returns on a real yield component with an interaction dummy for when the MOVE index is above 100 (it has recently risen to 99). The normal sensitivity is more than halved when bond uncertainty is high, even accounting for moves in the US dollar index.[4]

Thus, alongside central bank demand and geopolitical risk, it may further explain why the traditional simple real rate model hasn't been quite as accurate over the past two or so years as it was post the global financial crisis up to 2022. Until debt concerns, a drive by central banks to continue their diversification of reserves, and geopolitical risks wane, gold is unlikely to take much of a negative cue from bond yields.

To add fuel to the fire, bond market uncertainty might get amped up in January again as the Biden administration carves out its last twenty days in office. And debt ceiling jitters are set to resurface in the middle of the month when the Treasury could be forced into extraordinary measures to avoid a debt default, as warned by the incumbent Treasury Secretary, Janet Yellen.[5]

Technical handbrake

While uncertainty provides some wind beneath gold's wings, we take note also of the pressure that a stellar year like 2024 might exert on the price going forward. Technically, gold will

4. We are aware that much of this period coincides with central bank net buying and a positive bond equity correlation so disentangling the effects is non-trivial.

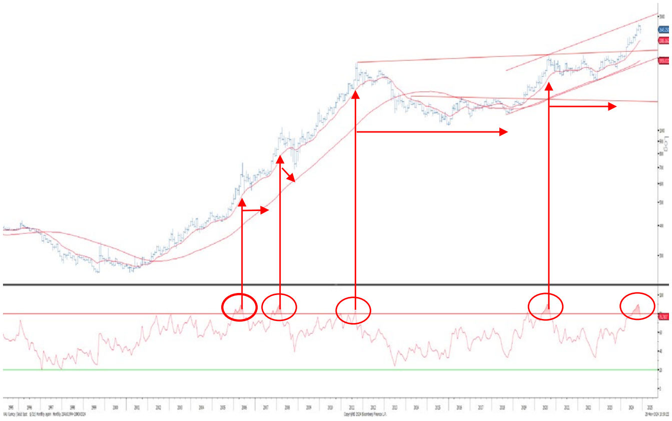
5. Janet Yellen warns Congress US could hit debt limit in January | AP News

have to battle what looks like overbought territory for some time.

The long-term structural uptrend may get challenged in early 2025 as monthly momentum indicators suggest a "sell" signal after five months in extreme overbought territory, with similar signals seen at the peaks in 2006, 2008, 2011 and 2020. Longer term, the core uptrend looks well cemented and any near-term weakness could be viewed as an opportunity for investors to re-engage in gold at more attractive levels.[6]

Chart 7: Gold appears technically overbought on monthly signals, and may need to consolidate

Gold price (US$/oz) and its Relative Strength Index*



*Monthly data to 31 December 2024. Relative strength is a technical oscillator indicator comparing average gains(losses) to previous price levels. Annotations are our own.
Source: Bloomberg, World Gold Council

In summary

Bond uncertainty may mean that gold is less likely to dance 'negatively' to the tune of bond yields for the foreseeable future. That is good news. But gold's stellar performance in 2024 may leave it facing a near-term uphill struggle as technical indicators suggest it is overbought. That said, given that the longer-term trend is intact, it could present investors with the opportunity to engage at more attractive levels.

6. It is important to recognise that a move into overbought territory itself is not a signal that a trend is about to reverse or a correction/consolidation emerge, far from it. Indeed, such a move reinforces the strength of the core trend. It is when this momentum measures moves lower and out of overbought territory (below 80) when the indicator itself gives a "sell" signal. The use of the word "sell" though needs to be qualified, as a "sell" signal for a momentum indicator at its heart simply implies the trend is unlikely to continue at its current pace. It could signal a reversal lower and a meaningful correction, or a sideways phase, it could also though signal the trend will continue higher, but a much slower pace.

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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