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Gold Market Commentary

Snakes and ladders

Gold punches through highs again

Gold finished January on an all-time-high of US$2,812, up 8% on the month, adding another positive start to its strong seasonal record . All-time-highs were logged across the board in major currencies (**Table 1**).

According to our Gold Return Attribution Model (**GRAM**), almost all drivers contributed positively including a large rise in the Geopolitical Risk index (GPR), with the only major drag coming from the lagged momentum effect of a strong US dollar in December (**Chart 1**).

Global gold ETFs secured a US$2.6bn (30t) gain in AUM, driven almost exclusively by strong inflows into European gold ETFs (+US$3.4bn, 39t) – likely aided by a European Central Bank (ECB) cut that took bund yields down quite dramatically over the course of the month. US funds lost US$500mn (6t), Asian funds pared US$320mn (4t) while other ETFs managed small inflows totalling US$51mn (1t).

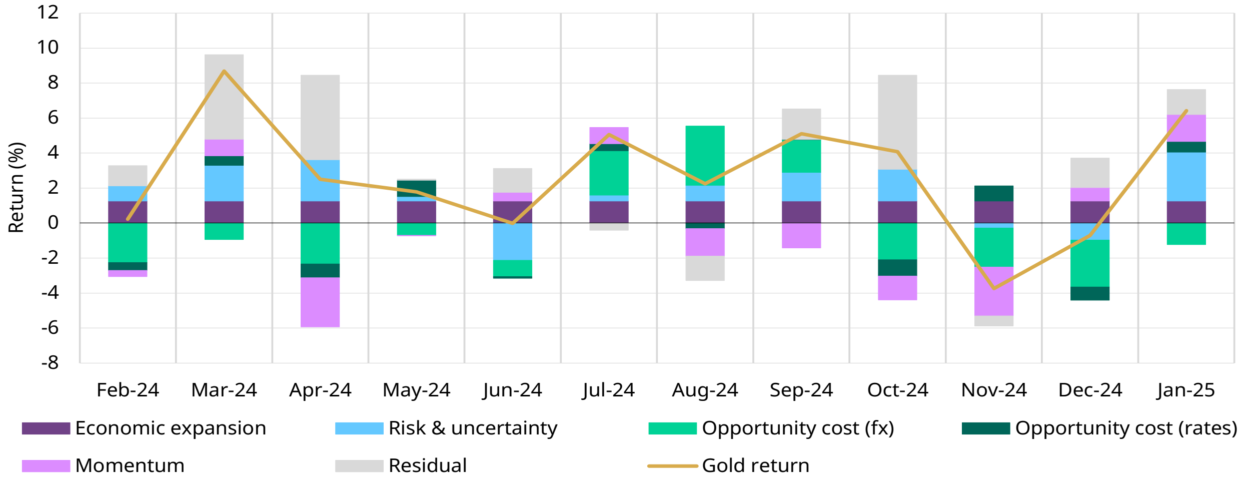
COMEX managed money net longs added US$64bn (150t) to positions with a large increase in longs and a small cut in shorts.

Highlights

January review
Gold finished the month on an all-time-high in all major currencies, with tariff fears, a weaker US dollar and bond yields all contributing.

Looking forward
Chinese gold market activity appears to have stayed true to its seasonal pattern and suggests follow-through into February. German elections might put further pressure on the US dollar.

Chart 1: Gold reached new all-time-highs on a confluence of factors including tariff fears and a weaker US dollar



*Data to 31 January 2025. 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

Table 1: New highs were made in all major currencies in an exceptional month for gold returns

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)
January price*	2,812	2,714	14,031	2,269	4,089	2,561	81,798	644	100,516	4,522
January return*	7.8%	7.6%	6.3%	8.9%	8.9%	8.1%	7.8%	4.5%	8.9%	7.2%
Y-t-d return*	7.8%	7.6%	6.3%	8.9%	8.9%	8.1%	7.8%	4.5%	8.9%	7.2%

*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

Snakes and ladders

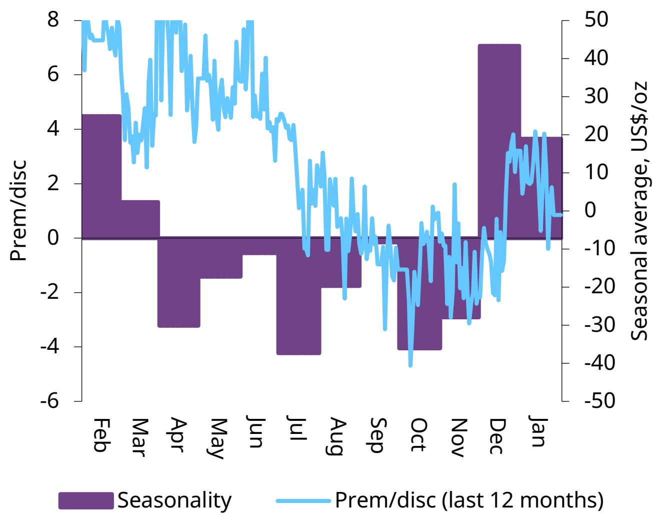
- China saw evidence of strong start to an **auspicious 'year of the snake'** for gold. Historically, **February is positively correlated to January** performance, so augurs well
- German elections might be flying under the radar for many given the noise around US tariffs, but the elections could trigger a much more positive growth outlook
- This in turn could support **the euro vs. the US dollar** in the process. A weaker US dollar is not a consensus view, but unforeseen pressure on it could herald further support for gold.

China's New Year of the snake kicks off in style

It's Yisi's year of the snake in 2025, which occurs every 60 years and promises to be an auspicious one. Seasonal strength in local prices was evident in January with an average premium of US$6/oz recorded following several months of discounts (-US$9/oz on average, **Chart 2**).

Chart 2: Seasonality evident in China's gold premium

Average prem/disc seasonality and last 12m daily prem/disc*



*Seasonality calculated using Statsmodels, from January 2009 to December 2024.
Prem/disc time series from 1 February 2024 to 31 January 2025.
Source: Bloomberg, World Gold Council

In addition, intraday slicing of spot gold prices in January suggested activity during Asian hours (including the 11am AM price) were instrumental in performance last month. Given that February tends to positively correlate to January, a decent month may lie ahead.[1] European gold ETF activity probably also contributed to the session's strength (**Table 2**).

Table 2: Asian and European activity appeared to have dominated price action in January

Intraday XAU spot price divided into three time zone sessions*

	Asia	Europe	US
	22:00 to 11:15	11:15 to 14:30	14:30 to 22:20
Cumulative return	4.95%	1.02%	0.82%
Volatility (ann.)	11.24%	19.73%	15.08%

*Data from 1 January to 31 January. Time zones based on Greenwich Mean Time (GMT).
Source: Bloomberg, World Gold Council

Up the economic ladder

While focus is currently on the impact of President Trump's first few weeks in office, with tariffs and bluster rocking markets, elections in Germany on 23 February could have far reaching implications too.

Surveys show that the issue German voters care more about than any other, is economic growth (**Chart 3, p3**).

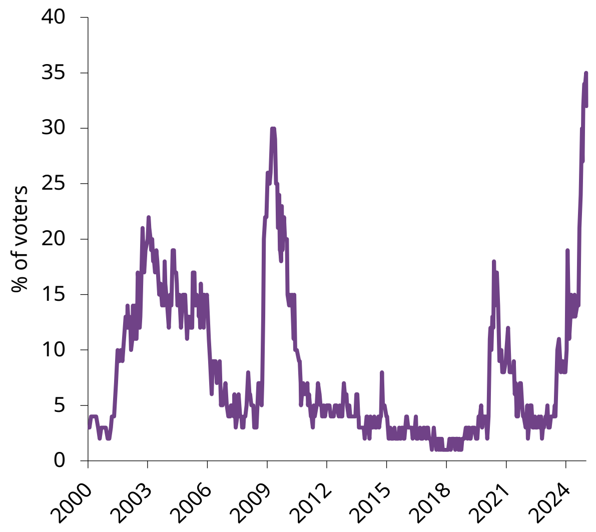
This means that whoever wins will have to deliver. And promises from all candidate parties have been emphatic about delivering on growth.[2]

Equity markets appear to have sniffed out the fruits of a change in administration, with the DAX outperforming most major indices over the past two months. But next to be impacted may be bund yields. Despite a softer ECB likely lowering short-end rates, stimulus could steepen the curve and pressure longer-term yields higher reducing the gap between bunds and US Treasuries. This spread tends to lead changes in the US dollar index (**Chart 4, p3**).

1. Since 2003, the January prem/disc has explained about 70% of the variation in February with a significant ($p<1\%$) and positive coefficient of 0.8 with no autocorrelation issues in the data.
2. "And despite the differences in political ideology, all parties are proposing broad economic reform packages as a part of their electoral campaigns". FICC Tactical Strategy, 21 January 2025, Vanda Research

Chart 3: "It's the economy, stupid"

Percentage of voters who say economy is a key concern*



*Data from January 2000 to December 2024. Political slogan that played an important part in US 1992 elections. It's the Economy Stupid - Political Dictionary.
Source: Forschungsgruppe.de, Vanda Research, World Gold Council

So euro strength could add further pressure to an overvalued US dollar, although it might take a bit of time to materialise and will likely not be dramatic.[3] With the Bank of Japan seeing domestic demand matching targets and further rate hikes tabled this year, we believe a slightly anti-consensus call on the dollar shifting down is a possibility.[4]

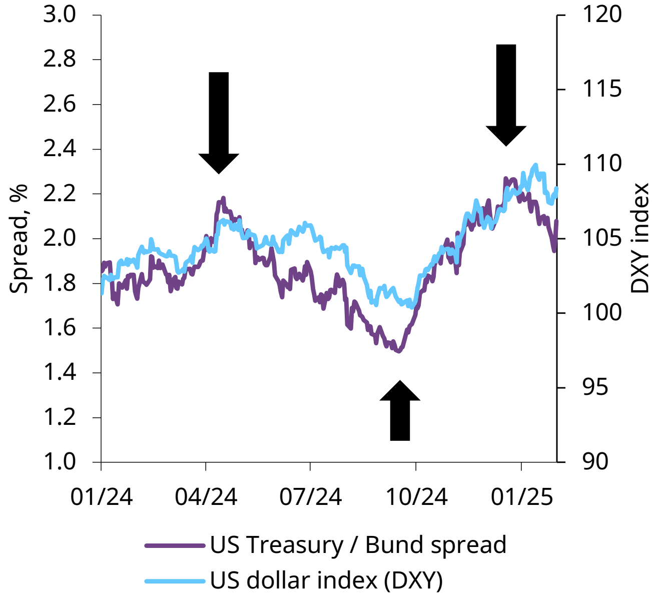
And gold's relationship to the US dollar has been consistently negative over the last few decades, more so than bond yields. Although it's not been key to gold's price performance of late, we believe a softer trend should provide a gentle tailwind for gold (**Chart 5**).

In summary

Markets are currently fixated on the fallout of broad tariffs that the Trump administration has levied. And the knee-jerk reaction from currencies has been a strengthening of the US dollar (DXY). But elections in Germany might be a trigger for a sustained strengthening of the euro vs. the US dollar via a contracting Treasury/bund spread – even after an unwind of the strength from the strong rally since November. Likewise, weakness in the Japanese yen appears less likely. All else being equal, US exceptionalism might find a challenge from these two corners, pressuring the US dollar lower – which given the consistent relationship with gold – can add further support to gold's incumbent strength.

Chart 4: Bund/Treasury spread tends to lead changes in the US dollar

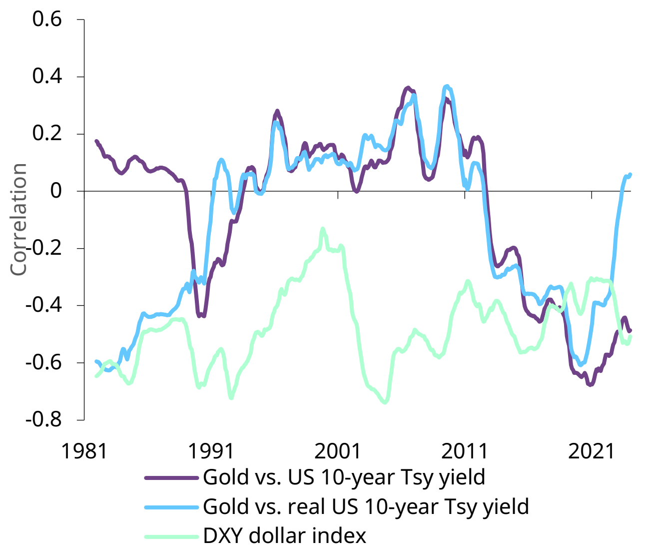
10-year US Treasury less 10-year bund yield, and DXY index*



*Data from 1 January 2024 to 31 January 2025.
Source: Bloomberg, World Gold Council

Chart 5: Gold's yield relationship is regime dependent. Dollar relationship is much more stable.

Rolling correlation between gold returns, yields and the US dollar index (DXY)*



*Data from December 1971 to January 2025. Rolling 3-year correlation of monthly returns between gold and bond yields, as well as gold and the US dollar index (DXY). Real US 10-year Treasury reflects nominal yield less US core y/y cpi inflation.
Source: Bloomberg, World Gold Council

3. FT | The 'grossly overvalued' American dollar | 16 January 2025.

4. FT | Bank of Japan raises interest rates to highest level in 17 years | 25 January 2025.

World Gold Council

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

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