GOLD'S UNUSUAL BULL RUN: A MARKET IN FLUX

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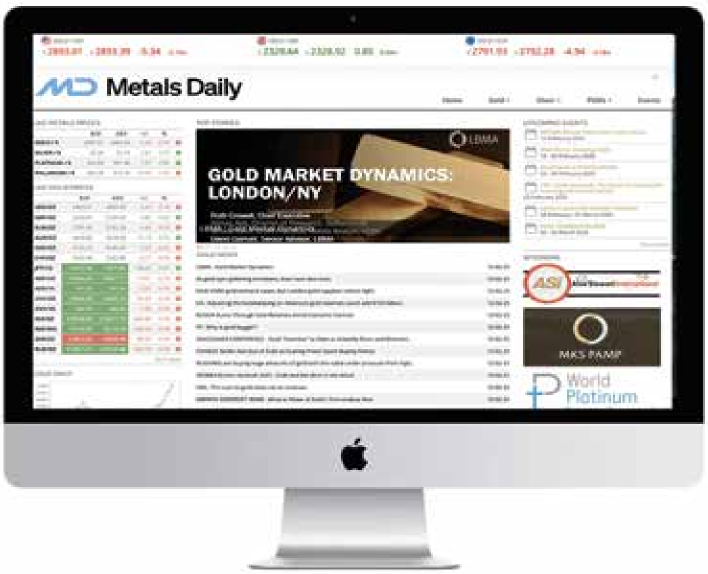
The famous German dramatist Gotthold Lessing once observed that "in nature everything is connected, everything is interwoven, everything changes with everything, everything merges from one into another." This observation, more than ever, applies to the current gold market—one that is anything but conventional and yet still interlinked. While gold has long been a subject of intrigue for investors, its current rally is nothing short of perplexing.



Gold has always been driven by a complex web of economic, geopolitical, and market forces—but is perhaps best described as being the "sum of all fears." However, the dynamics that are typically at play are now behaving unpredictably. This makes the gold market an especially difficult one to understand at the moment. For starters, the ongoing bull run in gold seems to be ignoring many of its traditional correlations, leaving analysts to ask: why?

The Traditional Gold Metrics Are Failing
Gold has traditionally been seen as a hedge against inflation. As inflation rises, gold prices tend to follow suit. And although this pattern holds in the long term, over the short term it is behaving unexpectedly. In 2024, with inflation rates in the West declining fast, gold has bucked this trend, accelerating rather than slowing down as one might expect. Historically, gold has also held a strong inverse relationship with the US dollar; when the dollar strengthens, gold tends to weaken. Yet in 2024, both the US dollar and gold have risen together—an unusual alignment that defies historical norms.

Further complicating the picture is gold's strong relationship with US treasury bond yields. As a non-interest-bearing asset, gold typically falls when bond yields rise, as investors turn to more profitable fixed-income assets. Yet, in 2024, gold and bond yields have been moving in parallel, suggesting that traditional relationships are being disregarded. In short, gold has de-coupled from almost every expected norm.

Even the performance of silver, often seen as a leading indicator within the precious metals market, foretelling a pivot in the metals complex, that relationship has also differed from expectations. Historically, silver tends to outperform gold during bullish periods in the precious metals sector. However, the gold-to-silver ratio has surged, indicating that silver is underperforming and being largely bypassed in this rally. It is the dog that did not bark.

Meanwhile, gold demand from Asia—especially for jewellery—has remained surprisingly strong, despite rising prices which is also counter to expectations. Asian buyers are traditionally highly sensitive to price changes, especially as jewellery items incur very thin margins and there is little scope to absorb price increases, but this time, they have remained active participants even as gold prices have reached all-time highs in domestic terms.

The Mystery Behind Gold's Rally
So, if the traditional drivers of gold's price are not at play, what is? Three main possibilities are considered here to explain the current market behaviour.
One theory suggests that gold is no simply longer correlated with other assets in the way we thought after centuries of reliable and predictable behaviour. Another theory is that we are witnessing a paradigm shift in the gold market which is less driven by Western economic considerations. The third, and perhaps most compelling, theory is that a large, opaque player is behind the surge in demand—someone whose purchases are very high conviction and large enough to distort the market.

The first explanation, that gold is no longer correlated with other assets, seems unlikely. Historically, gold's price movements have been reliable, and it is hard to imagine that this long-standing relationship has suddenly disappeared—just not now, at least. These correlations have a logical basis although they can - as we see now - be over-ridden temporarily.

This leads to the second possibility: a paradigm shift. The market could be undergoing a transformation that has yet to be fully understood. Historically the price-discovery process for the global spot market has centred on the 'loco London' market. Not only are most bullion trades settled and cleared here, but it also vaults the largest proportion of the world's metal.

That said, China is both the largest gold producer and consumer and it follows that perhaps the East is having an increasing effect on price discovery – a little like a strong magnetic field. This would be to say that to understand gold one would need to see it through the lens of the Asian investor, and less as a westerner might. And certainly there are very powerful reasons just now why investors in the East would buy gold, and arguably less so in the west. For sure many of the largest price moves have occurred during Asian trading hours so this argument may have some validity.

However, many analysts are leaning toward the third theory—that a large and unknown player is driving gold's recent rally. This would explain why gold's rise has seemed to cut across almost every traditional market correlation.

The Opaque Buying Spree

One of the most unusual aspects of the current gold market is the lack of transparency regarding who is buying. Typically, market data such as import/export statistics, vaulting data, and shipping rates can provide clues about the sources of demand. But right now, there is very little statistical data available to explain who is behind this significant buying.

And if you know 'who' is buying, then you can understand much about its quality (strong hands buying (central banks) or maybe short term speculative plays ?) and by extension, to what extent the rally can be expected to prevail.

There are relatively few high conviction buyers out there that could match the profile. Gold has scarcely paused for consolidation, let alone profit-taking for nearly one year now and as we have seen the price action ignores traditional headwinds.

The buying appears to be highly concentrated, and the lack of visible telltales suggests that it's being driven by a single, powerful entity whose identity remains a mystery, but their influence on the market is undeniable.

Possible Explanations

To our thinking there are two possible explanations for the 34% increase in gold in the last year.

One opaque sector is the derivatives market. It is known that significant leveraged long positions have been taken on the Shanghai Futures Exchange (SHFE) and most likely in the OTC market. It fits the bill insofar as derivatives plays tend to be agnostic of broader macro events and, if sufficiently large, it can also bring about a self-fulfilling wish. If say a Chinese speculator buys a very large number of gold calls, expecting prices to rise, then the bank on the other side of that trade would typically hedge by buying about half the position in the spot market. Which, if sufficiently large would cause the price to rise, prompting further hedging by the bank, creating a feedback loop. The only place where this would be evident is spot purchases by the bank who would buy gold, which would lead to more buying – pretty well what we are seeing.

A second explanation would be a large undeclared central bank buying programme. With financial sanctions across the world running high, and with arguably the US under the previous administration having 'weaponised the dollar' and excluded a number of nations from international payment systems, it follows that prudent central banks who might fear a similar fate would sell dollar assets and acquire gold as it has no counterparty risk. In this environment they would simply place purchase orders from the major refineries and here arguably price is not especially important. Again it fits the profile.

Either or possibly both scenarios are at play just now. If you can tell something of the character of a man from how he behaves under adversity, then so it is for metals. And the character gold is displaying just now is an unusually insensitive approach to broad economic events … and relentless buying.

What Lies Ahead for Gold? - A high of $3175 and an average of $2888

At the beginning of each year the London Bullion Market Association asks the market analysts to forecast the gold price outlook for the year ahead. We expect a high of $3175 and with an average gold price of $2898 in 2025 ; much as in the 1970's, we expect to see a second inflationary echo or spike (gold prices spiked in 1980) as global economies recover. And while economic prospects in the US may brighten under the pro-growth Trump administration, it will likely remain a highly uncertain world on short term policy shifts. At the time of writing gold has already achieved an all time high of $2955 on two occasions in February 2025 – much of what we had expected for the first 6 months has already happened in just 6 weeks.

And gold is currently under some selling pressure. Just as you can tell the character of person from how they behave under pressure, so it is for metals. When challenged does collapse (the under-lying buying lacks conviction) or does it bounce as bargain hunters buy dips (and prevailing sentiment is strong) … and the market therefore likely to recover quickly. This is one of those moments where silver gives the lie of the land … typically silver would outperform during an inflection in the metals complex and 'authenticate' the rally.

And it isn't.

On each fresh all time high in gold, silver has been manifestly unimpressed with gold's price behaviour and almost giving it a disapproving look across the room. This is manifestly visible in the gold/silver ratio which has risen from 84 to 91over the last 6 months when it should have been going the other way.

In short, the current bull run is intact but momentum has waned and gold has fallen below its trading channel … and this is no bad thing. Gold needs a period of consolidation and this will confer greater strength to future gains. Meanwhile we need the real or physical markets to adjust their thinking around what gold's 'fair value' is and you can be sure we'll be back to the races before long.

As Lessing wisely put it, "the true value of a man is not determined by his possession, supposed or real, of Truth, but rather by his sincere exertion to get to the Truth." In the same vein, the true source of gold's current rally may remain elusive, but its strength is undeniable and it will continue to both fascinate and beguile as it always has.

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FORM IV

Statement about ownership and other particulars about newspaper
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1. Place of publication : Bengaluru
2. Periodicity of its publication : Monthly
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   Nationality : Indian
   Address : #146, 1-2 Floor, Gopal Towers, Ramaiah Street, HAL Airport Road, Kodihalli, Bengaluru 560008
6. Names and addresses of individuals who own the newspaper and partners or shareholders holding

   Mr G Srivatsava
   #146, 1-2 Floor, Gopal Towers,
   Ramaiah Street, HAL Airport Road, Kodihalli,
   Bengaluru 560008

More than one per cent of the total capital

I, Mr. G Srivatsava, hereby declare that the particulars given above are true to the best of my knowledge and belief.

G Srivatsava

Date: 01-03-2025 Signature of Publisher