What's next for gold?

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The price of gold is scaling new heights – despite stock markets holding on to gains and ongoing uncertainty as to when the US will cut rates. The bullish sentiment is underpinned by technical buying after the gold price broke the USD2,100/oz barrier. Although a near-term pullback is likely due to technical reasons, other factors could propel the gold price even higher.

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Macro drivers

The US policy rate is a long-term driver for gold. A lower US rate is positive for gold but the timing is still uncertain on when cuts will materialise in this business cycle. The FOMC will await a clearer signal that inflation will return to 2% before it is ready to cut rates. A resilient US economy is meddling with expectations.

The market now expects the US Fed to cut 75bp in H2 2024. When that happens, the treasury yield will follow suit. Falling yield reduces the opportunity cost for gold investments and pushes prices higher.

The geopolitical risk outlook is unlikely to be as spiky as it was in the past few years with minor to moderate economic consequences stemming from regional conflicts. ANZ Research believes gold's safe-haven appeal is likely be sustained. The upcoming US elections will only burnish this appeal.

Despite uncertainties, stock markets have rallied strongly. This may make investors wary about the downside risk going forward. Volatility may rise as we inch closer to the US elections and any risk-off sentiment will benefit gold.

Central bank gold binge

Central bank gold buying will remain strong as the uncertain economic and geopolitical backdrop implies a further diversification of risk in their portfolios. After record buying of more than 1,000 tonnes a year in 2022 and 2023, the central banks' demand for gold now occupies a 25-30% share of the total against the long-term average of 11%.

Central banks added 39 tonnes of gold to vaults in January 2024. India added 8.7 tonnes, the highest since July 2022. China's buying spree continued, too, with its purchase of 22 tonnes in January and February 2024. The stage is set for solid gold buying for the third consecutive year.

We estimate annual official purchases for emerging markets to be above 600 tonnes through 2030. This is without unreported purchases which historically averaged around 25% of total buying. With unreported purchase adjustment, central gold purchases are likely to be in the range of 750–800t in 2024.

Lean investment demand

Investment demand for gold has been tepid despite soaring gold prices. Aggressive monetary policy tightening in the recent past has been a headwind. Higher treasury yields and the impressive performance of equity markets added to the opportunity cost of holding gold, leading to gold disinvestment.

Gold-backed ETF holdings are lower by 758 tonnes from the peak of 3,125 tonnes in April 2022. These outflows were concentrated in North America and Europe (774 tonnes). North America has recorded outflow of 417 tonnes since April 2022 and 73 tonnes in January and February 2024. European ETF holdings fell to 1,353 tonnes, below the five-year average holding of 1,500 tonnes. Asia recorded inflow of 20 tonnes since April 2022, but this volume pales before the heavy liquidation by developed markets. The inflow, largely into China, accelerated in 2023 as investors rotated funds from equity and currency to gold.

As ETF outflow has been in response to monetary tightening, it is likely to reverse once central banks start easing. A less crowded investment market for gold presents significant upside potential. We estimate investment demand of around 460 tonnes will keep the market balanced in 2024.

Silver's underperformance will turn

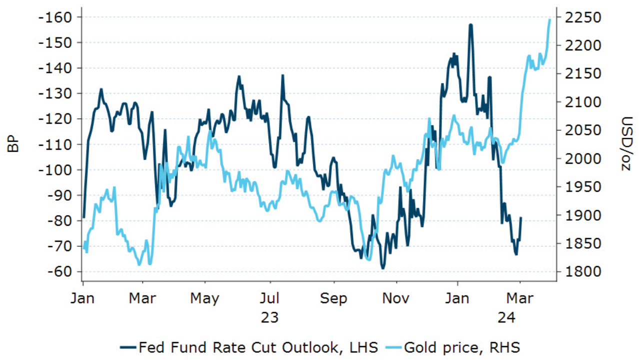
Our gold view aside, the underperformance in the price of silver is also set to turn. The Silver price is nearly 50% below its historic high of USD49/oz in 2011, while gold is trading 17% above the peak of USD1,900/oz. This is contrary to the usual tendency of silver to outperform when gold shines, being the preferred cheaper substitute among precious metals.

Lack of investment demand in silver is the key reason behind its underperformance against gold. Unlike gold, silver failed to benefit from rising geopolitical and economic risks over the past year. Even robust physical demand and tight market balance could not spur investments. The disinvestment in silver ETF holdings was a staggering 137 million oz in 2022 and 45 million oz in 2023.

From an investment demand perspective, what lifts gold can also lift silver. Once the Fed starts easing, silver will benefit too. Currently, the gold-to-silver price ratio is nearly 90, which is 25% more than the long-term average. A relatively cheaper valuation of silver against gold might be appealing to many investors.

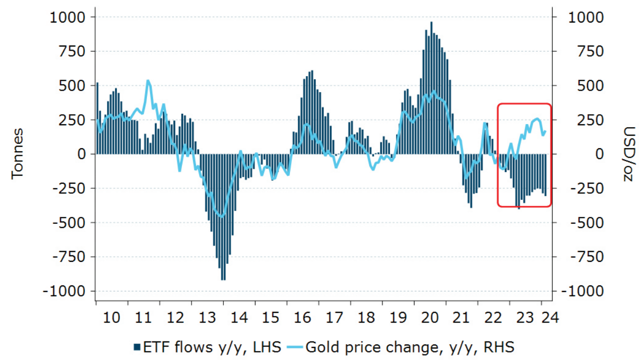
The accelerated pace of energy transition, the upturn in semiconductor cycle and restocking in India should support physical silver demand. We believe this will attract both retail and institutional investors.
Silver prices could rise towards USD28/oz by the end of 2024. We expect gold prices to close the year at USD2,300/oz.

Chart 1- Gold price vs Fed rate cut outlook



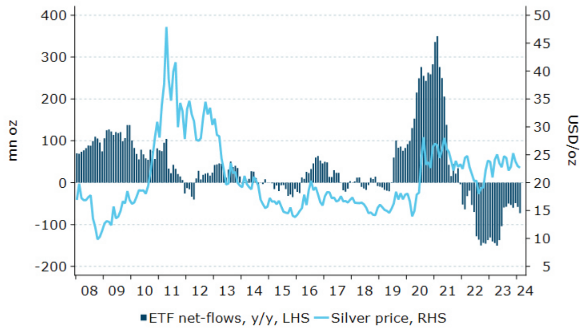
Source: Bloomberg, Macrobond, ANZ Research

Chart 2- Gold ETF net flows vs price change y/y



Source: CME Group, Bloomberg, Macrobond, ANZ Research

Chart 3. Silver ETF net flows vs price



Source: Bloomberg, Macrobond, ANZ Research