

# Investment Update

## Gold hits record high: sprint or marathon?

July 2020

www.gold.org

Gold has been on a generally positive trend for the past few years. However, the onset of the global COVID-19 pandemic has made gold's relevance as a hedge even more apparent and accelerated its price performance. Gold increased by 17% during the first half of 2020, moving up by an additional 10% in July.

The most recent price move has come fast, which, combined with markedly weak consumer demand, may result in higher gold price volatility in the near term. However, we believe the COVID-19 pandemic may bring structural shifts to asset allocation and that there are strong fundamental reasons supporting gold investment longer term.

### A new record high

Gold broke a new high on 28 July, reaching US\$1,940.9/oz on the LBMA Gold Price PM (PM Price) and topping US\$1,981.3/oz intra-day.<sup>1</sup> This exceeded the previous record of US\$1,895.0/oz set by the PM Price on 5 September 2011 and the US\$1,921.2/oz intra-day high the following day during Asian trading hours.

On the heels of this milestone, investors are asking two key questions, which we explore in this report:

- How does this compare to previous highs?
- Is the price rally sustainable?

### Historically early in the cycle

Gold's performance so far in 2020 has been remarkable. As of 28 July, it is up by 27%, significantly outpacing all major assets. This move up has been driven by a combination of: 1) high uncertainty, 2) very low interest rates, and 3) positive price momentum – all of which are supportive of investment demand (see [Gold mid-year outlook 2020](#)). But there are reasons to believe that we may still be early in the cycle.

The COVID-19 pandemic is far from over and, more importantly, its impact on the global economy is yet to be determined. There are indications that some countries like China, South Korea, Germany and other European nations have started to turn a corner. However, at a global level, early hopes of a fast recovery are all but gone. Instead, market participants are bracing for a bumpy ride and a longer road to recovery.

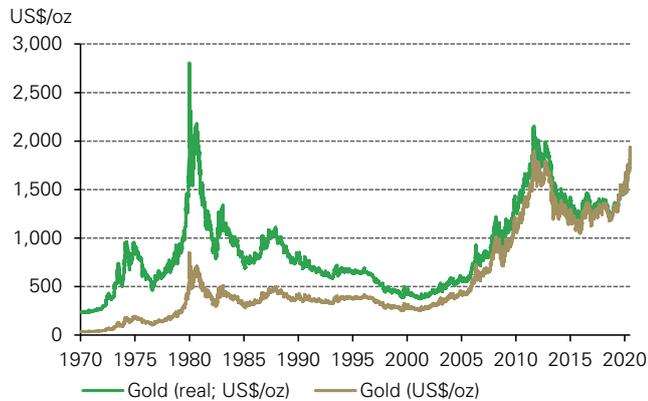
Central banks have aggressively cut interest rates, often in combination with quantitative easing and other non-traditional policy measures. Governments have also approved [massive rescue packages](#) to support their local economies. And much more may be needed. These initiatives have increased concerns that easy money, rather than fundamentals, is fuelling the stock market rally and that all the extra money being pumped into the system may result in very high inflation or, at the very least, currency debasements.

To put things into perspective, the gold price more than doubled from approximately US\$900/oz in early 2008 to its high more than three years later in the aftermath of the Global Financial Crisis. In contrast, it has increased by just under 30% since the beginning of the COVID-19 pandemic. Additionally, adjusted for inflation, the gold price today is ~US\$200 shy of the 2011 level and well below its 21 January 1980 record high equivalent to approximately US\$2,800/oz in today's money (**Chart 1**).<sup>2</sup>

<sup>1</sup> Based on the intra-day spot gold price (XAU) using data sourced from Bloomberg.

<sup>2</sup> Real gold prices computed using the seasonally adjusted US CPI Urban Consumers Index published by the Bureau of Labor Statistics.

**Chart 1: Gold has reached new highs in nominal terms but it's still below its inflation-adjusted record\***

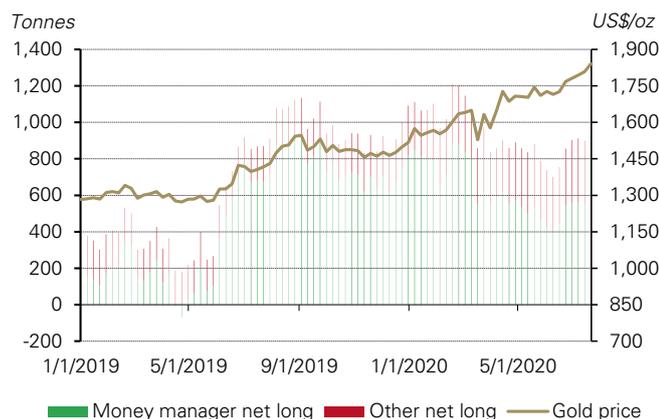


\*As of 28 July 2020. Based on the LBMA Gold Price PM. Real gold prices computed using the seasonally adjusted US CPI Urban Consumers Index. Source: Bloomberg, Bureau of Labor Statistics, ICE Benchmark Administration, World Gold Council

### A widespread investor base

Historically, there is a positive correlation between gold's price performance and positioning in the gold derivatives market. For most of this year, however, net long positions based on the Commitment of Traders (COT) report – usually associated with more speculative trading activity – were falling while the gold price was rising (**Chart 2**). This was due in part to COVID-19-related supply-side chain dislocations in the gold market affecting COMEX futures.

**Chart 2: Net long positions decoupled from gold's performance from mid-March 2020\***



\*As of 24 July 2020. Based on COMEX gold futures Commitment of Traders (COT) report. Source: Bloomberg, CFTC, World Gold Council

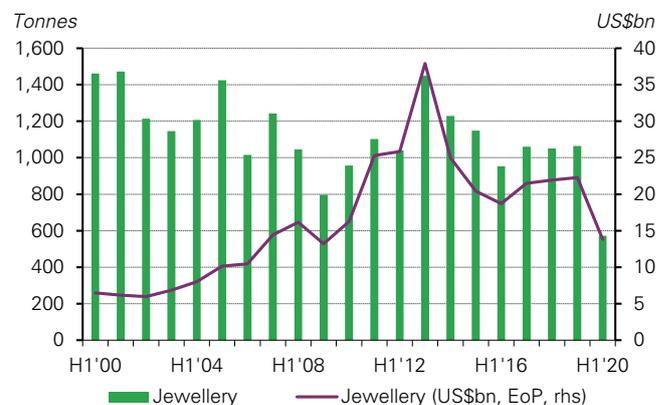
Conversely, gold-backed ETFs and similar products (gold ETFs) have seen record inflows so far this year, collectively adding US\$47.8 billion as of 27 July across all regions. Anecdotal evidence suggests that buy-and-hold investors are contributing to this, but also that some investors have pivoted from futures to gold ETFs. This shift gives rise to a few notably different dynamics, namely, gold ETFs are backed by physical bullion while futures can be cash settled or rolled, and only a fraction result in physical delivery. Moreover, futures also allow for greater leverage, which may further add to volatility.

### Consumer demand remains weak

While investors, especially in Western markets, have embraced gold as a means to hedge their portfolios, consumer demand so far this year has fallen sharply due to the negative effect of the pandemic on economic growth combined with stringent lockdown measures.

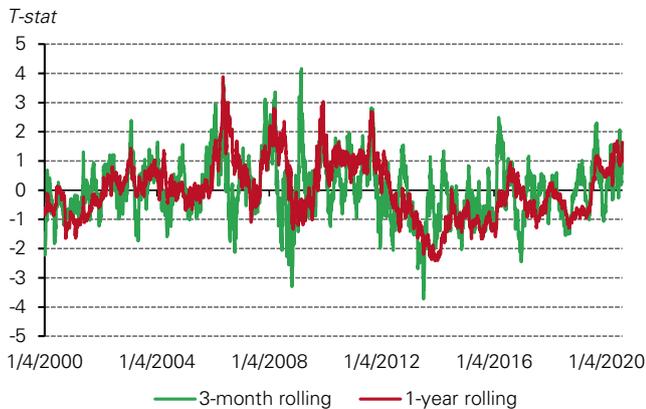
As we discuss in our Gold Demand Trends report, jewellery demand plummeted by 46% in the first half of the year and bar and coin fell by 17% – mostly driven by Asia. And while, in the short term, consumers tend to be more 'price takers' than 'price makers', in the longer term, consumption contributes to the health of the gold market and its price behaviour.

**Chart 3: Global jewellery demand has dropped significantly in 2020\***



\*As of 30 June 2020. Source: ICE Benchmark Administration, Metals Focus, Refinitiv GFMS, World Gold Council

**Chart 4: Cumulative gold returns have moved by slightly less than two standard deviations\***



\*As of 28 July 2020. Computed using rolling returns based on the LBMA Gold Price PM with the standard deviation calculated using data since January 2020.

Source: Bloomberg, ICE Benchmark Administration, World Gold Council

### Gold's performance has accelerated

The latest leg of gold's 2020 bull run has come fast. It took approximately four months for gold to go from US\$1,650/oz to US\$1,800/oz but less than four weeks to climb to approximately US\$1,950/oz. While this uptick was driven in good part by a sharp depreciation of the US dollar, the magnitude of the change is highlighted by gold's 14-day Relative Strength Index (RSI),<sup>3</sup> which reached a high of 88 on 27 July. This is usually seen as a sign that the market could be overbought. That said, gold's 3-month and 1-year rolling returns have moved by less than two standard deviations and are significantly below levels seen in previous periods of strong movements (**Chart 4**). This alternative metric suggests that the cumulative magnitude of gold's move is not unprecedented.

Though nothing prevents an asset from outpacing some of these relative performance metrics, the speed of its increase may also result in a period of higher volatility. Gold has moved sharply higher in the past month and, while there is enough support for gold investment, the price may experience some consolidation.

<sup>3</sup> RSI is a technical indicator that compares the magnitude of movements in the price of an asset to assess whether it may be overbought or oversold.

## All about fundamentals

There's a strong case for gold investment demand to be well supported. The unprecedented nature of the COVID-19 pandemic may impose structural changes that support gold's performance in the long term. But gold's dual nature also requires stability in the cyclical portion of demand – such as jewellery or technology – to ensure a sustainable performance. We have seen this in the past. During the Global Financial Crisis, emerging markets rebounded quickly, which helped maintain consumer demand. At the same time, elevated levels of uncertainty in developed markets, combined with expansionary monetary policies, kept gold's performance well supported. Signs that economic activity in some countries such as China or Germany is beginning to normalise contrasting with the acceleration of COVID-19 cases in the US is negatively impacting the US dollar. And a weaker dollar environment, combined with ballooning deficits and expansionary monetary policies, is giving investors good reason to add gold to their portfolios.

Historically, there has been an established connection between gold's performance and the different segments of demand and supply. These, in turn, are influenced by four key drivers: economic expansion, risk and uncertainty, opportunity cost and momentum. And while the World Gold Council does not forecast the price of gold, our web-based tool Qaurum allows investors to understand how gold may perform under various macro-economic scenarios (**Focus 1**).

### Focus 1: Qaurum<sup>SM</sup> – Your gateway to understanding gold performance

Qaurum is a web-based quantitative tool that helps investors intuitively understand the drivers of gold performance. Qaurum is powered by the Gold Valuation Framework (GVF), an academically validated methodology, based on the principle that the price of gold and its performance can be explained by the interaction of demand and supply.

Accessible from Goldhub.com, Qaurum allows investors to assess how gold might react across different customisable economic environments and calculate the hypothetical performance of gold over the next five years as well its long-term 30-year implied return based on the GVF methodology.

## About the World Gold Council

The World Gold Council is the market development organisation for the gold industry. Our purpose is to stimulate and sustain demand for gold, provide industry leadership, and be the global authority on the gold market.

We develop gold-backed solutions, services and products, based on authoritative market insight and we work with a range of partners to put our ideas into action. As a result, we create structural shifts in demand for gold across key market sectors. We provide insights into the international gold markets, helping people to understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, the Far East and the US, the World Gold Council is an association whose members comprise the world's leading gold mining companies.

### World Gold Council

7<sup>th</sup> Floor, 15 Fetter Lane  
London EC4A 1BW  
United Kingdom

**T** +44 20 7826 4700

**F** +44 20 7826 4799

**W** [www.gold.org](http://www.gold.org)

### Important information and disclosures

© 2020 World Gold Council. All rights reserved. World Gold Council and the Circle device are trademarks of the World Gold Council or its affiliates.

All references to LBMA Gold Price are used with the permission of ICE Benchmark Administration Limited and have been provided for informational purposes only. ICE Benchmark Administration Limited accepts no liability or responsibility for the accuracy of the prices or the underlying product to which the prices may be referenced. Other content is the intellectual property of the respective third party and all rights are reserved to them.

Reproduction or redistribution of any of this information is expressly prohibited without the prior written consent of World Gold Council or the appropriate copyright owners, except as specifically provided below. Information and statistics are copyright © and/or other intellectual property of the World Gold Council or its affiliates (collectively, "WGC") or third-party providers identified herein. All rights of the respective owners are reserved.

The use of the statistics in this information is permitted for the purposes of review and commentary (including media commentary) in line with fair industry practice, subject to the following two pre-conditions: (i) only limited extracts of data or analysis be used; and (ii) any and all use of these statistics is accompanied by a citation to World Gold Council and, where appropriate, to Metals Focus, Refinitiv GFMS or other identified copyright owners as their source. World Gold Council is affiliated with Metals Focus.

WGC does not guarantee the accuracy or completeness of any information nor accepts responsibility for any losses or damages arising directly or indirectly from the use of this information.

This information is for educational purposes only and by receiving this information, you agree with its intended purpose. Nothing contained herein is intended to constitute a recommendation, investment advice, or offer for the purchase or sale of gold, any gold-related products or services or any other products, services, securities or financial instruments (collectively, "Services").

## For more information

### Research and Strategy

#### Adam Perlaky

[adam.perlaky@gold.org](mailto:adam.perlaky@gold.org)  
+1 212 317 3824

#### Krishan Gopaul

[Krishan.gopaul@gold.org](mailto:Krishan.gopaul@gold.org)  
+44 20 7826 4704

#### Louise Street

[louise.street@gold.org](mailto:louise.street@gold.org)  
+44 20 7826 4765

#### Juan Carlos Artigas

Head of Research  
[juancarlos.artigas@gold.org](mailto:juancarlos.artigas@gold.org)  
+1 212 317 3826

#### Mukesh Kumar

[mukesh.kumar@gold.org](mailto:mukesh.kumar@gold.org)  
+91 22 317 3826

#### Ray Jia

[ray.jia@gold.org](mailto:ray.jia@gold.org)  
+86 21 2226 1107

#### John Reade

Chief Market Strategist  
[john.reade@gold.org](mailto:john.reade@gold.org)  
+44 20 7826 4760

### Distribution and Investment:

#### Claire Lincoln

Head of Sales – EMEA  
[claire.lincoln@gold.org](mailto:claire.lincoln@gold.org)  
+44 20 7826 4788

#### Fred Yang

Head of Sales – China  
[fred.yang@gold.org](mailto:fred.yang@gold.org)  
+86 21 2226 1109

#### Jaspar Crawley

Head of Sales – ASEAN  
[jaspar.crawley@gold.org](mailto:jaspar.crawley@gold.org)  
+44 20 7826 4787

#### Matthew Mark

Head of Sales – Americas  
[matthew.mark@gold.org](mailto:matthew.mark@gold.org)  
+1 212 317 3834

This information does not take into account any investment objectives, financial situation or particular needs of any particular person.

Diversification does not guarantee any investment returns and does not eliminate the risk of loss. The resulting performance of any investment outcomes that can be generated through allocation to gold are hypothetical in nature, may not reflect actual investment results and are not guarantees of future results. WGC does not guarantee or warranty any calculations and models used in any hypothetical portfolios or any outcomes resulting from any such use. Investors should discuss their individual circumstances with their appropriate investment professionals before making any decision regarding any Services or investments.

This information may contain forward-looking statements, such as statements which use the words "believes", "expects", "may", or "suggests", or similar terminology, which are based on current expectations and are subject to change. Forward-looking statements involve a number of risks and uncertainties. There can be no assurance that any forward-looking statements will be achieved. WGC assumes no responsibility for updating any forward-looking statements.

### Information regarding Qaurum<sup>SM</sup> and the Gold Valuation Framework

Note that the resulting performance of various investment outcomes that can be generated through use of Qaurum, the Gold Valuation Framework and other information are hypothetical in nature, may not reflect actual investment results and are not guarantees of future results. Neither WGC nor Oxford Economics provides any warranty or guarantee regarding the functionality of the tool, including without limitation any projections, estimates or calculations.