Talking Gold — December 2023

Diego Andrade
Senior Gold Strategist

Maxwell Gold, CFA
Head of Gold Strategy

Gold Market Recap & Outlook

Gold spot price ended the month of November 2.65% higher at US$2036/oz. After rallying 7.32% in October, gold’s spot price dropped during the first two weeks of November — driven by a rally in the US dollar index and real rates, as October inflation data was anticipated to be stickier than expected. However, inflation metrics came in below market expectations across the board, which shifted investor perception that disinflation will continue. This supports the outlook that the Federal Reserve (Fed) was at the end of its tightening cycle, and, in turn, pressuring the US dollar and real yields in 2024.

If the current rate cycle is over, gold has fared much better than expected — appreciating 6.14% since the Fed first increased rates on March 15, 2022. But interestingly, gold’s rally during the most aggressive hiking cycle in decades was not supported by the investor flows. In fact, during the last 21 months, global gold ETFs experienced outflows in over 75% of those months.

Despite this major headwind, strong demand from other in-demand sectors, such as central banks, jewelry consumption, and private bar and coin investment, was strong enough to drive the gold price higher. Gold’s diverse sources of demand and utility provide balance as these sectors rise to prominence at different points of the global economic cycle. This distinguishing feature of diverse global demand anchors gold’s portfolio diversification benefits and continues to be a key reason for holding a strategic allocation to gold.

Looking ahead, increased investor demand may continue to support gold. The Fed’s dot-plot projections for interest rates in December offer insights on the direction of its monetary policy for 2024. At this point of the rate cycle, the gold price is well positioned if the speculated Fed pivot becomes a reality. This pivot may result in a weaker US dollar and a potential drop in real yields. If it does, gold’s biggest headwind of the last two years could shift into a tailwind as gold’s opportunity cost diminishes against falling real yields — sparking the potential return of investor flows.
Gold’s Chart of the Month

Figure 1: Diverse Demand Is Key Reason for Relationship Breakdown between Gold and Real Yields Since March 2022


Gold Performance Drivers

Flows
Global gold-backed ETFs registered outflows in November for the sixth consecutive month, but at a much lower amount than prior months. Global gold ETF holdings dropped only 0.3% in November compared to an average -1.7% decrease of outflows in the five months prior, according to Bloomberg data.³ COMEX Managed Money net speculative gold positions remained bullish at 79,135 contracts (as of November 21), slightly higher than the 74,840 contracts last month (as of October 31).⁶

Factors
The US dollar fell by 2.97% in November, led by growing speculation that the Fed was near the end of its tightening cycle.⁷ Similarly, US 10-Year Treasury yields closed November at 4.33%, falling 0.6% from October’s month-end 4.93%.⁸

Fundamentals
Indian gold imports nearly doubled in October from the year prior, rising 95% to US$7.23 billion — a strong sign of continued consumer and jewelry demand in the key economy for gold.⁹

Information Classification: General
Gold Price Trends

Figure 2: Trailing 3-year Gold Spot Price (US$/oz) and Moving Averages


Gold ETF Flows

Figure 3: Global Gold ETF Holdings in Metric Tons

Gold Futures

Figure 4: Trailing 5-year COMEX Gold Futures Positioning — Managed Money (# of Contracts)

Glossary

**Consumer Price Inflation (CPI) Index**
This CPI represents changes in prices of all goods and services purchased for consumption by urban households on a year-over-year basis.

**Federal Reserve Dot Plot**
A chart that’s updated quarterly that records each Fed official’s estimate of what the federal funds rate, the short-term interest rate controlled by the Fed, should be.

**Gold Spot Price**
The price in spot markets for gold. In US dollar terms, spot gold is referred to with the symbol “XAU,” which refers to the price of one troy ounce of gold in USD terms.

**Troy ounce (oz)**
Standard unit of measurement for weighing precious metals such as gold, silver, platinum, and palladium.

**US Dollar Spot (DXY) Index**
The DXY Dollar Index tracks the performance of a basket of foreign currencies issued by US major trade partners, including Eurozone, Japan, UK, Canada, Sweden and Switzerland, versus the US Dollar.

Footnotes
ssga.com/etfs

State Street Global Advisors Worldwide Entities


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