
August 1, 2022

Talking Gold – August 2022

Recap

Gold struggled through most of July driven by expectations for tighter monetary policy in the US and Eurozone and a stronger US dollar. Similarly, technical indicators and investor sentiment soured this month, with the 50-day moving average dipping below the 200-day moving average and net speculative positions in gold futures turning negative for the first time since April 2019. The gold spot price hit a 17-month low of US\$1680/oz on July 21 before rallying 5% in the final week to close July down 2.3% at US\$1766/oz (down 3.5% year to date), following weaker economic data and an expected 0.75% Federal Reserve (Fed) rate hike.

US Gross Domestic Product (GDP) fell 0.9% in Q2 for the second consecutive quarter, signaling a technical recession. The softer growth outlook may slow the Fed's rate tightening cycle, potentially capping real yield levels. Such economic uncertainty could in turn rejuvenate investor interest for gold.

Since 1971, when gold began freely trading in the post-Bretton Woods era, the US has experienced seven economic recessions. During these periods, gold averaged a 20.19% return, which has led the way compared to other major US assets — including stocks, treasury bonds, corporate bonds, and the US dollar — and gold managed to provide positive returns and outperform broad commodities in all but one period (1990-1991). Gold also posted positive returns in the prior three recessions (2001, 2007-2009, 2020), averaging 11.62% during those recessions and outperforming the average return for US bonds by more than double (see the *Chart of the Month* below).

Drivers

Flows: In July, global gold ETFs saw the largest monthly outflows since March 2021 while still maintaining net inflows year to date. Net speculative positions in gold futures turned negative for the first time since April 2019, a trend that does not tend to persist long for the gold market, and historically has been followed by significant recovery rallies for the metal.

Factors: US consumer inflation in June hit 9.1% which, along with a lower Q2 GDP print, pushed both nominal and real US 10-year rates lower, boosting the gold price in the back half of July.

Fundamentals: In the recent *Gold Demand Trends Q2 2022* report published by the World Gold Council, global gold demand fell in Q2 by 8% year over year (YOY). Despite this, gold demand for 1H 2022 rose 12% YOY in the first half of 2022 led by strong Q1 investment demand.

Chart of the Month

Gold Versus Other Major Asset Classes During US Economic Recessions (Cumulative Return)

	1973-1975	1980	1981-1982	1990-1991	2001	2007-2009	2020	Average Return
Gold	83.67%	19.97%	3.32%	-0.49%	3.44%	19.16%	12.28%	20.19%
US Equities	-17.57%	16.39%	15.74%	7.18%	-7.28%	-35.08%	-3.74%	-3.48%
US Corporate	-0.98%	4.63%	42.73%	8.32%	6.78%	2.68%	2.55%	9.53%
US Treasury	9.72%	7.50%	34.40%	8.58%	5.34%	8.43%	6.09%	11.44%
US Dollar	-0.50%	0.30%	11.50%	1.66%	4.36%	5.53%	-0.42%	3.20%
Commodities	31.76%	9.99%	2.16%	27.02%	-26.40%	-39.80%	-27.19%	-3.21%

Source: Bloomberg Finance, L.P., National Bureau of Economic Research (NBER), State Street Global Advisors. Data from 01/01/1973 – 06/30/2020. Gold: LBMA Gold Price PM USD, US Equities: S&P 500 Total Return Index, US Corporate: Bloomberg Barclays US Corporate Bond Index, US Treasury: Bloomberg Barclays US Treasury Index, US Dollar: US Dollar Spot Price Index, Commodities: S&P GSCI Total Return Index. Recession periods measured from: 1973-75 = 11/1/73 – 3/31/75, 1980 = 1/1/80 – 7/31/80, 1981-82 = 7/1/81 – 11/30/82, 1990-91 = 7/2/90 – 3/29/91, 2001 = 3/1/01 – 11/30/01, 2007-09 = 12/3/07 – 6/30/09, 2020 = 2/3/20 – 6/30/20. **Past performance is not a reliable indicator of future performance.**

Price Trend

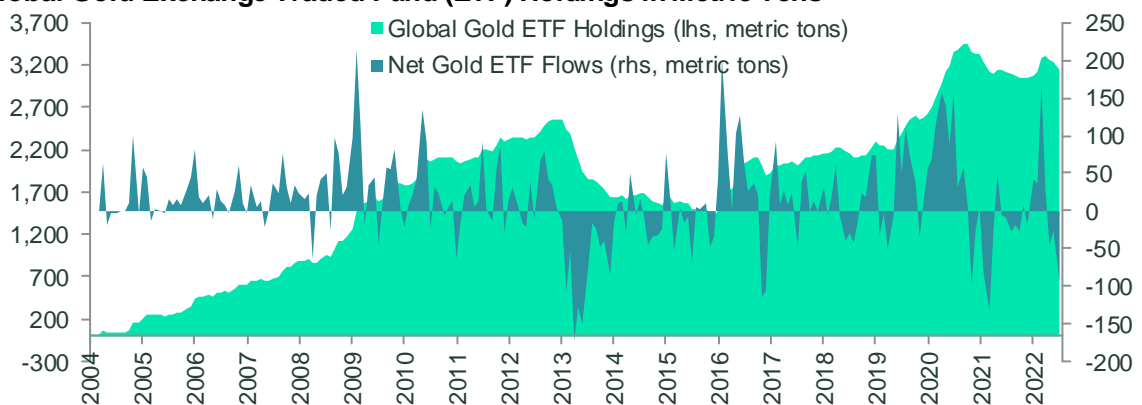
Trailing 3-year Gold Spot Price (US\$/oz) and Moving Averages



Source: Bloomberg Finance, L.P., State Street Global Advisors. Data from 07/31/19 – 07/31/22. **Past performance is not a reliable indicator of future performance.**

Flows

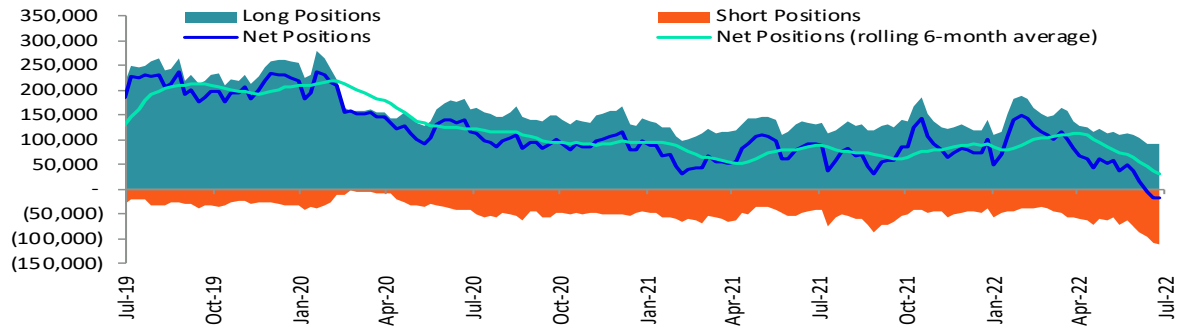
Global Gold Exchange Traded Fund (ETF) Holdings in Metric Tons



Source: Bloomberg Finance, L.P., State Street Global Advisors. Data from 01/01/04 – 07/31/22. **Past performance is not a reliable indicator of future performance.**

Futures

Trailing 3-year COMEX Gold Futures Positioning – Managed Money (# of contracts)



Source: Bloomberg Finance, L.P., State Street Global Advisors. Data from 07/31/19 – 07/31/22. **Past performance is not a reliable indicator of future performance.**

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