What's Hot: Gold is flirting with record highs again

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On 3rd May, gold very narrowly missed breaking its all-time high achieved in August 2020. As of this writing on 11th May, gold is holding its ground comfortably above the $2000/oz mark.

Gold's recent rally was triggered in November last year when markets began foreseeing a slowdown in inflation in 2023 and the US Federal Reserve (Fed) toning down its hawkish rhetoric. As a result, despite subsequent interest rate increases, 10-year Treasury yields have pulled back and dollar has depreciated – both tailwinds for gold. Additional support came from the trouble in the banking sector which served as a reminder to investors to maintain their hedges given the systemic fragilities that can be exposed when monetary policy is tightened aggressively.

A look back at recent highs

Gold's three recent peaks have each been driven by unique reasons. The record high achieved in August 2020 came following a strong rally triggered by the pandemic. Some might argue that gold was already upwardly mobile, and that monetary policy accommodation had been aiding gold's ascent since the second half of 2018.

Once the worst of the pandemic was over, gold retreated but approached record highs again March 2022 when Russia invaded Ukraine. Pandemic, war, and turmoil in the banking sector are all distinct reasons that have fuelled gold rallies in recent times, but they all point to the need for hedging in investment portfolios. They highlight how gold's credentials become apparent when it matters most. We discuss this in more detail in our recent podcast episode of The Commodity Exchange titled 'Investing in Gold'.

Source: WisdomTree, Bloomberg. Data as of 10 May 2023.

Historical performance is not an indication of future performance and any investments may go down in value.

ETP flows vs speculative positioning

Investor sentiment can be measured by one of two things, flows into exchange traded products (ETPs), or speculative positioning on futures. Physical gold held in ETPs is flat year-to-date at around 93m troy ounces, compared to a record high of around 110m toy ounces in September 20201. Similarly, net speculative positioning in gold futures is well below highs seen in 2020 and 2022 (see figure 02 below). Both these data points suggest that investor sentiment is not stretched on the long side yet.

Source: WisdomTree, Bloomberg. 01 January 2015 – 10 May 2023.

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Potential catalysts for gold in the coming months

One potential catalyst for gold interest could be the US debt ceiling, which is the limit on the amount of money the US government can borrow. Currently standing at $31.4tn2, the debt ceiling has been raised multiple times in the past. However, the US government has warned that it is close to exhausting its cash reserves and may face a sovereign default or severe spending cuts by June 1st, 2023. This situation is likely to increase the demand for gold as a hedge against economic uncertainty.

Economic data could be the other driver. US annual inflation rate fell to 4.9% in April, compared to 6.4% in January3. If inflation continues to drop in line with consensus expectations, this could continue to support gold. Although this appears counterintuitive at first, given higher inflation is meant to be supportive of gold, but further declines in Treasury yields and additional dollar depreciation that will result from falling inflation are likely to exert greater force on gold's path.

Keep an eye on other precious metals

Other precious metals like silver, platinum, and palladium all have notable, albeit varying, levels of correlation with gold. In the past, we have often seen silver demonstrate what appears to be a leveraged relationship with gold. In 2020, when gold rallied following the Covid outbreak, silver outshined gold.

Sometimes we also see a lag in the reaction by other precious metals to movements in gold. For example, when gold reached record highs in August 2020, platinum formed a peak in February 2021. Such dynamics may or may not repeat but it is always interesting to see what's happening to the broader precious metals basket when gold shows strong moves in either direction.

1 Bloomberg, as of 10 May 2023.

2 Congressional Budget Office.

3 Trading Economics.

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