GOLD OUTLOOK TO Q1 2025:
Breaking New Records

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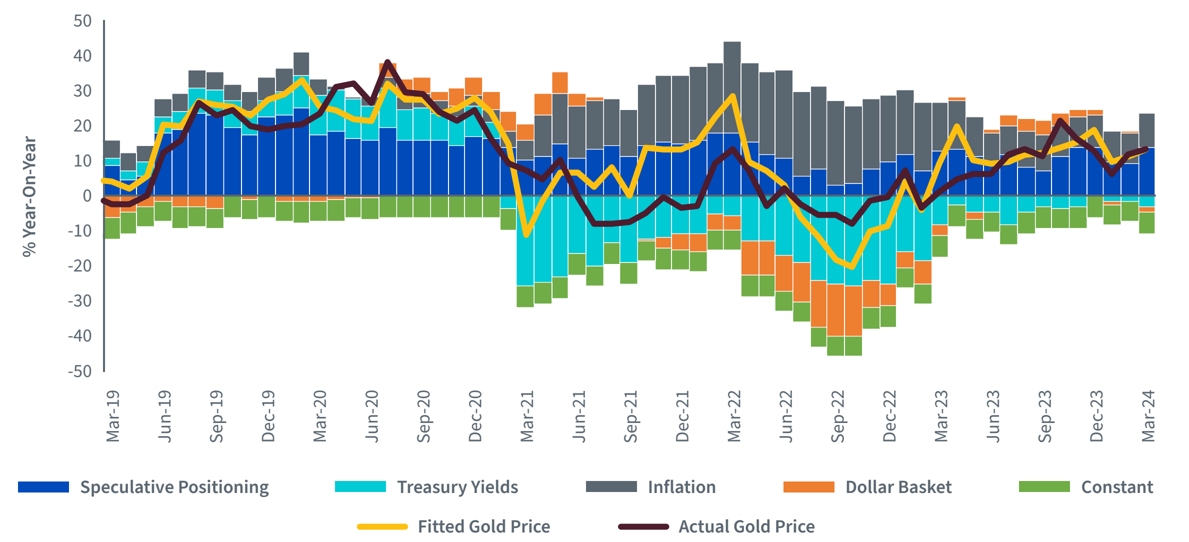
Gold prices have hit multiple new highs in March and April 2024. That has come even though economic data has been robust and market expectations for the next rate cut in the U.S. have been pushed out (which would normally be considered gold price negative). Many analysts in the gold community appear baffled about the sudden increase and wonder if it is sustainable.

However, WisdomTree's model approach to explaining gold price behaviour indicates that the price increase appears in line with gold's fundamentals (Figure 1). Our model indicates that at the end of March 2024, gold should have increased by 13.4% year-on-year, basically matching the 13.2% year-on-year increase we actually saw. The consumer price index inflation data for March (published in April), which came in hotter than expected, certainly supports gold price strength.

Figure 1: Gold Price Attribution



Source: Bloomberg, WisdomTree price model, data as of March 2024. The fitted gold price is the price the model would have forecast. The constant does not have economic meaning, but is used in econometric modeling to capture other terms. It can be thought of as how much gold prices would change if all other variables are set to zero (although that would be unrealistic). **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Our model accounts for U.S. Dollar appreciation and rising treasury bond yields having been a drag on gold prices, but the higher level of inflation counteracts these drags.

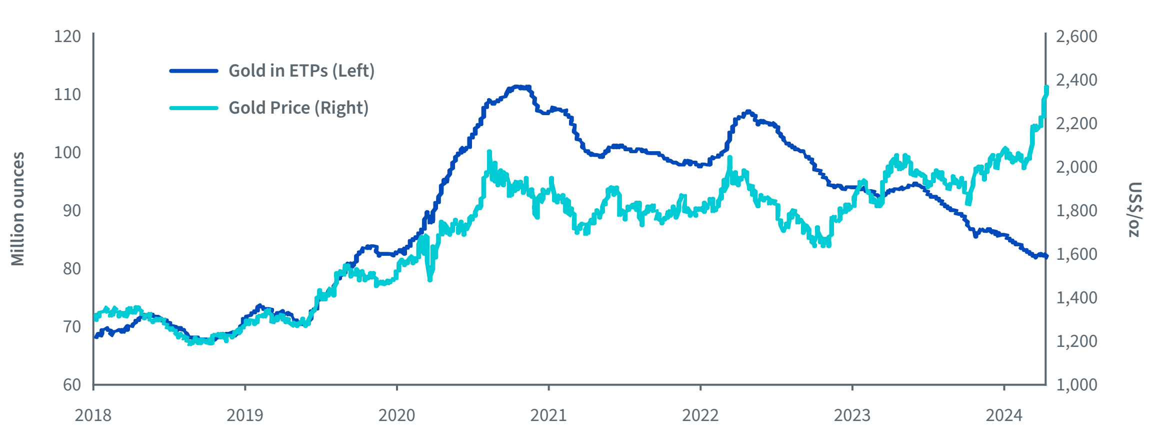
Gold, additionally, has seen an increase in investor sentiment, at least in some areas. Net speculative positioning in gold futures has increased over the past few months from rather depressed levels in October 2023 (Figure 2). However, positioning today is in line with the five-year average, giving no indication of being over-stretched.

Figure 2: Net Specualtive Positioning in Gold Futures

Source: WisdomTree, Bloomberg. Weekly data from March 1995 to April 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

Investor sentiment towards gold has not universally improved, with exchange-traded product (ETP) investors still sitting out this rally (Figure 3). It is unusual for ETP investors to shy away from a gold rally for so long. However, outflows from gold ETPs have slowed, and we have not seen any signs of profit-taking due to the sharp price rise.

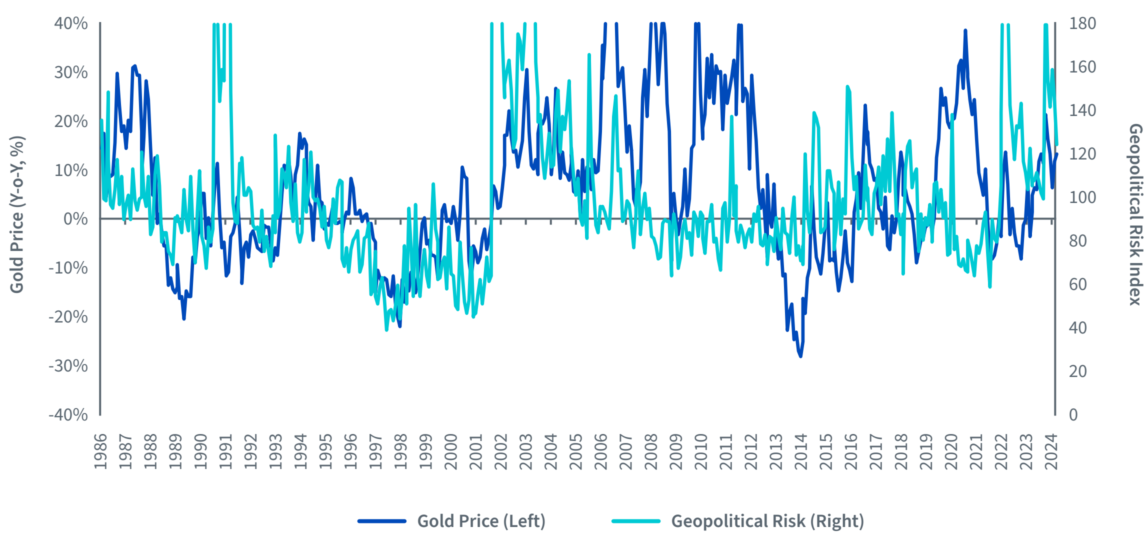
Figure 3: Gold Price and ETP Holdings



Source: WisdomTree, Bloomberg. Weekly data from March 1995 to April 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

Elevated geopolitical risks have fuelled the positive sentiment increase towards gold (Figure 4). The Israel-Hamas war has become a regional war despite the reluctance of neighbouring countries to get involved. Houthi rebels continue to strike ships in the Red Sea. Iranian proxies continue attacks and counter-attacks by Israel are becoming more common (for example the suspected Israeli air strike in Syria that claimed the life of General Mohammad Reza Zahedi, a commander of a wing of Iran's Islamic Revolutionary Guard Corps). The Russia-Ukraine war doesn't show any clear sign of de-escalation, and recent attacks on nuclear facilities indicate that the war is entering a more dangerous phase. Meanwhile, half the world's population and GDP are estimated to head to the polls sometime this year (source: Bloomberg). The U.S. Presidential elections in November will be a key focal point, but elections in India, Pakistan, Mexico, Indonesia, and the UK could also have a bearing on the shape of global geopolitics. Gold is often a barometer of satisfaction (or lack thereof) of the political outcomes. Retail buying, in particular, can increase in times of dissatisfaction with election results. We expect gold demand to remain strong in light of the dense election calendar in addition to the ongoing wars.

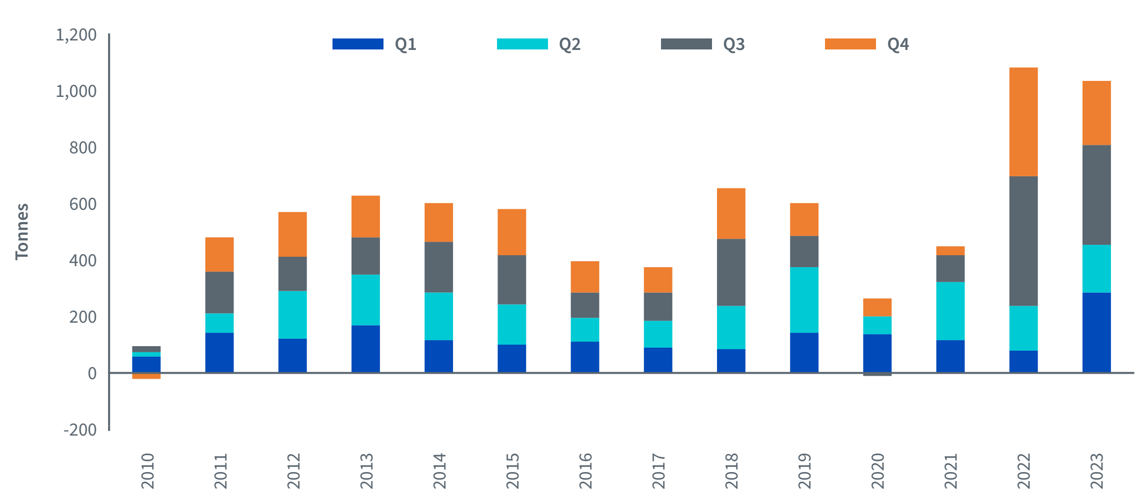
Figure 4: Gold and Geopolitics



Source: Dario Caldara and Matteo Iacoviello's Geopolitical Risk Index based on a tally of newspaper articles covering geopolitical (war) tensions, Bloomberg, WisdomTree. January 1986 – March 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

While gold's gains have been fully accounted for in our model approach, strong central bank demand appears also to have been supportive of the metal (Figure 5). According to the World Gold Council, central banks bought 64 tonnes of gold in January and February 2024, which is 43% lower than the same period in 2023 but a fourfold increase in 2022. Noting that the full year 2022 was an all-time high for central bank buying, with more of the purchases taking place in the latter part of the year, it may be too early to say if the 2024 trend is so far indicative of what is to come later this year.

Figure 5: Central Bank Demand for Gold



Source: WisdomTree, World Gold Council, Q1 2010 to Q4 2023. **Historical performance is not an indication of future performance and any investments may go down in value.**

GOLD OUTLOOK USING WISDOMTREE'S FORECASTS MODEL

Using WisdomTree's gold model, we can produce gold forecasts consistent with several macroeconomic scenarios.

CONSENSUS

Our consensus scenario takes the Bloomberg Survey of Professional Economists' average views on inflation, the U.S. Dollar and treasury yield forecasts. Consensus is looking for inflation to continue to decline (although to remain above the central bank target), the Dollar to depreciate, and bond yields to decline. Consensus is based on Federal Reserve rate cuts commencing in July 2024 and ending Q1 2025 at 100 basis points lower than Q1 2024. However, the survey had taken place before the latest inflation data was released and market-implied rate expectations have shifted a little since.

Without a consensus forecast on gold sentiment, we reduce speculative positioning to a conservative 100k, which is close to the long-term average of 111k since 1995 and down considerably from the five-year average of 212k. Given the geopolitical risks mentioned earlier, the risk is clearly to the upside on positioning this year. Holding off rate cuts for too long could also trigger a sharper economic declaration, which may also be supportive of gold. Gold is a highly sought after asset in times of economic, financial, and geopolitical stress, and these triggers could drive sentiment towards the metal even higher.

In the consensus case scenario, gold reaches US$2,500/oz by Q1 2025, clearly above the high in April 2024, although prices may moderate in the coming months before we reach that point.

BULL CASE

In this scenario, inflation remains stuck at a higher level. The Federal Reserve nevertheless commences its cutting cycle. Meanwhile, elevated geopolitical risks and fears of policy errors keep sentiment towards gold higher (expressed in speculative positioning).

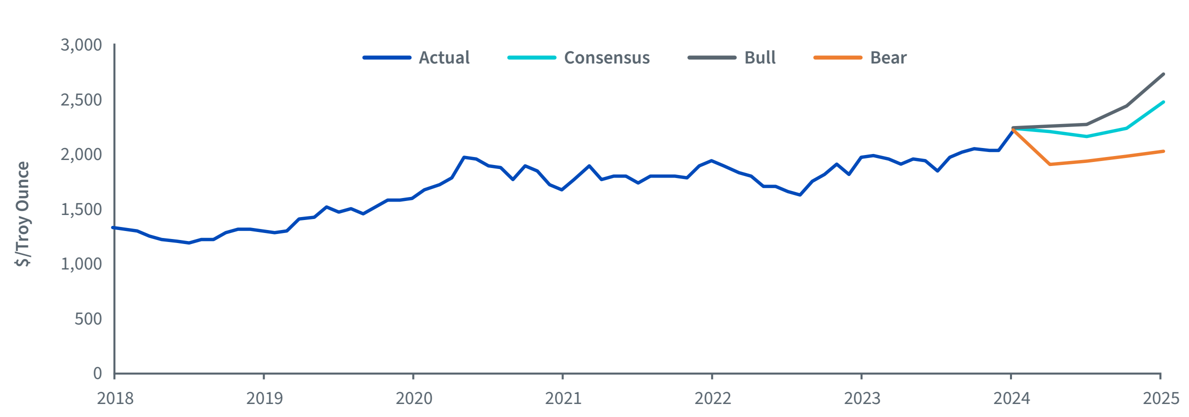
In this scenario, gold could reach US$2,750/oz by Q1 2025.

BEAR CASE

With the Federal Reserve reluctant to cut interest rates, inflation falls faster, the U.S. Dollar appreciates, and bond yields do not fall as much as the consensus currently expects. We also reduce the speculative positioning in gold to reflect a decline in geopolitical risks.

In this scenario, gold could fall to US$1,910/oz by Q2 2024, retracing prices back to October 2023 levels before rising again to US$2,030/oz by Q1 2025.

Figure 6: Gold Price Forecasts



Source: WisdomTree Model Forecasts, Bloomberg Historical Data, data available as of close March 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Consensus	Q2 2024	Q3 2024	Q4 2024	Q1 2025
Inflation forecast	3.0%	2.8%	2.7%	2.5%
Nominal 10-year yields forecast	4.03%	3.93%	3.87%	3.82%
US$ exchange rate forecast (DXY)	102.8	101.9	100.9	100.6
Speculative positioning forecast	200,000	150,000	100,000	100,000
Gold price forecast	US$2,200/oz	US$2,165/oz	US$2,230/oz	US$2,500/oz

Source: WisdomTree. Bloomberg Survey of Professional Economists. March 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Bull	Q2 2024	Q3 2024	Q4 2024	Q1 2025
Inflation forecast	3.1%	3.1%	3.1%	3.1%
Nominal 10-year yields forecast	3.90%	3.80%	3.70%	3.50%
US$ exchange rate forecast (DXY)	100	100	99	98
Speculative positioning forecast	200,000	200,000	200,000	200,000
Gold price forecast	US$2,245/oz	US$2,275/oz	US$2,440/oz	US$2,750/oz

Source: WisdomTree. April 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Bear	Q2 2024	Q3 2024	Q4 2024	Q1 2025
Inflation forecast	2.0%	2.0%	1.0%	1.0%
Nominal 10-year yields forecast	4.60%	4.35%	4.25%	4.15%
US$ exchange rate forecast (DXY)	104	105	106	107
Speculative positioning forecast	50,000	50,000	50,000	50,000
Gold price forecast	US$1,910/oz	US$1,935/oz	US$1,975/oz	US$2,030/oz

Source: WisdomTree. April 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Glossary

Basis point: 1/100th of 1 percent. Bear market: A sustained downturn in market prices, increasing the chances of negative portfolio returns.Bond yield: Refers to the interest received from a bond and is usually expressed annually as a percentage based on its current market value. Bull market: A market in which share prices are rising, encouraging buying. Central bank: An institution that manages the currency and monetary policy of a state or formal monetary union and oversees their commercial banking system. Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States. Gold futures: Standardized, exchange-traded contracts in which the contract buyer agrees to take delivery, from the seller, a specific quantity of gold at a predetermined price on a future delivery date. Treasury (UST): Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government. Yield: The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

IMPORTANT INFORMATION