WEEKLY ANALYSIS

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GOLD IS LOOKING PROMISING AGAIN

Rising production costs. Decline in mining production and recycling supply. Falling interest rates and dollar boost gold prices. Renewed demand for bullion and coins. Return of ETF fund flows.

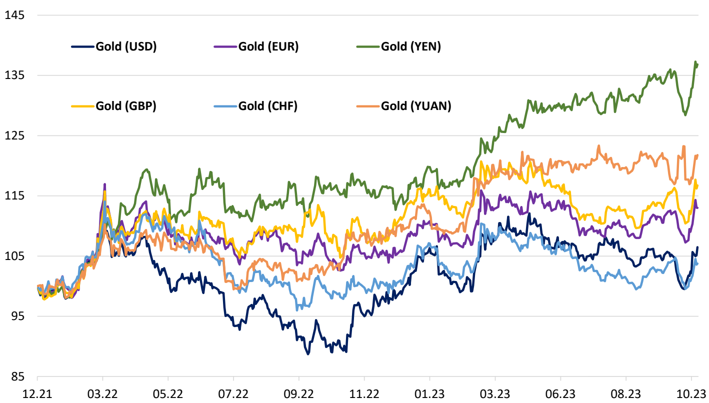
Key points

- Gold's uptrend set to resume soon
- Towards a probable imbalance in the gold market
- Sharp rise in production costs
- Mine production expected to decline
- Decline in recycling supply
- Revival of jewelry demand
- Bullion investment driving demand
- Fall and recovery in central bank purchases
- Gold to benefit from falling interest rates and dollar
- Lower cost of carry

Gold's uptrend set to resume soon

After rising by almost +13% in the first four months of the year, gold prices then slowly eroded as the US Federal Reserve tightened monetary conditions and bond yields rose, not only in dollars, but in other major currencies too. After an initial drop in the 2nd quarter (-7%), which wiped out almost half of the rise at the start of the year (+13%), the fall of the last few days of September, directly correlated with the latest tensions on long rates towards 4.8%/year, finally reset the performance counters to zero for the yellow metal in 2023. The price of an ounce of gold in dollars (1'860 USD/ounce) is now well below its 200-day average value (1'928 USD/ounce), following divestments in favour of investments offering a higher yield of around 5.5% in USD in the short term. Physical gold ETFs have thus seen outflows of almost -20% since their peak in 2020, and -7% in 2023 alone. While in 2023 the dollar trade weighted price has only appreciated by +2.4%, the increase since the July low is still +7%. The recent context for two important factors monitored by investors to assess opportunities for gold price recovery have been negative, but in our view they are in a likely transition phase. From this perspective, they could now support a new trend in the price of the yellow metal, which could prove to be more positive in the long term. Indeed, the tensions observed on the yield curves today seem to us to be disconnected from economic reality and will not withstand statistics showing a deterioration in the economy. Further downward adjustments in interest rates will also penalize the dollar, and should contribute to an upward revival in gold prices above $2,000 an ounce.

Gold Prices in Various Currencies



Sources: Bloomberg, BBGI Group SA

Towards a probable imbalance in the gold market

However, the main fundamentals of the gold market remained relatively stable, according to the latest statistics published by the World Gold Council and others. Global gold supply rose by around +7% year-on-year to 1,255 tonnes in the last quarter under review, driven by all segments. Mining production was up, as was recycling, and so was producer hedging. On an annual basis, gold supply would therefore have reached almost 4,020 tonnes. Quarter-on-quarter, the increase was from 1,204t to 1,255t, largely due to higher mining production, which rose from 857t to 923t. On the demand side, the increase was similar to the year-on-year comparison, as overall demand also rose by +7% to 1,255t, or 4,020t per annum.