WORLD GOLD COUNCIL

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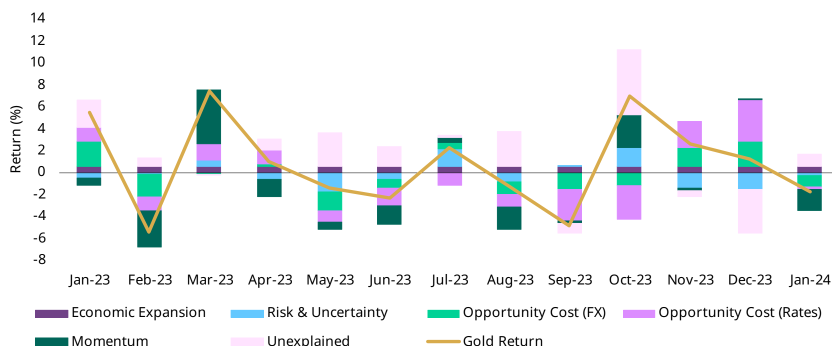
Gold Market Commentary
Inflation risks seep back in

Gold gives back gains

Gold prices fell back to US$2,053/oz, to finish the month 1% lower[1] and departing from historical seasonal strength (Table 1). A retracement following such a stellar finish to the year was probably on the cards, with global gold ETF outflows accelerating to 51t and a reduction in COMEX futures net longs (-206t) the main contributors, as per Gold Return Attribution Model (GRAM, Chart 1). Added to this was the headwind of higher Treasury yields and the US dollar as US economic strength sharply surprised to the upside, and hopes of early monetary policy cuts were dashed.

Chart 1: Investor outflows and positive economic surprises weighed on gold in January

Key drivers of gold's return by month*



*Data to 31 January 2024. Our Gold Return Attribution Model (GRAM) is a multiple regression model of monthly gold price returns, which we group into four key thematic driver categories of gold's performance: economic expansion, risk & uncertainty, opportunity cost, and momentum. These themes capture motives behind gold demand; most importantly, investment demand, which is considered the marginal driver of gold price returns in the short run. 'Unexplained' represents the percentage change in the gold price that is not explained by factors already included. Results shown here are based on analysis covering an estimation period from February 2007 to January 2024.
Source: Bloomberg, World Gold Council

[1] Based on the LBMA Gold Price PM.

January review

Gold failed to power higher in January, despite seasonal tailwinds, after breaching record highs at the end of 2023.

Global gold ETF outflows and a reduction in speculative positioning were major contributors of gold's January performance.

Long-term Treasuries and the US dollar, on the back of strong upside US economic surprises, were also headwinds.

Looking forward

Lower rates eventually but data on the economy too strong. Recession risks remain but are lower.

The hibernating inflation bear just got an unwelcome poke from Red Sea tensions and US data.

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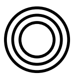


Table 1: Despite seasonal tailwinds, gold prices fell across the board

Gold price and returns in key currencies*

	USD (oz)	EUR (oz)	JPY (g)	GBP (oz)	CAD (oz)	CHF (oz)	INR (10g)	RMB (g)	TRY (oz)	AUD (oz)
31 January 2024	2,053	1,892	9,662	1,614	2,750	1,765	54,819	473	62,332	3,113
January return	-1.2%	0.5%	2.5%	-1.1%	-0.1%	0.9%	-1.4%	-0.3%	1.6%	2.0%
Y-T-D return	-1.2%	0.5%	2.5%	-1.1%	-0.1%	0.9%	-1.4%	-0.3%	1.6%	2.0%

*Data to 31 January 2024. Based on the LBMA Gold Price PM in USD, expressed in local currencies.
Source: Bloomberg, ICE Benchmark Administration, World Gold Council

Looking forward

First cut isn't the deepest

Protestations from some Fed members and a couple of hot data prints, appear to have finally doused expectations for a March Fed rate cut, coupled with a hawkish ECB turn.[2] Falling rates (typically at the longer end of the curve, see here) are on average good for gold, but the first Fed cut after a hiking cycle has been a bit of a damp squib in the past, producing near-term rallies only if and when a material economic or equity correction has ensued, pushing longer maturity yields lower (**Chart 2**).

This makes sense if the cut is highly anticipated, or if it is bathed in soft-landing rhetoric. After all, recessions historically didn't become evident until some time after that first cut, if they materialised at all.

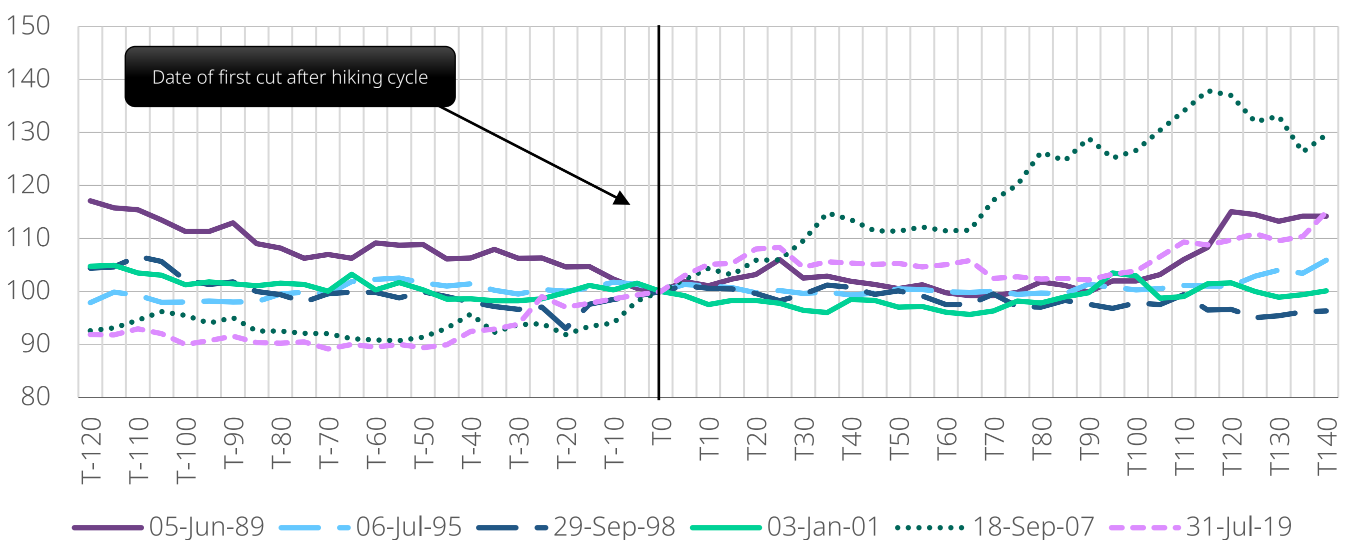
Poking a sleeping bear

The path back to target inflation, as much as a path to a soft landing, was always likely to be bumpy and narrow. And there are some concerning developments that could shake up the 'immaculate disinflation' the US has experienced over the past few months, potentially pushing back policy easing beyond March.[3]

- **Easy conditions**: Financial conditions, a leading indicator of real GDP, has gone from bottom 10% to top 90% of readings in six months. This suggests economic conditions are likely to remain at ease at least in the short term.[4] And, if GDP does pick up, inflation may have a tough time falling.
- **Labour costs not yielding ground**: Rebalancing in the labour market has occurred in job openings and quit rates, not unemployment.

Chart 2: Gold's performance post the first cut has been underwhelming

Gold performance (normalised) pre and post first rate cut after hiking cycle*

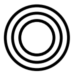


*Data to 22 January 2024. Note: analysis covers January 1973 to January 2024. X-axis labels show number of business days pre and post initial interest rate cut.
Source: Bloomberg, World Gold Council

2 Fed, ECB, BOE Interest Rate Cuts: Markets Heed Central Banks' Pushback - Bloomberg

3 Celebrating the immaculate disinflation, Financial Times, December 2023

4 Pivot Party Continues, Torsten Sløk, January 2024



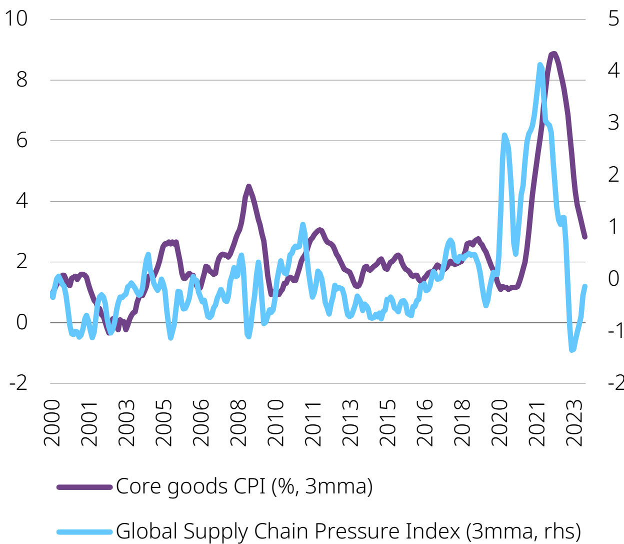
The employment cost index tends to go where the National Federation of Independent Business's small business compensation plans go. At the moment that is up, and up close to where the Fed last squirmed hawkishly.[5]

- Helter Skelter Shelter: Rents are not forecast to fall much in 2024 and are likely to contribute 17-20bps to core inflation in January and February. That leaves almost no room for other contributions before core inflation exceeds the Fed's target.[6]
- The **Red Sea tensions** have started to impact freight costs, which could lead to more general supply-chain pressures that were a major cause of the inflation surge in 2022, particularly in Europe.

And while, at this juncture, US core Personal Consumption Expenditures (PCE) on a 3- and 6-month annualised basis look right on cue for cuts, the inflation genie may not be firmly back in the bottle.

Chart 3: Red Sea tensions could compound inflation risks

Three-month moving average of y/y changes in the US core goods CPI and Global Supply Chain Pressure Index*



*Data to 31 December 2023. Note: Global Supply Chain Pressure Index is a normalised series where a zero indicates the average value, while positive/negative values represent the number of standard deviations the index is from the average.
Source: Bloomberg, World Gold Council

To conclude…

Over the next month, there could be a back-up in yields as inflation growth and employment data keeps coming in hot, which, all else equal, could be a headwind for gold.

However, higher bond yields would likely also pressure equities, which once again look particularly frothy and could result in stock market volatility. Added to this, a steady stream of elections are coming thick and fast, bringing with them lots of known unknowns about geopolitical stability. There are more to follow in March as well, and of course there are the US primaries. The general level of uncertainty is poised to keep some investors with one hand on their gold.

5 Home - Vanda Analytics

6 The Fed's preferred measure of inflation is annualised 3m or 6m core Personal Consumption Expenditures (PCE). They stand at 2.2% and 1.9% respectively as of November. The 3m has been ticking up since bottoming at 1.6% in August.

World Gold Council

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We drive industry progress, shaping policy and setting the standards for a perpetual and sustainable gold market.

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