WisdomTree Gold Monthly

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At WisdomTree he has been leading the research efforts in the commodity space, developing accessible publications targeted to a wide audience. His gold model and outlooks are widely anticipated by clients.

Taking a breather, but not for long

Our models indicate that when gold hit all-time highs in April and May, it was overvalued, so it's unsurprising that the gains were given back in June. While the higher-than-expected inflation numbers in March 2024 justified a gold rally, continued bond and currency headwinds in April and May indicate that gold prices should not have risen so much. However, the overshoot wasn't that large, and the recent pullback is on course to put gold back in line.

Figure 1: Gold price actual and forecast numbers compared

Source: WisdomTree Gold Model, June 2022 to June 2024. Assuming a 3.4% CPI inflation rate for June 2024. ***Historical performance is not an indication of future performance and any investments may go down in value.***

The Federal Reserve's Open Market Committee (FOMC) meeting revealed that the central bank is in even less of a hurry to cut rates than previously assumed. The FOMC's Dot Plot points to only one 25bps rate cut in 2024 and 75bps in 2025. Pushing the expected rate cuts further down the road has cooled gold prices. We believe that gold will continue to slow in Q3 2024 but then accelerate to new all-time highs by Q2 2025 at $2,570/oz.

Figure 2: FMOC dot plots

Source: WisdomTree, Bloomberg, Federal Reserve's Open Market Committee (FOMC)'s. Median of 19 committee members' expectations. June 2024. OIS = Overnight Index Swap. ***Historical performance is not an indication of future performance and any investments may go down in value.***

With the European Central Bank having initiated its first rate cut and the Federal Reserve looking like it will take some time to catch up, the US dollar has faced appreciation pressure. That has been the headwind for gold in the past month.

Figure 3: Dollar headwinds return

Source: WisdomTree, Bloomberg. 1/5/2024 – 19/6/2024. ***Historical performance is not an indication of future performance and any investments may go down in value.***

One of the other reasons gold prices cooled was that the International Monetary Fund's International Financial Statistics (IFS) data revealed that central banks had slowed down their gold purchases in April 2024 to 33 tonnes from a revised 36 tonnes in March (the original print for March was 39 tonnes, and so the revision also weighed on price). Most notably, the People's Bank of China (PBOC) reported a significant decline in gold buying. The bank reported that its gold reserves rose by just under 2 tonnes in April to 2,264 tonnes and then no purchases in May. Its average purchases before April were 18 tonnes. However, we believe the PBOC is simply taking a break after record-high gold prices, and now that gold prices have cooled, it will resume healthy buying.

In fact, the World Gold Council's survey of central bankers indicates that most central banks expect higher levels of gold purchases this year than last year, and the proportion that indicates that they are buying to diversify away from the US dollar has increased relative to last year. 81% of central banks expect higher central bank gold holdings in 2024, up from 61% in 2022. As a proportion of all foreign exchange reserves (including gold), 69% of central banks surveyed said they expect central banks to have a higher proportion of gold holdings in 2024, up from 45% when surveyed in 2022. Only 13% said lower, down from 24% in 2022. Interestingly, zero developed world central banks in 2023 said they want to hold gold as part of a de-dollarisation policy. In 2024, 6% of developed world central banks said that was a policy goal (survey sample 18 developed world central banks in 2024 and 11 in 2023). That points to one central bank – and we assume it's Singapore, given that it has been an active buyer for the past year. Not many emerging market central banks admit to de-dollarisation as a motivation (only 11% and 13%, respectively, in 2023 and 2024, with 36 and 39 sample sizes). But we know the events of 2022 profoundly changed central banks' perception of risk around holding G7 currencies in the wake of asset freezes.

Figure 4: Central bank expectations on central bank gold holdings

Source: World Gold Council. 2024 Central Bank Gold Reserves Survey, June 2024. ***Historical performance is not an indication of future performance and any investments may go down in value.***

Global gold ETP outflows have now plateaued. China continues to buy gold ETPs at a record pace. Chinese gold ETFs added RMB1.8bn (US$253mn) in May, extending their inflow streak to six months and pushing their total assets under management to a record high. Although May purchases (3.4 tonnes) were less than April (16 tonnes), they were still the second highest since September 2023. Collective holdings now stand at 90 tonnes, also the highest in history.

Figure 5: China gold ETP holdings

Source: World Gold Council. June 2024. ***Historical performance is not an indication of future performance and any investments may go down in value.***

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