GOLD PRICE MOVES ON 12TH MARCH 2020 OPENING UP ATTRACTIVE ENTRY POINTS

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Gold prices fell 3% on 12th March in what looks like selling to meet liquidity needs while nominal US Treasury yields also rose from intra-day low of 0.64% to an intraday high of 0.91%, most likely due to the same phenomenon. Gold and Treasury Inflation Protected Securities (TIPS) are moving in a similar fashion, as shown in Figure 1. Sharp declines in equity and other cyclical markets on 12th March (e.g. S&P 500 down 10% and oil down 7%) were setting off circuit breakers and triggering the selling of high quality, liquid assets very likely in order to meet margin calls. We saw a similar decline in gold prices at the end of February (although that did not come with a Treasury sell-off). We believe that gold and Treasuries are doing their job, acting as liquid assets in times of stress. Further violent moves in equities could trigger more gold selling on a temporary basis. However, we also believe that if gold proves its worth, by being a source of liquidity when markets are under duress, we are likely to see demand rise.

Figure 1: Gold (yellow, left) price vs. US 10-year TIPS Yields (white, right, inverted axis)

Source: Bloomberg, data from 00:00 10th March 2020 to 08:00 13th March 2020.

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

Looking back at the global financial crisis, gold prices initially fell in October 2008 alongside equities. By November 2008, the gold price started an upward rally, that ultimately saw it rise 170% by August 2011 (Figure 2).

In 2008, the initial price declines were widely attributed to margin calls and liquidity needs. If history is any guide to the future, the price declines on 12th March may have opened up good entry points for investors seeking access to a safe-haven asset.

Figure 2: Gold (green ,left) vs equities (white, right) in Q4 2008

Source: Bloomberg, data from 01 September 2008 to 31 December 2008.

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