

# Gold Market Commentary

## Rates continue to dominate

April 2021

[www.gold.org](http://www.gold.org)

A sharp rise in US interest rates and a stronger dollar have weighed on gold recently. But a rebound in economic activity and a lower gold price have provided opportunities for consumers and strategic investors alike. Looking forward, we believe that a levelling in interest rates on the back of accommodative global monetary policies, combined with rising money supply and further inflationary pressures, may support gold investment demand.

### Gold struggled as rates rose

#### ***Gold price weakness continued in March***

Following price weakness in the first two months of the year, the gold price extended its decline in March. Gold finished the month 3% lower at US\$1,691.1/oz.<sup>1</sup> It held above US\$1,700/oz for most of the month, before falling back below that level in the final few days. By the end of March, gold was down over 10% y-t-d, its weakest quarterly performance since Q4 2016, and 18% below the record US\$2,067/oz achieved in early August 2020.<sup>2</sup> Gold's performance has been similarly weak across major currencies (**Table 1; page 9**).

#### ***But gold volatility remained low...***

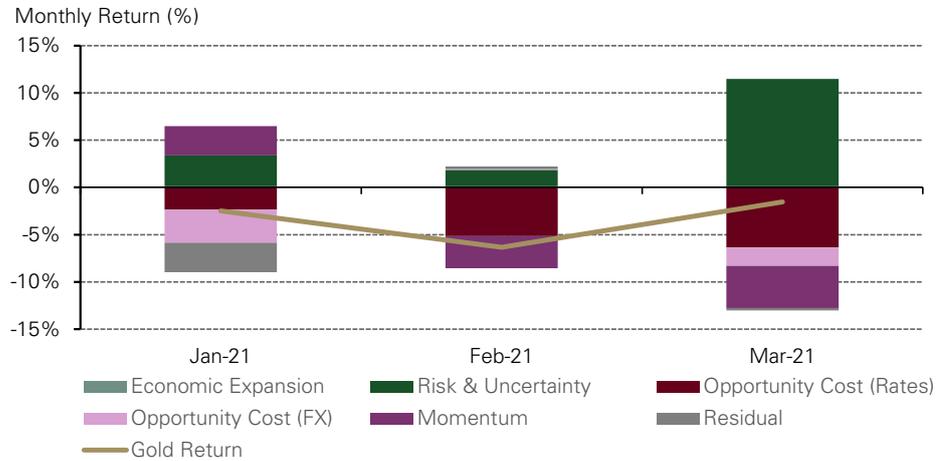
Despite the downward move in price, gold's one-month implied volatility – reflecting market expectations of future fluctuations in the price – finished the month close to 14%, well below its historical realised average of 16% and the average levels seen in 2020. This sits in contrast to most risk-on assets, whose volatility tends to increase amid downward price movements, and highlights the role of gold as an effective risk management tool.

<sup>1</sup> Based on the LBMA Gold Price PM as of 31 March 2021.

<sup>2</sup> Ibid.

### Chart 1: Rising interest rates weighed on gold throughout Q1

Contributions of gold price drivers to periodic gold returns\*



\*To 31 March 2021. Note: This is a multiple variable model featuring the four key thematic driver categories of monthly gold price returns: economic expansion, market risk, opportunity cost and momentum, themes that capture motives behind gold demand and most poignantly, investment demand; considered the marginal driver of gold price returns in the short-run. Residual includes other factors not currently captured by the model. Chart shown here is based on analysis covering a shorter estimation period of three years.

On Goldhub, see Short-term gold price drivers

Source: Bloomberg, World Gold Council

### ...increasing the opportunity cost of holding gold

Analysis based on our short-term gold return model indicates that the primary driver of gold's decline during March, and throughout Q1, was higher interest rates, impacting the opportunity cost of holding gold (**Chart 1**).<sup>3</sup> While expectations of higher inflation kept building, the continued bond sell-off pushed nominal and real yields on sovereign debt higher during the month – with the 10 year Treasury yield seeing the sharpest rise in thirty years.<sup>4</sup> As such, the positive impact of rising breakeven rates was outweighed by rising nominal interest rates in March and y-t-d. Further analysis has also shown that gold's sensitivity to interest rates as well as inflation has risen over the last year (**Chart 2**).

### Chart 2: Gold's sensitivity to interest rates has risen over the last year

Trailing 2-year gold betas\*



\*Dec 2002 to Mar 2021. Note: DM FX: comprises euro and yen.

Source: Bloomberg, World Gold Council

3 For the purpose of this analysis, we estimated all coefficients using data over the past 3 years to better reflect current market dynamics.

4 [on.ft.com/3u8aqA7](https://on.ft.com/3u8aqA7)

Investor sentiment towards gold remained broadly bearish, with net long positioning (**Chart 11**) falling to its lowest level since mid-2019, and net outflows from gold ETFs of 107.5 tonnes (t) over the month despite continued inflows from Asia (**Chart 12**). Central bank demand has remained mixed too, with net sales in January followed by net purchases in February.

### Regional signs of a consumer comeback

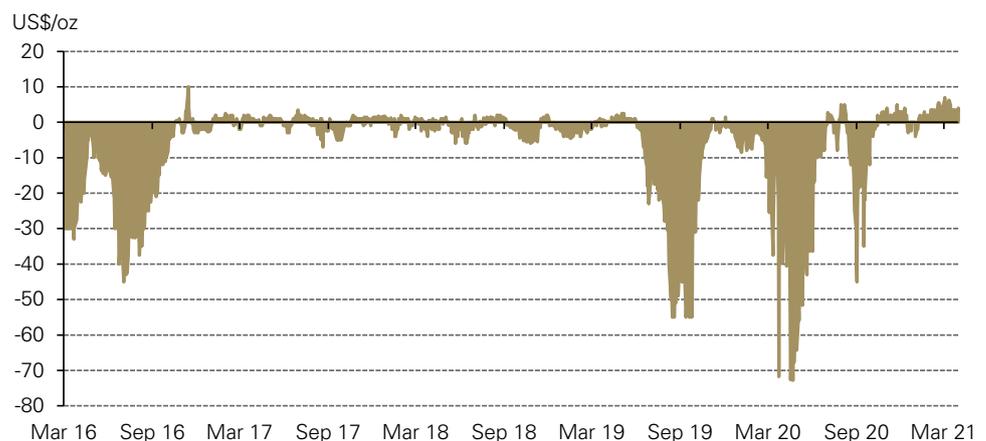
#### **Retail gold demand has picked up in 2021**

**India:** Retail demand began to pick up in January, gathering momentum in February due to the reduction in import duty on gold, the lower gold price, and an appreciating rupee.

Following the 5.6% drop in the local gold price and better economic sentiment in February, both jewellery and investment demand witnessed a resurgence. Many consumers took advantage of lower gold prices to make wedding jewellery purchases, with the lower gold price also a welcome entry point for retail investors. Retail demand for both small gold bars (50g and 100g denomination) and coins gained strength during the month. The positive momentum continued into the first half of March as the price declined further. However, towards the end of the month demand slowed marginally as gold prices began to rise along with a sudden pick-up in COVID cases in several states.

#### **Chart 3: Robust retail demand pushed local market premium to 51-month high in March**

Difference between the NCDEX gold price and the LBMA Gold price AM



Source: NCDEX, ICE Benchmark Administration, World Gold Council

#### **Chinese gold demand was robust during CNY**

**China:** In January and February, China's tradition of hoarding gold products around the Chinese New Year (CNY) holiday boosted local gold consumption.<sup>5</sup> Data from the Ministry of Commerce showed, in value terms, an 161% y-o-y surge in sales of all jewellery categories during the holiday.<sup>6</sup> Most gold retailers we have spoken to noted that a dip in the local gold price, the CNY holiday, and the "stay put" initiative were the main factors supporting sales<sup>7</sup>.

Chinese gold ETFs also attracted local investors' attention. At the end of March, Chinese gold ETF holdings have grown by over 5t y-t-d, reaching a new record high of 72.4t. The monthly average Shanghai-London gold price spread turned positive in January after remaining negative for 11 consecutive months and rose to around US\$11/oz in March. The recovery in China's gold consumption so far this year has led to the spread rising.

5 The Chinese New Year holiday fell between 11 February and 18 February in 2021.

6 [www.chinadaily.com.cn/a/202102/19/WS602efaeba31024ad0baa983b.html](http://www.chinadaily.com.cn/a/202102/19/WS602efaeba31024ad0baa983b.html)

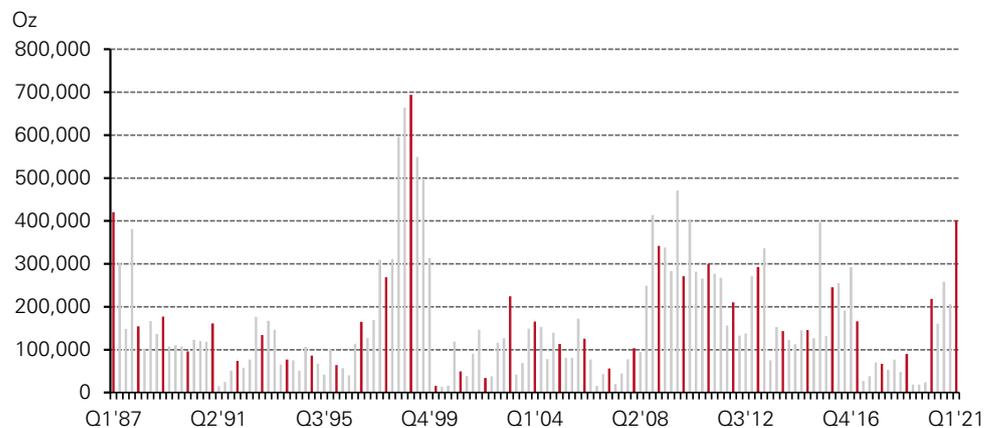
7 [www.chinadailyhk.com/article/157781](http://www.chinadailyhk.com/article/157781)

**US Mint reported highest sales since 1999**

**Other markets:** While North American gold ETFs saw heavy outflows in March and Q1, some low-cost ETFs continued their positive trend.<sup>8</sup> In addition, the US Mint reported strong levels of buying during Q1 (**Chart 4, page 4**). Reported sales of American Eagle coins totalled 55,500oz (1.7t; US\$95mn) in March, taking the y-t-d sales total to 401,500oz (12.5t; US\$720mn).<sup>9</sup> This is the third strongest Q1 for gold sales on record, behind 1999 (694,000oz) and 1987 (420,500oz). Further evidence of significant interest in gold investment at a retail level came from the Perth Mint, which also reported significantly higher levels of buying. February sales of its minted gold products jumped 441% y-o-y, to a monthly record of 124,104oz. This increase was attributed to greater levels of retail demand from US consumers.<sup>10</sup> In Germany, anecdotal evidence from local market participants suggests that consumer demand was similarly strong in Q1 despite the sizable outflows seen in the gold ETF space.

**Chart 4: US gold Eagle coin sales were very strong during Q1**

American Eagle gold coin sales\*



\*To end March 2021. Note: Red bars indicate sales in Q1 in each year.  
Source: US Mint, World Gold Council

**Looking ahead – rising inflation may offset interest rate headwinds**

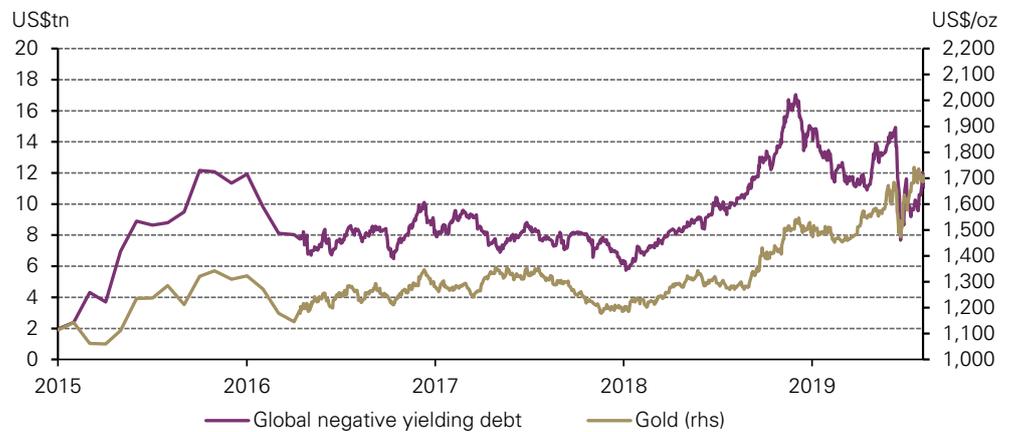
**Gold may remain supported by concerns about inflation...**

We believe investors are likely to remain focused on rising inflation expectations. But while gold’s increased sensitivity to interest rates may be significant headwinds to its performance in the short term, we believe that the recent sharp increase in interest rates may level off as central banks continue to use monetary policy tools to keep them in check. Some central banks, including the Reserve Bank of Australia and European Central Bank (ECB), have increased bond purchases when local yields increased, while both the Federal Reserve and the Bank of England have signalled a continuation of their current asset-purchasing plans and level of target rates. Despite the intense focus on rising yields during the quarter however, the overall level of yields remains structurally low. As a result, investors continue to shift their asset allocations from traditional high quality, low yielding bonds to assets which offer higher potential returns, but simultaneously higher volatility.

8 Low-cost US-based gold-backed ETFs are defined as exchange-traded open-ended funds listed in the US, backed by physical gold, with annual management fees of 20bps or less. At present, these include Aberdeen Physical Swiss Gold Shares, SPDR® Gold MiniShares, Granitshares Gold Trust, and Goldman Sachs Physical Gold ETF.  
9 Sales volume figures in ounces are sourced from the [US Mint](https://www.usmint.gov/). US dollar values are calculated using the monthly (March) and quarterly (Q1'21) LBMA Gold Price PM averages as of 31 March 2021.  
10 [www.perthmintbullion.com/blog/blog/21-03-03/Buying\\_frenzy\\_fuels\\_record\\_sales\\_of\\_physical\\_gold.aspx](https://www.perthmintbullion.com/blog/blog/21-03-03/Buying_frenzy_fuels_record_sales_of_physical_gold.aspx)

### Chart 5: Gold prices have generally been supported by the overall increase in negative yielding debt

Global negative yielding debt vs gold prices\*



\*As of 31 March 2021. Note: Monthly numbers since September 2015. Negative yielding debt numbers based on Bloomberg Barclays Global Aggregate Negative Yielding Debt Market Level. Gold: LBMA Gold Price PM (US\$/oz)  
Source: Bloomberg, World Gold Council

In addition, investors may likely face elevated levels of risk, another key driver of gold investment demand, in the short to medium term as markets continue to assess how monetary and fiscal strategies play out. The divergent approaches to control higher yields taken by central banks around the world are likely to contribute to heightened risk as well. For example, the rising yield gap between the US and Europe could put further pressure on the ECB and the stuttering economic recovery in the latter.

We also expect rising inflationary pressures to be supportive for gold over the short to medium term. Recent stimulus measures have flooded capital markets with liquidity, pushing financial asset valuations ever higher. The so-called reflation trade will also lead to the uneven performance of equities, with value stocks outperforming growth stocks, causing higher volatility of some risk assets and the potential for possible pullbacks. Historically, gold has underperformed to commodities in the initial stage of a reflationary period but has generally tended to catch up and outperform in the longer term. As investors look to guard against these risks, gold investment may find further support in its role as a portfolio hedge.

#### **...and improving levels of consumer demand**

Retail demand may also provide a boost. Key markets – such as India and China – have shown recent signs of a recovery in consumer demand (see Regional focus below). We will give a clearer picture of this in our forthcoming Gold Demand Trends Q1 2021 report which will be published at the end of April.

## Key market trends and questions

Here are our thoughts on the key questions we have received from investors during the past month:

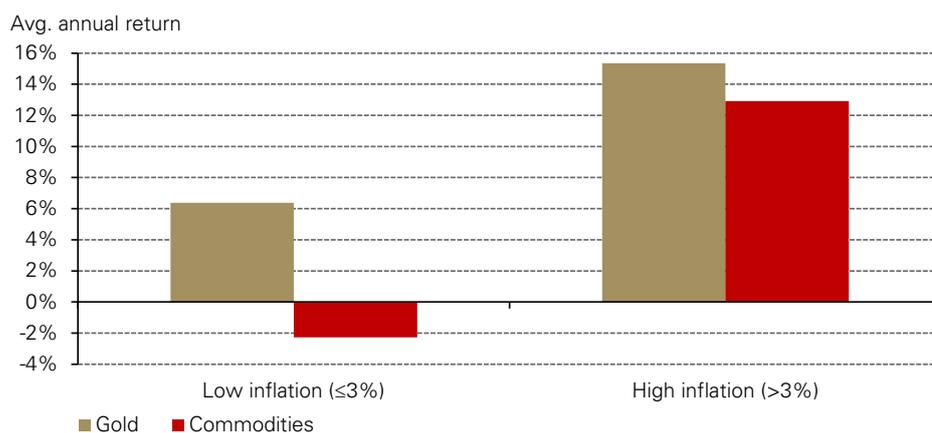
### Will gold respond to inflation?

Gold is considered by many to be an effective hedge against inflation, although, to some, its performance y-t-d means it has not been living up to its reputation. Our recent analysis suggests gold's current performance is consistent with the onset of previous reflationary periods. While we are likely to see higher prices as the economic recovery gathers strength, some believe inflation will be short-lived. But should inflationary pressures continue to mount, we may see gold respond as investors seek diversifiers that can provide wealth protection. As growth picks up, any resultant wage growth would also support greater levels of consumer demand in procyclical sectors such as jewellery.

You can read more on this in our report on inflation, to be published later this month.

### Chart 6: Gold historically rallies in periods of high inflation, outperforming broad-based commodities

Gold and commodity nominal returns in US dollars as a function of annual inflation\*



\*As of 31 December 2020. Based on y-o-y changes in US dollars for 'gold': LBMA Gold Price PM, 'commodities': Bloomberg Commodity Index and 'inflation': US CPI since January 1971.

Source: Bloomberg, ICE Benchmark Administration, World Gold Council

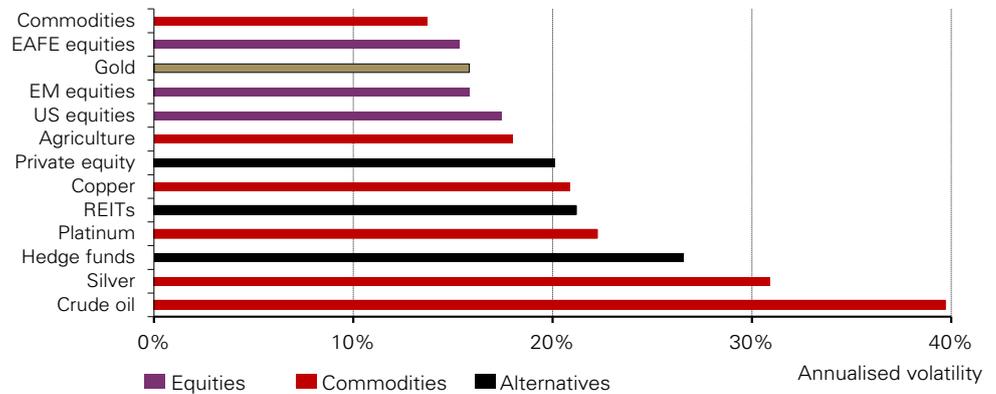
### Is gold too volatile to be an effective hedge?

While gold's sensitivity to interest rates has contributed significantly to its recent downward move, it nonetheless remains one of the least volatile mainstream assets. Over the past 20 years, gold's volatility of 16% sits well below that of US equities and some alternative assets (**Chart 7, page 7**). During the quarter, its short-term implied volatility remained stable between 15% and 19%, while realised volatility was slightly below that long term average at 13%.

Gold's volatility is also less important when it is part of a portfolio due to its low correlation to other assets, resulting in a lower contribution to overall portfolio volatility.

### Chart 7: Gold has been less volatile than many equity indices, alternatives and commodities

Average daily volatility of several major assets since 2000\*



\*Annualised volatility is computed based on daily returns in US dollars between 31 December 2000 and 31 December 2020. Computations in US Dollar Spot of total return indices for S&P 500 Index, MSCI Daily TR Gross EM USD, MSCI AC World Daily TR Gross USD, LBMA Gold Price PM USD, Bloomberg Commodity Index Total Return, LBMA Silver Price - Price/USD, Bloomberg WTI Crude Oil Subindex Total Return, Bloomberg Barclays Global-Aggregate Total Return Index Value Unhedged USD, S&P GSCI Copper Official Close Index TR, S&P GSCI Platinum Index TR, FTSE Bursa Malaysia KLCI Index - Kuala Lumpur Composite Index, Korea Stock Exchange KOSPI Index, Straits Times Index STI.

On Goldhub.com see: [Gold volatility](#)

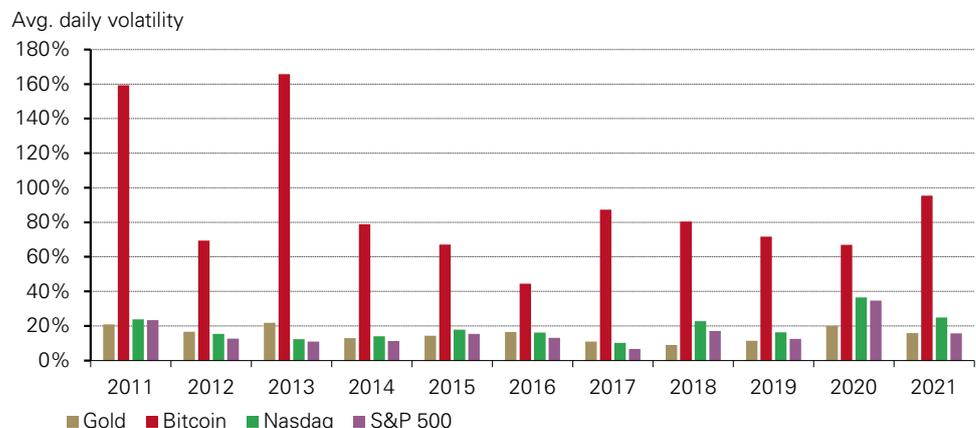
Source: Bloomberg, COMEX, World Gold Council

### Is investment in gold being disrupted by cryptocurrencies?

The performance of cryptocurrencies, particularly Bitcoin, in recent months has been painted by some as a challenge to gold. While Bitcoin's y-t-d return of 106% has captured the attention of many market participants, its annualised volatility of 95% remains at multiples of that of major equity indices, let alone gold. We maintain that gold and cryptocurrencies are fundamentally different propositions, and that gold can play a key strategic role in portfolios and not just act as a high-octane tactical investment. In fact, those investors with positions in cryptocurrencies may benefit from using gold as a means to hedge the additional risk.

### Chart 8: Bitcoin's annual volatility is still multiple times higher than equities and bonds

Annualised average daily volatility\*



\*As of 31 March 2021. Annualised volatilities computed using the standard deviation of daily returns for the LBMA Gold Price PM, Bloomberg's XBT BGN, S&P 500 Index, and NASDAQ Composite Index, and multiplying it by  $\sqrt{260}$ .

Source: Bloomberg, DataStream, World Gold Council



## Gold market monitor

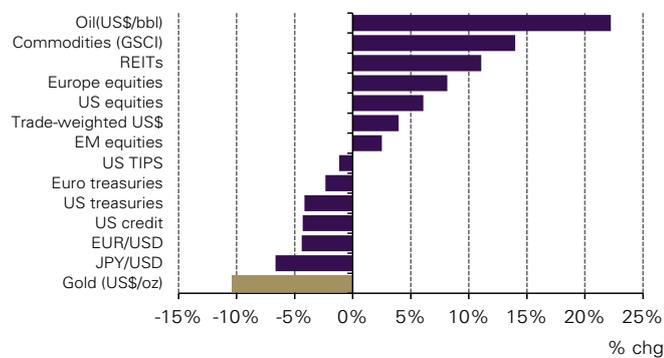
**Table 1: Gold return in key currencies\***

	USD	EUR	JPY	GBP	CAD	CHF	INR	RMB	TRY	RUB	ZAR	AUD
	(oz)	(oz)	(g)	(oz)	(oz)	(oz)	(10g)	(g)	(oz)	(g)	(g)	(oz)
January	-1.3%	-0.6%	0.1%	-1.7%	-1.0%	-0.6%	-1.4%	-2.5%	-3.0%	0.7%	1.2%	-0.7%
February	-6.5%	-6.4%	-4.8%	-8.2%	-7.3%	-4.8%	-5.8%	-6.5%	-5.0%	-7.6%	-5.9%	-7.3%
March	-3.0%	0.2%	0.6%	-1.7%	-3.7%	0.9%	-3.5%	-1.5%	8.3%	-1.7%	-5.4%	-1.4%
YTD	-10.4%	-6.7%	-4.1%	-11.2%	-11.6%	-4.6%	-10.4%	-10.2%	-0.2%	-8.5%	-9.9%	-9.2%

\*As of 31 March 2021. Based on the LBMA Gold Price PM in: US dollar (USD), euro (EUR), Japanese yen (JPY), pound sterling (GBP), Canadian dollar (CAD), Swiss franc (CHF), Indian rupee (INR), Chinese yuan (RMB), Turkish lira (TRY), Russian rouble (RUB), South African rand (ZAR), and Australian dollar (AUD).

Source: Bloomberg, ICE Benchmark Administration, World Gold Council

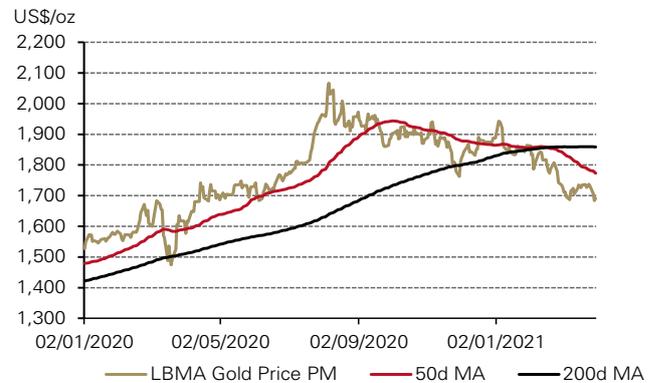
**Chart 9: Year-to-date performance\***



\*To 31 March 2021. Note: Return computations for 'EM equities': MSCI Emerging Markets Total Return Gross; 'Gold (US\$/oz)': LBMA Gold Price PM; 'US treasuries': Bloomberg Barclays US Treasury Total Return Unhedged USD; 'Commodities (GSCI)': S&P GSCI Total Return; 'Europe equities': MSCI Daily Gross TR Europe; 'US equities': MSCI Daily Total Return Gross USA; 'US credit': Bloomberg Barclays US Credit Total Return Value Unhedged; 'US TIPS': Bloomberg Barclays US Treasury Inflation Notes Total Return Index Value Unhedged; 'Euro treasuries': Bloomberg Barclays EuroAgg Treasury Total Return Index Value Unhedged; 'Oil(US\$/bbl)': US Crude Oil WTI Cushing OK Spot; 'REITs': Dow Jones US Select REIT Total Return.

Source: Bloomberg, World Gold Council

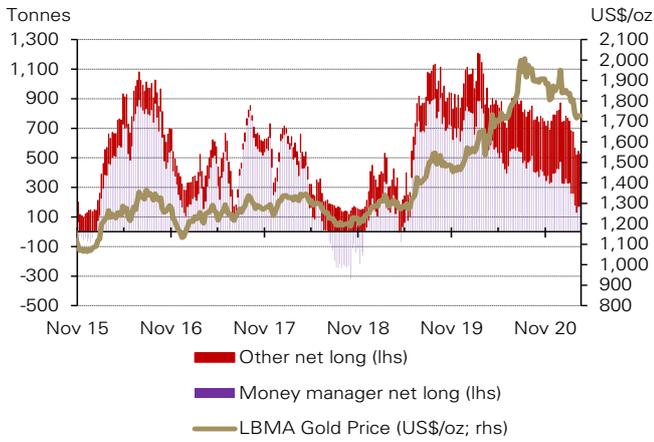
**Chart 10: Gold Price and moving averages\***



\*To 31 March 2021

Source: Bloomberg, ICE Benchmark Administration, World Gold Council

**Chart 11: COMEX net long positioning\***

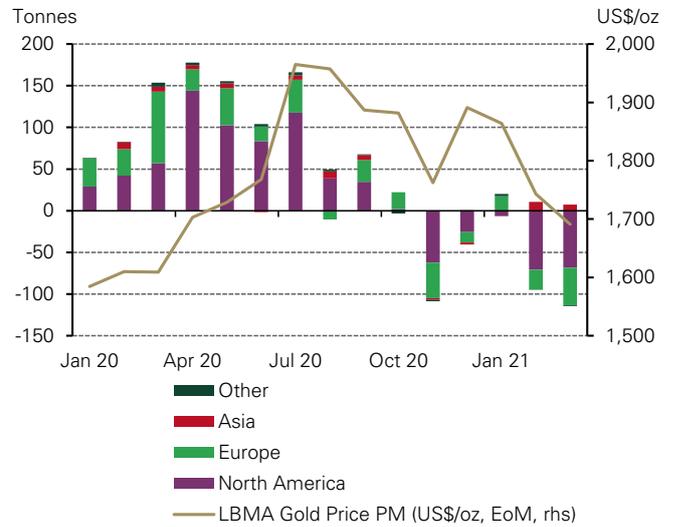


\*To 23 March 2021. Note: The Commitment of Traders (COT) report provides information on the positioning of speculative investors in the U.S. futures markets. Short positioning reflects bearish sentiment while long positioning reflects bullish sentiment in the gold futures' markets.

On Goldhub, see [COMEX net long positioning](#)

Source: Bloomberg, World Gold Council

**Chart 12: Gold ETF flows by region\***



\*To end March 2021.

On Goldhub, see [Global gold-backed ETF holdings and flows](#)

Source: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council

## About the World Gold Council

The World Gold Council is the market development organisation for the gold industry. Our purpose is to stimulate and sustain demand for gold, provide industry leadership, and be the global authority on the gold market.

We develop gold-backed solutions, services and products, based on authoritative market insight, and we work with a range of partners to put our ideas into action. As a result, we create structural shifts in demand for gold across key market sectors. We provide insights into the international gold markets, helping people to understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, China, Singapore and the USA, the World Gold Council is an association whose members comprise the world's leading gold mining companies.

### World Gold Council

15 Fetter Lane, London EC4A 1BW  
United Kingdom

**T** +44 20 7826 4700

**W** [www.gold.org](http://www.gold.org)

## For more information

### Research and Strategy

#### Adam Perlaky

[adam.perlaky@gold.org](mailto:adam.perlaky@gold.org)  
+1 212 317 3824

#### Bharat Iyer

[bharat.iyer@gold.org](mailto:bharat.iyer@gold.org)  
+1 212 317 3823

#### Johan Palmberg

[johan.palmberg@gold.org](mailto:johan.palmberg@gold.org)  
+44 20 7826 4786

#### Krishan Gopaul

[krishan.gopaul@gold.org](mailto:krishan.gopaul@gold.org)  
+44 20 7826 4704

#### Juan Carlos Artigas

Head of Research  
[juancarlos.artigas@gold.org](mailto:juancarlos.artigas@gold.org)  
+1 212 317 3826

#### Louise Street

[louise.street@gold.org](mailto:louise.street@gold.org)  
+44 20 7826 4765

#### Mukesh Kumar

[mukesh.kumar@gold.org](mailto:mukesh.kumar@gold.org)  
+91 22 317 3826

#### Ray Jia

[ray.jia@gold.org](mailto:ray.jia@gold.org)  
+86 21 2226 1107

#### John Reade

Chief Market Strategist  
[john.ream@gold.org](mailto:john.ream@gold.org)  
+44 20 7826 4760

### Important information and disclosures

© 2021 World Gold Council. All rights reserved. World Gold Council and the Circle device are trademarks of the World Gold Council or its affiliates.

All references to LBMA Gold Price are used with the permission of ICE Benchmark Administration Limited and have been provided for informational purposes only. ICE Benchmark Administration Limited accepts no liability or responsibility for the accuracy of the prices or the underlying product to which the prices may be referenced. Other content is the intellectual property of the respective third party and all rights are reserved to them.

Reproduction or redistribution of any of this information is expressly prohibited without the prior written consent of World Gold Council or the appropriate copyright owners, except as specifically provided below. Information and statistics are copyright © and/or other intellectual property of the World Gold Council or its affiliates (collectively, "WGC") or third-party providers identified herein. All rights of the respective owners are reserved.

The use of the statistics in this information is permitted for the purposes of review and commentary (including media commentary) in line with fair industry practice, subject to the following two pre-conditions: (i) only limited extracts of data or analysis be used; and (ii) any and all use of these statistics is accompanied by a citation to World Gold Council and, where appropriate, to Metals Focus, Refinitiv GFMS or other identified copyright owners as their source. World Gold Council is affiliated with Metals Focus.

WGC does not guarantee the accuracy or completeness of any information nor accepts responsibility for any losses or damages arising directly or indirectly from the use of this information.

This information is for educational purposes only and by receiving this information, you agree with its intended purpose. Nothing contained herein is intended to constitute a recommendation, investment advice, or offer for the purchase or sale of gold, any gold-related products or services or any other products, services, securities or financial instruments (collectively, "Services").

This information does not take into account any investment objectives, financial situation or particular needs of any particular person.

Diversification does not guarantee any investment returns and does not eliminate the risk of loss. Past performance is not necessarily indicative of future results. The resulting performance of any investment outcomes that can be generated through allocation to gold are hypothetical in nature, may not reflect actual investment results and are not guarantees of future results. WGC does not guarantee or warranty any calculations and models used in any hypothetical portfolios or any outcomes resulting from any such use. Investors should discuss their individual circumstances with their appropriate investment professionals before making any decision regarding any Services or investments.

This information may contain forward-looking statements, such as statements which use the words "believes", "expects", "may", or "suggests", or similar terminology, which are based on current expectations and are subject to change. Forward-looking statements involve a number of risks and uncertainties. There can be no assurance that any forward-looking statements will be achieved. WGC assumes no responsibility for updating any forward-looking statements.

### Information regarding Qaurum<sup>SM</sup> and the Gold Valuation Framework

Note that the resulting performance of various investment outcomes that can be generated through use of Qaurum, the Gold Valuation Framework and other information are hypothetical in nature, may not reflect actual investment results and are not guarantees of future results. Neither WGC nor Oxford Economics provides any warranty or guarantee regarding the functionality of the tool, including without limitation any projections, estimates or calculations.