

# Gold to keep Shining in 2024

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## Lead: Monetary policy easing will support gold

Gold is set to remain a strong performer in 2024, with the price expected to average above USD2,000 per ounce. Three factors are behind this view: a shift from monetary tightening to easing; heightened economic, political, and geopolitical risks; and continued strong purchasing by central banks, companies seeking reserves.

A shift from monetary tightening to easing  
The US Federal Reserve's decision to hold the federal funds rate steady at its December meeting is being labelled as a 'pivot.' After hiking the policy rate by 525 basis points in 18 months, the Fed is expected to embark on the rate cutting phase of the cycle at some point in the second half of 2024.

Gold's price is inversely related to real rates, as higher interest rates make fixed income assets more attractive

and increase the opportunity cost of holding gold. However, the inverse relationship varies during different phases of the rate cycle. Historically, this negative correlation strengthened during the easing phase and weakened during tightening. In other words, the speed at which the price of gold rises when rates are being cut is greater than the speed at which it declines when rates are being raised.

For a 100bp increase in the real US 10-year government bond yield, the gold price tends to correct 5-10%, other things unchanged. However, the latest US Fed hiking cycle was unique, in that it was interspersed with significant geopolitical events and stubborn global inflation. It was not surprising that the gold price has not fallen but gained a tad since March 2022, when the US Fed started lifting its policy rate. This shows how unforeseen events can alter the influence of fundamental economic drivers.

Therefore, gold will benefit from the monetary cycle's transition of tightening to easing in 2024.

## Heightened economic, political, and geopolitical risks

Gold will also find support from economic, political, and geopolitical uncertainties. The market is expecting a global growth slowdown and has factored this into the price. The risk of a 'hard landing' in the US, including the possibility of a recession, remain on the market's mind. A few indicators, like the Federal Reserve Bank of New York's 'Probability of Recession in 12 months ahead', is portending a 50% chance of a recession in 2024.

2024 will be an election year in the US, Europe, and several Asian countries. This will keep political risks elevated. While US presidential elections have historically had a mixed impact on gold prices, they can spark a bout of volatility depending on investor expectations of the outcome and who wins.

Based on past elections, gold tends to outperform when the Democrats win, as they are perceived to favour greater public spending which at least theoretically is understood to feed inflation. Republicans, in contrast, are perceived to favour fiscal restraint. A tightly contested

election, too, stokes uncertainty, keeping financial markets volatile and supporting gold demand.

Elevated geopolitical risks have been driving gold buying since early 2022 and are likely to persist in 2024, with the war in Ukraine continuing, ongoing strain in the Middle East situation, and discord between the US and China. We estimate a geopolitical risk premium of nearly 7-8% is embedded in prices, which will likely sustain in 2024.

**Strong central bank gold buying**

Gold buying by central banks will help drive gold demand in 2024. The diversification of foreign reserves away from US dollar-denominated assets will remain thematically relevant as US credit quality deteriorates. US debt levels, for instance, have risen by 46% to USD33trn since 2020.

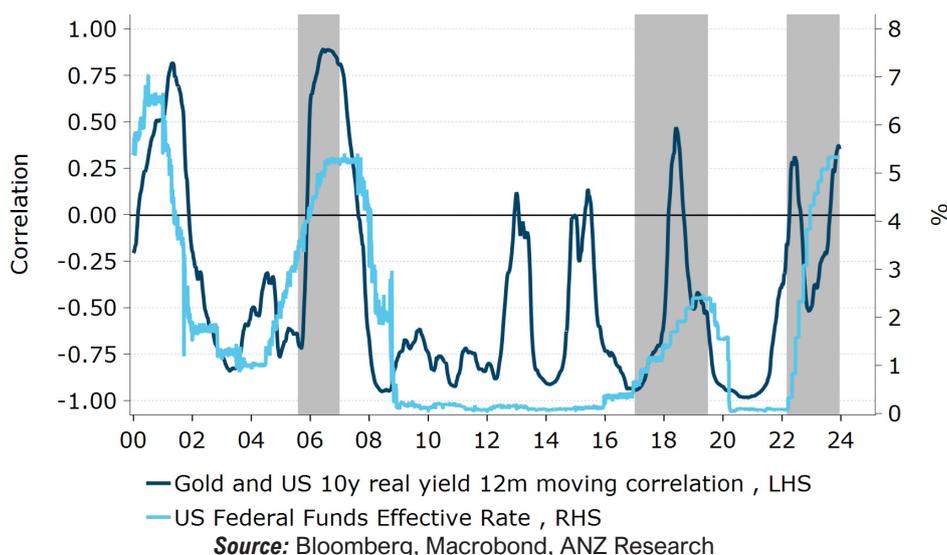
2022-23, we estimate they will remain above an average of 800 tonnes. This should mitigate any weakness in demand for gold jewellery due to higher prices.

**In summary**, easier monetary conditions in 2024 could boost investors' demand for gold, alongside steady central bank buying. Investor positioning is light, as gold ETF holdings recorded outflows of 280 tonnes in 2023. A pivot to rate cuts indicates an opportunity for investors to build on these positions again.

While we see gold prices being well supported in 2024, there is a caveat. The market is pricing rate cuts of 150bp starting from March 2024, while we think rates will remain steady until the third quarter of 2024, leaving temporary scope for higher real rates as inflation falls in the near term. This could be a downside for the gold price in the first quarter of 2024.

While purchases are likely to level-off from a high in

**Figure 1. Gold's inverse relationship with the UST 10y yield weakens during hiking cycles**



**Figure 2. Central bank gold purchases**

