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Gold's baffling bull market

Analysts struggle to shed light on surging bullion prices



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The gold price's precipitous rally to all time highs of over US\$2,400/oz last week still has analysts and traders scratching their heads, and unclear what the direction of travel is likely to be.

"It's easier to say what hasn't happened and what isn't driving it," Neil Meader, director of gold and silver at analyst group Metals Focus told Mining Journal.

"There hasn't been a dearth of scrap, there hasn't been a boom in jewellery consumption [...], and if you're looking at retail investment in Western markets, that's been incredibly weak."

"There's been a massive surge in selling back by retail investors, and many of the dealers we're talking to will talk about net demand being negative," Meader said.

Retail demand for gold is instead concentrated in Asia, in particular China, marking one of many unusual features of this latest rally.

"Normally you see Western investors buying into a rally and investors in Asia sell into a rally," Meader said. "This, if anything, it seems to be kind of the other way around."

This outflow of money from western gold ETFs seems to be based on profit taking by investors. But it has left some key buyers with cash on their hands, ready step in to any price dip.

Robert Crayfound and Keith Watson who co-manage the CQS Natural Resources Growth & Income fund, as well as the focused Golden Prospect Precious Metals fund saw those ETF outflows as supportive, given the current high price.

"When you've got gold at all time highs, despite ETF selling in the west, that's actually very constructive," Crayfound said.

"And if we start to see ETFs in the West, flip back to buying again, purchasing, then that really pushes gold [...] because we are clearly in quite a tight market."

US Fed not adding support

But the biggest mystery of the current rally is that it is coming at a time when US interest rates are high, and as the Federal Reserve is beginning to look less, not more, dovish.

"The shock to the market in a way that gold is disconnected from rates and it's disconnected from the dollar it's effectively disconnected from the from equities as well," Meader said. "It should be negatively correlated to all three. But it has continued to rise."

Part of the support seems to be coming from heavy gold buying by central banks, most notably China.

Crayfound saw this as a feature of a longer term trend of China moving away from US assets.

"They are selling US Treasuries at a rapid rate, if anything that's picked up and followed on from the Russian invasion of Ukraine."

"So with China not wanting to be controlled by the US, we see a kind of bipolar rotation of global geopolitics."

But Meader said that this long term trend in central bank buying could not explain the short term momentum.

"That sort of buyer will never chase the market higher if they see levels as volatile," Meader said. "You're talking about a multi-year diversification. There's absolutely no for them to rush."

As to short term price prospects, Meader said the rally might ease. "In the short to medium term. I think there's plenty of scope for a correction of substance."

But he warned that "the correction may not be that deep or that long".

And Crayfound was more bullish, citing the potential for more ETF inflows.

"The reality is, we're probably in the early stages... If you see the ETFs turning into steady buyers, you can easily put a scenario where US\$300 plus is added on to the gold price."