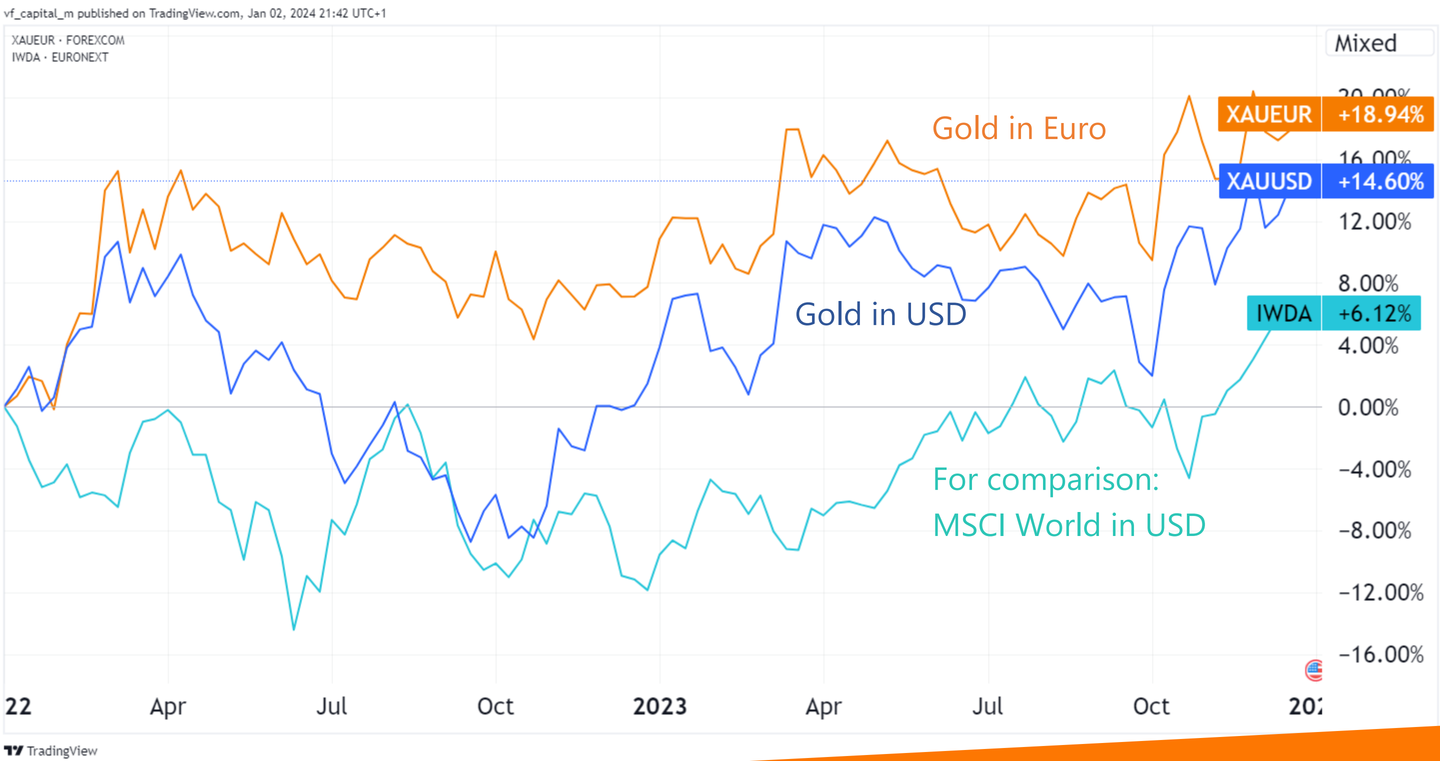
More in demand than ever!

Is the rush for gold coming in 2024?

The sharp increase in interest rates has slowed down gold – that could change.

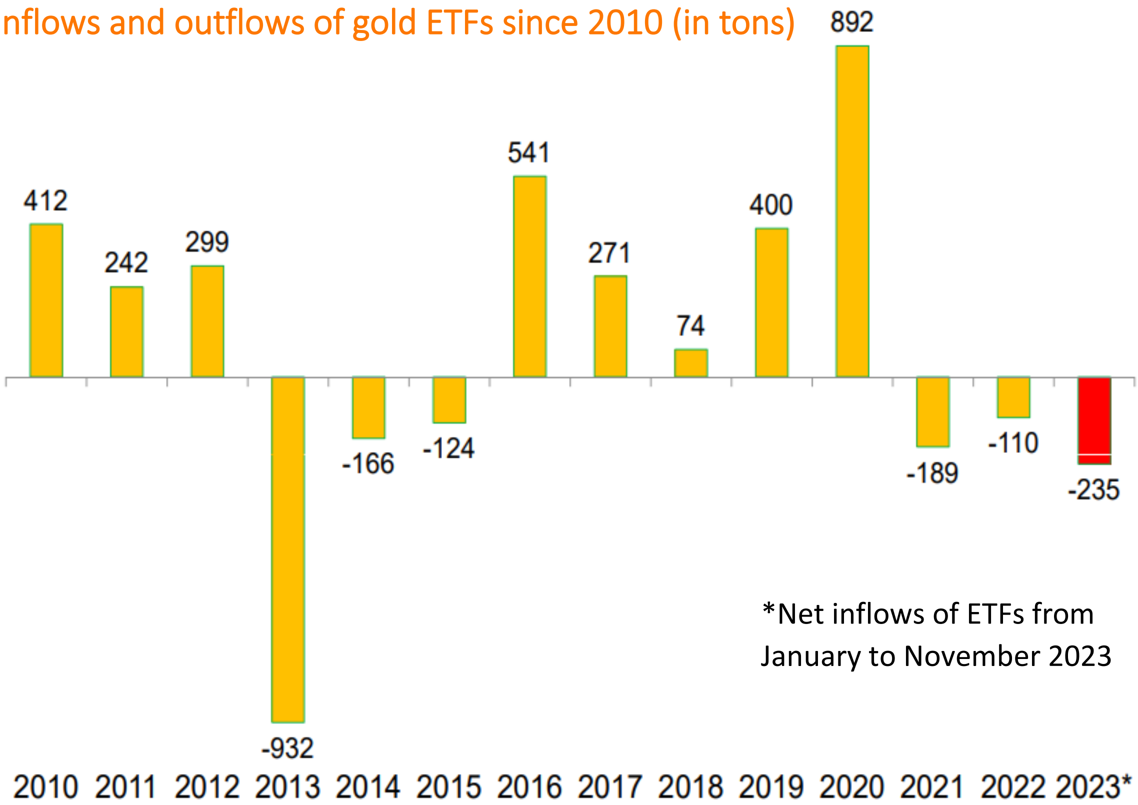
In the outlook for 2023, we pointed out that since the beginning of 2019, the price of gold has outperformed stock indices, contrary to what the lackluster sentiment among investors towards precious metals might suggest. That hasn't changed. The chart below shows that gold has performed significantly better than an ETF on the MSCI World index in the last two years. While stock indices have caught up in recent months, gold has held its ground. However, the comparative chart also indicates that the price of gold in dollars has performed better since early October 2023 due to the strength of the euro, compared to the price of gold in euros.



Investors were skeptical in 2023

The outcome of such comparisons always depends on the starting point; for example, since early 2021, the MSCI World ETF has been significantly ahead. What is particularly noteworthy, however, is that gold has held its ground despite the strong rise in interest rates or bond yields, which we delve into in the outlook for EUR/USD. Typically, investors part ways with non-interest-bearing precious metals when higher returns beckon for secure investments like government bonds. The trend in gold ETFs reflects exactly that: there were outflows from gold funds from January to November, exceeding those in the weak overall year of 2021. Although outflows have diminished in recent months, they have not come to a halt. The expected rush of investors to gold, anticipated in the conclusion of the 2023 outlook, did not materialize mainly due to high interest rates. However, this could happen in 2024 if the widely expected shift in interest rates and bond yields in the USA occurs.

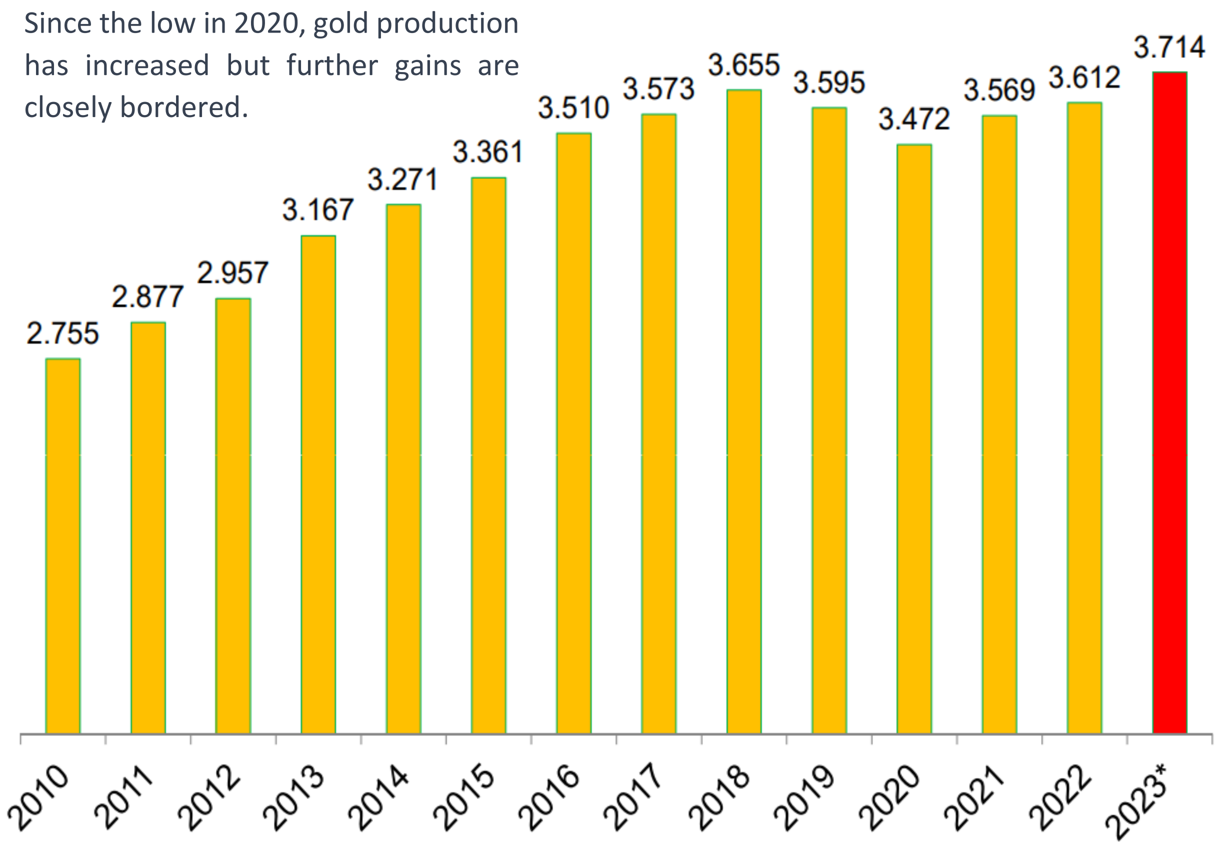
Inflows and outflows of gold ETFs since 2010 (in tons)



A higher gold price hampers demand

However, other influences are also important. Gold held up well in 2023 because demand outside of ETFs was strong. Central banks continued to avidly purchase gold in 2023, likely reaching the record level of 2022 again. Demand for bars and coins in the first three quarters was roughly as high as the previous year but showed weakness in the third quarter, possibly due to the increased gold price, which buyers usually need time to adjust to. This applies not only to bars and coins but also to gold jewelry. If the gold price does indeed rise in 2024, it would dampen demand in many areas. On the other hand, mining companies might be encouraged to increase production. This was the case in 2023, with gold production heading towards a new record high (see graph). A higher gold price thus "automatically" hampers demand. Additionally, a further increase in EUR/USD against the gold price in euros would incur a performance cost for Euro investors.

Gold mining production since 2010 (in tons)



* 2023: Estimated - projection from the 1st to the 3rd quarter.

Annual Outlook: Gold

My Conclusion

There are balancing effects in the gold market; a higher price suppresses demand and strengthens supply. Nevertheless, the behavior of financial investors remains crucial for short-term price development. If the anticipated interest rate decline becomes concrete, it is likely to give a boost to the gold price.

Gold in USD (10 years)

Positive and negative influences on the gold price in 2024:

Positive	Negative
New crises drive investors more towards gold. The Fed cuts interest rates more than expected, and bond yields fall significantly. Demand for gold ETFs increases after a prolonged weakness.	Stock markets perform better than expected, overshadowing gold. A strong rise in EUR/USD hampers the performance of the gold price in euros.