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# WisdomTree Europe

## Could 2023 Be A Record Year for Gold Prices?

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# Could 2023 be a record year for gold prices?

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**Nitesh Shah**

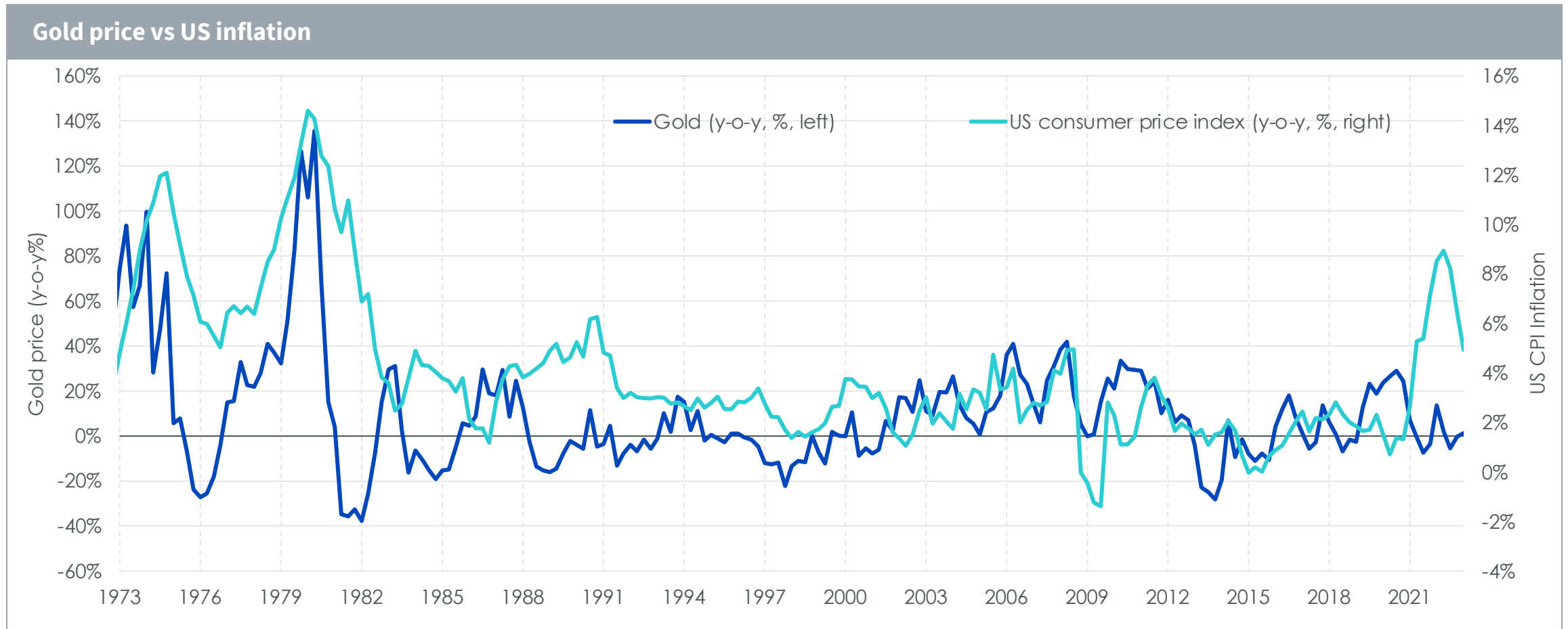
Head of Commodities & Macroeconomic Research,  
Europe





Gold

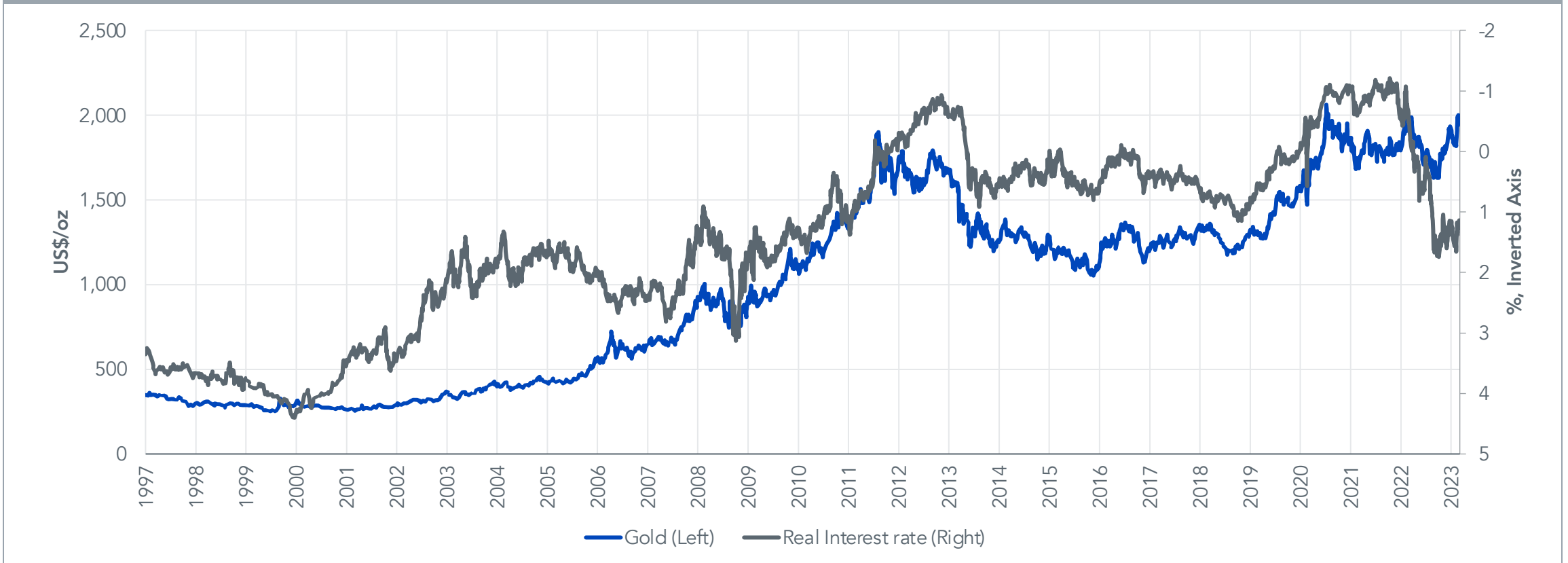
In 2022 Gold didn't rise as much as inflation it as was under pressure from a strong dollar and bond sell-off



Source: Bloomberg. Quarterly data from Q1 1973 to Q1 2023.  
Historical performance is not an indication of future performance and any investments may go down in value

## Bond yields are now falling, giving gold some breathing room

Gold vs real rates (Treasury Inflation-Protected Securities yield)



Source: Bloomberg, WisdomTree. 5 April 1997 to 17 April 2023  
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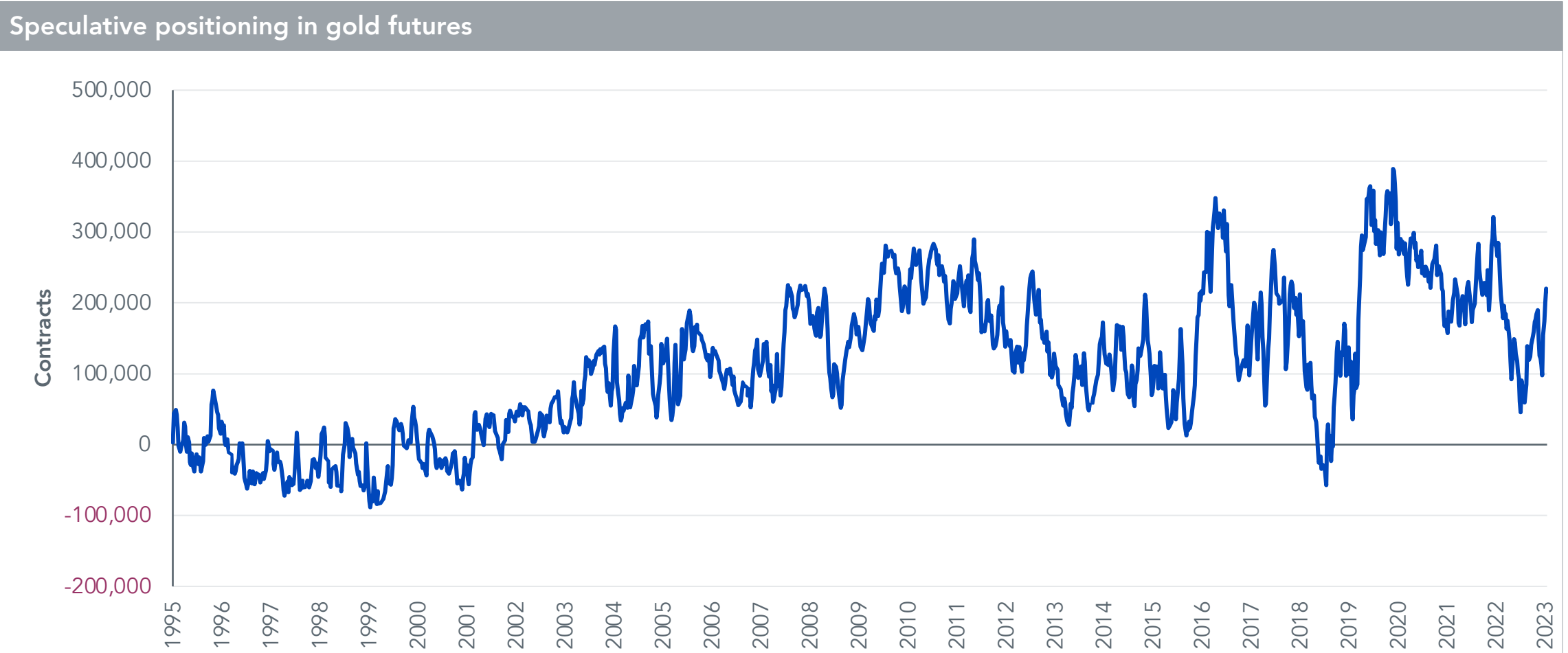
US Dollar is also depreciating now, providing further breathing room for gold

### Gold and Dollar Basket



Source: Bloomberg, WisdomTree. 24 June 2002 to 17 April 2023  
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# Gold sentiment has markedly improved significantly in 2023, with shorts covered and longs added

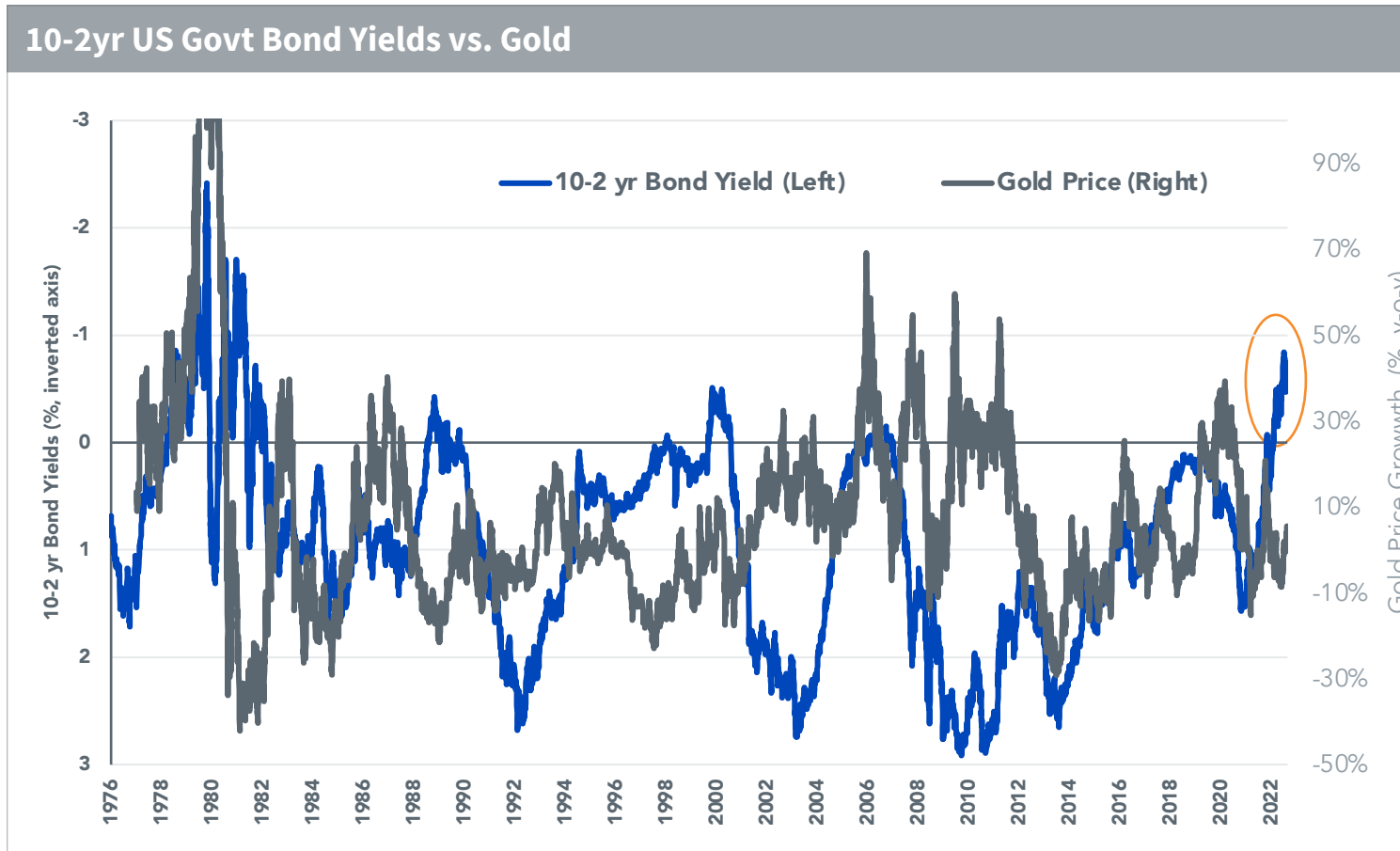


Source: WisdomTree, Bloomberg. March 1995 to April 2023

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## We are in a bear flattening yield curve inversion. Should that be good for gold?



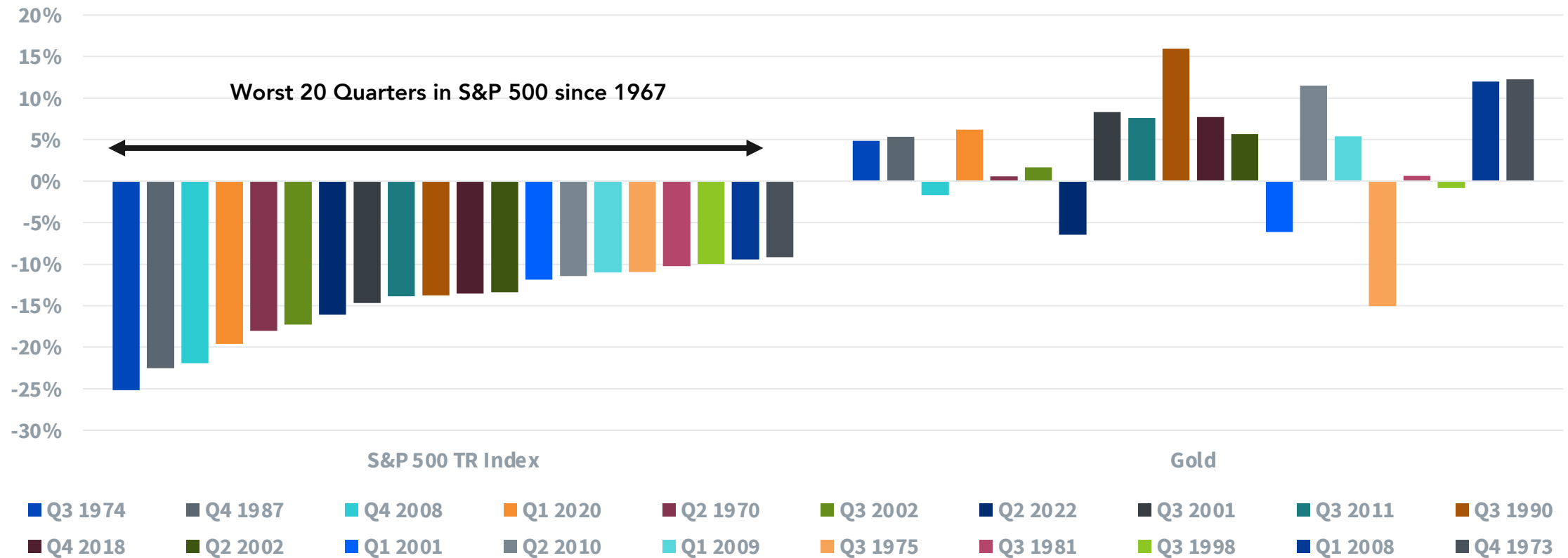
- + Bear flattening inversions have been good for gold
  - Between 1978 and 1981, curve inversion was gold price positive
  - In 2006, curve inversion was gold price positive
- + Bull flattening inversions have not been great for gold
  - In 1989 and 2000, curve inversion didn't have any positive impact on gold prices
- + In December 2022, we were in one of the strongest bear-flattening inversions we have seen since 1981. That points to a source of strength for gold we have not seen in decades.

Source: WisdomTree, Bloomberg. Period: June 1976 to April 2023. We define yield curve inversion as the 10-2yr US Government Bond Yield being negative. When the 2yr is rising faster than the 10yr we define it as a bear flattening. When 10yr is falling faster than 2yr we define it as a bull flattening.

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# Gold usually outperforms equities in financial downturns

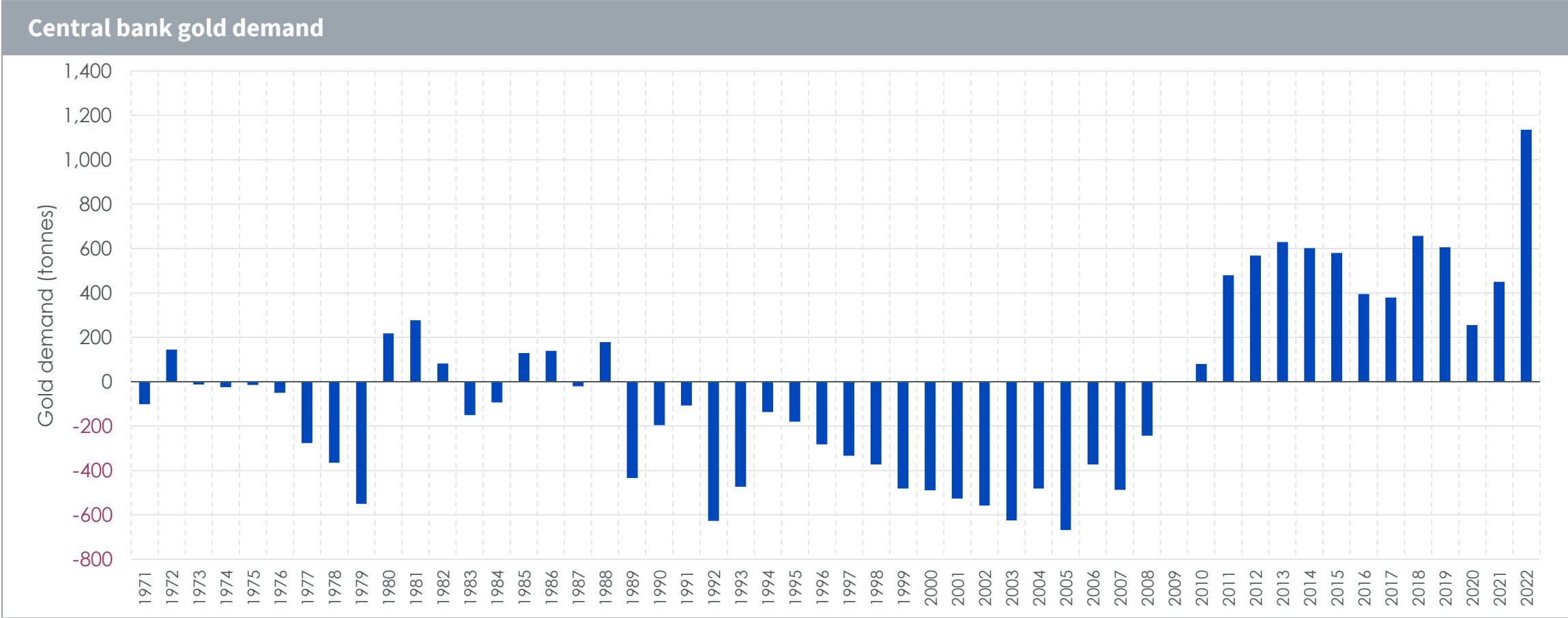
## Gold returned positive performance in 15 of the 20 worst quarters for S&P 500



Source: WisdomTree, Bloomberg. In USD. From December 1967 to 31 March 2023 using quarterly data. Gold is proxied by the LBMA Gold Price PM Index and S&P 500 is proxied by the S&P 500 Gross Total Return Index.

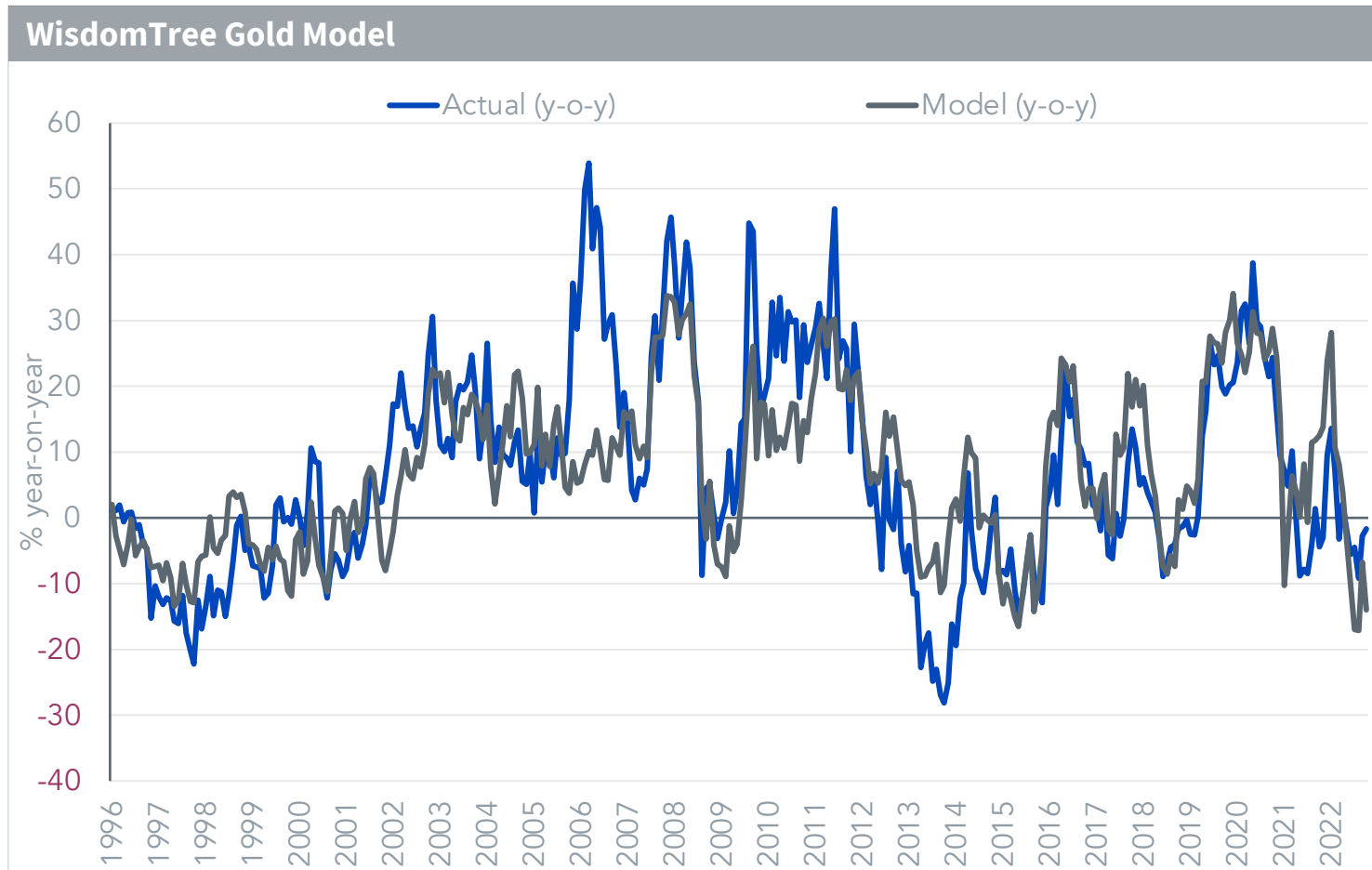
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# Central bank demand for gold was highest on record, with China returning as a net purchaser for the first time since 2019



Source: WisdomTree, World Gold Council, Metal Focus, GFMS. 1971 – 2022.  
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## Gold Model recap



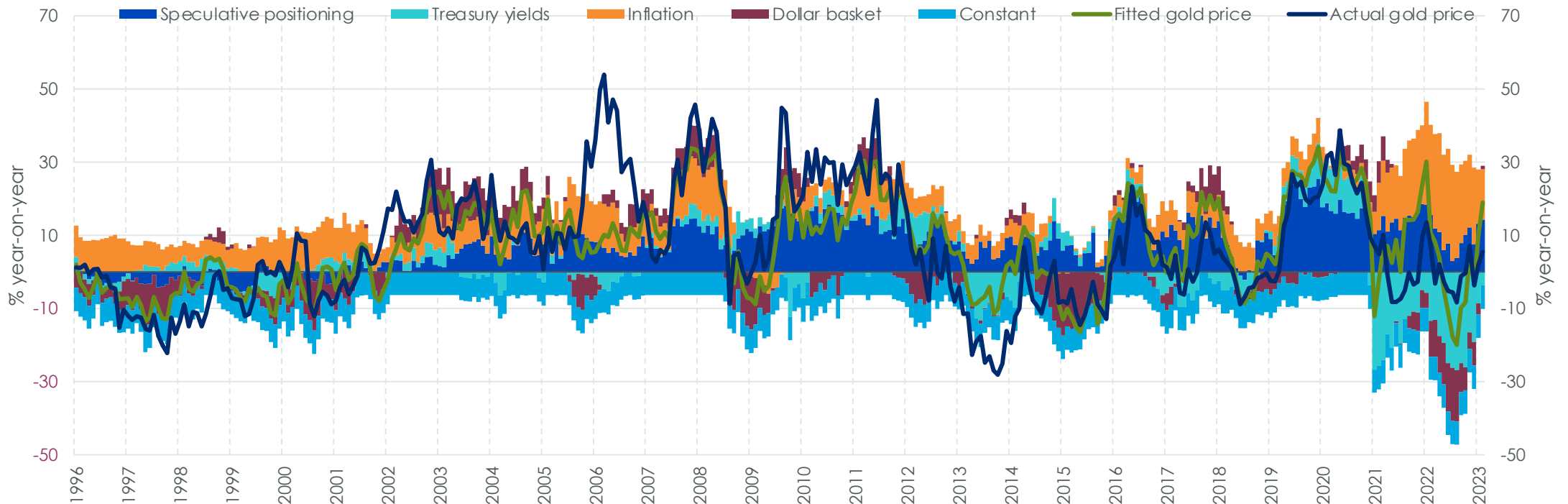
We have built a model that demonstrates that changes in gold price (in US Dollars) are driven by (direction in parenthesis):

- + Changes in US Dollar (-)
- + Consumer Price Index (CPI) inflation (+)
- + Changes in nominal yields on 10-year US Treasuries (-)
- + Investor sentiment (measured by speculative positioning in the futures market) (+)

Source: Bloomberg, WisdomTree price model. March 1996 to December 2022.  
Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.

# What has driven gold prices in the past?

The impact of each variable: attribution of fitted results vs. actual price



Source: Bloomberg, WisdomTree price model, data as of April 2023

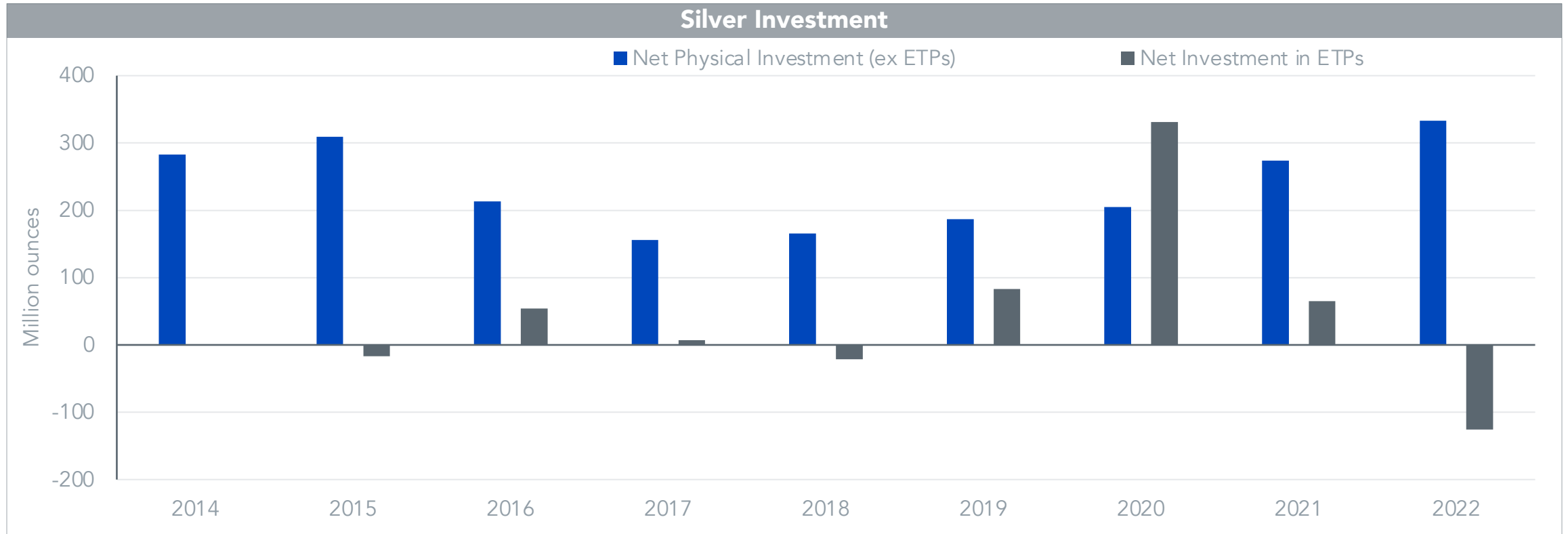
The fitted gold price is the price the model would have forecast. The constant does not have economic meaning, but is used in econometric modeling to capture other terms. It can be thought of as how much gold prices would change if all other variables are set to zero (although that would be unrealistic).

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Silver

## Silver: The 'Marmite'\* of the commodity world in 2022

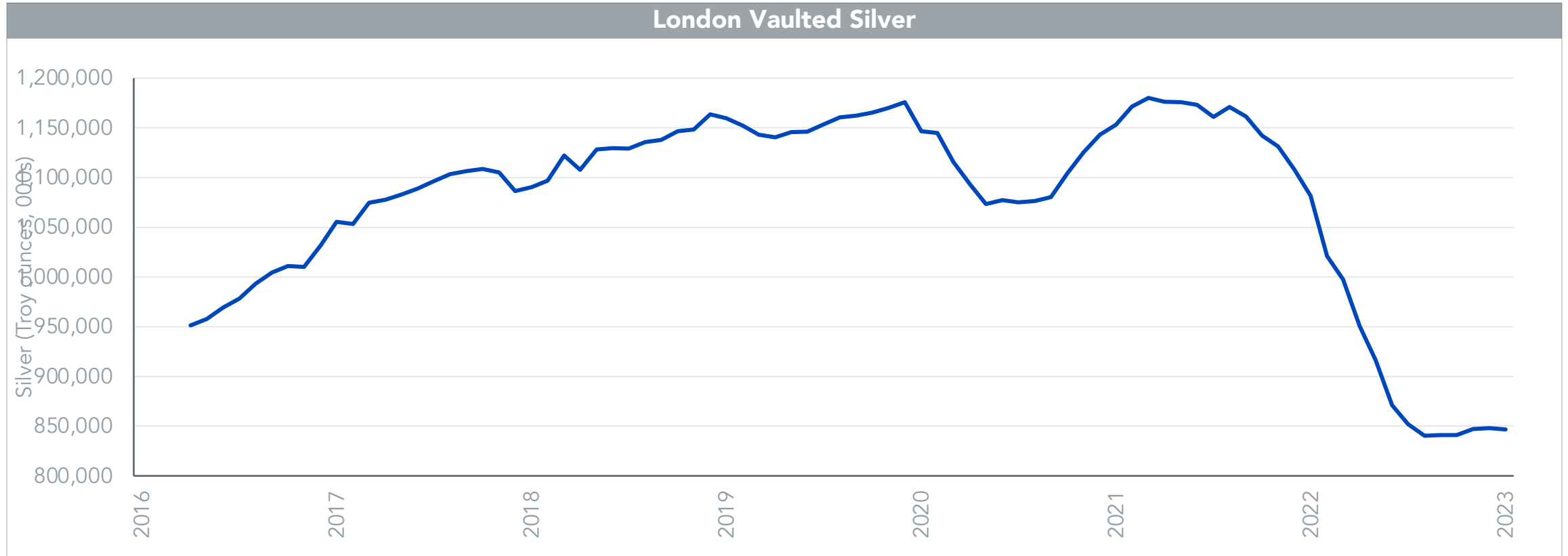


Source: World Silver Survey 2023, The Silver Institute, Metals Focus, 2014-2022

ETP = Exchange Traded Product. \* In the UK, Marmite is a brand of yeast extract that is used as a spread (to eat on toast for example). People either love it or hate it. Very few are indifferent to it. In the same vein, silver inspired huge enthusiasm with one set of investors while another set was quite hostile to it.

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## London vaulted silver fell to lowest on record

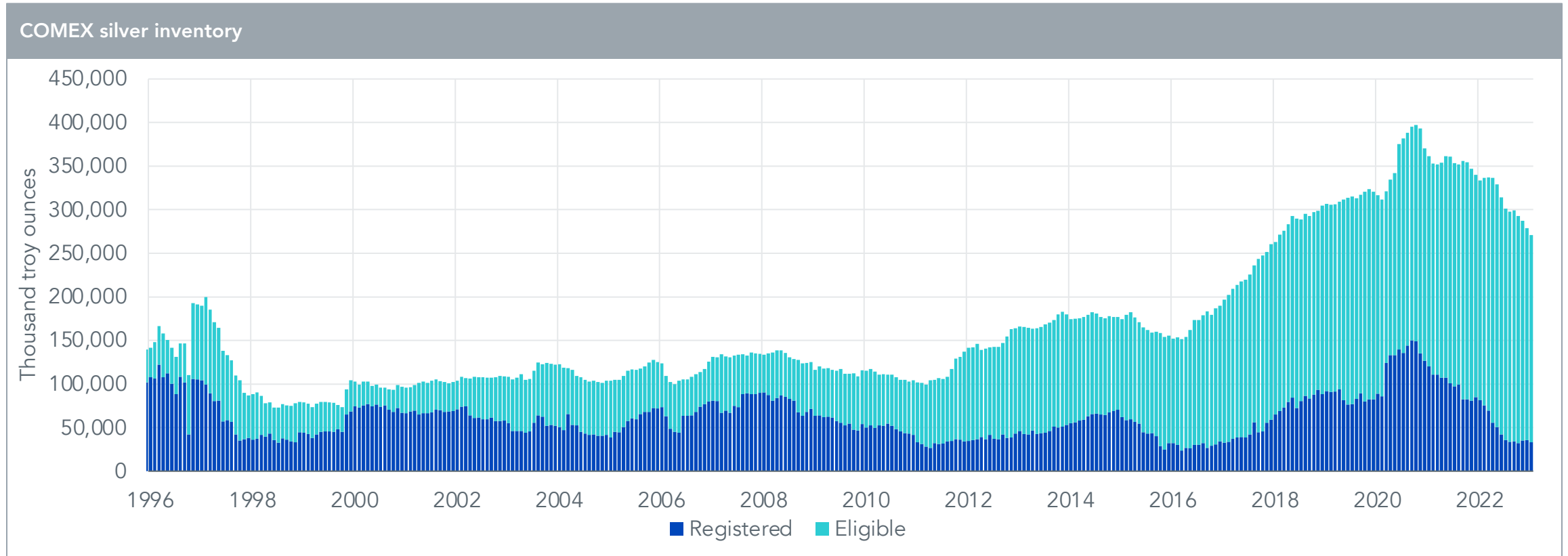


Source: London Bullion Markets Association. July 2016 – April 2023

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## COMEX Silver inventory has been declining since 2020 peak



Source: Bloomberg, WisdomTree. April 1996 – May 2022  
COMEX is a futures and options trading market, now owned by Chicago Mercantile Exchange

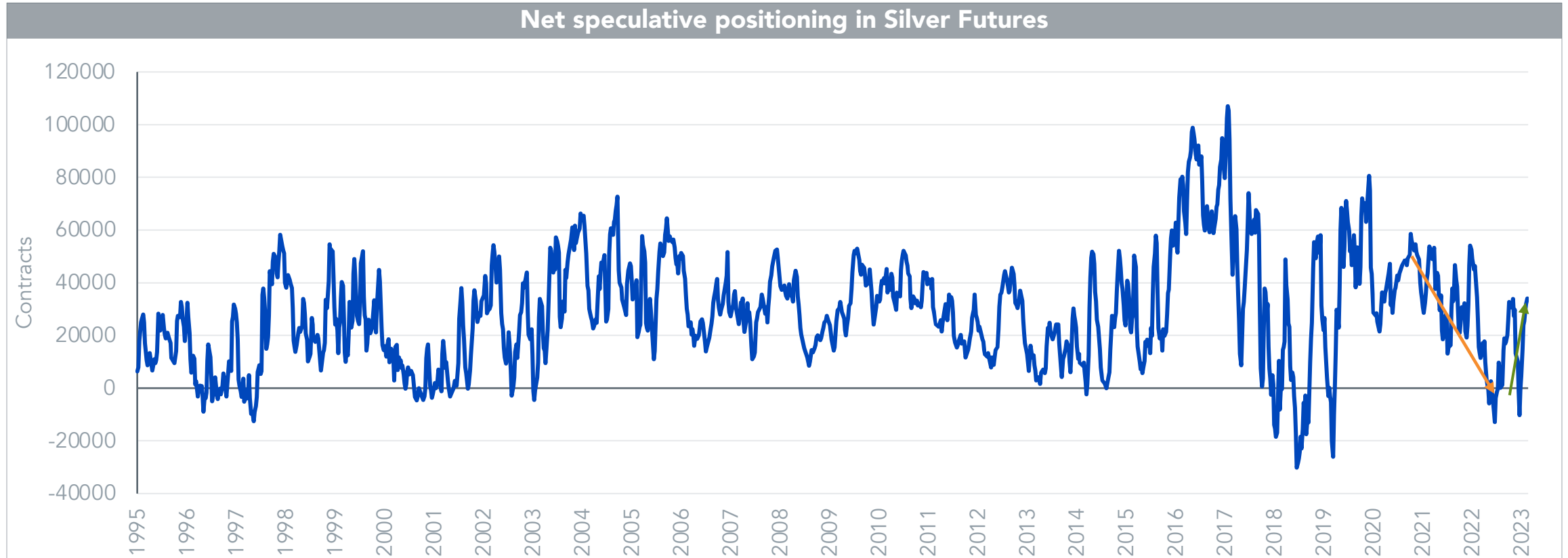
## Silver exports from United Kingdom to Top Countries, January 2022 to December 2022

Destination country	Million Ounces
India	183.3
Canada	75.5
Switzerland	40.8
Turkey	32.9
Germany	16
Spain	10.8
USA	7

Sources: CPM Group, UN Comtrade, May 2023

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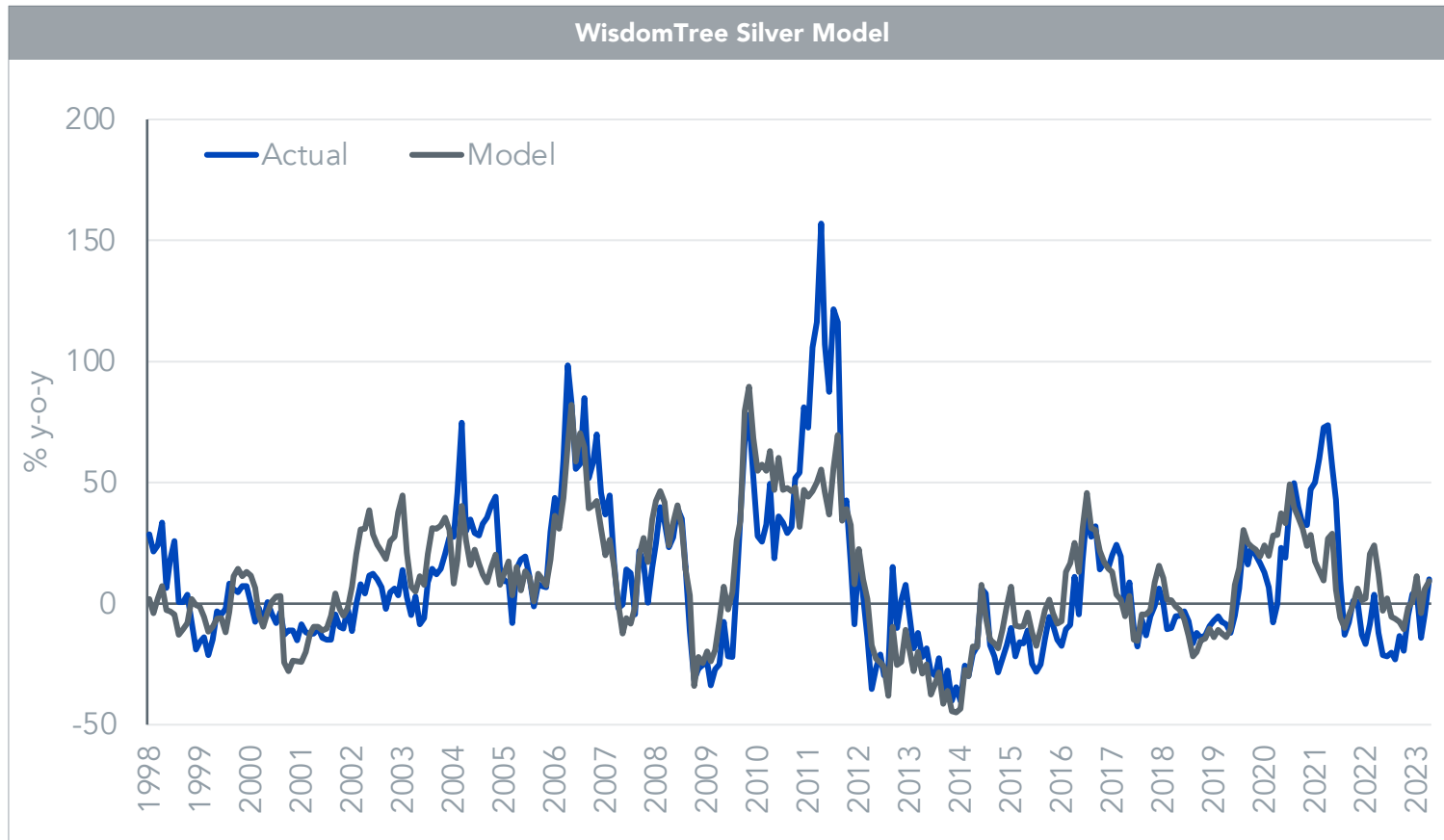
## Institutional investors are now becoming more constructive on silver after deep pessimism



Source: Bloomberg, March 1995 to May 2023

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# Silver Model



- + Silver and gold historically 80% correlated
- + Best way to model silver is to look at gold *plus* a number of supply and demand variables
- + While physical supply and demand matter for silver, they matter less for gold

Source: Bloomberg, WisdomTree price model. January 1998 to April 2023.

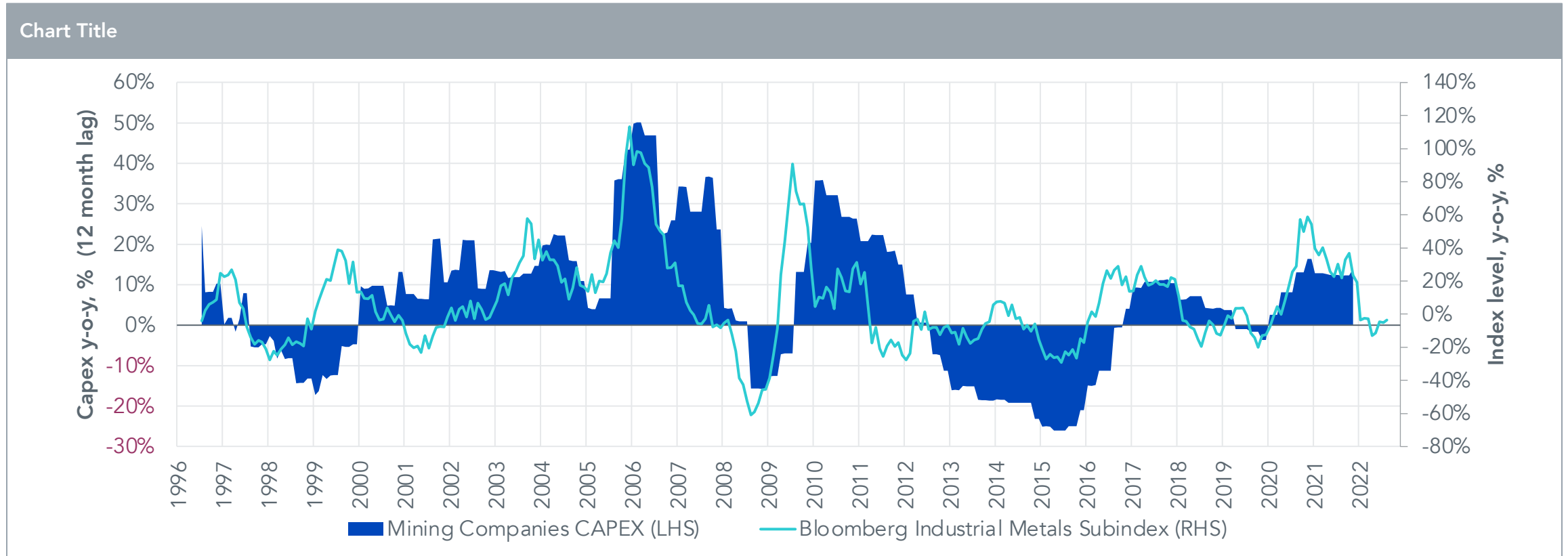
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## Framework for silver

Variable	Direction
%Δ gold price	+ve
%Δ global manufacturing PMI	+ve
%Δ exchange inventory	-ve
12 month lag %Δ mining capex	-ve

- + Manufacturing purchasing managers index: a proxy for industrial demand
- + Exchange inventory: a measure of available supply
- + Mining capital expenditure (capex): factors in delay in investment change and output

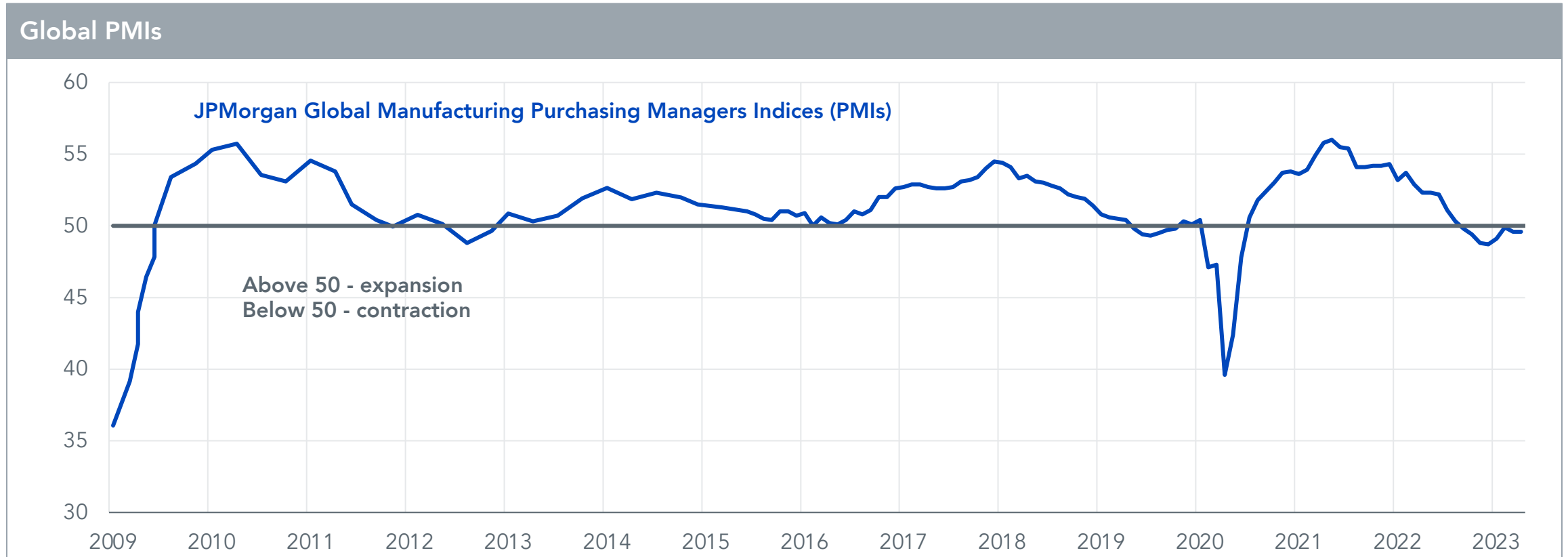
Mining capital expenditure has been rising, but recent declines in industrial metal prices could reverse this trend



Source: WisdomTree, Bloomberg. Q1 1996 – Q1 2023

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## Manufacturing under pressure as monetary contraction adds pressure



Source: WisdomTree, Bloomberg, S&P Global, May 2009 to April 2023.  
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## Risks associated with investing in Precious metals

- + **Price Volatility:** Precious metals, such as gold, silver, platinum, and palladium, can experience significant price fluctuations. Their prices are influenced by various factors like global economic conditions, geopolitical events, interest rates, and market sentiment. These fluctuations can lead to both gains and losses for investors.
- + **Market Risk:** Precious metals markets are subject to market risk, including supply and demand dynamics, changes in investor sentiment, and overall market conditions. These factors can affect the price and liquidity of precious metals investments.
- + **Economic Risk:** The performance of precious metals can be influenced by broader economic factors. During periods of economic uncertainty or recession, demand for precious metals may increase as investors seek safe-haven assets. Conversely, during times of economic growth and stability, the demand for precious metals may decrease.
- + **Currency Risk:** Precious metals are often denominated in a specific currency, such as the US dollar. Currency fluctuations can impact the value of precious metals for investors holding different currencies. A strengthening currency can lead to a decrease in the price of precious metals, while a weakening currency can increase their price.
- + **Storage and Insurance Costs:** Physical ownership of precious metals requires secure storage, which can incur additional costs. Additionally, insuring precious metals against theft, damage, or loss can also be an expense that investors need to consider.
- + **Counterparty Risk:** If you invest in precious metals through financial instruments like exchange-traded funds (ETFs) or futures contracts, there is a risk associated with the financial institution or counterparty with whom you hold the investment. If the counterparty fails or defaults, it may affect the value and liquidity of your investment.
- + **Regulatory Risk:** Changes in government regulations or policies related to precious metals can impact their investment appeal. These changes can include restrictions on imports or exports, taxation, or changes in the legality of certain transactions.



# Questions

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