GOLD AT AN ALL-TIME HIGH, STILL A BUY

28 July 2020

Philippe GIJSELS
Chief Investment Advisor

IN A WORD:

Real interest rates should remain low for a long time. But besides this very important catalyst, the gold price is riding the perfect wave of inflation fears, geopolitical uncertainty and limited supply. We revise upwards our expected trading range to USD 1850/2050/oz for the coming 12 months.

A stellar climb

The gold price has come a long way from the lows just North of USD 1050 at the end of 2015 when we became interested in the yellow metal with the main argument that a commodity rarely stays below its marginal cost of production for long. Since then gold has been following a gradual upward trend, with the USD 1450 level proving to be quite difficult a hurdle to clear. This year gold pulled back (no coincidence from a technical perspective) to the USD 1471 level when Covid-19 hit and investors were trying to find cash wherever they could. Gold rebounded strongly from this low, however, and then moved sideways from mid-April to mid-June to resume its climb to the record level that bettered the previous high set in 2011.

A world in which real assets shine

For the last couple of years, and especially after the start of the Covid-19 crisis, the main driver of the higher gold price has been the actions of central banks, and more recently, of governments. To fight the economic fallout, central banks have not only brought interest rates to zero (in some cases even negative) but have also injected massive amounts of liquidity into the world's financial system through their quantitative easing programmes.

Real interest rates should remain low for an extended period. Financial history shows that a "negative real rate" environment is very often (or always) in the long run very positive for real assets such as real estate, art, equities and, maybe most of all, precious metals. As long as real yields remain negative in Europe and Japan and very low in the US, the gold price should remain well supported.

The perfect storm

Negative real yields are however not the only catalyst for the precious metal to move higher. We could say that the yellow metal finds itself on the perfect wave for further appreciation. The post- Covid-19 world is a very uncertain place. Not only is there still massive uncertainty about the economic recovery and the "risk' that central banks and governments will have to inject even more money into the system to keep it afloat. But geopolitical uncertainties also continue to dominate the headlines. Currently inflation as well as inflation expectations are very low. But there is a growing fear that massive fiscal stimulus will eventually lead to higher inflation in the real economy. And although gold is considered as a hedge against uncertainty, the latter has rarely been this high.

Therefore it will come as no surprise that gold is in high demand, judging from the steep inflows into trackers and ETFs from investors who seek to hedge their portfolios. We expect these flows to continue as the market is (on average) still underinvested in gold. On the supply side, gold production fell by 1% in 2019 to 3,464 tons. (Total supply was up by 2% because of increased recycling). Furthermore, the gold mining sector has seen massive under-investment over the years and new finds have been few and far between. Even though we expect higher gold prices to incite renewed interest and investments in the sector, it will take many years before this translates into greater production.

A more volatile bull market

In short, the stars are aligning for this bull market to continue. When an asset moves to new highs, it generally attracts attention and new money inflows. At all-time highs, there are no disappointed buyers left who look at their break-even level to exit, as everyone is sitting on a profit. Therefore we believe this bull market has legs, as bull markets in gold tend to be violent, just like bear markets, From a technical perspective we are currently overbought, so some sort of a pullback/correction is always possible. We remain, however, buyers of the dips with a first target of USD 2050.

THE INVESTMENT STRATEGY TEAM

France

Florent BRONES
Chief Investment Officer

Asia

Prashant BHAYANI
Chief Investment Officer, Asia

Grace TAM
Chief Investment Advisor, Asia

Belgium

Philippe GIJSELS
Chief Investment Advisor

Xavier TIMMERMANS
Senior Investment Strategy, PRB

Alain GERARD
Senior Investment Advisor, Equities

Pol TANSENS
Head of Real Estate Strategy

Luxembourg

Guy ERTZ
Chief Investment Advisor

Edouard DESBONNETS
Investment Advisor, Fixed Income

Switzerland

Roger KELLER
Chief Investment Officer