Gold Market Commentary

Interest rate volatility and dollar strength curtail gold's performance in April

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April highlights

- Despite equities and bonds falling amid spiking volatility, gold fell slightly in April as rates and the US dollar shot higher (**p. 1**)
- Inflows into gold ETFs totalled 43t (US$3bn) in April, less than 2% away from all-time tonnage highs, while US Mint coin sales were lower than the incredible growth of Q1 (**p. 4**).

Looking forward

- US dollar strength and higher yields are generally headwinds for gold, but their movements could be overdone (**p. 2**)
- Central bank monetary policy – in particular – along with inflation and geopolitics will impact gold in Q2 (**p. 3**).

Rates volatility has hurt asset performance

Throughout April, gold remained among the best performing assets in 2022 up 5% in US dollar terms – yet it ended the month 1.6% lower at US$1,911/oz.[1] April was marked by significant weakness across most assets, including equities and bonds, as well as heightened market volatility (**Chart 1**).

As shown in **Chart 2** (p.2)**,** our Gold Return Attribution Model (GRAM), confirms gold's pullback was largely driven by:

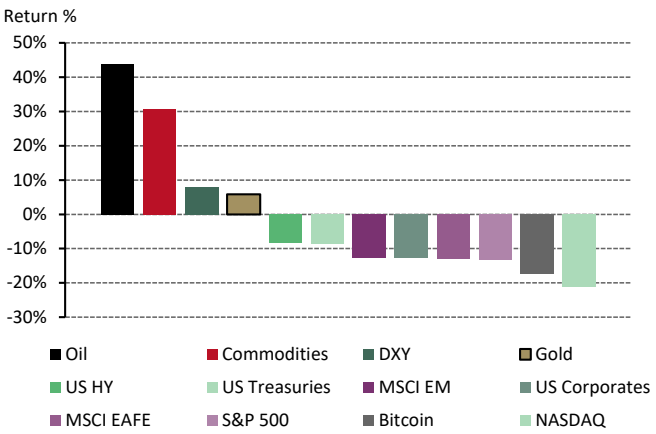
- a very strong US dollar – the highest in 19 years
- hawkish commentary from central banks – leading to higher rates and volatility and raising gold's opportunity cost
- negative momentum.

US dollar strength has been a detriment to the gold price in recent months. Although less persistent than in recent years, there is often a negative correlation between a stronger dollar and the gold price (**Chart 3**, p.2). It has been nearly two decades since the dollar index (DXY) has held above 100 for more than a few months,[2] and the trade-weighted nominal US dollar index is near all-time highs – just shy of the brief period during the initial stages of the pandemic when it shot higher.[3]

Given the challenges from rising rates and a strong dollar, the fact that gold was only slightly lower on the month is compelling.

Chart 1: Gold is one of the top performing assets in 2022

Total return for major global asset classes*



*Data as of 30 April 2022. Total returns in US dollars y-t-d in 2022. Indices include: LBMA Gold PM (US$/oz), S&P 500, NASDAQ, MSCI EAFE, MSCI EM, US Treasuries, US Corporates, US HY, BBG Commodities, BBG Oil Index , DXY USD index, Bitcoin.

Source: Bloomberg, World Gold Council

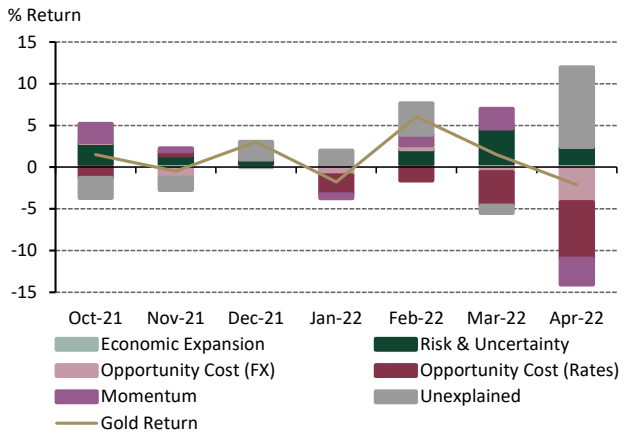
1 As of 29 April 2022, based on the LBMA Gold Price PM.

2 The DXY Index is the most widely used measure of the value of the US dollar versus a basket of foreign currencies including the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc.

3 Data availability from January 2006 – 30 April 2022.

Chart 2: US dollar strength and rate rises weighed on gold in April

Contributions of gold price drivers to periodic gold returns*

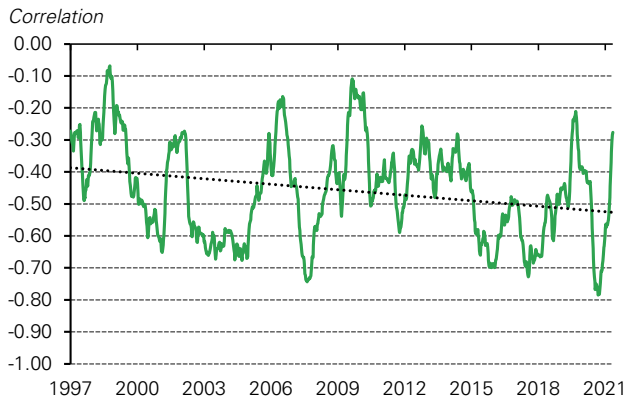


*To 30th April 2022. Our short-term model is a multiple regression model of monthly gold price returns, which we group into the four key thematic driver categories of gold's performance: economic expansion, risk & uncertainty, opportunity cost, and momentum. These themes capture motives behind gold demand; most poignantly, investment demand, which is considered the marginal driver of gold price returns in the short run. 'Unexplained' represents the percentage change in the gold price that is not explained by factors currently included in the model. Results shown here are based on analysis covering an estimation period from February 2007 to April 2022. On Goldhub, see: GRAM.

Source: Bloomberg, World Gold Council

Chart 3: Gold's negative correlation with the dollar has weakened recently

One-year rolling monthly correlation between the US dollar and gold, based on weekly returns*



DXY index is used for the dollar returns and XAU is used for gold returns for like-for-like trading periods.

Source: Bloomberg, World Gold Council

Finally, "risk and uncertainty" propped up the price slightly during April, but the gold price drew more significant support from the 'unexplained category', which could be a biproduct of continued geopolitical uncertainty, lower sensitivity to yields, or a positive safe-haven-driven correlation with the US dollar.

Looking ahead…

Some of the drivers behind dollar strength could create a headwind for gold

A strong dollar can create a headwind for the price of gold as evidenced by its historical negative correlation. However, we believe that if the dollar remains strong, gold's reaction could be influenced by the drivers behind the dollar rather than its direction alone.

If the dollar remains strong because of hawkish central banks and rising yields, the negative correlation would likely be negative for gold. However, if the dollar's driver is risk-off sentiment, especially if the war in Ukraine were to extend and have broader implications, both the dollar and gold may move up as they commonly do in these types of environments. So, in our view, while interest rates will remain incredibly important, the dollar's behaviour is also likely to be a key driver of gold behaviour in the coming months.

Higher rates could generate a rotation back towards bonds…

As the world moves into a tightening or quantitative tightening cycle (QT),[4] it worth highlighting the shift in the amount of negative nominal yielding debt. Nominal-yielding debt among developed markets peaked around US$18trn or 40% of total debt outstanding by the end of 2020. As yields started to rise, this number has come down to US$2.5trn or 13% of the total outstanding.[5]

Central banks may allow debt to mature – something already happening in the US with US$95bn rolling off soon – and, in some cases, may sell the bonds they own, effectively taking money out of the system. Our analysis suggests this could be challenging for gold. But in a QT environment, we will likely see a rotation into sectors more driven by the economy and inflation, such as financial (bank) equities and commodities, including gold.

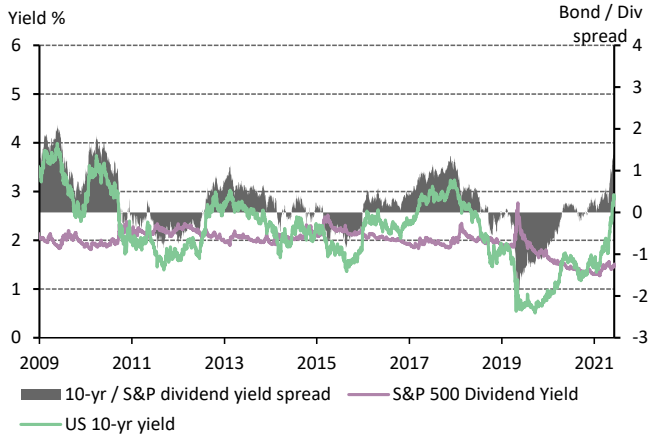
Non-existent yields on bonds over recent years has compelled investors to buy stocks, given the greater potential for yields offered by equity dividends. But the recent sell-off in bonds has made them more competitive and raised their appeal, as they can now earn a higher coupon on average than can equities (**Chart 4**).

4 https://www.stlouisfed.org/open-vault/2019/july/what-is-quantitative-tightening

5 Based on the amount of nominal sovereign debt in G7 countries.

Chart 4: Treasuries have 'cheapened' the most against stock yields in over a decade

Spread between the S&P 500 dividend yield and US 10-yr bond yield



*A positive spread denotes a higher yield for bonds versus stock dividends.

Source: Bloomberg, World Gold Council

…although real yields remain overwhelmingly negative

That being said, it is important to note that nominal yields still remain historically low, and that the global outstanding debt we referred to earlier is effectively entirely negative-yielding in real terms, given that inflation has more than offset any move higher in nominal rates (**Chart 5**). This suggests the current environment may not elicit the same demand for bonds as has been seen with these differentials in the past.

Economic slowdowns, central bank activity, geopolitics and inflation will remain a focus in coming months

Inflation expectations hit a 41-year high last week, rising to 5.4% for 2023 and adding weight to the stagflation conversation, which is coming back into focus for many investors.[6] Just last week US GDP came in at -1.4% q-o-q, while earlier in April CPI was 8.5% y-o-y, and at the time of publication ISM PMI is reporting well below expectations – all signs we could be heading in that direction. Historically, gold has done well in stagflation environments.

Chart 5(a): Global developed market negative yielding debt has plummeted

Amount of global negative yielding debt*

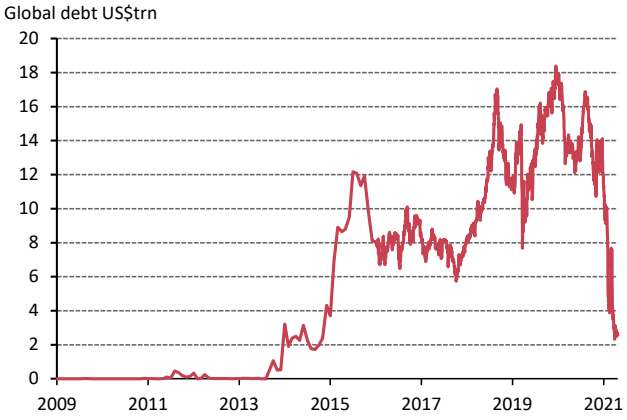
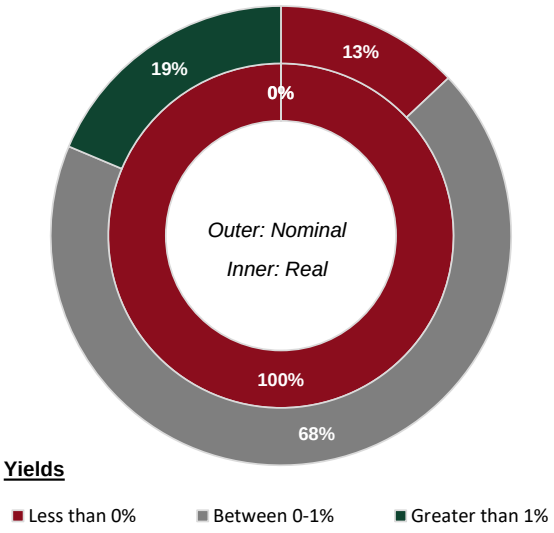


Chart 5(b): Negative nominal yielding debt has fallen sharply, but all developed market debt remains negative in real terms**



*From January 2010 - April 2022 with available data from the Bloomberg Global Negative Yielding Debt Index.

**Based on total sovereign debt of G7 countries as of 30 April 2022.

Source: Bloomberg, World Gold Council

6 University of Michigan inflation survey 29 April 2022

There are important central bank meetings and developments in May:

- The Fed raised rates for a second time this week (50 bps) and is expected to do the same at nearly every meeting during the remainder of this year, with an implied rate of 2.9% by the end of the year. They reiterated that inflation is "much too high"
- The Bank of England (BoE) has raised rates in the last three meetings and is expected to continue to do so throughout the remainder of the year to get to an implied rate of 2.25%
- Albeit a little late to the game, the European Central Bank (ECB) is becoming a bit more hawkish and could see rates positive by the end of the year
- The Reserve Bank of Australia raised rates for the first time since 2010
- The Reserve Bank of India (RBI) shocked markets this week with an unscheduled 40bps hike.

While some countries like China and India are more dovish about their activity, the overall sense is that central banks may not be there to support markets with the 'implied put' that has been in place since the Global Financial Crisis (GFC), which may necessitate portfolio hedges like gold.

The Ukraine-Russia war appears to have little or no resolution in sight and continues to take a toll on the global economic recovery. Tensions have escalated over Russia's supply of natural gas to Europe, as seen in Poland and Bulgaria. Thus, we may continue to see supply shortages and price increases in the overall commodities market, which could positively impact the price of gold.

Regional insights

China: Lockdowns in various Chinese cities including Shanghai continued in April. Consequently, local wholesale physical gold demand was weakened: the average trading volumes of Au9999 – a proxy of Chinese physical gold demand – saw a 22% y-o-y fall and a 12% decline compared to COVID-stricken March. Despite the listing of another new fund, local gold ETF saw a mild outflow in the month amid a higher local gold price and the Labour Day Holiday closure between 30 April and 4 May.

India: Retail demand improved during April compared to the sluggish demand of March, due to a correction in the gold price and wedding demand in the month. With this improved demand, discount in the local market narrowed to US$8-9/oz by the end of April compared to a discount of US$18-19/oz at end of March. Indian gold ETFs saw net inflows of 2.1t during April with total gold holdings decreasing to 38.5t by the end of the month."

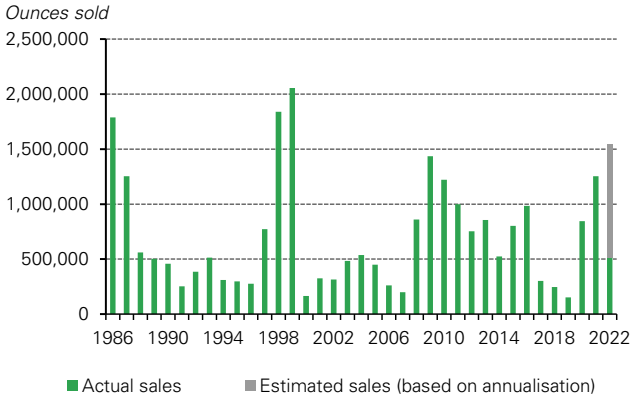
Europe: France's tight-run presidential election ended with a second term for Emmanuel Macron, the first President to secure a second term in two decades. While the result removed a major element of uncertainty, the region's markets remain under the shadows of the war in Ukraine, slowing economic growth and surging inflation. Eurozone GDP slowed to just 0.2% in Q1, while headline CPI in April surged to a fresh record of 7.5% according to Eurostat (core inflation – ex energy and fuel – reached 3.5%).

US: Data by the US Mint shows that gold coin sales (American Eagle and Buffalo) totalled US$220mn (115,000oz) in April. Despite the slowdown from a robust demand in March, 2022 is on pace to have the strongest year (1.54mn oz, US$3tn) in terms of US coin sales since 1999, when sales were 2.1mn oz, albeit at a much lower dollar value of US$576bn (**Chart 6**).[7] Should this strong demand continue, we could see the highest year on record in terms of notional sales. This performance clearly shows that last year's strong retail interest in physical gold investment products has continued in 2022.

ETFs: Gold ETF net inflows totalled 42.8t in April, lifting year-to-date inflows to 311.6t (US$19.4bn) (**Table 1**).[8] European funds led the way with 25.9t of inflows, followed by North American funds (17.5t). Elevated inflation and slowing economic growth were key drivers for these flows. Asia was the only region to see outflows in the month, driven by those within Chinese ETFs. Total AUM in these products now stands at 3,868.6t (US$238bn), just 1.3% below the record tonnage level of 3,922t achieved in November 2020.[9]

Chart 6: US Mint bullion coin sales on track for strongest year since 1999

Number of ounces of American Eagles and Buffalos sold each year*



*The red bar represents the current coin sales annualised for the remaining months of the year (Actual sales * (12/4)). Based on available data from 1986 to 30 April 2022.

Source: US Mint, Bloomberg, World Gold Council

Table 1: April 2022 Global ETF flows

	Total AUM (bn)	Flows (tonnes)	Flows (US$mn)	Flows (% AUM)
North America	122.3	17.5	1,143.0	0.93%
Europe	104.0	25.9	1,625.4	1.55%
Asia	7.8	-1.0	-45.5	-0.57%
Other	3.9	0.5	29.6	0.76%
Total	237.9	42.8	2,752.4	1.15%

*Data to 30 April 2022. On Goldhub, see: Gold-backed ETF flows.

Source: Bloomberg, Company Filings, ICE Benchmark Administration, World Gold Council

7 Based on annualising. Current levels (12/4) * current amounts.

8 We regularly review the global gold-backed ETF universe and adjust the list of funds and holdings based on newly available data and information.

9 All value figures based on the LBMA Gold Price PM as of 28 February 2022.

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Leveraging our broad knowledge and experience, we work to improve understanding of the gold market and underscore gold's value to individuals, investors, and the world at large.

Collaboration is the cornerstone of our approach. We're an association whose members are the world's most forward-thinking gold mining companies. Combining the insights of our members and other industry partners, we seek to unlock gold's evolving role as a catalyst for advancements that meet societal needs.

We develop standards, expand access to gold, and tackle barriers to adoption to stimulate demand and support a vibrant and sustainable future for the gold market. From our offices in Beijing, London, Mumbai, New York, Shanghai, and Singapore, we deliver positive impact worldwide.

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