

# Gold Outlook – higher highs, higher lows

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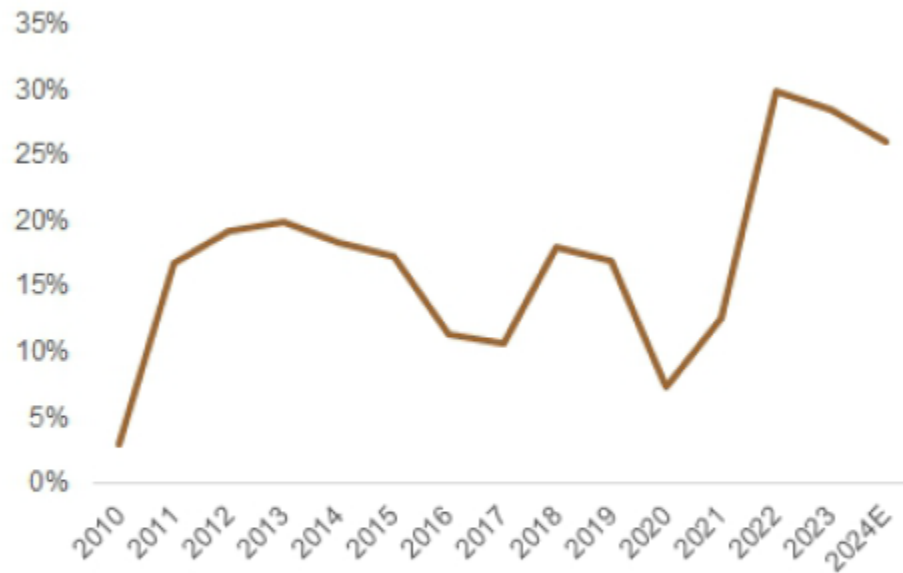
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# 2024 Gold Outlook : Higher for longer

- We think gold's uptrend has legs and see further gains over the next couple years
- Strong official sector buying and resilient physical demand imply structural support and have lifted gold's trading range
- Elevated macro uncertainty & persistent geopolitical risks likely to drive a rise in investor gold allocations, which are currently still low

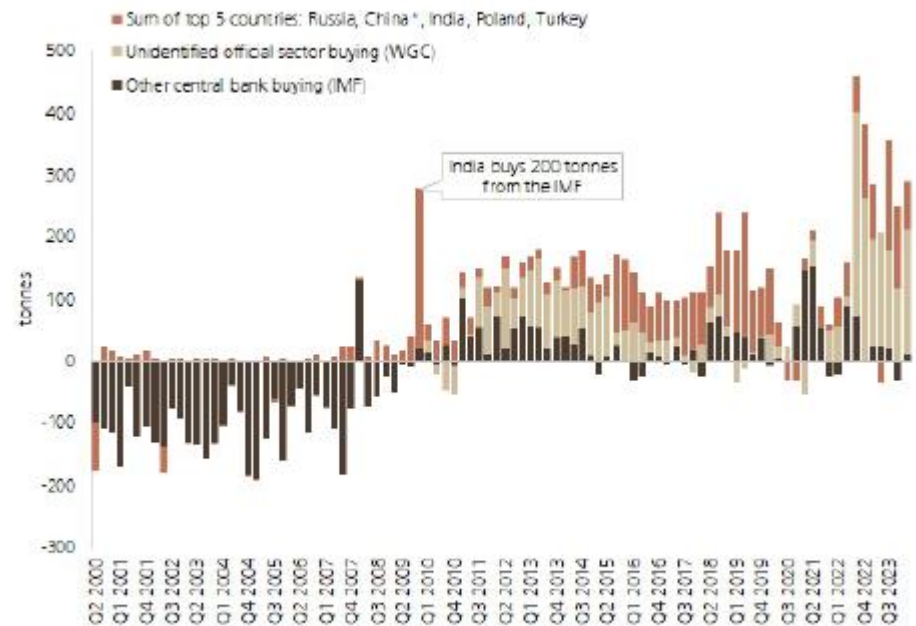
# Official sector gold buying provides key support

Net official sector purchases as a % of annual mine supply



Source: Metals Focus, World Gold Council, UBS

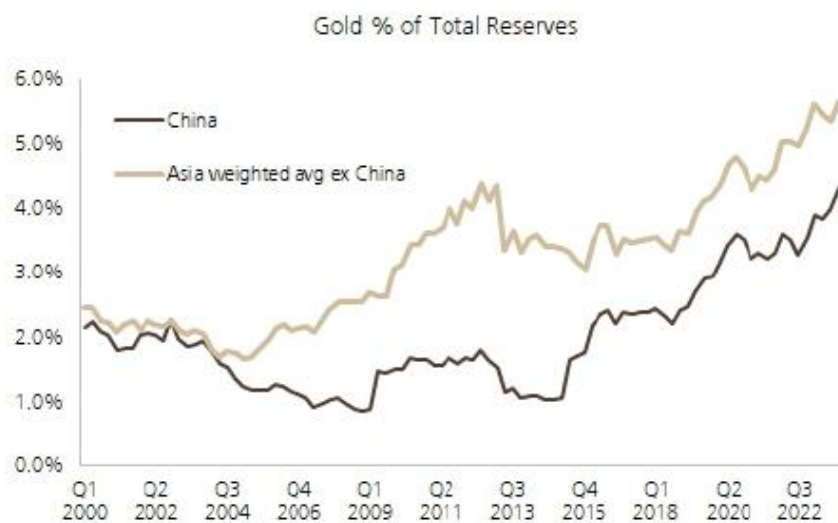
Official sector gold flows: top buyers include China, Russia, India, Turkey and Poland



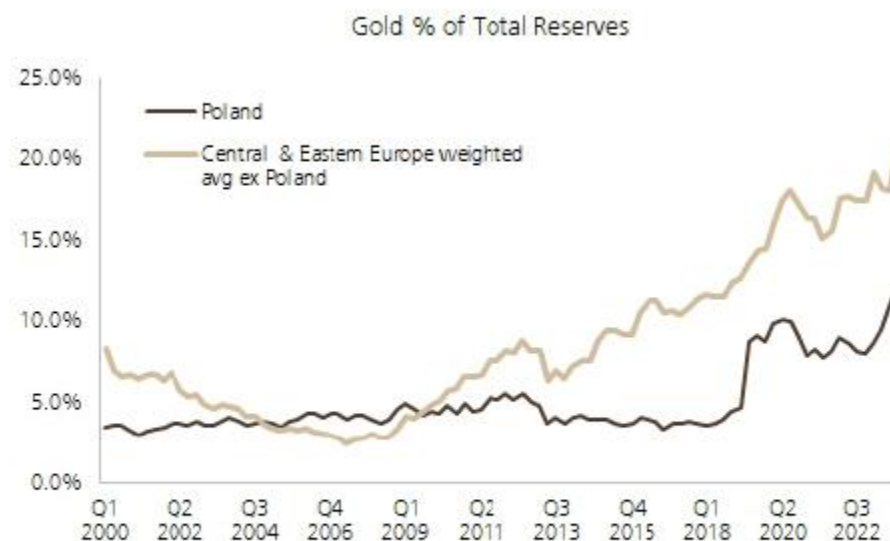
Source: Metals Focus, World Gold Council, UBS. Note: \*Excluding China purchases before Q3'15, when monthly reporting started.

# There's room for official gold purchases to continue

- Though the official sector has already bought a lot of gold in the past decade, we think the trend can continue
  - 1) There tends to be inertia when it comes to official sector flows
  - 2) The rationale for diversification is still valid and there is room to continue
  - 3) Strategic sales are unlikely, given the potential damage to confidence from "selling the family jewels"
- Uncertainty on extent of purchases presents two-way price risks

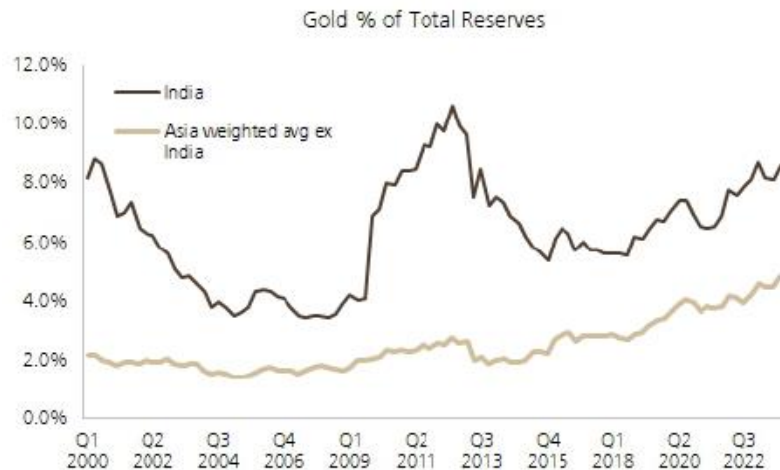


Source: Bloomberg, IMF, WGC, UBS

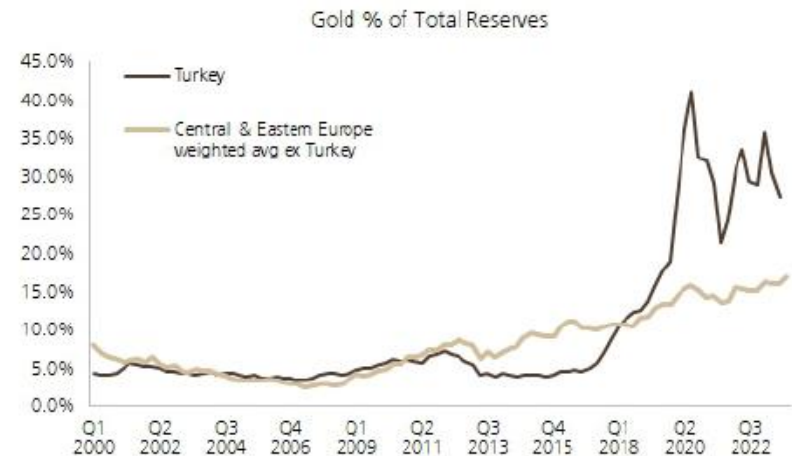


Source: Bloomberg, IMF, WGC, UBS

# Potential for others to also add to gold reserves



Source: Bloomberg, IMF, WGC, UBS



Source: Bloomberg, IMF, WGC, UBS

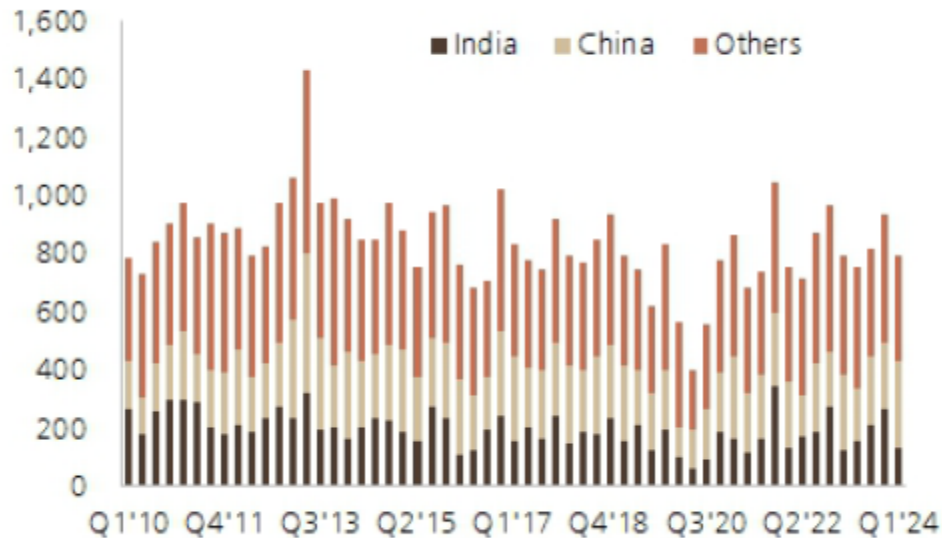
- The proportion of gold to total reserves is still low for many central banks relative to nearby peers



Source: Bloomberg, IMF, WGC, UBS

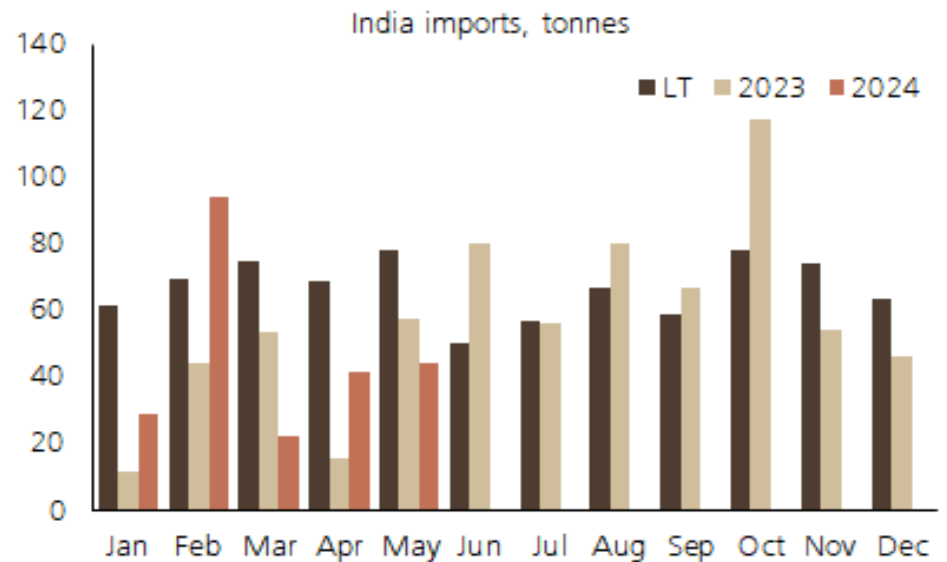
# Physical demand also helps underpin the market

Consumer demand has proven to be largely resilient over time



Source: WGC, UBS.

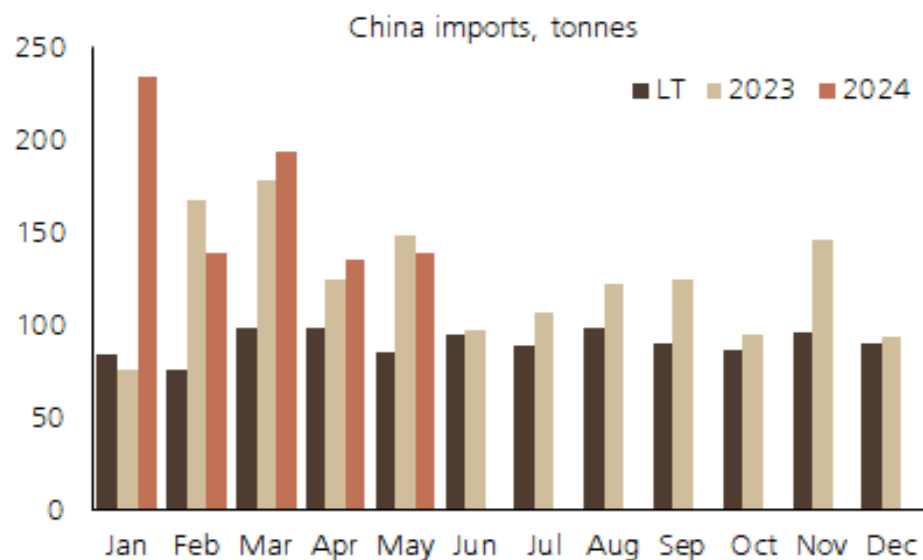
India's gold imports face headwinds from higher prices, but underlying interest remains strong



Source: Bloomberg, India Customs, UBS

# Physical demand likely to be resilient to higher prices

In China, headwinds on jewellery demand likely offset by strong investment interest



Source: Bloomberg, China Customs, UBS

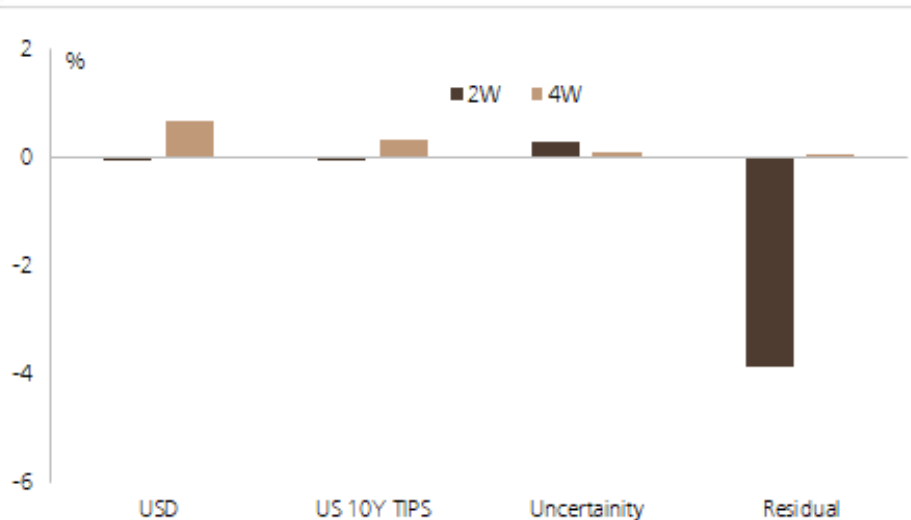
Onshore premium has eased



Source: Bloomberg, SGE, UBS.

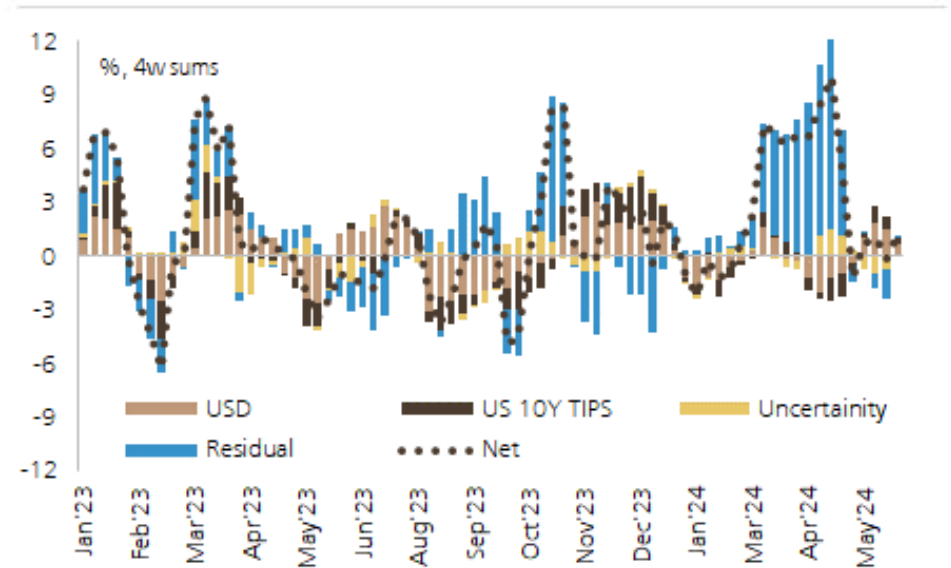
# It's been hard to explain gold's price action

Model residuals are notably high



Source: Bloomberg, UBS.

Gold models are unable to explain the bulk of gold's rally

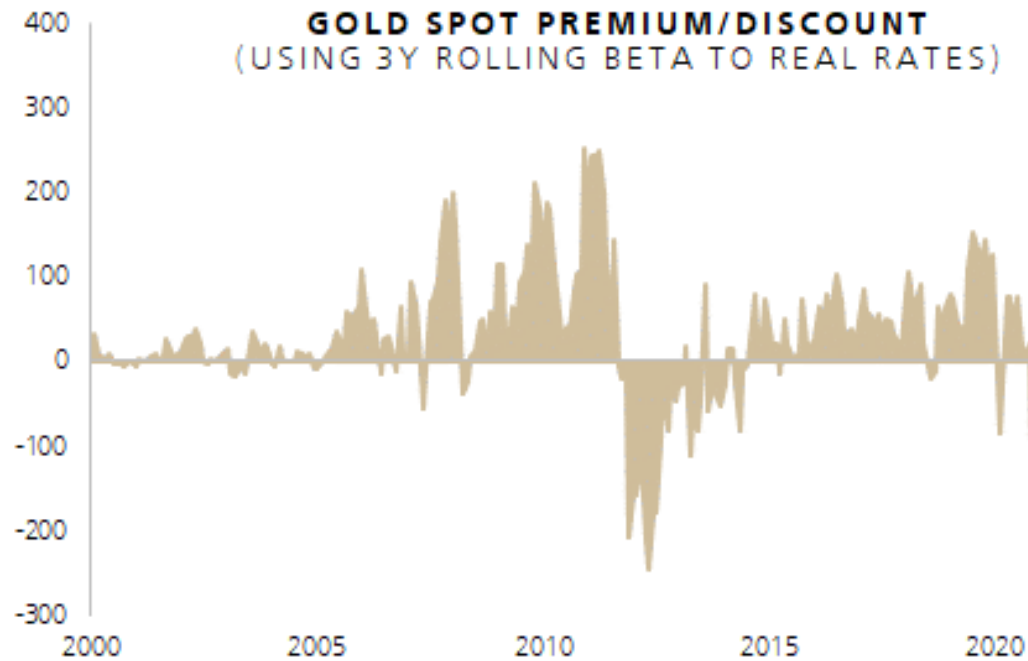


Source: Bloomberg, UBS.



# Gold has been trading at a premium to “fair value”

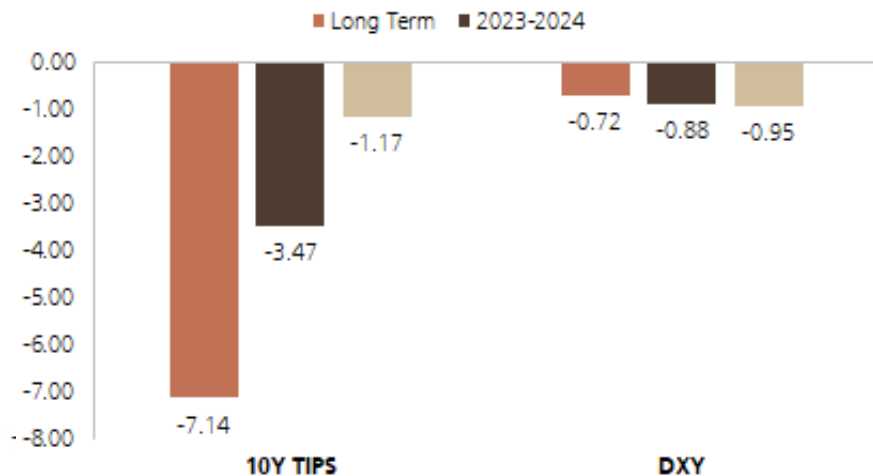
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Source: Bloomberg, UBS.

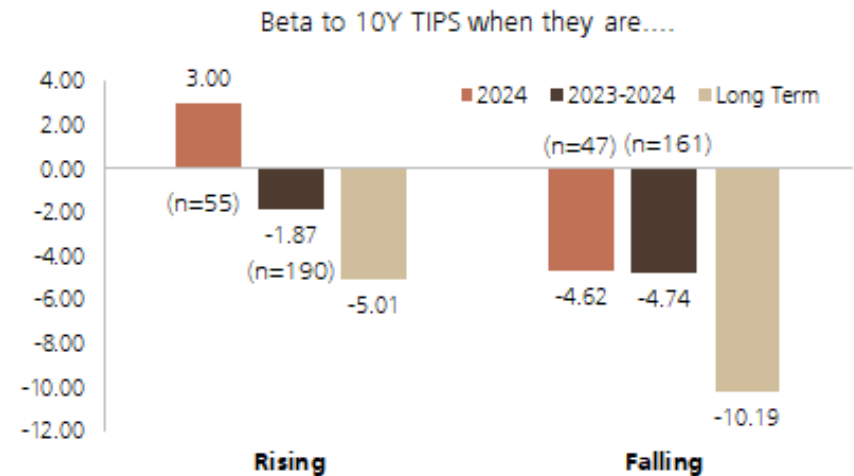
# Gold's relationship with real rates is asymmetric

Gold's sensitivity to real rates declined in the last couple of years vs historical levels



Source: Bloomberg, UBS. Note: 2023-2024 and 2024 uses daily data; Long term uses monthly data

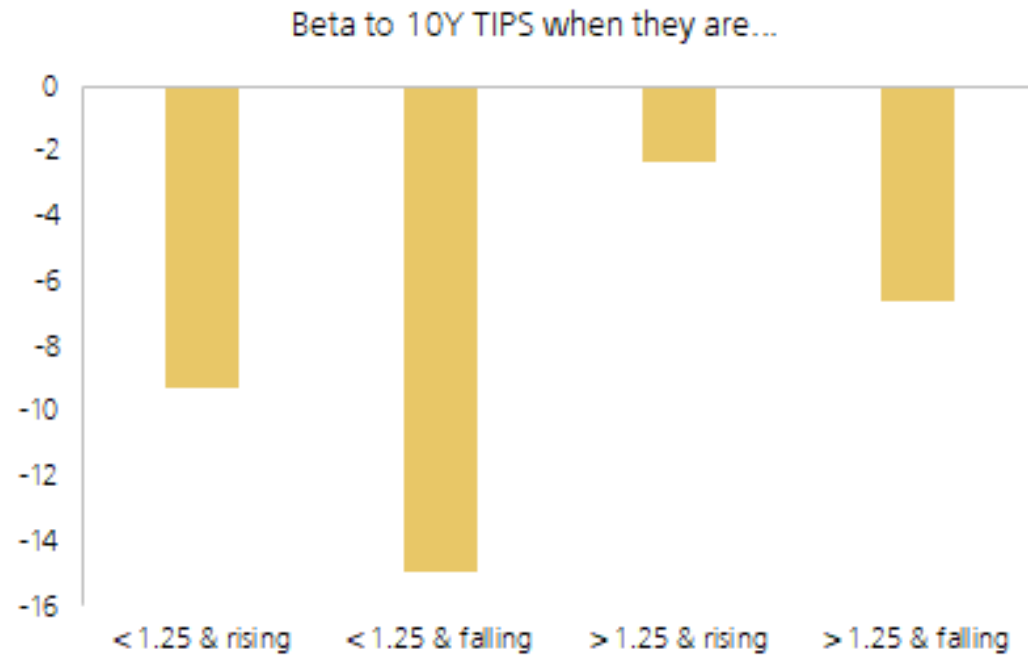
This year, the relationship broke down



Source: Bloomberg, UBS. Note: 2023-2024 and 2024 uses daily data; Long term uses monthly data

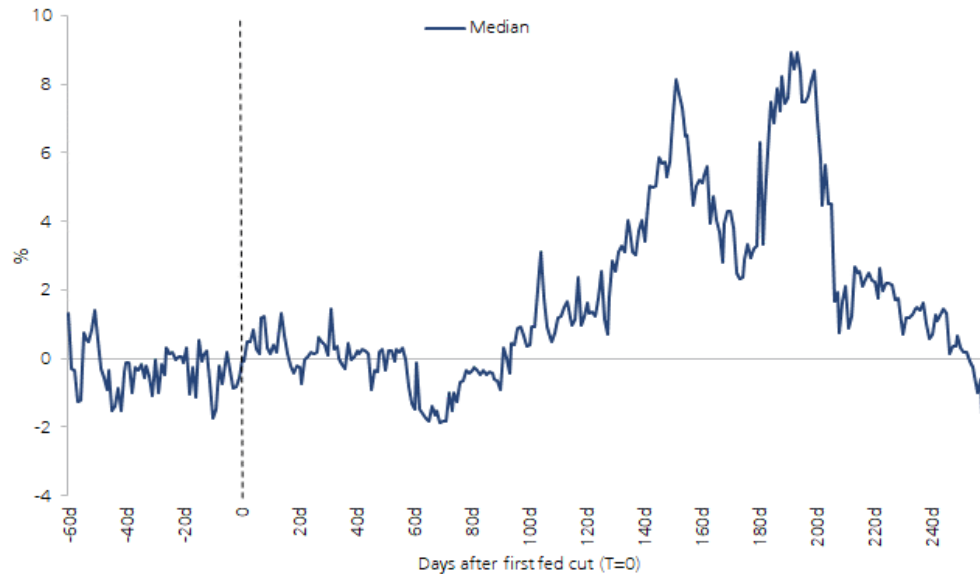
# The level of real rates also matters

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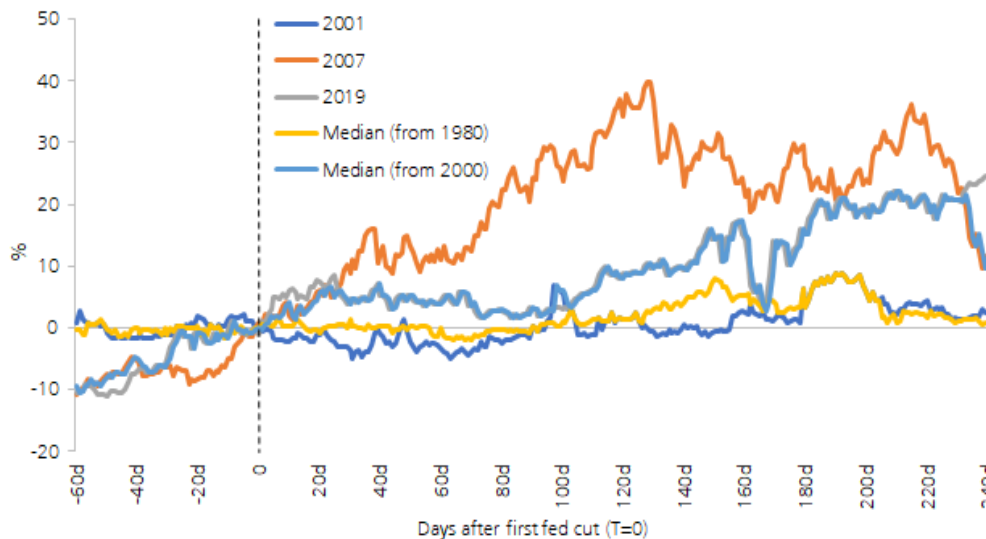


Source: Bloomberg, UBS.

# Fed policy easing is positive for gold



In previous Fed easing cycles, gold gained as much as ~9% over 2-3 quarters after the first cut



In more recent easing cycles, median gains were higher 12 months after the first Fed cut

Source: Bloomberg, UBS.

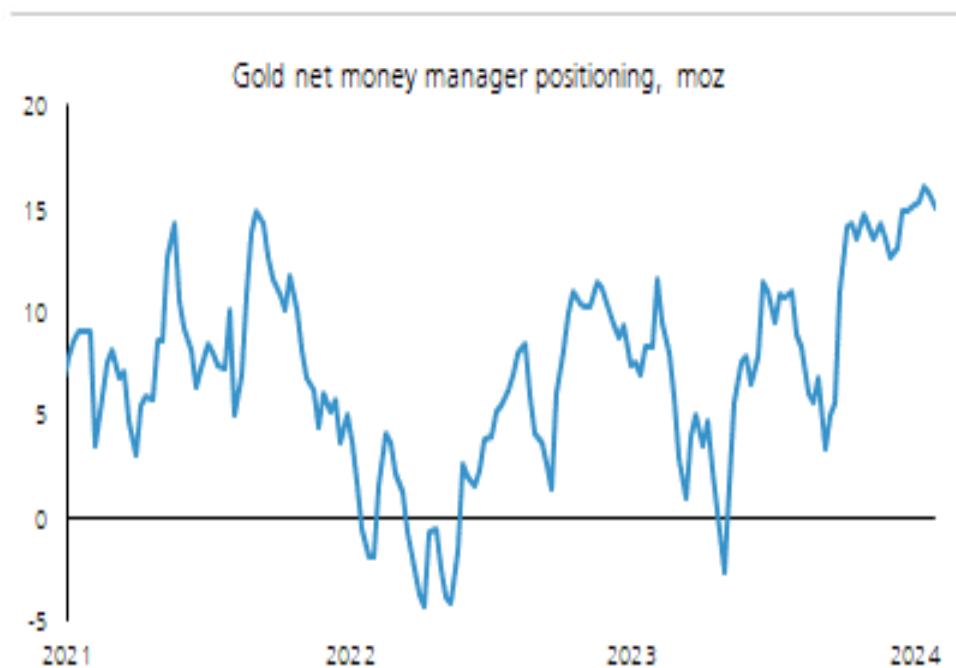
# We don't think the market is crowded

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- Speculative positions are not at all-time highs



Source: Bloomberg, CFTC, UBS



Source: Bloomberg, CFTC, UBS

# Positioning is relatively light

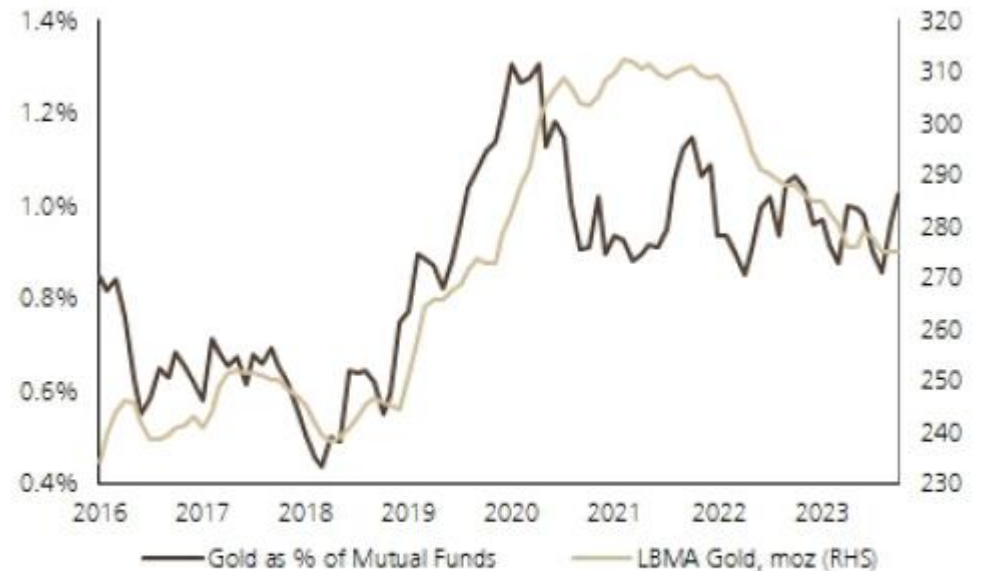
- Broader investor positioning has come from a low base
- There is a much wider investor base, with smaller gold allocations for diversification

Gold\* as a % of global & US funds' AUM vs BOE gold holdings



Source: Bloomberg, BOE, CFTC, Morningstar Inc., various funds, UBS. Note: \*value of net long speculative positions and ETF holdings

Gold\* as a % of mutual funds' total assets vs LBMA gold vault data



Source: Bloomberg, Haver, LBMA, UBS. Note: \*value of net long speculative positions and ETF holdings

# There is still room for investors to build allocations

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- ETF outflows likely reflect rebalancing rather than changes in gold views – the value of gold ETFs has been relatively stable
- Gold ETFs have yet to turn and the private wealth community has yet to actively recommend adding/increasing gold allocations

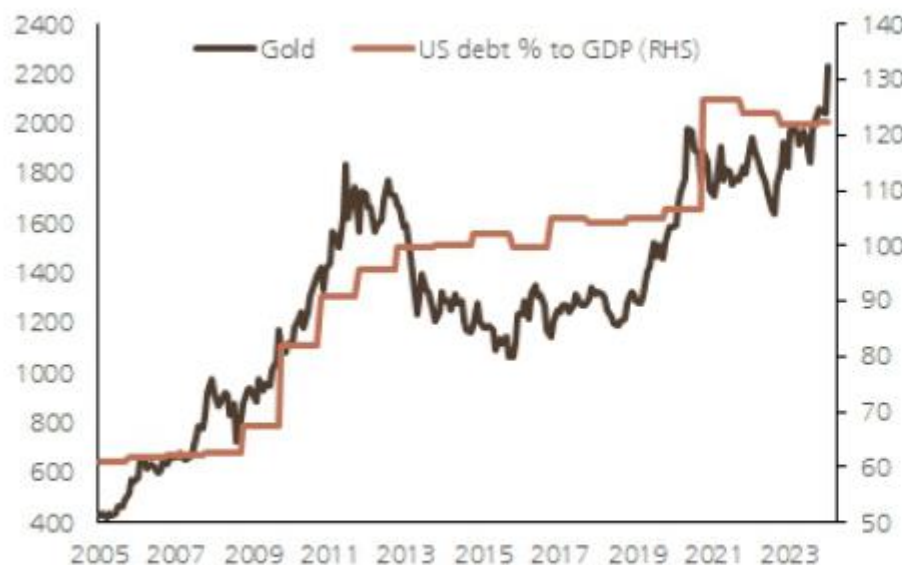
Gold ETF holdings, US\$ bn



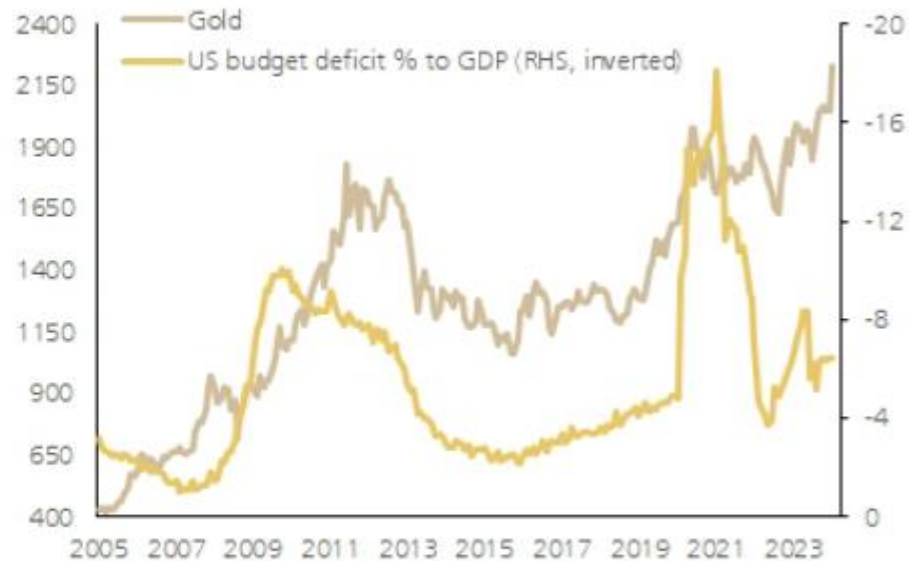
Source: Bloomberg, various funds, UBS

# Macro uncertainty encourages diversification

- In addition to geopolitical risks, the potential for higher macro volatility amid elections in many countries in 2024, especially the US, supports diversification
- Concerns about US debt and budget deficit could also be themes that add to gold's long-term appeal



Source: Bloomberg, UBS.

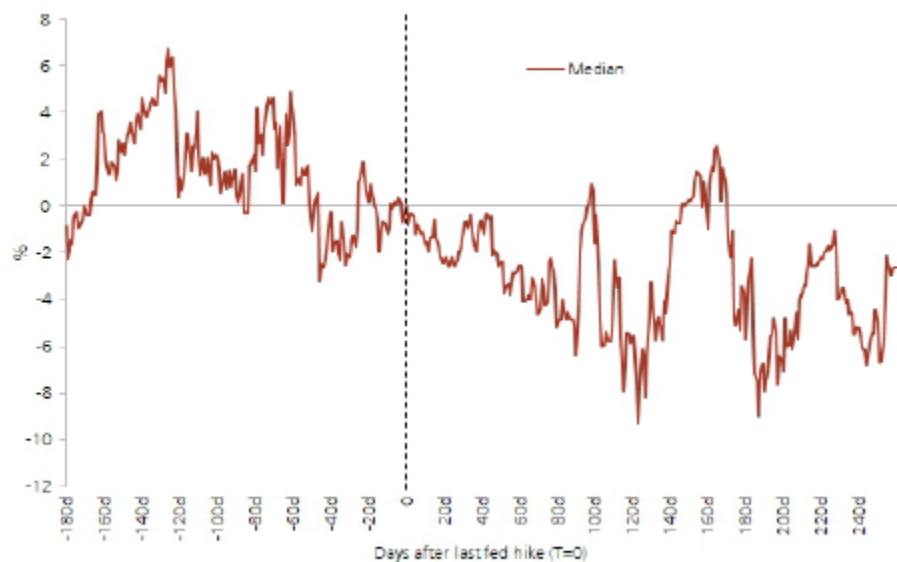


Source: Bloomberg, UBS.

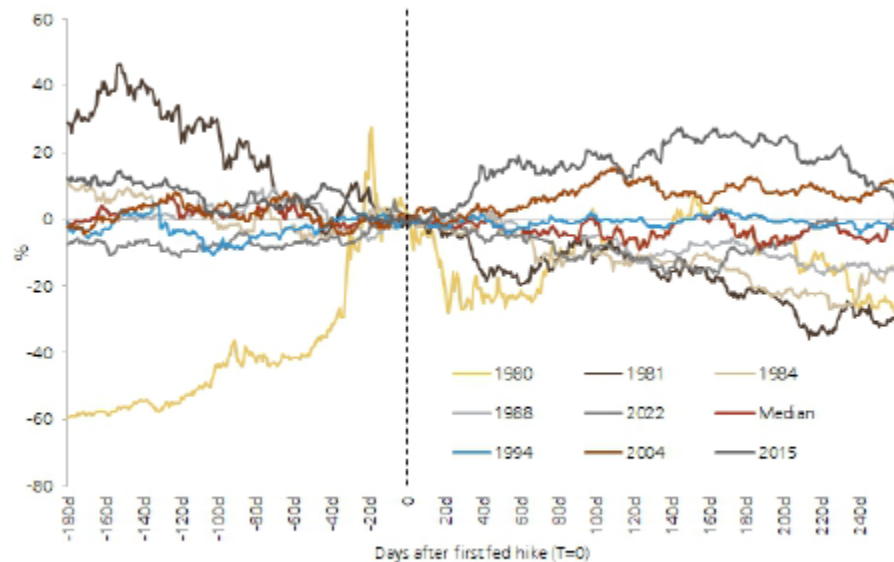


# Key downside risk is a hawkish Fed pivot

- We are most worried about the threat posed by a hawkish shift in Fed policy driven by reacceleration in growth
- Dollar strength on the back of US exceptionalism would additionally weigh on gold
- During previous Fed hiking cycles gold fell by a median of ~9% 2-3 quarters after the first hike, though post-taper tantrum declines were much larger at -45%



Source: Bloomberg, UBS.



Source: Bloomberg, UBS.

# Valuation Method and Risk Statement

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*We would like to thank Bharat Jain and Chetna Malik, our research support service professionals, for assisting in preparing this research report*

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Buy	FSR is > 6% above the MRA.	52%	38%
Neutral	FSR is between -6% and 6% of the MRA.	40%	38%
Sell	FSR is > 6% below the MRA.	8%	35%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2023.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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	UBS Terminology	Rating Category <sup>1</sup>	Time Horizon	Definition	Coverage <sup>2</sup>	IB Services <sup>3</sup>
Credit Outlook	Positive	Buy	Up to 6 months	UBS' expected trend in a company's creditworthiness	<1%	<1%
	Stable	Hold			<1%	<1%
	Negative	Sell			<1%	<1%
	UBS Terminology	Time Horizon	Definition			
Credit Rating	AAA, AA, A (+/-)	Up to 12 months	UBS' assessment of a company's creditworthiness. Credit Ratings are only used in the evaluation of Swiss corporates.			
	BBB, BB, B (+/-)					
	CCC, CC, C (+/-)					
Security Recommendations						
	UBS Terminology	Time Horizon	Definition			
Bond Recommendation	Outperform	Up to 3 months	A corporate bond's expected relative performance versus a defined reference			
	Marketperform					
	Underperform					
	UBS Terminology	Time Horizon	Definition			
CDS Recommendation	Buy Protection	Up to 3 months	Recommendation to hedge a company's creditworthiness			
	Sell Protection					

Note: Bond recommendations may be defined as 'Tactical', as in Tactical Outperform or Tactical Underperform, where there is a near term catalyst(s) taken into account.

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