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Market performance and macro factors

Gold report

Q3 2024

Introduction

In our quarterly Gold Report, we review the performance of the gold price and touch upon other asset classes, as well as explore significant macro factors, including bond yields, the US Dollar and inflation expectations.

Key facts from Q3 2024

Gold price return in Q3
+13.2%

Gold price return YTD
+27.7%

Fed funds rate – new target range
4.75% – 5.00%

Real bond yields fell to
1.59%

US Dollar Index
-4.8%
in Q3

Data: Bloomberg, as at 30 September 2024.

Market performance
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The gold price rose 13.2% in Q3 2024, ending the period at US$2,635, just US$50 off the record set in the final week of the quarter. This marked the fourth-consecutive quarter of gains. Gold outperformed other major asset classes in Q3 and over the year to date.

Macro factors
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Gold was supported by a host of macro factors in Q3. US inflation continued to ease and the employment market showed signs of weakness, leading to the Fed's first interest rate cut since March 2020. The intensifying conflict in the Middle East also saw demand increase for the perceived "safe haven" gold asset.

Market performance

Macro factors

Quarterly price performance

The gold price set new all-time highs in consecutive months throughout Q3, before ending the quarter with a 13.2% gain. Gold closed the quarter at $2,635, just $50 shy of the record set on 26 September. The gold price was driven higher by multiple factors, including an escalation in the Middle East conflict, two assassination attempts on Donald Trump, a gradual easing of inflation pressures, a weakening of the US Dollar, a spike in volatility caused by an unwind of the Yen carry trade, a pick-up in investor demand for gold including within Asia, and the start of monetary easing by the ECB, the Bank of England and, finally, the Fed.

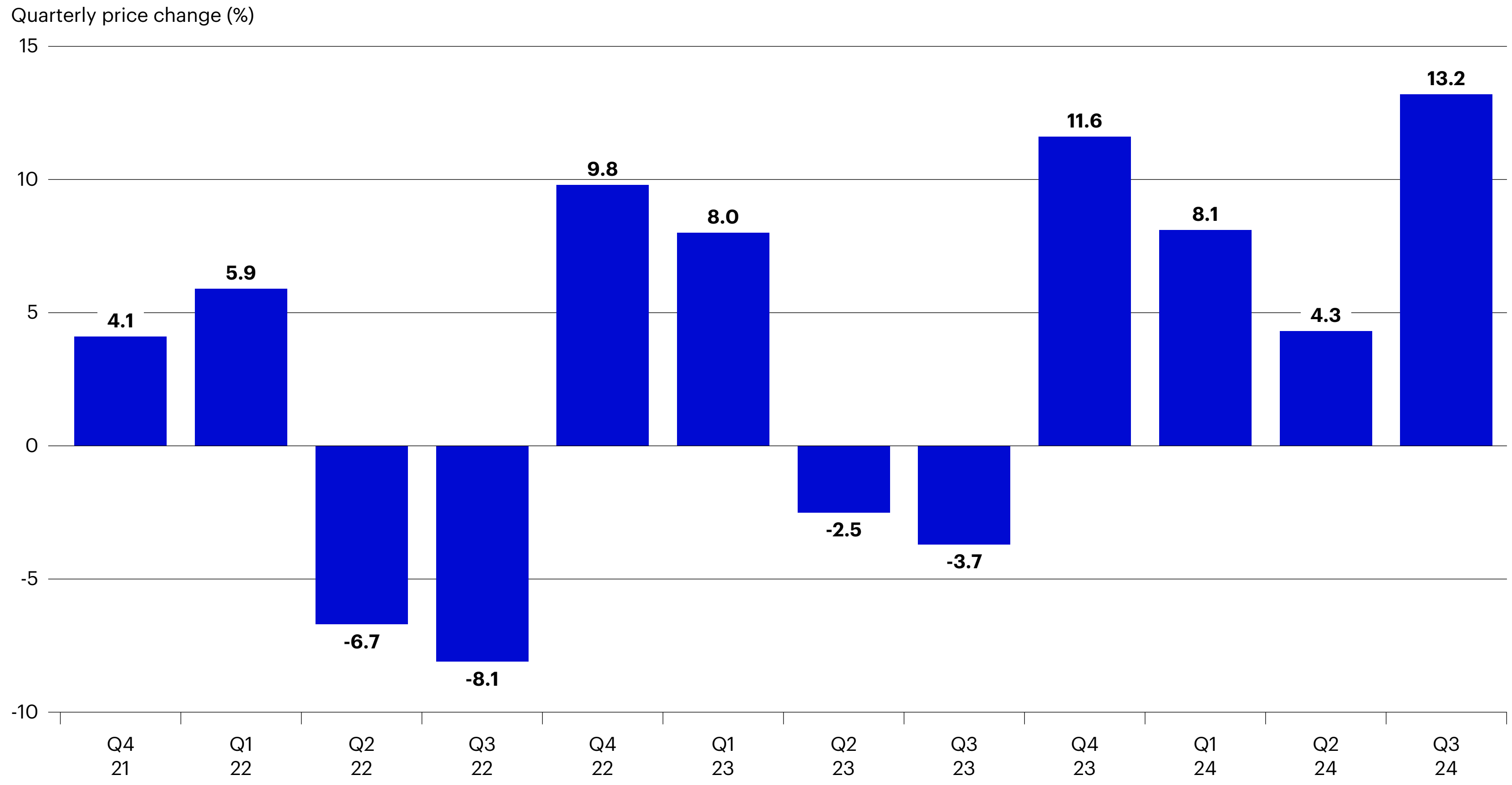
Gold price return in Q3

+13.2%

Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, from 30 June to 30 September 2024.

Quarterly price returns

Gold's 13.2% gain in Q3 marked the fourth-consecutive quarterly increase. It was also the strongest quarter for the metal since Q1 2016. Heading into what has typically been a positive quarter for gold, supported in part by Asian buying during the Indian festival and wedding season, we could be set for a record year. The last Q4 when gold had a negative return was in 2016.



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, as at 30 September 2024.

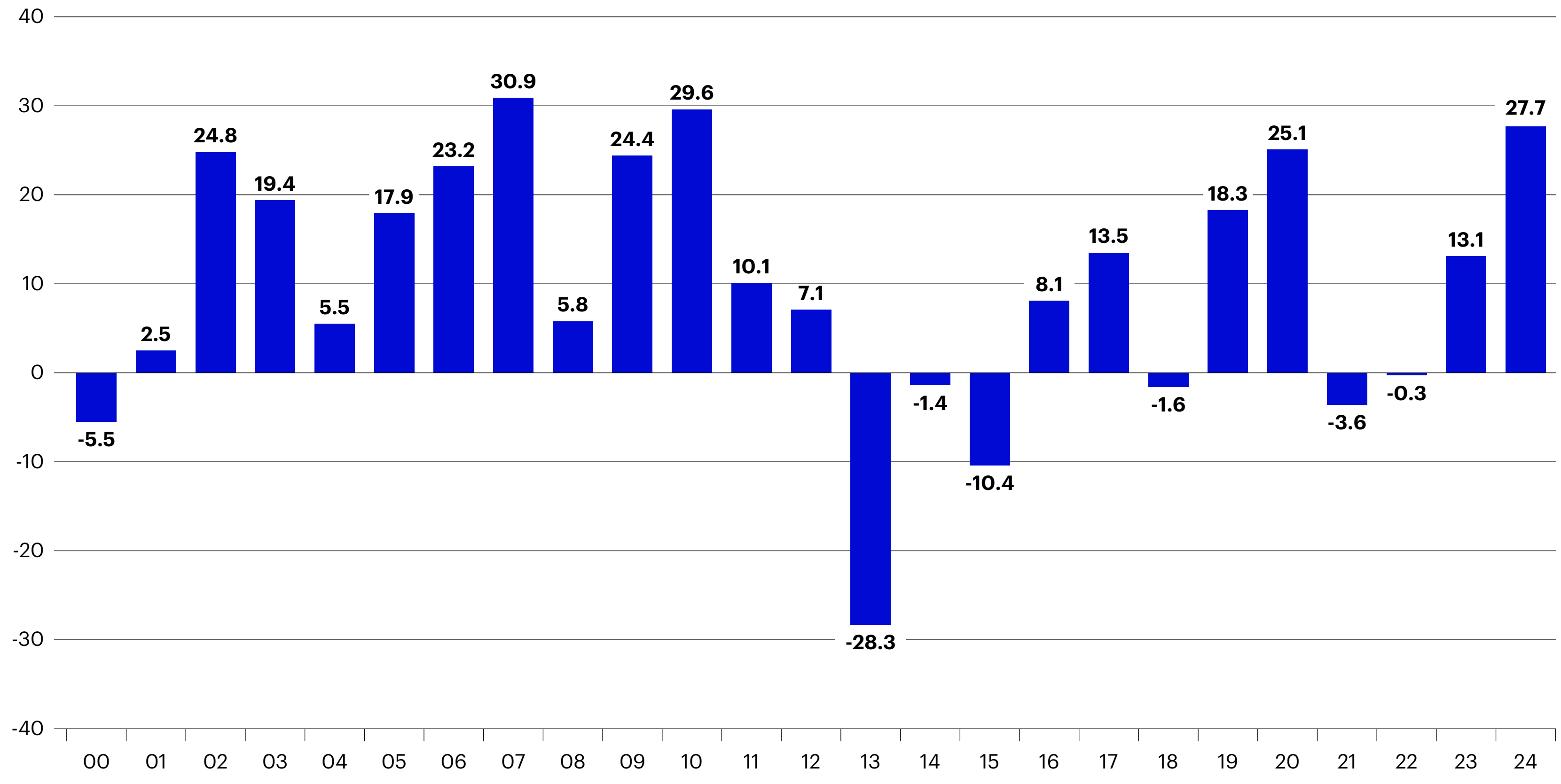
Annual price returns

The gold price has increased 27.7% year-to-date, surpassing the full-calendar-year performance for every year since its 29.6% return in 2010. Despite record high prices, which could play a role in Q4 jewellery demand, gold could have support from further Fed easing and geopolitical uncertainties linked to the US Presidential election and the Middle East.

Gold price return YTD

+27.7%

Annual price returns (%)



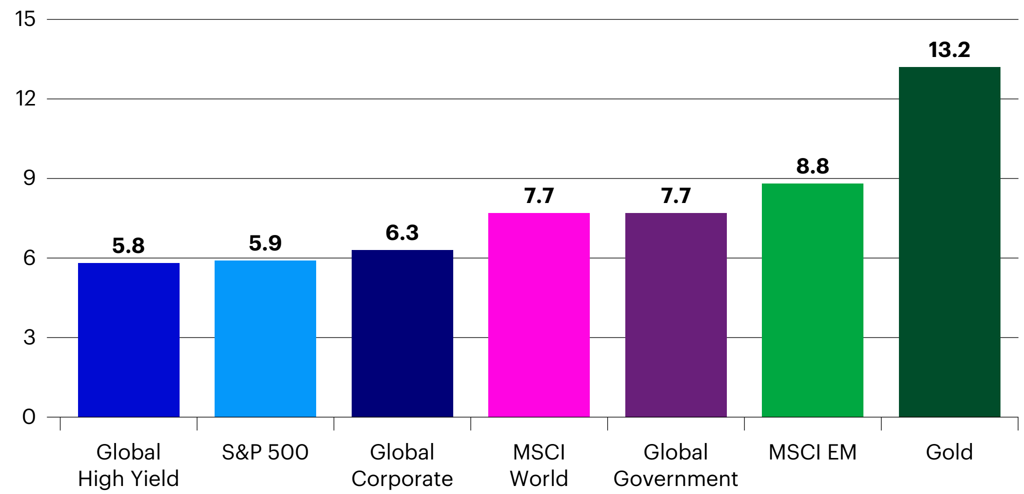
Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD. "2024" is YTD to end-September.

Asset class returns

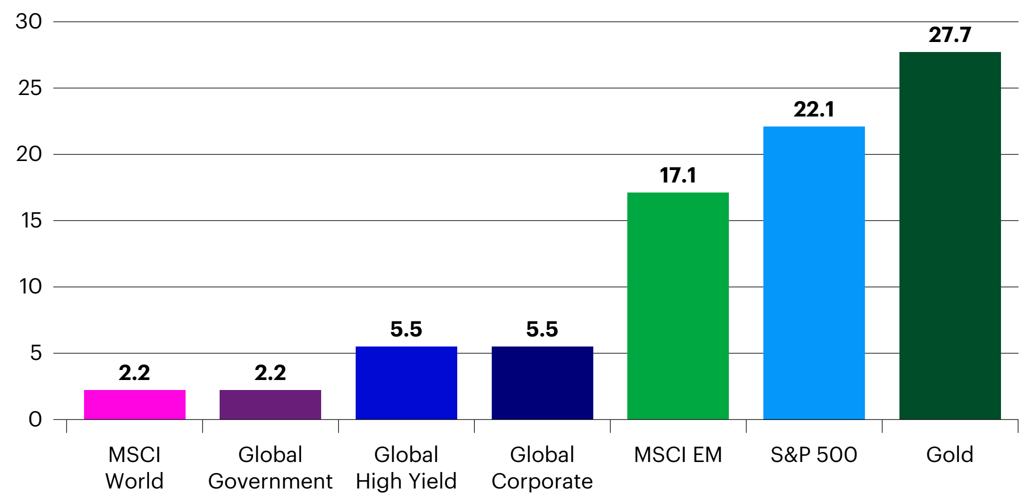
The third quarter of 2024 was positive for risk assets, with emerging market and developed market equities both turning in strong performances. The S&P 500 cooled somewhat on the back of July's correction in big tech stocks, but the main US equity benchmark recovered over the next two months to end the quarter 5.5% higher. However, Q3 returns were led by what are considered lower risk assets, with gold being the best performer in the quarter.

Gold has also outperformed other major asset classes year-to-date, even with the bellwether S&P 500 index gaining 20.8% in the first three quarters of the year. The perceived "safe haven" gold asset was up 27.7% YTD and also performed better than risk assets including MSCI Emerging Markets, and Global High Yield and Global Corporate Bond benchmarks, which outpaced the more modest gains from Global Government Bonds.

Change over the quarter (%)



Changes in 12 months (%)



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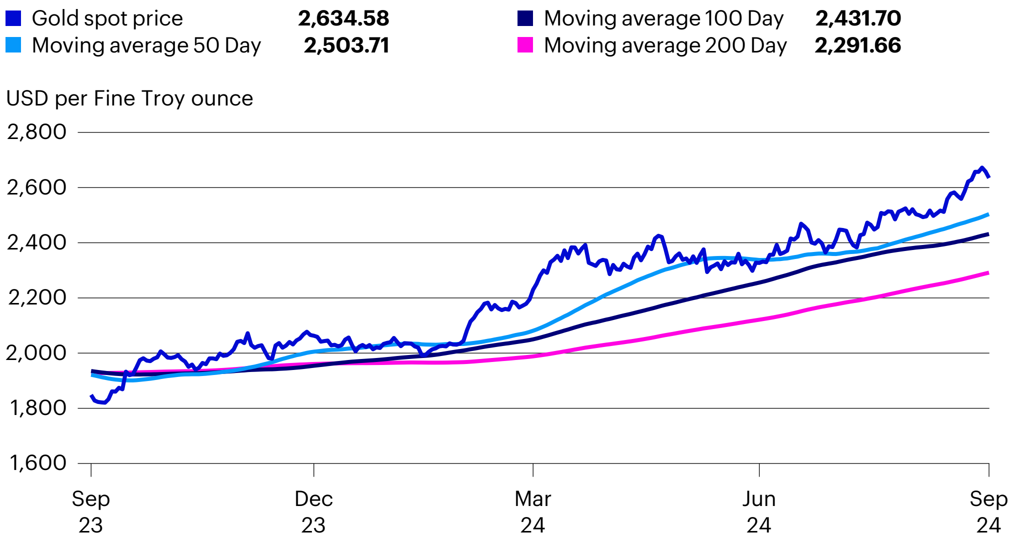
Relative strength of the gold price

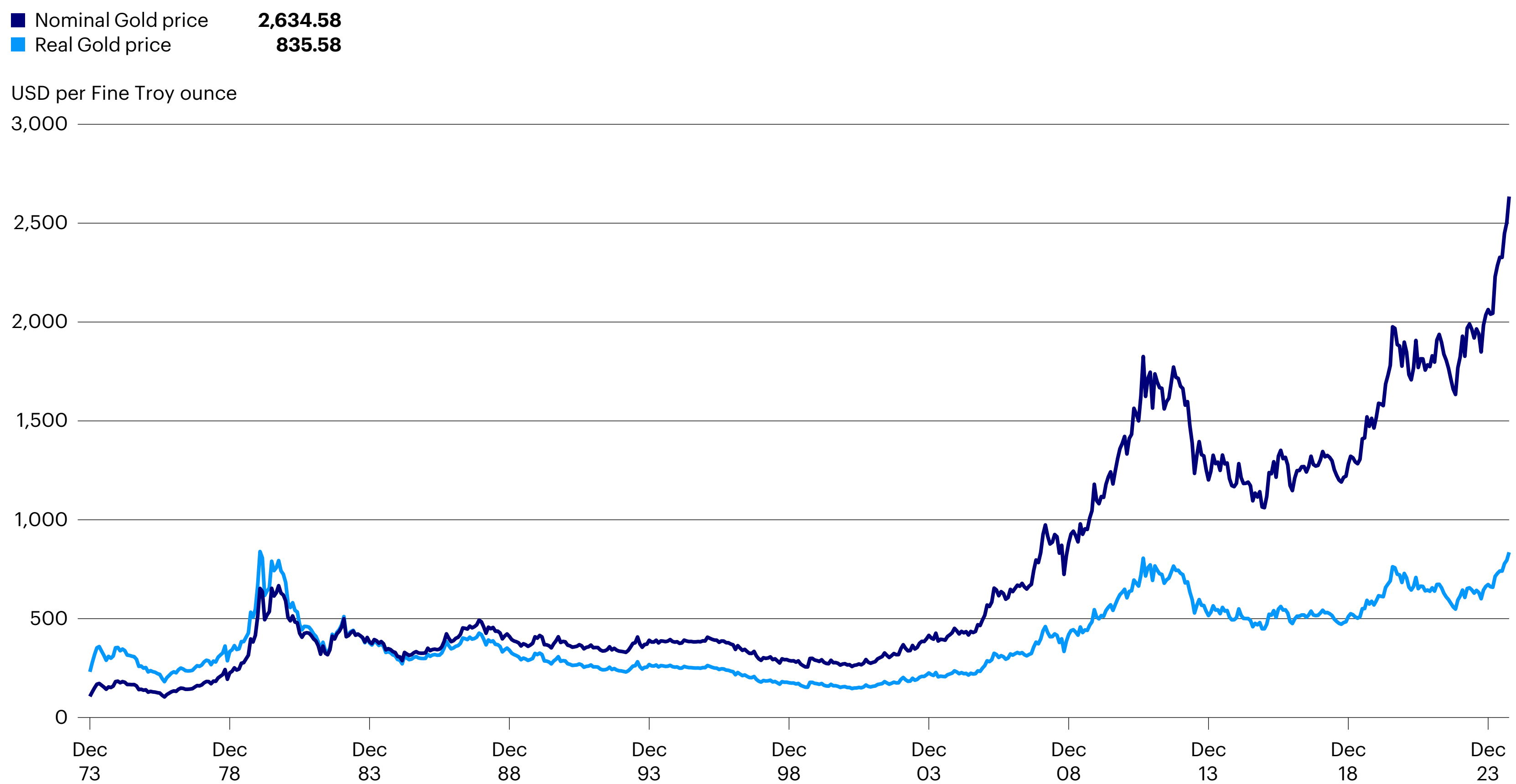
The continued rise in the gold price saw it enter overbought territory in September, according to the 14-day Relative Strength Index. However, the 50-day moving average remained above longer-run averages, avoiding a technical sell signal. Non-technical traders are likely to remain focused on the fundamental supports of lower interest rates, declining bond yields, a weaker USD and heightened geopolitical volatility.



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 September 2024.

Gold price return, nominal and adjusted for inflation

Gold comfortably managed a positive real return in the quarter as US inflation continued to slow. Over the past 12 months, gold has returned 42.5% on a nominal basis; this converts to roughly 39.1% on a real basis over the same time horizon.



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 September 2024.

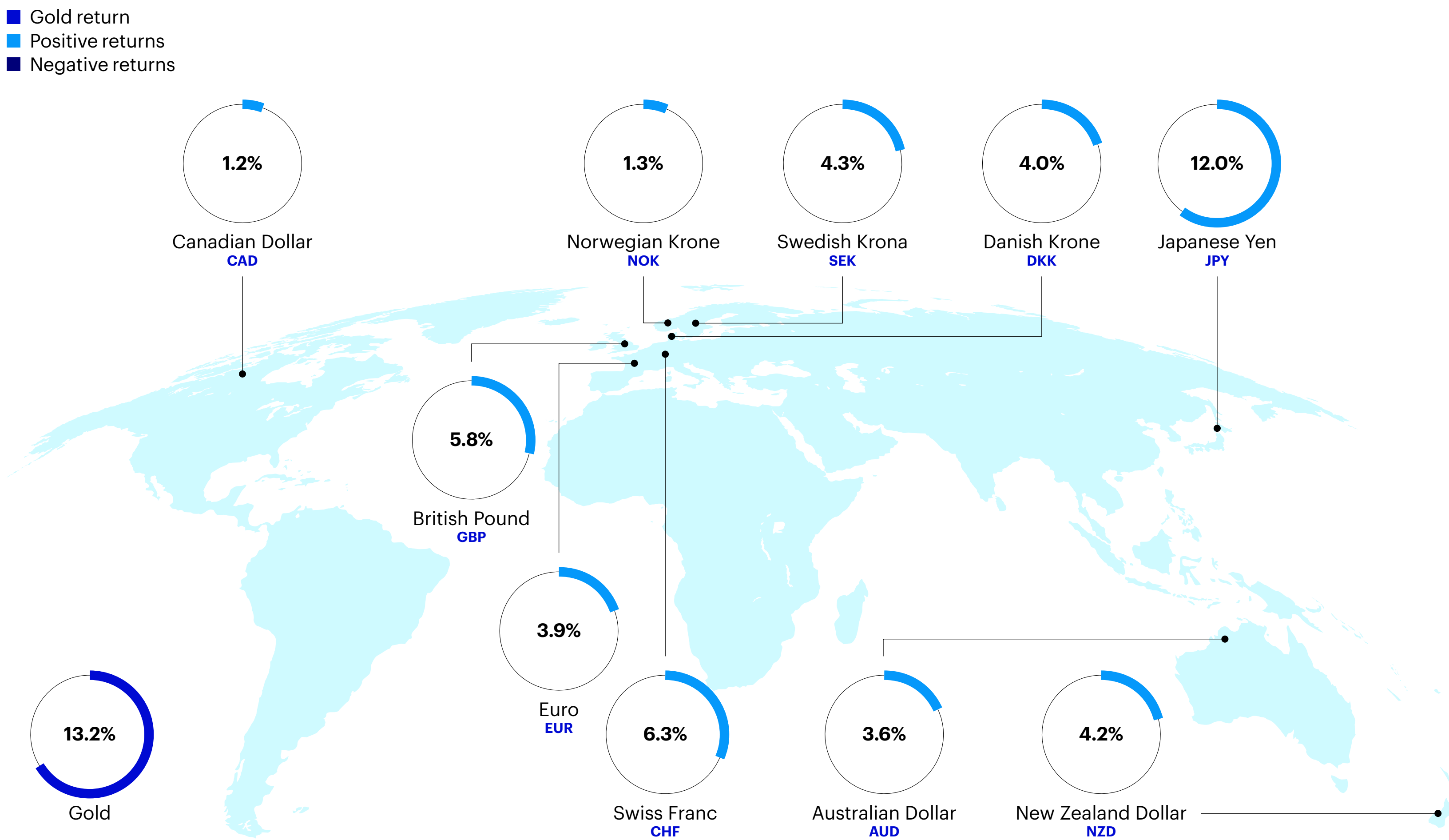
Market performance

Macro factors

G10 currencies

Gold outperformed all major currencies in Q3 2024, even the Yen, which appreciated courtesy of the Bank of Japan's increase to the policy interest rate at the end of July. Higher borrowing costs and a stronger Yen triggered an unwinding of carry trade positions, which sent financial markets lower in early August.

Q3 returns of gold and G10 currencies in USD (%)



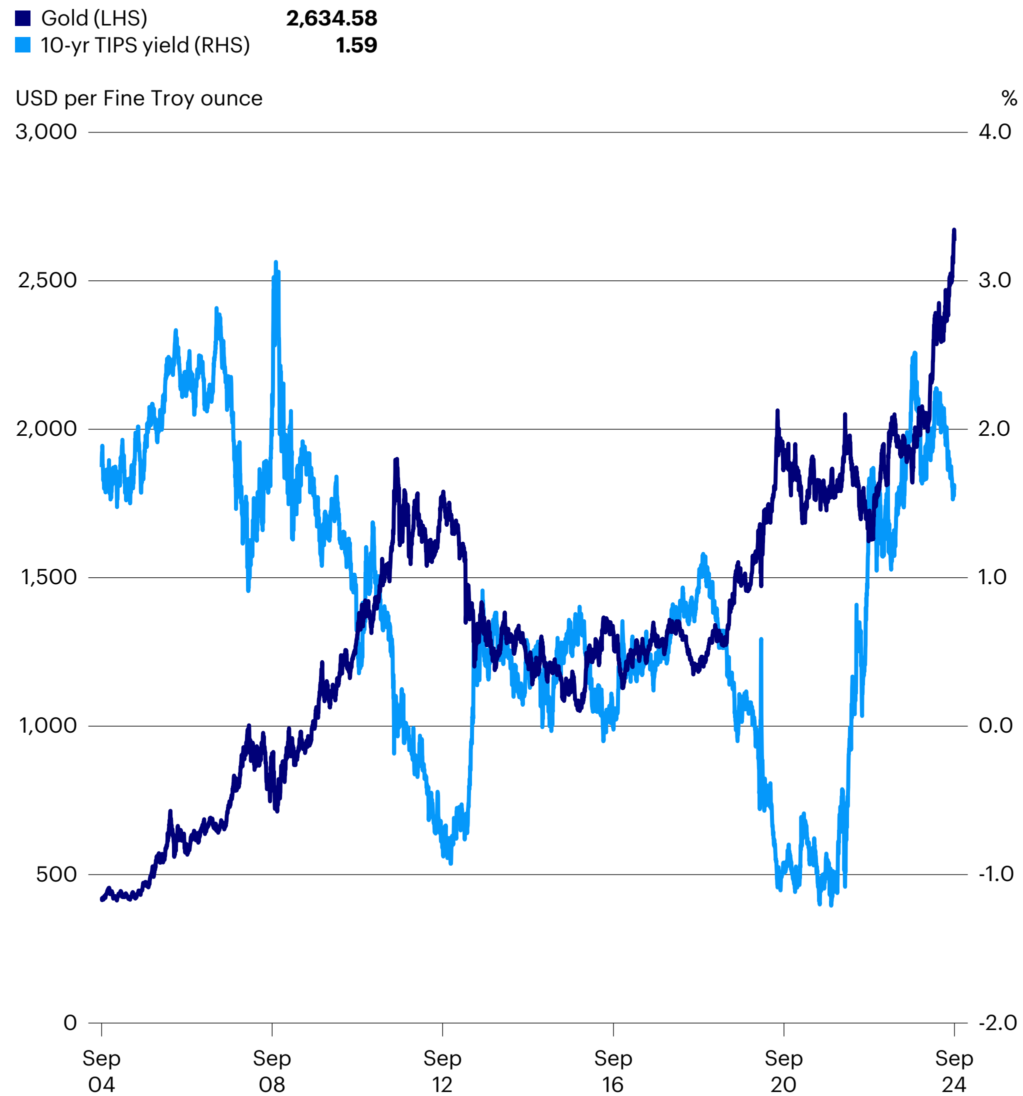
Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 September 2024.

Gold price and real bond yields

The real yield as measured by the US 10-yr TIPS ended the quarter at 1.59% having fallen sharply from the 2.11% at the end of Q2. They reached 1.53% in September, the lowest level since July last year. Lower bond yields, especially when adjusted for inflation, is generally supportive of gold, as it reduces the opportunity cost of holding the non-yielding asset.

Real bond yields fell to

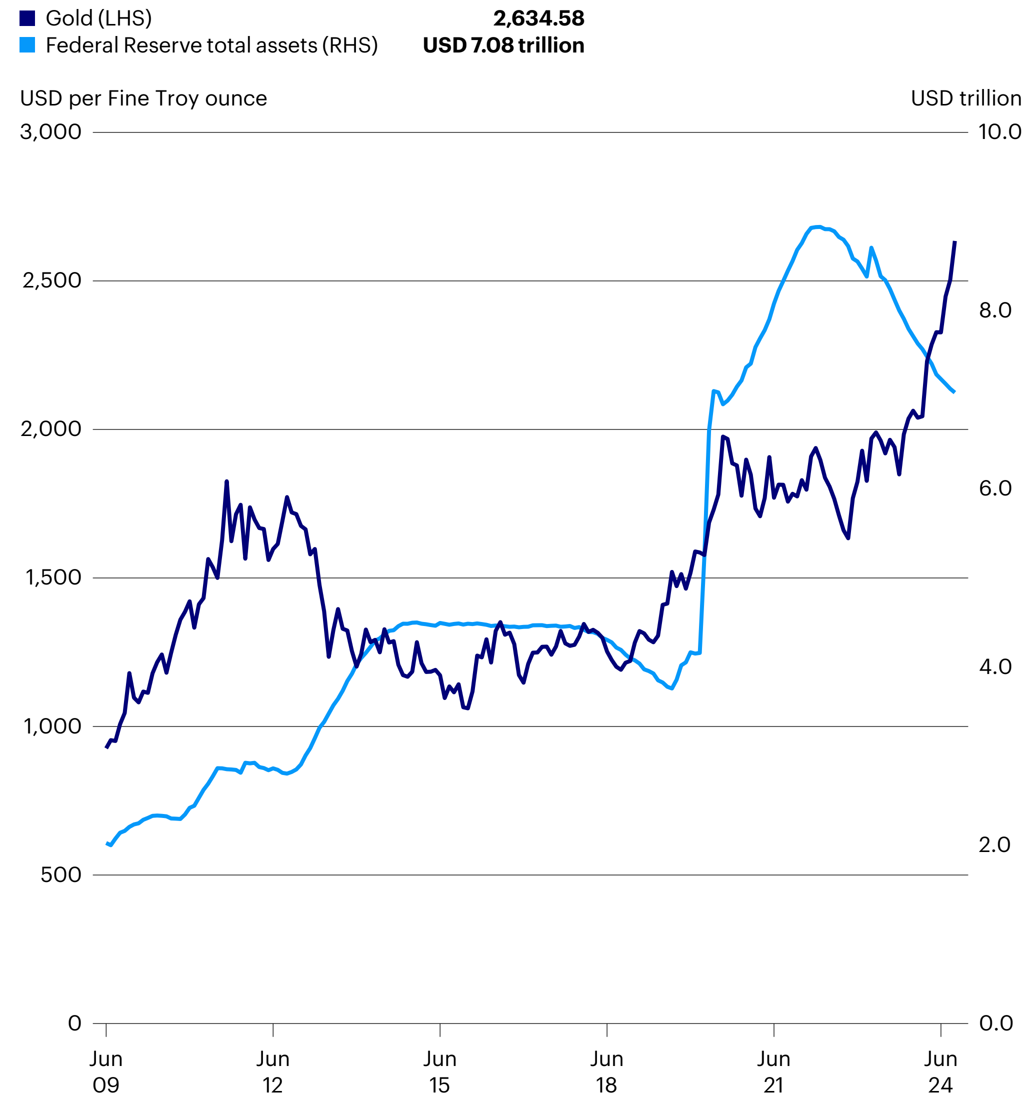
1.59%



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 September 2024.

Gold price and Fed balance sheet

The Fed's balance sheet continued to shrink in Q3 but is still north of US$7 trillion. Chair Powell said he believes there was sufficient liquidity in the financial system to support further quantitative tightening (allowing the Fed's bond holdings to mature without being replaced) as the central bank looks to continue bringing down the size of its overall holdings.



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 September 2024.

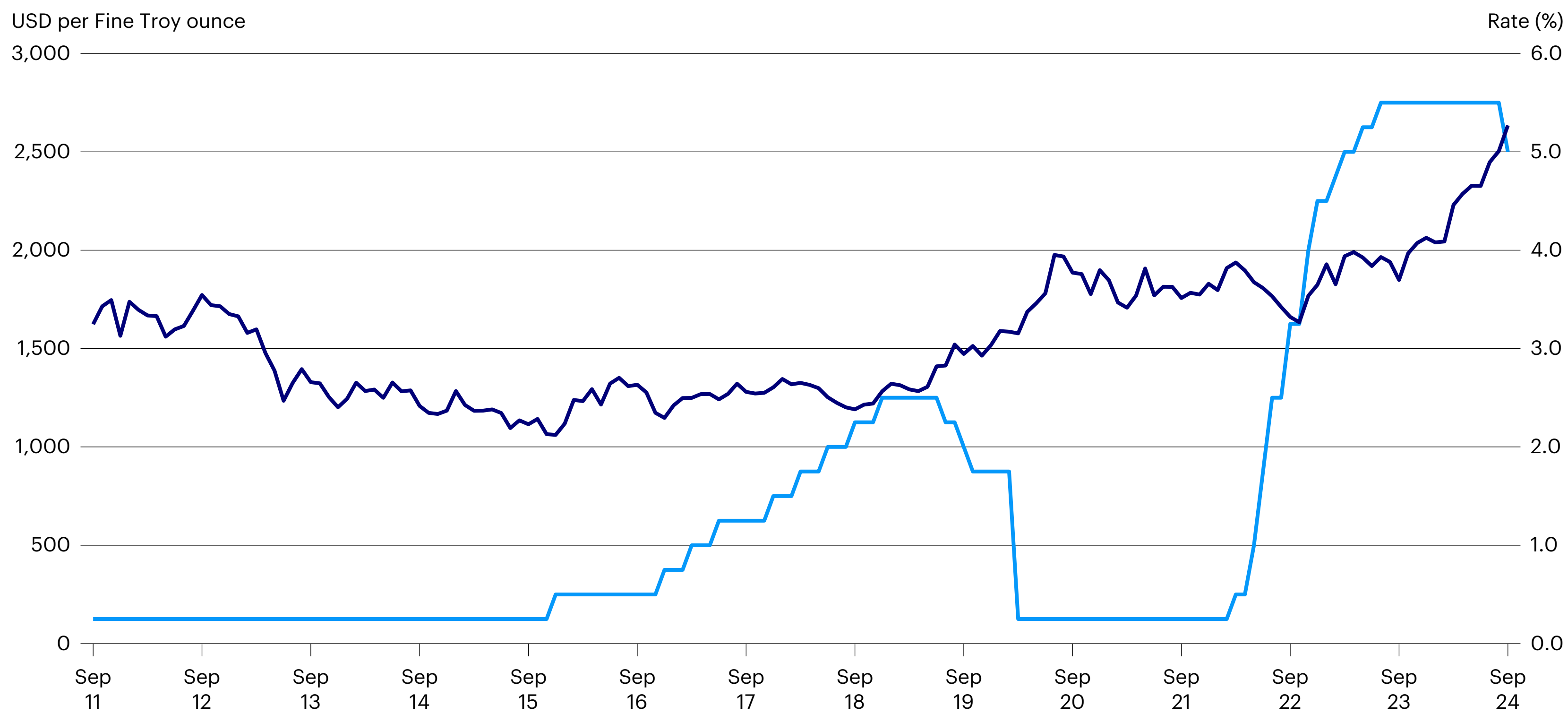
Gold price and US interest rates

The Fed's 50bps rate cut, to a target range of 4.75% – 5.00%, was the first reduction by the central bank since March 2020, at the start of the pandemic. Chair Powell described September's cut as the result of a "recalibration" of Fed policy and said the Fed wanted to get ahead of any weakness in the employment market. September's dot plot showed another 50 basis points of cuts in total by the end of 2024, which is at odds with the market's more dovish expectations, and a full percentage point of cuts in 2025.

Fed funds rate – new target range

4.75% – 5.00%

Gold (LHS)	**2,634.58**
Fed funds rate – upper bound (RHS)	**5.00**



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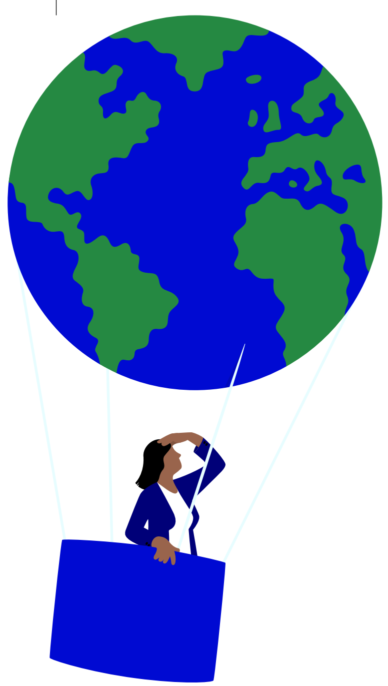
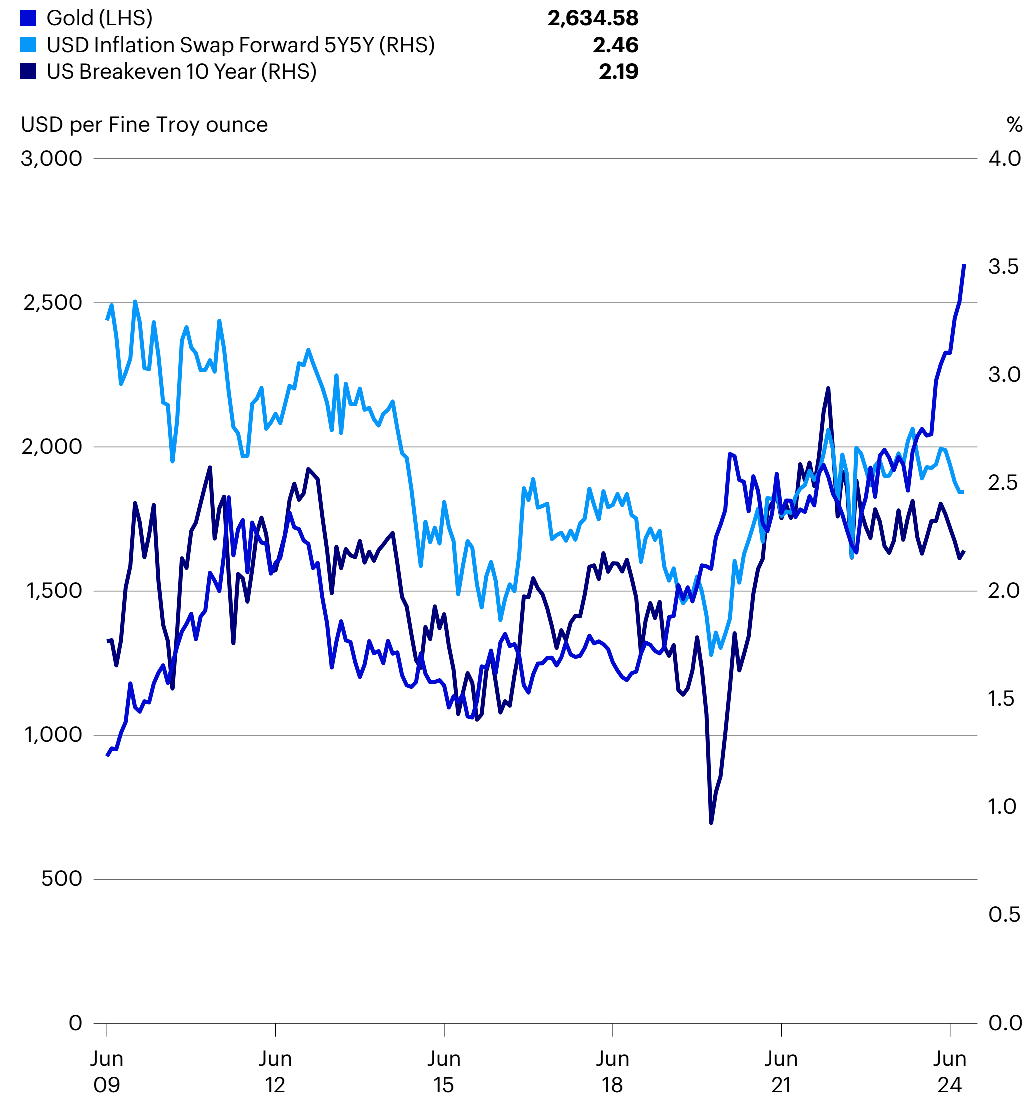
Gold price and inflation expectations

Using breakeven rates and inflation swaps, inflation expectations for the US receded in Q3 2024. The sentiment of lower inflation has been beneficial to the gold price, as it feeds into expectations that the Fed will be able to cut rates. While inflation expectations are not yet in-line with the Fed's long-term targets, they are back to where they were in early 2021.





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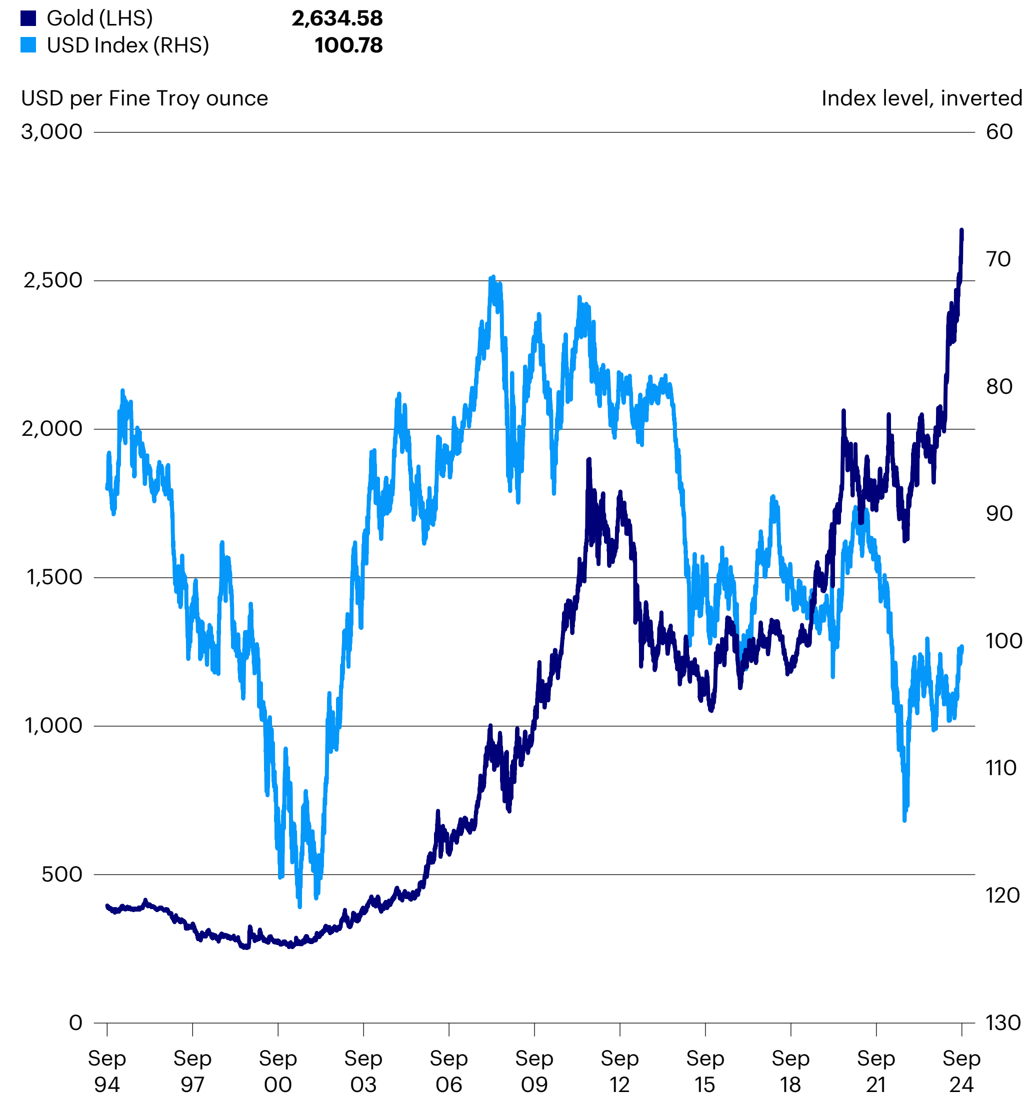
Gold price and the US Dollar

The USD decreased in value versus the currencies of the major US trading partners, with the DXY index falling 4.8% in Q3. This was driven by the Fed's larger-than-expected rate cut, but also as the JPY rallied substantially throughout the period, with the Bank of Japan raising its policy rate in July. Further tightening by the BoJ, while the Fed continues to cut rates in the US, should be beneficial to gold.

US Dollar Index

-4.8%

in Q3



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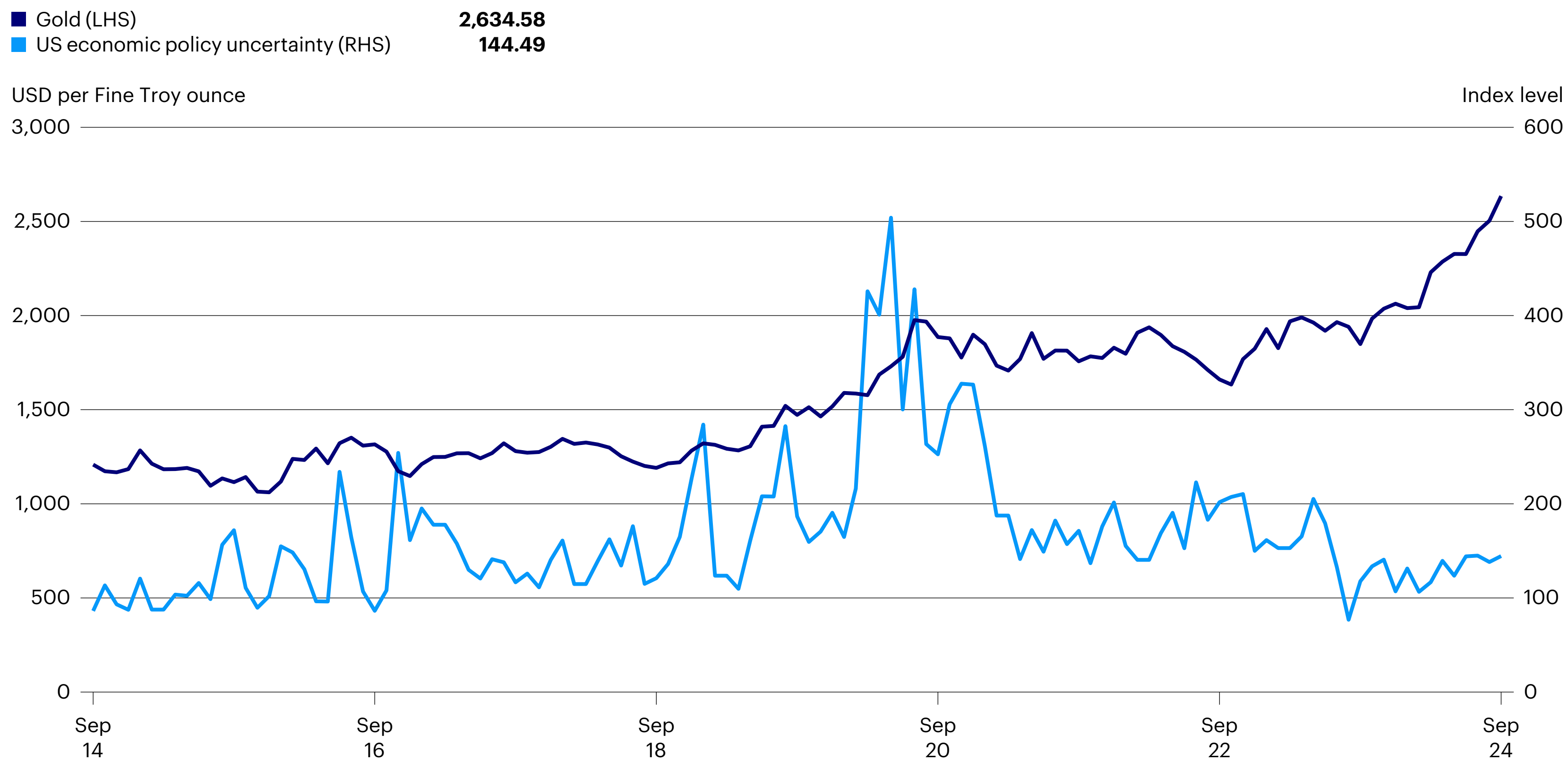
Gold price and economic risks

While US economic policy uncertainty has risen over the past 12 months, the index stabilised in this latest quarter. As this index is measured by the count of the word 'uncertain' or 'uncertainty' with 'economy' and words related to the federal government, there may well be an uptick in the coming months, which has been a positive signal for gold in the past.



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Data as at 30 September 2024, unless otherwise stated.

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EMEA3496484/2024