



# Gold Report

Q2 2020

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# Contents



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\*Data: Bloomberg, Invesco as at 30 June 2020

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## Introduction

Gold had one of its best quarters in terms of performance, with investors in physical gold ETFs helping to drive a 12.9% return, with record flows offsetting further weakness in demand from the jewellery sector in light of the pandemic.



**Chris Mellor**  
Head of EMEA Equity and  
Commodity ETF Product  
Management at Invesco

Gold followed an impressive start to the year with an even stronger Q2. The yellow metal ended the quarter at \$1,781 per Fine Troy ounce, an increase of 12.9%\* over the quarter. Key drivers during the period included low interest rates and bond yields, a weakening US Dollar and building inflation concerns as governments and central banks around the world battle against the devastating impacts on the economies of the coronavirus pandemic.

\*Data: Bloomberg, Invesco as at 30 June 2020



Low rates, negative yielding debt and elevated economic uncertainty have all continued to support gold. The possibility of higher inflation expectations could start to play a part in the second half of the year.



**Michael Joynson**  
Head of Market Insights  
at Invesco

# Macro Factors

Gold can be used by all types of investor and often is included in portfolios for diversification, including as a hedge against uncertainty and volatility. Here, we look at how various macro-related factors impacted the gold price and overall market during the second quarter.

# MacroFactors

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## Real Yield

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Data: Bloomberg, Invesco, as at 30 June 2020

Lower real yields continued to help propel gold prices through the quarter as real bond yields hit lows not seen for over seven years. Arguments against holding non-yielding assets such as gold are increasingly irrelevant with both falling yields and a growing stock of negative-yielding debt. Inflation-protected securities, such as US TIPS, have piqued particular interest with some investors concerned over the longer-term consequences of the current fiscal and monetary stimulus schemes being absorbed by economies.

# MacroFactors

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The resurgence in the stock of negative-yielding debt continued in Q2 2020 as record low policy rates and QE kept downside pressure on bond yields. The monetary and fiscal stimulus announced in the face of the coronavirus pandemic has seen a boom in debt issuance but has been offset in part by central banks' bond-buying programmes.



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## Negative-yielding Debt

Data: Bloomberg, Invesco, as at 30 June 2020

# MacroFactors

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## Federal Funds

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Fed Funds Rate remained unchanged during Q2

**0.00-0.25%**

Data: Bloomberg, Invesco, as at 30 June 2020

Following the Fed's last cut in mid-March, the target range for the Fed Funds Rate remained unchanged during Q2 at 0.00-0.25%. A low interest rate environment is likely to continue for the foreseeable future with the Federal Reserve Chairman, Jerome Powell, having stated that the Fed Funds Rate would remain close to zero until 2022, as concerns mount over the longer-term impact of the coronavirus on economies around the world.

# MacroFactors

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The June reading of the Global Economic Policy Uncertainty index was sharply lower compared to May and is now at a similar position to where it was at the end of Q1 2020. Uncertainty remains elevated, with concerns around the pandemic's longer-term impact on economies, including the outlook for employment and lending.



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## Global Economic Policy Uncertainty Index

Data: Bloomberg, Invesco, as at 30 June 2020



# MacroFactors

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USD Index

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USD lower in Q2 by

**1.7%**

Data: Bloomberg, Invesco, as at 30 June 2020

The USD was 1.7% lower in Q2 and, although there was an uptick at the end of the quarter, it has not broken out of its weakening trend (on a trade-weighted basis) that started in Q2 2018. A weakening USD is one factor that would support the rising price of gold.

# MacroFactors

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**Longer-term inflation concerns remain a key talking point in considering gold. Looking at two market measures of inflation, the US5y5y swap and the US 10-year breakeven, it seems there has been a general divergence between inflation expectations and the gold price over the past 12 months.**

The most recent readings of inflation concerns imply a change of attitude to future declining inflation. We believe this is something to watch over the coming months, as increasing inflation expectations would be supportive of gold, especially against a backdrop of low interest rates and low-to-negative bond yields.

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## Gold and US Inflation

Data: Bloomberg, Invesco, as at 30 June 2020



While equities and other risk assets performed remarkably well in Q2, the strength of the gold price suggests many investors are not completely sold on the sustainability of the recovery.

**Emma McHugh**  
Investment Strategist  
at Invesco

# Market performance

The gold price had a particularly strong quarter, rising by 12.9% as investors continued to seek relative safe havens in the midst of the global pandemic. In this section of the report, we look at how gold performed versus other asset classes and currencies as well as a review of its longer-term performance on an inflation-adjusted basis.

# Market Performance

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## Gold Performance in Q2

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Gold price ended the quarter at

**\$1,781** an ounce

Data: Bloomberg, Invesco, as at 30 June 2020

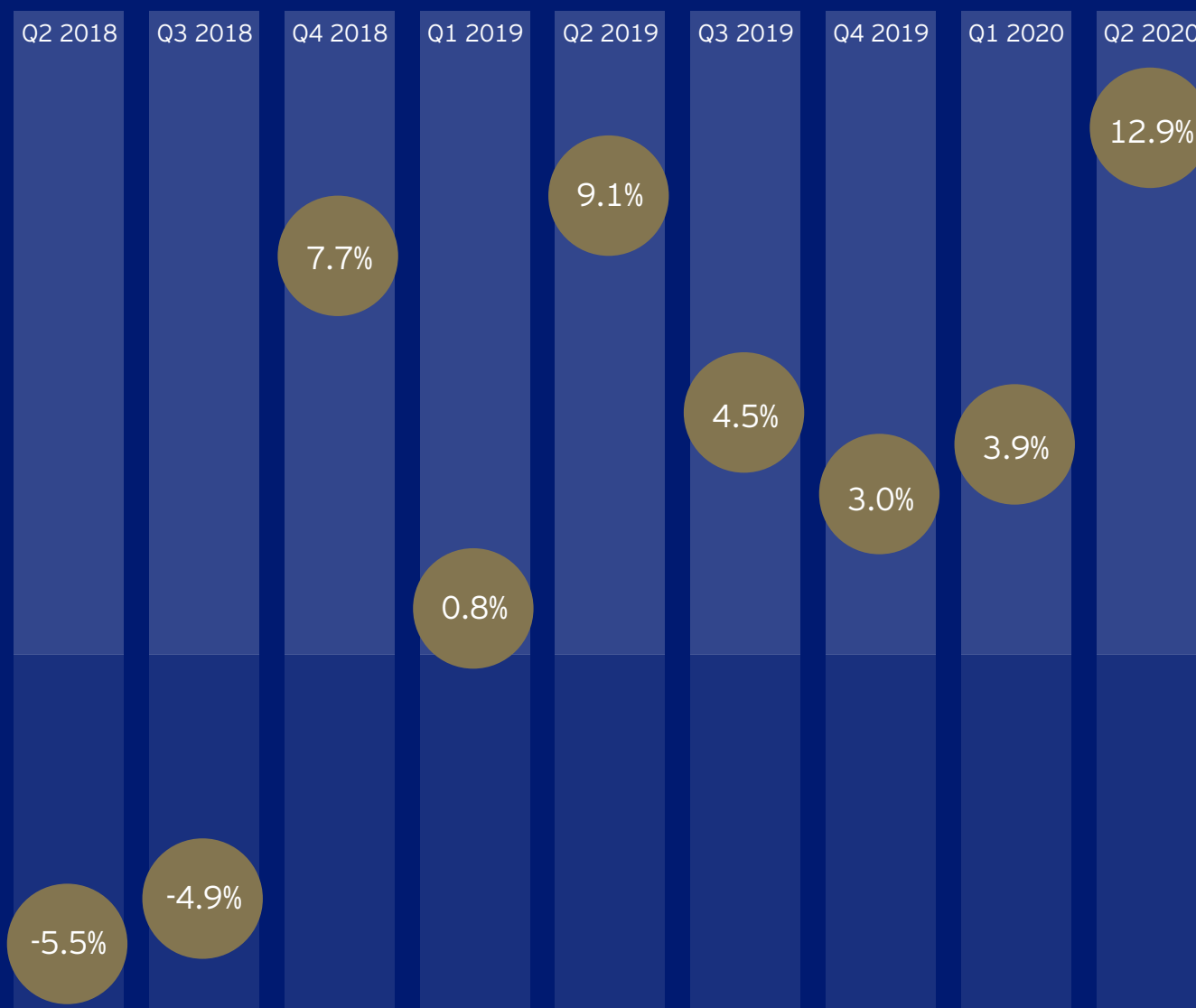
The gold price rose in each of the three months of the quarter, ending the period at \$1,781 an ounce. The majority of the increase in Q2 came at the beginning of April, with the metal breaching \$1,700 within the first two weeks. Gold then traded sideways before gaining momentum at the end of June, though without breaking the psychological barrier of \$1,800.

# Quarterly Returns

Gold returned 12.9% for the quarter in USD terms, its strongest quarter since the 16.1% gain recorded in Q1 2016. In the first six months of 2020, the gold price rose 17.4%, continuing its strong run from 2019, when gold returned 18.3% for the year.

Given the market speculation on the direction of the gold price, it is worth looking at previous peaks. The \$1,781 price at the end of this quarter is the highest level the metal has reached since October 2012 and is within relative touching distance of its all-time high of \$1,917, reached during intraday trading in 2011.

Quarterly return in USD

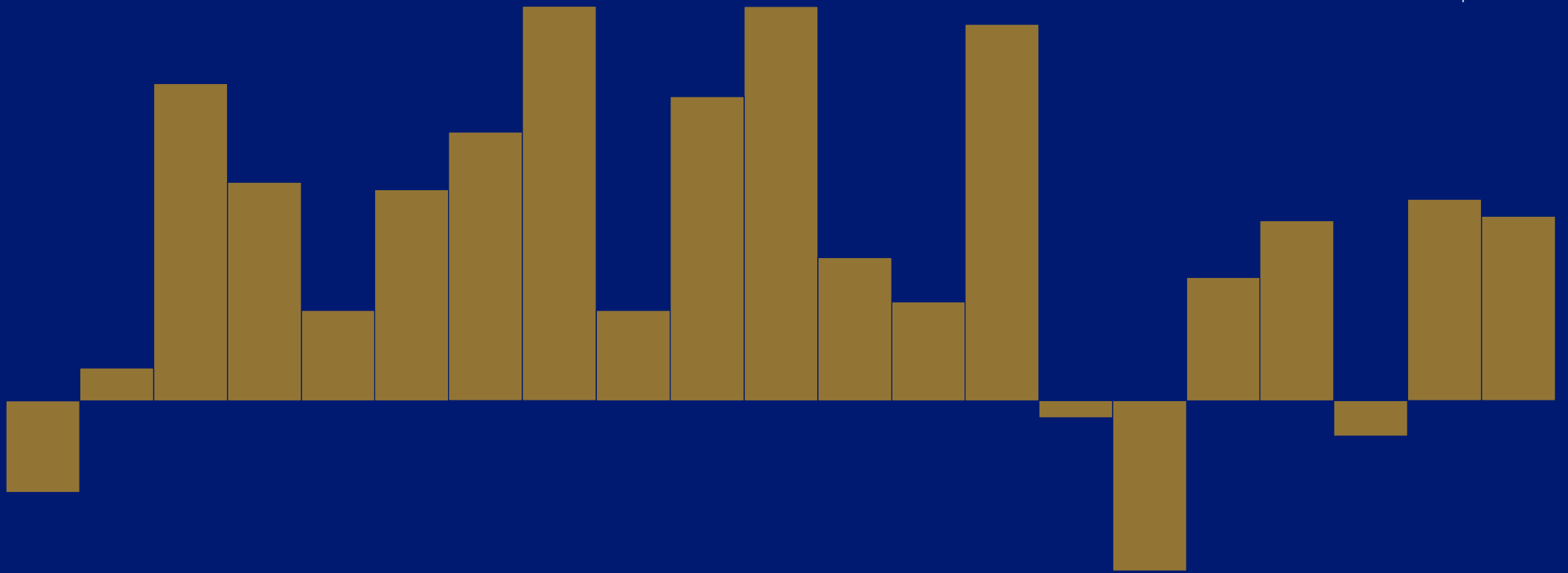


Data: Bloomberg, Invesco, as at 30 June 2020

# Annual Returns

Annual return in USD

Roll over the years to explore further.



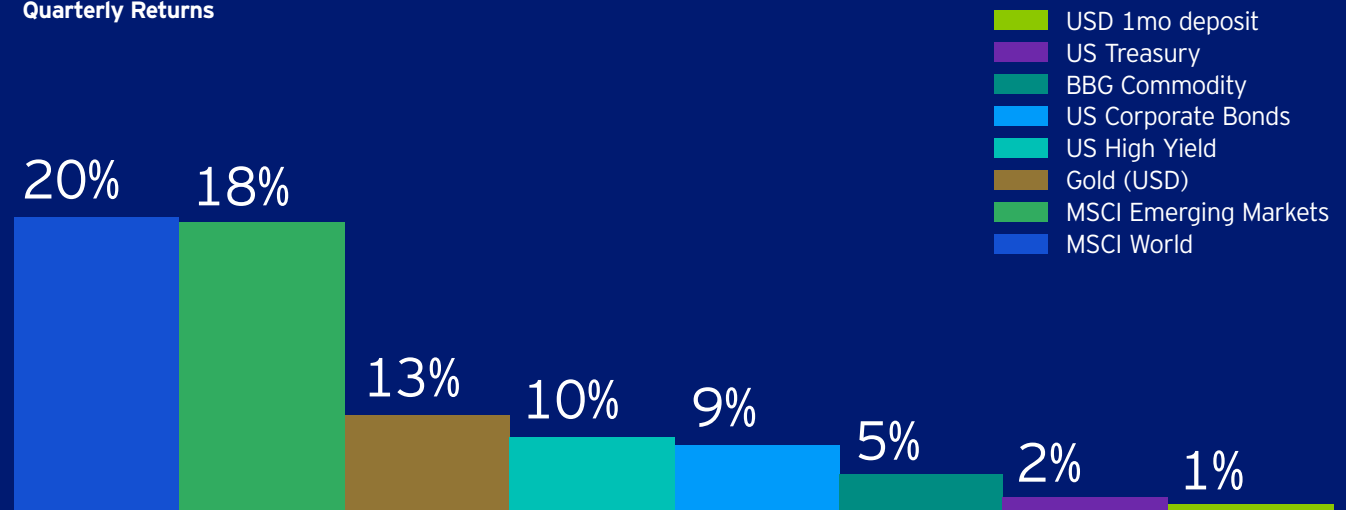
Data: Bloomberg, Invesco, as at 30 June 2020

## Asset Returns

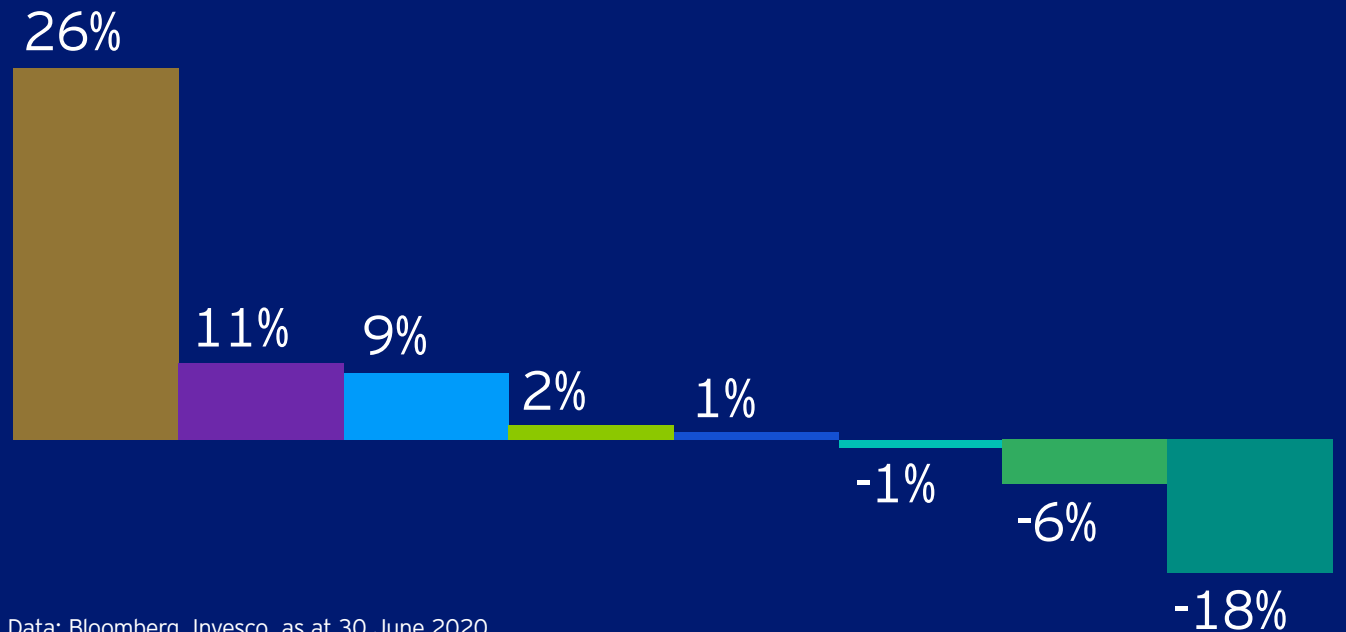
In the context of other major asset classes, gold was outperformed only by equities during the quarter. Notably, all the major asset classes had a positive quarter with Developed Market equities outperforming Emerging Market equities, 19.6% versus 18.1% respectively. Low risk assets, such as US Treasuries, lagged riskier assets, albeit still managing to deliver a marginal positive return.

On a 12-month perspective, gold was comfortably the best performing asset class, during a period where investors showed a clear preference for less volatile asset classes. Despite the strong performance of equities in the most recent quarter, Developed Market equities returned just 1.1% over the 12 months, while Emerging Markets are still in the red, at -5.7%.

Quarterly Returns



Annual Returns



Data: Bloomberg, Invesco, as at 30 June 2020

# Market Performance

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## Relative strength of the gold price



**The moving averages confirm an orderly upward trend for the gold price during the quarter. Despite the strong performance, at no point did it trigger an overbought signal on the 14-day Relative Strength Index (RSI) indicator.**



# Market Performance

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In real terms, gold returned 13.4% in Q2 2020 and 26.2% for the last 12 months. The chart adjusted for inflation uses the US Consumer Price Index\*, which increased 0.6% for the 12 months to the end of Q2 2020.

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Gold returned

**12.9%** in  
nominal terms

**13.4%**  
adjusted for inflation

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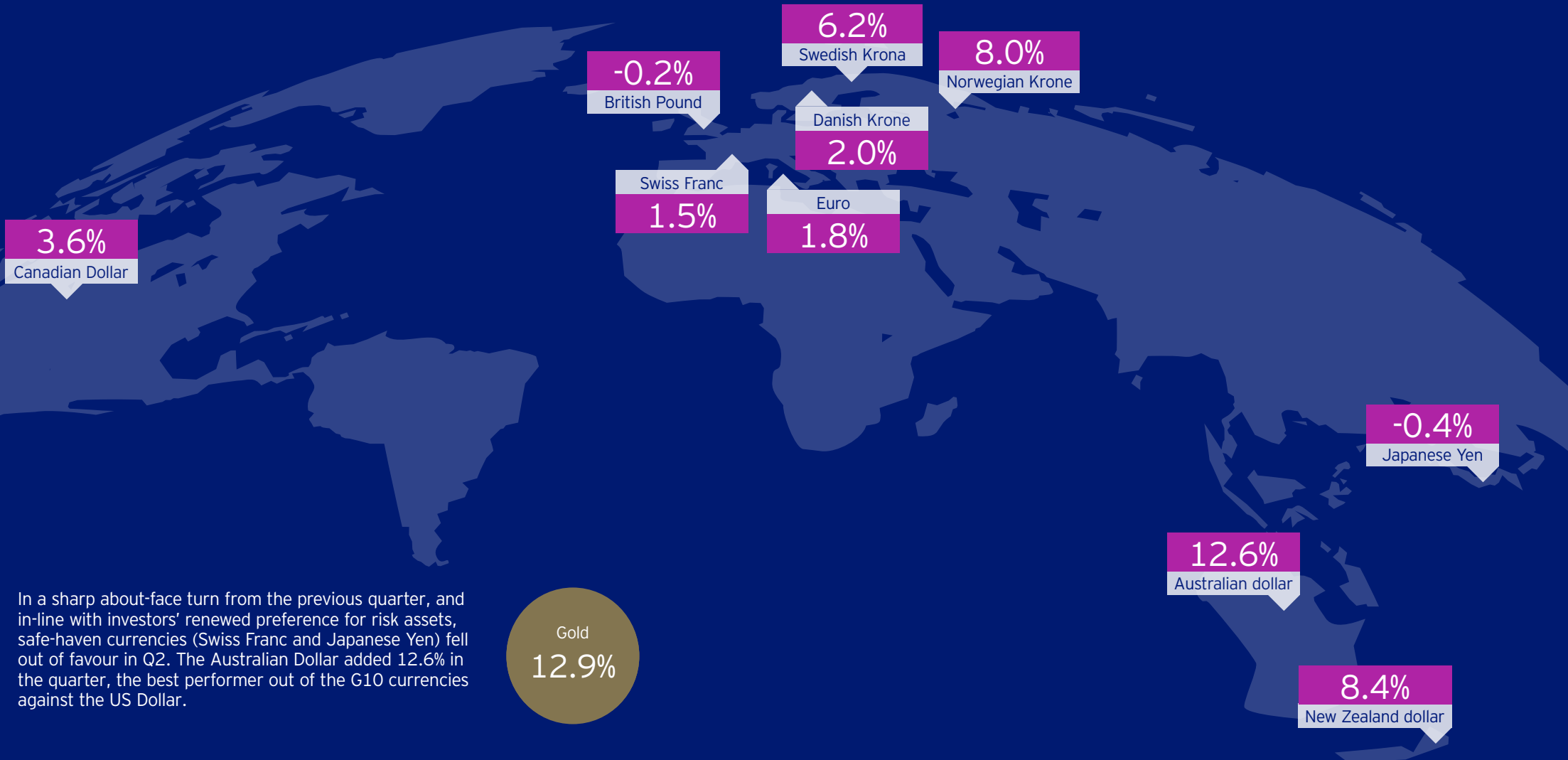
Real returns Gold spot price

\*adjusted for US CPI Urban Consumers

Data: Bloomberg, Invesco, as at 30 June 2020

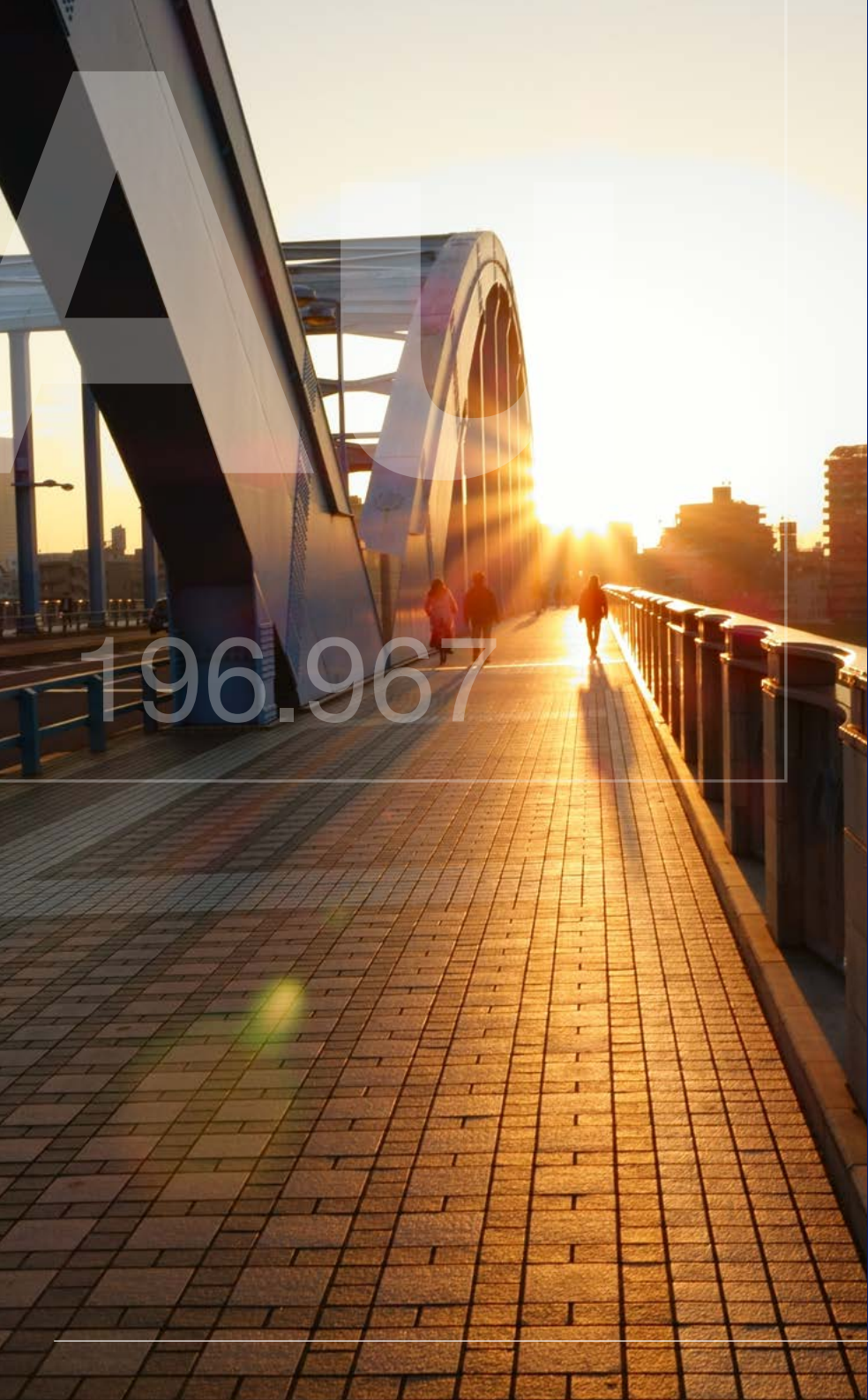
# G10 Currency

Quarterly change in value versus the US dollar



In a sharp about-face turn from the previous quarter, and in-line with investors' renewed preference for risk assets, safe-haven currencies (Swiss Franc and Japanese Yen) fell out of favour in Q2. The Australian Dollar added 12.6% in the quarter, the best performer out of the G10 currencies against the US Dollar.

Data: Bloomberg, Invesco, as at 30 June 2020



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The amount of bullion held through gold ETFs continues to set new records, with the first six months of 2020 already eclipsing the amount from the whole of last year.

**David Scales**  
Senior ETF Content Strategist  
at Invesco

# Supply & Demand

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As with any commodity, supply and demand can play key roles in the performance of the gold price. In this section, we look at the quarterly output from mines and review the demand from central banks, the jewellery sector and, most importantly this quarter, gold ETFs.

# Gold Demand In Q2

**Compared to Q1, gold demand was slightly lower in the second quarter, a fall of 4.2% quarter-on-quarter according to World Gold Council estimates.**

Higher prices proved a deterrent to both jewellery and retail investment. Central bank demand had been expected to slip this quarter and technology remains a significant minority purchaser of gold at 6% of the total. Demand in Q2 was dominated by the continued surge in ETF investment, accounting for 43% of the 1,015.7 tonnes of total demand, although this wasn't sufficient to fully offset the fall in other sectors.

Gold demand in Q2

Roll over the graph to explore further.

- Jewellery
- Technology
- Retail Investment
- Central Banks
- ETF

# Jewellery Gold Consumption

Demand from the jewellery sector was hit again this quarter, falling another 21.5% for the three months to the end of June, giving a drop of 45.7% over the first half of the year compared to the same period in 2019. The factors for the precipitous drop continue from Q1; higher prices and social distancing measures have quashed demand especially as Q2 normally benefits from the Indian wedding season. The economic consequences of the coronavirus also affect consumer confidence and will have a knock-on impact on the appetite for jewellery purchases.

Tonnes of Gold

Roll over the legend to explore further.

- Q1
- Q2
- Q3
- Q4

# Central Bank Gold Purchases

The Russian Central Bank announced in April that it would be closing its long-term programme of gold reserve purchases, so a drop in the aggregate demand level of central banks was fully expected. The Russian Central Bank had been a key purchaser of the country's mine supply over the past five years, but now that the programme has ended, aggregate central bank demand should return to its long-term average.

Tonnes of Gold

Roll over the legend to explore further.

- Q1
- Q2
- Q3
- Q4

# Supply & Demand

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Amount of Gold held globally in ETFs

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Gold holding by ETFs grew

**13.7%** in the quarter

Data: Bloomberg, Invesco, as at 30 June 2020

**ETF holdings of gold ended Q2 2020 at a record high as inflows in the first six months of the year surpassed the total amount for the full year 2019. The increase in demand from gold ETFs was the key support to the increase in the gold price over the quarter, with the products required to purchase an equivalent amount of bullion to back the amount invested. Bloomberg estimate gold holdings by ETFs grew 13.7% in the quarter.**

# Supply & Demand

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Analysis from the World Gold Council shows the investment demand was almost exclusively from the West with North American ETFs the largest purchasers of gold, adding 329.5 tonnes over the quarter, and European products a further 86.7 tonnes. Asia and other markets accounted for just under 18 tonnes.



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## ETF (flows)

Data: Bloomberg, Invesco, as at 30 June 2020



# Supply & Demand

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## Gold Supply

Data: Bloomberg, Invesco, as at 30 June 2020

**The supply of gold continued to be hindered by the lockdown conditions imposed across the globe. Mine production remained limited in notable producers such as Peru and South Africa, although restrictions were relaxed in China and it had returned to normal production by the end of the quarter. Overall, mine production in Q2 was 15.8% lower than where it began the year and is likely to be affected into 2021.**

The recycled gold market remains at a similar level to the previous quarter. High prices would normally lead to an increase in recycling activity, but these are obviously not normal times and volumes were again subdued owing to social distancing measures.



# Quarterly Focus

**As equity investors are paying closer attention to the environmental, social and governance impacts of the companies in which they invest, many are also starting to ask similar questions of the rest of their portfolios. This quarter, we focus on responsible and sustainable steps being taken within the gold industry.**

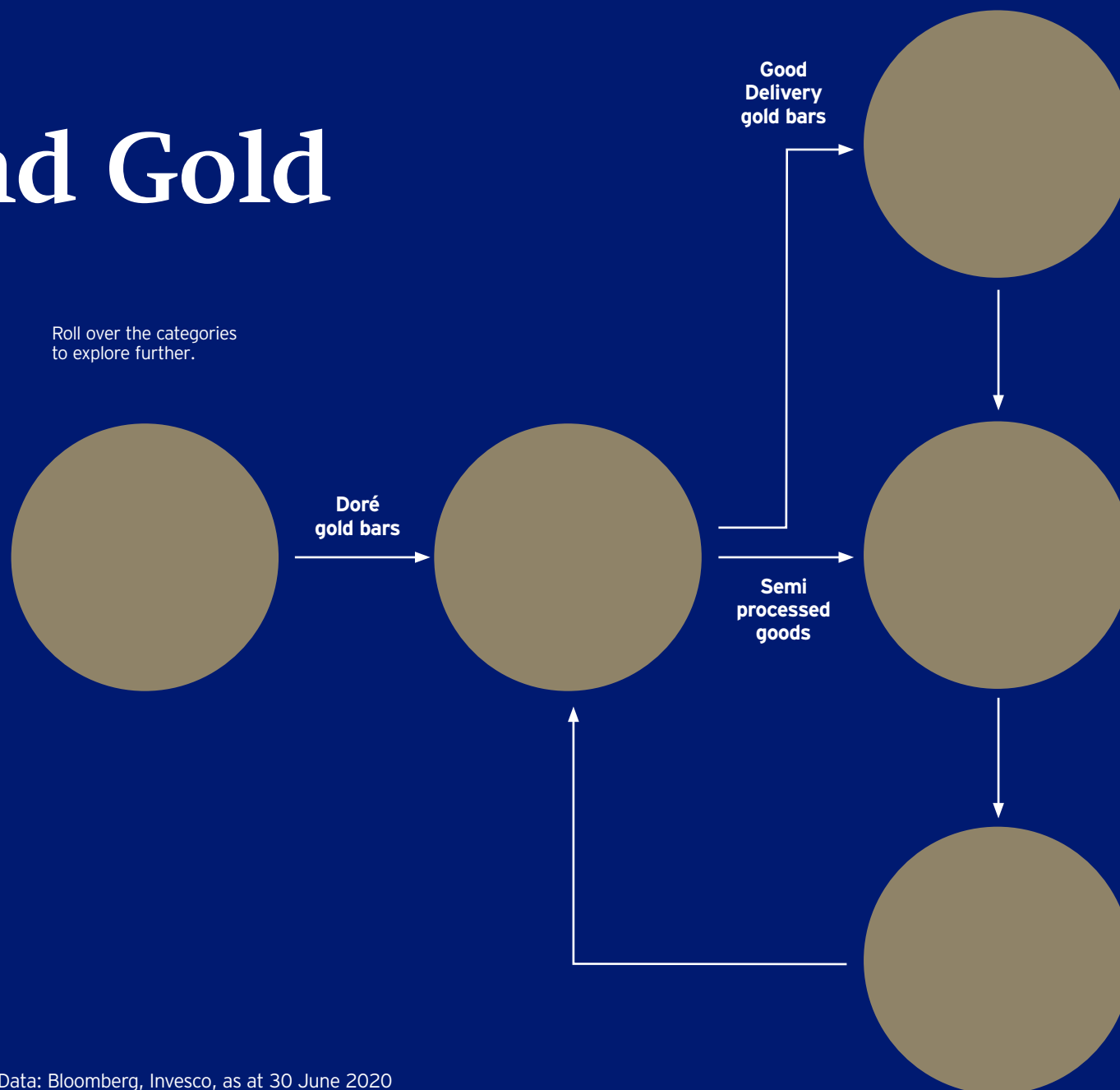
# Responsible Investing And Gold

Equity investors are increasingly factoring in the environmental, social and governance impacts of the companies in which they invest. In fact, since the beginning of the year, ESG investments have been among the most sought-after assets in Europe, along with gold. And just as many of these investors want to ensure they invest in companies that are acting responsibly, they are starting to ask similar questions of other components of their portfolios; this list includes gold.

In many people's minds, gold may still conjure up images of lowly paid, unskilled workers being sent into narrow mine shafts, armed with a pickaxe, sticks of dynamite and a hardhat for protection. Thankfully, science, technology and an increased focus from the public and regulators have transformed the industry, making it unrecognisable from that bygone era. Here we look at how the sourcing of gold is being made more responsible at each stage.

### Location, location, location

Mines in North America and Australia have produced an average of 480 and 280 tonnes of gold respectively for the past 10 years. However, more than 75% of the total gold supply is coming from outside these developed economies, in many cases from emerging and frontier markets. Mines in Africa (22%), Asia (21%), Central and South America (17%) and CIS (13%) countries have been contributing the most to supply. China and Russia were the largest producers of gold in 2019, with mining operations delivering 383 and 330 tonnes respectively, a combined 20% of global supply.



Data: Bloomberg, Invesco, as at 30 June 2020

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**Investment risks**

Investment strategies involve numerous risks. Investors should note that the price of your investment may go down as well as up. As a result, you may not get back the amount of capital you invest.

Instruments providing exposure to commodities are generally considered to be high risk, which means there is a greater risk of large fluctuations in the value of the instrument.

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Data as at 30 June 2020, unless otherwise stated.

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