



Market performance and macro factors

Gold report
Q3 2021

Introduction

In the first part of 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 2021



Data: Bloomberg, as at 30 September 2021.



Market performance

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The gold price started the quarter strongly but slid lower in September to finish Q3 with a modest loss. Most other asset classes posted broadly flat returns, with the exceptions being commodities and US high yield on the upside and emerging market equities on the downside, with the latter weighed down by China. Over the last 12 months, gold has been the worst-performing major asset class in what has been a largely risk-on environment.

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Rising nominal and real bond yields together with a stronger US Dollar acted as a headwind to the gold price in the quarter, negating any concerns over inflation and the impasse on lifting the US debt ceiling. Attention is also on the next Federal Open Market Committee meeting, when the market expects an announcement on the tapering of asset purchases.

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Please note that we may refer to supply and demand dynamics in this commentary but will take a more in-depth look into these specific contributors in a subsequent report.





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Quarterly price performance

Although the third quarter started positively, with the gold price strengthening in July, a downturn in September left gold 0.7% lower for the quarter, ending the period at \$1,757 an ounce. Although the precious metal broke above \$1,800 several times over the period, it also hit its lowest price (\$1,726 on 29 September) since March.

Again, the theme of the quarter has been rising nominal and real bond yields as investors become more convinced the Federal Reserve will start tightening monetary policy soon. This, in turn, has supported a stronger US Dollar, which is generally negative for the gold price.

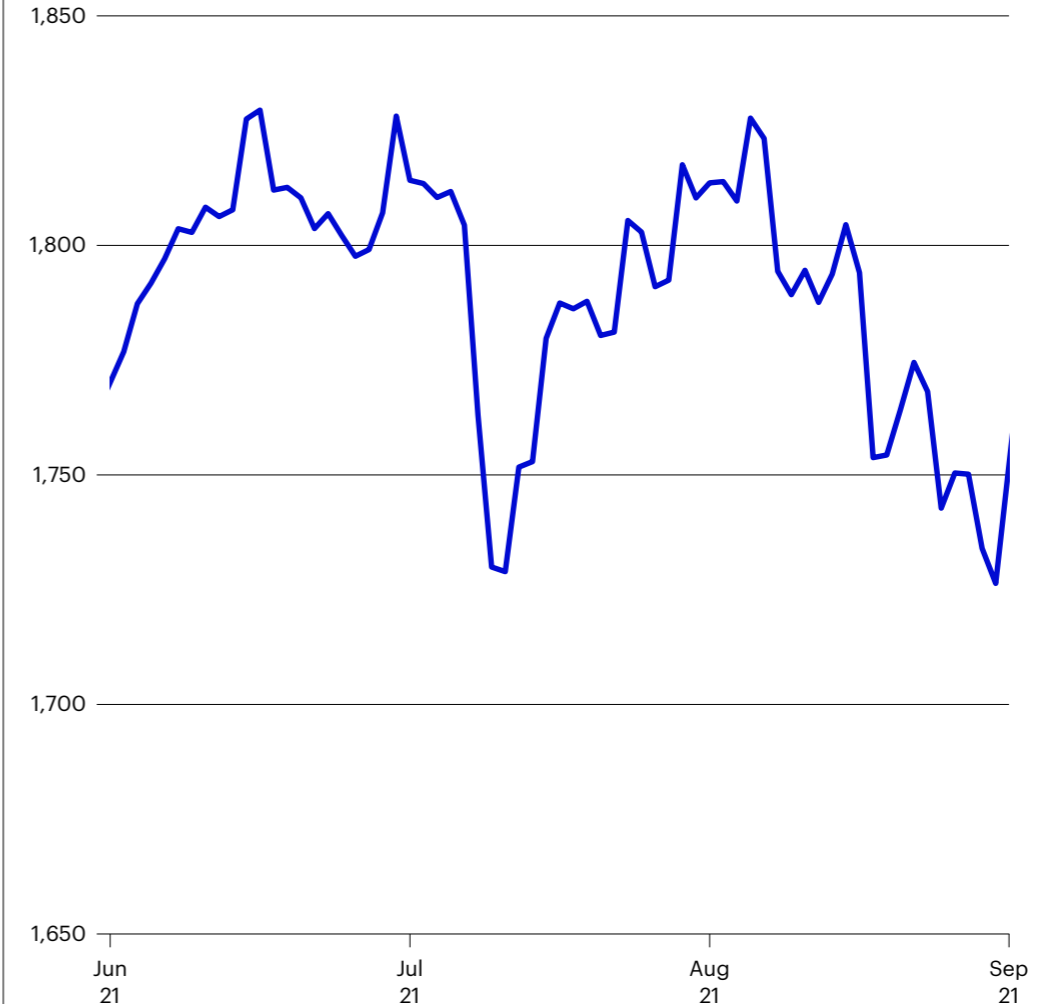


Gold price declined in Q3

-0.7%

■ Gold price 1,756.95

USD per Fine Troy ounce



Past performance is not a reliable indicator of future returns. Bloomberg, in USD, from 30 June to 30 September 2021.





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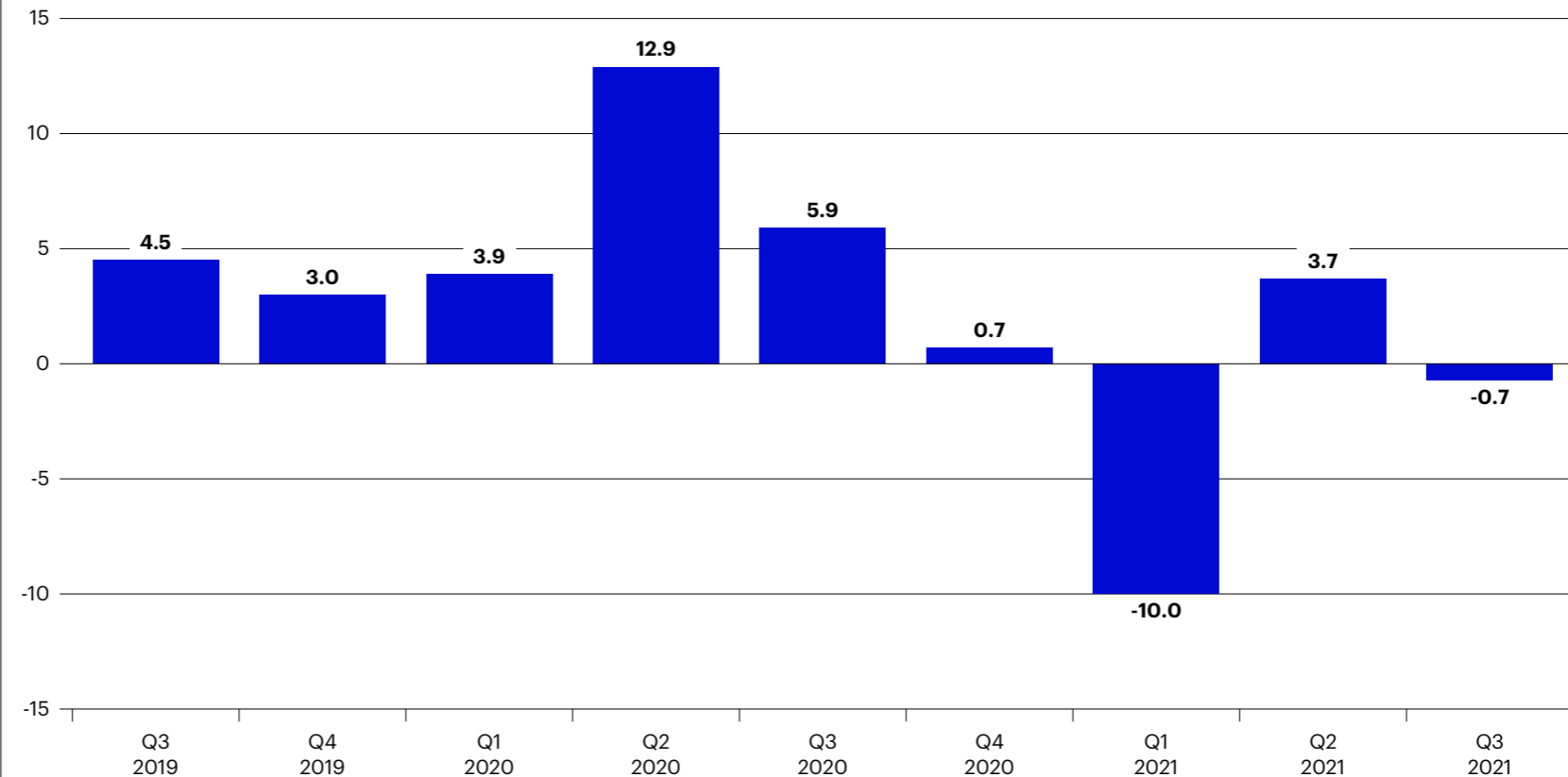
Gold price and the US Dollar

Gold price and economic risks

Quarterly price returns

The 0.7% decline in the latest period was modest in absolute terms and also compared to the performance in Q1 this year, when the price of gold fell 10%. Taken together with the positive performance in Q2, gold is down 7.4% over the first nine months of 2021.

Quarterly price change (%)



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, as at 30 September 2021.





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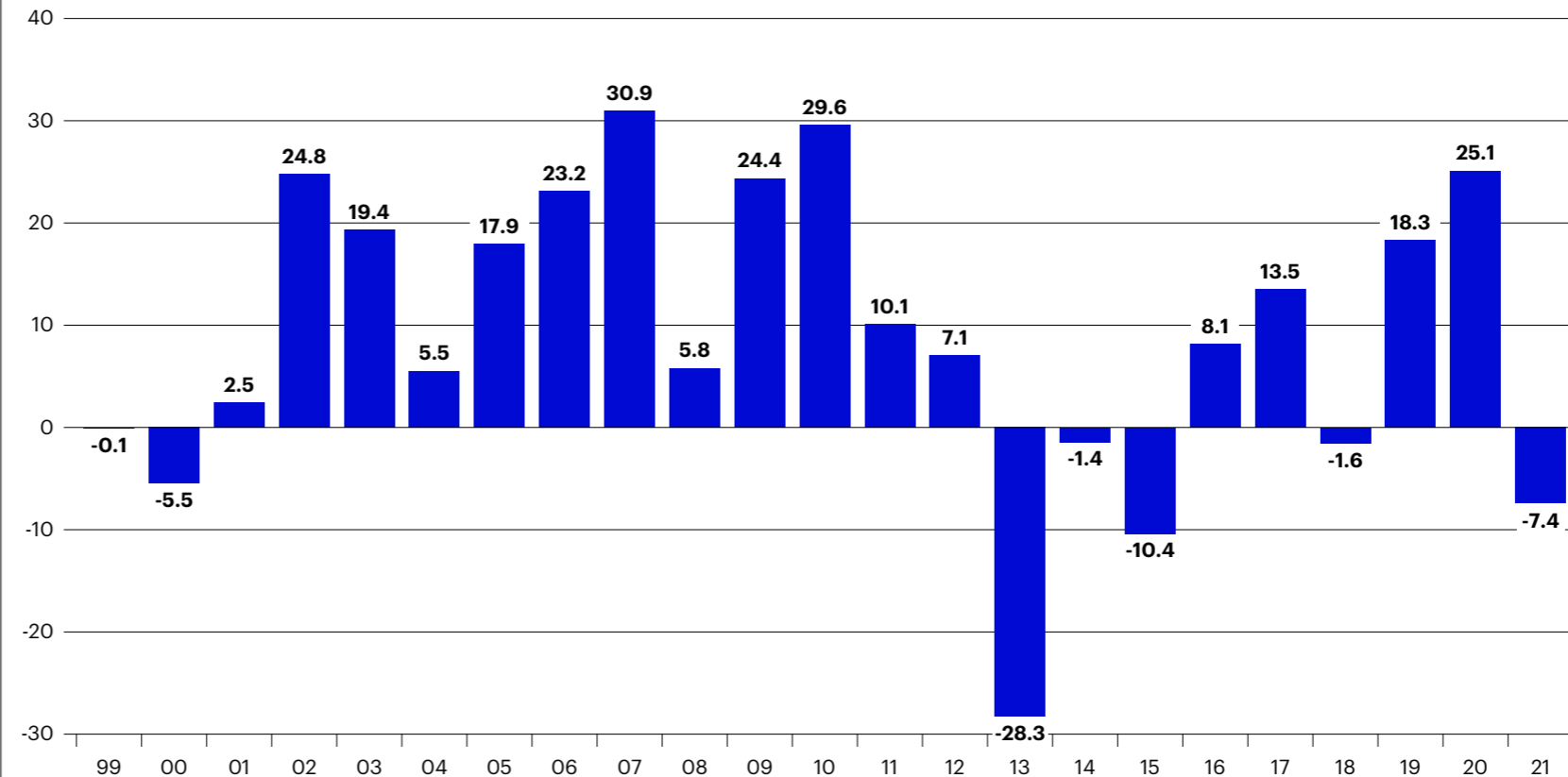
Gold price and the US Dollar

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Annual price returns

Given the poor performance so far this year, it is worth putting it into context of recent history. The 7.4% decline over the first nine months of 2021 is worse than at the same point in 2015 (-5.7%) when gold ended the year -10.4%. However, returns so far this year are ahead of those in 2013, when the gold price fell 20.7% over the first nine months on the way to a remarkable 28.2% decline by year-end.

Annual price returns*



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, as at 30 September 2021. *2021 is YTD returns.





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Asset class returns

The third quarter was tough for most asset classes as a number of macro-economic headwinds built up, including: rising new virus cases; sharply higher inflation; Chinese regulatory pressures; indications of tighter monetary policy to come; and weakening PMIs.

Broad commodities had a strong quarter, led by rising energy prices, particularly natural gas, and soft commodities. Emerging market equities were hurt by a sharp decline in China's stock markets and USD strength. Developed market equities, in contrast, were broadly unchanged. Most US fixed income markets were also flat as yields pushed higher, although the high yield segment stood above the rest with a quarterly return of 0.9%.

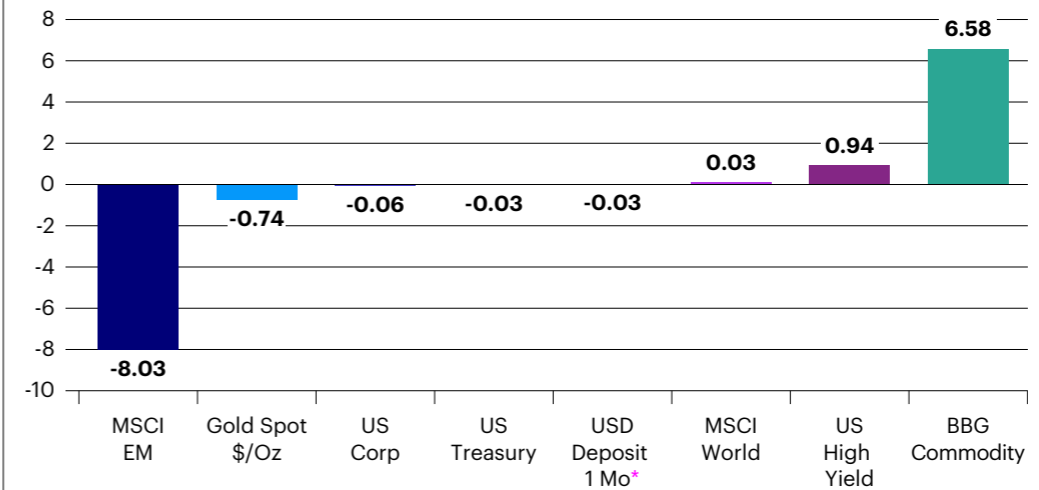
Over the past 12 months, gold has now lost 6.8%, making it the worst performer of the asset classes shown. US Treasuries are the only other asset class that has fallen over this period, losing 3.6%. Overall, it has been a risk-on environment with broad commodities and global equities generating the highest returns over the 12-month period, while high yield delivered a robust 11.5% return.



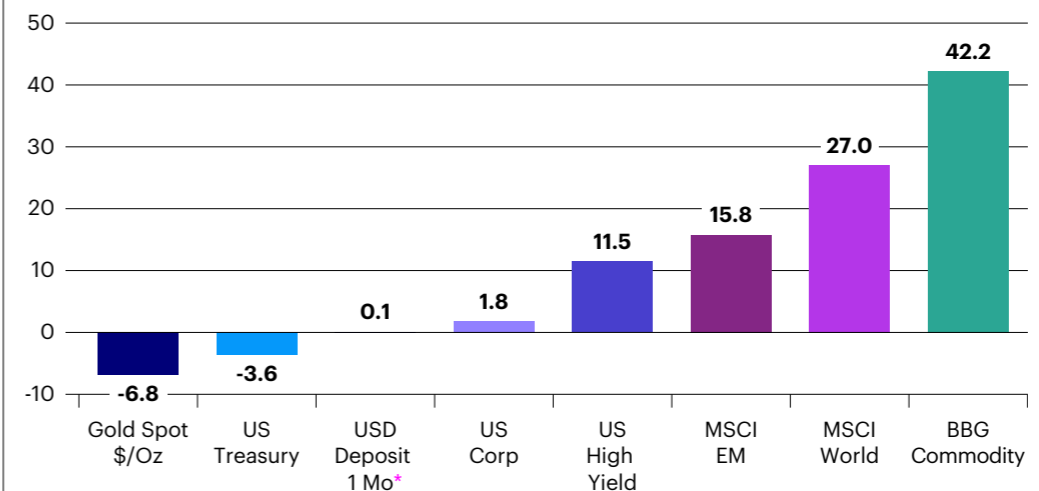
Gold price in past 12 months

-6.8%

Quarterly asset class returns (%)



12-month asset class returns (%)



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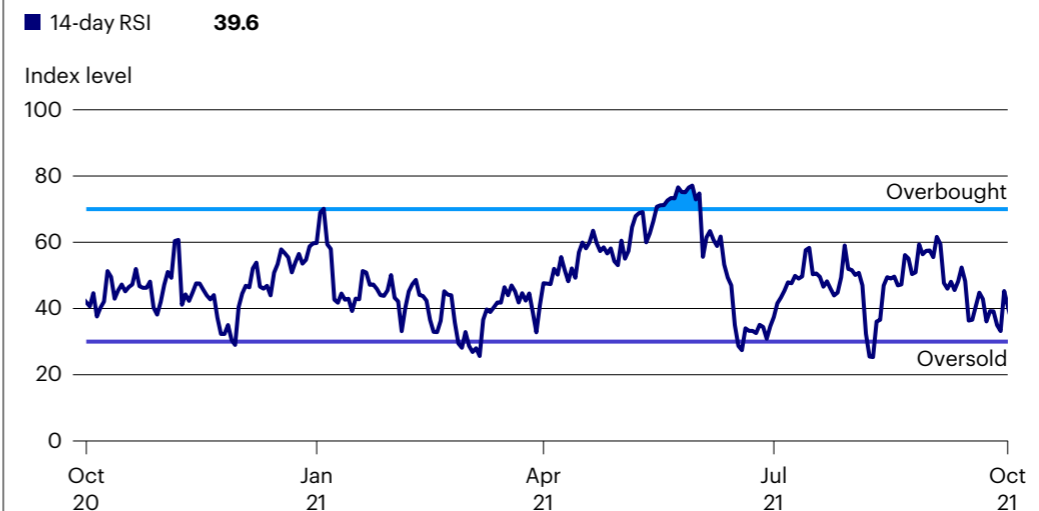
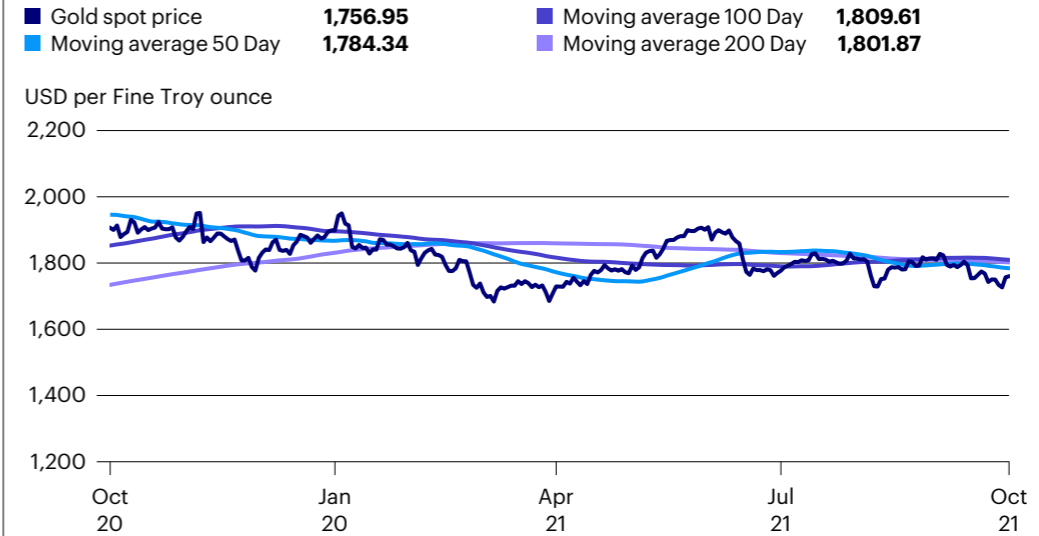
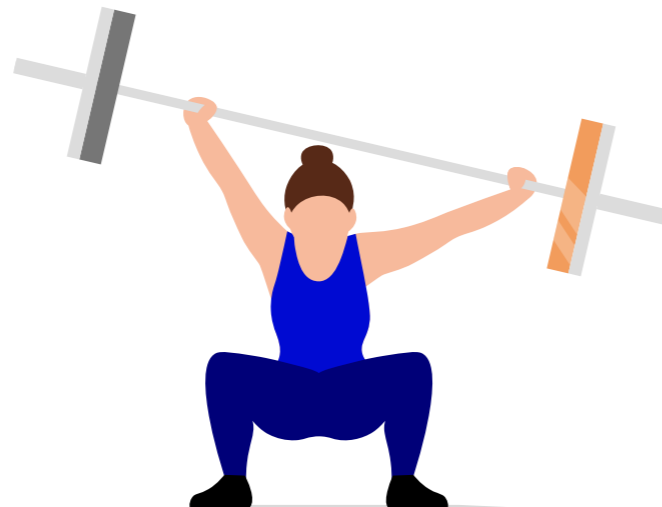
Gold price and inflation expectations

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Relative strength of the gold price

Towards the end of the quarter, gold fell below not only its 50- and 100-day moving averages (MAVs), but also its 200-day MAV. Gold actually hit a "death-cross" on 9 August, often viewed by technical traders as indicating the potential for a major sell-off, as the 50-day MAV fell below the 200-day MAV. However, this did not translate into further weakness as the gold price then trended higher, above \$1,800. Despite the volatility, there were no clear buy (oversold) or sell (overbought) signals on the Relative Strength Indicator (RSI) during the quarter.



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 September 2021.





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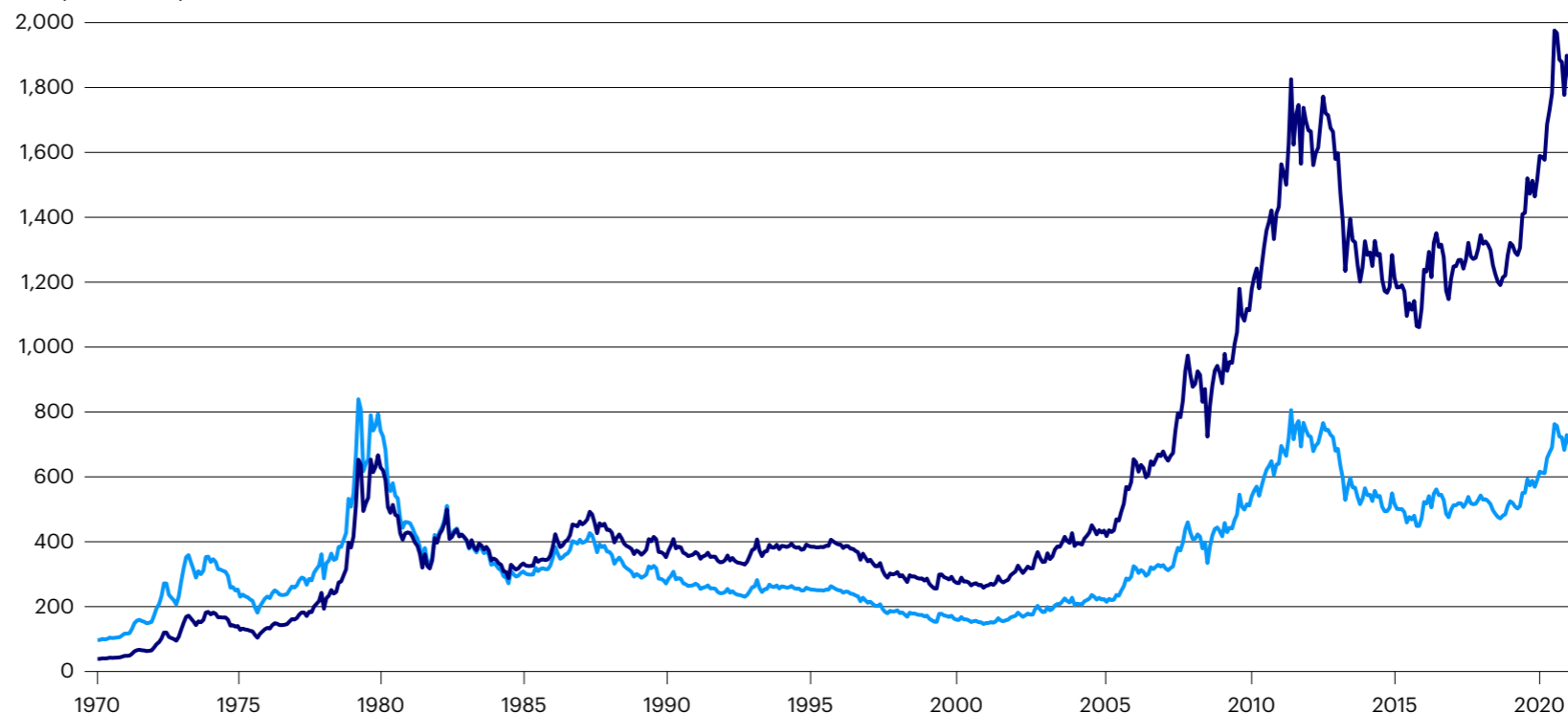


Gold price return, nominal and adjusted for inflation

When adjusted for inflation, gold's negative performance is exacerbated, equating to a fall of -1.4% in the quarter. On a 12-month basis, the inflation-adjusted price of gold is down 11.4% (versus a nominal decline of -6.8%). Gold has yet to provide any sort of inflation hedge during the recent rise in inflation, which has seen US inflation over 5% year-on-year.

■ Nominal Gold price **1,756.95**
 ■ Real Gold price **642.24**

USD per Fine Troy ounce



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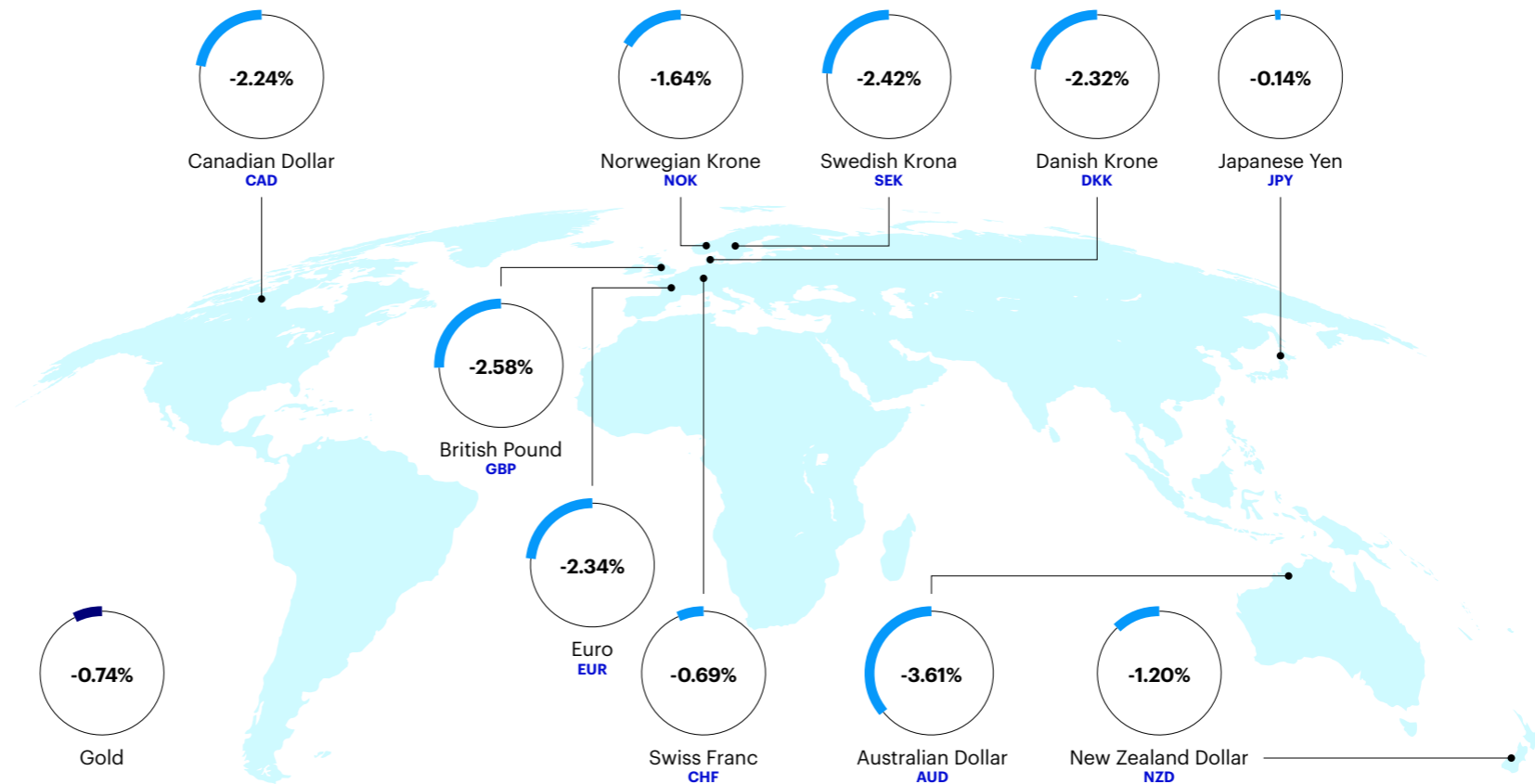
Gold price and economic risks

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The USD outperformed all major developed-market currencies in Q3. The AUD was the weakest, losing 3.6%, as the Australian economy continues to be stymied by pandemic lockdowns. Sterling hit its lowest level year-to-date as stagflation concerns in the UK mounted into quarter-end. Gold was outperformed only by the Japanese Yen and the Swiss Franc, currencies typically used as safe havens and favoured in times of stress. Even so, both currencies saw modest declines in the quarter.

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

- Gold return
- Negative returns



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Gold price and real bond yields

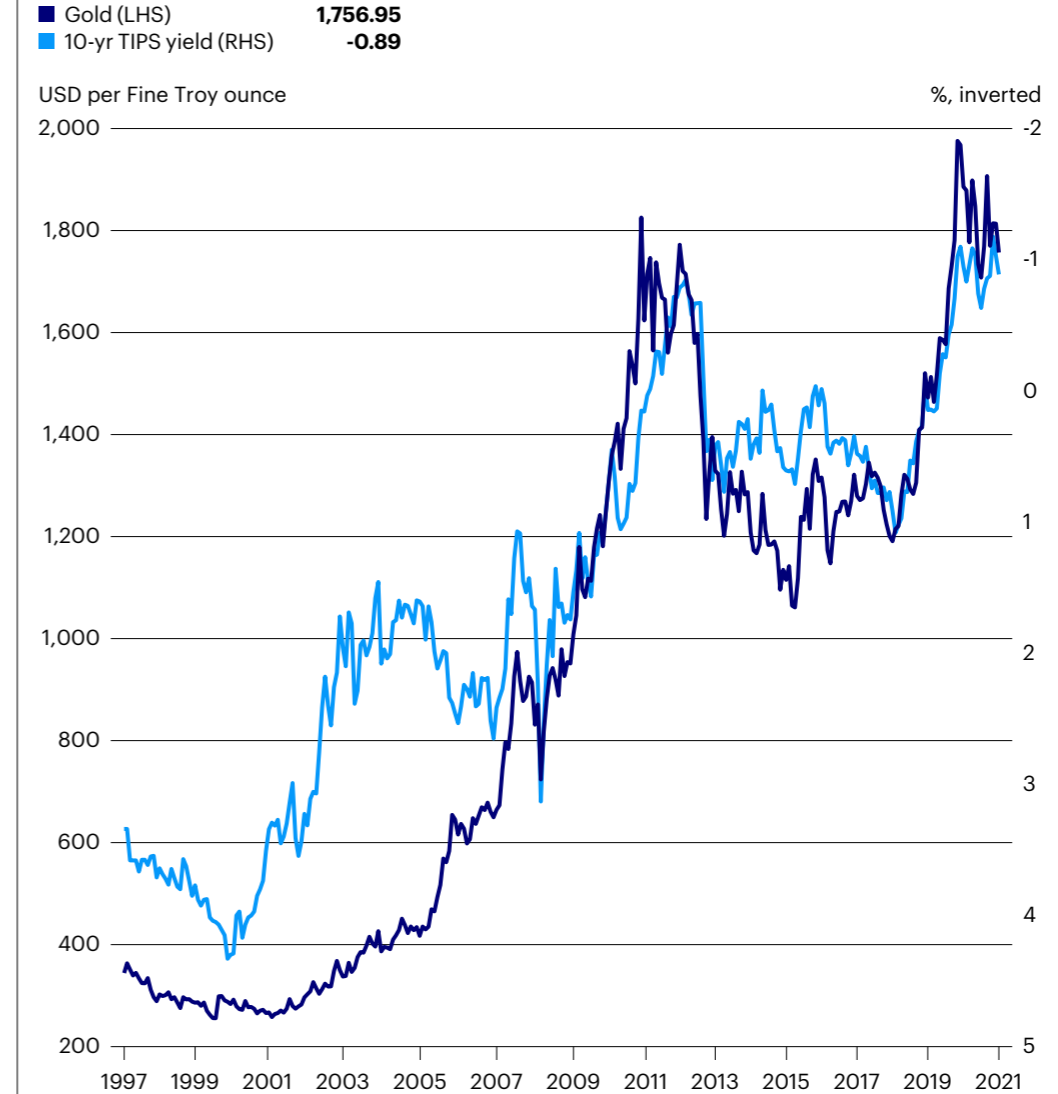
Real yields ended the quarter almost exactly where they began, at -0.89% from -0.88%, with the intervening trading pattern fitting closely with the historical relationship with gold. US 10yr break-evens were slightly higher, although remaining well anchored, ending at 2.38% having been 2.34% at the start of the quarter. This left the 10yr nominal yield marginally higher at 1.49% from 1.47%.



US 10yr break-even rate slightly higher

2.38%

in Q3



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Gold price and negative-yielding debt

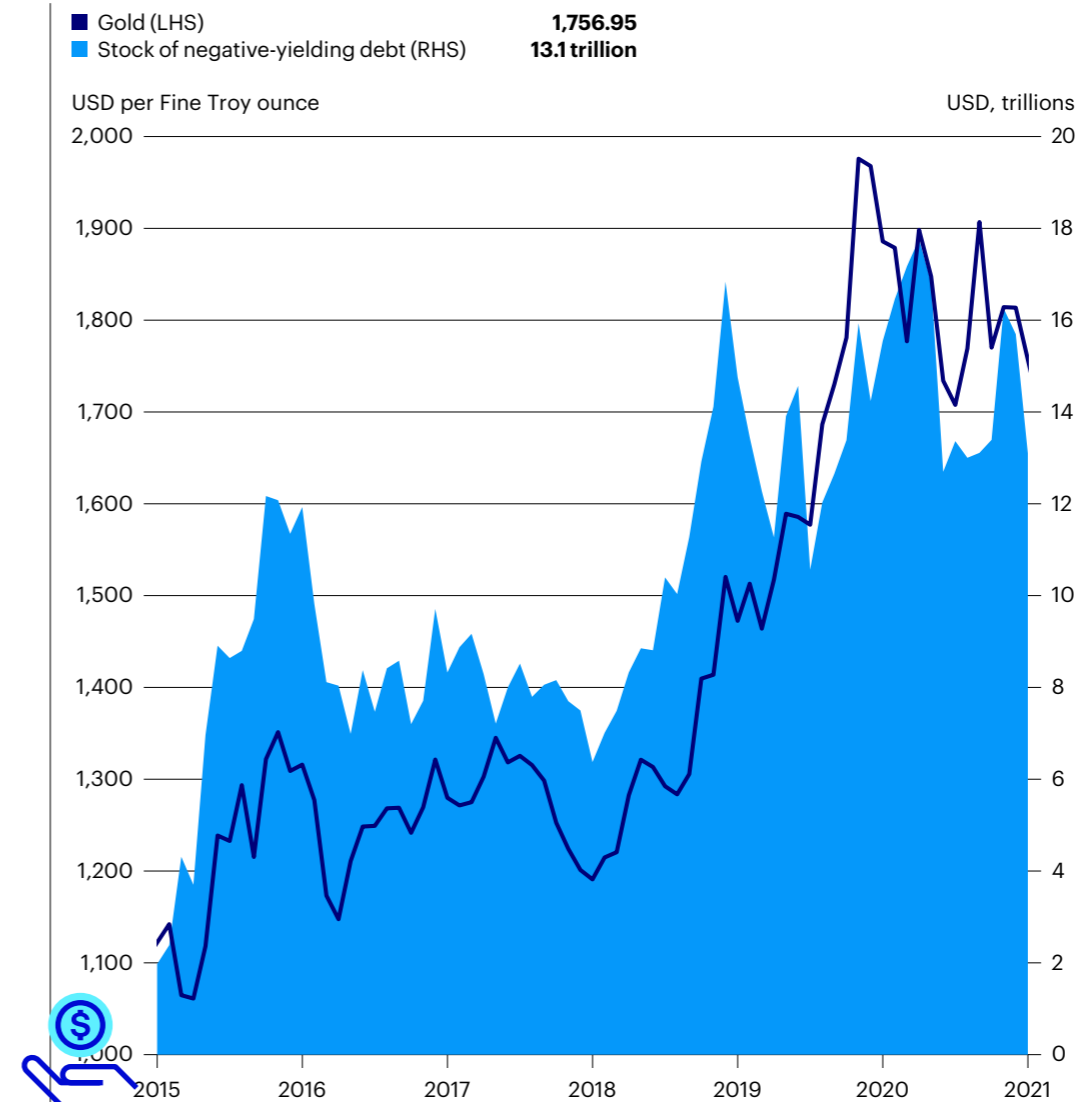
With yields starting to rise, it should come as no surprise that the stock of negative-yielding debt was noticeably smaller at the end of Q3, with \$13.1 trillion representing the lowest amount in five months. It may also be no great shock to see Euro-denominated debt (comprising 63% of the aggregate) and Yen-denominated debt (34%) still dominating the negative-yielding debt space. Government and government-related issues are 86% of the negative-yielding debt stock, whereas securitised mortgages (both European and American) and corporate issues are responsible for another 7% apiece.



Negative-yielding debt

\$13.1 trillion

at end of Q3



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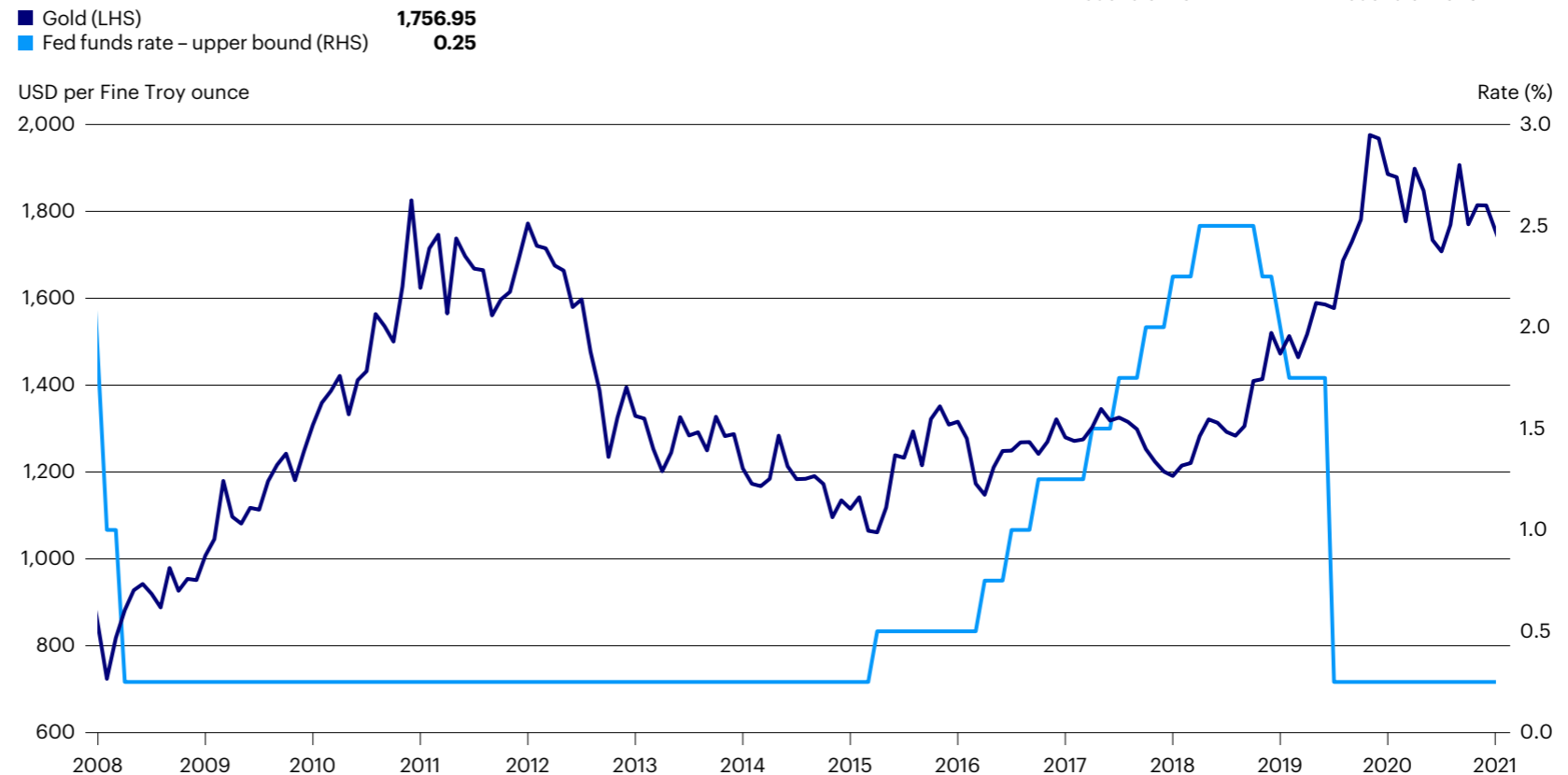
Gold price and US interest rates

Tightening from the Federal Reserve is expected to first come in the form of tapering of their asset purchases with an announcement to that effect likely at the next Federal Open Market Committee meeting on 2-3 November. In terms of future interest rates, September's dot plot has the median Fed Funds rate at 0.25% into year-end 2022, with expectations amongst participants equally split between those seeing hikes and rates remaining unchanged. Three hikes are projected by the end of 2023, taking the median projection at that time to 1%.



Projected US interest rates:

0.25% at end of 2022 **1.00%** at end of 2023



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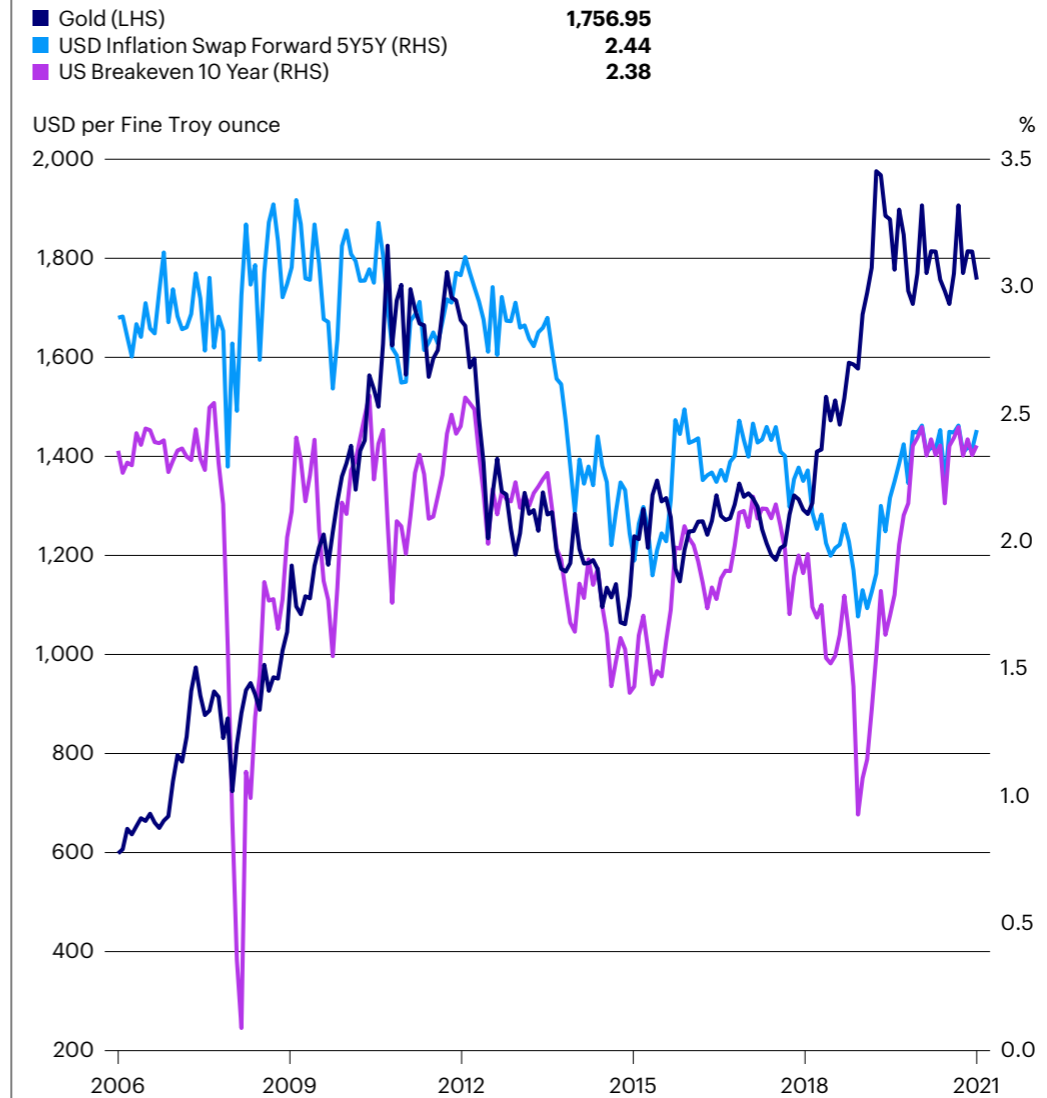


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Gold price and inflation expectations

Inflation expectations stabilised into quarter-end with the US 5y5y inflation swap ending at 2.44% and the 10yr break-even rate at 2.38%. Both inflation measures are slightly higher on the quarter, more so the 5y5y inflation swap having begun the period at 2.35%. Despite the increased inflation concerns, the gold price has still fallen slightly. On the whole, the market appears to remain supportive of the Federal Reserve's view that the currently higher inflation is transitory.



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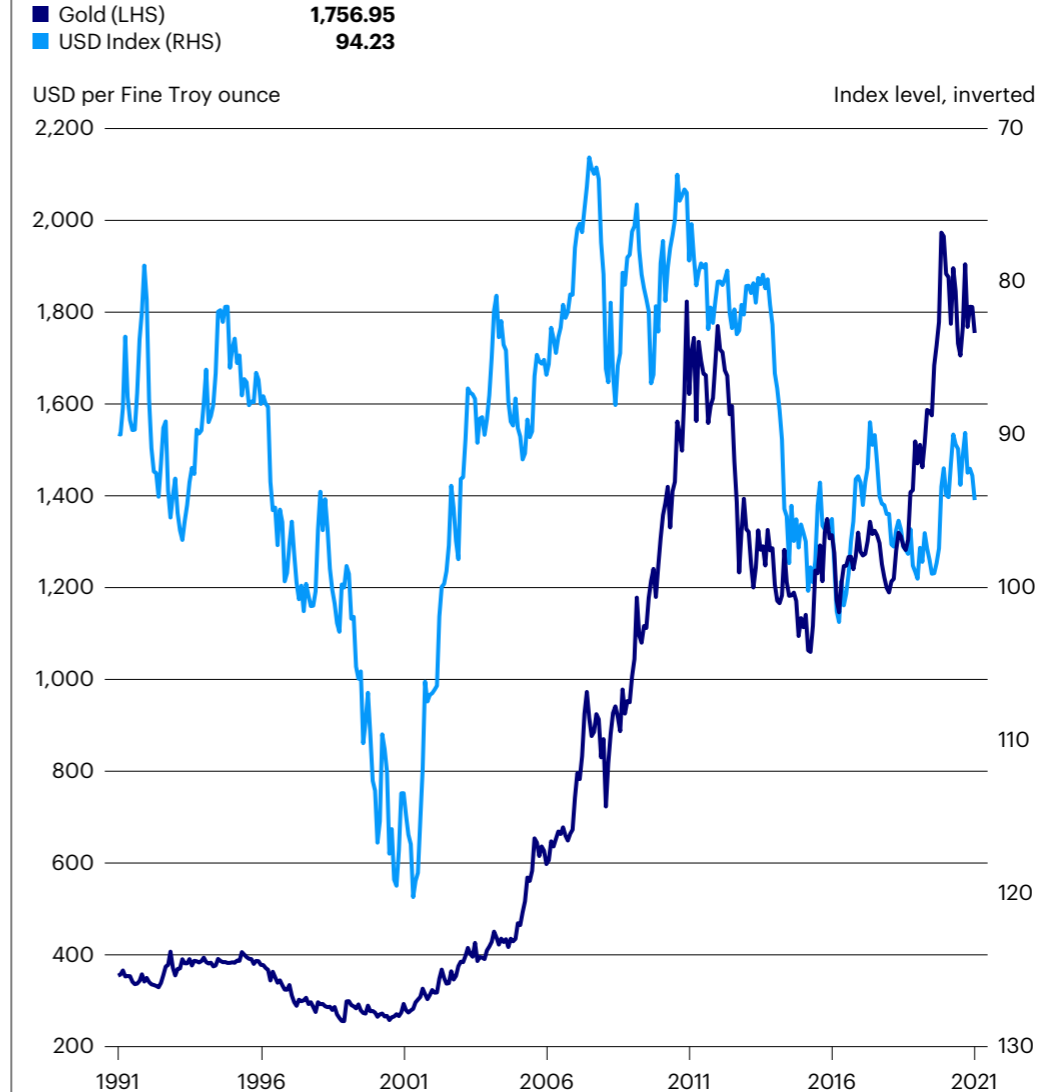
The USD made little headway in the first two months of the quarter, but four consecutive weeks of gains in September left it 1.9% higher for the quarter. Higher yields, rising economic uncertainty and expectations of an imminent tapering of asset purchases by the Federal Reserve saw the US Dollar index (DXY) hit a year-to-date high of 94.34 at the end of the quarter and its highest level since September of last year.



USD strengthened

1.9%

in Q3



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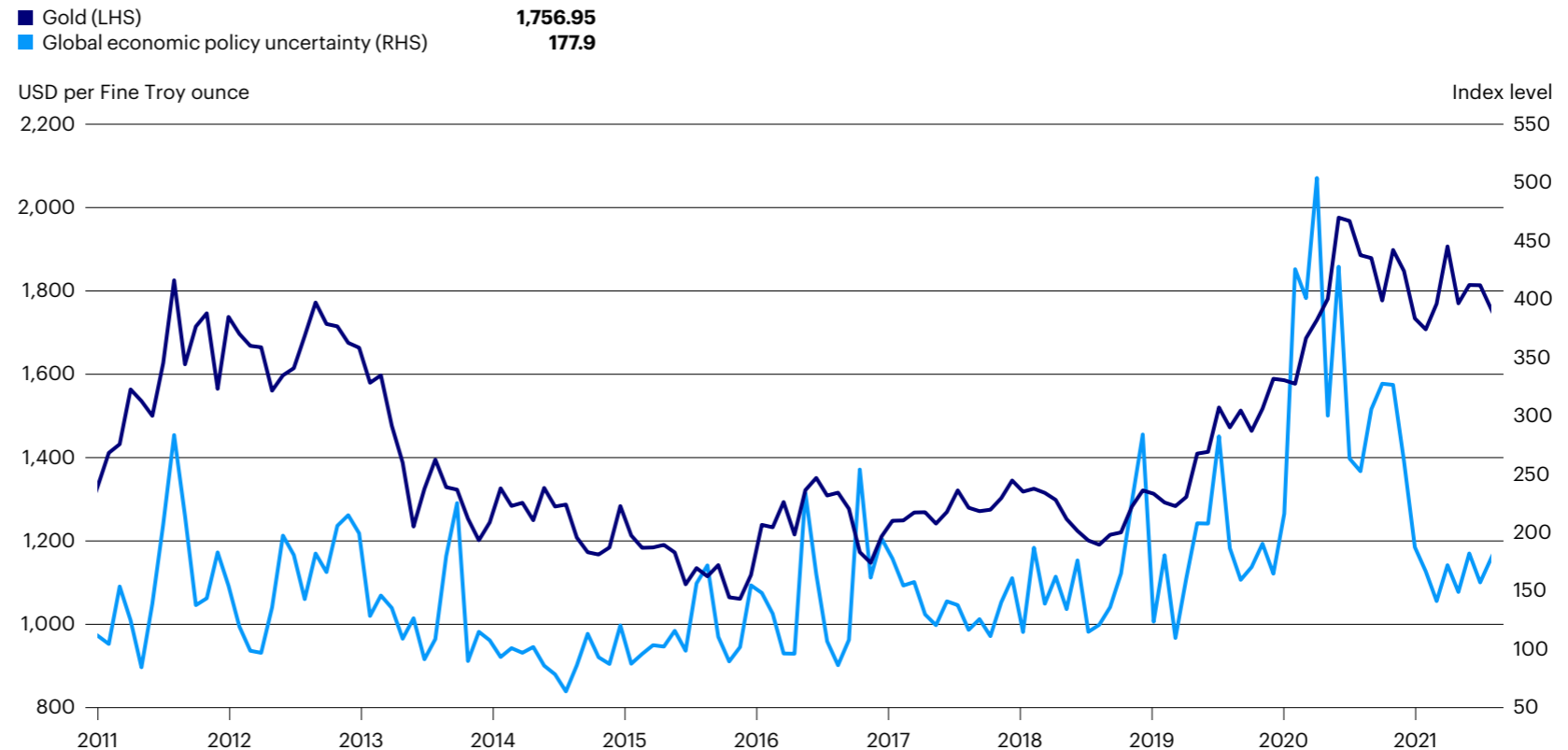
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US economic policy uncertainty picked up in the quarter but remained relatively low compared to the levels seen last year at the height of the pandemic. Concerns around the pace of economic growth, higher inflation, the future paths of monetary and fiscal policy and the resolution of the debt ceiling impasse have all created a more uncertain backdrop for investors over the quarter. Uncertainty is generally positive for the gold price, but the other factors highlighted in this report – such as stronger USD and rising yields – appear to be outweighing those concerns, at least for now.



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Data as at 30 September 2021, unless otherwise stated.

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