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High volatility also in the price of gold

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Gold plays a role as a “safe haven” in times of crisis. But the price is anything but stable.

The gold price gained +12.4% in USD terms or +16.4% in EUR since the beginning of the year (as of April 30th 2020, source: Bloomberg)

„Safe-Haven“ for investors

There were several reasons for this significantly strong performance. Stock market volatility has increased to record highs in recent weeks. Investors use gold as a safe haven due to the uncertainty triggered by the corona crisis.

While stock market indexes declined, gold prices rallied substantially. As a result of the large price increase global jewelry demand for gold has decreased. However, investor demand for bullion is currently strong.

According to data published by the US Commodity Futures Trading Commission (CFTC) large traders focused on short term gains were particularly active as buyers of gold futures in recent months.

This may explain the recent expansion of intraday volatility in gold prices. It shot up rapidly from the end of February and in the meantime stands at an extreme level which even stock market indexes rarely reach.

Central bank policy supports gold price

The Federal Reserve has cut interest rates twice in recent weeks. The target range for the federal funds rate currently stands at a mere 0-0.25%. Rate cuts are supportive for the medium-term uptrend in the gold price as they lower the opportunity cost of holding gold due to foregone interest income.

The current world-wide expansion of central bank balance sheets is a positive driver that suggests an increase in gold prices over the medium term. Concerns over rising government debt funded by central bank debt monetization motivates investors to buy gold, as gold harbors no credit risk.

Outlook: upward trend intact

In view of the sizable increase in financial market volatility, investment demand for gold is likely to remain strong. Recent rate cuts in the US, low bond yields all over the world and a likely depreciation of the US dollar are all positive factors suggesting a moderately rising gold price.

The significantly increased economic uncertainty and the still high volatility on the stock markets support the upward price trend. The upward trend is also technically intact. It should continue in the medium term, but probably less pronounced than in April.

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