UOB Investment Insights

FX Insights

11 January 2021

Gold prices on track to trend higher

- Gold levels pulled back towards end-2020 as investment demand dried up
- The “Reflation Trade” also lessened the appeal of gold
- We maintain positive on gold over the medium-term, and expect prices to head back up toward USD 2,000/oz

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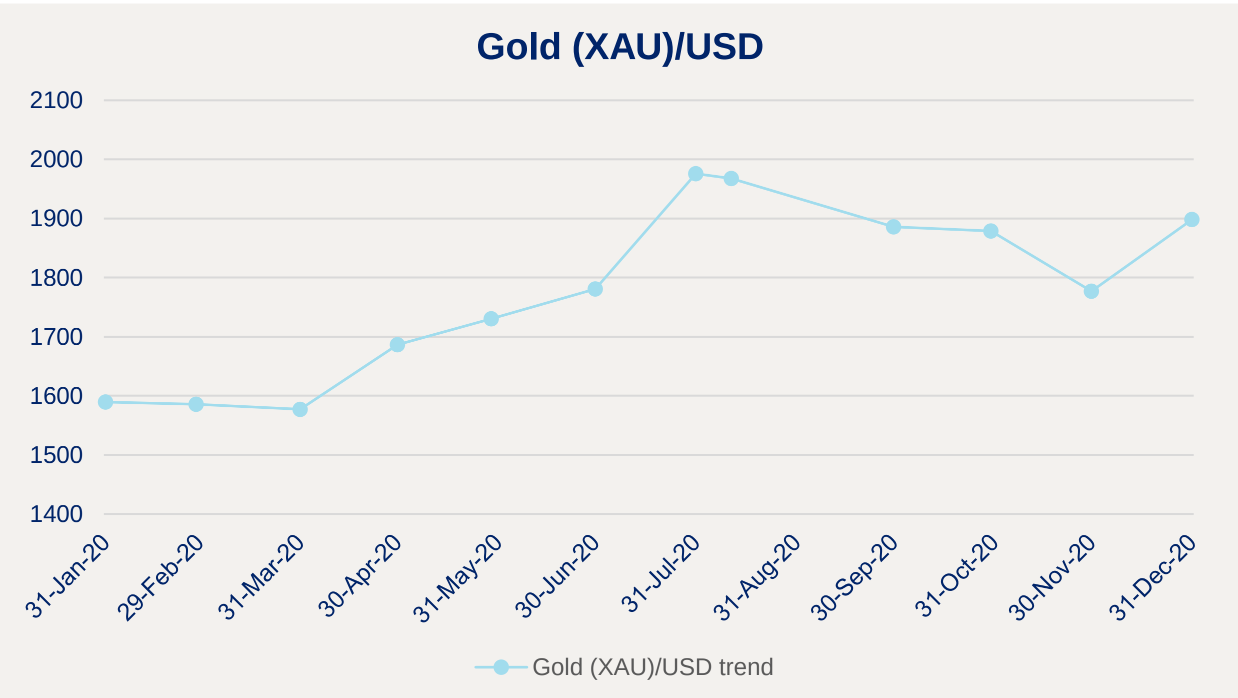
After gold prices briefly popped above USD 2,000/oz in early August 2020, the investment demand for Exchange Traded Funds (ETFs) has dried up. From its peak in early November 2020, total known ETF holdings has lost a net tonnage of about 3 million ounces to 107 million ounces by the end of 2020. As such, gold prices have pulled back to about USD 1,900/oz by the end of the year – but still maintaining a respectable 25% gain Year-on-Year.

The fizzling off of gold prices between November and December 2020 could be correlated to the significant breakthrough in COVID-19 vaccines, which spurred investors to scale back on safe havens such as gold to instead load up on risk assets. The inverse relationship between gold and the falling US dollar appears to have weakened as well.

Over the medium-term, little has changed in terms of fundamental drivers for gold. In particular, major central banks continue to ramp up their buying of bonds. This is a very positive driver for gold. Uncertainties over possible subsequent waves of the COVID-19 outbreak may still spur safe-haven demand for the bullion. As such, we are staying positive on our medium-term outlook for gold, with our end-2021 forecast for gold price slated at USD 2,000/oz.



Source: Bloomberg. Data as at 31 December 2020.

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