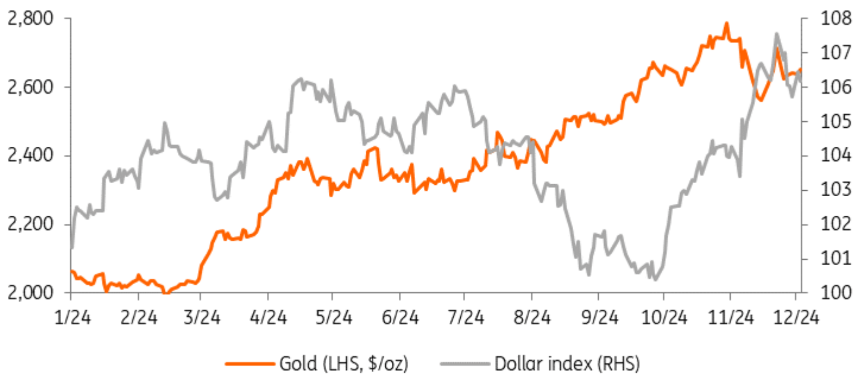
Gold's rally isn't over just yet

Gold has had a record-breaking rally this year, supported by the Fed's easing cycle, central bank purchases and safe-haven demand amid heightened geopolitical and economic risks. We believe the bullish macro picture combined with safe-haven demand and central bank buying will continue to drive gold to new highs in 2025

Gold has been one of the best performers among major commodities this year

Gold sees new highs in 2024 amid Fed rate cut, Middle East tensions



Source: Refinitiv, ING Research

Gold has been one of the best performers among major commodities this year. The precious metal has surged more than 25% year-to-date, hitting a series of records on the way, supported by rate-cut optimism, strong central bank buying and robust Asian purchases. Safe-haven demand amid heightened geopolitical risks as well as uncertainty ahead of the US election in November have also supported gold's record-breaking rally this year.

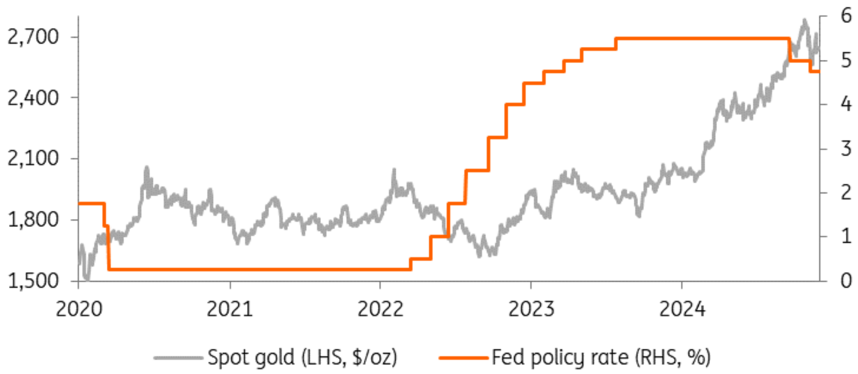
US rate cuts boost gold

The Federal Reserve implemented its highly-awaited interest rate cut on 1 September, its first since March 2020, clipping rates by 50bp and providing a tailwind to gold prices. Another 25bp came at the Fed's November meeting, leaving the target range for the federal funds rate at 4.5-4.75%.

Lower borrowing costs are positive for gold as the metal doesn't pay interest. The Fed has held its key policy rate in a target range of 5.25% to 5.5% – the highest level in more than two decades – since last July.

The main question for the gold market now is the pace at which the Fed will ease its policy following Donald Trump's win in the US presidential election; the inflationary impact of Trump's policies could lead to fewer rate cuts than previously expected. Our US economist, James Knightley, thinks that the US central bank will cut by 25bp again in December – but the outlook thereafter is less clear, and there is a strong chance of a pause at the January FOMC meeting. Rather than cutting rates by 50bp per quarter, he now favours 25bp per quarter from the first quarter of 2025, with rates perhaps bottoming higher than he previously thought at 3.75% in the third quarter of 2025.

Lower borrowing costs are positive for gold



Source: Federal Reserve, Refinitv, ING Research

Central banks are still bullion hungry

Central banks have continued to boost their gold reserves, although the pace of buying slowed in the third quarter, with high prices deterring some buying. The National Bank of Poland (NBP) was again the largest buyer in the third quarter, adding 42 tonnes to gold reserves and lifting gold holdings to 420 tonnes, or 16% of total reserves. NBP Governor Adam Glapinski reiterated again the bank's aim to increase gold's share of currency reserves to 20%.

The Reserve Bank of India (RBI) continued its 2024 buying streak, adding gold to its reserves in every month during the quarter. It bought a total of 13 tonnes in the third quarter. Its gold reserves have now risen to 854 tonnes, 6% higher than at the end of 2023.

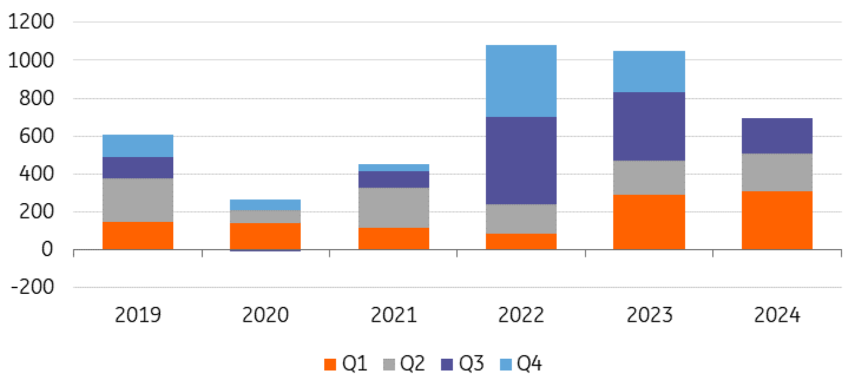
Meanwhile, the People's Bank of China (PBoC) didn't add gold to its reserves for the sixth month straight in October. Bullion held by the PBoC was unchanged at 72.8 million troy ounces at the end of last month, according to official data. China has seen a slowdown in gold purchases over recent months. China's central bank ended an 18-month buying spree in May that had driven gold prices to all-time highs. Still, the central bank's year-to-date total remains strong, primarily boosted by the record-breaking start to the year, with third-quarter net purchases of 186 tonnes lifting it to 694 tonnes – below the 2023 record but in line with the same period of 2022.

In 2023, central banks added 1,037 tonnes of gold – the second highest annual purchase in history – following a record high of 1,082 tonnes in 2022, as geopolitical concerns pushed central banks to increase their allocation towards safe assets. Central banks' healthy appetite for gold is also driven by concerns from countries about Russian-style sanctions on their foreign assets in wake of decisions made by the US and Europe to freeze Russian assets, as well as shifting strategies on currency reserves.

While central bank buying remains strong this year, it is now looking likely that the full-year total will fall short of that seen over the previous two years.

Annual central bank demand likely to fall short of previous two years

Annual central bank purchases by quarter (tonnes)



Source: WGC, ING Research

Looking ahead into next year, we expect central banks to remain buyers due to geopolitical tensions and the economic climate.

A World Gold Council survey conducted in April 2024 found that 29% of central bank respondents intend to increase their gold reserves in the next 12 months.

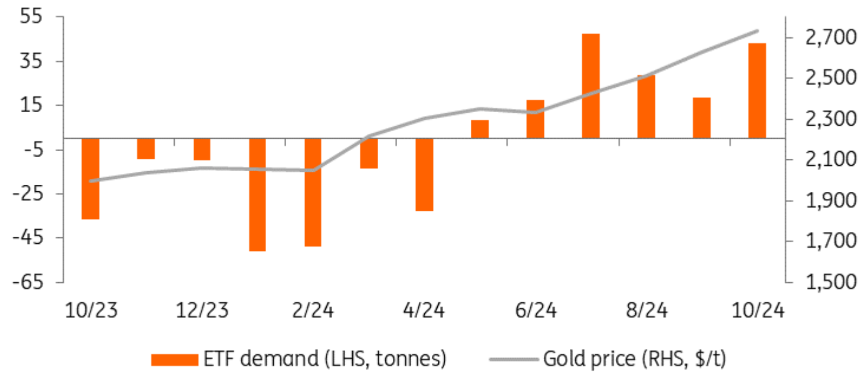
ETFs will see more inflows

Global gold ETFs have seen inflows for six months in a row, supported by North America and Asian flows.

Investor holdings in gold ETFs generally rise when gold prices gain, and vice versa. However, gold ETF holdings have been in decline for much of 2024, while spot gold prices have hit new highs. ETF flows finally turned positive in May.

However, the beginning of November saw a slide in ETF holdings after the US election. Still, looking ahead into 2025, we believe inflows should continue as the Federal Reserve continues to cut rates.

ETF holdings have been rising since May



Source: WGC, ING Research

Rally not over yet

We believe gold's positive momentum will continue in the short to medium term. The macro backdrop will likely remain favourable for the precious metal as interest rates decline and foreign-reserve diversification continues amid geopolitical tensions, creating a perfect storm for gold.

In the longer term, Trump's proposed policies – including tariffs and stricter immigration controls, which are inflationary in nature – will limit interest rate cuts from the Federal Reserve. A stronger USD and tighter monetary policy could eventually provide some headwinds to gold. However, increased trade friction could add to gold's haven appeal. We see prices averaging $2,760/oz in 2025.

ING forecast

	1Q25	2Q25	3Q25	4Q25	2025
Spot gold (US$/oz)	2,800	2,800	2,750	2,700	**2,760**

Source: ING Research

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