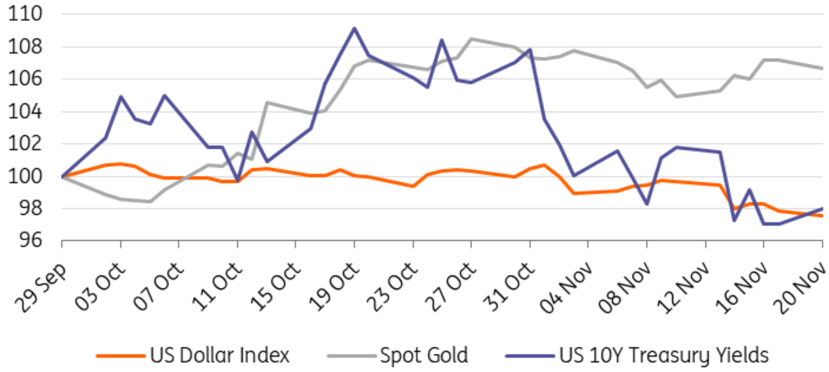
Gold to hit fresh highs in 2024

Gold rose to a record high this year amid geopolitical conflicts and economic uncertainty. We believe safe-haven demand and the US interest rate outlook will keep gold supported in 2024 and we expect prices to remain above the $2,000 level next year

Gold surges amid falling yields, Middle East tensions

Gold has rallied in the last quarter of the year as demand for safe-haven assets has increased and amid bets that the Federal Reserve will cut rates next year. Following the outbreak of the Israel-Hamas conflict on 7 October, gold neared its previous record of about $2,075/oz set in 2020. Although concerns over a wider Middle East conflict have now eased, gold has held up well, gaining support from a softer US dollar and US Treasury yields on the US interest rate outlook, with prices reaching a new record high in early December. We expect prices to remain above the $2,000 level next year as the global rush for gold continues.

Safe-haven demand supports gold



Source: Refinitiv Eikon, ING Research

Fed's policy remains key

We believe Fed policy will remain key to the outlook for gold prices in the months ahead. US dollar strength and central bank tightening have weighed on the gold market for most of 2023. Higher rates are typically negative for gold, which doesn't offer any interest.

The latest US data showed inflation and the labour market are cooling, with markets now pricing in a 50% chance of a rate cut in March and fully pricing in a cut in May.

Our US economist expects the starting point for Fed rate cuts to be in May and is forecasting 150bp of rate cuts next year in total, with a further 100bp in early 2025. This should support gold's move higher.

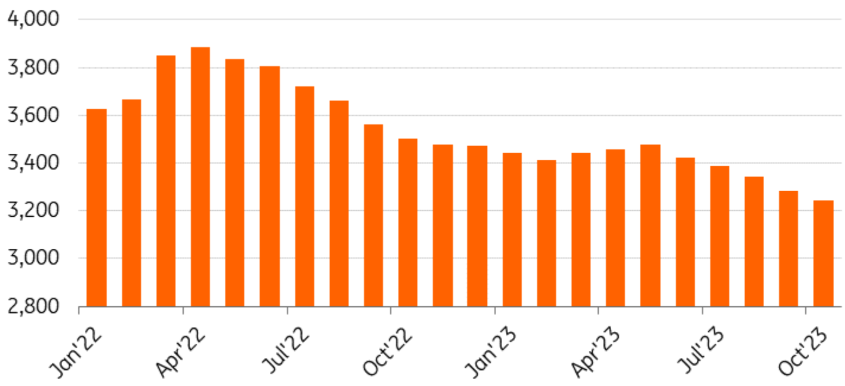
Gold ETFs see ongoing outflows

Yet, gold demand trends paint a mixed picture. Total holdings in bullion-backed ETFs have continued to decline this year despite rising spot prices. Although global gold ETF outflows continued in October, they were at a slower pace than in September. Year-to-date, global outflows totalled $13 billion, equivalent to a 225-tonne fall in holdings. Most of these outflows came from European funds, and the other major contributor North America, according to data from the World Gold Council (WGC).

Looking into 2024, we believe we will see a resurgence of investor interest in the precious metal and a return to net inflows given higher gold prices as US interest rates fall.

Gold ETF holdings

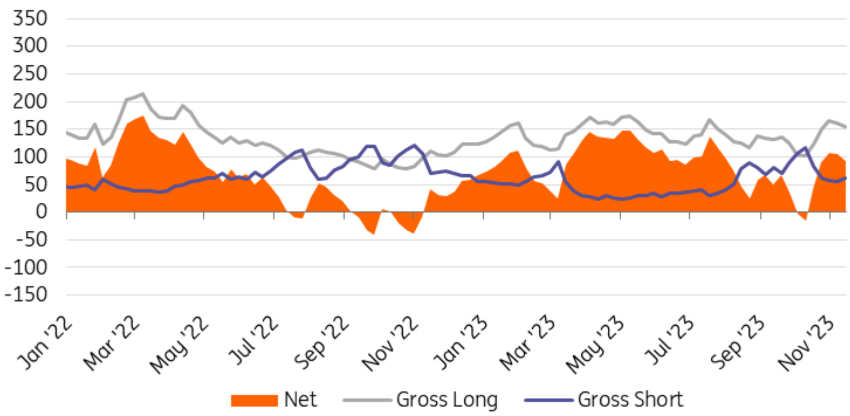
(tonnes)



Source: World Gold Council, ING Research

However, net-long positioning, reflecting sentiment in the gold market, turned positive in the second half of October as spot prices surged amid the outbreak of the Israel-Hamas conflict. COMEX net-long positionings rose 137% month-on-month to 29 October, supported by the rise in geopolitical concerns. Compared to 2019 and 2020, positioning this year is still looking neutral. This suggests that there is still plenty of room for speculators to add to their net long in 2024 and push gold prices even higher.

CFTC gold speculative net positions



Source: CFTC, World Gold Council, ING Research

Central bank demand hits year-to-date record

Meanwhile, central banks have continued to boost their gold reserves. Central banks purchased around 800 tonnes of gold over the first three quarters of 2023, 14% ahead of the same period last year, according to data from the WGC.

This was a record amount bought for a nine-month period, as geopolitical concerns pushed central banks to increase their allocation towards safe assets. Central banks' healthy appetite for gold is also driven by countries' concerns about Russian-style sanctions on their foreign assets, following the decision of the US and Europe to freeze Russian assets, and shifting strategies on currency reserves.

Central banks increased their gold purchases to 337 tonnes over the third quarter of the year primarily due to higher buying from China (+78 tonnes), Poland (+57 tonnes), Turkey (+39 tonnes) and India (+9 tonnes). China has been the largest buyer of gold this year amid an 11-month buying streak. The People's Bank of China has purchased 181 tonnes this year, taking gold holdings to 4% of its reserves.

This insatiable appetite has helped gold prices defy surging bond yields and a strong dollar for most of the year.

Gold tends to become more attractive in times of instability, and demand has been surging over the past two years. Last year, global central banks purchased a record 1,136 tonnes of gold, compared to 450 tonnes bought in 2021, mostly driven by a flight towards safer assets amid soaring inflation. Last year was not only the thirteenth consecutive year of net purchases, but also the highest level of annual demand on record back to 1950.

We expect central banks to remain buyers and to near or exceed last year's purchases in 2023 due to geopolitical tensions and the economic climate.

This continued central bank buying amid stronger investment demand sets gold up to move higher through 2024.

Gold to hit fresh highs

We believe gold prices will be supported going into 2024 amid a weaker US dollar on the back of US monetary easing. The risk of tensions escalating in the Middle East should also provide support to the precious metal.

We expect gold prices to hit fresh highs next year and to average $2,100/z in 4Q, with a 2024 average of $2,031/oz on the assumption that the Fed starts cutting rates in the second quarter of next year, the dollar weakens, safe-haven demand continues amid global economic uncertainty and central bank buying remains at high levels.

Downside risks revolve around US monetary policy and dollar strength. The higher-for-longer narrative could see a stronger dollar for longer and weaker gold prices. Meanwhile, geopolitical instability offers upside risks for the gold market in 2024.

ING forecast

	1Q24	2Q24	3Q24	4Q24	FY24
Spot gold (US$/oz)	1,975	2,000	2,050	2,100	**2,031**

Source: ING Research

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