

Gold's cyclical bull run isn't over just yet

A vaccine is unlikely to end gold's cyclical bull run in 2021. Rising inflation expectations, lower real yields, a weaker dollar and a likely recovery in physical demand from some major emerging market consumers should see gold moving higher in 2021



Gold has had a remarkable run this year, with spot prices trading at an all-time high, as investors turned to safe-haven assets amid the growing uncertainty of Covid-19.

Falling yields only pushed gold prices higher over the year, with 10-year US Treasury yields falling to a low of almost 50 basis points, while real yields have remained firmly in the negative territory since late March, increasing the attractiveness of gold.

While rising inflation expectations amid further stimulus packages should be supportive for gold, vaccine news has led to a sharp downward correction in gold prices. This is despite the fact that the USD has traded lower, whilst both five-year and 10 year real yields have weakened. Clearly, this more recent correction in gold has been a result of asset rotation, with the latest Covid-19 news increasing investor appetite for risk assets. This is evident when looking at the copper/gold ratio, which has rallied to more than a year high.

In the short-term if the 10-year US treasury yield is pulled back to 75bps and this happens to coincide with a stimulus package, this should be enough for another leg higher in gold prices

Much of the short-term view for gold will depend on the timing and scale of a US stimulus package, along with how the roll-out of vaccines progress in the coming months. Although a vaccine is on the horizon, the reality is that we see a double-dip in some economies, given the latest waves of lockdowns. As our rate strategists have noted, a re-elevation in macro angst at the turn of the new year and well into the first quarter of next year could act as a drag on market rates. We doubt there would be enough to pull the 10-year down to 50bps, but a pullback to the 75bps area is conceivable. Should this timing coincide with a stimulus package, this should be enough for another leg higher in gold prices.

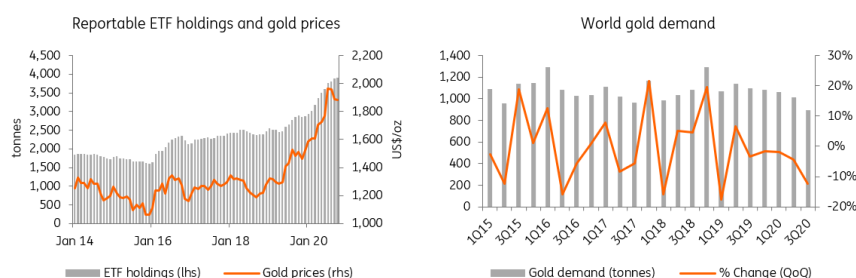
In the medium term, our rates team is expecting a modest rise in US treasury yields into 2021; however, inflation expectations are likely to outstrip the rise in nominal yields, therefore we should see further weakness in real yields, which supports our constructive view on gold in the medium term. The expectation of further stimulus, the unleashing of pent-up demand once Covid-19 is under control, and the expectation of higher oil prices in 2021 supports the view of rising breakeven inflation over the course of next year.

Pent-up demand is likely to push up physical demand firmly in 2021, as consumers return to the market, especially for festival and marriage demand

In 2020, financial demand continued driving the bull run, and ETF buying has been a prominent driver for gold. Total known ETF holdings of gold increased to a fresh high of 3,899 tonnes by the end of October 2020, compared to 2,877 tonnes at the end of 2019. However, physical demand for gold has been hit hard by lockdowns. Limited international flights, along with restrictive measures on imports of foreign goods, pushed gold imports in China and India to multi-year lows, especially during the first half of the year.

It is also true that physical demand in these key regions is also counter-cyclical, as consumers are price-sensitive, so higher prices this year would have dented consumer demand. Data from the World Gold Council shows that gold demand dropped 10%YoY to 3,304t over the first three quarters of the year. While demand in the last quarter of this year has begun to show signs of recovery, it still remains below pre-pandemic levels. Pent-up demand is likely to push up physical demand firmly in 2021, as consumers return to the market, especially for festival and marriage demand. While higher prices might deter some consumers, government stimulus and an increase in disposable income are likely to provide enough liquidity for consumers to increase gold purchases.

Strong investment demand partly offsets weaker consumer demand



Source: LBMA,WGC,ING

While vaccine developments have proved to be a stumbling block for gold prices, we continue to see upside over 2021. Rising inflation expectations, lower real yields, expectations for a weaker USD and a recovery in physical demand should prove supportive.

ING forecasts

	1Q21	2Q21	3Q21	4Q21	FY21
Gold (US\$/oz)	1,915	1,930	2,000	2,020	1,965

Source: ING Research

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic
420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com