

## Gold tops \$2,500 for the first time

Gold rose above \$2,500/oz for the first time on expectations that the Federal Reserve is inching closer to cutting interest rates



The focus for gold is set to remain firmly on the scope and timing of the Fed's move to cut rates

Spot gold rose above \$2,500/oz on Friday afternoon, exceeding the previous record hit last month. The increase followed disappointing US housing data that has reinforced bets of faster and deeper cuts from the Federal Reserve. Lower borrowing costs are positive for gold as it 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. Our US economist now sees a [50bp cut in September](#) followed by a series of 25bp moves that would get us back to a Fed funds rate of around 3.5% by next summer. Gold is up more than 20% this year amid geopolitical uncertainties, expectations of interest rate cuts from the Fed and strong appetite from central banks.

We believe that gold's focus will remain firmly on the scope and timing of the Fed's likely move to cut rates. Geopolitics will also remain one of the key factors driving gold prices. The war in Ukraine and ongoing conflict in the Middle East, alongside tensions between the US and China, suggest that safe-haven demand will continue to support gold prices in the short to medium term. The US presidential election in November will also continue to add to gold's upward momentum through to the end of the year, in our view. Central banks are also expected to keep adding to their holdings, which should offer support.

We see gold averaging \$2,380 in the third quarter and prices peaking in the fourth quarter at \$2,450/oz, resulting in an annual average of \$2,301/oz.

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