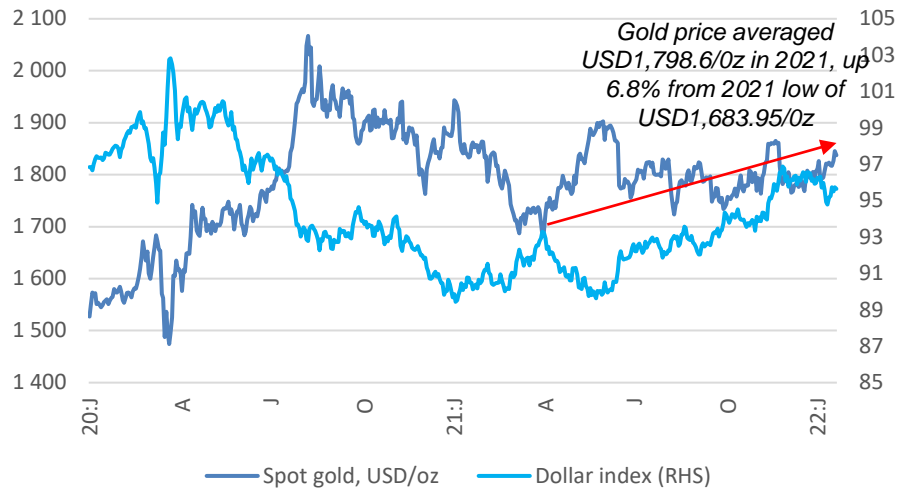




## Global Gold Outlook 2022: “Going Steady”

# Global gold price will be driven by inflation and interest rates in the short and medium-term, interest rate hikes could come earlier-than-expected

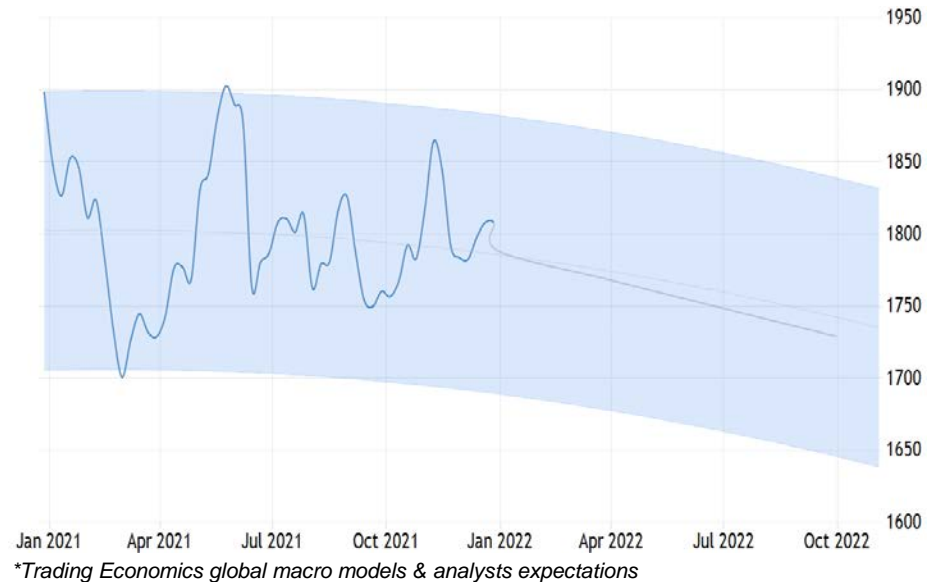
Global spot gold vs. dollar index (2020-2022YTD)



Global spot Gold Forecasts & Sources (as at 29 Dec 2021)

Source	2021	2022f	2023f
ABN Amro	1,700	1,500	1,300
ANZ	1,776	1,725	-
Capital Economics	1,805	1,600	-
Credit Suisse	-	1,850	1,600
JP Morgan	1,795	1,631	-
Scotia Bank	1,799	1,850	1,700
World Bank	1,795	1,750	1,730
Trading Economics	-	1,730	-
<b>Average forecast</b>		<b>1,705</b>	

Global spot gold trends & forecasts\*

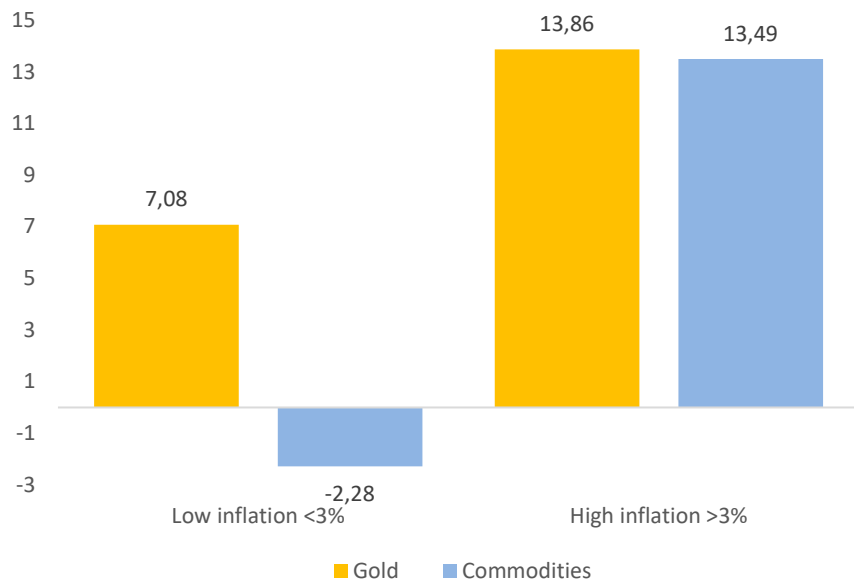


## Global gold price drivers moving forward:

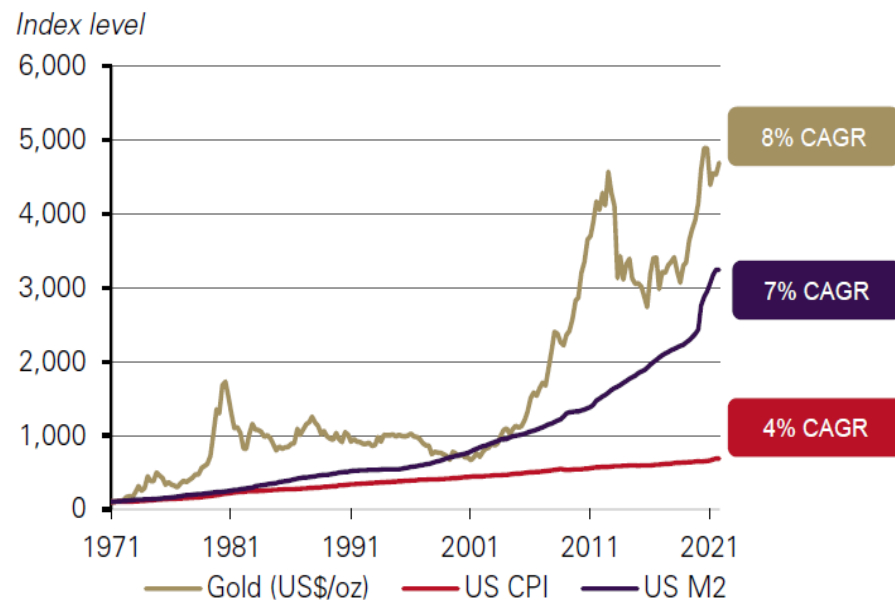
- !! If high inflation is persistent, gold will be a good hedge against rising inflation.
- !! New Covid variants may delay economic recovery, add on to the already risk-averse sentiment.
- !! Gradual economic recovery, government stimulus & sales promotions potentially support gold demand.
- !! Central banks have steadily increased allocation to gold in 2021 and research suggests they will continue to do so.
- ✓ **Downside risk: Global interest rate increases make gold less attractive compared to other yield-bearing assets. Global gold price is expected at USD1,705/oz in 2022.**

# Vast majority expects inflation to remain high, gold typically performs during periods of high inflation

Gold and Commodity Average Nominal Returns in USD, %



Gold, US Money Supply M2, US CPI, index 1Q71:100



- ✓ Inflation expected to be high in 2022 – (i) Supply-chain disruptions continue to linger from initial Covid wave and emergence of Omicron, (ii) tight labor markets, (iii) higher average savings from 2020, (iv) high commodity prices.
- ✓ In years when inflation was higher than 3%, global gold price increased 14% on average.
- ✓ In the long-run, global gold has outpaced US inflation and moved closer in pace to money supply, which has increased significantly in recent years.

# Market expects the first US interest rate hike to be in March 2022, 10-year US Treasury yield pricing in the impending rate hikes

US 10-Year Treasury Yield (2000-2022YTD), %



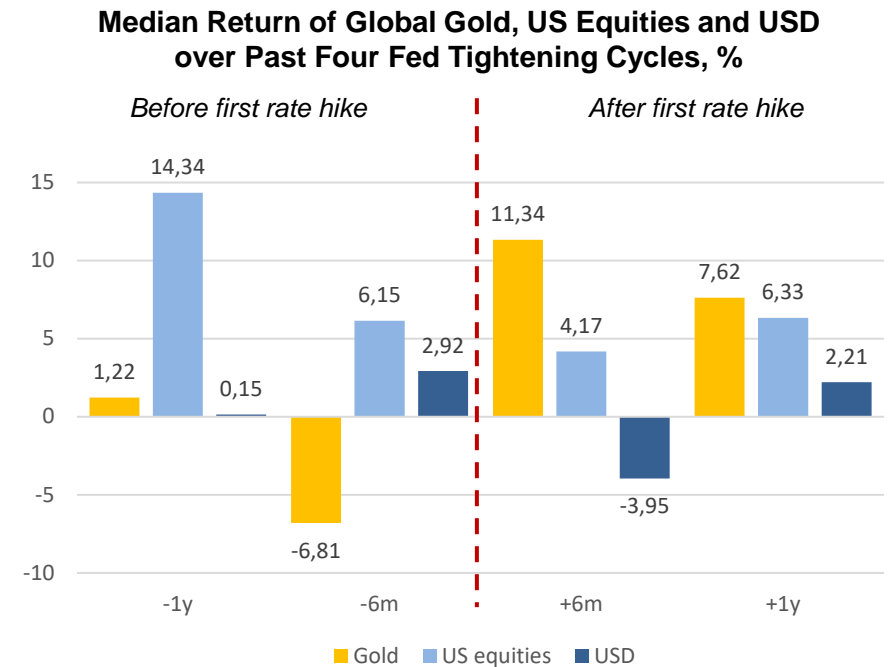
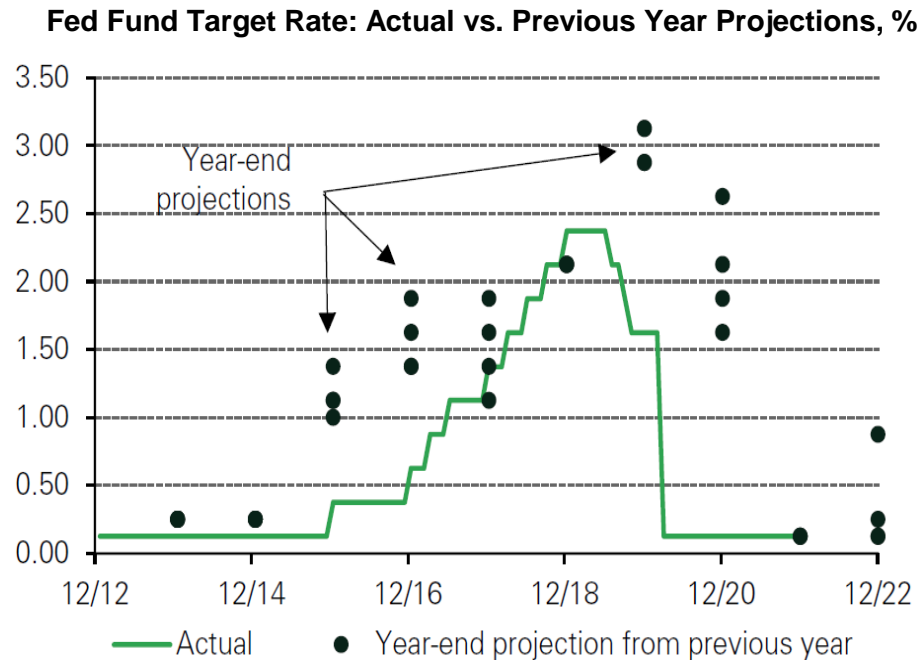
Implied Overnight Rate & Probability of Hikes/Cuts, %  
(Bloomberg, as at 13 Jan 2022)

FOMC	Probability of Hike/Cut %	Implied Rate %
26.01.2022	+5.4	0.093
<b>16.03.2022</b>	<b>+85.4</b>	<b>0.306</b>
04.05.2022	+42.0	0.411
<b>15.06.2022</b>	<b>+61.9</b>	<b>0.566</b>
27.07.2022	+32.7	0.647
<b>21.09.2022</b>	<b>+50.5</b>	<b>0.774</b>
02.11.2022	+28.9	0.846
<b>14.12.2022</b>	<b>+51.6</b>	<b>0.975</b>

- ✓ At December FOMC meeting, US policymakers announced it will end bond purchases by March 2022.
- ✓ The Fed Chairman stated “there would not be the need for that kind of long delay”, referring to the time gap between the end of bond buying and when interest rate increases begin.
- ✓ Fed officials voted to raise the key interest rate 3 times in 2022. The key interest rate is now expected to be as high as 1.125% by end-2022 and 2.125% by end-2023 (vs. 0.625% and 1.625% respectively during Sept votes).
- ✓ Inflation has been higher, broader and lasted longer than the US officials had anticipated. CPI rose 7% YoY in 2021, the quickest pace since 1982.
- ✓ A strong labor market has also made the Fed’s change in tone and approach easier. Fed officials projected unemployment rate would return to pre-pandemic level of 3.5% by end-2022 (end-2021: 3.9%).
- ✓ The 10-year UST yield surged to 1.87% on 18<sup>th</sup> Jan, widening by 31bps year-to-date in anticipation of the first rate hike in March 2022.



# But ... historical records show the Fed has tended not to tighten monetary policy as aggressively as indicated in their initial projections

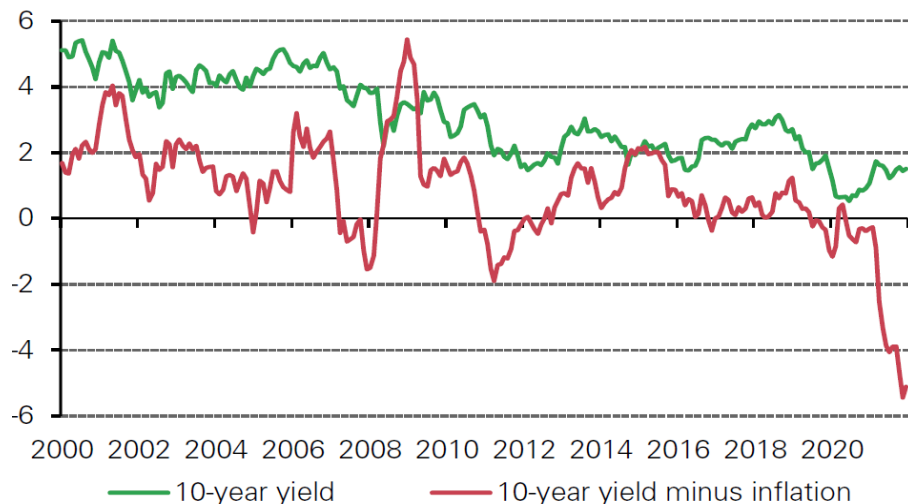


- ✓ Past records show the Fed has tended not to raise rates as aggressively as indicated in their initial projections.
- ✓ Actual target rates were significantly below the previous year-end projections.

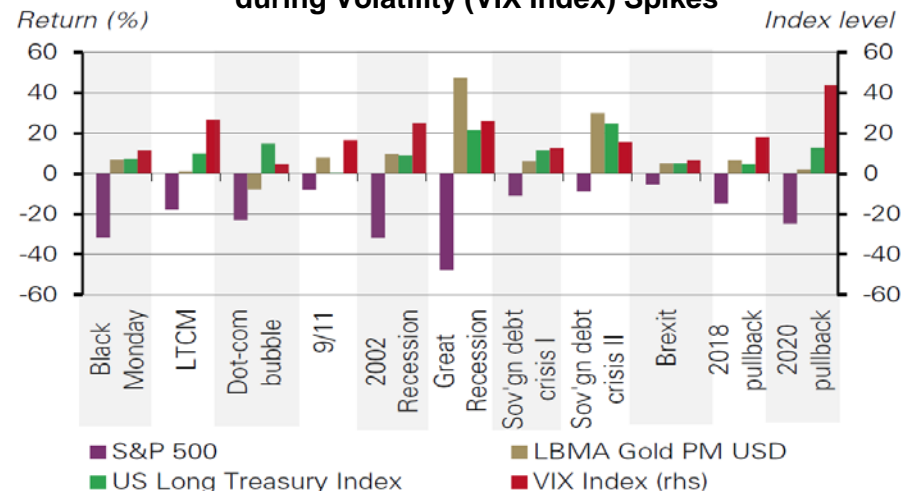
- ✓ Global gold price significantly outperformed in the months following the first rate hike.
- ✓ This could be partly aided by the USD, which underperformed post the first rate hike.

# Despite potential interest rate hikes, nominal rates remain low from historical perspective. Elevated inflation keeps real interest rates low

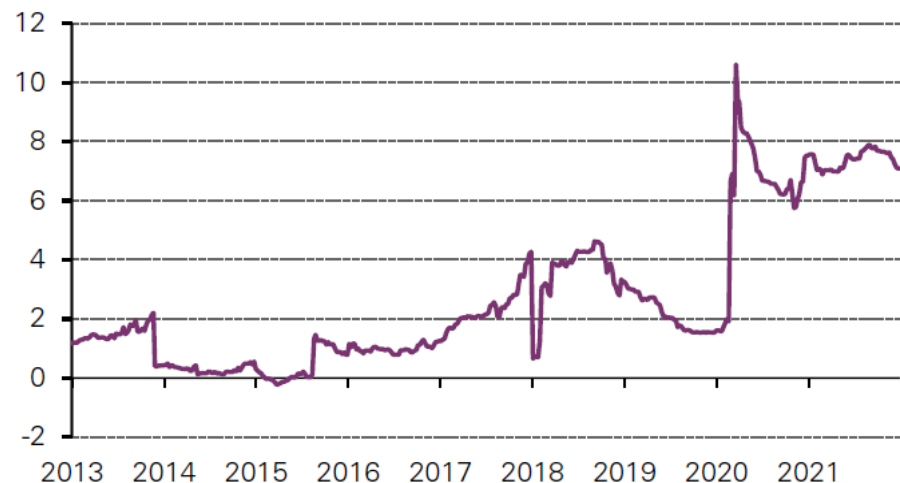
US 10-Year Treasury Yield: Real; vs. Nominal, %



Performance of Gold, US Equities, US Treasuries during Volatility (VIX Index) Spikes



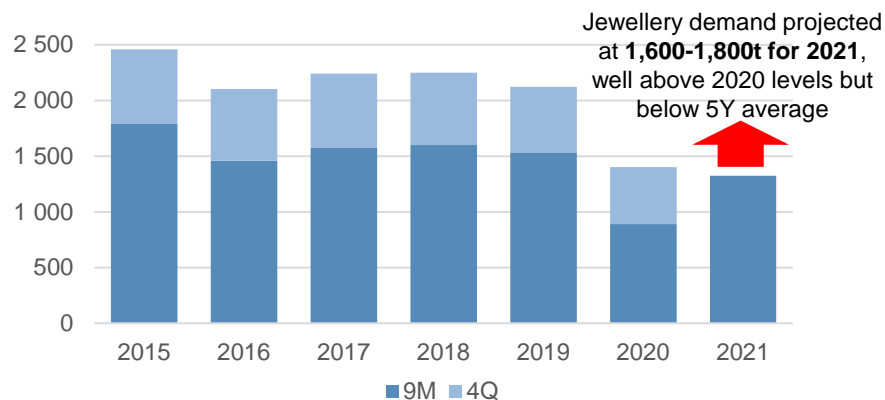
Kurtosis of S&P 500 Returns, as at 31 Dec 2021



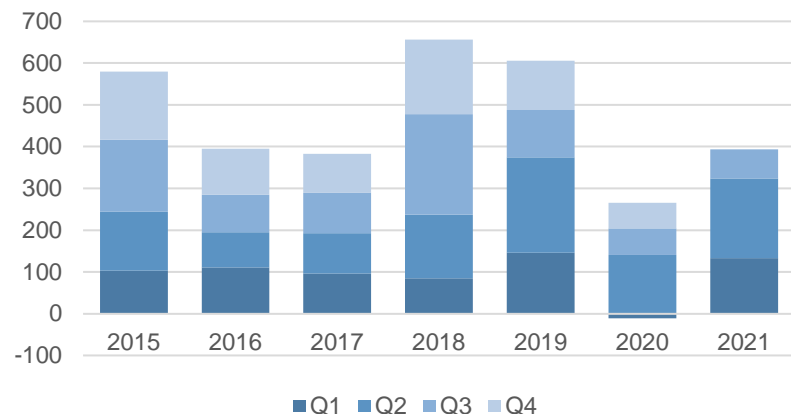
- ✓ Elevated inflation will keep real rates low/stable. Global gold price tends to respond to real rates.
- ✓ Pullbacks/volatility in global equities will continue on uncertainties related to Omicron, geopolitics, high inflation and overall high equity valuations fuelled by ultra-low-rate environment.
- ✓ In this context – (i) the appeal of gold as a high-quality liquid asset increases, (ii) gold can be a valuable risk management tool during periods of uncertainties and risk-aversion.

# Jewellery, technology, bar & coin investment drove global gold demand in 3Q21, modest central banks purchases provided further support

**Global jewellery demand** is ~50% higher YTD compared to same period in 2020, driven by China (+58%) and India (+32%). However, it has yet to regain pre-pandemic levels.



**Global central banks & other institutions gold buying** reached 393t by end-3Q21, surpassed the 255t registered in full year 2020. **Central banks gold demand look on course for a strong year** despite modest demand in 3Q.



**Global bar & coin investment growth** of 18% YoY to 262t in 3Q outpaced YoY decline in ETF holdings, supported by significant turnaround in Thailand, the US and Germany, and partly by investors using price drop in 2Q as a buying opportunity. Bar & coin demand estimated at **1,100-1,250t in 2021** on the back of rising inflation & gold's strong returns momentum.

Tonnes	3Q20	3Q21	YoY
Total investment	495	235	-53%
<b>Bar &amp; coin</b>	<b>221</b>	<b>261.7</b>	<b>+18%</b>
India	33.8	42.9	+27%
China	57.8	64.7	+12%
Gold-backed ETFs	273.9	-26.7	-

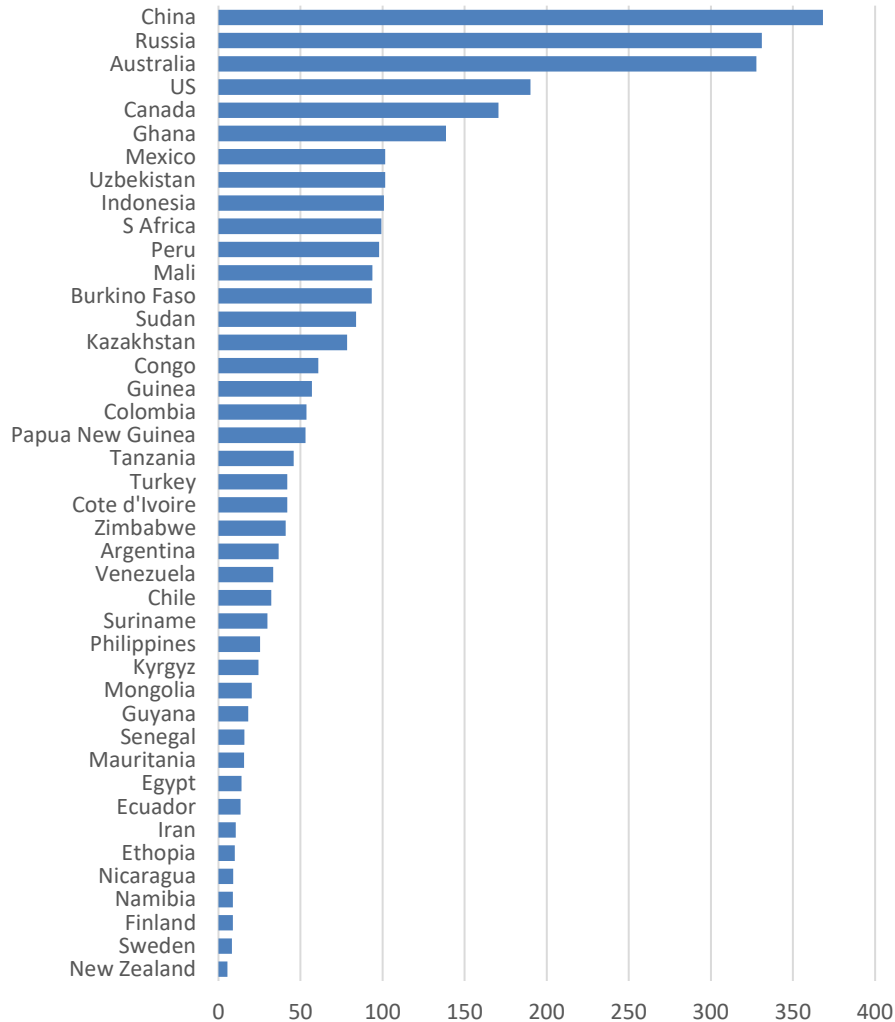
**Global gold demand in technology** rose 9% YoY to 84t in 3Q21, driven by electronics sector, as improved confidence created demand for big ticket items such as vehicles and high-end consumer electronic devices.

Tonnes	3Q20	3Q21	YoY
Total technology	77.2	83.8	+9%
<b>Electronics</b>	<b>63.2</b>	<b>68.9</b>	<b>+9%</b>
Other industrial	10.9	12.0	+10%
Dentistry	3.1	2.9	-8%



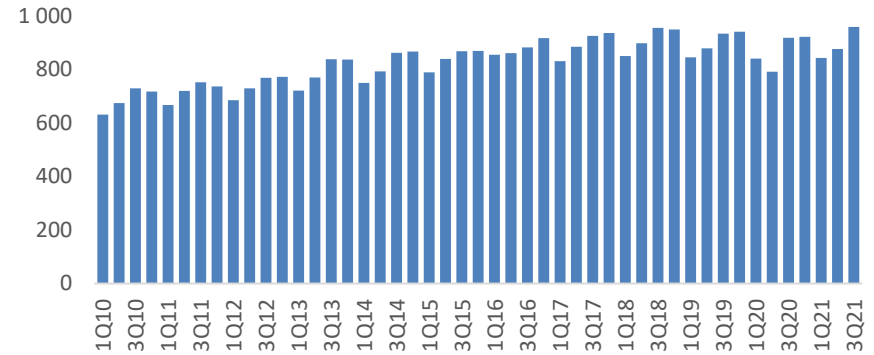
# Global gold supply: charting growth

**Gold Producing Countries, tonnes, as at 15 June 2021**



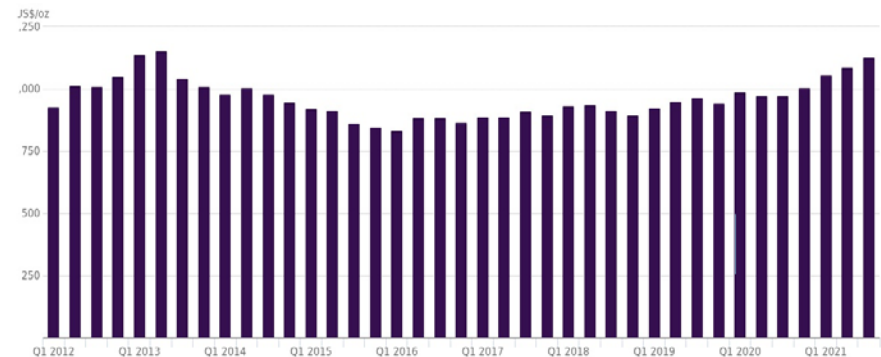
**3Q21 global mine production rose 4% YoY to 959t**, the largest quarterly production level on record due to fewer Covid-19 production interruptions. Mine production in 9M21 reached 2,679t, slightly below the record set in 9M18 of 2,704t.

*Quarterly Global Mine Production, tonnes*



**The costs of mining gold globally continued to increase in 2Q21** (available data), the All-In Sustaining Cost hit USD1,067/oz, the highest level since 2014 and up 10% YoY. Total cash costs rose by 9% to USD776/oz.

*Quarterly Global Production Costs, AISC*





# Global gold price performance was mixed across currencies

Global Gold Price and Annual Return in Key Currencies, as at 30 Dec 2021

Currency (unit)	2021 return, %	Year-end price	Annual average	Annual high	Annual low
USD (oz)	-4.3	1,806	1,799	1,943	1,684
EUR (oz)	3.3	1,594	1,521	1,649	1,417
JPY (g)	6.7	6,686	6,350	6,868	5,885
GBP (oz)	-3.1	1,338	1,308	1,431	1,221
CAD (oz)	-4.0	2,309	2,256	2,476	2,125
CHF (oz)	-1.1	1,650	1,644	1,734	1,570
INR (10g)	-2.6	43,210	42,757	45,651	39,730
RMB (g)	-6.7	370.2	373.1	403.8	353.2
TRY (oz)	67.7	23,522	15,999	32,523	12,396
RUB (g)	-31.4	4,335	4,263	4,627	3,996
ZAR (g)	4.1	928	855	950	801
AUD (oz)	1.8	2,490	2,395	2,566	2,194

# Global gold outlook in summary

- ✓ **Gold faces two key headwinds in 2022 – (1) higher nominal interest rates, (2) a potentially stronger dollar.**
- ✓ The negative effect from the above two drivers may be offset by other **supporting factors** – (1) **high, persistent inflation** keeping real interest rates low/stable, (2) **market volatility** linked to Omicron, geopolitics high persistent inflation and equities pullbacks, (3) **strong global gold demand** from jewellery, technology and central banks.
- ✓ Past records show the following on gold performance:
  - The Fed has tended not to raise rates as aggressively as indicated in their initial projections. Actual target rates were significantly below the previous year-end projections.
  - Gold price significantly outperformed in the months following the first rate hike, which could be partly aided by the USD, which underperformed post the first rate hike.
  - Majority expects inflation expected to be high in 2022. In years when inflation was higher than 3%, gold price increased 14% on average.
  - In the long-run, gold has outpaced US inflation and moved closer in pace to money supply, which has increased significantly in recent years.
- ✓ **Not all central banks are able to raise rates in 2022.** The European Central Bank pledged to keep borrowing costs low in 2022. The Bank of England recently raised rate in Dec 2021 and indicates modest rate rises in future. The Reserve Bank of India will keep monetary policy accommodate to revive and support growth this year, while China policymakers are expected to add more stimulus in early 2022 to stabilize and boost growth.
- ✓ **In the context of uncertainties and heightened risk-aversion increase gold's appeal as a high-quality liquid asset and a valuable risk management tool.**
- ✓ We expect **global Gold price of USD1,705/oz in 2022.**



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