Bullion Perspectives

September 2020

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Issuer of report: HSBC Securities (USA) Inc

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World events and gold (2019 onward)

Feb 19: US-Sino trade talks
Mar 19: Brexit vote fails
May 19: Indian election results
Jun 19: Fed confirms dovish tilt
Jul 19: Boris Johnson becomes UK PM
Aug 19: Dec 19: EU threatens retaliatory US tariffs
Sep 19: Saudi Oil attack
Oct 19: Fed confirms dovish tilt
Nov 19: Spanish General Election
Dec 19: Defaults on China corporate bonds hit new record
Jan 20: UK exits EU
Feb 20: German CDU leader steps down
Mar 20: WHO declared COVID-19 as a pandemic
Apr 20: China announced national security measures on HK
May 20: South Africa lockdown begins
Jun 20: India-China conflict
Jul 20: US Congress passed Hong Kong Autonomy Act
Aug 20: US Senate passed USD2trn fiscal stimulus package

Gold, USD/oz

Source: Refinitiv Datastream, HSBC
Traditionally, a flattening yield curve is supportive of gold as lower long-term rates lower the opportunity cost of owning gold.

The curve went flat in much of 2018 and 2019.

More recently, the curve has gone modestly positive but is still historically “flat.”

HSBC Head of Fixed Income Research Steven Major's 10-year US Treasury forecast of 0.50% for end-2020 is also gold friendly.

Source: Refinitiv Datastream, HSBC
Gold and Real Yields

Gold is sensitive to changes in yields

Lower yields remove the opportunity cost of owning gold and are also a sign of economic stress and uncertainty

Gold prices have moved with changes in real yields, most notably the real yield on the US 10Y Treasury

As real yields moved into negative territory gold strengthened

Source: Bloomberg, HSBC
Rising debt levels

Increased debt can stimulate increase the ‘safe haven’ demand for gold, as high debt can:

- Limit economic growth,
- Adversely impact financial markets,
- And constrain the fiscal response to slowdowns.

The monetarization of debt, a radical but possible solution as debt levels mount, is also gold positive.

Government debt-to-GDP ratios are at World War Two levels. The Congressional Budget Office said the US federal budget deficit will likely total USD3.3trn this year, equivalent of 16% of GDP and triple the 2019 levels.

Source: New York Fed Consumer Credit Panel/Equifax

Source: BIS, Refinitiv Datastream
Many governments are going to have much higher levels of debt going forward

Source: HSBC estimates, National government sources
Gold investment

Gold Exchange Traded Funds (ETFs) holdings jumped 326t in 2019 and have moved higher this year.

After starting the year over 81.46moz, ETF holdings are currently 110.90moz, or 916t.

We forecast holdings to rise to a record 1,080t this year and moderate in 2021.

The Comex swung net short in September 2018 for the first time since 2001 but recovered and moved higher since.

Net long positions on the Comex hit a record 38moz in 2020 but have eased to a still high 28.52moz recently.

While some length may come out the market periodically, both may build further later in the year and 2021.

Source for both charts: Bloomberg, HSBC
Gold ETF Inflows

There is a very good fit between higher gold prices and gold-ETF accumulation.

This shows the strong influence the ETFs have on gold prices.

Real Gold Price = 1E-07x + 1.5414
R² = 0.89

Source: Bloomberg, HSBC
Gold prices tend to rise during periods of contraction in world trade, and fall during periods of above-normal trade growth, although often with a lag.

Beginning in 2019 trade flows deteriorated and gold rallied.

Were trade relations to deteriorate further and flows contract even more sharply, gold would likely be well supported.

A recovery in trade flows, perhaps in 2021, may exert a negative impact on gold.

Source: Refinitiv Datastream, Bloomberg, HSBC
Gold coins

Coin demand is rebounding after weakness from 2017-19

August sales hit 121,000oz vs 8,000oz in August 2019, up an astounding 1,400%

YTD sales are 615,500oz vs 122,000oz y-o-y, up 400%

Coin sales for all mints globally came in at 224t in 2019

We anticipate increases to 263t this year based on ‘safe haven’ demand; easing to 245t in 2021

Bar demand (retail) is also strong this year so far according to the World Gold Council in the West but weak in the East. It is likely run ahead of coin demand

Source: US Mint, HSBC
Gold jewelry

Jewelry is gold’s single largest source of physical offtake

2019 aggregate global demand fell to 2,123t from 2,248t in 2018

We look for offtake to fall further to 1,366t this year and recover only modestly to 1,857t in 2021

World Gold Council data showed a severe drop 50% in 1H demand but some recent signs of mild recovery

As jewelry demand is down, recycling is supply is rising

Our forecasts are also based on the HSBC Economics team’s forecasts of weak consumer spending and income in consumer nations

Source: Metals Focus, WGC, Refinitiv GFMS, HSBC
China gold imports

China can attract as much as the equivalent of 40% of global mine production in imports.

Gold imports have weakened notably.

China can attract the equivalent of as much as 40% of global mine production in imports in normal years.

China’s imports have almost dropped off the map. According to official data, China imported just 11.2t in August after 1.4t in July and has only imported 48.5t for January-Aug, compared to 326.1t for the same period last year.

Although it may retain its position as the world’s biggest gold consumer due to domestic demand, India may reclaim its former position as world’s biggest gold importer.

Source: Hong Kong Census and Statistical Department, Bloomberg, HSBC

China gold imports from Hong Kong and Switzerland

Source: Hong Kong Census and Statistical Department, Bloomberg, HSBC
India gold imports

India is the second-largest importer of gold in the world

After performing moderately well in 2017 and 2018, imports have dropped

Indian gold imports have been very weak matching poor demand

According to government sources (Reuters) August gold imports rose to 60t up from 32.1t in August 2019. This is the highest level in 8 months as jewelers restocked and lockdowns eased

For January-August India’s imports only totaled 183t compared to 566t for the same period last year

India is the world’s second-biggest consumer of the precious metal

Source: HSBC, Reuters, Bloomberg, Indian customs data
Central Bank Demand

Heavy central bank demand was a feature of 2018 and 2019. This no longer the case.

The decline in oil revenues has curbed official sector demand in petro exporting states. The Central Bank of Russia, announced on 1 April that there would be no further gold purchases this year.

The decline in trade is leading other central banks to conserve USDs and shun gold purchases. The PBoC and Reserve Bank of India have bought no gold from the international markets this year.

We look for purchases to come around 390t this year, down from record 668t in 2019.

Source: Metals Focus, World Gold Council, HSBC
Disclosure appendix

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