



Bullion Perspectives

September 2020



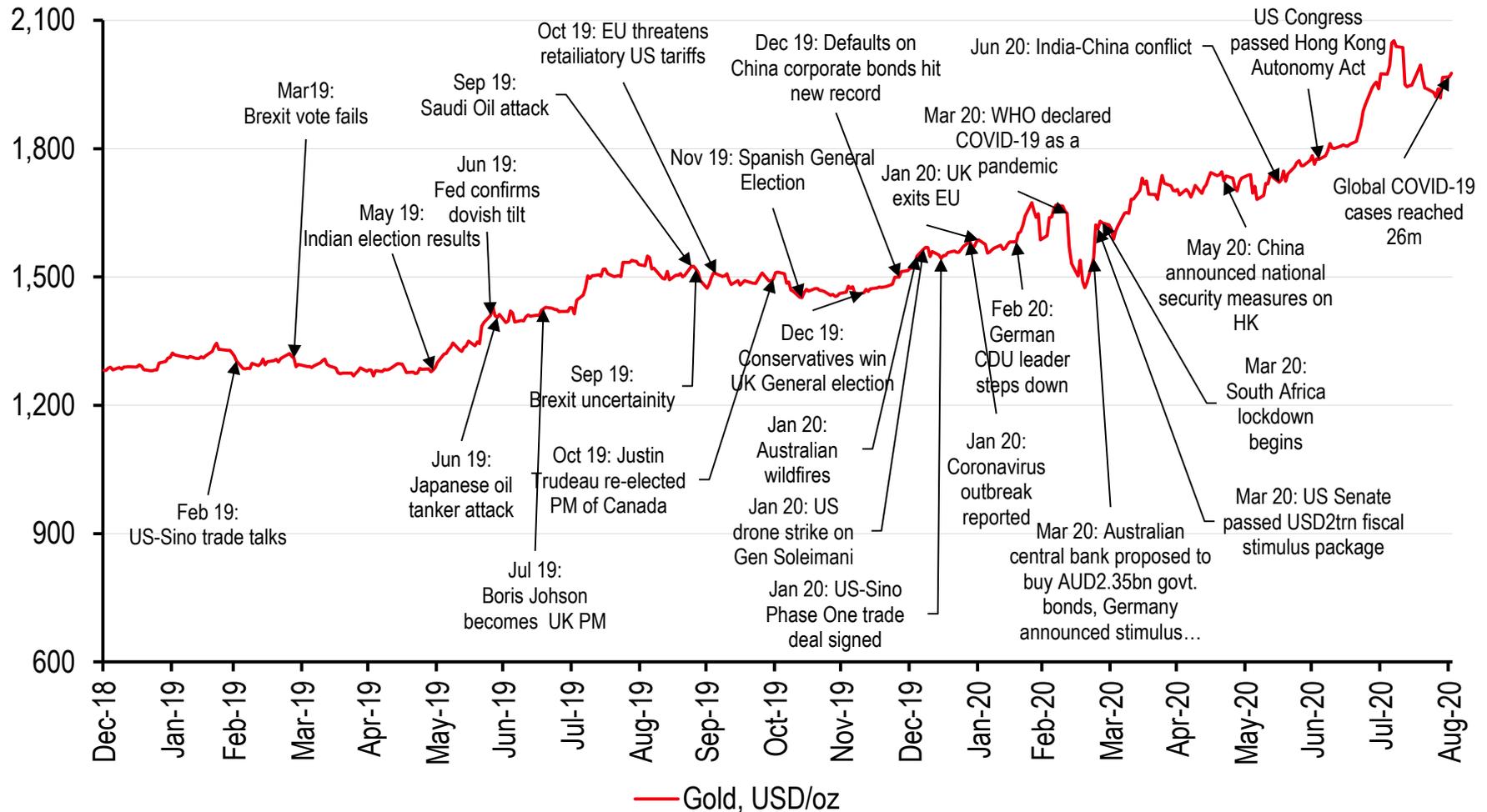
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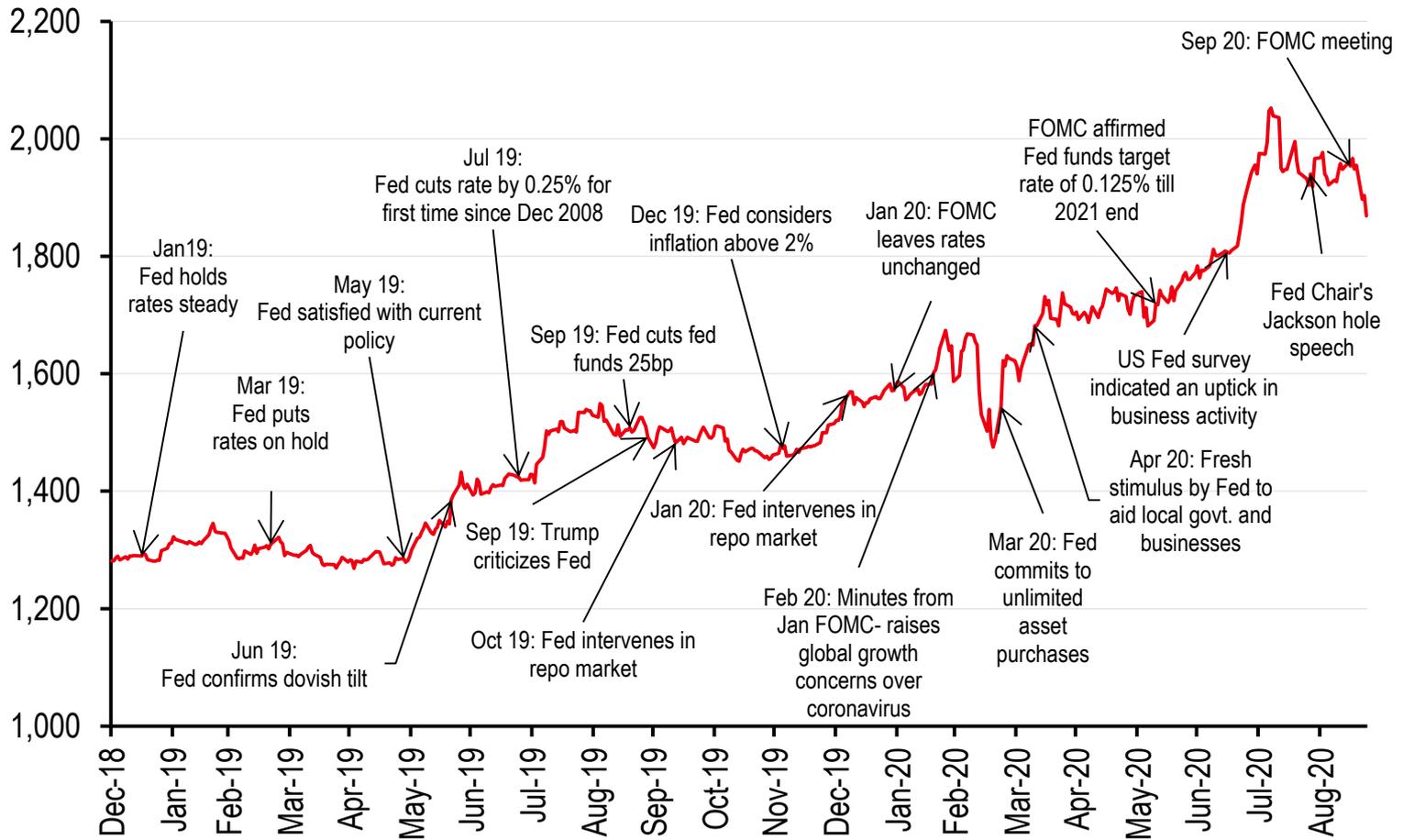
World events and gold (2019 onward)



Source: Refinitiv Datastream, HSBC



The Fed and gold (2019 onward)



Source: Refinitiv Datastream, HSBC



Gold and US 10s-2s yield spread

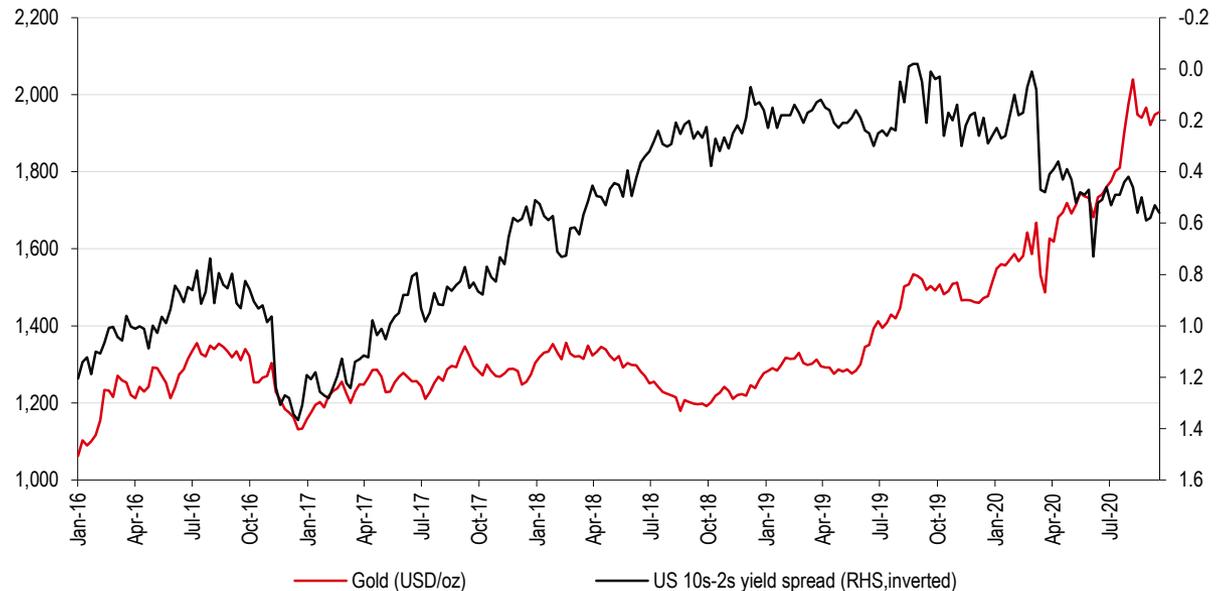
Traditionally, a flattening yield curve is supportive of gold as lower long-term rates lower the opportunity cost of owning gold

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

Gold and US 10s-2s yield spread (inverted RHS)



Source: Refinitiv Datastream, HSBC

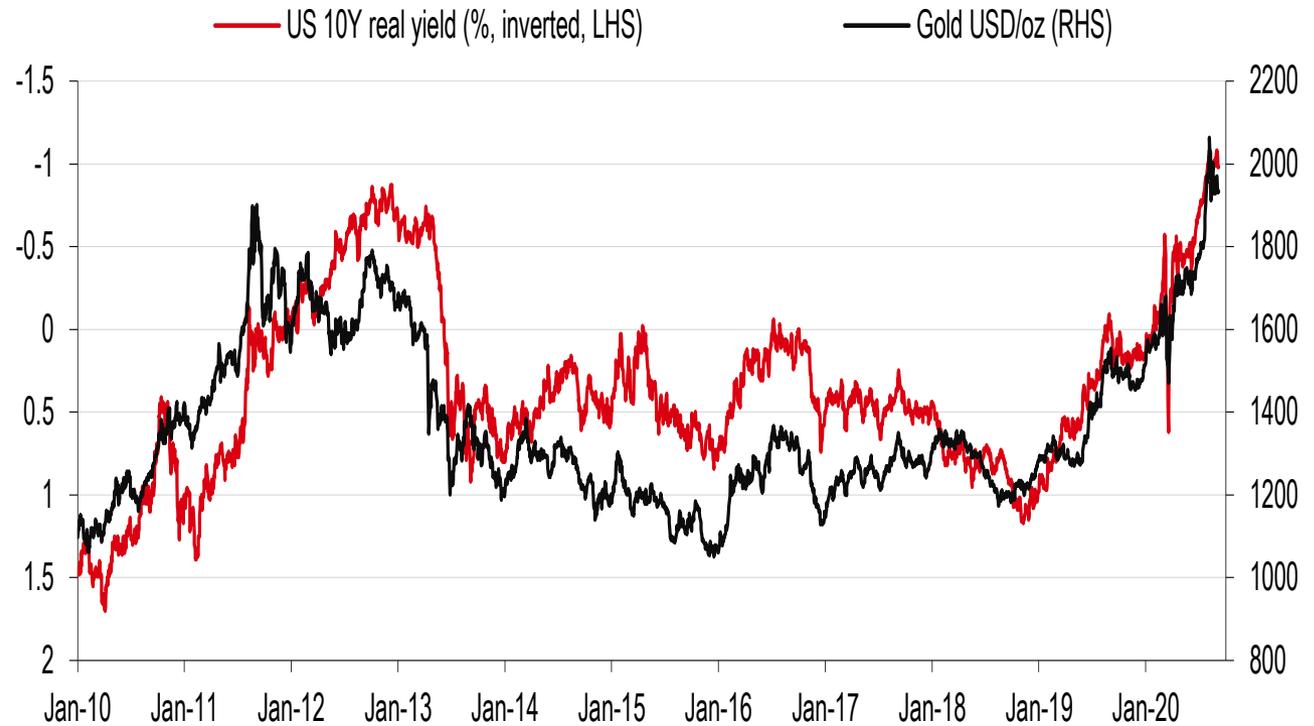
Gold and Real Yields

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

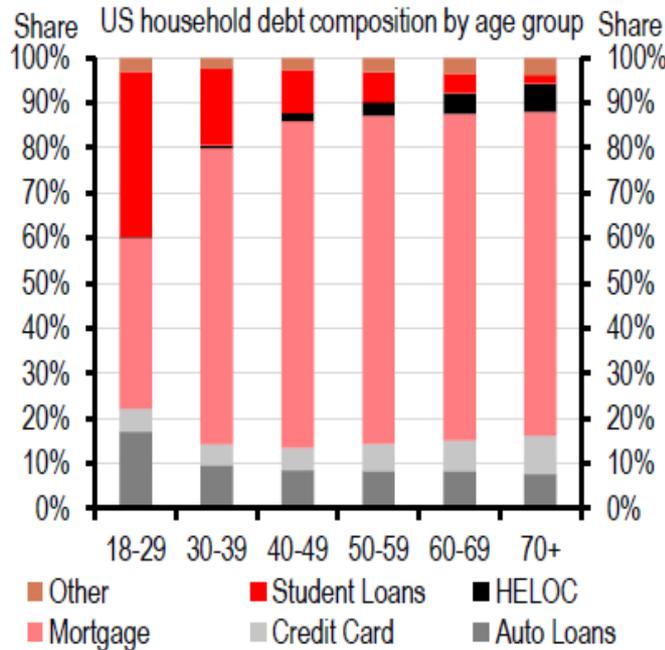
Increased debt can stimulate increase the 'safe haven' demand for gold, as high debt can:

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.

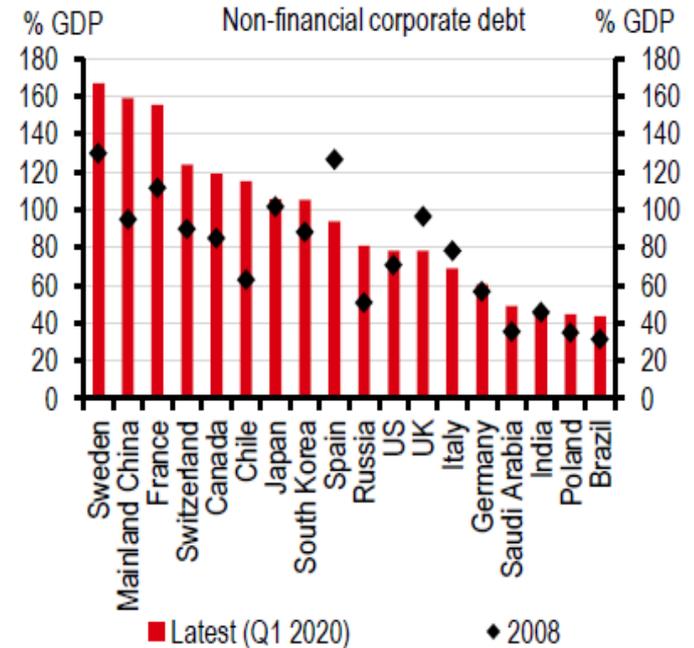
Government debt-to-GDP ratios are at World War Two levels. The Congressional Budget Office said the US federal budget deficit will likely total USD3.3trn this year, equivalent of 16% of GDP and triple the 2019 levels.

US household debt has been edging up



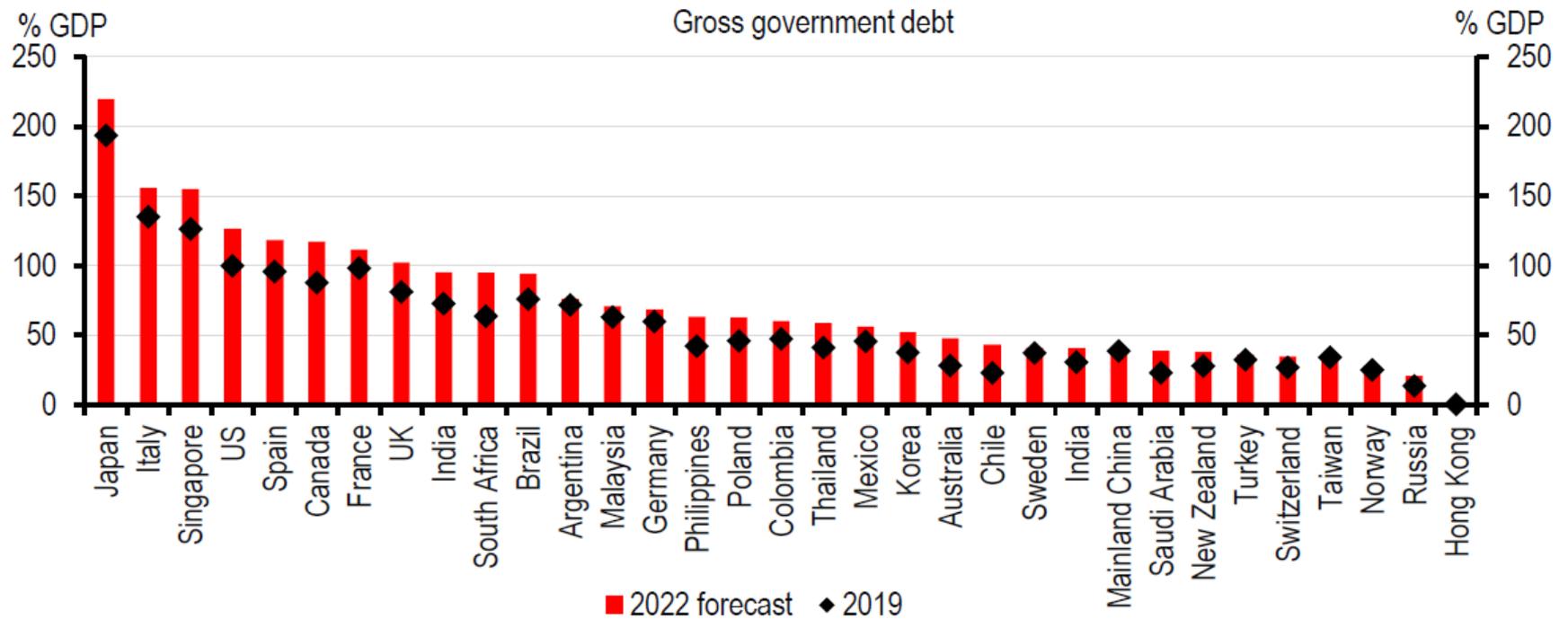
Source: New York Fed Consumer Credit Panel/Equifax

Corporate debt has risen in many places



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

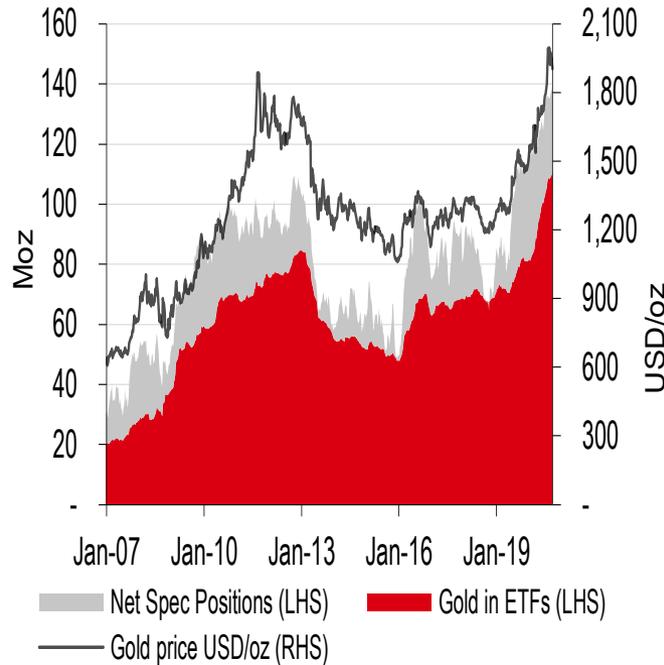
We forecast holdings to rise to a record 1,080t this year and moderate in 2021

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

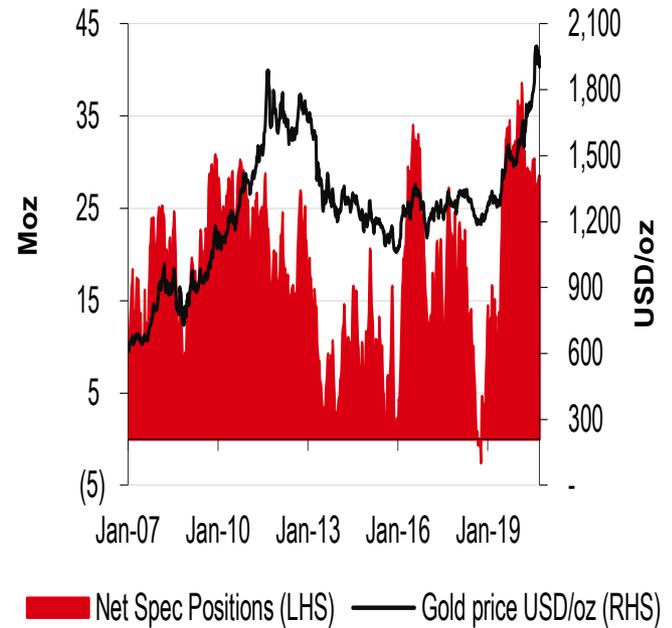
Net long positions on the Comex hit a record 38moz in 2020 but have eased to a still high 28.52moz recently

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

Gold prices, gold in ETFs, and net speculative long positions



Gold and net speculative long positions

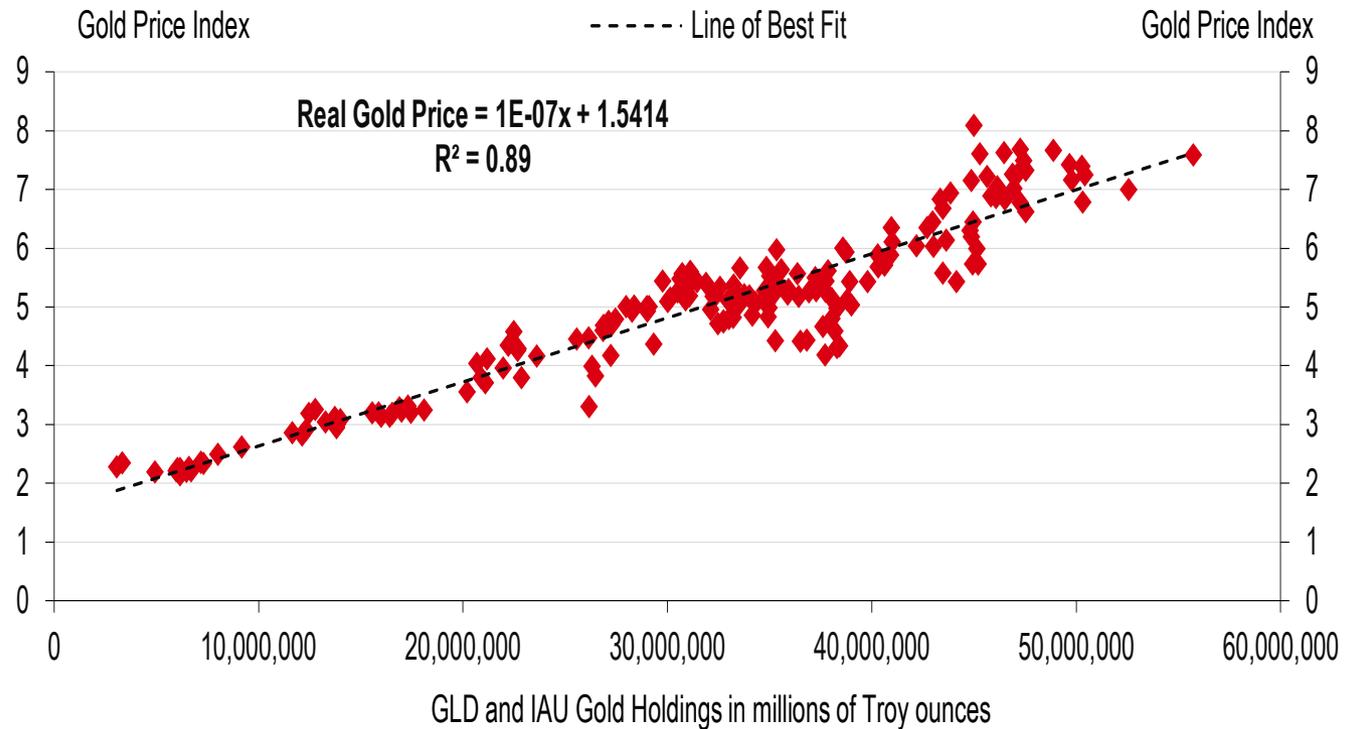


Source for both charts: Bloomberg, HSBC

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



Source: Bloomberg, HSBC

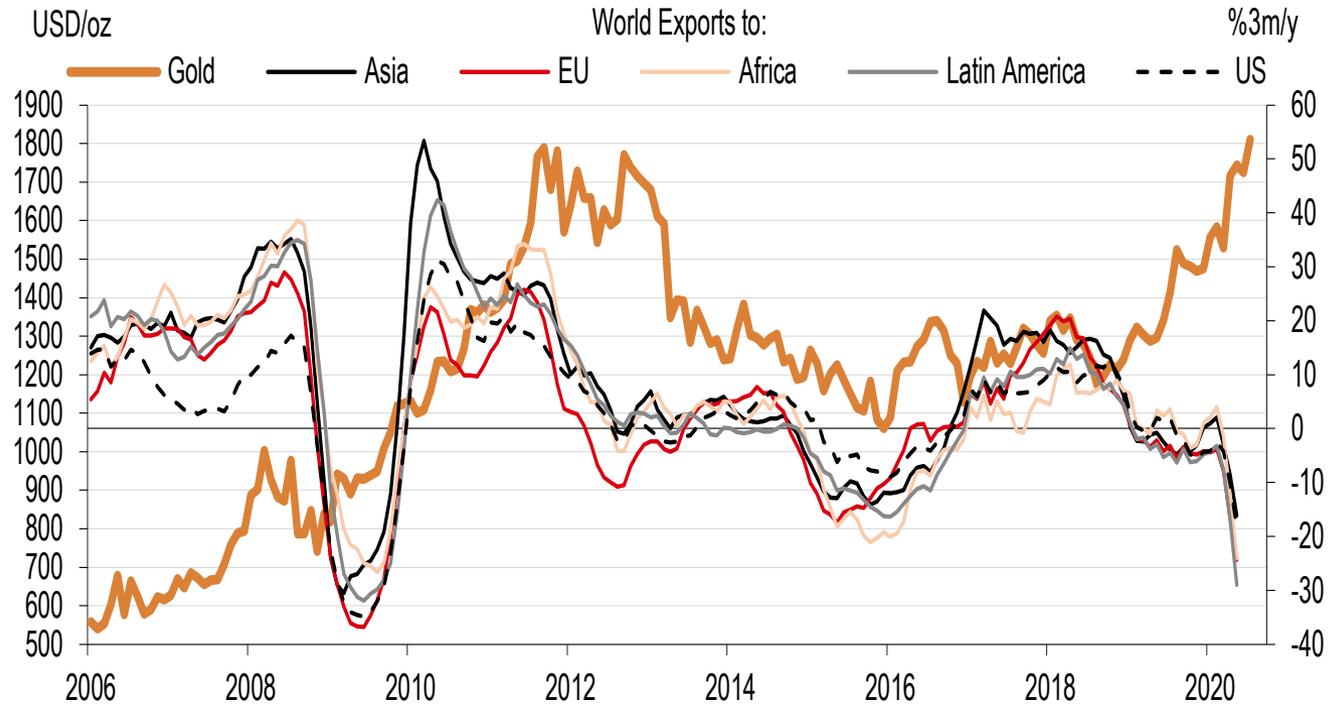
Trade and Gold

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%

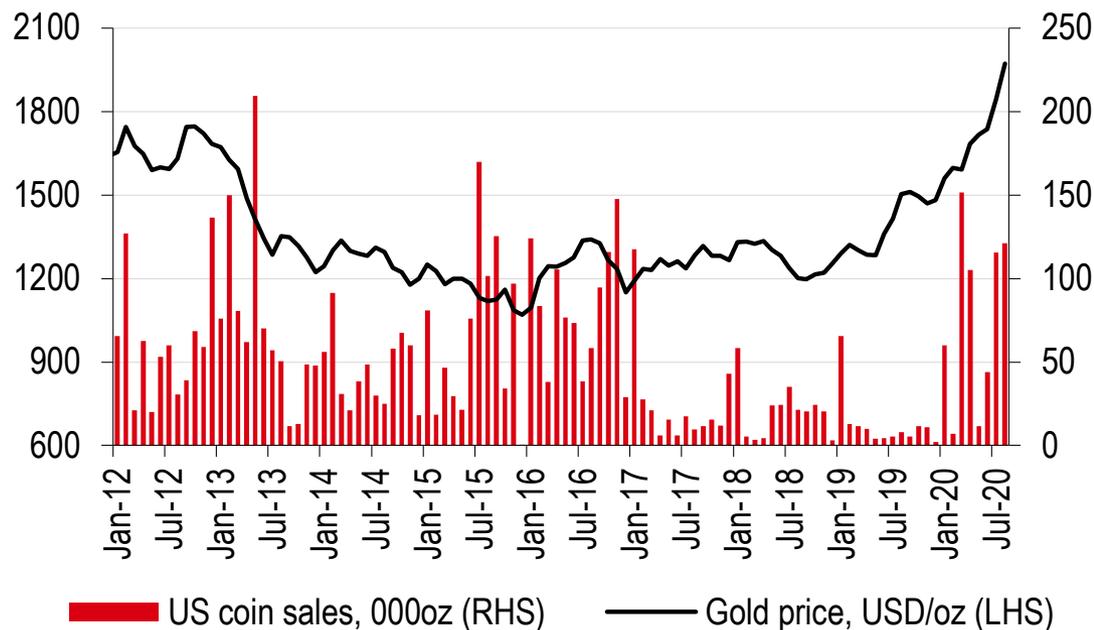
YTD sales are 615,500oz vs 122,000oz y-o-y, up 400%

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

US Mint: Monthly gold coin sales



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

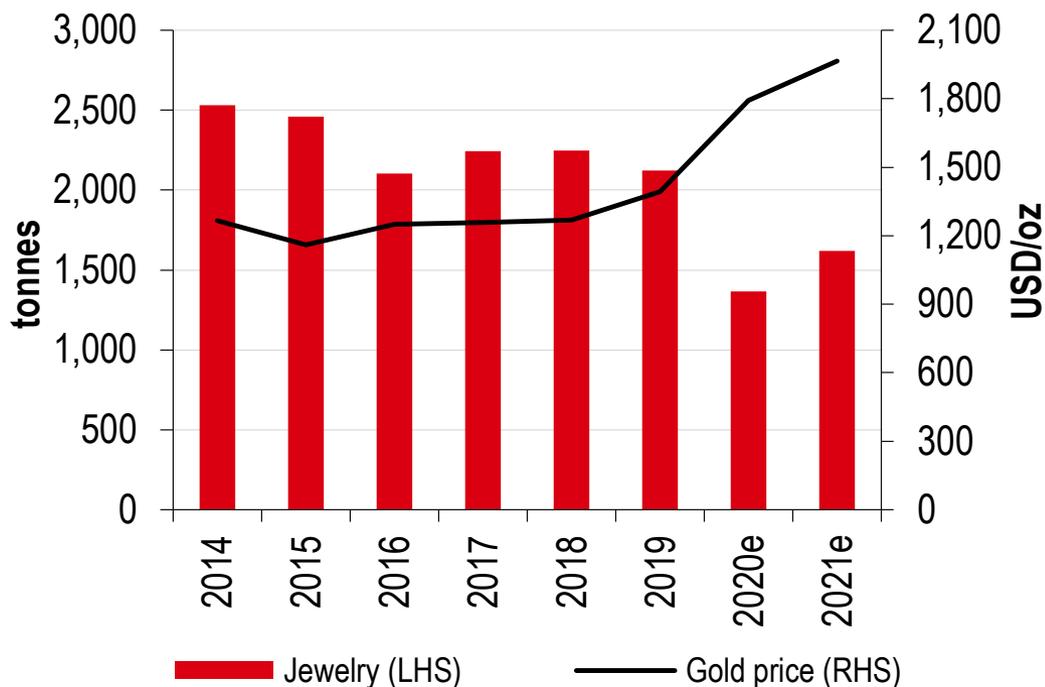
We look for offtake to fall further to 1,366t this year and recover only modestly to 1,857t in 2021

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

Global demand for gold jewelry (tonnes)



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

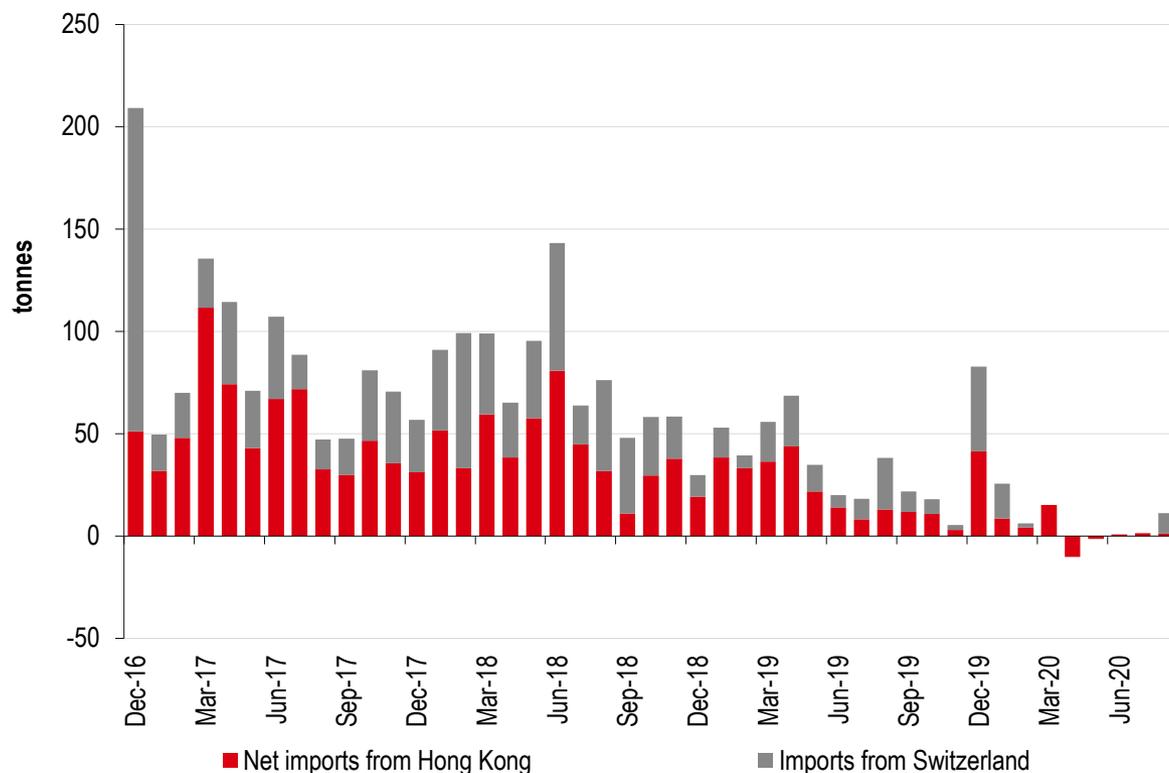
Gold imports have weakened notably

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

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

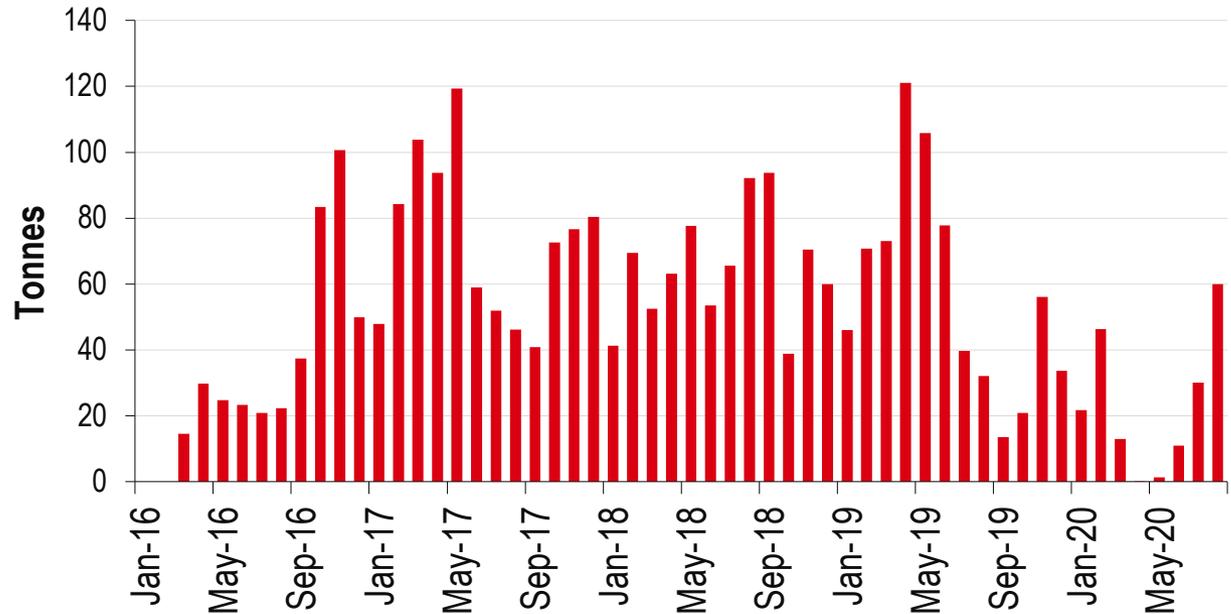
Indian gold imports have been very weak matching poor demand

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

India Gold imports



Source: HSBC, Reuters, Bloomberg, Indian customs data

Central Bank Demand

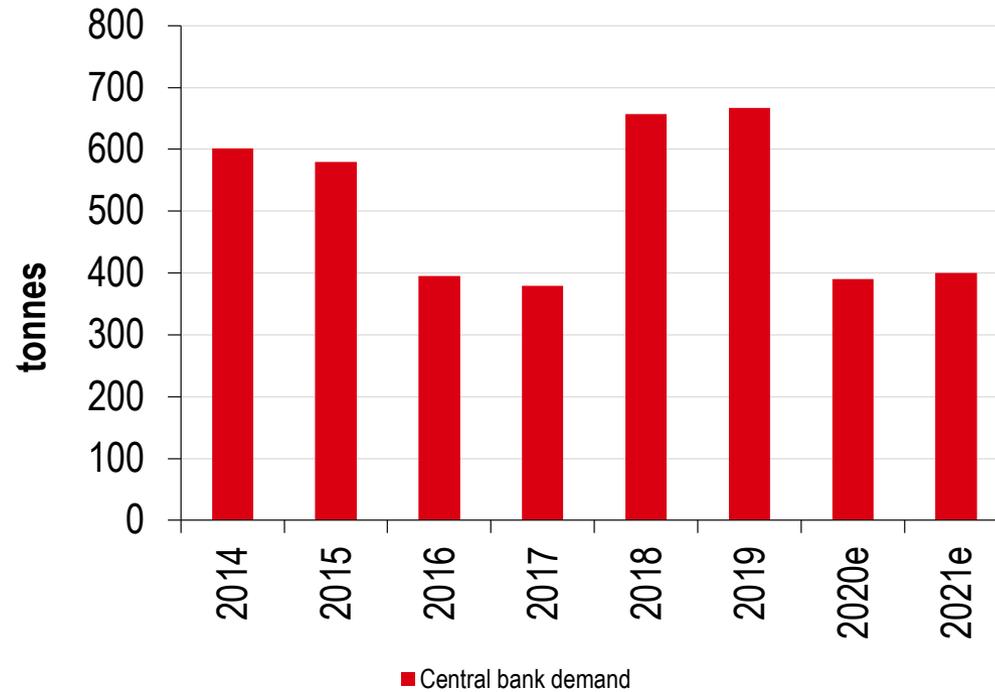
Heavy central bank demand was a feature of 2018 and 2019. This no longer the case.

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.

Central banks reduce gold purchases



Source: Metals Focus, World Gold Council, HSBC

Disclosure appendix

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