FX Thoughts

4 April 2024

Gold Bulls to Mind the Pullback

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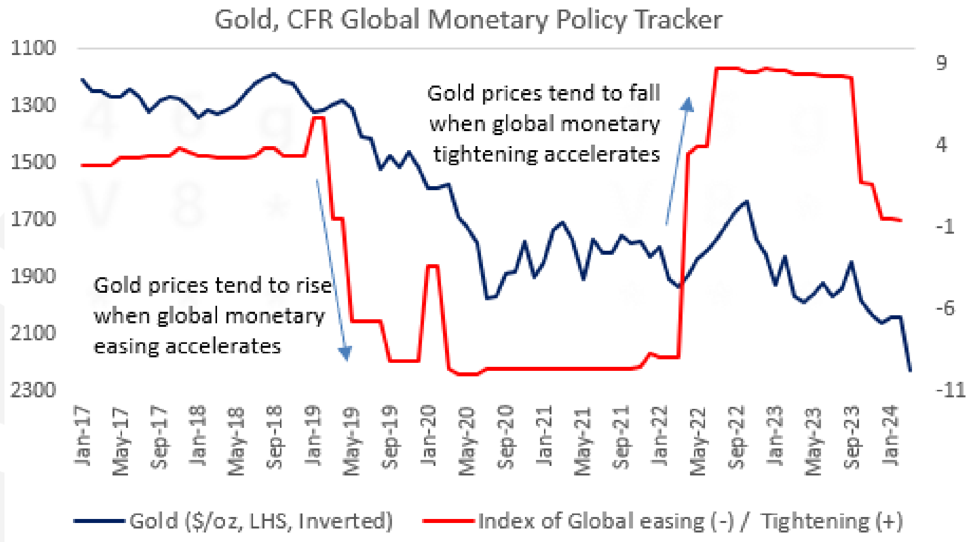
Gold's blistering rally (+11.5% YTD as of 3 Apr) may have further room to run in the medium term. We maintain a bullish outlook on gold prices, on the back of expectations of global easing outlook, central banks' continued purchases of gold, as well as a play up of gold's geopolitical hedge characteristic. Historical evidence since 2001 showed that gold strengthened when Fed rate hike cycle ended and continued to extend its bullish run when Fed rate cut cycle gets underway. *That said, we caution for the risk of a pullback, given the rapid run-up while long gold position looks stretched at extreme levels.*

Near term, we are cautious of a potential pullback towards 2251, given the rapid run-up and relatively stretched positioning. But bias remains for more upside to play out.

Expectations of Global Easing Outlook Is Supportive of Gold Prices

In the Latam world, several central banks including Brazil, Mexico, Paraguay have already started their respective rate cut cycle. In the DM world, the Swiss National Bank became the first central bank to cut rates in Mar while most major DM central banks, including the ECB, BoE, BoC, RBNZ and the Fed are likely to cut policy rates in due course as inflation has peaked and looks on track to return to target. Fed has projected 3 cuts for 2024 while markets are pricing in about 4 cuts for ECB, 3 cuts for BoE, 2 more cuts for SNB by end 2024.

Gold Strengthens When Policy Easing Accelerates



Note: CFR's Global Monetary Policy Tracker compiles data from 54 countries around the world to highlight significant trends in monetary policy. The index is generated by taking into account each

country's monetary policy stance, weighted by its currency's share of global foreign exchange reserves. Index ranges from -10 (indicates all countries are easing) to +10 (all are tightening)
Source: Council on Foreign Relations (CFR), Bloomberg, OCBC

Given that most DM central banks could soon ease monetary policies, we re-visit the behaviour of various asset classes, including gold, silver, S&P 500 and DXY in (1) past episodes of Fed rate cut cycles as well as (2) past episodes when Fed rate was on hold after rate hike cycle ended.

Asset class Behaviour in Different Phases of Easing Cycles Since 2001

Past Episodes of Fed Rate Cut Cycles	% Change			
	Gold	Silver	S&P 500	DXY
Actual Rate Cut Cycle (Jan 2001 to Jun 2003) Cumulative cut of 550bps	29.33	0.44	-27.02	-14.32
Actual Rate Cut Cycle (Sep 2007 to Dec 2008) Cumulative cut of 500bps	15.89	-17.85	-42.85	3.86
Actual Rate Cut Cycle (Jul 2019 to Mar 2020) Cumulative cut of 225bps	10.15	-4.51	-17.67	-0.59
Past Episodes of Fed Rate on Hold after End of Hike Cycles	**% Change**			
	Gold	**Silver**	**S&P 500**	**DXY**
End of 2004-06 Rate Hike Cycle (Rates on hold at cycle peak from Jun 2006 to Sep 2007)	20.65	20.79	19.40	-7.81
End of 2015-18 Rate Hike Cycle (Rates on hold at cycle peak from Dec 2018 to Jul 2019)	14.52	13.18	18.34	0.97
End of Recent Rate Hike Cycle (Rates on hold since Jul 2023)	16.07	5.88	13.98	3.42

Source: Bloomberg, OCBC Research

A few observations can be drawn from the study:

- S&P500 underperformed (between -17% and -42%) during past periods of actual Fed rate cut cycles as seen in 2001-03, 2007-08 and 2019-20. These periods had coincided with US recessions.
- Gold, silver and the S&P 500 rallied during past periods after Fed rate hike cycle ended, and Fed rates were on hold. DXY performance was less clear given that the periods in consideration were of longer time frames and may not be as fitting for analysing FX moves.
- Gold was a standout as the precious metal strengthened during past periods after Fed rate hike cycle ended and continued to extend its bullish run when Fed rate cut cycles subsequently got underway.
- For the periods when Fed cut rates in 2007-08 and 2019-20, gold rose a further 10-15%.
- For the periods when Fed rate was on hold at cycle peak after respective rate hike cycle has concluded in 2006 and 2018, gold rose between 14 and 20%.

Since Fed's last hike in Jul-2023, gold has rallied about 16% (roughly coming into the historical range). **If history is a guide, then gold may still have further room to run higher when actual rate cut cycle starts** (and this may also come with the assumption that US may enter a recession at some point later.

Apart from looking at gold performance in USD terms, we also look at gold changes vs. most FX majors, AXJ FX since 2001 on calendar basis.

A quick glance revealed that gold outperformed most currencies on average terms every year, since 2001. There were periods when gold dramatically underperformed and they were in 2013 taper tantrum, 2015 first Fed hike, 2018 late cycle Fed hike and in 2021 (the lead-up to Fed's first hike in 2022-23 cycle).

Gold Performance in terms of Other FX (% Change) on Calendar Basis

	USD	EUR	GBP	JPY	AUD	SGD	MYR	IDR	CNY	HKD	Average
2001	2.5%	8.6%	5.2%	17.9%	12.4%	9.0%	2.5%	10.1%	2.4%	2.4%	7.1%
2002	24.8%	5.8%	12.7%	12.6%	13.2%	17.3%	24.7%	7.4%	24.8%	24.8%	16.1%
2003	19.4%	-0.6%	7.6%	7.7%	-10.9%	17.0%	19.4%	12.3%	19.4%	18.8%	10.3%
2004	5.5%	-1.9%	-1.7%	1.0%	1.7%	1.3%	5.5%	16.2%	5.5%	5.7%	2.0%
2005	17.9%	35.0%	31.4%	35.4%	25.4%	20.3%	17.3%	25.0%	15.0%	17.8%	22.9%
2006	23.2%	10.4%	8.2%	24.3%	14.5%	13.7%	15.0%	12.7%	19.1%	23.4%	15.9%
2007	30.9%	18.5%	29.2%	23.0%	18.1%	22.6%	22.8%	36.9%	22.5%	31.3%	22.6%
2008	5.8%	10.4%	43.9%	-14.1%	31.7%	5.0%	10.4%	27.4%	-1.1%	5.1%	17.5%
2009	24.4%	21.4%	12.2%	27.5%	-2.6%	22.2%	24.0%	3.9%	24.4%	24.4%	16.5%
2010	29.6%	38.6%	34.1%	13.0%	13.5%	18.3%	15.2%	23.3%	25.0%	29.9%	22.8%
2011	10.1%	13.7%	10.6%	4.3%	10.3%	11.2%	14.0%	11.0%	5.3%	10.0%	10.9%
2012	7.1%	5.2%	2.4%	20.8%	5.2%	0.9%	3.4%	13.7%	5.9%	6.8%	5.1%
2013	-28.3%	-31.0%	-29.5%	-12.9%	-16.4%	-25.6%	-22.8%	-7.9%	-30.1%	-28.1%	-24.1%
2014	-1.4%	11.8%	4.5%	12.0%	7.6%	3.1%	4.9%	-0.9%	0.7%	-1.6%	3.7%
2015	-10.4%	-0.2%	-5.3%	-10.0%	0.4%	-4.1%	9.7%	-0.2%	-6.2%	-10.5%	-3.1%
2016	8.1%	11.8%	29.1%	5.2%	9.5%	10.8%	13.5%	5.7%	16.7%	8.2%	10.9%
2017	13.5%	-0.7%	4.1%	9.8%	4.7%	4.4%	2.4%	13.9%	5.5%	14.8%	7.2%
2018	-1.6%	3.1%	3.8%	-4.6%	9.0%	0.3%	0.2%	4.4%	3.8%	-1.7%	1.9%
2019	18.3%	21.0%	13.9%	17.2%	18.9%	16.8%	17.1%	13.6%	20.5%	17.7%	16.8%
2020	25.1%	14.9%	21.4%	19.0%	14.0%	22.8%	23.0%	25.7%	16.8%	24.5%	20.3%
2021	-3.6%	3.5%	-2.7%	7.4%	1.9%	-1.7%	-0.7%	-1.2%	-6.5%	-3.1%	0.2%
2022	-0.3%	5.9%	11.5%	13.6%	6.4%	-0.9%	5.7%	8.8%	8.3%	-0.2%	5.8%
2023	13.1%	9.7%	7.5%	21.7%	13.2%	11.3%	18.4%	12.0%	13.0%	16.9%	13.2%
YTD 2024	10.6%	13.3%	11.9%	18.8%	15.5%	13.2%	12.8%	14.1%	15.5%	12.1%	10.8%
Average	10.2%	9.5%	11.2%	10.3%	8.7%	8.9%	10.5%	12.0%	9.0%	10.5%	9.7%

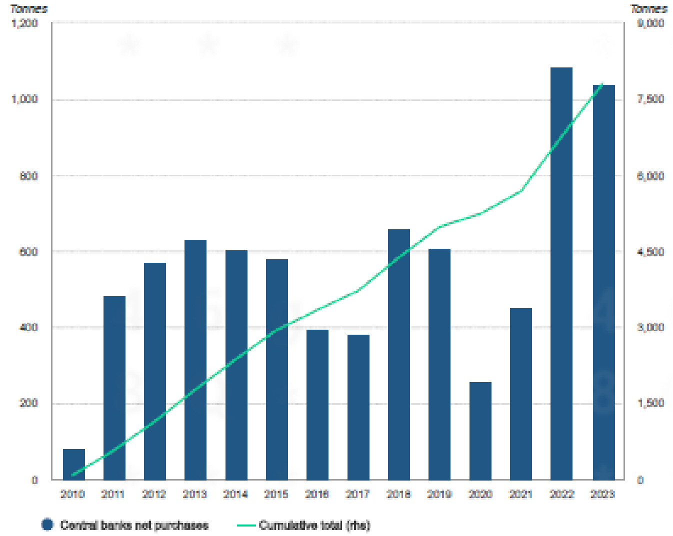
Note: YTD as of 2 Apr 2024. For instance, XAUSGD was 11.3% for 2023. This means gold appreciated 11.3% vs SGD for 2023.
Source: Bloomberg, OCBC Research

Central Banks' Purchase of Gold Slowed but Still at Record Pace

2022 was a record year as global central banks purchased an estimated 1,082 metric tons of gold. 2023 ranks the second largest purchase of gold at 1,037 metric tons. On a country level, China leads the pack in 2023, adding 225 tonnes to its reserves. The momentum has continued into 2024.

In Feb 2024, China further added gold to reserves for 16 consecutive months. Holdings was last reported at 72.58mio troy ounces (Feb 2024 latest data avail).

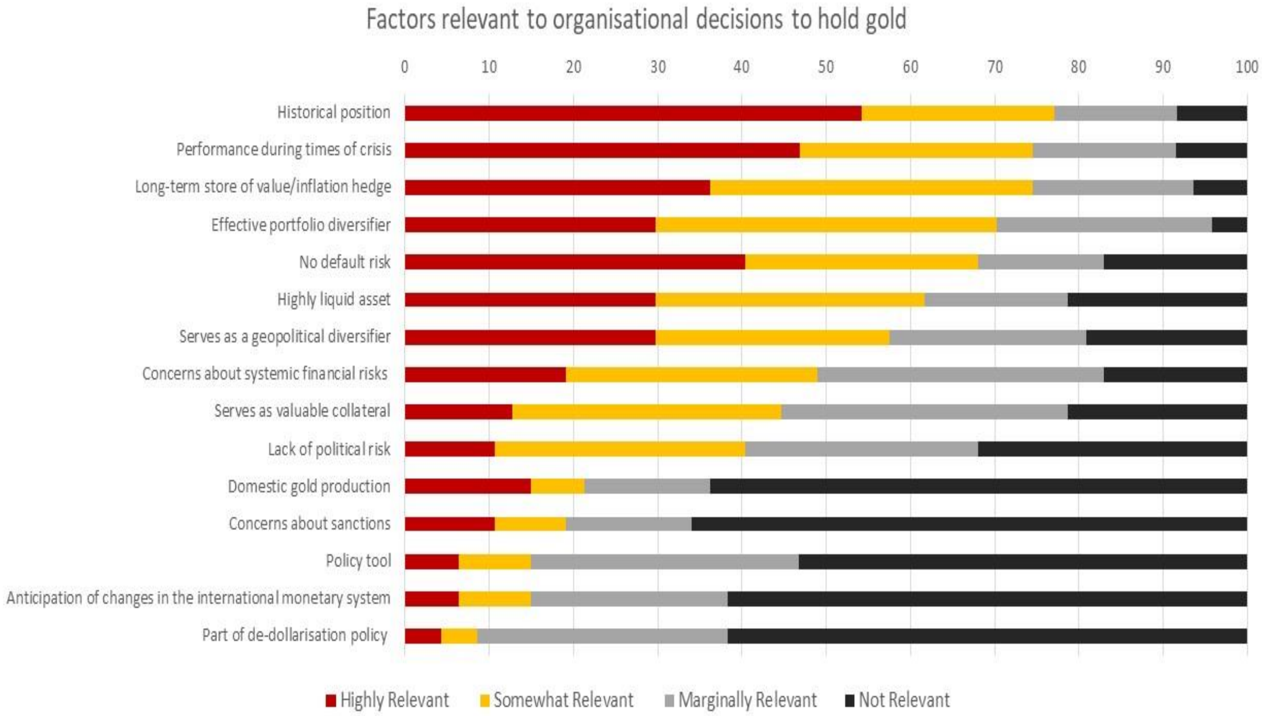
Central Banks Continued to Accumulate Gold



China Extended its Gold Buying Spree in Feb-2024

Source: Bloomberg, Metals Focus, Refinitiv GFMS, World Gold Council, OCBC Research

According to the 2023 Central Bank Gold Reserves survey conducted by World Gold Council and YouGov, gold's "historical position" continues to be the top factor for central banks to hold gold. Other top motivations for holding gold include gold's "performance during times of crisis," "long term store of value/ inflation hedge", "effective portfolio diversifier", "no default risk", "highly liquid asset" as well as "serves as a geopolitical diversifier".



Source: World Gold Council Survey 2023, YouGov, OCBC Research

Geopolitics Another Driver of Gold Prices

To some extent, we also believe that gold's rapid rise in March was also partially driven by potential implications that may arise from US Presidential elections in Nov 2024. While it may seem far-fetched at this point with more than 6 months to go, but it was around the first half of March that former President Trump won the Republican nomination.

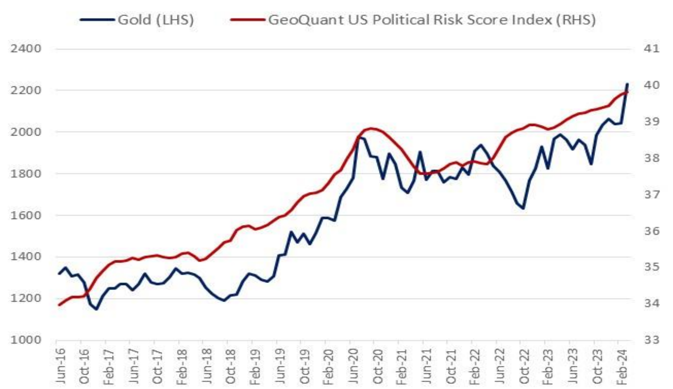
We run through the timeline here: Starting 2 Mar, Trump has been winning a series of nominations in Michigan, Missouri, Idaho and by 6 Mar, Nikki Haley dropped out of the race. On 13 Mar, it was confirmed that Trump won enough delegates to be the Republican presidential nominee. The **potential implication is that Trump may start a new round of trade war on China if he becomes President again for the second term**, and he has recently spoke about plans of imposing tariff of 60% or higher on China. Back in 2018-19 when US-China trade war started and escalated, gold prices rose significantly.

Elsewhere, ongoing armed conflicts in Israel-Hamas and Russia-Ukraine showed no signs of ceasefire. To add, Israel's recent strike on Syria may also have complicated matters, for fear of tit-for-tat responses.

Date	State/Territory	Trump Win	No. of Delegates
24/02/2024	South Carolina	Y	47
24/02/2024	Wyoming	Y	-
02/03/2024	Idaho	Y	32
02/03/2024	Michigan	Y*	51
02/03/2024	Missouri	Y*	54
03/03/2024	**Washington, D.C.**	**N**	**0**
04/03/2024	North Dakota	Y	29
05/03/2024	Alabama	Y	50
05/03/2024	Alaska	Y	29
05/03/2024	Arkansas	Y	39
05/03/2024	California	Y	169
05/03/2024	Colorado	Y	24
05/03/2024	Maine	Y*	20
05/03/2024	Massachusetts	Y	40
05/03/2024	Minnesota	Y*	27
05/03/2024	North Carolina	Y	62
05/03/2024	Oklahoma	Y	43
05/03/2024	Tennessee	Y	58
05/03/2024	Texas	Y	161
05/03/2024	Utah	Y	40
05/03/2024	**Vermont**	**N**	**8**
05/03/2024	Virginia	Y*	42
08/03/2024	American Samoa	Y	9
12/03/2024	Georgia	Y*	56
12/03/2024	Hawaii	Y	19
12/03/2024	Mississippi	Y	40
12/03/2024	Washington	Y*	43

Note: * refers to swing state; Y = Yes for Trump win

Gold Rose Alongside Geopolitical Risk



Eventual Decline in Real Yields Should Further Support Gold Prices

Source: Various sources, including WSJ, NY Times, Bloomberg, OCBC Research

Conclusion: Gold to Trend Higher

We continue to maintain our long-standing view of a constructive outlook on gold**,** on expectations that real rates should eventually correct lower. This should happen when Fed embarks on rate cut cycle.

Our house view expects the Fed to begin its rate cut cycle in Jun-2024 and we pencilled in a total of 100bps cut for 2024 and another 100bps cut for 2025. Historical evidence since 2001 also showed that gold strengthened when Fed rate hike cycle ended and continued to extend its bullish run when Fed rate cut cycle gets underway. Apart from the Fed, other DM central banks, including ECB, BoE, SNB, BoC as well as EM central banks are also expected to transition to an easing cycle. The synchronous easing should further boost the appeal of gold.

To add, we also expect gold's risk-off hedge (safe haven proxy) against geopolitical risks and as a portfolio diversifier should continue to play up more dominantly in driving up gold prices.

	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Gold $/oz	2285	2350	2380	2410	2435

The downside risk to our gold outlook is that the Fed pushes back on timeline for first cut or if the quantum of cuts is much lesser than expected. Also, in the scenario of a sharp wind-down in geopolitical tensions, demand for gold may taper to some extent.

Market Position Suggests Risk of Near-Term Pullback

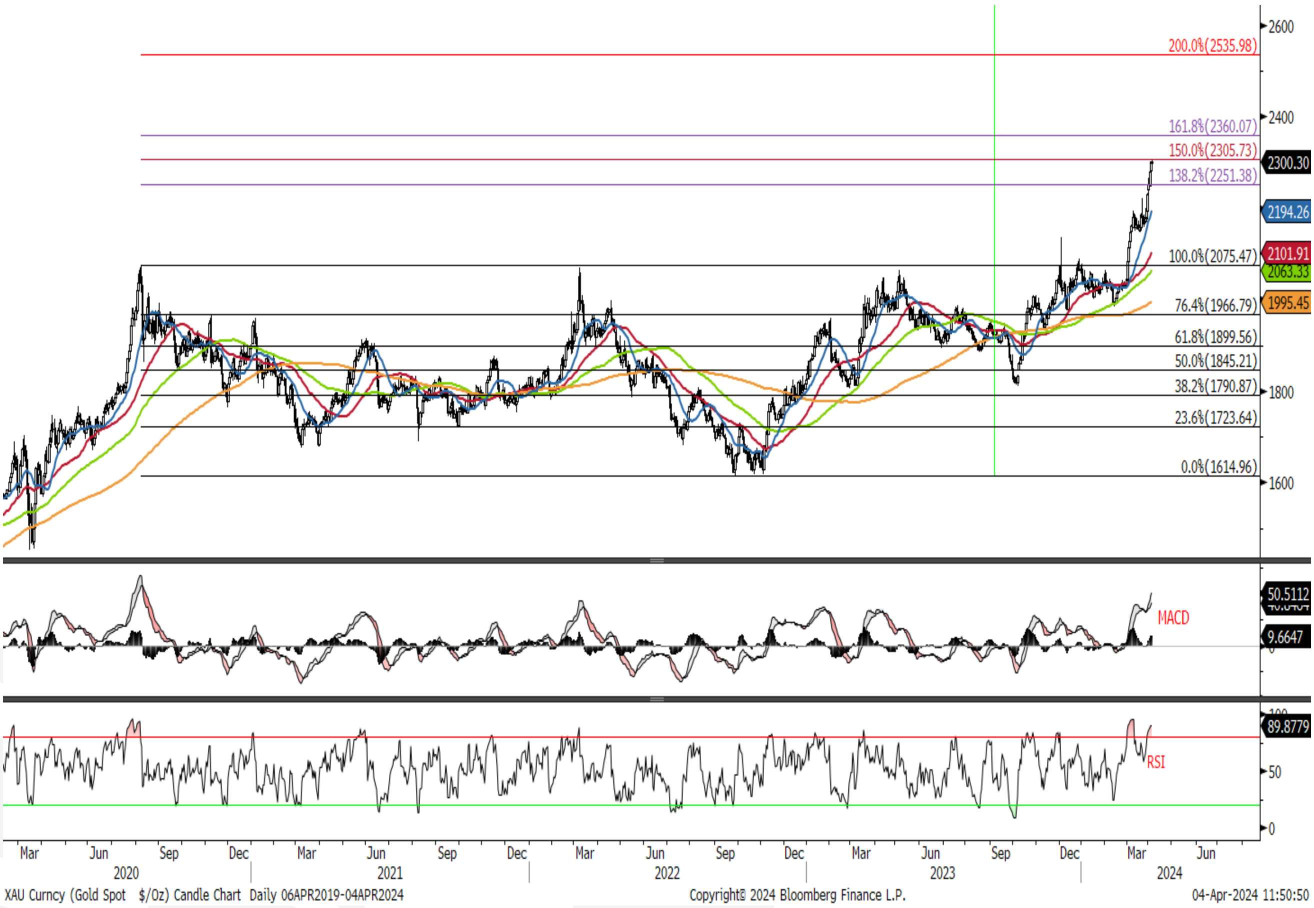
While our gold's outlook may be bullish, we caution for the risk of pullback in the near term. We look at how stretched gold position may be via the 52-week z-score on CFTC positioning. Historically, gold longs at extreme levels (i.e. +2 sd) can see corrective pullback. As of 29 Mar, z-score was near overbought conditions at +1.6 sd.

Note: z-score calculated based on 52w positioning on rolling basis. Sd refers to standard deviation.
Source: CFTC as of 26 Mar (report published on 29 Mar), Bloomberg, OCBC Research

Gold Technical: Pullback Not Ruled Out

Gold continued to make fresh highs for the year, as we wrote. Last at 2300 levels. Underlying momentum as seen on monthly and weekly charts remain bullish. But on the daily chart, RSI is in overbought conditions. We are cautious of how a bearish divergence setup may potentially emerge, contrary to the bullish bias. Near term, a pullback towards 2251 (138.2% fibo) is not ruled out. Beyond this puts next levels of support at 2194 (21 DMA) and 2160. Bias remains for more upside to play out. Our view for bullish bias would be at risk of being nullified if gold declines past 2075 (previous triple top). We would re-visit if this scenario plays out.

With gold in uncharted territory, we make use of Fibonacci extensions based on the previous sideways range high and low before the current breakout (from prior triple-top of 2075) to provide indications of where gold may potentially trade to. Immediate resistance at 2305 (150% fibo extension of 2020 high to 2022 low) followed by 2360 (161.8 fibo) and 2535 (200% fibo).



Source: Bloomberg, OCBC Research

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