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# PHILEQUITY CORNER

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## Gold's stealthy ascent to record highs

Amidst the euphoria surrounding AI stocks and the Bitcoin frenzy, gold has stealthily climbed to new record highs. This notable ascent comes against a backdrop of high interest rates and a robust US dollar. Gold's resilience is largely attributed to increasing geopolitical risks and the strategic acquisitions of central banks, particularly China and other emerging market countries.

Gold reached an all-time high of $2,195 per oz recently, marking an impressive 7.4% surge during the first week of March, before retracing slightly to $2,155 per oz last week.

## Escalating geopolitical uncertainties

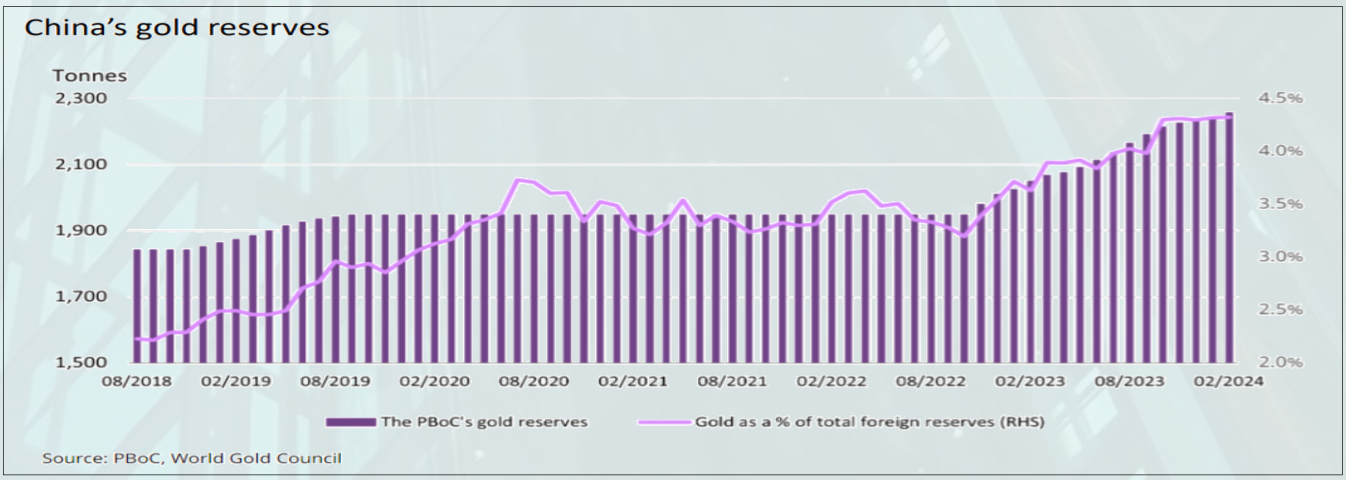
The rise in geopolitical uncertainties has fuelled the demand for gold as a safe-haven asset. The simmering cold war between the US and China, potential disputes in the South China Sea, and ongoing conflicts in Ukraine and the Middle East have collectively drawn investors to seek refuge in assets like gold.

## Confiscation of Russia's reserves

The recent confiscation of Russia's sizeable US$ 300 billion reserves by the US and its European allies following its invasion of Ukraine has triggered reactions worldwide. Nations like China, Saudi Arabia, and others have responded by bolstering their gold holdings, viewing gold as a strategic hedge against potential retaliatory actions and economic repercussions arising from such geopolitical upheavals.

## Record central bank purchases led by PBoC

Central banks have embarked on significant gold purchases to fortify their foreign exchange reserves. Net buying surged to 1,037 tons in 2023, following a record-setting figure of 1,082 tons in 2022. The buying is led by the People's Bank of China (PBOC) which increased its gold reserves by 22 tons in the first two months of 2024, extending its buying spree to a total of 309 tons over the past 16 consecutive months.



China's gold reserves

Source: PBoC, World Gold Council

## Room for growth in China's gold reserves

Despite the notable increase in its gold reserves, China's holdings remain modest compared to its vast foreign exchange reserves, valued at a staggering $3.225 trillion. The recent additions to its gold holdings have propelled China's total gold reserves to 2,257 tons, yet this constitutes just 4.3% of the nation's foreign exchange reserves. In contrast, gold represents approximately 70% of the foreign exchange reserves in the US and Germany, with Russia holding 26%.

## Chinese investors embrace gold ETFs

Chinese gold ETFs have experienced record inflows in recent months, in stark contrast to global gold ETFs which have witnessed outflows. As of February 2024, holdings of Chinese gold ETFs amounted to 65 tons, equivalent to RMB31 billion (US$4.3 billion). The persistent premium of Shanghai gold prices over London prices signals robust domestic demand. Additionally, Chinese consumers are flocking to gold coins, bars, and jewelry. China's lackluster economic recovery and the ongoing real estate crisis have prompted investors to seek refuge in alternative investments like gold.

## Anticipated Federal Reserve pivot

Gold has also been bolstered by weaker-than-expected economic data, particularly within the US manufacturing sector. As the economy weakens, inflation is expected to moderate, giving the US Federal Reserve the go-ahead to start cutting rates in June. This anticipated pivot towards looser monetary policy is widely expected to boost gold's appeal compared with yield-bearing assets like bonds.

## Technical analysis point to strength in gold

Lastly, technical factors are looking positive for gold. Gold prices have registered new all-time highs, signalling the end of its correction and consolidation phase. Notably, gold prices have broken out of a 4- year rectangle pattern, setting a price target of 2,500. Market sentiment remains neutral, indicating that extreme optimism is not yet present. This leaves ample room for gold to attain substantially higher prices.