

# Precious Metals

## Gold: Stubborn Inflation | 21 October 2021

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- More persistent inflation than expected, the recent surge in energy prices, and stagflation concerns amid weaker activity data are adding to demand for real assets like gold.
- The recent drop in US real rates has shielded gold from moves in nominal yields, but this should reverse as acute tightness in global energy markets fade and breakevens normalize in 2022.
- We push our end-2021 target for gold to end-March 2022 (USD 1,700/oz, from USD 1,650/OZ) and introduce the end-2022 target at USD 1,600/oz.

Gold prices have been on a stronger footing of late, though the yellow metal has failed on several occasions to hold above the psychological level of USD 1,800/oz. Energy shortages in some parts of the world, an associated sharp rise in energy prices, slowing industrial activity, and the delta variant disrupting the services recovery have raised the specter of stagflation. Indeed, inflation expectations are rising and growth expectations softening for the short run. These risks could support gold prices in the next month or two, particularly if concerns about stagflation persist—historically, gold has preformed well during periods of stagflation.

That said, we do not believe this is indicative of a 'regime change' toward stagflation. Moreover, as we approach the Fed's tightening cycle, we remain convinced US real interest rates will rise as nominal yields eventually outpace breakeven valuations. A cold winter and associated higher energy costs could see another step-up in broad prices, which could keep downward pressure on real yields for longer. This could also undermine our case for broad USD strength. Gold prices currently trade below fair value of our model at USD 1,795/oz.

As such, we push out our end-2021 target of USD 1,700/oz to end-Mar 2022 (before USD 1,650/oz), lift the end-Jun forecast by USD 50/oz to USD 1,650/oz, and introduce the end-Dec 2022 forecast at USD 1,600/oz. We advise curbing tactical holdings and hedging strategic ones.

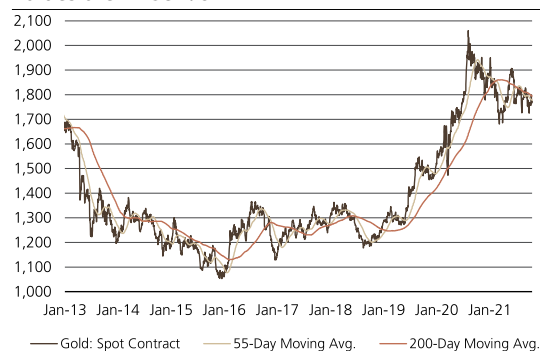
### Market data and forecasts (USD/oz)

	Forecast	Spot/Futures
20 Oct 2021	-----	1,775
Mar 2022	1,700	1,776
Jun 2022	1,650	1,777
Sep 2022	1,600	1,791
Dec 2022	1,600	1,792

Source: Bloomberg Finance LP, UBS; Note: Forecasts refer to end of period

### Gold price

Values are in USD/oz



Source: Bloomberg Finance LP, UBS

### US inflation expectations have increased in recent weeks

10-year breakeven in %



Source: Bloomberg Finance LP, UBS

### Historical performance

Underlying	Δ 1m	Δ 3m	Δ 12m	Δ ytd
Gold	1.0	-2.0	-7.2	-6.5
Silver	6.8	-4.5	-2.7	-9.3

Source: Bloomberg Finance LP, UBS

**Terms and Abbreviations**

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
Backwardation	When the spot price trades above the prices of futures	BCF	Billion cubic feet
BCM	Billion cubic meters	BCOM	Bloomberg Commodity Index
Bu	Bushel (1 ton = 36.7bu wheat/soybean; 39.37 bu corn)	CBOT	Chicago Board of Trade
CFTC	Commodity Futures Trading Commission	CIF	Cost, insurance and freight
CME	Chicago Mercantile Exchange	CMCI	UBS Bloomberg Constant Maturity Commodity Index
CNIA	China Non-Ferrous Metals Industry Association	COMEX	New York Commodities Exchange
CONAB	Companhia Nacional de Abastecimento (Brazilian government agency)	Contango	When the spot price trades below the prices of futures
COT	Commitment of Traders	CRB Index	Index Commodities Research Bureau Index
Crush margin	Difference between the value of the oil and meal produced from the soybeans	CTA	Commodity Trading adviser
DOE	U.S. Department of Energy	EIA	Energy Information Administration
ETC	Exchange Traded Commodity	ETF	Exchange Traded Fund
Excess Return (ER)	Excess return = spot return + roll yield return (rolling of futures contracts)	FAO	Food and Agriculture Organisation
FOB	Free on Board	HH Natural Gas	Henry Hub Natural Gas
IEA	International Energy Agency	IAI	International Aluminium Institute
ICCO	International Cocoa Organisation	ICE	Intercontinental Exchange
ICO	International Coffee Organisation	ICSG	International Copper Study Group
IIZSG	International Lead and Zinc Study Group	IMF	International Monetary Fund
INSG	International Nickel Study Group	JM	Johnson Matthey
JODI	Joint Oil Data Initiative	KCBT	Kansas City Board of Trade
LME	London Metal Exchange	LNG	Liquefied Natural Gas
mbpd	Million barrels per day	Mtoe	Million tons oil equivalent
NOAA	National Oceanic and Atmospheric Administration	NYBOT	New York Board of Trade
NYMEX	New York Mercantile Exchange	OECD	Organisation for Economic Co-operation & Development
OPEC	Organization of Petroleum Exporting Countries	PGM	Platinum Group Metals
RICI	Rogers International Commodity Index	S&P GSCI	Standard and Poor's-Goldman Sachs Commodity Index
SHFE	Shanghai Futures Exchange	SI	Silver Institute
TC/RC	Treatment/Refining Charges	TCF	Trillion cubic feet
Thomson Reuters GFMS	Research consultancy specializing in precious metals, base metals and steel market research	TOCOM	Tokyo Commodity Exchange
Total Return (TR)	Total return = excess return + return from the cash collateral	USDA	US Department of Agriculture
UNICA	Sugar and Alcohol Millers Association of São Paulo state	USD/bbl	USD per barrel
USD/bu	US Dollar /bushel	USD/gl	USD per gallon
USD/lb	USD per pound	USD/mmbtu	USD per 1 million British thermal unit
USD/mt	USD per metric ton	USD/oz	USD per oz, (1 oz = 31.10 grams)
USGS	U.S. Geological Survey	WBMS	World Bureau of Metal Statistics
WGC	World Gold Council	WPIC	World Platinum Investment Council
WTI Crude Oil	West Texas Intermediate Crude Oil	WTO	World Trade Organisation

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## Appendix

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