



Ongoing macro and elevated geopolitical risks continue to justify holding exposure to gold for hedging and diversification purposes. (UBS)

Gold: Recommend buying on dips below USD 2,000/oz

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Gold has started the year in a much more subdued mood than it ended 2023—the yellow metal has fallen by around 2% thus far, due in part to a less dovish Fed as revealed by its December meeting minutes, which caused a slight rise in US rates and modest US dollar strength.

CIO believes this pullback in gold is minor in the context of its 15% rise in 2023 and its record daily close of USD 2,081/oz on 27 December. Even after the latest moves, the gold price remains above the psychological level of USD 2,000/oz, which signals to us that the power of the Fed's policy pivot should not be underestimated.

Looking ahead, while volatility is likely to remain elevated over the coming weeks as rates markets settle, we forecast prices to rise through the year to USD 2,250/oz by year-end. Our base case calls for 100bps of Fed cuts, starting in May, putting pressure on the US dollar and real interest rates, which should spark fresh demand, particularly from exchange-traded gold funds. Historically, exchange-traded fund (ETF) buying has been associated with a sustained rise in gold. After three years of ETF outflows, we foresee annual inflows of around 250–300 metric tons this year starting in the second quarter. Ongoing macro and elevated geopolitical risks continue to justify holding exposure to gold for hedging and diversification purposes, in our view. We recommend an allocation of around 5% within a USD-based balanced portfolio.

Central banks were a key driver of gold demand in 2022 and 2023, having bought over 1,000 metric tons each year. While this may prove difficult to repeat for another year, we believe the key drivers behind central banks' reserve diversification remains in place. Moreover, for some key emerging markets, gold holdings as a proportion of aggregate reserves remain in the single digits. We start the year with an assumption of central bank purchases of around 700–750mt in 2024 and flat mine production compared to 2023. Overall, we recommend buying gold on dips below USD 2,000/oz.

Upside scenario

Gold December 2024 target: USD 2,450–2,550/oz

The Fed becomes even more dovish and introduces another round of quantitative easing measures, or it allows inflation to overshoot, that would once again support investment demand for gold.

Downside scenario**Gold December 2024 target: USD 1,950–2,050/oz**

The Fed becomes even more hawkish and hikes interest rates even more, strongly pushing up US real rates and triggering substantial outflows from gold ETFs.

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Original report - [Gold: The power of the Fed pivot, 19 January 2024.](#)

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