

The 2020 Gold Rush

The yellow metal – a traditional safe-haven play – has hurtled past the all-time high on a pandemic-led perfect storm. At US\$1,958.43 an ounce struck on Tuesday, gold prices have eclipsed September 2011's record of US\$1,920/oz. Next, it seems to be eyeing a key psychological mark – US\$2,000/oz. *The Business Times* highlights five triggers for gold's spectacular sprint.

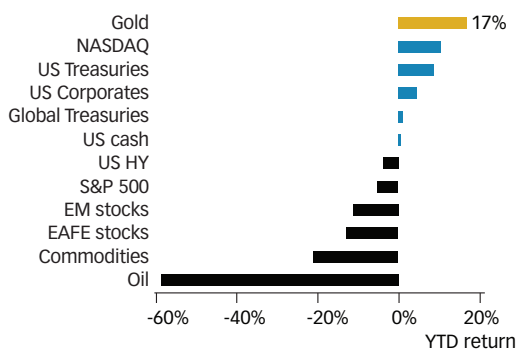
BY ANITA GABRIEL



SUMMER GLOW

Loose monetary policies by the US Federal Reserve to cushion the coronavirus-hit economy have dragged real interest rates way low and led to negative or near-zero yields on government bonds. The Fed's dovish stance at this week's meeting is expected to keep real yields at record lows. Lower yields historically benefit gold, as the metal pays zero yield and its holders no longer miss out on yields.

Star performer



RUSH HOUR

The desire to hold gold has never been stronger. Gold-backed exchange traded funds (ETFs) – a key part of the bullion market – hit a record US\$40 billion in H1 2020. At 734 tonnes, the annual inflows in tonnage terms also marks a record,

based on data from the World Gold Council. Central banks have also been loading up on gold, largely bought from the international over-the-counter market or domestic production, to raise gold reserves

WHO'S GOT YOUR (GREEN)BACK?

Historically, the greenback and gold prices have an inverse relationship – a weakening dollar makes dollar-priced commodities such as gold more attractive.

The massive stimulus has weakened currencies, including the US dollar, which has also been weighed down by macro worries. The need to hedge against debasement of fiat, or paper, currencies, is fuelling a demand boom in gold which over time, has been a relative outperformer.

THE 'I' FACTOR

The enormous amount of new money could trigger price inflation down the road. As investors brace for an inflation uptick – this will also weigh on US Treasury yields – gold, deemed a sound hedge against inflation, could sizzle even more.

FULL FLIGHT

The perfect storm of US-Sino tensions, surge in Covid-19 cases and a hurting global economy has led a flight to quality – in short, gold.

In such financial and economic uncertainties, the precious metal, which is a highly liquid asset that lacks a default risk and is regarded as an effective portfolio diversifier, could be valuable.