

Goldman Sachs The Markets

Why gold could rise even higher

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Mike Washington: Gold is making fresh, all-time highs. Are more gains ahead? This is The Markets.

I'm Mike Washington, Equity Sales trader with Goldman Sachs Global Banking & Markets sitting in for Chris Hussey. My guest is Lina Thomas, commodities strategist for Goldman Sachs Research. Lina, welcome to the show.

Lina Thomas: Thank you so much for having me and happy all-time high today.

Mike Washington: That is right. And by the way, candidly, I had not pulled up a 12-month chart in gold for some time. And if anyone that's listening hasn't, I strongly recommend you do. It's a very impressive chart. Gold is up over 45 percent over the last 12 months. Lina, can you just

give us a lay of the land? What's been driving the strength over the last year?

Lina Thomas: Yeah, so actually we have to start our story in 2022, which is when the US and the West froze the assets of the Russian Central Bank. And this was really a wake-up call for a lot of central banks, especially in the emerging markets that have most of their reserves in US treasuries, in dollars, in euros. And they looked at their reserves and said, like, well, is this really risk free? Because apparently, this can be frozen one day. And potentially even confiscated.

So, what they decided to do was buy tons of gold because gold is the one asset that no one can freeze. And so, what we saw since 2022 is this impressive rise, this huge surge, this unprecedented search in central bank gold amounts. It surged five-fold. And we don't see it slowing down.

So, this relentless buying has really pushed prices higher, even in an environment where rates also went higher in 2022 because, remember, higher interest rates spells doom for gold prices because gold doesn't pay any interest. And what we saw since 2022 was that interest rates went

higher, and gold prices also went higher exactly because these central banks were buying so much that it even offset the downward pressure that we were seeing on investor demand from the higher interest rates.

Now, in 2024 what we saw is that when the Fed started signaling that they were going to cut rates, but yet all of a sudden, these central banks are still buying a lot of gold. And at the same time, investors are also competing for the same bullion.

Mike Washington: Yeah, that's an interesting dynamic. Let's focus on 2025. I mean, gold is already up over 10 percent this year. It's making new highs as we speak. What have metals experts been focused on so far this year?

Lina Thomas: So, it is indeed extremely striking. Up seven percent this year and we're only in February, Mike. And that's very impressive. Now, there's basically two reasons for this. One is that we have seen a sharp ramp up of central bank buying. And we think that this is linked to, potentially, some central banks feeling a little bit nervous about US policy uncertainty.

And then the second thing which is adding fuel to the fire is that speculators are running to gold as a safe haven amidst a lot of trade tensions and their fears. And that's also something that we have seen playing out in the first trade war in 2019 as well.

Mike Washington: You recently updated your forecast for gold prices this year and you reiterated your long gold recommendation, despite that performance. Why do you think that gold has even more room to run from here?

Lina Thomas: Yeah. Indeed. We don't think that the rally is over yet. However, we do expect some technical downside because positioning is currently quite stretched because of these tariff fears. And when these tariff fears fade, we expect some flushing of this positioning.

Now, we do have a target of 3,500 by the end of 2025. And the reason for that is twofold, one, structurally higher central bank demands. And two, some boost to ETF flows because the Fed is expected to cut twice this year.

Now, that being said, if safe haven demand remains high or picks up again and we see an increase in speculative

positioning again, then we can easily go to 3,300 by the end of 2025.

Mike Washington: So, you brought up a couple things that I've been focused on. The first was the Fed cutting. And then the second were tariffs. Let's talk about gold in relation to the US dollar. If the US dollar gains strength, which is something investors have been very focused on, what do you think that will mean ultimately for the gold trade?

Lina Thomas: So, this is quite interesting, right? And may be paradoxical. Goldman Sachs Research has both a bullish dollar call and a bullish gold call. Now, that seems paradoxical, but it actually makes a lot of sense if you look at the drivers. So, let's break it down.

First, central banks, the biggest force in our bullish gold call, they buy gold with dollars from their dollar reserve. So, we don't think that dollar strength is going to stop them. And on top of that, if you look at the largest buyer, which is China, the PBOC, they historically always bought gold exactly when renminbi was under pressure, likely to boost confidence in their currency.

Now, let's look at the investors of ETF holders. There we see that interest rates, not the dollar, is what really pushes them to buy gold. And while it's typically lower rates and a weaker dollar goes hand in hand, but this time it's quite interesting in that our economists are expecting a stronger dollar since the Fed is cutting while other central banks may ease more aggressively.

Third is the trade tariffs, which are a key part in the stronger dollar for longer call of our FX strategists. And they will be pushing both the dollar, but also gold higher because of safe haven asset demand.

And then finally let's talk about Chinese retail demands. We are expecting a weaker renminbi, but also at the same time, a PBOC easing. And there we see that the lower interest rates in China is proving to boost the demand, which is going to offset the drop that is coming from local higher prices in China.

Mike Washington: Yeah, that all makes a ton of sense. If we flip and think about gold as an asset, and if I'm an asset allocator, how am I thinking about gold in my

portfolio? Am I thinking about it as a hedge? How would you describe just how I should be thinking about gold?

Lina Thomas: So, we think that if you want to hold gold for a long time, because we do see further upcycling gold because of this structural story of central banks, you think it makes a lot of sense. If you want to technically trade, then maybe it's not a great entry point because we're expecting some downside risk.

But if you want to hedge your portfolio, especially equity and bond portfolios, for potential risk scenarios in 2025, and one of them is already playing out currently which is tariff fears, and we're seeing gold as a great hedge for that. But also, for instance, US debt fears, including inflation risks, we're expecting a 5 percent additional upside for gold if that were to play out.

Mike Washington: You know, you brought up a couple things about the short term, a few dynamics around positioning. Do you mind expanding a bit more on what you mean by that?

Lina Thomas: Yeah, indeed. So, basically when

uncertainty is very high, for instance we've seen this in the past as well, Brexit, the US elections in November, the first trade war in 2019, there are a couple of examples, you see that speculative positioning always tends to rise when uncertainty is very high. That makes a lot of sense because essentially money managers park their capital in gold because they see it sort of like a waiting room because they don't really know where to put their money otherwise because there's just so much uncertainty around investment. And then the moment that there is clarity about the situation, then we see immediately a big flushing.

We saw this actually in November with the US elections where there was a lot of uncertainty before the US elections who would win the elections. And the world under Trump may have been a little bit different than the world under Harris. And so, a lot of money managers parked their money in gold. And then the moment we knew the outcome, that Trump won the election, we saw this huge flushing in positioning and that also explained the drop in the gold prices back then.

Mike Washington: Lina, thanks for joining me. This

has been awesome.

Lina Thomas: Thank you so much.

Mike Washington: That does it for this week's episode of The Markets. I'm Mike Washington, thanks for listening.

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