GOLD OUTLOOK TO Q2 2024:
## Recession Risk Increasing as Central Banks

CENTRAL BANKS LAPPING UP GOLD

After hitting an all-time high in 2022, central bank demand for gold has maintained strong momentum. Figure 4 shows official sector gold buying in Q1 2023 was the largest on record for the first quarter (albeit lower than Q3 2022 and Q4 2022). In April 2023 gold sales by Turkey's central bank of 81 tonnes appears to be more of a technical dynamic than a change in gold buying policy: the gold was sold to the domestic public markets to satisfy strong bar, coin, and jewellery demand following a temporary partial ban on gold bullion imports. That ban was put in place to soften the economic blow from the earthquake in February 2023. A YouGov poll, sponsored by the World Gold Council[3], showed that developing market central banks are expecting to increase their gold reserve holdings and decrease their US dollar reserve.5 (dy439 DC BT7gld Gold Council)TjETEMC /P Lang (en- (en- (en3aeF664 10 0eF66
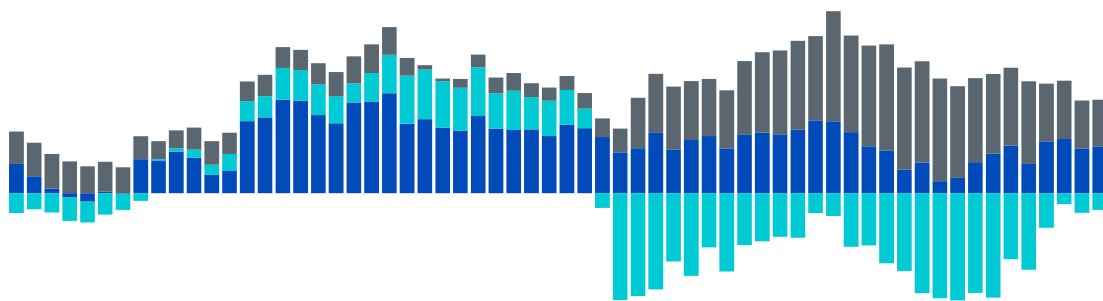
GOLD OUTLOOK USING WISDOMTREE'S FORECASTS MODEL

Using the same model, we can produce gold forecasts consistent with several macroeconomic scenarios (Figure 6).

CONSENSUS

Our consensus scenario takes Bloomberg Survey of Professional Economists' average views on inflation, US dollar and Treasury yield forecasts. Consensus is looking for inflation to continue to decline (although above central bank target), the US dollar to depreciate, and bond yields to continue to fall.

Without a consensus forecast on gold sentiment we reduce speculative positioning to a conservative 100k, which is close the long-term average, from the elevated level of close to 180k in June 2023. The risk is clearly to the upside this year if a recession or financial dislocation materialises. Gold is a highly sought after asset in times of economic and financial stress, and so a recession could drive sentiment for the metal even higher.

In the consensus case scenario, gold reaches US$2,225/oz by Q2 2024, piercing through previous all-time nominal highs (US$2,061/oz on 7 August 2020) by Q4 2023 at $2139/oz. However, in real terms this does not reach an all-time high, which was reached in January 1980. In fact, it would be 34% below that level. And, in real terms, it is still 10% below the 2020 high.

BULL CASE

In this scenario the Federal Reserve pays heed to the recession warning signs and pivots its monetary policy to cutting rates faster. If the Fed begins monetary expansion by autumn 2023, bond yields will be falling and, assuming it moves before the European Central Bank and other major central banks, we could see the US dollar depreciate at a faster rate. We assume inflation will be stronger than in the consensus scenario as a result of the Fed loosening monetary conditions. Assuming that the recession fears that the Fed is responding to are real, we expect positioning in gold futures to remain elevated.

In this scenario, gold could reach US$2490/oz. That would be 22% higher than the all-time nominal high (reached in August 2020) and about the same level as that in real terms. However, it would be 28% below the all-time real high reached in 1980.

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BEAR CASE

In the bear case, CPI inflation falls to 1.8%, that is, below the Fed target. In essence, the Fed makes a policy error in overdoing the tightening. Bond yields rise and the US dollar appreciates as an overzealous Fed outpaces other central banks. Although we acknowledge that such a scenario increases recession risk and, therefore, could be gold positive drawing more investors to the yellow metal as a hedge, for the sake of building a negative scenario, we cut speculative positioning in gold futures down to 50k.

In this scenario, gold could reach US$1710/oz, retracing prices back to November 2022 levels.

Figure 6: Gold Price Forecasts
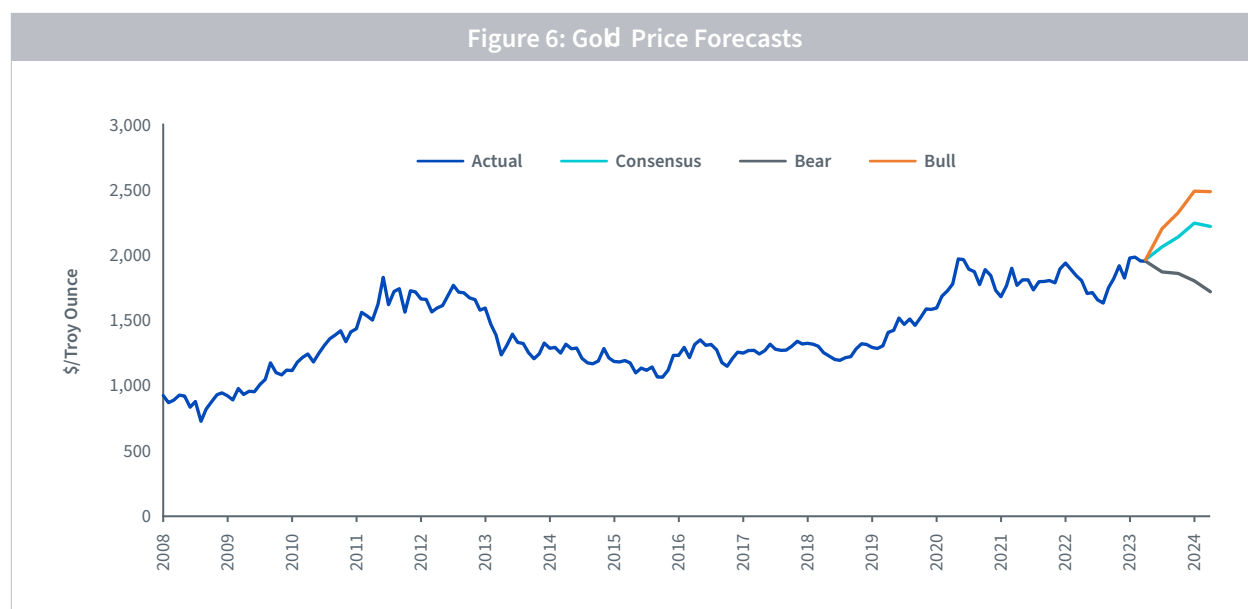
Source: WisdomTree Model Forecasts, Bloomberg Historical Data, data available as of close June 2023. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

	Consensus Q3 2023	Consensus Q4 2023	Consensus Q1 2024	Consensus Q2 2024
Inflation forecast	3.5%	3.2%	2.8%	2.6%
Nominal 10-year yields forecast	3.63%	3.53%	3.46%	3.42%
US$ exchange rate forecast (DXY)	101.3	99.7	98.3	96.8
Speculative positioning forecast	180k	150k	125k	100k
Gold price forecast	US$2060/oz	US$2140/oz	US$2250/oz	US$2225/oz

Source: WisdomTree. Bloomberg Survey of Professional Economists, April 2023. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.** Speculative positioning is the number of long non-commercial contracts in gold futures and options less the number of short non-commercial contracts in gold futures and options. A non-commercial holder is someone who has no operational business activities related to a particular commodity (e.g. not a miner, refiner or jewellery company). They are typically financial counterparties or investors and thus labelled speculators. The net positioning of their contracts provides an indication of financial market sentiment for the commodity.

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	Bull Q3 2023	Bull Q4 2023	Bull Q1 2024	Bull Q2 2024
Inflation forecast	5.0%	4.5%	4.0%	3.5%
Nominal 10-year yields forecast	3.20%	3.10%	3.00%	2.90%
US$ exchange rate forecast (DXY)	100	98	96	

Source: WisdomTree, June 2023. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

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Glossary

<u>Basis point:</u> 1/100th of 1 percent. <u>Bear market:</u>