

Is gold set to continue acting as a safe-haven asset?

Gold has long been a source of debate and contention among economists and investors. Lord John Maynard Keynes, the renowned economist and statesman, famously dismissed gold as a “barbarous relic of the past,” referring to it as a commodity fuelled by nothing more than “superstition” and a “primitive passion for solid metal.” Similar sentiments were echoed by Warren Buffet, the legendary US value investor, who criticized gold as driven solely by “fear and speculation” and lacking any clear underlying fundamentals or predictable return profile.

Despite the lack of income generation and the costs associated with extraction and storage, investors, households, sovereigns and corporations have treasured gold for generations. It has served as a steadfast store of value, shielding portfolios against economic turmoil and systematic macro risks, such as the Great Financial Crisis of 2008-9 or the Great Covid-19 Pandemic of 2020-22.

securities are starting to offer higher nominal yields, which increases the opportunity costs of holding gold. Our analysis delves into the three main factors behind higher and rising gold prices.

First, while nominal yields are now much higher than they were in the recent past across most advanced economies, they are still lower than inflation, i.e., “real yields” are still negative. This means that cash and short-dated government securities are less attractive as investment options than nominal yields suggest, favouring allocations in alternative investments such as gold, which is considered a protection against inflation. This is particularly relevant for Japan and Europe, where real rates are even more negative than the US. In fact, gold prices in Euros (EUR) or Japanese Yen (JPY) have already reached all-time highs in recent weeks.

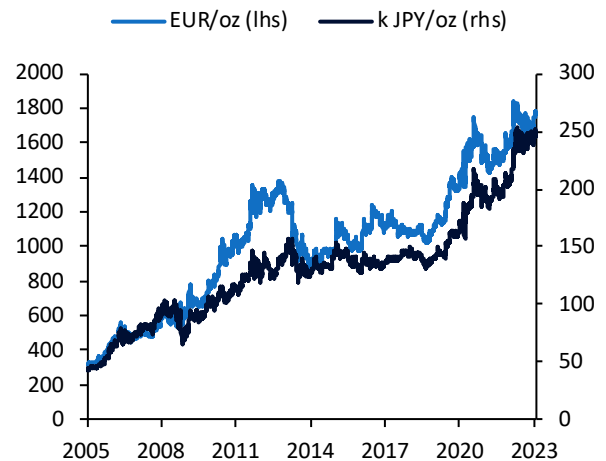
London Gold Bullion
 (AM fix, USD/Troy oz, 2005-2023)



Sources: Haver, Wall Street Journal, QNB analysis

Importantly, after a significant slide from the pandemic highs, gold has recently benefited from a resurgence in demand. As a result, the precious commodity is only 6% away from breaking out to new all-time highs of above USD 2,062 per ounce. This price strength of gold is ever more surprising in a context where cash or short-dated government

London Gold Bullion in EUR and JPY
 (Troy oz, 2005-2023)



Sources: Haver, Wall Street Journal, QNB analysis

Second, the global economy is facing a number of geopolitical uncertainties, including the Russo-Ukrainian War and escalating tensions between China and the US in the Taiwan Strait. This has elevated the risk premium in traditional assets and heightened demand for alternative safe havens. In addition to secular trends, such as intensifying economic competition between the US and China, declining international cooperation, trade conflicts, growing political polarization, and sanctions, these

events have further boosted the demand for non-jurisdictional safe haven assets like gold. In a context of more geopolitical stress, gold, as a tangible asset that is jurisdictionally neutral and can be used as a collateral across different markets, gains even more relevance. Central banks around the world have been amassing gold reserves at a historical pace. In the past year, major central banks have accumulated gold holdings at a rate not seen since 1967, when the global monetary system was still based on the precious metal.

Third, the global macroeconomic landscape is presenting a challenging combination of low growth, high debt, and high inflation, particularly in some major advanced economies. In the past, these conditions have often led to financial repression, where governments implement policies to suppress public debt and finance their deficits. This can involve keeping interest rates below inflation,

increasing the money supply, and implementing capital controls. The result is a wealth transfer from savers to the government through inflation, reduced savings returns, and reduced purchasing power. Gold tends to perform well in such financial repression scenarios and cautious long-term investors have begun partially positioning themselves in anticipation of these conditions.

All in all, we believe that long-term trends are driving the resurgence of gold as a diversifying and stabilizing element in the portfolio of global investors. This movement has already gained momentum and is in its early-mid stages, offering considerable potential for growth in gold prices over the long-term horizon or the next decade.

QNB Economics Team:

Luiz Pinto*

Assistant Vice President -
Economics
+974-4453-4642

* Corresponding author

Bernabe Lopez-Martin

Senior Manager -
Economics
+974-4453-4643

DISCLAIMER: *The information in this publication (“Information”) has been prepared by Qatar National Bank (Q.P.S.C.) (“QNB”) which term includes its branches and affiliated companies. The Information is believed to be, and has been obtained from, sources deemed to be reliable; however, QNB makes no guarantee, representation or warranty of any kind, express or implied, as to the Information’s accuracy, completeness or reliability and shall not be held responsible in any way (including in respect of negligence) for any errors in, or omissions from, the Information. QNB expressly disclaims all warranties or merchantability or fitness for a particular purpose with respect to the Information. Any hyperlinks to third party websites are provided for reader convenience only and QNB does not endorse the content of, is not responsible for, nor does it offer the reader any reliance with respect to the accuracy or security controls of these websites. QNB is not acting as a financial adviser, consultant or fiduciary with respect to the Information and is not providing investment, legal, tax or accounting advice. The Information presented is general in nature: it is not advice, an offer, promotion, solicitation or recommendation in respect of any information or products presented in this publication. This publication is provided solely on the basis that the recipient will make an independent evaluation of the Information at the recipient’s sole risk and responsibility. It may not be relied upon to make any investment decision. QNB recommends that the recipient obtains investment, legal, tax or accounting advice from independent professional advisors before making any investment decision. Any opinions expressed in this publication are the opinions of the author as at the date of publication. They do not necessarily reflect the opinions of QNB who reserves the right to amend any Information at any time without notice. QNB, its directors, officers, employees, representatives or agents do not assume any liability for any loss, injury, damages or expenses that may result from or be related in any way to the reliance by any person upon the Information. The publication is distributed on a complementary basis and may not be distributed, modified, published, re-posted, reused, sold, transmitted or reproduced in whole or in part without the permission of QNB. The Information has not, to the best of QNB’s knowledge, been reviewed by Qatar Central Bank, the Qatar Financial Markets Authority, nor any governmental, quasi-governmental, regulatory or advisory authority either in or outside Qatar and no approval has been either solicited or received by QNB in respect of the Information.*