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# Gold. The question everyone is asking and the answer no one expects

In response to the increasing interest in gold, I am poised to share our perspective on the matter. Allow me to clarify upfront that I do not consider myself an expert in this field. One must be honest enough to acknowledge knowing little or nothing about many things but diligent when collaboration is required. Therefore, let me begin with the conclusion: I believe gold should be trading at levels around $1,600/oz (currently at $2,028/oz).

The rationale:

**Gold in real terms:** Given the global deflator (now at 1.2347), the price of gold in real terms (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) is US$1,633. Therefore, in real terms, gold continues to trade well above its 20-year average of US$1,256oz. For the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$1,550.

**Gold in terms of silver.** The Gold/Silver ratio rose to 88.45, still above its 20-year average of 67.9x, suggesting that gold is expensive relative to silver (or silver is cheap relative to gold). For this ratio to reach its long-term average, assuming that silver is better priced than gold (which is highly probable), then the gold price should go to US$1,548/oz.

**Gold in terms of palladium:** The Gold/Palladium ratio increased to 1.97x, marking the first time since November 2016 that this ratio has surpassed its 20-year average of 1.82x. This implies that gold is currently expensive compared to palladium. To bring this ratio to its long-term average, assuming that palladium is well valued, then the price of gold should reach $1,784 per ounce.

**Gold in terms of oil:** The Gold/Oil ratio is at 25.70x, still well above its 20-year average of 19.31x. Considering our mid-term outlook for WTI oil at US$80 (right in the middle of our new range of $70-90 for oil) and assuming that the utility function of both commodities will remain unchanged, the price of gold must approach US$1,544 for this ratio to remain near its LT average.

**Gold in the current economic framework:** Within the four-quadrants framework, we are proposing a quadrant for 2024 where low (but positive) growth would be combined with inflation on the path of moderation. Such a scenario suggests a mediocre performance for the price of gold as displaces the feared scenario of stagflation (or recession with inflation) which is more favorable for gold. Of course, the price of gold will also be determined by the decision of the Western central banks in their management of the monetary mass, and the Asian central banks, in their decision to displace the USD in their strategic reserves.

**The massive negative returns in bonds have disappeared:** During the 2010-2017 and 2020-2022 periods, Gold's disadvantage against fixed income instruments (gold does not offer a coupon) was neutralized by nominal negative yields in a large number of global bonds, leading to strong arguments for the purchase of gold. But this is no longer the case, with most of the bonds in the USD universe offering positive returns, making them attractive against gold, which again suffers from the disadvantage of not offering a coupon or yield. From this perspective, gold would once again exhibit its historical disadvantage and should underperform compared to U.S. Treasuries.

Of course, these are not the only factors influencing the price of gold, and I am aware that some of these underlying arguments may continue to exert a bullish influence on gold. For instance, the fact that gold challenges the Treasury bond for its role as an anti-fragile asset—a role both assets have historically contested. Investors must decide which anti-fragile asset to include in their portfolio to safeguard against a potential market shock in 2024. The answer will largely depend on the perception of which of the two assets (gold and US Treasury bonds) may perform better in that disruptive scenario. This, in turn, will hinge on the relative supply of each asset. The one with a lower relative supply will outperform in the face of a shock.

In the short term, and as long as quantitative tightening (QT), where the Federal Reserve floods the market with a significant amount of US Treasury bonds, causing a surge in their relative supply, persists, gold could outperform US Treasury bonds and continue its upward trajectory. This would, however, require a certain continuity of risks on the geopolitical front. However, with a longer-term perspective, once QT concludes and the Fed reduces its intervention in the market, we anticipate a more appropriate and limited supply of US Treasury bonds. This should be positive for them in terms of reclaiming their role as an anti-fragile asset, surpassing gold once again.