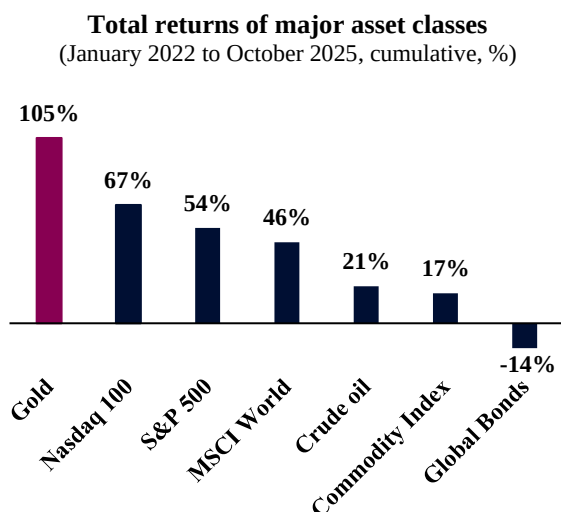


What are the limits for gold's positive momentum?

Gold has once again proven its value in providing robust returns in times of global uncertainty. In fact, gold has been one of the standout global asset classes in recent years, consistently demonstrating remarkable resilience. Since the post-pandemic normalization in 2022, gold prices have gained around 105%, significantly outperforming most global benchmarks, including equities, bonds, and commodities.



Sources: Bloomberg, QNB analysis

This broad-based outperformance underscores gold's unique position as both a store of value and a macro hedge in an era defined by three converging structural forces: strong global growth in money supply, geopolitical fragmentation, and central bank reserve diversification.

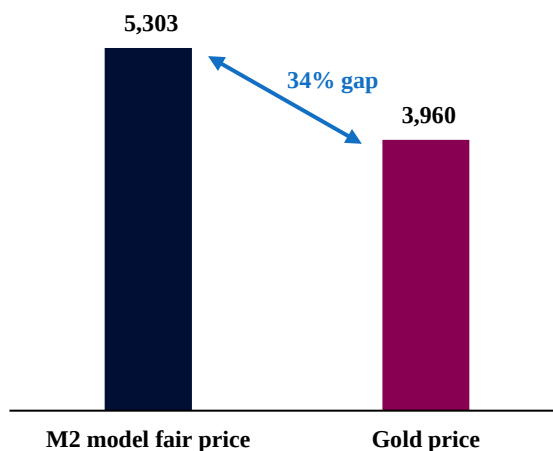
Since the onset of the pandemic, an unprecedented expansion of fiscal and monetary policy has undermined confidence in the stability of currencies from major advanced economies. Simultaneously, a series of geopolitical shocks from US/China strategic rivalry to conflicts in Eastern Europe have fuelled a premium for safe and jurisdictionally neutral assets. Finally, the steady accumulation of gold by emerging market central banks, often as a deliberate strategy to reduce dependency on established reserve

currencies, has added a new layer of sustained, price-insensitive demand.

While the large advance of gold prices in recent years and months raises sensible questions about the sustainability of current prices or the continuation of the bull market, we remain positive about the outlook for gold over the medium- and long-term. Two main factors support our position.

First, gold looks “fairly” priced if not even undervalued against USD money supply (M2). Since at least the Bretton Woods agreements for the post-Second World War economic order in 1944, the USD long-term price of gold seems to be anchored directionally around USD M2 growth. A significant part of the recent movement in gold prices could be interpreted as a catch up from a long stretch of undervaluation since 2010 as well as continuous strong issuance of USD. Current prices still have to climb around 34% to reach our modelled fair price. Importantly, M2 has been accelerating in recent years, growing at a compounded annual rate of 7.5%. In other words, there are no obvious signs of “overvaluation” and one of the main drivers of prices, USD issuance, continues to expand rapidly.

Gold prices versus USD M2 fair price¹
(USD per troy oz)



Sources: Haver, QNB analysis

¹ The USD M2 fair price model for gold adjusts the Bretton Woods price reference for gold of USD 35 per troy oz by the USD M2 growth since Bretton Woods in July 1944.

Second, positioning from both central banks and other investors in gold also suggests further scope for price appreciation. Geopolitical fragmentation continues to amplify gold's appeal as a jurisdictionally neutral asset outside the reach of financial "weaponization." Such an environment is historically favourable to real assets like gold, which serves as a hedge against the erosion of monetary credibility or insurance against systemic disruption. According to the World Gold Council, after the Russo-Ukrainian conflict in 2022, central bank additional demand for gold more than doubled from 450 tons per year to more than one thousand tons per year. Surprisingly, despite the increase in official demand for gold from central banks, there is still a lot of room for a much longer process of gold accumulation. While large, advanced economies tend to hold around 25% of their foreign exchange (FX) reserves in gold, large EM-based central banks hold only less than 12% of their FX reserves in gold. Given that these EM-based central banks hold around USD 6 trillion in FX reserves, there is scope

for a continued multi-year process of portfolio rebalancing from these reserve managers. Moreover, different surveys indicate that other institutional allocators and retail investors are significantly underweight gold in their portfolios, particularly vis-à-vis an increase in guidance from advisors about the optimum position in gold for different portfolios. Hence, this supports a steady long-term institutional demand for gold.

All in all, despite the sharp rally in recent months and significant risks of short-term corrections, there is still further upside for gold over the medium- and long-term. Consensus amongst leading research houses suggest that gold prices are likely to be well sustained at around USD 4,000 per troy oz with estimated upside of 10-15% over the next twelve months. This is supported by continued currency issuance and favourable structural positioning.

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