



# GOLD'S ACTION DURING THE PANDEMIC: FROM HISTORICAL PERFORMANCES TO FUTURE IMPLICATIONS

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- ❖ What makes gold stand out from the crowd?
- ❖ If gold is a hedge against financial risk, why did it fall when the equity markets crumbled? Does it live in a fool's paradise?
- ❖ Have any lessons been learned from the "Lehman Crisis"? How does the pandemic compare with what happened in 2008 and will gold enter a fresh bull run the way it did in 2009?
- ❖ Gold is a currency, but it is also a commodity and subject to problems that any commodity can face. What has made life difficult this time around?
- ❖ Conclusions and debate

What makes gold stand apart from the crowd?

It is both adornment and investment...

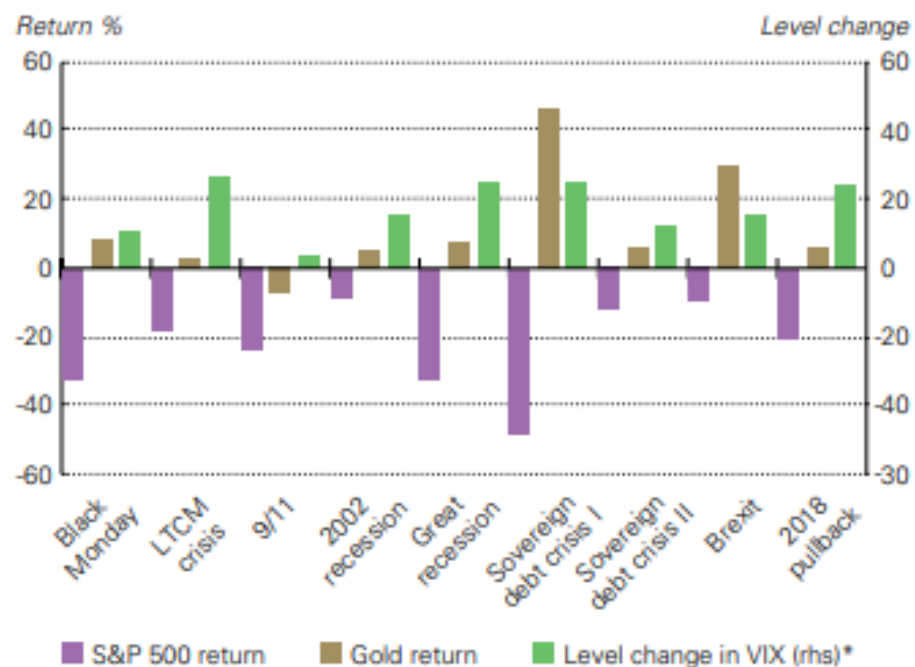




# What makes gold stand apart from the crowd?

... a hedge against risk ...

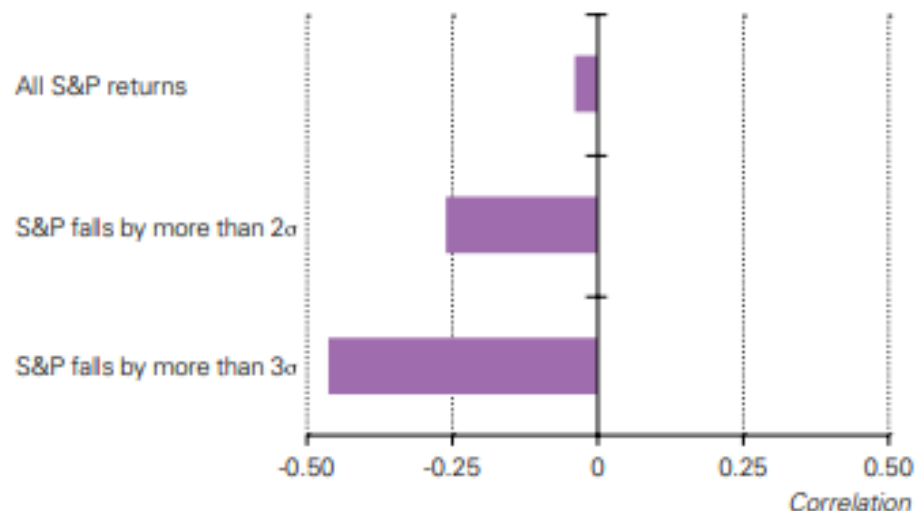
S&P 500 and gold return vs change in VIX level\*



\*The VIX is available only after January 1990. For events occurring prior to that date annualised 30-day S&P 500 volatility is used as a proxy.  
Dates used: Black Monday: 9/1987–11/1987; LTCM: 8/1998; Dot-com: 3/2000–3/2001; September 11: 9/2001; 2002 recession: 3/2002–7/2002; Great Recession: 10/2007–2/2009; Sovereign debt crisis I: 1/2010–6/2010; Sovereign debt crisis II: 2/2011–10/2011; 2018 pullback: 10/2018–12/2018.

Source: Bloomberg, World Gold Council

Conditional correlation between gold and the S&P 500 relative to the magnitude of the stock pullback\*



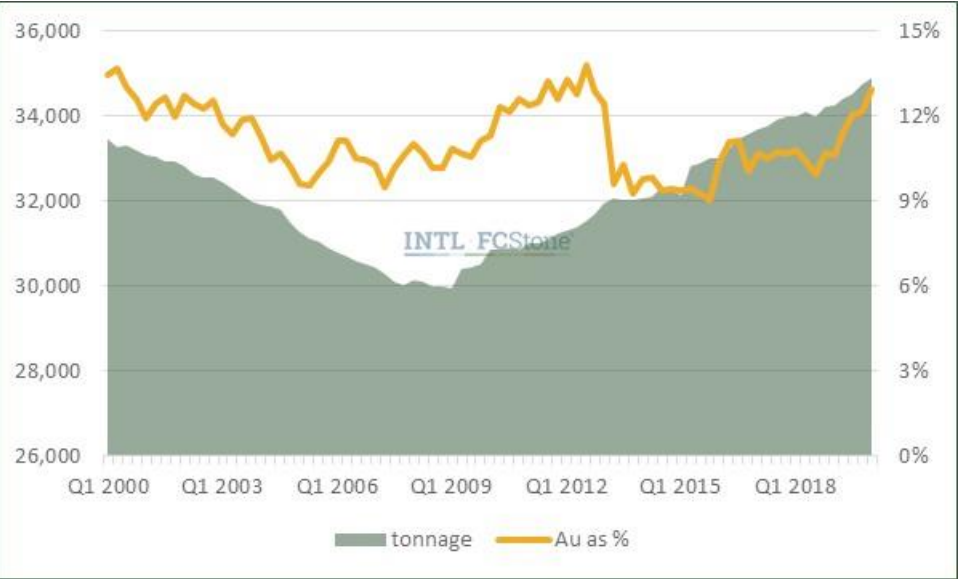
\*Based on weekly returns between 31 December 1989 and 31 December 2019.

Source: Bloomberg, World Gold Council

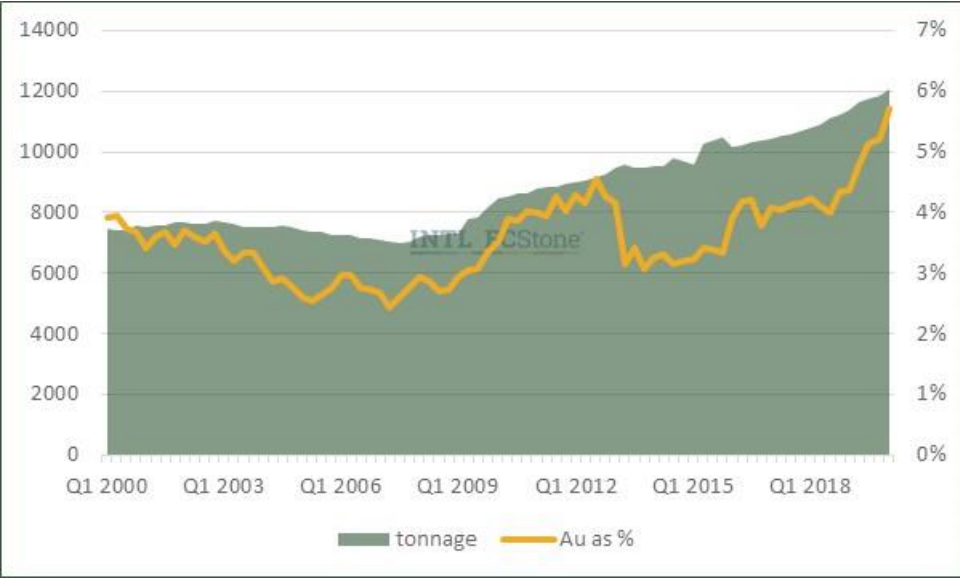
# What makes gold stand apart from the crowd?

... and a non-fiat currency

Official reserves; tonnage and %age of FX

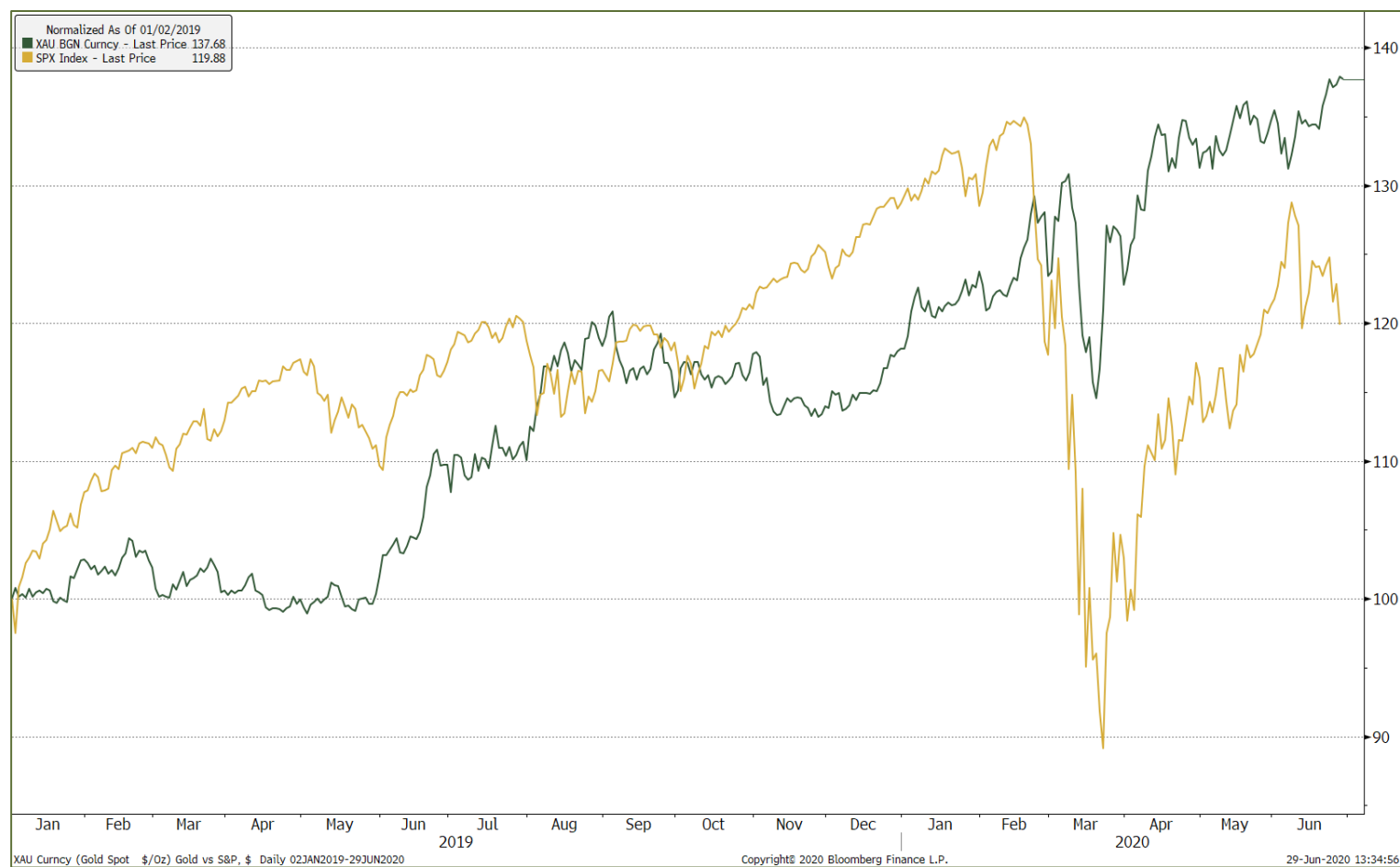


Official reserves; tonnage and %age of FX; legacy gold standard and supranational stripped out



Source: IFS, World Gold Council INTL FCStone

If gold is a hedge against financial risk, why did it fall when the equity markets crumbled? Does it live in a fool's paradise?



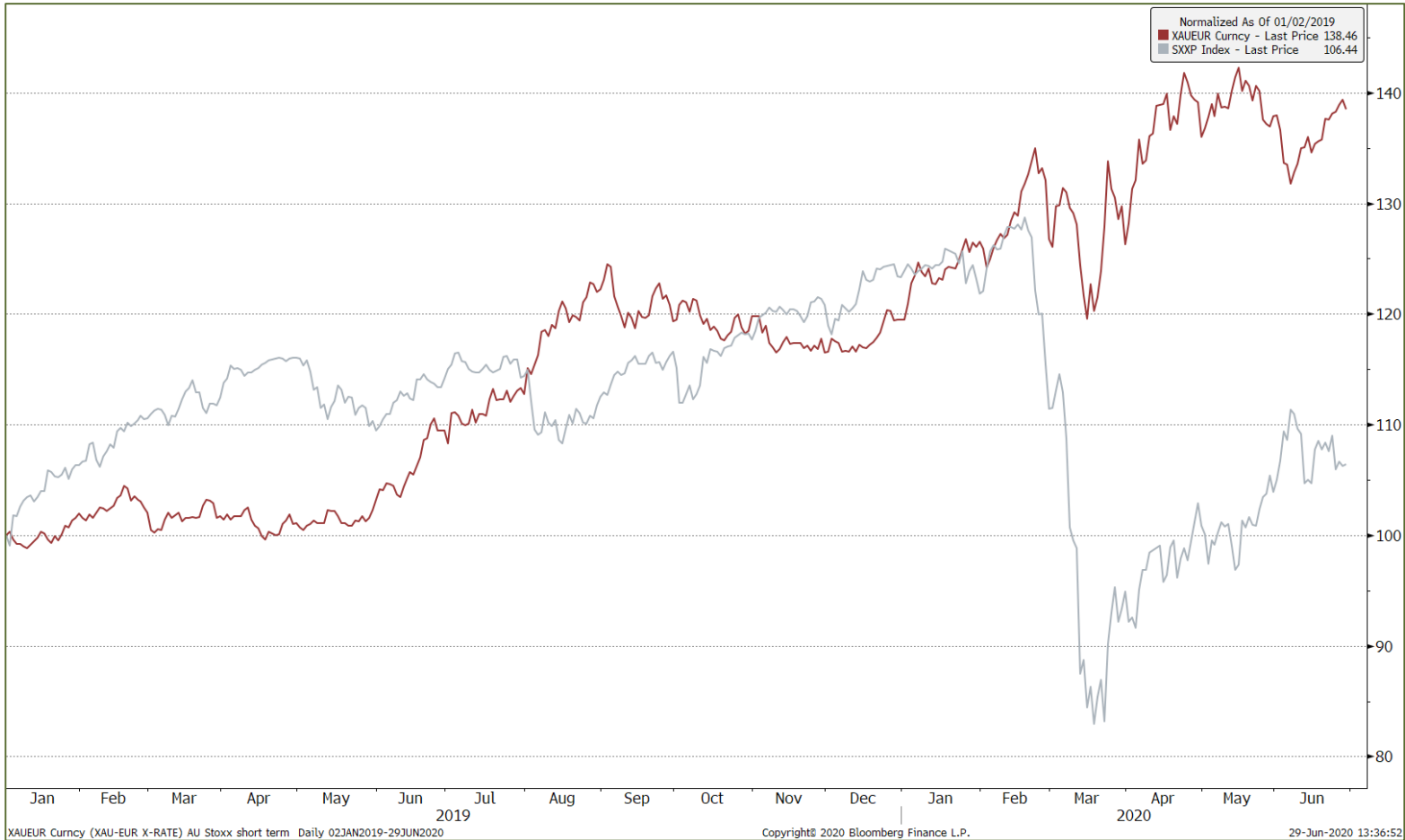
Source: Bloomberg

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Metal	Size of March fall (%)	To a low of how long?	How much has been unwound?
Gold	12.4%	four months	123.6%
Silver	35.7%	10 years 11 months	84.4%
S&P 500	33.9%	1 year 2 months	74.9%
Tin	25.8%	4 years 2 months	74.2%
Copper	26.5%	3 years five months	68.2%
\$/euro	6.7%	five months	64.4%
Nickel	24.2%	1 year 2 months	57.6%
STOXX 500	35.5%	6 years five months	55.6%
Platinum	42.2%	17 years, 5 months	53.8%
Lead	20.8%	4 years 2 months	50.0%
Aluminium	20.5%	4 years 2 months	39.9%
Zinc	26.0%	3 years 10 months	31.9%
Palladium	44.1%	6.5 months	25.9%

Source: Bloomberg, INTL FCStone

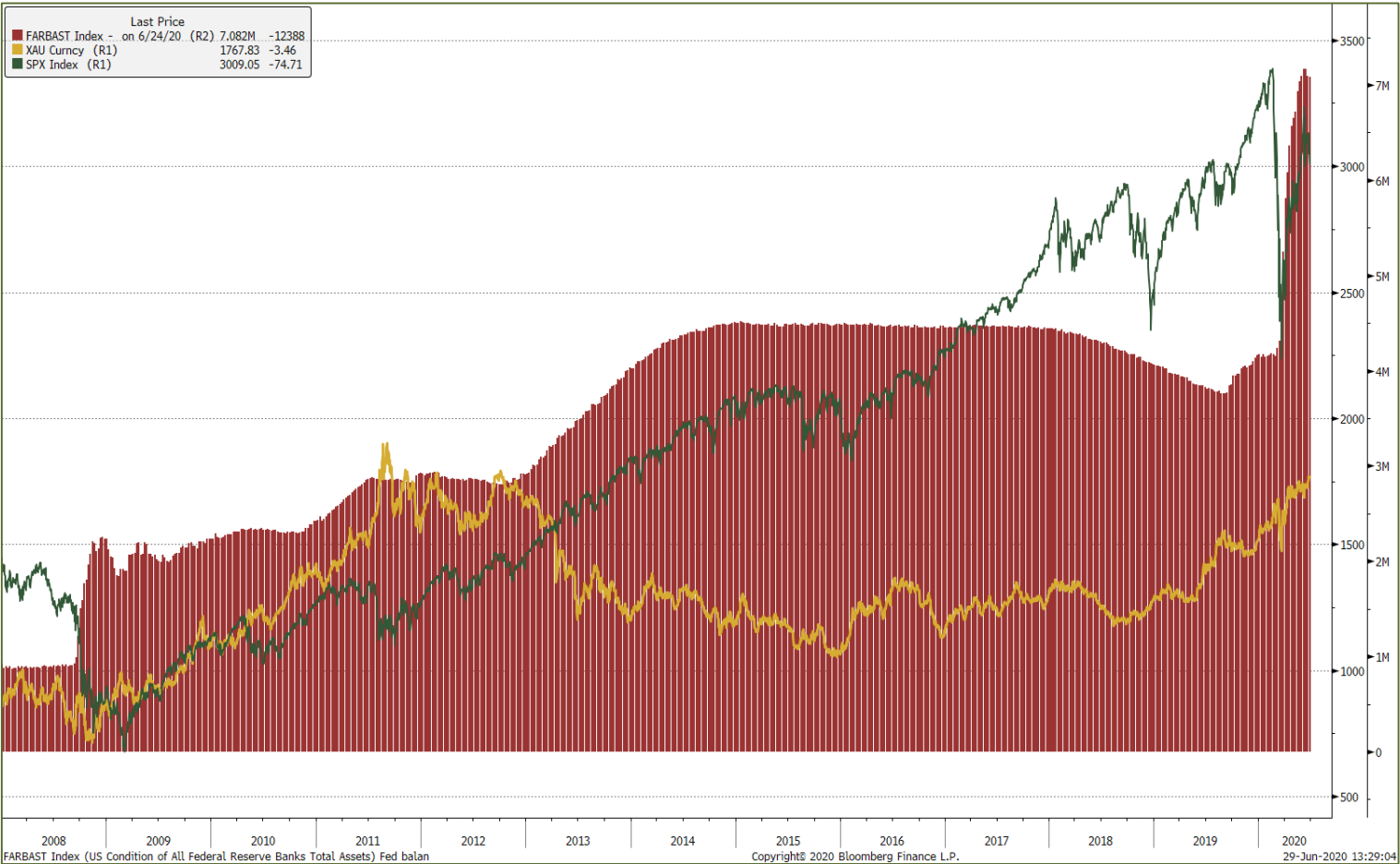
Have any lessons been learned from the “Lehman Crisis”? How does the pandemic compare with what happened in 2008 and will gold enter a fresh bull run the way it did in 2009?



Source: Bloomberg



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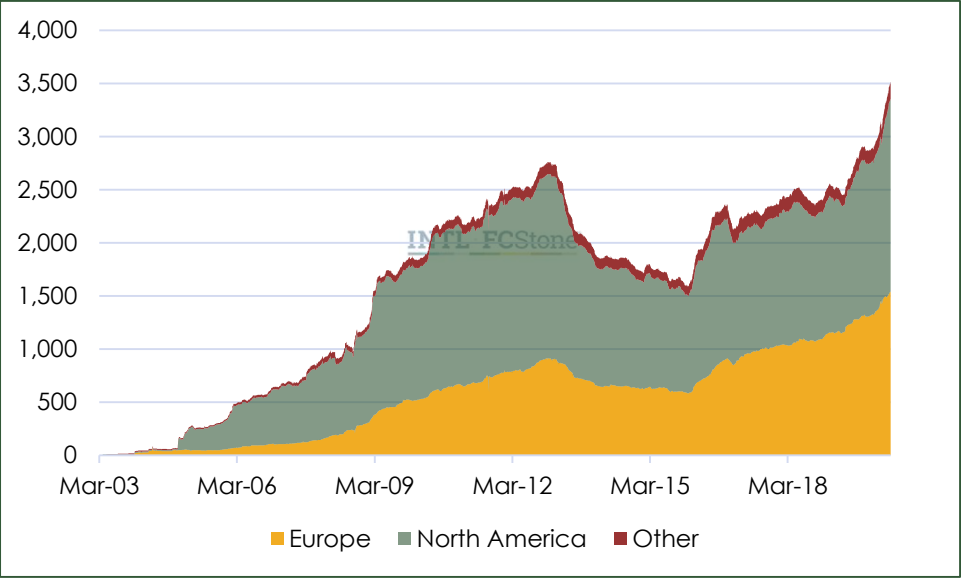


Source: Bloomberg

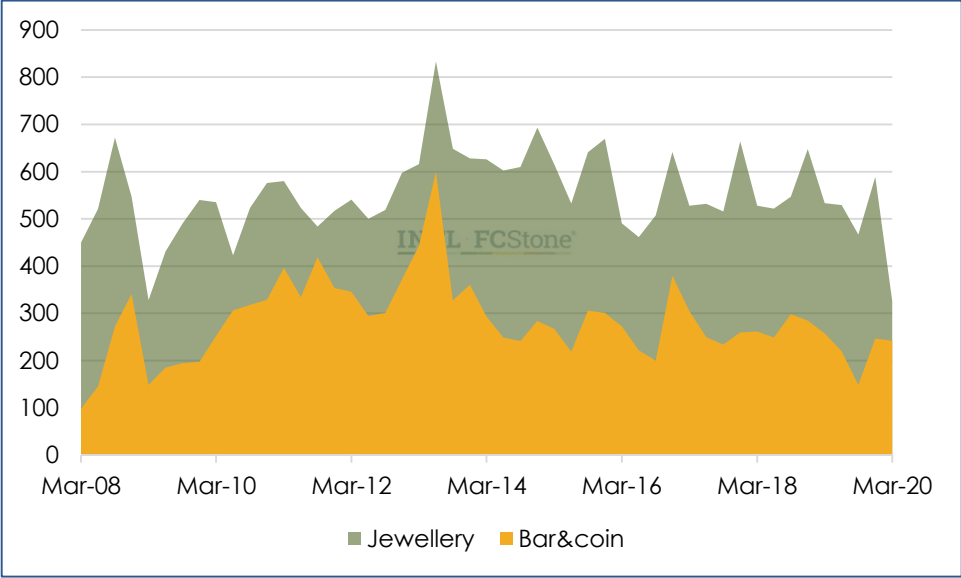


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Gold ETFs, tonnes



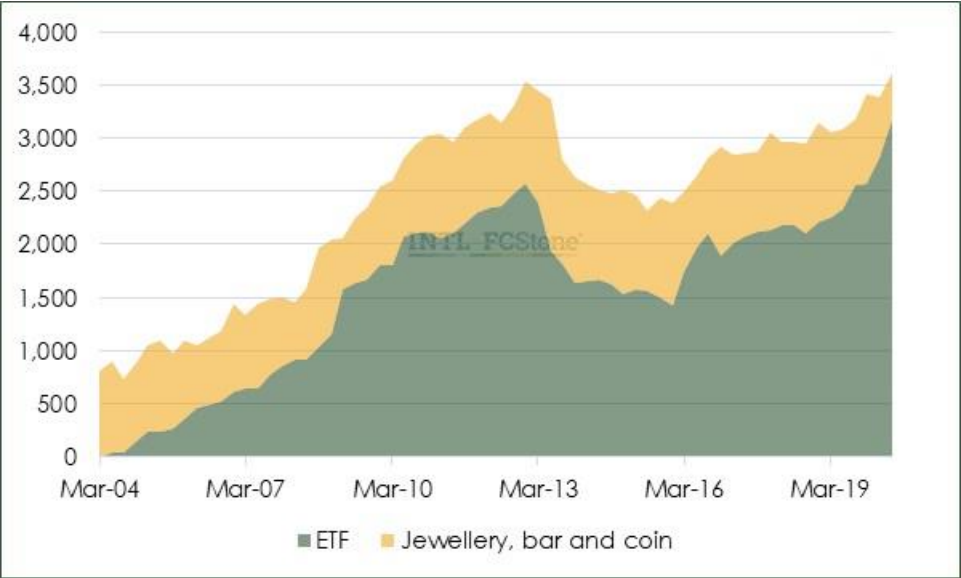
Jewellery, coin & bar by quarter, tonnes



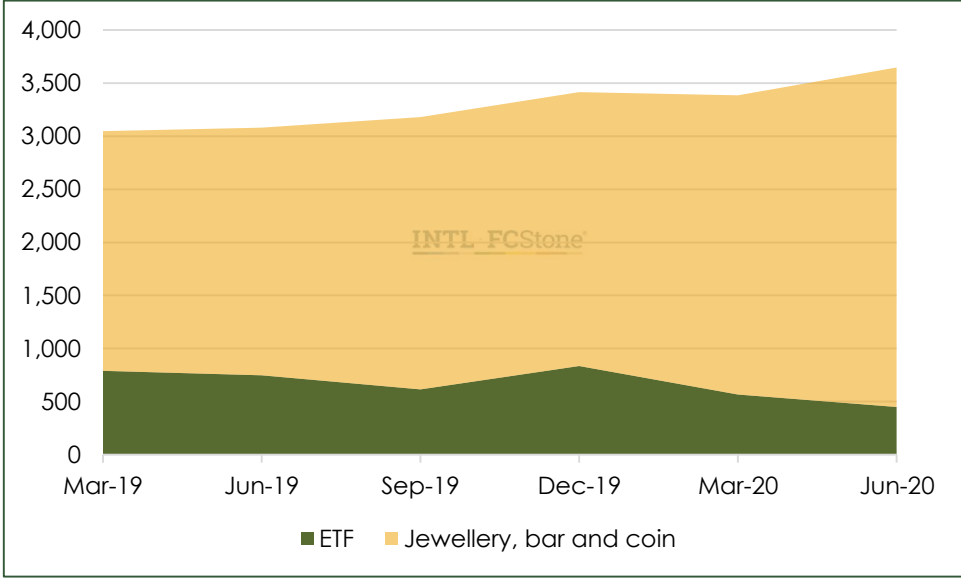
Source: World Gold Council, INTL FCStone

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ETFs, jewellery, bar & coin, long term



ETFs, jewellery, bar & coin, short term



Source: World Gold Council, INTL FCStone

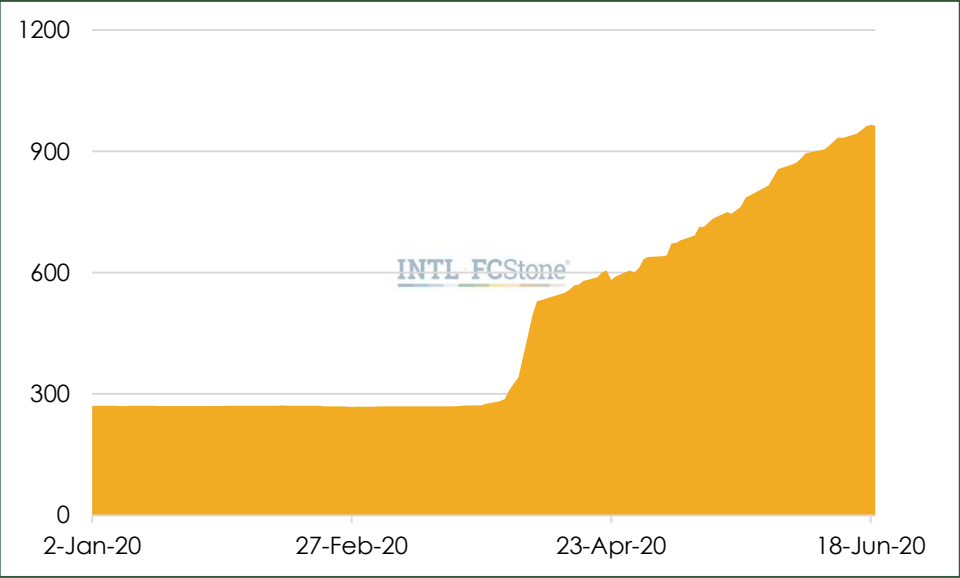
Gold is a currency, but it is also a commodity and subject to problems that any commodity can face. What has made life difficult this time around?

Two key issues: -

- The underlying malaise in the price-elastic physical market, already addressed in the previous slides
- And more short-term but in many ways more intense, the recent market dislocations due to logistical issues

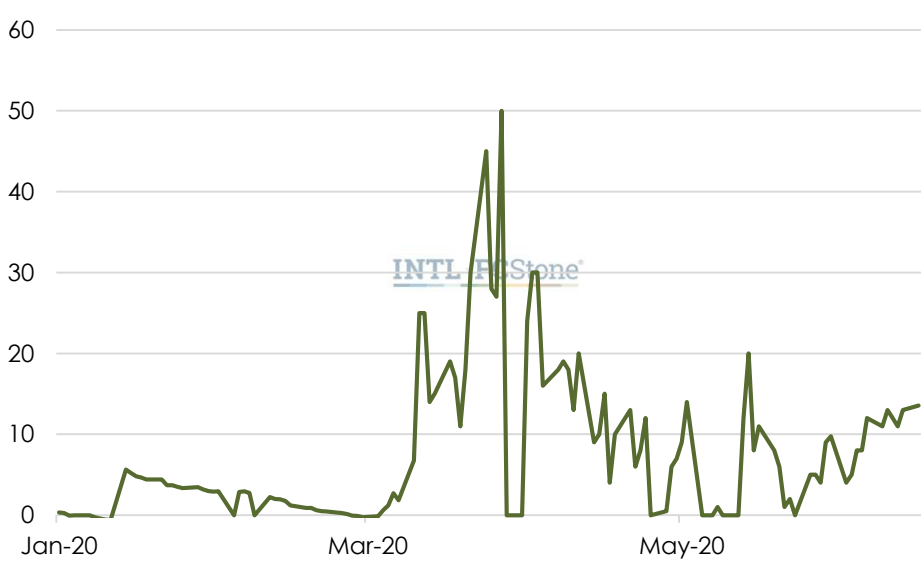
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COMEX gold inventories



Source: Bloomberg, INTL FCStone

The gold EFP



Source: Bloomberg, INTL FCStone

- Lessons have been learned from the post-Lehman crisis, especially with respect to targeted funding
  - There are more unknowns on this occasion because of the nature of the issues and their unpredictability
  - This time the markets are already uncertain due to trade tensions and economic difficulties developing in 2019, which helped to drive gold into a new higher range
  - Arguably all the tailwinds are priced in to the gold market, but equally they are unlikely to abate in the foreseeable future.
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