



BANQUE
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FOCUS INVESTMENTS : GOLD

GOLD IS SHINING AGAIN!

What should we make of recent Gold moves?

Having reached an all-time high in September 2011 of above 1'900 USD per ounce, Gold (XAU) corrected sharply from 2011 to 2015. More recently, Gold crossed the 1'500 USD / oz threshold, a price level that has not been seen since 2013.

Looking at the supply side of the equation, the story looks quite simple (cf. table 1). The demand side is more complicated as the various uses of Gold have fluctuated over the years, notably the demand for Gold as an investment product. This investment demand has been a major driver for the price of Gold. Private investors have invested in Gold for its safe haven status and for the perceived diversification benefits of holding it; Central Banks on the other hand have been willing to diversify their USD reserves.

Table 1 : Supply & demand - Gold Market

Gold Balance (t)	2012	2013	2014	2015	2016	2017	2018
Supply							
Mine Production	2'950.6	3'093.1	3'191.2	3'255.9	3'325.1	3'336.7	3'416.5
Scrap supply	1'685.7	1'275.3	1'173.4	1'150.5	1'294.1	1'182.9	1'179.0
Net producer hedging	-42.7	-33.4	106.3	16.9	34.7	-33.2	-2.6
Total supply	4'548.6	4'335.0	4'470.9	4'423.3	4'653.9	4'486.4	4'593.0
Demand							
Jewelry	2'103.5	2'731.0	2'551.3	2'470.9	1'985.4	2'235.0	2'204.7
Industrial	370.5	358.6	348.2	323.5	315.7	328.6	340.0
Dental	36.3	33.2	31.3	29.9	28.5	27.5	26.3
Bar & Coin	1'359.1	1'800.6	1'114.2	1'124.8	1'056.7	1'031.9	1'079.3
ETPs	292.6	-892.6	-163.8	-119.9	556.9	191.7	63.3
Central Banks	569.2	629.5	601.1	579.6	394.9	378.6	656.3
Total Demand	4'731.3	4'660.4	4'482.3	4'408.9	4'338.1	4'193.2	4'369.8
Balance	-182.7	-325.4	-11.5	14.4	315.8	293.1	223.1

Source: World Gold Council, RBC, Banque Eric Sturdza

Gold within a diversified portfolio

Without doubt, the search for credible and liquid alternatives to the USD has certainly been one of the main reasons behind the renewed interest of Central Banks for the “barbarian relic”.

The safe haven status of Gold has also played a role in a renewed context of uncertainties: Trade wars, Brexit, fears of a recession, geopolitical tensions in the Persian Gulf as well as in Argentina to name a few....

Although it has been volatile as a standalone asset class, Gold is becoming a “must have” in a diversified portfolio, as it brings a diversification effect notably when matched with risky assets.

In addition to this, the case that has been made for owning Government Bonds rather than Gold as safe havens seems less relevant. Indeed, if Government bonds used to have a positive carry vs. none for Gold, it seems no longer valid in a negative or low interest rates environment.

Gold & Carry strategies

To this effect, it is worth noting that an active management of Gold using options could be interesting to tackle this argument and potentially transform Gold into an investment with a positive carry.

As illustrated in the chart 1, the comparison of a Gold investment to the one of a strategy mixing Gold and a systematic call option selling strategy shows a superior performance over a multi-year period for the latter. In a bearish market, call selling has been a good way to mitigate the negative performance of the underlying asset. On the contrary, in a bullish scenario, the upside has been limited by selling calls. Finally in a sideways market, option selling can be used to generate yield and an additional return on top of Gold investments.

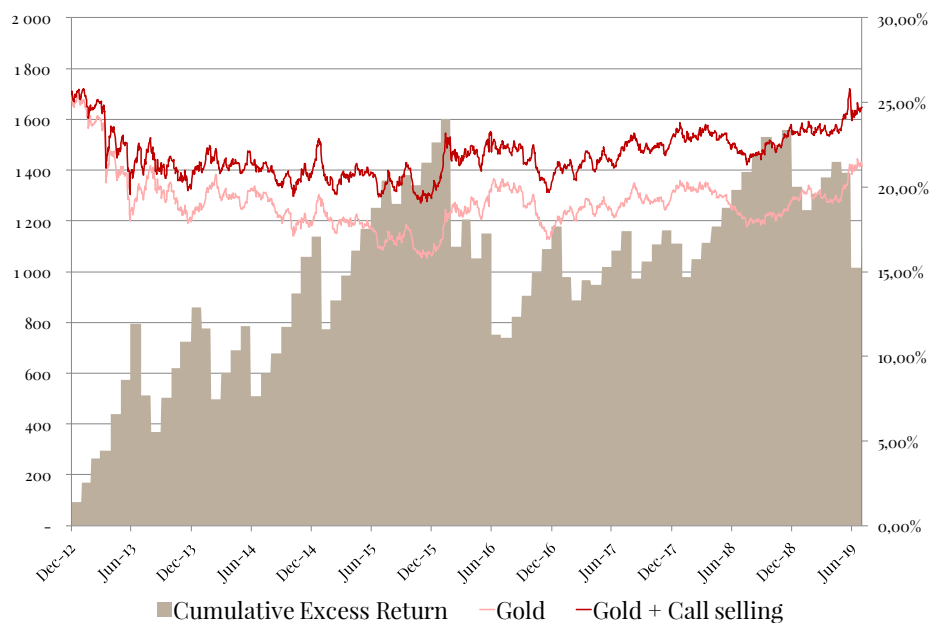
Key takeaways

Gold is once again becoming an investment of choice in private investors' diversified portfolios with an interest in many ways.

1. A safe haven status in a renewed context of uncertainties
2. A diversification tool notably against risky assets and other currencies
3. A zero carry asset in a context of negative interest rates

Beyond a plain vanilla investment in Gold, it is worth noting that solutions exist to make it a dynamic investment and respond to investors' needs.

GRAPH1 : Gold price vs. GOLD Price and call overwriting
Gold price (LHS) – Cumulative excess return (RHS)



Source: Banque Eric Sturdza, Bloomberg, Janvier 2013 – Juillet 2019

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