GOLD OUTLOOK TO Q2 2025:
New Highs in Sight for the Metal

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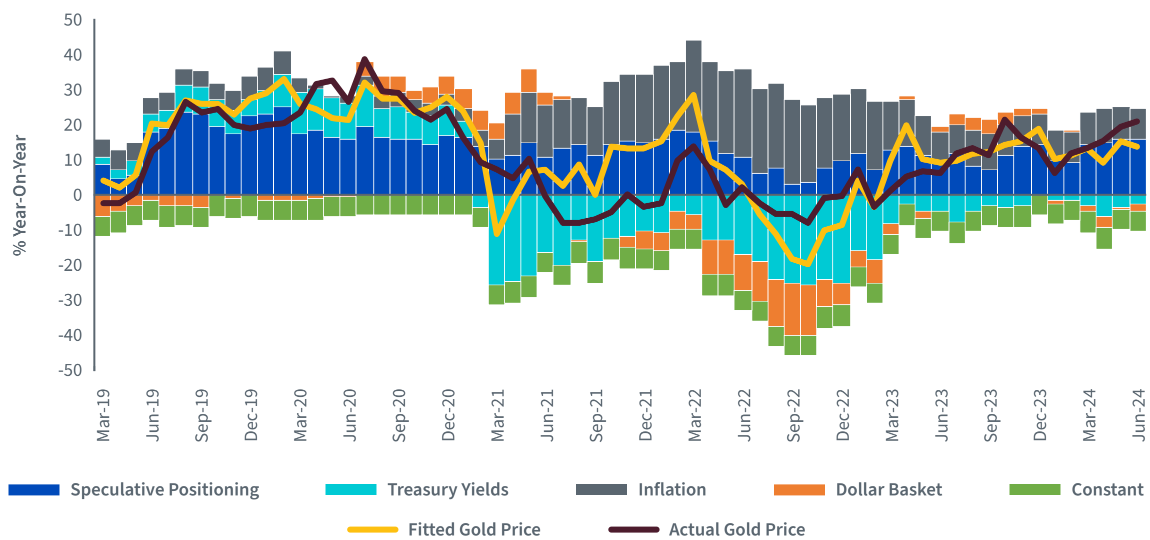
Gold completed a strong quarter in Q2 2024, hitting multiple new highs in April and May. However, in June, the metal retreated a little as U.S. interest rate cut forecasts were pushed out, and physical demand started to soften in response to the high prices.

We believe the prolonged waiting pattern for U.S. interest rate cuts could drive a soft Q3 2024 for the metal before a rally gathers pace to drive gold to a fresh new high. The U.S. Federal Reserve (Fed) fund futures are pricing in a September 2024 rate cut for the U.S., and the market consensus is that there will be 100 basis points (bps) of cuts over the coming year. However, with the European Central Bank and several other developed world central banks having already initiated their rate-cutting cycles, the U.S. Dollar remains firm, presenting a headwind for gold in dollar terms. In Yen terms, gold is at its all-time high and in Euro terms, it is only 3.5% away from its all-time high (as of July 3, 2024).

WisdomTree's internal gold model indicates that the metal was trading around fair value up until March 2024, but the rallies in April and May took the metal to a higher level. Our models, indicate that gold may be overvalued by 7% at the end of June, and our forecasts suggest that most of that will be given back in the current quarter.

Figure 1: Gold Price Attribution

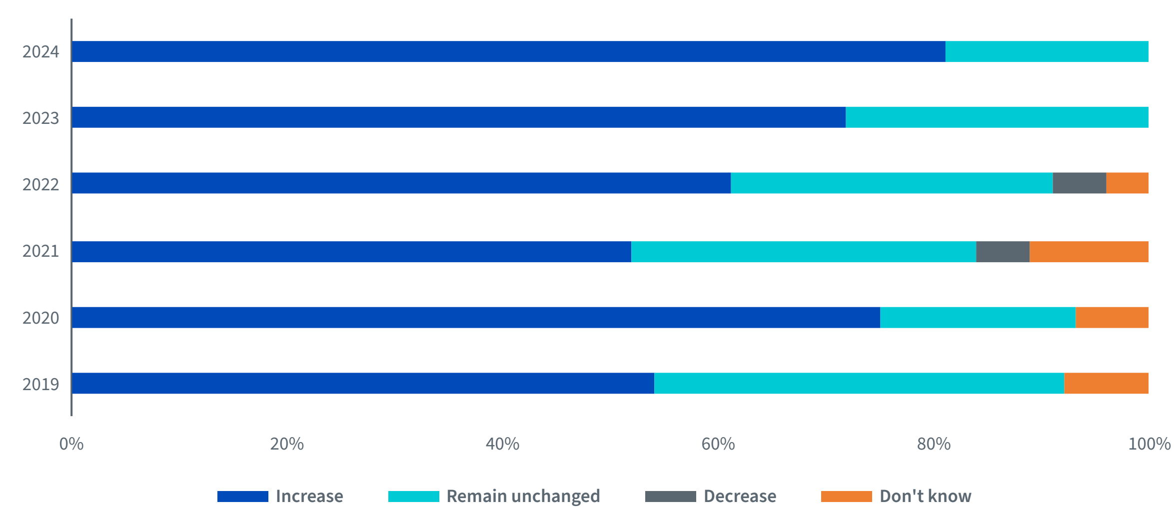


Source: Bloomberg, WisdomTree price model, data as of June 2024. **Speculative positioning** is net non-commercial positioning in gold futures markets (i.e. netting shorts away from long positions as reported by the Commodity Futures Trading Commission). **Treasury yields** is the nominal yield to maturity on a 10-year U.S. Treasury Bond. **Inflation** is the annual growth of the U.S. Consumer Price Index. **Dollar Basket** is a measure of the value of the U.S. Dollar against a basket of currencies (Euro, Swiss franc, Japanese Yen, Canadian Dollar, British Pound and Swedish krona). The **Constant** does not have economic meaning, but is used in econometric modeling to capture other terms. It can be thought of as how much gold prices would change if all other variables are set to zero (although that would be unrealistic). The **Fitted Gold Price** is the price the model would have forecast. The **Actual Gold Price** is the annual growth in spot gold prices.

During the strong rallies in April and May, many in the market discussed record-high central bank purchases of the metal. However, confirmed International Monetary Fund (IMF) International Financial Statistics (IFS) statistics point to a pullback in purchasing around that time, possibly due to high prices. We believe this pullback is temporary, and central banks strongly desire to increase gold purchases through the remainder of this year.

In fact, the World Gold Council's survey of central bankers[1] indicates that most central banks expect higher levels of gold purchases this year than last year, and the proportion that indicates that they are buying to diversify away from the U.S. Dollar has increased relative to last year. 81% of central banks expect higher central bank gold holdings in 2024, up from 61% in 2022. As a proportion of all foreign exchange reserves (including gold), 69% of central banks surveyed said they expect central banks to have a higher proportion of gold holdings in 2024, up from 45% when surveyed in 2022. Only 13% said lower, down from 24% in 2022. Interestingly, zero developed world central banks in 2023 said they want to hold gold as part of a de-dollarization policy. In 2024, 6% of developed world central banks said that was a policy goal (survey sample of 18 developed world central banks in 2024 and 11 in 2023). That points to one central bank—and we assume it's Singapore, given that it has been an active buyer for the past year. Not many of the emerging market central banks admit to de-dollarization as a motivation (only 11% and 13%, respectively, in 2023 and 2024, with 36 and 39 sample sizes). However, we know the events of 2022, with the start of the Ukraine war, profoundly changed central banks' perception of risk around holding G7 currencies in the wake of asset freezes.

Figure 2: Central Bank Expectations on Central Bank Gold Holdings



Source: World Gold Council. 2024 Central Bank Gold Reserves Survey, June 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Retail demand for gold also seems to have slowed in light of high prices, but the recent price pullback could reverse that momentum loss. In India, demand on Akshaya Tritiya (an auspicious day to buy gold, May 10 this year) turned out to be better than expected.

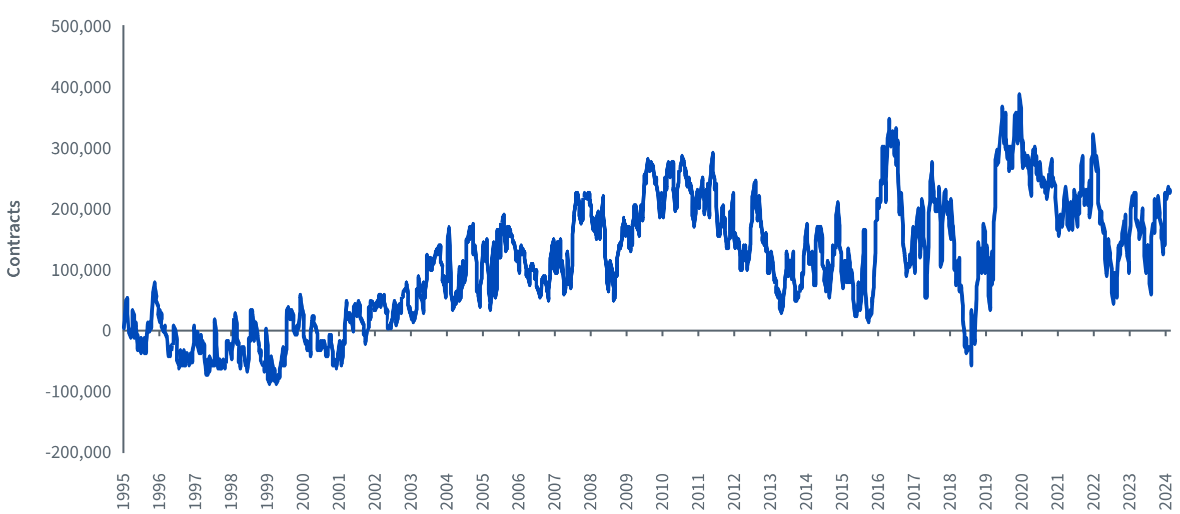
[1] 2024 Central Bank Gold Reserves Survey, World Gold council, June 18, 2024.

In China, although physical withdrawals from the Shanghai Gold Exchange slowed (indicating slower demand), flows into Chinese Gold Exchange-Traded Funds (ETFs) notched new highs. That is possibly an indication that retail investors are more price-sensitive than the more professional investors using ETFs. Chinese investors have been keen buyers of gold ETFs after the real estate implosion and the patchy performance of the domestic stock market this year. Chinese retail investors have coined the term ‘financial consumers’ in a resigned apathy towards their investment prospects. Hence, gold seems to shine above other assets in terms of their opportunity set.

Chinese strength in gold ETF buying sharply contrasts the global picture, which is one of mainly selling. But the outflows from global ETFs have slowed and we are starting to see the first signs of net inflows.

Institutional sentiment towards the metal remains robust when looking at net speculative positioning in futures. This sentiment gauge has an upside risk should geopolitical risks continue to rise. Gold had not moved much in response to the shock election outcomes in India or France, but the focus is now on the U.S. Presidential elections. Both presidential candidates are seen to be trade hawkish at this stage. We think that is negative for global growth, but that presents an upside risk for gold prices, as gold is seen as an instrument for hedging against adverse economic and financial outcomes.

Figure 3: Net Specualtive Positioning in Gold Futures



Source: WisdomTree, Bloomberg. Weekly data from March 1995 to July 2024. **Historical performance is not an indication of future performance and any investments may go down in value.**

GOLD OUTLOOK USING WISDOMTREE'S FORECASTS MODEL

Using WisdomTree's internal gold model, we can produce gold forecasts that are consistent with several macroeconomic scenarios.

CONSENSUS

Our consensus scenario takes the Bloomberg Survey of Professional Economists average views on inflation, U.S. Dollar and Treasury yield forecasts. Consensus is looking for inflation to continue to decline (and settle close to but slightly above the central bank target), the dollar to depreciate, and bond yields to decline. Consensus is based on Fed rate cuts commencing in September 2024 and ending Q2 2025 100 basis points lower than Q2 2024. So far this year, the Federal Open Market Committee (FOMC) dot plots have proven to be a better guide on policy direction than consensus or market-implied rates, but the various gauges are now converging.

Without a consensus forecast on gold sentiment, we reduce speculative positioning to a conservative 100k, which is close to the long-term average of 111k since 1995 and down considerably from the five-year average of 212k. Given the geopolitical risks mentioned earlier, the risk is clearly to the upside on positioning this year. Gold is a highly sought after asset in times of economic, financial, and geopolitical stress, and these triggers could drive sentiment towards the metal even higher.

In the consensus case scenario, gold reaches US$2,585/oz by Q2 2025, clearly above the high in May 2024, although prices may moderate in coming months before we get there.

BULL CASE

In this scenario, inflation remains stuck at a higher setting, possibly due to trade or specific commodity shocks. The Fed nevertheless commences its cutting cycle, acknowledging the sources of inflation are beyond its control and moving in a manner consistent with other parts of its triple policy mandate (i.e. maximum employment and moderate long-term interest rates). Meanwhile, a combination of elevated geopolitical risks and fears of policy errors keeps sentiment towards gold higher (expressed in speculative positioning).

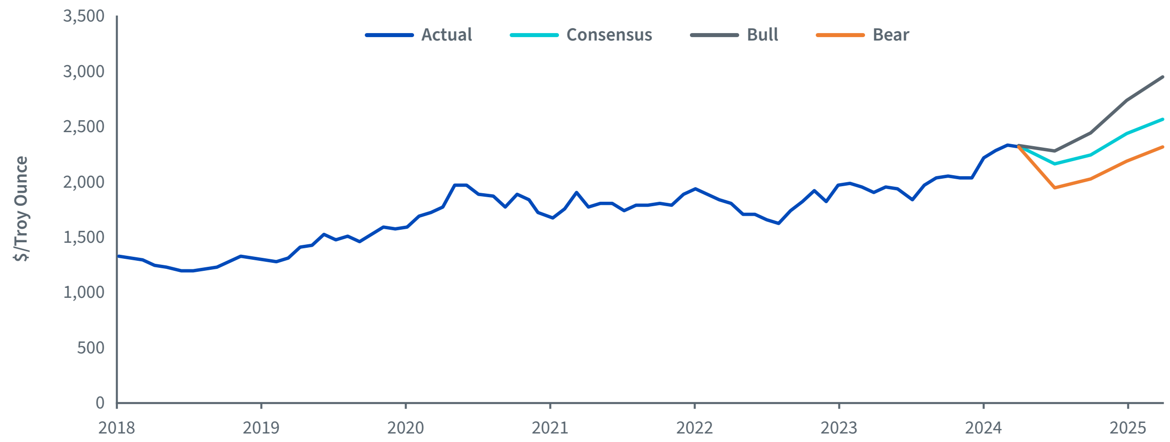
In this scenario, gold could reach US$2,970/oz by Q2 2025.

BEAR CASE

With the Fed reluctant to cut interest rates, inflation falls harder and faster, piecing through its target. The U.S. Dollar appreciates, and bond yields do not fall as much as consensus currently expects. In this scenario, we also reduce the speculative positioning in gold to reflect a decline in geopolitical risks.

In this scenario, gold closes the forecast period (Q1 2025) broadly flat, but with a meaningful decline to US$1950/oz before that.

Figure 6: Gold Price Forecasts



Source: WisdomTree Model Forecasts, Bloomberg Historical Data, data available as of June 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Consensus	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Inflation forecast	3.00%	2.90%	2.50%	2.30%
Nominal 10-year yields forecast	4.33%	4.19%	4.11%	4.01%
US$ exchange rate forecast (DXY)	104.8	103.6	102.5	102.2
Speculative positioning forecast	200,000	150,000	100,000	100,000
Gold price forecast	US$2,170/oz	US$2,150/oz	US$2,440/oz	US$2,585/oz

Source: WisdomTree. Bloomberg Survey of Professional Economists. June 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Bull	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Inflation forecast	3.50%	3.50%	3.50%	3.50%
Nominal 10-year yields forecast	3.90%	3.80%	3.70%	3.20%
US$ exchange rate forecast (DXY)	101	100	99	97
Speculative positioning forecast	200,000	200,000	200,000	200,000
Gold price forecast	US$2,270/oz	US$2,440/oz	US$2,740/oz	US$2,970/oz

Source: WisdomTree. June 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Bear	Q3 2024	Q4 2024	Q1 2025	Q2 2025
Inflation forecast	2.00%	2.00%	1.00%	1.00%
Nominal 10-year yields forecast	4.30%	4.30%	4.30%	4.30%
US$ exchange rate forecast (DXY)	104	105	106	107
Speculative positioning forecast	50,000	50,000	50,000	50,000
Gold price forecast	US$1950/oz	US$2,030/oz	US$2,200/oz	US$2,320/oz

Source: WisdomTree. June 2024. **Forecasts are not an indicator of future performance and any investments are subject to risks and uncertainties.**

Glossary

Basis point: 1/100th of 1 percent. **Bear market:** A sustained downturn in market prices, increasing the chances of negative portfolio returns. **Bond yield:** Refers to the interest received from a bond and is usually expressed annually as a percentage based on its current market value. **Bull market:** A market in which share prices are rising, encouraging buying. **Central bank:** An institution that manages the currency and monetary policy of a state or formal monetary union and oversees their commercial banking system. **Commodity:** A raw material or primary agricultural product that can be bought and sold. **De-dollarization:** Refers to countries reducing reliance on the U.S. dollar as a reserve currency, medium of exchange or as a unit of account. **Dot plot:** A chart based on the economic projections of the Federal Reserve board members that illustrates their views on the appropriate pace of policy firming and provides a target range or target level for the federal funds rate. **Fed funds futures:** Financial contracts that represent the market opinion of where the daily official federal funds rate will be at the time of the contract expiry. **Federal Open Market Committee (FOMC):** The branch of the Federal Reserve Board that determines the direction of monetary policy. **Federal Reserve (Fed):** The Federal Reserve System is the central banking system of the United States. **Gold futures:** Standardized, exchange-traded contracts in which the contract buyer agrees to take delivery, from the seller, a specific quantity of gold at a predetermined price on a future delivery date. **Hawkish:** Description used when worries about inflation are the primary concerns in setting monetary policy decisions. **International Monetary Fund (IMF) International Financial Statistics (IFS):** A compilation of financial data collected from various sources, covering the economies of 194 countries and areas worldwide. **Treasury (UST):** Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government. **Yield:** The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.