

**GOLD PRICE SET A NEW RECORD:  
FORECASTS FOR THE NEAR PERSPECTIVE**  
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*Abstract.* The article analyzes the growth in the price of gold due to the prevailing factors and circumstances in the global economy, widespread uncertainty and growing geopolitical tensions.

*Keywords:* global crisis, inflation, economic recession, monetary policy, gold price, de-dollarization.

At present, and this is no longer a refutable fact, the whole world is covered with uncertainty, and the growth of geopolitical tension everywhere leads to problems in the economy and the state of society. And sometimes it already seems that globalization and cooperation are not relevant. [1].

And this is indeed true as the world has faced dramatic changes and upheavals in recent years that have greatly altered societies and economies: Brexit in 2016, trade wars between the US and China, the "black swan" in the form of COVID-19 in 2020 (in 2020, borders around the world closed, people and economies were isolated from each other: citizens were even banned from leaving their homes and the economy was disrupted, the service and entertainment sectors were very badly affected).

And because of the geopolitical confrontation in 2022, military conflicts have escalated in the world and the economic isolation of countries has increased [2].

All these events have changed the usual course of things and will have long-term consequences. And if during the COVID-19 pandemic the isolation of economies was a forced measure, in 2022 de-globalization is already political and will have a long-term effect. Sanctions due to the military operation in Ukraine have divided Russia from Europe and the United States: logistical routes have been destroyed, and multi-year agreements and contracts have been canceled. Relations between the U.S. and China have once again escalated.

And the inability of the world's largest economies to agree also comes with a price: rising inflation, which, due to border closures and supply-demand imbalances, is only getting worse, and due to tightening monetary policy, and thus worsening credit and business conditions, are pushing the global economy into recession [3].

And against this background, gold prices have updated the maximum for more than a year. Thus, the price of gold futures with settlement in June 2023 on the New York COMEX on April 13, 2023 rose to \$2063 per troy ounce for the first time since March 2022. Quotes of the precious metal are approaching the historical record, which was set in August 2020 at \$2075 per ounce [4].

And for Russian citizens, 2022 was a breakthrough year for investment in gold. So for the whole year 2022 Russians bought 75 tons of metal, but in previous years on average only 7 tons of metal were purchased. And in 2021, private investors in Russia purchased only 5.3 tons of gold in bars and coins [5].

However, it should also be noted that in 2022 a number of important changes took place, primarily related to government measures to stimulate domestic demand in the Russian Federation, namely:

1/abolition of VAT on the purchase of precious metals in bullion;

2/authorization of banking operations for the purchase of precious metals bullion for foreign currency in cash;

3/comprehensive program to popularize this type of investment.

And for comparison: according to the World Gold Council, in 2021 the volume of retail demand for gold bars and coins in China and India exceeded 280 tons and 180 tons, respectively.

So what is currently supporting the growth of prices for precious metals, in addition to the factors noted at the beginning of this material? Let's highlight a few more main reasons, and first let's look at the dynamics of gold prices over the last 50 years.

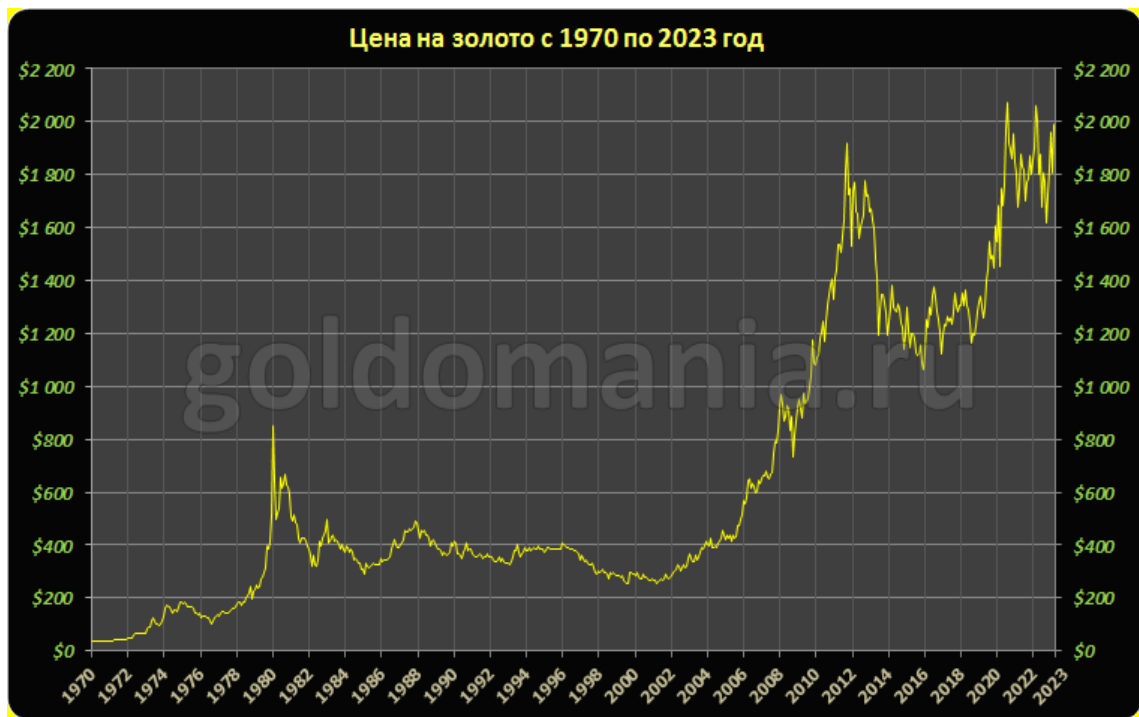


Figure - Gold price dynamics over the last 50 years, in USD [6].

1. US Fed policy and the weakening of the dollar.

In 2023, gold prices show high volatility, which depends on the dynamics of the dollar index and US government bond yields, i.e. on the mood broadcast by the US Federal Reserve (*even against the backdrop of the highest interest rates in recent decades, the value of gold is not declining*).

As for gold, there are more factors for a moderate and cautious growth of quotations: the latest data on inflation were not high enough for a probable further increase in the Fed rate at the next meeting on 03.05.2023 above the expected 25 bp. (to 5%-5.25%), but also not low enough for the interest in gold to fall. And as the US monetary tightening cycle comes to an end (*all analysts are looking forward to the beginning of fall and the state of the US economy*), gold prices should still rise. Overall, the Fed will have to choose between higher inflation or recession, and either outcome is bullish for gold.

And today's worsening crisis in U.S. banks (the U.S. Federal Deposit Insurance Corporation (FDIC) is expected to announce in May the forced closure of First Republic Bank, the country's 14th largest bank by assets) may also increase demand for protective assets, which will accelerate the rise in the value of gold. Moreover, according to the minutes of the March meeting, the US Federal Reserve admitted that the crisis of regional banks will lead to a mild recession as early as the second half of 2023. And recession, even a mild one, should have a favorable impact on gold prices.

2. Central bank (CB) reserves.

Precious metals prices are also supported by central banks, which built up gold reserves at a record pace in 2022 and continued this trend in 2023. However, central bank demand for precious metals may also be more moderate than last year, given the overall decline in reserves. To give you an example, in 2022 central banks more than doubled their gold purchases year-on-year, while in 2023 they have so far purchased 51.7 tons of gold in February and 73.7 tons in January. Still, central bank activity is likely to remain one of the most important sources of demand generation during the second and third quarters of 2023. Last year, central banks purchased 1,136 tons of gold, the highest in 55 years [7].

3. Gold Trust exchange-traded mutual funds (ETFs).

According to the World Gold Council, gold-backed ETFs increased their holdings by 32 tons in March (after 34 tons in February), the first positive inflow in 11 months. We believe ETFs are one of the main factors influencing the dynamics of gold, and along with net purchases by the Central Bank and deteriorating macroeconomic conditions in the global economy - all this will support the price of the precious metal in the near term.

4. The state of the global economy and manufacturers' strategies.

For example, silver as an industrial metal is now responding to expectations of weak global economic growth in 2023 amid strong rate hikes and high inflation. However, the retail and jewelry segment of the market has shown strong demand for silver over the past year, and low prices will encourage purchases from key consumers such as China and India.

But compared to silver, gold also rose in anticipation of the banking crisis (which has already manifested itself clearly in the US), which prompted investors to buy it as a hedging tool.

And as Charlie Munger, a prominent investor, Berkshire Hathaway vice chairman and friend of billionaire Warren Buffett, recently told the Financial Times (FT), “One of the problems with American banks is bad loans in commercial real estate. We have a lot of problematic office buildings, a lot of problematic shopping centers, a lot of other problematic real estate. And all this will have to show itself.” [8].

Against this background, investors in the United States (residents and non-residents) are increasingly hearing about the de-dollarization of the world economy, that in June 2022 the official inflation in the United States reached 9.1% (and today it has fallen slightly according to official data), that the US government debt limit was reached back in January 2023, which then amounted to 31.4 trillion. dollars. And if the limit is not raised by Congress in the near future (and today's internal problems and contradictions in the United States make this doubtful), then the US Treasury will only have enough financial resources until 06/01/2023, i.e. The US will face default on its obligations.

Thus, from the analysis of this material, it follows that today purely economic factors are still not enough to seriously exceed the highs of \$ 2070-2090 per troy ounce, this requires investors to switch to risk-off mode: flight from risk. In this case, gold prices during the current year will be able to reach \$2,300. Still, our forecast for gold prices in the short term is \$2080-2090 per troy ounce. We assume that before the summer of 2023, gold prices will go beyond the upper limit of our target range. This is due to the fact that the number of call options on the Gold Trust ETF has quadrupled, which also indicates an increased interest in speculative purchases from not only retail investors. But these levels still look unstable and because of the unusually high volatility.

Perhaps, it is still necessary not to exclude the fact that the “metals” do not stay at historical highs for a long time. In this connection, a weak and uncertain increase in metal prices is possible at the end of 2023, since part of the profitability will also be lost due to a price rollback. Of course, if “black swans” do not suddenly appear on the markets, which cannot be ruled out.

In the meantime, I just want to say: “fasten your seat belts, it will be an unforgettable adventure - none of us, except maybe the deepest old people, have ever experienced this.”

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