



# Market Update

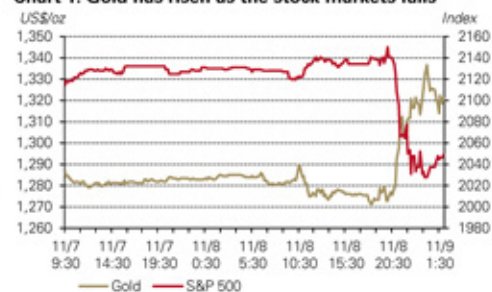
## Gold breaches US\$1,300/oz on Trump victory

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Donald Trump has become the 45th President of the United States. Financial markets have reacted sharply. Global equity markets have fallen, market expectations of a December US interest rate hike have been scaled back and the US dollar is down. The gold price, by contrast, has risen to US\$1,300/oz from US\$1,275 before the results came in. Gold has outperformed other major asset classes and currencies, including other traditional safe-havens such as the Swiss franc. Gold trading volumes have increased in Asia, but positioning remains light, and gold buying is widely expected to increase as European and US markets open.

**Chart 1: Gold has risen as the stock markets falls\***



\*Performance of the S&P500 Index outside of trading hours based on futures markets.

Source: Bloomberg, World Gold Council

### Trump victory: Gold surges

Donald Trump has become the 45th President of the United States, and Republicans kept control of the House and the Senate. Financial markets have reacted sharply. S&P 500 futures are down 2%, while the Nikkei has fallen by over 5%. VIX futures are trading close to 20, their highest level since June.

The gold price, by contrast, has risen to US\$1,300/oz, from US\$1,275/oz before the counting began, outperforming major asset classes, including other safe-haven assets (**Chart 1**). The US dollar, as measured by DXY, fell as much as 2% against a basket of world currencies, though has since recovered some ground. The Japanese yen - typically a defensive trade - has strengthened 1.9% vis-à-vis the dollar, and is now trading just below 103 yen per dollar. The Swiss franc is 1% stronger, but we believe any further rally will be capped by the threat of central bank intervention - as board member Andrea Maechler signalled they may do so in an interview on Monday.

Gold trading volumes have risen sharply in Asia. In China, SGE volumes have surged to 330 tonnes, 102% higher than the level seen around the Brexit vote. However, anecdotal evidence from bullion banks worldwide suggest that institutional investors and hedge funds have yet to come in, signalling a potentially sharper increase in gold demand as European and US trading opens. We believe that retail demand will also surge, as investors wake up to a fundamental political change in the world's largest economy.

Gold broke key technical levels, surpassing its 200-day and 100-day moving averages (**Chart 2**). The next relevant technical levels are US\$1,350/oz, US\$1,375/oz, and US\$1,400/oz. Going into the election, gold options positioning at COMEX was pointedly bullish: open interest and volumes were skewed toward calls with strike prices above US\$1,275/oz, which should also lend further support to gold when European and US markets open.

**Chart 2: The gold price has breached key levels**



Source: Bloomberg, World Gold Council

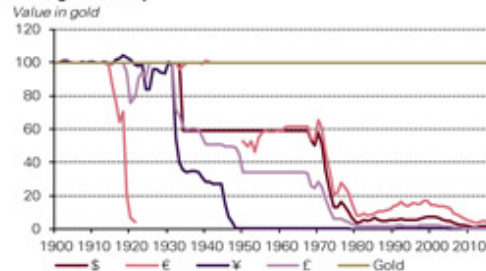
## A supportive global environment for gold

The global political and economic environment is gold supportive. Swaps traders have reduced the odds of a December interest rate hike to below 50% from 82% at 5pm US time, according to Bloomberg, a bullish sign for gold. Global political risk in advanced economies remains high. The pound sterling has plummeted by more than 15% since the UK voted to leave the EU. Despite a recent uptick, the pound remains under pressure as expectations of a 'hard' Brexit linger and there is still no clear road map out of Europe. Just last week, the High Court ruled that the UK government must consult Parliament before triggering 'Brexit', adding uncertainty even as the government appeals.

Europe's own problems seem poised to worsen too. It will shortly enter election season next year, where many anti-establishment and populist parties are polling well. Elections in Italy, France, Germany and Holland could see these parties significantly increase their vote share.

In our view, the intense political uncertainty that advanced economies now face, combined with the unknown aftermath of years of unconventional monetary policies (quantitative easing, zero and now negative interest rates) will make gold particularly valuable to investors in the coming years. Gold is the only de-facto currency that cannot be debased by printing more of it, and the only one that does not carry political risk. There is a reason why gold has outperformed every major currency throughout history (**Chart 3**).

**Chart 3: Value of major currencies relative to gold through history\***



\*Breaks in the mark/euro reflect periods of hyperinflation and WWII.  
Source: Bloomberg, Thomson Reuters, World Gold Council



## About the World Gold Council

The World Gold Council is the market development organisation for the gold industry. Our purpose is to stimulate and sustain demand for gold, provide industry leadership, and be the global authority on the gold market.

We develop gold-backed solutions, services and products, based on authoritative market insight and we work with a range of partners to put our ideas into action. As a result, we create structural shifts in demand for gold across key market sectors. We provide insights into the international gold markets, helping people to understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, the Far East and the US, the World Gold Council is an association whose members comprise the world's leading gold mining companies.

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