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KF Spotlight : Breaking Through the Golden USD 2,000 Barrier
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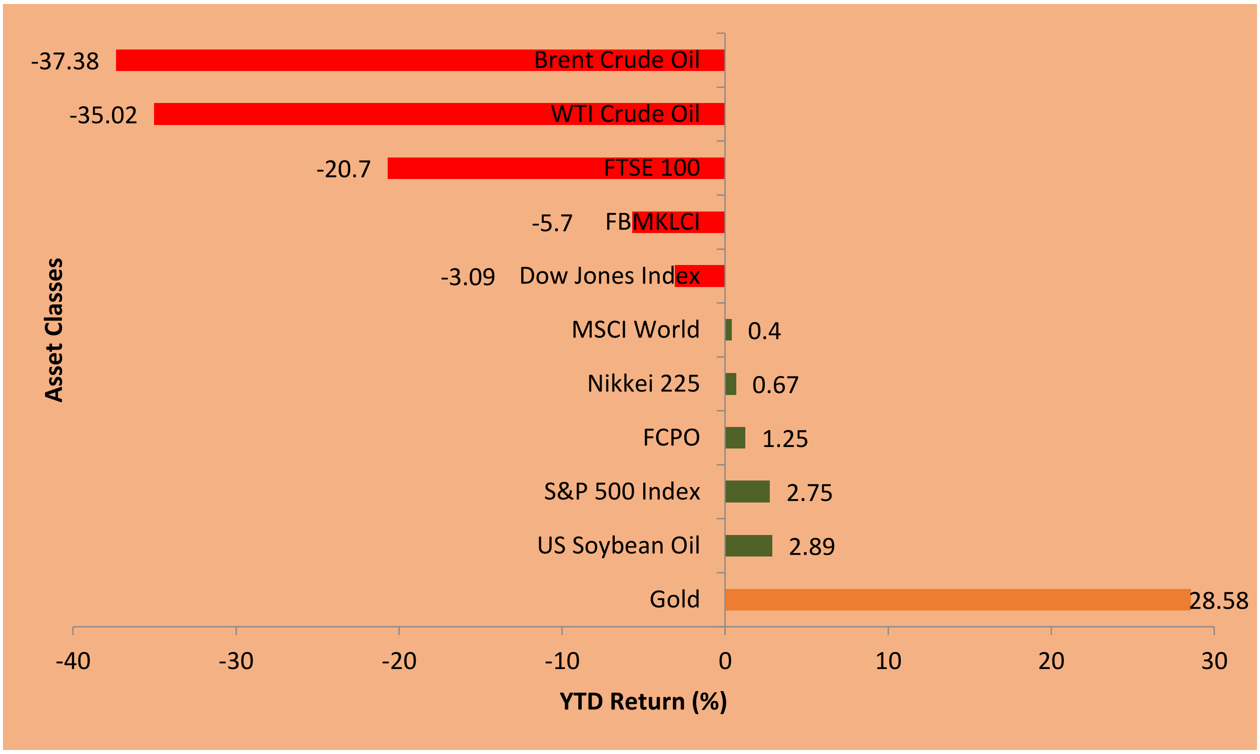

Data as at 18 September 2020 *Source : Bloomberg*

Since the last quarter of 2018, gold market has been on a bullish rally, making it one of the most popular investment tools in this decade. For the last two years, the world saw many uncertainties shrouding global developments that include the relentless US-China trade war, the unresolved Brexit issue as well as Middle East geopolitical crises. All these events drew many investors to flock to gold, given its perception as a safe haven investment during times of crises.

Entering 2020, the optimism in market sentiment was brought to an abrupt halt by the unprecedented COVID-19 pandemic which shocked the world, causing devastating effect to the global economy due to the shutdown approach to curb the rapid spread of the virus. Unsurprisingly, the performance of gold market for the first 8 months of 2020 continued to outperform. Known as a hedging instrument, gold has successfully breached the USD2,000 level for the first time ever on 4th August 2020 . As at 18 September 2020, gold has rallied 28.58% to USD1,967.80 an ounce, outperforming several other major asset classes.

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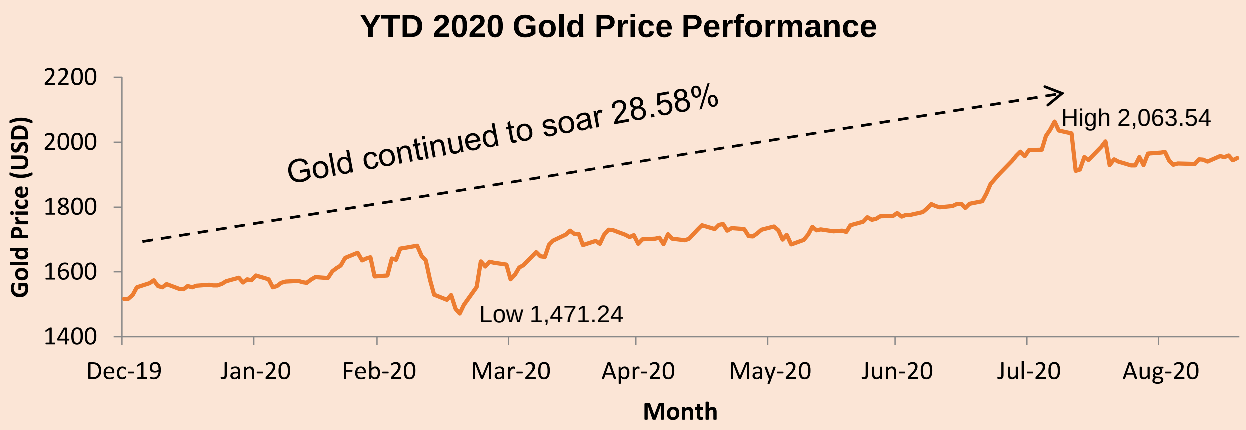

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Factors Contributing to Gold's Rally in 2020 So Far

1. Economic Uncertainty Amid COVID-19 Pandemic

The COVID-19 pandemic is indeed the main culprit behind the economic uncertainty for most part of 2020, causing most markets around the world to experience steep fallout .However, gold continued to soar in the midst of the market headwinds as many investors flocked into this asset class as a means to hedge their portfolios.

2. Lower Interest Rate Regime

On top of the stimulus packages introduced by many countries to rescue the economy due to the lockdown measures, several central banks around the world including the Federal Reserve have aggressively cut interest rates. This has resulted in a concern over inflation and had driven more investors to invest in gold as a store of wealth.

3. Rising fears over the Potential Revival of US-China Trade War

Market sentiment was bolstered in January this year when both US and China has successfully concluded Phase One of the trade deal. Unfortunately, the fears of a renewed trade war has begun to surface around May after US President Donald Trump accused China for the spread of COVID-19 and hinted at imposing new tariffs. This had again caused the spike in gold prices as investors looked to protect their investment.

Source : World Gold Council and CNBC

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Factors To Watch Moving Forward

1. Effects of COVID-19 pandemic continue to linger

Countries around the world had begun to reopen their economies after imposing months of lockdown which helped to revive some optimism on global economic recovery. However, global infections continued to rise, which have now surpassed 20 million cases, potentially leading global lockdown measures to be re-enforced. With the expectation of vaccines to only be available earliest by 2021, many analysts expect COVID-19 to remain as the single most important threat to the global economy. Hence, demand for gold is expected to remain high in the near term.

2. Central Banks to keep their dovish monetary stance

In its latest monetary policy meeting on September 2020, US Federal Reserve decided to maintain their interest rates near zero and projections from individual members also showed that the rates might be maintained near zero through 2023. According to the committee, the Fed would keep the low rates in place “until labour market conditions have reached levels consistent with the Committee’s assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time”. Like Fed, many central banks around the world are expected to keep their interest rates in their respective countries low to cushion the impact of COVID-19 pandemic. With this decision, we can expect the US dollar to remain weaker in the foreseeable future and inflation concern to grow in the near term.

3. A significant rise in debt in the future will propel gold prices

To complement the supportive monetary measures adopted by central banks, most countries around the world had also decided to take expansionary fiscal policy to support the depressing economy. Many countries including United States and even Malaysia had introduced several streams of economic stimulus packages to boost their economies in hopes of rapid economic recovery. The continuous stimulus measures taken are expected to lead to a significant rise in debt and can cause inflation to rise. This would further add investors' interest towards gold as their investment avenue.

4. Any geopolitical events could further spike gold prices

Historically, geopolitical events can cause a big deal to the price movement of commodity prices including gold. Last year saw how the prolonged US-China trade friction has pushed gold prices to record high. Additionally, early of this year, the world witnessed a political turmoil in Middle East which saw the killing of Iran Head of Elite Forces that deteriorated US-Iran relationship. An key political event that might sway gold prices in the near term is the upcoming US Presidential election scheduled to happen on 3 November 2020. Meanwhile the possibility of a “no-deal” Brexit is also increasing as the deadline for negotiations is expected to be completed by end of this year.

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A Short Term Gold Price Outlook

Source : Bloomberg

Gold kicked off the year with a good start, climbing up to USD 1,600 an ounce, before plunging to its year-low level of USD 1,451.55 in the middle of March due to impact of COVID-19 pandemic. Nevertheless, market swiftly retraced its previous session of losses in the end of March to trade higher, after a bullish crossover was formed on the MACD indicator, to breach 1,700 level in early April. Market seemed to trade range bound between USD 1,689.89 and USD 1,763.51 for the next 3 months.

In late June, another bullish crossover was formed on MACD indicator that saw gold price soaring and continued its uptrend momentum and finally surpassing the USD 2,000 level for the first time ever on 4 August 2020. In the near term, we maintain a mild positive outlook on gold prices in the near-term with support at USD 1,850 level. If gold price crossed over the first resistance level of USD1,980 level, we expect gold prices to continue to rise with the next resistance level at USD2,100.

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