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By **William Gray**

Gold Back in Focus as Stock Markets Selloff

As this year opened, the S&P 500 recorded what was its worst week since the COVID-19 crash as the market closed below its 200-day moving average for the first time since 2020. The stock selloff continued and by mid May the S&P 500 had reported the worst start to a year in 90 years, down close to 20%, with the Nasdaq Tech index dropping an even larger 30%.

Gold opened the year far better, bullion valued in US dollars rallied to an all-time high, reaching $2,074.60 on 8 March 2022. It remained above $1,900 for almost all of April, before experiencing downward price pressure in May, mainly due to the dollar. Importantly, at the time of writing, the metal has held its pricing above the $1,840 mark and witnessed little negative price movement despite solid growth in the US labor market.

THE DEMAND FOR GOLD IS RISING

The true picture on the demand front becomes clearer when you look at physical gold, and last month the reported statistics showed an extraordinary rise. The US Mint declared figures showing that it sold 147,000 ounces of gold, the strongest sales seen in May since 2010. Removing any potential COVID-19 market distortion, gold bullion demand is up 400% from its five-year average between 2015 and 2019. I find the best way to judge sentiment in the marketplace and find a clear gauge of investment anxiety, is simply to pay more attention to physical gold demand and the demand for physical gold is rising.

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The above is important as there's a growing dichotomy in the gold market between physical demand and the paper market. Despite rising demand for the physical metal, technically driven selling in the futures markets limited gold's upside during May.

In the short-term, gold's environment remains challenging as soaring US Treasury yields, and a strong US dollar are key obstacles to higher prices. Today gold's short-term support level is $1,840 an ounce.

Looking forward, the Federal Reserve for now is taking a hard line, but big picture, even if the Fed meets its aggressive goals, interest rates will still be around 2% whilst annual inflation is currently 8.6%. The bottom line is that real interest rates are going to remain in deeply negative territory which is good for gold. History has shown that gold can underperform as a crisis breaks out, and then outperform as the crisis unfolds and persists.

That said, on the 16 May the governor of the Bank of England put the situation in the starkest possible terms. He described an “apocalyptic” rise in the cost of food and confessed that the bank is “helpless in the face of inflation”.

Chancellor Rishi Sunak is equally resigned to letting inflation run, he remarked that "there is no measure any government could take, no law we could pass, that can make these global forces disappear overnight.”

The Bank of England also commented in May that the UK economy could already be in the grips of stagflation. Put simply, should stagflation hit the US economy, then gold is very likely to test $2,000 per ounce. I am bullish on gold's outlook in the belief that inflation is running hot, while central banks may shrug away from slamming the brakes on hard given the risk of an economic slowdown. F

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WILLIAM GRAY IS AN EXPERT IN PRECIOUS METALS WITH OVER TWO DECADES ACTIVE MANAGEMENT EXPERIENCE IN THIS FIELD. HE HEADS UP THE STERLING BASED ARC BULLION ACCOUNT, AN ACTIVELY TRADED PHYSICAL BULLION INVESTMENT, WHICH HAS RETURNED 127.33% SINCE ITS LAUNCH IN DECEMBER 2014.