



# What's Driving the Price of Gold?

Posted August 7, 2020 by [Michael Batnick](#)

Gold is a fickle asset. Because it doesn't produce any cash flows or earnings, its price is ultimately driven by the story that investors are telling themselves. And this story, good bad or otherwise varies from person to person, depending on who you ask, and when you ask them.

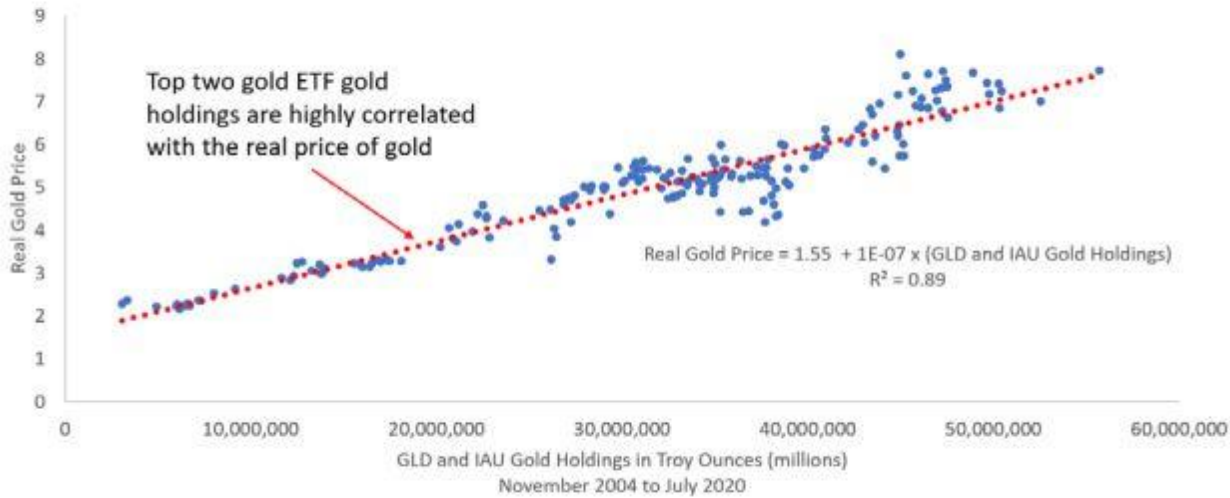
Some of the factors that can move the price of gold include but are not limited to\*:

- Inflation expectations
- Actual inflation
- Real interest rates.
- The U.S. dollar
- Fiscal deficits
- Central bank balance sheets
- Supply and demand or demand and supply

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### Exhibit 7 "Massive Passive" Gold Holdings and the Real Price of Gold



Source: Bloomberg data (tickers: GDTRAUOZ Index, ISHGOLD Index, GC1 Comdty, CPI INDX Index)

They conclude:

*Does there seem to be a stable, equilibrium, cointegrating relationship between ETF gold holdings and the real price of gold? Yes.*

It's hard to say for sure what's moving gold right now. I would say the cleanest story is the weakening dollar, but then again gold was rising long before the dollar started falling, so did gold buyers know something that dollar buyers didn't? I guess it depends on whose story you're listening to, but doesn't it always.

**Source:**

Gold, the Golden Constant, COVID-19, 'Massive Passives' and Déjà Vu

\*I don't necessarily believe all of these are important, but have seen them all thrown out as factors that drive the price

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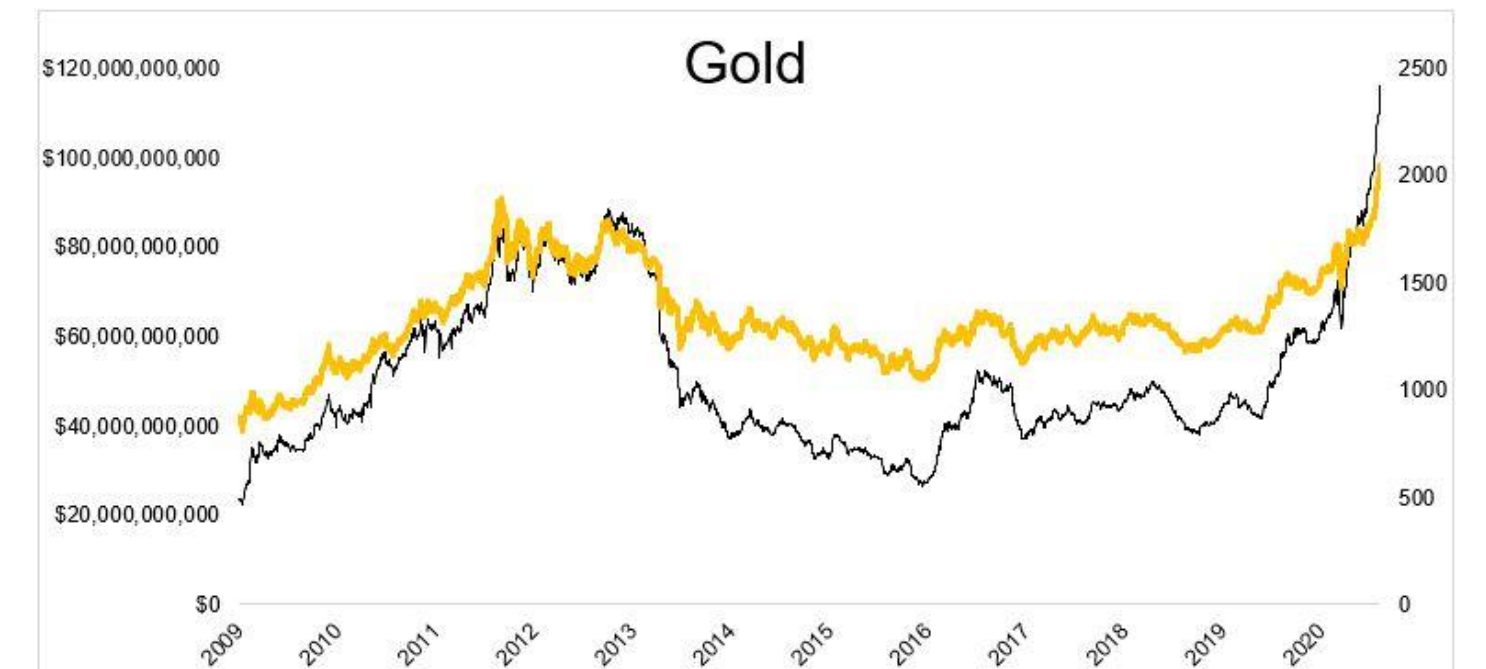
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This last idea was examined in a new paper from Claude Erb, Campbell Harvey, and my colleague Tadas Viskanta. They wrote:

*The supply and demand for gold affects its price and its price affects supply and demand*

Gold just surpassed its 2011 nominal high, but assets in the two biggest ETFs are 36% higher than they were at the previous peak.





Between 2011 and 2015, the price of gold fell 45% from peak to trough, but assets in the two largest gold-backed ETFs fell 73% as enthusiasm for the metal melted away. In the past few weeks and months, investors have come roaring back.



The fact that investors pile in when it's going higher and rush for the exits when it's going lower is a factor worth considering. Erb, Harvey, and Viskanta looked at



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