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Gold

This edition takes a step back to discuss the gold market overall. The intention is to outline the parameters of the gold market and set the stage for future reports that will continue to focus on specific issues important to gold.

The gold market is extremely complex. While global and national economic and political trends heavily influence all asset markets, gold occupies a peculiar place in world markets.

Gold is many things. Foremost, it is a **financial asset** held by billions of investors around the world. It formerly was the central currency used everywhere, and still maintains a vital role in central bank **monetary reserve** policies and practices. Gold also is a **commodity**, subject to trends and levels of mine production, secondary recovery from old scrap (mostly jewelry), and fabrication and inventory demand trends.

Those are concrete, tangible characteristics of gold. But gold is much more than the sum of its distinct personalities. Gold occupies that peculiar place in the minds of investors. As Sam Spade says at the end of **The Maltese Falcon**, gold is "the stuff that dreams are made of." Gold commands a psychological attention and an emotion grip on people in ways that no other investment has been able to achieve. It has mythological importance in the minds of many people. People are passionate about gold, and silver, in ways that they would never emote about the shares of particular companies or other asset classes.

Due to its significant role globally, successfully understanding how gold prices are determined requires broad knowledge and insights into the expectations for the full range of investments, from stocks and bonds to currencies, commodities, derivatives, and now crypto currencies. It also requires an unbiased, detailed analyses of gold market fundamentals, as well as honest appraisals of international and domestic politics. All of this goes into any analysis of the gold market that allows for a chance to accurately gauge future price trends.

CPM divides the physical gold market into three broad segments.

1. **Total supply** of newly refined metal, from mine production and scrap or secondary recovery from jewelry and other fabricated products.
2. **Fabrication demand**, in which gold is used in manufactured products such as jewelry, electronics, and a range of other products in which the gold is transformed into fabricated goods.
3. **Stock demand** from investors and central banks, in which gold is bought and held in 'gold form,' readily fungible gold bullion or coins.

Each of these market segments have sub-segments that can be quite distinct from each other.

In addition to these 'current account' market segments there is the capital stock of gold: The more than 1.4 billion ounces of gold in bullion and coin form that is held by private sector investors and the 1.1 billion ounces of gold bullion held by central banks and monetary authorities and the 2.7 billion ounces in gold jewelry and decorative object form.

When it comes to modeling or projecting gold price trends, models suggest that the most crucial factor determining gold price trends and levels is investment demand.

Mine production, secondary recovery, fabrication demand all affect gold prices, but the direction and level of gold prices tend to have a greater influence on these market segments than they have on gold prices.

This leads to the reality that makes gold so interesting to analysts: The vast array of factors that cause investors to want gold makes correctly analyzing and projecting gold prices extremely difficult. One must have a firm, unbiased, informed understanding of so many things, from domestic politics around the world to international affairs, economics, financial market trends and conditions, and so much more, to get gold right. Included in the list are a wide range of facts and information related to the gold market itself, of course.

Most of what you need to know is exogenous to the gold market, outside trends that cause investors to want gold.

- Some investors treat gold as a commodity and buy or sell the metal based on their analyses of the flow of newly refined metal into the market and out into fabricated products and investor or central bank inventories. This section of the gold investment market is critical to prices.

Most investors focus on those exogenous factors – economic, financial, and political – in deciding whether they think gold prices will rise or fall. As a result, a good gold market analysis has a firm foundation in understand global economic and political conditions.

CPM often writes about the six broad reasons why investors buy gold.

1. Safe haven
2. Portfolio diversifier, alternative asset
3. Inflation hedge
4. Currency hedge
5. Form of savings
6. Commodity.

Decisions as to whether to buy, sell, or hold gold based on these many reasons why it makes sense to invest in gold in turn require accurate assessments of all those macroeconomic, financial market, and political trends.

Included in the list is overall financial market stability, and the stability of one's own national, regional, and individual financial institutions.

Interest rates – real, nominal, and relative to each other – are important. So, too, are currency exchange rate trends and levels, inflation trends, overall real economic output trends. Financial trends such as the directions and levels of equity markets and interest rate securities are important, along with indicators of stability or issues in the banking and finance markets. Labor markets, trade, and other economic indicators also are important to understand if one wants to assess the direction of investor interest in gold.

And then there are the global and domestic political and social trends that affect gold demand and prices.

These are the topics CPM constantly monitors. In future reports, we will focus on individual issues that are important to gold at the time.