

WHY IS GOLD HITTING NEW HIGHS?

A FRAMEWORK FOR UNDERSTANDING THE PRICE TRAJECTORY

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A framework for understanding the price trajectory



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Gold has recently surged above \$2,700/oz, revisiting the previous record high of \$2,789 in October 2024. This note presents a structured framework for understanding the current gold price trajectory, built on three core pillars: fundamental monetary relationships, cyclical patterns in real interest rates and structural shifts in central bank behaviour. Using this framework, we see potential for the gold price to reach \$3,300–4,500/oz, with risks skewed to the upside.

A framework for analysis

Our analytical framework rests on three interconnected pillars explaining current gold price movements. First, fundamental monetary relationships establish a base value in the low US\$2,000s/oz, derived from consistent correlations with monetary metrics since the 1960s. Second, our analysis of the real interest rate cycle reveals striking parallels with the 1970s, suggesting we are in the early stages of a major rebasing as real interest rates transition from negative to positive territory. Third, unprecedented central bank buying provides structural support, with net buying positions maintained for 15 years and contributing 7–10% to gold's price performance.

Gold versus gold equities

The case for gold equities appears particularly compelling at this point in the cycle. During bull markets, miners have the capacity to outperform physical gold by two to five times, a pattern already evident with gold equities having rallied 40% over the last 12 months versus gold's 36% rise. With average all-in sustaining costs at US\$1,400/oz (as estimated by the World Gold Council) against a spot gold price of c US\$2,700/oz, margins are robust and cost inflation has slowed. The sector offers attractive valuations with EV/EBITDA ratios below the broader market, dividend yields surpassing the S&P 500, and true portfolio diversification with a low 0.24 correlation to the S&P 500 over 10 years.

Catalysts for continued strength

Several catalysts support continued strength in the gold price. Monetary policy is supportive with both the US and China cutting rates, while the Fed's pivot towards larger cuts potentially signals an evolving shift from inflation to unemployment concerns. Geopolitical and economic factors remain supportive, including heightened global tensions, continued net central bank buying, US debt servicing costs exceeding US\$1.2tn annually and active diversification away from US Treasuries by BRIC nations. A bear case would require an unlikely combination of sustained peace in the Middle East, peace in Ukraine, a US-China rapprochement and real US interest rates sustainably above 4%. Given current conditions, we see both significant upside potential and risks skewed to the upside.

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Companies in this report

[Agnico Eagle Mines](#)
AngloGold Ashanti
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Gold Fields
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Kinross Gold
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Companies in green are Edison clients

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A framework for analysis

Traditional supply-demand analysis offers limited insight into gold price movements. With above-ground stocks of approximately 200,000 tonnes dwarfing annual production of 5,000 tonnes, we must look elsewhere for meaningful price signals. Our framework rests on three interconnected pillars, which together provide a comprehensive analytical structure for understanding gold price movements.

Pillar 1: Fundamental monetary relationships

Gold's primary characteristic is its role as a quasi-monetary asset. Our analysis of long-term correlations since the late 1960s demonstrates consistent relationships between gold prices and several key monetary metrics:

- the total US monetary base,
- US currency in circulation, and
- the absolute level of the US consumer price index (notably, not year-on-year changes).

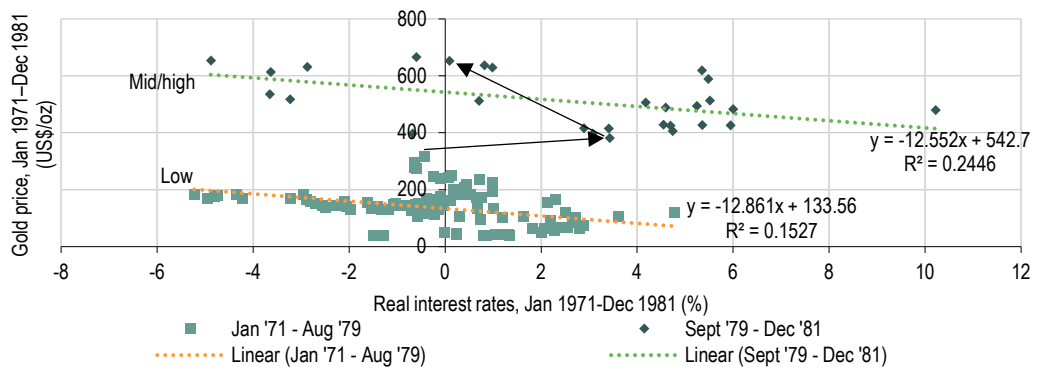
The consistently strong relationships between these monetary measures and the gold price suggest a base fundamental value per ounce in the low US\$2,000s. This forms our floor rather than our target, providing a foundation for understanding deviations from the fundamental value.

Pillar 2: Real interest rate cycles

Historical analysis reveals distinct patterns in the relationship between real interest rates and gold prices. These patterns are particularly instructive during transition periods from negative to positive real rates, with the 1970s providing a crucial template for understanding today's market.

During the 1970s, negative real rates drove a steady general appreciation in the gold price from 1971 to 1979. However, the most significant moves came in late 1979 when rates first turned positive after a decade in negative territory. Counterintuitively, gold surged during this transition, ultimately rebasing approximately four times higher.

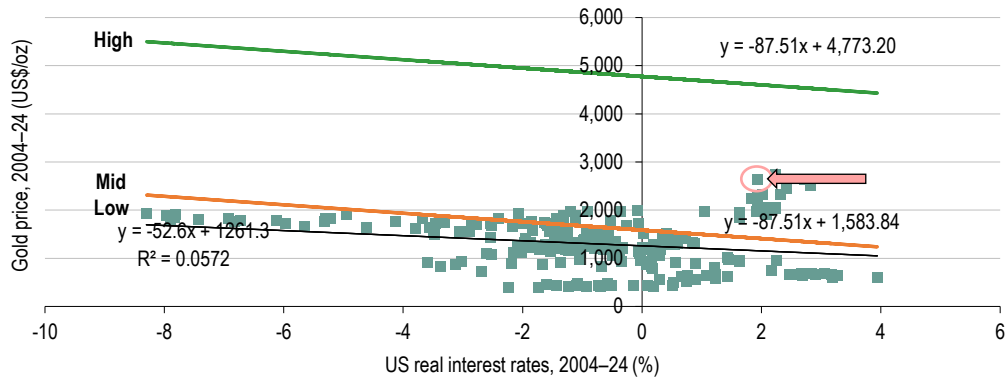
Exhibit 1: The correlation between the gold price and real interest rates



Source: Edison Investment Research, Bloomberg

Today's parallel is particularly compelling. We have emerged from an extended period of negative or near-zero real rates (2008–23) and are witnessing the first sustained positive real rates in nearly two decades. Based on historical patterns, this suggests we are in the early stages of a similar rebasing rather than approaching a peak.

Exhibit 2: Correlation between the gold price and US real interest rates



Source: Edison Investment Research, Bloomberg

Pillar 3: Structural changes in reserve management

Perhaps the most significant difference between today's gold bull market and previous cycles lies in central bank behaviour. While central banks, in general, were net sellers during the 1970s bull market, today they are buying in record numbers. This fundamental shift provides structural support that was absent in previous cycles.

Central banks have maintained net buying positions for almost 15 years since the second quarter of 2009, with current buying patterns contributing approximately 7–10% to gold's price performance based on our estimates. Our analysis suggests that central bank demand above 500 tonnes annually (the approximate long-term trend) should continue to have a net positive effect on performance.

The change in central bank behaviour reflects broader shifts in the international monetary system, including:

- active de-dollarisation initiatives,
- BRIC currency discussions, and
- strategic reserve diversification

These factors point to a reassessment of gold's role in the global financial architecture. Central bank buying provides price support and validation of gold's monetary role, reinforcing the patterns identified in our first two pillars.

Exhibit 3: Randy Smallwood, president and CEO of Wheaton Precious Metals, on the gold price



Source: Edison Investment Research

Gold versus gold equities: The investment choice

While gold has performed strongly, reaching US\$2,700/oz and positioning itself as one of the top-performing assets in 2024, the case for gold miners appears particularly compelling at this point in the cycle. Historical analysis demonstrates that miners can outperform physical gold by two to five times during bull markets. The iShares Gold Producers ETF is up 40% over the last year, compared to the 36% increase in gold price over the same period.

Margin expansion is driving profitability

With the average all-in sustaining cost of producing an ounce of gold at just over US\$1,400 according to World Gold Council estimates, and the gold price at c US\$2,700/oz, the sector's profitability for relatively competitive miners is robust. Cost inflation has slowed significantly over the past two years, suggesting these margins could be sustainable. This improvement in profitability is taking place against the backdrop of a recovery in investor sentiment towards precious metals miners.

Valuation metrics support the case for miners

Gold miners are currently offering compelling value, with their EV/EBITDA ratios significantly below the broader market. Additionally, the sector offers dividend yields that now surpass the S&P 500, reflecting miners' strong margins and commitment to shareholder returns. This combination of value and yield is particularly attractive in the current market environment. The table below shows the multiples of leading gold producers, which can be compared to the S&P 500, which is on a trailing 12-month P/E of 29.7x and a forward P/E of 23.5x.

Exhibit 4: Valuation metrics for the gold majors (priced 17 January 2025)

	Ticker	P/E (x)			P/CF (x)			EV/EBITDA (x)			Yield (%)		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Agnico Eagle Mines	AEM	20.3	17.3	17.7	10.8	9.7	10.6	9.1	7.9	8.2	1.8	1.8	1.8
Barrick Gold	ABX	12.7	9.6	9.5	5.9	5.0	4.8	6.1	4.6	4.5	2.5	2.6	2.8
AngloGold Ashanti	ANGJ	10.4	6.9	6.5	6.0	4.3	4.2	5.3	3.6	3.4	2.1	2.7	3.5
Gold Fields	GFI	12.3	7.5	6.9	7.5	6.0	4.8	5.6	3.9	3.8	2.9	4.6	5.7
Kinross Gold	K	14.7	11.5	12.3	6.4	6.1	6.1	5.6	5.2	5.5	1.1	1.1	1.1
Newmont	NEM	13.1	10.4	9.6	7.4	6.9	6.4	6.5	5.6	5.3	2.4	2.6	2.8
Harmony Gold Mining	HARJ	7.3	7.3	6.6	5.3	5.2	N/A	4.4	4.0	4.2	2.0	2.6	2.5
Endeavour Group	EDV	16.6	14.9	13.8	7.0	6.7	6.5	8.3	7.8	7.5	4.6	5.0	5.4
Average		12.4	9.7	9.3	6.5	5.7	5.5	6.0	5.0	4.9	2.5	3.0	3.4

Source: LSEG Data & Analytics

ETF flows signal changing sentiment

After three years of net outflows, both physical gold and gold equity ETFs are seeing renewed buying interest. We believe this trend will continue as monetary conditions continue to ease, potentially accelerating a rotation away from growth stocks towards value sectors like precious metals mining. Flows into both physical gold and gold equity ETFs are picking up, which historically has been a positive indicator for the sector.

Portfolio diversification benefits

Gold miners offer true diversification, with a very low correlation to the S&P 500 (0.24 over 10 years). This compares favourably to other supposed portfolio diversifiers like real estate and cryptocurrencies, which show much higher correlations to broader equities. In an environment of heightened market uncertainty, this diversification benefit becomes increasingly valuable.

Catalysts for continued strength

Several factors support our constructive outlook for both gold and gold equities.

Monetary policy environment

- The US rate cutting cycle has commenced, with both the US and China now cutting rates.
- The Fed's September pivot towards potentially larger cuts highlights a shift in priorities from inflation to unemployment.
- Historically, periods of falling US interest rates have been highly positive for gold and precious metals miners.

Geopolitical and economic factors

- Heightened global political tensions.
- Continued central bank buying, particularly from emerging markets.
- US debt servicing costs exceeding US\$1.2tn annually.
- Active diversification away from US Treasuries by BRIC nations.

Investment conclusion

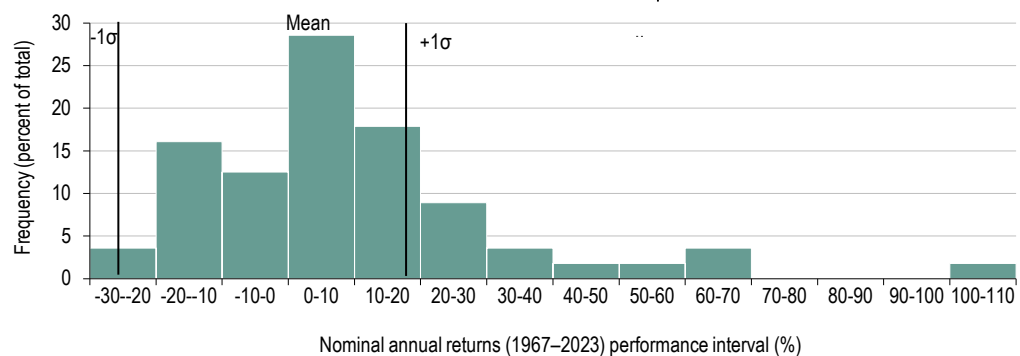
Our framework indicates significant upside potential from current levels. The only scenario in which we could envision a bear market in gold would require a combination of:

- sustained peace in the Middle East,
- peace in Ukraine,
- a rapprochement between the US and China, and
- real US interest rates sustainably above 4%

Given the current global environment, we view this combination as highly unlikely. With a strong fundamental floor at US\$2,000/oz, historical precedent for rebasing during rate transitions and unprecedented central bank support, the risk-reward profile remains asymmetric to the upside in our view.

For investors seeking exposure to the sector, we believe gold equities offer the most compelling opportunity at this point in the cycle. The combination of operational leverage, attractive valuations and improving sentiment suggests potential for significant outperformance versus physical gold in the months ahead.

Exhibit 5: Gold returns over time



Source: Edison Investment Research (underlying data: Bloomberg)

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