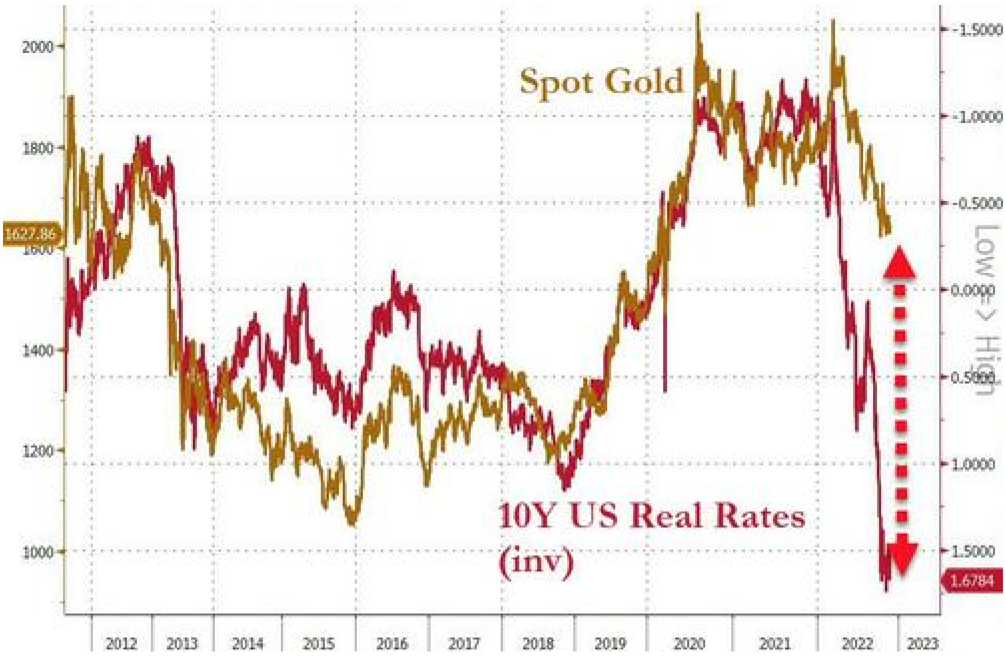
Gold Market Roiled As Mystery Buyer Waves In 300 Tonnes

Description

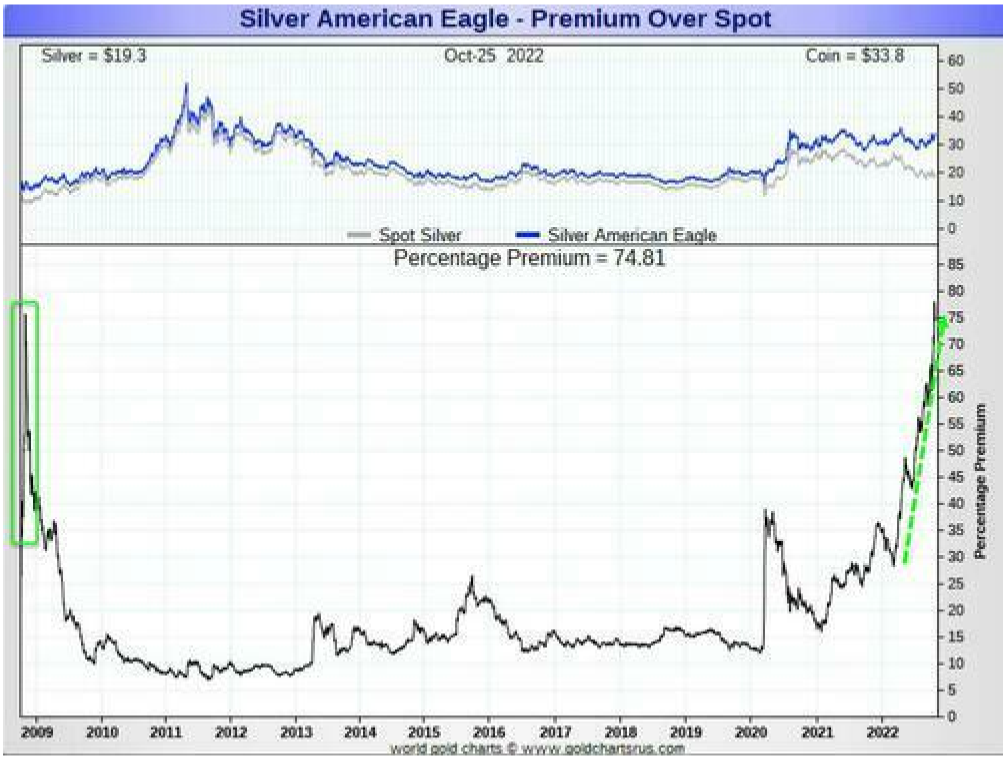
As The Fed has tightened monetary policy at its most aggressive pace in over 40 years, real rates in the US have soared (back into strong positive territory). Historically, that has reduced demand for gold (zero carry) but as the chart below, gold – while notably off its highs – has not cratered as much as some might have expected…



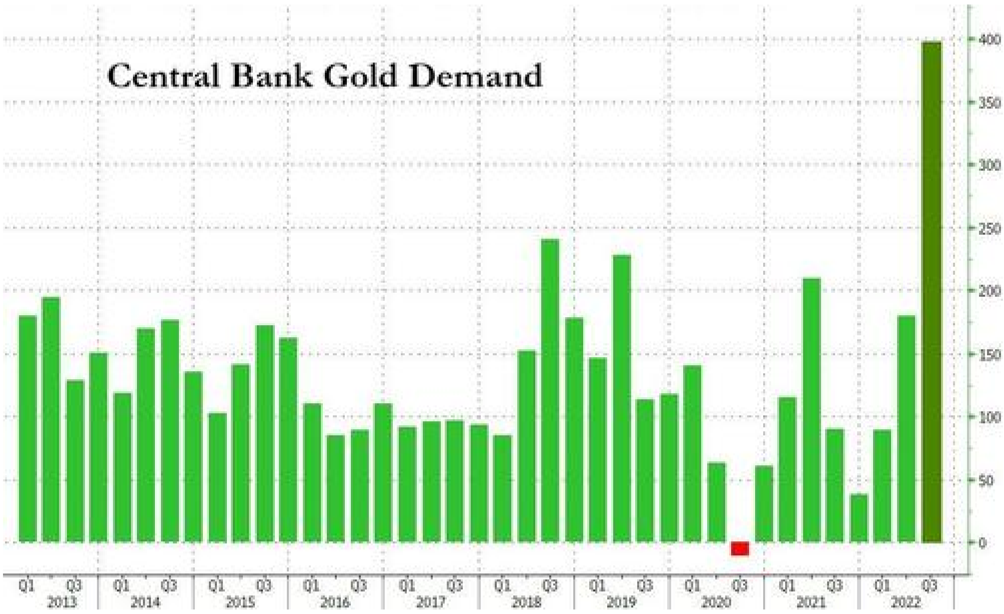
"With that weight of selling, I was a bit surprised gold wasn't weaker," said Ross Norman, chief executive officer of Metals Daily, an information portal focusing on precious metals.

But, thanks to a normally dry research report from The World Gold Council, perhaps we know why gold has not fallen as much…

First, as we noted recently, despite the recent price slide in paper precious metals markets, **physical demand (and prices) remain extremely high**…



But, as we detailed earlier today, **central banks bought 399 tons of bullion in the third quarter, almost double the previous record**, according to the World Gold Council.



The tricky thing is though, as Bloomberg reports, **just under a quarter went to publicly identified institutions, stoking speculation about who the mystery buyers were that waved in the other 300 tonnes of gold in Q3?**

While most central banks inform the International Monetary Fund when they buy gold to supplement their foreign exchange coffers, others are more secretive.

Few have the capacity to undertake the third-quarter buying spree, enough to soften the blow from investors selling bullion as the Federal Reserve hiked interest rates.

Here are some possibilities as to who these mysterious bullion whales could be… (*via Bloomberg*)

China

The world's No. 2 economy rarely discloses how much gold its central bank is buying. In 2015, the People's Bank of China revealed a nearly 600-ton jump in its bullion reserves, shocking market watchers after six years of silence.

The country hasn't reported any change in its gold hoard since 2019, fueling speculation it may have been buying under the radar.

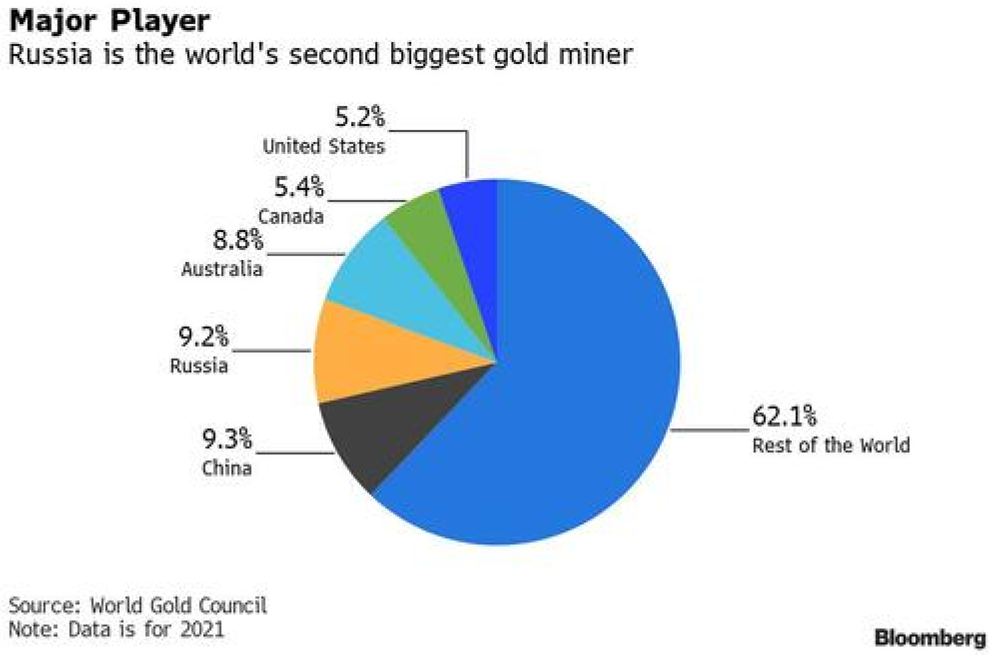
Trade data show the country has been taking in vast amounts of bullion. China has imported 902 tons of gold so far this year, already surpassing last year's total. That's on top of the more than 300 tons the country's mines typically produce each year.

And while domestic demand has been strong, with citizens buying some 601 tons through the third quarter, it's on track to fall short of 2021 levels. Earlier in the year, Covid-19 lockdowns hampered purchases of jewelry and bullion in one of the world's top consumers.

For China, the need to find an alternative to dollars, which dominate its reserves, has rarely been stronger. Tensions with the US are high following measures taken against its semiconductor firms, while Russia's invasion of Ukraine has demonstrated Washington's willingness to sanction central bank reserves.

Russia

Russia is the world's second-biggest gold mining nation, typically producing more than 300 tons a year. Before February 2022, it exported metal to trade centers like London and New York, but also to nations in Asia.



Since the invasion of Ukraine, Russia's gold has no longer been welcome in the West, while China and India have been reluctant to import huge quantities. That raises the possibility the central bank could step in to buy those supplies, but Russia's overall foreign exchange reserves, including gold, have declined this year.

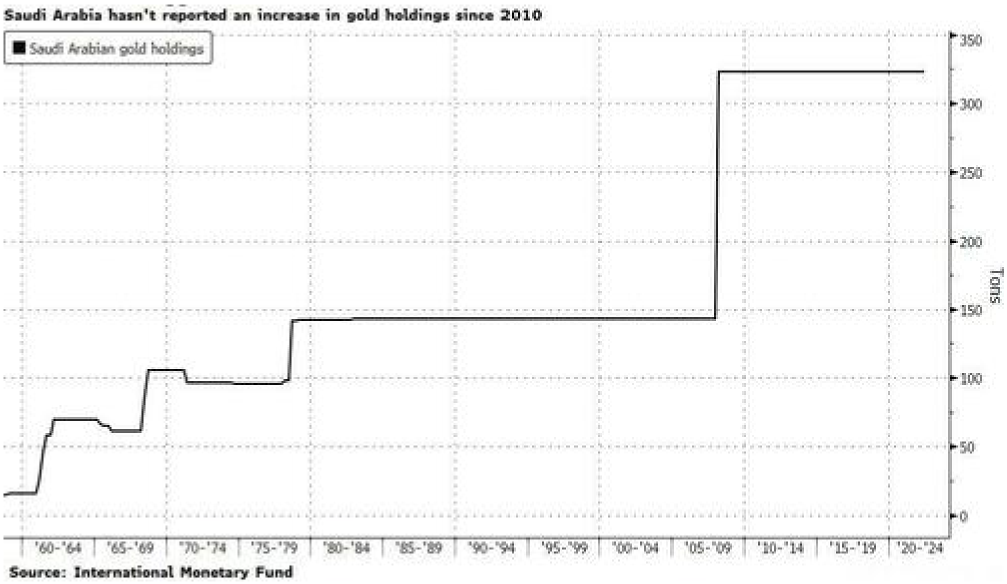
Russia's reserves of dollars and euros were frozen by sanctions, making it less attractive for the central bank to add to them. Moreover, it doesn't break out its holdings of gold separately.

The nation has been a massive buyer of gold in the past, spending six years accumulating bullion before stopping at the onset of the pandemic. Russia said in February, after the invasion of Ukraine, that it was ready to buy gold at a certain price, but Deputy Governor Alexei Zabotkin said last month that purchases were no longer practical as they would push up money supply and inflation.

Oil Exporters

Few nations have done better out of this year's energy crisis than Gulf oil exporters. Saudi Arabia, the United Arab Emirates and Kuwait have all reaped a windfall, and some have been plowing cash into foreign assets through sovereign wealth funds.

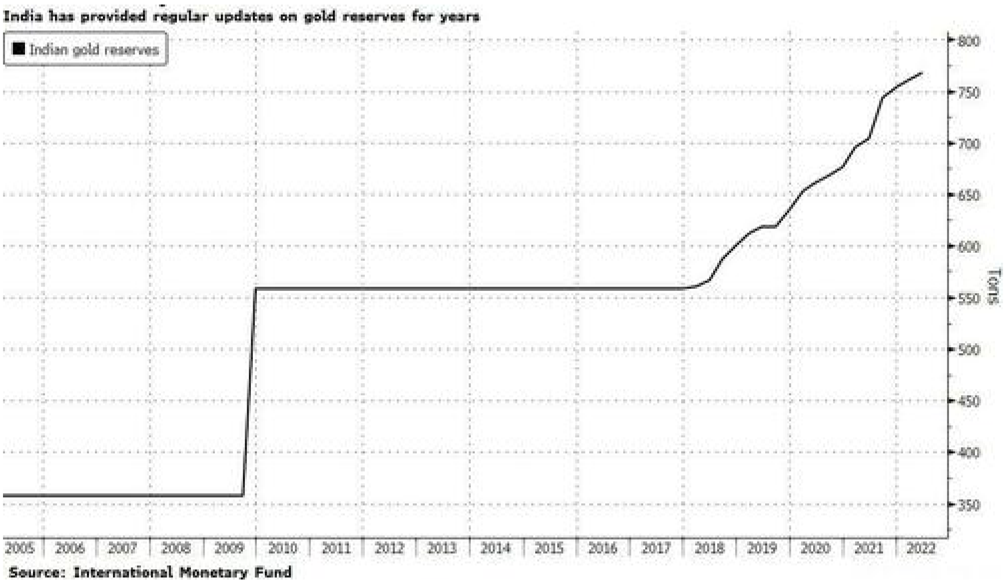
They may have looked to gold to diversify. **Saudi Arabia has the biggest gold hoard in the Arab world, but hasn't reported a change in its holdings since 2010.**



Back then a "difference in accounting" led to its reserves doubling to 323 tons.

India

India's central bank has made large gold purchases before, buying 200 tons from the International Monetary Fund in 2009. **Since then it's tended to buy more gradually, while providing timely updates to the market.**



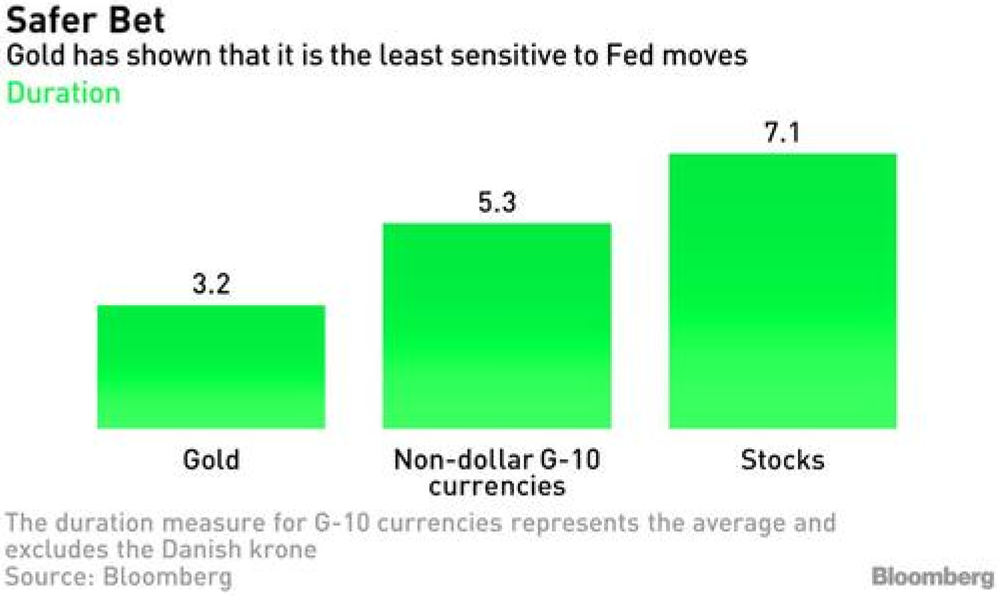
It may have shied away from splashing out on gold this year, given the pressure on its currency. That’s been exacerbated by strong imports of precious metals for its consumer sector in recent months.

So, was it China, Russia, The Saudis, or India? And why?

Perhaps they realize where this all leads and are taking action, as we detailed previously, ***gold is the most resilient asset to own if the Federal Reserve continues to raise rates, while stocks are the worst place to be, with non-dollar currencies falling between the two.***

Gold has had an empirical duration of just over three years in the current Fed cycle, compared with stocks at 7.1 years. The non-dollar currencies that make up the G-10 have seen a duration of 5.3 years.

Duration measures the percentage change of an asset in reaction to a 1 percentage point shift in interest rates.



Gold is still hovering near its low for this cycle of $1,615 an ounce, a 12% decline since the start of the year that has come as the Fed raised its benchmark interest rate by 300 basis points, with another 75 basis points priced in from this week's policy review.

Non-dollar G-10 currencies have seen an average duration of 5.3 years in the current cycle, highlighting their sensitivity to any perceptible shift in interest-rate differentials.

Simply put, the analysis on duration shows that gold is a relatively safe place to be in the currency cycle… and maybe the whales are moving

Or, more ominously, perhaps the mystery whales know something (or fear something) that western nations prefer not to consider about the new world order?

by Tyler Durden

Category

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