The gold price fell more than USD 80 per ounce following upside surprises in US monthly jobs and earnings data; the May US CPI and the Fed meeting are key events of the week. (UBS)

Gold: Dips to be bought, not sold

10 June 2024, 3:36 pm CEST, written by UBS Editorial Team

The gold price fell sharply following the release of US payrolls data, with job additions and average hourly earnings beating expectations. Of the surprises, we saw the tick up in earnings, by 0.4% m/m, as the most visible as the year-over-year rate moved back to 4.1%.

The strong reaction in the bond and currency markets was clearly behind the slump in gold, with the 10-year US Treasury yield jumping 15bps and the DXY up 83bps.

However, contrary to the payrolls, the household survey data released at the same time painted a weaker picture. The unemployment rate rising to 4%—its highest since January 2022—despite a fall in participation.

Moreover, with the unemployment rate rising, the ratio of openings-to-unemployment fell to 1.2 (consistent with pre-pandemic levels).

We expect a lift in the Federal Reserve's median "dots plots" to two cuts in 2024 (from three); but inflation should still moderate, and a September cut is our base case.

Outside macro data, reports the People's Bank of China kept gold reserves unchanged in May also made the headlines, although other central banks, like Poland (+10 metric tons in May), continued to buy. Based on 1Q volumes, we see demand reaching 950–1,000 metric tons in 2024. With persistent geopolitical risks and the US election approaching, we believe portfolio hedges, like gold, will help manage these heightened uncertainties—our analysis suggests about 5% within a USD balanced portfolio is optimal.

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Original report - **Gold Dips to be bought, not sold, 10 June 2024.**