

MACRO ECONOMIC FACTORS AFFECTING GOLD PRICES

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Understanding Gold as an Asset

- Gold's distinctive characteristics set it apart from other investments. Beyond its luster, the metal's limited supply and indestructible nature have contributed to its stability as a long-term store of value. Gold cannot be printed like currency or created out of thin air. Its scarcity and permanence have made it a hedge against currency devaluation or inflation and economic instability.
- Unlike stocks or bonds, gold is tangible. It maintains high liquidity across global markets and is universally recognized as valuable, regardless of political or economic conditions. Its value tends to rise when confidence in other financial assets declines, particularly during periods of high inflation, economic uncertainty, or geopolitical instability.
- These properties make it an attractive part of diversified investment portfolios

Gold prices can increase due to a combination of factors including rising inflation, increased demand for safe-haven assets, a weakening US dollar, and geopolitical instability. Additionally, central bank policies and investment demand play a significant role in driving gold prices.

Here's a more detailed breakdown:

1. **Inflation:** When inflation rises, the purchasing power of currencies decreases, and investors often turn to gold as a store of value, leading to increased demand and higher prices.
2. **Safe-Haven Demand:** During times of economic or political uncertainty, investors often seek refuge in assets perceived as safe, like gold, which can drive up its price.

3. US Dollar Weakness: Gold is typically priced in US dollars. When the dollar weakens, gold becomes more attractive to investors holding other currencies, leading to increased demand and higher prices.

4. Geopolitical Tensions: International conflicts, political instability, and other global uncertainties can increase the appeal of gold as a safe-haven asset, boosting demand and prices.

5. Central Bank Policies: Central banks' decisions regarding interest rates and monetary policy can influence gold prices. For example, lower interest rates can make gold more attractive as an investment.

6. Supply and Demand: The fundamental balance between gold supply (mining production, recycling) and demand (investment, jewelry, technology) also plays a crucial role in determining its price.

7. Investment Demand: Increased investment in gold ETFs (Exchange Traded Funds) and other investment vehicles can also drive up prices due to heightened investor interest.

KEY TAKEAWAYS

- Gold's price is influenced by central bank reserves and their purchasing trends.
- Economic and political instability increase demand for gold as a safe haven.
- Global gold production and mining challenges affect gold's supply and price.
- Demand for gold in jewelry and technology sectors also impacts its price.
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- However, the rise in gold prices does not just happen. There are various economic, political and global factors that influence the movement of gold prices. By understanding these factors, you can be better prepared for gold price fluctuations and make the right investment decision.
- **1. Global Economic Uncertainty is the First Reason Why Gold Prices Keep Rising**
- One of the main reasons why gold prices continue to rise is global economic uncertainty. When the world economy is unstable, investors tend to seek safe assets

like gold. For example, during the COVID-19 pandemic, gold prices soared as many countries experienced recession and market uncertainty.

- In addition, financial crises or political turmoil can also push up gold prices. Gold is considered a safe haven that is able to maintain its value even in the worst situations. Therefore, you need to monitor global economic conditions to understand why gold prices continue to rise.
- However, economic uncertainty is not always the only factor. There are times when gold prices remain stable despite economic turmoil. Therefore, it is important for you to look at other factors that also affect the price of gold.
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2. High Inflation

Inflation is one of the main factors that answer the question of why gold prices keep rising. When inflation is high, the value of currencies tends to decline, and gold is seen as a means of protecting wealth. Gold has an intrinsic value that is not affected by inflation, so many investors turn to gold when inflation spikes.

In addition, high inflation can also reduce people's purchasing power. In situations like this, gold becomes an attractive investment option because its price tends to rise along with the increase in the price of goods and services. Friends who want to invest in gold need to consider the inflation rate as one of the important indicators.

However, keep in mind that the relationship between inflation and gold prices is not always direct. There are times when inflation is high, but gold prices do not rise significantly due to other factors, such as monetary policy or interest rates. Therefore, you need to look at the overall economic picture.

3. Why the price of gold continues to rise can be caused by the weakening value of the US dollar

The United States dollar has an inverse relationship with the price of gold. When the value of the dollar weakens, gold prices tend to rise. This is because gold is priced in US dollars, so a weakening dollar makes gold more affordable for investors using other currencies.

So, why does the price of gold keep going up? One answer is because the United States dollar is weakening. In addition, a weakening US dollar can also increase demand for gold from countries whose currencies are stronger against the dollar.

For example, if the dollar weakens against the rupiah, Indonesian investors may be more interested in buying gold because it is relatively cheaper. This could push gold prices up further. However, the relationship between the US dollar and gold prices is not always linear. There are times when the dollar weakens, but gold prices do not necessarily rise due to other factors.

4. Loose Monetary Policy

Loose monetary policy, such as interest rate cuts or quantitative easing, can also be a reason why gold prices continue to rise. When central banks lower interest rates, the yields on investment instruments such as bonds become lower.

Generally, investors will turn to gold, which has no yield so it is considered more profitable and safe amid falling interest rates. In addition, lower interest rates can also increase liquidity in the market, which will then push up asset prices, including gold.

Friends who want to invest in gold need to monitor the monetary policies of central banks, especially the Federal Reserve (Fed) in the United States. The policies adopted by the Fed have a huge impact on gold prices.

5. High Physical Demand

Physical demand for gold, especially from the jewelry and electronics industries, can also be a reason why gold prices continue to rise. For example, in countries like India and China, gold has a high cultural value and is often used in jewelry or as a wedding gift.

High demand from these countries can push gold prices up. In addition, the demand for gold from the technology industry is also increasing as gold is used in various electronic devices. You need to understand that the demand for physical gold comes not only from investors, but also from industries and consumers.

Understanding why gold prices continue to rise is very important for those of you who want to invest in gold. There are various factors that affect gold prices, ranging from global economic uncertainty, high inflation, weakening US dollar, loose monetary policy, to high physical demand.

However, keep in mind that gold prices are not influenced by just one factor. A combination of various economic and global factors can cause gold prices to rise or fall. Therefore, one should always monitor market developments and do research before investing.