



# Overview on GOLD

-  
May 2023

**Risk warning:** Contracts for Difference ('CFDs') are a complex financial product, with speculative character, the trading of which involves significant risks of loss of capital. Trading of leveraged CFD products carries significant risk. Trading CFDs, which are a marginal product, may result in the loss of your entire balance. Remember that leverage in CFDs can work both to your advantage and disadvantage. CFDs traders do not own, or have any rights to, the underlying assets. Trading CFDs is not appropriate for all investors. Past performance does not constitute a reliable indicator of future results. Future forecasts do not constitute a reliable indicator of future performance. Before deciding to trade, you should carefully consider your investment objectives, level of experience and risk tolerance. You should not deposit more than you are prepared to lose. Please ensure you fully understand the risk associated with the product envisaged and seek independent advice, if necessary.



# Why do Investors Trade Gold?

**Gold Trading** has been one of the earliest forms of investment, due to the precious metal playing an important role in the global economy. Across cultures, there have always been markets, where gold has been traded in some form as a symbol of prosperity and wealth.

In modern financial markets, Gold prices are tracked rigorously because:

- It is used as a **hedge** against inflation
- It's believed to provide a "**Safe Haven**" in times of political or economic instability
- Known correlation with other currencies and commodities for **portfolio diversification**

Since the removal of the gold standard for US dollar in 1971, a long-term uptrend started and gold prices fluctuated majorly in response to **Supply and Demand**.

Characteristic	Share of global demand
Jewelry	55.43%
Investment	25.02%
Central banks	11.33%
Technology	8.21%

## What does the term «Safe Haven» mean?

A **safe haven investment** is one that is anticipated to rise in value or hold its worth during volatile market conditions. In order to reduce their exposure to losses in the case of market downturns, investors look for safe havens.

The negative correlation for US Dollar's percentage change and gold can be seen on the combined 10-year price chart of these assets, which proves the argument that a weaker dollar makes gold cheaper, increases demand for gold, which in turn drives up the price, giving gold and the dollar their negative relationship.

Another reason for investors to turn towards gold in a volatile market is also due to the fact that gold has outperformed the “Dow Jones Industrial Average” on last 20 years.



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May 03, 2023	14:00	5.25%	5.25%	5.00%
Mar 22, 2023	14:00	5.00%	5.00%	4.75%
Feb 01, 2023	15:00	4.75%	4.75%	4.50%
Dec 14, 2022	15:00	4.50%	4.50%	4.00%
Nov 02, 2022	14:00	4.00%	4.00%	3.25%
Sep 21, 2022	14:00	3.25%	3.25%	2.50%
Jul 27, 2022	14:00	2.50%	2.50%	1.75%
Jun 15, 2022	14:00	1.75%	1.50%	1.00%
May 04, 2022	14:00	1.00%	1.00%	0.50%

The price of gold has been largely influenced by a weaker US dollar index ([DXY](#)), as the Fed raised interest rates by **50 basis points (bps)** for the seventh consecutive time at its December meeting, then eased a bit but still went by **25 basis points (bps)** during 2023.

The Fed has hiked interest rates **ten times** so far in 2022 and 2023. Yet with the ongoing banking crisis as the effect of rising interest rates has already had the market braced in for a pivot and halt in interest rates by **June 14<sup>th</sup>**.

Release Date	Time	Actual	Forecast	Previous
May 10, 2023 (Apr)	08:30		5.0%	5.0%
Apr 12, 2023 (Mar)	08:30	5.0%	5.2%	6.0%
Mar 14, 2023 (Feb)	08:30	6.0%	6.0%	6.4%
Feb 14, 2023 (Jan)	09:30	6.4%	6.2%	6.5%
Jan 12, 2023 (Dec)	09:30	6.5%	6.5%	7.1%
Dec 13, 2022 (Nov)	09:30	7.1%	7.3%	7.8%

So far the aggressive rate hike policies of Fed seems successful in taming the inflation rising since 2020 due to Covid-19, as the inflation has been lowered to the point of **5.0%**. Yet Federal Reserves still keep their eyes on the target of 2.0%, as reiterated by Jerome Powell in a news conference on March.

The market is currently awaiting the results of **Consumer Price Index (CPI YoY)** to be announced on **10<sup>th</sup> of May**.



However, such aggressive policies didn't come without a cost. Rising interest rates made it difficult for banks to manage credits and loans, along with the majority of their portfolios held in Treasury Bonds losing value, which in turn resulted in the **2023 Banking Crisis**.

Also Treasury Secretary Janet Yellen warned Congress on 1<sup>st</sup> of May that U.S. could default on its debt as early as June 1, if legislators do not raise or suspend the debt limit before then, which would cause a global financial crisis.



# Market Slump after SVB Collapse



Both the **US Dollar Index, 10-Year Treasury Bonds** and **S&P 500 Index** have fallen on the following week.

On a normal market condition, stocks tend to rise as Dollar decreases yet this phenomenon already signals that investors exhibited the tendency to run towards the Safe Haven of gold.

As Dollar Index fell by 1.38%, 10-Year Bonds lost 7.28% and S&P500 Index dropped by 3.87%.

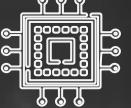
- **Gold's Historic Movement in times of Crisis**

Data obtained and processed from Yahoo Finance shows that in the previous Subprime Mortgage Crisis of 2008 and Flash Crash of 2010, both the **Dollar Index (DX=F)** and **10-Year Bonds (ZB=F)** shows a decrease in value, while the **Gold (GC=F)** shows reaches the highest prices in its history.

Percentage movements of both assets within data from 2007 to today shows that:

- Gold moved up by 60% during the **Subprime Mortgage Crisis**, while 10-Y Bonds were stable but Dollar was slumping.
- Similar to 2008, **Flash Crash of 2010** had the Gold move up by another 50% while 10-Y Bonds and Dollar dropped.





# Technical Outlook on Gold



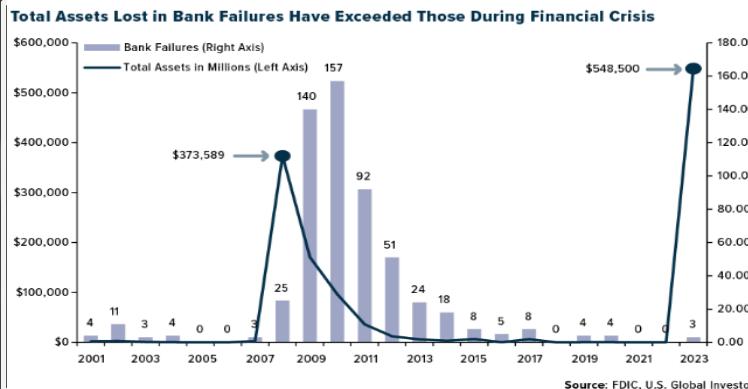
On the daily chart, after gold finally breaking above the **1871 – 1879** resistance zone in March, prices continued to surge upwards with no signs of a downwards volatility on all periods of moving averages.

MaCD (Moving Average Convergence Divergence) also shows a new entry into bullish zone on daily chart, with Relative Strength Index (RSI) still showing above 50.0 in the bullish direction.



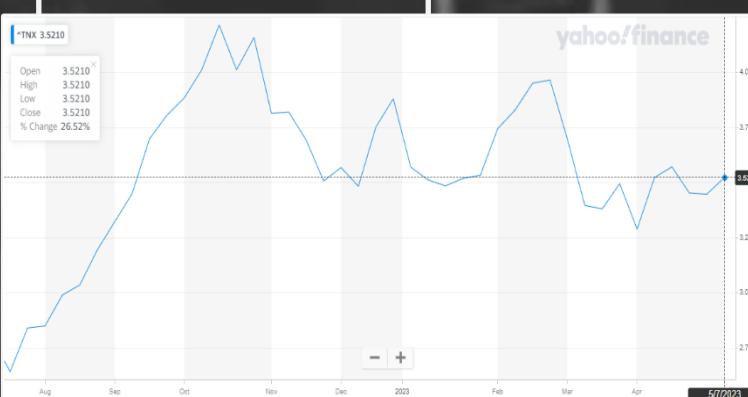
Gold has already hit an all-time high with the additional rate hike showing its effects in the economy.

While the regional banks in U.S. have lost around 30% of their value as of date, Gold mining stocks have increased by 25%.



Consequences of regional banking crisis is already worse than the global financial crisis, as more than half trillion dollars have been lost this year with the collapse of Silicon Valley Bank (SVB), Signature Bank and First Republic Bank alone.

Shocking information found here is that; this amount significantly exceeds the amount shown in 2008 Subprime Mortgage Crisis, where 25 banks in U.S. went under.



Markets are slowly digesting the recent slowdown and the possible pivot over the next Federal Reserve policy meeting. This meant Treasury yields turned lower and the US Dollar weakened.

All these indicators and movements in correlated assets combined, 2023 is still proving to be the definitive year of gold.

# 2023 – Trade Examples : GOLD (XAUUSD)

Investment of \$25,000

Trade panel: XAUUSDpro

Instant execution Pending order

Bid: 2020.82 Ask: 2023.51

Volume (Lots): 1.4

Stop loss:

Take profit:

Price: 2060 Points: 3649

Profit: 5108.60

Quantity: 140.00 Units

Required margin: 1416.46USD

Spread: -376.60 USD ( 269.0 pips )

Commission: 0 \$ for 1 lot

Pip value: 1.4000 USD

**BUY 2023.51**

Investment of \$50,000

Trade panel: XAUUSDpro

Instant execution Pending order

Bid: 2020.87 Ask: 2023.56

Volume (Lots): 2.8

Stop loss:

Take profit:

Price: 2060 Points: 3644

Profit: 10203.20

Quantity: 280.00 Units

Required margin: 2832.98USD

Spread: -753.20 USD ( 269.0 pips )

Commission: 0 \$ for 1 lot

Pip value: 2.8000 USD

**BUY 2023.56**

Investment of \$100,000

Trade panel: XAUUSDpro

Instant execution Pending order

Bid: 2020.90 Ask: 2023.59

Volume (Lots): 4.6

Stop loss:

Take profit:

Price: 2070 Points: 4641

Profit: 21348.60

Quantity: 460.00 Units

Required margin: 4654.26USD

Spread: -1237.40 USD ( 269.0 pips )

Commission: 0 \$ for 1 lot

Pip value: 4.6000 USD

**BUY 2023.59**

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# Sources for Information

The Bloomberg logo is displayed on a blue rectangular background with the word 'Bloomberg' in white, bold, sans-serif letters.The euronews logo is shown on a dark blue rectangular background with the word 'euronews.' in white, bold, sans-serif letters.The Forbes logo is displayed in large, bold, blue sans-serif letters.

## Libraries Used (Python 3.9)

Yfinance, Numpy, Pandas, Matplotlib, Plotly, Seaborn

Provided by Emir E

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