'Speculate in bitcoin, hoard gold': Precious metal's value soars

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Highlight: This week, gold crashed through a historic high, leaving many analysts and other market watchers looking for explanations.

Body

Security is tight. "No hoodies!," proclaims a sign to customers as they are buzzed by intercom through locked reinforced doors in a nondescript downtown city building.

A steady stream of unpretentious city types, migrant workers, high-viz tradies, delivery drivers and well-dressed travellers file through the foyer.

Link to Image

Eddie Jim

They are here primarily to buy and sell gold, the precious metal whose allure in the 1850s gold rush reputedly made Melbourne the richest city on earth.

The Collins Street building in the city is gold central: at least 15 bullion traders are scattered across 16 levels among multiple jewellers, gemstone and diamond merchants. An odd assortment of legal offices, pawnbrokers and immigration agents fill in the gaps.

"There's probably more value in this building than any other in Australia," a casual conversation with a gold seller behind the counter at Bullion Now, on the sixth floor, reveals. "It's staggering."

The precious metal he is selling, bullion, is on a record run. This week, it crashed through a historic high of $US2200 ($3325) an ounce. Bullion is pure gold, different from 24-carat or 18-carat gold which has other alloys added to strengthen if for jewellery making, diminishing its value.

Gold's almost daily ascent since mid-February has left many analysts and other market watchers looking for explanations, as there is no clear catalyst for the rally.

Gold tends to spike in response to globe-shaking geopolitical or economic events, but nothing earth-shattering has happened in the past few months to justify the latest surge.

But people are cashing in, says Michael Pepper, Bullion Now's owner. He, and other traders in the city's golden tower, say record high prices are prompting customers to sell rather than buy.

"We'***re*** seeing a large number of sell backs coming through the doors at the moment. People are diversifying into property and cryptocurrencies," Pepper says.

The peaking prices are also weighing on purchasers. Custom has fallen 10 per cent to 20 per cent. "I would also argue that the size of purchases has shrunk a little bit as well," he says.

In a small two-person partitioned booth on the floor above, Michael Kay, from Melbourne Gold Company, is also buying more than he is selling.

"There wasn't much selling during COVID, although people were cashed up," Kay says. "People were concerned, scared and had the money to buy gold." Now they want to exit and get Bitcoin instead. "People like to speculate in Bitcoin and hoard their wealth in gold."

Bitcoin and other cryptocurrency's volatility far outpaces gold's movements.

Bitcoin plunged from a peak of about $87,000 in November 2021 to below $24,500 two years later, before soaring to its current record high near $103,000. Gold, by contrast, moved from $US1500 to $US2200 over the same timeframe.

The gold traders' clientele range from self-managed super funds owners, they often buy the largest sums, to people selling homes who want to transfer their equity into gold.

Farmers, who understand of commodity markets, are also frequent buyers, as are migrants from Asia, India and East Europe, the traders say.

"Most people do keep it under the bed, so to speak, or leave it here," Kay says, noting that many dealers provide secure storage for a fee. "People are maybe questioning the high price. Is it going to remain here? Will it keep going? I'm pretty bullish. Gold always shines with inflation," he says.

Prices didn't have to move far before they hit record territory.

Gold has been trading for months at around the $US2000 mark. That level was viewed by many as stratospheric just a few years ago, but the metal pushed through the barrier in 2020 as the pandemic stormed across the globe.

Unusually, prices are trading at elevated levels despite sky-high interest rates that are typically bad for gold, which doesn't pay interest, and in defiance of a strong US dollar, which tends to keep the price of gold lower and more controlled.

However, big geopolitical factors are underpinning the precious metal's stellar performance: Speculation over the US Federal Reserve's pivot to looser monetary policy, Israel's unravelling Gaza crisis, the disastrous Russia and Ukraine war, and buying by central banks, led by China, are helping spur momentum.

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Trevor Collens

Gold is frequently viewed as an inflationary hedge.

"The reality is gold is a hedge against uncertainty. Over the last few years, that uncertainty is creeping in across a myriad of factors," says Cameron Alexander, general manager of commercial development at The Perth Mint, one of the world's biggest gold refineries and mints.

"A combination of banking crisis, economic concerns, and geopolitical factors are driving investors to gold," Cameron maintains.

Former US President Donald Trump's trade war with China, and the weaponizations of the US dollar following the West's freeze of Russia's offshore assets, incentivised some wary central banks to buy heavily.

Youtube link

"China, over the last couple of years, has been very aggressive in building their own reserve, diversifying and moving away from the US dollar," Cameron said. They are not alone. Other South East Asian bankers are doing the same, albeit on a much smaller scale.

The World Gold Council's Gold Demand Trends January report shows the central bank buying streak continues at a "blistering" rate. Demand reached 1037 tonnes last year - the second-highest on record and down just 45 tonnes on the previous year, it said.

Michael Scantlebury, a ***resource*** analyst at Perth-based ASX listed broker and investment bank Euroz Hartleys, says the share price of Australia's gold producing miners and ASX-listed gold-focused exchange traded funds are lagging gold's soaring price.

"It doesn't make any sense, right? We aren't too surprised, given the lack of interest over the last three years in the gold equities," he says.

'We'***re*** very confident that this gold price increase will convert to proper margin and proper cash flow.'

Michael Scantlebury, from investment bank Euroz Hartleys

Gold's last big run started after the pandemic's mayhem primed the world's latest inflationary surge, but investors who expected gold miners' profit margins to follow the gold price upwards were disappointed.

"Cost inflation for gold producers basically squeezed that margin to the point where gold producers were breaking even, essentially, despite the gold price increases," Scantlebury says.

Gold equities in Australia underperformed as a result, and investors still remain sceptical. However, Scantlebury says discussions with mining contractors and industry suppliers shows pressures are easing, be it wage rises or fuel prices.

"The rate of cost inflation has definitely come off, so we'***re*** very confident that this gold price increase will convert to proper margin and proper cash flow," he says.

That's a shift Euroz Hartleys expects to show up in the March quarterly reports of miners like Northern Star ***Resources***, Evolution, ***Ramelius***, Perseus, West African and Gold Road ***Resources***. Euroz Hartleys would expect investors to then focus on smaller producers and explorers after a ***re***-rate in these larger miners occurs.

"Assuming the gold price stays equal, gold producers in Australia should definitely ***re***-rate," Scantlebury says.

ANZ commodity strategists Daniel Hynes and Soni Kumari said gold's latest rally isn't being derailed by the market's expectation that the Fed may push back expected cuts in interest rates, delaying a move that would signal it has US inflation under control.

"While speculators have increased their bullish bets recently, positions are not matching the intensity of the latest price rally. Moreover, disinvestment in gold-backed exchange-traded funds has been continuing," they said in a research note last week.

"A pull-back in gold prices is likely in the short term, as [the] recent rally has surpassed macroeconomic and geopolitical developments," they maintain.

At Bullion Now, Pepper also anticipates things to calm down. "We'***re*** expecting a pullback in the shorter-term," he says. But there will always be people buying gold as a value store, and for its portability, he says.

A kilo gold bar about the size of a mobile phone is now worth about $116,000, Pepper says. "I can put that in my pocket, travel to London and get for the same for it in the UK as what I paid in Australia. It's a worldwide transferable asset," he said.

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Graphic

Michael Pepper from Bullion Now with some of his gold products.

Gold crashed through a historic high of $US2200 an ounce.

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