$7.6trn manager says gold could hit $US3100; Portfolio asset

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Body

State Street Global Advisors, one of the world's largest investors, says gold prices could reach $US3100 an ounce this year, extending a 2024 rally that pushed the precious metal to its biggest annual gain in 14 years.

Bullion rallied 27 per cent last year and peaked at a record $US2778 an ounce in October, fuelled by robust central bank purchases, interest rate cuts by the Federal Reserve and safe-haven demand amid geopolitical tensions in Ukraine and the Middle East.

And the world's fourth-largest asset manager believes those drivers remain intact this year despite indications from President-elect Donald Trump that his administration will enact policies to grow businesses faster, propelling the rally in riskier assets such as stocks and cryptocurrencies.

State Street, which manages a portfolio of $US4.73 trillion ($7.6 trillion), said there was heightened anxiety about a return of high inflation, ballooning government debt and worsening geopolitical tensions under a Trump administration. That would spur gold buying as a way to protect wealth.

"We don't see this changing and expect the secular demand trends underpinning gold's price and its status as a safe haven to continue enhancing gold's appeal as a core portfolio asset, even if capital markets strike a risk-on tone in 2025," State Street's chief gold strategist George Milling-Stanley said.

While State Street's base case is for gold to trade between $US2600 an ounce and $US2900 an ounce this year, it assigned a 30 per cent probability to its bullish scenario where the precious metal hits $US3100 an ounce.

State Street joins the chorus of Wall Street banks that are betting on another stellar year for the precious metal.

Bank of America, JPMorgan and Citi forecast bullion will reach $US3000 an ounce by the end of this year, and UBS forecasts $US2900 an ounce. While Goldman Sachs pushed out its projection this week, the broker still sees prices hitting $US3000 an ounce by mid-2026.

The bullish forecasts assume gold will jump more than 13 per cent this year from the current spot price of $US2649.38 an ounce.

A stronger US dollar has weighed on gold prices since the US election on November 5, but strategists underline the prospect of sweeping tariffs under Mr Trump which could exacerbate trade tensions and stunt global growth.

Gold received a further boost this week on news that China's central bank expanded its gold reserves for a second month in December to 73.29 million fine troy ounces, from 72.96 million in the previous month. The People's Bank of China resumed adding to its gold reserves in November following a six-month pause when prices hovered at record levels.

Local gold miners revealed this week that they ramped up output in the December quarter to capitalise on the boom in prices.

Gold Road ***Resources*** delivered record gold production from the Gruyere mine in Western Australia, ***Ramelius Resources*** boosted its output by 36 per cent compared to the September quarter, and Regis ***Resources*** lifted its production by nearly 10 per cent in the December quarter.

But analysts are frustrated that gold stocks continue to lag the price of the precious metal; the spot price surged 27 per cent in 2024 but the New York Stock Exchange Arca Gold Miners Index climbed just 11 per cent.

VanEck believes the disconnect can be explained by a trend that has developed where the leverage of gold stocks to the metal's price is weaker when gold prices are rising compared to when they are falling.

Indeed, gold prices fell 0.9 per cent from the end of 2023 to the end of February last year, while gold stocks sank 15.3 per cent.

In contrast, from the end of February to October 22, gold was up 34.5 per cent, while the stocks surged 67.7 per cent.

And from October 22 to the end of November, prices fell 3.9 per cent, but the shares of gold miners dropped by 14.8 per cent.

"We have been anecdotally making this observation, frustrated by the overly punitive impact this continues to have on the already oversold gold shares," VanEck strategists said.

"We think this dichotomy represents a value opportunity for gold miners as they have been potentially oversold when the price of gold falls and under-bought when the gold price has been appreciating."

The significant gap between gold prices and stocks had been narrowing over the last year, but weakness in the sector following the US election widened it once again.

And with gold producers enjoying record margins and fresh cash flow generation, VanEck expects the disconnect won't last forever.

"Investors looking to hedge broader market risk through gold exposure, we think should also consider an allocation to the gold mining sector," VanEck said. "They may be among the few equities not priced to perfection."

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