Are ETF investors dictating the price of gold?

The price of gold surpassed $2,000 an ounce at the beginning of August.

By George Cecile
10 August 2020

Since the inception of the world's largest gold ETP, the value of gold and gold ETP holdings are significantly correlated, according to a study by Campbell Harvey, Professor of Finance at Duke University and senior adviser at Research Affiliates.

In 1980 and 2011 when the price of gold reached its previous highs, it was followed by significant drops in value as inflation climbed 6.3% and 1.2%, respectively.

This August, the value of gold surpassed $2,000 an ounce as investors sought haven from the volatility caused by coronavirus but what does this mean for the future value of the yellow metal?

The study, named Gold, the Golden Constant, COVID-19, "Massive Passives" and Đak Vu, questions why should gold reward the inflation fear now if it did not in 1980 and 2011.

Since the inception of the first gold ETP, the price of gold has fluctuated significantly over the past 15 years.

Harvey said: "The ETF financialization of gold ownership, in which the real price of gold may be correlated with the amount of gold held by gold-owning ETFs, could possibly lead to higher peaks and lower troughs for the real price of gold relative to the experience of the past."

As the two largest gold ETPs grew in assets between 2004 and 2020, so did the real price of gold. The study found the average buyer of gold ETFs drives up the real price of gold and a seller on average drives it down. This suggests there is a significant correlation between the real price of gold and the holdings in gold ETFs.

Every time there has been a doubling of gold ETP holdings, so has the real price of gold. However, as any investor should know, past performance is no indication of future returns.
The report added: “The observable past may be a poor guide to the unseen future. The higher the real price of gold the more likely it is that non-ETF holders of gold will contemplate, at the margin, selling gold.”

These investment vehicles have created “massive passives” that have seemingly created gold demand-pull inflation and driven up the price of gold.

“It too much money is chasing too little gold, then the more the gold holdings of “massive passives” grow the higher the real price of gold could rise,” Harvey concluded. “Of course, gold holding sales by non-massive passives could act to reduce the real price of gold.”

<table>
<thead>
<tr>
<th>Topics</th>
<th>Gold</th>
<th>Commodities</th>
<th>Research</th>
<th>Inflation</th>
<th>Volatility</th>
<th>Bonds</th>
<th>ETFs</th>
</tr>
</thead>
</table>

Sign up to email alerts

First Name *

Last Name *

Email *

Job Title

Company

Company Type

Risk Type

Weekly Newsletter

ETF Bulletin

Partner Content

Beyond Beta

Confirm you’re a human

I'm not a robot

Submit

Related Features

Creating anti-fragile portfolios
Nicola Babatuk
10 August 2020

Is ESG a factor?
George Godley
30 July 2020

ETFs to invest in as inflation threatens to make dramatic comeback
Scott Lonie
23 July 2020
ETF Insight: Spotlight on gold ETFs following Perth Mint conflict gold purchases
David Tuckwell

ETF Insight: Coronavirus turmoil debunks myth stock pickers outperform in bear markets
Georges Goddet

BIS: ETFs incorporate information quicker than underlying bonds
Georges Goddet

Liverpool’s Premier League 2020 Title win
Anthony Cudigan

Bonds and the invisible thief
Nicolas Baberman

SPDI’s Bet: Record low gold jewellery demand to put pressure on spot price
Georges Goddet

Never miss an update again
First Name
Last Name
Email
Company
Job Title
Company Type
Role Type
Weekly Newsletter
ETF Bulletin
Partner Content
Beyond Beta

Confirm you’re a human.

Send

Privacy Policy
Contact

Follow Us
Twitter
LinkedIn

By submitting your email address, you agree to receive email updates from ETF Stream in accordance with our Privacy Policy. Unsubscribe at any time.