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Metal Matters

Gold below its 200-day moving average for the first time in nearly 3 years – is this the dip to buy? Not yet

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CITI'S TAKE

Gold closed below its 200dMA for the first time since Sep'23 following Friday's strong US jobs report. We remain bearish and lower our 0-3m pt-price target to $4,000 (from $4,300/oz). Physical gold buying is required to maintain a ~$900bn/annum pace to sustain current prices, compared to normal buying of $250-400bn/annum during 2010-2024 in today's dollars. We are concerned that in the scenario the Strait of Hormuz remains closed through the end of the summer, we could see a reduction in gold buying to a still massive $700-$750bn/annum, which would mechanically see prices retrace 9-10 month ago levels of $3,500/oz. The near-term risk skew therefore looks negative and dip buying here makes sense only with a strong view of no re-escalation. Longer term, we maintain a bullish gold view, but we believe it is extremely high-risk in the near-term for anyone without very wide stops and longer-term investment horizons.

Loco-London spot gold price closed below its 200-day moving average on Friday for the first time since September 2023, as strong US jobs data boosted market speculation on Fed rate hike later in the year and led to cross-asset liquidation (see Figure 1). The breakout below the 200dMA is widely considered a negative technical signal, which points to further downside potential in the near term.

We have been holding a cautious near-term view on gold since March and we now downgrade our 0-3m pt-price target to $4,000/oz (from $4,300/oz which was hit today). Continued Strait of Hormuz impasse and high energy prices have led to expectation of Fed hiking rather than cutting rate this year (reinforced by the Friday jobs data), which weighs on gold price through higher real rates and strong US$. Gold demand also faces soft seasonality (as 2Q is historically the weakest quarter for jewelry and bar & coin demand) and weak ex-China EM activities, e.g. Turkey and Russia central bank gold sales, India and Malaysia import duty hikes. China demand has been resilient thanks to strong RMB while official PBoC buying also accelerated.

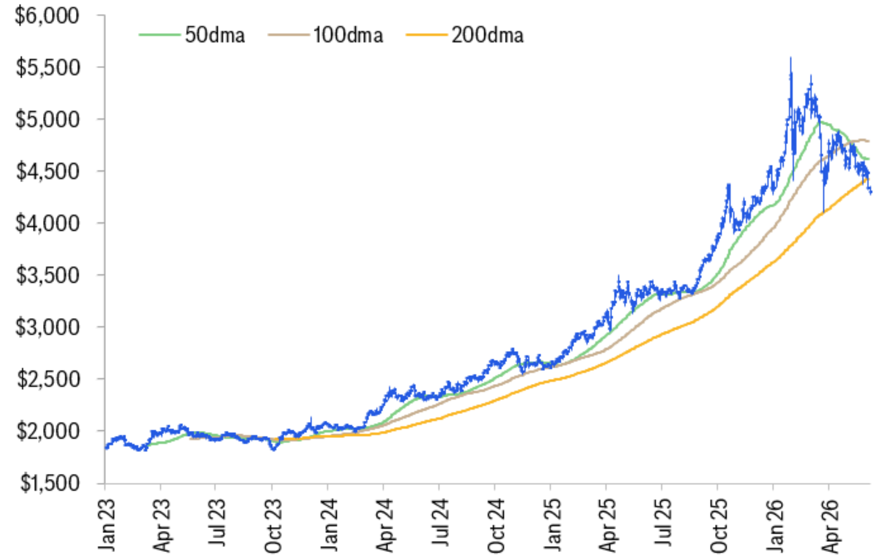
Despite the negative near-term momentum, we expect gold price to eventually rebound when the SoH situation deescalates (base case is now 3Q) and keep our 6-12m pt-price target unchanged at $5,000/oz. Much of the headwind gold is facing now is due to the SoH impasse and high energy prices directly or indirectly, including high real rates and strong US$, weak EM activities (e.g. India duty hike and Turkey CB selling, as the nations rely on energy imports and face FX depreciation pressure amid high energy prices), and weaker investor buying due to the CB narrative shift. When the SoH situation eventually deescalates and energy prices turn lower, the headwinds against gold will ease and gold price will likely bottom out.

Dip buying here makes sense only with a strong view of no re-escalation of the war and resumption of SoH flows, in our view. We see the next key technical support level at ~$4,150/oz (the 61.8% Golden Ratio for the Fibonacci retracement), followed by ~$4,000/oz (the consolidation zone in 4Q'25 which is also a psychologically important level).

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

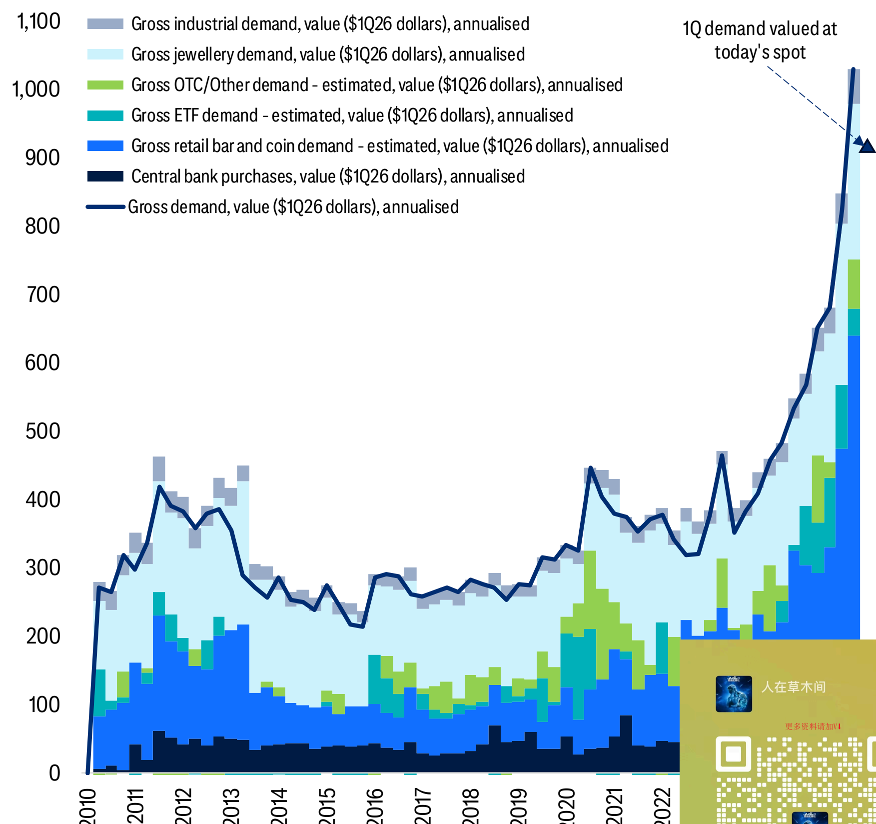
During our recent marketing trips and client conversations, we heard reluctance to aggressively buy dips until more clarity on the SoH situation and until oil prices and inflation expectations peak out. While market participants struggle with the short-term outlook, which relies heavily on the SoH outcome, the consensus view remains constructive over the medium to long term on robust non-cyclical demand from increasing global geopolitical fragmentation, lingering sovereign debt and debasement concerns and sustaining central bank reserve diversification trend.

Figure 1. After Friday's strong US jobs report, gold price closed below its 200dMA for the first time since Sept 2023, a major negative technical signal



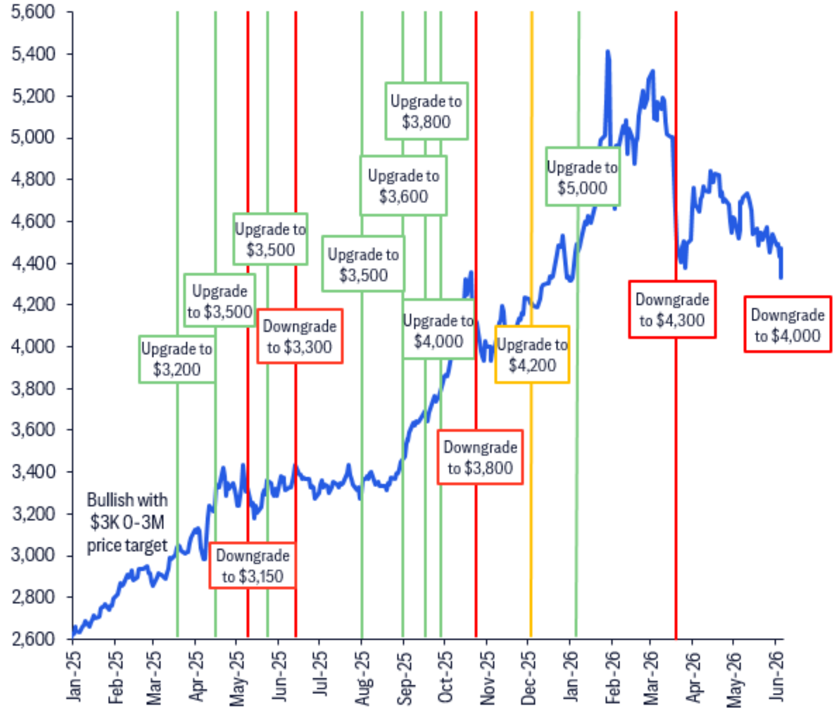
Source: Citi Research, Bloomberg

Figure 2. Gross spending on gold (annualized) above $1tr in 1Q, but likely much lower in 2Q amid recent headwinds



Source: Citi Research, Bloomberg, WGC

Figure 3. Citi Research 0-3m point-price target for gold – captured the vast bulk of the bull market and have been cautious since we breached $5,000/oz earlier this year (initially sticking with $5k/oz target when we got up to $5.5k/oz, then downgrading to $4.3/oz post-Iran conflict in March)



Source: Citi Research, Bloomberg