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What Affects the Price of Gold?

The gold market is most commonly quoted in U.S. Dollars (XAU/USD), and this market is known to move when the value of dollar falls, as well as when the stocks and bond markets are down. More than that, it thrives as a safe haven asset because it not only moves differently to the other markets, but it also holds its value well and grows gently. In this article, we discuss some major factors affecting the price of gold.

Major factors that drive the price of gold

Because gold is such a mature and established market, there are a number of factors that come into play when determining its price and how it is affected. Gold is also a rather unique asset compared to things like stocks and bonds, and that also makes it act differently and the fact that it acts as a hedge means one needs to look for factors that impact other assets differently.

A list of the factors to consider include: Consumption demand, Protection against volatility, Gold and inflation, Gold and interest rates, Good monsoon, Correlation with other asset classes, Geo political factors, Weakening dollar, Future gold demand.

Consumption demand has to do with the uses of gold as an asset removed from its market. Demand for gold keeps changing, and in recent times has been boosted as electronics manufacturers have seen the use of gold in their goods for conductivity.

Of course, gold is also consumed as jewelry, and there are big drives in demand even from global governments who seek out gold as a store of value that they keep in central banks.

As mentioned before, Gold is an asset that helps with protection against volatility. There is a demand for gold from people who are looking to protect themselves from volatility and uncertainty. Gold is a

physical asset so it is able to be stored and kept by individuals, and its market moves differently from typical volatile markets so it is in demand for people hedging against uncertainty.

Underlining gold's attraction as an asset for good times and bad, most investors would buy gold whether the domestic economy was growing or in recession.

[TRADE_PLUGIN]GOLDUSDT,SILVERUSDT[/TRADE_PLUGIN]

Gold and inflation also work together as inflation is one way in which money can quickly devalue, and when this happens, people would rather have their money kept in something that would grow in value instead — like gold.

Therefore, in times when inflation remains high over a longer period, gold becomes a tool to hedge against inflationary conditions. This pushes gold prices forecast higher in the inflationary period.

In a similar way Gold and interest rates also play their part in moving the price of gold as lower interest rates — which usually come about when there are times of financial uncertainty and governments want people to spend, means that saving is harder.

However, keeping gold means that the interest rate drops are kept away and the value of saving is maintained through the precious metal. In fact, according to some industry experts, under normal circumstances, there is a negative relationship between gold and interest rates.

Interestingly, there are instances that can impact the price of gold from regional areas that are impacted by things like the weather. For example, India annually consumes 800-850 tonnes of gold and rural India accounts for 60 percent of the country's gold consumption. Therefore, monsoon plays a big part in gold consumption because if the crop is good, then farmers buy gold from their earnings to create assets.

Because gold is also seen as a highly effective portfolio diversifier due to its low to negative correlation with all major asset classes it is often picked up in times of uncertainty and this is why one of the factors to look out for is the relation between gold and the other asset classes feeling the pressure or the pleasure in the current financial circumstances.

Of course, gold is also used as a hedge in times of geopolitical uncertainty too as the asset provides a more stable value when there are looming crises such as war. These geopolitical tensions also add pressure onto financial markets but help in boosting the demand and value of gold.

This also ties interestingly to how a weakening dollar leads to a stronger gold price. The dollar is very much linked to gold as it is primarily exchanged for dollars. But because of its negative correlation, when the dollar loses value — such as through inflation — then the gold price often goes up.

And finally, because gold is an uncertain supply that is mined and actually mostly recycled, it is hard to meet supply when the global demand rises, and thus demand heavily rises the price of gold.

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