Factors determining gold prices

Gold trading and investment is now more popular than ever. Consequently, gold prices fluctuate according to the changing volume of investment and speculation. Bualuang Asset Management outlines the factors that determine gold prices:

1) **US currency** – If other factors are stable, gold prices will increase when the US dollar depreciates as gold provides a hedge against a lower US dollar. Since the dollar is the world's main currency, when it depreciates, central banks of countries which have US dollar reserves spread their risk by investing in other assets such as gold, and this pushes up the gold price.

2) **US inflation rates** – If other factors are stable, gold prices will increase when inflation rates are higher, as gold is an asset which rises with inflation. US inflation can generally be predicted by looking at trends for fuel and food prices.

3) **Risk of international politics and monetary system** – Gold prices often increase during times of international political tension or when the world monetary system becomes less stable. During these periods, assets are usually sold and gold is bought, as asset prices may drop during times of instability or crisis.

4) **Demand and supply in the market –** If other factors are stable, gold prices will increase when demand for gold is higher than the supply in the market. Demand for gold comes from three sectors:

   - Jewellery sector – The jewellery sector consumes 68% of the overall gold supply, especially in countries in the Middle East and Asia. Gold demand rises during seasonal gift seasons such as Chinese New Year and Diwali in India.
   - Manufacturing and medical industry – This sector takes 14% of overall demand, with demand gradually increasing over the past century with advances in technology and expansion of use. Gold is now used in nanotechnology, electrical devices and chemical processes.
   - Investment – The investment sector has a higher demand for gold during 'Credit Crisis' periods when governments use reserve funds to buy gold to reduce the risk in holding US bonds, especially in countries such as China and India, which are experiencing rapid economic growth.

5) **Supply in the market** – Supply comes from gold mines and sales of existing gold in the financial system. Supply is affected by four main factors:

   - Mine Production – Mines today produce 60% of all the gold in the market each year. South Africa is the world's top gold exporter, with 14% of overall gold production worldwide. It is followed by the US, Australia, Latin America, China, Russia and Peru.
   - Recycled gold – Supply of recycled gold also plays a key role in the price of gold. Supply of recycled gold usually increases when the world economy is sluggish or when gold prices rise.
   - Monetary sector sales – Central banks and more than 110 international organizations such as the International Monetary Fund hold gold in reserve funds, totaling 25% of the total gold in the world. The main gold reserves are in the central banks of countries in Europe and North America, which sell gold to the market under the Central Bank Gold Agreement (GBGA) – central banks cannot sell more than 500 tons a year.
   - Net Producer Hedging – Gold mines can make future contracts to manage risks from gold price fluctuations.

6) **Baht compared with the US dollar –** Gold prices in Thailand will increase when the Baht depreciates against the US dollar. Thailand cannot produce gold, so must import gold from overseas. The gold market in general is traded in US dollars, so the Baht-US dollar exchange rate has a strong influence over gold prices in Thailand.