Markets

Gold Pares Gains From Record as US Factory Data Spurs Fed Debate

- Bullion opens second quarter with climb toward $2,270 an ounce
- Prices pare gain as data show US factory activity expands

By Jake Lloyd-Smith and Yvonne Yue Li

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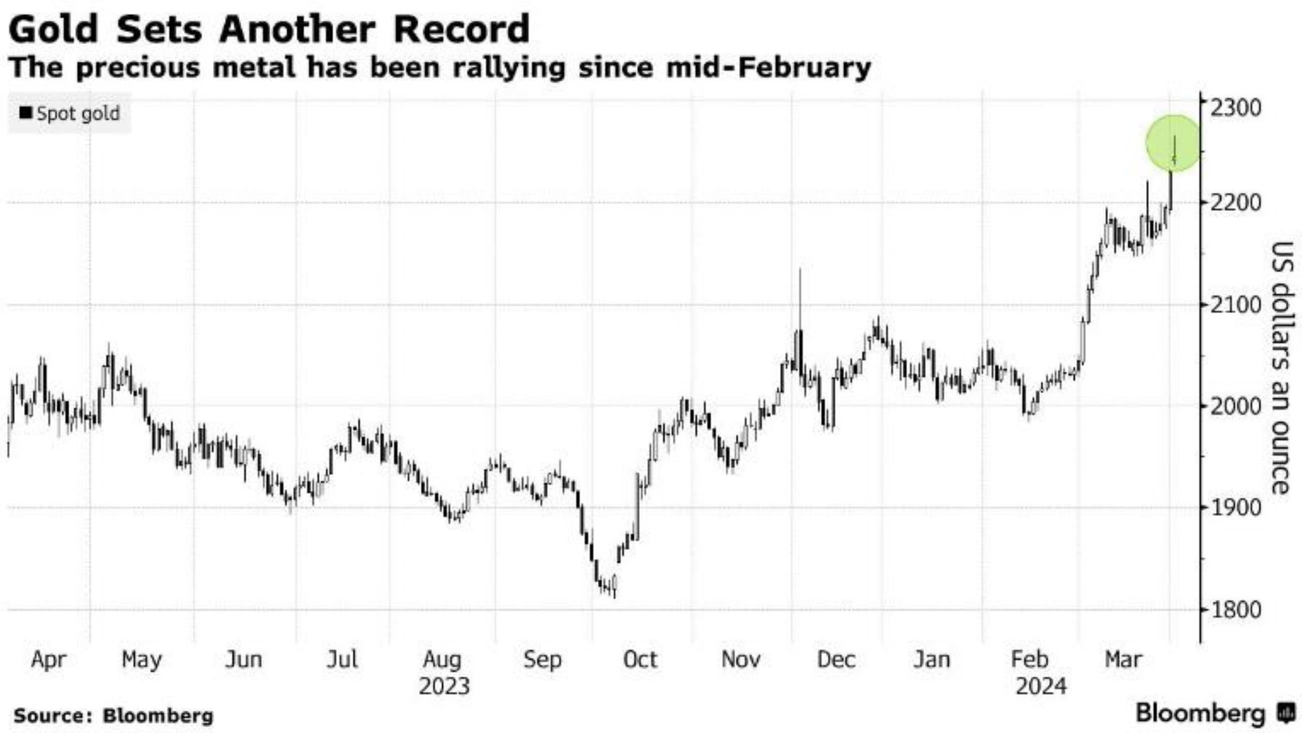
Gold pared gains after hitting an all-time high as traders rethink the Federal Reserve's rate-cutting path following solid US factory data.

Bullion jumped to $2,265.73 an ounce earlier Monday, up 1.6% from Thursday's close. The Fed's preferred gauge of underlying inflation — the core personal consumption expenditures index — cooled in February, data showed Friday, when many markets were closed. Gold trimmed its advance after US manufacturing data released Monday intensified debate on how many interest rate cuts the US central bank will pursue this year.

Swaps markets are pricing in just a 53% chance of a Fed cut in June and a 62% chance for September. Lower rates are typically positive for gold, which doesn't pay interest.



A host of positive drivers have pushed up bullion by 13% since this year's low on Feb. 13. The prospect of monetary easing by major central banks, and elevated tensions in the Middle East and Ukraine have underpinned the rally. There's also been strong buying by central banks, particularly in China, while consumers there have been loading up on the metal amid ongoing problems in Asia's largest economy.

After the inflation figures, Fed Chair Jerome Powell said the prints were "pretty much in line with our expectations," and there wasn't any rush to cut rates. Later this week, investors will get a further chance to gauge the outlook for the US economy and central bank policy, with monthly payrolls expected to increase by at least 200,000 for a fourth straight month.

"Inflation data, and Powell's comments in particular, have provided a further boost to gold, with the market becoming increasingly convinced that the Fed will start to cut rates in June," said Warren Patterson, head of commodities strategy at ING Groep NV. However, "it wouldn't take much of a catalyst to see a pullback in the short term," and that could be a stronger-than expected US jobs report, he said.

Chinese Demand

Spot gold rose 1% to close at $2,251.44 an ounce at 5 p.m. in New York, after climbing 3% last week. Its 14-day relative-strength index was about 78, above the 70 level that indicates to some investors prices may have risen too far and too fast. The Bloomberg Dollar Spot Index was up 0.3%. Silver gained, while platinum and palladium fell.

Gold demand in China has been pronounced in recent quarters. The nation's central bank has added substantial volumes of bullion to its reserves, boosting holdings in each of the past 16 months. In addition, gold-buying has been gaining in popularity among younger Chinese.

The metal's positive prospects have been endorsed by a slew of leading banks. Among them, JPMorgan Chase & Co. said last month that gold was its No. 1 pick in commodities markets, and the price may reach $2,500 an ounce this year. Goldman Sachs Group Inc. said it sees potential for $2,300, highlighting the benefits from a lower interest-rate environment.

Still, gold's ascent has yet to strike a chord among investors who favor exposure to the metal through exchange-traded funds. Worldwide holdings in bullion-backed ETFs shrank by more than 100 tons in the first quarter, hitting the lowest level since 2019 in mid-March, before a small uptick, according to a Bloomberg tally.

— With assistance from Eddie Spence