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By William Gray

Emerging Signs of Inflationary Risks Driving Gold's Rally

In February's issue I highlighted that one of the big drivers for gold this year could be the fear of returning inflation in global economies which have been used to a low inflation, low interest rate period of extended stability. Since then, signs of increasing inflationary pressures have emerged including in April's reported increase in US non-farm payroll earnings and that the same month's inflation measure reached 4.2% on an annualized basis. Supply chain shortages, in microchips for example, indicate that global supply chains are likely to be stressed as production and consumer spending ramp up with the opening of markets which have got some measure of control




of substantial inflation at his annual shareholders meeting on 1st May 2021.

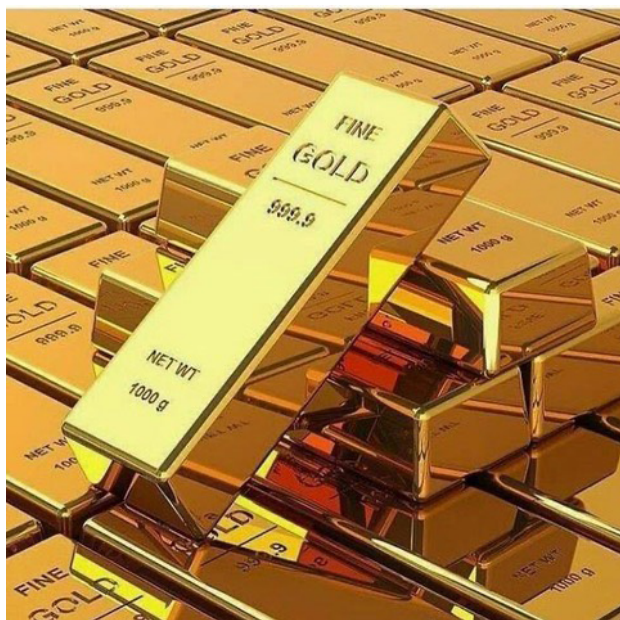
Whether the call on the risks of returning inflation prove to be right or wrong can be considered somewhat irrelevant as the markets are driven mostly by sentiment. With the warning signs of increasing inflationary pressures being more evident, I expect a more cautious market sentiment will prevail and, in

turn, help drive a new rally in the value of gold. As I have mentioned several times previously, gold is a traditional bastion of safety for investors and is renowned for its role as a hedge asset.

As a reflection of its role in periods of a flight to safety, gold witnessed something of a turnaround in April after losing ground in the first quarter of the year; something I mentioned in February's issue as representing a buying opportunity given the longer term view on inflation and the risks of the effect of the massive government spending programs being undertaken since the onset of the pandemic. Gold rebounded 4.5% in April to finish the month at US\$1,767 an ounce, its highest monthly close since January. While gold is still 4% lower year to date, I see the strong April performance is an indicator of its potential upswing. After facing resistance at US\$1,800/oz during April, gold gained additional traction during May to break through that level and continued on above \$1,900 per ounce for the first time since early January.

Whilst gold ETF have been softer so far this year, the opposite has been the case for physical gold with the gold bar and gold coin markets both recording their third successive quarter of demand growth. Investment in physical gold products reached 339.5 tonnes in the first quarter of 2021, the highest quarter since Q4 2016, another sign the market is hedging its concerns.

When it comes to wealth preservation, no asset has gold's track record as a store of value. It's a tangible asset, with an enduring nature and better still, the price of gold tends to surge during times of crisis. In today's market, holding gold is a must! 



on the pandemic; all of which will apply further inflationary pressures to markets. This trend of increasing inflationary pressure is beginning to take a toll on the Dow Jones index and also drive increased yields on US 10-Year Treasury bonds. Joining a list of professionals warning of the arrival of inflation, the Oracle of Omaha, Warren Buffet, issued a warning on the risk of the return

WILLIAM GRAY IS AN EXPERT IN PRECIOUS METALS WITH OVER TWO DECADES OF ACTIVE MANAGEMENT EXPERIENCE IN THIS FIELD. HIS STERLING-BASED ARC BULLION ACCOUNT, AN ACTIVELY TRADED PHYSICAL BULLION INVESTMENT, HAS RETURNED OVER 116.82% SINCE ITS LAUNCH IN DECEMBER 2014.