

# Market Outlook

## 1<sup>st</sup> Quarter 2022

GOLD	▲	7.55%
SILVER	▲	7.49%
PLATINUM	▲	2.50%
PALLADIUM	▲	14%

The dramatic geopolitical and economic developments of the first quarter of 2022 have prompted us to consider three subjects crowding investors thoughts, and how they might influence gold prices going forward: oil prices, inflation, and the Russian invasion of Ukraine. Russian military action is also top of mind for palladium investors.

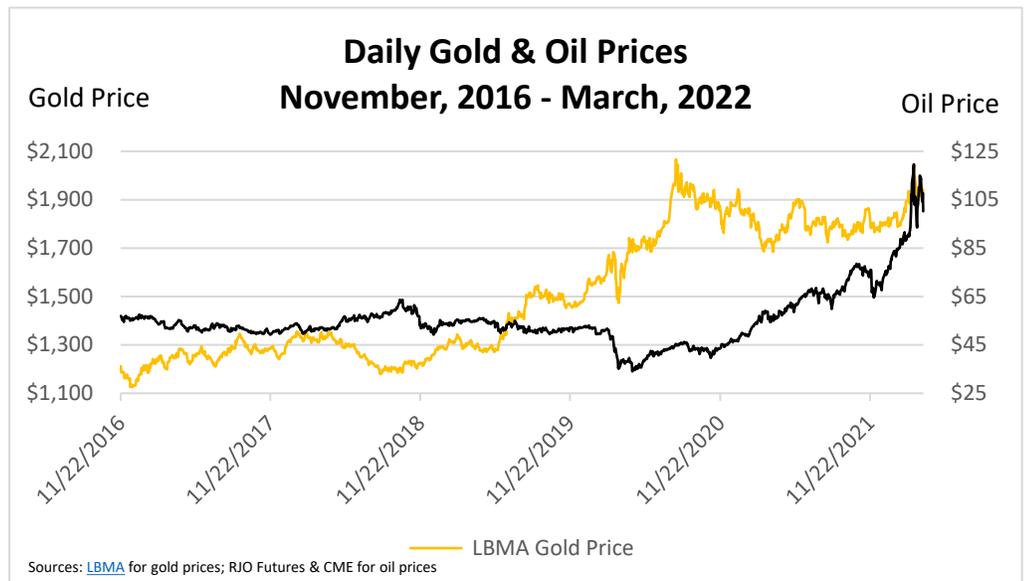
For background, the first quarter featured a rapid rise in inflation, ongoing supply chain issues, a fast-spreading COVID-19 variant, and finally the eruption of war February 24<sup>th</sup>. As traditional asset prices swung wildly and ultimately fell sharply, gold prices, considered a haven, also experienced volatility but performed as expected. They powered higher by \$136.30, or 7.55%, to finish the first quarter at \$1,942.15 (LBMA PM Prices) while the S&P 500 Index weakened nearly 5%. US Treasury prices lost more value than in any previous quarter as interest rates surged. Gold prices began to appear in headlines, but another commodity, oil, received much more attention. Russia is a major commodities exporter, including oil and gas, to European and other nations.

## Oil

Oil prices had been in an uptrend since the spring of 2020 and had reached \$91.00 by the third week of this February. Within two weeks of Russia's action, West Texas Intermediate (WTI) oil prices traded as high as \$119.65.

Surprisingly, there is not much of a correlation, except during times of inflation. The World Gold Council suggests the inflation link is likely because higher oil prices can help trigger inflation and investors worried about inflation

buy gold for protection--which in turn can push gold prices higher.<sup>1</sup> Chart 1, Gold and Oil Prices, shows over time there is not a long-term consistent parallel movement in prices.



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<sup>1</sup> Goldhub, "You asked – we answered: Gold surges in early March amid flight-to-quality," Juan Carlos Artigas <https://www.gold.org/goldhub/gold-focus/2022/03/you-asked-%25E2%2580%2593-we-answered-gold-surges-early-march-amid-flight-quality>

# Inflation

Is gold's reputation as an inflation fighter bona fide? The answer is yes, and it holds true whether inflation is relatively high or low. Using the Consumer Price Index as the indicator for inflation, you can see that big increases in CPI can mean large, positive moves in gold prices. Small increases in inflation lead to smaller gains in gold prices.

## Russia

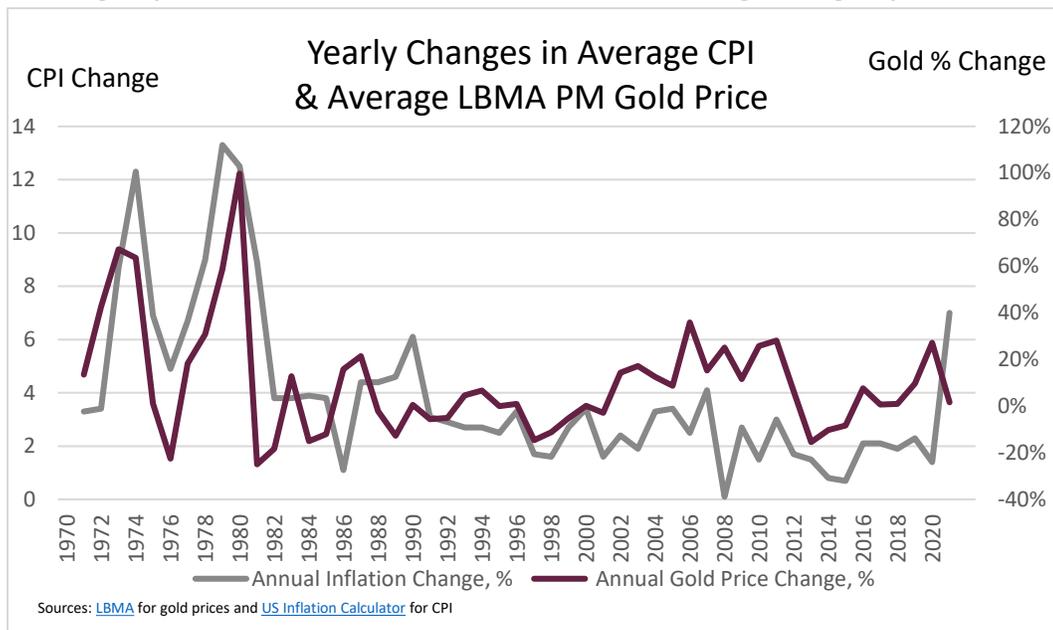
In a little over a month, from when Russia invaded Ukraine until the end of the quarter, gold prices added nearly 2%. Metals Focus suggests that in general, the impact on precious metals prices from geopolitical crises is short-lived; the research firm believes the current war-driven interest in safe-haven assets will dissipate sooner or later.<sup>2</sup> Russia

accounts for approximately 9% of the global gold supply.

The situation for palladium, however, is significantly different. Russia produces almost 40% of the world's palladium. Additionally, the palladium market is small and less liquid than the gold market, making it less able to absorb supply shocks. Palladium prices, already rallying before the war on the back of expected increased car demand, moved up sharply after Ukraine was invaded. Referencing LBMA PM Prices, Palladium prices closed 2021 at \$1,973 and had rallied 23% to \$2,423 by February 23<sup>rd</sup>. Upon the outbreak of war, as industrial metals prices ran higher – especially nickel prices on a short squeeze - palladium prices rocketed an additional 24% to \$3,015. on March 7<sup>th</sup> Later in March, prices retraced over concern of lower demand for autos. Palladium prices ended Q1 at \$2,259, marking a three-month gain of 14%.

## Looking ahead

Federal Reserve's fight to tame inflation will be watched carefully. Note that real interest rates, having turned negative in March 2020, are still below zero—a condition traditionally supportive to gold prices. Oil prices and supply chain difficulties impact the inflation score, so they will remain top of mind. The war's human toll in Ukraine is horrific and increasing as of this writing. Its global economic impact is also becoming more evident. It is easy to forget COVID-19 in this environment, but we should not; the variant is raging in China and other parts of Asia. The US Dollar Index rallied 2.34% in the first quarter – the greenback has, like gold, traditionally served as a haven. Economic fallout in Europe from the war appears to be weighing on the Euro. Therefore, currency trends will be a consideration in the second quarter, and indeed the rest of the year, in anticipating gold and precious metals prices.



<sup>2</sup> SMBA Crucible, Issue #21, How Long Can the War Support Precious Metals? Nikos Kavalis

<https://www.sbma.org.sg/media-centre/publication/crucible-issue-21/how-long-can-the-war-support-precious-metals/>