MOODY'S INVESTORS SERVICE

SECTOR COMMENT
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Gold – Global

Increasing price sensitivity range for gold, top of range now $1,500 per ounce

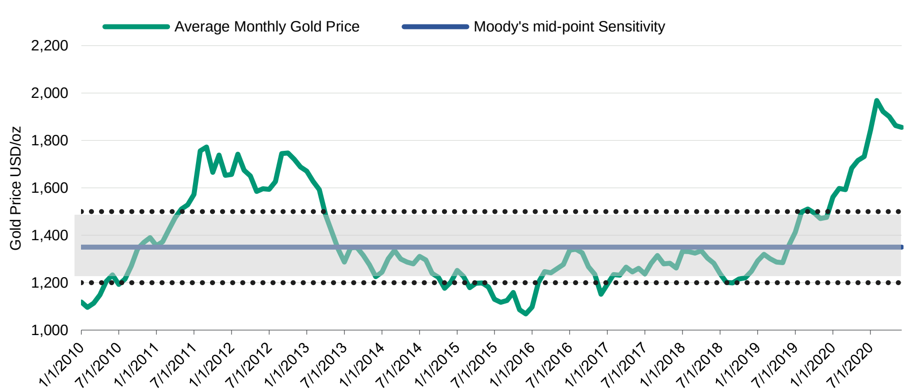
We revised upward our gold price sensitivity range, based on factors including lower-for-longer interest rates, expectation of a global economic recovery that will be uneven by country, region and sector, as well as continued political and geopolitical tensions that add to economic uncertainty. We raised the range to $1,200 — $1,500 per ounce, from the $1,100-1,400 per ounce figure set in February 2020, representing an 8% increase at the midpoint (see Exhibits 1 & 2). Current spot gold prices are above $1,800 per ounce and we expect prices will remain at or above the top end of our new range through the first half of 2021.

Exhibit 1
Revised gold price sensitivity range

	Range	Midpoint
Gold($/oz)	$1200-$1500	$1,350

Our price sensitivity ranges, as well as the midpoint, represent baseline approximations used in evaluating risk when analyzing credit conditions of companies within the metals & mining sector. We periodically review our base metals, iron ore, metallurgical and thermal coal, gold and silver price ranges, in light of changing global GDP expectations, to better sensitize future financial metrics for companies.
Source: Moody's Investors Service

Exhibit 2
Average gold price over the past 10 years was $1,385/oz, close to our revised median of $1,350/oz.



Source: World Gold Council, Moody's Investors Service

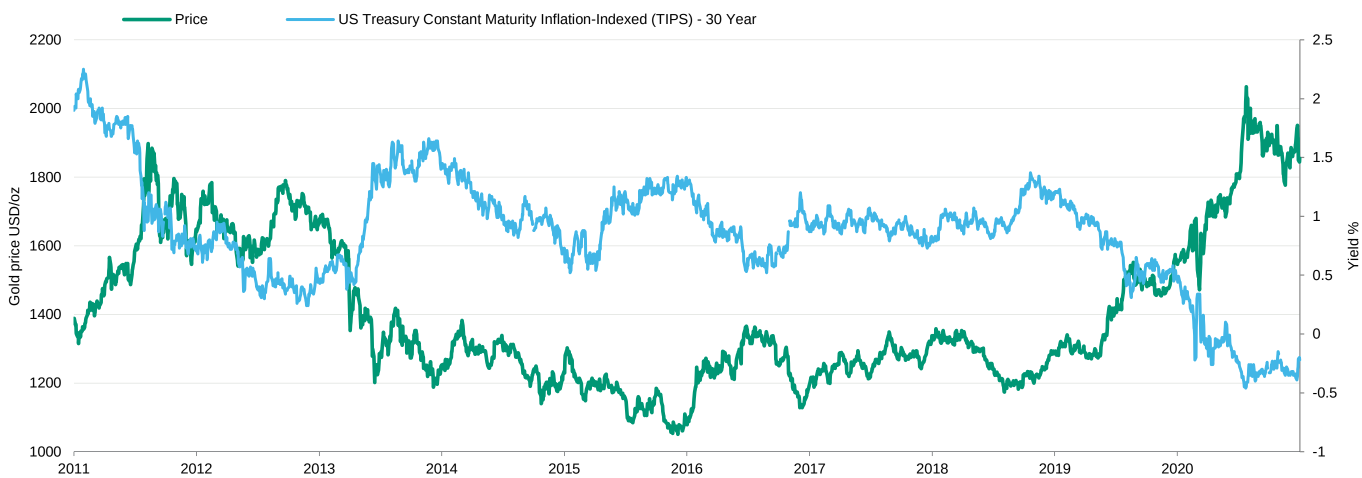
The revised range incorporates our view that gold does not have the same supply/demand fundamentals as other metals and is largely seen as a safe haven or store of value, fluctuating in response to global macroeconomic factors. As a result, market sentiment and speculative positioning will keep gold prices volatile.

Supporting the increase to the gold price range is our view that real interest rates across maturities will remain low over the next several years. We expect central banks to continue to support market liquidity and financial conditions well into 2021. Central banks have already communicated that they will likely keep interest rates low through the next two years and until economic growth recovers, unemployment rates decline and inflation anchors at the target. Given that the economic recovery will still be incomplete in 2021, and given the persistent long-term disinflationary pressures from technological innovation, the risks of disinflation will be higher in 2021, relative to the risks of inflation overshoot. This will provide space for interest rates to remain low across both advanced and emerging economies.

Nominal 10-year government bond yields — in advanced countries in particular, but also in emerging-market countries — remain historically low. The current US 10-year treasury yield is about 1.1%, close to zero in real terms (see Exhibit 3). Similarly, the yield on the 10-year German bund is low at -0.54%. A number of other countries, including Japan and France, have long-term sovereign nominal bond yields close to zero or in negative territory and overall 90% of developed market sovereign debt is trading at negative real interest rates, providing an offset to the no-yield disadvantage gold has against other safe haven investments.

Exhibit 3

Gold prices have demonstrated a correlation with interest rates.

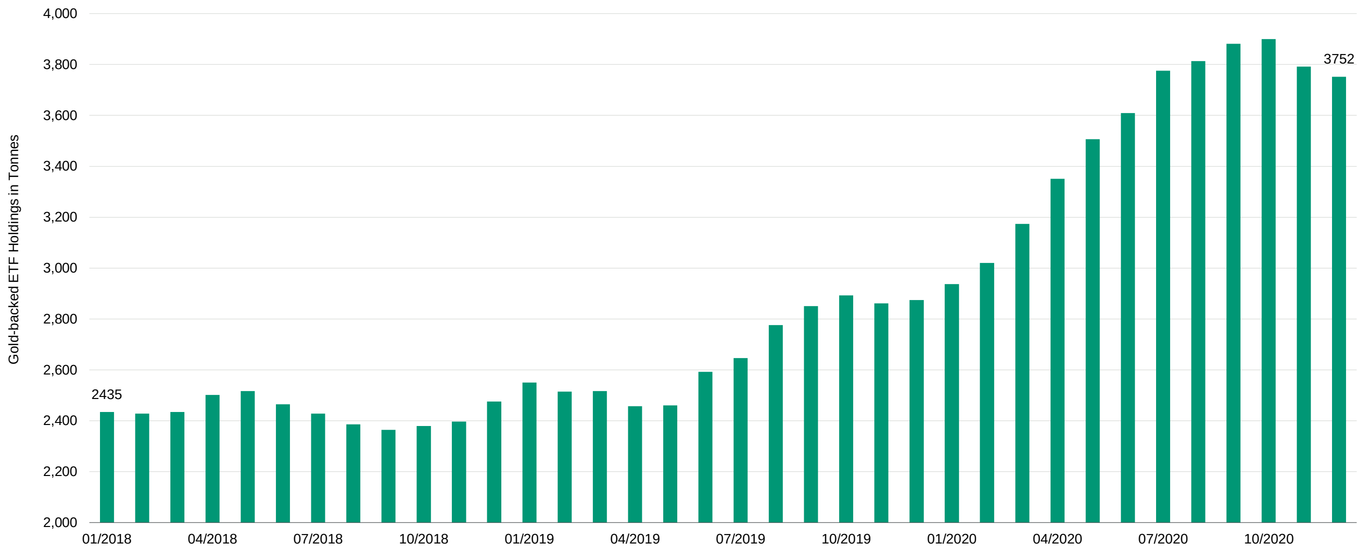


Source: World Gold Council, FactSet

Also supporting the increase to the gold price range is our view that, as the pandemic accelerates the decoupling of the US and Chinese economies with regard to trade, supply chains, technology and investment, disputes over these factors as well as foreign policy will likely continue. Geopolitical tensions will challenge the functioning of multilateral institutions and reduce their effectiveness in managing crises.

Gold's price performance also shows continued physical investment demand in the form of gold ETFs or bar and coins, as well as continued buying by central banks. Gold-backed ETF holdings grew by more than 50% from the beginning of 2018 to the end of 2020, demonstrating continued price support (see Exhibit 4).

Exhibit 4
Increasing gold-backed ETF holdings have supported stronger prices



Source: World Gold Council

The new expanded sensitivity range alone will not result in rating upgrades, as we model various prices within our price sensitivity band and consider many other rating drivers such as relative costs, diversity and ESG factors. The shift in the band will however allow for modeling in a slightly higher range — particularly for our near term views. We will use the new $1,350 an ounce midpoint in our peer and comparative analysis. Consideration on how companies use their cash flow will remain a key rating factor.

Moody's related publications

» Coronavirus and the Economy: Alternative Data Monitor

» 2021 Outlook – Slow economic recovery and uneven pandemic effects will shape credit environment

» Base Metals, Coal, Steel-Global: 2021 outlooks stable, demand up from early 2020 lows

» Base Metals – Global Outlook to stable on improving fundamentals, recovery remains tenuous

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