Gold during the COVID-19 outbreak: As recession approaches, gold becomes a critical financial instrument

https://marketpublishers.com/r/GF54456FB563EN.html
Date: April 2020
Pages: 17
Price: US$ 995.00 (Single User License)
ID: GF54456FB563EN

Abstracts

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SUMMARY

During times of uncertainty and economic recessions, consumers, investors and businesses seek the protection of gold. Gold's strong prices act as a cushion, protecting investments in times of high market volatility and inflation. During the COVID-19 outbreak this is no different as investors rush to buy as much gold as possible in order to offset their investments and produce profit.

Even though historic evidence indicates in times of recession usually gold prices increase and last as long as the recession until they return to normal levels when the economy returns to normal, the COVID-19 outbreak is a crisis like no other, something which has not been witnessed since the first world war. Predicting future price fluctuations of gold, is quite challenging as it is difficult to identify the best variables to consider, the best forecasting tools and to interpret the results with validity and integrity.

KEY HIGHLIGHTS

Gold can be a safe haven for individual consumers, investors and big financial institutions in cases of recessions and financial crisis. However, there are many reasons of why people are buying gold such as in the form of strategic investments, offsetting loses, in the form of jewels and high quality products and many others. Thus, gold purchases vary and are based on individual

preferences. Furthermore, there is a number of factors inflicting fluctuations on price of gold, with the most common one being consumer demand and the strongest being central banks, the strength the US dollar and supply of gold. Since the COVID-19 outbreak investors and consumers have rushed to offset their losses due to a volatile stock market, inflation expectations and cities lockdowns, which have a massive impact on the economy in general.

The COVID-19 outbreak has created panic among investors, due to supply chain disruption and a massive decrease of consumer demand. Because of that markets have become highly volatile, while the US S&P 500 has experienced a dramatic decrease. This has made the US stock market experience high levels of volatility forcing. Thus, in order for investors to safe guard their investments under a fear of future supply chain disruption and economic gold prices have become incredibly important. Due to investors experiencing major losses due to a volatile market, many have opted to sell-off their gold positions on March 11th, decreasing gold prices for the month. On the other hand, gold-backed exchanged trade funds have increased dramatically, as investors are looking a way to profit from gold prices without owning the actual precious metal.

The OLS regression is one of the best tools to identify how and to what extent a number of independent variables can affect and explain a dependent variable. In the case of gold future outlook, gold prices were taken as a dependent variable while consumer confidence, business confidence index and demand for gold were taken as independent variables. The results of OLS regression were positive that all three independent variables can explain gold prices to an extent. However, the independent variables had different coefficients meaning that each will have a different effect on price of gold.

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See what qualities make gold a useful asset

Examine the strength of the gold price at present

See techniques to help determine the future gold price

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Why are investors buying gold?

How likely is recession?

Can gold sure up global markets to a degree?

Can the future price be estimated reliably?

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