Focus

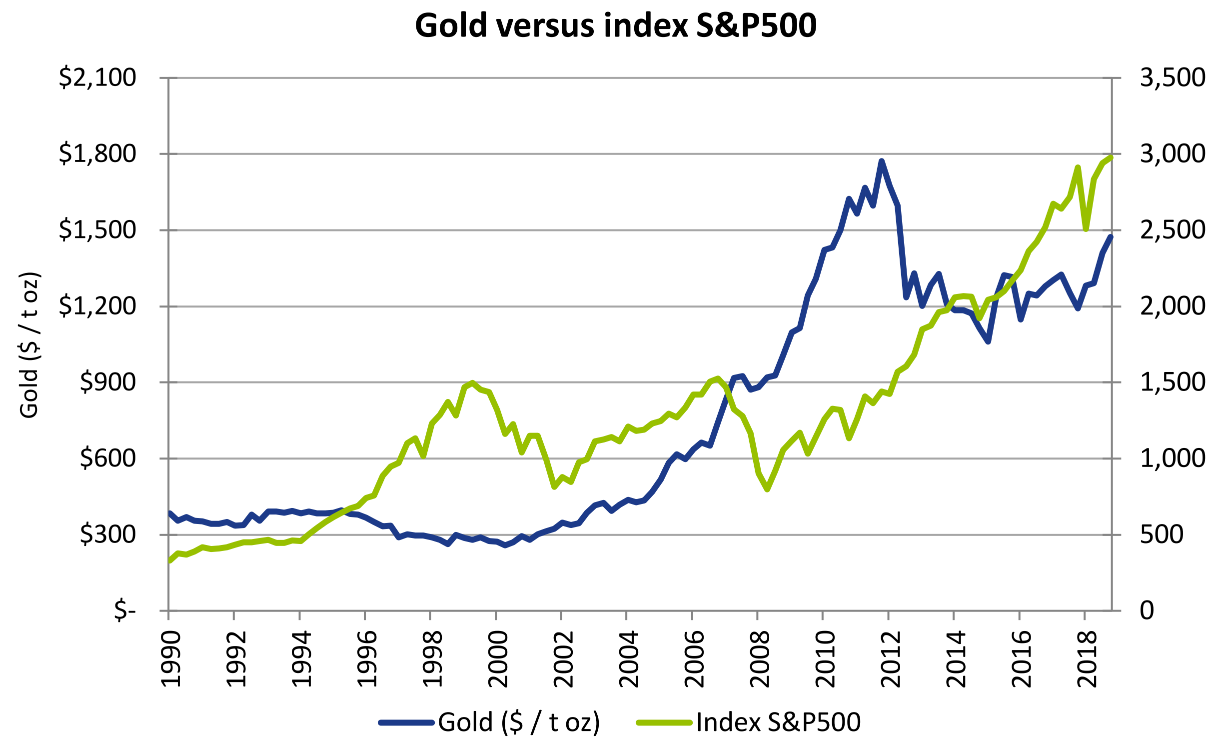
Historically, gold is considered to hold its value considerably well. A rising gold price is therefore often linked to falling stock markets and deteriorating economic conditions. In 2019 however, the opposite seems to be happening. Despite the ongoing rallies of stock prices worldwide in the final months of 2019, various financial media have written about the rising price of gold. Is this a break with the past, or are there other factors that can explain the development of the gold price?

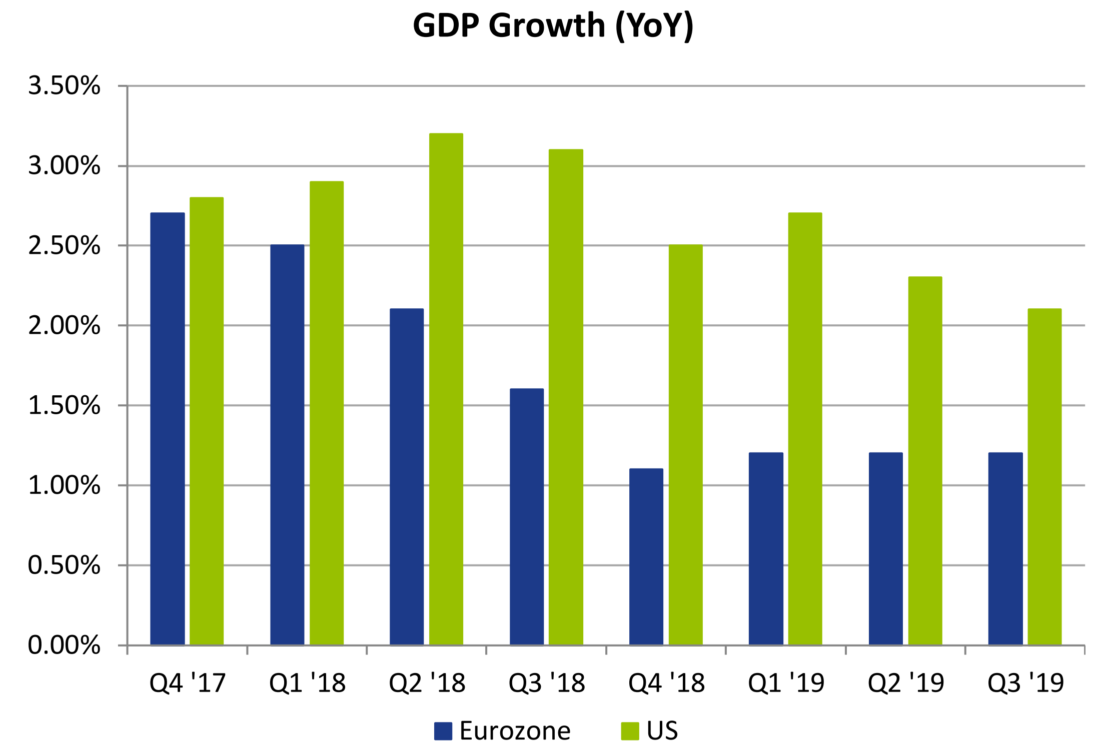
As mentioned, gold is traditionally considered to be somewhat of a "safe haven" for investors. This mainly relates to the fact that gold is seen as a stable (and therefore safe) investment in times of falling or strongly fluctuating stock prices. The current circumstances in 2019 therefore could seem as somewhat remarkable. However, this ignores an important fact. Studies on the historical relationship between the gold price and stock prices show that this relationship is not immediately visible in the short term. Only over longer periods (> 5 years) does it become apparent that, in the long term, when stock prices fall, the price of gold remains the same in value or rises (see graph). In addition, the relationship between stock prices and the gold price can generally only be observed unilaterally; as the graph shows, rising stock prices do not necessary imply that the value of gold will fall.

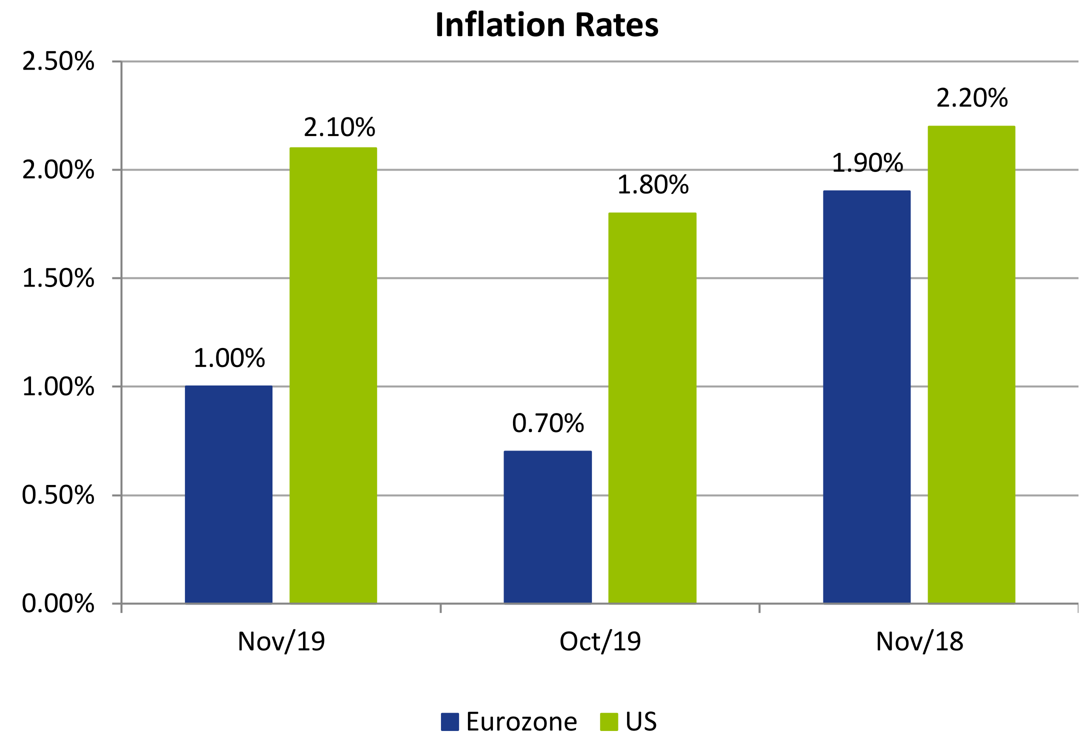
So what could have caused the rising gold prices in the last months? Analysts argue that, among other things, economic uncertainties play an important part. Events like Brexit and the impending trade war between the US and China, push investors to include some fixed value commodities like gold in their portfolios, despite the rising stock prices.

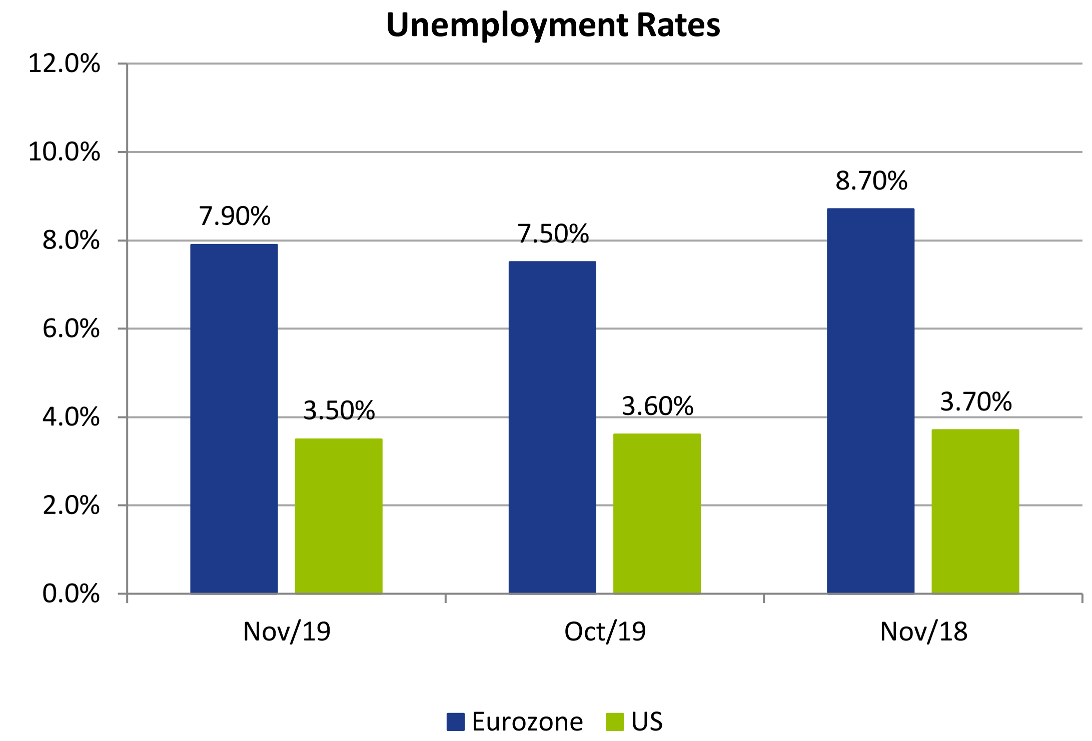
In addition, monetary policies in the US and the Eurozone are mentioned as an important factor. Due to interest rate cuts of the Federal Reserve in 2019 on the one hand and the continuing low interest rates and buy-back programs of the ECB on the other hand, the return on government and high-quality corporate bonds is historically low. The returns on various government bonds in the Eurozone are even negative. Investors will therefore regard gold as a good alternative to low-risk bonds for the purpose of diversifying their portfolios.

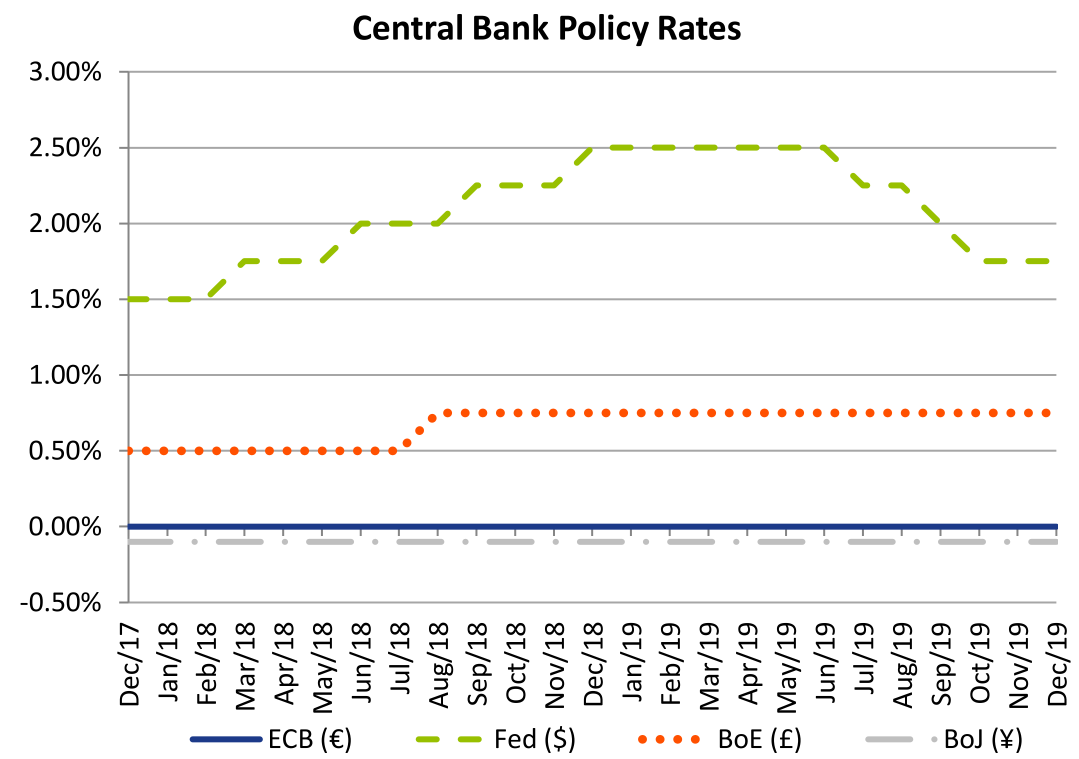
There are different views on the future developments of gold. Citibank analysts have indicated that they expect the gold price to rise even further to USD 2,000 in the coming years, while analysts from other large banks expect gold prices to remain at about the same level in 2020. The coming years will have to show to what extent the gold price will rise further, and how it will relate to the stock prices worldwide.











Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa2	AA
Russia	BBB-	Baa3	BBB
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

Review & Outlook

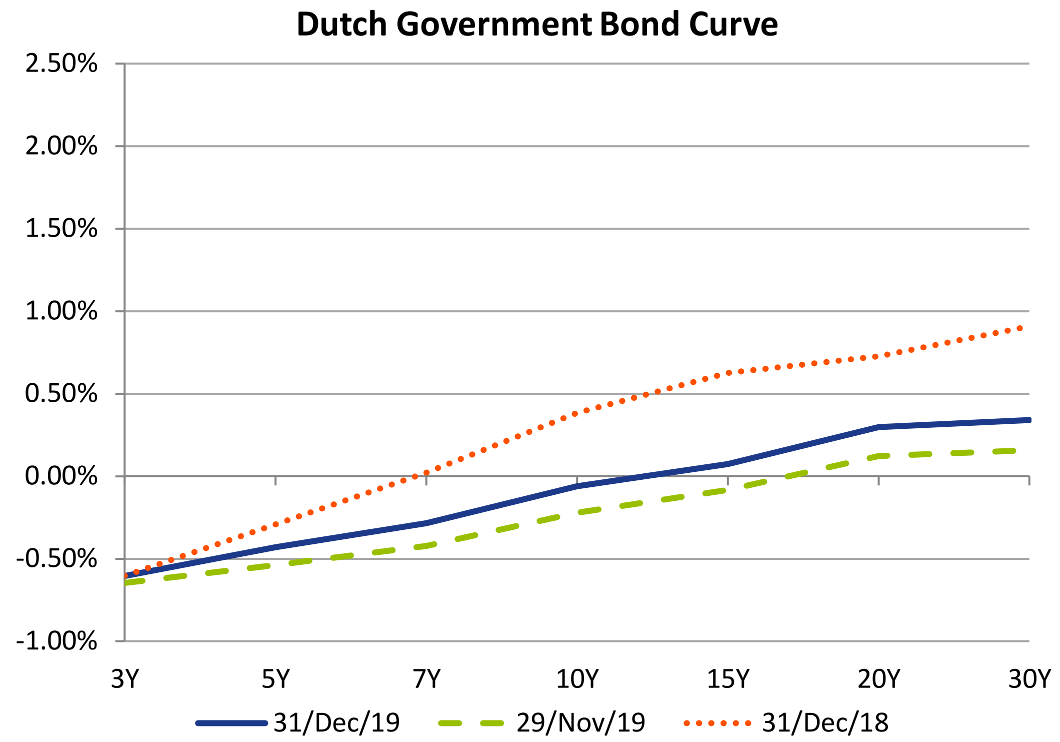
In December 2019, credit rating agency Moody's decreased its outlook of the banking sector. For the global banking sector, Moody's stated that it decreased the outlook from stable to negative. Also, the outlook of the European banking sector was changed from stable to negative. According to the agency, the deteriorating economic outlook will lead to a lower loan/asset quality, resulting in higher risk for the banks. Besides that, a potential economic downfall will also undermine profitability while euro area banks suffer from the current monetary policy of the European Central Bank (ECB). In addition, uncertainty regarding Brexit in Great Britain causes weaker market conditions. Partly due to this uncertainty the outlook for the British banking sector was also cut by Moody's, from stable to negative.

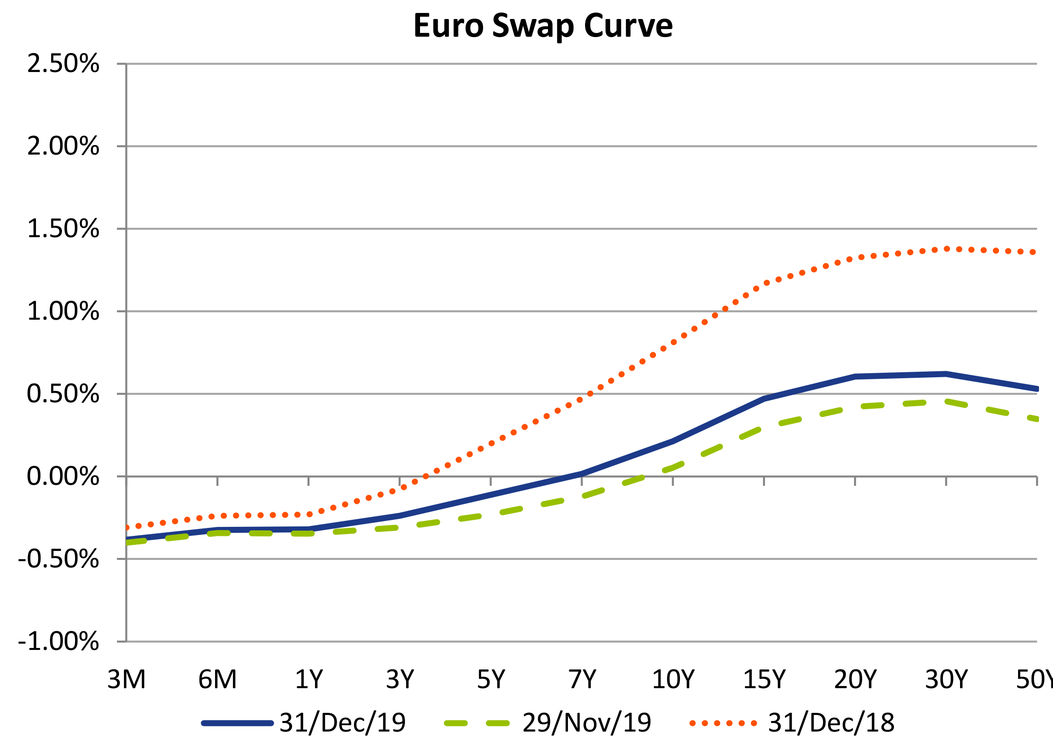
On December 20th, the British members of Parliament (MPs) adopted the Withdrawal Agreement Bill (WAB). British MPs voted by 358 to 234 in favour of the WAB. The WAB contains agreements with the European Union regarding (amongst other things) the 'divorce bill payments' to be made by the UK, civil rights agreements and the prevention of border controls on the Irish island. By getting the WAB through parliament, Boris Johnson cleared its first parliamentary hurdle to leave the European Union on January 31st 2020. The next steps include adoption of the WAB by the House of Lords in January and formal approval of the European Parliament.

The economics department of ING predicts that the Dutch economy will grow by 1,5% in 2020. ING expects that consumer spending will increase, due to wage increases in combination with low inflation and tax deductions. However, lower exports as a result of international trade conflicts and Brexit will offset the effects on increased consumer spending partly. Despite problems regarding the emission of nitrogen and PFAS, it is expected that the agricultural and construction sectors will report modest growth in 2020.

Upcoming publications of macroeconomic indicators

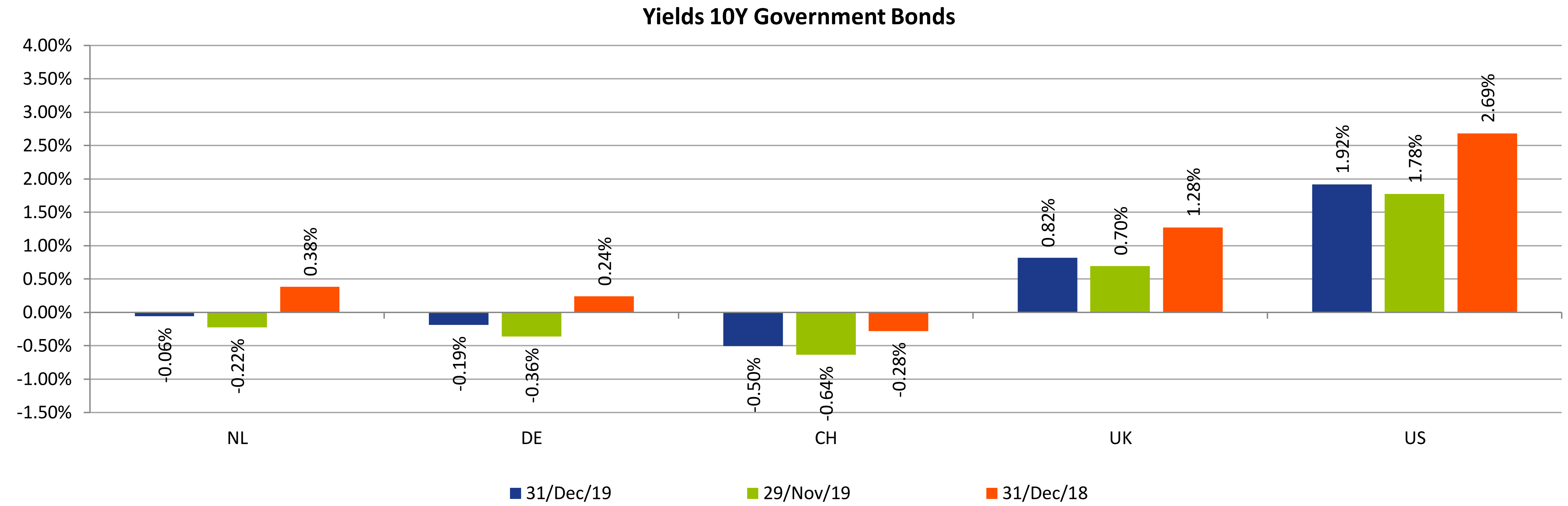
9 January 2020	Unemployment rate EU
9 January 2020	Inflation rate NL (YoY)
10 January 2020	Unemployment rate US
23 January 2020	Interest rate decision ECB
29 January 2020	Interest rate decision Fed
31 January 2020	Gross domestic product EU





Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	AA-
ING Bank	A+	Aa3	AA-
ABN AMRO	A	A1	A+
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A3	BBB
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A2	A+
Credit Suisse Int.	A+	A1	A-

Currencies	31/Dec/19	29/Nov/19	31/Dec/18
EUR/USD	1.121	1.102	1.147
EUR/GBP	0.846	0.852	0.899
EUR/CHF	1.086	1.102	1.126
EUR/JPY	121.765	120.615	125.830
EUR/DKK	7.471	7.472	7.466
EUR/SEK	10.501	10.555	10.153
EUR/CAD	1.457	1.463	1.564
EUR/AUD	1.597	1.629	1.627
EUR/CNY	7.807	7.749	7.887



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