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Pricing on the Global Gold Market

Abstract. The financial and other factors affecting the formation of the gold price in the international gold market is given in this article. In this article, the author divides the factors affecting the gold prices into groups and describes their specifics in detail. The author explores the interaction of gold supply and gold demand in the global gold market and how gold prices influence on changes in the foreign exchange market. In the article author provides analysis of the current trends in fluctuation of gold prices, as well as describes the political and economic aspects that affect them.
Key words: international gold market, consumption of gold, gold price, gold import and export, gold production, Central Bank reserves, International Monetary Fund reserves.

The market in modern conditions is an important form of organization of public relations, providing interaction between sellers and buyers. Thus, it is theoretically justified to define the gold market as a sphere of social relations regulating the movement of gold or the right to gold between different owners. The gold market is divided into two interconnected parts: the international market; national market. The international market includes a freely convertible currency. The national market is where the gold transaction is carried out in national currency.

A specific category that determines the activity of the gold market is its price. The price of gold is a monetary expression of the value of this metal. The price of gold, as well as the price of any product, is formed under the influence of numerous factors of supply and demand. They act to raise and lower prices. They quickly replace each other, and sometimes manifest simultaneously and are difficult to predict. Gold price is influenced by the level of gold production and consumption in all industries, central banks decisions and investor behavior, change in stock prices and bank interest rates, inflation and currency rates. Let's consider the mechanism of pricing for gold under the influence of 2 groups of factors (Table 1).

Table 1. Financial factors affecting the price of gold

№	Factor	Description	Effect on the price of gold
1.	Political and economic situation in the world (mainly the USA and European countries)	Gold is a reliable tool in times of crisis, which encourages investors to invest in this financial asset.	Price increase
2.	High Inflation Rate	Money becomes cheaper	
3.	Political decisions made by governments that plays big role in the global economy and central banks' activity	Gold reserves increase its share of gold	
4.	US Dollar Rate	Dollar becomes cheaper	

The first group is determined by the supply and demand for gold. The second is determined by investors' interest in gold. The first group includes non-financial factors - the demand for gold in the jewelry industry, mining and supply of precious metals. At the same time, gold is considered a metal, without taking into account its investment opportunities. Next group includes the financial factors.

At the latest stage, gold prices affected by activity of central banks of economically developed countries. This includes the United States Federal Reserve and other leading central banks in Europe. In the international gold market central banks of some countries appear to be very large wholesale sellers. Thus, the gold policy plays ruling role in determining the price of gold. At the exchange, the price of goods is formed by the ratio of supply and demand, as well as the cost of production of goods recognized or not recognized by the market. In global financial crisis situation many people tend to associate the significant growth of its market value with increased demand for precious metals. In recent years, significant changes in the conditions of gold mining have been observed, which also affects the increased demand for yellow metal. The main consumers of gold are: jewelry industry; electronic and other sectors of the economy; dental industry and medicine; private thesaurus and investors.

The formation of the market price of gold is a multifactorial process: it fluctuates depending on economic, speculative factors. Among them: economic situation, volume of industrial gold consumption and investment demand, inflation, fluctuations in leading currencies and interest rates, the spread of alternative to gold financial instruments used to insure risks. The prospects of the gold market are evaluated positively, but recently, we can conclude that there is a noticeable decrease in interest in precious metals. The growing risk appetite of investors and the growing stock indices have significantly reduced investment demand for gold, which is currently one of the main factors determining the dynamics of yellow metal quotes. Thus, the peculiarities of the gold market are manifested in the fact that, firstly, the precious metal is actually implemented by most countries as insurance fund and a reserve fund. The recorded state reserves of yellow metal, concentrated in Central Bank and IMF reserves, are more than 31,000 tons.

Secondly, the population has even greater volumes of this metal. Some of this gold goes to the market. The leading consumer of cash precious metal is the jewelry industry, the demand in which is largely determined by the price of the metal: lower price, higher demand. That works when there is global economic recovery or recession, demand in the jewelry industry decreases even at relatively low prices. In general, the development of the gold mining industry is cyclical. The total level of gold mined in the world does not change significantly.

Before puzzling over how yellow metal prices affect some of the world's leading gold mining countries, let's look at the currency market, as it is the market that these countries trade. The foreign exchange market, also known as forex, forex or currency market, is the largest financial market in the world and is a decisive factor in the exchange rate for global currencies. Those who trade on the currency market have the opportunity to buy, sell, exchange and speculate on currencies. The foreign exchange market consists of banks, currency market dealers, commercial companies, central banks, investment management firms, hedge funds, retail currency dealers and investors. In addition, the currency market allows conversion of currency for settlements in international trade and investments.

Due to the fact that the country's currency is strongly linked to the value of import and export of gold, the nation cannot avoid the influence of yellow metal price dynamics. Because of this, a country that exports gold or has access to gold reserves will experience a jump in the strength of its currency when the price of metal rises as it increases the value of the country's entire exports. This means that when the price of gold rises, it creates a trade surplus or inevitably helps these countries to compensate for the trade deficit. However, countries that import large quantities of yellow metal tend to have a weaker currency when the price of gold rises. Countries that specialize in gold production, but do not have their own stocks, will be large importers of gold. In response, these regions are particularly susceptible to rising gold prices. Moreover, when central banks buy gold, it affects supply and demand for domestic currency, which can turn into inflation. This is mainly due to the fact that banks rely on printing more money to buy gold, and thus create an oversupply of currency.

Why does the price of gold fluctuate and why is the precious metal so volatile in recent months? In times of expansion and strong economy, investors tend to choose more risky assets with higher yield potential. In times of market volatility and economic downturn, gold becomes a safe haven for investment as investors look for more stable returns and lower risk for their portfolios.

More money, higher gold price. The recent drop in emerging market assets and continued unrest in Hong Kong added a shiny metal of strong side winds. Last but not least, the US Federal Reserve has set course for a likely cycle of interest rate cuts. Since the Fed usually does not overbend policy on a short-term basis, we may only be at the beginning of a long-term weakening that will flood the financial system with dollars to help prevent a recession. In fact, the more money the Fed prints or "creates", the higher the gold price goes in the long run.

Lower bond yield, lower dollar. Recently, we have seen the 10-year Treasury yield fall below 1.5%, stock sell-off and the dollar fall to its 2019 low against the yen. Declining bond yields and weakening dollar are usually bullish against gold. Gold usually wins in periods of ultra-low interest rates, as it offers investors a better alternative to bonds and savings accounts with little or no yield. And perhaps, if the Fed continues to weaken, the dollar will fall below. Other central banks, such as European Central Bank and Bank of Japan, are at zero or negative base rate, and the Fed has much more room for the dollar to slide down compared to these other central banks.

Reflects economic conditions. According to many investors, changes in the price of gold may have an impact on the economy, but it is more typical to see that gold prices reflect economic conditions, rather than causing them. Let us look at the many ways gold prices tend to respond to changes in the economy. A low dollar makes gold more attractive for investment in other currencies. A strong dollar means that even if the price of gold remains constant in dollar terms, gold becomes more expensive in other currencies that have fallen in value relative to the dollar. With strong assets, economies other than gold tend to be ahead of the others. Share prices are rising, making alternative ownership costs of gold and other commodities less attractive as they do not generate any income. However, as the economy weakens, demand for equities and other assets weakens, leading to more stable investments such as cash and gold.

Tensions in the Middle East, Brexit, Hong Kong. Due to geopolitical instability, there has been a spike in gold, and it does not seem to disappear anytime soon. Rising tensions in the Middle East, Brexit and the aforementioned riots in Hong Kong are all reasons investors flock to safe havens such as gold. If an investor wishes to hedge a portion of his portfolio against inflation, declining returns or any of the above factors, he may use multiple gold futures contracts, including E-mini or E-micro. As gold prices react quickly to political and economic events, these instruments provide market users with valuable risk management tools. In fact, COMEX gold options at the end of August reached several record days in a row of open interest rates. Since the open interest is the number of unfulfilled contracts, it is a good indicator of how many traders and investors follow the gold prices. As long as Fed policy, trade wars and the US dollar remain in their current cycles, this trend may well continue.

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