The Global Edge
Financial Insights from WisdomTree

Global Central Banks “Cut to the Chase”

November 2024

WisdomTree®

Authors

An empowering blend of global financial research and analysis, insights and macro commentary on a breadth of today's most compelling economic and investing developments, from an international team of WisdomTree thought leaders.

Kevin Flanagan

Head of Fixed Income Strategy, U.S.

Aneeka Gupta

Director, Macroeconomic Research, Europe

Nitesh Shah

Head of Commodities and Macroeconomic Research, Europe

Jeff Weniger, CFA

Head of Equity Strategy, U.S.

Global Central Banks “Cut to the Chase”

Key Takeaways

- Despite central banks worldwide beginning a rate-cutting cycle, inconsistent economic data and evolving inflation trends mean investors should prepare for potential market volatility heading into 2025.
- As the U.S. election and evolving geopolitical tensions reshape trade and fiscal policies, markets in the U.S., Europe and Asia are adjusting to unique regional challenges and opportunities driven by economic resilience, interest rate shifts and sector-specific tailwinds.
- Surging central bank gold purchases reflect a pivot towards alternative reserves amidst rising global uncertainty, seemingly signaling a sustained demand for gold as a safe-haven asset even as prices remain high.
- Japan’s equity markets present a potential valuation opportunity, yet sustained growth will require corporate governance reforms and increased returns on equity to capture global investor interest.
- The U.K.’s expansionary budget may bolster short-term growth but has raised fiscal risks, impacting gilt yields and potentially slowing the pace of future Bank of England rate cuts as inflationary pressures linger.

With the calendar quickly approaching 2025, global investors are confronted with a different landscape as compared to 12 months ago. While central bank rate cuts were expected to occur in 2024, the timing and magnitude of what has transpired thus far did not necessarily live up to market expectations in some cases. That being said, the rate-cutting process has begun for a number of central banks, and, in all likelihood, there will be a continuation of some sort into the new year.

In our last edition, we discussed how this next phase of monetary policy may not be a “one-size-fits-all” dynamic, and the markets are finding out this aspect remains in place. While rate cuts may still be on the radar for a variety of the major developed market central banks, data dependency is still an important part of the equation, which

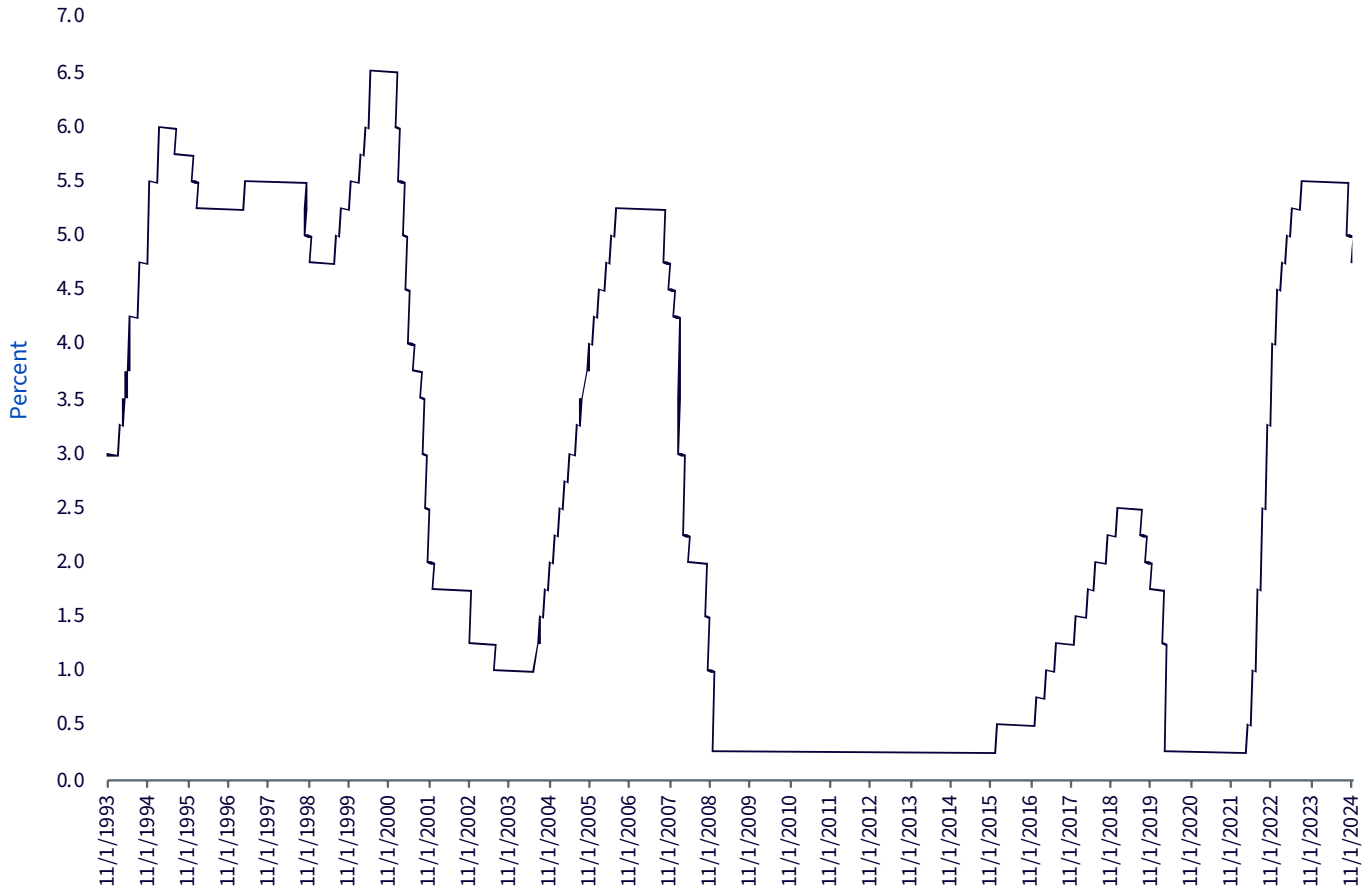
> Global monetary policy is still not a “one-size-fits-all” dynamic.

could lead to volatility if market expectations are challenged in any fashion. Against this backdrop, we are going to take a deeper dive into this rate-cutting discussion to see where the key global monetary policy outlooks may now be headed.

U.S. Fed Watch

Following the September Federal Open Market Committee (FOMC) meeting's much ballyhooed 50-basis point (bp) rate cut, the voting members scaled back and reduced the Fed Funds Rate by just 25 bps at their most recent convocation. This brought the new Fed Funds trading range down to 4.50%–4.75%. Regarding the future course of monetary policy, the U.S. money and bond markets will continue to adjust their pricing mechanism toward what this rate cutting cycle will ultimately look like. And, in a data-dependent monetary policy world, that will leave plenty of room for further speculation for 2025.

Figure 1: Fed Funds Target Rate—Upper Bound



Source: Bloomberg, as of November 8, 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

One important aspect that comes to mind was the notable difference in the narrative that accompanied the November FOMC gathering as compared to back in September. Let's take a look and remember what assumptions the Federal Reserve (Fed), and by extension, the U.S. money and bond markets were operating under. First, the economy/labor markets might have been cooling more than previously expected, progress on inflation was continuing and this would likely result in an aggressive Fed rate cutting cycle. Indeed, at one point, the implied probability for Fed Fund Futures was looking at a 2.80% target by Q4 2025 and Treasury yields had plunged by 100 bps.

As we write this, the inter-meeting data has revealed a continued resilient economy, with the pre-hurricane/strike-related labor market showing signs of not being as cool as originally thought, while inflation numbers hit a roadblock. Needless to say, these developments completely changed Fed rate cut expectations. Fed Funds are now being discounted to be at 3.80% by Q4 of next year and U.S. Treasury (UST) coupon yields are all back over the 4% threshold, as of this writing.

Where do Powell & Co. go from here? Obviously, monetary policy remains highly data-dependent. Another quarter-point reduction in the Fed Funds Rate seems a likely scenario for the December FOMC meeting, data permitting. But this is where things could get very interesting. If the economic/labor market data continues to show signs of not cooling too much, and inflation gets sticky around current levels, a reasonable case scenario could involve the Fed taking a pause to reassess things to begin 2025. That doesn't necessarily mean the rate cut cycle would end. However, the policy makers would have already cut rates by 100 bps in this backdrop, so perhaps Powell & Co. pausing to take stock could make sense.

Is there anything else investors should be on the lookout for from the Fed? How about their future plans for quantitative tightening (QT)? The policy makers have already tapered their pace of balance sheet reduction, so it wouldn't be out of the question at all if the next step in the months ahead would be to end QT at some point in 2025.

As we have seen so many times over the last few years, the Fed's monetary policy will remain a fluid process, and this rate cut cycle will more than likely be no different.

The Fed's monetary policy will remain a fluid process, and this rate cut cycle will more than likely be no different.

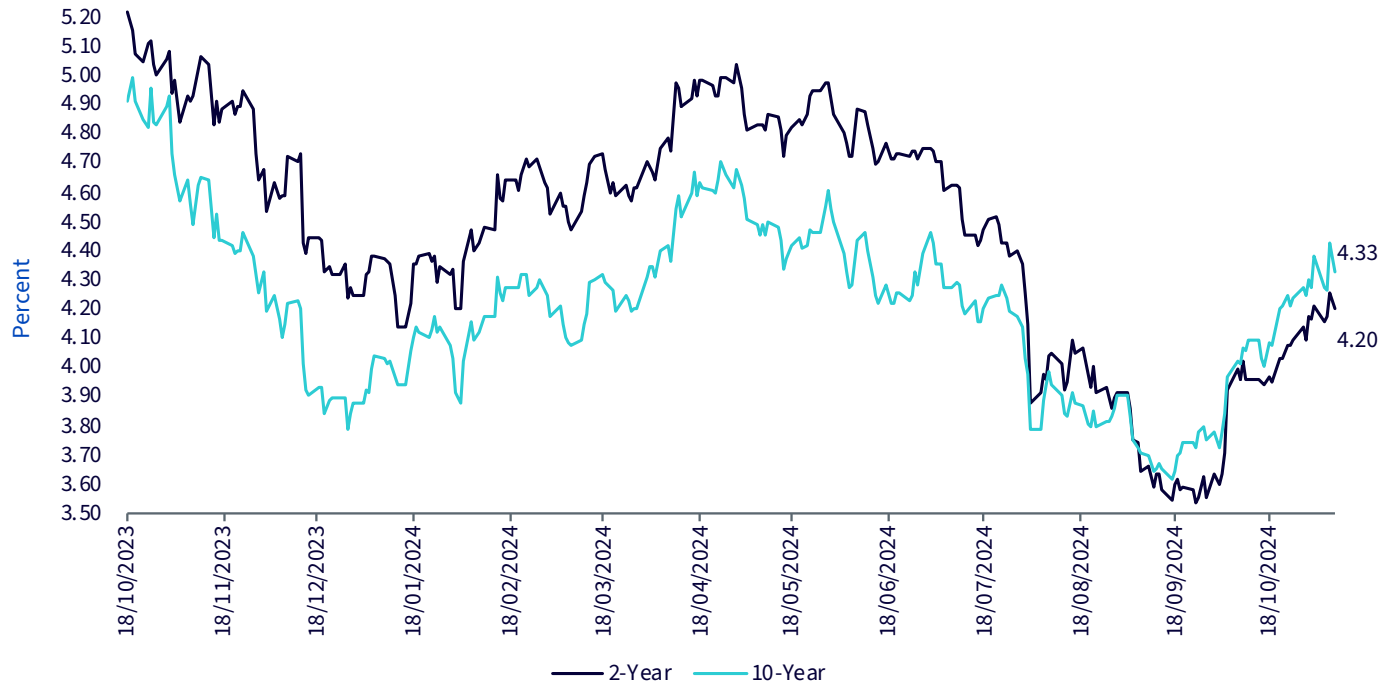
A Post-Election/Post-Fed Look at U.S. Treasuries

Early November was chock full of headline-making events, to say the least. Typically, an FOMC meeting would take center stage, but when you have a Presidential Election Day occurring in the same timeframe, Powell & Co. take a backseat. That being said, both of these events deserve their due attention in terms of how they impact the UST market.

Let's begin with the post-election part of the equation. As we now know, there was a 'red sweep', with Republicans winning the Presidency and both the Senate and House of Representatives. However, the UST market didn't wait for the final results, that's for sure, as the Trump Trade was on full display in a knee-jerk response to the outcome of election day, with UST yields rising in a rather noticeable fashion. The rise in the UST 10-Year yield was just like 2016, where an increase of roughly 20 bps occurred the day after the election. However, there is one big difference—the Fed was raising rates back then, not cutting them.

A great deal of attention was given to the potential negative effects of a red sweep on the budget deficit and the attendant increase in Treasury supply. But let's put it into some perspective. Budget deficits and increased Treasury supply were going to occur with either a red or blue sweep, and a divided government would still mean baseline deficits approaching $2 trillion remain the norm. To illustrate, the fiscal year (FY) 2024 shortfall came in at $1.8 trillion, or +8.1% higher than FY 2023's deficit of $1.7 trillion.

Figure 2: U.S. Treasury Yields



Source: Bloomberg, as of November 8, 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

While anxiety surrounding swelling deficits and Treasury supply are legitimate concerns, there's more to the story than these factors. Indeed, in the past, when deficits and the attendant required increase in Treasury supply have been contributing factors to rate trends, this factor usually served as more of a secondary or tertiary force. The macro and Fed policy backdrop are the primary drivers for rate trends, with deficits and supply essentially adding to or deleting from an existing trend. This is exactly the case this time around as well because President-elect Trump's policies are viewed by the bond market as being more pro-growth and inflationary than what a blue sweep would have resulted in.

Interestingly, as the graph highlights, the UST 2- and 10-Year yields have fallen by roughly 100 bps twice in the last year even when budget deficits were approaching $2 trillion, and the market was dealing with record supply. In our opinion, the UST market will move on from the election results and return their focus back to the macroeconomic data and the Fed, and early on this has proven to be the case.

That brings us back to the Fed, where the November FOMC meeting and accompanying Powell presser underscored that future policy decisions will remain highly data-dependent, and not be influenced by the election results any time soon. Remember, legislation needs to be passed first and actually implemented before one can make any economic/inflation assessments. As mentioned previously, the December FOMC gathering will be a live meeting where another quarter-point rate cut seems likely at this point, data permitting.

Instead of focusing on how high the UST 10-Year yield may be headed, the more pertinent question is whether it can go back down to its mid-September levels. Unless the labor market data collapses, the answer is no, with yields more than likely remaining elevated in the months ahead.

Japan's Elusive Rate Hikes

The Bank of Japan has been slow rolling its pace of interest rate hikes, and with good reason: it wanted to see how the U.S. election would turn out. The country finds itself in a special situation because the late Prime Minister Shinzo Abe was probably Trump's closest foreign relation during the U.S. president's first term. Whether the friendly golf outings between those two in 2016–2020 will carry over to Trump's meetings with current Prime Minister Shigeru Ishiba is unknown.

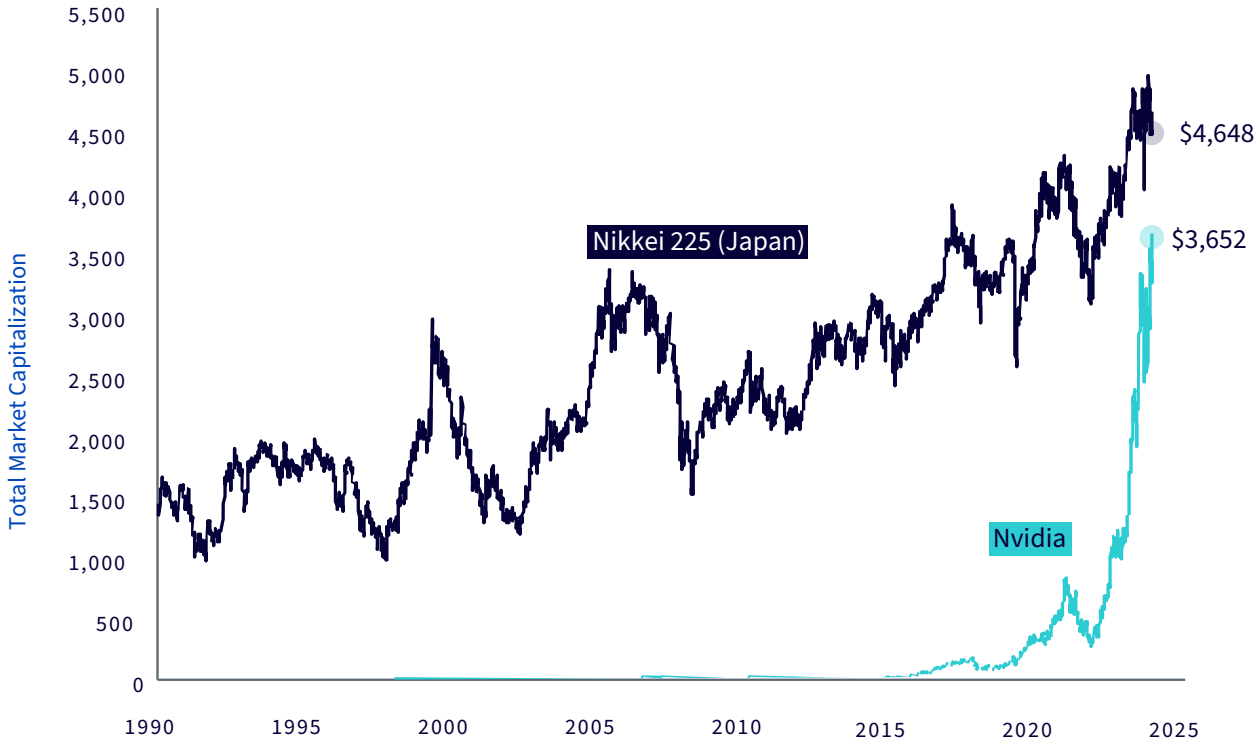
Fortunately for the Bank of Japan, the yen has stabilized after the carry trade blew up in late July and early August. That happened when the market came to the sudden conclusion that the Fed would aggressively cut rates while the Japanese central bank would seemingly do the opposite, an occurrence that sent traders panicking out of their short yen positions. The sudden rush into yen sent the forex pair from Y162 before the comeuppance to levels below Y141 by mid-September. As we write, the exchange rate is Y153, owing to the market's repricing of the Fed's 2025 path to something more benign than previous intimations.

There is still plenty of room for an upside valuation rerating for Japanese stocks, if for no other reason than the U.S. stock market's relentless rise could drag other developed markets along with it. With the S&P 500 trading north of 6,000, that puts the market cap of Nvidia alone at $3.65 trillion. For context, that is within a trillion dollars of

Instead of focusing on how high the UST 10-Year yield may be headed, the more pertinent question is whether it can go back down to its mid-September levels.

the total market value of Japan's Nikkei 225 index. Because of the melt-up in U.S. equities, the S&P 500 is trading for 22.6x forward earnings, an 80% premium to the WisdomTree Japan Hedged Equity Index's 12.5 forward multiple.

Figure 3: Total Market Capitalization, Nvidia vs. Japan's Nikkei 225 Index



Source: Refinitiv, of 11/11/24. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Though Japan's discount is appealing, and promising, its bull market will need to see the country's aggregate return on equity (ROE) leave current single-digit levels behind. As of the end of the last quarter, Japan's ROE was 9.0%, a showing that is sour at best when viewed in the context of the S&P's 17.8% score on the profitability measure.

We have spilled much ink in the last couple years on the matter of Japan's corporate governance reform initiatives, which have succeeded somewhat in catalyzing a nationwide rethink of once-horrible collective dividend and buyback policies. Additionally, the Tokyo Stock Exchange has forced corporations to develop action plans to boost profitability gauges such as ROE.

However, the market needs to see some more wins. We can think of two specifically.

Firstly, Canada's Couche-Tard, the giant owner of thousands of convenience stores, is trying to get across the finish line with its hostile bid for Seven & I, the parent company of 7-11. If that deal does not get done, chalk it up as a big loss for hopes of a true change in Japan's openness to foreign takeovers.

The other deal to keep an eye on is the battle between KKR and Bain to takeover Fuji Soft, the software company. This is just the kind of juicy takeover battle that happens to NYSE-listed companies all the time,

but rarely occurs in Tokyo. To get the bull market to the next stage, we need to see KKR and Bain really duke it out.

We don't claim any particular insight into the probability that these deals get done, but they are being watched hawkishly inside our four walls. Investors want to see some check books being taken out and some bids being accepted.

A Tough Autumn Has Confronted India's Stock Market

India's most recent earnings season has been a disappointment. According to Reuters, some 50% of the Nifty 50 index, India's equivalent of the Dow Industrials, either missed or reported earnings in line with the Street consensus. The stock market has been weak since late September, with a chunk of the mid-single digit sell-off coming at the hands of this tough earnings season, not just the looming U.S. tariffs.

Still, the country's bullish backdrop persists. There is a feeling that the 20% tariffs that Trump has floated could be something of a negotiating tactic. When all is said and done, maybe India gets a number levied on it that is half the headline figure, or less.

Though Trump's strongest international friendship from 2016–2020 was with Japan's former prime minister Abe, the U.S. president generally had and has a strong relationship with Narendra Modi too. When you think about it, Modi has been positively Merkel-esque in his longevity; he came to office way back in 2014 (Merkel was chancellor of Germany from 2005 to 2021). Promisingly for U.S.-India relations, Modi called Trump to congratulate him after the election, at which point Indian media was quick to shout from the rooftops that the president-elect referred to the prime minister as "the nicest human being."

We continue to identify several rolling positives for the country. For one, though earnings season has been ugly, the nation should see double-digit earnings growth in 2025. Additionally, the next few years should see the country jump into third place behind the U.S. and China in the GDP ranks, a portent that may cause money managers to question their low single-digit portfolio allocations to such a large economy. Finally, we continue to anticipate a capital flow benefit for India due to its inclusion in several key fixed income benchmarks this year.

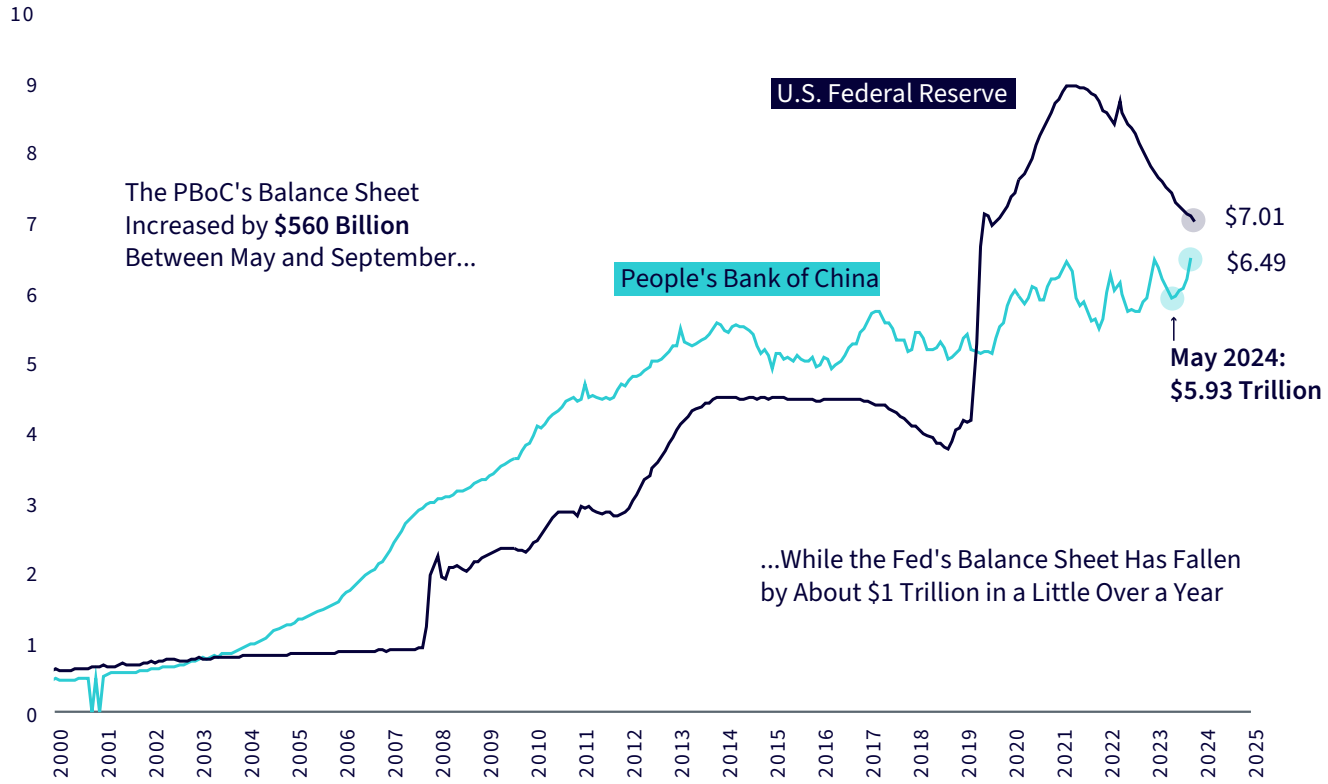
Unfortunately for the cause of seeking bullish catalysts, the Reserve Bank of India (RBI) chief Shaktikanta Das appears to be in no hurry to slash interest rates. There had been some speculation that the RBI may wish to follow the Fed at the upcoming December meeting, but an RBI rate cut inside 2024 would amount to a surprise. We find ourselves agreeing with the consensus that the RBI is not going to be the source of news flow in 2024's waning weeks.

China: A Stimulus Story

One of the lesser-noticed macro themes, at least as far as we have seen, has been the sharp contrast between the People's Bank of China's (PBoC) growing balance sheet and the shrinking state of affairs in the Federal Reserve's asset hoard. In just a few months' time, the former has expanded its size by the equivalent of $560 billion, to US$6.49 trillion. That comes in sharp contrast to the situation at the Fed,

where about $1 trillion was reduced in the span of 13 months. It looks like the PBoC's balance sheet will soon cross over the Fed's, perhaps before the lights go out on 2024.

Figure 4: Central Bank Balance Sheets ($trillion)



Source: Refinitiv, Federal Reserve, as of October 2024, and PBoC, as of September 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

China's most recent stimulus package, announced a couple days after Trump's victory, called for CNY10 trillion ($1.4 trillion) in various forms. Basically, it will amount to a big dump of new debt issuance to channel the proceeds into paying off a large mountain of debt obligations that had been taken on by local governments. Fortunately for contrarians, this latest package was taken as a rotten egg by a market that was hoping for something bigger. After all, Trump's victory over Harris was sound, so the logic had it that China would pull out the fiscal and monetary bazooka to counter the prospect of a 60% tariff. This was no bazooka.

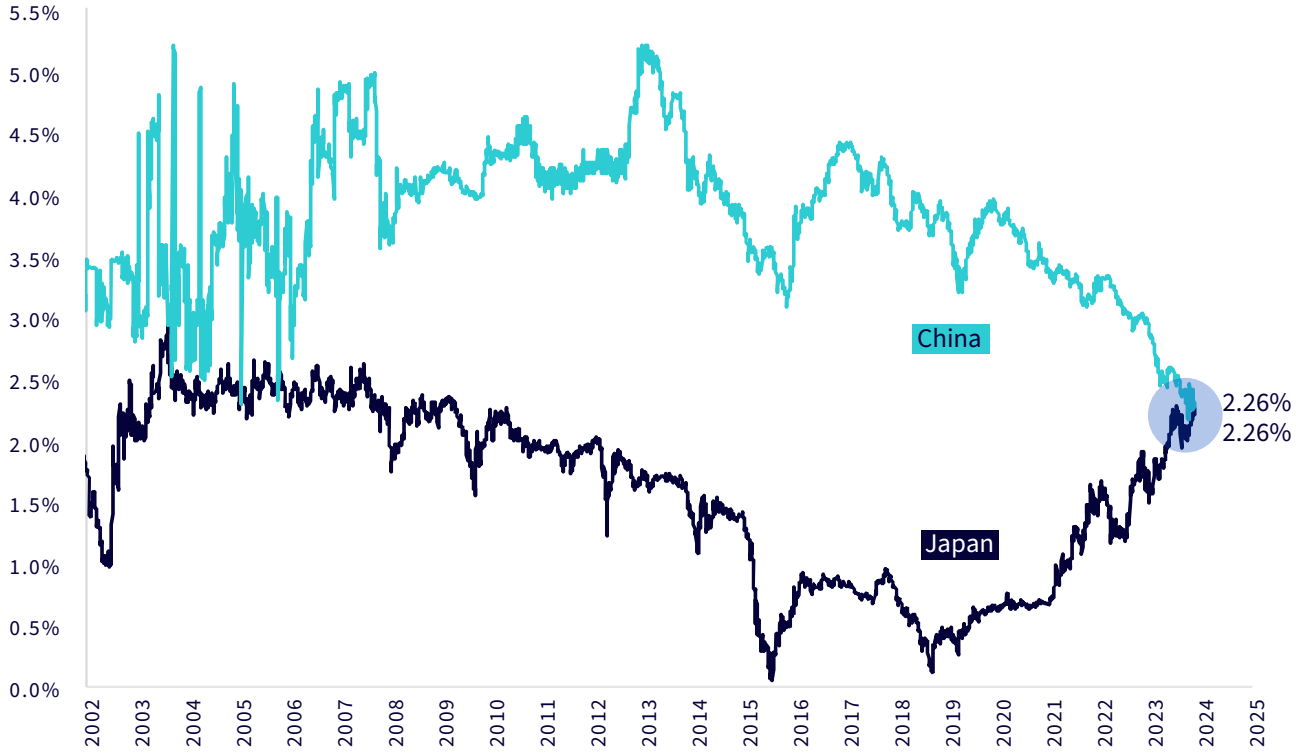
Nevertheless, we have been heartened by a series of other stimulus announcements this year, including initiatives to reduce the down payment requirements on second home purchases, along with general mortgage rate reductions. Critically, the PBoC also cut banks' required reserve ratios, an oft-used tactic that we have seen the central bank employ during the country's bear markets over the course of our careers.

Something that has flown under the radar, and we aren't sure exactly why, is what looks like a legitimate push to clean up fraud in its capital markets. It is no secret that a dark cloud looming over mainland stocks is the market's collective distrust of the country's accounting standards.

Through the years, investors have awoken to a steady stream of fraudulent companies, disappearing persons, and so on. Though some reforms were announced in Q2, it feels like an eternity ago. They include greater scrutiny of IPOs, a crackdown on the gambling vibe that pervades in the stock market, a closer eye on high frequency traders and other such initiatives. Though these reforms have been "known" for over a half year, we believe the market has largely ignored them due to basement-level sentiment towards China.

A final note on China. We do not believe the sheer scale of the collapse in the country's cost of capital is studied enough or fully appreciated in macro circles. As we write, China's long bond yield has dumped to 2.26% from levels north of 4% during the pandemic. For context, 2.26% is equal to Japan's 30-year bond quote. This is a new ball game.

Figure 5: 30-Year Government Bond Yield



Source: Refinitiv, as of 11/11/24. **Historical performance is not an indication of future performance, and any investments may go down in value.**

As bizarre as it is, the fact that China's bond market has chosen to price in deep stagnation is profoundly bullish for risk assets. In a world where China's long-term government bonds used to pay 3% or 4%, an investor could maybe look at the 16x forward earnings multiple on the WisdomTree China ex-State-Owned Enterprises index and say, "No thanks. Fixed income offers some appeal."

But at 2.26% for distant bonds, it becomes tougher to reject equities. This harkens back to the "TINA" concept, whereby investors in North America and Europe would declare that "There Is No Alternative" to buying stocks in a quantitative easing world. With China's bond yields seemingly falling with each passing day, the TINA logic throws a bullish argument in the direction of Chinese risk assets.

Europe—Going Soft on a Soft Landing

The euro area economy grew by a strong seasonally adjusted 0.4% quarter on quarter in Q3[1]. Among the largest economies in the euro area, Germany (0.2%), France (0.4%) and Spain (0.8%) surprised on the upside. However, growth in Q3 is likely to have been driven by one-off factors. We are unlikely to see a repeat of the strong growth over the upcoming two quarters. In September and October, purchasing managers' sentiment was close to the range that was associated with a shrinking economy in the past.

Despite the gradual improvement in household confidence indexes in the euro area, supported by falling inflation, it is still not leading to a rebound in consumption. The household savings rate in the eurozone reached 15.7%[2], reflecting heightened economic uncertainty, with European consumers opting to save more as they navigate potential economic uncertainties. In H1 2024, foreign trade offered a significant boost to GDP. China, Europe's second largest trading partner, is also facing a slowdown from an ailing property sector and weak domestic consumption.

ECB to Remain True to Its Course

The European Central Bank (ECB) has taken note of the weak recovery of the euro area. It appears to be rushing towards a neutral rate as concerns about economic growth trump inflation fighting. The ECB's bank lending survey showed some tentative improvements in the lending environment. Banks did not tighten credit standards for the first time in two years and demand for borrowing is cautiously improving, especially for households. Yet monetary policy can be a weak tool to manage an economy's business cycle, especially one with as diverse growth trajectories as the euro area. A weaker euro area could tip the balance towards a slightly softer stance by the ECB, while a weaker euro versus the U.S. dollar argues against that. As a result, the ECB is likely to lower the deposit rate three more times by 25 bps each in the coming months, to reach a trough of 2.5% by March 2025.

Monetary policy can be a weak tool to manage an economy's business cycle especially one with diverse growth trajectories as the Euro area.

1 EuroStat, as of 31 October 2024.

2 World Economic Forum, as of 30 June 2024.

Donald Trump's Victory Clouds the Outlook for Europe

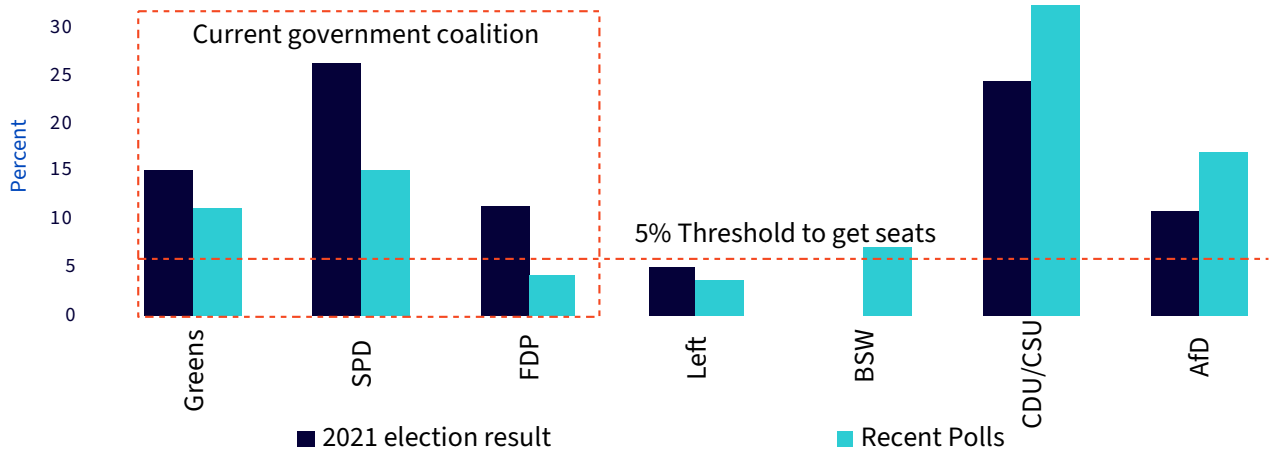
The outlook in Europe has been weakened following Donald Trump's victory in the U.S. elections, not only by the threat of further tariffs to its exports but also its reduced internal capacity to react. Europe is at the precipice of a mini trade war with the U.S. as that country's protectionism against China gets tougher. Trump's second term in office comes at a less convenient time for the European economy, which is faced with a weaker growth backdrop alongside lower competitiveness.

Trump has repeatedly claimed he will end the Russia-Ukraine war. During his first term in the White House, Trump criticised European countries for not spending enough on their own defence, depending on the U.S. for security. Trump could once again, threaten to abandon the alliance in order to get Europeans to sign up to a deal with Russian President Vladimir Putin. While 23 out of 32 NATO members spend around 2% of GDP on defence spending. Trump himself said in 2018 the target should be doubled to 4 percent[3].

German Coalition at Risk

Donald Trump's victory accelerated the collapse of Germany's fragile coalition. On the day of the U.S. elections, Chancellor Olaf Scholz dismissed Finance Minister Lindner, who is also chairman of the liberal Free Democratic Party (FDP), due to major differences of opinion on economic policy[4]. Following the withdrawal of the "yellow" Liberals (FDP) from the German governing coalition, the "red" social democrats (Social Democratic Party (SPD)) and the Greens want to continue governing without an own parliamentary majority for the time being. While the SPD and the Greens wanted a slightly more expansionary budget (+€9 billion), the FDP was obstinate about any increased spending, despite Germany's current economic problems.

Figure 6: Support for Major Political Parties in Germany



Sources: Bundeswahlleiter, dawum.de, as of 4 November 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

3 Politico.

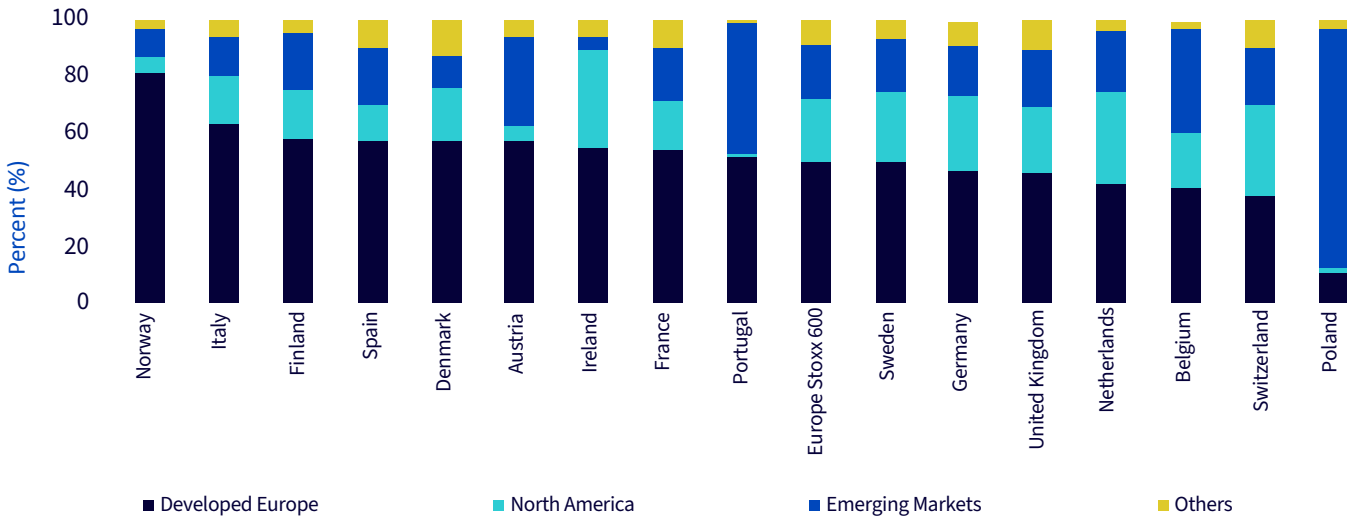
4 Reuters, as of 6 November 2024.

Snap elections are to be called in mid-January and will probably take place in March. Current polls indicate a coalition of the Christian Democratic CDU/CSU and SPD to be the most likely outcome. The center-left is likely to insist on loosening the debt brake. To be installed as chancellor, CDU head Friedrich Merz would probably approve. The snap elections can pave the way for a new start in Germany. This should result in a raft of reforms that would strengthen supply and demand with more room for public investment, lowering of business taxes and trimming of welfare and pension benefits alongside a reasonable immigration policy.

German Equities Present a Case of Resilience

Despite the three-party coalition government experiencing tensions over a stagnant economy, Germany's DAX Index has continued to outperform broader European peers by 9.2% in 2024[5]. The strong performance can be attributed to specific tailwinds in artificial intelligence (AI) and cloud computing, beneficiaries from the electrification theme and financials. Meanwhile, consumer cyclicals have lagged owing to concerns from the automotive sector alongside sluggish economic growth in Germany. Yet the DAX Index has managed to thwart these headwinds owing to its diversified revenue stream—with more than 80% being generated outside of Germany.

Figure 7: Revenue Exposure by Country, Eurostoxx 600 Index



Sources: Bloomberg, FactSet, WisdomTree, as of 30 June 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

5 Difference in price returns of DAX Index versus EuroStoxx600 Index from 31 December 2023 to 11 November 2024, Bloomberg.

U.K. Budget Provides Greatest Loosening in Decades

Chancellor Rachel Reeves's 2024 budget struck a delicate balance between stimulating growth and maintaining fiscal credibility. While expansionary measures initially offered a temporary boost to markets, new borrowing projections triggered a sharp rise in 10-year gilt yields, which reached their highest level in a year, of 4.47%[6]. The budget included £40 billion in new annual tax revenue and an additional £140 billion in public borrowing over five years to fund a £72 billion spending increase with a third earmarked for critical infrastructure projects. The Debt Management Office adjusted its issuance target to £297 billion, an increase of £19 billion from earlier forecasts, raising investor concern.

The increase in spending announced in the budget caused the Office for Budget Responsibility (OBR) to double its forecast of annual growth in real government spending over the next two years. By front-loading spending while increasing tax revenue gradually, the government will provide a significant boost to growth in 2025. The OBR expects it to contribute to 0.7% of annual GDP growth in 2025. There is likely to be some but fairly modest upward pressure on inflation on the back of higher growth. UK corporates are likely to bear the brunt of the cost, with higher National Insurance bills owing to lower thresholds and higher rates set to bring in £25 billion for the Treasury. It remains to be seen how employers absorb the additional cost of higher National Insurance bills. It could dampen pay growth, hiring and investment, particularly among employers of low-paid workers.

UK Budget Seizes Doves' Ammunition

Stronger growth and higher inflation imply that interest rates will fall more slowly. The Bank of England (BOE) needs to make a bigger forecast change as they conditioned their August projection on the spring budget, and they are likely to upgrade demand and inflation to match what the OBR projected. The BOE will have to base its projections against looser fiscal policy, likely by ending its rate cutting cycle after just three more cuts at 4.25% in Q2 2025. We don't expect the BOE to cut rates in December. We don't think the budget overturns the idea that inflation is likely to cool, that rates are restrictive, so the BOE is likely to step up to a sequential pace of cuts as we go into 2025.

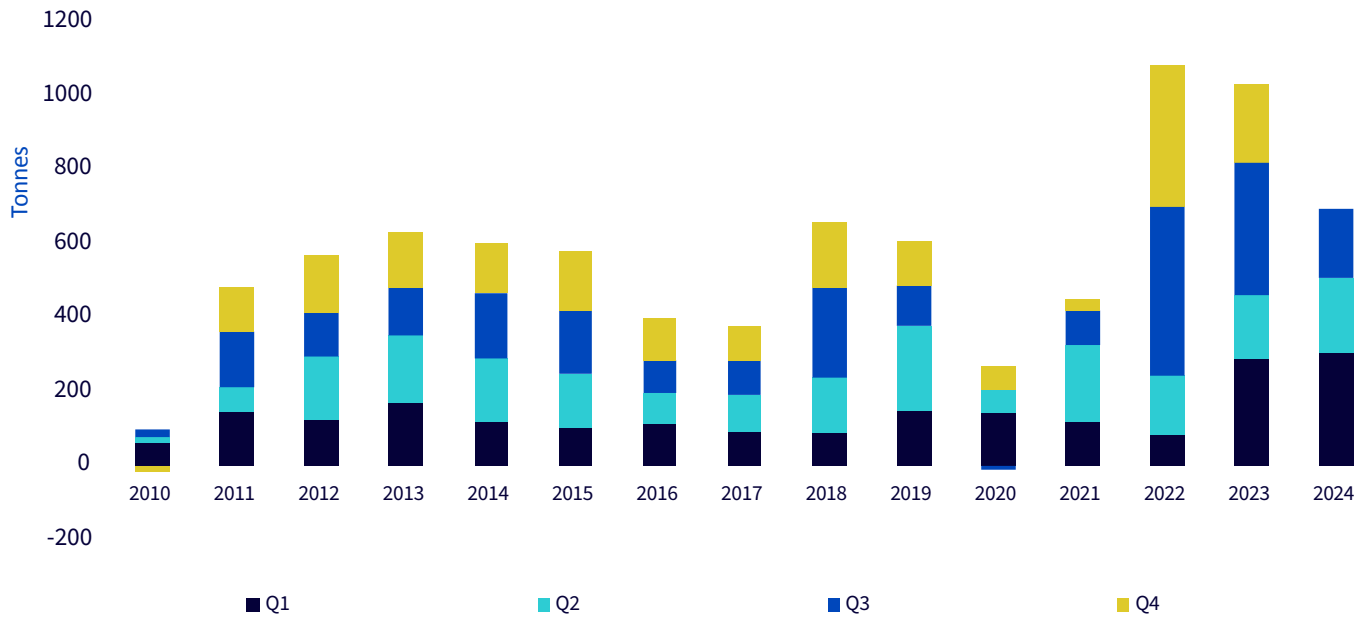
Stronger growth and higher inflation imply that interest rates will fall more slowly.

6 Bloomberg, as of 31 October 2024.

The New Era of Central Bank Gold Buying Continues

Central banks have become big buyers of gold in recent years. In 2022 and 2023, central banks bought the equivalent of 29% of mined gold. The watershed moment came in 2022, when the Russia-Ukraine war started and G7 countries "weaponised" their currencies, which left a bitter taste in many central banks' mouths. G7 countries froze Russia's assets in their currencies, starving Russia's central banks of resources. Given that the U.S. dollar, euro and yen are big reserve currencies, many central banks around the world were spooked. Instead of accumulating these traditional fiat[7] reserve currencies, they now look to gold. The lack of viable alternative currencies outside of the G7 favours gold as a pseudo-currency that has no central bank controlling its supply or status as legal tender.

Figure 8: Central Bank Demand for Gold



Sources: WisdomTree, World Gold Council, Q1 2010 to Q3 2024. **Historical performance is not an indication of future performance, and any investments may go down in value.**

Volumes Doubled

Central bank or "official sector" gold buying in 2022 was at a record high and more than double the average between 2012 and 2021. Central bank purchases in 2023 declined by only a fraction and remained more than double the average between 2012 and 2021. The first half of 2024 saw the largest H1 central bank gold buying on record. However, with gold prices at record highs, even central banks have slowed their buying. Q3 2024 numbers may be skewed by the lack of Chinese buying. The PBoC has not reported

7 A fiat currency is a government-issued currency that is not backed by a physical commodity, like gold.

any purchases since May 2024. Whether it is unofficially buying gold is yet to be seen. Between October 2019 and October 2022, the PBoC had not made any reports of gold purchases and then reported a whopping 62 tonnes in the space of two months (November and December 2022), which indicates it had been buying gold over several months but not reporting it consistently. It's possible that China has once again become relaxed about reporting.

Knowing exactly how much central banks are buying can be tricky. What they collectively report to the International Monetary Fund International Financial Statistics (IFS) every month could be as little as half of actual purchases. The quarterly numbers in the chart above come from the World Gold Council and Metals Focus and are a broader estimate.

Digging into the Latest Quarter of Gold Buying

In Q3 2024, central bank buying seemed to be dominated by Eastern European and Asian central banks. Gold buying by these institutions could reflect geopolitical turbulence in some of their regions.

The National Bank of Poland (NBP) was the largest purchaser by some margin in Q3 (and for the year so far). During Q3 2024, the NBP bought 42 tonnes, lifting its total gold holdings to 420 tonnes, or 16% of total reserves. Announcing the new level of holdings, Governor Adam Glapiński reiterated the bank's aim to increase gold's share of currency reserves to 20%.

Central Bank of Hungary bought 15.5 tonnes, bringing its total holdings to 110 tonnes. In its press statement, it appeared proud to state that it now has the highest level of gold reserves per capita in the Central and Eastern European region. Furthermore, it said:

Amid increasing uncertainty in the global economy, the role of gold as a safe haven asset and a store of value is of particular importance, as it enhances confidence in the country and supports financial stability. Gold continues to be one of the most important reserve assets globally, as evidenced by the significant purchases of gold by central banks in recent years.

Reserve Bank of India bought 14 tonnes in Q3, a slightly lower pace of purchasing compared to the first two quarters. However, the central bank was competing with investors and households who accelerated their purchases after a reduction in import duties in July spurred a buying spree.

State Oil Fund of Azerbaijan bought 12 tonnes of gold in Q3, elevating it to be the fifth-largest gold buyer this year. It ranks just one place below China. The State Oil Fund is allowed to have up to 15%[8] of its fund in gold, although price moves may have taken it slightly above that level now[9].

Türkiye is the second-largest official sector buyer of gold this year, with 55 tonnes of purchases (10 tonnes in Q3). That compares to net selling last year, when gold import controls put in place by the government meant the central bank had to sell to meet domestic demand from investors and households.

8 https://www.oilfund.az/en/investments/gold

9 Investment results for third quarter indicate that it has 17.7% of fund in gold: https://www.oilfund.az/storage/uploads/zf1efy7cdc.pdf.

Central Bank of Uzbekistan bought 9 tonnes in Q3. Uzbekistan is a large producer of gold, and thus the central bank is a captive buyer. It has more gold than the U.K. (but close to half the population). Its ratio of gold to foreign exchange (FX), at 77.3%, outpaces that of the U.S. (74.3%).

The Central Bank of Serbia (5 tonnes) and Czech National Bank (5 tonnes) were other notable European central bank buyers in Q3 2024.

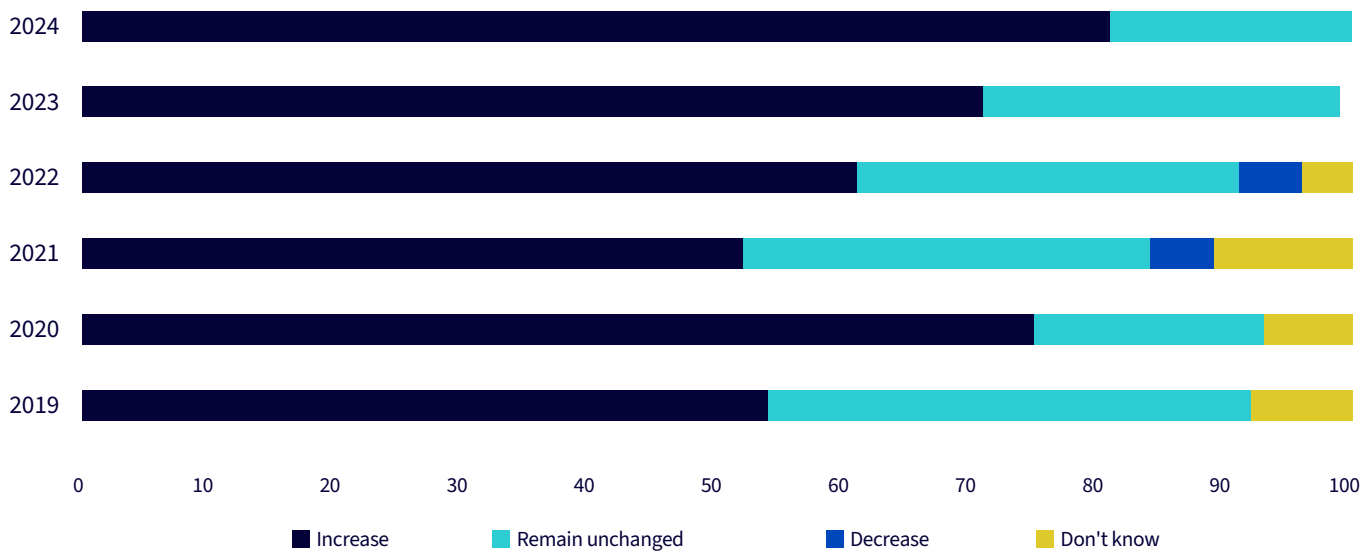
Qatar Central Bank (2 tonnes), Central Bank of Jordan (1 tonne) and Central Bank of Iraq (1 tonne) were some of the notable Middle East buyers in Q3 2024.

Gold purchases in the past quarter have been quite wide and so the slowdown in net numbers may just reflect the absence of Chinese buying.

Central Bank Intentions and Attitudes towards Gold

An annual survey of central banks published in June indicated that more central banks than ever expect their holdings of gold to increase over the coming year. In 2024, 81% of central banks expect higher central bank gold holdings over the next 12 months, up from 71% in 2023. As a proportion of all FX reserves (including gold), 66% of central banks surveyed said they expect central banks to have a higher proportion of gold holdings in 2024, up from 59% when surveyed in 2023. Only 13% said lower, down from 24% in 2022.

Figure 9: Central Bank Expectations on Central Bank Gold Holdings

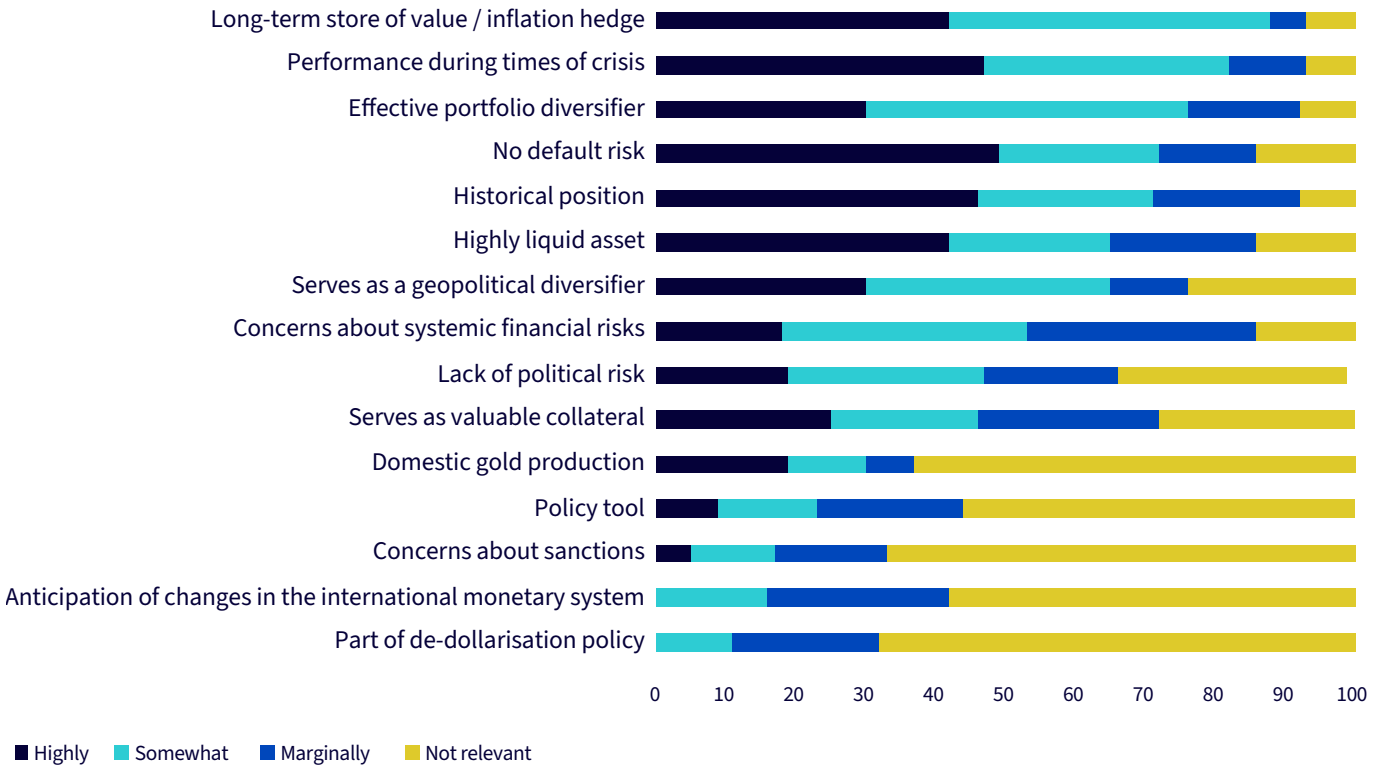


Source: World Gold Council, 2024 Central Bank Gold Reserves Survey, June 2024. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

One of the questions in that survey was about the motivations for holding gold. It is interesting for what it reveals and for what it doesn't reveal. The top motivations included "Long-term store of value / inflation hedge"; "Performance during times of crisis"; "Effective portfolio diversifier"; "No default risk". These closely resemble the reasons why investors hold gold.

What features low in the responses to the survey are the very reasons that we speculate drove a surge in gold buying during the post-2022 period. These are "De-dollarisation policy"; "Anticipation of changes in the international monetary system"; "Concerns about sanctions". We believe central banks are unlikely to be fully transparent in their responses. Regardless of how anonymous the survey responses are, the population of central banks is small and none of them wants to ruffle international feathers. The minority of central banks that claim these are "somewhat" reasons for holding gold may have been some of the larger buyers.

Figure 10: Central Bank Reasons for Holding Gold



Source: World Gold Council, 2024 Central Bank Gold Reserves Survey, June 2024. **Forecasts are not an indicator of future performance, and any investments are subject to risks and uncertainties.**

Will China Buy More Gold?

We believe China's apparent restraint from buying gold in recent months could either be a pause while the PBoC waits for better entry points or just a reflection of inconsistent reporting (as we alluded to earlier).

China's total foreign exchange reserves are the largest in the world ($3.7 trillion), more than double the next largest (Japan, $1.3 trillion). China's gold as a percent of FX reserves is only 5.4%. To get to a gold-to-FX rate of 20% (in line with Poland's goal, for example), China would need an additional 7,160 tonnes of gold (assuming a gold price of $2,700/oz and same levels of other foreign exchange reserves as today). That would require more than a tripling of current gold reserves. That is equivalent to accumulating the combined holdings of Germany, Italy, Switzerland and the U.K.'s central bank gold reserves. If China wants to diversify its FX reserves, it has a long path ahead and probably can't afford to be overly particular about timing gold price dips.

China could sell down some of its foreign reserve holdings and thus appreciate the yuan. However, this is unlikely as it would damage the country's competitiveness in export markets. That is the last thing it wants when facing threats of higher tariffs and other export restrictions from the U.S. and Europe. We believe that gold will be China's favoured reserve asset for years to come.

If China wants to diversify its FX reserves, it has a long path ahead it and probably can't afford to be overly particular about timing gold price dips.

Important information (U.S.)

There are risks associated with investing, including the possible loss of principal. Foreign investing involves currency, political and economic risk. Investments focusing on a single country and/or sector and/or that emphasize investments in smaller companies may experience greater price volatility. Emerging markets, real estate, currency, fixed income and alternative investments include additional risks.

Past performance is not indicative of future results. This material contains the opinions of the authors, which are subject to change, and should not be considered or interpreted as a recommendation to participate in any particular trading strategy or deemed to be an offer or sale of any investment product, and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Unless expressly stated otherwise, the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

Jeff Weniger and Kevin Flanagan are Registered Representatives of Foreside Fund Services, LLC.

Nitesh Shah and Anneka Gupta are employees of WisdomTree UK Limited, a European subsidiary of WisdomTree Asset Management Inc.’s parent company, WisdomTree, Inc.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S.

Important information

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

Marketing communications issued in jurisdictions outside of the EEA: This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.

WISDOMTREE®