



Gold and silver prices amid the COVID-19 pandemic

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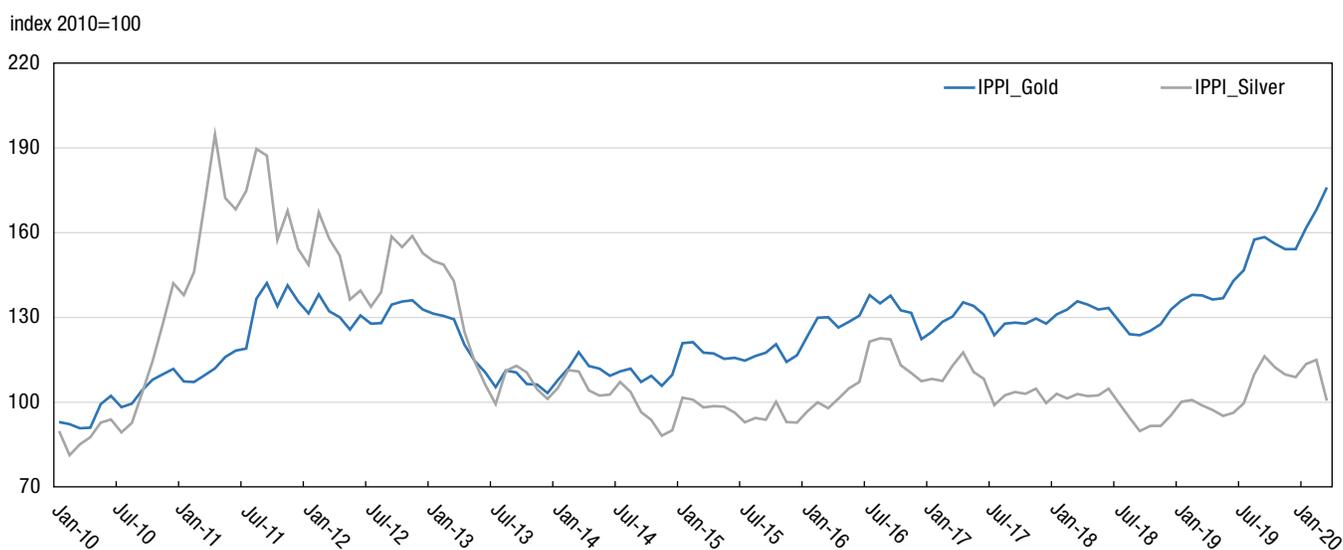
Gold prices reached historical highs, while silver prices dropped sharply

There is still considerable economic uncertainty as the COVID-19 pandemic spreads. As investors look for safe heavens, the price of unwrought gold and gold alloys reached its historical high in March 2020 according to the Industrial Product Price Index (IPPI). It gained 4.7% from February 2020 and 28% when compared with March 2019. A somewhat different picture emerged for the price of unwrought silver and silver alloys, which declined by 12.6% between February and March, but rose by 1.6% on a year over year basis.

Gold and silver are sought after as an investment, for industrial manufacturing purposes, and to produce luxurious jewellery. Moreover, gold is also a reserve asset for many central banks. Regarded as a means for preserving wealth, gold and silver have been in the spotlight in recent months with the economic shock caused by the COVID-19 pandemic.

To prevent the further spread of the COVID-19 virus, many Canadian mining companies either cut back or deferred their field activities. For example, Canadian Malartic, the largest operating gold mine in Canada entered care and maintenance on March 24th.¹ It is however unlikely that the mining companies' response would have had an immediate impact on the supply, and therefore the price changes in March seem to be mainly driven by changes in demand.

Chart 1
Gold prices jump up, while silver prices drop sharply



Source: Statistics Canada. Table 18-10-0030-01, Industrial product price index, by product, monthly.

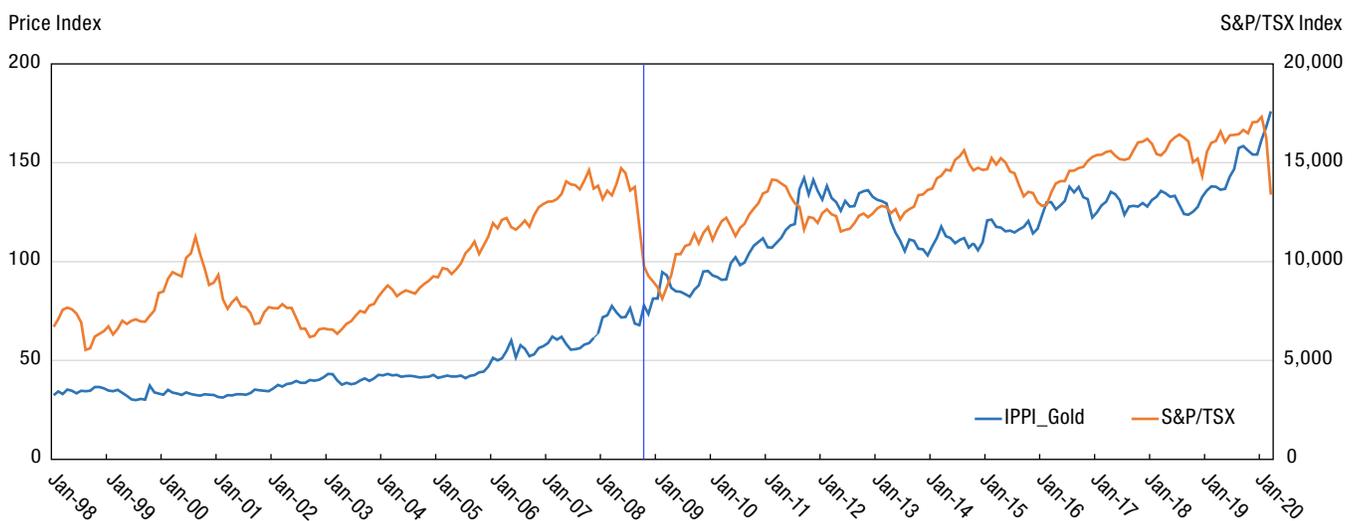
Investors diversify to safer assets, driving up price of gold

1. Refer to "[Canadian Malartic to restart operations](#)".



The worldwide economic slowdown resulting from the quick spread of the COVID-19 virus, caused investors to panic-buy gold as stock market prices fell sharply in March. Gold is usually a good portfolio diversifier, especially during times of crisis, because it has a low or negative correlation to other assets.² For instance, the S&P/TSX Composite Index of the Toronto Stock Exchange decreased by 17.7% in March, reaching a 21-year low. The crash of the stock market led investors or speculators to reduce their holdings of stocks and switch to less risky assets, such as gold (+4.7%). This was also observed during the 2008-2009 Global Financial Crisis (Chart 2) when, in October 2008, gold prices jumped by 14.7% while stock prices plummeted by 16.9%.

Chart 2
Gold price index (2010=100) vs S&P/TSX index



Sources: Statistics Canada, tables 18-10-0030-01 and 18-10-0203-01 and Yahoo Finance.

Since 2008, many central banks preferred to have a diversified reserve portfolio to avoid the risk of having a single unstable reserve currency. In line with this trend, central banks became net buyers of gold for many years.³ The annual purchase of gold by central banks reached 650.3 tons in 2019, the second highest level for 50 years.⁴ This, combined with the impact of COVID-19 sent the price index of unwrought gold and gold alloys up by 127% between March 2008 and March 2020.

Price of silver drops due to lower demand

In March 2020, the decline in demand for silver outweighed the decrease in supply, which led to a sharp drop in the price of silver (-12.6%), the largest monthly drop since October 2011. A similar price trend was also observed during the Global Financial Crisis. Many key factors behind the demand for silver, including investment, industrial fabrication and jewelry and silverware manufacturing were expected to drop in March due to restrictions on

2. Refer to "The Financial Economics of Gold – A Survey" (July 2015) by O'Connor, Fergal A., Brian M. Lucey, Jonathan A. Batten and Dirk G. Baur.

3. Refer to "Gold Demand Trends Full year and Q4 2019—Central banks and other institutions". World Gold Council.

4. Refer to "Gold Demand Trends Full year and Q4 2019". World Gold Council.



economic activities in response to the COVID-19 pandemic. For instance, a temporary suspension of production in March for non-critical products implemented by the Royal Canadian Mint⁵ reduced the demand for precious metals, especially for silver.

References

O'Connor, Fergal A., Brian M. Lucey, Jonathan A. Batten, and Dirk G. Baur. July 2015. "[The Financial Economics of Gold – A Survey](#)." FIRN Research Paper No. 2628018. Available also at [SSRN](#).

5. Refer to "[Update on COVID-19 pandemic](#)" of Royal Canadian Mint.