UNIVERSITI TEKNOLOGI MARA

THE RELATIONSHIP BETWEEN GOLD PRICE AND MACROECONOMIC FACTORS

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ABSTRACT

Gold is a commodity and material that play a significant role in economy. Gold is increasingly valued for its potential to endure financial crises and guard against the rising inflation of fiat currencies. Besides, most central banks primarily reserve gold compared to paper currencies as their monetary reserve. Nonetheless, an unexpected Covid-19 outbreak arises, resulting in a decreasing economy and recession. Considering that others financial instrument and macroeconomic factors went downwards, the price of gold may or may not decline as well. Consequently, the objective of this research is to investigate the four macroeconomic factors that influence the gold price. This study involved 10 years' data from 2012 to 2021 to assess the relationship between the GDP growth, stock exchange index, inflation rate and overnight policy rate. These findings will aid individual and corporate investors, policy maker, financial institution, economist and government in making the best decisions and formulating suitable regulations to make better judgments in the future.

Keywords: Gold Prices, GDP Growth, Stock Exchange Index (FBMKLCI), Inflation Rate (CPI), Interest Rate

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INTRODUCTION

1.1 INTRODUCTION

This chapter will provide an overview of why conducting research is important. Furthermore, this chapter also examines the topic under investigation, the research objectives, the study's constraints, and the definition of the term in question. This study will investigate whether macroeconomic factors influenced the price of gold during the unforeseen situation of this pandemic as the value of other financial products plummeted.

1.2 BACKGROUND OF STUDY

Unlike other commodities such as oil or wheat, gold does not diminish or deplete since it is mined and remains in the universe. In other words, the commodity of gold stays permanent in this world. Nonetheless, gold is used for the manufacture for jewellery, utilised in art, is kept in ingots in vaults as well as other uses (Hayes, A., 2021). In addition, gold has been used as a medium of exchange, a store of wealth, and as precious jewellery and other artefacts. Despite this, gold's shiny and metallic properties, relative scarcity, and difficulty of extraction have all contributed to its status as a desirable commodity. Consequently, gold is a unique asset with a variety of intrinsic features that make it essential for investors to include in their portfolios (Tardi, C., 2021).

Gold is now valued not only for its use in jewellery and manufacture, but also for its ability to withstand financial crises and protect against the inflationary pressures of fiat currencies. The price of gold has climbed tremendously in the last 50 years, captivating gold market investors as gold retains its significant value. The factor influencing gold's price is investment demand, particularly from large ETFs. Since gold is dollar-denominated, it can sometimes move in the opposite direction of the US dollar, making it a good inflation hedge. However, the basic notion of supply and demand can influence gold prices; if demand for consumer products such as jewellery and electronics rises, the price of gold can rise as well and oppositely (Folger, J., 2021).

Human psychology cannot be overlooked regarding investment in gold. During times of fear and uncertainty, which tend to complement economic recessions and