

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Summary

Bachelor Thesis

Analysis of Gold Commodity

Author: Jakub Novotný

Supervisor: Ing. Petr Procházka, MSc. Ph.D.

© 2015 CULS Prague

1. Summary

This bachelor thesis deals with a very important commodity in today's world. This commodity is gold, which is in this thesis examined from an economical point of view. First part of this thesis is literature review, which informs the reader about important factors such as history of gold or investment and also helps to understand it. Second part is mainly analytical, gold is analysed using the fundamental and technical analysis. Fundamental analysis analyses supply and demand. Particularly it analyses its historical development and composition of market. Technical analysis focuses on the development of price using specialized tools which are very own to this method. These tools evaluate both past and current state. Thanks to those tools it is possible to make important decisions whether to buy or sell at a certain state of market, which is also the main objective of this thesis.

2. **Keywords:** gold market, gold commodity, technical analysis, fundamental analysis

3. Objectives

The main goal of this thesis was to evaluate gold as a commodity and also analyse its price movements on the market. In order to understand gold's market it was necessary to firstly introduce gold itself. Therefore in the first part of this thesis the objective was to introduce gold from many different views, as gold is usually viewed by most people as a precious metal used for jewellery production. In order to understand how gold market works and how volatile its price can be in certain times, it was very important to not only introduce, but also understand its history, basics of investing and some alternatives of gold. In the second part the objective was to analyse gold's supply, demand and the development of gold's price in order to understand deeply gold commodity market. This was done so that it is easy to read current state of gold market and make decision based on such data whether invest in gold or wait for more suitable point in time and market development.

4. Methodology

This bachelor thesis is divided into two main parts. First part is Literature review which was done by using various methods such as extraction, synthesis, induction and deduction. This was done by firstly studying literature which was dealing with topics that mattered greatly to this thesis, such as history of gold or different markets around the world.

This helped the author to understand many of the core issues in this topic, which helped him to transfer this knowledge and address it further. Besides that it introduces many factors to the reader and thus helps him understand many of the core issues. Second part was an analytical one, divided into fundamental analysis and technical analysis. Fundamental analysis is focused on supply and demand. It is mainly historical development, which gives more information to the reader about gold market, not only for recent years, but also few decades to the past. Technical analysis is the main part of this thesis, because it is focused on the development of golds price. This was done by collecting available data and creating charts by using an online application and the utilization of many technical analysis tools. Thanks to those tools it was possible for the author to assess current state of gold price development and therefore give suggestions.

5. Main Findings

Gold is thanks to its very unique attributes great as investment. It is widely used as a hedge against inflation, to lower risk and diversify your portfolio. Thanks to this many countries amass gold.

Gold supply and demand has undertaken a few changes throughout the history, still it is actually the demand that shifts more than the supply. Supply is mostly based on mining and then on recycling which does not really change. Demand though experienced more shifts, however it is still ruled by jewellery, technology and investment as the main parts. Demand is currently ruled by India and China, which are the two strongest markets mostly thanks to their jewellery demand. However this was not the case in the past, when it was actually Europe and America who contributed most to the world demand. It is expected, that the strong performance of China and India will continue in the future, even though it may not be as strong as in previous years, especially 2013, which was exceptional year.

Price of gold was analysed by many tools that are used in technical analysis. Tools that were used are the most used and also known ones, such as Moving Average, Exponential Moving Average, Moving Average convergence, Relative Strength Index. Every tool had a slightly different approach, which however did not matter in the big picture, as all of them showed the same result, which was in current trend the sign to sell gold.

6. Conclusion

This thesis showed that world of gold is very complicated and it is not an easy task to understand it all. It introduced gold from many different views from history to its current development. This was done by using various methods such as fundamental and technical analysis. While Fundamental analysis showed that even though there are naturally some movements in supply and demand, there are no real big changes in a short period of time on a global scale. However while supply sees just a very little changes over the course of history, demand has actually shifted across the continents. Current world gold demand stands on shoulders of two strongest, which are India and China as their demand was growing in last ten years, until actually last year when it experienced a decrease, especially China. Those two are so strong thanks to their very strong jewellery demand, which is actually more than 50% of whole world demand. Even still those two will definitely remain as the two top strongest countries in demand in near future. On the other hand they may not be able to sustain such a rapid increase in their demand, and will drop a little as suggest last year.

By using many different tools, that are used in technical analysis to predict future movement of price and also current trend, technical analysis shown that there was a big increase in price on the beginning of New Year, which however did not last long and after January it actually lost almost the same in next two months as it gained in January. Currently the price is still decreasing and as downtrend suggests this will continue even in the future, which means that it is currently suggested to sell gold. Gold price is currently around 1200 USD/oz, which historically is still high, but it is nowhere near the maximum price in 2011.

This means that if you want to invest into gold, currently is not a good time to do it as the price goes down. However for future options probably the easiest way to invest is to buy physical gold, in form of bullion coins. Also the best places to invest in are India and China which are currently very strong and also hold future of golds market.

7. References

Barthelmy, D. (2015). *Mineral Species sorted by the element Au Gold*. [online] Webmineral.com. Available at: <http://webmineral.com/chem/Chem-Au.shtml#.VQFOy4iNNFc> [Accessed 5 Jan. 2015].

Econlib.org, (2015). *Gold Standard: The Concise Encyclopedia of Economics /*

Library of Economics and Liberty. [online] Available at:

<http://www.econlib.org/library/Enc/GoldStandard.html#> [Accessed 7 Jan. 2015].

Fabozzi, F., Füss, R. and Kaiser, D. (2008). *The handbook of commodity investing*. Hoboken, N.J.: John Wiley & Sons.

Myers, D. (2008). *Getting Into The Gold Market*. [online] Investopedia. Available at: <http://www.investopedia.com/articles/basics/08/gold-strategies.asp> [Accessed 12 Jan. 2015].

The Evolving Structure of Gold Demand and Supply. (2011). 1st ed. [ebook] Available at: <http://www.gold.org> [Accessed 15 Feb. 2015].