Gold prices posted their first annual gain since 2012 as they rallied 8.48% in 2016. Prices began the year at $1,062 and ended it at $1,152. Key to the up move was the Federal Reserve's decision to keep US interest rates low for longer than expected as well as negative interest rates in Europe and Japan. This macroeconomic environment set up an opportunity for investors to buy gold for haven purposes without suffering yield loss, since short-term fixed-income investments had yields so low that they effectively shared a key characteristic of gold: they were non-interest bearing.

Q1

After hiking interest rates at the end of 2015, the Fed struck a cautious tone in January. The European Central Bank (ECB) eased and Japan set a key rate below zero for the first time. Gold prices rallied 5.18% in the first month of the year to $1,117. In February, it became clear the Fed was on hold; gold prices soared 11.01% and closed the month at $1,240. In March, the ECB announced further significant easing measures and that it did not expect to make further rate cuts. Gold prices traded up to $1,283 the day after the ECB statement but the rally was met with heavy selling. For March, gold prices fell a modest 0.65% to settle at $1,232.

Overall in Q1, gold prices rallied 16%. 10-year Treasury yields dropped 50 basis points and the US Dollar Index fell 4.3% while the S&P 500 added 0.74%. Speculators entered the COMEX futures market in droves. Per CFTC Commitments of Traders data, Managed Money traders, who had been net short 27.2K contracts at the end of December, turned net long 154.2K contracts in 3 months' time for a positive swing of 18.14 million ounces. Investors also piled into the GLD ETF-- assets increased by nearly 5.7 million ounces (27.54%) to 26.34 million oz.

Q2

In April, the Bank of Japan shocked traders by not increasing stimulus measures as expected and, at home, the Fed indicated that a June hike was less certain. Gold prices finished April at $1,293 for a 4.95% gain while the dollar fell 1.59%. But it was a different story in May, when the Federal Reserve published its April minutes and the market inferred that a rate hike would come sooner rather than later. The US Dollar Index gained 3.11% as gold prices declined 5.88% to end May at $1,217. In June, the 10-year German Bund yield dipped below zero percent; the UK voted for Brexit; and the Fed postponed raising rates. Gold prices traded as high as $1,358 on the 24th, the day after the surprising "Leave" vote. In June, gold prices rallied 8.38% to close at $1,319.

For the second quarter, gold prices increased by 7.06%, 10-year Treasury yields dropped an additional 30 basis points to yield 1.47%, and the US Dollar Index rallied 1.69%. The S&P 500 posted another quarterly gain, increasing by 1.94%. Managed Money net long positions in COMEX gold futures rocketed nearly 70% to 261K contracts (26.1 million oz.) breaking a 5-year-old record. GLD investors added 4.2 million ounces to push holdings up nearly 16% in Q2.

Q3

July began with an investor led post-Brexit rally. On the 5th, the year's highest net Managed Money position (a record net long 273K contracts) and the largest ounce position in GLD (31.595 million oz.) were reported. On the 6th, prices traded at the 2016 high of $1,375. Gold prices ended July at $1,349, up 2.27%, despite 7 record closes in the Dow and S&P 500. Long liquidation appeared in August, however, as gold prices retraced 3.04% to $1,308. At the end of August, Fed Vice Chair Fischer commented that 1 or 2 rate hikes were still possible in 2016 but in September the Fed left rates unchanged and gold prices inched up 0.61% to $1,316.

In the third quarter, gold prices were essentially unchanged while the 10-year Treasury yield increased by 12 basis points to yield 1.59%, the dollar was marginally lower and the S&P 500's quarter-over-quarter rally accelerated as it gained 3.29%. Managed Money net long positions on COMEX futures dropped slightly to 255.2K contracts and GLD assets fell 67.5K, or a modest 0.22%, to 30.477 million oz.

Q4

In October, the market was anticipating that the Fed would move before year end. Managed Money dumped 49% of their net long in 3 weeks. Gold prices ended October at $1,272, down 3.34%. Gold prices declined an additional 7.63% in November to $1,175 as the market perceived Trump's election as a pro-growth story. 10-year Treasury yields raced 56 basis points higher--a 31% move--and the S&P 500 rallied 3.43% during the election month. In December, the Fed made its only move of the year, a hike of 25 basis points. Gold prices dipped to $1,123 before closing the month at $1,152 for a monthly loss of 1.96%.

Overall in Q4, gold prices fell 12.46% against the backdrop of 10-year Treasury yields increasing by 85 basis points and the S&P 500 recording a 4th quarterly gain, rallying 3.23%. COMEX speculators collapsed their net long by nearly 212K contracts to 43.4K contracts, a decline of 83%. By comparison, GLD holdings fell significantly less—4 million ounces, or 13.2%, leaving the ETF with holdings of 26.433 million ounces at year end.

In summary for 2016, gold speculators and investors took their cue from the Federal Reserve's comments and international influences such as Brexit, and negative interest rates abroad. Positive price sentiment prevailed through the 3rd quarter, at the end of which gold prices were up 23.92%. However, a risk-on attitude flourished (i.e., investors generally felt good about the future prospects of the economy and, therefore, moved capital to the stock market and higher yielding, riskier investments) in the fourth quarter, lowering the gold price's gain for the year significantly to 8.48%.