Macroeconomic determinants of Precious Metals Prices: Panel data Evidence

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Abstract

This paper investigates the combined effect of macroeconomic factors on the pricing of precious metals in developed and emerging economies. We use the panel least squares estimation, a fixed-effects model, and a random-effects model since it accounts for variable heterogeneity across precious metals and countries over time. We also employ a dynamic two-step generalized method of moments (GMM) estimators to improve the robustness and ascertain the consistency of the results. The data set covers 1979– 2020 for five developed and emerging economies. Our findings demonstrate that the prices of precious metals fluctuate in response to changes in macroeconomic factors across developed and emerging economies. The findings of the study have significant policy ramifications. The major macroeconomic indicators used in this study can help forecast precious metals' returns in developed and emerging economies. These findings support the use of gold, silver, and platinum investments as inflation hedges, and they may assist gold mining enterprises in reaching low-income and rural populations to determine the unemployment rate. The central banks of these five countries should ensure that the above macroeconomic factors do not disproportionately affect precious metals returns.

Keywords: Precious Metals prices, Panel least squares estimation, Inflation, Unemployment, Emerging Markets