

Commodity Spotlight Precious Metals

29 January 2014

Despite the good start into the year, gold requires patience

The gold price had a positive start into the new year. This was attributable to the temporary end of the equity market rally, the fall of real interest rates and robust Chinese purchases ahead of the Chinese New Year. Also, sentiment has improved slightly among speculative financial investors. Gold ETFs, in contrast, have seen outflows until recently. The gold price looks set to come under pressure again in the near-term. However, India could relax its restrictions on gold imports in the second quarter. ETF outflows should likewise come to an end. This should be conducive to a sustained upwards movement in the gold price in the second half of the year.

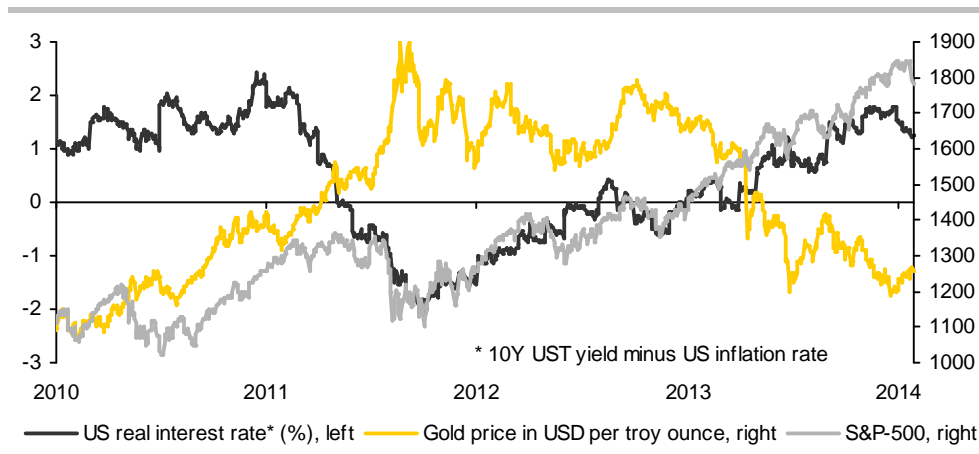
There's life in the old dog yet! With a 5% increase since the start of the year, gold has enjoyed the best year-to-date price performance among commodities after US natural gas. The gold price temporarily reached a 2½ month high of USD 1,280 per troy ounce. The fact that the Fed has initiated the exit from its ultra-expansionary monetary policy and the continuing upsurge in equity markets had led most market watchers to expect a further price decline. What are the reasons for these surprising developments and can the gold price continue its recovery?

An important reason for the recent price rise in gold is that the upsurge in equity markets has started to falter. In mid-January, the S&P 500 reached a record high of 1,850 points. Since then, the index has fallen by almost 4%. The DAX lost 5% within a few days of printing an all-time high at nearly 9,800 points. Since gold and equities are competing alternative investments, the weakness in equity markets translates into tailwinds for gold. For the same reason gold was adversely affected by rising equity markets last year (chart 1).

Another reason for the gold price rally is the marked decline in real interest rates since the start of the year. Higher risk aversion on financial markets has led to a sharp drop in long-term bond yields, with the yield for ten-year US Treasuries having temporarily fallen by as much as 30 basis points to 2.7%. This leads to a corresponding fall of real interest rates because inflation is not declining to the same extent. Last year's strong rise in real interest rates had also been a major burden on the gold price (chart 1).

In addition, physical demand for gold from China was very robust in the first few weeks of the new year, which was reflected in high trading volumes and high physical premiums on the Shanghai Gold Exchange. Chinese households obviously took advantage of the low price level at the start of the year and bought gold ahead of the Chinese New Year's celebrations.

CHART 1: Headwinds for gold from real interest rates and equity markets are abating



Source: Bloomberg, Commerzbank Corporates & Markets

Commerzbank Forecasts 2014

	Q1	Q2	Q3
Precious metals			
Gold	1200	1250	1300
Silver	19.5	21.0	22.0
Platinum	1350	1400	1500
Palladium	700	725	775

USD per troy ounce

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Gold ETFs still see outflows

But the above-mentioned factors have not yet been reflected in corresponding inflows into gold ETFs. On the contrary, since the start of the year, ETF investors have withdrawn another 24 tons of gold (chart 2). A one-day inflow of 7.4 tons – the largest in 15 months – was followed a few days later by a one-day outflow of similar proportions. ETF investors still do not seem convinced that the gold price has already bottomed out. But selling pressure in the world’s largest gold ETF, the SPDR Gold Trust, has eased noticeably. This year to date, outflows from the SPDR Gold Trust have accounted for only one third of total outflows. Last year, two thirds of total outflows from gold ETFs came from the SPDR Gold Trust.

Slight improvement in sentiment among speculative financial investors

While ETF investors are still sceptical, we have seen a slight improvement in sentiment among speculative financial investors. Money manager’s net long positions have recently increased for four consecutive weeks and printed a nine-week high at a good 30 thousand contracts (chart 3). This means they have tripled since hitting a record low in early December. But since the level of net long positions is still low by historical standards, we cannot speak of a speculative exaggeration. Also, the average increase in net long positions of a good four thousand contracts per week this year does not indicate that sentiment is exuberantly positive among speculative investors.

Near-term, we see potential for a setback

What is to be expected for the gold price on a short to medium-term perspective? Near-term, the price could come under pressure again. The strong buying interest from China seen in the first weeks of January looks set to abate after the New Year’s festivities. Also, we are sceptical because gold ETFs have seen outflows despite softer equity markets and falling real interest rates, even though these outflows have moderated compared to the previous year. Whether or not money managers will still jump in to fill the gap remains to be seen. The current phase of an uninterrupted increase in net long positions is already the longest since August 2013. Also, US Treasury bond yields will probably make up for their recent decline because this movement was attributable to an increase in global risk aversion rather than a change in the stance of US monetary policy. The recent fall of real interest rates should thus be corrected again, especially since the inflation rate will decline further temporarily.

Sustained upwards movement from mid-year onwards

The gold price should only start a sustained upwards movement around the middle of this year. This could be triggered by a relaxation of restrictions on gold imports to India. According to the Indian finance ministry, import restrictions shall be reviewed at the end of March, when the current Indian fiscal year ends. The Indian government said that a sufficient improvement in the current account deficit was a prerequisite for a relaxation. The comparatively moderate softening of the Indian rupee during the latest currency turmoil in emerging markets could be an indication that the current account has stabilised. Official data will only be released at the end of March. However, a sustained price rally would require an end to the ETF outflows, which we expect to occur in the second half of this year. The gold price should then climb to USD 1,400 per troy ounce by year-end.

CHART 2: Gold ETFs are still registering outflows
Cumulative outflows since the start of the year in tons

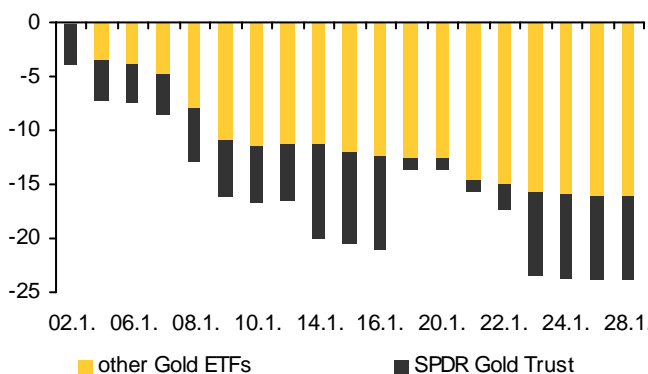
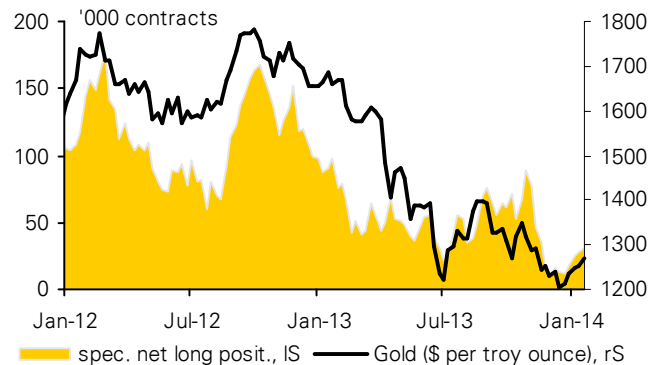


CHART 3: Speculative financial investors have recently become somewhat more optimistic



Source: Bloomberg, Commerzbank Corporates & Markets

Source: CFTC, Bloomberg, Commerzbank Corporates & Markets

At a glance

TABLE 1: Our forecasts

	Quarterly average									Yearly average		
	28/01/14	Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	2013	2014	2015
Gold	1257	1200	1250	1300	1400	1400	1350	1400	1500	1425	1300	1425
Silver	19.6	19.5	21.0	22.0	24.0	24.0	22.5	24.0	27.0	24.0	21.5	24.5
Platinum	1409	1350	1400	1500	1600	1600	1550	1600	1700	1500	1475	1625
Palladium	717	700	725	775	825	825	800	850	900	720	760	840

Quarterly averages, based on spot prices; Source: Bloomberg, Commerzbank Corporates & Markets

TABLE 2: ETF holdings (weekly data)

	Date	Holdings	Total net change			% change	52 weeks	
			1 week	1 month	1 year	1 year	High	Low
Gold ETFs (in '000 ounces)	24.01.14	55910.6	-323.8	-903.2	-28067.3	-33.4	84078.5	55910.6
Silver ETFs (in '000 ounces)	24.01.14	621721.1	3940.7	-2853.2	-3980.2	-0.6	645640.6	602135.7
Platinum ETFs (in '000 ounces)	24.01.14	2485.2	-8.8	-19.8	922.3	59.0	2507.1	1546.3
Palladium ETFs (in '000 ounces)	24.01.14	2169.0	-0.5	2.3	44.1	2.1	2282.4	2124.9

Source: Bloomberg, Commerzbank Corporates & Markets

TABLE 3: Net long positions of money managers (weekly data)

	Date	Level	Total net change			% change	52 weeks	
			1 week	1 month	1 year	1 year	High	Low
Gold (in '000 contracts)	21.01.14	30.217	1.947	19.024	-67.680	-69.1	97.897	9.941
Silver (in '000 contracts)	21.01.14	9.814	-1.345	6.489	-16.501	-62.7	30.07	-3.775
Platinum (in '000 contracts)	21.01.14	24.230	1.625	11.334	-13.638	-36.0	40.846	12.896
Palladium (in '000 contracts)	21.01.14	19.958	1.966	4.279	1.575	8.6	25.676	15.237

Source: Bloomberg, Commerzbank Corporates & Markets

TABLE 4: History

Current	% change					History							
	USD per troy ounce	1 week	1 month	y-t-d	y-o-y	Q112	Q212	Q312	Q412	Q113	Q213	Q313	Q413
Gold	1257	2.4	4.4	5.1	-23.8	1691	1612	1653	1718	1632	1417	1330	1291
Silver	19.6	0.5	-1.0	2.2	-36.7	32.7	29.5	29.9	32.6	30.1	23.2	21.5	21.2
Platinum	1409	-3.0	2.7	3.3	-15.8	1609	1501	1500	1598	1632	1467	1453	1412
Palladium	717	-4.2	0.7	-0.1	-4.7	683	629	613	654	741	714	724	729

Source: CFTC, Bloomberg, Commerzbank Corporates & Markets

TABLE 5: World Official Gold Holdings (monthly data)

Country	tonnes	Country	tonnes
USA	8,133.5	Switzerland	1,040.1
Germany	3,387.1 (-3.5)	Russia	1,015.1
IMF	2,814.0	Japan	765.2
Italy	2,451.8	Netherlands	612.5
France	2,435.4	India	557.7
China	1,054.1	Turkey	506.3

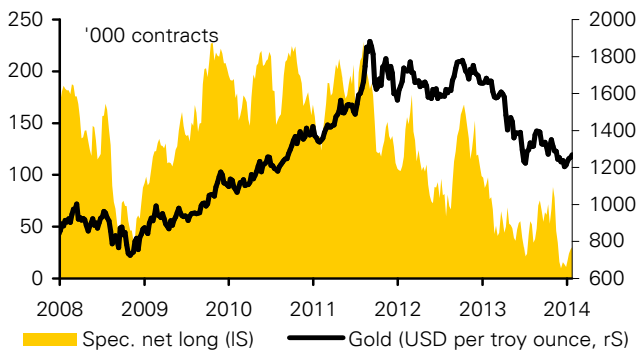
Source: World Gold Council, Commerzbank Corporates & Markets

TABLE 6: Upcoming Events

1 February	USA	Janet Yellen starts term as Fed Chairman
3 February	USA	Vehicle sales, January
6 February	EUR	ECB meeting and press conference
ca. 15 February	INT	World Gold Council publishes Gold Demand Trends for Q4 and 2013
18 February	EUR	EU new car registrations, January
19 February	USA	Minutes of 28/29 January FOMC meeting
18/19 March	USA	FOMC meeting and press conference

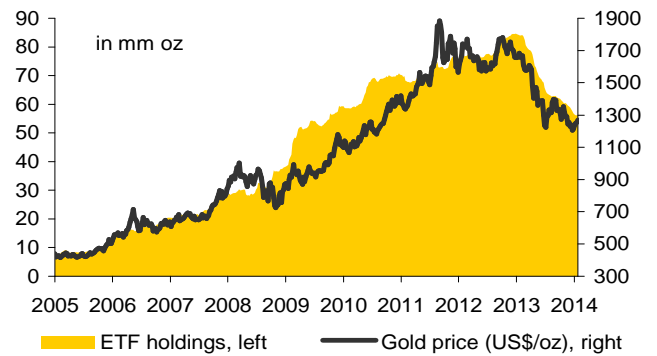
Source: Fed, ECB, Bloomberg, Commerzbank Corporates & Markets

CHART 4: Net long positions of money managers (Gold)



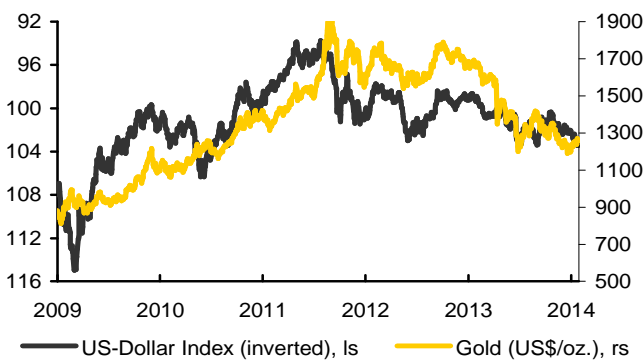
Source: CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART 5: Gold: ETF holdings



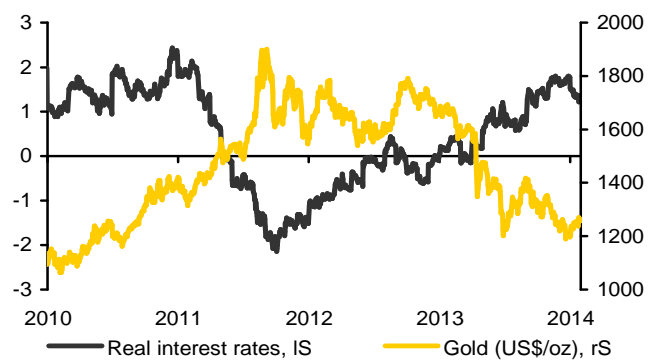
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 6: Gold versus US dollar



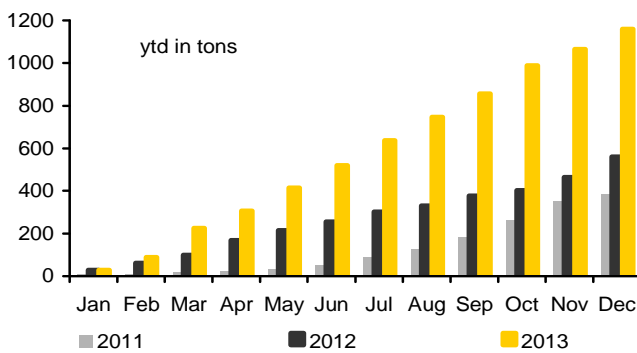
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 7: US real interest rates versus gold



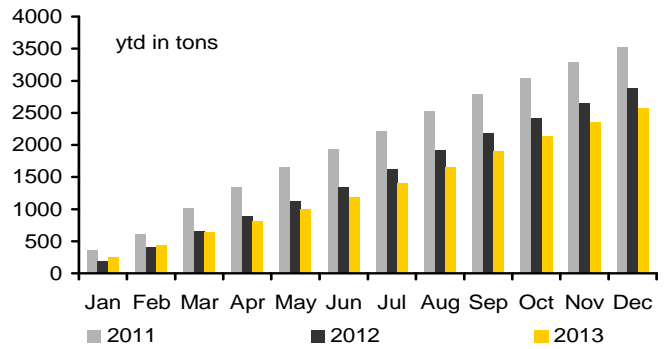
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 8: Chinese net gold imports via Hong Kong



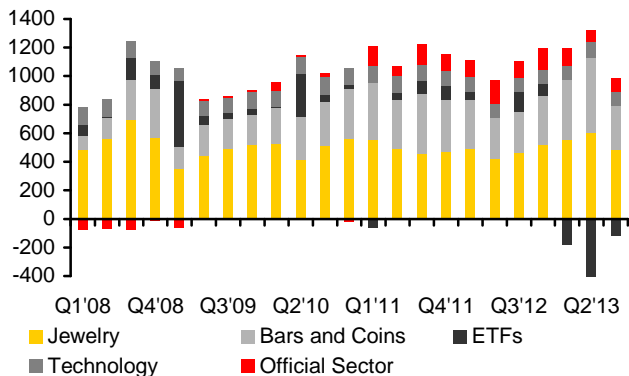
Source: Statistics Department of HK, Bloomberg, Commerzbank Corp. & Markets

CHART 9: Chinese silver imports



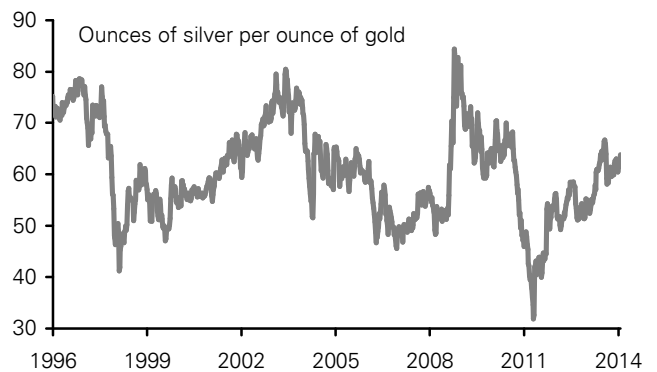
Source: Chinese Customs Authority, Commerzbank Corporates & Markets

CHART 10: Gold demand per quarter in tons



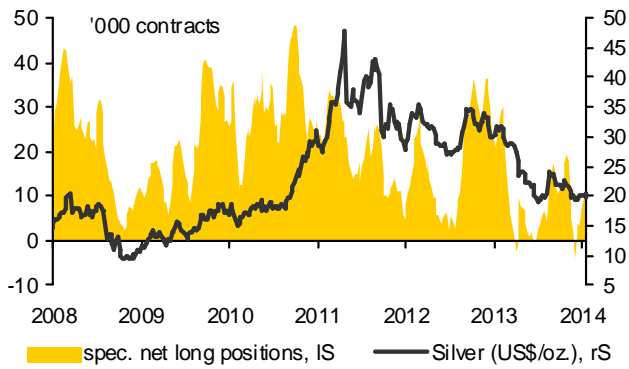
Source: WGC, Commerzbank Corporates & Markets

CHART 11: Gold/Silver ratio



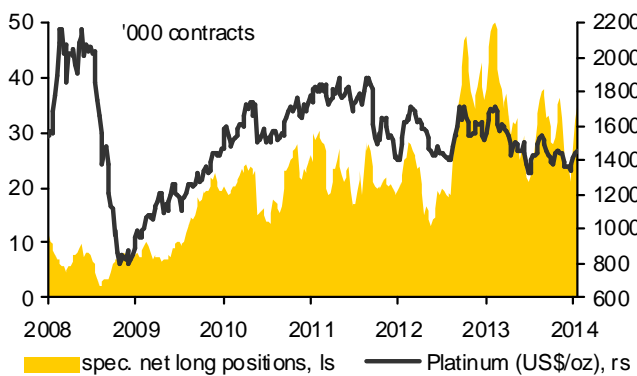
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 12: Net long positions of money managers (Silver)



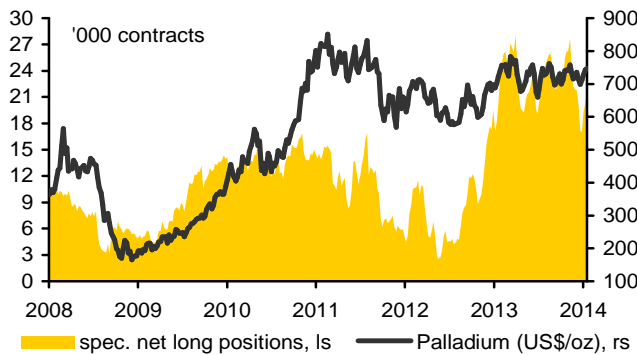
Source: CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART 14: Net long posit. of non-commercials (Platinum)



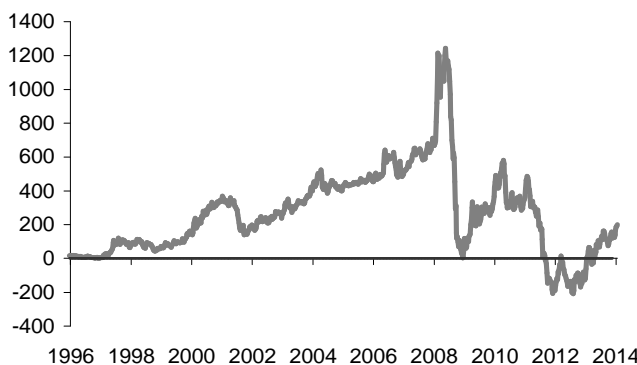
Source: CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART 16: Net long posit. of non-commercials (Palladium)



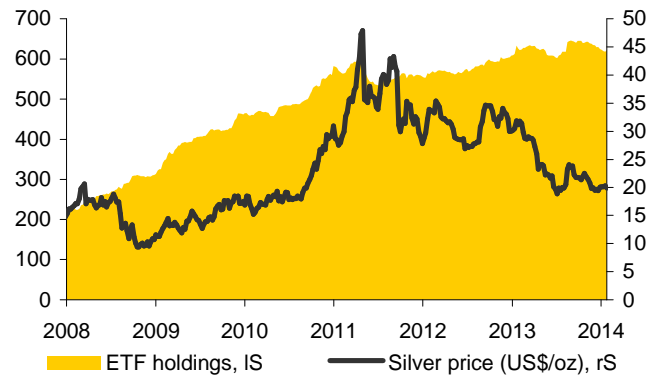
Source: CFTC, Bloomberg, Commerzbank Corporates & Markets

CHART 18: Price difference platinum vs gold (US\$/oz)



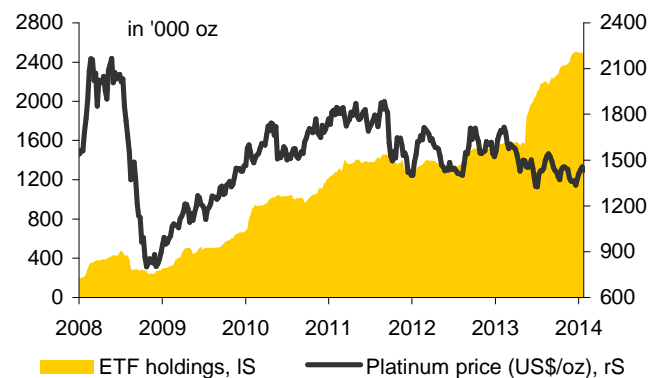
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 13: Silver: ETF holdings



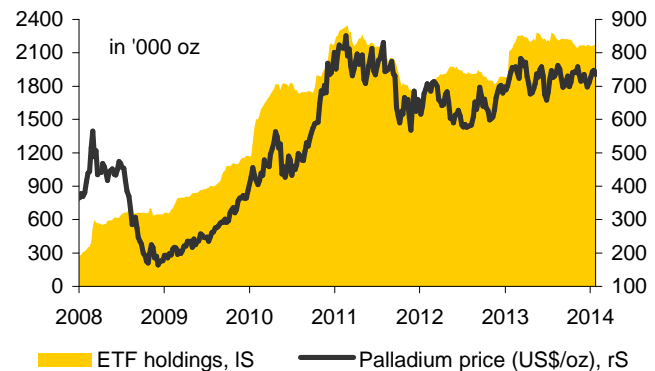
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 15: Platinum: ETF holdings



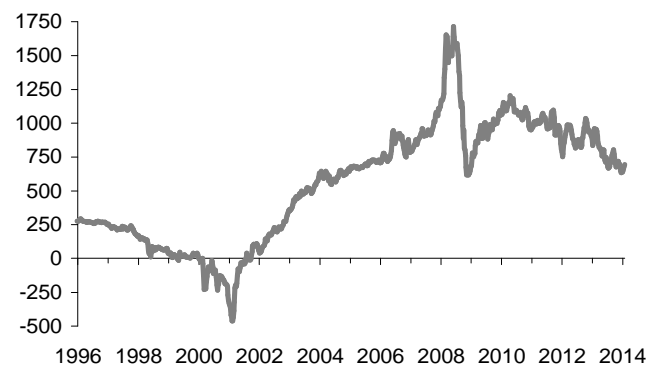
Source: Bloomberg, Commerzbank Corporates & Markets

CHART 17: Palladium: ETF holdings



Source: Bloomberg, Commerzbank Corporates & Markets

CHART 19: Price difference platinum vs palladium (US\$/oz)



Source: Bloomberg, Commerzbank Corporates & Markets

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