Issue 135
26th January 2016

METALS FOCUS

Precious Metals Weekly

Gold
Approached 3-month high on hopes of fewer Fed hikes and ongoing global equity rout.

Silver
Took its cue from gold, leaving the gold:silver ratio largely trading within 77-78:1.

Platinum
Jumped by 8% since the fall to fresh multi-year lows of $810 on 21st.

Palladium
Held up relatively well, despite growing bearish sentiment towards the global economy.

Recent equity markets' rout unlikely to have a lasting effect on gold

The weakness that global stock markets, particularly in China, have suffered in recent weeks has lent gold much support. Market uncertainty coupled with concerns of a global economic slowdown, have pushed the gold price up by 6% to over $1,120 at the time of writing. Related to these issues, a dramatic change in US interest rate expectations has also helped the metal.

Metals Focus' medium-term outlook remains constructive. We have long held the view that as investors become confident that US policy normalisation will be slow, investors will gradually regain an interest in gold. However we believe that it would be premature to suggest the turning point in market has come, based on recent events, for three reasons. First, the equity markets' rout has not materially changed investor interest in gold. Second, we believe that the recent change in US interest expectations will likely reverse in the near future. Finally, we are not convinced that even if a notable global economic slow-down were to develop, this would in fact be positive for gold in the medium term.

Starting with professional investor interest, although admittedly out of date, there is little evidence in the CFTC data on CME gold futures positions to suggest there has been much of a renaissance in buying from professional investors. The more recent data on market open interest also fails to

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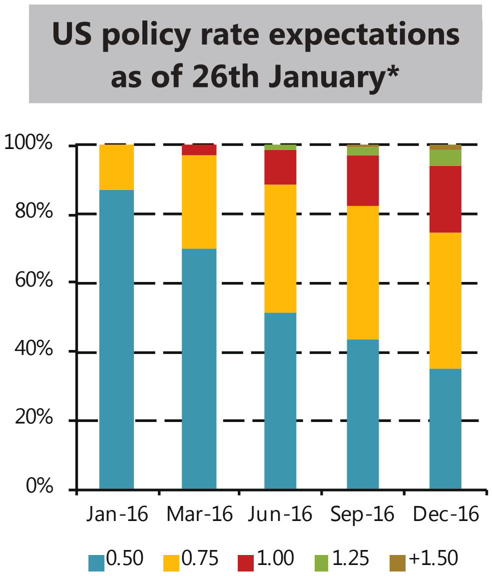
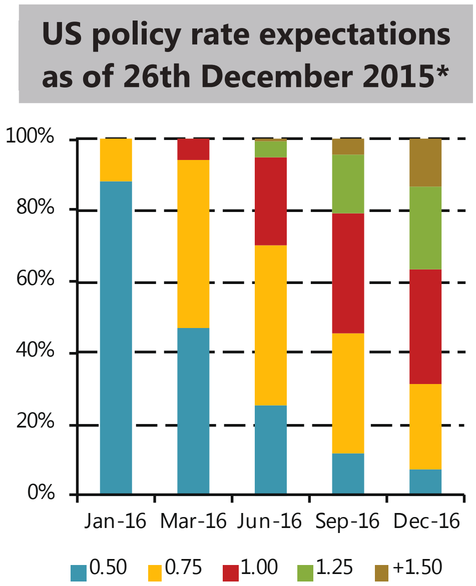


*Based on CME Group 30-Day Fed Fund future prices
Source: CME Group



*Based on CME Group 30-Day Fed Fund future prices
Source: CME Group

suggest there has been much of an inflow. Meanwhile, even though short-covering has been significant (and indeed a key driver of the price recovery), overall short positions remain historically high and indeed a factor higher than they were during the gold bull market.

Moving to the retail end of the market, while we get the sense that demand overall is healthy, there are few signs of a rush to gold in reaction to recent market tremors. Chinese investors have borne the brunt of weak equities. Nevertheless, the feedback we receive from the market suggests the direct effect of this on gold demand has been limited. Concerns about the scope for further devaluation of the renminbi are a far stronger driver of local demand. A similar lack of large scale reaction to equity price weakness has been noted in other major markets, such as India and the United States.

We are also sceptical towards the scope for the recent change in US rate expectations developing into a trend. Indeed, we think it is likely that this move will reverse in the not too distant future. Once weather conditions in the North-Eastern US improve, if local equity markets stage a recovery or if some more positive economic prints emerge out of the country, we believe the consensus could well move back to where it stood towards the end of 2016.

We finally believe that if a notable global economic slow-down were to materialise, for instance as a result of a “hard landing” in China, this could actually put pressure on the gold price. Such weakness would probably affect Asian and European markets more than the US. A flight of capital to US dollar-denominated assets, most probably treasuries, would likely ensue. This would probably see the dollar strengthen even further. Coupled with the persistence of exceptionally low inflation and inflationary expectations, this would not bode well for gold.

The yellow metal’s fundamentals would also suffer under a slow-down. Capital flight out of Emerging Markets would eventually weigh on local incomes in the largest consuming markets. A possible revival of distress selling, both of investment holdings and jewellery, could add further pressure.

The key exception to all this would be the development of a Lehman-type global financial crisis. Under such conditions, gold’s safe haven attributes should boost investor interest dramatically, catalysing a new bull market. However we believe that such an outcome is highly unlikely, even if global economic conditions were to worsen considerably and equity markets suffer a wide-spread correction.

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ABC Refinery has been appointed to The London Bullion Market Association's (LBMA) Good Delivery list for gold.

ABC Refinery's appointment to this exclusive list is a testament to its ability to refine and produce gold products to LBMA level, universally regarded as the highest international standard.

The appointment makes ABC Refinery the only independent LBMA accredited gold refinery in Australia and reaffirms the position of the ABC Bullion brand as a cornerstone of the Australasian physical gold trading system.

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Market Developments

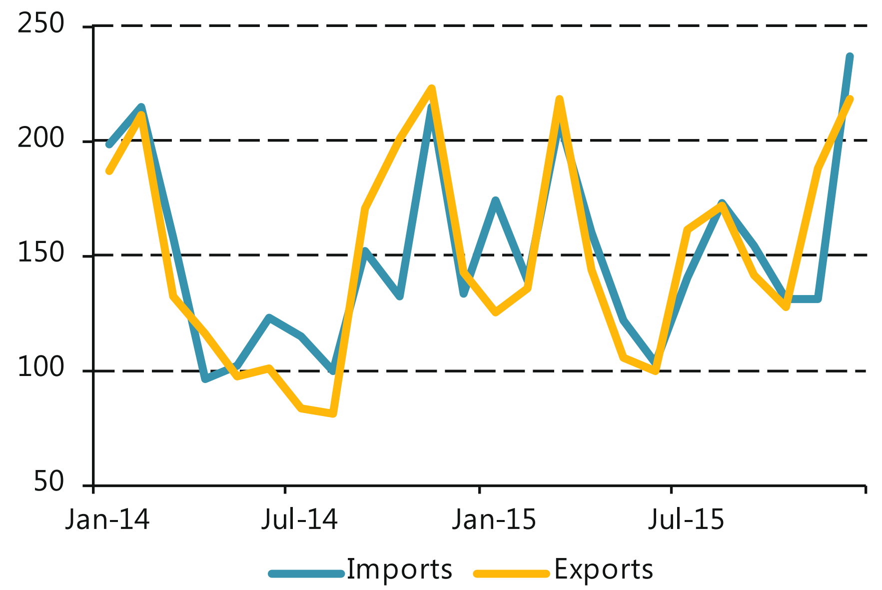
Swiss gold imports and exports recovered in late 2015

The latest trade Swiss data points to an improving picture for gold demand in late 2015, as exports from the country rose 16% m-o-m to a 13-month high of 218t in December. For the full year, total shipments amounted to 1,836t, up by 5% y-o-y, leaving the country comfortably the global refining and trading hub for the gold industry.

On a regional breakdown, the increase in December is almost entirely down to China, where combined shipments to Hong Kong and mainland China nearly doubled to 130t. That said, it is worth stressing that this increase is largely related to seasonal factors, as jewellers started to replenish stocks ahead of the Chinese New Year. Excluding China, Swiss exports in fact fell by 25% last month. In part, this reflects a slowdown in deliveries to India following a surge in November, although the absolute level remained still healthy. Meanwhile, as discussed in the previous Weekly, lacklustre demand in the Middle East also partly explains the decline. By contrast, shipments to a number of Southeast Asian countries grew in late 2015, as the price dip prompt some bargain hunting.

Turning to Swiss imports, total volumes (in fine weight terms) rose 7% to exceed 1,870t last year. The United Kingdom, for the third year in a row, was the largest supplier of bullion last year, accounting for 35% of shipments to Switzerland. Another country worth mentioning is Turkey (the second largest supplier in 2015), where a surge in local scrap and a hefty fall in demand saw the country switch to a net gold exporter. This has been highlighted by a 135% increase in Turkish gold exports to Switzerland in 2015, beating its previous all-time high recorded in 2009.

Swiss Gold Imports & Exports*, tonnes

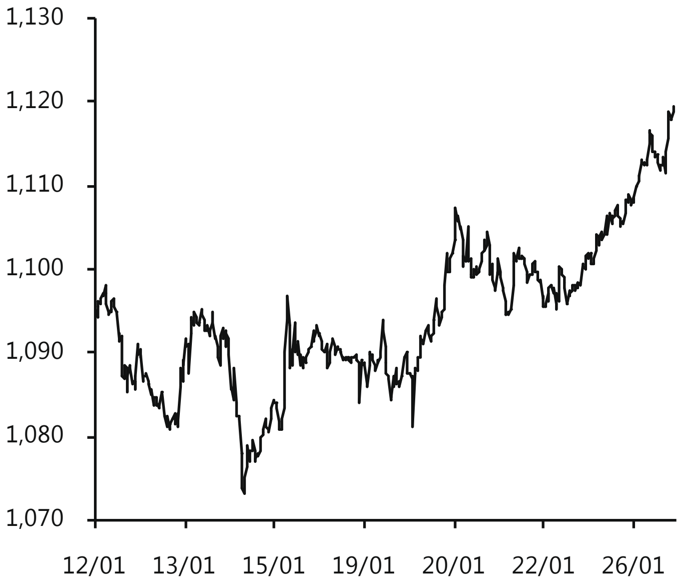


Source: Swiss Customs, Metals Focus. * Calculated quantities

METALS FOCUS

Charts - Precious metal prices

Gold - $/oz



Source: Bloomberg

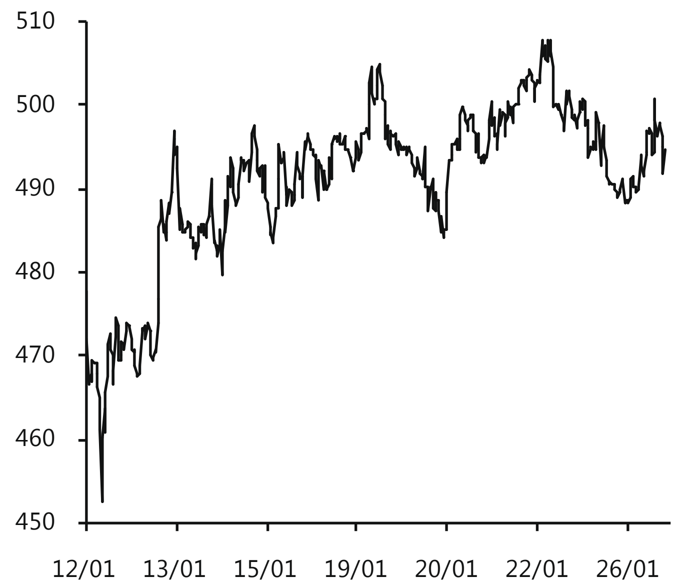
Silver - $/oz

Source: Bloomberg

Platinum - $/oz

Source: Bloomberg

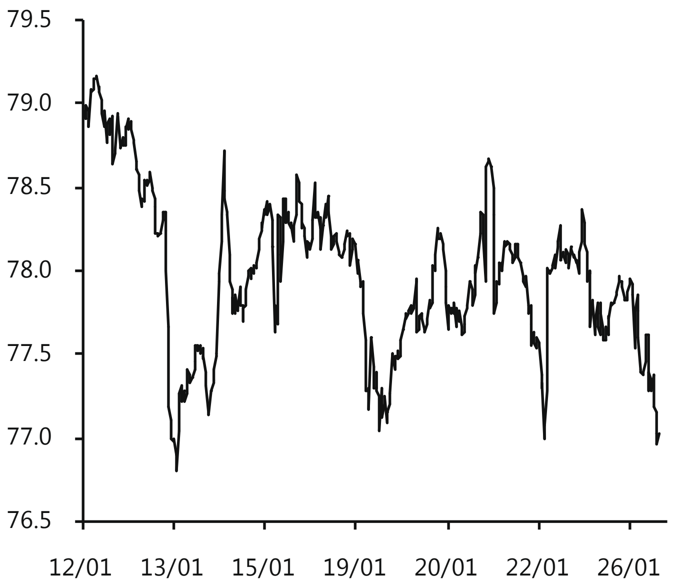
Palladium - $/oz



Source: Bloomberg

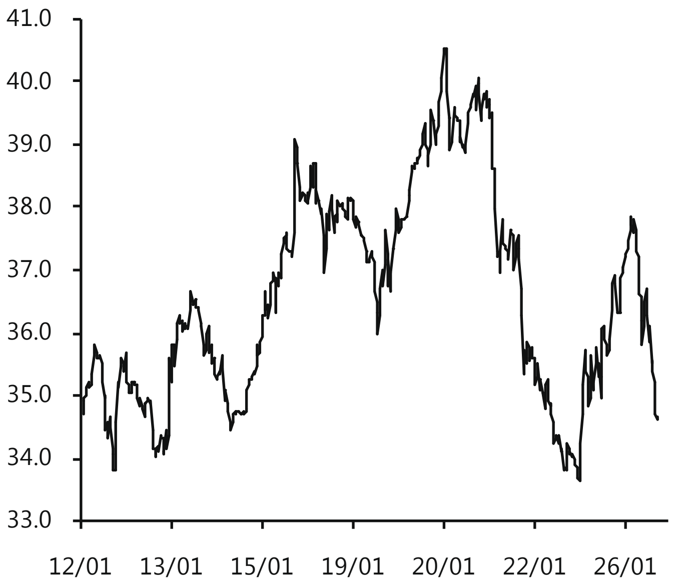
Charts - Ratios & spreads

Gold:silver ratio



Source: Bloomberg

Gold:oil (Brent) ratio

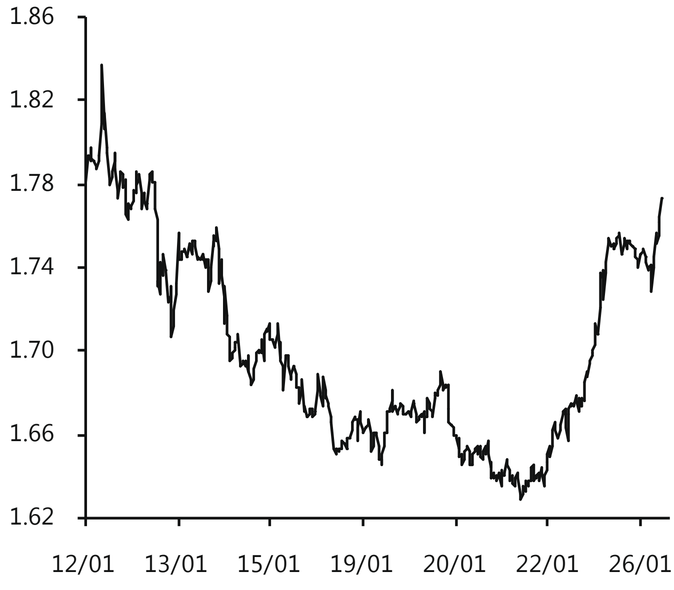


Source: Bloomberg

Platinum:gold discount (US$/oz)

Source: Bloomberg

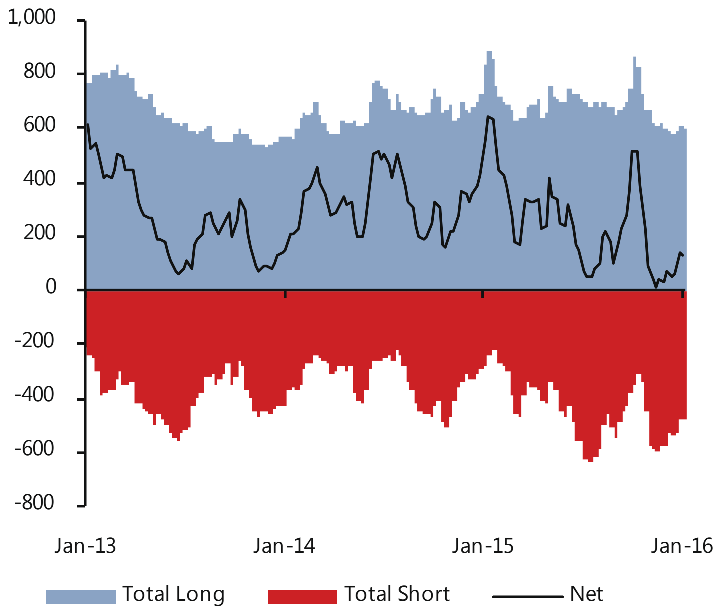
Platinum:palladium ratio



Source: Bloomberg

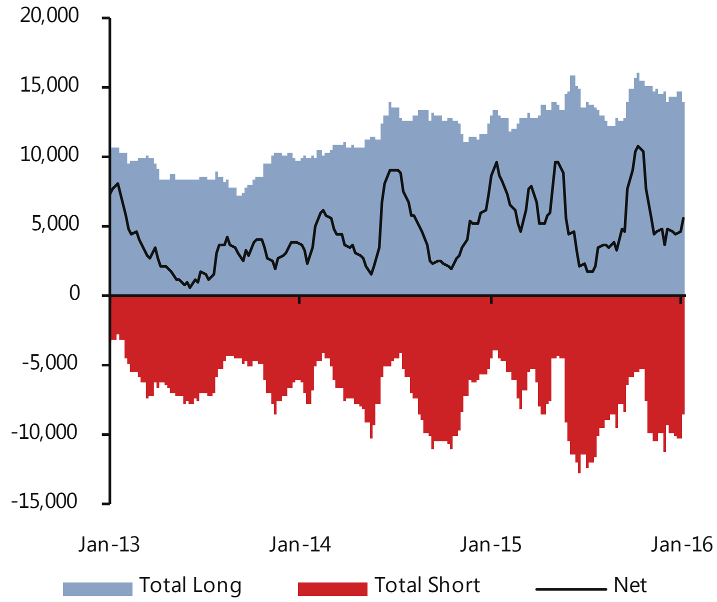
Charts - Futures positions

Gold - tonnes



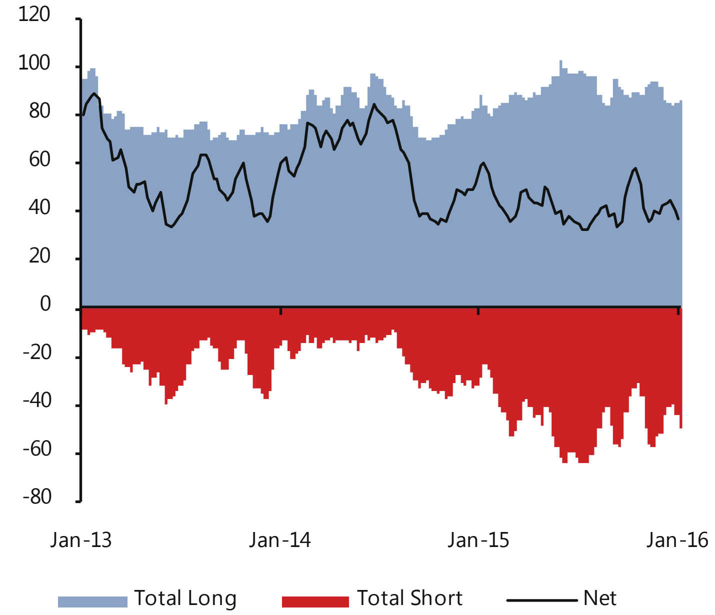
Source: CFTC

Silver - tonnes



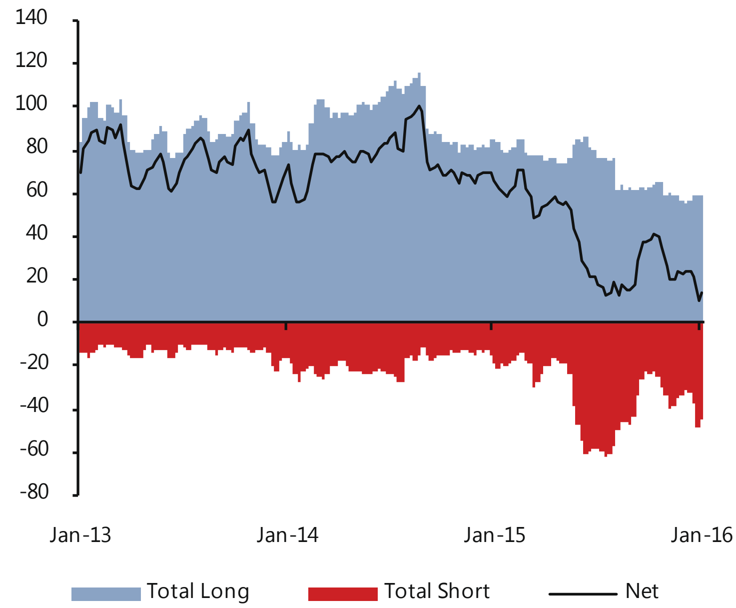
Source: CFTC

Platinum - tonnes



Source: CFTC

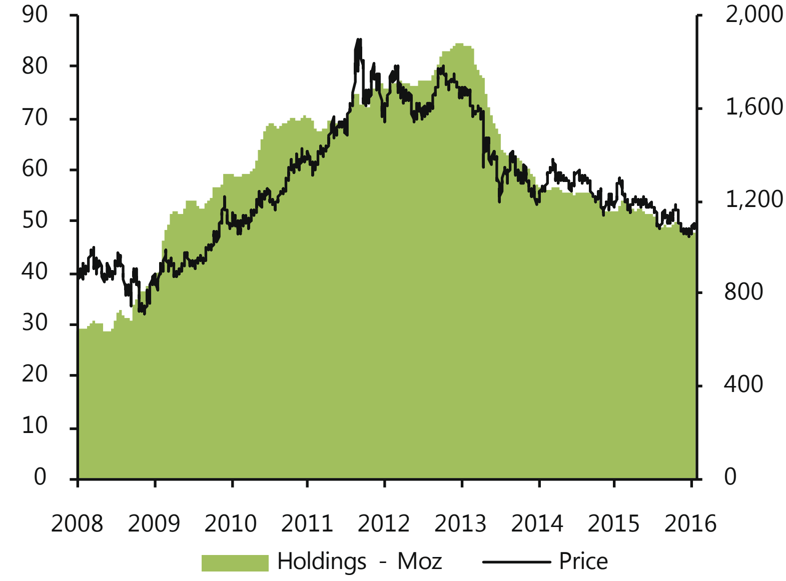
Palladium - tonnes



Source: CFTC

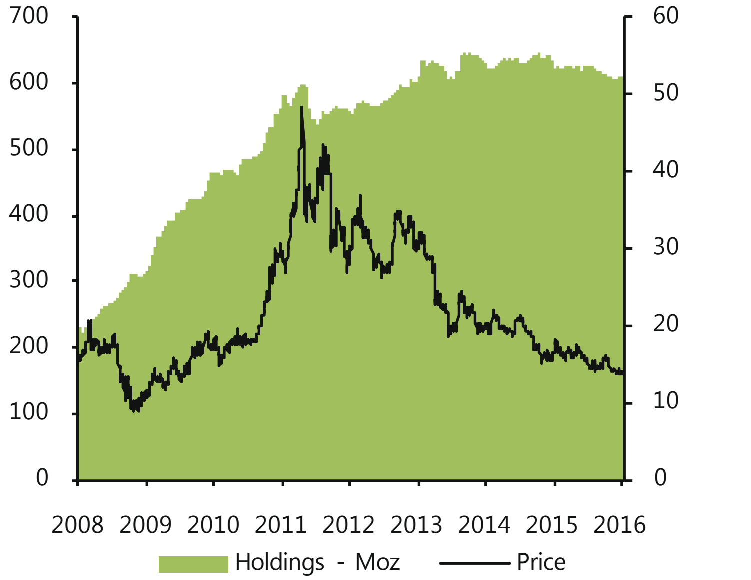
Charts - ETF holdings

Gold



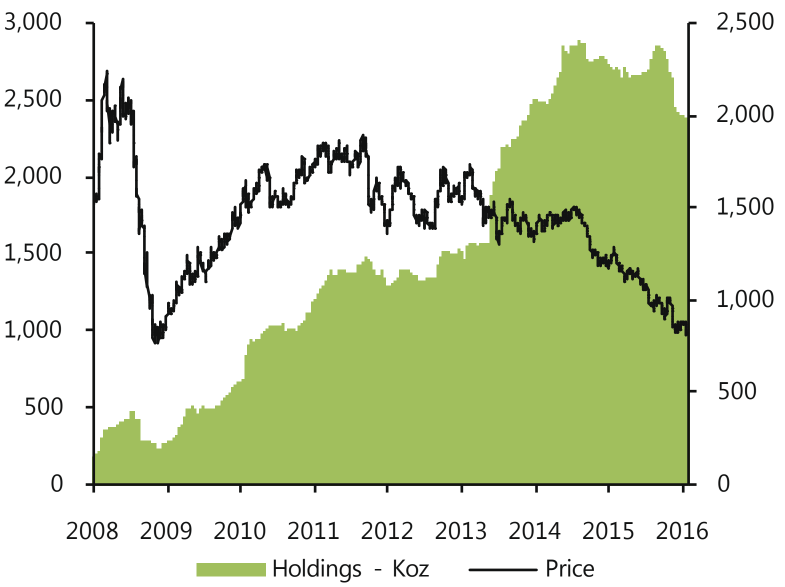
Source: Bloomberg

Silver



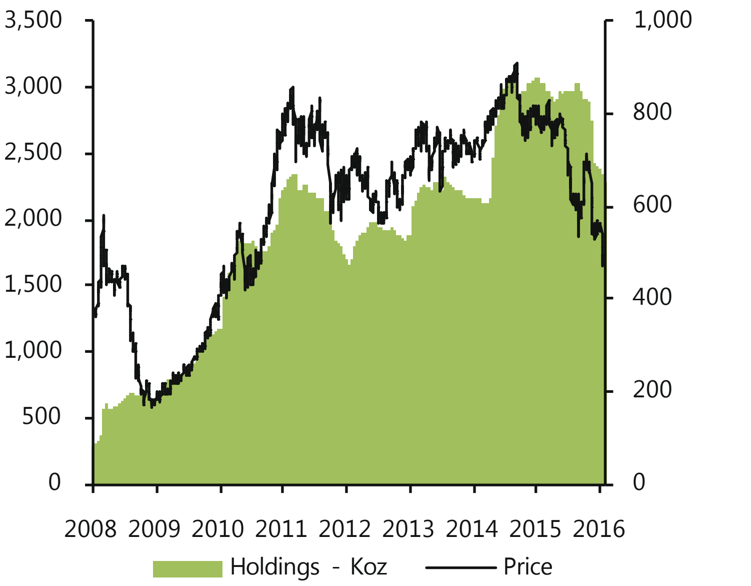
Source: Bloomberg

Platinum



Source: Bloomberg

Palladium



Source: Bloomberg

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