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Metal Matters May 2018

Precious metals prices are all under pressure on the back of a stronger dollar, firmer US treasury yields and a general low level of investor engagement across markets.

- The dollar index has broken out of the base it has been in this year. It is too early to say whether the rally will last, but while it does; it is a negative factor for Gold prices.

- North Korea's efforts to appease South Korea have on the surface reduced geopolitical tensions, but we question whether the North Korea / US summit will be as successful.

- The geopolitical situation in the Middle East is once again on a knife-edge over whether the US will stand by the Iranian Nuclear deal. Any breakdown in the deal could see tensions rise quickly.

- Gold prices are generally holding up well, but lack of upside progress may mean they need to test to see where support lies.

Silver prices rebounded on short covering, but they have since broken lower, which does not bode well unless it was just an overshoot ahead of the FOMC meeting.

- The funds have turned net positive again, but industrial demand is quiet as consumers see economic growth slowing.

PGM prices are trending lower as bullish sentiment has disappeared for now; we would avoid getting too bearish though.

- Palladium prices spiked higher on fears that US sanctions could disrupt Palladium supply from Russia. These fears could return.

Rising US yields have led to some risk-off and underperformance in markets

Gold prices remained rangebound in April, trading within the band that prices had held so far this year. On 11th April, prices reached a high of $1,365.25/oz, which was close to the January high of $1,366.15/oz, but they have since slipped and breached lower end of the range in early May, setting a fresh low for the year at $1,301.90/oz on 1st May. Higher US treasury yields, a corresponding stronger dollar and some early signs of progress in reining in North Korea's nuclear ambitions all seem to be reducing appetite for Gold.

Usual weakness ahead of FOMC meeting

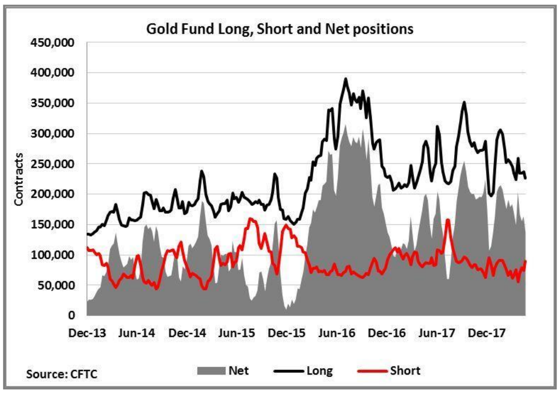
While there are plausible arguments, outlined above, as to why Gold prices have weakened in recent weeks, it cannot be ignored that Gold prices have a habit of coming under pressure ahead of Federal Open Market Committee (FOMC) meetings and therefore this weakness may have happened ahead of the FOMC meeting on 2nd May. No rise in the Federal funds rate was expected in May, but the market may have been concerned in case the FOMC statement was hawkish.

US Treasury 10-year yields reach 3%

Although US GDP growth has shown some signs of slowing in the first quarter, the overall state of the economy looks sound and key inflation gauges are increasing. CPI rose to a one-year high of 2.4 percent, while the core-PCE price index reached 1.9 percent, the latter being the Fed's preferred measure of inflation. With inflation readings either side of the Fed's 2 percent target and rising, the market seems to be anticipating a hawkish statement from the FOMC. Indeed, the run up in the US 10-year yield to three percent on 24th April reflects concerns about inflation. However, the fact that equity and commodity markets' performance and global growth data have cooled off in recent months, combined with upbeat US treasury yields and uncertainty over the fall-out from sanctions, means we expect the Fed will be careful not to spook the markets and therefore it will not increase its hawkishness.

Pluses and minuses in geopolitics

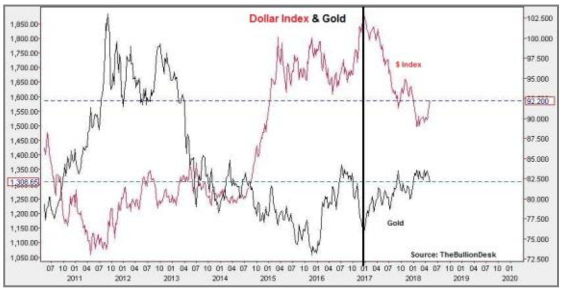
In 2017, the rise in tension between North Korea and the rest of the world led to a pick-up in safe-haven demand for Gold. While this seems to have eased over the past nine months or so as the aggressive rhetoric died down, the latest developments following the meetings between North and South Korea may well have led to further reductions in safe-haven demand. On the other hand, tensions have climbed between the US and Iran over whether the US will stop being a signatory to the Iranian Nuclear Deal. If the US walks away from the deal and re-imposes sanctions, that is likely to escalate the situation in the Middle East. Fears of this happening have already lifted oil prices, with Brent crude oil prices rising to $74/barrel, from either side of $68/barrel in the first quarter of the year. In addition, while the talks between North and South Korea may have offered hope, it is hard to imagine that Kim Jong-un would give up his nuclear arsenal having struggled so hard in recent years to build it up. As such, we can imagine North Korea's ideas on denuclearization may be somewhat different from President Donald Trump's ideas and therefore tensions may rise again.



Funds - less bullish and more bearish

The funds' Net Long Fund Position

(NLFP) is falling again, having spiked higher in late March. The run-up seemed to have been driven by the increased tension over trade wars, but now the combination of a stronger dollar, higher treasury yields and state of uncertainty over US trade and sanctions has led to broad base risk reduction across markets. Lack of fresh highs in Gold prices since late January appears to be leading to long liquidation, with the gross long position falling to 225,804 contracts from 287,318 contracts in January, while the gross short position has picked up in April to 89,158 contracts from 55,678 contracts in late March.

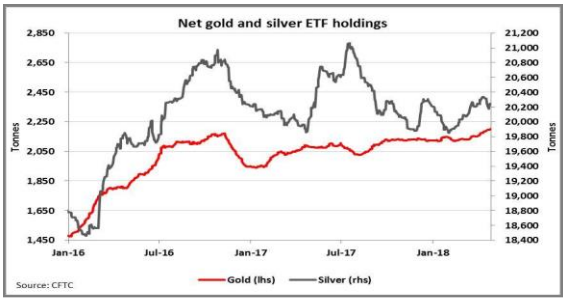


Dollar rebounding again

The increased confidence of the shorts seems to tie in with the stronger dollar and higher US treasury yields. The dollar index started its latest rally on 17th April, cleared the early March high at 90.94 on 23rd April and has since rallied to 92.24. Judging by the chart below, which shows a strong inverse correlation between the dollar and Gold prices (especially to the right of the vertical line on the chart), the rebound in the dollar may well push Gold prices lower. Key will be whether this is a counter trend move within the dominant downward trend in the dollar, or the start of an upward trend in the dollar.

ETF investors remain committed

While the funds trading Comex are less bullish, investors trading ETFs have been adding to their Gold positions. As of 30th April, ETF holding stood at 2,200 tonnes, which was up 50 tonnes on the month and up 77 tonnes so far this year. As the chart below shows, investor interest in Gold is climbing at a steady pace.



Technical – This daily chart of Gold prices shows the resistance line ($1,365/oz) continues to cap the upside and with prices unable to break higher, they are now testing the downside again. The upper of the three uptrend lines has been breached, which puts the bottom of this year's sideways range around $1,302/oz as the main support level, followed by the middle uptrend line around $1,280/oz. The potential large 'W'-shaped base formation is still in place, but for now the focus is whether prices can hold up in the sideways range that has dominated this year.

Summary – There are potential bullish and bearish developments that could unfold in the short term, but for now the stronger dollar, higher US treasury yields and the early-May FOMC meeting have been weighing on sentiment and as such prices are back at the bottom of the recent range. Looking at the chart since the start of 2016, Gold prices are generally holding up in high ground, so we would not get too bearish. We continue to expect dips to remain well supported.

Gold Statistics	2014	2015	2016	2017	Q4 2017	Q1 2018	Mar-18	Apr-18
London Prices (US$/oz)								
AM fix	1266.34	1162.49	1248.16	1257.85	1276.51	1330.72	1325.56	1334.38
Pm fix	1266.20	1161.30	1248.34	1257.13	1274.35	1329.29	1324.66	1334.74
Average	1266.27	1161.89	1248.25	1257.49	1275.43	1330.00	1325.11	1334.56
Parity prices								
Australian - A$/oz	1,403	1,544	1678.88	1645.14	1,659	1,638	1,709	1,737
South Africa Rand/kg	440,562	474,410	589,051	537,559	558,876	510,684	504,168	518,473
Japan Y/g	4,146	4,355	4,203	4,370	4,463	4,464	4,354	4,450
India Rupee/oz	77,077	74,310	83,721	81,767	82,499	85,492	86,079	87,487
COMEX - futures contracts								
Stocks ('000oz)	8,203	7,422	8,962	8,860	8,970	9,151	9,062	9,050
Vol (million contracts)	40.52	41.76	51.84	72.80	20.47	14.11	8.04	6.65
OI ('000 contracts)	380	418	550.71	479.85	511	518	500	508
CFTC (futures only data)								
Net Spec position Long (Short)	98,265	88,022	201,250	163,493	166,887	198,919	203,354	136,646
TOCOM								
Stocks ('000oz)	146	127	120	73	60	57	57	63
Volume ('000 contracts)	8,744	7,928	8,540	5,750	1,524	1,544	695	630
OI ('000 contracts)	88	94	88	87	98	101	105	88
Other Indicators								
FT Au Mines Index	1,409	1,061	1,579	1,521	1,472	1470	1,424	1,435
Dow Jones Index	16,837	17,524	18,062	21,990	24,113	25,094	24,103	24,137
US$ Index	83.0	96.7	97.1	96.0	93.3	89.9	90.0	91.8
Gold Bullion Imports, tonnes (exports)								
Dubai	136	118	~					
China	1297	1610	1,281					
India	776	949	582					
Italy	103	~	~					
Japan	-80	-107	~					
Singapore	284	~	~					
South Korea	24	~	~					
Taiwan	22	30	28					
Turkey	102	49	106					

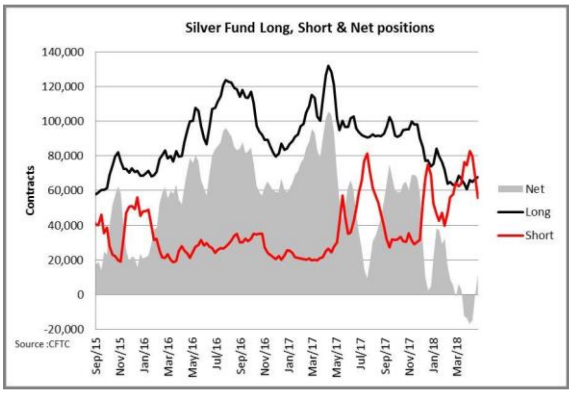
Data: Financial Times; Bombay Bullion Association; LBMA; TOCOM; COMEX; CFTC, REUTERS
Figures are period averages unless marked by *, indicating the period end. OI= Open Interest on the exchange
~ = data not available yet, *italics* = estimates

Silver prices spiked higher on short-covering, but have since broken lower

We said in the April Metal Matters report that Silver prices were set to become volatile as the gross short position was climbing at a fast pace, and that this would either lead to a break lower, or a short-covering rally. As it turned out, a short-covering rally was seen first, before prices fell back to test and break support. Having ended March at $16.37/oz, prices scrambled up to $17.355/oz on 19th April, before slumping to $16.053 in early May. The spike higher coincided with some fairly aggressive fund short-covering.

Funds revert to being net long again

The net fund position turned net short on 27th February, which was the first time it had done so since March 2003. By early April, the Net Short Fund Position (NSFP) had reached 16,657 contracts; over the last three weeks of April the net fund position climbed 29,932 contracts taking it back to being net long 11,967 contracts. Most of the shift came from short-covering, with the gross short position falling to 55,835 contracts from a peak of 82,934 on 4th April. Ironically, with prices now having broken support to set fresh lows for the year, the shorts that covered are probably kicking themselves for having changed their stance. Like Gold, with the dollar and US treasury yields on the rise bullion prices may have further to fall. That said, this latest drop in Silver prices has continued to see fresh fund buying, albeit in low volume, but the black line on the charts shows the buying is coming in again after a drawn-out period of long liquidation.



Investors took profits into rally

ETF investors added to positions in the first half of April, but then the spike higher in prices attracted profit-taking. As the chart in the Gold section shows, holdings ended April roughly where they started the month. That said, sentiment amongst ETF investors since early February has generally been bullish, with holdings at 20,240 tonnes at the end of April, compared with around 19,850 tonnes in February.

Technical – Silver prices are once again under pressure; prices have broken the uptrend line and have breached the bottom of the recent trading range, which ran down to $16.12/oz – the intraday low so far being $16.035/oz. A close below $16.12/oz would target the December low at $15.623/oz. With the stochastics looking weak, further price weakness cannot be ruled out, but the bottom of the rectangle on the chart has done a good job of providing support on at least five previous occasions, so we need to see if the 1st May breach leads to follow-through weakness.

Summary – Interest in industrial metals has waned in recent months as economic data has suggested a slowdown in global growth and with the dollar strengthening and US treasury yields on the rise, the precious metals are facing headwinds too. Silver prices are therefore suffering on two counts – being an industrial metal and a precious metal. With the large fund short position now reduced, but still fairly high, while the gross long position is low but climbing, there is potential for further fund buying to provide support, but the missing ingredient seems to be a bullish catalyst.

Silver Statistics	2014	2015	2016	2017	Q4 2017	Q1 2018	Mar-18	Apr-18
London Prices (US$/oz)								
Daily Fix	19.08	15.71	17.10	17.05	16.70	16.77	16.47	16.61
Parity (London) prices								
Japan (Y/g)	70.31	58.92	57.46	59.27	58.44	56.29	54.12	55.38
India (Rupee/oz)	1,312.5	1,004.7	1,147.5	1,109.5	1,080.4	1,078	1,069.9	1,088.8
COMEX – futures contracts								
Stocks (Moz)*	178.9	171.6	162.1	210.8	237.4	253.8	262.7	263.6
Vol (million contracts)	13.7	13.5	17.0	23.0	5.8	4.0	1.8	2.6
OI (‘000 contracts)*	155.8	169.6	188.8	191.6	169.9	191.8	229.1	194.6
CFTC (Futures Only Data) non-commercial								
Net Positions *	19,307	31,269	69,366	56,301	33,731	4,639	- 13,657	11,967
TOCOM								
Stocks (Moz)*	0.2	0.16	0.16	0.18	0.11	0.14	0.14	0.13
Futures Vol (‘000 contracts)	86.1	62.6	61.1	20.6	4.5	4.1	1.8	2.1
Futures OI (‘000 contracts)*	4.5	3.1	3.3	1.8	1.6	1.9	2.2	1.8
Other Indicators								
Gold/Silver ratio*	67.6	74.4	73.0	74.3	76.8	79.5	81.3	79.5
Silver Bullion Imports (tonnes)								
USA	3835	5464	5956					
Japan	1688	1560	1833					
India	5819	7954	2793					
Italy	796	843	675					
Hong Kong	948	839	659					
China (exports)	1369	2054	-137					

* figures are period averages unless marked; ~ not available yet, *italics* = estimate.

PGM prices have weakened, sanction scares lifted Palladium, but not for long

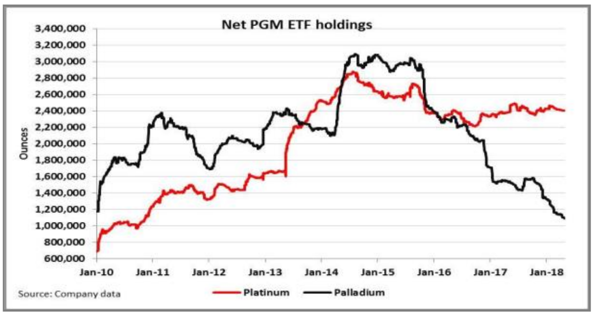
Platinum prices have once again given back most of the gains achieved since mid-December and late-January with prices falling back to $890/oz in early May from $1,029.50/oz in January. Palladium prices have had a volatile April – having slumped to $905/oz in early April from a high of $1,140/oz in January, prices rebounded to $1,058/oz, before dropping back to $942/oz in early May. The April rally was driven by concerns that Palladium exports from Russia would ended up being hit by the sanctions the US threatened to impose on aluminium and steel exports. As the US temporarily eased its stance on sanctions and did not apply them to Palladium producer Norilsk, Palladium prices have corrected lower again. The sanction situation remains uncertain, so prices are likely to remain volatile until trade agreements are reached.

PGM prices suffering on two counts

With the PGMs being considered both a precious and industrial metal, prices are suffering a double whammy. Demand for industrial metals is suffering as consumers no longer feel the need to chase prices higher now that there are signs that global growth has slowed. At the same time, precious metals prices are under pressure as the dollar is strengthening on the back of higher US treasury yields. With metals prices generally not in favour and with the market concerned that 2018 is turning out to be a year of consolidation, after such strength in 2016 and 2017, it does look as though consumers and investors feel in no hurry to be aggressive buyers - i.e. there is no need to chase prices higher. In addition, potential PGM investors may be thinking that the battery material metals, such as lithium and cobalt, offer a more exciting opportunity as eventually the EV evolution will reduce auto industry demand for PGMs. This may be the case long term, but is unlikely to have a significant impact anytime soon.

Fund interest mixed

The fund longs trading Nymex are united in that that they are reducing exposure to both Platinum and Palladium, with the gross long positions falling to 46,015 contracts and 14,212 contracts respectively at the end of April from an average of 54,689 contracts and 20,855 contracts respectively so far this year. However, the fund shorts are reducing exposure in Palladium, suggesting they are not overly bearish on the metal, while in Platinum the shorts are increasing exposure. Interestingly, ETF investors seem to be more bullish for Platinum than they do for Palladium – this probably reflects continued profit-taking in Palladium, while low Platinum prices are seen as a bargain.



Technical & Summary - Both PGM prices are trending lower; Platinum prices remain in their 2017-2018 range, while Palladium's downward trend was interrupted by the sanctions supply scare, but the path of least resistance seem to be to the downside. While we would expect Platinum prices to run into support around $865/oz, Palladium prices may have further to fall; the 38.2% Fibonacci level is $877/oz and the lower uptrend line is at $866/oz.

PGM Statistics	2014	2015	2016	2017	Q4 2017	Q1 2018	Mar-18	Apr-18
London Prices (US$/oz)								
Platinum	1,390	1,060	976	949	921	978	955	925
Palladium	809	692	611	869	992	1,035	987	970
Rhodium	1,180	953	694	1,101	1,477	1,826	1,925	2,074
Japanese Parity Prices (Y/g)								
Platinum	4,519	3,965	3,278	3,298	3,221	3,283	3,138	3,083
Palladium	2,636	2,587	2,050	3,020	3,472	3,478	3,243	3,234
South African Parity Prices (Rand/kg)								
Platinum	466,074	417,839	444,891	391,696	389,038	362,060	350,336	346,337
NYMEX Stocks ('000oz)								
Platinum	195.8	138.8	205.1	215.0	194.6	183.4	185.3	185.5
Palladium	347.4	134.0	71.1	50.2	49.6	41.8	41.6	41.3
CFTC Futures Only Data Long / (short) non-commercial								
Platinum	35,840	24,585	31,817	24,302	21,430	37,569	28,039	17,832
Palladium	22,276	12,080	8,765	20,660	23,565	18,564	12,047	10,961
Tocom - Platinum								
Stocks ('000oz)	46.6	53.8	57.1	47.1	54.2	56.3	56.3	53.5
Vol (Million contracts)	4.6	3.9	2.9	2.5	0.6	0.5	0.3	0.2
OI ('000 contracts)	72.6	69.7	52.7	56.8	55.0	50.6	60.0	62.9
Tocom - Palladium								
Stocks ('000oz)	3.2	5.4	11.1	3.6	1.0	0.9	0.9	0.87
Vol ('000 contracts)	77	63	30	32	9.3	7.6	2.9	4.8
OI ('000 contracts)	2.0	1.8	1.1	1.4	1.4	1.4	1.4	0.9
Other Indicators (US$/oz)								
Pt-Au spread	115	-100	-253	-320	-355	-374	-412	-408
Pt-Pd spread	568	245	369	59	-77	-16	-2	-73
Platinum Bullion imports (kg)	2014	2015	2016	2017		2018		
USA	141,413	238,740	201,412	431,277		17,928	(Jan-Feb)	
Japan	32,684	47,283	44,786	42,986		9,201	(Jan-Mar)	
PalladiumBullion imports (kg)	2014	2015	2016	2017				
USA	92,400	82,500	88,800	86,000		15,370	(Jan-Feb)	
Japan	58,429	57,223	58,860	59,492		14,183	(Jan-Mar)	

~ = data not available yet, *italics* = estimates

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