



Gold continues not to attract safe-haven interest, even though parts of the global financial system are stressed. International investors see the US as the go-to destination for safe investments.

- Lingering uncertainty as to the fallout from US trade disputes continues to undermine business and investor confidence.
- The rise in distress in emerging markets may prompt the US Fed to hold back from further interest rate rises...
- ... any such move could see a swift rebound in confidence, as too could a resolution to the trade disputes.
- Large fund short positions in Gold, Silver and Platinum raise the risk of short-covering rallies.

Silver prices are falling at a faster pace than Gold prices – the Gold/Silver ratio has fallen to 1:84, its lowest since 2008.

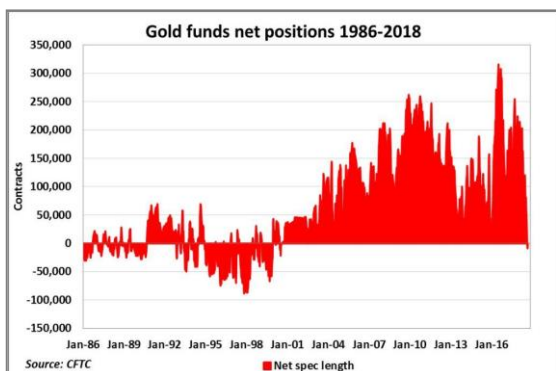
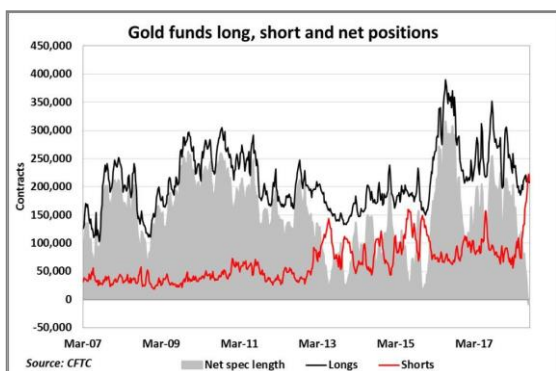
- The fund gross short position stands at 103,138 contracts, the average over the past 32 years being 15,260 contracts.

Platinum prices fall to levels not seen since 2003, as its demand profile suffers on most counts. Palladium's fundamentals are strong; as such, prices recover after the mid-August correction.

- With Platinum and Palladium mined as co-products, weak Platinum prices could lead to even tighter Palladium fundamentals.
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Gold prices give back 65 percent of the 2015-2016 gains, but support evident below \$1,200/oz

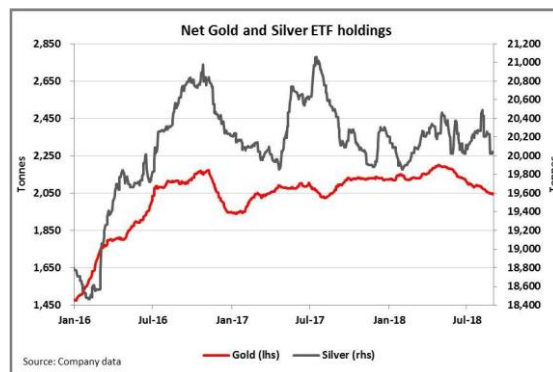
Gold prices extended lower in August to set a low at \$1,160.30/oz per oz. Up until recently, the downtrend had been relentless since April’s high at \$1,365.25/oz failed to overcome the January high at \$1,366.15/oz, which formed a double top. Interest in Gold in most areas of demand has been weak, even investment interest – this despite numerous escalations in the geopolitical arena, including US trade disputes, some jittery emerging markets and the prospects of deeper US sanctions against Iran, all of which could trigger financial crises.



Fund activity drives the price action

The geopolitical situation probably should warrant a pick-up in interest in Gold, but there has been a massive amount of selling from the funds trading Comex. Short positions climbed to a high of 222,210 contracts on 21st August from a recent low of 72,512 contracts in mid-June, while the gross long position has fallen to 207,370 contracts from 220,620 contracts in late-July and a peak of 305,812 contracts in January.

The net fund position ended August short 3,063 contracts, having been net short 8,710 contracts on 21st August; this is down from a net long position of 214,684 contracts in January. From the peak net long position to the 8,710-contract net short position, an equivalent 695 tonnes of Gold has been sold. Since the mid-August low, prices have rallied back above \$1,200/oz; this has started to see some short covering, with 11,777 shorts covered between 22nd August and 28th August. The last time the fund position in Gold was net short was in 2000, right in the early months of the 1999- 2011 bull market – see second chart above. The largest net short position we have on record (going back to 1986) was 88,363 contracts seen in 1998. At 210,433 contracts, the gross short position is extremely extended - over the past 32 years it has averaged 47,800 contracts.



ETF investors still reducing exposure

Despite the wave of bearishness affecting the funds trading Gold, ETF investors are only seeing a gradual reduction in holdings. The ETFs we follow saw holdings fall 43 tonnes to 2,045 tonnes in August. Peak holdings this year were 2,200 tonnes.

Potential win-win situation for Gold

The rising US interest rate environment and US President Donald Trump’s ‘America First’ policy are both factors behind the strength of the dollar. US equity markets are benefitting from the

strong US economy too, all of which continues to keep the opportunity cost of holding Gold high. As the US economy shines, many others do not. Country-specific crises, whether political or financial, and whether triggered by higher US interest rates, poor governance or the threat of sanctions and trade tariffs, seem to be on the increase. The countries currently in focus are Turkey, Argentina, Iran, South Africa, Russia, Brazil and even Italy, but while these countries' issues may have started in isolation, they are now being seen as more connected, which raises the risk of contagion and an emerging market crisis. This could be a win-win situation for Gold. As the emerging market barometer rises then safe-haven interest in Gold may return, especially given that Gold is now much cheaper than it has been for a long time. Alternatively, if the leading central banks of the world start fearing an emerging market crisis they may slow down their monetary policy tightening. Ironically, even Trump sees the rising US interest rate policy and stronger dollar as undermining America's competitive advantage. So, either the US Fed, or Trump, may tweak policy to halt the rise in the dollar, which in turn could be a bullish development for Gold.



Gold's fundamentals remain weak

Total Gold demand in the second quarter dropped four percent to 964 tonnes, compared with the same quarter last year, according to the World Gold Council. Consumer demand fell one percent (767 tonnes), investment demand dropped nine percent (281 tonnes), jewellery demand fell two percent (510 tonnes) and demand from technology was up three percent (83 tonnes),

while total supply climbed three percent to 1,120 tonnes. In the first half of the year, demand of around 1,960 tonnes was the lowest it has been since 2009.



Technical – Gold prices are rebounding after a five month down trend. The lower dotted horizontal line is the 61.8 percent Fibonacci retracement line of the 2015-2016 rally, which although breached intraday, seems to be providing support on a closing basis. Prices have also got back above the 20-day moving average. The weakness in recent months has no doubt damaged the chart; it would take a move back above the downtrend line at \$1,241/oz to suggest the sell-off has run its course.

Summary – The high opportunity cost of holding Gold has no doubt weakened investors' appetite to hold the metal. But, there is a big difference from not holding Gold to being of short it. The rapid shift in the funds' position from being net long to net short and the record level of the gross short position suggests the market is vulnerable to a short-covering rally. The Fed's current hawkish stance favours a strong dollar, but the pain higher US interest rates are likely to cause emerging markets, especially if they also start to suffer a drop off in trade, may well mean the Fed becomes more dovish for the sake of the global economy. Any weakening in the dollar could then trigger short covering by the funds and that could lead to an aggressive rebound in prices.

Gold Statistics	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Q1 2018</u>	<u>Q2 2018</u>	<u>Jul-18</u>	<u>Aug-18</u>
London Prices (US\$/oz)								
AM fix	1266.34	1162.49	1248.16	1257.85	1330.72	1306.71	1238.06	1201.86
Pm fix	1266.20	1161.30	1248.34	1257.13	1329.29	1306.41	1238.53	1201.25
Average	1266.27	1161.89	1248.25	1257.49	1330.00	1306.56	1238.30	1201.56
Parity prices								
Australian - A\$/oz	1,403	1,544	1678.88	1645.14	1,637.59	1726.48	1,672	1,640
South Africa Rand/kg	440,562	474,410	589,051	537,559	510,684	529,884	532,283	543,706
Japan Y/g	4,146	4,355	4,203	4,370	4,464	4,418	4,276	4,135
India Rupee/oz	77,077	74,310	83,721	81,767	85,492	87,374	84,847	83,400
COMEX - futures contracts								
Stocks ('000oz)	8,203	7,422	8,962	8,860	9,151	8,877	8,646	8,423
Vol (million contracts)	40.52	41.76	51.84	72.80	14.11	21.07	7.23	6.27
OI ('000 contracts)	380	418	550.71	479.85	518	503	459	470
CFTC (futures only data)								
Net Spec position Long (Short)	98,265	88,022	201,250	163,493	198,919	101,425	48,597	- 3,063
TOCOM								
Stocks ('000oz)	146	127	120	73	57	66	92	94
Volume ('000 contracts)	8,744	7,928	8,540	5,750	1,544	1,929	594	766
OI ('000 contracts)	88	94	88	87	101	99	113	93
Other Indicators								
FT Au Mines Index	1,409	1,061	1,579	1,521	1,470	1,441	1,335	1,178
Dow Jones Index	16,837	17,524	18,062	21,990	25,094	24,309	25,417	25,965
US\$ Index	83.0	96.7	97.1	96.0	89.9	93.4	95.1	95.6
Gold Bullion Imports, tonnes (exports)								
Dubai	136	118	920	946				
China	1297	1610	1,316	1,091				
India	776	949	511	880				
Italy	103	~	~	~				
Japan	-80	-107	~	~				
Singapore	284	~	~	~				
South Korea	24	~	~	~				
Taiwan	22	30	28	~				
Turkey	102	49	106	360				

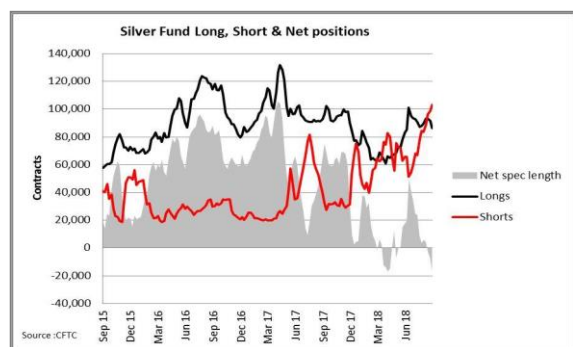
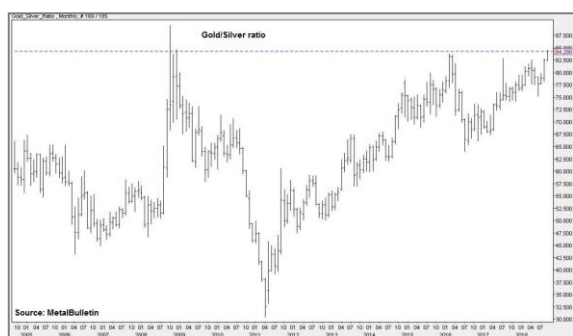
Data: Financial Times; Bombay Bullion Association; LBMA; TOCOM; COMEX; CFTC, REUTERS

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 fail to hold support, Gold/Silver ratio rises to 1:84

Silver prices have been under relentless downward pressure since June, with the break below \$16/oz seeing the price fall accelerate. In mid-August, prices broke below the July 2017 spike low at \$14.69/oz, but then consolidated in the second half of August. Prices have since fallen to a fresh low at \$14.11/oz. This is the lowest prices have been since February 2016, which was close to the start of the December 2015 – July 2016 bull run. The low in the 2011-2015 down trend was \$13.64/oz. As such, Silver prices are looking extremely weak. The Gold/Silver ratio at 1:84 has breached the 2016 high 1:83.79, see chart below.



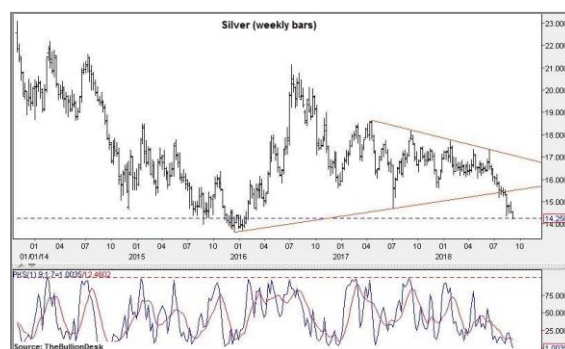
Funds increasingly bearish

The funds trading Comex have a net short position of 16,598 contracts, this after a recent net long peak position of 49,730 contracts on 6th June. As the rising red line on the chart above shows, the change in the net position has been heavily driven by fresh short selling. The gross short position stands at 103,138 contracts, up from 51,403 contracts in June. This is the largest gross short position we have on record. Over the past 32 years of our data, the gross short

position has averaged 15,260 contracts. Given the price weakness, the gross long position remains relatively high.

ETF investors reduce exposure

Investors in Silver ETFs continue to reduce exposure but are not rushing to make redemptions. Holdings stood at 20,239 tonnes at the end of August - so far this year holdings have ranged between 19,851 in February and 20,488 tonnes in August, see ETF chart in Gold section.



Technical – Silver prices have given back 96 percent of the 2015-2016 rally gains, with prices now just 3.5 percent above the 2015 low. Having traded sideways for most of 2017 and the first half of 2018, prices have since been stuck in a downward trend. A breach of the 2015 low would look ominous. That said, the market is looking oversold and the Gold/Silver ratio is near an extreme level.

Summary – Commodities are suffering as the US trade disputes have raised uncertainty about whether global growth will be brought to a halt. Funds have turned bearish and seem to be betting that global growth will be derailed, but industry insiders generally expect growth to press on ahead despite the headwind the trade disputes are causing. Although the downtrend dominates in Silver, the approach of the 2015 lows, combined with the extreme short fund position, means the market is vulnerable to a short-covering rally. Any progress on trade talks or nervousness by shorts could prompt the rebound.

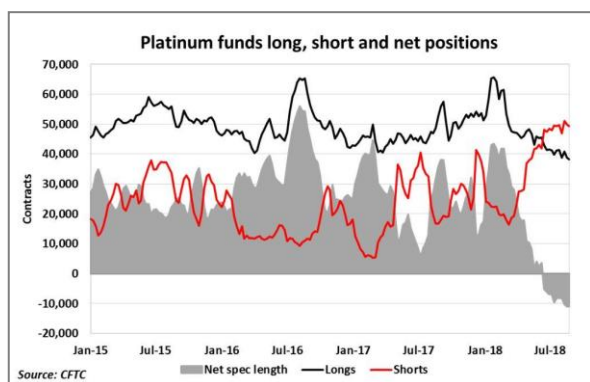
Silver Statistics								
	2014	2015	2016	2017	Q1 2018	Q2 2018	Jul-18	Aug-18
London Prices (US\$/oz)								
Daily Fix	19.08	15.71	17.10	17.05	16.77	16.53	15.71	15.01
Parity (London) prices								
Japan (Y/g)	70.31	58.92	57.46	59.27	56.29	56.61	56.27	53.55
India (Rupee/oz)	1,312.5	1,004.7	1,147.5	1,109.5	1,077.6	1,105.8	1,076.4	1,041.5
COMEX – futures contracts								
Stocks (Moz)*	178.9	171.6	162.1	210.8	253.8	270.3	283.6	293.8
Vol (million contracts)	13.7	13.5	17.0	23.0	4.0	6.8	1.6	2.4
OI ('000 contracts)*	155.8	169.6	188.8	191.6	191.8	198.3	227.0	212.6
CFTC (Futures Only Data) non-commercial								
Net Positions *	19,307	31,269	69,366	56,301	4,639	20,471	3,538	- 16,598
TOCOM								
Stocks (Moz)*	0.2	0.16	0.16	0.18	0.14	0.14	0.13	0.13
Futures Vol ('000 contracts)	86.1	62.6	61.1	20.6	4.1	5.5	1.4	1.7
Futures OI ('000 contracts)*	4.5	3.1	3.3	1.8	1.9	1.5	1.5	1.5
Other Indicators								
Gold/Silver ratio*	67.6	74.4	73.0	74.3	79.5	78.9	78.6	84.5
Silver Bullion Imports (tonnes)								
USA	3835	5464	5956	5039				
Japan	1688	1560	1553	1833				
India	5819	7954	2793	5500				
Italy	796	843	540	605				
Hong Kong	948	839	659	1424				
China (exports)	1369	2054	-137	800				
* figures are period averages unless marked; ~ not available yet, <i>italics</i> = estimate.								

Palladium’s stronger fundamentals provide support, while Platinum prices suffer even more than Silver prices

Palladium’s prices have sold off along with the rest of the precious and base metals since June, but it has managed to put in a convincing 18.4 percent rebound since the mid-August downward price spike. Platinum prices, however, have been under downward pressure since January, and set a low of \$755/oz on 16th August, which was the lowest prices had been since November 2003. While there have been rebound attempts along the way, these have failed to attract follow-through buying.

Platinum’s weakness anticipates a drop in diesel passenger vehicles

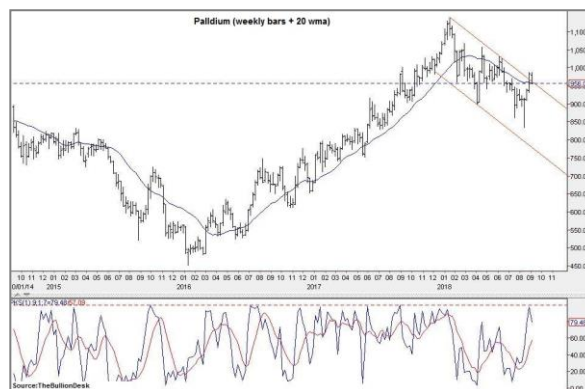
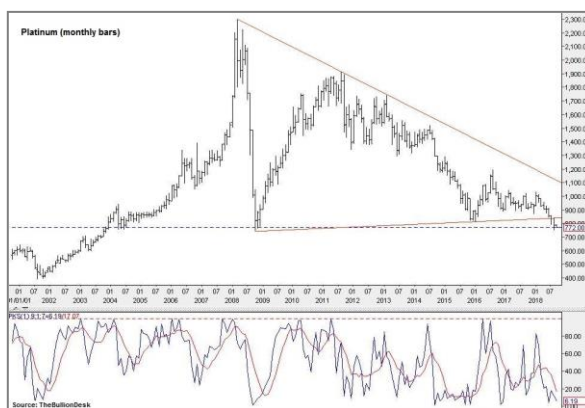
With Platinum prices falling to levels not seen for 15 years, it does suggest the market (especially investors) is anticipating a faster than expected reduction in diesel passenger vehicle sales. Already numerous diesel models have been dropped and this is likely to increase as automanufacturers switch their capital investment into electric vehicles. According to the European Automobile Manufacturers Association, ACEA, European Union diesel vehicle sales dropped 17% in the first quarter of the year, with petrol vehicles increasing their share by 14.6%, while EVs also gained market share.



Funds hold a large short Pt position

Ironically, considering the price divergence, ETF investors have only reduced their Platinum holdings by 2.3 percent this year, while their Palladium holdings have dropped 25.3 percent. The funds trading Nymex have increased their gross short exposure in

Platinum to 49,225 contracts from a low this year of 16,269 contracts, while the longs hold 38,249 contracts, which is down from a high this year of 65,589 contracts. The gross short position is running around 10,000 contracts above previous peaks seen in recent years. The situation in Palladium shows the net long fund position has dropped to 3,884 contracts from around 27,000 contracts at the start of the year. Like ETF investors, the longs have cut their exposure significantly, to 11,121 contracts from around 38,000 contracts at the start of the year.



Technical & Summary - Platinum prices are adjusting to the changing long term outlook for demand as diesel vehicles lose market share. Palladium prices have corrected along with the other metals and that is more to do with the drop in market sentiment caused by the effect of trade disputes on the global economy. The sell-off in Palladium prices has, however, attracted bargain hunting. If Platinum prices continue to fall, the economics of mining PGMs will worsen, which could tighten the fundamentals for Palladium even more.

PGM Statistics								
	2014	2015	2016	2017	Q1 2018	Q2 2018	Jul-18	Aug-18
London Prices (US\$/oz)								
Platinum	1,390	1,060	976	949	978	904	831	806
Palladium	809	692	611	869	1,035	978	931	917
Rhodium	1,180	953	694	1,101	1,826	2,154	2,296	2,358
Japanese Parity Prices (Y/g)								
Platinum	4,519	3,965	3,278	3,298	3,283	3,058	2,869	2,773.45
Palladium	2,636	2,587	2,050	3,020	3,478	3,307	3,215	3,156.02
South African Parity Prices (Rand/kg)								
Platinum	466,074	417,839	444,891	391,696	362,060	353,664	344,318	351,670
NYMEX Stocks ('000oz)								
Platinum	195.8	138.8	205.1	215.0	183.4	185.2	184.4	184.2
Palladium	347.4	134.0	71.1	50.2	41.8	40.9	40.5	40.5
CFTC Futures Only Data Long / (short) non-commercial								
Platinum	35,840	24,585	31,817	24,302	37,569	4,393	-8,116	-10,976
Palladium	22,276	12,080	8,765	20,660	18,564	10,089	3,267	3,884
Tocom - Platinum								
Stocks ('000oz)	46.6	53.8	57.1	47.1	56.3	56.2	53.9	45.2
Vol (Million contracts)	4.6	3.9	2.9	2.5	0.5	0.7	0.3	0.3
OI ('000 contracts)	72.6	69.7	52.7	56.8	50.6	61.7	59.2	45.2
Tocom - Palladium								
Stocks ('000oz)	3.2	5.4	11.1	3.6	0.9	1.0	0.8	0.8
Vol ('000 contracts)	77	63	30	32	7.6	10.0	2.0	2.9
OI ('000 contracts)	2.0	1.8	1.1	1.4	1.4	1.2	1.2	0.8
Other Indicators (US\$/oz)								
Pt-Au spread	115	-100	-253	-320	-374	-415	-380	-423
Pt-Pd spread	568	245	369	59	-16	-85	-80	-194
Platinum Bullion imports (kg)								
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>		<u>2018</u>		
USA	141,413	238,740	201,412	431,277		51,377	(Jan-Jun)	
Japan	32,684	47,283	44,786	42,986		25,484	(Jan-Jul)	
Palladium Bullion imports (kg)								
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>				
USA	92,400	82,500	88,800	86,000		44,130	(Jan-Jun)	
Japan	58,429	57,223	58,860	59,492		35,918	(Jan-Jul)	

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

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