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**Gold prices start to reflect increased concern over the growing risks in geopolitics and financial markets.**

- Gold prices woke up once US equities became jittery, this after largely ignoring the numerous potential crises ranging from emerging market deficits to sanctions and trade wars.
- Investors and funds turned bullish in October, with the net fund position on Comex switching to net long from net short ...
- ...ETF investors have started to buy Gold again too.
- More central banks have been adding Gold to their reserves - it seems they want reserves that are independent from the US.
- Despite President Trump's weaker position following the mid-term election, he still has executive power over trade, so tariffs are expected to remain in place, which is likely to be inflationary.

**Silver prices have rebounded as they follow Gold's lead, but with the Gold/Silver ratio at 1:84, Silver remains historically weak.**

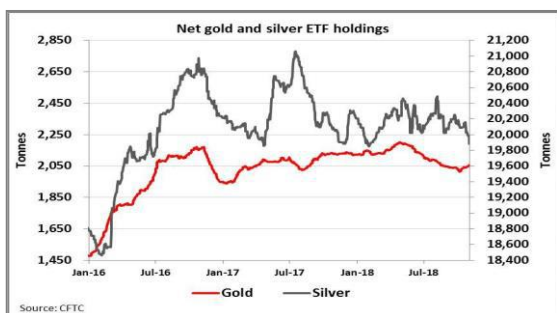
- The gross short fund position has fallen to 84,523 contracts, down from 112,035 contracts in September – but it is still large compared with the 32-year average of 15,502 contracts.

**Palladium prices push the envelope on the upside as fundamentals remain tight; we expect Platinum prices to work higher as the market anticipates substitution.**

- The 2000-2001 Palladium price spike led to substitution with Platinum gaining market share from Palladium – will history repeat itself?
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**Gold prices work higher as risks increase – this despite the stronger dollar**

Gold prices have rebounded 7.1 percent off the August low as sentiment towards Gold has turned more favourable as other markets have started to become more risk averse. The Dow Jones Industrial Average fell ten percent between 3<sup>rd</sup> October and 29<sup>th</sup> October from a record high of 26,951.81 and the Euro Stoxx 50 is off 10.9% from the May 2018 high. Economic data has generally been showing weakness, including some US data, and economic bellwethers such as the base metals have remained under pressure as the US trade disputes have dragged on. While economic data has generally deteriorated, some US data and policy is looking inflationary, with the University of Michigan inflation expectation rising to 2.9% in October. In addition, President Donald Trump’s stance on sanctions and tariffs is also inflationary. This combination, along with high oil prices, is bullish for Gold and investors and central bankers are showing more interest.

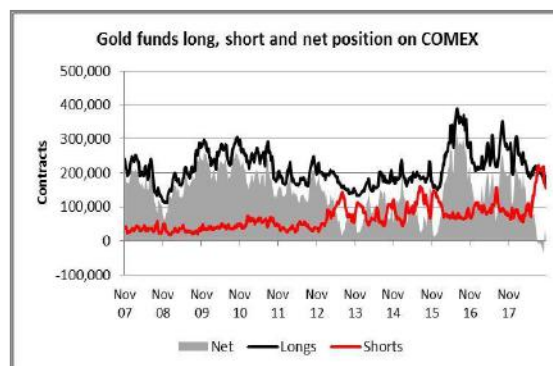


**Investor and central bank buying seen**  
 Gold bar and coin demand climbed 29% to 298 tonnes in the third quarter according to the World Gold Council (WGC) and central bank buying was up by 22% to 148 tonnes, the highest quarterly level of buying since 2015. While holdings in Exchange Traded Funds (ETFs) were down in the third quarter by 103 tonnes, according to WGC, they have since started to climb again. Jewellery demand was up 6% at 535.7 tonnes, with China and India both showing ten percent growth in the third quarter compared with the same period in 2017. Weaker Gold prices helped underpin retail interest, with

prices in India dropping to levels not seen since January. China’s jewellery demand has seen five quarters of growth, suggesting the trend is now up again after the ten quarters of falling growth between the first quarter 2015 and the second quarter 2017.

**ETF demand climbs in October**

Holdings in the ETFs we follow dropped to a low of 2,015 tonnes on 5<sup>th</sup> October; they have since rebounded to 2,055 tonnes. The bulk of the increase has been US based. With ETF holdings having fallen from 2,200 tonnes since late-April, we wait to see if the rebound presently underway means the investment tide has turned – the Chart opposite suggests it may have.



**Funds turn net long again**

The net fund position switched back to being net long in mid-October, having been net short in the preceding eight weeks. During the net short period, the peak net short position was 38,175 contracts; it has since returned to being net long 13,194 contracts. Delving into the data shows that the gross long position for the most part is declining, having fallen to 168,754 contracts from a high this year of 305,812 contracts in January. The gross short position has climbed from a low of 55,678 contracts at the end of March to a high of 222,210 contracts at the end of September but has since retreated to 155,560 contracts. Since the peak of the net short position, the gross long position has dropped 6 percent, while the gross short position

has dropped 29 percent, which suggests a good deal of the buying has been fueled by short-covering. In addition, if the investment tide has turned then the gross short position is still large at 155,560 contracts compared with an average in the first half of the year of 82,327 contracts. Conversely, the gross long position at 168,754 contracts is relatively low compared with an average so far this year of 221,420 contracts.

### More widespread central banks interest

Russia, Turkey and Kazakhstan have been the stalwarts of central bank buying in recent years, but this year India, Poland, Hungary, Iraq and Mongolia have also been buyers. Russia increased its holdings by 92.2 tonnes in the third quarter (its latest quarterly purchase on record), Kazakhstan bought 13.4 tonnes and Turkey bought 18.5 tonnes, buying as the Turkish lira dropped 25 percent in value as the country's economic and political woes unfolded. India bought 13.7 tonnes, taking year-to-date purchases to 21.8 tonnes, Poland bought 13.7 tonnes in the third quarter and in early October, Hungary announced it had increased its holdings to 31.5 tonnes, from 3.1 tonnes.

The increase in central bank activity is not only about a desire to diversify away from relying on US assets. US sanctions against Russia have led Russia to reduce holdings of US treasuries and with the proceeds it has increased its Gold holdings. But, as Russia is a large producer of Gold, by buying Gold from domestic producers it means the central bank can increase liquidity in the Russian economy by increasing money supply. It seems ironic that the Reserve Bank of India (RBI) has been buying Gold, when over the past two-to-three years it has been doing its utmost to dissuade its population from buying Gold. The RBI's action may be an attempt to hedge against the fall in the rupee, which has dropped 15 percent in value against the dollar this year.

### Split Congress but Trump controls trade

Despite the US republican politicians losing the majority in the House, Trump has executive power on trade decisions – this could keep inflationary pressures alive, which in turn could continue to underpin the dollar. That said, Gold prices and the dollar have generally both been strong in October, so further dollar strength may not be too strong a headwind for Gold from these still generally low price levels.



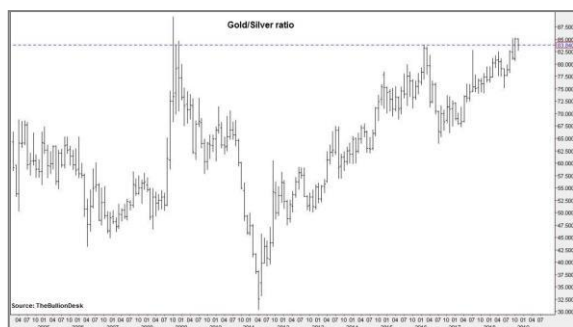
**Technical** – Gold prices have started to trend higher and have rebounded 7.2 percent from the low in August, with a series of higher lows seen in September and October. The 20-day moving average is trending higher and the series of highs seen between August and early-October have now been overcome. The stochastic indicators have rebounded, but at around the 60 level are not looking too strong yet, all of which suggests the rally has further to run.

**Summary** – Gold prices have at last started to reflect the increased risk of a downturn in the global economy and the impact this could have on financial markets. As such, there does seem to be room for more safe-haven demand for Gold as money rotates out of equity and bond markets, as bond yields may still have further to rise if inflation picks up. More protectionism from the US is likely to be inflationary and that in turn is expected to support Gold prices. We said in the October Metal Matters report, we may not be that far from a turning point in Gold prices – this may well now have happened.

<b>Gold Statistics</b>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Q2 2018</u>	<u>Q3 2018</u>	<u>Sep-18</u>	<u>Oct-18</u>
<b>London Prices (US\$/oz)</b>								
AM fix	1266.34	1162.49	1248.16	1257.85	1306.71	1213.04	1199.20	1214.73
Pm fix	1266.20	1161.30	1248.34	1257.13	1306.41	1212.75	1198.47	1215.39
Average	1266.27	1161.89	1248.25	1257.49	1306.56	1212.90	1198.84	1215.06
<b>Parity prices</b>								
Australian - A\$/oz	1,403	1,544	1678.88	1645.14	1,726.48	1659.29	1,666	1,724
South Africa Rand/kg	440,562	474,410	589,051	537,559	529,884	547,852	567,566	553,035
Japan Y/g	4,146	4,355	4,203	4,370	4,418	4,191	4,162	11,599
India Rupee/oz	77,077	74,310	83,721	81,767	87,374	84,844	86,284	89,282
<b>COMEX - futures contracts</b>								
Stocks ('000oz)	8,203	7,422	8,962	8,860	8,877	8,464.5	8,324	8,013
Vol (million contracts)	40.52	41.76	51.84	72.80	21.07	19.00	5.50	6.47
OI ('000 contracts)	380	418	550.71	479.85	503	461	455	495
<b>CFTC (futures only data)</b>								
Net Spec position Long (Short)	98,265	88,022	201,250	163,493	101,425	9,295	- 17,648	13,194
<b>TOCOM</b>								
Stocks ('000oz)	146	127	120	73	66	93	93	91
Volume ('000 contracts)	8,744	7,928	8,540	5,750	1,929	1923	563	759
OI ('000 contracts)	88	94	88	87	99	101	97	96
<b>Other Indicators</b>								
FT Au Mines Index	1,409	1,061	1,579	1,521	1,441	1,229	1,175	1,255
Dow Jones Index	16,837	17,524	18,062	21,990	24,309	25,973	26,537	25,980
US\$ Index	83.0	96.7	97.1	96.0	93.4	95.4	95.5	96.0
<b>Gold Bullion Imports, tonnes (exports)</b>								
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, <i>italics</i> = estimates								

**Silver follows Gold higher, but lacks independence as Au/Ag ratio is still high**

Silver prices rallied in September off the \$13.94/oz low in August, but they have spent October oscillating sideways. Unlike Gold prices that extended gains up until late-October, Silver prices have been capped at \$14.913 per oz, which were the highs on 2<sup>nd</sup> October and 2<sup>nd</sup> November. The Gold/Silver ratio also remains high at 1:84 and is only just below the multi-year high of 85.23 set in October - again this highlights a weak Silver market.



**Investors' interest in Silver wanes**

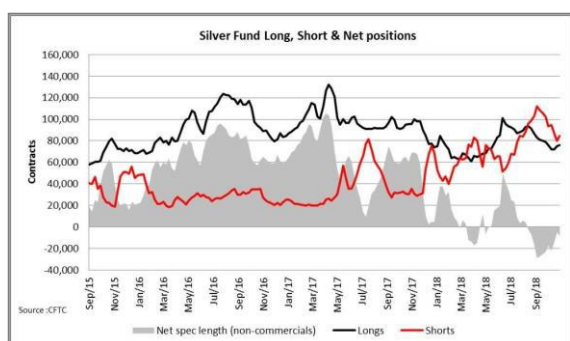
Investor holdings in Silver ETFs have dropped to 19,885 tonnes as of early November, down from 20,137 tonnes a month earlier and a peak in 2018 of 20,488 tonnes, seen in August. As the ETF chart in the Gold section shows, investors' interest



has waned in line with increased weakness in industrial metals, as seen by the weak base metals prices. Much of the blame for this lies with the US trade disputes that have zapped business and investor confidence. Once trade deals are agreed, investor interest is likely to return.

**Funds reduce exposure, but still net short**

The funds trading Comex Silver have been net short since mid-August. The net short position peaked at 28,974 contracts in early September, and since then both longs and shorts have reduced exposure. Shorts have cut their position to 84,523 contracts from a peak of 112,035 contracts, a drop of 24.6 percent, while the longs' position has fallen 8.4 percent to 76,053 contracts, from 83,061 contracts. As the chart below shows, the gross short position is still high by historic standards meaning there is risk of short covering, while the gross long position is close to the average for this year.



**Technical**

Silver's downward trend halted in September and prices are now consolidating above the lows. Their holding pattern could turn out to be an ascending triangle, which is a bullish pattern. A break up through the top of the pattern at \$14.92/oz would look constructive. Support seems evident at \$14.23/oz.

**Summary –** Investor interest in industrial metals is low as the global economy faces considerable uncertainty over trade. This has weighed on Silver prices. Although the metal has got some lift on the back of Gold, it seems half-hearted, as the Gold/Silver ratio remains low. Should Gold prices extend gains and investor interest return, then Silver would likely outperform Gold's rebound in percentage terms as it has a history of being more volatile than Gold. The large gross short position could also fuel any rally as shorts cover.

<b>Silver Statistics</b>								
	2014	2015	2016	2017	Q2 2018	Q3 2018	Sep-18	Oct-18
<b>London Prices (US\$/oz)</b>								
Daily Fix	19.08	15.71	17.10	17.05	16.53	14.99	14.26	14.58
<b>Parity (London) prices</b>								
Japan (Y/g)	70.31	58.92	57.46	59.27	56.61	53.72	51.36	52.45
India (Rupee/oz)	1,312.5	1,004.7	1,147.5	1,109.5	1,105.8	1,048	1,026.6	1,071.6
<b>COMEX – futures contracts</b>								
Stocks (Moz)*	178.9	171.6	162.1	210.8	270.3	288.9	289.3	290.0
Vol (million contracts)	13.7	13.5	17.0	23.0	6.8	5.59	1.65	1.79
OI ('000 contracts)*	155.8	169.6	188.8	191.6	198.3	213.3	200.4	213.6
<b>CFTC (Futures Only Data) non-commercial</b>								
Net Positions *	19,307	31,269	69,366	56,301	20,471	- 12,105	- 23,255	- 8,470
<b>TOCOM</b>								
Stocks (Moz)*	0.2	0.16	0.16	0.18	0.14	0.13	0.13	0.13
Futures Vol ('000 contracts)	86.1	62.6	61.1	20.6	5.5	4.47	1.5	1.3
Futures OI ('000 contracts)*	4.5	3.1	3.3	1.8	1.5	1.6	1.6	1.6
<b>Other Indicators</b>								
Gold/Silver ratio*	67.6	74.4	73.0	74.3	78.9	81.5	81.3	84.1
<b>Silver Bullion Imports (tonnes)</b>								
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.								



**Platinum prices extend recovery, while Palladium prices set fresh record highs**

While there has been no stopping Palladium’s price rise, Platinum prices have been putting in a strong performance, albeit off a low base and an oversold position. In August, Platinum prices came within \$10/oz of the 2008 low. They are now \$125/oz above that level, having rallied 16% since mid-August. Palladium prices reached a high of \$1,152.50/oz on 23<sup>rd</sup> October, which was up 38 percent from the August low.

**Platinum’s price recovery**

Fund short-covering and some fresh fund buying have also helped lift Platinum prices, but it is also likely that with Palladium prices setting fresh records, autocatalyst manufacturers are looking at using more Platinum and less Palladium in their next generation catalysts. This will not just be a price consideration, but also one of supply, as Palladium faces a supply deficit. In addition, US/Russian trade disputes and sanctions could impact Palladium trade to the US, as Russia is the largest producer of Palladium.

**Palladium’s price rally**

Supply deficits and a continuing shift towards petrol vehicles away from diesel vehicles is driving demand for Palladium, and although auto manufacturers may change the catalysts’ chemistries as new vehicle models are designed, they are unlikely to change existing models. This means strong demand for Palladium is likely to continue. That said, after the run up in Palladium prices in 2000, the auto industry cut its use of Palladium by 47 percent to 3.1 Moz tonnes in 2002 from 5.9 Moz in 1998, while they increased Platinum usage by 64 percent over the same period.



**Investors cut, while funds add exposure**

Palladium investors in ETFs continue to cut exposure into the price gains and have been doing so for a long time. It seems counter-intuitive for them not to be riding the bull market. Platinum investors have also been reducing exposure into the price rally, which seems less surprising as they are no doubt grateful for a price rebound. The funds trading Nymex have seen short-covering and some fresh buying in Platinum with the net fund position climbing to net long 14,723 contracts from a net short peak of 11,916 contracts in early September. For Palladium the net long fund position has climbed to 12,143 contracts, from a recent low of 982 contracts on 21<sup>st</sup> August.



**Technical & Summary** - The charts above show the diverse trends in these sister metals. We expect further strength in Palladium prices, especially as the market relies on redemptions from ETF investors to balance the market. The rise in Palladium prices is also expected to drag Platinum prices higher as the \$265/oz price difference prompts investors to anticipate substitution. Needless to say, given how auto manufacturers reacted to the 2000 Palladium price spike, at some stage this pair might make for a good straddle trade.

PGM Statistics								
	2014	2015	2016	2017	Q2 2018	Q3 2018	Sep-18	Oct-18
<b>London Prices (US\$/oz)</b>								
Platinum	1,390	1,060	976	949	904	814	805	828
Palladium	809	692	611	869	978	952	1,009	1,082
Rhodium	1,180	953	694	1,101	2,154	2,373	2,465	2,516
<b>Japanese Parity Prices (Y/g)</b>								
Platinum	4,519	3,965	3,278	3,298	3,058	2,812	2,793	7,907
Palladium	2,636	2,587	2,050	3,020	3,307	3,292	3,504	3,752
<b>South African Parity Prices (Rand/kg)</b>								
Platinum	466,074	417,839	444,891	391,696	353,664	354,421	367,274	363,507
<b>NYMEX Stocks ('000oz)</b>								
Platinum	195.8	138.8	205.1	215.0	185.2	180.8	173.6	173.7
Palladium	347.4	134.0	71.1	50.2	40.9	40.6	40.9	40.8
<b>CFTC Futures Only Data Long / (short) non-commercial</b>								
Platinum	35,840	24,585	31,817	24,302	4,393	- 5,467	2,690	14,723
Palladium	22,276	12,080	8,765	20,660	10,089	5,614	9,690	12,143
<b>Tocom - Platinum</b>								
Stocks ('000oz)	46.6	53.8	57.1	47.1	56.2	45	35.4	31.8
Vol (Million contracts)	4.6	3.9	2.9	2.5	0.7	0.7	0.2	0.2
OI ( '000 contracts)	72.6	69.7	52.7	56.8	61.7	51.1	48.9	47.9
<b>Tocom - Palladium</b>								
Stocks ('000oz)	3.2	5.4	11.1	3.6	1.0	0.7	0.6	0.6
Vol ('000 contracts)	77	63	30	32	10.0	7.2	2.4	3.1
OI ( '000 contracts)	2.0	1.8	1.1	1.4	1.2	1.1	1.3	0.6
<b>Other Indicators (US\$/oz)</b>								
Pt-Au spread	115	-100	-253	-320	-415	- 392	-373	-352
Pt-Pd spread	568	245	369	59	-85	- 165	-222	-261
<b>Platinum Bullion imports (kg)</b>								
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>		<u>2018</u>		
USA	141,413	238,740	201,412	431,277		67,845	(Jan-Aug)	
Japan	32,684	47,283	44,786	42,986		32,606	(Jan-Sep)	
<b>Palladium Bullion imports (kg)</b>								
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>				
USA	92,400	82,500	88,800	86,000		59,150	(Jan-Aug)	
Japan	58,429	57,223	58,860	59,492		46,370	(Jan-Sep)	

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



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