Gold positioning: how much was the geopolitical bid worth

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Its worthwhile to explore Gold positioning beyond the weekly changes, since it:

1. Provides key insight into just how much the geopolitical bid (triggered by threatened tariffs on Mexican imports on May 30th) was worth
2. Informs us of how much firepower was behind the Gold move in an attempt to break the coveted 4 year ceiling
3. Provides color on current positioning as we head into the this weeks main event risk, the FOMC

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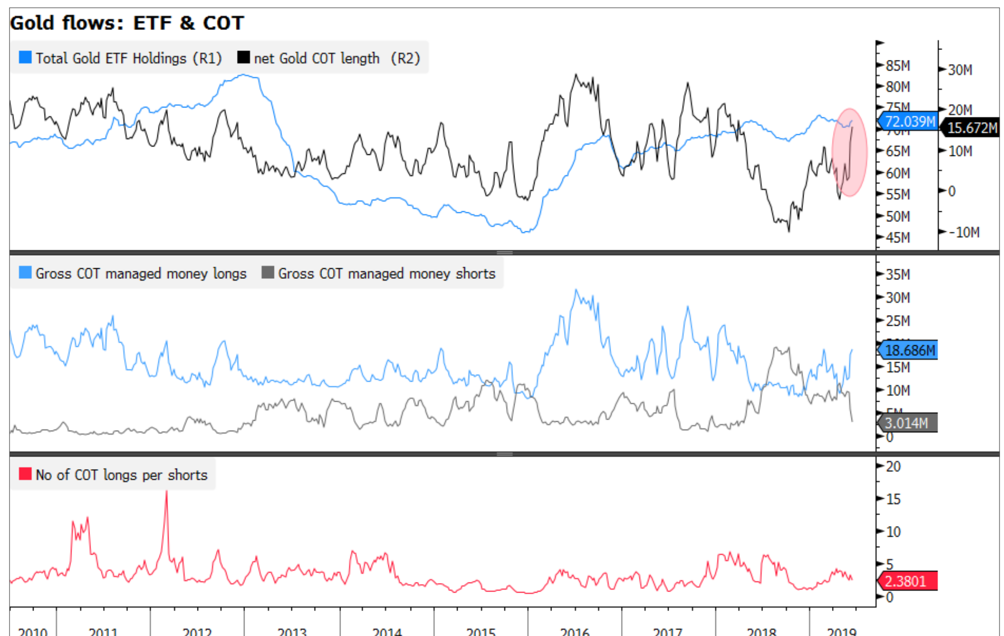
Net investor inflows over rolling 2 week period (graph 1)

- The change in US policy tactics with Trumps threat of tariffs on Mexico was the catalyst required for Gold to reprice above $1300 and begin to internalize geopolitics more comfortably. It was worth $80
- Thus inflows over that time period (May 28th - June 11th) are insightful and shows **investors (ETF + COT) added a chunky 10.8m oz, taking Gold from $1280 to touch $1350, and finishing up +4% over the same 2 week period.**
- **10.8m oz of inflows is a record over any 2 week time period** over the past 5 years. That is over 3x larger than the average net inflows and 11% (>1m oz) more than the 2nd next largest set of bi-weekly inflows.
- The **inflows were driven by a mix of ETF purchases (+1.6m oz), and approximately equal amounts of COT fresh purchases/ length and short-covering**

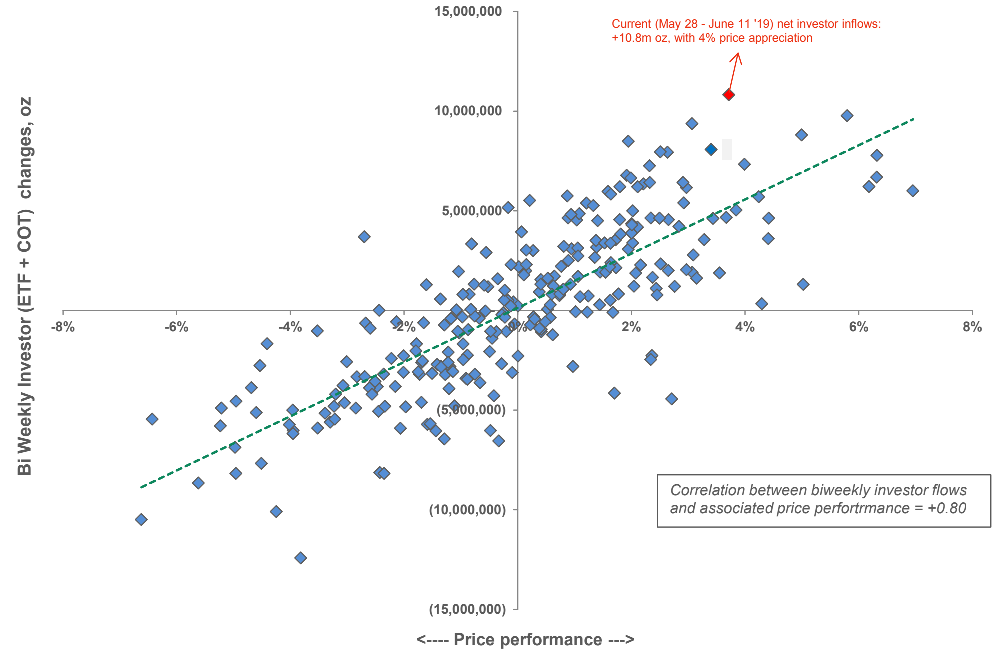


Source: Scotiabank Commodities Strategy
ETFGTOTL Index (Total Known ETF Holdings of Gold) Gold ETF COTR & TTL2 Weekly 2 Copyright© 2019 Bloomberg Finance L.P. 20-Jun-2019 15:33:28

Was Golds price response (+4%) fair given, record 2 week inflows? (Graph 2)

- The scatterplot graph clearly shows a strong positive correlation between decent investor inflows (Y-axis) and price performance (X-axis), of +0.80
- +10.8 m oz of inflows is very large, but not an outlier - theres been biweekly *out*flows of similar size (of 10-12.5m oz)
- A simple regression (e.g.: “Bi-weekly price Performance” (Y) = Intercept + “bi-weekly positioning change” (X)) excluding the recent data point, **indicates that 10.8m oz of investor Gold inflows *should* inject a 5.1% rally** (and less than what was witnessed of 4%). Clearly there are other unknown flows, so **this analysis suggests that OTC selling capped what could've played out.**
- Overall, Gold prices could've done more and this perhaps helps to explain the large technical reversal last Friday. As recently noted, fresh catalysts (including further DM equity volatility and/or fresh geopolitical catalysts) is warranted to kickstart another leg higher in 2H'19 and ensure $1350 is the new floor.

Gold investor flows vs price performance
biweekly 2014-2019



Data for CME COT flows and associated performance run Tuesday - Tuesday
Top left quadrant = inflows + price weakness; Top right quadrant = inflows + price strength
Bottom left quadrant = outflows + price weakness; Bottom right quadrant = outflows + price strength

Source: Scotiabank Commodities Strategy, CME COT, Bloomberg

Positioning Risk into FOMC (graph 1, 3)

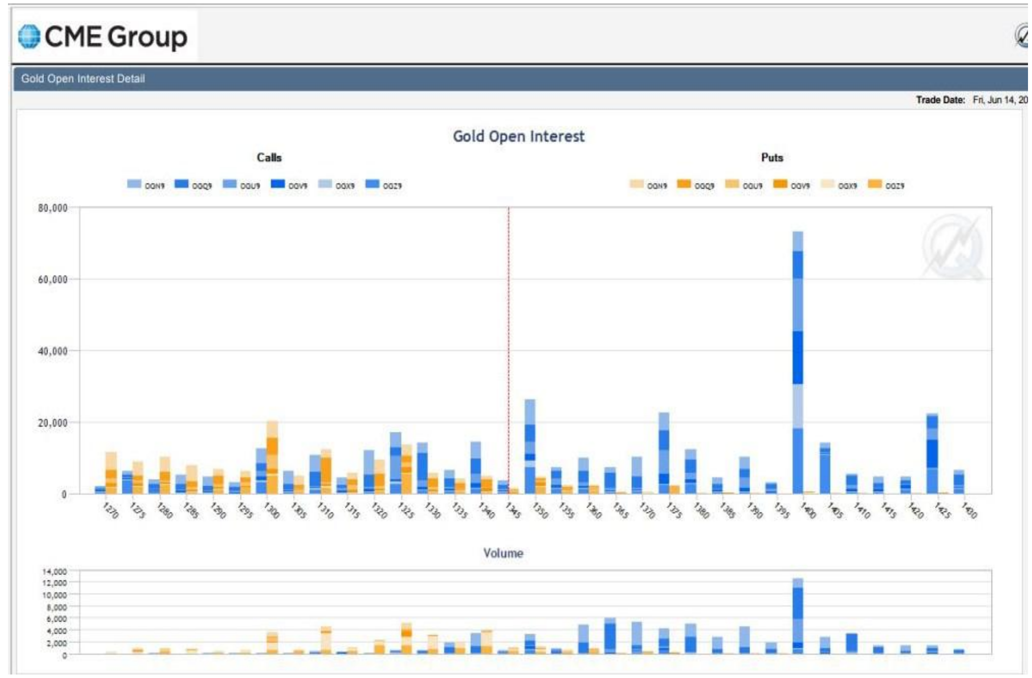
- Note the COT data excludes Gold repricing to $1360 (GCQ9) after the tanker attack in the latter part of last week, and probably over-states actual current positioning since length likely exited on Fri-days ugly price reversal on $ strength / strong US data.

- Nevertheless, **Gold investors own on net 15.7m oz of position-ing heading into this weeks FOMC, somewhat overweight** (above 5 year average of ~9m oz) but still 13m oz short of recent peak positioning. **This is the highest speculative positioning since the March 2018 FOMC**, as investors hedge out rate cut risk.

- There is, however, scope for longs to extend positioning (they only own <19m oz on a gross basis vs peak of ~32m oz) while Gold shorts have reduced their capacity and thus no longer will provide tailwinds going forward.

- ETFs holdings own a very lofty 72m oz (recent peak is 73m oz, historical peak 84m oz) and pose a mild threat if theres a 'goldilocks' (more dovish than expected) FOMC outcome which compresses equity volatility and spurs an overreach for risk-assets.

- Upside call buying across shorter term tenors has been notably strong. The **demand for the $1400 strike is an outlier with Open Interest in all 2019 expiries in that strike skyrocketing to ~75K contracts;** these inflows probably reflect a mix of producer-related risk reversals and macro-related late-cycle/ Fed rate cut bets. The stickiness of $1350 ceiling gives off the belief while $1400 has yet to act like a magnet, indicating that Gold pricing in quite self-fulfilling the short-term - there are likely more ("FOMO") buyers lurking at $1400 than $1300....



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