

Global Precious Metals Comment

Gold helped by USD pullback and safe haven flows

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Trade policy concerns affect gold via the dollar, inflation and economic impact

Gold has managed to bounce back from recent lows, helped by a pullback in the dollar and likely some safe haven flows on the back of concern about global trade relations. This matters for gold to the extent that it impacts the dollar, inflation and inflation expectations, the economy and in turn, monetary policy. With regard to steel and aluminium tariffs, further details of which are expected this week, our [US economists](#) expect the administration to take a slightly lighter stance than what was proposed by the Commerce Department to limit negative impact on the broader economy. Should the decision be in the range of the recommendation, the aggregate economic effect is expected to be small. UBS' [US Office of Public Policy](#) views that these new tariffs are likely to lead to retaliation from the US' trade partners, but these are unlikely significant enough to cause a broader 'trade war'.

Lighter positioning should help gold and silver

Changes in precious metals positioning were mixed as of February 27, according to latest data from the CFTC. Gold and silver net longs declined while platinum and palladium net positions increased. The pressure on gold prices over the past week or so coincided mainly with long liquidation, taking net positioning to 20.49moz or 55% of the all-time high. Short-selling contributed to the heaviness in the market – gross shorts increased for the first time in four weeks and increased by the most since the start of the year. Given price action later in the week, which the data doesn't capture, we suspect the next CFTC report would show further reductions in net length. This should offer some support in the near term and help contain the [downside](#) as we expect some further pressure to come in the lead-up to the March FOMC meeting and as [seasonal physical demand fades](#). Silver net speculative positions were also down, marking the fourth straight week of declines. Pressure on silver all came from short-selling, with only a minor offset offered by a modest build in gross longs. Silver continues to underperform, with the ratio holding above 80 since early February. Although steady global growth should bode well for silver industrial demand, fundamental catalysts are currently not strong enough to encourage more active investor participation in silver. Pressure on gold, weakness in equities and softer commodities have likely weighed considerably on silver of late. The only noticeable supportive factor for silver right now is positioning – net longs at 71.82moz are only 12% of the record and gross shorts are relatively elevated at 80% of the high. We think this makes silver more vulnerable to upside catalysts, which we suspect are more likely to come from gold.

Platinum longs look extended; palladium shorts likely to hesitate

Platinum net longs were modestly higher by 4.55koz, a sharp slowdown from 147.80koz added the previous week. At 2,372.90koz, platinum net length is about 79% of the all-time high. This level does not look extreme, but is quite elevated relative to the rest of the precious metals. In particular, we are concerned about platinum gross longs sitting at 93% of the record. In comparison, palladium looks healthier – after significant reductions in net positioning between mid-January and mid-February positions are being rebuilt but at a gradual pace for now. Palladium net longs were up by 29.60koz to 1,780.50koz as of February 27. The change was due to fresh longs, although gains were partly offset by an increase in gross short positions. At these levels, palladium net length is about 55% of the record, considerably leaner than that of platinum. Nevertheless, given the [6% price drop](#) last week, we suspect those recent longs capitulated. We would also not be surprised if there was some short-selling considering gross shorts at only 19% of the record. But looking ahead, with prices now near the year's lows, we expect some hesitation here unless there's another round of pressure on the precious metals complex, commodities space or a wider risk-off move.

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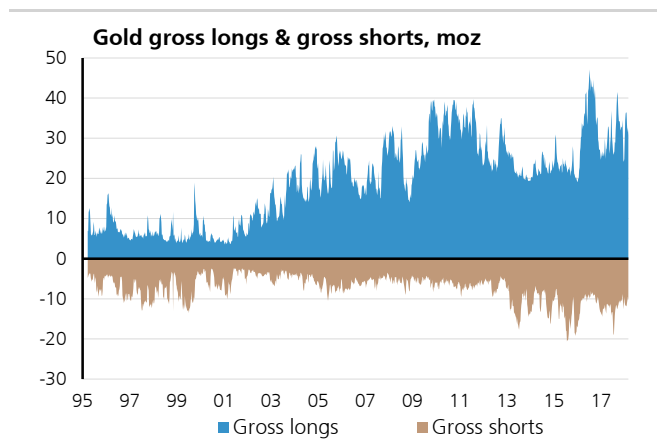
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Figure 1: COTR Update to Feb 27

	Gold	Silver	Platinum	Palladium
Net longs	Moz	Moz	Koz	Koz
27/02/2018	20.49	71.82	2372.90	1780.50
20/02/2018	23.10	94.93	2368.35	1750.90
w/w change	-2.61	-23.11	4.55	29.60
w/w change, %	-11.30%	-24.34%	0.19%	1.69%
% of all-time high	55.07%	12.08%	78.68%	55.03%
52-Week High	29.16	594.72	2499.65	2822.00
52-Week Low	7.03	71.82	512.70	1663.20
Spot prices				
27/02/2018	1,318.30	16.44	982.63	1,038.76
20/02/2018	1,329.15	16.45	1,000.28	1,037.22
% w/w chg in prices	-0.82%	-0.09%	-1.76%	0.15%

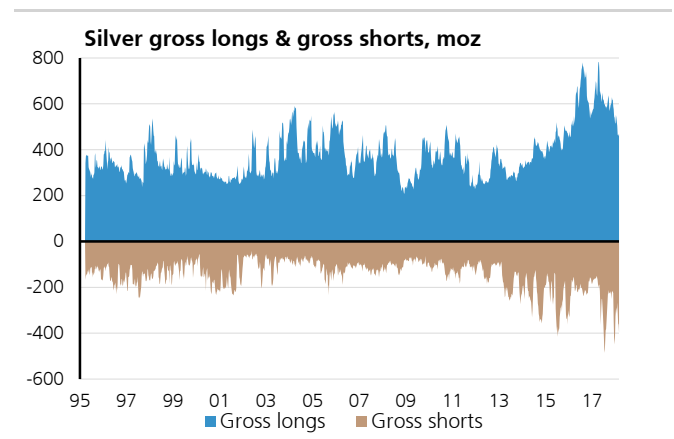
Source: Bloomberg, CFTC, UBS

Figure 2: Gold Positioning



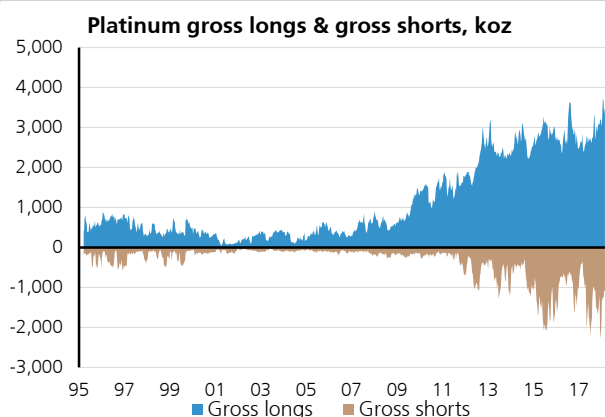
Source: Bloomberg, CFTC, UBS

Figure 3: Silver Positioning



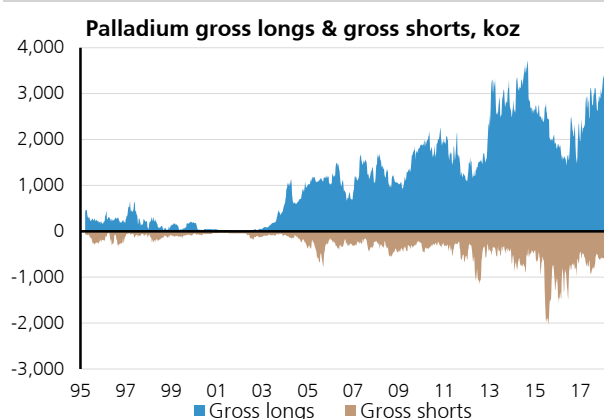
Source: Bloomberg, CFTC, UBS

Figure 4: Platinum Positioning



Source: Bloomberg, CFTC, UBS

Figure 5: Palladium Positioning



Source: Bloomberg, CFTC, UBS

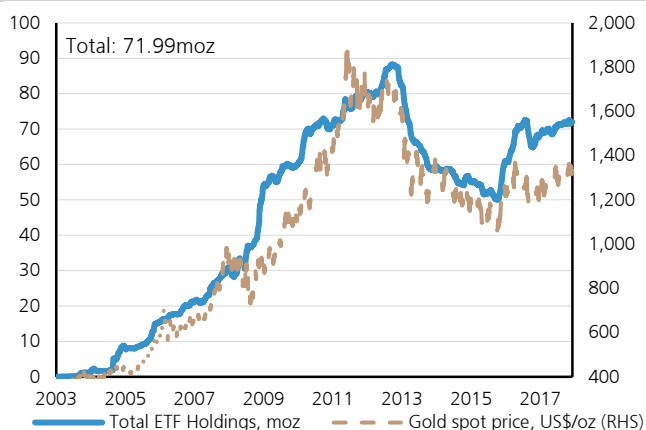
Figure 6: Precious Metals Global holdings: Holdings decline for all precious metals except for silver

Date	Gold (in Moz)	Silver (in Moz)	Platinum (in Koz)	Palladium (in Koz)
2-Mar-18	71.99	663.56	2659.70	1176.20
Daily Change	-0.03	1.48	-0.01	-0.11
MTD Change	-0.01	2.26	-1.24	-3.68
YTD Change	0.38	-3.18	50.89	-176.53

Source: UBS calculations, various websites, Bloomberg

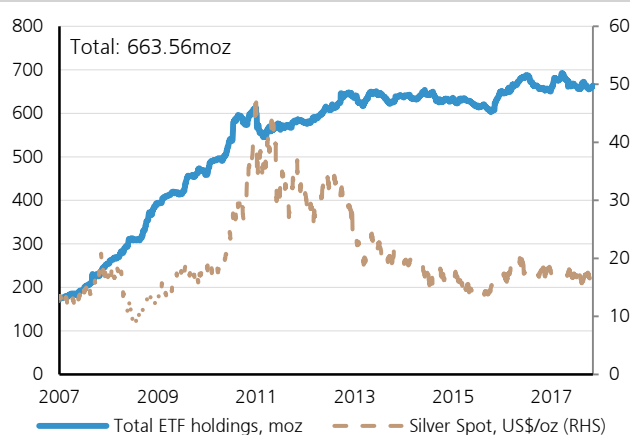
Precious Metals ETF Update: Gold ETF holdings decreased marginally by 0.03moz due to outflows from UK based funds (24.41koz) and US based funds (1.73koz). Total gold ETF holdings are down by 0.01moz month-to-date but up by 0.38moz year-to-date. Silver ETF holdings increased by 1.48moz due to inflows into US based funds (1478.84koz). Total silver ETF holdings are up 2.26moz in March but down by 3.18moz year-to-date. Platinum ETF holdings saw a minor 0.01koz decline. Total platinum ETF holdings are down by 1.24koz month-to-date yet up by 50.89koz year-to-date. Palladium ETF holdings decreased by 0.11koz due to outflows from UK based funds. Total palladium ETF holdings are down by 3.68koz in March and by 176.53koz year-to-date.

Figure 7: Gold ETF holdings, moz



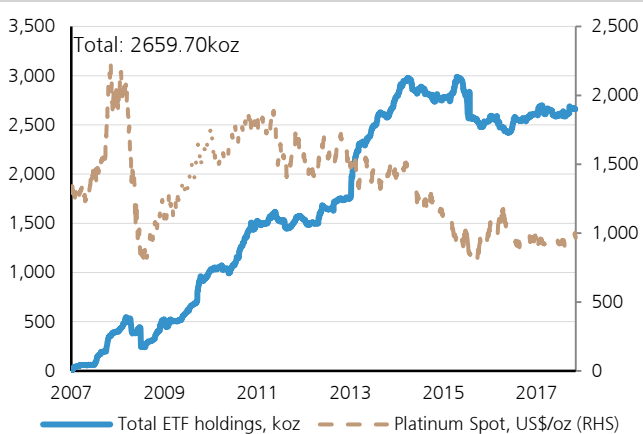
Source: UBS calculations, various websites, Bloomberg

Figure 8: Silver ETF holdings, moz



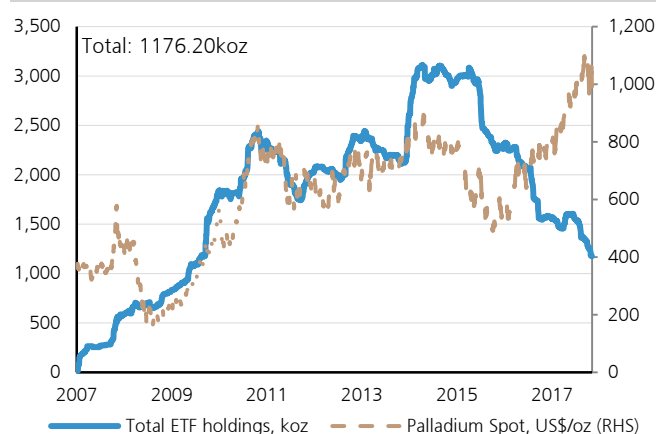
Source: UBS calculations, various websites, Bloomberg

Figure 9: Platinum ETF holdings, koz



Source: UBS calculations, various websites, Bloomberg

Figure 10: Palladium ETF holdings, koz



Source: UBS calculations, various websites, Bloomberg

Figure 11: Precious Metal: Silver exhibits consolidation near support zone

5-Mar-18	GOLD	SILVER	PLATINUM	PALLADIUM
Spot Price	1326.84	16.55	967.40	993.26
5 Days MA	1320.64	16.48	973.14	1012.07
10 Days MA	1325.13	16.52	985.14	1027.43
20 Days MA	1328.96	16.56	985.87	1014.95
50 Days MA	1327.49	16.87	982.61	1056.07
100 Days MA	1300.81	16.77	952.48	1027.30
200 Days MA	1288.01	16.84	949.55	960.45
Resistance	1350.00	16.80	1010.00	1045.00
Support	1300.00	16.35	960.00	960.00

Source: Bloomberg, UBS

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