

Global Precious Metals Comment

Gold demand divergence

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Global

Weak physical demand vs strong investment interest – the latter matters more

One notable difference between gold's move this year and the previous bull-run which peaked in 2011 is physical demand. Over a decade ago, gold's rally was underpinned by growing demand from China and healthy demand from India. This time around, the physical demand backdrop is very weak. But the gold market is driven by macro factors rather than supply and demand fundamentals. Negative and falling real rates, a weaker dollar and elevated uncertainty create a positive environment for gold, encouraging investors to build strategic gold allocations. It is therefore not surprising that prices are up over 34% YTD despite sharp declines in gold consumer demand in the form of jewellery and retail investment products such as gold bars and coins. Gold ETFs globally have increased by over 27moz. Investor interest is growing and the base is widening.

Gold bar & coin demand: weakness in the East vs strength in the West

Gold supply and demand data for Q2 from the World Gold Council's (WGC) latest report is largely as expected, confirming the extent of weakness in demand and the disruptions to supply given the COVID-19 crisis. Although bar and coin demand was down 32% y/y in Q2 and down 17% y/y in H1, there was a marked divergence in physical investment flows depending on the region. Demand for gold bars and coins in Asia and the Middle East saw significant declines, led by key markets China (-18% y/y in Q2; -36% y/y in H1) and India (-56% y/y in Q2; -39% y/y in H1). In Thailand, investors liquidated 40.6 tonnes worth of gold holdings in Q2, taking advantage of higher gold prices amid an uncertain economic backdrop – the net outflow in H1 this year effectively reverses all of last year's buying. For most of the Middle East, mobility restrictions negatively affected bar and coin demand while economic uncertainty triggered some distress selling. In Turkey, gold was viewed more as a safe haven, in line with attitudes in Europe and the US – bar and coin demand was over 40% higher y/y in Q2 and in H1. At 36.8 tonnes, H1 gold investment demand in Turkey was the highest in seven years. In Europe, investors bought as much as 137.4 tonnes in H1, the highest since the Eurozone crisis. Demand mostly came from Germany, Austria, Switzerland and the UK. In the US, volumes rose sharply – over 4x higher y/y in Q2 and nearly 3x higher y/y in H1 – albeit absolute levels are only about 20% of the volumes in Europe. There are base effects to consider given the broader downtrend in US bar and coin demand over the past decade. The WGC also reports that physical investment flows in the US have become more two-way in Q3. US Mint data shows that gold coin sales were strong in the past month.

Slowing central bank gold purchases vs interest from other official institutions

Net official sector gold purchase continued to slow down as expected – in gross terms, the buying has come from fewer central banks, while the number of sellers has increased. Interestingly, the implied flow from other official institutions has picked up this year, helping offset some of the slowdown in the pace of central bank gold activity. We think this is in line with the increased strategic interest from institutional investors more broadly, as gold is increasingly viewed as an important diversifier for portfolios and an alternative to bonds in offsetting risk exposure.

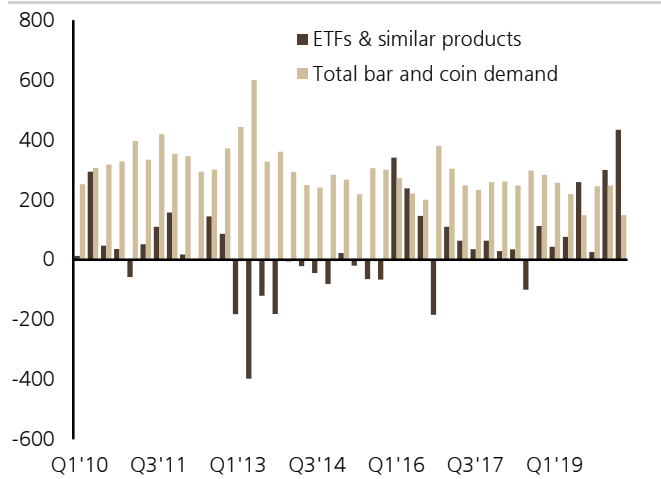
Joni Teves

Strategist

joni.teves@ubs.com

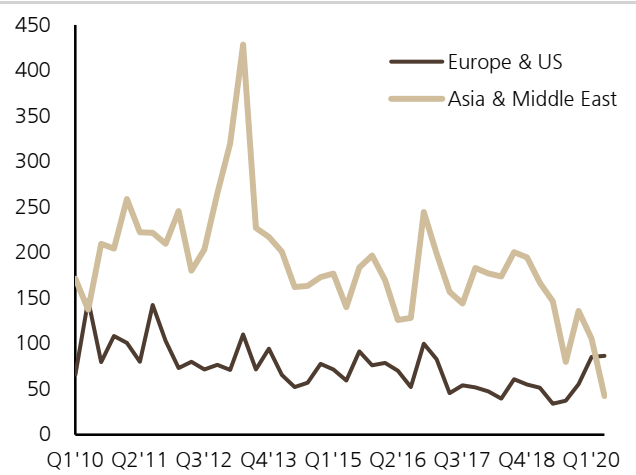
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Figure 1: Gold ETFs vs consumer demand, tonnes



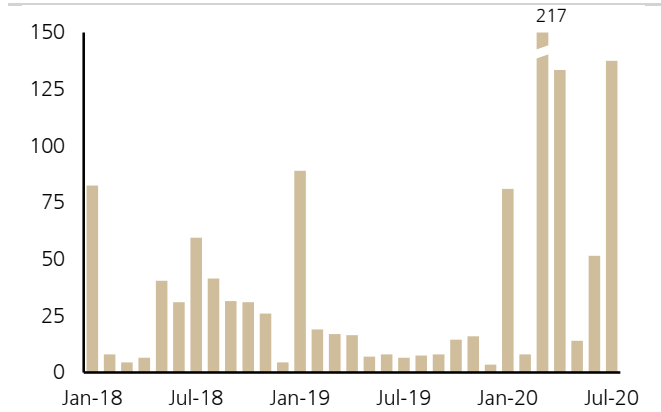
Source: WGC, UBS

Figure 2: Gold bar & coin demand, tonnes



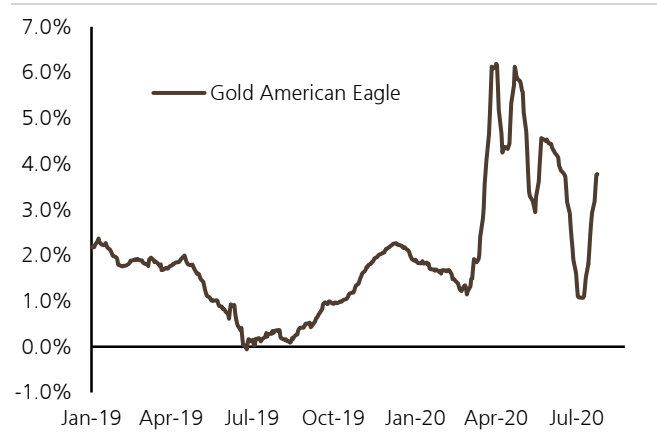
Source: WGC, UBS

Figure 3: US Mint coin sales, koz



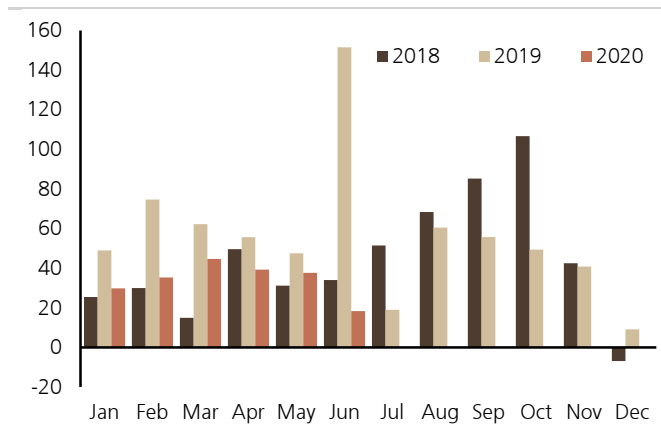
Source: US Mint

Figure 4: US gold coin premium



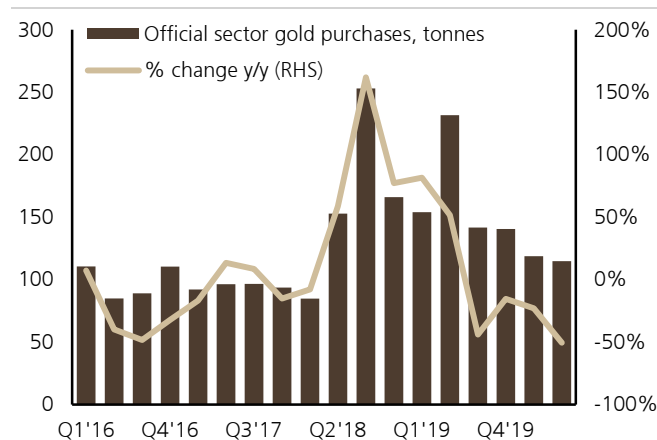
Source: Bloomberg, UBS

Figure 5: Central bank monthly gold activity, tonnes



Source: IMF, WGC, UBS

Figure 6: Official sector quarterly gold activity



Source: WGC, UBS

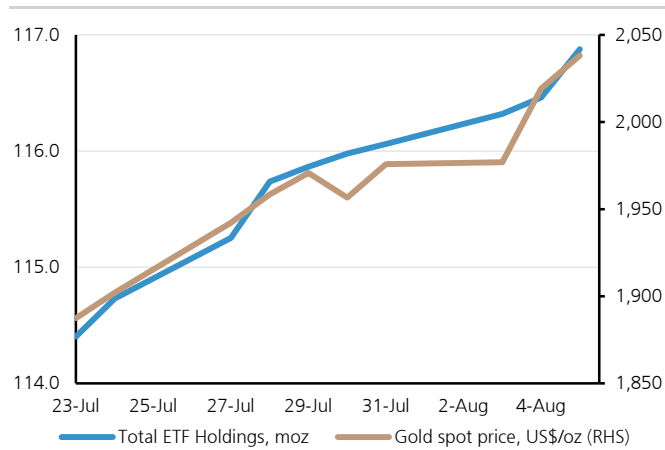
Precious Metals ETFs

Figure 7: Global Precious Metal ETF Update – Platinum ETF holdings registered 45koz inflows month-to-date

Date	Gold moz	Silver moz	Platinum koz	Palladium koz
5-Aug-20	116.88	1027.10	3467.94	546.83
Daily Change	0.42	5.32	0.50	0.00
MTD change	0.82	0.08	45.40	4.03
YTD Change	27.98	300.28	91.03	-139.03

Source: UBS calculations, various websites, Bloomberg

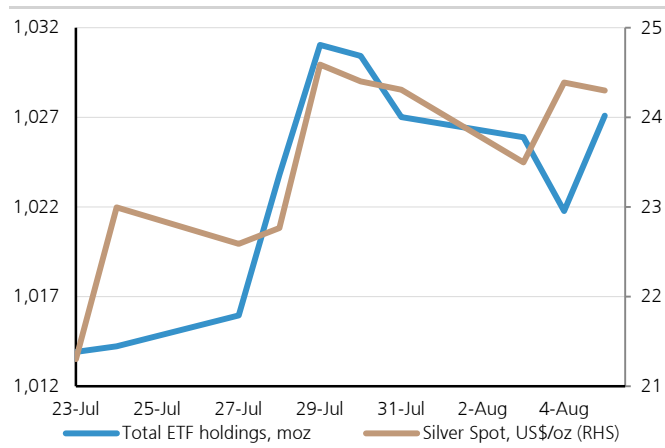
Figure 8: Gold ETFs, moz



Source: UBS calculations, various websites, Bloomberg

Gold ETF holdings recorded increase for the 35th consecutive day with 0.42moz inflows due to North America (409.36koz), EMEA (3.82koz) and India (3.87koz) based funds.

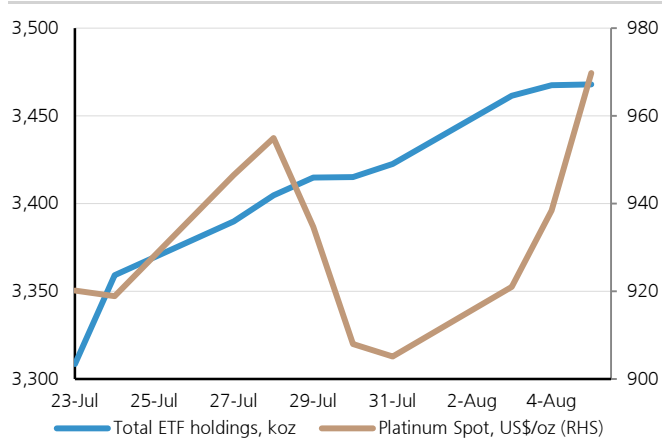
Figure 9: Silver ETFs, moz



Source: UBS calculations, various websites, Bloomberg

Silver ETF holdings increased by 5.32moz and registered inflows for the first time in six straight days, entirely on the back of US based funds.

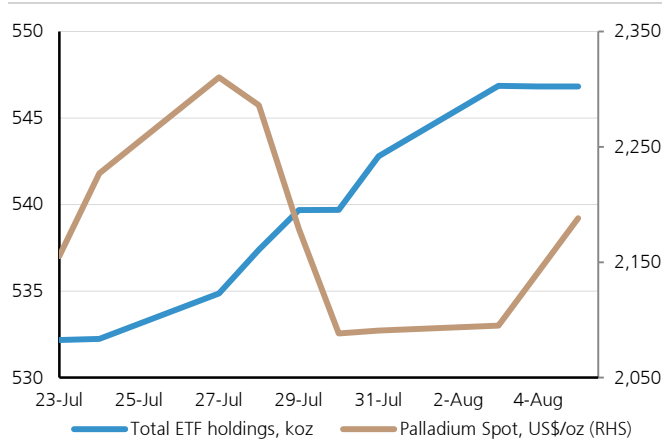
Figure 10: Platinum ETFs, koz



Source: UBS calculations, various websites, Bloomberg

Platinum ETF holdings saw marginal inflows into US based funds and increased for the 16th consecutive day.

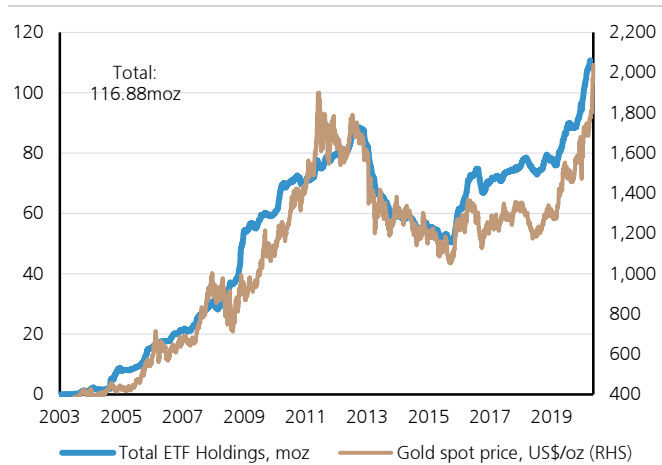
Figure 11: Palladium ETFs, koz



Source: UBS calculations, various websites, Bloomberg

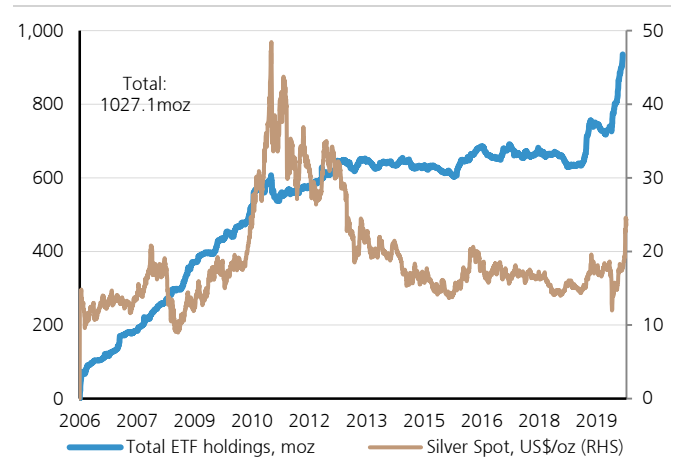
Palladium ETF holdings saw no significant change. However, this reflects inflows of 4koz month-to-date.

Figure 12: Gold ETFs since inception, moz



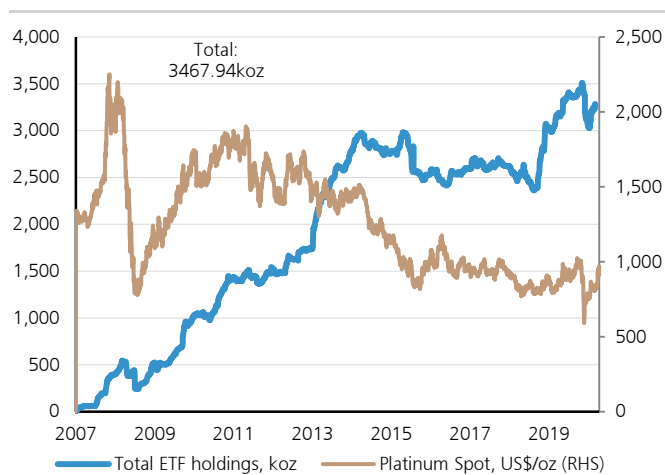
Source: UBS calculations, various websites, Bloomberg

Figure 13: Silver ETFs since inception, moz



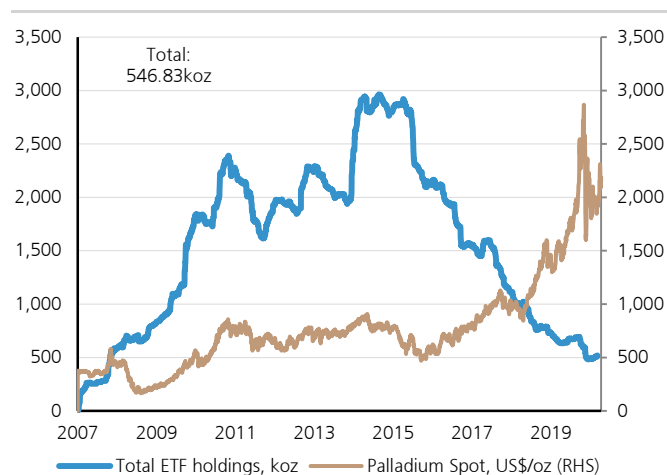
Source: UBS calculations, various websites, Bloomberg

Figure 14: Platinum ETFs since inception, koz



Source: UBS calculations, various websites, Bloomberg

Figure 15: Palladium ETFs since inception, koz



Source: UBS calculations, various websites, Bloomberg

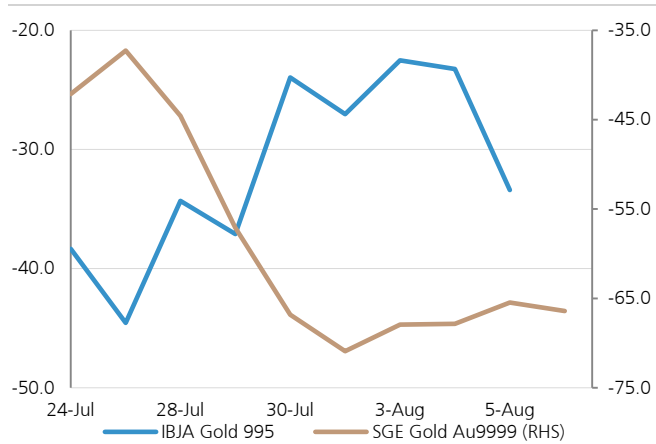
Physical Demand Indicators

Figure 16: Price differential and trading volume

6-Aug-20	Premium (US\$/oz) / volume	1-day change	10-day change	12m average
CHINA				
Gold premium (Au9999)	-66.42	-0.95	-28.13	-8.69
Gold volume (total), tonnes*	5.7	-8.6	-1.9	15.4
Gold volume (AuT+D), tonnes	101.0	-79.8	-14.7	89.2
Silver premium (AgT+D)	1.04	0.00	0.08	1.14
Silver volume, tonnes	30581.4	-11435.6	-8825.7	13288.6
Platinum premium (Pt9999)	35.74	2.32	0.34	33.52
Platinum volume, kgs	42.0	-20.0	-280.0	305.8
INDIA				
Gold premium (MCX U51 future)	-30.57	-5.92	4.93	-38.56

Source: Source: Bloomberg, IBCA, SGE, UBS calculations. Premiums and today's volume calculated at 6:45am London and historical premium as of 7:45am and volume as of end of day. *combined Au9999, Au9995 and iAu9999

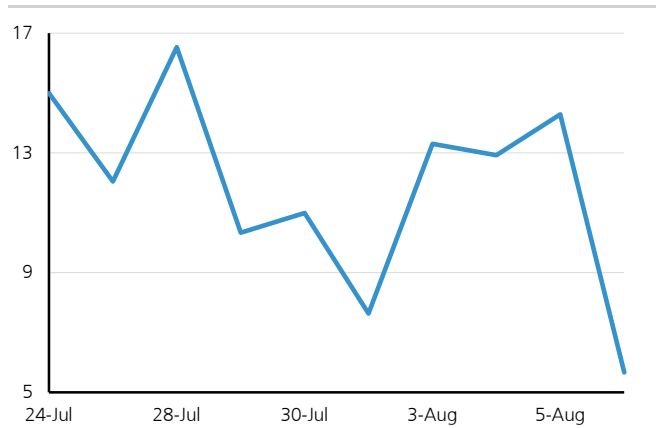
Figure 17: Gold premium/(discount) in China and India, US\$/oz



Source: Bloomberg, IBJA, SGE, UBS calculations. Today's premium: 6:45am LDN.

India gold discounts widened by \$10 yesterday and stood at \$33.40. SGE gold discounts traded in the range of \$65-\$68.

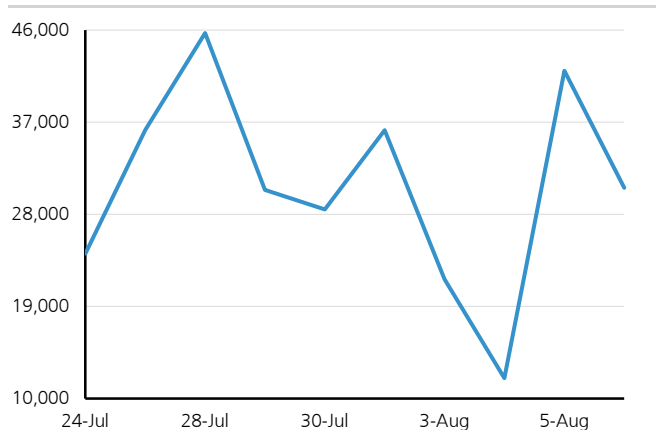
Figure 18: SGE gold (Au9999+Au9995) trading volume, tonnes



Source: Bloomberg, SGE, UBS calculations. Today's volume calculated at 6:45am London.

SGE gold weekly volumes are expected at 13 tonnes, in line with 12-month average.

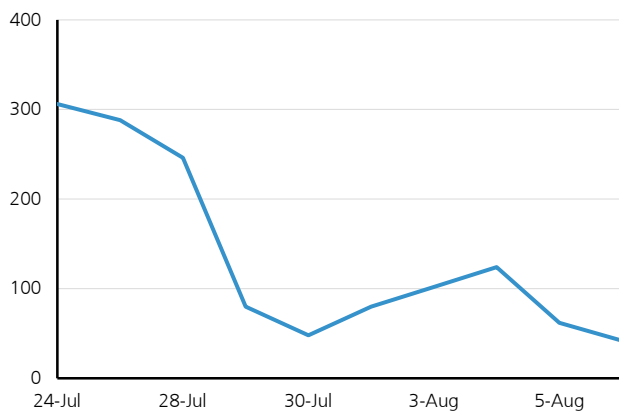
Figure 19: SGE silver (Ag T+D) trading volume, tonnes



Source: Bloomberg, SGE, UBS calculations. Today's volume calculated at 6:45am London.

Yesterday, SGE silver recorded the second highest trading volume at 42,017 tonnes, buoyed by price volatility.

Figure 20: SGE platinum (Pt9995) trading volume, kgs



Platinum daily turnover remained flat over previous day at 66 kgs as metal price consolidates in a tight range.

Source: Bloomberg, SGE, UBS calculations. Today's volume calculated at 6:45am London.

Figure 21: Technical – Gold rally may extend towards \$2,100; silver reached seven-year high with resistance seen at \$29

6-Aug-20	GOLD	SILVER	PLATINUM	PALLADIUM
Spot Price	2048.75	27.76	973.70	2203.59
5 Days MA	2011.78	25.88	941.60	2143.83
10 Days MA	1978.90	24.90	937.11	2180.98
20 Days MA	1901.81	22.53	896.90	2112.30
50 Days MA	1809.50	19.73	854.43	2004.17
100 Days MA	1746.96	17.55	810.63	2018.43
200 Days MA	1641.31	17.40	867.01	2066.24
Resistance	2100.00	29.00	990.00	2250.00
Support	2000.00	26.00	960.00	2150.00

Source: Bloomberg, UBS

This report has been prepared by UBS AG Singapore Branch. We would like to thank Parina Shah and Debika Pall, our research support professionals, for assistance in preparing this research report.

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