PLATINUM THINKING: GOLD

20 SEPTEMBER 2019

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Summary

We Recommend BUY Position in Gold.

1) **Macro Economic Uncertainty and Accommodative Central Bank Policy.** The Fed is not alone in lowering rates. The European Central Bank (ECB) has announced further cuts and the Bank of Japan (BOJ) is expected to also follow suit soon as it sees global conditions as concerning. Emerging market central banks have also shown accommodative measures.

2) **Trade and Geopolitical Trade Tensions Linger.** Gold consolidation after touching a US$1,550 high should be viewed as healthy and a buying opportunity. We expect near-term political and trade headlines to influence price action.

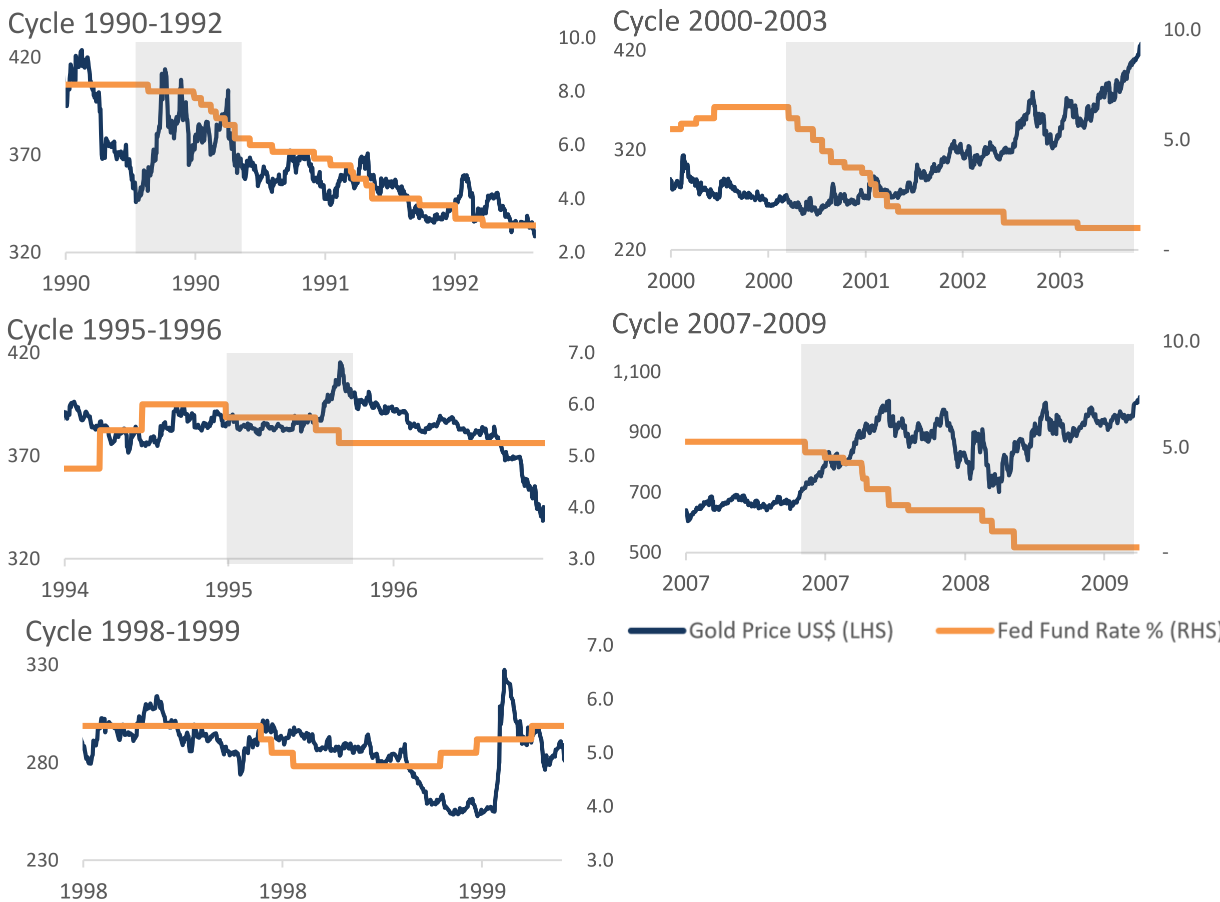
3) **Negative Bond Yields Strengthens Gold Position.** Bond yields in developed markets are very low, zero or negative. Low yield environments increase the attractiveness of gold (as a non-yielding asset). With no yield in sovereign bonds, investors have little choice but to turn to gold to hedge portfolio risk and seek uncorrelated alternative returns to equities and bonds. Low real rates strengthen the case for gold as both a diversification and hedging tool when yielding havens are expensive.

4) **Physical demand driven by central banks in the first half of 2019.** We expect central banks to continue purchasing gold for the rest of 2019. While consumer demand has been stable in 1H19 with some front-loading seen in India, higher prices could hit demand for the rest of the year. We see physical demand is holding firm in 1H19 and the gold rally has not been solely fueled by speculative trades.

Gold Rallies During Fed Easing Cycles

Four Out of Five Easing Cycles since 1990 Have Seen Gold Rallies

1) **We See a Dovish Fed as Gold Bullish Indicator –** Uncertainty around trade wars and spluttering economic growth has caused the Fed to shift their stance on the interest rate hike cycle seen in 2018. The policy stance has also been seen around global central banks as we see low to negative yields among half the developed market bonds.



Macro Uncertainty Gives Rise to Gold

The type of Fed easing also matters. With quantitative easing, gold rallied as much as 150% in 2007.

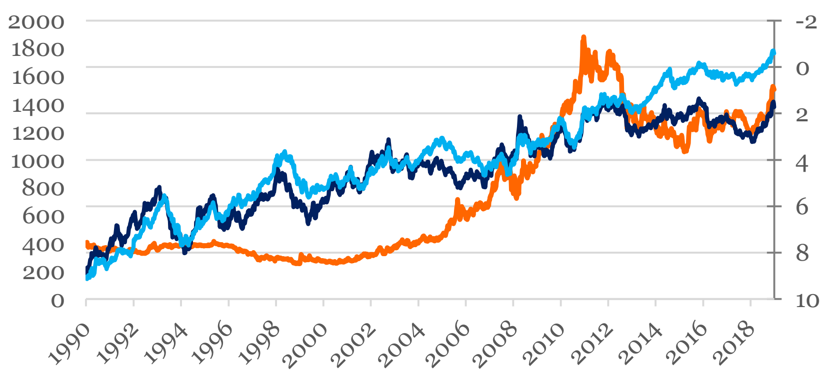
Source: Federal Reserve, Bloomberg, Platinum Research

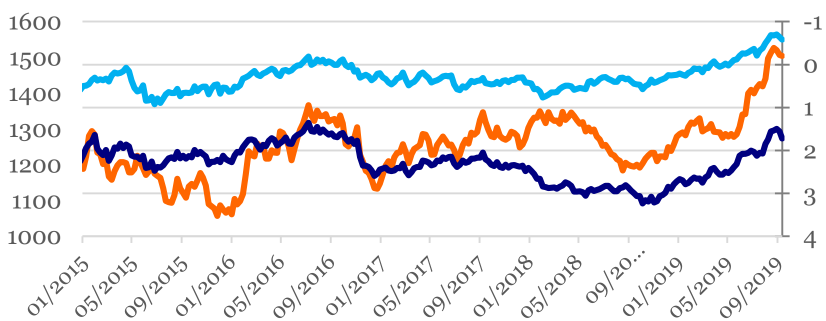
Bond Yields Are Low or Negative

Gold Prices Are Highly Exposed to Global Bond Yields

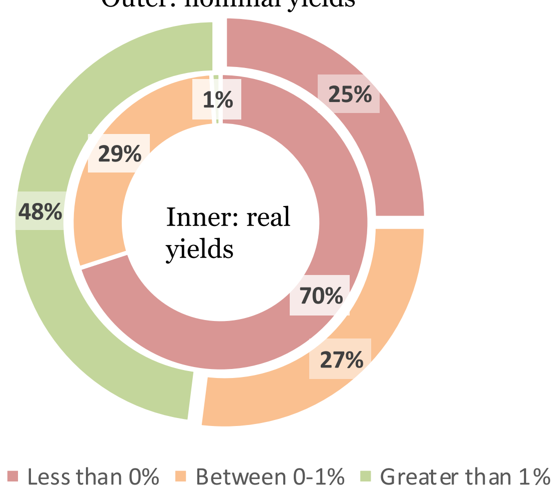
1) **Low to Negative Yields in Half the World's Developed Bonds** – This make gold a more attractive non-yielding asset (opportunity cost is falling) as investors will seek diversification and risk management brought about by slowing global growth and geopolitical tension.

Developed World Sovereign Bond Yields





Proportion (%) of Sovereign Debt Yields[1]



Sovereign Yields 10-yr

Region	Yield (%)
Switzerland	-0.824
Germany	-0.587
Denmark	-0.573
Netherlands	-0.449
Austria	-0.328
Finland	-0.318
France	-0.293
Belgium	-0.245
Sweden	-0.231
Japan	-0.224
Ireland	-0.037
Spain	0.222
Portugal	0.235
United Kingdom	0.630
Italy	0.941
Israel	1.074
Norway	1.134
Australia	1.150
Hong Kong	1.185
New Zealand	1.272
Canada	1.423
Greece	1.568
Singapore	1.711
United States	1.721

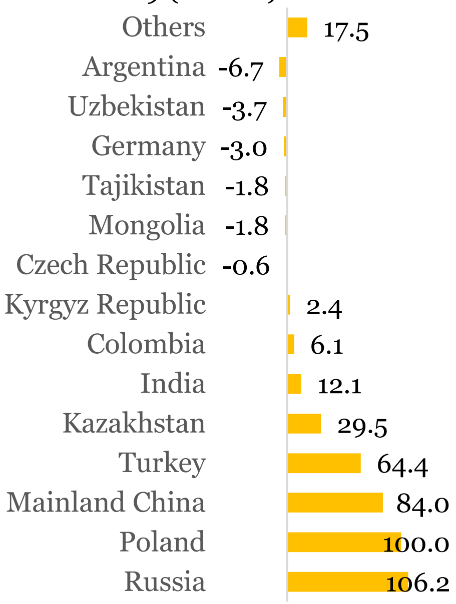
Source: Federal Reserve Bank, ECB, Bloomberg, World Gold Council, Platinum Research
Note 1: As of end of June 2019. Includes debt from Australia, Canada, Denmark, Developed Europe, Japan, Sweden, Switzerland, UK, USA. Real yields = nominal yield – CPI (YoY rate).

Physical Demand Check

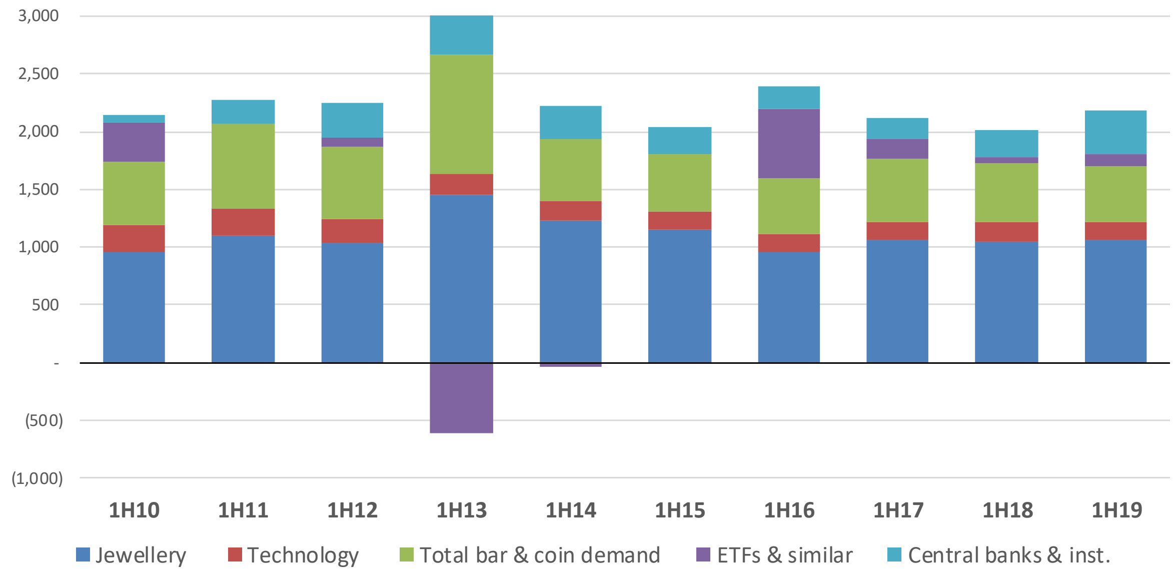
Central bank buying and investor inflows drove physical gold demand in 1H19, similar investment demand likely to drive physical demand in 2H19.

1) **1H19 gold demand at 3-year high due to central bank & investment demand.**
2) **Central banks bought 374.1t in 1H19, the largest purchase on record –** Central banks account for one-sixth of total gold demand in the period.
3) **ETF Holdings in 2Q19 grew to 67.2t, a six-year high of 2,548t.** Key themes during this period were dovish central banks, strong central bank purchasing and heightened geopolitical tension.
4) **Jewellery and consumer demand was mainly driven by India where gold demand in Q2 grew 12% to 168.8t.** This will be dampened later as government gold import duty was increased from 10% to 12.5%. After a strong 1H, July India gold trade figures confirm this with gold imports down half vs. June.

Central Bank Gold Activity Jan-Jul '19 (tonnes)

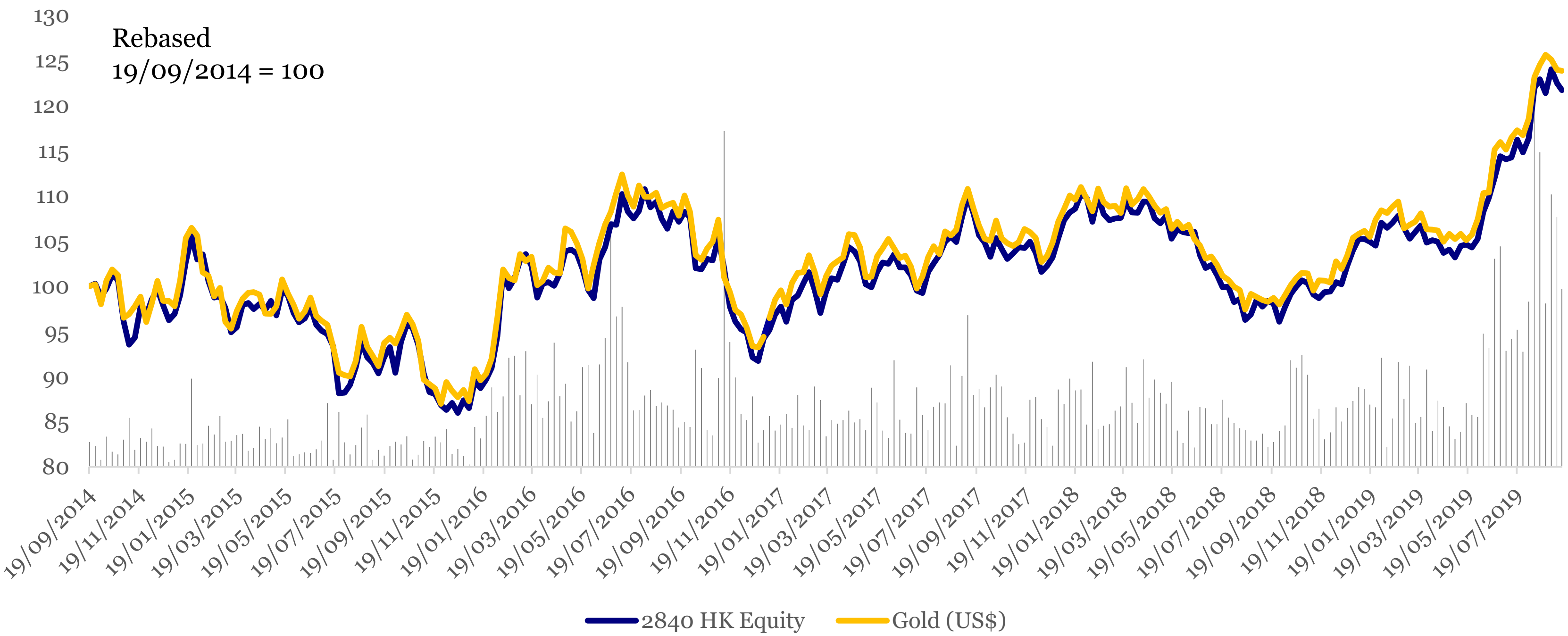


1H19: Physical gold demand remains healthy.



Source: World Gold Council, Metals Focus, Refinitiv

BUY: SPDR Gold Shares (2840.HK)



Cost Efficient, Accessible and Liquid Exposure to Gold

Objective The investment objective of the Trust is for the Shares to reflect the performance of the price of gold bullion, less the Trust's expenses.

1) Rolling 1-year trading difference: -0.52%
2) Expenses: 0.40% per annum
3) Base currency: USD
4) Trading currency: HKD

Source: Platinum Research, SPDR

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