

Precious metals: Gold lacking the safe haven allure

Gold prices ended last week fairly flat with US trade tariffs spurring only the briefest of rallies while funds continued to liquidate. All eyes are now on US inflation and Treasury auctions to see if the outflows can be reversed



Source: shutterstock

Gold lacking safe haven allure

Gold's performance was disappointing following news (February 28th) that the US would indeed impose steep trade tariffs on aluminium and steel. Despite the obvious threats to global growth and a sell-off in equities, gold prices did not show evidence of safe haven flows until March 6th when bullion briefly managed to surge 1% and come close to the \$1340 mark. These gains were short-lived, however, and erased by the next day.

Gold's lack of allure as a safe haven is most evident when priced in Japanese yen. Following the tariff news, yen-based gold prices hit their lowest level since August. In JPY terms, prices are down 5% since the stock market correction at the start of February.

Competition from other assets and frustration over stale dollar-based returns has resulted in

an exodus of fund positioning with no real conviction for shorting either. Comex open interest has fallen 17% from its January high and 7% in March alone. Net money manager positioning was flat in the week ending Tuesday 6th but this masked a general withdrawal by both longs and shorts. Similarly, short interest on the SPDR ETF actually ended February at the highest level since November though this was largely the result of a decline in long holdings overall.

In our last [precious note](#), we cautioned that a return in real yields could further divert flows. However, whilst real rates have indeed settled in higher, the upturn in inflation-linked swaps seems to have actually peaked for now. The fact that steel and aluminium tariffs did not trigger a deeper bond sell-off beyond inflationary bets showed that the contagion to US holdings and indeed the dollar was fairly benign. Now that the proposals are watered down (i.e exemptions) it might seem like a smart move, but our FX team remains cautious, noting that [Trump's trade war is a reason for foreign investors to shy away from US Treasuries](#). All eyes will be on US Treasury auctions this week for signs of major trading partners diversifying away from US debt holdings. Weakness in US holdings ought to weigh upon the dollar and boost safe-haven inflows, whether gold can begin attracting these allocations will determine the near-term outlook.

Gold positioning exodus (Comex open interest, '000 lots)



Source: CME, ING

All eyes on inflation data tomorrow

The highlight of the economic calendar will be the US inflation data tomorrow, with wounds still sore from the inflation-induced equity sell-off in February. Friday's US jobs report showed that payrolls increased by 313,000 last month and well above the market consensus, but wage growth slowed to 0.2% from 0.1% the month before. Filling vacancies without raising pay points to non-inflationary growth, which is not a positive development for gold though [our economists have raised doubts](#). Other reports show businesses struggling to find workers, which suggests future payrolls will slow and pay growth will quicken. Consumer price inflation could hit 3% by the summer, which drives our constructive forecasts for gold this year.

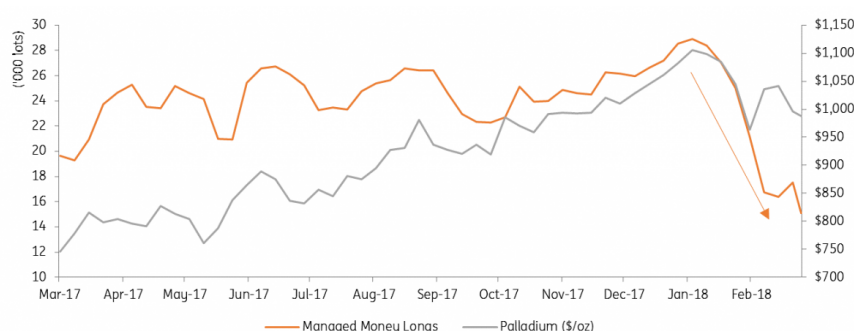
Trump tariffs hit palladium hardest

Palladium was the most immediate victim of President Trump's tariffs, with prices falling 5% the next day. Commenters speculated that higher input costs for aluminium and steel could hit US auto markets and spill over into the global trade of parts and vehicles. The US traded nearly \$430 billion in vehicles, parts and accessories in 2017 and auto dealings with Europe became a hot topic in the Twittersphere. However, we think the scale of the move was more a reflection of the prevailing ongoing liquidation in palladium than a precise link to fundamentals. CFTC data shows

that managed money has liquidated by more than 50% since peaking in mid-January.

The platinum-palladium ratio recovered slightly on the post-tariff sell-off but remains comfortably below parity. The forward curves have pushed back platinum overtaking palladium until December 2018 compared to a June date last month. Based on our own forecasts, we don't think such a move will happen for the next few years due to platinum's weaker fundamentals with the palladium backwardation actually making it more expensive for investors to short the ratio. For platinum, another jolt comes from Germany where the top court validated cities' rights to limit/ban diesel cars in the city centre to fight pollution. The ruling could have wide repercussions across Europe, where nearly half of the vehicles are diesel-powered – diesel cars emit nearly 8-10 times more nitrogen oxides than gasoline.

Palladium managed money longs down by over 50%

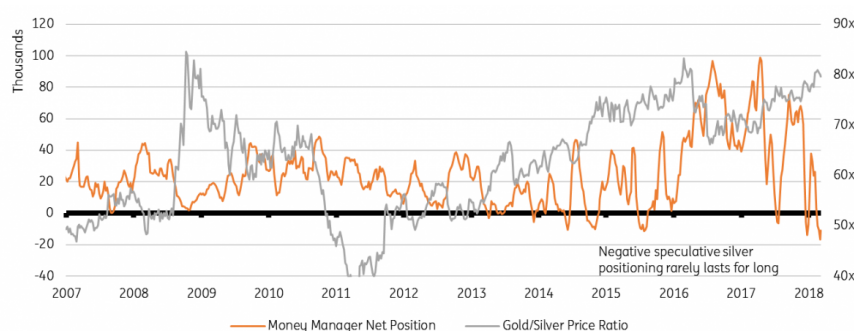


Source: CME, ING Research

Silver: Still undervalued to gold

The gold-silver ratio remains around the 80x level seen during the great financial crisis, deeply inconsistent with our positive outlook for the global economy. Silver money manager positioning data remains net short for four weeks running which has only happened three times since 2006 and, at the most, lasted six weeks. It seems highly likely therefore that silver fund positioning will soon turn.

Net short silver positioning rarely lasts long



Source: CME, ING Research

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com