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Emirates NBD

## Commodities

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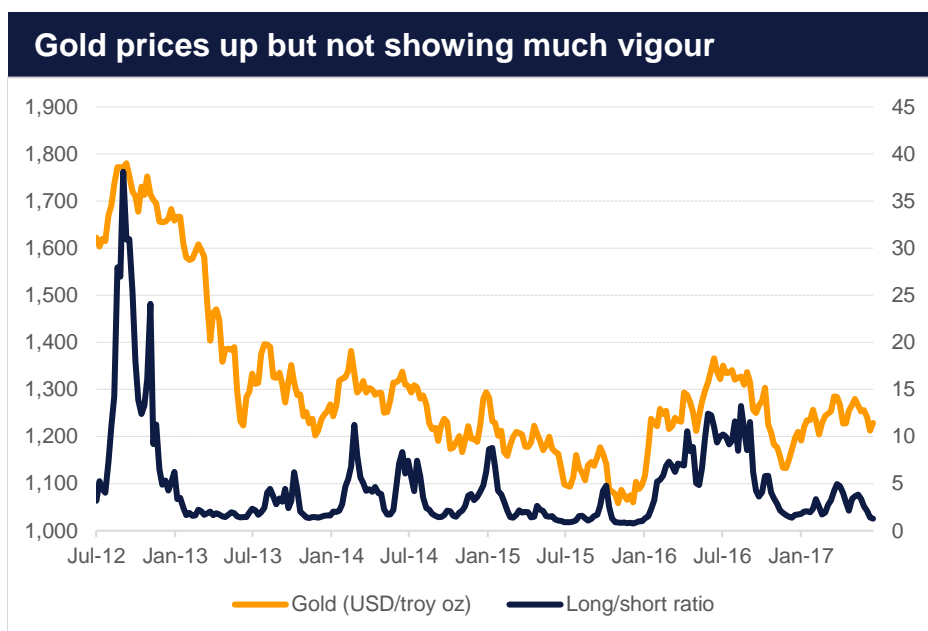
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# Gold update

Is it time for a rethink on gold? Since the start of the year the yellow metal has gained more than 7% and has hewed to a range roughly between USD 1,200-1,290/troy oz. Despite two Fed rate hikes this year, gold has still managed a positive return and as market views on further rate hikes this year grow cloudier gold prices have gained in recent weeks.

Is there room for gold to break higher? The recent push upwards has been on the back of somewhat disappointing data out of the US, in particular the lackluster performance of inflation and wages, and dovish commentary from Janet Yellen, the Fed Chair, in her recent testimony to the US Congress. Should the weakening inflation trend persist it will help sow doubts about more rate moves this year and will create positive conditions for gold prices. Nor does gold look particularly crowded or expensive at the moment. The daily relative strength index is roughly in mid territory and investor positioning is relatively limp. Net speculative length is at just 27k contracts in gold futures and options, its lowest level all year, and the ratio of longs to shorts is similarly at historically low levels.



Source: EIKON, Emirates NBD Research.

However, over the remainder of 2017 we see few risk events that could support gold at higher levels. In 2016 the twin shock events of Brexit and the US election helped provide short-term upward moves but ultimately these were unwound as market fundamentals reasserted themselves. With no upcoming event holding nearly as much market significance we don't expect geopolitics will provide a boost to gold prices for the remainder of 2017.

Volatility in gold markets is also lingering at multiyear lows, suggesting there may not be much more topside on the cards even if market sentiment remains supportive toward gold in the short-term. The conditions that are creating positive sentiment for gold—declining rate hike prospects and a weak USD—are also helping keep equity markets at elevated levels, offering up some competition for investor funds.

We had expected Q2-Q3 to be the high points for gold this year and are holding to this view. By Q4 we still expect at least one further rate hike from the Fed and notwithstanding the recent patch of soft economic data, the employment market in the US will start to assert itself and help to push wages, and consequently prices, higher. We expect gold prices will decline in Q4 to an average of USD 1,180/troy oz from USD 1,275/troy oz in Q3.

For 2018 the prospects may be brighter. If the recent failure to pass healthcare reform through the Congress is emblematic of the policymaking performance of a Trump presidency, it does not bode well for more substantive economic or tax reform. Should the economy start to shudder, affecting equity markets, and the Fed follows through on Ms Yellen's caution that the topside for rates may be approaching soon, then gold's safe haven status could be alluring once again.

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