

Market Headline: Gold rebounds on drone attack on Saudi oil installations

The Monday Morning Updates

- Gold rebounds off \$1700, but headwinds from rising global bond yields and Dollar remains.
- Drone attack on Saudi oil installations helps Gold regain safe-haven status

Early Asian Trade and Market Commentary

Gold prices firmed up on Monday morning above the psychological \$1700 in Asia but still with the shadow of rising yields and a stronger Dollar overhanging over it. Precious metal prices firmed as reports tickled in about drone and missiles attacks on Saudi oil installations. Gold were up 0.5% and Silver 1% at 0700 SGT

Yemen's Houthi forces fired drones and missiles at the heart of Saudi Arabia's oil industry on Sunday, including a Saudi Aramco facility at Ras Tanura vital to petroleum exports, in what the Saudi's described as a failed assault on global energy security. The defence ministry said the armed drone was intercepted and destroyed prior to reaching its target. Houthis have also announced the attacks.

Gold and silver prices had on Friday moved lower, with gold at a new 9-month low and silver at a new 5-week low. Precious metals on Friday fell for the third day on dollar strength and rising T-note yields. The dollar index on Friday rallied to a 3-1/4 month high above 92, and the 10-year T-note yield climbed to a new 1-year high of 1.624%. Losses in silver prices were limited by Friday's better-than-expected U.S. payroll report.

Gold and Silver prices rose on Monday above Friday's highs, reversing Friday's losses as geopolitical risks drove safe-haven buying. Precious metals prices rose as tensions remain high in the Middle East between the Saudi Arabia and Houthis in Yemen in a clear escalation of hostilities. The Saudis have said that a recent U.S. decision to revoke the designation of the Houthis as terrorists had fuelled the rise in attacks. The White House has moved to ditch the designation, which was adopted toward the end of President Donald Trump's time in office.

The Drone attack highlights the fragile geopolitical conditions that exist in the Middle East and many other regions. Safe-haven demand plus dovish central bank expectations had supported the rise of gold last year but the two drivers have waned in driving precious metal prices higher. Funds that had in 2020 been buying gold have been liquidating their holdings in ETFs. Holdings fell to an 8-month low Thursday, down from October's record high of 3,459.8 metric tons.

Written By: Avtar Sandu
Rep No.: ASX100038851
Phone: (65) 65311509
Email: avtar@phillip.com.sg
pfpl_commentaries@phillip.com.sg

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Long silver positions in ETFs have however soared to a record high Feb 2 of 1.017 billion troy ounces, although long silver positions fell to a 1-month low last Tuesday.

Despite safe-haven buying of Gold, headwinds remain for prices as the dollar rose past the February highs on Friday and global bond yields continue to recover from historical lows. U.S. Treasury yields surged again on Friday following a larger than expected US employment report.

The benchmark Comex GC April had been testing support at \$1700 for the last week, touching a low of \$1683 an ounce Friday before rebounding. The \$1700 for gold is an important psychological level as it signifies 60% of retracement of the bull run of Gold from March \$1450 to August \$2070.

Although gold prices have found buying at the lows, prices need to press through previous support turn resistance at \$1760 to reclaim its bullish trend. Focus also remains on the development of the \$1.9 trillion stimulus bill that will be debated in the U.S. House again this week. The Senate has approved the proposed bill but with amendments.

The Comex GC April21 contract settled -\$2.20 at \$1698.5 an ounce. The Comex SI Silver May21 closed -\$0.174 at \$25.287.

Market View

Although the long-term structural drivers that drove Gold to historic highs last year remain in the bigger picture, the fundamental drivers have seen its impact eroded by the opening up of economies. Although the advent of vaccines has placed a ray of hope in eradicating the coronavirus, mass vaccinations is still deeply challenging. Yet green shoots are emerging in some of the Covid ravage countries as indicated by better economic activity and one-shot vaccines.

Although Gold has lost much of its appeal for investors in 2021 as compared to 2020 and the technical picture has deteriorated in favour of the bears rather than gold bulls, deep corrections of prices are still viewed as buying opportunities. Our market view remains bullish for the long term despite the pressure that prices had from rising global government bond yields, which had incidentally also help the Dollar.

Daily Comex GC April21 Futures



(Courtesy of Phillip Nova)

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