



## KF Spotlight : Can Gold Sustain Around USD1,500?

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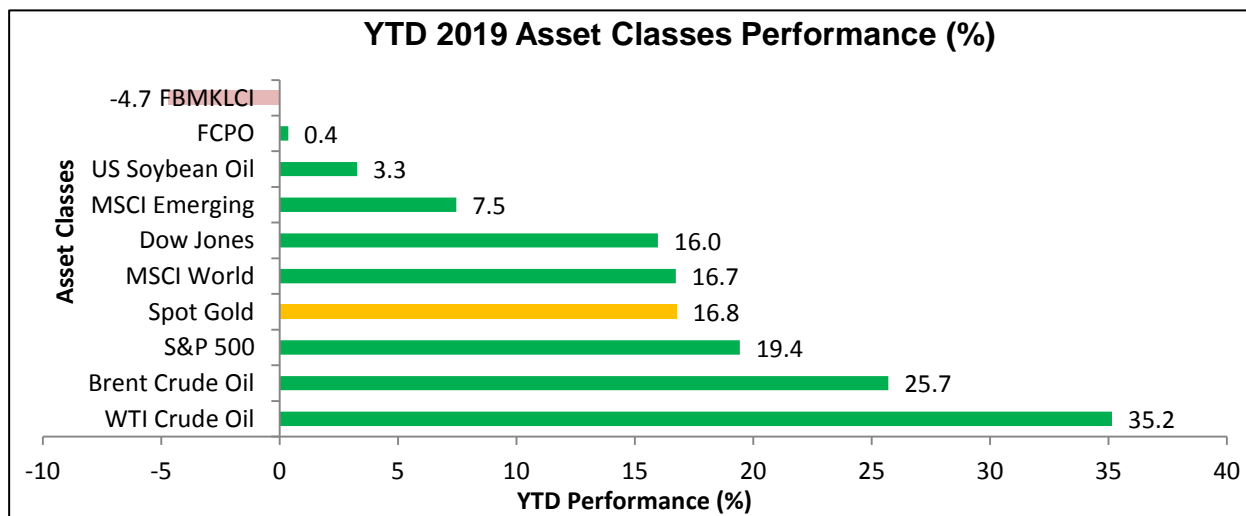
Spot gold had crossed USD1,500 per ounce on 8 August 2019, the first time since April 2013 as investors and traders look to gold as a safe haven amid the ongoing global geopolitical turmoil and uncertainties surrounding the U.S.-China trade war. With no clear resolution in sight and prospects of more US interest rate cuts in the cards, gold has been generating more interest from traders.



Source : Bloomberg

## How does it fair against other asset classes so far this ever?

Gold price has been performing relatively well this year compared to most other asset classes.

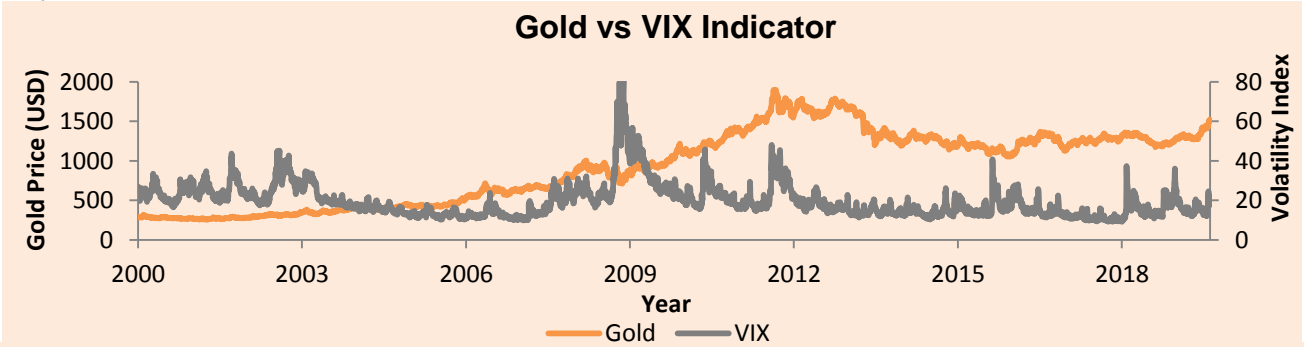


Data as at 16 September 2019

Source : Bloomberg

## Gold : A good hedge in times of volatility?

VIX, or better known as CBOE Volatility Index, is a real time market index that measure the stock market's expectation of volatility implied by S&P 500 index. Also known as "Fear Index", investors and analysts often used VIX indicator to measure the market risk, fear and stress before making any investment decisions



### Explanation

Source : Bloomberg

- VIX is used as a contrary market indicator, whereby the low readings on the index indicates calm, while higher readings typically represent fear. In other words, when there is little volatility, traders generally lack significant levels of fear and vice versa.
- Based on the chart above, the VIX readings, or level of fear, peaked in the fall of 2008 in relation to the Lehman Brothers' bankruptcy and concerns over the collapse of the financial system, where the VIX skyrocketed to near 80.
- However, as we can see, gold continued to rise even during the time of extreme uncertainty like the one in 2008 as it can provide a buffer against any shock and risk.
- In addition, the correlation reading between gold price and VIX indicator over the past 2 years show a value of 0.114 which suggest a weak positive relationship.

### Correlation of Gold with Other Major Asset Classes

Asset Classes	Correlation
S&P Index	-0.13
Dow Jones	-0.14
WTI Crude Oil	0.00
Brent Crude Oil	-0.00
US Soybean Oil	0.13
US Treasury 10Y Yield	-0.48

Source : Bloomberg

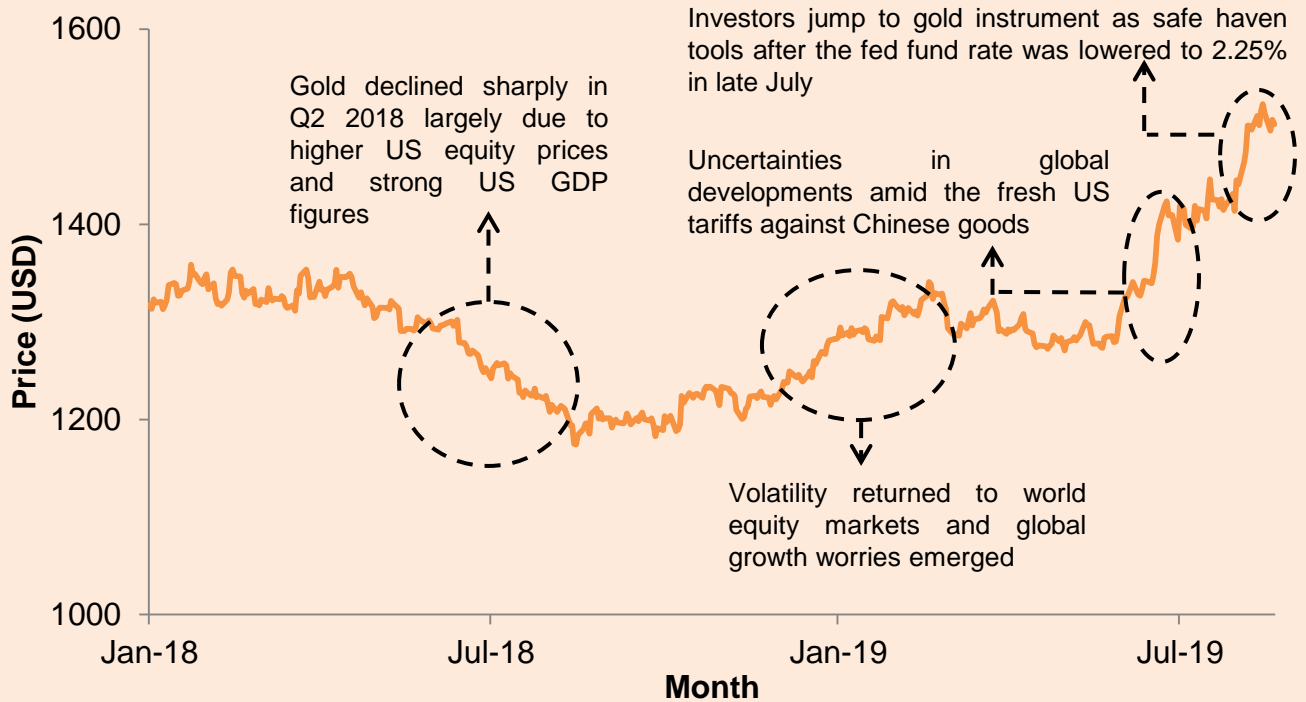
A further research also indicates that changes in the price of gold do not correlate with changes in the prices of other major asset classes regardless of the health of economics. Looking at the table above, gold price has a negative correlation with US Treasury yield while having close to zero correlation with other asset classes in terms of daily price change over the past 2 years.

## A Closer Look on Gold



### Gold Price Performance Since 2018

2018 Price Performance (%)	-1.56	YTD Price Performance (%) As at 16/9/2019	+16.80
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Source : Bloomberg

### KF Views

- Weaker global economic growth may soften gold consumer demand in near term, but the increased in market uncertainty and protectionist policies should continued to make gold increasingly attractive as hedging instrument in the long term.
- Expect gold market to be flat to rising over the next 12 to 18 months, with investment demand set to remain healthy.

### 2019 Gold Price Forecast

J.P. Morgan	Goldman Sachs	London Market Bullion Association
USD 1,294	USD 1,325	USD 1,325

## Factors to Watch in 2019



### US Dollar : Depreciation ahead?

- Under normal circumstances, gold and dollar share an inverse relationship whereby any weakness in the dollar pushes up the gold prices and vice versa as investors look for an alternative investment sources to store value.
- On YTD performance change, US Dollar index has recorded a growth of 2.13% on the back of healthy US economic data where the economy grew 2.1% in Q2 2019.
- Nevertheless, Q3 2019 witnessed the Federal Reserve (Fed) had trimmed its benchmark rates twice in July and September as an adjustment to weather uncertainty.
- More interest rates cut in the future would caused US dollar to weaken which would eventually increase gold demand.



### Impending US Recession : A possibility or Unlikely?

- Despite the encouraging US economic data with healthy GDP numbers and steady job market, unfortunately, few signs that a recession is coming exist.
- An inverted yield curve formed on 14<sup>th</sup> August 2019 which has historically been viewed as an indicator of a potential coming economic recession.
- In addition, Bank of America Merrill Lynch points out that the proportion of fund managers expecting a global recession in the next 12 months was at its highest since 2011.
- Although some experts have argued this sign is debatable, the ongoing uncertainty would continue increasing the gold prices.

### KF's Gold Products Offering

Product	BMD Gold Futures	Micro Gold	100oz Gold
Product Symbol	FGLD	MGC	GC
Contract Size	100 grams	10 troy ounces	100 troy ounces (31.1035 gram)
Minimum Price Fluctuation	RM 0.05 per gram	\$0.10	\$0.10
Value per tick	\$5.00	\$1.00	\$10.00
Settlement	Cash Settlement	Physical Delivery	Physical Delivery
Trading Hours (Malaysian Time)	1 <sup>st</sup> Session: 0900–1230 2 <sup>nd</sup> Session: 1430 - 1900	0600 – 0500 (Daylight Saving Time) 0700 – 0600 (Non-DST)	0600 – 0500 (Daylight Saving Time) 0700 – 0600 (Non-DST)

Source : Burse Malaysia & CME Group

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