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Gold no longer a safe haven?

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- **Gold behaved like a safe haven before November 2003…**
- **…but the gold has evolved from being a safe-haven asset to a speculative asset**

Introduction

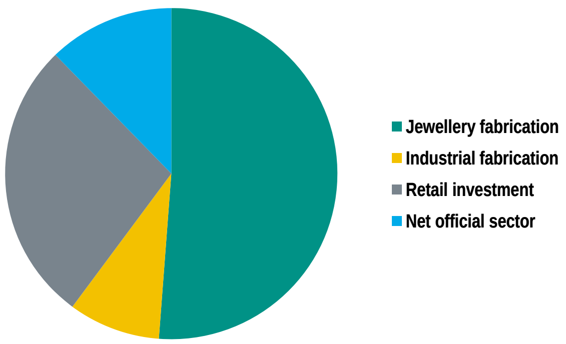
Gold is often referred to as a safe haven asset. Such an asset is in high demand in times of high uncertainty because it is seen as a relatively safe store of value. Indeed, gold prices have rallied this week as investor sentiment deteriorated on China. In this note we argue that gold used to be a safe haven asset but this is no longer the case[1].

Gold behaved like a safe haven before November 2003…

Before the introduction of gold exchange traded funds in 2003, gold behaved as a safe haven asset. In periods of risk aversion where safe haven assets are favoured, equities tend to fall, equity volatility tends to rise and 10y US Treasury yields tend to fall. Before November 2003 gold prices in general moved in tandem with equity volatility while to rose when equities sold off and US Treasury yields moved lower.

Gold retail demand as % of total demand

September 2015 in %



Source: GFMS Thomson Reuters

…but the gold has evolved from being a safe-haven asset to a speculative asset

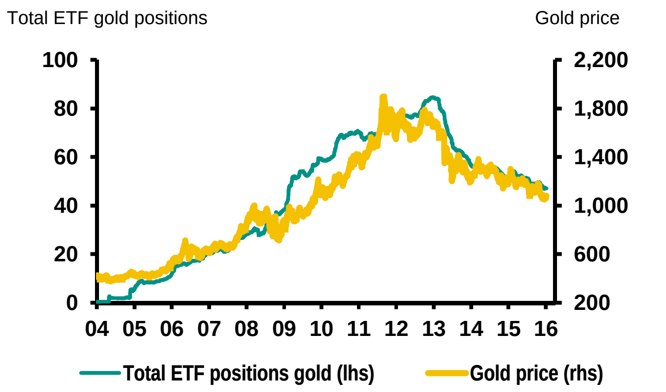
In November 2003 gold exchange traded funds were introduced. With this introduction, investors have been facilitated in taking speculative positions in the gold market. A few

[1] The following analysis is based on our econometric model of the gold price

years earlier futures on gold were already introduced but the introduction of gold ETFs have opened the market to the wider public. Investors invest in speculative asset based on their expectations of future returns (in the form of expected price appreciation or income such as coupons or dividends). The introduction of ETFs has resulted in a sharp increase of retail investment into gold. Whereas in March 2000 retail investment accounted for 1.4%of quarterly gold demand, in September 2015 it accounted for 27% (see graph above).

Did the above mentioned relationships change? In one word yes. The relationship with the US dollar has become strongly negative. Currently, the US dollar is the most dominant force driving gold prices. More surprisingly since 2003 the relationship between equity volatility and gold prices has changed sign meaning that a lower VIX (improved investor risk appetite) has coincided with higher gold prices and vice versa. Another interesting development is that the relationship between changes in gold prices and 10y US Treasury yield has also become negative. So periods with lower 10y US Treasury yields coincided with periods of higher gold prices and vice versa. All this means that gold prices no longer have safe haven characteristics. Even though in general this may be the case, there are periods that investors buy gold because investor sentiment deteriorated as seen this week. However, our research suggests that this is an exception to the rule.

ETF positions and the gold price



Source: Bloomberg, ABN AMRO Group Economics

ABN AMRO precious metals forecasts

Changes in red/bold

End period	05-Jan	*Close 14*	*Mar-15*	*Jun-15*	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	
Gold	1,081	*1,185*	*1,184*	*1,172*	*1,112*	*1,061*	975	950	925	900	900	950	975	1,000	
Silver	14.0	*15.7*	*16.6*	*15.7*	*14.5*	*13.9*	13.5	14.0	14.5	15.0	15.5	16.0	17.0	18.0	
Platinum	894	*1,216*	*1,141*	*1,081*	*910*	*894*	775	800	850	900	950	1,000	1,050	1,100	
Palladium	545	*798*	*736*	*674*	*652*	*562*	500	525	550	600	625	650	675	700	
Average	***Q1 15***	***Q2 15***	***Q3 15***	**Q4 15**	**2015**	**Q1 16**	**Q2 16**	**Q3 16**	**Q4 16**	**2016**	**Q1 17**	**Q2 17**	**Q3 17**	**Q4 17**	**2017**
Gold	*1,218*	*1,193*	*1,126*	*1,104*	*1,160*	1,018	963	938	913	958	900	925	963	988	944
Silver	*16.7*	*16.4*	*15.0*	*14.8*	*15.7*	13.7	13.8	14.3	14.8	14.1	15.3	15.8	16.5	17.5	16.3
Platinum	*1,194*	*1,129*	*993*	*908*	*1,055*	834	788	825	875	830	925	975	1,025	1,075	1,000
Palladium	*786*	*759*	*618*	*606*	*691*	531	513	538	575	539	613	638	663	688	650

Source: ABN AMRO Group Economics

Find out more about Group Economics at: **https://insights.abnamro.nl/en/**

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