Commodities Strategy

Physical Bullion short squeeze to drive gold above USD 3,000/oz

Monday, 10 March 2025

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- This report is a reproduction with more details of the commentary on gold written in the Commodities Strategy section of the latest Quarterly Global Outlook 2Q25, published on 07 Mar 25.
- Trade tariff uncertainties have resulted in a strong and sudden shipment of gold bullion back into COMEX and the US, triggering a global short squeeze in gold.
- Existing key positive drivers for gold remain intact, these include strong safe haven demand, strong central bank buying, on-going local currency depreciation supporting domestic retail demand and more recently, increasing worries of a growth slowdown.
- As per the Quarterly Global Outlook 2Q25, published on 07 Mar 25, we maintain our positive outlook on gold and have updated our quarterly forecasts further to USD 2,900 / oz for 2Q25, USD 3,000 / oz for 3Q25, USD 3,100 / oz for 4Q25 and USD 3,200 / oz for 1Q26.

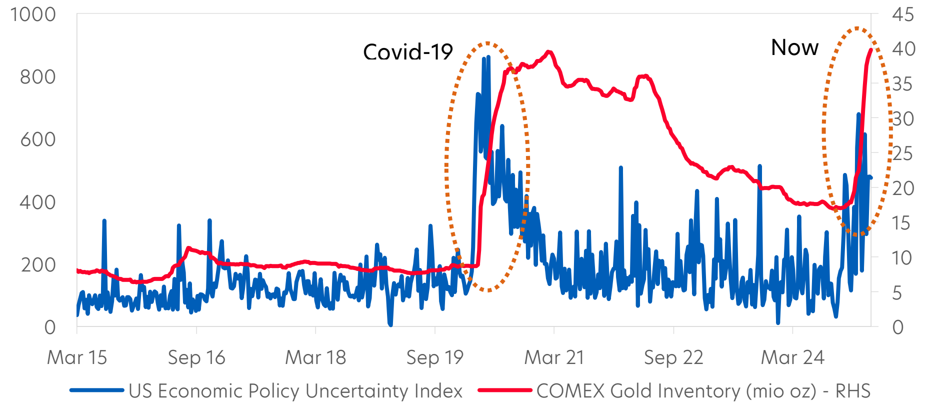
Global short squeeze in gold bullion triggered by trade tariff uncertainties

Since late last year, we have highlighted that the main key positive driver for gold remains that of long-term safe haven demand which is likely to stay strong. Amidst the escalating US trade policy uncertainties, this safe haven demand for gold has intensified since the start of 2025 and manifested itself in terms of the gold bullion short squeeze witnessed across the globe.

Worried that President Trump may eventually impose blanket tariff on the exports from Europe to the US, investors decided to err on the side of the caution to ship gold bullion back from various parts of Europe, particularly Switzerland and from the vault of the Bank of England (BOE). As a result, physical gold inventory on COMEX jumped back to the post-Covid high of just under 40 mio oz.

Chart 1: COMEX Gold inventory soars amidst rise in economic uncertainty over trade tariffs

Source: Bloomberg, UOB Global Economics & Markets Research

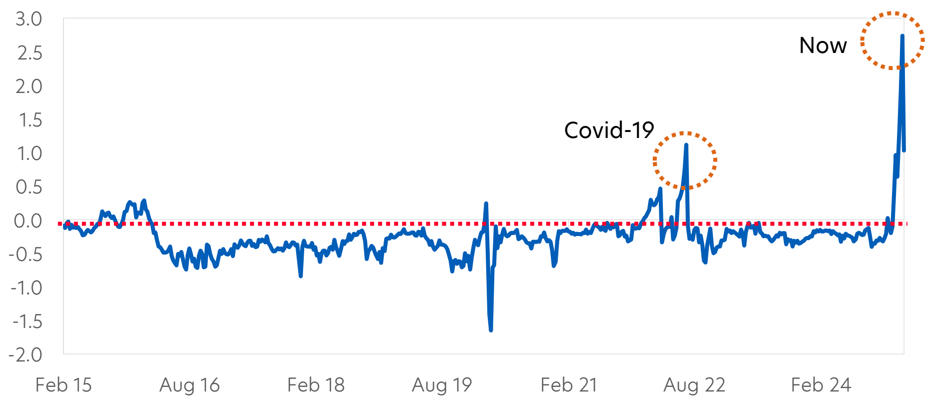


Typically, a rise in metals inventory on exchange is viewed negatively as a sign of weak demand. But the circumstances this time round are very different. As mentioned above, the uncertainty over the tariff situation has resulted in a strong and sudden flow of gold bullion back to the US, resulting in a short squeeze of gold bullion across the world.

By mid-February, South Korea's state-run Korea Minting and Security Printing Corporation (KOMSCO) has temporarily suspended sales of gold bars due to "difficulty in procuring raw materials". Various Asian countries also witnessed a jump of gold shipment to the US, with Singapore, a key gold storage and refinery hub in South East Asia, reporting a 27% jump in gold shipment in Jan.

Chart 2: Gold 3M implied lease rates spikes to new high amidst bullion short squeeze

Source: Bloomberg, UOB Global Economics & Markets Research



The hallmark signs of a short squeeze are unmistakable including a spike in gold 3-month implied lease rate above 2%. Although it is noted that gold lease rate has since somewhat moderated back down to 1%.

Chart 3: Gold futures curve contango has intensified further

Source: Bloomberg, UOB Global Economics & Markets Research

The contango for gold across the futures curve has increased further, signaling stronger long-term demand for gold. In fact, at the moment of writing, the gold futures for Dec25 delivery is now pricing a contango "premium" in excess of USD 100 / oz, implying a futures prices of USD 3,015 / oz.

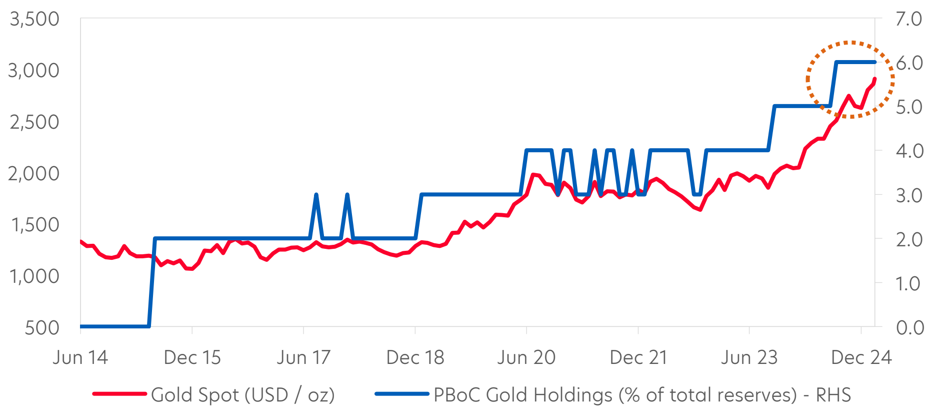
Overall, the various key positive drivers for gold remain intact

1. Safe haven demand for gold remains strong amidst increasing global trade and geopolitical uncertainties.

2. The increasingly uncertain and volatile nature of Trump administration's trade policy will likely reinforce the flow of gold bullion into COMEX and US, reinforcing the on-going global short squeeze in gold.

Chart 4: PBOC has been progressively lifting its gold reserve allocation

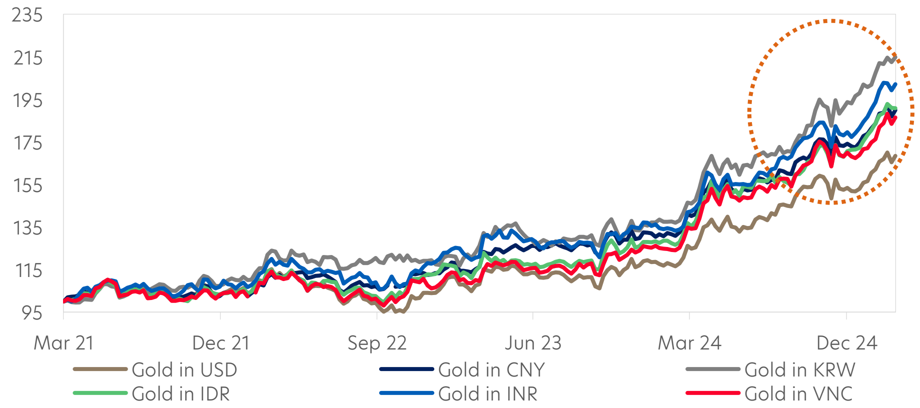
Source: Bloomberg, UOB Global Economics & Markets Research



3. Global central banks remain strong buyers of gold. The latest update by World Gold Council (WGC) in early March affirmed that central banks bought a net 18t of gold in January 2025 alone. Asian central banks like China and India continued to lead the accumulation in gold reserves, followed by other central banks across the Emerging Market space, e.g. Uzbekistan and Kazakhstan. Other central banks like National Bank of Poland, Czech National Bank and Qatar Central Bank were also reported to be net buyers as well.

Chart 5: Asian currency weakness magnifies price of gold in local currency terms

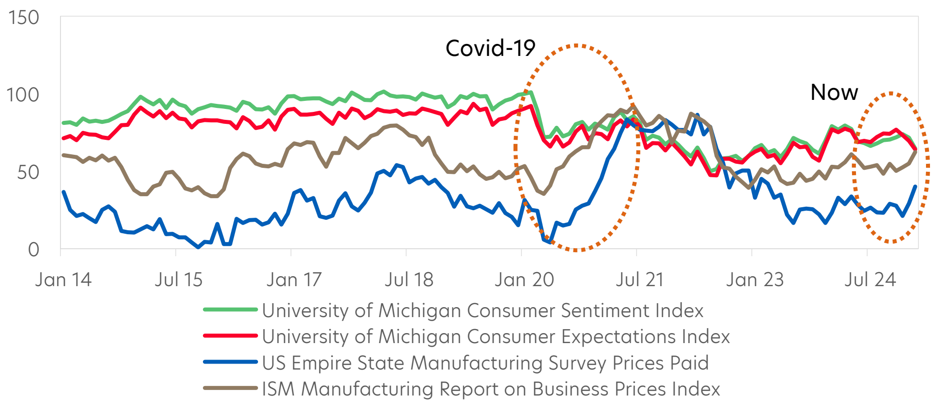
Source: Bloomberg, UOB Global Economics & Markets Research



4. On-going depreciation in domestic EM and Asian currencies (e.g. CNY, IDR, INR, KRW, VND etc) serve to magnify the price of gold in local terms and support on-going strong retail demand for gold as a long-term store of value.

Chart 6: Nascent signs of US sentiment slowdown amidst sticky price expectation

Source: Bloomberg, UOB Global Economics & Markets Research



5. With the start of increased trade tariffs against China and potential implementation of more trade tariffs from April, there is an increasing concern amongst global investors of a potential growth slowdown in the US amidst sticky inflation. Indeed, some of the consumer sentiment indices in the US have dropped, while prices paid and inflation expectations indices have picked up. Ironically, this increasing worry of growth slowdown reinforces the demand for gold as a safe haven hedge. Although it is noted that our base case remains that of modest US GDP growth of 1.8% for this year.

We raise our positive forecast for gold further to USD 3,200 / oz for 1Q26

In summary, we keep our positive view for gold as long term safe haven demand needs will likely stay strong amidst further rise in geopolitical risks and economic risks from Trump 2.0 trade policies.

As per the Quarterly Global Outlook 2Q25, published on 07 Mar 25, we have updated our quarterly forecasts to USD 2,900 / oz for 2Q25, USD 3,000 / oz for 3Q25, USD 3,100 / oz for 4Q25 and USD 3,200 / oz for 1Q26. Previous quarterly forecast was USD 2,800 / oz for 2Q25, USD 2,900 / oz for 3Q25 and USD 3,000 / oz for 4Q25. Prevailing spot reference rate is USD 2,905 / oz.

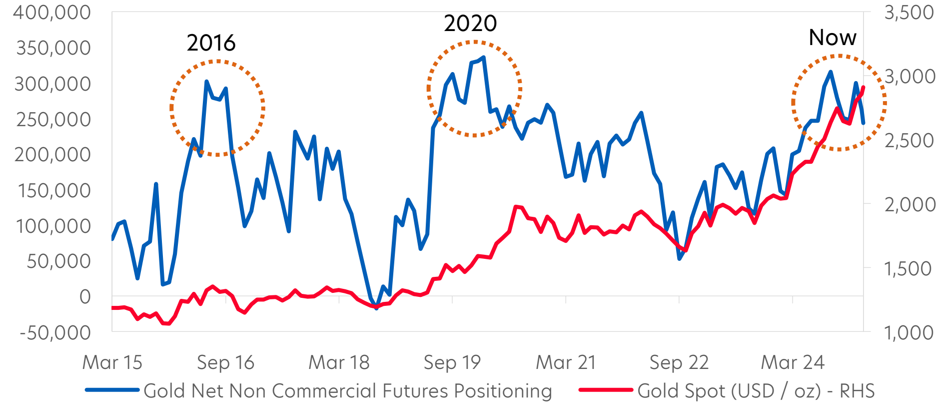
Worth noting that net long positioning has reached historic high yet again

Net non-commercial futures positioning in gold is now back to decade high yet again, at levels last seen during the previous peaks in 2016 and 2020. This should not come as a surprise given the strong positive consensus for gold amidst the strong safe haven demand.

Net long positioning for gold can stay elevated for extended period of time should safe haven demand persist. However, the high level of net longs implies that some short term volatility may be in store for gold should any negative news flow trigger any profit taking.

Chart 7: Net Non Commercial Futures Positioning is back near previous peaks in 2016 and 2020

Source: Bloomberg, UOB Global Economics & Markets Research



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