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Trade Booster

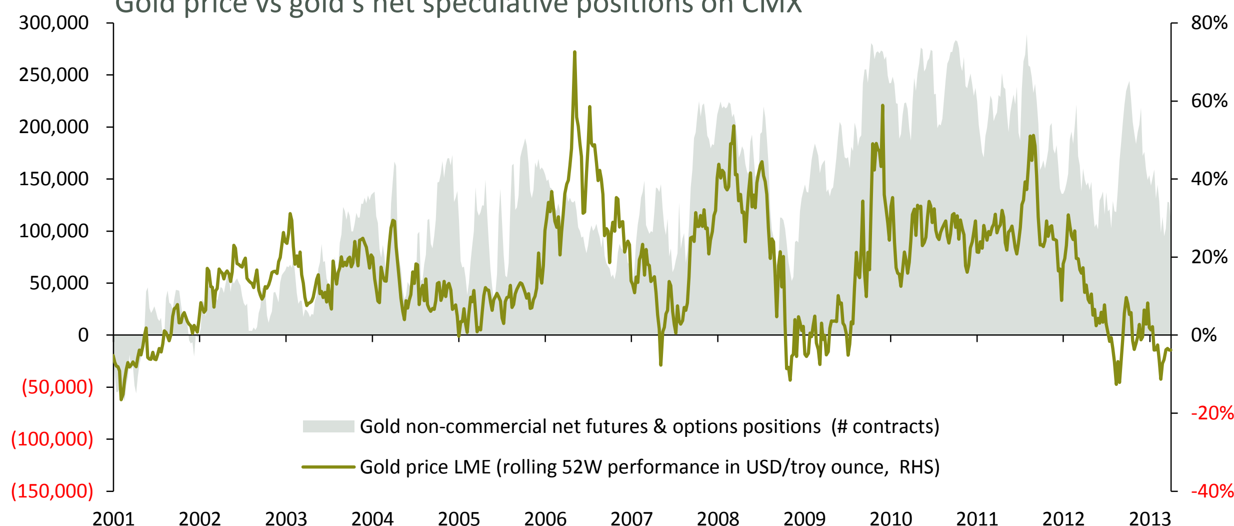
Friday's cat is out of the bag: time to continue to short gold

Summary

- **Gold rallied by 1.7% after last Friday's US job numbers, however the less significant US economic releases this week are expected to reverse gold's price momentum**
- **The unwinding of speculative long positions continues unabated and technical indicators for gold continue to signal weakness rather than strength**
- **Investors may consider Boost Gold 3x Short Daily ETP (3GOS) to profit from anticipated price declines this week**

Gold's price momentum is fading as traders unwind their long bet positions

Gold price vs gold's net speculative positions on CMX



Source: Boost Research, Bloomberg

The absence of significant macroeconomic data releases for the US and Eurozone over the week ahead could mean that there will be few if any negative surprises to feed Friday's price rally on gold. On the basis of weak technical indicators and steady unwinding of net long positions investors should consider a short position on gold through buying Boost Gold 3x Daily Short Daily ETP (3GOS).

Even after significantly weaker than expected US nonfarm payrolls, coming in at only 88K for March against consensus of 190K, the dollar's move was nothing short of unspectacular. Along with stocks, the EUR/USD lost less than 1% while gains in bond markets were of similar magnitude in the opposite direction. Furthermore, gold's technical indicators are weak: the price is now trading below its 50 and 200D moving averages and 30D RSI is also not challenged by its lower support bounds.

The chart above shows the momentum in gold prices since 2001 by looking at the performance over a rolling 52W period. If the price history is anything to go by, then the last time gold's price momentum faded with stretches of flat to negative yearly performance was during 2009. 2009 however was preceded by extraordinary price momentum of 40% yearly returns. In 2012, gold's price momentum came to a slow gradual halt after two years of 20% yearly returns. In this context, fading price momentum since 2012 is driven less by extreme events and dislocated markets, giving reason to believe that a rebound in gold price similar to 2010/2011 period is unlikely to be repeated. Referring again to the chart, if it wasn't for the 2008 credit crunch, the stagnant price of gold could have occurred 5 years earlier, when, following a strong global stock market performance, undermined the case for buying gold.

In addition, the fading momentum in gold prices this year is also closely related to the unwinding of speculative positions. At its peak, the number of net long positions on all futures

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and option contracts for gold traded on CMX was well over 200K - volumes built at times when markets were either distressed (i.e. during 2008) or exuberant (i.e. during 2010 and 2011). The net positions are volatile but bar the market's brief nervousness around Spain's banking system last summer, the net long positions have been gradually cut back to 130K. By historic standards these levels are by no means low, but equally it may take a lot more than Cyprus to match the risk-aversive market reaction instigated by Spain's banking crisis.

However, there are likely to be additional macro drivers at work that have forced gold lower. As will be argued in our Macro outlook this week, a key counterbalance to Eurozone's debt crisis has been the gradual recovery of the US. If currencies in any way reflect the two speed economies between the US and Eurozone in this cycle, then the dollar's stability should be reason enough to be bearish on gold.

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