

# Knowledge with Kenanga Futures

## COMEX Gold – A Case Study

### Gold Futures








Historically, physical gold bullion which form the underlying asset for the trading of gold futures, has been one of the most popular precious metal commodities due to its long legacy as a reserve for fiat currencies and is seen as a safe haven for investors.

It is also one of the world’s most widely used and produced precious metals due to high demand from various industries including jewellery, industrial and manufacturing applications.



In general, the top gold producing countries are as follows:

Country	Tonnes
 <b>China</b>	<b>383.2</b>
 <b>Russia</b>	<b>329.5</b>
 <b>Australia</b>	<b>325.1</b>
 <b>United States</b>	<b>200.2</b>
 <b>Canada</b>	<b>182.9</b>

Source: World Gold Council  
(Production volumes for 2019)

Gold futures contracts are traded based on the price movements in physical gold prices. Daily gold price movements can be tracked at COMEX Gold futures. For more on gold prices and trends, please visit: <https://bit.ly/2YuJ363>

To learn more about gold and gold futures trading, please visit: <https://bit.ly/34tqGlX>

- In general, gold prices tend to react according to general development of world events including
- Geopolitics and economic ties
  - Major monetary or economic policy announcements
  - Uncertainties in the financial markets

To know more on factors affecting demand and supply, please refer to: <https://bit.ly/2Qo39uc>

At the moment, one of the biggest factors that drives gold futures is the market perception of VUCA, a financial parlance for a volatile, uncertain, complex and ambiguous financial world. The VUCA situation has been exacerbated by the COVID-19 outbreak since the beginning of 2020 and the ensuing economic uncertainties.

The global gold market is very competitive and fragmented as well. The gold jewelry industry, aside from the usual products that are high in demand as wedding gifts or presents (such as necklaces, rings, earrings and bracelets), the other factors such as customer’s shift in purchasing behaviours to platinum or other precious metals will affect the demand. Besides jewelry, gold are also in demand in sectors that are related to medical equipment and as investments.

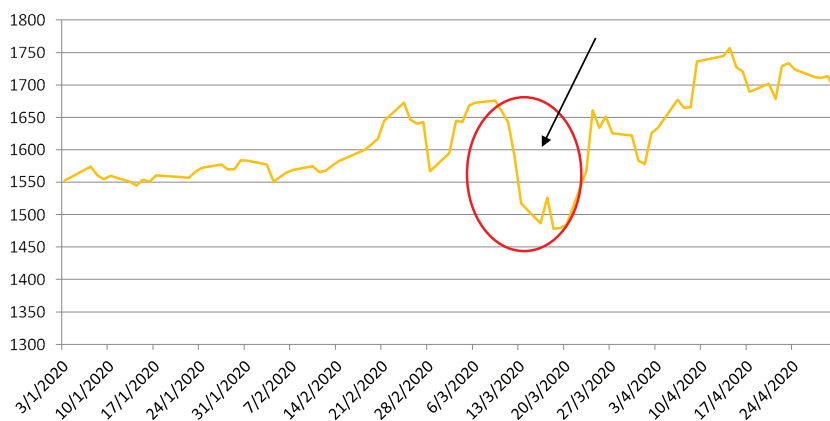
## Case Study



An example of volatility driven price movement in gold futures can be seen in March 2020, when a sharp decline in price was seen in the middle of the month. It is a particularly useful indicator on how gold prices react to events and how an investor can take position in gold futures market during this period.

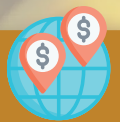
It was a time when the majority of the world's economies went into a lockdown mode in a bid to help contain the spread of the coronavirus pandemic. Investors were also keeping watch for the possible responses by governments across the globe to the deadly coronavirus, including in the U.S. on their USD2 trillion coronavirus relief package.

For illustration purpose, we take a look at the chart below (gold futures price movement 1<sup>st</sup> January – 30<sup>th</sup> April 2020), where gold futures was trading at USD1,672.4 an ounce on 6<sup>th</sup> March, but ended down 11% lower at USD1,486.5 a little more than a week later on 16<sup>th</sup> March.



Source: Bloomberg

## A Geopolitical and Trade Policy Led Price Movement



Looking back at events leading to the sharp decline, the price movement was in tandem with some of the largest sell-off in equity markets worldwide, as well as many other commodities such as crude oil. For commodities, it started on 6<sup>th</sup> March, when dominant crude oil producing nations known as OPEC and non-OPEC member Russia did not agree to continue limiting oil production past March 2020. That marked the largest crash in crude oil prices in the month. By 20<sup>th</sup> March, the spot price for West Texas Intermediate (WTI) crude oil tumbled by 65% from its price on January levels. Over the same period, the price for Western Canadian Select (WCS) crude oil in Alberta fell by 72% from USD40 per barrel to USD11 per barrel.

In particular, on 9<sup>th</sup> March, Brent price fell to USD31, down 25% from the previous week on 6<sup>th</sup> March. This period also marked some of the biggest selloff in equity markets worldwide. The correlation between gold and equity generally turns negative as commodity prices tumble. However, there seems to be an exception during periods of disorderly commodity selloff when volatility spikes to extreme levels during this period.

### Summary of Case Study

- Gold futures became part of the collateral damage in the commodity sell off as investors sold some of their holdings after some steady gains since the beginning of the year to cover some losses in other asset classes.
- However, as seen in the sharp price recovery after the selloff, buying interest soon return as gold's fundamentals remain intact as the best bet and considered as the safest hedge against inflation and currency debasement.
- Factors such as combination of low rates, ongoing global monetary and fiscal stimulus and COVID-19 uncertainty, there are plenty of catalysts in the market for the price of gold to be well-supported.



# Trading Strategies



One key point to note when it comes to futures contracts, investors can buy based on positive or negative future expectations and trends.

Futures contracts provide leverage through margin where an investor needs only put up a marginal sum of the contract value instead of the full amount of the contract value. In this case study situation, the volatile price movement periods would have provided opportunities for the following trade positions. Here is the example of a LONG (taking a position to buy) and SHORT (taking a position to sell) trading strategies for COMEX Gold.

Number of contacts x Price Movement x Minimum Price Fluctuation	
Note: * Tick refers to the minimum movement in points. For COMEX Gold, 1 tick = 0.1 (USD 10)	
LONG	SHORT
<b>Open Position</b> Buy 1 COMEX Gold futures @ 1590.3	<b>Open Position</b> Sell 1 COMEX Gold futures @ 1567.6
<b>Close Position</b> Sell 1 COMEX Gold futures @ 1642.3	<b>Close Position</b> Buy 1 COMEX Gold futures @ 1479.3
<b>Price Movement</b> 1642.3 – 1590.3 = 52 52 divided by 0.1 = 520 ticks	<b>Price Movement</b> 1567.6 – 1479.3 = 88.3 88.3 divided by 0.1 = 883 ticks
<b>Trade Summary</b> Number of contract x Price Movement x Minimum Price Fluctuation 1 x 520 x USD10 <b>= USD 5200 (gross profit)</b>	<b>Trade Summary</b> Number of contract x Price Movement x Minimum Price Fluctuation 1 x 883 x USD10 <b>= USD 8830 (gross profit)</b>

Going forward, is it imperative for those who are keen to get into gold futures trading to always keep an eye on the expected news flows on key economic issues such as:

- Interest rates movements or announcement on monetary policies
- US dollar strength or weakness and
- Any possible geopolitical developments

Contact us to learn more on how you can trade COMEX Gold with Kenanga Futures:



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