Deutsche Bank
Markets Research

Global

Commodities
Industrial Metals
Precious Metals

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Behavioral Finance: Daily Metals Outlook

An argument for official gold purchases

Gold (1193.00) Although gold market operators are currently pre-occupied with the prospect of the SNB finding itself obliged by referendum to buy large quantities of bullion, another central bank raised the same possibility yesterday: the ECB. As odd as it sounds, given the contentious internal debate this year over asset purchases in general, ECB board member, Yves Mersch, reminded journalists that the Bank could in theory buy any asset within a QE program. This could mean government debt, equities, ETFs, or even gold. Indeed, within an effective asset purchase program it matters not so much what the asset is, than who the seller is. Given that the eurozone banking system still appears to be a bottleneck in the monetary transmission mechanism, there might be some wisdom in bypassing it. Banks do not hold gold. However, this 'theoretical' possibility would quickly run into practical constraints, not least the volume limitations and the problem of having to pick winners and losers. However, the idea of gold purchases has merit because of the possible sellers. Much gold is held in private households, especially in countries like Germany. In some cases these are unwanted remnants of crisis-driven investments five years ago. A program that targeted these holdings would liberate dormant liquidity, some of which might even flow into consumption.

Time might be running out for gold to achieve the modest additional upside we pencilled in for it. We have again downgraded our goal, currently to **1209.00**. In addition, we would only revise our 'toppish' view if **1215.00/6.00** were to be broken. To the downside, the key support stands now at **1157.00**.

Silver (16.2100) Buyers persisted over the past 48 hours, but they weren't able to seriously challenge our **16.5500** hurdle. A surpass of this key remains a pre-requisite for us to paint an auspicious near-term picture, which would include a recovery to **17.1600** and **17.5700**. The door would close on this prospect if silver fails to hold the **15.6000/500** support. Then, avoiding fresh weakness would unfold.

Copper (6614) Yesterday's fall in iron ore prices (the Steel Index slumped over 4 percent) has left its mark on copper investors. Iron ore prices are now down 46 percent for the year and, as China accounts for almost half of the world's steel demand, the implications have understandably troubled copper bulls. Prices slid yesterday and the positive development is now in danger if our **6540/50** key support fails. While trading above there, we continue to offer some upside room up to the **6795** level.

Aluminium (2009) As feared, the demand at our $2012 key was finally exhausted yesterday. We now expect a decline to **1985** or even **1970**. In the meantime, we expect opposition to emerge on rebounds to **2041** and **2063/8**.

Resistance	
1239.00	MINOR
1233.00	MINOR
1215.00/6.00	MINOR+
1209.00	MINOR+
1193.00	*Actual*
1183.00	MINOR
1168.00	MINOR
1157.00	MINOR+
1140.00	MINOR
Support	

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	PLATINUM	PALLADIUM	LEAD	NICKEL	TIN	ZINC
	→	→	↘	→	↘	→
Resistance	1237	787	2056	16150	20030	2289
	1224	779	2038 (R)	15900	19850 (R)	2265
Supports	1172	759	1996 (T)	15550	19350 (T)	2230
	1159	744	1975	15250	19200	2204

Note: **T** = target, **R** = risk/reward-limit, **P** = potential Source: Cognitrend

Risks to Fixed Income Positions

Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor that is long fixed rate instruments (thus receiving these cash flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or the liquidation of positions), and settlement issues related to local clearing houses are also important risk factors to be considered. The sensitivity of fixed income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates - these are common in emerging markets. It is important to note that the index fixings may -- by construction -- lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. It is also important to acknowledge that funding in a currency that differs from the currency in which the coupons to be received are denominated carries FX risk. Naturally, options on swaps (swaptions) also bear the risks typical to options in addition to the risks related to rates movements.