FX Monthly Report- Gold Focus

February 2025

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FX Monthly Report

Published by:
Sucden Financial Limited
11 February 2025

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Gold Focus

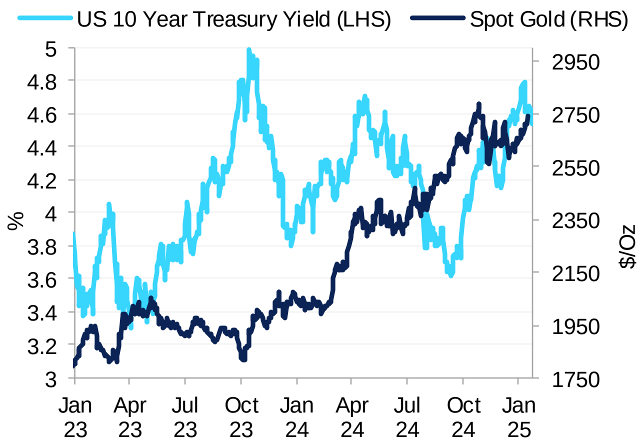
Gold delivered a strong performance in 2024, closing nearly 27% higher and reaching an all-time high of $2,790/oz in October. The rally has continued into 2025, with gold breaking record highs almost daily since late January. We expect gold to remain well-supported, driven by geopolitical and macroeconomic uncertainty. However, tariff-related volatility and liquidity constraints could trigger sharp price swings. While the long-term outlook remains positive, short-term corrections cannot be ruled out as markets adjust to shifting conditions.

Safe-Haven Demand

Historically, higher yields tend to suppress gold prices by increasing the opportunity cost of holding a non-yielding asset. Yet, the inverse correlation has weakened. Despite 10-year US Treasury yields remaining elevated, driven by expectations of more inflationary industrial policies under Trump, gold has continued to perform well. This divergence highlights intensifying demand for gold as a hedge against geopolitical and macroeconomic uncertainty. We expect this trend to be a key price driver in Q1 2025, particularly as markets navigate potential policy shifts and heightened volatility.

US 10 Year Treasury Yield vs Spot Gold

The traditional negative correlation between gold and yields has weakened recently.



Source: Bloomberg

In an effort to ensure stability, a new Prime Minister is expected to be elected as soon as possible. However, recent events underscore the challenges France must confront, particularly public debt. Despite potential government changes, budget decisions will remain complex until the legislative elections in June 2025, further complicating France's issues. As a result, the risk associated with France is likely to remain high, sustaining a higher risk premium in the country. In the meantime, the spreads between French bonds and Bunds should continue to widen.

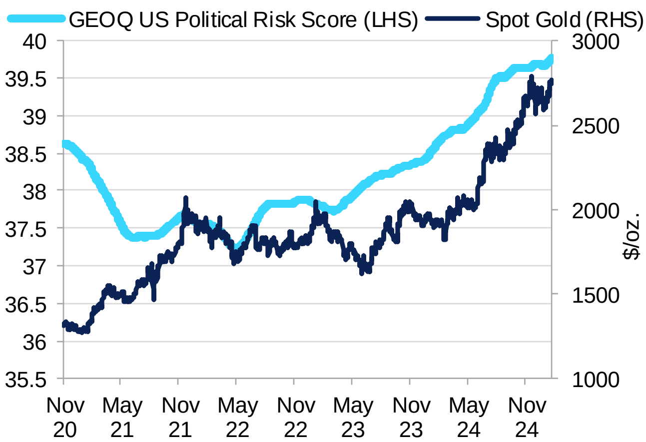
Strong Physical Demand

Physical demand remains strong, led by central bank accumulation. In 2024, Poland, Turkey, and India accounted for 70% of total reported net purchases, with Poland leading in Q2 and Q3. The National Bank of Poland (NBP) steadily increased its reserves in response to geopolitical risks and currency concerns stemming from the Ukraine conflict. By year-end, NBP's gold holdings had reached 448.2 tons (14.4 million ounces), with the central bank aiming for gold to comprise 20% of total reserves. China also resumed official gold purchases in late 2024, signalling renewed interest in gold as a strategic reserve asset. The People's Bank of China (PBoC) added 10 tons in December, marking its second consecutive monthly purchase. This brought China's official holdings to 2,280 tons, or 5.5% of total foreign exchange reserves—a 44-ton increase from 2023. Both China and India continue to use gold as a hedge against dollar dependency, reinforcing structural demand.

Seasonal demand is also playing a role. The Lunar New Year, historically a peak period for gold purchases in China, has driven strong consumer demand in early 2025. The Shanghai Gold Exchange's Au9999 contract hit record highs of 648 RMB per gram at the end of January. However, trading volumes have been declining, which may reflect tightening supply conditions driven by resumed central bank purchases or reduced selling from domestic investors. These factors suggest that while demand remains firm, liquidity on the exchange is shrinking, potentially supporting higher prices in the near term.

GEOQUANT's US Political Risk Score vs Spot Gold

Uncertainty around President Trump's policies drives gold prices higher.



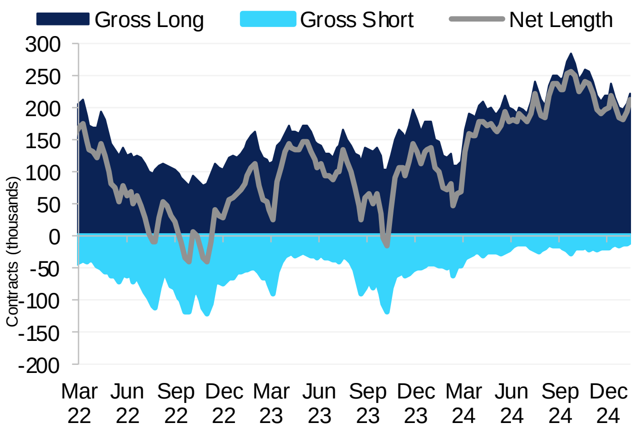
Source: Bloomberg

Tariff Uncertainty

Meanwhile, tariff-related uncertainty continues to weigh on gold, silver, and platinum. Elevated EFP premia have triggered a surge in gold inflows into COMEX inventories, as traders seek arbitrage opportunities. Since early December, COMEX stockpiles have expanded by over 6 million ounces, including record-breaking single day increases exceeding 1 million ounces in late January. At the same time, implied lease rates for short-term gold lending remain exceptionally high, reflecting tight liquidity for sub-one-month deliveries. With arbitrage constraints and reduced COMEX-OTC swap activity, pricing efficiency has deteriorated, leading to increased market uncertainty. Given these conditions, we anticipate heightened basis volatility, reduced spot liquidity, and greater execution risks in the near term.

COMEX Managed Money COT

Speculative positioning in COMEX Managed Money COT remains bullish.



Source: CFTC

Our Outlook

The outlook for gold remains bullish, driven by strong safe-haven demand, ongoing central bank accumulation, and geopolitical uncertainty. The breakdown of gold's traditional inverse correlation with yields highlights a shift in market sentiment, where investors are increasingly using gold as a hedge against macroeconomic and policy risks. However, structural market constraints, including tariff-driven basis volatility and liquidity challenges, may introduce sharp price swings.

Given these factors, we expect gold to remain well-supported in Q1 2025, with the potential to retest and surpass previous record highs, though short-term corrections may occur as markets adjust to shifting dynamics. We will closely monitor tariff developments, central bank buying trends, and market liquidity conditions, all of which will shape price action in the months ahead.

Desk Comments

GBP

The BOE delivered a 25bp cut to 4.5% but with a dovish signal as two members voted for a 50bp cut rather than the expected 7-1 vote. Mann shifted from a staunch hawk to an aggressive easing stance in line with her previously stating when she is convinced inflation is no longer a threat, she would shift to aggressive easing.

The BOE cut growth forecast down to 0.75% for 2025 and 2026 and raised its unemployment rate forecast to 4.5% in 2025 from 4.25%. GBP traded lower after the release.

Reeves welcomed the BOE decision, but growth projections will be of concern. If projections are correct, then Reeves would need to risk breaking her fiscal rules and cut spending or raise taxes. To enhance productivity, Reeves might need to make decisions that could be uncomfortable for a Labour government.

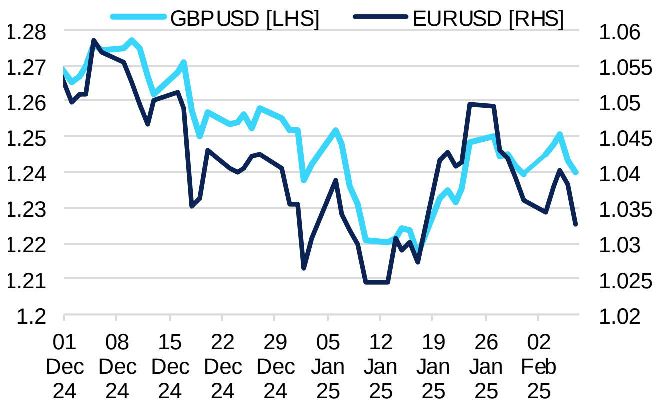
Inflation forecast raised from 2.75% to 3.5% for 2025 but there is acknowledgement this was not driven by domestic price pressures. Overall, the BOE raised prospects of a deeper cutting cycle than the market expected so we could see a continuation of GBP lower. However, the tariff narrative remains positive as Trump seems more positive on a relationship with the UK than other nations, so we expect GBP to gain against the crosses.

EUR

After seeing Germany's economy contract over the past two years and with unemployment on the rise due to challenges such as an ageing population, severance of Russian fuel supply lines as well as rising competition from Chinese manufacturers against the Eurozone, a key topic of the upcoming German federal election will be just how to revive such a struggling economy. This emphasises the importance of the result of this election as it will be a key factor of driving growth, not only Germany but the Eurozone as a whole.

GBP and EUR vs The Dollar

EUR and GBP remain in a broader downtrend.



Source: Bloomberg

Another constraining factor to growth more generally throughout the Eurozone will be Trump's decision on Tariff's within the area, while other factors such as the current pause in fighting within the middle east and Ukraine, and how long this could last only heighten uncertainties within the area.

Decembers retail sales fell more than expected month-on-month by 0.2%, however the year-on-year figure saw a rise of 1.9% compared to December 2023. This data raises the question as to the extent to which consumption can enhance growth within the Eurozone.

USD

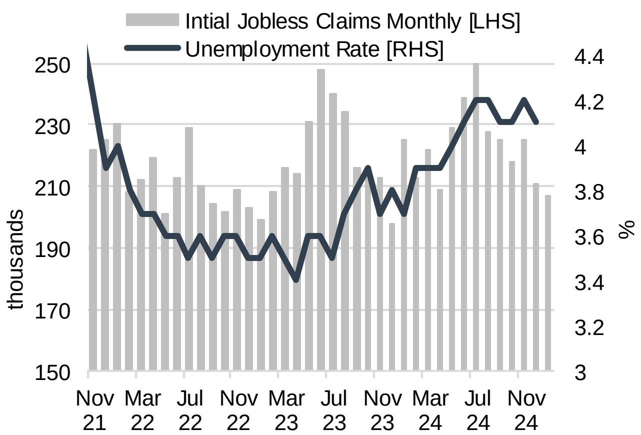
The number of cuts expected by the FED this year has reduced. The FED paused last month, and the market is now pricing a further two cuts by year end. The inflationary impact from tariffs is difficult to determine and we are still none the wiser to the future direction of tariffs. Markets have been volatile and implied vols remain considerably higher than last year. The USD gained 2-3% on the announcement of steep tariffs on Mexico and China and the EUR looks increasingly vulnerable as we see more risk premium priced in the EURUSD as Trump threatens to target the euro area.

However, the 30-day delay provided temporary relief, the new tariffs are linked to border security and means that future negotiations or concessions could determine whether they are lifted or adjusted. The announcement saw USD reverse its gains. There remains a risk of retaliatory measures, which could lead to short-term market volatility and uncertainty. Investors will likely monitor diplomatic developments closely, as any escalation could impact trade flows, inflation, and central bank policy responses.

Employment growth slowed at the start of the year, but the market reaction suggests it is due to factors like winter weather and Los Angeles-area wildfires, following two months of strong hiring. The labour market is still viewed as healthy and will likely mean the Fed policymakers aren't in a hurry to lower borrowing costs further after three interest-rate cuts last year, which will continue to support the USD. In addition, the possibility of further tariff chatter which is currently viewed as USD positive will likely see DXY test 110. Currently finding support at the 50 dma. US Initial Jobless Claims vs Unemployment Rate

US Labour Market

US Labour Market remains resistant.



Source: Bureau of Labor Statistics, Department of Labor

Gold Outlook

Our View

Gold remains in a strong uptrend, recently surpassing $2,900/oz, with technical indicators confirming sustained momentum. The 50-day, 100-day, and 200-day moving averages are all trending higher, reinforcing bullish sentiment. We see gold's resilience despite elevated U.S. Treasury yields, suggesting a structural shift in investor behaviour, where gold is increasingly viewed as a hedge against geopolitical and macroeconomic risks rather than just an interest rate-sensitive asset.

The record inflows into COMEX inventories, coupled with tight liquidity in the spot market, indicate that market participants are bracing for continued volatility. Meanwhile, central bank demand remains robust, particularly from China and Poland, supporting long-term price stability.

We expect gold to remain well-supported in Q1 2025, with the potential to test new record highs above $3,000/oz. However, we remain cautious about short-term corrections as markets digest tariff-related uncertainties and shifting monetary policy expectations.

Source: Bloomberg, 10.02.2025

Technical Analysis

EURUSD

The medium-term downside momentum has eased slightly. Recent price action has surpassed the 50-day moving average which has capped EURUSD advances over the past few months suggesting a potential shift in trend. A sustained break above 1.05 could signal a bullish reversal targeting 50% fibo at 1.0677 and previous support 1.0670-1.0710. On the downside, support comes at the swing low of 1.0141 from the tariff announcements followed by the psychological level at parity. The more favourable risk/reward is to sell towards 1.05 targeting a break of 1.0141.

EURGBP

EURGBP has faced recent downward pressure, breaking below the 0.8355 support line and reaching 0.8250 low. This movement suggests increased bearish momentum and a resumption of the downtrend since October 2023. Longer term, the cross has traded in a tight range and the recent 0.8250 low presents significant support having supported the pair since 2016. It is likely a broad economic or political development is needed for a breakout of this level and the tariff narrative could be the catalyst for this.

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