UNION BANCAIRE PRIVÉE

UBAM (CH) - GOLD +

Monthly Report | July 2019

For Qualified Investors in Switzerland or Professional Investors or Eligible Counterparties as defined by the relevant laws

Performance

As of 31.07.2019	Fund	Bench
July 2019	+1.17%	+1.32%
Past 3 months	+10.86%	+11.33%
Past 6 months	+6.81%	+7.88%
YTD	+10.31%	+11.48%
Since take over (29.06.2012)	-10.00%	-10.69%

Source: UBP, Past performance is not an indicator of current or future results.

Manager Comments

In July 2019, the UBAM (CH) – Gold + fund's returned +1.17% (USD I Class, net of fees). During that time, gold prices went from 1'409.0 USD/oz to 1'427.55 USD/oz i.e. +1.32%, within the 1'380 – 1'454 USD/oz range. Implied volatility was decreased slightly during that period.

Gold prices managed to hold above the 1'400 USD/oz level despite some sharp movement up and down intra month making rather difficult to catch any trend. In this environment, we kept our slightly bullish scenario adding some convexity on the upside/downside within the fund while actively managing the overall exposure in the 90% - 120% range relying on qualitative and quantitative inputs. On a gross basis, the fund underperformed its benchmark by -6bps. On the quantitative side, the directional strategy suffered from the sharp reversal intra month (-16 bps) but the non-directional carry strategy benefited from the mean reverting environment (+16 bps). On the qualitative side, the macro positioning inclusive of the long options positions was detracted -10 bps and the currency diversification profit from higher USD vs. JPY (+4 bps).

Gold has been rather challenging to trade during July mainly because of the sharp move up and down led by comments on trade negotiations, central banks' policy expectations and related moves in US dollar and yields. Gold prices began the month tumbling below the 1'400 USD/oz level after Presidents Xi Jinping and Trump agreed to resume negotiations but reversed rapidly and rallied above 1'420 USD/oz after signs of strains on the global economy worsening the outlook for growth and the eventuality of central banks stimulus. Unfortunately, as the US job reports came strong, market participants had to re-assess their Fed's policy expectations sending yield higher and weighing on gold prices returning just below the 1'400 USD/oz mark. Then, as Powell said concerns over trade and growth continue to weigh on US economic outlook, bets on a rate cut at the end of month returned letting gold prices to appreciate again. And despite, better US economic data, gold prices reached 1'450 USD/oz before retreating just above 1'420 USD/oz after US lawmakers agreed on a debt-limit deal. Finally, Gold traded the majority of the second half the month in a tight 1'415 – 1'425 USD/oz range.

Physical demand was reported to be mixed. In China, volumes stronger at the Shanghai Gold Exchange were steady and premiums even if lower remained above 10 USD/oz. Eventually, the back and forth in trade tensions still attracted buyers. In India, the picture is rather different as the import duty was raised to 12.5% from 10% and this is likely to weigh on demand (adding some burden to current high prices) for the rest of the year. Finally, it was reported that Central banks continued to huy some gold for reserves diversification purpose: Russia added 0.4 moz, Kazakhstan +0.15 moz, and China said it increased holdings of the precious metal for a seventh straight month (+0.32moz in July).

In terms of flows, Gold ETFs holdings were up +45 tonnes in July i.e. +2% m/m, bringing yearly inflows to +6.4% YTD. CFTC reports showed that net long positioning remained at a high level and witnessed some additional long positions. Lastly, implied volatility (6-month maturity) derived from option prices retreated slightly from almost 13 to 12 but behaved erratically during the month. Demand for upside participation through option (skew) remained stable in favour of the upside participation.

At the end of July 2019, we were still considering a slightly bullish scenario on gold prices. This translates into a dynamically managed exposure between 90% and 120% versus the benchmark with convexity mainly through options in order to allow the find to catch any short term profit taking or new development against the yellow metal. We would reassess the scenario if Gold reached/broke clearly on a weekly basis 1'250 USD/oz on the downside or 1'500 USD/oz on the upside. Lastly, given that current accommodative monetary policies are set to last, we kept the currency diversification strategy in JPY (i.e. the fund owns 2.8% of Gold vs. JPY).

Union Bancaire Privée

Disclaimer

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