BREXIT FALLOUT

Gold jumps, oil falls on news of UK vote

Gold price could reach US$1,400 a tonne, say analysts; impact on oil is expected to be temporary

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GOLD surged to its highest level in two years while oil slumped in the wake of the vote by Britain to leave the European Union.

And even as analysts predict the gold price to rise even further, buttressed by safe-haven demand, gold dealers in Singapore were already seeing increased levels of activity on Friday.

The gold spot price jumped to as high as US$1,356.86 an ounce on Friday noon as results of the vote broke.

It pared its gains slightly as the day progressed to trade at US$1,320 an ounce at 7pm Singapore time, up 3.2 per cent from the previous close, and still the highest since 2014.

Analysts expect it to hit US$1,350 or even US$1,400 by the end of the year – albeit with increased volatility on the way there.

The SPDR Gold Shares – the gold exchange-traded fund (ETF) traded on the Singapore Exchange – gained 3.3 per cent to close at US$125.28.

Precious metal retailer Silver Bullion told *The Business Times* it saw sales rise by six times between 11am to 3pm on Friday, compared to average volumes since the beginning of May.

Two thirds of the sales made were for silver, and the rest for gold, said its managing director Gregor Gregersen, adding that some sold gold to buy silver on the belief that the latter has more upside left.

German precious metals trader Degussa Precious Metals Asia, which last year opened a retail shop in Singapore, had customers who bought dozens of gold bars after the "Brexit" announcement at noon.

"Local Singaporeans also took opportunities to sell their gold at the high to reap profit," its managing director Michael Kempinski said.

At gold retailer GoldSilver Central, there was increased interest among its customers – pawnbrokers, jewellery shops and investors looking to cash out – to sell gold.

Its managing director Brian Lan is expecting buying enquiries to come in at a later point. "I believe these people are waiting for it to come down before they acquire more," he noted.

Citi Research foresees that the Brexit vote will prompt a rise in long positions on gold, and spur inflows across physically-backed bullion ETFs.

Already, speculative and ETF investors have built substantial long positions in the past month against the backdrop of heightened Brexit fears, with net long positions by hedge funds on the Comex gold futures jumping 42 per cent to a record 240,000 lots, Citi analysts noted.

The relatively close vote will keep volatility and political uncertainty at elevated levels, they added. "Thus, while we expect an immediate spike higher in gold, we would expect prices to whipsaw around further European-related news events."

Oil prices, meanwhile, were driven lower by risk aversion, with the international crude benchmark Brent falling 4.3 per cent to US$48.46 a barrel at 7pm Singapore time, and US benchmark West Texas Intermediate slipping by a similar proportion to US$47.72.

Analysts are expecting any sentiment-driven weakness to be temporary.

"While we are cautious in the near term (next two quarters) due to supply returning from disruptions and still-high stocks, the shift to a balanced market in our view will overwhelm the small fundamental impact of slightly weaker demand due to currency impacts," said Societe Generale analysts.