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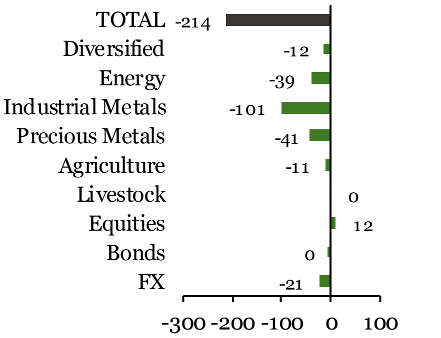
ETF Securities Weekly Flows Analysis

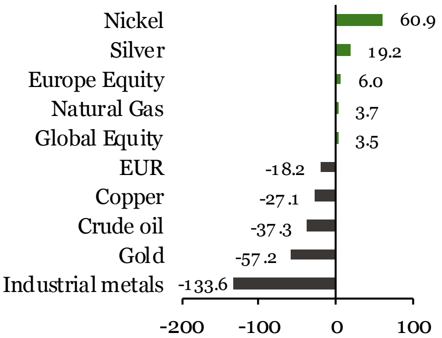
ETF investors see silver lining in equity storm

- **A rout in cyclical markets set off a pronounced sell-off in commodities, including industrial metals, oil and gold.**
- **ETF investors however, saw an opportunity to buy equities following price declines.**
- **Record US oil production continues to weigh on oil.**

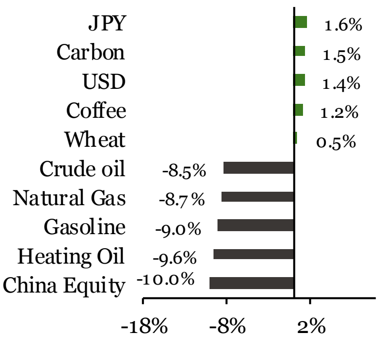
Weekly Flows by Sector (US$mn)



Top 5 Inflows/Outflows (US$mn)



Top 5 / Bottom 5 Performers



Source: ETF Securities
Note: see next page (*)

Industrial metals ETPs saw US$99.9mn outflows. Arguably the most cyclically exposed of the commodities - industrial metals - experienced the highest outflows in 10 weeks. An equity market sell-off dragged other cyclical assets lower. Most of the outflows were concentrated in broad baskets (-US$133.6mn) and copper (-US$26.3mn). However, there were inflows into nickel (US$61.3mn) and silver (US19.3mn), highlighting that some investors are tactically searching for opportunities after the price decline.

Inflows into European equity long ETFs rose to highest level since 2016, while outflows from short ETFs rose to highest since 2016. Investors bought US$15.9mn of European equity ETPs as European bourses saw a capitulation in prices. Meanwhile investors locked in their profits, selling US$9.9mn of European (mainly UK) short ETF positions. The trading patterns indicate that many ETP investors see the current equity market declines as transitory

Gold fails to attract haven asset seekers. Gold is often the first port of call in times of stress. Not last week apparently. Gold saw US$57.3mn of outflows as its price declined 1.3%. As US Treasury yields spiked to 2.86% at the end of the week from 2.71% at the beginning of the week and US dollar appreciated, gold prices fell. A second US government shutdown in the space of three weeks on Friday only offered temporary support to gold as a spending bill was signed and government re-opened in a matter of hours.

Oil ETPs saw a further US$29.7mn of outflows as US pumps out a record 10.25mn barrels per day. In the past 32 weeks there has only been one week of inflows into oil ETPs. In contrast to oil futures, which had recently seen speculative positioning rise to an all-time high, ETP investors had been selling into the price rally that started in June 2017 and ended in January 2018. With many ETP investors having accumulated positions during the prices declines from 2014, recent selling indicates profit taking. We had argued in that prices around US$70/bbl hit in January were not sustainable as US production would rise in response and suppress prices again. Oil rig counts in the US have risen for the past three weeks, oil production has risen for four consecutive weeks and crude inventory is rising once again. In fact US oil production rose to over 10.25mn barrel per day last week (the highest since weekly records began in 1983 and higher than the monthly data that began in 1920).