Market Flash

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Ofi invest
Asset Management

A sharp correction *in precious metals markets*[1]

MANAGEMENT TEAM COMMENTARY

Summary

- **The sharp decline in precious metals (gold, silver, platinum, palladium) surprised markets by both its violence and magnitude.**
- **The appointment of Kevin Warsh—perceived as a "moderate"—as Chair of the U.S. Federal Reserve reassured markets regarding the Fed's independence and strengthened the U.S. dollar.**
- **Capital flows into precious metals, previously driven by concerns about U.S. monetary policy, abruptly stopped.**
- **Lower market liquidity, combined with technical and cyclical factors (speculative positions, product suspensions, absence of circuit breakers…), amplified the correction.**
- **Fundamentals remain strong and, in our view, the medium term trend for precious metals is still upward. However, volatility is likely to remain high and warrants close attention when calibrating exposure in the coming weeks.**

On 30 January 2026, precious metals markets (gold, silver, platinum, palladium) suffered a violent correction.

Silver experienced the worst trading session in its history, losing nearly USD 36 within hours, falling from USD 114 to 78 per ounce—a drop of more than 31% in a single session. For reference, silver was barely USD 30 per ounce at the start of 2025. The previous largest one day decline dated from 23 September 2011 and was "only" –17.71% (source: Bloomberg).

Gold fell more than 11% on the futures market—over USD 600, from USD 5,354 to USD 4,745 per ounce (April contract, source: Bloomberg)—its worst session in 13 years (source: UBS).

Despite the severity of the correction, both gold and silver remain up year to date.

We review below the probable causes of this correction and our outlook for the coming weeks and months.

[1] *Gold, Silver, Palladium and Platinum*

REASONS FOR THE DECLINE

Driven by significant reallocations at the start of the year, gold and silver prices had risen by more than 22% and 62% respectively as of 29 January.

Statements made late on 28 January by U.S. Treasury Secretary Scott Bessent—indicating that the United States supported a strong dollar policy—had begun to temper investors' enthusiasm and slow the rise in precious metals. On 29 January, gold and silver advanced only marginally (+0.27% and +0.79% respectively; source: Bloomberg).

However, **the real trigger for the correction in precious metals prices was U.S. President Donald Trump's announcement on 30 January that Kevin Warsh would replace Jerome Powell as Chair of the Federal Reserve.** A former governor of the U.S. central bank from 2006 to 2011, he is viewed as a strong advocate of fighting inflation and reducing the Fed's balance sheet. At a time when investors were worried about a loss of Federal Reserve independence and the risk of excessively aggressive rate cuts compared with a more traditional monetary policy approach, this announcement convinced them that President Trump's choice might not support a faster rate cutting cycle in the United States. **This came as a real surprise to a large part of the market.**

The relief generated by this appointment strengthened the dollar and, more broadly, called into question the reallocation movement into gold and precious metals that we had highlighted in our research note (available **here**). After the strong gains of recent weeks, this provided an opportunity for profit taking.

IMPACT OF OPTION POSITIONS AND ETFs[2]

The very strong recent performance of precious metals has also led to extremely intense investor activity in these markets. In particular, the options market has been extremely active for several weeks, with very large open positions—especially on options that allow investors to benefit from rising gold and silver prices (calls). Call options on the largest gold and silver ETFs have reached record volumes and open interest in recent weeks (Source: Bloomberg), with call option volumes on the largest silver ETF (iShares Silver) even surpassing those on the largest Nasdaq ETF, the index of the 100 largest U.S. technology companies.

The marketing of such products requires banks, in order to avoid market risk exposure, to buy futures contracts on the underlying assets of these options (gold and silver in this case). Therefore, when the market begins to fall, they are obliged to sell these hedges to remain market neutral.

When the decline accelerated, speculators—particularly those commonly referred to as "hedge funds"—also had to cut their positions. Some of them use trend following strategies and were therefore positioned long following the strong increase of recent weeks. The magnitude of the decline forced them to unwind these positions.

[2] *ETF: a passive investment strategy that replicates an index.*

NO CIRCUIT BREAKERS

Another reason for the magnitude of this decline is undoubtedly the fact that no "circuit breaker"—the mechanisms that halt trading when prices fall too sharply, allowing margin calls to be processed and helping to stabilize the market—was triggered. This is not abnormal from a regulatory standpoint, since such circuit breakers on the CME[3] (the main exchange on which precious metal futures are traded) activate only if the price of a contract drops by 10% within a one hour period. It appears that this condition was not met on 30 January. As a result, nothing slowed the downward movement.

Other factors may have accelerated liquidations. First, Chinese authorities implemented measures aimed at curbing investor enthusiasm for precious metals, particularly silver. In particular, the Shenzhen Stock Exchange decided on 30 January to suspend, for the entire day, trading of the country's largest investment fund, the UBS SDIC Silver Futures Fund LOF. The recent buying frenzy for silver in China had caused this product's prices on the secondary market to diverge from the silver prices it is supposed to track. This may have prompted investors to sell equivalent positions in the U.S. market to secure their exposure (read **here**).

Furthermore, given the sharpness of the decline, some investors using leverage to take positions in these markets may have sought to anticipate a probable increase in margin requirements. In such cases, an investor who had taken positions close to the maximum allowed by margin deposits would be forced to reduce their exposure.

OUTLOOK FOR THE PRECIOUS METALS MARKET

The trading session on Monday, 2 February could still see heavy activity, and silver prices could potentially remain under pressure, at least at the market open.

Indeed, several exchanges and commercial banks announced over the weekend measures aimed at limiting risks and volatility[4] for investors. Notably, China Construction Bank, the second largest bank in the People's Republic of China, announced that starting Monday it would increase the minimum deposits required to take positions in these markets, while ICBC, the largest Chinese bank, indicated that it would implement quota controls on its gold savings products during the upcoming holiday period. The Chinese New Year period is approaching (New Year falls on 17 February this year) and corresponds to a 15 day national holiday period (from 17 February to 3 March this year), which traditionally, according to Bloomberg, is a period of physical precious metal buying. It should be noted, however, that during this period, Chinese financial markets—which have been a supportive factor in recent weeks—are closed.

The CME[3] has also confirmed an increase in mandatory margin deposits on gold and silver markets. Requirements will rise from 6% to 8% for gold for standard profiles, and from 11% to 15% for silver.

All these measures could force some market participants to reduce their positions in order to comply with the new limits (**see here** for more information) and may trigger another correction.

[3] *The CME refers to the Chicago Mercantile Exchange, one of the world's major exchanges where futures and options on a wide range of commodities are traded.*

[4] *Volatility: corresponds to the measurement of the amplitude of price fluctuations of a financial asset. The higher the volatility, the riskier the investment is considered to be.*

STABILIZING FACTORS

However, several elements could help stabilize the market in the short term. First, it appears that Friday's decline, while it prompted some participants to cut their positions, also gave others an opportunity to enter the market. Indeed, data published on the largest silver ETF, the iShares Silver Trust (over USD 59 billion in assets under management, Bloomberg as of 29/01/26), suggests that open positions on this product hardly decreased at all during Friday's session. Unfortunately, this information is not yet available for the main silver trading venue, the CME, and will only be released at the beginning of the week of 9 February.

Another reassuring factor is information coming from the Shuibei market, an important precious metals trading hub located in Shenzhen. According to statements from traders on site, tensions in the silver market have eased somewhat, with more sellers than buyers over the weekend but without any signs of panic. Prices in this market are still trading at a premium compared to international prices.

CONCLUSION

We noted in our research report "Metals Market: 2025 Review and 2026 Outlook" (completed on 20 January and published on 27 January, available here) that: **"We therefore expect gold prices in 2026 to remain on an upward trend, but with increased volatility that investors must be prepared to withstand. We have stopped setting price targets for precious metals since April 2025, as the appreciation driven by reallocation flows is not solely based on fundamental factors but is also fuelled by a sense of urgency (FOMO – Fear Of Missing Out). In such an environment, a macroeconomic release favourable to other asset classes can trigger sharp outflows from the gold market, and vice versa."**

The current correction has surprised by its violence and magnitude. We expected increased volatility this year due to a rise partly fuelled by flow driven dynamics, which we knew could reverse in reaction to news that reassures investors regarding the independence of the Federal Reserve, the trajectory of U.S. debt, or the geopolitical backdrop.

The fundamentals supporting gold and silver for several months—if not years—remain intact in our view. The supply deficit in the silver market, now in its fifth year, has not been resolved, and strong demand for gold persists (for more information on fundamentals, see our "review and outlook" mentioned above). And although investors were reassured by the appointment of Kevin Warsh as Chair of the Federal Reserve, the road ahead remains long before market confidence is fully restored.

However, decisions taken by major Chinese banks, as well as by authorities in both China and the United States, do not rule out the possibility of further declines and the continuation of elevated volatility in the coming days.

We therefore remain convinced that precious metals retain attractive potential and should continue to follow an upward trend in the medium term. Nevertheless, we cannot exclude the continuation of erratic short term movements, which call for the utmost caution and careful calibration of precious metals exposure in the short term, so that it aligns with each investor's sensitivity to market risk and, more broadly, with their overall investor profile.

Important Information