

Precious Metals Watch

Group Economics
Macro & Financial Markets
Research

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Gold price upgrade

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- **We think that the US dollar rally is behind us...**
- **...and this is a positive for gold prices**
- **We are no longer expecting lower gold prices this year...**
- **...and see them stabilising in the near term...**
- **...and rallying later in the year and in 2018**
- **Our new year-end 2017 forecast is USD 1,300 per ounce**

Introduction

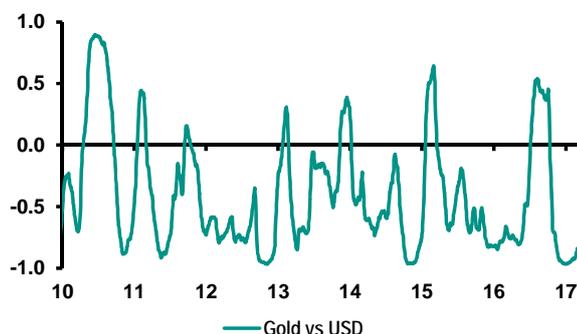
Last week, we changed our US dollar view and our forecasts for the dollar against the euro. Yesterday, we also changed our Fed view; we moved forward the rate hike we expected in June to March. We still expect three Fed rate hikes in 2017, but the risks of a fourth rate hike have risen. Although there could be some temporary waves of positive US dollar sentiment, we think that it is unlikely that we will see another strong US dollar rally this year or in 2018. In fact, we think that the dollar rally is behind us. This is because the real yield support is fading and politics is uncertain on both sides of the Atlantic. Most of the positive news – in terms of the US economy and upcoming Fed rate hikes - is already reflected in the price and investors are already positioned for dollar strength. In fact, we think that the dollar rally is behind us. What are the implications of the change in US dollar view and bringing forward the Fed rate hike for gold prices?

Upgrade of our gold price forecasts...

We have upgraded our gold price forecasts. The US dollar is one of the most dominant factors for gold prices. Since the introduction of the ETF market (2003-2004), gold prices and the US dollar have become highly negatively correlated. If the US dollar rises gold has a tendency to fall and vice versa (see graph on the left below). There have been episodes though that the US dollar has risen and gold prices increased as well. This usually happens in an environment of increased risk aversion. At the height of the global financial crisis, however, the US dollar was valued more than gold as it is more liquid.

US dollar remains a crucial driver for gold prices

90-day rolling correlation



Source: Bloomberg, ABN AMRO Group Economics

...as well as US real yields

Gold price

5y US real yields



Source: Bloomberg,

...reflecting near term stabilisation in gold prices and a rally later in the year

Despite the downward adjustment in our US dollar view, we don't expect a strong rally in gold prices in the coming months. For a start, gold prices have already rallied (+8.3%) since the start of this year and may struggle in the near term. They have struggled to take out the 200-day moving average of around USD 1,261 per ounce, signaling that the longer-term technical outlook is still negative. Moreover, higher US official rates and moderately higher US real yields may not lead to a much stronger US dollar, but we do expect that these forces will dampen the potential rise in gold prices. In addition, it is unlikely that gold prices will embark on a major bull trend as long as equity markets rally. All in all, we expect a stabilisation of gold prices in the coming months as the investment case for gold is not there yet versus the US dollar. Later in the year we expect the stars to start aligning for gold prices versus the US dollar. It is likely that in Q3 the gold price outlook will turn positive. It will be at the time when we expect US real yields start to edge lower and the US dollar to start to decline versus a number of currencies such as the Japanese yen.

Our Gold forecasts

New forecasts in red/bold

End period	02-Mar	Dec-15	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Gold new	1,243	1,061	1,316	1,147	1,230	1,230	1,275	1,300	1,325	1,350	1,375	1,400
Gold old	1,243	1,061	1,316	1,147	1,150	1,100	1,100	1,100	1,150	1,200	1,250	1,300
Average	Q4 16	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018
Gold new	1,219	1,248	1,220	1,230	1,253	1,288	1,248	1,313	1,338	1,363	1,388	1,350
Gold old	1,219	1,248	1,160	1,125	1,100	1,100	1,121	1,125	1,175	1,225	1,275	1,200

Source: ABN AMRO Group Economics

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