

08 March 2017

## Pullback in gold prices

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- **Gold prices are down by 3.5% so far in March...**
- **...after a strong start to the year**
- **Despite this we think that gold prices have been relatively resilient**
- **... as the dollar failed to rally substantially...**
- **... as a result of the behaviour in US real yields**
- **US real yields will continue to drive gold prices and the US dollar**

### Introduction

There has been a lot of focus recently on the sell-off in precious metal prices including gold prices. Since the start of March, they have lost between 7% (platinum prices) and 0.5% (palladium). Gold prices have fallen by around 3.5%, following the strong start to the year. In this report we focus on the reasons behind the sell-off in gold prices and assess whether we were too early or not to upgrade our gold price outlook on 2 March 2017.

### Resilient despite the recent sell-off...

Despite the recent sell-off we think that gold prices have been very resilient, given the circumstances. For a start, financial markets have now fully priced in a rate hike by the US Fed in March. As a result the 2y US Treasury yields have risen beyond the peak in December 2016 of 1.30% and currently are just below 1.34%. In December, gold prices made a low of USD 1,121 per ounce. So despite the higher 2y US Treasury yields gold prices currently are about USD 90 higher than in December 2016. However, financial markets have not yet fully priced in the 3 rate hikes that Fed has communicated (also our base case). In addition, US equity markets have risen strongly this year. Often, a strong rise in equity markets coincides with considerably weaker gold prices. This has not been the case this year. Interesting to note is that the pull back in the Dow Jones has coincided with the pull back in gold prices.

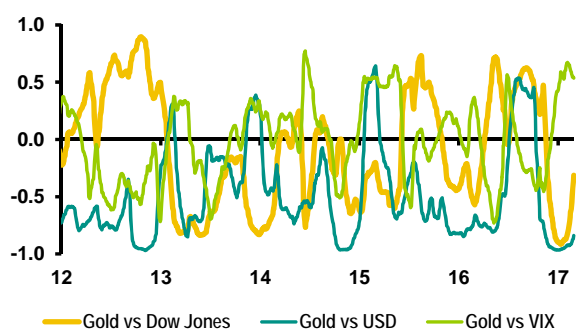
### ...because of the US dollar's reluctance to rally and US real yields

The relative resilience in gold prices can be fully explained by two crucial drivers. First, the behaviour of US real yields and, second, the US dollar (which is also affected by US real yields). US real yields are the dominant driver for gold prices and the US dollar. In January and February, US real yields (based on inflation expectations) declined, pushing the US dollar lower and gold prices higher. However, over the recent days these real yields have edged higher, supporting the US dollar and weighing on gold

prices. This modest pickup in real yields may continue in the coming weeks but we expect them to peak later in the year, which will probably result in a rebound in gold prices. In the near-term, there is a risk that slightly higher US real yields may push gold prices temporarily below USD 1,200 per ounce, but this would not make us doubt our outlook. In fact, some pullback after the strong rally at the start of the year doesn't come as a surprise to us. Having said that, it will be interesting to see the reaction of the US dollar to important US data releases this week, such as the US employment report on Friday. If hourly earnings come in around expectations and the rest of the US employment report is strong, the US dollar will probably profit. However, if hourly earnings are much higher than expected and the rest of the report is also strong investors may start to worry that the Fed is behind the curve. It is likely that this will weigh on the dollar and support gold prices.

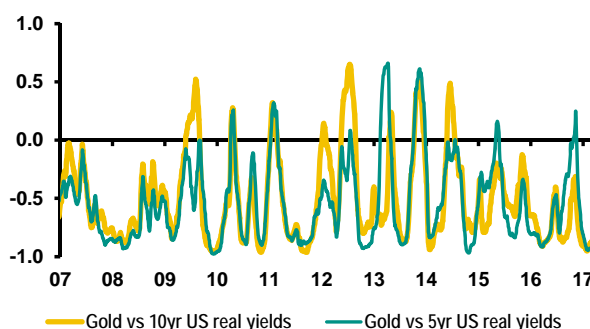
**Important drivers for gold prices...**

90-day rolling correlation



**...but the dominant driver is US real yields**

90-day rolling correlation



Source: Bloomberg, ABN AMRO Group Economics

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**Our Gold forecasts**

New forecasts in red/bold>

End period	08-Mar	Dec-15	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Gold	1,214	1,061	1,316	1,147	1,230	1,230	1,275	1,300	1,325	1,350	1,375	1,400
Silver	17.4	13.9	19.17	15.92	16.00	15.00	15.00	15.00	16.00	17.00	18.00	19.00
Platinum	958	894	1,027	903	875	850	850	850	900	950	975	1,000
Palladium	768	562	721	681	725	725	725	725	750	750	750	750
<b>Average</b>	<b>Q4 16</b>	<b>2016</b>	<b>Q1 17</b>	<b>Q2 17</b>	<b>Q3 17</b>	<b>Q4 17</b>	<b>2017</b>	<b>Q1 18</b>	<b>Q2 18</b>	<b>Q3 18</b>	<b>Q4 18</b>	<b>2018</b>
Gold	1,219	1,248	1,220	1,230	1,253	1,288	1,248	1,313	1,338	1,363	1,388	1,350
Silver	17.2	17.1	16.3	15.5	15.0	15.0	15.5	15.5	16.5	17.5	18.5	17.0
Platinum	945	955	925	863	850	850	872	875	925	963	988	938
Palladium	685	614	725	725	725	725	725	738	750	750	750	747

Source: ABN AMRO Group Economics

Find out more about Group Economics at: <https://insights.abnamro.nl/en/>

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