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Upgrade to precious metals

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- **The upside momentum in gold prices is strong...**
- **...but a strong rally will likely prove difficult**
- **We upgrade our silver outlook but investor positioning is an issue**
- **We expect modest upside in palladium prices from current levels...**
- **...and platinum is cheap in our opinion**

Introduction

On 8 March we upgraded our gold forecasts reflecting our changes in our US dollar view. Up to now, we have not changed our other precious metals forecasts as we were in the process of revising our eurozone and US economic forecasts. In this publication we put all the crucial drivers together for our precious metal price outlook.

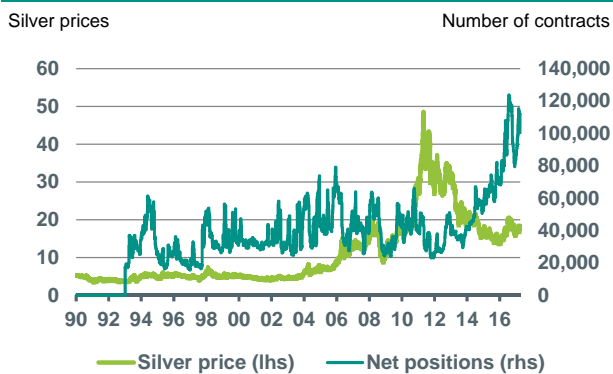
Some fine-tuning in gold price forecast

At the start of the year, gold prices rose on the back of a decline in the US dollar. This dollar weakness was due to lower US real yields (based on inflation expectations). Subsequently, a period of slightly higher US real yields and a higher US dollar followed (from the end of February to the FOMC meeting in March). In this period, gold prices dropped below USD 1,200 per ounce. As the FOMC sounded less hawkish than expected on 15 March 2017, gold prices rallied towards USD 1,250 per ounce again. Over recent weeks gold prices have approached the 200-day moving average which comes in just below USD 1,260 per ounce. The momentum is growing and therefore it is likely that prices will break through this level in the near-term. As a result, gold prices could quickly move up towards USD 1,275 per ounce. However, we don't expect an aggressive rally in prices but a modest rise for the remainder of the year for several reasons. First, we expect US real yields to rise at a modest pace in the coming quarters. This should prevent a sharp sell-off in the US dollar. In fact, the US dollar should be able to rise somewhat. It is very unlikely for gold prices to rally in an environment of a modest rise in the US dollar. Therefore, the upside in gold prices in the coming quarters is limited in our view. Moreover, we expect slightly more hikes in the Fed funds target rate than what markets have priced in. This should weigh on gold prices as well. We have fine-tuned our gold price forecasts to reflect these dynamics. We still expect gold prices to reach USD 1,300 by the end of this year and USD 1,400 by the end of next year. Main reasons for this is that we expect the US dollar to come under pressure at the end of 2017 and to decline in 2018 (in line with lower US real yields and a deterioration in US growth and inflation mix).

We raise our silver outlook but investor positioning is an issue...

For silver, platinum and palladium we went back to the drawing board and looked at the individual drivers again. We now expect higher silver prices for this year and next. It is likely that the positive momentum in gold prices will spill over to silver prices as well. In addition, our view that the US dollar rally has ended and will turn into dollar weakness next year will also be a major positive for silver prices. Moreover, further upward momentum in the US economy will probably result in higher industrial demand for silver. Last but not least, a consistent break above the 200-day moving average will improve the technical silver outlook dramatically. Prices are currently above this 200-day moving average. However, as is the case for gold prices we don't expect an aggressive rally in silver prices from here but merely a gradual rise. For a start, we expect the US dollar to be supported by a modest rise in US real yields in the coming quarters and rate hikes by the Fed. More importantly, investor positioning for higher silver prices is already substantial. It is quite amazing that this build-up in positioning has not pushed prices solidly above US 20 per ounce. This positioning poses a risk to the price outlook. In short, the upward momentum may be strong but investor positioning is too large to warrant a strong rally in the coming months.

Investor positioning is large...



Source: Bloomberg

...creating a risk for the price outlook



Source: Bloomberg

Slightly positive on palladium...

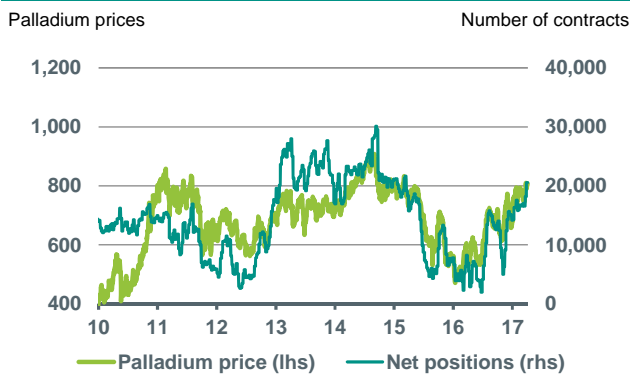
Palladium is the precious metal with the strongest exposure to the global economy. Palladium has been the strongest performer among precious metals so far this year. Recently, prices have broken above USD 800 per ounce. This is because most of the drivers have been positive. First, the global economic outlook and global trade has improved substantially over the recent quarters. Moreover, consumer demand and also car sales have been positive in a number of key markets. For example car sales in China rose by around 15% in 2016; the fastest pace in 3 years. Going forward, we think most of the positive news may already be reflected in the price. First, investors have en-masse jumped on the band-wagon because of expectations of supply-shortage and a more positive outlook for demand. This is reflected in the substantial increase in net speculative investor positions. We expect Chinese car sales growth to slow down (volumes should still increase but growth in yoy terms will be less spectacular than in 2016) as the tax advantage is being reduced. We expect eurozone car sales and US car sales to grow at a solid pace in 2017 though. We also expect investor sentiment to remain constructive which should support palladium prices. That said, palladium prices are the most sensitive

to changes in investor sentiment. In periods of temporarily deteriorating investor sentiment, prices could fall sharply. Taken all together we expect a modest rise in prices for the remainder of this year and next year.

...while platinum is relatively cheap

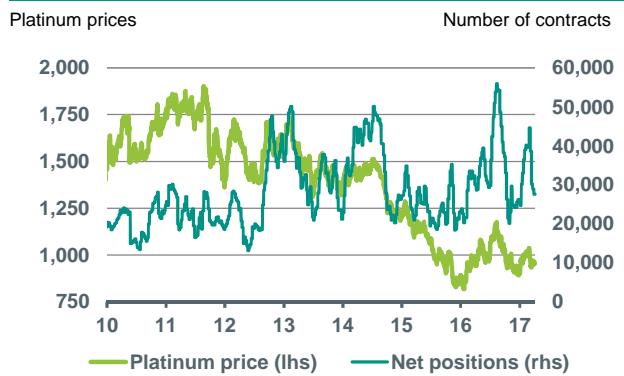
Platinum is cheap in our opinion. Fundamentals have clearly improved such as an improvement in the demand outlook (both car sales and industrial demand outlook) in key countries. Moreover, the upward momentum in gold prices and the constructive investor sentiment are also positives. Even though platinum prices have rallied by around 7% this year, their performance is somewhat disappointing when taking those positive developments into account. We upgrade our outlook for platinum prices for this year and next year. We think that it has the most upside potential of all precious metals in percentage terms. For a start, it profits from higher gold prices, a lower US dollar and lower US real yields (next year). Moreover it also profits from strong economic momentum especially in the eurozone. The speculative positions are light which means that investors still need to see the potential of platinum. If investors start to believe in platinum's upside potential, prices will probably rise substantially. This is reflected in our new forecasts.

Investors are positive on palladium outlook...



Source: Bloomberg

...but hesitate on platinum



Source: Bloomberg

ABN AMRO precious metals forecasts

Changes and new forecasts in red/bold

End period	05-Apr	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Gold	1,253	1,061	1,147	1,249	1,250	1,275	1,300	1,325	1,350	1,375	1,400
Silver	18.2	13.9	15.92	18.27	18.50	18.50	19.00	19.50	20.00	20.50	21.00
Platinum	964	894	903	950	1,000	1,050	1,100	1,150	1,200	1,225	1,250
Palladium	808	562	681	799	800	825	825	850	850	850	850

Average	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018
Gold	1,248	1,218	1,250	1,263	1,288	1,254	1,313	1,338	1,363	1,388	1,350
Silver	17.1	17.5	18.4	18.5	18.8	18.3	19.3	19.8	20.3	20.8	20.0
Platinum	955	980	975	1,025	1,075	1,014	1,125	1,175	1,213	1,238	1,188
Palladium	614	766	799	813	825	801	838	850	850	850	847

Old											
End period	05-Apr	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Gold	1,253	1,061	1,147	1,230	1,230	1,275	1,300	1,325	1,350	1,375	1,400
Silver	18.2	13.88	15.92	16.00	15.00	15.00	15.00	16.00	17.00	18.00	19.00
Platinum	964	894	903	875	850	850	850	900	950	975	1,000
Palladium	808	562	681	725	725	725	725	750	750	750	750

Average	Q1 16	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018
Gold	1,181	1,220	1,230	1,253	1,288	1,248	1,313	1,338	1,363	1,388	1,350
Silver	14.9	16.3	15.5	15.0	15.0	15.5	15.5	16.5	17.5	18.5	17.0
Platinum	975	925	863	850	850	872	875	925	963	988	938
Palladium	527	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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