

Precious Metals Watch

Group Economics
Macro & Financial Markets
Research

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No reason to worry

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- Fortunes seem to have changed for gold prices...
- ...as the technical picture has deteriorated
- We expect range trading in the near-term...
- ...and higher prices later in the year and next year

Introduction

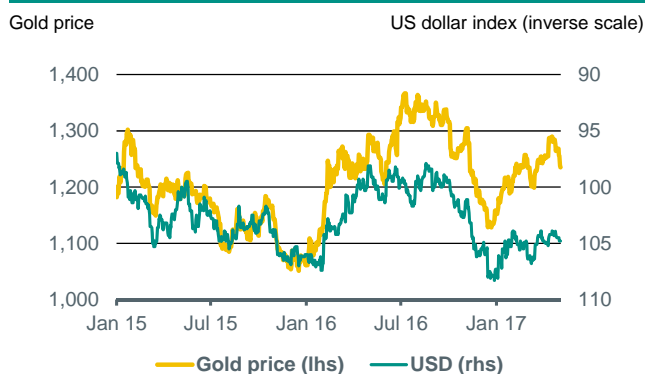
On 11 April gold prices broke above the 200-day moving average. They rose to a high of USD 1,295 per ounce on 17 April. Since then, prices have fallen by close to 5% to USD 1,235 per ounce. As a result, they are below the 200-day moving average again which currently comes in at USD 1,256 per ounce. What explains gold's erratic behaviour? Earlier in the year, lower US real yields and a lower US dollar have supported gold prices (see graphs below) as well as uncertainty about the presidential elections in France and geo-political uncertainty related to North Korea.

Most crucial drivers remain US real yields...



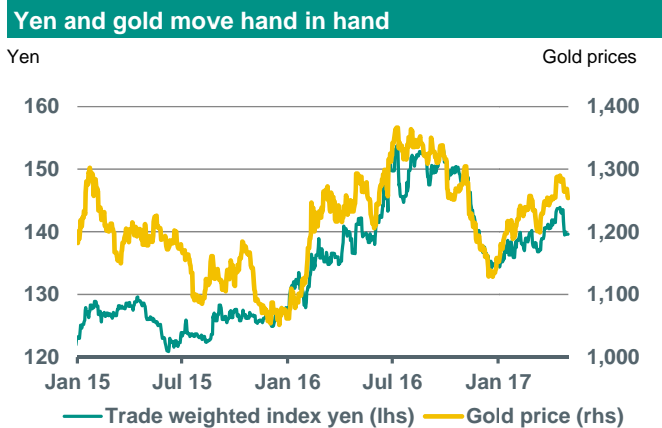
Source: Bloomberg

...and the US dollar



Source: Bloomberg

However, the recent modest rise in US real yields and thereby also in the US dollar has resulted in downward pressure on gold prices. What is more, optimism about an EU friendly election outcome in France has calmed investor's nerves. As a result, investment assets that have safe haven characteristics, such as the yen and gold, have been sold off (see graph below).



Source: Bloomberg

Range-trading in the near-term and a modest rise later in the year

We expect range-trading in the near-term and a modest rise later in the year. The modest rise in US real yields and the US dollar we expect in the coming months will likely weigh on the gold prices. However, we don't expect an aggressive sell-off in gold prices. It is likely that the net-long speculative US dollar positions will hang over the market and investors will probably use any rally in the US dollar as an opportunity to unwind dollar longs. On the other hand, investors will probably buy gold on dips. Later in the year we expect the US dollar to come under pressure and gold prices to rise. This is because we expect Fed rate hikes for 2018 to be fully anticipated by the end of this year and investors to unwind more long USD positions. Next year, we expect the US dollar to weaken across the board because of lower US real yields and a deterioration in the US growth inflation mix. These are positive developments for gold prices and therefore we expect gold prices to rise in 2018. Our year-end 2017 and 2018 forecasts are USD 1,300 and USD 1,400 respectively.

ABN AMRO precious metals forecasts

Changes and new forecasts in red/bold

End period	04-May	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Gold	1,236	1,061	1,147	1,249	1,250	1,275	1,300	1,325	1,350	1,375	1,400
Silver	16.5	13.9	15.92	18.27	18.50	18.50	19.00	19.50	20.00	20.50	21.00
Platinum	903	894	903	950	1,000	1,050	1,100	1,150	1,200	1,225	1,250
Palladium	805	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

Source: ABN AMRO Group Economics

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