

Precious Metals Watch

Group Economics
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Research

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Out of rhythm. Now what?

- Gold prices have broken out of the range and above USD 1,300
- This is positive for the gold price outlook
- The longer-term outlook is positive
- But there are some near-term risks...
- ...one of which is a temporary US dollar recovery...
- ...and some upwards adjustment in Fed rate hike expectations
- Our new year-end gold forecast is USD 1,300 (from USD 1,210)
- We also change the other precious metal price forecasts in line with gold

Introduction

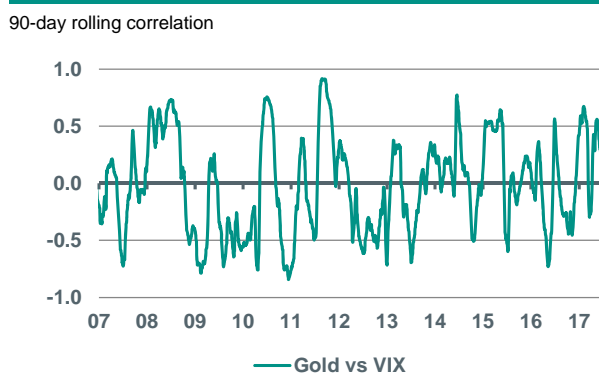
So far this year gold prices have risen by 15%. A weaker US dollar, lower US Treasury and US real yields and (geo) political uncertainty have been important drivers for this surge in gold prices. On 28 August gold prices broke above the psychologically important level of USD 1,300 per ounce and out of the trading range that was in place since March of this year. What do we expect going forward?

Lower US real yields support gold...



Source: Bloomberg, ABN AMRO Group Economics

...as well as risk aversion



Source: Bloomberg, ABN AMRO Group Economics

Change in view

We had expected gold prices to bottom out close to USD 1,200 per ounce, but we didn't foresee this sharp rally in gold prices we have seen so far. It is always difficult if you missed the rhythm of the market like we have in the last two months, to get back in the rhythm again. That is the ever-interesting challenge of financial markets. If we zoom out

there are a few developments that are clear. First, financial markets are convinced that the Fed will only hike once, by 25bp, in the next 18 months. This seems too little in our view, although the Fed's projection of four rate hikes during that period seems overly aggressive.

Second, at the start of this year the US dollar index peaked and since then it has moved lower. The longer-term technical picture of the US dollar is negative while that of gold prices is positive again (above the 200-day moving average and a break out of the range on the upside).

Third, 10-year US real yields have moved down and this has supported gold prices (see graph above). Lower US real yields make gold as an investment asset more attractive versus the US dollar (so gold traded as currency).

Finally, with the arrival of Trump at the White House, US political situation has become more uncertain and geo-political risks have risen (for example North Korea). This is supportive for gold prices.

If we take all these developments into account, the longer term gold price outlook should be positive. However, in the shorter run, some upside adjustment in expectations about Fed policy and somewhat higher US 10-year real yields will likely trigger a temporary recovery wave in the US dollar. This will weigh on gold prices. Such a development will probably result in a test of the break-out level of USD 1,300 per ounce or prices could even go as low as USD 1,235 per ounce (200-day moving average). We have changed our precious metals forecasts to reflect these views. Our new year-end gold price forecast is USD 1,300 per ounce (up from USD 1,210 per ounce).

ABN AMRO precious metal price forecasts

Changes and new forecasts in red/bold

New											
End period	29-Aug	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Gold	1,325	1,061	1,147	1,249	1,242	1,300	1,300	1,350	1,375	1,400	1,450
Silver	17.6	13.9	15.92	18.27	16.63	17.00	17.00	17.50	18.00	18.50	19.00
Platinum	999	894	903	950	925	950	950	975	1,000	1,050	1,100
Palladium	947	562	681	799	844	850	850	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	1,258	1,271	1,300	1,262	1,325	1,363	1,388	1,425	1,375
Silver	17.1	17.5	17.3	16.6	17.0	16.6	17.3	17.8	18.3	18.8	18.0
Platinum	955	980	942	938	950	928	963	988	1,025	1,075	1,013
Palladium	614	766	819	875	850	828	850	850	850	850	850
Old											
End period	07-Jul	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Gold	1,325	1,061	1,147	1,249	1,242	1,210	1,210	1,225	1,250	1,300	1,350
Silver	17.6	13.88	15.92	18.27	16.63	15.25	15.25	15.50	16.00	17.00	18.00
Platinum	999	894	903	950	925	890	890	925	950	975	1,000
Palladium	947	562	681	799	844	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	1,258	1,215	1,210	1,225	1,218	1,238	1,275	1,325	1,264
Silver	17.1	17.5	17.3	15.9	15.3	16.6	15.4	15.8	16.5	17.5	16.3
Platinum	955	980	942	908	890	928	908	938	963	988	949
Palladium	614	766	819	835	825	811	838	850	850	850	847

Source: ABN AMRO Group Economics

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