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Weakness sets in

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- **After a strong start to the year weakness in precious metal prices set in**
- **We expect trade tensions to ease, the US dollar to recover, the Fed to continue to hike rates and investor sentiment to improve**
- **Therefore it is likely that gold prices will come under pressure**
- **Silver, palladium and platinum prices will probably see less price weakness than gold**

Introduction

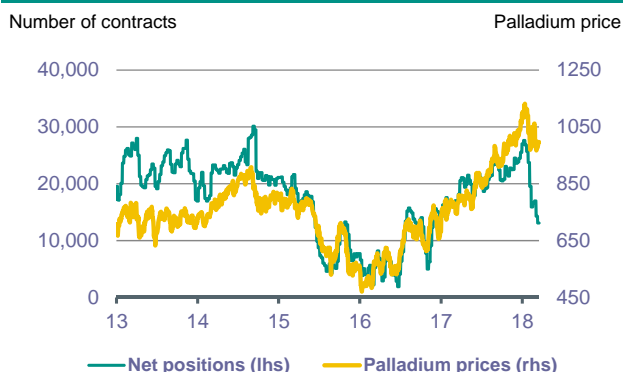
During the first two weeks of 2018 we saw strong price increases for precious metals. They rallied between 2.5% (silver) to 8% (platinum). Since then, precious metal prices have dropped substantially, especially palladium prices which are down 15% year-to-date. Gold prices have managed to outperform the US dollar though. In this report we focus on

- The abrupt change in fortunes of precious metal prices
- What is our outlook for this year?

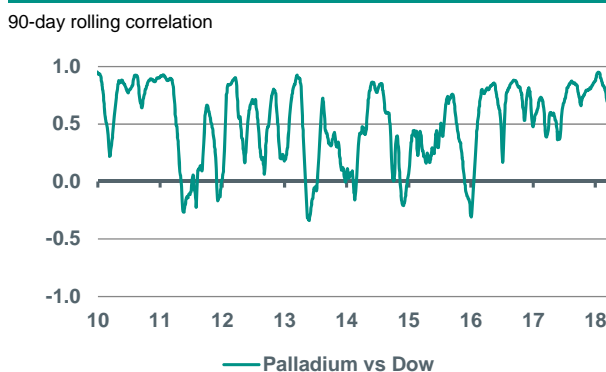
Abrupt change in fortunes

At the start of the year, investors were overly optimistic that palladium prices would see another blockbuster year in 2018. They pushed prices simply too high. When they realised that prices didn't go much further, investors took profit on their net-long speculative positions. Subsequently weakness in equity markets accelerated the sell-off in palladium prices. In the recent weeks, trade tensions between the US and China made the situation worse for cyclical commodities such as palladium and platinum.

In the case of gold and silver the direction of the US dollar has been the key driver. Currently, the US dollar has the tendency to weaken in an environment of strong equity markets. Vice versa, it profits when there is weakness in stocks, heightened trade tensions and waves of risk aversion. The US dollar and gold prices have a strong negative relationship. As a result, gold has behaved as a risk-on asset, which has been a surprise for many.

Massive liquidation of net-long palladium positions

Source: Bloomberg, ABN AMRO Group Economics

...and weakness in stocks weigh on palladium prices

Source: Bloomberg, ABN AMRO Group Economics

Our near-term outlook

For the remainder of the year we expect that trade tensions between the US and China will not escalate into a trade war. Moreover, it is likely that the US dollar will recover modestly if trade tensions ease and if the Fed continues to hike interest rates as we expect. In addition, it is likely that overall sentiment will recover, which should support the more cyclical precious metals. Investor positioning differs per precious metal. Gold, platinum and palladium could see a further squeeze of net-long position. Meanwhile, investors hold a net-short position in silver. This is a first time in the history of the data. All precious metal prices are below the 200-day moving average. This means that the overall bias is negative. These dynamics will have a different impact on the various precious metals.

Palladium prices close to a bottom

It is likely that palladium prices will profit from less trade tensions between the US and China and an improvement in overall investor sentiment. But investors may be hesitant to build up net speculative longs as they have been burnt recently. Moreover, the powerful uptrend in prices, which was in place in the period January 2016 up to end of March 2018, is over as prices broke below the 200-day moving average. Overall, there could be some more price weakness in the coming weeks, but we think that prices should bounce from the area USD 875-900 per ounce.

Gold price weakness on the horizon

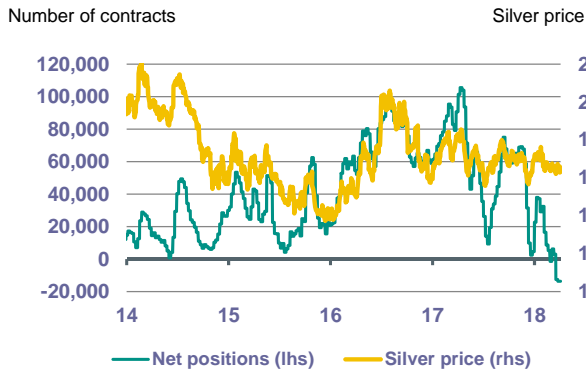
For gold prices, we continue to expect prices to drop below the USD 1,300 per ounce level in the coming weeks. If speculative long positions are squeezed, prices could even drop temporarily below USD 1,250 per ounce and move into the direction of USD 1,200 per ounce. We think this is the maximum downside in gold prices this year. A US dollar recovery in an environment of lower trade and political tensions combined with Fed rate hikes should be responsible for such weakness. Our end of June is now USD1,275 while our end of September and end of December forecasts remain at USD 1,250 per ounce.

All-time low speculative positions should limit downside in silver prices

Silver behaves as the smaller more volatile brother of gold. Silver has also a strong negative relationship with the US dollar so a dollar recovery should be negative for silver, as it is for gold. Investors have a tendency to buy US dollar and gold in case of a sharp

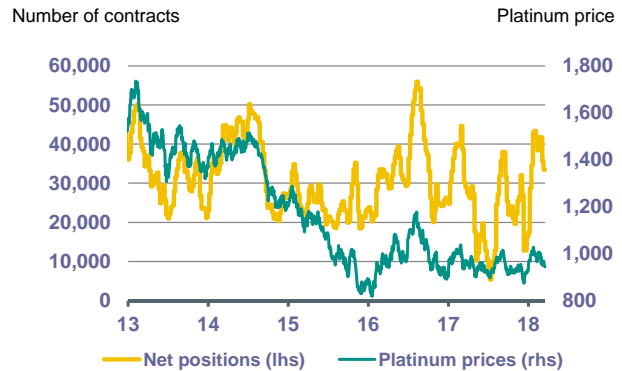
deterioration of risk sentiment, while silver is currently less in vogue. But the improvement in investor sentiment and the easing of trade tensions should support silver prices. Moreover, with net-positioning being at all-time low (net-short) we think that silver prices have already been beaten up enough. In short, we expect silver prices to bottom out close to the USD 16 per ounce. We have adjusted our silver forecasts to reflect this.

All time low speculative silver positions



Source: Bloomberg, ABN AMRO Group Economics

Speculative platinum positions still sizable



Source: Bloomberg, ABN AMRO Group Economics

Platinum price outlook remains vulnerable

The platinum price outlook is slightly more negative. The sentiment towards diesel cars remains negative. As a result, lower trade & political tensions and an improvement in investor sentiment will probably give less support to platinum prices compared to palladium prices. Moreover, platinum prices are also sensitive to gold price weakness and a stronger US dollar. As a result, platinum prices could continue to edge lower. Prices could test the low set 13 December 2017 of USD 873 per ounce. We have adjusted our forecasts to reflect these dynamics.

ABN AMRO gold price forecasts

Changes and new forecasts in red/bold

| New | | | | | | | | | | |
|----------------|--------|--------------|--------------|--------------|--------------|--------|--------|--------|--------|--------|
| End period | 09-Apr | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 |
| Gold | 1,327 | 1,303 | 1,325 | 1,275 | 1,250 | 1,250 | 1,300 | 1,325 | 1,350 | 1,400 |
| Silver | 16.3 | 16.94 | 16.37 | 16.00 | 16.00 | 16.00 | 17.00 | 18.00 | 19.00 | 20.00 |
| Platinum | 918 | 928 | 932 | 885 | 900 | 900 | 950 | 1,000 | 1,050 | 1,100 |
| Palladium | 921 | 1,064 | 953 | 900 | 900 | 900 | 925 | 950 | 975 | 1,000 |
| Average | | | | | | | | | | |
| | Q1 18 | Q2 18 | Q3 18 | Q4 18 | 2018 | Q1 19 | Q2 19 | Q3 19 | Q4 19 | 2019 |
| Gold | 1,329 | 1,306 | 1,263 | 1,250 | 1,287 | 1,275 | 1,313 | 1,338 | 1,375 | 1,325 |
| Silver | 16.8 | 16.2 | 16.0 | 16.0 | 16.2 | 16.5 | 17.5 | 18.5 | 19.5 | 18.0 |
| Platinum | 976 | 894 | 893 | 900 | 916 | 925 | 975 | 1,025 | 1,075 | 1,000 |
| Palladium | 1,033 | 927 | 905 | 910 | 944 | 913 | 938 | 963 | 988 | 950 |
| Old | | | | | | | | | | |
| End period | 09-Apr | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 |
| Gold | 1,327 | 1,303 | 1,325 | 1,250 | 1,250 | 1,250 | 1,300 | 1,325 | 1,350 | 1,400 |
| Silver | 16.3 | 16.94 | 16.37 | 16.50 | 16.30 | 16.00 | 17.00 | 18.00 | 19.00 | 20.00 |
| Platinum | 918 | 928 | 932 | 885 | 900 | 900 | 950 | 1,000 | 1,050 | 1,100 |
| Palladium | 921 | 1,064 | 953 | 900 | 900 | 900 | 925 | 950 | 975 | 1,000 |
| Average | | | | | | | | | | |
| | Q1 18 | Q2 18 | Q3 18 | Q4 18 | 2018 | Q1 19 | Q2 19 | Q3 19 | Q4 19 | 2019 |
| Gold | 1,329 | 1,263 | 1,250 | 1,250 | 1,265 | 1,275 | 1,313 | 1,338 | 1,375 | 1,325 |
| Silver | 16.8 | 16.6 | 16.4 | 16.4 | 16.5 | 16.5 | 17.5 | 18.5 | 19.5 | 18.0 |
| Platinum | 976 | 913 | 893 | 900 | 915 | 925 | 975 | 1,025 | 1,075 | 1,000 |
| Palladium | 1,033 | 963 | 900 | 938 | 931 | 913 | 938 | 963 | 988 | 950 |

Source: ABN AMRO Group Economics

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

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