

9 April 2018

Gold price weakness not over yet

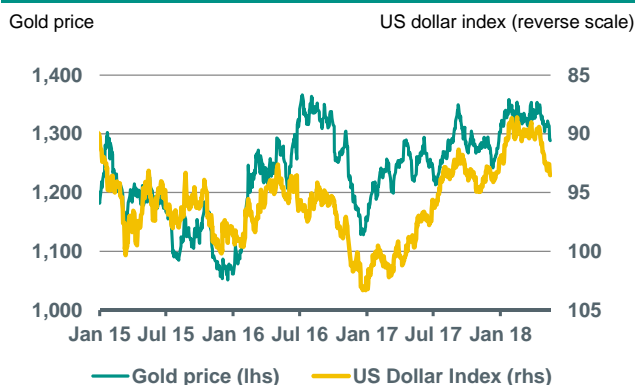
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- Since 11 April 2018 gold prices have declined by 5%...
- ...because of a recovery of the dollar and higher US Treasury yields
- We expect more price weakness towards USD 1,250 per ounce
- USD 1,250 should be an opportunity to position for strength in 2019
- Gold prices have an unstable relationship with risk aversion

Introduction

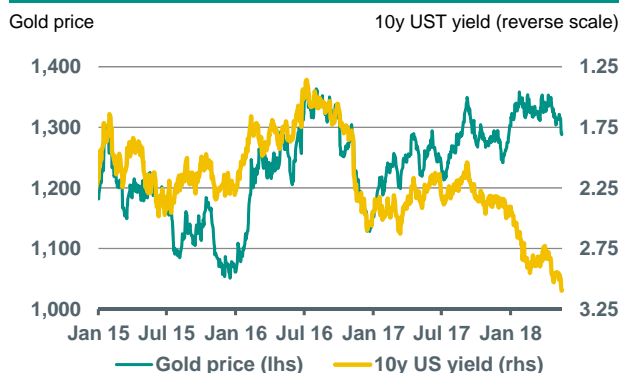
Since 11 April 2018 gold prices have weakened by 5%. They have broken below the 200-day moving average at USD 1,307 and below the psychological level of USD 1,300 per ounce. The gold price weakness started when US yields and the US dollar realigned again after four months of divergence. The combination of a stronger US dollar and higher US 10y nominal and real yields is a very negative environment for gold prices (see graphs below).

Gold prices decline on stronger dollar...



Source: Bloomberg, ABN AMRO Group Economics

...and higher 10y US Treasury yields



Source: Bloomberg, ABN AMRO Group Economics

Are we close to the bottom?

We expect gold price weakness to continue in the coming weeks and months. It is likely that gold prices will fall below USD 1,275 per ounce and test USD 1,250 per ounce this year followed by a stabilisation. For a start, we expect 10y US Treasury yields to rise to 3.2% before the end of this year. Moreover, we expect the Fed to hike rates another 75bp in 2018 and 50bp in 2019 (this is almost priced in). In the near-term these factors will weigh on gold prices. In addition, we see some further modest upside in the US dollar from current levels. As we don't expect this to be the start of another dollar bull-run, the

upside in the US dollar and the downside in gold prices should be relatively modest. So we keep our gold price forecasts unchanged at USD 1,275 per ounce for the end of June and USD 1,250 per ounce for the end of September and the end of December.

We think that any price decline in gold prices below USD 1,250 is an opportunity to position for higher gold prices next year. In the third and fourth quarter of 2018 we expect US GDP and 10y US Treasury yields to peak. By end 2018, we think it is unlikely the Fed can surprise financial markets by being more hawkish, with rate hikes likely to have been fully anticipated by then. The peak of growth and US Treasury yields are against the background of a deterioration of the fiscal balance in the US. So all in all, dollar fundamentals will deteriorate at the end of this year and this should result in a lower dollar and higher gold prices in 2019.

Unstable relationship between gold prices and investor sentiment

Gold is often seen as a safe haven asset but it has not behaved as one. Indeed, the relationship between gold prices and the VIX or investor sentiment towards emerging markets don't indicate that gold is a safe haven asset. As the graphs below show there is no clear relationship between gold and equity market volatility. Moreover, gold has declined in periods when emerging markets such as the Brazilian real were under fire.

No strong relationship between gold and the VIX



Source: Bloomberg, ABN AMRO Group Economics

Gold is not profiting from BRL weakness



Source: Bloomberg, ABN AMRO Group Economics

This does not mean that investors don't buy gold if there are sharp waves of risk aversion. Gold often rallies in a risk-off environment if the dollar is also under pressure. This means that it is not risk sentiment but the behaviour of the dollar that is crucial for gold prices.

ABN AMRO gold price forecasts

Changes and new forecasts in red/bold>

End period	17-May	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Gold	1,287	1,303	1,325	1,275	1,250	1,250	1,300	1,325	1,350	1,400
Silver	16.4	16.94	16.37	16.00	16.00	16.00	17.00	18.00	19.00	20.00
Platinum	887	928	932	885	900	900	950	1,000	1,050	1,100
Palladium	984	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

Source: ABN AMRO Group Economics

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

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