

3 July 2018

How low can it go?

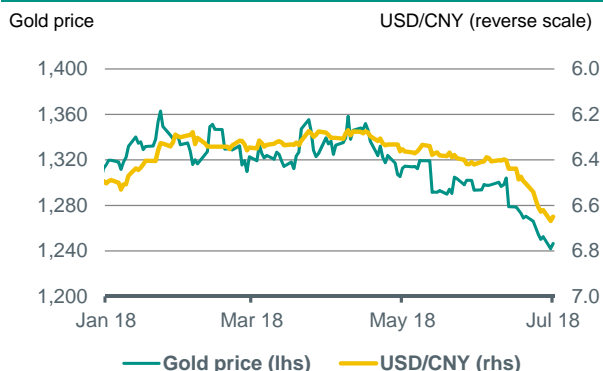
Georgette Boele
 Senior Precious Metals & Diamond
 Analyst
 Tel: +31 20 629 7789
 georgette.boele@nl.abnamro.com

- Precious metal prices peaked in January...
- ...and have fallen substantially since then
- Higher US dollar, looming trade war between the US and China,...
- ... downward adjustment in eurozone outlook ...
- ...and the slide in the Chinese yuan have contributed to price weakness
- Weakness in precious metal prices is not over yet, but prices are close to the bottom

Introduction

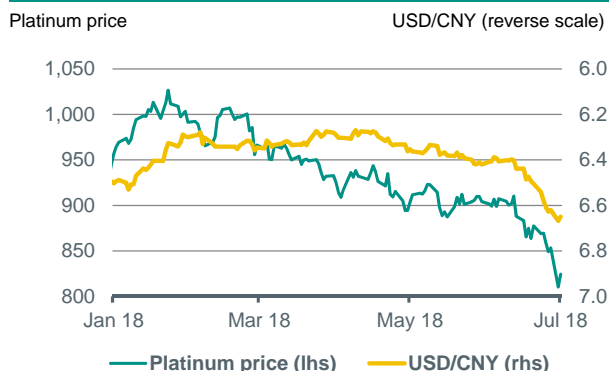
In January, precious metal prices peaked. Since then they have fallen substantially by 9% (gold prices) to 20% (platinum prices). Precious metal prices are down between 4.5% (gold) to 11% (platinum) during this year so far. In recent weeks, the sell-off has accelerated. There are several reasons for this price weakness. First, a looming trade war between the US and China has weighed on prices, especially cyclical precious metals such as platinum and palladium. Second, the recovery of the US dollar is negative for all precious metal prices. Third, a downshift in expectations about the eurozone economy has been a negative for platinum prices.

Chinese yuan weakness accelerates gold price sell-off



Source: Bloomberg, ABN AMRO Group Economics

...and platinum price sell-off



Source: Bloomberg, ABN AMRO Group Economics

Fourth, weakness in emerging markets has lowered all precious metal prices as well. More recently the substantial fall in the yuan has accelerated the decline in precious metal prices (see graphs above). Yuan weakness reflects the heightened trade tensions

between the US and China and nervousness about Chinese corporate bond defaults. China is a crucial consumer of precious metals. So fears of lower Chinese demand are negative for prices.

Weakness in precious metal prices is not over yet...

In the near-term, weakness in precious metal prices may not be over yet. For a start, we expect the US dollar to rally a bit further on strong economic data and ongoing Fed rate hikes. We also expect 10y US Treasury yields to rise a bit further. This is negative for gold, silver and platinum prices as they have a high sensitivity towards these factors.

Moreover, the technical pictures of the different precious metal prices look negative. All precious metal prices are below their 200-day moving averages. Today, gold prices have tested the December 2017 low of just below USD 1,237 per ounce. It is likely that there will be another test. If prices break below this level, a revisit of the crucial support level at USD 1,200 per ounce is on the cards. Meanwhile, silver prices may revisit the December low close to USD 15.6 per ounce before stabilising. Today, platinum prices have tested the 2016 low. If this level is taken out, the low set around USD 744 per ounce during the Global Financial Crisis is in focus. Palladium prices could easily revisit USD 900 per ounce in our view.

In addition, trade tensions between the US and China will probably linger on and there may be more volatility in the Chinese yuan in the near term. These are also negatives for precious metal prices.

Finally, it is likely that concerns about Italy will return if Italy's fiscal balance will get into focus again later in the summer. This will weigh on the euro but also on platinum prices as the eurozone is an important market for platinum

...but prices are close to the bottom

Later in the year, we expect the US dollar and 10y US Treasury yields to peak. This should support precious metal prices. We also expect US growth to peak in the fourth quarter of this year. This will support gold and silver prices but weigh on palladium prices. The US is a crucial market for palladium and palladium prices often move in tandem with US equity markets. Lower US growth could result in a downward adjustment in demand for palladium from the US.

Moreover, we expect the fall in the Chinese yuan to come to an end as Chinese authorities will probably intervene to calm sentiment. We find it hard to imagine the Chinese authorities letting the yuan drop in an uncontrolled manner. However, in the near-term, yuan weakness may yet continue. In addition, our base case scenario is that a significant escalation of the trade conflict is averted. This should support all precious metal prices.

In addition, net-long speculative positioning in precious metals is not excessive. The long positions in gold have been reduced substantially and short positions have risen somewhat resulting in a reduction in net-long gold positions. Net-long silver positions have risen considerably (up to last Tuesday close), but they are not excessive. In palladium, long positions have been cut back, but short positions have barely moved.

This signals that investors are not willing to become negative on the palladium price outlook yet. Surprisingly, the net-positioning in platinum has dropped into negative territory meaning that the speculative community is net-short platinum. This is the largest net-short positioning since inception of the data.

We expect gold prices to bottom out between USD 1,200 and 1,250 per ounce and silver prices between USD 15.2 and 15.6 per ounce. We see these levels as an opportunity to position for higher gold and silver prices next year. We think that platinum prices have overreacted and prices should bottom out close to USD 800 per ounce. We remain the most negative on palladium prices. We think that investors are still too positive on the outlook for palladium prices. We expect prices will revisit the April low of USD 898 per ounce.

ABN AMRO precious metal price forecasts

Changes and new forecasts in red/bold

End period	03-Jul	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Gold	1,247	1,303	1,325	1,253	1,225	1,250	1,300	1,325	1,350	1,400
Silver	15.9	16.94	16.37	16.12	15.60	16.00	17.00	18.00	19.00	20.00
Platinum	824	928	932	853	800	850	900	1,000	1,050	1,100
Palladium	948	1,064	953	955	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	1,307	1,246	1,238	1,280	1,275	1,313	1,338	1,375	1,325
Silver	16.8	16.5	15.9	15.8	16.2	16.5	17.5	18.5	19.5	18.0
Platinum	976	905	827	825	883	875	950	1,025	1,075	981
Palladium	1,033	980	928	910	963	913	938	963	988	950

Old										
End period	03-Jul	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Gold	1,247	1,303	1,325	1,253	1,250	1,250	1,300	1,325	1,350	1,400
Silver	15.9	16.94	16.37	16.12	16.00	16.00	17.00	18.00	19.00	20.00
Platinum	824	928	932	853	900	900	950	1,000	1,050	1,100
Palladium	948	1,064	953	955	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	1,307	1,263	1,250	1,287	1,275	1,313	1,338	1,375	1,325
Silver	16.8	16.5	16.0	16.0	16.2	16.5	17.5	18.5	19.5	18.0
Platinum	976	905	893	900	916	925	975	1,025	1,075	1,000
Palladium	1,033	980	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/>

DISCLAIMER

This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer.

No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts and assumptions contained in the document or on its completeness, accuracy or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof.

Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product – considering the risks involved – is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.

© Copyright 2018 ABN AMRO Bank N.V. and affiliated companies (*ABN AMRO)