

# Silver Outlook

**Group Economics**  
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Research

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## Silver has seen the worst

- Silver prices have declined by 14% and speculators hold extreme short positions
- Silver prices have seen the worst and we are positive on silver outlook ...
- ... because of lower dollar, lower US Treasury yields and recovery in the Chinese yuan

### Introduction

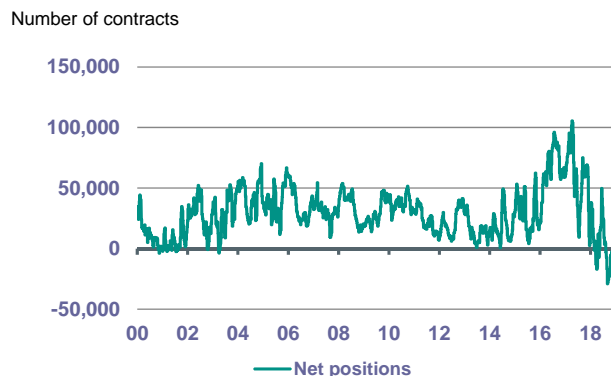
So far year-to-date silver prices have been the weakest among precious metal prices. They have declined by more than 14%. Silver prices have been beaten up more than we had foreseen. We were disappointed by the reluctance of silver prices to rally when the environment was more positive. They have continued to follow gold prices but in a more volatile manner because the market is thinner. Main reasons for lower prices are as follow. First, a higher US dollar, higher US Treasury yields and Fed rate hikes have heavily weighed on silver prices. Second, uncertainty about the outlook of the Chinese economy reflected by a lower Chinese yuan was negative for silver prices. Third, India is the largest silver jewellery market. Weakness of the Indian rupee versus the US dollar has also weighed on the silver price because of expectation of lower jewellery demand. Fourth, weakness in gold prices most often spill over to silver prices as well. Last but not least, the technical trend has been negative so investors will probably sell silver on rallies instead of to buy on dips. What do we expect for silver prices going forward?

### Recovery in the yuan to support silver prices



Source: Bloomberg, ABN AMRO Group Economics

### Speculators are net-short silver



Source: Bloomberg, ABN AMRO Group Economics

### Higher silver prices ahead

We think that silver prices have seen the low and we expect higher prices from now. For a start, we expect the US dollar to weaken and US Treasury yields to decline in our forecast horizon. Silver prices tend to rally when the US dollar and US Treasury yields are lower. Moreover, we expect a recovery in the Chinese yuan and also a recovery in the Indian rupee. This will brighten the demand outlook for silver prices. Even though silver prices are expected to outpace the recovery in the yuan and the rupee, the rise in silver price denominated in yuan and rupee is still manageable. In the years ahead we expect higher industrial demand and higher jewellery demand for silver. Our positive outlook for gold prices should also support silver prices. Last but not least, investors are very negative on the silver price outlook. Speculative short positions in silver are extremely large, while long positions are modest. As a result, speculators are net-short silver. This has only happened on a number of occasions since the inception of the data. In other words: it is exceptional that the speculative community is net-short silver. If investors would become more optimistic about the silver price outlook, they will clean their short positions. It is likely that this will result in a substantial rally in silver prices (above the 200-day moving average). So the upside in prices is far greater than the downside in our view. Taken all these factors together we think that silver is cheap and it is likely that prices will rally in our forecast horizon. So we are bullish on silver prices and our forecasts reflect that.

### ABN AMRO Silver price forecasts

Changes and new forecasts in red/bold

End period	07-Dec	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Gold	1,241	1,250	1,300	1,325	1,350	1,400	1,425	1,450	1,475	1,500
Silver	14.53	15.50	16.00	16.50	17.00	18.00	18.50	19.00	19.50	20.00
Platinum	791	850	900	950	975	1,000	1,025	1,050	1,075	1,100
Palladium	1,207	1,150	1,100	1,050	1,000	1,000	1,000	1,000	1,000	1,000

Average	Q1 19	Q2 19	Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2019
Gold	1,275	1,313	1,338	1,375	1,325	1,413	1,438	1,463	1,488	1,450
Silver	15.8	16.3	16.8	17.5	16.6	18.3	18.8	19.3	19.8	19.0
Platinum	875	925	963	988	938	1,013	1,038	1,063	1,088	1,050
Palladium	1,125	1,075	1,025	1,000	1,056	1,000	1,000	1,000	1,000	1,000

Source: ABN AMRO Group Economics

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