

Precious Metals Watch

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Sell-off in precious metal prices not over yet

- ▶ **Gold prices have dropped by 9% since last week; other precious metal prices down 30%**
- ▶ **But there is more weakness to come**
- ▶ **Lower jewellery, industrial and autocatalyst demand**
- ▶ **Risk off environment to continue and we expect the dollar to rally by around 5%**
- ▶ **New gold price forecast for Q2 is USD 1,300 per ounce (was USD 1,450)**

These are also turbulent times for precious metals. Prices of precious metal have been aggressively sold off since the publication of our [Precious Metals Watch – More price weakness ahead](#). Investor panic on financial markets has resulted in a liquidation of open positions and a flight to the most liquid assets, such as US Treasuries and cash in dollars and Japanese yen. In addition, financial markets have started to expect a drop in demand for precious metals, resulting in a 9% drop in gold prices. Meanwhile, silver, platinum and palladium prices have dived by 30%. As a result, our forecasts released last week are already out of date. Furthermore, we have just slashed our economic forecasts on the back of the coronavirus shock ([see Global Daily](#)). What is the outlook for precious metal prices from here?

Sell-off in precious metal prices not over yet

We have changed our base case scenario for the global economy this week. Please find a brief summary below:

- We have slashed our outlook for global growth and we now expect a deeper economic contraction in the near term, but also a longer delay before a strong and durable rebound takes shape.
- After a sharp Q3 bounce, economic growth will be more subdued in the months thereafter. Supply side disruptions will last longer and the drag from corporate retrenchment – impacting labour markets and capital spending – will remain in place.
- We expect global economic growth to durably move above trend during the course of 2021.
- As far as monetary policy goes, we think the Fed is now done in terms of the immediate future. On the other hand, the ECB does have more work to do. We expect it to take further stimulus measures at the meeting in April.
- We expect a risk-off environment for Q1 and for most of Q2
- We also think that the US dollar will rally another 5% in the coming weeks on safe haven buying

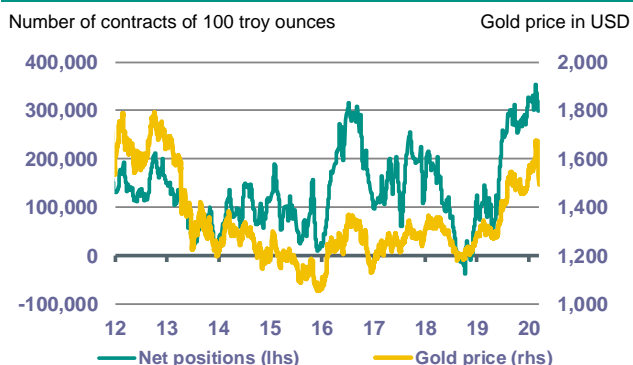
This scenario will not be positive for precious metal prices in the coming months. Firstly, weaker growth is always negative for all precious metals. We expect lower demand for jewellery from India and China, lower industrial demand and lower autocatalyst demand (from the major economies). As a result of weaker demand, we think that the supply shortage for palladium will ease in the near term. Even though we expect more price weakness for silver, platinum and palladium, the percentage drops will probably be smaller than last week's experience. This is because we think that most of the net-long speculative positions in silver, platinum and palladium have been closed.

Secondly, the VIX index has risen to extreme levels of around 75 and the dollar has risen on safe haven buying. This is an unfavourable combination for gold prices. We expect financial markets to remain in a risk off mode in the coming weeks and months, which should result in more dollar strength and gold price weakness.

Thirdly, speculative net-long positions of investors in gold are still extreme. Some of the speculative positions in gold have been reduced but they are still large. Investor positions in ETFs have been barely reduced. We expect that investors will liquidate more speculative net-long positions and ETF positions. Therefore, we expect a more pronounced weakness in gold prices than in other precious metal prices. Just to give you an idea. In 2013, investors liquidated 23 million ounces (from 82 million to 59 million) gold in ETFs, which resulted in a drop in gold prices from USD 1,660 per ounce to USD 1,200 per ounce. Total ETF positions in gold now stand at 86 million, so a similar move could not be ruled out, especially given that long gold is still a crowded trade. Overall, we expect more aggressive price weakness in gold.

In the second half of this year, we expect a rebound in precious metal prices. The rebound will probably be more substantial in silver, platinum and palladium than in gold. The rebound is based on expectations that economies have passed the troughs in H2, although growth will remain modest.

Speculative net-long gold positions still extreme ...



Source: Bloomberg, ABN AMRO Group Economics

... as well as total ETF positions



Source: Bloomberg, ABN AMRO Group Economics

As a result of the above-mentioned we have changed our precious metals forecasts. See the changes in bold and red in the table below.

ABN AMRO Precious Metals' price forecasts

Changed in bold and red

New

End period	18-Mar	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Gold	1,502	1,522	1,450	1,300	1,300	1,400	1,450	1,500	1,550	1,600
Silver	12.09	17.94	11.50	11.00	12.00	12.50	13.00	13.50	14.00	15.00
Platinum	628	974	650	600	650	700	750	800	850	900
Palladium	1,590	1,941	1,500	1,400	1,450	1,500	1,525	1,550	1,575	1,600
Gold/silver ratio	124.2	84.8	126.1	118.2	108.3	112.0	111.5	111.1	110.7	106.7
Gold/platinum	2.4	2.2	2.2	2.0	2.0	1.9	1.9	1.8	1.8	
Palladium /platinum	2.5	2.3	2.3	2.2	2.1	2.0	1.9	1.9	1.8	

Average	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021
Gold	1,565	1,375	1,300	1,350	1,398	1,425	1,475	1,525	1,575	1,500
Silver	16.7	11.3	11.5	12.3	12.9	12.8	13.3	13.8	14.5	13.6
Platinum	890	625	625	675	704	725	775	825	875	800
Palladium	2,180	1,450	1,425	1,475	1,633	1,513	1,538	1,563	1,588	1,550

Old

End period	18-Mar	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Gold	1,512	1,522	1,550	1,450	1,500	1,600	1,650	1,700	1,725	1,750
Silver	12.46	17.94	16.25	15.50	16.50	18.00	18.50	19.00	19.50	20.00
Platinum	663	974	850	825	1,000	1,100	1,150	1,200	1,250	1,250
Palladium	1,632	1,941	2,100	2,000	1,900	1,800	1,700	1,600	1,500	1,500

Average	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021
Gold	1,565	1,500	1,475	1,550	1,523	1,625	1,675	1,713	1,738	1,688
Silver	17.5	15.9	16.0	17.3	16.6	18.3	18.8	19.3	19.8	19.0
Platinum	912	838	913	1,050	928	1,125	1,175	1,225	1,250	1,194
Palladium	2,021	2,050	1,950	1,850	1,968	1,750	1,650	1,550	1,500	1,613

Source: ABN AMRO Group Economics

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