

# Precious Metals Watch

## Positive on platinum, negative on gold

Group Economics  
Macro & Financial Markets Research

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1 July 2015

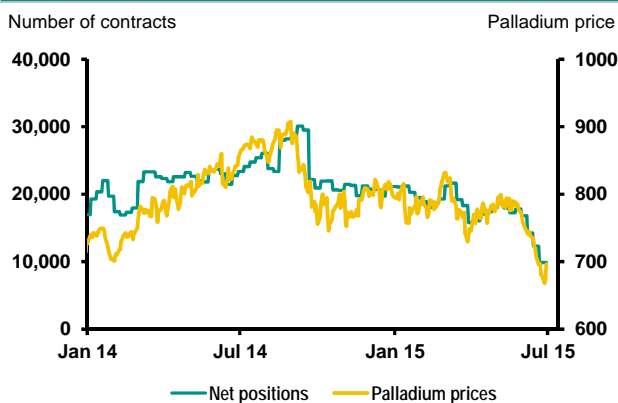
- **Q2 has brought weakness in precious metal prices...**
- **...and we expect this to continue in Q3...**
- **...with the exception of platinum prices, which should start recovering**
- **Gold to be the worst performing precious metal over the coming year**
- **Silver prices to recover later in the year but not yet**

### Q2 has brought weakness in prices

Precious metal prices fell sharply in the second quarter of this year. The most resilient precious metal was gold (-1%), which was supported by a downward adjustment in Fed interest rate expectations, a weak US dollar and the Greek saga. However, higher US Treasury yields weighed on prices. In addition, gold demand from China was weaker than expected. More importantly, the sell-off in palladium prices also dragged down other precious metals.

Indeed, after being the strongest precious metals for quite some time, gravity also caught up with in palladium prices (-8%). What does not want to go up on relatively strong fundamentals, had to go down. In short, speculative investors exited palladium positions in Q2 (see graph below).

### Investor liquidation push palladium prices lower



Source: Bloomberg, ABN AMRO Group Economics

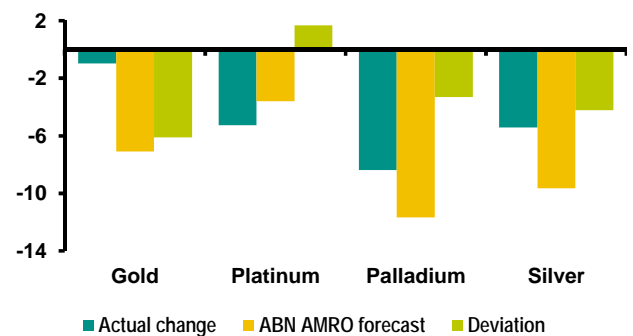
### How did our forecasts perform?

We had expected substantial price weakness in the second quarter. The direction proved to be correct (see graph below). However, price weakness in gold, silver and palladium was less than we had foreseen. At the start of Q2 our end-of-June palladium forecast of USD 650 per ounce looked very unrealistic, but in the end we were not that far off. Our view

was that if investors started to liquidate positions, palladium prices would be sold off sharply. This scenario played out.

### Actual and forecasts price movements

Change in Q2, in %

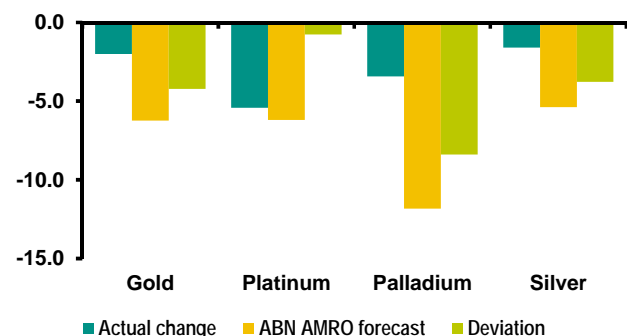


Source: Bloomberg, ABN AMRO Group Economics

In terms of our average forecasts, the direction was again correct, but our forecasts were for more substantial down-moves than that materialized in the end. In case of our platinum average Q2 forecast, we were very close to the actual average for Q2 with a difference of only 0.8% (graph below).

### Average price movements

Based on quarterly averages, in %



Source: Bloomberg, ABN AMRO Group Economics

**Our base scenario has not changed**

Our base scenario has not changed. This includes the following pillars

- The US economy to steam ahead...
- ...and the Fed to hike interest rates in September
- The Fed to hike more in 2015 and 2016 than financial markets currently anticipate
- Financial markets to adjust to the new reality of Fed rate hikes and to adjust upwards their rate hike expectations
- Inflation expectations to remain muted
- The US dollar to rally another 10% in trade-weighted terms this year
- Investor sentiment to be constructive shaking off the Greek saga
- The eurozone economy to improve...
- ...and China to avoid a hard landing

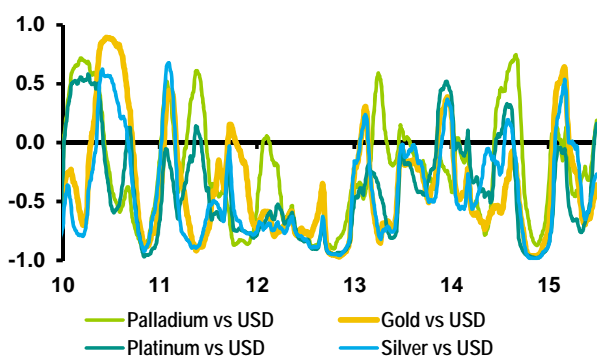
What does this mean for our precious metals price outlook?

**We remain bearish on gold for 2015 and 2016**

Higher US interest rates and a higher US dollar will be strong headwinds for precious metals prices. Higher US interest rates make investment assets that pay virtually no income relatively unattractive. Precious metals are among these assets. In addition, a higher US dollar weighs on precious metal prices (see graph below). It is likely that in such an environment investors will liquidate speculative positions in precious metals.

**Higher USD dollar is negative for precious metals**

90-day rolling correlation

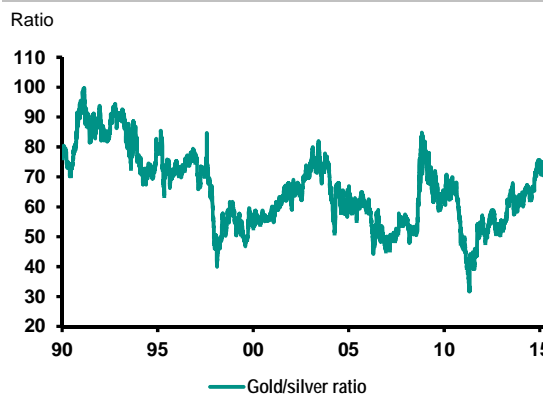


Source: Bloomberg, ABN AMRO Group Economics

Gold prices are the most negatively affected in our view, mainly because investor and jewellery demand are very important for the price outlook. Investors will likely liquidate gold positions when US dollar and US rates go up in an environment that inflation expectations remain muted and investor sentiment is constructive. Moreover, gold has a relatively low share of industrial demand. However, we expect

Chinese gold demand, especially jewellery demand, to improve and this should dampen the downside somewhat.

**Gold expensive compared to silver**

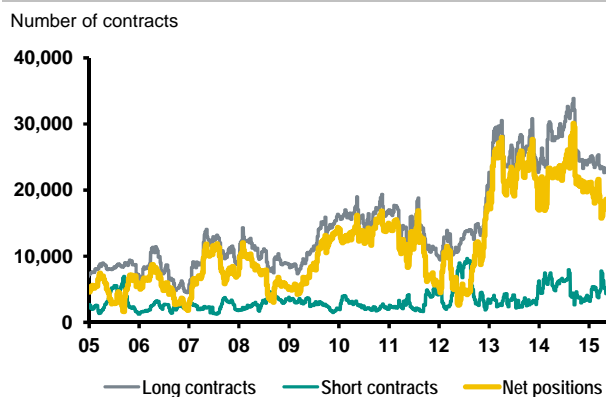


Source: Bloomberg

**Silver prices to remain closely tied to gold's performance**

Silver prices remain closely tied to gold's fate in the near-term. Furthermore, silver supply has increased at a faster pace than was originally anticipated. So a higher US dollar, higher US rates, gold price weakness and higher supply should drive down silver prices. However, we expect industrial demand for silver to provide some support. The gold/silver ratio (see graph above) is at extreme levels. This means that gold is expensive compared to silver. It is likely that silver will outperform gold prices going forward (weakening less than gold). At some point in the coming weeks and months, silver prices should be able to disconnect from gold prices. This will be later than we had originally envisaged.

**More speculative palladium positions to be squeezed**



Source: Bloomberg

**More investor position liquidation to push palladium lower**

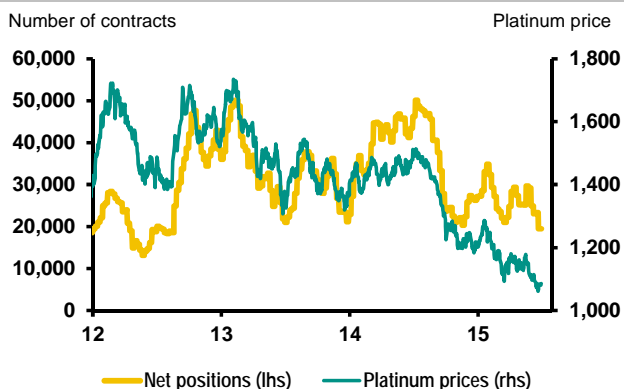
We remain negative on palladium prices for the coming months. It is likely that a combination of ample above-ground

stocks, higher-than-expected supply, lower industrial and autocatalyst demand and investors further liquidating positions will push palladium prices lower. Palladium has a substantial exposure to emerging markets. With economies in emerging markets being weaker than foreseen, demand for palladium will likely be lower than expected. We expect another negative quarter for palladium prices.

### We turn positive on platinum!

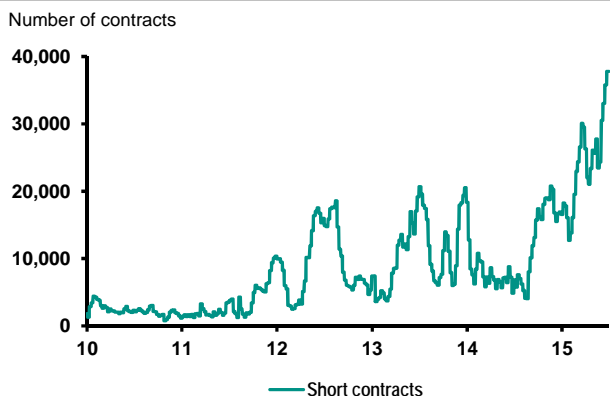
More substantial mine supply, a higher US dollar and higher US rates and weakness in other precious metals are serious headwinds for platinum prices. However, other developments are far more positive in our view. First, we remain positive on the eurozone economic outlook despite Greece. The eurozone is very important market for platinum autocatalyst demand. In addition, we expect jewellery demand from China to improve. This is also a crucial source of demand for platinum. What is more, speculative shorts in platinum on the futures markets are very extreme. Net-positions in platinum are close to lows seen since 2012 (see graphs bellows).

### Net positions near the bottom...



Source: Bloomberg

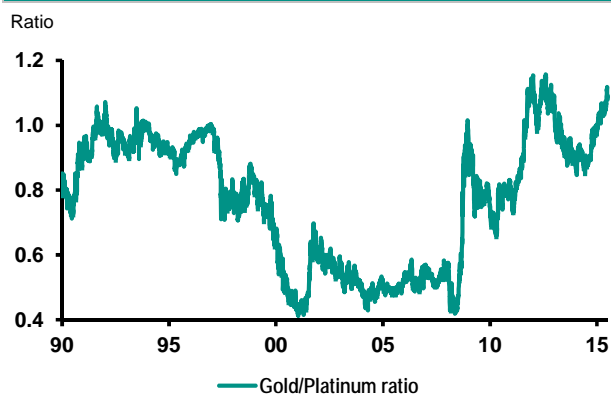
### ...and short positions very extreme



Source: Bloomberg, ABN AMRO Group Economics

Last, but not least the gold/platinum ratio is in extreme territory. It is increasingly likely that this ratio will start moving in favour of platinum. This would translate in gold prices selling off more aggressively than platinum prices, platinum prices rising faster than gold prices or gold prices falling while platinum prices recover. We opt for the third scenario given that cyclical demand will support platinum prices.

### Platinum to outperform gold



Source: Bloomberg, ABN AMRO Group Economics

### Our Precious Metals forecasts

Adjustments in bold/red

End period	01-Jul	Close 14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Gold	1,172	1,185	1,184	1,172	<b>1,100</b>	1,000	950	900	850	800
Silver	15.7	15.7	16.6	15.7	<b>15.0</b>	16.0	16.5	17.0	17.5	18.0
Platinum	1,084	1,216	1,141	1,081	1,150	1,200	1,250	1,300	1,350	1,400
Palladium	699	798	736	674	<b>650</b>	<b>650</b>	<b>675</b>	<b>675</b>	<b>700</b>	<b>725</b>

Average	Q1 15	Q2 15	Q3 15	Q4 15	2015	Q1 16	Q2 16	Q3 16	Q4 16	2016
Gold	1,218	1,193	<b>1,136</b>	<b>1,050</b>	<b>1,149</b>	975	925	875	825	900
Silver	16.7	16.4	<b>15.4</b>	<b>15.5</b>	<b>16.0</b>	16.3	16.8	17.3	17.8	17.0
Platinum	1,194	1,129	<b>1,115</b>	<b>1,175</b>	<b>1,153</b>	1,225	1,275	1,325	1,375	1,300
Palladium	786	759	<b>662</b>	<b>650</b>	<b>714</b>	<b>663</b>	<b>675</b>	<b>688</b>	<b>713</b>	<b>684</b>

Source: ABN AMRO Group Economics

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