

Precious Metals Weekly

China takes over

Group Economics
Macro & Financial Markets Research

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- **FX regime shift in China has supported precious metal prices...**
- **...mainly because of US dollar weakness**
- **But this development has not altered our outlook for precious metal prices...**
- **...because we still expect higher US rates and stronger USD to trigger position liquidation**

FX regime shift in China...

The People's Bank of China (PBOC) has recently shifted its daily yuan reference rate pricing mechanism to better reflect market forces. As a result, the yuan weakened by around 3.5%. This surprised financial markets.

...and gold strengthened on deterioration in sentiment...

The FX regime shift in China has supported gold prices. Financial markets appear to be concerned about the motivation behind this decision. They fear that the Chinese economy may be weaker than currently is anticipated. This has resulted in deterioration in market sentiment, which has been reflected by lower US Treasury and Bund yields and weakness in equity markets. Gold prices have received some support because of this.

...and more importantly a weaker US dollar

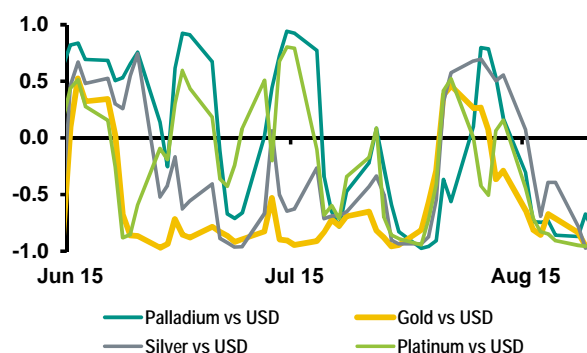
This FX regime shift has negatively impacted the US dollar. There are two reasons for this. First, as recent episodes of deterioration in investor sentiment have shown, the US dollar is negatively affected because it is mainly driven by cyclical forces such as the state of the US economy and Fed rate hike expectations. Second, financial markets have slightly scaled back expectations about a possible rate hike in September because of concerns about China. We do not share this view. Chinese authorities are working hard to support the economy, which is logical. A weaker US dollar has supported gold prices.

Weaker US dollar overrules China growth worries

The other precious metals have done relatively well so far this week. Since Monday they have outperformed the US dollar by 1-2%. If financial markets were really concerned about a Chinese hard landing, these precious metals should have moved much lower. Weakness in the US dollar versus most major currencies appears to have outweighed the effects of worries about the demand outlook.

Relationship precious metals and US dollar

5-day rolling correlation



Source: Bloomberg

Our outlook

The recent developments have not altered our outlook for precious metal prices. For a start, we expect the Fed to start raising rates in September driven by a strong economy. This should support the US dollar across the board. The prospect of higher US interest rates and a stronger US dollar is a major headwind for precious metals prices. It is likely that in such an environment investors will liquidate speculative positions in precious metals. Gold prices will be the most negatively affected in our view. Silver prices remain closely tied to gold's fate in the near-term. The negative spillover effect of lower gold prices on other precious metal prices signals that investor liquidation has further to go. This implies that price weakness in cyclical precious metals has further to go as well. We expect a recovery in cyclical precious metals' prices to arrive later.

ABN AMRO forecasts

End period	12-Aug	Close 14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Gold	1,118	1,185	1,184	1,172	1,050	1,000	950	900	850	800
Silver	15.4	15.7	16.6	15.7	14.5	15.0	15.5	16.0	16.5	17.0
Platinum	992	1,216	1,141	1,081	950	1,000	1,050	1,100	1,150	1,200
Palladium	610	798	736	674	600	600	625	625	650	650

Average	Q1 15	Q2 15	Q3 15	Q4 15	2015	Q1 16	Q2 16	Q3 16	Q4 16	2016
Gold	1,218	1,193	1,111	1,025	1,137	975	925	875	825	900
Silver	16.7	16.4	15.1	14.8	16.0	15.3	15.8	16.3	16.8	16.0
Platinum	1,194	1,129	1,015	975	1,078	1,025	1,075	1,125	1,175	1,100
Palladium	786	759	637	600	700	613	625	638	650	631

Source: ABN AMRO Group Economics

Precious metals	Close	Change 1 Day in %	Change 5 days in %	Change YTD in %
Gold prices per troy ounces				
Gold price in USD	1,120	0.96	3.18	-5.51
Gold price in EUR	1,001	-0.56	0.17	1.92
Gold price in JPY	138,702	-0.05	2.24	-2.58
Gold price in CHF	1,088	-0.86	2.05	-7.89
Gold price in GBP	716	0.57	2.92	-6.06
Gold price in INR	72,472	1.51	4.69	-3.47
Gold price in CNY	7,152	2.00	6.01	-3.06
Gold price in BRL	3,908	0.55	2.95	24.25
Gold price in RUB	72,267	1.44	4.48	8.95
Gold price in TRY	3,108	0.67	2.46	11.89
Silver prices per troy ounces				
	Last	Change 1 Day in %	Change 5 days in %	Change YTD in %
Silver price in USD	16	1.41	6.19	-1.18
Silver price in EUR	14	-0.09	3.23	6.89
Platinum prices per troy ounces				
	Last	Change 1 Day in %	Change 5 days in %	Change YTD in %
Platinum price in USD	999	1.04	5.04	-17.85
Platinum price in EUR	893	-0.43	2.10	-11.00
Platinum price in JPY	123,805	0.07	4.19	-14.96
Platinum price in CNY	6,383	2.09	8.02	-15.38
Palladium prices per troy ounces				
	Last	Change 1 Day in %	Change 5 days in %	Change YTD in %
Palladium price in USD	620	3.24	3.97	-22.37
Palladium price in EUR	554	1.68	1.17	-16.10
Palladium price in JPY	76,795	2.15	3.14	-19.92
Palladium price in CNY	3,954	4.03	6.73	-20.81
Palladium price in BRL	2,165	2.77	3.95	2.05
Palladium price in INR	40,109	3.71	5.55	-20.65
Palladium price in RUB	39,964	3.54	5.21	-14.19
Gold forward rates				
	Last	Change 1 Day in %	Change 5 days in %	Change YTD in %
LBMA 1 Month Gold Forward Offer rate	0.07	-27.78	-13.33	252.94
BBA LIBOR USD 1 Month	0.19	0.68	1.08	12.44
Gold 1 Month Lease rate	0.13			
LBMA 3 Month Gold Forward Offer rate	0.10	-13.64	5.56	0.00
BBA LIBOR USD 3 Month	0.31	0.83	3.46	22.93
Gold 3 Month Lease rate	0.22			
Volatility				
	Last	Change 1 Day in %	Change 5 days in %	Change YTD in %
1 month gold option volatility	14.35	2.44	-3.56	-16.86
1 month silver option volatility	25.66	3.64	0.25	-13.55
1 month platinum option volatility	21.18	0.31	-1.21	29.58
1 month palladium option volatility	27.14	0.84	-4.55	25.49
COMEX & NYMEX positions				
	Last	Change net 5 days	Change net 1 Month	Change net YTD
NET LONGS - GOLD (COMEX)	14,820	-446	-37,769	-90,405
NET LONG ON SILVER (COMEX)	13,756	1,683	-563	-19,976
NET LONG ON PLATINUM (NYMEX)	20,455	-154	-2,852	-9,495
NET LONG ON PALLADIUM (NYMEX)	4,206	-1,086	-2,617	-17,812
Total ETF positions				
	Last	Change net 5 days	Change net 1 Month	Change net YTD
Total Known ETF Holdings of Gold	48,545,029	-332,151	-2,475,121	-2,893,651
Total Known ETF Holdings of Silver	622,556,942	18,300	-2,135,023	-553,906
Total Known ETF Holdings of Platinum	2,802,780	-5,440	97,090	78,886
Total Known ETF Holdings of Palladium	3,023,673	-8,082	63,384	-43,217
Relative				
	Last	Change 1 Day in %	Change 5 days in %	Change YTD in %
Gold/Silver ratio	72.13	-0.51	-2.97	-4.66
Gold/Platinum ratio	1.12	-0.12	-1.87	14.61
Platinum/Palladium ratio	1.61	-1.97	1.01	6.04

Source: Bloomberg

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