

Precious Metals Weekly

Gold still expensive

Group Economics
Macro & Financial Markets Research

Georgette Boele, tel,+31 20 6297789

9 September 2015

- **Gold is still expensive compared to cyclical assets...**
- **...mainly because of the underperformance of cyclical commodities in a risk averse environment**
- **We expect gold prices to weaken and price ratios relative to other commodities to move lower**

Gold is still expensive compared to cyclical assets

In this report we take a different angle to determine if gold prices are expensive relative to other commodity prices, including oil prices and copper prices. We compare the current values to the long-term average (since the 1990s) and our forecasts for the end of 2015 and 2016. We find that gold prices are still relatively expensive despite prices being at 5-year lows (see table below).

Gold still relatively expensive

Current ratios, average and our year-end forecasts

	Current	Average	2015e	2016e
Gold/Brent	22.70	15.32	16.67	12.31
Gold/Platinum	1.12	0.77	1.00	0.67
Gold/Palladium	1.92	1.86	1.90	1.33
Gold/Silver	76.0	65.8	66.7	47.1
Gold/Copper	0.21	0.16	0.19	0.13

Source: ABN AMRO Group Economics, Bloomberg

Gold/Brent still high



Source: Bloomberg

Cyclical commodities have underperformed...

There are several reasons for this. First, cyclical commodities such as copper, platinum, palladium and oil prices have suffered because of a supply overhang (mainly oil), smaller supply deficit (palladium) and considerable downward adjustment of demand outlook from China (copper, palladium). Gold is not a cyclical asset and therefore it has suffered less.

...and deterioration in investor sentiment supported gold

In addition, investor sentiment has deteriorated this year because of a number of factors. In general, cyclical assets underperform when uncertainty and nervousness increase. The environment has been suitable for gold to outperform. However, gold's safe haven status has been sharply reduced because of investors positioning in gold. As a result, gold has been able to profit less than in previous periods of risk aversion when investor positioning was lower.

Going forward we expect lower gold ratios

We expect gold price ratios relative to other commodities to weaken for several reasons. For a start, expectations about the demand outlook for cyclical commodities will likely improve. This is mainly because we expect the global economy to strengthen going forward driven by strong domestic demand. Moreover, we expect investor sentiment to improve, with lower equity volatility (VIX) as a result. In addition, the recent bouts of risk aversions probably have resulted in reducing of substantial outstanding long positions in cyclical commodities. However, investor positions in precious metals remain substantial. Therefore, we expect investors to further reduce net long positions in the wake of Fed rate hikes this year and next year and a higher US dollar. Moreover, we see more downside if we take into account the gold price corrected for US consumer price index. If we take all the above-mentioned measures into account, gold weakness is not over yet and further price falls are likely.

ABN AMRO forecasts

End period	09-Sep	Close 14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Gold	1,120	1,185	1,184	1,172	1,050	1,000	950	900	850	800
Silver	14.7	15.7	16.6	15.7	14.5	15.0	15.5	16.0	16.5	17.0
Platinum	996	1,216	1,141	1,081	950	1,000	1,050	1,100	1,150	1,200
Palladium	585	798	736	674	550	525	500	525	550	600
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	600	538	700	513	513	538	575	534

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	-0.12	-1.23	-5.46
Gold price in EUR	1,006	0.12	-0.46	2.43
Gold price in JPY	135,320	0.55	-0.82	-4.96
Gold price in CHF	1,094	-0.61	-0.53	-7.31
Gold price in GBP	729	-0.21	-1.63	-4.37
Gold price in INR	74,418	-0.22	-0.93	-0.88
Gold price in CNY	7,142	-0.17	-1.07	-3.20
Gold price in BRL	4,252	-0.64	-0.05	35.19
Gold price in RUB	76,161	-0.71	0.01	14.82
Gold price in TRY	3,382	0.16	1.21	21.78
Silver prices per troy ounces				
Silver price in USD	Last	Change 1 Day in %	Change 5 days in %	Change YTD in %
Silver price in USD	15	-0.25	0.10	-6.10
Silver price in EUR	13	0.22	1.01	2.06
Platinum prices per troy ounces				
Platinum price in USD	Last	Change 1 Day in %	Change 5 days in %	Change YTD in %
Platinum price in USD	996	-0.50	-1.82	-18.08
Platinum price in EUR	895	-0.03	-0.90	-10.84
Platinum price in JPY	120,452	0.40	-1.21	-17.26
Platinum price in CNY	6,357	-0.31	-1.50	-15.73
Palladium prices per troy ounces				
Palladium price in USD	Last	Change 1 Day in %	Change 5 days in %	Change YTD in %
Palladium price in USD	585	-0.43	0.23	-26.71
Palladium price in EUR	525	0.41	1.03	-20.48
Palladium price in JPY	70,743	0.34	0.97	-26.23
Palladium price in CNY	3,731	0.12	0.59	-25.27
Palladium price in BRL	2,221	-0.90	1.53	4.69
Palladium price in INR	38,875	-0.49	0.74	-23.09
Palladium price in RUB	39,801	-0.92	1.72	-14.54
Gold forward rates				
LBMA 1 Month Gold Forward Offer rate	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	0.20	1.73	2.09	18.36
Gold 1 Month Lease rate	0.14			
LBMA 3 Month Gold Forward Offer rate	0.10	-13.64	5.56	0.00
BBA LIBOR USD 3 Month	0.33	0.30	1.22	30.28
Gold 3 Month Lease rate	0.24			
Volatility				
1 month gold option volatility	Last	Change 1 Day in %	Change 5 days in %	Change YTD in %
1 month gold option volatility	15.81	-2.41	-2.80	-8.41
1 month silver option volatility	29.78	-0.30	-2.02	0.33
1 month platinum option volatility	20.05	-0.36	-4.79	22.64
1 month palladium option volatility	31.50	-3.04	-2.07	45.63
COMEX & NYMEX positions				
NET LONGS - GOLD (COMEX)	Last	Change net 5 days	Change net 1 Month	Change net YTD
NET LONGS - GOLD (COMEX)	69,088	6,452	54,268	-36,137
NET LONG ON SILVER (COMEX)	22,566	-1,404	8,810	-11,166
NET LONG ON PLATINUM (NYMEX)	26,100	1,215	5,645	-3,850
NET LONG ON PALLADIUM (NYMEX)	5,461	1,470	1,255	-16,557
Total ETF positions				
Total Known ETF Holdings of Gold	Last	Change net 5 days	Change net 1 Month	Change net YTD
Total Known ETF Holdings of Gold	48,918,533	4,843	365,483	-2,520,147
Total Known ETF Holdings of Silver	618,359,620	-1,753,987	-4,197,933	-4,751,228
Total Known ETF Holdings of Platinum	2,833,412	-10,976	30,589	109,518
Total Known ETF Holdings of Palladium	2,905,904	-44,604	-119,876	-160,986
Relative				
Gold/Silver ratio	Last	Change 1 Day in %	Change 5 days in %	Change YTD in %
Gold/Silver ratio	75.97	-0.06	-1.44	0.41
Gold/Platinum ratio	1.12	0.18	0.48	14.98
Platinum/Palladium ratio	1.70	0.09	-2.01	12.01

Source: Bloomberg

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