

Precious Metals Weekly

Did the Fed alter our view?

Group Economics
Macro & Financial Markets Research

Georgette Boele, tel,+31 20 6297789

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- **Financial turmoil puts FOMC on hold**
- **Dovish Fed supports gold...**
- **...however this decision has not altered our view: we remain negative on gold**

Financial turmoil puts FOMC on hold

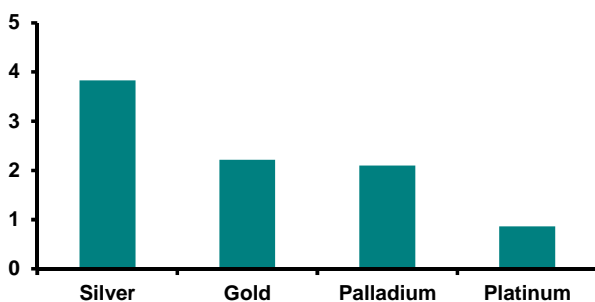
After two days of meetings, the Fed kept rates on hold. The FOMC statement showed that policymakers are concerned about recent global developments and the tightening of financial conditions and their impact on economic activity. However, the door was left open for a rate hike later this year. We expect a rate hike in December as global risks should ease and the US economy should continue to recover.

Dovish Fed supports gold

Markets were volatile following the decision, but overall outcomes were supportive for bonds and gold, but negative for the dollar, as markets scaled back rate hike expectations. Gold prices moved higher, while the US dollar and 10y US Treasury yields fell. At the end of the session US equities gave up their gains and closed down for the day. Other precious metals also received support. However, the more cyclical precious metals such as palladium and platinum underperformed. Palladium prices are even back at the levels from before the announcement of the FOMC decision. This signals that concerns about the growth outlook dampened the impact of a lower US dollar on gold prices.

Performance for the week

In %, USD as basis



Source: Bloomberg

Did the FOMC decision alter our views?

We are negative about gold mainly because we expect lower demand from investors. Investor demand is mainly driven by investor sentiment in financial markets, the direction in the US dollar and US interest rates, the strength of the global economy and the attractiveness of other investment assets. We expect jewellery demand from India and China to increase, but this will unlikely compensate for lower investor demand.

Is yesterday's FOMC meeting resulting in a change our view? In short "no". Because the FOMC decision is not changing the overall picture that the Fed will start its tightening cycle this year or early next year. If the Fed eventually hikes in December, as we expect, then the US dollar and yields should move up. This will weigh on gold prices if overall investor sentiment remains constructive. Even though we stand firm on the direction in gold prices, yesterday's Fed decision has decreased the likelihood of gold prices hitting USD 1,000 per ounce this year. The later the Fed starts hiking the more the weakness in gold prices will be shifted towards next year. As the Fed is highly data dependent, so are financial markets. Stronger US data should push gold prices lower again.

ABN AMRO forecasts

End period	18-Sep	Close 14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
Gold	1,132	1,185	1,184	1,172	1,050	1,000	950	900	850	800
Silver	15.2	15.7	16.6	15.7	14.5	15.0	15.5	16.0	16.5	17.0
Platinum	978	1,216	1,141	1,081	950	1,000	1,050	1,100	1,150	1,200
Palladium	608	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	1,132	0.04	2.18	-4.46
Gold price in EUR	989	-0.01	1.21	0.71
Gold price in JPY	135,142	-0.02	1.16	-5.08
Gold price in CHF	1,084	-0.21	0.96	-8.17
Gold price in GBP	725	0.63	0.91	-5.00
Gold price in INR	74,426	0.23	1.49	-0.87
Gold price in CNY	7,202	1.21	1.99	-2.38
Gold price in BRL	4,412	1.60	3.00	40.30
Gold price in RUB	74,226	0.61	-0.67	11.91
Gold price in TRY	3,393	0.75	0.78	22.16
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	1.18	3.84	-3.35
Silver price in EUR	13	-0.12	3.73	2.15
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	978	1.08	0.82	-19.59
Platinum price in EUR	854	-0.14	0.04	-14.91
Platinum price in JPY	116,737	-0.17	-0.14	-19.82
Platinum price in CNY	6,221	1.07	0.76	-17.52
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	608	1.45	2.21	-23.78
Palladium price in EUR	531	0.09	1.52	-19.58
Palladium price in JPY	72,626	0.10	1.24	-24.26
Palladium price in CNY	3,870	1.37	3.48	-22.47
Palladium price in BRL	2,371	1.68	3.91	11.77
Palladium price in INR	40,002	-1.05	1.25	-20.87
Palladium price in RUB	39,895	0.76	-0.82	-14.34
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	0.21	2.68	4.31	24.26
Gold 1 Month Lease rate	0.15			
LBMA 3 Month Gold Forward Offer rate	0.10	-13.64	5.56	0.00
BBA LIBOR USD 3 Month	0.34	1.60	1.98	32.86
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	14.42	-7.13	-6.80	-16.48
1 month silver option volatility	27.65	-6.98	-6.80	-6.84
1 month platinum option volatility	20.34	-0.25	2.88	24.44
1 month palladium option volatility	28.68	-1.12	-8.97	32.57
COMEX & NYMEX positions				
NET LONGS - GOLD (COMEX)	Last	Change net 5 days	Change net 1 Month	Change net YTD
NET LONGS - GOLD (COMEX)	55,979	0	31,521	-49,246
NET LONG ON SILVER (COMEX)	25,560	0	3,333	-8,172
NET LONG ON PLATINUM (NYMEX)	27,057	0	5,022	-2,893
NET LONG ON PALLADIUM (NYMEX)	4,893	0	326	-17,125
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	48,756,137	-33,403	204,807	-2,682,543
Total Known ETF Holdings of Silver	615,419,023	-1,553,301	-5,580,398	-7,691,825
Total Known ETF Holdings of Platinum	2,814,202	-17,638	-35,825	90,308
Total Known ETF Holdings of Palladium	2,876,457	-29,353	-126,738	-190,433
Relative				
Gold/Silver ratio	Last	Change 1 Day in %	Change 5 days in %	Change YTD in %
Gold/Silver ratio	74.61	0.06	-2.12	-1.39
Gold/Platinum ratio	1.16	0.16	1.46	18.42
Platinum/Palladium ratio	1.61	-0.27	-1.27	5.69

Source: Bloomberg

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