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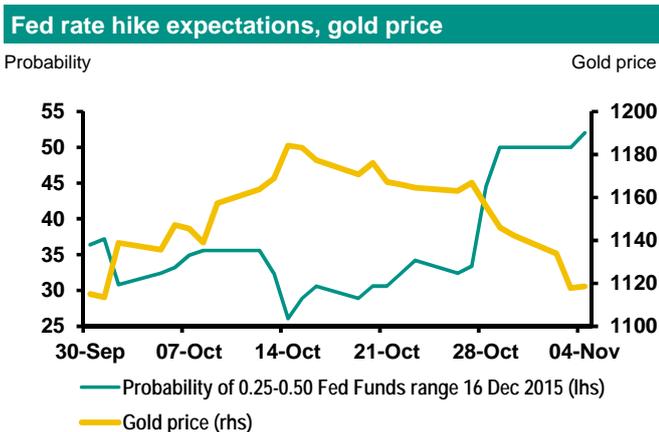
Abrupt change of fortunes

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- A more hawkish Fed meeting pushed precious metal prices lower
- ...and today and tomorrow Fed's speakers are in focus
- A profound shift in investor sentiment underway?

At the mercy of Fed expectations

In our precious metals weekly of last week, we focussed on the interrelated driving forces for gold prices such as the direction in the US dollar and expectations about monetary policy. The Fed was once again a key driver of precious metals last week. The FOMC statement was more hawkish. It left the door open for a rate hike at the December meeting. This unexpected hawkish communication sent precious metal prices lower and the US dollar higher. The upward price momentum in precious metal prices had already eased and this outcome of the Fed meeting made things worse for precious metal prices. Since 28 October 2015, they have lost between 1.7 to 4.5% with silver prices being the weakest performer.



Source: Bloomberg, ABN AMRO Group Economics

Today Fed Chair Yellen (at 16.00 CET) and Fed's Dudley (at 20.30) will speak and more Fed speakers are scheduled for tomorrow. If they also signal that a rate hike at the December meeting is on the cards then precious metal prices will fall further. This is because a rate hike at the December meeting is priced in for about 50% (see graph above). If they moderate the tone, signalling that a rate hike this year is not so likely, precious metal prices could bounce higher again. Their comments will have an extra

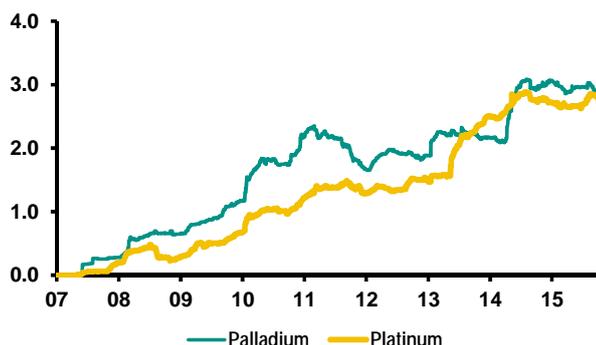
impact, because the US dollar is also directly affected. Our call remains that they will postpone the rate hike to next year, but the risk for a hike this year has increased. In addition, the release of the US employment report could also move precious metal prices. A stronger report should send precious metal prices lower.

Sentiment shift going on

Often investor sentiment among speculators directly impact prices. They are usually the first investors to throw in the towel if they don't expect positive price developments anymore. Investors that are in exchange traded products often have more patience because they seem to have a longer-term investment horizon. There are signs that a profound shift is going on. Positions in ETF have always been very sticky, but if investors start to unwind them, a significant downward move in prices will be the result. We mentioned in earlier reports that total ETF positions in platinum, palladium and silver have been at an excessive level for a long time. However, recently they have come down sharply in platinum and in palladium. It is likely that the emission scandal had a substantial impact but also the prospect that the Fed may hike rates this year probably triggered position unwinding. Total ETF positions in silver have also been reduced, albeit to a lesser extent.

ETF liquidation under way

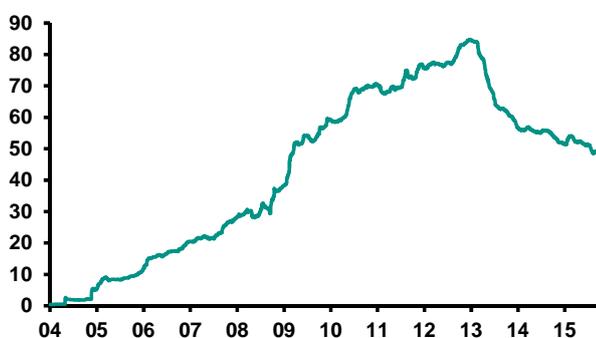
Total ETF positions in million troy ounces



Source: Bloomberg, ABN AMRO Group Economics

In 2013 this happened in gold ETFs

Total ETF positions in million troy ounces



Source: Bloomberg, ABN AMRO Group Economics

The trend in total ETF positions does not bode well for the short-term price outlook. Last time we experienced such a development was in 2013 when total ETF positions in gold were reduced by 33%. This was at a time that speculative positions were also cut back. For platinum and palladium most of these speculative positions have already been reduced, but speculators could become more negative on the price outlook. So it is likely that a profound shift in investor sentiment could send precious metal prices much lower from the current levels. If total ETF positions in platinum, palladium and silver were to be reduced by 33% from the maximum positions, then prices could test the lows set this year in platinum (902 USD per ounce), palladium (530 USD per ounce) and silver (14.12 USD per ounce).

ABN AMRO precious metals forecasts

Changes in red/bold

End period	04-Nov	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	1,112	1,100	1,050	1,000	950	900
Silver	15.3	15.7	16.6	15.7	14.5	15.0	14.5	14.0	14.5	15.0
Platinum	964	1,216	1,141	1,081	910	900	875	850	900	1,000
Palladium	646	798	736	674	652	650	625	600	625	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	1,126	1,106	1,170	1,075	1,025	975	925	1,000
Silver	16.7	16.4	15.0	14.8	16.0	14.8	14.3	14.3	14.8	14.5
Platinum	1,194	1,129	993	905	1,075	888	863	875	950	894
Palladium	786	759	618	651	700	638	613	613	638	625

Source: ABN AMRO Group Economics

Find out more about Group Economics at: <https://insights.abnamro.nl/en/>

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