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Safe-haven revisited

Georgette Boele
 Co-ordinator FX & Precious Metals
 Strategy
 Tel: +31 20 629 7789
 georgette.boele@nl.abnamro.com

- **We are pleased to announce that we were the most accurate forecaster of precious metal prices in 2015 (Metal Bulletin)**
- **Turbulent financial markets are highlighting the topic of safe-haven**
- **We are careful in classifying an asset as safe haven**

Success on our precious metal price (average) forecasts

We were the best precious metal price forecaster in Q4 2015 (see table below). In 2015 we were also the best forecaster of precious metal prices overall and platinum prices. For more details see our [press release](#) and/or visit the website of Metal Bulletin by clicking on the following link [Metal Bulletin Analyst Price Expectations](#) (APEX)

Metal Bulletin APEX results

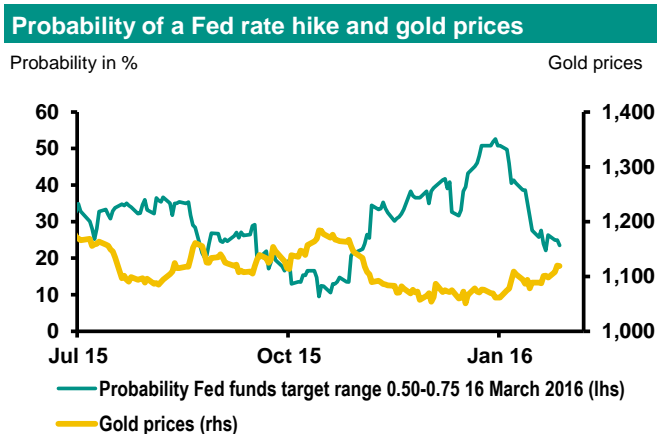
	Q4 2015	Accuracy %	2015	Accuracy %
Precious metals leaderboard	Winner	98.11	Winner	96.27
Gold	Winner	100.00	2nd	97.79
Silver	Winner	99.80	2nd	97.18
Platinum	Winner	99.53	Winner	96.19
Palladium	5th	93.10	4th	93.90

Source: Metal Bulletin

Safe-haven?

A re-occurring theme is that the deterioration in financial markets since the start of this year has resulted in a relatively resilient euro and a 5% rally in gold prices. Analysts suggest that gold prices are higher as a result of safe haven demand while the euro seems to have become a safe haven currency. We strongly disagree with the latter conclusion. When investor sentiment deteriorates, investors tend to move back into assets that appear to be less risky and therefore often pay low or even negative interest rates (reversal of interest rate carry or growth carry trades). In addition, currencies of countries that have a current account surplus often receive support as well. While both gold and the euro have the characteristic of having low interest rates, the euro is backed by a region with a current account surplus. Does this mean that the euro is a safe haven currency now? We don't think so. A safe haven asset has an extra feature which makes a real difference in times of severe stress namely liquidity. On this front the yen and the US dollar are unique because of the depth in its financial markets. Currently we are experiencing the reversal of interest rate and growth carry trades resulting in repatriation

of investments (such as the yen). What complicates the situation is that the US dollar is currently behaving as a cyclical currency as well. The dollar faces headwinds versus the yen and euro because of the downward adjustment in interest rate expectations and US growth outlook. The behaviour of the euro and gold versus the dollar may point into the direction that they are both safe haven assets, but when financial market move in extreme risk aversion then only the yen and the US dollar will stand out. Therefore, we will not call the euro a safe-haven currency given that its characteristics do not fit into this description. In short, considering the euro as safe haven currency can be misleading in times of severe stress.



Source: Bloomberg, ABN AMRO

Now we turn to gold's good start of the year. Gold prices have rallied year-to-date by more than 5%. The struggling of the US dollar because of the downward adjustment in interest rate expectations and US growth outlook are the main reasons for this. This indirectly has supported gold prices (see graph above). If investor sentiment deteriorates, lower yielding assets are in demand, gold being one of them. In addition, demand from China has picked up since June 2015. Often gold demand ahead of Chinese New Year is strong and in general this supports gold prices at the start of the year. We expect jewellery demand to increase this year. However, it is likely that investor position liquidation - because of a higher US dollar, more constructive investor sentiment and higher US rates - will more than overshadow the increase in jewellery demand. As a result, we expect gold prices to fall to US 900 per ounce at the end of this year before rebounding in 2017.

ABN AMRO precious metals forecasts

Changes in red/bold

End period	27-Jan	Close 14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	
Gold	1,118	1,185	1,184	1,172	1,112	1,061	1,050	1,000	950	900	900	950	975	1,000	
Silver	14.5	15.7	16.6	15.7	14.5	13.9	13.5	14.0	14.5	15.0	15.5	16.0	17.0	18.0	
Platinum	879	1,216	1,141	1,081	910	894	800	825	850	900	950	1,000	1,050	1,100	
Palladium	496	798	736	674	652	562	450	500	550	600	625	650	675	700	
Average	Q1 15	Q2 15	Q3 15	Q4 15	2015	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017
Gold	1,218	1,193	1,126	1,104	1,160	1,056	1,025	975	925	995	900	925	963	988	944
Silver	16.7	16.4	15.0	14.8	15.7	13.7	13.8	14.3	14.8	14.1	15.3	15.8	16.5	17.5	16.3
Platinum	1,194	1,129	993	908	1,055	847	813	838	875	843	925	975	1,025	1,075	1,000
Palladium	786	759	618	606	691	506	475	525	575	520	613	638	663	688	650

Source: ABN AMRO Group Economics

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

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