

03 February 2016

Jewellery demand outlook

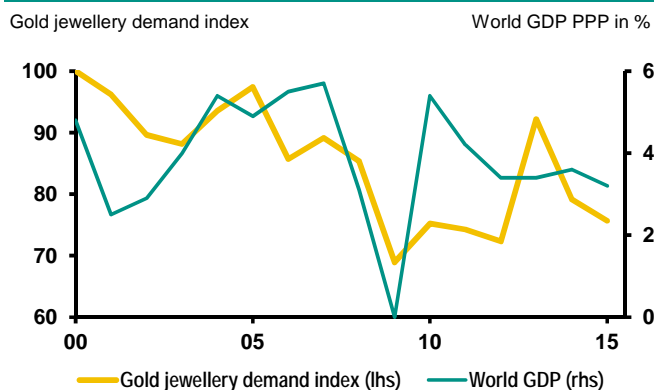
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- Precious metal jewellery demand outlook depends on global growth...
- ...and price developments in precious metal prices
- Precious metal prices have already come down significantly
- We expect global growth to improve
- Both factors will likely lead to a recovery in global jewellery demand

Introduction

In this report we will focus on the jewellery demand outlook, in particular jewellery that has precious metals as base and could be set with diamonds and other precious stones.

Gold jewellery demand and world GDP



Source: GFMS, CPB, ABN AMRO

Global GDP growth and precious metal prices drive jewellery demand

Overall, jewellery demand for the different precious metals highly depends on two drivers. First, the money (income or saving) available to spend on jewellery. As a proxy for income we use global GDP in PPP (Purchasing Power Parity) terms, where China has a higher share compared to nominal GDP figures because of a lower overall price level. In general, as the graph above shows, stronger global GDP growth is supportive of jewellery demand. Second, price levels of the individual precious metals also play an important role in precious metal jewellery demand. For example, the sharp rise in platinum prices in the period 1999 to 2004 resulted in a sharp decline in platinum jewellery demand. Meanwhile, in the same period demand for palladium jewellery increased because of the very low palladium prices. The pick-up in palladium jewellery demand was mainly from China in this

period. The sharp increase in gold prices in the period 2003-2012 also weighed on gold jewellery demand (see graph below).

Gold jewellery demand, gold price index



Source: GFMS, Bloomberg, ABN AMRO

In addition, silver demand has picked up since 2012, because of the sharp drop in silver prices since then. As silver is relatively cheap, silver jewellery fabrication has been on an upward trend since 2009 (graph below). Silver prices remain relatively cheap compared to gold prices and they are still not expensive compared to platinum and palladium prices. Silver demand from India has been strong since 2012, while that of China has fallen under pressure since 2013 (2015 data are not available yet).

Silver jewellery demand, silver price index



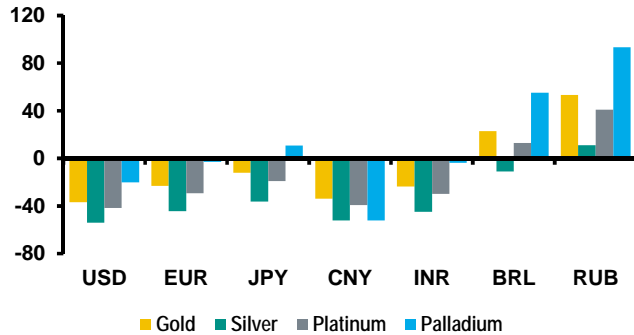
Source: GFMS, Bloomberg, ABN AMRO

Optimistic on global jewellery demand

The large sell-off in precious metal prices since 2013 should be a positive factor for jewellery demand especially for the US, eurozone, Japan, China and India. However, some emerging market currencies have fallen more substantially than precious metal prices such as the Brazilian real and the Russian ruble. Hence, these precious metals have become more expensive in BRL and RUB terms (see graph below).

Performance in precious metal prices 2013-2015

Performance in % in local currency terms

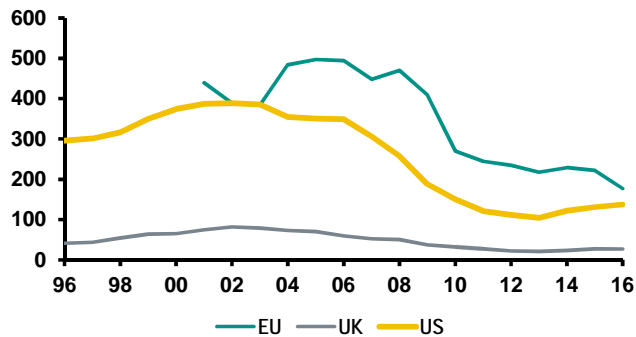


Source: Bloomberg, ABN AMRO

For 2016, we expect a modest recovery in global GDP, which should support global jewellery demand. In addition, we expect gold prices to drop by another 15% and this to be more substantial than our expected depreciation of the euro, yen, yuan and the rupee versus the US dollar. It is likely that these factors will support gold jewellery demand in the main economies.

Gold jewellery demand (until end of 2015)

Gold jewellery demand in metric tons



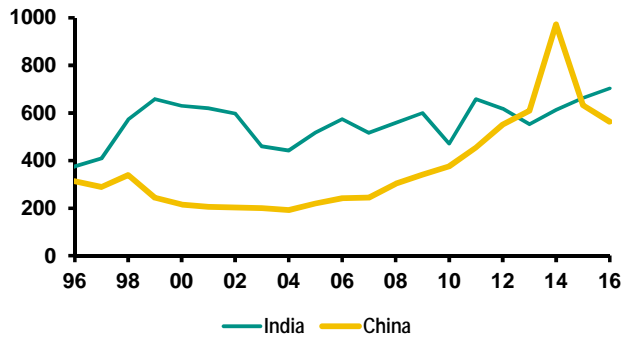
Source: GFMS

Our China economist expects the Chinese economy to continue to slow down gradually and to transform into a more consumer driven one. Although slower Chinese growth may not be supportive for precious metal jewellery demand, the rise of the middle class will likely result in more demand for jewellery. In addition, lower precious metal prices will also support jewellery demand. Therefore, we expect jewellery demand from China to increase at a modest pace.

For India, the situation is different. On the one hand, we expect the improvement in economic growth and lower precious metal prices to support jewellery demand. On the other hand, the government continues to discourage gold imports to improve the current account balance. Indian precious metal jewellery demand has room to increase but it is likely that this will increasingly be done by domestic precious metal sources.

Gold jewellery demand (until end of 2015)

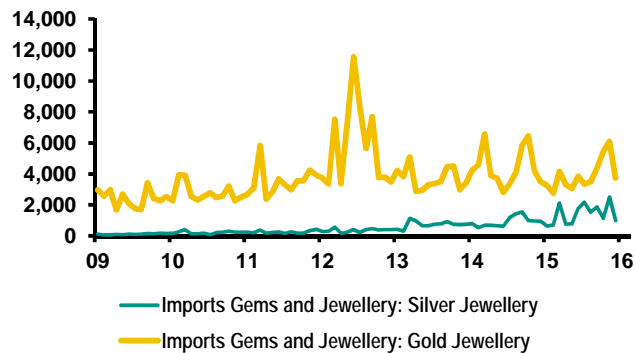
Gold jewellery demand in metric tons



Source: GFMS

Indian imports

Tens of millions INR



Source: Thomson Reuters Datastream

ABN AMRO precious metals forecasts

Changes in red/bold

| End period | 03-Feb | 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 | 1,130 | 1,185 | 1,184 | 1,172 | 1,112 | 1,061 | 1,050 | 1,000 | 950 | 900 | 900 | 950 | 975 | 1,000 |
| Silver | 14.6 | 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 | 869 | 1,216 | 1,141 | 1,081 | 910 | 894 | 800 | 825 | 850 | 900 | 950 | 1,000 | 1,050 | 1,100 |
| Palladium | 498 | 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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