ABN·AMRO

Precious Metals Weekly

Group Economics
Macro & Financial Markets Research

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The bears become bulls

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

- **Having been long-standing bears we have now turned bullish**
- **The change in our macro, central banks and FX views…**
- **…lead to upgrade of our precious metal price forecasts**
- **We are now positive on the overall price outlook**
- **We expect gold prices to rally to USD 1,300 per ounce this year …**
- **…and silver prices to USD 16.5 per ounce**
- **Platinum and palladium prices also to rally more than 10%**

Change in our macro, central banks and FX views…

Yesterday we communicated a change in our views about the global economy, central banks, yields and currencies. We have become more pessimistic on the global economic outlook. We have reduced our 2016 economic growth forecast for the US (to 1.7% from 2%), eurozone (to 1.2% from 1.6%) and emerging markets (to 4.1% from 4.3%). Among the emerging market economies, we have left our projections for China (which assumes an ongoing gradual slowdown) and India unchanged, but have downgraded economies with exposure to oil, world trade or those facing country-specific challenges. Our new scenario sees a longer period of weaker global growth followed by a modest recovery later in the year, but no recession. Weaker growth will also help to cap underlying inflationary pressures, which is being depressed be low oil prices. Against this background, we expect central banks to step up their reflation efforts. In short, central bank action should over time limit the downside for global economic growth.

We no longer expect the Fed to raise interest rates again in 2016. We think it will only resume its rate hike cycle once economic growth strengthens and the economy has absorbed the past tightening of financial conditions. Meanwhile, we expect the BoJ to cut its deposit rate further, to -0.3% from -0.1% currently, and to step up QE (to 100tr yen per month from 80tr), given the stronger yen and weaker economy. We also think the ECB will step up its monetary stimulus more significantly than we thought before. We now expect the ECB to cut its deposit rate by a cumulative 40bp to -0.7% over the coming months. We see the reductions taking place in two steps of 20bp, in March and June.

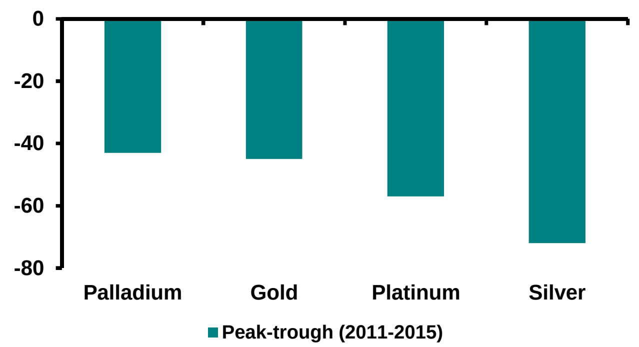
The weaker outlook for growth and inflation and the prospect for easier monetary policy also mean that bond yields will likely be lower for longer. We see 10y yields moving broadly sideways in the first half of this year before modest rises in the second half. We now see US 10y Treasury yields at 2.2% at year-end (previously 2.5%) and 10y Bund yields at 0.5% (previously 0.8%). Finally, the changes to our Fed forecasts mean we are likely to see less dollar strength this year, though the ECB and BoJ stimulus suggest the dollar's upswing is not over just yet. We see EUR/USD at 1.05 (preciously: 1.00) and USD/JPY at 1.20 (previously: 130) at year end.

…lead to a change in precious metal price forecasts

Having been long-standing bears we have now turned bullish on precious metal prices. For a start, prices were down from peak to trough by between 40% to 70% (see graph below). This is a significant move. Recently, the technical picture for gold and silver prices has changed as prices broke above the 200-day moving averages. This could be a false break. However, we think this is unlikely. The downward momentum in silver and gold prices already slowed down before signaling that a bottom may be close.

Performance peak-trough

In % with US dollar as basis



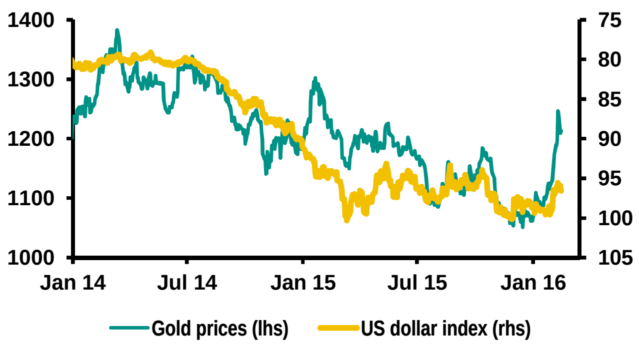
Source: Bloomberg

Less bullish dollar view supportive for precious metal prices…

In addition, the US dollar is one of the most dominant drivers of precious metal prices, in particular for gold and silver prices. We no longer expect a sharp rally this year. The US dollar is at the last phase of its multi-year bull-run and could already have peaked.

Gold prices and the US dollar

Gold price US Dollar index (inverse scale)



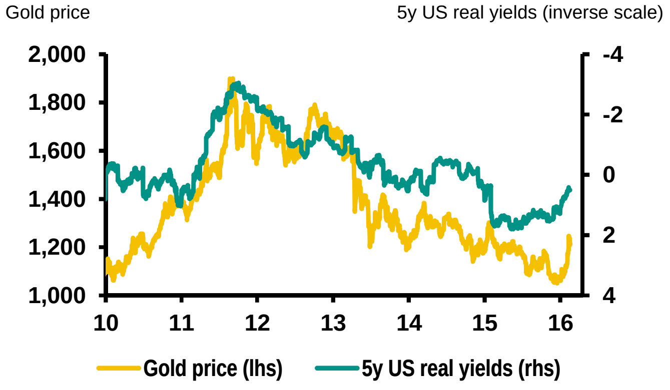
Source: Bloomberg

In the near-term we expect the US dollar to recover somewhat if investor sentiment improves and other central banks step up monetary stimulus. However, these will likely prove to be short-term gains. A long-term change in trend in the US dollar is in the making and this is of crucial importance for the long-term outlook for gold and other precious metal prices. In short, this is a positive development for precious metal prices.

…negative yields and no Fed rate hikes in 2016 are also supportive…

Moreover, our view of no Fed rate hikes this year and more monetary stimulus elsewhere is also a positive development for gold and precious metal prices. Low to zero yielding assets such as precious metals become a more attractive investment to invest in.

Gold prices and US real yields



Source: Bloomberg

…turning gold into a risky asset…

What is more, central banks are in the game to support the global economy and to calm investor sentiment. This improvement in investor sentiment may dent the upward momentum in gold prices somewhat because fewer investors will search for safe haven assets when investor sentiment improves. There is even an interesting turn to this story. If a large number of central banks push interest rates further into negative territory, zero to low-yielding assets like precious metals become relatively high yielding. This support is not new for precious metal prices. When the Fed embarked on QE, and US real yields moved lower, precious metals were also in demand.

Speculative positions have been reduced sufficiently

Over the recent years speculative positions and total ETF positions in precious metals have been reduced substantially. Therefore they will unlikely stand in the way of a long-term rally in prices.

We remain positive for 2017

If in 2016 a solid foundation is set for a revival of global growth, the US Federal Reserve and the Bank of England will hike at a modest pace in 2017. This may be a headwind for precious metal prices, in particular gold prices. However, we expect higher jewellery demand, industrial demand and car sales demand. This should be supportive for gold and outweigh the negative impact of higher US rates on silver, platinum and palladium.

ABN AMRO precious metals forecasts

Changes in red/bold

New

End period	17-Feb	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Gold	1,202	*1,061*	**1,200**	**1,225**	**1,250**	**1,300**	**1,300**	**1,300**	**1,300**	**1,300**
Silver	15.2	*13.9*	**15.0**	**15.5**	**16.0**	**16.5**	**17.0**	**17.5**	**18.0**	**18.5**
Platinum	937	*894*	**950**	**975**	**1,000**	**1,050**	**1,075**	**1,075**	**1,100**	**1,200**
Palladium	512	*562*	**525**	**550**	**575**	600	625	650	675	700

Average	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017
Gold	**1,131**	**1,213**	**1,238**	**1,275**	**1,214**	**1,300**	**1,300**	**1,300**	**1,300**	**1,300**
Silver	**14.4**	**15.3**	**15.8**	**16.3**	**15.4**	**16.8**	**17.3**	**17.8**	**18.3**	**17.5**
Platinum	**922**	**963**	**988**	**1,025**	**974**	**1,063**	**1,075**	**1,088**	**1,150**	**1,094**
Palladium	**543**	**538**	**563**	**588**	**558**	613	638	663	688	650

Old

End period	17-Feb	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Gold	1,202	*1,061*	1,050	1,000	950	900	900	950	975	1,000
Silver	15.2	*13.9*	13.5	14.0	14.5	15.0	15.5	16.0	17.0	18.0
Platinum	937	*894*	800	825	850	900	950	1,000	1,050	1,100
Palladium	512	*562*	450	500	550	600	625	650	675	700

Average	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017
Gold	1,056	1,025	975	925	995	900	925	963	988	944
Silver	13.7	13.8	14.3	14.8	14.1	15.3	15.8	16.5	17.5	16.3
Platinum	847	813	838	875	843	925	975	1,025	1,075	1,000
Palladium	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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