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Investor positioning too heavy?

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- **Yellen's cautious comments weigh on USD and support gold prices**
- **The strong price rally is the result of investor demand for gold**
- **Speculative net-positioning has risen sharply...**
- **...but is not excessive in our view**
- **Total gold ETF positioning also has room to rise**
- **Investors are waiting for a reason to push gold prices above 1,280**

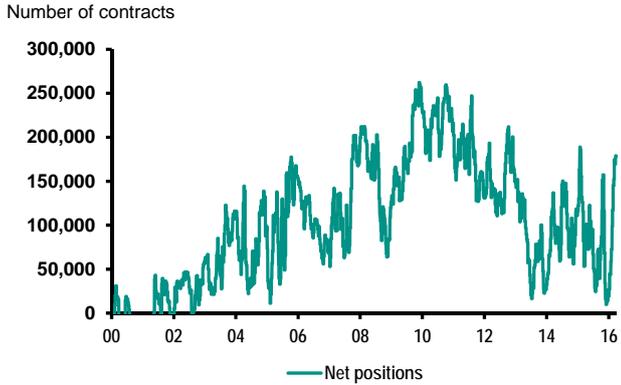
Yellen's cautious comments weigh on dollar and support gold prices

Last week and the start of this week, the US dollar profited from relatively hawkish comments from Fed officials. This weighed on precious metal prices. However, the dollar upside was capped across the board including versus precious metals. For example, gold prices appear to be well protected in the USD 1,210-1,220 per ounce area, also this time. On Tuesday, before the Fed's Yellen's speech, gold prices already recovered. This move gained momentum after Yellen's cautious remarks on monetary policy and the economy. As a result, gold prices are back to around USD 1,240 per ounce.

Investor positioning too heavy?

Year-to-date, precious metal prices have rallied by more than 10% with the exception of palladium which has had a delayed recovery. For example, gold prices have rallied close to 17%. The rally, so far this year, has been fuelled by investors moving back in precious metals as an investment. Investors move into an asset if it is relatively cheap and if there is enough upside in prices. The substantial price declines over the recent years have made precious metals cheap on an absolute level. The prospect of cautious Fed tightening as well as negative rates/yields in the eurozone, Japan, Denmark, Sweden and Switzerland have sharply increased the relative attractiveness of precious metals as an asset. In addition, the uncertainty surrounding China's exchange rate regime and financial market turmoil have also made gold more attractive. It is a relatively cheap "safe-haven" asset because of low US Treasury and German Bunds yields and the strong dollar rally over the recent years.

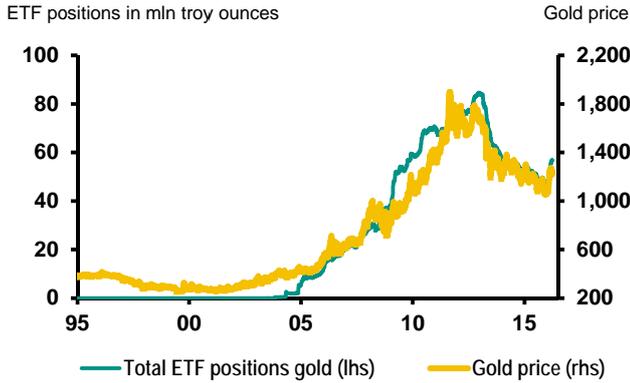
Gold speculative net-positioning



Source: Bloomberg, ABN AMRO Group Economics

As the gold price rally has been at a high pace, investors and analysts start to doubt if the rally has come to an end, especially because of the speculative positioning (see above). We don't share these concerns. The speculative positioning in gold is close to the 2015 peak, because of a sharp increase in long positions. This positioning could limit the upside momentum in the near-term. However, the net-positioning has still considerable room to increase and to reach the peaks in 2010 and 2011. There has also been a noticeable rise in the total-known ETF positions in gold (see graph below). We think that there is further room to go. In our view, financial markets are waiting for a good reason to push gold prices above the peak of USD 1,280 per ounce. Any weaker-than-expected economic data in the major economies could be such reason. The focus for this week (Friday) is on US employment report and US ISM. If they disappoint, the US dollar should move lower while gold prices could rally above USD 1,280 per ounce. If they come in around market expectations, gold prices will likely continue the USD 1,200-1,280 range for the time being.

Total known ETF holdings gold, gold price



Source: Bloomberg, ABN AMRO Group Economics

ABN AMRO precious metals forecasts

Changes in red/bold

End period	30-Mar	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Gold	1,237	1,061	1,250	1,300	1,350	1,370	1,370	1,400	1,425	1,450
Silver	15.4	13.9	16.00	16.50	17.00	17.50	17.50	18.00	18.50	19.00
Platinum	972	894	980	1,000	1,050	1,100	1,125	1,150	1,200	1,250
Palladium	576	562	600	620	640	660	680	700	720	740
Average	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017
Gold	1,156	1,275	1,325	1,360	1,279	1,370	1,385	1,413	1,438	1,401
Silver	14.9	16.3	16.8	17.3	16.3	17.5	17.8	18.3	18.8	18.1
Platinum	937	990	1,025	1,075	1,007	1,113	1,138	1,175	1,225	1,163
Palladium	581	610	630	650	618	670	690	710	730	700

Source: ABN AMRO Group Economics

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

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