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## Has the trend changed?

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- **The repricing of Fed rate hikes this year has resulted in an aggressive sell-off in precious metal prices**
- **Despite the recent moves we expect a restart of the rally in precious metal prices**

### Aggressive sell-off

After the strong performance of precious metal prices until the end of April, there was a dramatic sell-off in May. Prices dropped by 6 to 14%. Yesterday, gold prices even dipped below USD 1,200 per ounce. Since Mid-February we have been bullish on precious metal prices. At the time we released our report, gold prices were at USD 1,202 per ounce, silver at 15.2, platinum at 937 and palladium at 512 per ounce. Currently, we are above those price levels but they are still far away from our end of June price targets. We were aware that the heavy speculative positioning in especially gold and silver would pose downside risks to prices, but it is always difficult to call the exact timing. The prospect of earlier and/or more Fed rate hikes than expected before is a negative driver for precious metal prices. Higher US rates (also corrected for inflation) makes zero to low yielding assets less attractive and have a positive impact on the US dollar. To conclude, financial markets started pricing in a Fed rate hike earlier than we thought.

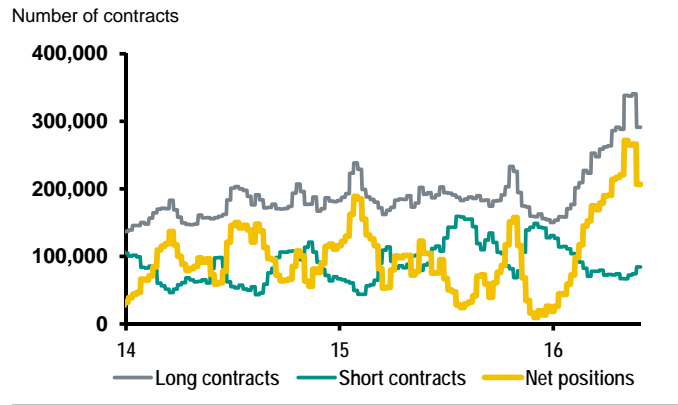
### Has the trend changed?

The main question is: Has the trend in precious metal prices changed? We don't think so. First, as long as prices remain above their 200-day moving averages, the upward trend remains in place in our view. For gold prices the 200-day moving average comes in at USD 1,163 per ounce, for silver at 15.19 and for platinum at 942 per ounce. So any bottom in prices above these levels is an indication that the upward trend remains in place. Only palladium prices are currently below the 200-day moving average which is a negative sign.

Second, financial markets have re-priced the odds for a rate hike this year. They now see a 30% probability of a rate hike in June, a 54% probability of a rate hike in July, while one rate increase before the end of this year is now fully priced in by financial markets. The possibility of a second rate hike has also risen. Despite the hawkish remarks by Fed officials, the Fed remains on a data-watch-mode so a rate hike is not a done deal. If US economic data fail to match expectations, expectations of a rate hike in June or July will also fade.

Third, since the end of April the US dollar has rallied between 3-6% versus major currencies. We think the upside in the US dollar from here is limited unless US economic growth starts to surprise substantially to the upside, inducing The Fed to hike rates more aggressively (not our base case). We continue to believe that US real interest rate developments will weigh on the US dollar and support gold and other precious metal prices.

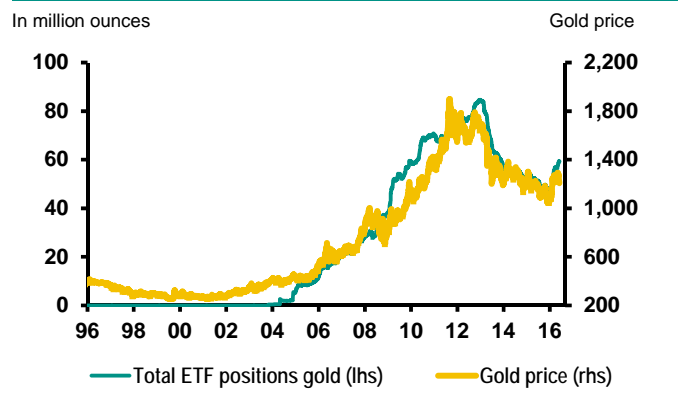
### Speculative positioning



Source: Bloomberg, ABN AMRO Group Economics

Last but not least, the aggressive sell-off in precious metal prices over the last weeks has resulted in a clean-up of speculative excessive net long positions. This is already to some extent visible in the latest data. They show a decrease in long positions and an increase in short positions. These data had last Tuesday as cut-off date, so we expect a substantial reduction in net long-positions in the report that will be released on Friday. Lighter positions could attract new buyers. In addition, positions in exchange-traded products remained resilient, which is a signal that longer-term investors are willing to buy and hold precious metal positions. If we take all above into account we remain positive on precious metal prices.

### Total known gold ETF positions and gold price



Source: Bloomberg, ABN AMRO Group Economic

## ABN AMRO precious metals forecasts

Changes in red/bold

End period	31-May	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Gold	1,212	1,061	1,233	1,300	1,350	1,370	1,370	1,400	1,425	1,450
Silver	16.1	13.9	15.38	18.00	19.00	20.00	21.00	22.00	23.00	24.00
Platinum	977	894	976	1,100	1,150	1,200	1,250	1,300	1,350	1,400
Palladium	544	562	563	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	1,181	1,266	1,325	1,360	1,283	1,370	1,385	1,413	1,438	1,401
Silver	14.9	16.7	18.5	19.5	17.4	20.5	21.5	22.5	23.5	22.0
Platinum	975	1,038	1,125	1,175	1,078	1,225	1,275	1,325	1,375	1,300
Palladium	527	592	630	650	600	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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