

Precious Metals Watch

Group Economics
Macro & Financial Markets
Research

06 September 2016

New gold & silver forecasts

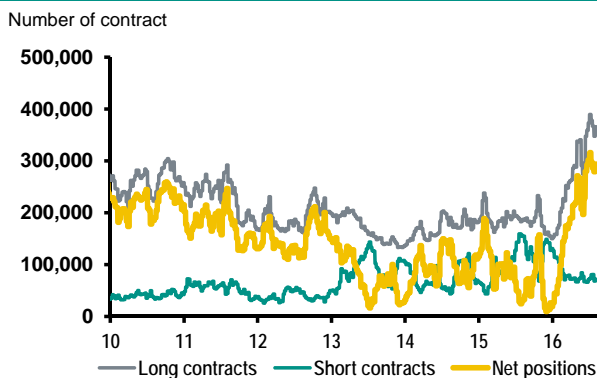
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- The rally in gold and silver prices is running out of steam...
- ...as Fed rate hike expectations have resurfaced
- We now expect a period of consolidation...
- ...as long as Fed rate hikes for 2016 and 2017 are not fully priced in...
- ...followed by higher gold and silver prices afterwards

The gold rally is running out steam...

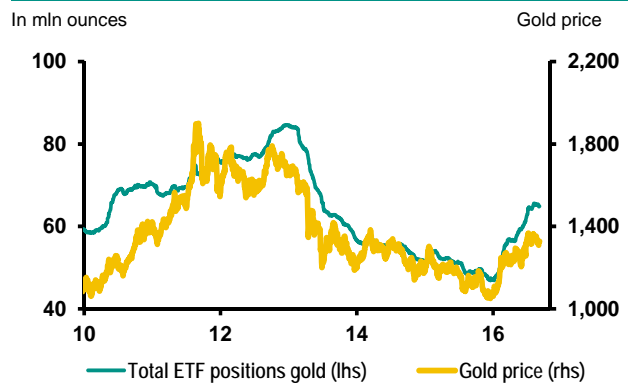
So far in Q3, gold prices have rallied by just 0.8% which is rather disappointing. We had expected a stronger rally for several reasons. First, we had expected a larger Brexit fallout on financial markets reflected in negative investor sentiment. As a result, investors would move into gold (and to a lesser extent silver) for safe haven reasons. In fact, this did not materialise as investor sentiment on financial markets improved also helped by the recent stronger-than-expected UK data. Second, our main scenario was that the Fed would remain on hold in 2016. However, recently we moved to a 25bp rate hike in December 2016. Comments from Fed officials and stronger-than-expected US data have triggered expectations that the Fed will hike this year. This has supported the US dollar as US real rates have moved slightly higher (less negative). The rise in the US dollar and US real rates and lower safe have demand have weighed on gold prices in Q3. This is reflected in lower investor demand in the futures markets and for gold ETFs.

Some cutback in net long positions...



Source: Bloomberg, ABN AMRO Group Economics

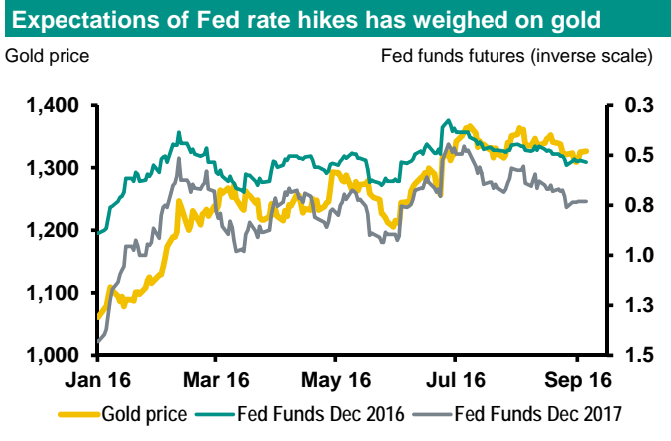
...and slightly lower demand for gold ETFs



Source: Bloomberg, ABN AMRO Group Economics

...but no change in trend

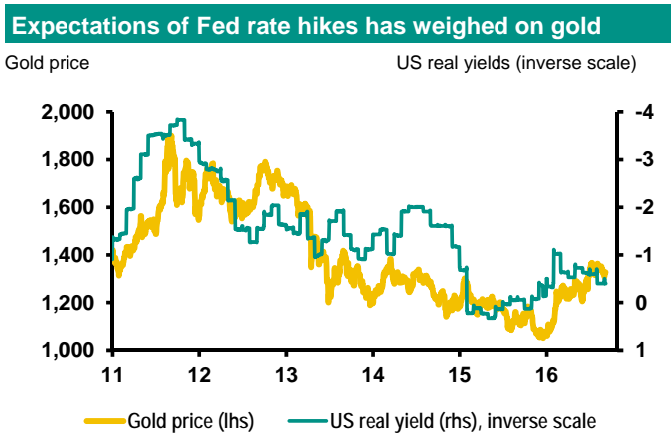
Expectations of a Fed rate hike this year came 3 months earlier than we had foreseen. Therefore, gold prices did not rally as we had expected. Fed rate hike expectations will likely remain a theme for the coming time.



Source: Bloomberg, ABN AMRO Group Economics

Our view is for the Fed to hike the policy by 25bp at each of the December, June 2017 and December 2017 meetings. Currently, a 25bp rate hike in December is for 60% priced in by financial markets. For 2017 financial markets have barely priced in rate hikes. Financial markets will likely anticipate Fed rate hikes for 2017 as well this year and/or the start of next year. This will likely continue to weigh on gold and silver prices. However, we don't expect a brutal sell-off. Our base scenario suggests that US economic growth will remain moderate, improving only slightly in 2017. Such a result will be supportive for gold and silver prices for the following reasons

1. Inflation will likely be higher than growth
2. Real interest rates are forecast to remain negative (less negative though)
3. The longer-term US dollar trend has turned negative



Source: Bloomberg, ABN AMRO Group Economics

Therefore, we hold on to our view that the uptrend in gold and silver prices remains in place. However, the prospect of Fed rate hikes will weigh on gold and silver prices and therefore we have adjusted our forecasts. We now see a consolidation in gold prices for

the coming quarters meaning that they will likely move in a USD 1,300 to 1,350 trading range. Silver prices will likely be more volatile. Therefore the range will likely be USD 18.5 to 20.5 per ounce. As soon as Fed rate hikes for 2016 and 2017 are fully priced in, we expect gold and silver prices to rally again because of higher demand from investors.

Alternative scenarios

These ranges will likely be broken if Trump becomes President and/or if investor sentiment deteriorates sharply. This would result in sharply higher gold and silver prices. Another scenario is that US economic growth picks up strongly triggering the Fed to hike rates aggressively in an environment of constructive investor sentiment. This would be a bull case for the US dollar as US real rates would also rise substantially. In this scenario the US dollar uptrend would have another leg while gold prices could drop below their 200-day moving average of USD 1,230 per ounce signalling that the uptrend is over.

ABN AMRO precious metals forecasts

Changes in red/bold

New										
End period	06-Sep	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Gold	1,328	1,061	1,233	1,322	1,325	1,325	1,325	1,350	1,400	1,450
Silver	19.6	13.9	15.38	18.48	19.50	19.50	19.50	20.00	22.00	24.00
Platinum	1,077	894	976	1,018	1,150	1,050	1,000	1,200	1,300	1,400
Palladium	684	562	563	597	700	650	625	650	700	725

Average	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017
Gold	1,181	1,258	1,324	1,325	1,272	1,325	1,338	1,375	1,425	1,366
Silver	14.9	16.8	19.0	19.5	17.5	19.5	19.8	21.0	23.0	20.8
Platinum	975	1,004	1,084	1,100	1,041	1,025	1,100	1,250	1,350	1,181
Palladium	527	568	649	675	605	638	638	675	713	666

Old										
End period	06-Sep	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Gold	1,328	1,061	1,233	1,322	1,425	1,350	1,300	1,400	1,425	1,450
Silver	19.6	13.9	15.38	18.48	21.50	19.00	18.00	20.00	22.00	24.00
Platinum	1,077	894	976	1,018	1,150	1,050	1,000	1,200	1,300	1,400
Palladium	684	562	563	597	700	650	625	650	700	725

Average	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017
Gold	1,181	1,258	1,374	1,388	1,300	1,325	1,350	1,413	1,438	1,381
Silver	14.9	16.8	20.0	20.3	18.0	18.5	19.0	21.0	23.0	20.4
Platinum	975	1,004	1,084	1,100	1,041	1,025	1,100	1,250	1,350	1,181
Palladium	527	568	649	675	605	638	638	675	713	666

Source: ABN AMRO Group Economics

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