

# Precious Metals Watch

**Group Economics**  
Macro & Financial Markets  
Research

13 October 2016

## Lower cyclical precious metals

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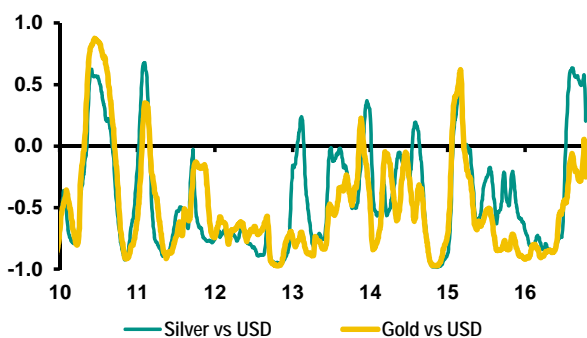
- After the downward revision in gold price forecasts...
- ...we also downgraded our other precious metal price forecasts
- Lower gold prices will weigh on other precious metal prices...
- ...but also some deterioration in industrial and car sales outlook...
- ...resulting in investor position liquidation

### Silver tracking gold

Following our gold forecast revision that was released yesterday, in this report we focus on the other precious metals: silver, platinum and palladium. We start of with silver. Silver prices have declined in line with gold prices. Silver has a long history of tracking gold prices. Therefore, it will not come as a surprise that they also strongly react to movements in the US dollar, monetary policy expectations, real yields and investor sentiment. For example both gold and silver have strong negative relationships with US dollar, 10y US Treasury yields, a modest negative relationship with equities and a mixed relationship with equity volatility.

#### Strong negative relationship with US dollar...

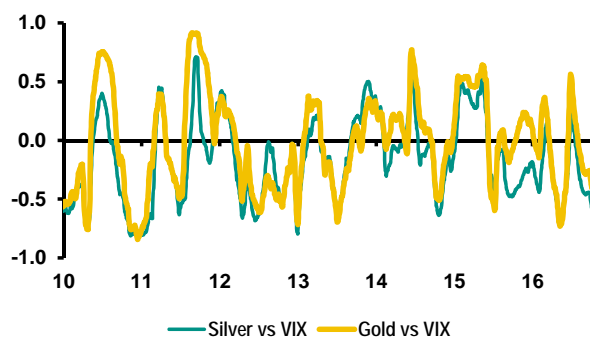
90-day rolling correlation



Source: Bloomberg, ABN AMRO Group Economics

#### ...and a mixed relationship with equity volatility

90-day rolling correlation

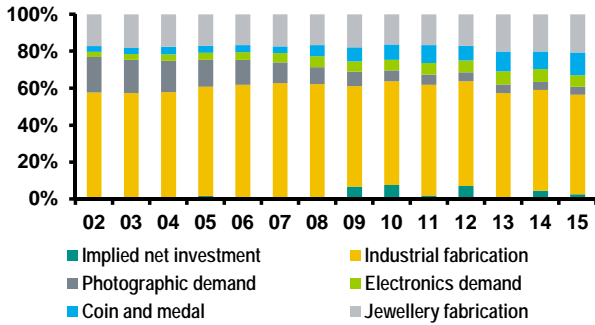


Source: Bloomberg, ABN AMRO Group Economics

In a way this seems odd as industrial demand accounts for around 60% of global demand for silver. Meanwhile, jewellery demand accounts for around 20% of global silver demand and coin & metal around 13%. This is in sharp contrast with gold where jewellery demand and retail demand are the two largest sources of demand.

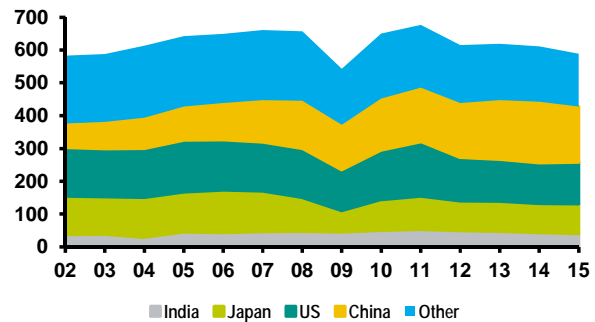
**Silver industrial fabrication is the largest**

% of total silver demand



**Silver industrial demand per country**

In million ounces



Source: GFMS, Thomason Reuters Datastream

Source: GFMS, Thomason Reuters Datastream

Occasionally, there can be periods that silver prices move more in line with the industrial demand outlook. However, this will generally add on to the prevailing sentiment. This means that if gold prices move lower and the industrial demand outlook for silver deteriorates, silver prices are hit harder and vice versa. It is unlikely though that the industrial demand outlook will more than outweigh the financial factors driving both gold and silver prices. In the table below we have defined two scenarios for silver prices. First, the ideal scenario in which silver prices should rally. In short, a combination of higher gold prices, a lower US dollar, lower US yields and an improvement in the industrial and jewellery demand outlook is supportive for silver prices.

**Ideal silver environment vs our base case**

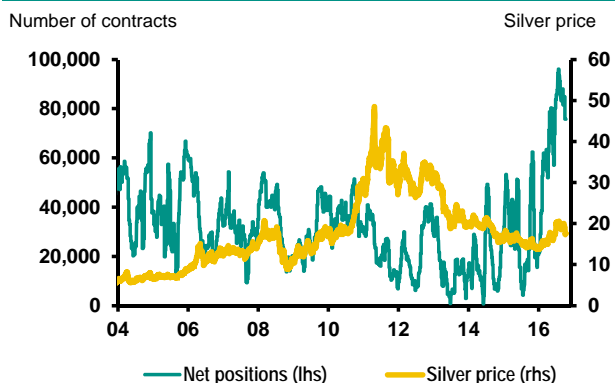
The driver could be investor, industrial and jewellery demand

	Investor, industrial, jewellery	Ideal silver environment	Our base case	Result for Silver
Gold	Investor	Gold prices to rally	Lower gold prices	Negative
US dollar	Investor	To decline	Modest upside, but no new high	Negative
Fed	Investor	No hike in 2016 and 2017	+25bp in December and 50bp in 2017	Negative
US real yields	Investor	To decline	To stay low	Neutral to negative
Government bond yields	Investor	To decline	Not to rise from current levels	Neutral to negative
Chinese growth	Investor, industrial and jewellery	To stabilise and recover	To slow down	Negative
US growth	Investor and industrial	To rise	To rise modestly	Neutral to negative
Japanese growth	Industrial	To rise	To weaken	Negative
Indian growth	Industrial and Jewellery	To rise	Flat growth	Negative
Chinese yuan	Investor	To decline sharply	Modest decline	Negative
Investor sentiment	Investor	To deteriorate	To be constructive	Negative
US elections	Investor and industrial	Trump victory	Clinton victory	Negative
Brexit	Investor	Hard Brexit	Risk of Hard Brexit	Positive
Technical outlook	Investor	To stay positive	To turn negative	Negative

Source: ABN AMRO Group Economics

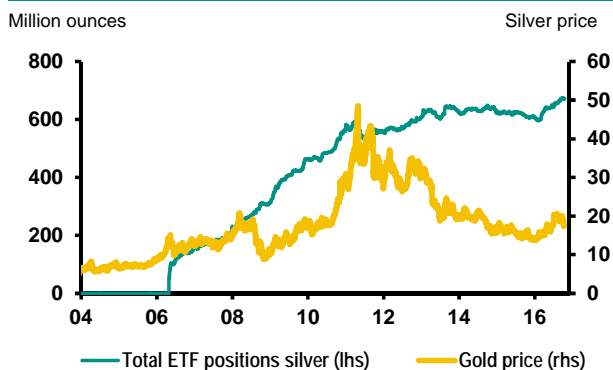
As investor demand is key for the direction in silver prices, we need to assess the number of outstanding positions and the likely action of investors. As the graphs below shows, investor positions are enormous. Since 27 September, only a small amount of these positions have been closed. Therefore, we think that there is further position liquidation to go. It is likely that a move back to the average amount of contracts in the futures market is on the cards, implying that silver prices could drop to USD 15.5 per ounce. Therefore, we have downgraded our silver price forecasts.

**Enormous net-long positions in the futures market...**



Source: Bloomberg

**... and in total known ETFs**



Source: Bloomberg

**Cyclical factors play a larger role in platinum & palladium price outlook**

As is the case for gold and silver prices, platinum and palladium prices have also fallen recently. The higher US dollar, some deterioration in sentiment and lower gold prices all weighed on platinum and palladium prices. In the table below we have defined the ideal scenario for both precious metals. Platinum and palladium are more driven by cyclical factors compared to gold, such as demand for autocatalysts and industrial demand. Demand for platinum and palladium is high if the global economy grows strongly, resulting in a substantial rise in industrial and autocatalyst demand. Meanwhile, if supply does not rise as sharply as demand and if investor demand for these precious metals also picks up prices should rally sharply. Next to the ideal scenario we have also defined our base case. If we compare both scenarios, the risks are clearly pointing to lower prices. This is not only because investor related factors have become more negative, but also because overall car sales and industrial demand will grow only modestly in our view.

**Ideal environment vs our base case**

Both scenarios for platinum and palladium

	Ideal environment	Our base case	Result for platinum	Result for palladium
Gold	Gold prices to rally	Lower gold prices	Negative	Negative
US dollar	To decline	Modest upside, but no new high	Negative	Negative
Car sales EU	To rise	To slow down	Negative	Negative
Car sales China	To continue to rise	Strong growth to cool somewhat	Neutral to negative	Neutral to negative
Car sales US	To continue to rise	To continue to rise	Positive	Positive
Car sales Japan	To rise	To slow down	Negative	Negative
Jewellery demand China	To rise	Stable	Negative	Negative
Electronics world	To rise	Modest improvement	Neutral to negative	Neutral to negative
Mine production	To decline	To decline	Positive	Positive
Investor sentiment	To improve	To be constructive	Neutral to positive	Neutral to positive
Brexit	No hard Brexit	Risk of Hard Brexit	Negative	Negative
Technical outlook	To turn/stay positive	Stay/turn negative	Negative	Negative

Source: ABN AMRO Group Economics

Investors also have substantial net long positions in platinum and palladium. A position liquidation in gold and silver likely spill over to platinum and palladium as well. Therefore, we have also revised downwards our forecasts for platinum and palladium.

### ABN AMRO precious metals forecasts

Changes in red/bold

New										
End period	13-Oct	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Gold	1,258	1,061	1,233	1,322	1,316	1,200	1,150	1,100	1,125	1,150
Silver	17.5	13.9	15.38	18.48	19.17	<b>16.50</b>	<b>16.00</b>	<b>15.50</b>	<b>16.50</b>	<b>17.50</b>
Platinum	937	894	976	1,018	1,027	<b>900</b>	<b>875</b>	<b>850</b>	<b>900</b>	<b>1,000</b>
Palladium	640	562	563	597	721	<b>600</b>	<b>575</b>	<b>550</b>	<b>600</b>	<b>700</b>
Average										
	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017
Gold	1,181	1,258	1,335	1,258	1,258	1,175	1,125	1,113	1,138	1,138
Silver	14.9	16.8	19.6	<b>17.0</b>	<b>17.1</b>	<b>16.3</b>	<b>15.8</b>	<b>16.0</b>	<b>17.0</b>	<b>16.3</b>
Platinum	975	1,004	1,086	<b>925</b>	<b>998</b>	<b>888</b>	<b>863</b>	<b>875</b>	<b>950</b>	<b>894</b>
Palladium	527	568	678	<b>625</b>	<b>599</b>	<b>588</b>	<b>563</b>	<b>575</b>	<b>650</b>	<b>594</b>
Old										
End period	13-Oct	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Gold	1,258	1,061	1,233	1,322	1,316	<b>1,200</b>	<b>1,150</b>	<b>1,100</b>	<b>1,125</b>	<b>1,150</b>
Silver	17.5	13.9	15.38	18.48	19.17	19.50	19.50	20.00	22.00	24.00
Platinum	937	894	976	1,018	1,027	1,050	1,000	1,200	1,300	1,400
Palladium	640	562	563	597	721	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	1,335	1,258	<b>1,258</b>	<b>1,175</b>	<b>1,125</b>	<b>1,113</b>	<b>1,138</b>	<b>1,138</b>
Silver	14.9	16.8	19.6	19.3	17.6	19.5	19.8	21.0	23.0	20.8
Platinum	975	1,004	1,086	1,039	1,026	1,025	1,100	1,250	1,350	1,181
Palladium	527	568	678	685	615	638	638	675	713	666

Source: ABN AMRO Group Economics

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