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Gold Outlook

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Outlook is still positive but …

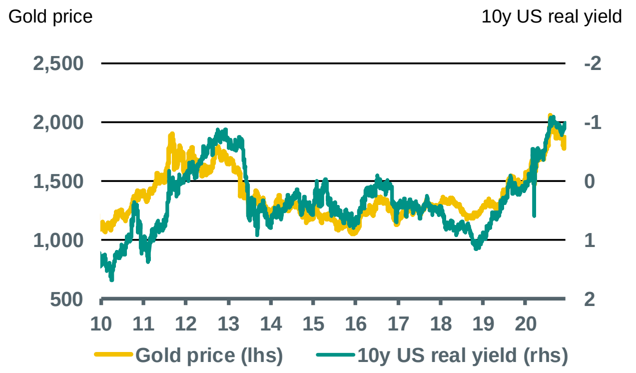
- **Gold prices set a new high at USD 2,075 this year and despite a downward correction from those levels are still up by 21% year-to-date**
- **The stars are aligned for gold prices but some cracks are appearing**
- **We still expect prices to rise in 2021 on lower US real yields and a weaker dollar**
- **The caveat is that long gold is still a crowded trade, the technical picture is deteriorating and normal relationships may not work as they usually do**
- **Our year-end 2021 forecast stands at USD 2,000 per ounce**

Introduction

Gold prices started the year on a positive note until covid-19-related market panic and a global shortage of US dollars in March spoiled the party. Gold prices dropped substantially. Afterwards they recovered. Between March and August gold prices rallied strongly, by 36%. They cleared the 2011 high and rallied to a high of USD 2,075 on 7 August 2020. The stars were aligned for higher gold prices. For a start, the Fed took measures to fight the dollar shortage and embarked on unlimited QE. Other central banks followed suit. Moreover, governments announced enormous fiscal spending plans to support the economy. This all supported investor sentiment and investors sold the dollar as safe haven demand dissipated. Third, investors also realised that most currencies are unattractive given rock-bottom interest rates and this increased the appeal of gold. Fourth, investors were also concerned about the combination of large fiscal stimulus and large monetary stimulus. This was also reflected in the drop in US real yields i.e. treasury yields corrected for inflation expectations (see graph on the left below). Gold seemed the safest asset. So some investors bought gold because of concern about the financial system and enormous fiscal deficits while many others realised that gold is probably the most attractive “currency” as not paying a coupon or dividend is better than having negative rates. So investors piled into gold. Total ETF positions rose from 82 million troy ounces at the start of the year to 111 million troy ounces on 15 October.

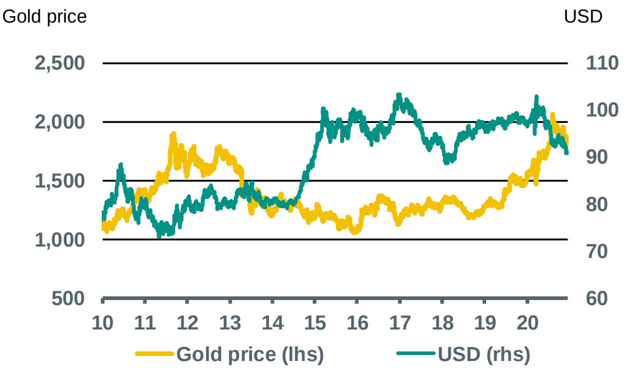
Since then the dynamic has changed. Gold was a crowded trade and not many new investors could be found to invest in gold at the peak price levels. Gold prices started to struggle and quickly dropped below USD 2,000 per ounce. Initially investors saw weakness in prices as an opportunity to buy gold on dips. They seem less certain now. News about the vaccine sent both the dollar and gold prices lower, which is unusual situation and only happens when interest rates (nominal or real) rise while the dollar fails to profit from this. Gold prices are still 21% higher than at the start of the year, but optimism has been replaced by doubt if prices will rally again. What do we expect for 2021?

Gold strong negative relation with real yields



Source: Bloomberg, ABN AMRO Group Economics

Gold tends to rise when the dollar weakens



Source: Bloomberg, ABN AMRO Group Economics

The outlook is still positive but …

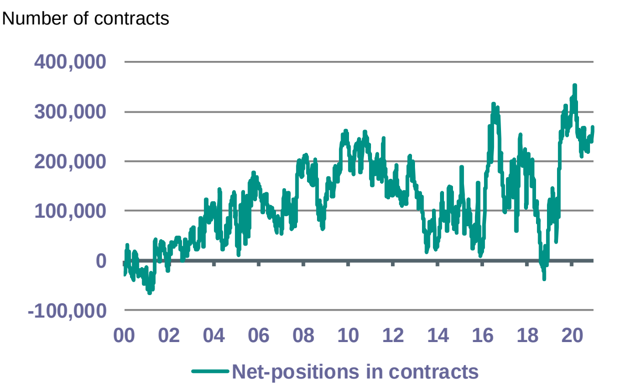
We think that the outlook for gold prices is still positive. First, we expect the Fed to keep policy rates low in the coming years. The Fed will also limit the rise in US treasury yields to support the economy. In fact we expect lower US Treasury yields for 2021. If inflation expectations stay around the current level, lower US treasury yields will result in lower US real yields. This is a clear negative for the dollar and a positive for gold prices. Second, in 2020 fiscal deficits have risen substantially. In 2021 these deficits as % of GDP will decline but they will remain substantial. It is likely that the combination of monetary stimulus and large fiscal deficit will continue to be a concern for investors. So we expect higher gold prices versus the US dollar based on these dynamics.

Despite the positive outlook there are three major concerns. First investor positioning. Second the technical picture. Third, the economic outlook. Let's start with investor positioning. The total ETF positions are still huge. Since the peak on 15 October they have declined by only 4%. These positions are still 28% higher than at the start of the year and 29% higher than the former peak of 20 December 2012. In short, gold is still a crowded trade and investors are doubting. In 2013 a liquidation of 36% of the total outstanding ETF positions resulted in a decline in gold prices of 30%. These positions remain a risk.

Gold is still a crowded ETF trade

Source: Bloomberg, ABN AMRO Group Economics

Futures positions are also substantial



Source: Bloomberg, ABN AMRO Group Economics

Moreover the technical picture has been deteriorating recently. Prices are holding above the 200-day moving average (USD 1,810 per ounce at the time of writing). The market has already tested this level, but prices moved above again. If there is substantial move below the 200-day moving average, the uptrend is over in our view. With substantial we mean in normal trading conditions with a weekly close below the 200-day moving average. In the coming weeks trading conditions are far from normal as the market is very thin at the end of the year and at the start of the new year. Third, with the arrival of the vaccine the economic outlook is improving. Gold prices have the tendency to weaken if an economic recovery goes hand in hand with expectations of tighter monetary policy and higher rates. But gold prices have the tendency to rise if the economy recovers but monetary stimulus remains in place and US real yields decline. This is also our base case. But we are in an exceptional environment where normal relationships are challenged. This could also be the case for this relationship.

If we take all together, we expect the gold prices to rise again in 2021 but there are more uncertainties to our base scenario.

ABN AMRO Gold price forecasts

Changed in bold and red

End period	16-Dec	Dec 20	Mar 21	Jun21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22
Gold	1,858	1,900	1,925	1,950	1,975	2,000	2,025	2,050	2,075	2,100
Average	**Q1 21**	**Q2 21**	**Q3 21**	**Q4 21**	**2021**	**Q1 22**	**Q2 22**	**Q3 22**	**Q4 22**	**2022**
Gold	1,913	1,938	1,963	1,988	1,950	2,013	2,038	2,063	2,088	2,050

Source: ABN AMRO Group Economics