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Higher gold silver and platinum prices

Georgette Boele
Senior Precious Metals & Diamond Analyst
Tel: +31 20 629 7789
georgette.boele@nl.abnamro.com

- **Palladium, platinum and gold prices had a good start to the year**
- **We remain positive on gold with a year-end forecast of USD 1,400 per ounce**
- **We now see less upside in silver prices**
- **Platinum remains the cheap and attractive precious metal, and palladium the high risk expensive one**

Introduction

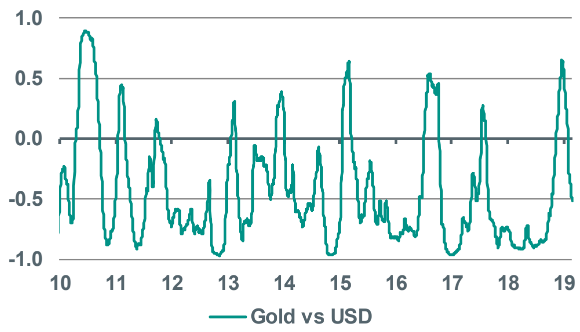
Most of the precious metals had a good start of the year. Palladium prices have surged by more than 20%, platinum prices have rallied by 5% and gold is around 1.5% higher. However, silver prices have posted a small decline year-to-date. Palladium prices have surged on a perceived extreme shortage at the front end of the curve, pushing spot prices higher and well above future prices (backwardation). The dramatic price increase was only partly driven by the investor community, as net-long positions on the futures market did not increase to new highs. In fact, the net longs moved from close to 1,000 to 15,000 while the high in net-longs last year was close to 27,000 contracts. In short, the net-long speculative positions cannot by themselves explain the exponential palladium price increase. Despite higher platinum prices, there is still a lack of overall direction. Prices have stayed in the range of USD 750 – 875 per ounce. Gold had a good start to the year but as the technical resistance area of USD 1,365-1,375 per ounce proved a tough nut to crack, investors took profits. The recovery of the US dollar and slightly higher 10y US Treasury yields resulted in more profit-taking, pushing gold prices below USD 1,300 per ounce again. Silver has moved in tandem with gold but in a more volatile fashion. Silver has a higher component of industrial demand and therefore has taken a heavier beating as the outlook on the global economy darkened. What do we expect going forward?

Positive on gold…

We remain positive on the outlook for gold prices. First, we continue to expect a weaker US dollar. Gold prices have the tendency to rally when the US dollar declines. This relationship has proved to be relatively strong and stable over time. Of course, there have been periods when, for example, both gold and the US dollar moved both lower. However, this happened in an environment when US real yields rose, which depressed gold prices, while real yields elsewhere rose more than US real yields, pushing the US dollar lower. These situations are exceptional. If the US dollar weakens or strengthens in tandem with interest rate spreads than gold prices move in the opposite direction. If the US dollar weakens because of unfavourable spread movements, but US yields still move higher, gold prices will suffer versus the US dollar because gold doesn't pay interest. In short, gold prices generally move in the opposite direction to the US dollar in risk-on and risk-off environments. Higher gold prices in a risk-off environment is often mistaken as a safe haven move as it often is a related US dollar move.

Lower US dollar is generally positive for gold prices

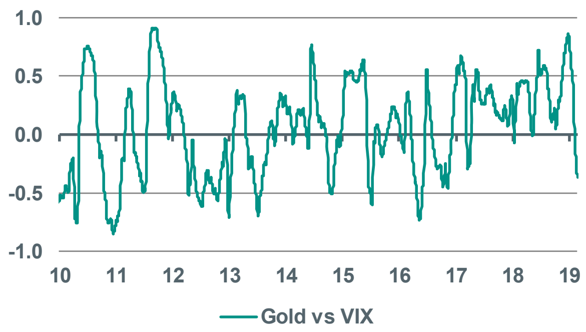
90-day rolling correlation



Source: Bloomberg, ABN AMRO Group Economics

Unstable relationship: equity volatility versus gold

90-day rolling correlation



Source: Bloomberg, ABN AMRO Group Economics

Second, we expect the Fed to remain on hold, and other major central bank to hike less and/or later. Less hawkish central banks are a positive development for precious metal prices in general and for gold prices in particular. Moreover we expect the 10 year US Treasury yield and US 10y real yields to decline slightly. This should support gold prices.

Third, since 2018 gold prices have become increasingly driven by developments in the Chinese yuan, which mainly reflects expectations for the Chinese economy and the US-China trade conflict. We think that the Chinese authorities will continue to take measures to support the economy, albeit less aggressive than in the past. This and a possible US-China trade deal will support the yuan and gold prices. China is a crucial consumer of gold, not only from the retail and investor side but also more recently from the official sector. Recent data show that the central bank has bought gold. The percentage of gold in official reserves is still very low and a further increase is likely. While we expect a further increase in gold reserves, the rise will probably be slow and erratic.

Fourth, the technical picture of gold prices still looks positive. Despite the recent sharp decline in prices, prices are still above the 200-day moving average at around USD 1,250 per ounce. We are confident that prices will stay above this level. It is possible that prices drop towards this level and test it, but this would be an opportunity to position for higher gold prices. A sudden short-term rally in the US dollar or a temporary spike in 10y US Treasury yields (not our base scenario) could trigger profit taking on existing net-long gold positions. It is likely that in the near-term the US dollar will be more resilient and therefore gold prices are unlikely to take off and break above the key resistance area at USD 1,365-1,375 per ounce. Later in the year we expect the positive momentum to build and gold prices to rally more strongly. We keep our forecasts for gold prices, reflecting modest upside in the near-term and substantial upside towards the end of 2019 and in 2020. Our year-end 2019 forecast is USD 1,400 per ounce.

…and less positive on silver

The outlook for silver mostly resembles that of gold prices, as both precious metals tend to move in tandem. Both have abundant above-ground stocks and mainly trade as a currency. The main difference is that silver has a higher industrial demand component. As a result, silver prices behave in a more cyclical manner than gold prices when investors are worried about the global economy, while silver prices suffer less from a higher US dollar in a risk-on environment. Industrial demand mainly comes from China, India and the US. We expect investors to become less negative on the Chinese economy but we also expect the US economy to slow in the coming months. Net-net, this effect will likely be neutral for silver prices. The market has tested the 200-day moving average in silver prices and it appears to be holding. This should give some support to silver prices. However, we think that in the near-term there is less upside potential in silver prices given the less favourable cyclical outlook. However, we continue to expect higher silver prices later in the year.

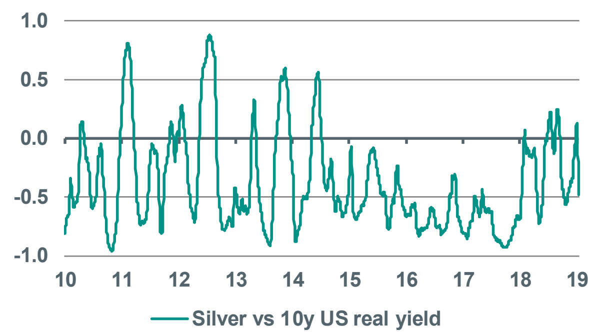
US dollar direction crucial for silver prices…

90-day rolling correlation

Source: Bloomberg, ABN AMRO Group Economics

…and 10y US real yield as well

90-day rolling correlation



Source: Bloomberg, ABN AMRO Group Economics

Platinum remains the cheap and attractive precious metal…

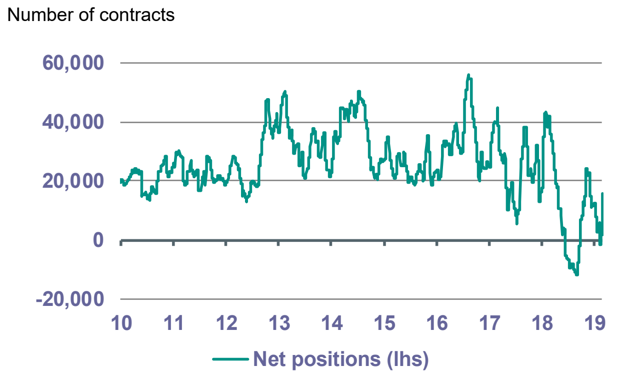
Many of the factors that influence gold and silver prices (US dollar, US yields, less bearishness on Chinese outlook) also influence platinum prices. But there are more factors at play for platinum, such as demand for diesel cars, the outlook for the eurozone economy and Chinese jewellery demand. The share for diesel cars will continue to decline, but we think that this trend is now mostly priced into platinum prices.

Moreover, our eurozone economists expect more economic weakness to come and this will probably weigh on eurozone platinum demand. However, weakness in the eurozone economy is already well underway. We may not be at the end yet but we think that the currency and precious metal markets have mostly priced it in. Therefore, for example, we expect only modest weakness in the euro for Q1 and Q2. Weaker eurozone growth will weigh on platinum prices in the near-term, but the effect should start to fade in the second half of this year.

We think that Chinese jewellery demand in general will pick up and this should support gold, silver and platinum prices. China is the largest platinum jewellery consumer.

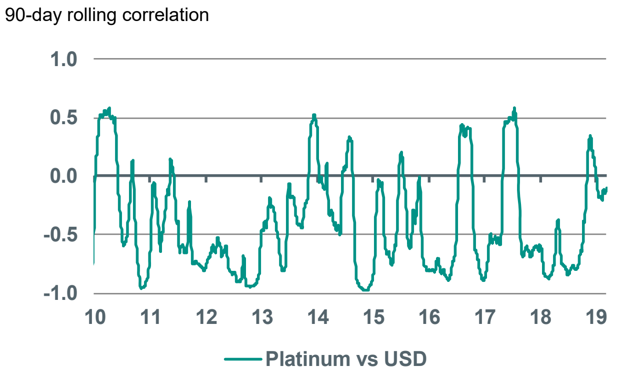
Last but not least, the 200-day moving average has been tested in platinum prices and it appears to have held. In addition, speculators are small net-long platinum. If the overall outlook becomes more constructive, investors will jump on the bandwagon and buy platinum, also because it is cheap. Taken together, we remain positive on platinum prices but we think the rally will be less strong.

Speculators hold small net-long platinum positions



Source: Bloomberg, ABN AMRO Group Economics

The US dollar is a crucial driver for platinum prices



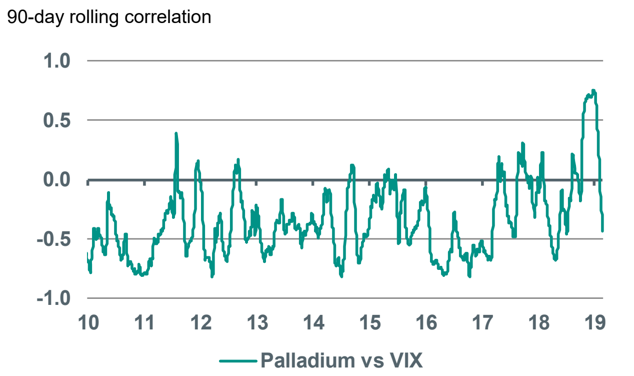
Source: Bloomberg, ABN AMRO Group Economics

…and palladium the high risk expensive one

Palladium prices have defied our expectations for quite some time and have risen exponentially. Most of the correlations broke down, and in some occasions palladium prices behaved as a safe haven asset, despite it being a highly cyclical commodity. Moreover, prices did not react to negative news. This due to a shortage at the front-end of the curve.

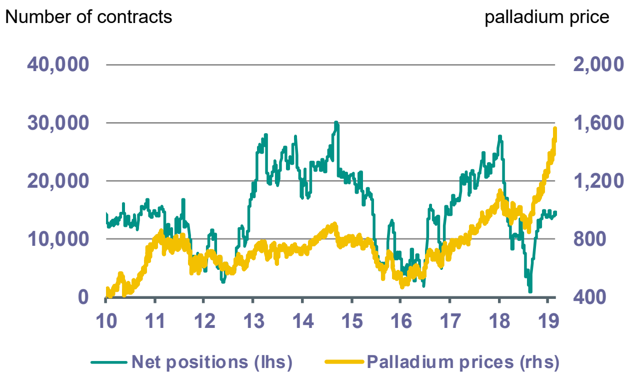
Recently the backwardation has cooled a bit. We think palladium is the most overrated precious metal, and we expect lower prices. First, the shortage is more than reflected in the price. Second, prices don't yet reflect the weaker outlook on the global car sector. Third, technology will ultimately result in substitution between platinum and palladium. In the near term, prices may retest the previous highs. If this is not taken out, the first important technical support level is around USD 1,400 (-10%). If prices start to correct, the correction will be brutal. We simply do not believe that the sky is the limit.

Palladium starts to behave like a cyclical metal again



Source: Bloomberg, ABN AMRO Group Economics

Speculators not principally responsible for price surge



Source: Bloomberg, ABN AMRO Group Economics

ABN AMRO precious metal price forecasts

Changes and new forecasts in red/bold

New										
End period	**14-Mar**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**
Gold	1,298	*1,281*	1,300	1,325	1,350	1,400	1,425	1,450	1,475	1,500
Silver	15.24	*15.48*	**15.50**	**16.00**	**16.50**	**17.00**	**17.50**	**18.00**	**18.50**	**19.00**
Platinum	829	*795*	**850**	**875**	**900**	**950**	**1,000**	1,050	1,075	1,100
Palladium	1,547	*1,264*	**1,500**	**1,400**	**1,300**	**1,200**	**1,150**	**1,100**	**1,050**	**1,000**
Average	**Q1 19**	**Q2 19**	**Q3 19**	**Q4 19**	**2019**	**Q1 20**	**Q2 20**	**Q3 20**	**Q4 20**	**2020**
Gold	1,291	1,313	1,338	1,375	1,329	1,413	1,438	1,463	1,488	1,450
Silver	15.7	**15.8**	**16.3**	**16.8**	**16.1**	**17.3**	**17.8**	**18.3**	**18.8**	**18.0**
Platinum	848	**863**	**888**	**925**	**881**	**975**	**1,025**	1,063	1,088	1,038
Palladium	**1,382**	**1,448**	**1,347**	**1,246**	**1,356**	**1,175**	**1,125**	**1,075**	**1,025**	**1,100**
Old										
End period	**14-Mar**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**
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Gold	1,291	1,313	1,338	1,375	1,329	1,413	1,438	1,463	1,488	1,450
Silver	15.7	16.3	16.8	17.5	16.6	18.3	18.8	19.3	19.8	19.0
Platinum	848	925	963	988	931	1,013	1,038	1,063	1,088	1,050
Palladium	1,257	1,225	1,150	1,075	1,177	1,025	1,000	1,000	1,000	1,006

Source: ABN AMRO Group Economics

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

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