Precious Metals Watch

Group Economics
Financial Markets Research

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Gold: Near term correction risk

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- **Gold prices have rallied by 17% ytd**
- **We remain positive on the longer-term price outlook …**
- **… but we expect a correction in the near term**
- **Our year-end forecast remains USD 1,400 per ounce**
- **Our new year-end 2020 forecast is USD 1,600 per ounce (previous 1,500)**

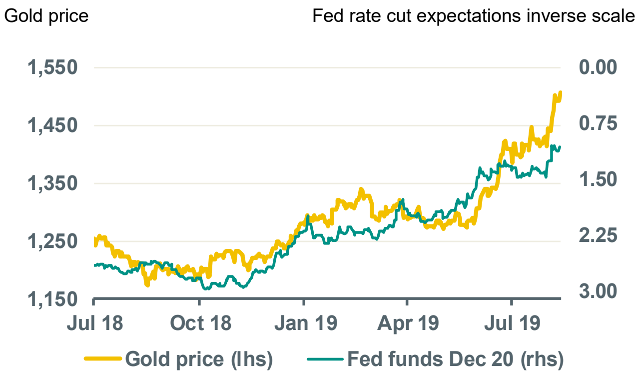
Introduction

Gold prices have rallied by 17% this year. On 21 June our year-end forecast of USD 1,400 per ounce was reached and on 5 August our year-end 2020 forecast of USD 1,500 was also reached. We had expected higher gold prices, but the rally was more powerful than we had expected. There are several reasons for the strong rally this year. For a start the global growth and trade outlook has deteriorated. This has resulted in central banks easing monetary policy (such as the Fed) or moving towards easing. Lower official rates are supportive for a zero-paying asset such as gold. Not only have interest rates (both official and government bond yields) declined, but also the amount of debt that is negative-yielding has risen considerably. So not only is the rate differential between currencies and gold declining, also there is more negative-yielding debt. In these situations it is particularly attractive to hold gold.

The amount of negative-yielding debt has risen

Source: Bloomberg Barclays, ABN AMRO Group Economics

Fed rate cut expectations also a support for gold



Source: Bloomberg, ABN AMRO Group Economics

Third, the US dollar has recently weakened (in August) and a weakening US dollar is a support for gold prices. Fourth, the Chinese authorities let their currency (the yuan) weaken below 7 versus the US dollar (we did not expect this). This has created extra demand for gold, because of fear of an uncontrolled currency weakness. Fifth, some central banks have bought gold.

We remain positive on longer-term outlook for gold

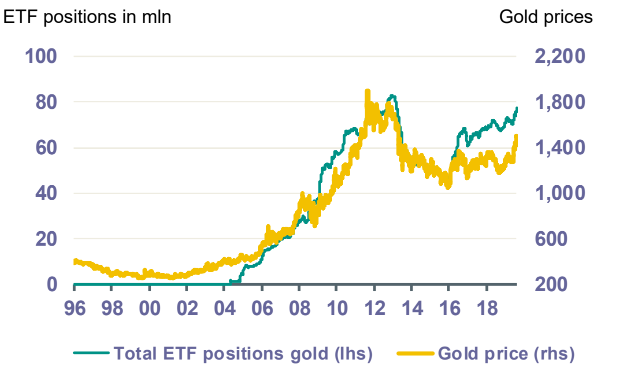
We remain positive on the longer-term outlook for gold prices. First, it is likely that the total amount of negative-yielding debt will increase in our forecast horizon. This is a major support for gold prices, because it makes gold as an investment also attractive from a yield spread point of view. This means that gold prices could also rally in a risk-on environment, especially versus the currencies that have negative yields. Second, central banks are likely to continue easing monetary policy. This is in general positive for gold prices, because it would narrow the yield spread versus these currencies and gold. However, quite a lot of monetary policy easing is already well anticipated. Third, we now expect a modest step-wise weakening of the Chinese yuan (see Macro Focus – We have adjusted some growth forecasts). Uncertainty about the amount of currency weakness will probably result in higher demand for gold. Fourth, it is likely that central banks will continue to diversify some of their reserves into gold, as the percentage of gold is relatively small. This is a long-term process. Fifth, the technical outlook for gold prices is positive. However, there is an important resistance in the USD 1,520-1,535 per ounce area.

A more significant weakness of the US dollar as the result of (verbal or actual) FX intervention by the US will result in a significant rise in gold prices. FX intervention by the US is not our base case scenario, but the risk has risen.

Extreme net-long positions in the futures market

Source: Bloomberg, ABN AMRO Group Economics

… and large ETF positions in gold



Source: Bloomberg, ABN AMRO Group Economics

… but we expect a price correction in the coming months

We think that gold prices have risen too sharply in a short period of time and we expect a correction in the coming months. For a start investor positioning is extreme. The net-long positions in the futures market are at an extreme territory and the total ETF positions are also substantial. If the newsflow becomes less supportive, a profit-taking wave could push gold prices easily towards USD 1,400 per ounce again. In addition, we think that the amount of monetary policy easing by the Fed and the ECB for this year is mostly priced in.

So this will unlikely push gold prices to new highs. Moreover, we expect the US dollar to be resilient for the remainder of this year despite Fed rate cuts. This is because waves of risk aversion will also support the US dollar. Taking the above together we keep our gold price forecast for the end of 2019 at USD 1,400 per ounce, but we raise our forecast to USD 1,600 (from USD 1,500) for the end of 2020.

ABN AMRO precious metal price forecasts

Changes and new forecasts in red/bold

New										
End period	**12-Aug**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**
Gold	1,505	*1,281*	*1,324*	*1,409*	**1,450**	1,400	**1,450**	**1,500**	**1,550**	**1,600**
Average	**Q1 19**	**Q2 19**	**Q3 19**	**Q4 19**	**2019**	**Q1 20**	**Q2 20**	**Q3 20**	**Q4 20**	**2020**
Gold	*1,303*	*1,308*	**1,450**	**1,425**	**1,371**	**1,425**	**1,475**	**1,525**	**1,575**	**1,500**

Old										
End period	**12-Aug**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**
Gold	1,505	*1,281*	*1,324*	*1,409*	1,350	1,400	1,425	1,450	1,475	1,500
Average	**Q1 19**	**Q2 19**	**Q3 19**	**Q4 19**	**2019**	**Q1 20**	**Q2 20**	**Q3 20**	**Q4 20**	**2020**
Gold	*1,303*	*1,308*	1,383	1,375	1,342	1,413	1,438	1,463	1,488	1,450

Source: ABN AMRO Group Economics

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