Gold Watch

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Gold price outlook still negative

- **Gold prices have declined by 7.5% so far this year**
- **We think that the gold price outlook remains negative**
- **We keep our year-end forecast at USD 1,700 per ounce and end of 2022 at USD 1,500 per ounce**

Introduction

So far this year gold prices have declined by 7.5%. This was not in a straight line. There have been periods when the dollar declined on the back of lower US real yields and gold prices rallied. However, since the start of June prices have been on a declining trend. Gold prices even briefly dropped below USD 1,700 per ounce on 9 August, although it quickly rebounded from this more attractive price level. Why have gold prices declined? For a start, investors have adjusted their expectations regarding the Fed. They expect the Fed to hike rates quicker than they had earlier expected. Moreover, 2y US Treasury yields and 2y real yields have risen to reflect this. In addition, the US dollar has risen by 5% this year. Gold prices tend to weaken when the dollar rises.

Gold price outlook still negative

We continue to expect lower gold prices this year and next, and we keep our current forecasts in place. There are several reasons behind our negative gold price outlook. First, monetary policy will tighten globally going forward. Some central banks have already started, such the central banks of Norway, New Zeeland, Brazil and South Korea. We expect the Fed to start hiking early 2023 and the Bank of England and Bank of Canada to probably hike before that. The ECB, the Bank of Japan, the Reserve Bank of Australia, the Riksbank and the Swiss National Bank will likely hike later compared to the other central banks, but the direction is towards tightening and not easing. Only in China has the central bank been easing in piecemeal steps to support the economy. Tighter monetary policy is in general negative for gold prices, also because yields on government bonds have a tendency to rise.

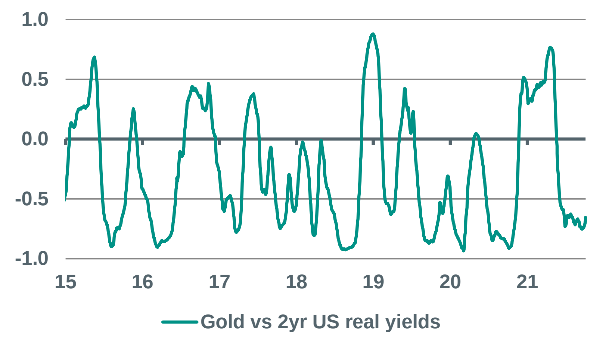
Second, we expect US 2y real yields to pick up. There are two dynamics at play here. First we expect the 2yr US treasury yields to rise a bit more than what markets are now expecting. Moreover, we think that inflationary pressures will ease. This results in higher 2y US real yields and that will weigh on gold prices going forward.

Third, we expect the US dollar to rally a bit further. This will likely be a modest increase. Higher US dollar is generally negative for gold prices.

Last but not least, the investor community is still substantially long gold. This is despite the decrease in ETF positions from 110 million troy ounces to 99 million troy ounces. Currently, total known ETF positions are still 19% higher than at the start of 2020. The net-long positions in futures is less excessive though.

Gold correlates negatively with US 2y real yields

90-day rolling correlation

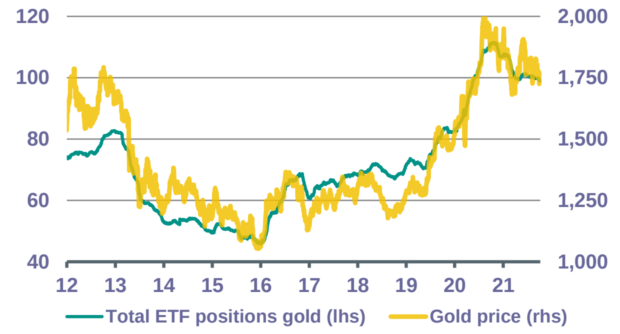


Source: Bloomberg, ABN AMRO Group Economics

Gold is still a crowded ETF trade

Million troy ounces

Gold price in USD



Source: Bloomberg, ABN AMRO Group Economics

ABN AMRO Gold price forecasts

Changes in bold and red

End period	**08-Oct**	**Dec 20**	**Mar 21**	**Jun21**	**Sep 21**	**Dec 21**	**Mar 22**	**Jun 22**	**Sep 22**	**Dec 22**
Gold	1,755	*1,894*	1,800	1,750	1,725	1,700	1,650	1,600	1,550	1,500
Average	**Q1 21**	**Q2 21**	**Q3 21**	**Q4 21**	**2021**	**Q1 22**	**Q2 22**	**Q3 22**	**Q4 22**	**2022**
Gold	*1,798*	*1,813*	*1,790*	1,713	1,778	1,675	1,625	1,575	1,525	1,600

Source: ABN AMRO Group Economics