

# Gold Watch

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## Downgrade of our gold price outlook

- ▶ **Gold prices have declined by 3.6% year-to-date...**
- ▶ **...mainly due to monetary policy tightening, a higher US dollar, and higher US real yields**
- ▶ **We have downgraded our gold price outlook, expecting modest weakness for the remainder of 2022, before prices will recover in 2023**
- ▶ **Our new year-end forecasts are USD 1.700 per ounce in 2022 and 1.900 in 2023**

### Introduction

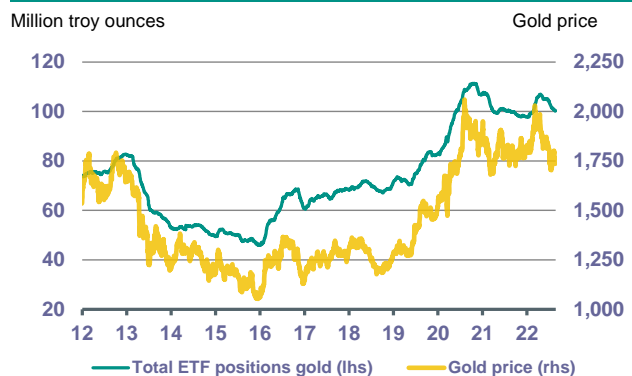
Gold prices have declined by 3.6% since the start of the year and are around 15% lower than the peak reached on 8 March at USD 2.070 per ounce. The main reasons for this has been aggressive monetary policy tightening by central banks, a rise in US real yields and a stronger dollar. Indeed 10-year real yields (nominal yields minus inflation expectations) have risen by more than 150 basis points this year. Moreover, the US dollar now stands 13% higher than at the start of this year. As a result, investors have partly liquidated their ETF positions.

#### Positions in the futures market of gold



Source: Bloomberg, ABN AMRO Group Economics

#### Investors have liquidated part of their ETF positions



Source: Bloomberg, ABN AMRO Group Economics

### Downgrade of our gold price outlook

Looking forward, we expect that developments in the US dollar, in US real yields and central bank policy will continue to dominate the direction in gold prices for the remainder of this year and in 2023.

We expect modestly lower gold prices for the remainder of this year. We still expect the Fed to take the upper bound of the fed funds rate to 4% by early 2023, with the risk that some of that tightening will be frontloaded. This is slightly above market consensus. This should weigh on gold prices. We also expect the US dollar to remain relatively strong. However, we only expect a modest decline in gold prices from the current levels. This is based on our view that we expect the US dollar to remain relatively strong, although we have not pencilled in another strong rally from these already high levels. Secondly, we think that US real yields are close to a peak or have already peaked. As a result, it is likely that this driver will not add substantial pressure on gold prices from current levels. Third, there is a crucial support area layered at USD 1.680-1700 per ounce. We expect these levels to be tested again and prices could move below these, albeit only temporary. Our new forecast for the end of 2022 is USD 1.700 per ounce (was 2.000).

For 2023 we think that the gold price outlook is more positive. Not only do we expect the US dollar to weaken, but we also expect the Fed to start cutting rates in the second half of 2023. On top of that, we expect lower US real yields. As a result gold prices are likely to rebound next year. Having said that, we do not believe that gold prices will set a new high though. This is because other central banks are unlikely to start cutting rates, as they will continue to fight inflation even if their economies deteriorate further. Our new year-end 2023 forecast is USD 1.900 per ounce (was 2.000).

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