ABN·AMRO

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Precious Metals Watch

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More price weakness ahead

- **Precious metal prices had a good start to the year, but recently they have started to diverge**
- **Gold prices registered a new high since 2012, but they have given up some gains**
- **Silver and platinum prices are down year-to-date and palladium prices are up**
- **During previous crises gold prices often rose by max 10%, depending on movements in the dollar. During the GFC gold prices dropped substantially, because of a surge in the dollar**
- **During previous crises silver, platinum and palladium prices often declined**
- **Based on our new base case scenario, we expect weaker precious metal prices in the coming months**

Precious metal prices had a good start to the year, but recently prices have started to diverge. Since 24 February, gold prices have been extremely volatile. The squeeze of some long gold positions resulted in a price drop of more than 6% in five business days. This was followed by a sharp price recovery after the Fed cut rates by 50bp in an unscheduled meeting. The rout in oil prices in thin Monday morning trading conditions on 9 March pushed gold prices to a new high of USD 1,703 per ounce, the highest level since 2012. Since then prices have declined slightly. Year-to-date gold prices are up close to 9%.

Palladium prices have outperformed the other precious metals. The substantial supply shortage has supported prices. Recently prices have declined, but prices are still 22% higher than at the start of 2020. Silver and platinum prices have fared less well over recent weeks. They peaked on 24 February and have more than wiped out the gains they had for the year. Silver prices have declined by 5% and platinum prices by 10% year-to-date.

What do we expect going forward? In this report we focus on the performance of precious metals during previous crises and what is the impact of our new base case scenario on our precious metals' price outlook.

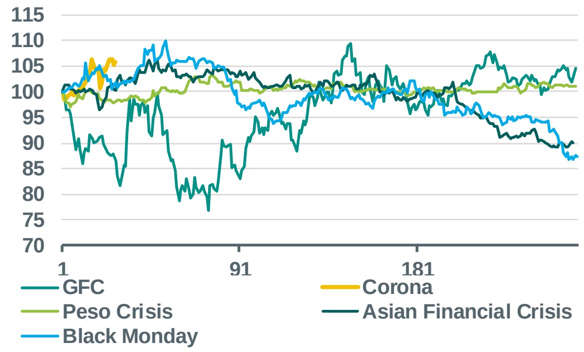
Performance during previous crises

Gold and to a lesser extent silver are frequently bought as safe haven at times of market stress. Some say that an asset is a safe haven if it has a relative outperformance compared to other assets at times of stress. For us this is diversification. If an asset is a real safe haven, prices will rise at times of stress as investors buy these assets, because they have sufficient liquidity. The perfect examples are the Japanese yen and US Treasuries. Stress in financial markets will result in much higher prices. The US dollar shows mixed behaviour because it is both a cyclical currency and a safe haven currency (most liquid FX market).

How did gold and silver prices actually perform during previous crises? We have taken as the starting point of the crises when sentiment on financial markets started to deteriorate. We used several market indicators to determine this starting point, including equity market volatility, the yield spread between 3 months US Libor and 3 month US Treasury bills (which is called the TED spread) and currency market volatility. The starting point has an index number of 100. We track the price developments for the next 360 days. The graphs below show the outcome for the different precious metals.

Gold's disappointing performance during crises

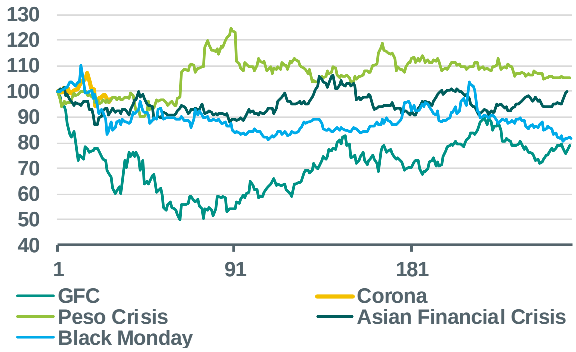
Index of Gold/USD vs number of days



Source: Bloomberg, ABN AMRO Group Economics

Risk-off and silver prices decline

Index of Silver/USD vs number of days



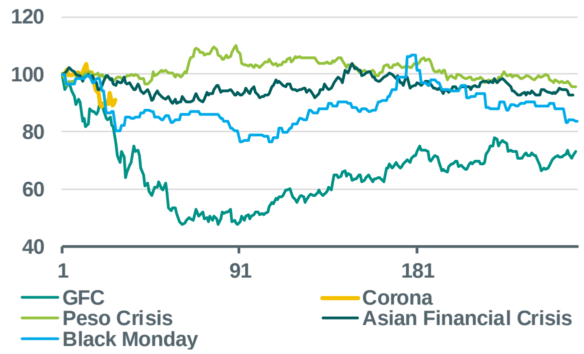
Source: Bloomberg, ABN AMRO Group Economics

As the graphs above show, gold prices often rise in dollar terms, but there is a limit to this rise (they rise max around 10%). In these periods the US dollar declined, but there was also a limit to these declines. However, in the most recent crisis, the global financial crisis, gold prices declined by more than 20% before recovering, meanwhile the dollar rallied sharply as liquidity dried up.

In the case of silver, platinum and palladium prices the situation is clear. Prices tend to decline with the exception of the peso crisis. For palladium there are substantially less data points. Considering the cyclical nature of palladium prices, a risk-off environment is usually negative for palladium prices.

… as do platinum prices …

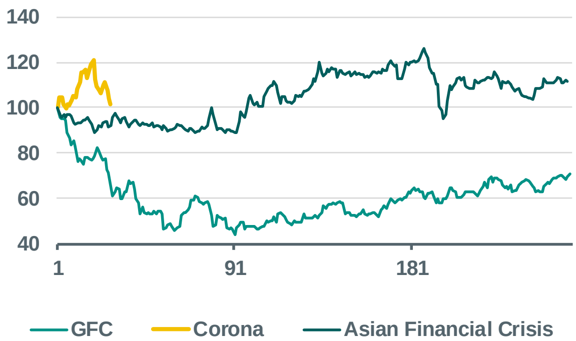
Index of Platinum/USD vs number of days



Source: Bloomberg, ABN AMRO Group Economics

… and palladium prices (but lack of data)

Palladium %



Source: Bloomberg, ABN AMRO Group Economics

Our outlook

We have recently changed our base case scenario. In short, our base case scenario is as follows.

- We have downgraded our outlook for global growth. Our growth forecasts for the US and the eurozone are far below consensus, while that of China is close to consensus.
- We have also changed our outlook for central banks. After the intermeeting rate cut last week by the Fed, we expect a total of another 100bp by the end of April. The Fed could also restart QE in the near-term. We expect the ECB to cut rates by 10bp, to increase net asset purchases to EUR 40bn and to loosen conditions on its TLTRO programme this week. Most of this is reflected in financial markets.
- We expect a risk-off environment for Q1 and for most of Q2
- We also think that the US dollar will stage a comeback in the coming weeks and months on safe haven buying

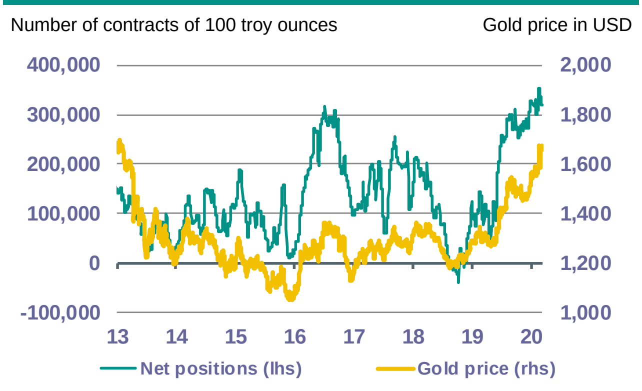
If we take these elements together, we expect weakness in precious metal prices in the coming months. First, weaker growth is negative for all precious metals. We expect lower jewellery demand from India and China, lower industrial demand and lower autocatalyst demand (from the major economies). We think that the supply shortage for palladium will ease further in the near term due to lower demand.

Second, a comeback of the dollar will probably result in lower gold prices. Gold prices tend to fall if the dollar rises. Some would argue that gold prices and the dollar both rallied in 2019. Their main reasoning is that that happened because of safe haven buying for dollar and gold. We disagree. The dollar performed well last year because of relative attractiveness of US assets (cyclical) and the US economy seemed to be relatively resilient. But monetary policy easing (by the Fed) and negative yields in the eurozone, Switzerland and Japan were the crucial drivers for higher gold prices last year.

Third, our view on monetary policy easing for the Fed and the ECB is roughly priced in. If this plays out, the effect will likely be neutral on precious metal prices at current levels. However, if expectations about monetary policy easing increase further, this would provide support to precious metal prices. Moreover, aggressive global quantitative easing could limit the downside in gold prices.

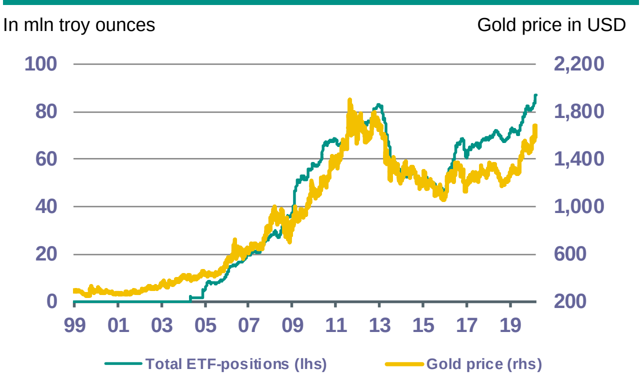
Fourth, investor positions in gold are still extreme. Some of the speculative positions in silver, platinum and palladium have been cut back, but there are still sufficient positions that can be squeezed. Investor will shy away from cyclical precious metals, because of a weaker demand outlook. Investors are still hoping that market panic will send gold prices much higher. We are very cautious. The safe haven behaviour of gold is far from stable as recent weeks have shown and long gold is still a crowded trade.

Speculative net-long gold positions still extreme …



Source: Bloomberg, ABN AMRO Group Economics

… as well as total ETF positions



Source: Bloomberg, ABN AMRO Group Economics

As a result of the above-mentioned we have changed our precious metals forecasts. See the changes in bold and red in de table below.

ABN AMRO Precious Metals' price forecasts

Changed in bold and red

New										
End period	**11-Mar**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**
Gold	1,659	*1,522*	**1,550**	1,450	1,500	1,600	1,650	1,700	1,725	1,750
Silver	16.99	*17.94*	**16.25**	**15.50**	**16.50**	18.00	18.50	19.00	19.50	20.00
Platinum	876	*974*	**850**	**825**	**900**	**1,000**	1,150	1,200	1,250	1,250
Palladium	2,375	*1,941*	2,100	2,000	1,900	1,800	1,700	1,600	1,500	1,500
Gold/silver ratio	97.7	84.8	95.4	93.5	90.9	88.9	89.2	89.5	88.5	87.5
Gold/platinum	1.9	*1.8*	1.8	1.7	1.6	1.4	1.4	1.4	1.4	
Average	**Q1 20**	**Q2 20**	**Q3 20**	**Q4 20**	**2020**	**Q1 21**	**Q2 21**	**Q3 21**	**Q4 21**	**2021**
Gold	**1,565**	**1,500**	1,475	1,550	**1,523**	1,625	1,675	1,713	1,738	1,688
Silver	**17.5**	**15.9**	**16.0**	**17.3**	**16.6**	18.3	18.8	19.3	19.8	19.0
Platinum	**925**	**838**	**863**	**950**	**894**	**1,075**	1,175	1,225	1,250	1,181
Palladium	**2,320**	**2,050**	1,950	1,850	**2,043**	1,750	1,650	1,550	1,500	1,613
Old										
End period	**11-Mar**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Mar-21**	**Jun-21**	**Sep-21**	**Dec-21**
Gold	1,659	1,522	1,450	1,450	1,500	1,600	1,650	1700	1725	1750
Silver	16.99	17.94	16.50	16.50	17.25	18.00	18.50	19.00	19.50	20.00
Platinum	876	974	900	900	1,000	1,100	1,150	1200	1250	1250
Palladium	2,375	1,941	2,100	2,000	1,900	1,800	1,700	1,600	1,500	1,500
Average	**Q1 20**	**Q2 20**	**Q3 20**	**Q4 20**	**2020**	**Q1 21**	**Q2 21**	**Q3 21**	**Q4 21**	**2021**
Gold	1,486	1,450	1,475	1,550	1,490	1,625	1,675	1712.5	1737.5	1687.5
Silver	17.2	16.5	16.9	17.6	17.1	18.3	18.8	19.3	19.8	19.0
Platinum	937.12	900	950	1050	959.28	1125	1175	1225	1250	1193.8
Palladium	2020.5	2050	1950	1850	1967.6	1750	1650	1550	1500	1612.5

Source: ABN AMRO Group Economics