ABN·AMRO

Gold Watch

Group Economics | 27 June 2024

Outlook for gold prices

Georgette Boele: Senior Economist Sustainability | georgette.boele@nl.abnamro.com

- Gold prices set a high earlier in the year, but have lost momentum since then
- There is a divergence in drivers and strong, traditional relationships have broken down
- We are cautious on the outlook for gold prices
- We keep our forecast at USD 2,000 per ounce for December 2024

Introduction

On 15 April we published our latest Gold Watch with the title "The sky seems the limit for gold prices". Since then, prices have set a new high, but the rally has lost momentum. What do we expect for gold prices for the remainder of this year. We approach this in a similar way with Q&A.

Has the expected central bank easing supported gold prices? *No*

The market has already anticipated the possible start of the easing cycle by major central banks for quite some time now. Even though the ECB started easing in June, the Fed will start later in our view (first rate cut now foreseen in September). In fact, expectations about monetary policy easing in the US have decreased this year. Therefore, from this angle, gold prices should have been lower and not higher.

Have US real yields supported gold prices? *No*

US real yields are US Treasury yields corrected for inflation expectations. Higher and positive real yields indicate that the market is of the view that the central bank is taking appropriate action to cool inflation. Indeed, the Fed has waited to start easing monetary policy, as US inflation was sticky. Gold prices tends to rise if US real yields decline and vice versa. However, this year this relation has broken down. US real yields have risen, while gold prices have risen as well

Has the movement in the US dollar supported gold prices? *No*

So far this year, the US dollar has had a good run. It has risen by approximately 5% against a basket of currencies. Gold prices have also risen; by close to 11%. Gold prices normally have the tendency to decline if the dollar rises.

Is there a physical gold shortage? *No*

During the COVID crisis, physical gold experienced a shortage. This translated into high gold demand on the futures market and a large premium to buy physical gold. So far this year, speculative positions have risen, but the premiums paid on gold coins (Eagle and Maple Leaf) are below their long-term averages (albeit positive). Some of the other gold coins show negative premiums so that prices are considerably below spot gold prices. Overall, according to these factors, there is no shortage.

Have investors piled up gold? *Yes and No*

Over recent years, ETF investors have decreased their positions. Total gold ETF positions are now below the level last seen in 2019. Usually, if ETF investors liquidate their positions gold prices decline (see graph below). But speculative positions in the futures market have increased this year though and are now relatively large (not extreme). The rise of speculative positions in the futures market may have offset some of the effect of the ETF position liquidation.

Total ETF positions versus gold prices

Source: Bloomberg

So, what are the main reasons for higher gold prices?

There are three main factors that have supported gold prices. First, investors have bought gold on the futures markets and in other forms. Second, central banks, for example of China, have bought gold. Indeed, world gold reserves have modestly risen this year. Third, the technical picture has been positive resulting in trend buying by investors. But the rally has lost momentum since the high of USD 2,450 per ounce that was set on 20 May 2024. Prices are already under the 50 days moving average. The important support zone is USD 2,220-2,275, where previous tops and bottoms are layered (previous break out level). Below that level, the next support zone is USD 2,115, where the 200 days moving average comes in. If prices decline below the 200 days moving average the long-term trend turns negative.

What do we expect for gold prices?

We remain cautious for the outlook for gold prices for the following reasons. First the trend in gold prices is positive, but the momentum is declining. Second, it is unusual for gold prices to have positive relationships with the US dollar and 5yr and 10yr US real yields. Even though these changes have occurred in the past, they tend to be temporary in nature, meaning that they could last around 3 to 6 months. If gold prices were to react to central bank expectations again, they will probably remain stable versus the US dollar and rise somewhat versus the euro this year, reflecting our Fed and ECB views compared to the market. Third, there is no shortage in physical gold at the moment and the amount of central bank buying is not justifying gold prices at current levels. Therefore, we keep our year-end forecast of USD 2,000 per ounce for now.

DISCLAIMER

This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed, or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer.

No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts, and assumptions contained in the document or on its completeness, accuracy, or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof.

Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product –considering the risks involved- is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.

© Copyright 2024 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO)