ABN·AMRO

Precious Metals Watch

Group Economics
Financial Markets Research

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We remain positive on gold

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- **Technical picture and the prospect of monetary policy easing are positive**
- **Trade war uncertainty could dent gold demand from China**
- **We keep our year-end forecast at USD 1,400 per ounce**

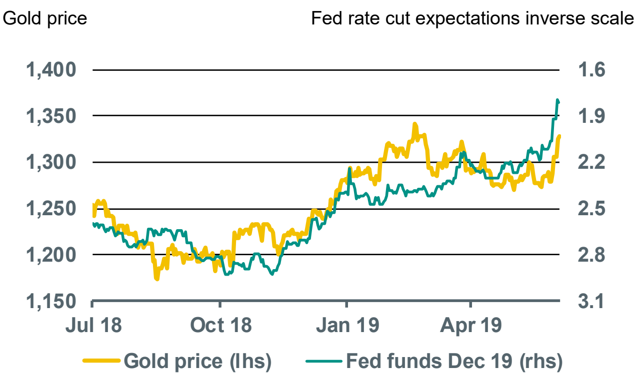
Introduction

Gold prices peaked on 20 February 2019 at USD 1,346 per ounce and weakened between the end of February and last week. A somewhat stronger US dollar was the main reason for this. Gold prices dropped to below USD 1,300 per ounce and approached the 200-day moving average at around USD 1,260 per ounce. In recent weeks, uncertainty on financial markets has increased because of the escalation of the trade tensions between the US and China, weakness in equity markets and higher uncertainty surrounding Brexit. Initially, gold prices barely profited because the US dollar was resilient as well. At the end of last week this changed however. A further escalation of trade tensions has resulted in a considerable drop in US nominal yields, a drop in US real yields, increased Fed rate cut expectations and a weaker US dollar. As a result, gold has taken out USD 1,300 per ounce again and have since rallied above USD 1,325 per ounce. Gold has moved up in an environment of higher equity market volatility and more uncertainty on financial markets, giving the appearance of a classic safe haven reaction. However, we strongly believe that the surge in gold prices has happened because of broad dollar weakness rather than safe haven demand for gold. Meanwhile the Chinese yuan has stopped weakening probably because of intervention by Chinese authorities.

Lower US real yields support gold prices

Source: Bloomberg, ABN AMRO Group Economics

Fed rate cut expectations also a support for gold



Source: Bloomberg, ABN AMRO Group Economics

We remain positive on gold and we keep our forecasts

We remain positive on the outlook for gold. First, the decline in gold prices came to a halt above and relatively closely to the 200-day moving average, and thereafter prices bounced higher. This is a positive development from a technical point of view, and strengthens our case that gold prices will rally towards the end of this year. Our year-end target is USD 1,400 per ounce.

Second, the developments on the trade front have decreased the likelihood of tighter central bank policy around the globe. In fact, easier monetary policy is far more likely at this point in time. We have adjusted our base case scenario, and now expect the Fed to start cutting the Fed funds rate by 75bp by Q1 2020 (this is currently priced into financial markets). Moreover, we expect the ECB to restart QE, and other central banks to become less hawkish – postponing the start of the tightening cycle, or even cutting rates. An environment of easier monetary policy is in general supportive for gold prices because the interest rate difference – between the currency and gold – declines, making gold as a non-interest paying asset more attractive.

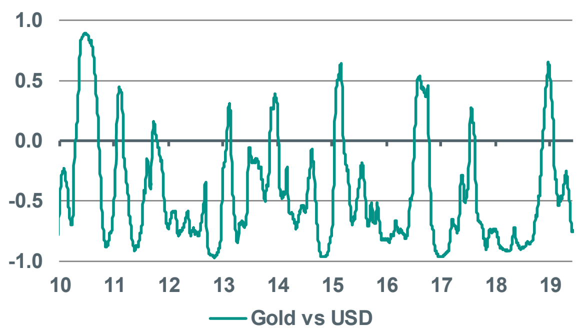
Third, the US dollar is struggling to rally in the current risk-off environment. This is because financial markets fear the policy uncertainty that comes with President Trump's increasingly erratic trade policy. So, the US dollar is likely also being punished because the US's longer term credibility is weakening. This may not be visible in EUR/USD, because the euro has its own challenges, but it is visible versus the Japanese yen, the Swiss franc and gold prices.

Fourth, we expect the Chinese authorities to step up stimulus to support the economy. It is likely that they will shield the economy from the impact of the trade conflict. Moreover we doubt China will use the yuan as a weapon in the trade war. All in all, we expect China to continue to buy gold, but it is likely that it will be less than originally thought.

Speculators hold net-long gold positions but these positions are modest. It is likely that they have been increased over the last couple of days, but we are of the opinion that there is enough room for net-long positions to increase.

Lower US dollar is generally positive for gold prices

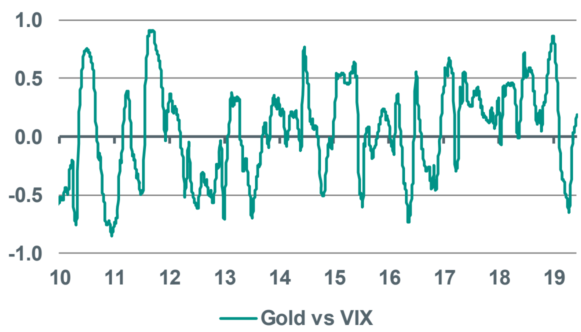
90-day rolling correlation



Source: Bloomberg, ABN AMRO Group Economics

Unstable relationship: equity volatility versus gold

90-day rolling correlation



Source: Bloomberg, ABN AMRO Group Economics

ABN AMRO precious metal price forecasts

Changes and new forecasts in red/bold

End period	04-Jun	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Gold	1,324	*1,281*	*1,292*	1,325	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*	1,309	1,338	1,375	1,331	1,413	1,438	1,463	1,488	1,450

Source: ABN AMRO Group Economics

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