

Gold Outlook

Group Economics
Financial Markets Research

5 December 2018

Higher gold prices ahead

Georgette Boele
Senior Precious Metals & Diamond
Analyst
Tel: +31 20 629 7789
georgette.boele@nl.abnamro.com

- **Gold prices have declined so far this year**
- **But 2019 and 2020 should be positive again ...**
- **... because we expect a lower dollar, lower US Treasury yields, a recovery of the Chinese yuan and higher jewellery demand**
- **Speculators are expected to cut their substantial short positions ...**
- **... and gold prices should rise to above the 200-day moving average**
- **We keep our year-end target for 2019 at USD 1,400 per ounce**

Introduction

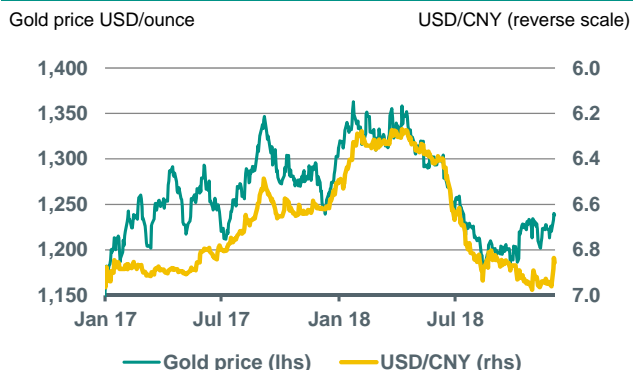
So far this year, gold prices have weakened by close to 5%. First, a looming trade war between the US and China has weighed on prices. Second, the recovery of the US dollar, higher US Treasury yields and Fed rate hikes haven't been negative for gold prices. Third, concerns about the strength of the Chinese economy (also reflected by a weaker Chinese yuan and a lower Indian rupee) have resulted in a less favourable gold demand outlook. As a result, prices have declined. What do we expect going forwards?

Less concern about China and a recovery in the Chinese yuan to support gold

We expect higher gold prices in 2019 and 2020. First, since the Chinese yuan has had more room to move, the relationship with gold has become stronger. This is because China is a crucial consumer of gold. When China allows the yuan to decline, investors become concerned about the state of the Chinese economy. As a result they are also more negative about the outlook for gold demand. Chinese authorities have taken measures to stimulate the economy and to shield its economy from the (potential) negative effects stemming from US import tariffs. Since April, the yuan has been allowed to weaken by around 10% versus the US dollar. This limits the impact of the import tariffs on the Chinese economy. However, Chinese authorities are very cautious about letting the currency weaken beyond 7.00 versus the US dollar, as the risk is quite high that they would lose control over their currency. A weakening of the Chinese yuan beyond 7 versus the US dollar could spur speculation of capital outflows and they would like to avoid that, at least for now. Against that background, we expect that the Chinese yuan will recover in 2019. This should calm investors and improve investor sentiment towards gold.

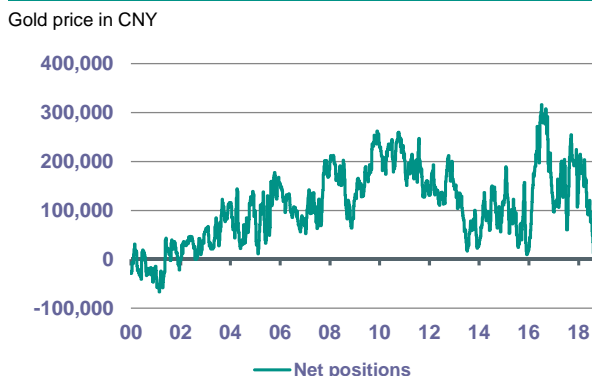
However, if gold prices in local currency terms rise too fast then this could dampen gold investment and gold jewellery demand. For 2019 we expect gold prices in Chinese yuan and in Indian rupee to rise. But both will not increase to the highs seen in 2012 (in our view). In addition we expect jewellery demand to pick up in China and the US.

Chinese yuan crucial for gold prices



Source: Bloomberg, ABN AMRO Group Economics

Speculators have room to build up net-long in gold



Source: Bloomberg, ABN AMRO Group Economics

We think that the dollar and 10y US Treasury yield have peaked...

We are of the view that the US dollar and US Treasury yields have peaked. We also expect that US economic growth will peak this quarter. During the next two years, we expect lower US economic growth and lower 2y and 10y US Treasury yields. We expect the Fed to hike in December 2018 and one more time in 2019, some time during the first half. Going forward, the 2y US Treasury yields will probably rise in tandem with inflation expectations. So real yields will likely not rise. All these factors support our view that the US dollar has peaked and will weaken in 2019 and 2020. Therefore, we expect gold prices to rally in 2019.

Speculators have lost faith in the upside potential for gold ... but not us

The latest positioning data from the futures market show that there are extremely large speculative short positions in gold. Speculators are neutral-positioned in gold. This shows that speculators have little faith in the upside potential for gold prices. There is always the possibility that prices could go lower. But we think the risk reward for entering long gold positions is quite attractive. If our base scenario as described above plays out, it is likely that gold prices will rise in the coming two years on the back of a cut-back in speculative short positions, especially if gold prices would rise to above the 200-day moving average (just below USD 1,260 per ounce at the time of writing).

ABN AMRO precious metal price forecasts

New forecasts USD per ounce

End period	05-Dec	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Gold	1,237	1,250	1,300	1,325	1,350	1,400	1,425	1,450	1,475	1,500
Silver	14.5	15.50	16.00	16.50	17.00	18.00	18.50	19.00	19.50	20.00
Platinum	799	850	900	950	975	1,000	1,025	1,050	1,075	1,100
Palladium	1,251	1,150	1,100	1,050	1,000	1,000	1,000	1,000	1,000	1,000

Average	Q1 19	Q2 19	Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2019
Gold	1,275	1,313	1,338	1,375	1,325	1,413	1,438	1,463	1,488	1,450
Silver	15.8	16.3	16.8	17.5	16.6	18.3	18.8	19.3	19.8	19.0
Platinum	875	925	963	988	938	1,013	1,038	1,063	1,088	1,050
Palladium	1,125	1,075	1,025	1,000	1,056	1,000	1,000	1,000	1,000	1,000

Source: ABN AMRO Group Economics

Find out more about Group Economics at: <https://insights.abnamro.nl/en/>

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 2018 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO")

