ABN·AMRO

Gold Outlook

Group Economics
Financial Markets Research

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Higher gold prices ahead

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- **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

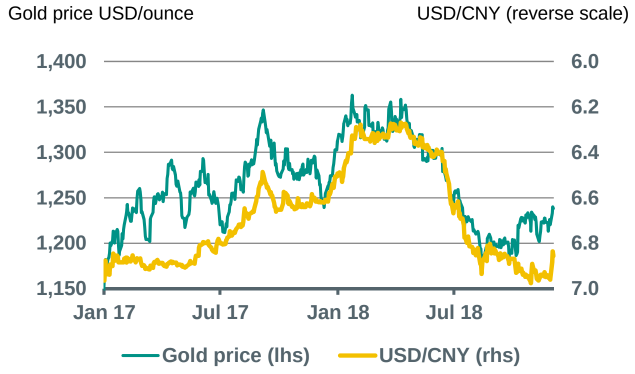
So far this year, gold prices have weakened by close to 5%. First, a looming trade war between the US and China has weighed on prices. Second, the recovery of the US dollar, higher US Treasury yields and Fed rate hikes haven been negative for gold prices. Third, concerns about the strength of the Chinese 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.

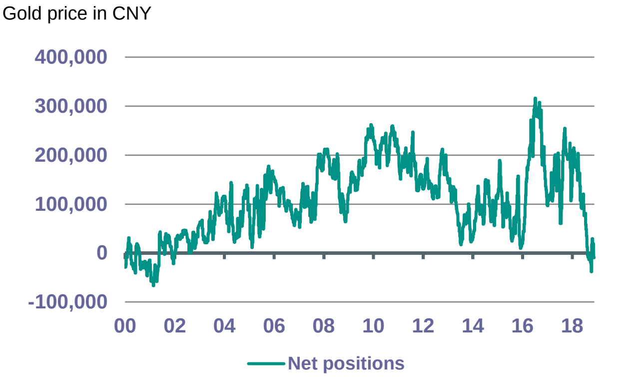
However, if gold prices in local currency terms rise too fast than this could dampen gold investment and gold jewellery demand. For 2019 we expect gold prices in Chinese yuan and in Indian rupee to rise. But both will not increase to the highs seen in 2012 (in our view). In addition we expect jewellery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

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