

LBMA 2017 Price Forecast - Philip Klapwijk, Precious Metals Insights

GOLD

Average \$1,288 High \$1,362 Low \$1,140

Expectations of higher US interest rates, a stronger American currency and rising stock prices might be thought to spell danger for the gold price in 2017. Such a backdrop would appear to rule out a repeat of the massive investment demand seen over much of 2016. However, gold's rebound from its \$1,126 low in December may indicate that notwithstanding these headwinds the price can recover further this year, as sufficient investors believe the precious metal to be a good hedge against economic and political uncertainties.

The post-election euphoria regarding US growth prospects that has shifted interest rate expectations, boosted the dollar and driven up stock prices is excessive and aggressive forecasts on all these fronts are set to be moderated. For instance, while US interest rates will most likely increase by 50-75 basis points this year, the Fed is still going to be ultra-cautious in tightening monetary policy, especially in the context of an already much stronger US dollar. Moreover, a rise in US inflation is set to outpace this increase in short term policy interest rates because of wages rising faster (due to a tighter labour market), the impact of higher oil prices and, possibly too, as a consequence of protectionist trade measures driving up goods' prices. As a result of higher inflation real US rates could well decline somewhat from current levels. Even moderately negative real interest rates would limit the dollar's upside and support gold prices. In addition, besides what may turn out to be a mildly positive economic backdrop the precious metal should be buoyed by growing political concerns in 2017.

Since the collapse of the Soviet Union geo-political factors have rarely tended to affect gold prices and then only temporarily. This paradigm is likely to be tested though under a President Trump who has to-date shown little regard for the fundamental foreign policy consensus of past Republican and Democratic administrations. Questions about the quality of American leadership and the country's commitment to the post-war global order come at a time of rising tensions in Asia and Europe, with in particular China's growing power an issue for the former and the EU's acute difficulties together with Russian revanchism affecting the latter region. Overall it is fair to say that geo-political risk is set to increase to a level not seen since the end of the Cold War. Gold is certain to benefit from the return to a less benign state of international affairs.

SILVER

Average \$18.25 High \$20.05 Low \$15.90

Silver's general trend in 2017 will be to follow gold higher, with greater volatility and a broader trading range. Positive factors for both metals such as US dollar weakness, rising inflation expectations and higher commodity prices would likely see silver outperform gold to the upside. In contrast, if the principal driver for greater investment and thus rising gold prices were an increasingly 'risk off' environment because of financial instability or a political crisis it is probable that the white metal would underperform the yellow one due to its much higher correlation to growth in global GDP and its only limited appeal as a 'safe haven'. When it comes to supply/demand factors, of greatest importance to silver prices this year, given little change expected in overall supply from mine production and scrap, will be potential growth in industrial end-uses, which are by far the largest element of fabrication demand. Prospects here are relatively positive due especially to increasing use of silver in photovoltaics and by the automobile industry.

PLATINUM

Average \$997 High \$1,090 Low \$845

Gold may be platinum's best hope in 2017. While the 'traditional' premium over gold has for some time now been replaced by a discount, the recovery forecast for the yellow metal should help to support the price of platinum. Nevertheless, platinum will be burdened by rather lacklustre supply/demand fundamentals. Supply from mine production remains steady, as rand devaluation (notwithstanding some rebound in the ZAR) has done enough together with political constraints to maintain mine production in South Africa. This scenario is unlikely to change in 2017. Meanwhile recycling, especially of spent autocatalysts is on a rising trend. On the demand side, consumption in autocatalysts is expected to decline as diesel's share of the European car market drops. Meanwhile, it is unlikely that the second largest end-use, jewellery, will grow by much, if at all, in 2017. The platinum market is therefore expected to record a moderate 'surplus' this year, which will tend to have a negative impact on prices, especially as outside of Japan (where investors traditionally buy on dips in yen prices) there is still not much in the way of physical investment demand for platinum. Finally, there is little reason to expect more speculative investors to enter the market for futures or ETFs whilst the fundamental picture for the metal remains broadly negative.

PALLADIUM*Average \$739**High \$835**Low \$655*

Palladium appears to be the precious metal most vulnerable to an impending collapse in market euphoria following its surge in the wake of Mr Trump's election victory. As such, current prices (close to \$750) may represent a misleading starting point for an analysis of the grey metal's price prospects in 2017. While palladium will be supported by another sizeable 'deficit' this year between supply and demand, it is probable that the gap between the two will narrow compared to 2016. Firstly, supply from both mine production and autocatalyst recycling is expected to increase. Secondly, autocatalyst demand may not grow as quickly as some expect due to only moderate growth in US and Chinese auto sales and the countervailing impact of on-going thrifting in the metal's use in catalytic convertors. In the US auto sales reached a record 17.5 million units last year, according to initial estimates, from which level growth may be modest, at best, given all the sales incentives rolled out in 2016. Meanwhile in China, some purchases were brought forward last year due to government tax incentives on small cars that have now been reduced (the tax on applicable vehicles has increased from 5% to 7.5%). Thus, while there will still be a requirement for stocks to be reduced to meet the 'deficit', the call on above-ground holdings of palladium metal will not be sufficient to drive prices that much above the \$800 mark.