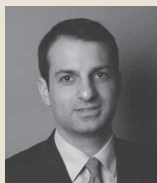
The 2015 Forecast Winners Update Their 2016 Forecasts

Back in January, analysts participating in the LBMA's Annual Forecast Survey submitted their usual forecasts predicting their outlook for precious metal prices in 2016. Analysts painted a rather bearish outlook for gold, forecasting a modest increase of just 1.1%. A more bullish outlook was forecast for silver (+5.5%) and the PGM metals (platinum +5.4% and palladium +12.7%). However, in the first half of 2016, we saw gold prices hit a two-year high and the prices of the other metals outturn above market expectations. And at the end of June, the UK's decision to leave the EU injected further stimulus to prices. We therefore thought it would be interesting to invite each of the winners of last year's Forecast Survey to reassess their 2016 forecasts. Here is what each of them had to say:

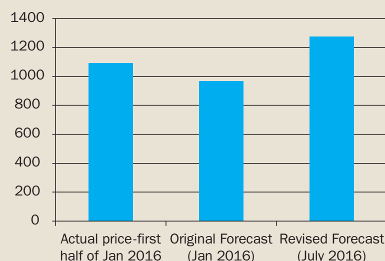


GOLD

By Bernard Dahdah, Precious Metals Analyst, Commodities Research, Natixis

Original forecast average (Jan 2016)
$970/oz
(Low $900/oz and High $1,300/oz)

Revised forecast average (July 2016)
$1,275/oz
(Low $1,170/oz and High $1,400/oz)



Despite weak Indian and Chinese consumer demand, gold prices have fared exceptionally well so far this year. Much of the rally in the price of gold has been on the back of Western investment demand. Gold holdings in physically backed ETPs (which are held in majority by Western investors) have risen by 473 tonnes this year – this is equivalent to around 12% of last year's global production of the metal. Most of the movement in the price of gold during the early phase of the year can be attributed to rate cuts. Japan's surprise plunge into negative rates was followed by a further deepening of cuts by the ECB. Both events, coupled with the 25% crash in the Shanghai exchange, helped lift the price of gold. Soon after, much of the market's attention turned towards the Fed, where delays in raising rates have helped further raise prices. The relationship between the opportunity cost of holding gold and interest rates has become ever more apparent.

As a result of Brexit, we now expect that the Fed rate hike won't happen until at least December of this year. As the Fed stated on several occasions, it closely monitors the situation on the international scene. Brexit has created great uncertainty, not only in the UK but also in Europe. The Fed will want to look at the economic indicators in the next few months so as to assess the impact. The ensuing market volatility is also something that the Fed is weary of. Finally, it is not as much about the UK leaving the EU that is impacting the decision by the Fed (or the rise in the price of gold), but the future of the European project and the economic stability of the region that is of great concern.

With our expectations that the Fed won't raise rates until the end of the year and with the uncertainty surrounding the effects of Brexit on the European economy, we have now revised our forecasts upwards. We expect gold prices to average $1,275/oz this year and $1,330/oz in the second half of the year. Looking at the lease market, we now expect rates to remain in negative territory until at least October. Libor has come off since the Fed postponed its decision to raise rates in June and we do not expect much of an increase in the short term. Higher investment demand from Western investors (related to uncertainty) will mean that those additional market participants who are long will be looking to lend out their gold – this will lead to higher forward rates, especially as there is no appetite for borrowing in Asia. By October (a month after the new British Prime minister will be selected), we expect that some of the uncertainty regarding the relationship between the UK and Europe will subdue – this will help reduce Western investment demand for gold.

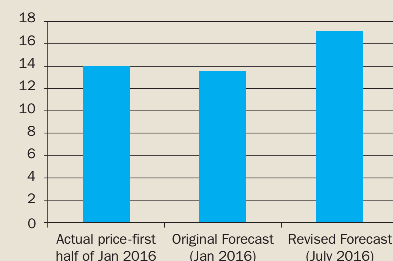
Two risks (upside and downside) face gold prices. Although so far this year, additions of gold in physically backed ETPs have been very supportive of the price of gold, should the Fed raise rates earlier than expected, we could see sharp outflows. The amount held in physically backed ETPs is substantial – it is equivalent to 45% of 2015's total supply of gold. Just as quickly as physically backed ETPs turned into a source of demand for the metal, investors could turn it into a source of supply. Prolonged and messy negotiations between the UK and Europe could lead to further uncertainty and potentially hit the economy of both areas. This scenario is likely and gold prices could benefit.

SILVER

By Rene Hochreiter, Mining Analyst, Sieberana Research (Pty) Ltd

Original forecast average (Jan 2016)
$13.50/oz
(Low $12.50/oz and High $15.50/oz)

Revised forecast average (July 2016)
$17.10/oz
(Low $13.80/oz and High $19.00/oz)



The precious metals prices have improved significantly since their January 2016 levels, especially gold. With silver so closely linked to the price level of gold, it too has performed in a sterling way. Silver has averaged $15.77/oz since 1 January.

Going forward, I believe that the gold price (for 'gold', also read 'silver') will trend upwards for the rest of this year with the massive uncertainty generated by the Brexit vote in Britain and in Europe, the uncertainty developing around the upcoming US elections in November and the knock-on effect of this general uncertainty around the globe. This uncertainty is likely to expand over the next two years, keeping gold and silver prices buoyant.

Brexit has caused massive buying of gold in any form, with some London dealers running out of stock the day after the vote. The resignation of Cameron has added to the uncertainty, and the negotiations with the EU on the terms of the exit, which are likely to take two years and be led by a new British leader in all likelihood hostile to European leaders, is adding fuel to the gold fire. And further departures can now be expected, with the obvious candidates being Greece, France, Portugal, Holland, Ireland,

Spain and Austria. Though this may make the polarised German EU block more powerful, the uncertainty with each new exit will spur on gold to higher levels. The negative reaction of the US markets was also worrying as a stronger dollar will make US exports less attractive to the rest of the world, resulting in a weaker US economy if the strong dollar persists.

In the US, the likelihood of a US recession in the next three years is becoming very high. If Britain can exit the EU, then Trump could very well become President. Trump's policies are certain to cause a massive rise in US debt (some estimates suggest up to 130% of US GDP) and a fall in US share prices (earnings falls are inevitable with higher wages, as he is mandating) in the second and third year of his presidency, weakening the dollar significantly. A weaker dollar will, without doubt, mean a stronger sliver (and gold) price. Clinton's policies are less likely to see a recession in the US. However, the Clinton Foundations' sources of funding and questions surrounding Hillary Clinton's honesty could also add to a weakening dollar. But then, since when have politicians been honest? This lack of honesty is also good for gold prices.

On fundamentals, we estimate a lower physical deficit of around 90Moz in 2016 compared to the 129.8Moz deficit in 2015 (according to the Silver Institute). Photovoltaic (PV) cell demand for silver is growing strongly (23% up on 2014), although it is still small (78Moz) compared to the market of 1.17Boz of demand in 2015 (Silver Institute). However, Germany and China have the world's highest installation rate of PV cells and are likely to double their rate over the next five years. This could see a +200Moz market in that time. The other demand sectors we see as staying relative flat to slightly up.

Supply from Mexico, Peru and China could increase by 15Moz and other producers by another 7Moz to total 910Moz supply in 2016 from 886Moz in 2015. After almost five years of physical deficits, fundamentals may play a more important role in pricing, but we believe that silver's link to gold is the most important determinant of the price of silver.

In conclusion, silver (and gold) prices should react positively in the pervading ether of global uncertainty, with a high of $19.00/oz this year, a low of $13.80/oz (seen on 15 January) and an average of $17.10/oz.

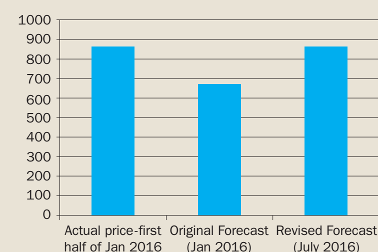
PLATINUM AND PALLADIUM

By Glyn Stevens, Head of Platinum Group Metals, INTL FCStone Ltd

Platinum

Original forecast average (Jan 2016)
$672.00
(Low $596.00 and High $948.00)

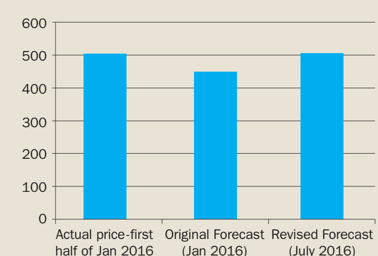
Revised forecast average (July 2016)
$864.00
(Low $746.00 and High $1,068.00)



Palladium

Original forecast average (Jan 2016)
$448.00
(Low $382.00 and High $588.00)

Revised forecast average (July 2016)
$506.00
(Low $442.00 and High $628.00)



Whilst I may have been a touch hasty in predicting the demise of the platinum group metals in 2016, platinum's forays into four-figure territory have so far proved to be short-lived and palladium has been the laggard of the precious metals sector. Not only did I underestimate the strength of gold over the first six months, but the extent of the yellow metal's influence on the primarily industrial white metals has been surprising. However, as we enter the second half of the year, market participants may well refocus on the fundamental industrial nature of PGMs for several reasons.

The fragility of global trade and manufacturing will continue to weigh upon ferrous and nonferrous metals alike, including PGMs. So far in 2016, global industrial production has managed to avoid recession, but growth is patchy to say the least. The recent stalwart of economic success that has been the USA is starting to show signs of slowdown. China is treading water as the world's second-largest economy rebalances away from exports to a more consumer-driven growth model. Europe is struggling despite extraordinary monetary policy support. Japan's negative interest rate policy is seen as a desperate bid to resuscitate flagging growth, but that too has had limited effect on the country's economic fortunes. India's robust economic expansion may be holding steady, but Brazil and Russia are likely to remain in deep recession. The rapid rise of both public and private debt in several emerging and developing economies poses a risk to growth. Brexit has left the UK with a very uncertain future. None of this bodes well for PGM off-take and the fact that sponge cannot command a significant, long-lasting premium to ingot underlines the weakness of industrial demand.

With regards to that most important demand sector, autocatalysts, the US market seems to have hit a plateau. Government tax incentives have boosted recent Chinese car sales figures, but bloated inventories, and deep dealer discounts do not bode well for the future. The well-publicised double-digit growth in Europe is starting from a very low base following several years of poor sales and diesel remains a dirty word. It is true that the weakness of steel prices is discouraging collectors from scrapping vehicles worldwide. However, recycling should still more than counterbalance any demand increase from tightening global emission regulations, whilst the appetite for electric vehicles should not be underestimated. Other sectors such as jewellery, chemical, electrical and dental are faltering as economies stagnate. There have been signs of improvement in physical demand as prices dip, especially from China, but not enough to keep prices high.

Equally, supply-side cuts have not yet gone deep enough to tighten market balances in most commodity markets, and PGMs have proved to be no exception. The potential for strikes in South Africa to disrupt this supply chain for a prolonged period also seems unlikely whilst the continuing weakness of both the rand and the ruble is maintaining the attractiveness of PGM prices in local currency terms. The UK's decision to leave Europe may well have reduced the probability of Federal Reserve rate hikes this year, but the dollar should still remain strong.

A special mention must be made of crude, the surprise package with its strong recovery in the first half of the year. However, $50.00 per barrel may well prove to be the near-term top as the OPEC countries fail to agree new production quotas, Iran refuses to play ball and the cost attractiveness of shale oil returns. Crude is but one of many markets in which the fundamentals are still quite negative.

Speculation rather than physical demand has propelled the gold price higher. Even if the yellow metal continues to shine, lack of demand from the floundering economies of the world should stop platinum and palladium following in its wake. PGMs collapsed towards the end of 2015. The same could well happen again.

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