OCBC Bank

Gold

More dovish-ness from the FOMC

17th March 2016

The Federal Reserve appeared more dovish than previously seen in their January meeting, downgrading their GDP and inflation outlook while adding that global economic and financial developments continue to pose risk. But more importantly, the cut to two more rate hikes (instead of four) in its median dot plot chart may have been more than expected by market-watchers vs a cut to three rate hikes. This would then explain the plunge in the DXY index overnight, which in turn left gold significantly dearer to its $1,260/oz handle.

Despite the official drop to two rate hikes, it is important to note that there still lies, more rate hikes to come. Furthermore, it still meets OCBC's expectation for two rate hikes as well. We continue to stay firm for two more rate hikes this year to an eventual 1.0%. **This does not effectively change our gold forecast, where we had previously called for a range of $1,050 (3 rate hikes) and $1,150/oz (1 rate hike).** As such, our gold forecast for end-year will now fixate on $1,100/oz (2 rate hikes). Still, gold's reign as the top performing asset since the start of the year is largely supported by on safe haven demand, and buying-interest into gold once again should not be discounted especially if global growth sentiment turns south into the year. Still, this is not our base case scenario, given our bearish outlook on gold prices. This outlook is very much underpinned by further rate hikes by the FOMC, which would lift the greenback and in turn, dull gold as a store of value.

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, March 2016
Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

Percent

Variable	Median[1]				Central tendency[2]				Range[3]			
	2016	2017	2018	Longer run	2016	2017	2018	Longer run	2016	2017	2018	Longer run
Change in real GDP	2.2	2.1	2.0	2.0	2.1 – 2.3	2.0 – 2.3	1.8 – 2.1	1.8 – 2.1	1.9 – 2.5	1.7 – 2.3	1.8 – 2.3	1.8 – 2.4
December projection	2.4	2.2	2.0	2.0	2.3 – 2.5	2.0 – 2.3	1.8 – 2.2	1.8 – 2.2	2.0 – 2.7	1.8 – 2.5	1.7 – 2.4	1.8 – 2.3
Unemployment rate	4.7	4.6	4.5	4.8	4.6 – 4.8	4.5 – 4.7	4.5 – 5.0	4.7 – 5.0	4.5 – 4.9	4.3 – 4.9	4.3 – 5.0	4.7 – 5.8
December projection	4.7	4.7	4.7	4.9	4.6 – 4.8	4.6 – 4.8	4.6 – 5.0	4.8 – 5.0	4.3 – 4.9	4.5 – 5.0	4.5 – 5.3	4.7 – 5.8
PCE inflation	1.2	1.9	2.0	2.0	1.0 – 1.6	1.7 – 2.0	1.9 – 2.0	2.0	1.0 – 1.6	1.6 – 2.0	1.8 – 2.0	2.0
December projection	1.6	1.9	2.0	2.0	1.2 – 1.7	1.8 – 2.0	1.9 – 2.0	2.0	1.2 – 2.1	1.7 – 2.0	1.7 – 2.1	2.0
Core PCE inflation[4]	1.6	1.8	2.0		1.4 – 1.7	1.7 – 2.0	1.9 – 2.0		1.4 – 2.1	1.6 – 2.0	1.8 – 2.0	
December projection	1.6	1.9	2.0		1.5 – 1.7	1.7 – 2.0	1.9 – 2.0		1.4 – 2.1	1.6 – 2.0	1.7 – 2.1	
Memo: Projected appropriate policy path												
Federal funds rate	0.9	1.9	3.0	3.3	0.9 – 1.4	1.6 – 2.4	2.5 – 3.3	3.0 – 3.5	0.6 – 1.4	1.6 – 2.8	2.1 – 3.9	3.0 – 4.0
December projection	1.4	2.4	3.3	3.5	0.9 – 1.4	1.9 – 3.0	2.9 – 3.5	3.3 – 3.5	0.9 – 2.1	1.9 – 3.4	2.1 – 3.9	3.0 – 4.0

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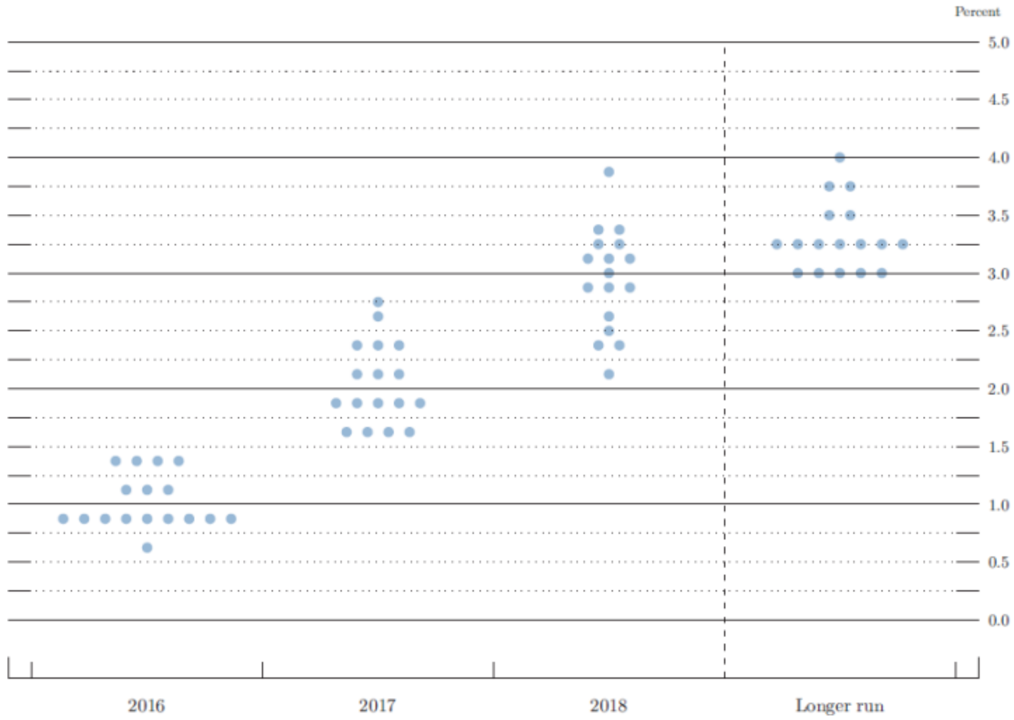
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Source: FOMC Projections