OCBC Gold Outlook

Barnabas Gan

Economist

Global Treasury Research & Strategy

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Gold: Still a preferred safe haven



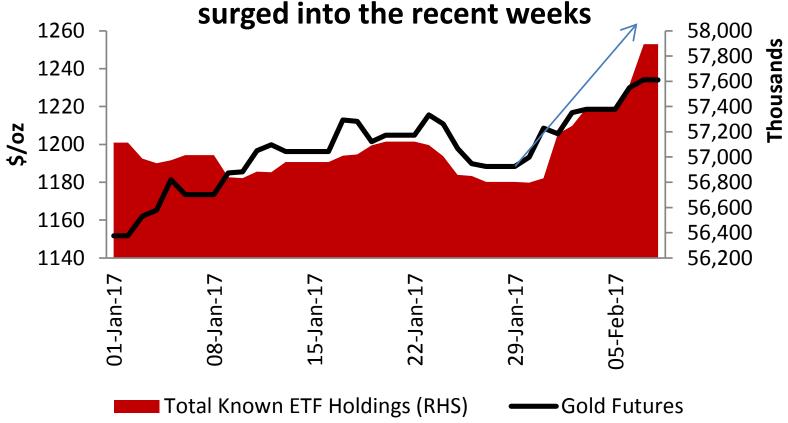
Executive Summary

- Gold prices are likely to see some support in the first half of 2017, on the back of renewed risk aversion and uncertainties. We continue to place Trump-centric concerns as one of the top concerns on our radar, given the uncertainty surrounding his policies. These policies include his recent travel restriction against seven Muslim-majority countries from entering the United States, as well as the lack of concrete cues over his trade sanctions against Mexico and Asia.
- Into the months ahead, the potential revisit of "Brexit-like" events in the Netherlands and France may lift gold prices on safe haven demand once again. Should history be of reference, gold prices surged considerably given the unexpected referendum result in Britain. More worrying perhaps, is that the political parties which advocate the exiting from the European Union in both Netherlands and France are gaining popularity. We revise our 1H17 gold call to above \$1,200/oz (previous 1Q17: \$1,175/oz & 2Q17: \$1,150/oz) given the lack of clarity on these issues.
- Nonetheless, our year-end call for gold remains to be a bearish one. Our call for gold to touch \$1,100/oz at the end of 2017 is underpinned by our expectations for the FOMC to hike rates two more times later this year. Recent Fed-talk also substantiates the possibility of higher rates into the year, with Fed's Evans rhetoric that he "could be comfortable" with three rate hikes this year while, Williams also reiterated that three rate hikes this year is "a reasonable guess" and "I think there's a lot of potential that this economy is going to perhaps get more of a boost than the base case".



Safe haven demand in gold is seen in stronger ETF holdings, gold prices at its 3-month high

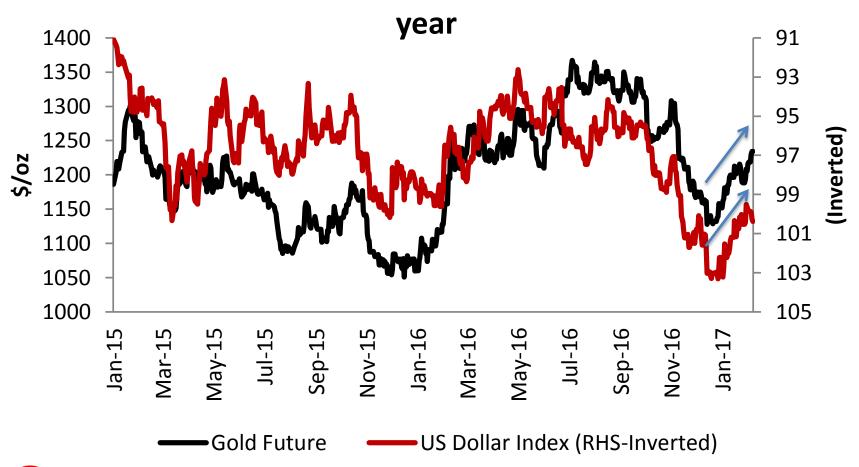
Run to the safe havens! ETF Holdings in gold surged into the recent weeks





Relatively weaker greenback is seen to support gold prices as well

Weaker greenback seen since the start of the





Suspense over Donald Trump's policies – Promises that are kept and others not (yet).

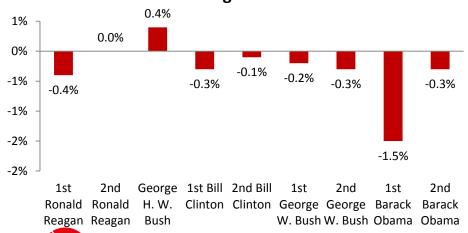
Area	Campaign Promises	Status	Details		
Immigration	Suspend immigration from terror-prone regions where vetting cannot safely occur	Promise Kept	Signed an order to ban entry from seven Muslim-majority nations on January 27		
	Fund the construction of a wall on the southern border with Mexico	Started	Signed an order to begin planning and designing the wall		
	Make Mexico reimburse the US for the full cost of the wall	Started?	Trump and his aides have been insisting that Mexico will pay. The White House commented that Trump is considering a 20% tax of imports from Mexico to finance the wall.		
	Reform visa rules to ensure open jobs are offered to American workers first	Started?	While it has not been officially announced yet, press reports suggest that Trump will be signing an order to sharply curtail the H-1B visa program, including by doubling the mininum salary requirements		
Trade	Withdraw from the TPP	Promise Kept	Signed an order to withdraw from the 12-country trade pact on January 23		
	Renegotiate NAFTA or withdraw from the pact	Started	Said that he will begin renegotiating when he meets with leaders of Mexico and Canada		
	Direct the Treasury Secretary to label China as a currency manipulator	No Action Yet	Nonetheless, Trump has repeatedly zoomed in on USD strength as a result of China's devaluation		
	Establish tariffs to discourage companies from laying off workers to relocate in other countries and ship products back to US tax-free	No Action Yet	Still, Trump has used his tweets to 'persuade' companies to abort plans to expand production in Mexico. In the automotive industry alone, Ford, General Motors, Chrysler, Toyota and BMW have been targeted		
Domestic Economy	Lower business tax rate from 35% to 15%	No Action Yet			
	Allow trillions of American corporate money overseas to be brought back at a 10% tax rate	No Action Yet			
	Leverage Public-Private Partnerships through tax incentives to spur \$1 trillion in infrastructure investment over 10 years	No Action Yet	No direct action has been taken in the form of executive order or directive of other sorts yet. Trump will likely need Congressional approval for actions on this front, given that the		
	Make sure the infrastructure plan will be revenue neutral	No Action Yet	legislature holds the ultimate say on government expenditure.		
	Reduce the number of tax brackets from 7 to 3, and likewise greatly simplify tax forms	No Action Yet			

Source: Washington Post, OCBC Bank

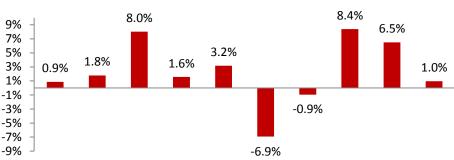
US-centric economic performance in the first 100-days after inauguration

- S&P usually rallies within the first 100-days after a president takes office. As for Donald Trump's, S&P had already rallied by 1.0% as of early February.
- Better labor-centric data were also seen (except for the 1st term of Barack Obama during the 2009 Lehman crisis).
- Little evidence on inflation can be seen after a new president takes office.

PCE inflation change in the first 100 days after inauguration

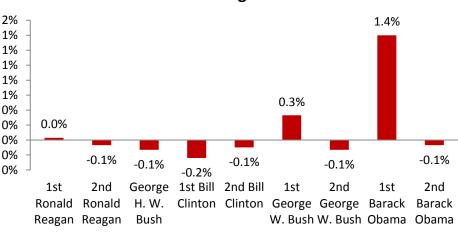


S&P's performance in the first 100 days after inauguration



1st 2nd George 1st Bill 2nd Bill 1st 2nd 1st 2nd Donald Ronald Ronald H. W. Clinton Clinton George George Barack Barack Trump Reagan Reagan Bush W. W. Obama Obama (YTD) Bush Bush

Unemployment rate change in the first 100 days after inauguration





Various Europe-centric political events may inject further risk off sentiments





"The EU leaves us no freedom to determine our own immigration and asylum laws. That's why leaving the EU is necessary."

Theresa May –
Prime Minister
(United Kingdom)

"We will seek the best deal possible as we negotiate a new agreement with the European Union. To be clear, what I am proposing cannot mean membership of the single market."



Frauke Petry – Alternative für Deutschland (Germany)

"AfD will enter the German parliament and Dexit will be top on our agenda. I know the German people want to be free of EU slavery."



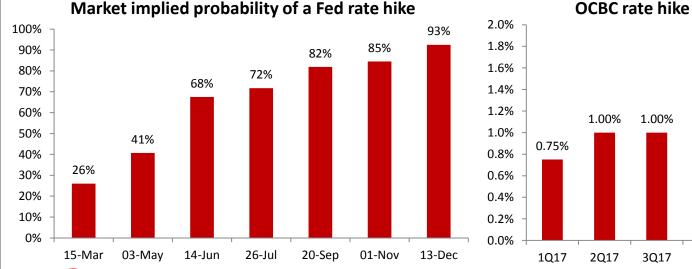
Marine Le Pen – The National Front (France)

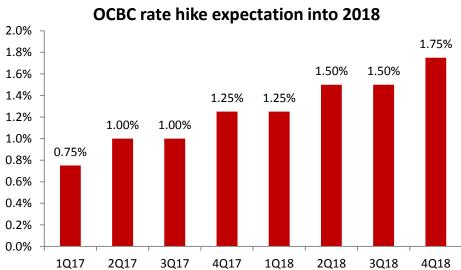
"If I don't manage to negotiate with the European Union, something I wish, then I will ask the French to leave the European Union. And then you'll be able to call me Madame Frexit."



Two or three times hike? Regardless, it means higher interest rates into 2017!

- The US Federal Reserve finally hiked its benchmark rate by 25bps in Dec 2016, after initially promising four rate hikes in its dot-plot chart back in early 2016.
- Janet Yellen's rhetoric on interest rates was hawkish "it makes sense to gradually reduce the level of monetary policy support" as "the economy is near maximum employment and inflation is moving towards our goal."
- Most recent dot-plot chart is indicating three more hikes in 2017. Will the Fed deliver this time around? Regardless, higher interest rates should consequently lift the greenback and drag gold prices.

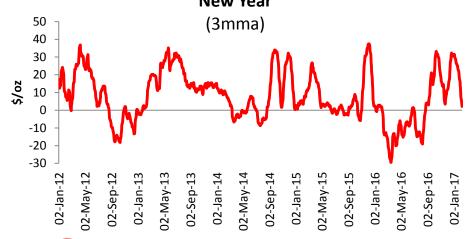




Physical gold demand trends in China and India

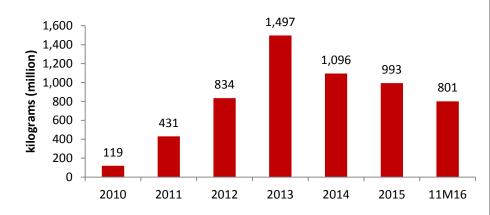
- Although overall gold demand expanded in 2016, much of the gains were seen in paper gold.
- Physical gold demand in both India and China last year continue to contract on a year-on-year basis. Notably, global jewelry demand is at its 7-year low, according to the World Gold Council.
- Central bank buying was also its its lowest since 2010.

Chinese gold premium died down after Chinese New Year

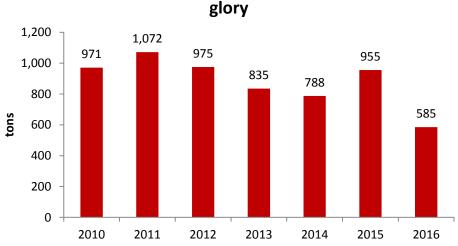


BC Bank Source: Bloomberg, OCBC

Chinese gold imports from Hong Kong has fallen over the last two years



India gold imports are also far from previous



OCBC Commodities Price Outlook

As of February 9, 2017	2016			2017				
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F
Energy								
WTI (\$/bbl)	33.6	45.6	44.9	49.3	53.8	57.5	61.3	65.0
Brent (\$/bbl)	35.2	47.0	47.0	51.1	57.5	60.0	62.5	65.0
Gasoline (\$/gallon)	1.18	1.54	1.40	1.48	1.59	1.72	1.79	1.86
Natural Gas (\$/mmbtu)	1.98	2.25	2.79	3.18	3.23	3.03	3.14	3.25
Precious Metals								
Gold (\$/oz)	1,185	1,260	1,334	1,217	1,220	1,200	1,150	1,100
Silver (\$/oz)	14.9	16.8	19.6	17.1	17.5	17.6	17.1	16.6
Platinum (\$/oz)	919	1,007	1,091	944	1,003	1,039	1,020	1,000
Palladium (\$/oz)	526	569	680	684	771	676	662	647
Base Metals								
Copper (\$/MT)	4,669	4,728	4,793	5,291	5,875	5,750	5,625	5,500
Tin (\$/MT)	15,465	16,912	18,592	20,777	18,931	20,536	20,089	19,643
Nickel (\$/MT)	8,514	8,834	10,271	10,796	10,412	11,275	10,817	10,377
Zinc (\$/MT)	1,684	1,927	2,257	2,527	2,838	2,641	2,462	2,200
Aluminum (\$/MT)	1,515	1,583	1,633	1,709	1,841	1,855	1,815	1,774
Asian Commodities								
Crude Palm Oil (MYR/MT)	2,467	2,597	2,629	2,933	3,100	2,800	2,750	2,650

Source:

Historical Data - Bloomberg

Forecasts - OCBC Bank

Note: Data reflects average price



Thank You



Treasury Market Research & Strategy

Disclaimer

Selena Ling (LingSSSelena@ocbc.com)	Tel: (65) 6530 4887				
Emmanuel Ng (NgCYEmmanuel@ocbc.com)	Tel: (65) 6530 4073				
Wellian Wiranto (WellianWiranto@ocbc.com)	Tel: (65) 6530 5949				
Tommy Xie Dongming (XieD@ocbc.com)	Tel: (65) 6530 7256				
Barnabas Gan (BarnabasGan@ocbc.com)	Tel: (65) 6530 1778				
Terence Wu (TerenceWu@ocbc.com)	Tel: (65) 6530 4367				
OCBC Credit Research					
Andrew Wong (WongVKAM@ocbc.com)	Tel: (65) 6530 4736				
Wong Liang Mian (NickWong@ocbc.com)	Tel: (65) 6530 7348				
Ezien Hoo (EzienHoo@ocbc.com)	Tel: (65) 6722 2215				
Wong Hong Wei (WongHongWei@ocbc.com)	Tel: (65) 6722 2533				

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