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## Silver to follow gold again

- **Silver prices rallied by 3% in 2017 but underperformed gold**
- **Silver prices to weaken in 2018 because of a modest rise in US dollar and US Treasury yields...**
- **...but silver prices to rally again in 2019 on US dollar weakness and slightly lower US yields**

### Introduction

So far this year, silver prices have rallied by 3%, which is an underperformance of 8% compared to gold. Despite the fact that silver has a considerable industrial demand component, silver prices have mainly followed gold prices. The factors (real and nominal yields, central bank behaviour, US dollar and investor sentiment) that dominate gold price movements tend to also dominate silver price movements as well. This is probably because silver, like gold, is considered to have currency characteristics. If gold gets too expensive, investors often flock into silver as a proxy. There have been times that silver price movements have disconnected from gold price movements but these moments are rare and only happen if silver is in demand for its own characteristics (including industrial) and not because of a gold proxy. Another key difference between silver and gold is that silver's market is not as liquid as gold so price movements could therefore be larger. What do 2018 and 2019 bring for silver?

### Weakness in silver prices in 2018...

We expect silver to broadly track gold prices in 2018 in terms of direction. But we expect the movements to be larger in silver, though. We think that silver prices will weaken in 2018 because of more Fed rate hikes, higher US treasury yields and a higher US dollar. We expect US real yields to move sideways which is less of a headache for silver as 10y real yields is one of the most dominant drivers for silver (and gold) prices. As we expect the rise in US Treasury yields and the US dollar to be modest, weakness in silver prices should not be in double digits. Weakness in gold prices is expected to also spill over to silver prices. The speculative positions in silver and the total ETF positions are considerable and there is clearly room for liquidation. Silver price weakness will probably run towards USD 16 per ounce. If investors were to square a substantial amount of net-long silver positions, prices could drop towards USD 15.0 to 15.5 area. This would be an opportunity to position for a recovery in silver prices in 2019.

**...but strength in 2019**

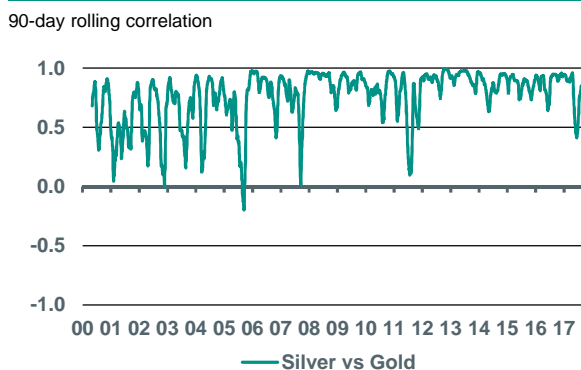
We expect silver prices to rally in 2019 in line with higher gold prices. This is because US Treasury yields will flatten out and decline slightly. Moreover, we expect the US dollar to weaken. Also, the Fed rate hikes that we expect will probably fully be anticipated by that time. In addition, we expect investor sentiment to support silver prices again. If the global economy remains strong, the possibility of an outperformance of silver versus gold becomes more likely.

**US real yields and Silver prices**



Source: Bloomberg, ABN AMRO Group Economics

**Strong relationship between silver and gold**



Source: Bloomberg, ABN AMRO Group Economics

**ABN AMRO Silver price forecasts**

Changes and new forecasts in red/bold

<b>New</b>												
End period	01-Dec	Dec-15	Dec-16	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Silver	16.4	13.9	15.92	17.00	<b>16.70</b>	<b>16.50</b>	<b>16.30</b>	<b>16.00</b>	<b>17.00</b>	<b>18.00</b>	<b>19.00</b>	<b>20.00</b>
Average	2016	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q2 19	Q2 19	Q3 19	Q4 19	2019
Silver	17.1	17.0	<b>16.9</b>	<b>16.6</b>	<b>16.4</b>	<b>16.2</b>	<b>16.5</b>	<b>16.5</b>	<b>17.5</b>	<b>18.5</b>	<b>19.5</b>	<b>18.0</b>
<b>Old</b>												
End period	01-Dec	Dec-15	Dec-16	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18				
Silver	17.6	13.88	15.92	17.00	17.50	18.00	18.50	19.00				
Average	2016	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	2018				
Silver	17.1	16.9	17.0	17.3	17.8	18.3	18.8	18.0				

Source: ABN AMRO Group Economics

Find out more about Group Economics at: <https://insights.abnamro.nl/en/>

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