



## **White House Turbulence, Gentle Fed Tightening Cycle and Fully Priced Equities Bode Well for Gold**

**Asia Pacific Precious Metals Conference  
4-6 June 2017 | Grand Copthorne Hotel, Singapore**

**Bart Melek**  
Global Head of Commodity Strategy



**TD Securities Commodity Price  
Forecasts**

# TD Securities Commodity Price Forecast

Commodity (Avg of forward month contracts)	Spot Price	2017				2018				Annual			
		Q1A	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	2016	2017F	2018F	
<b>Precious Metals</b>													
Gold	<sup>1</sup> \$/oz	1,260	1,219	1,260	1,275	1,275	1,300	1,300	1,325	1,325	1,250	1,257	1,313
Silver	<sup>1</sup> \$/oz	17.03	17.42	17.25	17.75	17.75	18.50	18.50	19.25	19.25	17.11	17.54	18.88
Platinum	<sup>1</sup> \$/oz	954	979	950	980	1,000	1,025	1,050	1,075	1,100	987	977	1,063
Palladium	<sup>1</sup> \$/oz	776	767	785	785	800	800	825	825	850	613	784	825
<b>Base Metals</b>													
Copper	<sup>2</sup> \$/lb	2.57	2.65	2.56	2.57	2.56	2.60	2.60	2.65	2.65	2.21	2.58	2.63
	\$/tonne	5,663	5,838	5,644	5,660	5,644	5,732	5,732	5,842	5,842	4,867	5,696	5,787
Zinc	<sup>2</sup> \$/lb	1.19	1.26	1.17	1.24	1.24	1.32	1.36	1.40	1.40	0.95	1.23	1.37
	\$/tonne	2,627	2,778	2,575	2,734	2,734	2,910	2,998	3,086	3,086	2,091	2,705	3,020
Lead	<sup>2</sup> \$/lb	0.94	1.03	0.98	1.04	1.04	1.15	1.15	1.17	1.17	0.85	1.02	1.16
	\$/tonne	2,072	2,278	2,161	2,300	2,300	2,535	2,535	2,579	2,579	1,867	2,260	2,557
Nickel	<sup>2</sup> \$/lb	4.14	4.66	4.24	4.50	4.75	5.00	5.00	5.25	5.25	4.35	4.54	5.13
	\$/tonne	9,130	10,265	9,350	9,921	10,472	11,023	11,023	11,574	11,574	9,597	10,002	11,299
Aluminium	<sup>2</sup> \$/lb	0.88	0.84	0.87	0.84	0.84	0.86	0.86	0.84	0.84	0.73	0.85	0.85
	\$/tonne	1,943	1,853	1,925	1,852	1,852	1,896	1,896	1,852	1,852	1,604	1,870	1,874
Molybdenum	<sup>3</sup> \$/lb	8.23	7.88	8.50	8.50	8.50	9.00	9.00	10.00	10.00	6.52	8.34	9.50
Iron Ore	<sup>4</sup> \$/tonne	61	86	66	65	65	60	65	65	65	58	70	64
<b>Energy</b>													
WTI Crude Oil	\$/bbl	51	52	52	58	60	62	62	64	64	43	55	63
Brent Crude Oil	\$/bbl	54	55	54	59	60	61	61	64	64	45	57	63
Heating Oil (ULSD)	\$/gal	1.61	1.60	1.58	1.70	1.85	1.85	1.80	1.85	1.95	1.36	1.68	1.86
Gasoline	\$/gal	1.67	1.58	1.65	1.80	1.80	1.85	2.00	2.00	1.90	1.40	1.71	1.94
NYMEX Natural Gas	\$/MMBtu	3.20	3.06	3.10	3.15	3.20	3.25	3.25	3.30	3.30	2.55	3.13	3.28
AECO Natural Gas	\$/MMBtu	2.17	2.01	2.50	2.55	2.60	2.75	2.75	2.80	2.80	1.67	2.42	2.78
	CAD/GJ	2.99	2.55	3.21	3.24	3.30	3.48	3.48	3.69	3.69	2.06	3.08	3.58
Uranium	\$/lb	20	24	22	25	25	30	30	35	35	26	24	33
Newcastle Thermal	<sup>5</sup> \$/tonne	62	82	78	80	82	85	85	85	85	66	80	85

Notes: F = Forecast, E = Estimate, A = Actual; 1. London PM Fix; 2. LME; 3. Molybdenum equivalent to moly oxide, FOB USA; 4. CFR China, 62% Fe, dry; 5. Japan CIF steam coal marker-Newcastle

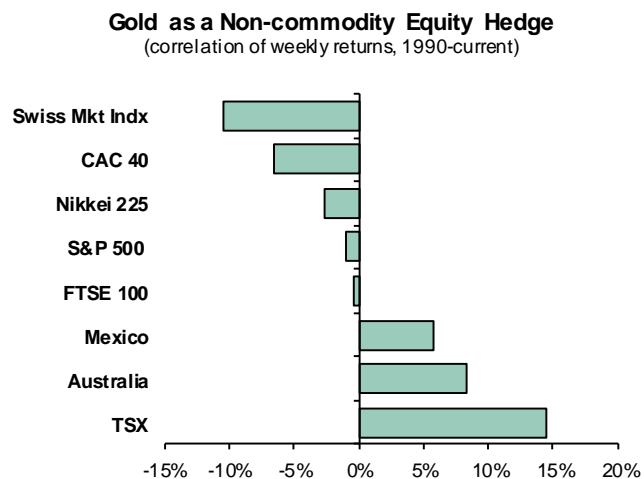
Source: Bloomberg, TD Securities



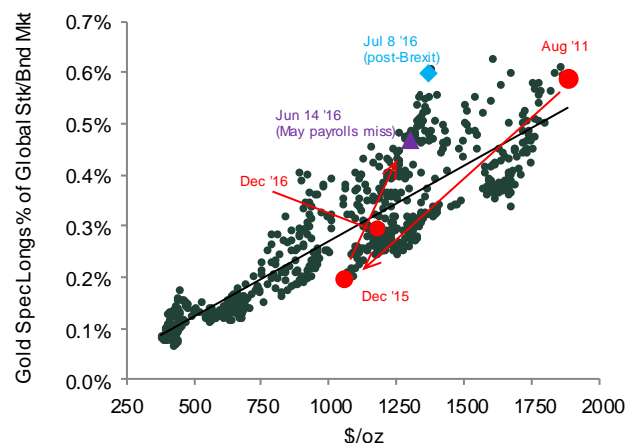
**Precious Metals**

# Global Real Rates, Macro and Market Risks to Keep Gold Bid Even as Fed Normalizes Policy

- While we remain relatively positive on gold longer-term, there is potential for a move to recent lows ahead of the June 14<sup>th</sup> FOMC rate decision, or if data improves and the Fed perceived to be more hawkish
- Real interest rates should continue to be low, yield curve relatively flat in the US as it increasingly becomes likely that President Trump's fiscal stimulus will take longer than expected, suggesting the US central bank may well be slower in raising rates away from emergency levels than previously expected
- Easy central bank monetary policy globally (ECB, PBoC, BoC and BoJ) will likely continue to stoke interest in gold and silver, as the keep global real rates low and negative in many cases and an equity correction is very much a possibility
- Opportunity and carry cost impediments to holding gold, which materialize amid somewhat tighter CB policy, may well be trumped by safe haven demand. Investors tend to overweigh in gold whenever markets worry that monetary policy could be behind the inflation curve or when sharp equity market corrections are a risk.



Source: Haver, TD Securities

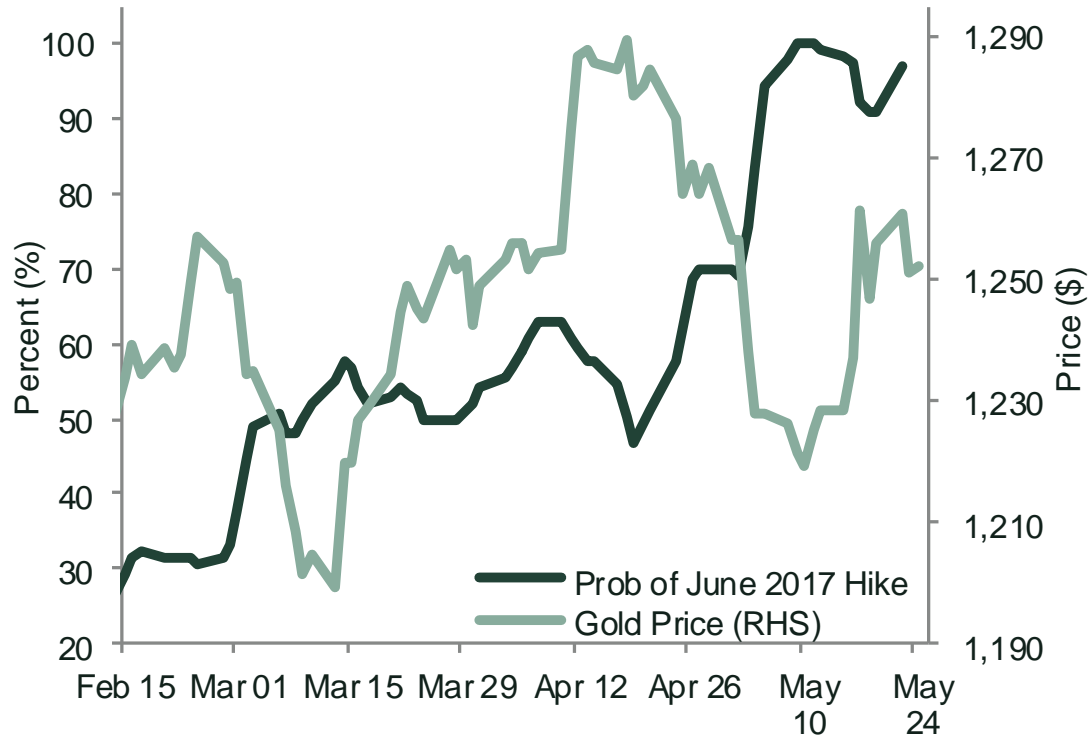


Source: World Bank, BIS, Bloomberg, TD Securities

\* weekly data from Jan '04 to Dec '16

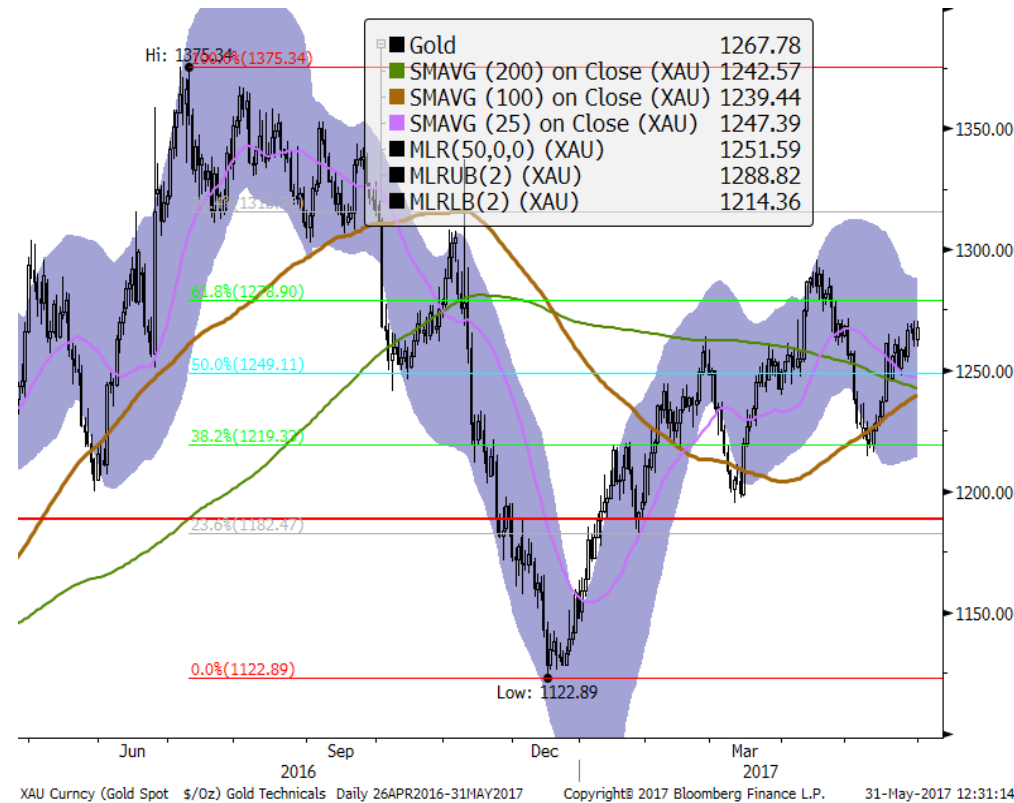
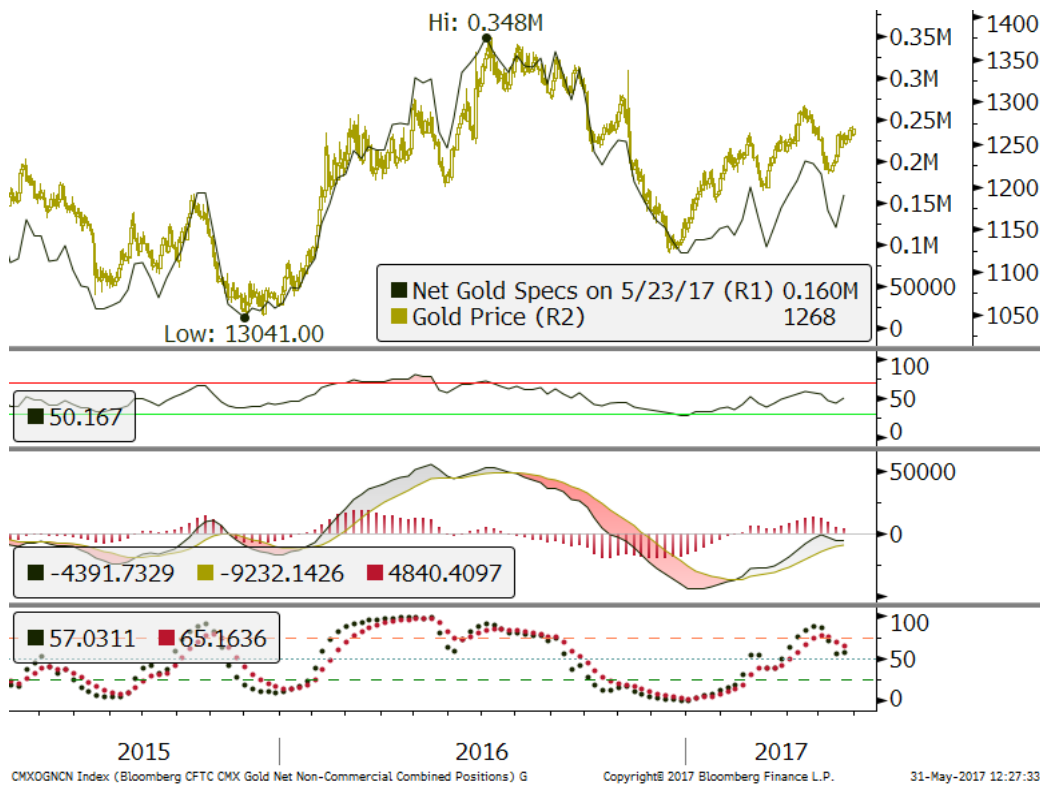
# Fed Rate Hike Containing Gold Upside for Now

Period Ahead June Fed FOMC and Likely Hike a Risk



Source: Bloomberg, TD Securities

# Room for Specs to Cut Longs and Break Through Support Should the Fed be Perceived to Sound a Hawkish Tone



# Real Rates Drive Gold, Not Inflation Alone—Fed, Other CB Policy Biases Key

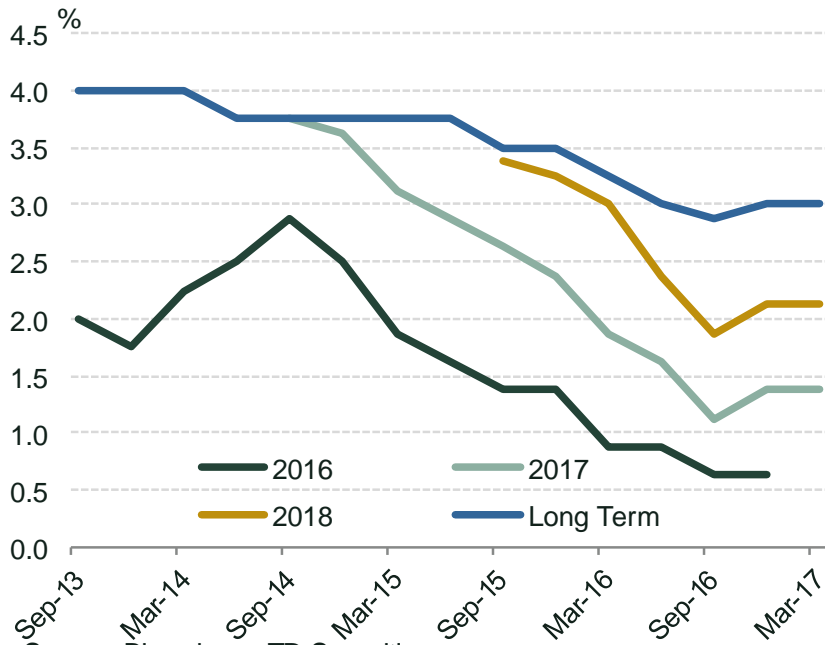


Source: Bloomberg, TD Securities

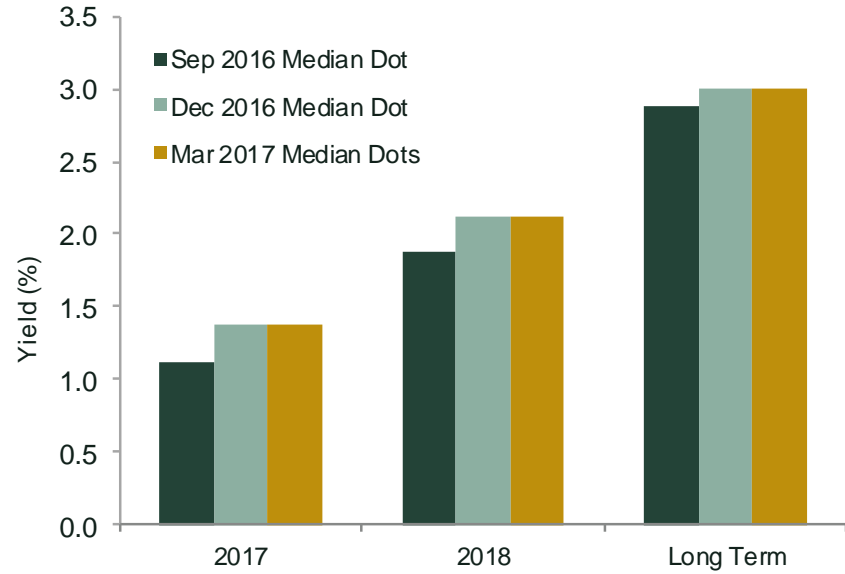


# FOMC Rate Projections Key Commodity Drivers

## Steady Rate Trajectory Supportive

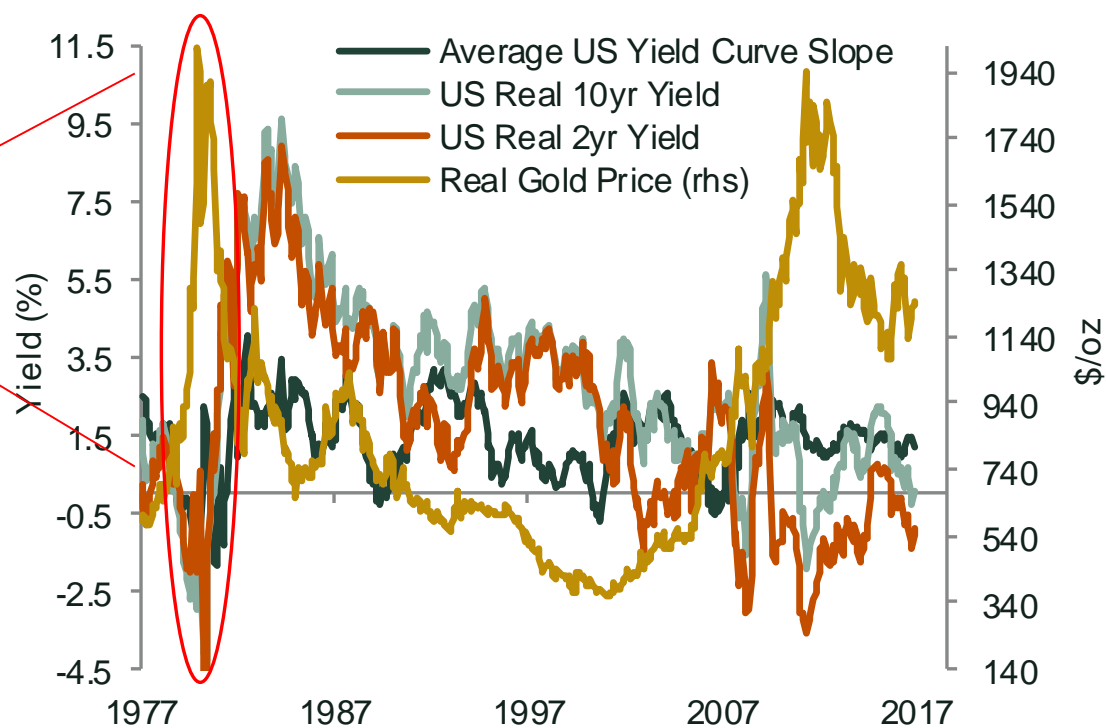
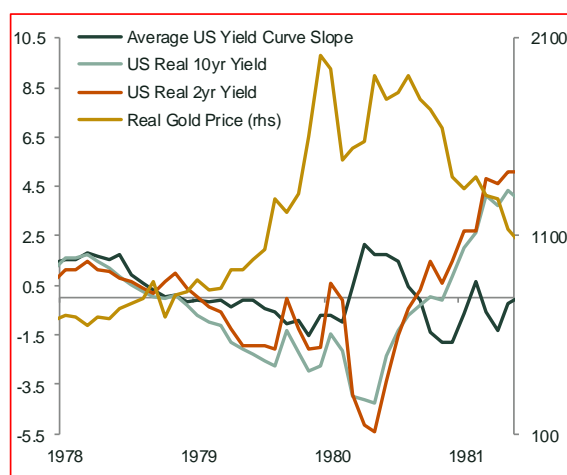


Source: Bloomberg, TD Securities



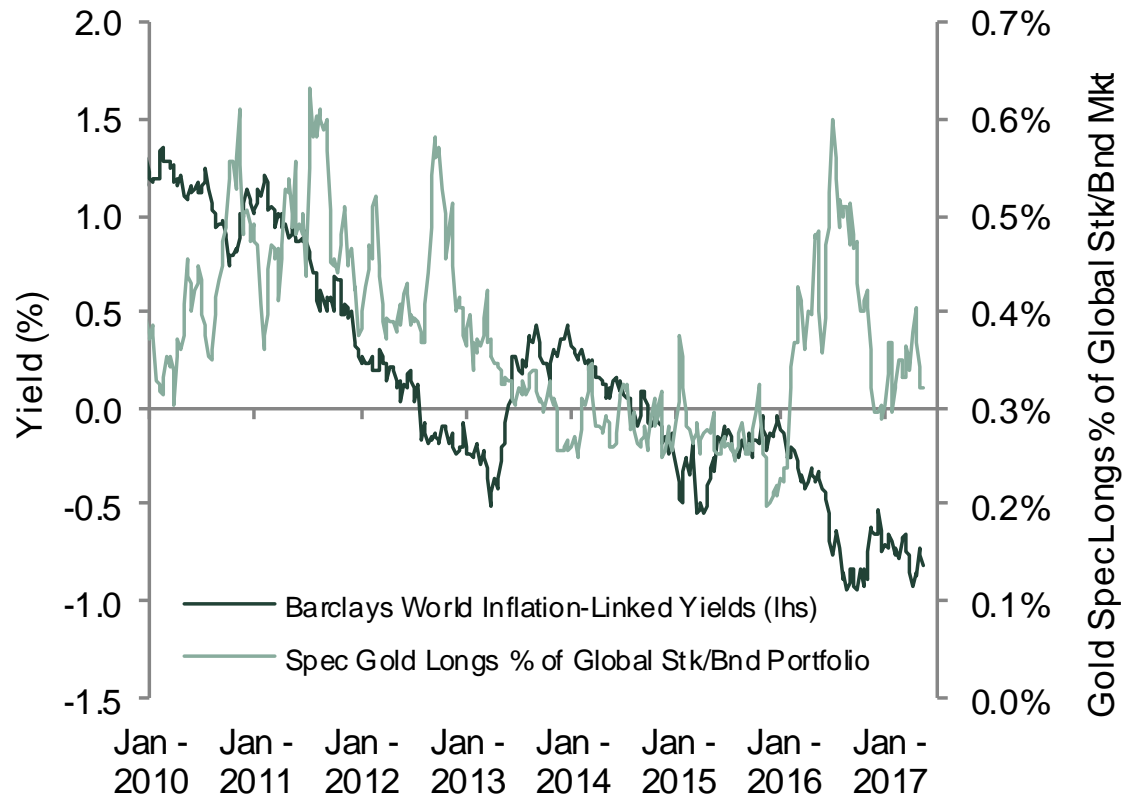
Source: Bloomberg, TD Securities

# Gold Can Rally Even as Fed Tightens—Low Real Rates and Behind the Inflation Curve Chatter the Reasons



Source: Bloomberg, TD Securities

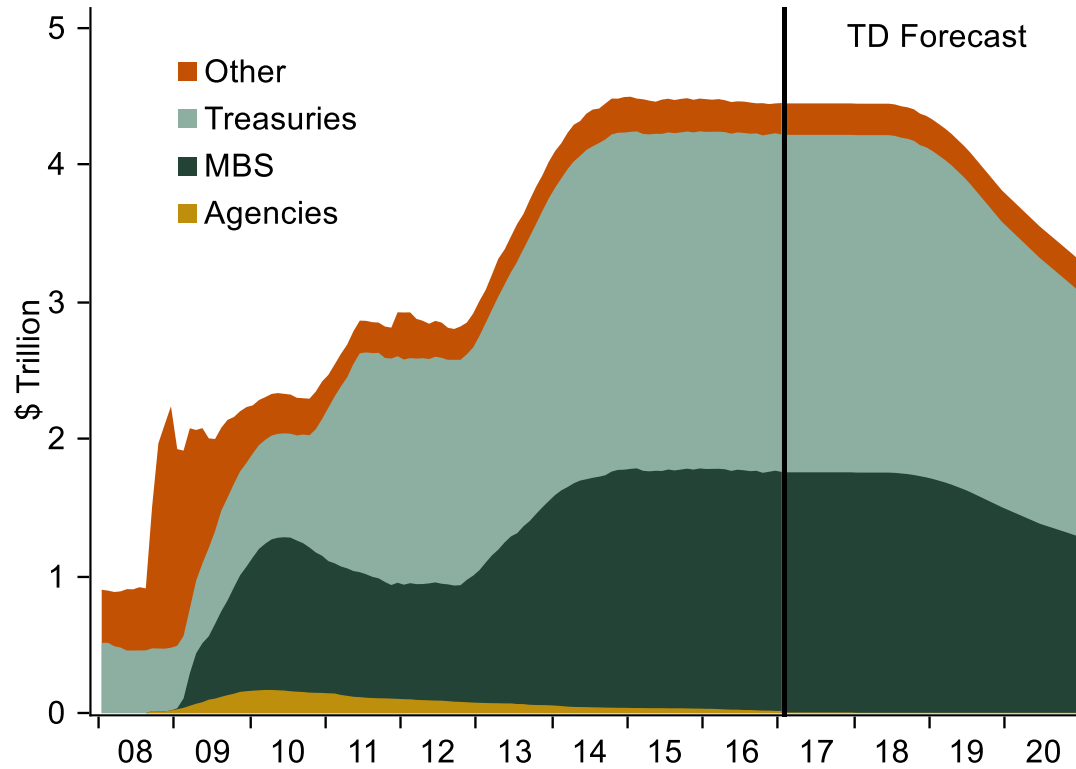
# Negative Global Yields Drive Demand for Gold



Source: Bloomberg, TD Securities

# Balance Sheet: Forecasts for the Wind Down and Beyond

## Fed Balance Sheet: Asset Runoff



Source: Macrobond, TD Securities

# Yield Curve Slope Drives Gold

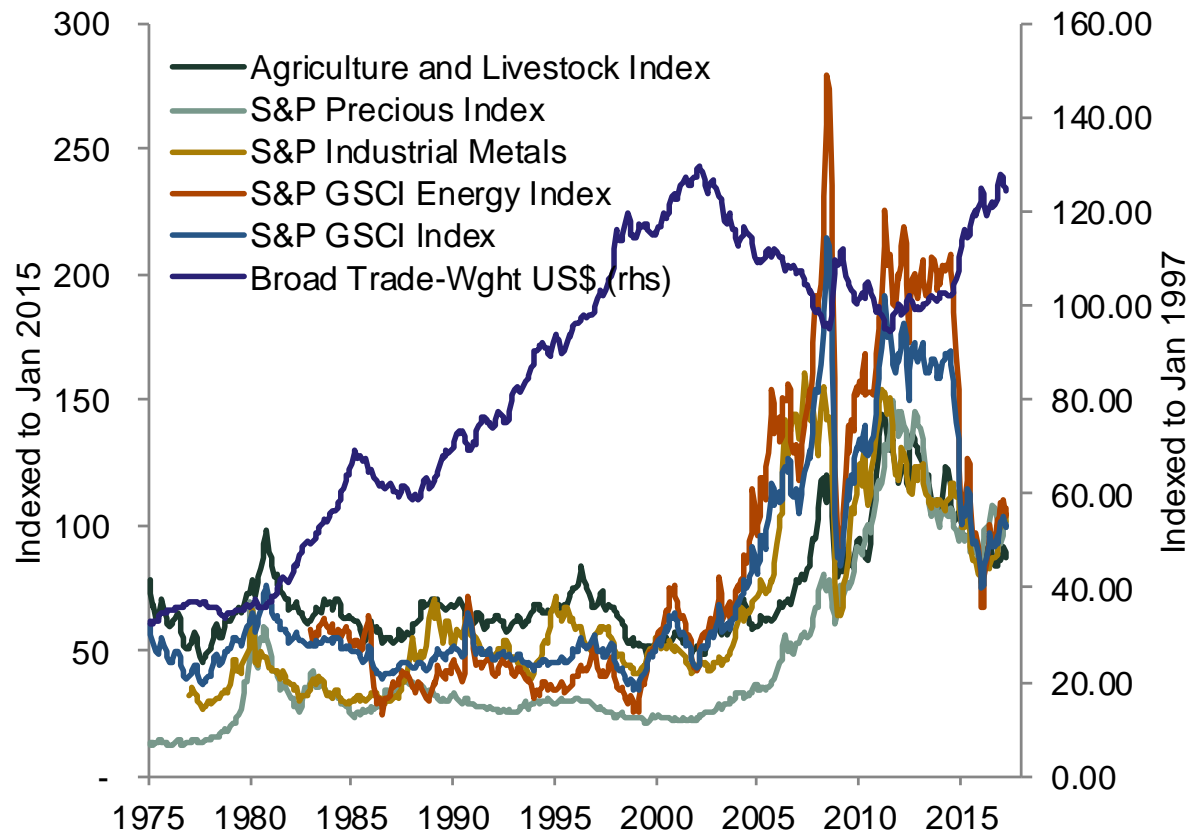
Low Carry Costs, Flattish Curve — Good For Gold



Source: Bloomberg, TD Securities

# Commodity Indices, Gold Move in Packs and USD is a Key Driver

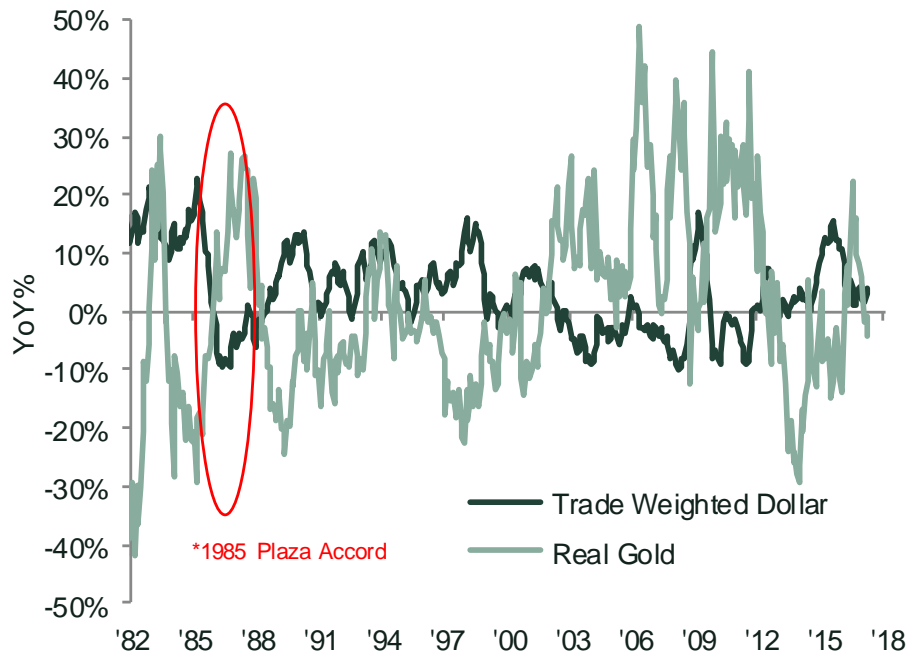
## Commodity Index Performance vs USD



Source: Haver Analytics, TD Securities

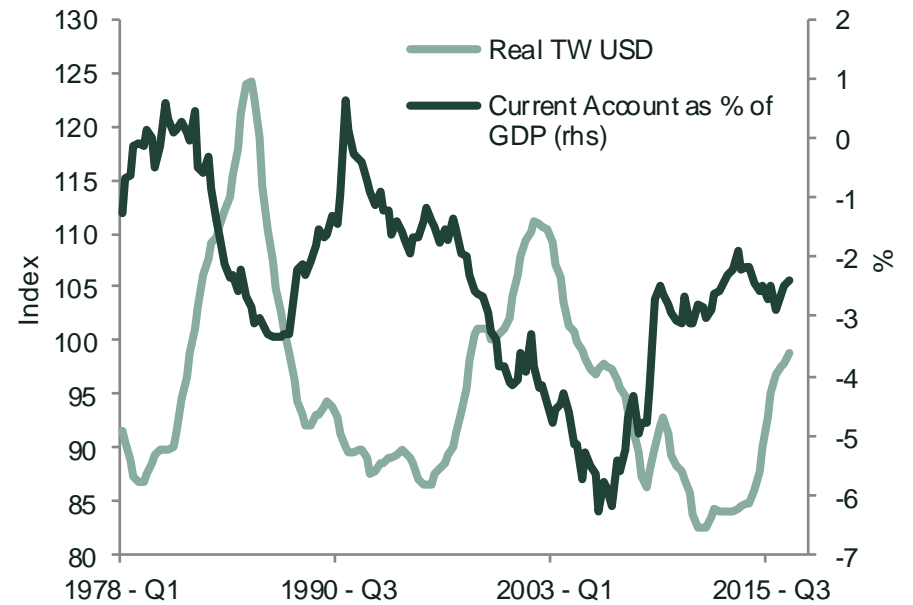
# How Can Trump Weaken the Dollar?

## USD and Gold So Happy Together



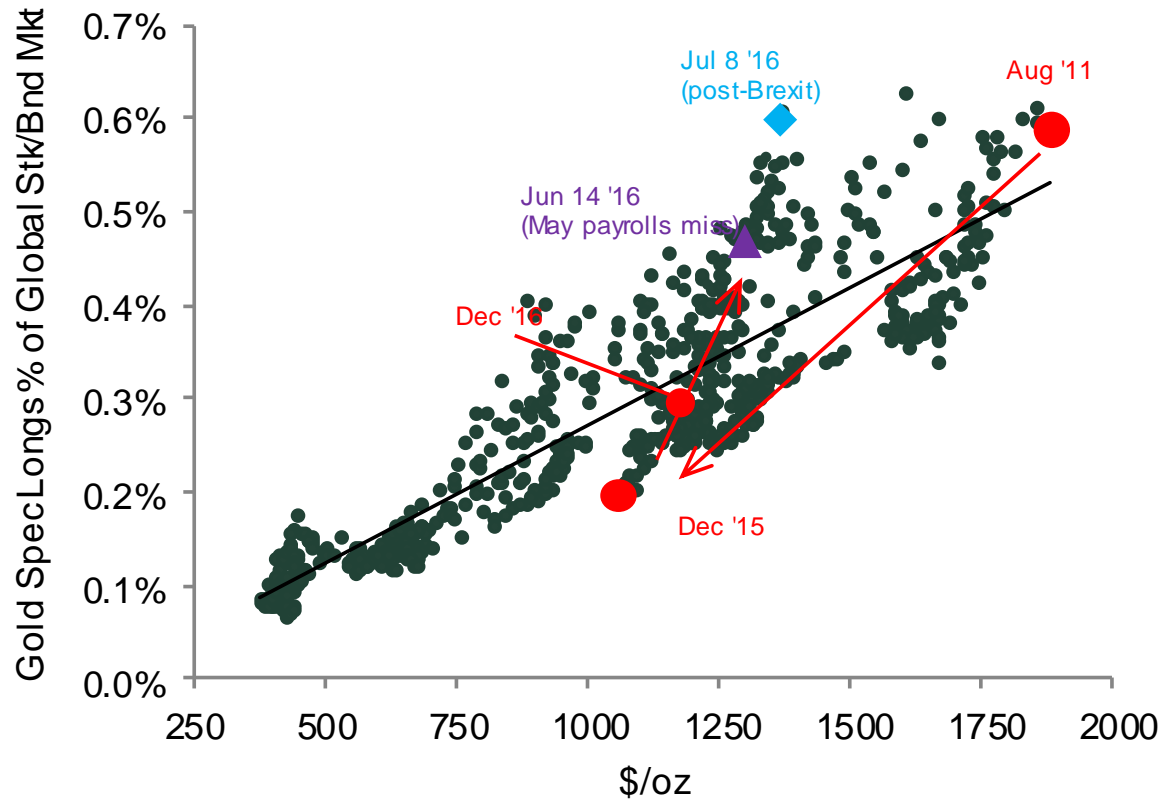
Source: Bloomberg, TD Securities

## Administration Concerned Strong USD Will Deepen Current Account Deficit



Source: Haver, TD Securities

# Global Risks to Drive Investor Positioning to Overweight Gold



Source: World Bank, BIS, Bloomberg, TD Securities

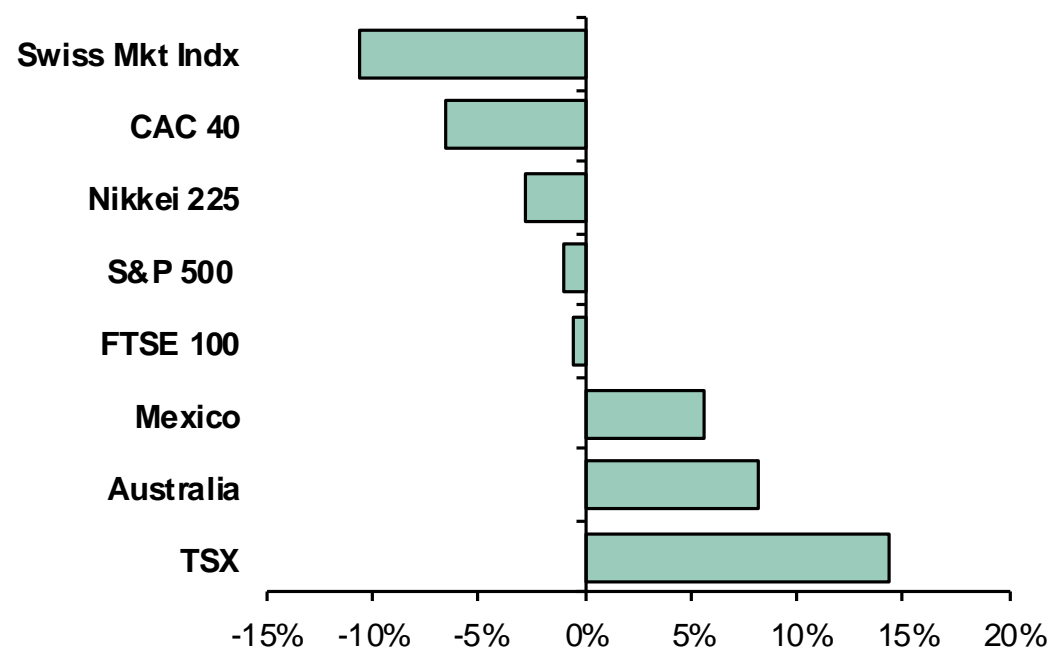
\* weekly data from Jan '04 to Feb '17



# Gold Appeals When Non-Commodity Equities Falter—Earnings Concerns, Brexit and Other Risks a Supportive Catalyst this Year

## Gold as a Non-commodity Equity Hedge

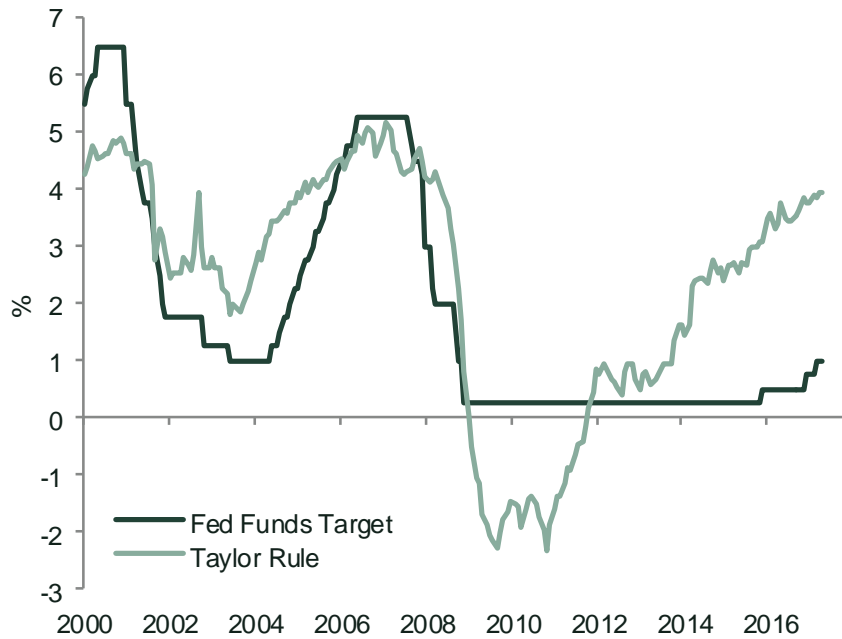
(correlation of weekly returns, 1990-current)



Source: Haver, TD Securities

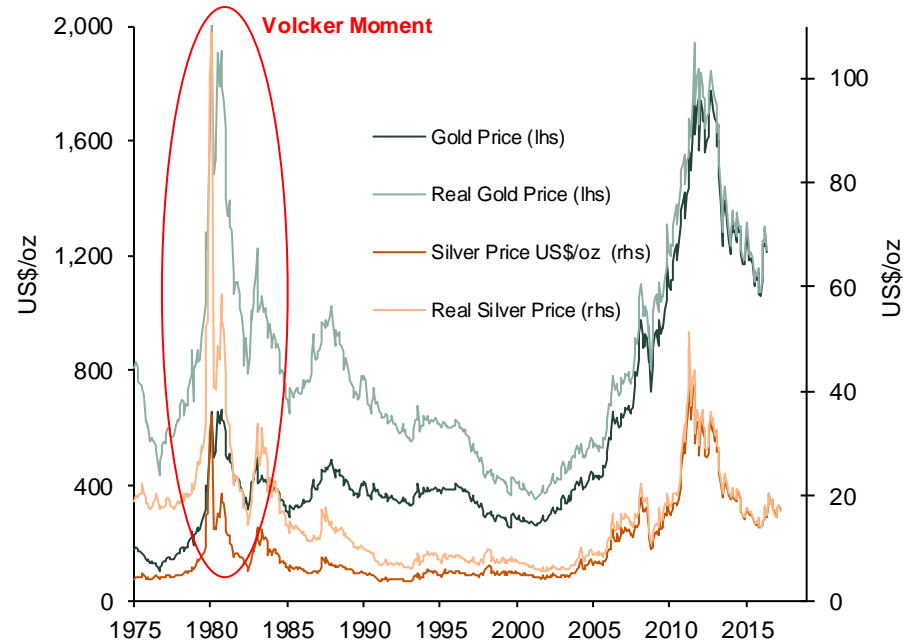
# Gold Responds to Fed Dynamics

**Food for Thought: Fed Behind the Curve Based on Taylor Rule**



Source: Bloomberg, TD Securities

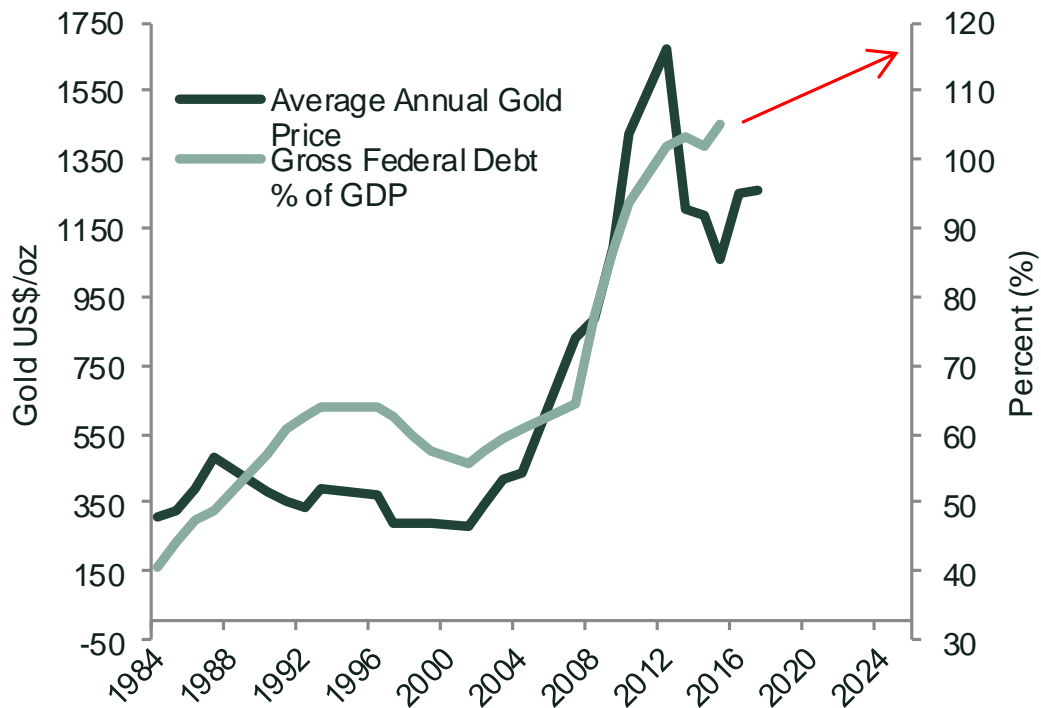
**Gold Rises When Fed Behind Curve, then Plunges When Central Bank Catches Up**



Source: Bloomberg, TD Securities

# US Relative Fiscal Situation to Deteriorate—Which Tends to Be Gold Positive

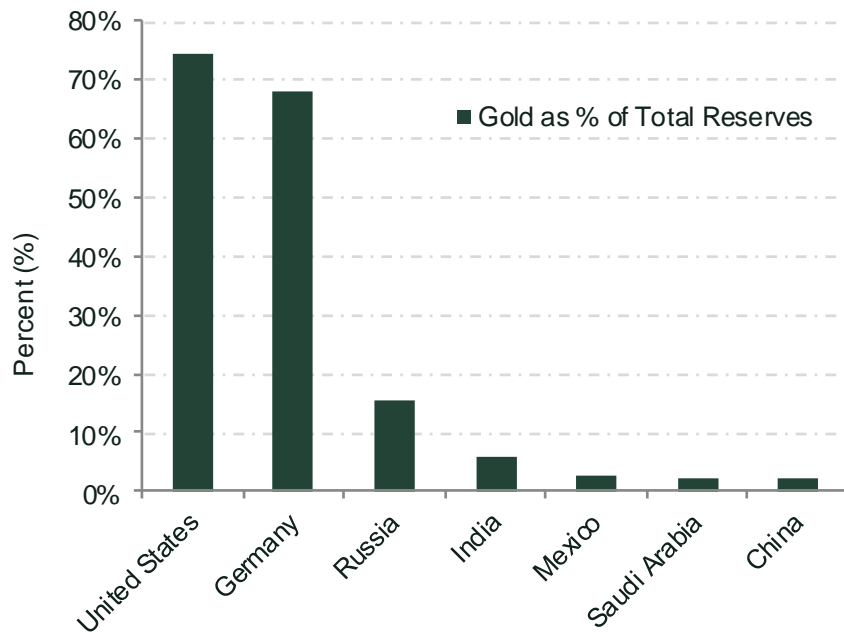
## Gold vs Government Debt-to-GDP



Source: Federal Reserve Bank of St. Louis, Bloomberg, TD Securities

# Modest Gold Share in FX Reserves Outside Western World

## Gold in Reserves Has Lots of Room to Grow in Emerging Markets



Source: World Gold Council, TD Securities

## Gold Reserves of Top 10 Countries

	Gold Reserves tonnes	Total Reserves \$billion	% Gold
United States	8,133	412	75.1%
Germany	3,378	185	69.4%
IMF	2,814	n/a	n/a
Italy	2,452	137	68.3%
France	2,436	145	64.2%
China	1,843	2,953	2.4%
Russia	1,680	378	16.9%
Switzerland	1,040	679	5.8%
Japan	765	1,171	2.5%
Netherlands	612	36	64.0%

Source: World Gold Council, TD Securities

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