Precious Outlook & Forecasts for 2022

Summary of Precious Metals						
	MKS PAMP Group 2022 Forecasts		Price, availability & volatility risk for consumers			The Streets Average forecasts*
	Average Price forecast	High-Low price range	Price Risk	Availability Risk	Volatility Risk	
Gold	$ 1,800	$1675-$1965	Low but rising	Low	Low	$ 1,701
Silver	$ 22	$18-$26	Medium	Low	Medium	$ 21.8
Platinum	$ 1,100	$850-$1,350	Medium but rising	Low but rising	Low	$ 1,042
Palladium	$ 1,800	$1,500-$2500	High but falling	Historically high but falling	High	$ 1,952
Rhodium	$ 13,000	$10,000-$20,000	High	Historically high but falling	High	

*Average of several US & European Banks forecasts and forecasts published to the Bloomberg Commodity Forecast page (CPFC)
Source: MKS PAMP Group

Please find our 2022 Precious Outlook here. The forecasts and our thinking are summarized below.

Gold --> stimulus peak in, down (on hawkish Fed) but not out

Gold prices could become unstuck as 3 important drivers - inflation, the Fed, and expected macro/equity volatility - are on the move this year. We do not hold the view of most analysts (a downward trajectory of gold from here). Gold is a referee on the Fed and a policy mistake (either rampant inflation or an aggressive hiking cycle bringing forward recession risk), who are currently well behind the inflation curve. Gold has one more push higher as the "inflation" or "Fed policy mistake" peak is not yet in. A short US labor market, future COVID variants and associated zero/low COVID policies create necessary persistent stagflationary forces. As the Fed actionably puts on a series of rate hikes into US midterm elections, downside risks emerge especially if they materially reduce Balance Sheet assets. We have an average price forecast of $1800/oz with upside risks, as disengaged investor subscription could reengage on equity market volatility and structural bullish drivers _(unsustainable US and global debt path, asset bubbles, messy geopolitics, currency devaluation concerns, and impending sovereign crises)_ which usually reemerge on a Fed hiking cycle. Gold is down but not out, with an innate ability to rally when consensus is bearish. We acknowledge that if $1675/oz is broken, all hope of pricing in inflation is gone and a new bear market is enacted, where it'll lose appeal as a monetary asset and inflation hedge.

Alternative scenarios to Golds base case: The bullish ($2000+) and bearish ($1400) case for Gold cannot be more distant as it hinges on a very unpredictable Fed hiking cycle:

Bullish case (~$2000/oz): dependent on

1. **Supply chain bottlenecks or higher energy prices drives sustained inflation risks & fears, triggering renewed investment inflows**
2. **CB / Fed policy mistake (inability to control inflation) leads to acceleration of stagflation narrative and a weaker US$**
3. **Asian or CB physical demand is stronger than expected**
4. **Equity market volatility, lower global growth and/or much faster cooling of inflation, drives dovish Fed/Central Bank policies**

5. **New "off-calendar" geopolitical risks given inward looking US foreign policy (e.g.: US /China trade, US politics, Turkey, Russia/Ukraine, Taiwan, etc)**

(30% probability)

Bearish case (~$1400/oz): dependent on

1. **Fed taper & hiking cycle is aggressive, contains inflation into midcycle, and drives both real and nominal rates much higher, much faster**
2. **Sustained reflation risk – improved global growth data & higher inflation leads to a faster Fed hiking cycle (higher interest rates & US$, inducing large-scale positioning deleveraging in Gold)**
3. **US growth significantly outperforms ROW driving higher US$ and leading to largescale ETF/investor selling**
4. **Central Banks turn net sellers as Gold loses its appeal as a monetary asset / inflation hedge.**
5. **Asian physical demand disappoints**

(20% probability)

Silver --> stimulus peak (2021) and fundamental peak in (2011); downsides risks outweigh upside risks given physical overhang

Silver is relatively more sensitive to US$ upside and thus with a more hawkish Fed priced in for 2022, its downside is accentuated vs Golds downside. That is notwithstanding the fact that fundamentally it remains saturated which is highlighted more so in rising interest rate environments Decent retail demand, rising industrial demand on continued growth expectations and its growing role in the energy transition are bright spots; that has helped drive the supply/demand balance (including investor demand) into a small deficit in 2021, for the first time in six years. These demand pillars are expected to remain strong into 2022, but with the enormous size of both known and unknown above ground stocks, any upside rallies will be short-lived. Investor – both institutional and retail - demand could reignite, especially as prices fall as the year progresses and into US midterm elections, given perceived inflation and political concerns. Prices should average $22/oz for 2022, with a low-high range of $25/oz

Platinum --> fundamentally saturated in the short-term with surpluses & above ground stocks, but surpluses are shrinking

Platinums is forecasted to average $1100/oz in 2022. That is contingent on Gold remaining supportive and not rerating into a new bear market, further auto substitution and higher diesel/HDD loadings due to ESG efforts which puts it on a path of shrinking surpluses. Those positive tailwinds offset the headwind from chip shortages (which will ease in 2022 but not alleviate). Its role in the energy transition and in hydrogen applications provides a short-term sentiment kicker and structurally swings Platinum into a deficit by mid-2020. Downside price risks are contingent on faster Fed hikes into weaker global demand which would induce large-scale investor deleveraging at a time of OEM/auto and producer inventory destocking.

Palladium --> fundamentally switching to a surplus in medium-term

Structural headwinds in the form of ongoing substitution *(Platinum is relatively cheaper, more readily available and less volatile than palladium)* and growing EV penetration, puts palladium on a path of shrinking deficits. An expected stronger auto sales recovery in 2022 (vs 2021, but not as strong as 2019 levels) and a consensual short investor market create tactical bullish opportunities in 2022 while supply risks are also possible.

A summary of 10 macroeconomic expectations for 2022

Cycling through reflation (liquidity-on + growth) and stagflation (liquidity-off + peak growth)

1. **COVID, Variants & Policies** – a stagflationary force. The pandemic becomes endemic for advanced nations, but China & other zero-covid like countries face failed policies that could cause further supply chain disruptions & inflation.
2. **Growth & recession risk**: Slowing of global GDP from 2021 peaks, to more sustainable levels, with recession risk on the rise into a a hawkish Fed hiking cycle.
3. **The Fed & global CBs** – a Fed taper/transition phase is traditionally always tricky. Risk of policy mistake is rising rapidly.
4. **Inflation**: elevated with risks higher

5. **Risk Assets**: enormous amounts of sidelined liquidity still remain despite Fed taper, but 2021 equity gains unlikely to be matched
6. **Geopolitics**: messy and underhedged given inward looking governments (‘geopolitical recession’)
7. **US politics**: more polarized, dysfunctional but a bigger unfavorable government into US midterm elections at a time with deepening economic challenges (inflation)
8. **FX trends**: mixed US$ outlook with slight bullish bias on the Fed taper
9. **Supply-chain risks**: higher until theres global herd immunity or zero-COVID/similar policies abandoned
10. **Climate change:** large “transition risks” are growing

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