



MKS

Update: Precious Metals Forecast H2 2020- H1 2021

Outlook

Precious Metals Key Drivers

Extraordinary situation:

When we published our yearly Precious Metals Forecast in January of this year, like many, we did not anticipate the widespread effect of the Covid-19 pandemic. For several weeks, the world came to a near standstill and the impact on the world economies globally will be considerable. Although we do not usually adjust our yearly forecast, we believe it is justifiable as it will better reflect the current extraordinary situation and its impact on the coming year. Our updated forecast is for the period from the second half of 2020 till the end of the first half of 2021.

Economics:

In January we predicted the global GDP real growth to remain under pressure till the end of 2020 and a possible gentle recovery in 2021. The IMF in its World Economic Outlook Publication on April 2020 projected the global growth in 2020 at -3.0 percent, compared to the January 2020 WEO updated projections representing a 6% mark down in global growth. The global stimulus package amount as of June the 9th 2020 stood at a colossal 15 trillion USD. This is unprecedented and will have a long-term impact on the world economies. Over the medium term, this massive influx of capital could result in inflationary pressure and a loss of purchasing power, in a negative global growth and negative interest rates context.

Stock markets have performed well lately, but we believe that this is as a result of the liquidity injection into the world markets and the low or negative interest rates. Once corporate results are published in early 2021, we fear that a sharp correction in the world stock markets is to be expected.

Unemployment rates have significantly increased globally and in this recessionary environment the property market could face another correction over the next 24 months.



The impact on precious metals is mixed. Gold as an investment metal and safe haven shall see an influx of interest and rising prices. Silver as an investment but also as an industrial metal is also set to face a price increase. As a result, we have raised our average price targets for both metals. We have a mixed sentiment on both industrial metals, Platinum and Palladium, we are neutral to mildly bullish and we have decreased our price targets.

Geopolitics:

The ongoing geopolitical instability on various fronts in the Middle East will remain a key concern throughout 2020 and 2021. The trade war between the US and China has again escalated and shall remain a major concern into 2021.

In the actual economical context, it is to be expected that protectionism shall significantly increase over the coming months, as government will be tempted to become more selfish and protect their own agenda rather than international cooperation. This could to some extent negatively impact international relations and create new tensions between countries.

MKS - Gold Forecast H1 2020 – H2 2021		
Low FIXING	High FIXING	Average FIXING
1680.00 USD/ Ounce	2000.00 USD/ Ounce	1850.00USD/ Ounce

In January 2020, we forecasted Gold to average 1669.00 USD/Ounce in Q3 and 1690.00 USD/Ounce in Q4 and our yearly average was published at 1636.00 USD/Ounce. We have raised our forecast with an average of 1770.00 USD/Ounce in Q3 and of 1830.00 USD/Ounce in Q4. For the period starting early July 2020 till end of June 2021 we see gold averaging at 1850.00 USD/Ounce and a high at 2000.00 USD/Ounce. Despite a significant price increase in our forecast, we believe our scenario to remain conservative.

The unprecedented and massive influx of liquidity into the global market, shall result in higher but still contained inflation rates, while GDP growth has significantly contracted. Stock markets are temporarily benefitting from this additional liquidity as low to negative interest rates are not motivating investors to keep money in bank accounts. But when corporate financial results are published in early 2021, they won't reflect the stock prices levels, as most corporate earnings will have significantly decreased. We do expect a major correction in stock prices towards the end of the year and beginning of 2021.



As paper money loses value and markets remain volatile, gold shall face a significant influx of buying interest, and play its role as a safe haven and capital preservation asset. We expect a few very volatile trading sessions ahead of us. It is a perfect storm for gold or even a perfect hurricane! Some temporary downside correction is possible once a Covid-19 vaccination is safely and widely released on the market. But we expect that it will take several years for the global economy to get back on track and gold is set to continue its bull run beyond June 2021.

MKS - Silver Forecast H1 2020 – H2 2021		
Low FIXING	High FIXING	Average FIXING
16.5000 USD/ Ounce	23.0000 USD/ Ounce	20.0500 USD/ Ounce

In January 2020, we forecasted Silver to average at 18.7500 USD/Ounce in Q3 and at 19.4000 USD/Ounce in Q4 and our yearly average was published at 18.6200 USD/Ounce. We have raised our forecast with an average of 19.0000 USD/Ounce in Q3 and of 20.0000 USD/Ounce in Q4. For the period starting early July 2020 till end of June 2021 we see silver averaging at 20.0500 USD/Ounce and a high at 23.0000 USD/Ounce.

As the pandemic resulted in Gold buying, this sent the yellow metal prices higher, silver lagged far behind. The Gold to Silver ratio rocketed from the 80's level at the end of February to a high of 125. The Gold to Silver ratio came again down in May to just below 100. We expect the ratio to reach 80 to 85 sometime soon on the back of speculative buying. The industrial demand will remain subdued on the back of the recent standstill and the lower expected global growth. But the speculative play of the Gold to Silver Ratio will be the name of the game and we would expect some very volatile rally sessions in the coming months.

MKS - Platinum Forecast H1 2020 – H2 2021		
Low FIXING	High FIXING	Average FIXING
700.00 USD/ Ounce	950.00 USD/ Ounce	852.00 USD/ Ounce

In January 2020, we forecasted Platinum to average at 995.00 USD/Ounce in Q3 and at 999.00 USD/Ounce in Q4 and our average was published at 981.00 USD/Ounce. We have lowered our forecast with an average of 850.00 USD/Ounce in Q3 and of 820.00 USD/Ounce in Q4. For the period starting early July 2020 till end of June 2021 we see gold averaging at 852.00 USD/Ounce.

While the industrial demand for Platinum continues to significantly weaken, an increase in investment demand could act as a parachute in the price fall. The automotive industry published depressing numbers and the medium-term future does not look much brighter for the industry. Still we remain neutral to mildly bullish on Platinum.



The Gold to Platinum ratio that jumped from 1.60 to over 2.40 in the last 3 months before settling short over 2.00 in June could possibly trigger some investment and speculative demand over the short medium term. We expect the lack of physical demand to be rebalanced by investment interest. We will closely follow mining production over the coming months as we possibly expect a decrease in production. Another potential source of physical demand we will monitor is the fuel cell technology in the automotive sector that could regain interest on the back of the current prices.

MKS – Palladium Forecast H1 2020 – H2 2021		
Low FIXING	High FIXING	Average FIXING
1750.00 USD/ Ounce	2250.00 USD/ Ounce	2045.00 USD/ Ounce

In January 2020, we forecasted Palladium to average 2340.00 USD/Ounce in Q3 and 2390.00 USD/Ounce in Q4 and our yearly average was published at 2288.00 USD/Ounce. We have lowered our forecast with an average of 2000.00 USD/Ounce in Q3 and of 2080.00 USD/Ounce in Q4. For the period starting early July 2020 till end of June 2021 we see Palladium averaging at 2045.00 USD/Ounce.

The industrial demand for Palladium will remain subdued as automotive sector demand will take time to recover on the back of the global negative GDP growth. While physical demand is set to decrease, we believe that there are a few factors that will keep the Palladium price afloat. We started the year with a supply demand deficit and the mining production might slightly decrease over the coming few months. These 2 factors might, to a certain extent compensate for the industrial demand decrease. The automotive petroleum car industry suffered high Palladium prices and scarcity over the last few years. We would not exclude to see car manufactures taking the opportunity of any downside price correction to acquire some Palladium for when the car demand picks up again.

In January we believed that Palladium would be the big winner, but now we strongly see Gold and Silver on top of the podium.



MKS - H2 2020- H1 2021 Precious Metals Forecast Summary

MKS PRECIOUS METALS FCST SUMMARY H1 2020 – H2 2021			
2020	LOW FIXING MKS USD/OZ	HIGH FIXING MKS USD/OZ	AVERAGE FIXING USD/OZ
XAU	1680.00	2000.00	1850.00
XAG	16.5000	23.0000	20.0000
XPT	700.00	950.00	852.50
XPD	1750.00	2250.00	2045.00

MKS
Frederic Panizzutti
Email: fpanizzu@mks.ch

