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Precious Metals Outlook 2022 – revisions

Gold – stimulus peak in, inflation peak not yet in – revised up to $2000/oz, Silver to $25/oz

- The macro backdrop has changed significantly since January forecasts by the street, with renewed geopolitical risks impacting both the growth and inflation outlook. One must thus make a few assumptions about the Ukraine's war; we do not think that it will be fully resolved during 2022 and therefore current precious metals prices will be at quite different vs our original forecasts earlier this year.

- The upcoming Fed rate hikes aimed at countering energy induced price inflation brings forward recession risk much quicker than the markets previously believed. The view from some Central Banks (especially the ECB) of putting inflation concerns ahead of war concerns is worrying, as is the threat of additional sanctions from the West on Russian or countries (especially China) for implicitly supporting Russia. The US will print double-digit inflation sooner rather than later. The 2020 COVID stimulus was war-like (too large) and triggered demand-side inflation; the additional 2021 stimulus was large (and unnecessary), and is being complicated by both supply-chain issues and now the the war, which is a new supply-side energy shock, driving inflation even further.

- We originally thought a stagflationary-like backdrop would support Gold (due to COVID, some zero-COVID policies, supply-chain risks); that backdrop is being accelerated with growing risk of a hyperinflation depression in Russia and a recession for the region / Europe a real possibility. The structural and ongoing regime change – from globalism to isolationism and the associated inward looking trade policies– is exacerbated by this war and is inflationary. Theres also a worrying trend in that the global monetary & payments system and wealth have now been politicized and weaponized.

- Given these macroeconomic assumptions & changes and considering Q1 price action, our bull case outlined in the original forecasts (here) is now our base case. We now have an average forecast of $2000/oz for 2022 (vs $1800/oz previously), upside risk of $2500/oz (implying 2022 gains of ~35%, matching yearly 2020 gains at one point), with downside risk of $1600/oz (vs $1400 previously).

- The renewed safehaven buying in the form of ETFs and physical investment demand, as Gold acts a geopolitical / inflation / recession / arbitrary confiscation hedge will keep prices elevated so long as the Fed does not drastically hike real rates into positive territory. The Commodities thesis is also back in vogue with a rotation out of rate -sensitive outperforming sectors (e.g.: big tech) into real assets with the latters positioning structurally under owned vs equities & bonds (vs peaks seen in previous bull markets, i.e.: 2010-2012). The threat of (sanctioned) Central Banks monetizing gold with sales is a real bearish risk and should be monitored. That should be weighed up against the upside risks of non-Western CBs ramping up Gold holdings given the inflationary outcome of this war & the risk of their US$ holdings being sanctioned, at any time, by the West.

- Silver should benefit from Golds price appreciation, but industrial demand will be dampened as growth drops off and inflation holds up, while it continues to deal with very large known and unknown above ground stocks. We have raised our Silver price to $25/oz (vs $22/oz in previous forecasts) and see a persistently higher Gold/Silver ratio into this concerning macro backdrop.

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PGMs: volatile price action and renewed geopolitical premiums before recession fears dampen demand – Palladium revised up to $2000/oz, Rhodium to $16,000/oz & Platinum unchanged

- Rising recessionary risk is a looming threat for PGMs, while sanctions have upended buying trends and expected double-digit inflation complicates the pricing mechanism. Palladium should remain elevated in 1H'22 as Palladium supplies from Russia may fall (flight bans, lack of export/import permits, complicated/sanctioned payment methods etc) or simply the *fear* of potential further sanctions & reputational risk in holding Russian material keeps prices elevated and aggregate balances tight.

- Recent guidance from two major S.A producers and complications around Russian supply, puts global PGM supply on downward trajectory this year. The chip shortages have incentivized a build-up of inventories at autocatalyst manufacturers but stocks are unlikely to cover any shortages in 1H for a prolonged period of time. That should keep price action very volatile and extreme in 1H'22 with flat PGM prices in overall positive territory YTD with risks skewed to the upside.

- However, recession fears are rising with demand expected to be dampened into 2H'22 given the impact of the war and inflation on global growth and thus consumer/auto demand; PGM prices should reprice lower and erase some geopolitical fear premium in 2H'22 at which point the price risk switches heavily to the downside, especially for autocat-sensitive Palladium & Rhodium.

- In the medium term, the energy transition toward EVs & ESG efforts will likely be pushed out; wars, any major crisis, usually deprioritizes these kinds of efforts, but astronomical price rises, severe shortages (from electricity to recharge EVs to actual fundamental shortages) & extreme market dysfunction in battery metals from Lithium to Nickel, have given cause for concern.

- We revise up Palladiums price forecast to $2000/oz (from $1800/oz) to account for geopolitical premiums, bottlenecks and 1H'22 shortages. Our platinum price forecast remains unchanged at $1100/oz, as renewed tailwinds from higher Gold prices & a ramp up in substitution away from Palladium (to platinum) given the Ukraine war offsets lower European consumer demand. Rhodium's revised forecast is $16,000 (vs $13,000/oz), and is just a marked-to-market adjustment (we were wrong about ongoing surpluses due to the chip shortage as currently strong demand and much higher loadings in autocats have supported a resilient price surge YTD).

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