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Precious Metals Outlook 2023 – Midyear Update & Forecast Revisions.

Current Scorecard: Actual YTD Price averages vs our previous forecasts (original & post-Banking Crisis revisions in March 2023)

		MKS PAMP forecasts			
	Actual 1H'23 YTD average	Original forecast (Jan '23)	Banking Crisis forecast revisions (March '23)	**Mid-Year Update (average forecast)**	**Mid-Year Update (high – low range)**
Gold	$1933.50/oz	$1880/oz	$1930/oz	**$1930/oz (unchanged)**	**$1850 - $2100/oz**
Silver	$23.40/oz	$22.50/oz	$24/oz	**$24/oz (unchanged)**	**$21.50 - $27/oz**
Platinum	$1011.50/oz	$1100/oz	$1100/oz	**$1050/oz (downgrade)**	**$900 - $1150/oz**
Palladium	$1508.30/oz	$1800/oz	$1600/oz	**$1400/oz (downgrade)**	**$1200 - $1600/oz**
Rhodium	$9000/oz	$13,000/oz	$11,500/oz	**$8000/oz (downgrade)**	**$3000 - $12,000/oz**
Source: MKS PAMP					

Mid-Year Update & Adjusted 2023 Average Forecasts:

Global Macro Outlook:

- The global recovery will be sluggish with significant regional differences which'll drive volatility in global rates & currency pairs; most of the developed world – led by US, Europe & UK - will see stagflationary forces (lower growth, higher inflation) with more restrictive policy in 2H vs Asia & Emerging Markets which'll see relatively stronger growth, lower inflation & easier monetary policy.

- Higher for longer rates Developed Market interest rates will continue driving the global physical destocking cycle across most industrial commodities, although this is nearer the end; it'll also reignite increased macro volatility which has been uncharacteristically tame recently.

- Most commodities outlooks have been downgraded from 'outperform' as Chinese growth has disappointed and supply-chain & related disruptions have eased. Don't underestimate an incremental rebound in Chinese demand in 2H which could rerate commodities from oversold, understocked & underinvested levels.

- Stay core long Gold but remain tactically nimble which hinges on the interplay between a relatively restrictive Fed & stronger US data; Silver has better upside potential based on a lower US$ outlook. Platinum remains contingent on Gold (despite improved fundamentals) and Palladium & Rhodium are both grossly oversold given supply risks as China macro & destocking dominated 1H'23

- The irony is that Gold & Silver require weaker US data *(weaker jobs or CPI to solidify a Fed pause)* to rally, while PGMs require stronger China data *(a recovery in manufacturing & industrial activity)* to reprice higher. That creates complicated and potentially offsetting growth risks and trajectories for commodities.

<u>Gold</u>: bullish fatigue sets in; down but not out. We expect flat-lower prices in the short-term before confirmation of a Fed pause in 2H & therefore higher trending Gold prices & a lower US$ into yearend and 2024.

- No revision to our March 2023's forecast of $1930/oz. A less bullish outlook (vs our outlook a couple weeks ago where we were anticipating a forecast upgrade) doesn't imply a bearish outlook. The price trajectory is lower first (a few more stabs below $1900 where more sustainable physical demand lurks) before higher. The outlook is simply resetting to a less bullish trajectory given a relatively more restrictive Fed given the stronger US data (ex-manufacturing).
- Still, Gold is still holding in despite on aggregate 1) a higher US$, 2) receded geopolitical risks & macro fear and 3) higher real rates. It is likely to be a long summer as the market awaits fresh headlines / a new catalyst to materialize. We do expect a bumpy 2H'23 as monetary policy starts to bite; Gold prices are then expected to print a new all-time-high in 2H'23 and pierce $2100/oz. Our conviction lies in higher floors versus runaway upside repricing *unless* the Fed loses the inflation fight (not our base case) or breaks something more substantial in the economy (more likely).
- The hawkish recalibration of Developed Markets Central Banks to 'higher for longer' rates in early June '23 changed the macro backdrop; the *uncertainty* of future rate hikes (despite markets convinced we are near the end) remains an overhang for runaway bullish Gold pricing.
- US financial instability risks have materially subsided – *there is just no macro fear* - and fighting the Fed is usually a losing trade after they have, to-date, simply extremely complicated risks. However, underweight investors will continue to incrementally reengage in quality assets and safehavens like precious metals given the continued rethinking & associated reshuffling of wealth given 1) rising CB policy mistake risks (*monetary policy is now getting more challenging*), and 2) Golds role as a diversification hedge against equity gains.
- The unpredictability of long and (importantly) variable lags to monetary policy keeps the 'recession bid' alive amongst strategic investors but that bid remains less urgent given other higher performing & trending asset classes (Tech, US equities).

- Until the US labor market cracks under Fed hikes & internalizes the past announced job cuts, the current weaker US data (e.g.: PMIs) is not enough to drive conviction around a Fed pause & thus subsequently upside momentum in Gold.
- Central Bank & other official related Gold demand will remain very robust but downsized vs record purchases in 2022; they will continue to ramp up their dedollarization programs into the 2024 US elections, adding to support and structurally higher price floors.
- Geopolitics has largely ebbed the past year but can always morph into a upside risk to our forecast. Outsized tactical Gold rallies - especially if it hinges on geopolitics - have proven to be extremely short-lived (years 2011, 2020 & 2022). However, structurally the 'geopolitical=deglobalization' feedback loop indirectly accelerates CB & other strategic dedollarization policies and its associated gold accumulation plans
- Global physical demand will remain mixed with China still somewhat constrained due to slower growth (impacting jewelry sales), yuan weakness (impacting purchasing power) & steady regulations (impacting access to Gold & commodities markets). However other physical regions (Turkey, India, Middle East & South East Asia) will remain buoyant given unstable domestic politics & global geopolitics, weaker local currency regimes and a strong belief in Golds resilient price action (in the face of higher interest rates & a stronger US$). Overall physical demand has proven to be less price sensitive versus previous bullish gold cycles and remains a key underpinning for the current secular bull run.
- Hard-to-quantify structural demand drivers -- de-dollarization/deglobalization/re-commoditization, systemic debt concerns, macroeconomic risks around energy & technological transitions, bigger governments & visible interventionist policies, a cultural precedent for policy bailouts & liquidity injections, ongoing & escalating social unrest, etc -- remain price supportive but in the background for prices now.
- A$2500/oz Gold target is a very unlikely within a 2023-2024 timeframe, but is a realistic target once *consecutive* Fed rate cuts likely take hold from 2024 onward. A 'higher for longer' interest rate regime creates deeper and faster downside macroeconomic risks, especially given the historical propensity for the Fed to overdo it.
- Downside risks to our short-term forecast include: 1) lower prices become self-fulfilling especially if physical demand disappoints, 2) severe credit tightening and /or extremely tight financial conditions, 3) large scale physical deleveraging and/or CBs selling or monetizing Gold, 4) a disinflationary hard landing *before* policy responds given increasingly restrictive CB policies.
- Upside risks to our short-term forecast include: 1) A US$-negative catalyst providing a positive feedback loop, 2) escalating geopolitics, 3) a Fed policy mistake

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Silver: another deficit year where upside risks remain intact contingent on Golds outperformance & investor resubscription

- No revision to March's forecast of $24/oz.
- Strong support lurks below $22/oz stemming from a mix of industrial & retail participation, which is expected to remain resilient into 2H'23 despite growing recession risks.
- Industrial demand is set to hit another record high; that, together with supply risks stemming from social unrest / industrial action in Latam & Mexico this year (primary production is now expected to fall ~5-10% YoY in 2023), will drive another deficit of over 150mn oz.
- Fundamentally, Silver has less readily available physical stocks in known exchange & LBMA vaults (vs Gold). Still, price action above $25/oz has disappointed bulls, indicating readily available producer-related stocks and/or off-exchange inventory is unleashed at higher pricing.
- Some core regions (India) remain weaker demand centers this year vs last as fabricators really restocked on price dips below $20/oz. However, any industrial slack is more than made up for in both retail coin/bar demand (which remains robust in US & Europe), and demand for Silver in the PV sector which is expected to expand this year and next; policy-driven growth in PV installations (especially in EU & China) is offsetting the ongoing but limited thrifting of Silver
- There continues to be asymmetric upside risks in Silver which hinges on investor resubscription, the return of Chinese buying & restocking and the convincing rollover in the US$ once the Fed pauses and expectations shift to a consecutive rate cuts.

PGMs:

Platinum: revised lower to $1050/oz as volatile investor flows & destocking from AGS muddy fundamentals which are still holding up.

- Supply risks around Eskoms power generation were dialed back in Q2'23 vs expectations in Q1'23 (due to a warmer South African winter) as ETF holders unwound most of what was accumulated, swinging flows by ~1.5mn oz in a couple of weeks. Still, elevated Eskom curtailment after the SA winter, a postponing of producers key maintenance schedules, and expected weaker Russian supply delays any supply risk and keeps bullish risks alive.
- Ongoing substitution (away from Palladium), the steady growth in HDD vehicles, global auto sales currently surprising to the upside (annualizing ~88-89mn vehicles for 2023) and the slew of upcoming global emissions regulation out to 2027 (China 6d, Euro VII, US Tier 4) all are extremely price supportive.
- However, while market consensus centers around upcoming fundamental deficits, 1) ongoing recession fears, 2) Above Ground Stocks & physical destocking into higher rates, and 3) the lack of persistent investment inflows has kept prices from rerating strongly above $1100/oz.
- While we remain constructive Platinum in the medium term, the bullish kicker (or conundrum), hinges on sustainably higher Gold prices for investment demand to remain entrenched and continue to accumulate. The market and recent pricing showed Platinum is too niche to "act

alone” in the face of a commodity down cycle, higher interest rates and lower Gold prices despite improving fundamentals.

Palladium revised lower to $1400/oz (from $1600/oz) on negative M2M performance, continued unwind of the Russian & other inventory destocking and fresh speculative shorts.

- Palladium has remained in a persistent (technically almost managed) downtrend channel for a year now, coincidently, or not aligned with the combination of the Fed kicking off its hiking cycle and global commodities war/fear premiums being unwound.
- Gross COT shorts have ramped up positioning to over 1mn oz for the 2nd time this year (after initially ramping up short bets to Q1’23 to >900K oz which proved ‘right’). Structural demand destruction headwinds (ongoing substitution in gasoline vehicles & an incessant increase in EV market share) puts palladium on a path of rising surpluses and is the rationale behind bearish positioning.
- Still, outperforming 2023 auto sales, and a market consensus for a fundamental deficit this year (albeit smaller than last years) supports the fact that prices have grossly oversold. The *alleviation* of selling in 2H’23 alone (outside of a China returning to the market) could be enough to see a recovery in price action back up toward $1400; whether that’s a halt or a reduction in 1) Russian-related sales, 2) SA producer or other inventory destocking or 3) paper/ investment related selling.

Rhodium revised lower to $8000/oz (from $11,500/oz) on pure capitulation.

- Rhodium has phenomenally crashed to below $4000/oz in Q2’23 as Chinese fiberglass related selling (and substitution), physical destocking *(the cost to fund rhodium inventory is currently largely than any of the other precious metals)*, and a slower than expected China reopening amidst a consumer ‘strike’, took hold.
- However, while demand has disappointed, inventory levels will be important if/when consumer demand returns as low levels & physical availability, in locations where its needed, simply deprives the market of a necessary cushion; in an illiquid opaque market that is worrying.
- Fundamentally, Rhodium has no substitute/competition in the auto cat system (eg: NOx emissions) while primary supply remains flat-lower in the near-term and constrained in the longer-term given the South Africa ore body. Its grossly oversold from a fundamental standpoint but large-scale technical & psychological damage has been done so price recoveries may take longer than anticipated.