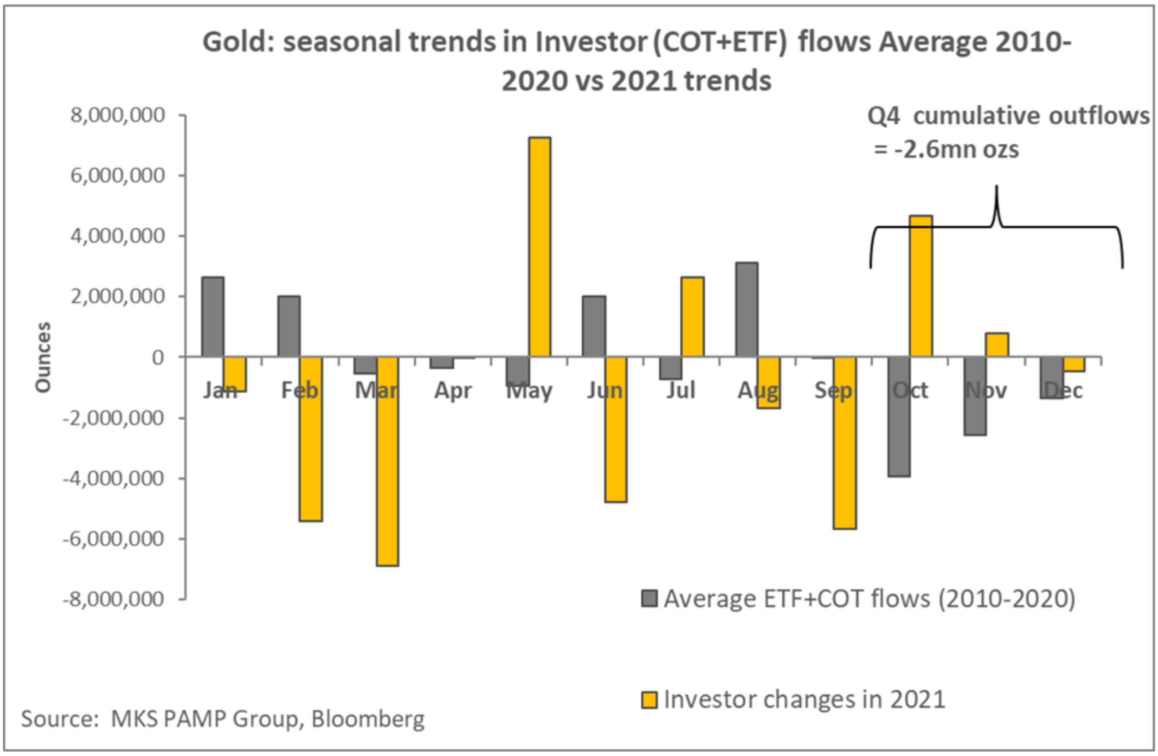
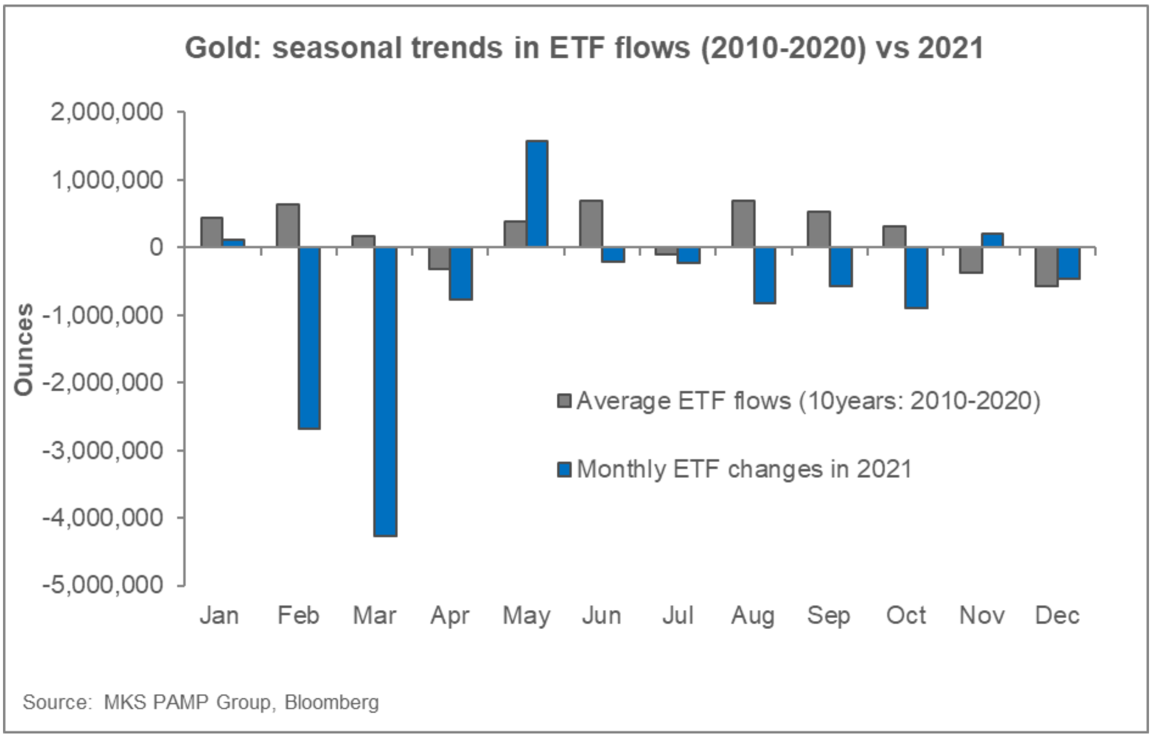
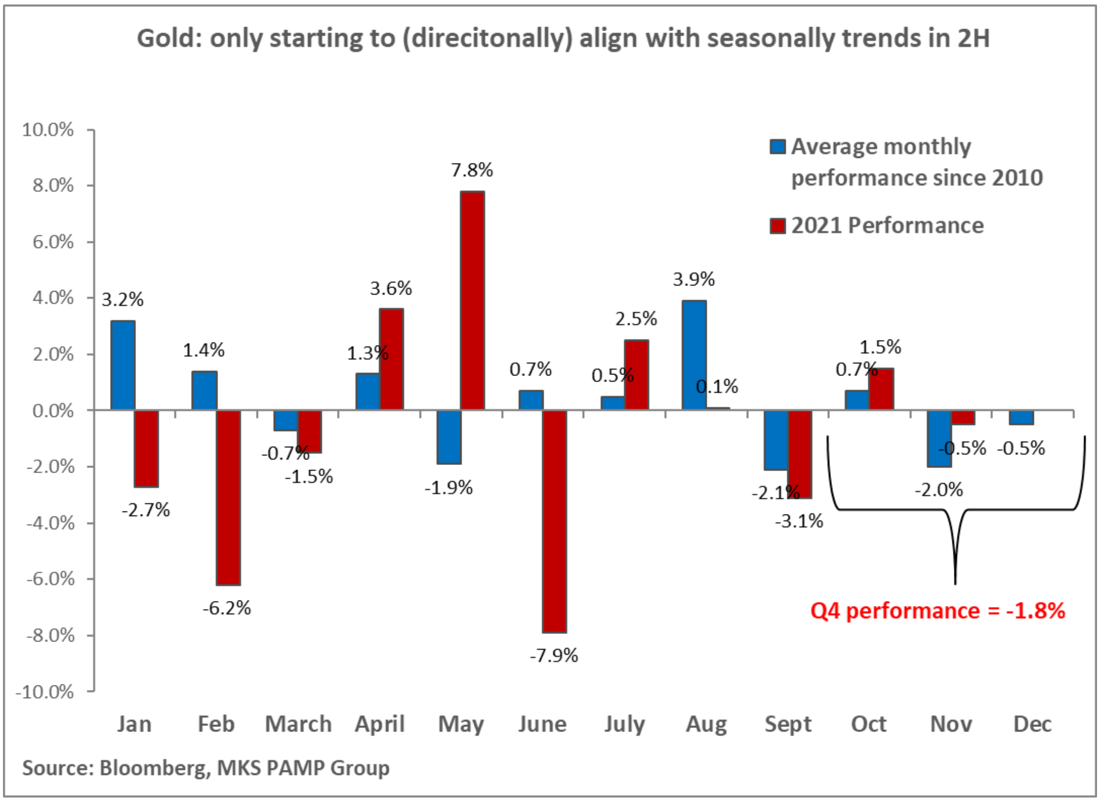
Seasonal Report







When it rains... Theres clearly been no shortage of high level macro events/developments thrown at risk & equity markets the past few weeks. Theres a new variant, the Fed turned hawkish raising policy error risk, and there's large derisking by the investor crowd (seen across any positioning metrics). So while there's been a lot of pain in specific assets (underperforming tech/retail stocks, Chinese equities, WTI) there's been no structural damage to US equity indices and not enough macro fear to induce largescale Gold buying both into yearend, into next weeks FOMC and the expected Fed taper.

The below is summary & graphs of general thoughts into yearend with monthly (price) performances and (flow) trends vs their historical seasonal averages.

Full Report

MACRO:

- Omicron should be faded bc of 1) the stats (lack of hospitalizations in SA), 2) Fauci is *not* fear mongering (as with past variants/waves), and 3) the fact that SA Equities (JSE All Share Index) printed ATHs on Friday (respect markets at the epicenter).
- While any Fed transition period is tricky for equities/risk/EM, and this time is no different and arguably trickier, on a tactical short-term basis into yearend, 1) funds remain very underweight / deleveraged, 2) strong SPX seasonals (SPX is down in November after strong YTD gains 9x in the past, but then 9/9 times its regains losses and closes positively into yearend/Dec), 3) Omicron and idea that (buy-the-dip) trends will continue into yearend. What that means for Gold is already being witnessed in recent ETF trends, with 462K oz exiting MTD*

GOLD: headwinds into yearend, floors to be tested, before (bullish) Q1 / Chinese NY seasonals pick up

- MTD ETF outflows (as outlined above) have already matched the historical seasonal trends (graph 2). In 4Q, the historical cumulative average of gold (ETF + COT) flows is net -2.6mn oz (graph 1), but 2021 have bucked this trend with net *Inflows* in Q4. Thus, there's certainly 'room' for ETFs to deleverage further as they hold 98mn oz (1year lows, but still ~90% off peak holdings). ETF holders had been resilient into taper talk, but that is unlikely to remain the case as equities undergo some volatility/gyrations (Gold ETFs are used a steady equity inflation hedge).
- By contrast, theres relatively less 'room' for COT to deleverage unless they flip net short into 2022 (as was the case 2018-19) which is possible if Powell continues to jawbone the market lower with hawkish comments (less so action?)

- A mix of year-end book squaring, an appetite for US$ cash (not Gold), and a ramp up in funding costs over yearend (the Fed is historically hawkish/hikes in Decembers) are all potential reasons for this past seasonal liquidation.
- Gold *prices* are historically seasonally weak into yearend; its meant to post ~2% declines on average in Q4. So while Gold was seasonally unreactive in 1H'21 and bucked any trends, that's changed in 2H (graph 3); Decembers average declines are still mild at -0.5%.

SILVER:

- The 4.5% declines in November stand out as traditionally it shouldn't be so steep.
- CB-related (Gold) buying, opportunistic producer-related Silver selling, US$ strength and complete investor disinterest (visible in COT / Agg OI nos) as stagflation fears ramp up all continue to 'conspire' to keep Silver relatively cheaper vs Gold and suppressed (the GC/SI ratio is backup at ~80, 1yr highs).
- On average, Silver mirrors Golds Q4 trends and post on average ~1% losses in December.

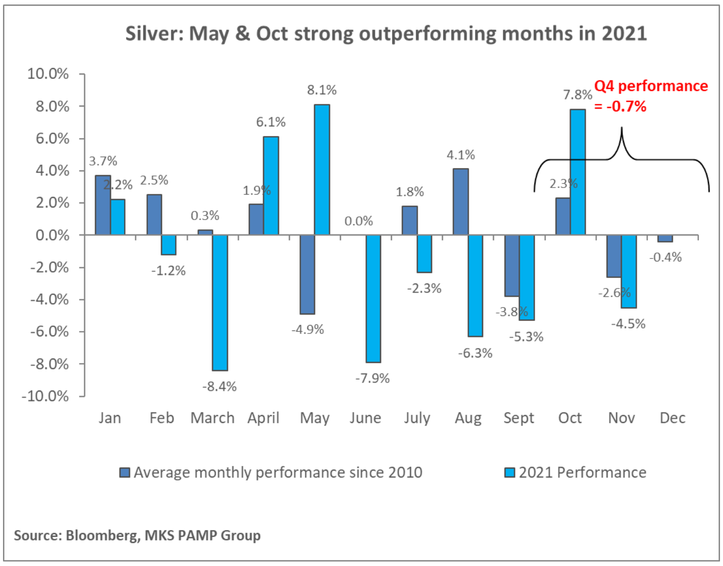
PLATINUM:

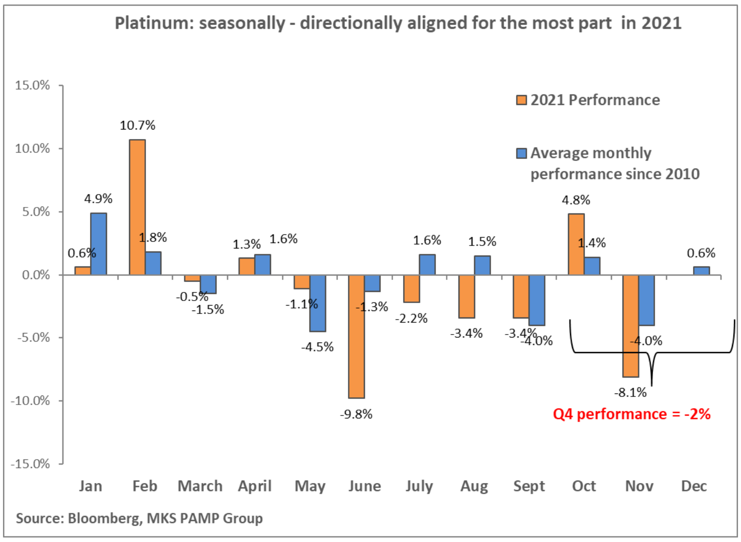
- Platinum has been 'good' in 2021; its been directionally very aligned with seasonal trends all year (ex July and August). Overall, it overextended November trends a fair amount, putting in >8% declines.
- Historically high ZAR PGM prices (for producers), a weak EUR (limiting purchasing power for consumers) and continued issues around chip shortages (and thus overall PGM demand) all put pressure on Platinum.
- Decembers seasonally trends is mildly up (+0.6%) as the first/early of the Chinese NY and strong Q1 buying starts to come though. It probably overdue a repricing higher into yearend (well if Gold can hold its head up)

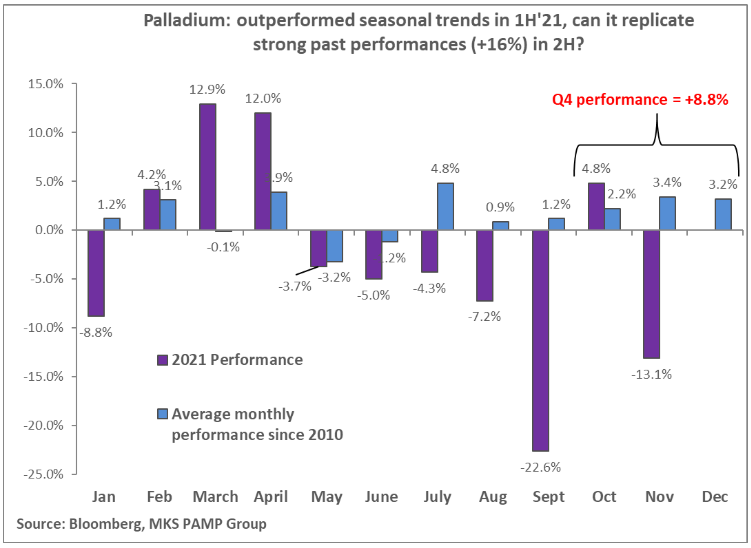
PALLADIUM:

- In contrast to Platinum, Palladium has bucked every seasonal trend in 2H'21 (vs aligning with seasonal trends in 1H). That highlights some underlying structural issues...
- It posted 8% losses in November (vs average of +3.4% and against Q4 trends which are supposed to be very strong heading into a Russian winter – up on average ~9%). While that isn't unheard of for Palladium, its ontop of of the bear market declines seen in August (-23%)
- Its certainly set itself up for a cheap entry on a tactical basis, if (bearish) positioning & sentiment rollover

**Approved for all external purposes*







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