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Precious Metals Outlook 2024

Outlook

A Summary of Macroeconomic Expectations for 2024

2023 was just as challenging as 2022 - two wars, messy disinflation, ongoing deglobalisation, a shock US regional banking crisis at a time when two consensus views (Chinas reopening and a US recession) did not come close to playing out. Here are our top key assumptions & themes for 2024 ➔ The Fed is done, and most global Developed World Central Banks will enter easing cycles to boost demand. Inflation has fallen, but not to target and the recoveries will now disappoint with typical late, not mid cycle, dynamics such as rising Unemployment materializing. The geopolitical backdrop remains fragile and global political/election & policy risk is high.

1. **Global Growth:** The global economy will be weak in 2024 as the delayed effects of rate increases catch up with us putting margins under pressure and causing cracks in the labor markets. Global growth will be ~½ pp weaker in 2024 vs 2023, mostly due to the US and China, well below its historical average (2000-2019).

2. **Inflation** – the global monthly pace for core inflation has reversed the majority of the pandemic run-up. However, with the lagged effects of monetary policy, further growth weakness is likely, making the "last mile" in the inflation fight a struggle. The largest risk is if inflation does not return to targets, which will play out in even "higher for longer" rates and much lower growth profile in the medium to long term.

3. **The Fed & Central Banks** – the Fed pivot is here and so the peak in real US rates and the US$ is now behind us. Surgical Fed cuts, to boost growth, will likely occur sooner (1H, possibly 1Q'24); the Fed must maintain independence but at the same time earlier rate cuts provide enough time lag for easing to boost the real economy into US elections. US data looks more consistent with late-cycle trends (vs a mid-cycle slowdown) and with inflation falling, global monetary policy (led by the Fed but excluding the BOJ) will now be now easing and will ease much more in years 2024-25.

4. **FX trends** – US interest rates will decline at a faster clip than in other DM countries, "US exceptionalism" should corrode as US data sours and the country enters a contentious election cycle. Thus the potential FX outperformers in '24 should be currencies most hurt by the US$'s positive carry in 2023 – Gold, JPY and to a degree the EUR. EM FX should be on the backfoot givens Chinas weak investment growth in turn hurting imports, but can still stand to tactically rise amidst a Fed pivot.

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Geopolitics: deglobalization is continuing at a fast rate given two ongoing wars (Russia/Ukraine, Israel/Hamas) compounded by one-sided Western-driven policy making. War risk increases sanction risk which will drive ongoing dedollarization and continue to upend commodities markets. 40 countries (representing 42% of global GDP) have national elections in 2024 creating political/policy risks. India, Taiwan, Russia, South Africa, Europe (European Parliament) and of course the US elections will be closely monitored.

MKS PAMP 2023 Forecasts, Revision History vs Actual Averages						
	Original forecast (Jan '23)*	Banking Crisis forecast revisions (March '23)	Mid-Year Update (average forecast)	Mid-Year Update (high – low range)	Actual 2023 Average	Actual vs Forecast (MidYears Revision)
Gold	$1880/oz	$1930/oz	$1930/oz (unchanged)	$1850 - $2100/oz	$1,943	1%
Silver	$22.50/oz	$24/oz	$24/oz (unchanged)	$21.50 - $27/oz	$23.40	-3%
Platinum	$1100/oz	$1100/oz	$1050/oz (downgrade)	$900 - $1150/oz	$968	-12%
Palladium	$1800/oz	$1600/oz	$1400/oz (downgrade)	$1200 - $1600/oz	$1,342	-4%
Rhodium	$13,000/oz	$11,500/oz	$8000/oz (downgrade)	$3000 - $12,000/oz	$6,632	-17%

MKS PAMP 2024 Forecasts		
$ / oz	Average 2024 Price forecast*	High - Low Price Range
Gold	$2,050	$1900 - $2200
Silver	$25.00	$21.50 - $30.00
Platinum	$1,050	$800 - $1200
Palladium	$1,000	$800 - $1350
Rhodium	$4,500	$3000 - $8000

*forecast submitted to LBMA analysts survey

Source: MKS PAMP

Gold A New Year, A New Opportunity for Another New High

Base case: 2024 average price forecast $2050/oz

2024 high-low range: $1900/oz (new physical/fundamental floor $50 higher vs the revised 2023 floor) - $2200/oz (a new high $65 above the current peak of $2135/oz).

(50% probability)

Gold Prices will print another new record in 2024 as the Fed cuts interest rates and the global economy slows. The convinced Fed pivot is a Fed policy bias that is targeted to boost growth (rather than respond to disinflation) which will likely occur sooner rather than later. The Fed must maintain independence but at the same time earlier interest rate cuts provide enough time lag for easing to boost the real economy into US elections. These surgical rate cuts allow for a slow landing scenario and will boost Gold in 1H'24, potentially frontloading price increases into Q1'24 as prices are forward looking. The positive feedback loop of a peaked US$ and peak US real yields against a backdrop of slower global growth, ongoing deglobalization (and thus ongoing Central Bank dedollarization), messy geopolitics, unsustainable global debt paths and a very under owned investor community ensures gold will return as a safe diversifier, even at these higher prices.

Bullish case (~$2500/oz target), dependent on:

1. Sustained lower global growth and/or much faster further cooling of inflation, drives aggressive Fed cuts earlier.
2. Reevaluation of 60/40 portfolio allocations, given equity market volatility, leads to renewed strategic investment inflows into the metals space.
3. CB / Fed policy mistake leads to a loss in confidence in the global monetary system and thus a structurally weaker US$ and/or revisiting Gold in the system.
4. Asian or CB physical demand is stronger than expected, responding to higher floors quicker than expected.
5. New "off-calendar" geopolitical / political risks (e.g.: US elections) or a Developed World fiscal crisis escalates creating a destabilizing threat to the late cycle global economy.

(30% probability)

Bearish case (~$1600/oz target), dependent on:

1. Sticky inflation leading to "Higher for Longer" Fed inducing further large-scale deleveraging in precious metals especially ETFs.
2. Asian physical demand disappoints.
3. US or China hard landing: new recession lows put in before responsive easing monetary policies lead to larger rallies (V-shaped recovery)
4. CBs monetize and sell/lend recent Gold purchases (vs storing the metal) if it loses its appeal as a geopolitical or inflation hedge and/or comes under further sanction & policy risk
5. A US$ liquidity crunch forces further deleveraging in expensive to hold insurance policies (like Gold)

(20% probability)

Silver Sweet Spot Emerging with A Lower US$ Environment

Base Case: Average forecast $25/oz.

2024 high-low range: $21.50/oz (new physical/fundamental floor) - $30/oz (old high)

(50% probability)

Silver will rally alongside Gold with bullish potential hinging on investor participation outweighing some mild contraction in industrial demand. Silver has more upside risk than Gold, because 1) it's relatively cheaper vs its past price peaks, 2) is more elastic to a weaker US$ environment, 3) is physically tighter with less readily available stocks, and 4) fundamental deficits are expected throughout this decade; its high beta characteristic vs Gold is attractive in a Fed induced soft landing. While late cycle dynamics will see likely result in some mild contraction of around ~5% in industrial demand from another record high in 2023, retail and investment can more than make up for this shortfall; Silver ETFs have shown they can accumulate ~30-40mn oz in a couple weeks. Overall, after months of being a forgotten asset class, investor focus in Precious Metals will return as the decline in the US$ extends once the Fed pivots in 2024.

Bullish case (~$35/oz), dependent on:

1. Gold outperformance, which is dependent on geopolitics, the Fed and other underlying potential catalysts (e.g.: sovereign debt issues etc.).
2. Accelerated industrial demand; strong growth in emerging (e.g.: automotive, electronics & 5G apps) and/or accelerated use in renewable energy which governments are promoting despite a late cycle slowdown.
3. a convincing China rebound, after its prolonged economic weakness, leads to broad-based pent-up demand for all commodities.
4. Prolonged physical tightness & stockpiling.

(35% probability)

Bearish case (~$18/oz), dependent on:

1. A higher for longer Fed on higher-than-expected inflation inducing further large-scale positioning deleveraging in precious metals.
2. Hard landing in China, the US or Europe; all industrials including Silver would be pressured to new recession lows on softer demand.
3. Liquidations from recent stock builds (India, retail crowd) if price expectations turn over.

(15% probability)

Platinum ➔ Playing for Fundamentals to Play Out

Base case: 2024 average price forecast $1050/oz

2024 High – Low range = $800 - $1200/oz

(50% probability)

Platinum is expected to post another deficit (including investment demand) in 2024 which should remain quite similar to the deficit in 2023 of ~500K oz. Demand continues to be well supported by both automotive (higher light duty vehicle sales, the acceleration of hybrids and continued substitution of Platinum for Palladium in gasoline autocats, despite prices nearing parity) and industrial (glass & chemical) demand. A soft-landing outlook should marginally crimp demand, but akin to the thinking in Silver, higher investment demand (for high beta precious products) should more than compensate for lower industrial/auto demand. The threat of larger than expected supply misses due to mine closures (especially at PA-rich North American mines and cuts at older Western Bushveld mines) AND secondary supply which should remain weak, will support prices into 2024. We are much more constructive Platinum (and PGMs) post-recession, where upside prices remain contingent on Gold remaining in a bull market trend, the ignition of the macro recovery and the convincing pivot of fundamental balances from multiyear surpluses to multiyear deficits.

Bullish case ($1400+/oz), dependent on:

1. Supply disruptions and/or steeper than expected production cuts (e.g.: >300K oz)
2. Sustained Gold outperformance (PT is a cheaper Gold proxy) driving strong investment inflows
3. China and/or Europe growth outperformance
4. Green Hydrogen / electrolyzer production ramp-up accelerates stockbuilds

(25% probability)

Bearish case ($700-/oz), dependent on:

1. Hard landing in China, the US or Europe
2. Higher interest rates for longer (large-scale positioning deleveraging in precious metals given theres still ~3mn oz in investor products)
3. Persistent SA & Russian destocking of WIP material into weak demand if marginal production cuts fail to ignite price lift.

(25% probability)

Palladium ➔ Switching to A Surplus In The Medium-Term But Trajectory Won't Be Linear With Ongoing Volatility

Base case: 2024 average price forecast $1000/oz

2024 High – Low range = $800 - $1350/oz

(50% probability)

Structural headwinds in the form of ongoing substitution in gasoline vehicles (Platinum was relatively cheaper, more readily available and less volatile than Palladium), the recent rising market share of EVs (although US & European EV penetration rates have plateaued) and an expected surge in secondary supplies due to higher auto recycling, puts Palladium on a path of rising surpluses. Still, Palladium is expected to post another large deficit of around ~-800k oz this year in the face of rising supply risks into 2024. There remains a disconnect between prices (which are extremely forward looking and thus significantly lower vs recent peaks) and the current fundamentals (ongoing deficits with rising supply risks). The outlook should remain fragile and unconvincing into a soft-landing backdrop. However, any incremental shift higher in demand or a quicker fall in supply will create tactical bullish opportunities and continued volatile trading in 2024 supporting our rather wide high-low range. That may stem from secondary supplies (which should remain weak into 2024 as recession fears constrain scrappage rates), the greater threat of closures of PA-rich mines a sustained EV sales downturn, all of which remain underpriced.

Bullish case ($1500+/oz), dependent on:

1. Supply disruptions and/or steeper than expected production cuts from PA-rich mines
2. China growth outperformance unleashing pent-up demand
3. BEV penetration rate slows especially if it occurs in China; further EV policy U-turns
4. Largescale investor shortcovering and/or reengagement

(25% probability)

Bearish case ($500-/oz), dependent on:

5. Ramp up of Russian commodities supplies or destocking of Russian/SA inventories
6. Hard landing in China, the US or Europe
7. Higher interest rates for longer (large-scale positioning deleveraging in precious metals
8. BEV adoption accelerates in US (especially) and Europe bringing forward price weakness & souring sentiment
9. Autocat recycling in China takes off (once policies are in place)

(25% probability)