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Precious Metals Outlook 2023

Outlook

A Summary of 8 Macroeconomic Expectations for 2023

2022 was very challenging - A war, inflation, deglobalisation, China lockdowns and supersized increases in interest rates quickly blended in ways never seen before. Here are our key assumptions & themes for 2023 → Playing for a slower Fed & stagflation (Inflation will fall, but not to target and the recoveries will be uneven and will ultimately disappoint).

1. The Fed & US: the end (in Fed rate hikes) is near and so the peak in real US rates and the US$ is either behind us, or nearby. The Fed has already hiked quickly (because it was slow to acknowledge sticky inflation) impairing global liquidity and indirectly has broken several markets (the JPY,GBP & CNY, Global tech, crypto, UK gilts etc.). We believe they are rational in that they end hikes by mid-2023 before breaking something more significant (the economy or financial markets). They will start easing in Q4 (or sooner).
2. Global Macro: the easy lifting (lift off from 0 with inflation close to double digits) is behind us. 2023 brings a backdrop of recessions or very stagnant economies across G-10 putting Central Banks in a bind as they maintain restrictive policy to tame inflation. With inflation already steadily above growth rates, recessions are arguably already here.
3. Inflation: inflation risks remain and while levels will fall from decade+ highs due to an easing of supply constraints & recessionary dynamics, it will remain above target all year for most G-10. Risk for Europe is to show disinflation dynamics.
4. FX trends: the blowoff US$ top after extreme strengthening seen in 2022 is unlikely to repeat in 2023. The US$ has peaked but weakness will be most notable when the Fed pauses, interest rates spread narrow, and extreme or consensus positioning really unwinds.
5. China: China will be relatively more open in 2023 than 2022, but that's already quite well priced into markets. ZERO COVID simply pushes out the problem because there is no herd immunity, driving stop / start policy controlled fiercely by the dissemination of information. With Xi's 3rd term secured expect a more inward looking, more nationalist China and the reversal of China as a consistent deflationary force (seen over the past decades) as global corporates exit an uninvestible landscape.
6. Geopolitics: deglobalization continues at a faster rate than the market appreciates due to one-sided (Western-driven) policy making, upending commodities markets and ultimately sidelining the two largest commodity players/countries (Russia & China).
7. Commodities: commodities will remain constructive again due to supply side challenges even as global growth slows in 2023; commodity supply remains structurally constrained with little buffer room (persistently low inventories). Like inflation, commodity prices will remain elevated for longer.
8. Risk Assets: 2023 is unlikely to see a repeat of the massive wealth destruction in 2022 where over $30tn was wipe out in global stocks and bonds highlighting the failure of traditional 60/40 portfolios. Equity gains may be limited and a slog where the expected declines in earnings could be offset the expectation of the Fed easing.

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Gold Is Looking Up In 2023

Our macro view is to play for a slower Fed and rising stagflation & recession risks which will ensure both peak US$ and peak real US yields. Inflation will fall, but not to target and the recoveries will be uneven and will ultimately disappoint. That setup has already ensured Gold pivoted from trading defensively for most of 2022, to trading offensively where dips are actively capitalized on, establishing a new technical bull trend after the Fed ended its 75bp hiking regime in November 2022.

Strong physical demand (driven by India, China and parts of Southeast Asia), renewed Central Bank purchases and very strong retail coin/bar demand has created a robust foundation in the low $1600s and will continue to provide support into 2023 as a combination of slower global growth, niggling inflation and deglobalization ensures gold acts as a safe diversifier in times of escalating uncertainty.

Last year, we forecasted average Gold prices at $1800 *(revised to $2000/oz in March '22, revised down to $1800/oz in August '22).* Gold closed 2022 at $1824/oz (average $1802.60); our bullish case did not play as we overestimated the following 3 drivers, which are still in effect – we were just early….

1. Geopolitical fear premium was unwound in 2022 much faster and steeper than expected, with little-no return of investor participation and interest on price dips. While the Russian–Ukrainian war is ongoing, the indirect effect of Western sanctions has shown that 1) Gold offers a hedge against regional inflation & political uncertainty for consumers and 2) is an accepted asset to effectively de-dollarize faster for Central Banks, especially sanctioned ones. CB and related strategic reallocation to precious metals will likely be a new driving force for Gold prices in 2023 where purchases become less sensitive to prices and more sensitive to policy risks and individual economic cycles.

2. Inflation was trumped by fear of the Fed and Gold didn't stand up as a respectable inflation hedge in 2022. While inflation will come down, but not to target in 2023, it's still a higher inflation regime, one that is supply side driven and structural (deglobalization, inward looking China etc.) driven by a relatively slower Fed. Some, but not red-hot inflation, is a goldilocks backdrop for gold.

3. The massive wealth destruction in equities, bonds and crypto meant gold stood no chance in 2022 due to persistent degrossing (driven by ETF outflows), where cash/US$ was king. The unprecedented failure of traditional 60/40 portfolios is unlikely be repeated in 2023, and while equity gains may be limited and a slog, that allows for investors to increase gold ownership into a slowing growth outlook.

We have an average price forecast of $1880/oz with upside risks given a very under owned investor community and structural bullish drivers (deglobalization & inward-looking national policies driving faster de-dollarization/re-commoditization by non-G-10 nations, unsustainable US & global debt paths, currency revaluation concerns, potential pending sovereign crises), which usually emerge after an aggressive Fed hiking cycle. Gold has been down (on a hawkish Fed fighting inflation) but it is not out with upward trajectory from here on out.

Base case: 2023 average price forecast $1880/oz:
A slower Fed and rising stagflation & recession risks which will ensure both peak US$ and peak real US yields. Inflation will fall, but not to target and the recoveries will be uneven and will ultimately disappoint; this combination of slower global growth, niggling (but not red hot) inflation and deglobalization ensures gold will return as a safe diversifier in times of escalating uncertainty.

2023 high-low range: $1600/oz (new physical/fundamental floor) - $2100/oz (double top).

(50% probability)

Alternative scenarios to Gold's base case:

Bullish case (~$2300/oz): dependent on

1. Sustained financial market volatility, lower global growth and/or much faster cooling of inflation, drives dovish Fed/Central Bank policies earlier
2. Failure of the traditional 60/40 portfolio and reevaluation of allocations leads to renewed strategic investment inflows
3. CB / Fed policy mistake (inability to control inflation) leads to a structurally weaker US$ and/or revisiting Gold in the monetary system
4. Asian or CB physical demand is stronger than expected, especially if China reopens faster
5. New "off-calendar" geopolitical risks (e.g.: US / China, Russia/Ukraine, Taiwan, etc.) and macroeconomic risks (sovereign debt issues)

(30% probability)

Bearish case (~$1400/oz): dependent on

1. Sticky inflation leading to another fast Fed hiking cycle inducing further large-scale deleveraging in precious metals
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
4. CBs monetize and sell/lend recent gold purchases (vs storing the metal) as it loses its appeal as a geopolitical or inflation hedge
5. US$ liquidity crunch

(20% probability)

Silver Can Upstage Gold In 2023

Silver has more upside than Gold, because its fundamentally tighter, is coming off a relatively lower base, is more correlated to a weaker US$ and has less readily available physical stocks; its high beta Gold in a Fed induced soft landing. It posted a deficit (including investment demand) in 2022 of ~150mn oz, the first after multiple years of surpluses, and the market is expected to continue posting mild deficits (<100mn oz) into 2027, underpinned by growing industrial demand.

COMEX holdings are at a 2 year low, LBMA vaults at 2016 lows, high grade industrial premiums remain high, retail US Silver coin premiums tripled YoY, and lease rates increased in the summer 2022. All these signals reaffirm that the pool of known liquidity & physical availability (of a proxy we track) has drawn down in 1 year, what it took 5 years to accumulate. Thus, the silver outlook is very dependent on a soft landing (our base case), where both industrial and retail demand can withstand higher prices (on ramped up investment demand) and a slower global growth profile. These demand pillars are expected to remain strong into 2023 (albeit lower from record 2022 levels) providing a critical base from which investment demand should reengage.

Overall, after months of being a forgotten asset class, investor focus returned to Precious Metals in Q4'22 given the end of a 75-bp Fed hiking regime and a blowoff top in the US$. Investment demand - institutional - should reignite and match strong trends seen in retail demand as the decline in the US$ extends once the Fed pivots in 2023. We expect China to largely be more open in 2023 than 2022 creating an added tailwind. In addition, Silvers byproduct characteristics ensures it can't respond as quickly as other metals to demand pressures and deficits. Prices should average $22.50/oz for 2023, with a low-high range of $18-28/oz.

Base case: 2023 average price forecast $22.50/oz:
The combination of 1) continued strong industrial and retail demand, 2) potential for investor resubscription as the main precious metals overhang (supersized Fed hikes) are behind the market into 2023 given falling inflation and stumbling growth, and 3) limited stock availability, all create asymmetric upside risk for Silver.
2023 high-low range: $18/oz (new physical/fundamental post-COVID floor) - $28/oz (series of highs in 2021).

(50% probability)

Alternative scenarios to Silver's base case:

Bullish case (~$30+/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 drivers; stronger growth in emerging (e.g.: automotive, electronics & 5G apps) and/or accelerated use in renewable energy which governments are promoting
3. China: a convincing reversal of recurring lockdowns (which has driven prolonged economic weakness) leads to broad-based pent-up demand for all commodities
4. Prolonged physical tightness & stockpiling

(35% probability)

Bearish case (~$12/oz): dependent on

1. Another faster Fed hiking cycle on higher-than-expected inflation inducing further large-scale positioning deleveraging in precious
2. Slower than expected global growth or hard landing: 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
4. Hard landing in China, the US or Europe

(15% probability)

Platinum→ Playing For The (Fundamental) Pivot

Base case: 2023 average price forecast $1100/oz
2023 High – Low range = $850 - $1350/oz

Platinum is expected to post a small deficit (including investment demand) in 2023 as demand gets a boost from 1) Euro 7 regulations, 2) resilient industrial demand, 3) the continuation of China imports well over demand in anticipation of the switchover to the hydrogen economy and 4) an increase from HDD substitution outweighing declines in the jewelry sector.

While consensus expectations is for primary supply to ramp up in 2023 of 5-10% (as built-up WIP stock resulting from 2022 smelter maintenance is released), the threat of Eskom on overall production is under-estimated. Eskom has recently warned that load-shedding will increase over the next 6 to 12 months and PGMs are underpricing both Eskom risk and the ongoing & announced metal production cuts. The fundamental balance is complicated further by expected declines from Russian supply (lower productivity on equipment/part shortages due to sanctions) and secondary supply which is expected to remain subdued. Despite an expected recession in 2023, Platinum auto demand should rebound over 10% in 2023 as supply chain constraints are alleviated while HDD demand is also forecasted to increase.

We are constructive platinum, which is contingent on Gold remaining in its new bull trend and an expected global soft landing as its fundamental balance pivots from multiyear surpluses to multiyear deficits is imminent. Prices should average $1100/oz for 2023, with a low-high range of $850-1350oz.

(50% probability)

Bullish Case ($1350+/oz): dependent on

1. Off-calendar supply disruptions and/or production guidance misses
2. Gold outperformance (PT is a cheaper inflation/macro/Fed proxy) driving strong investment inflows
3. China growth outperformance unleashing pent-up demand
4. Accelerating demand on Euro7 which impacts HDD to a larger extent
5. Hydrogen demand prospects brought forward accelerating stock builds

(30% probability)

Bearish Case ($800-/oz): dependent on

1. Hard landing in China, the US or Europe
2. Faster Fed hiking cycle (large-scale positioning deleveraging in precious)
3. Persistent SA & Russian supply & destocking of WIP material into weak demand

(20% probability)

Palladium → Fundamentally Switching To A Surplus In The Medium-term But Trajectory Won't Be Linear With Volatility In The Short-term

Base case: 2023 average price forecast $1800/oz
2023 High – Low range = $1500 - $2500/oz

Structural headwinds in the form of ongoing but measured substitution in gasoline vehicles (Platinum is relatively cheaper, more readily available and less volatile than Palladium) and the nonstop increasing market share of EVs, puts palladium on a path of rising surpluses. Still with double digit supply declines from both primary & secondary supply in 2022 ensuing both Palladium and Rhodium post fundamental deficits in 2022, the outlook is fragile and unconvincing; ongoing and underpriced supply risk from both South Africa (electricity supply disruptions) and Russia (headline/sanction risk, ongoing issues sourcing reliable equipment) argue for some premium to be priced into Palladium, while fundamentally prices should be significantly lower. An auto sales recovery in 2023 (vs 2022, but not as strong as pre-pandemic levels) will drive pent-up demand and keep palladium supported near cyclical lows, while a consensual short market view & underpriced supply risks will create tactical bullish opportunities & volatile trading in 2023.

(50% probability)

Bullish Case ($2500+/oz): dependent on

1. Off-calendar supply disruptions and/or production guidance misses
2. China growth outperformance unleashing pent-up demand
3. Slowdown of BEV penetration rate (due to current ICE regulations/Euro 7, and/or skyrocketing battery material prices & lack of availability)
4. Stricter emission regs (China 7) & thus higher loadings offsetting lower growth
5. Investor short covering and/or reengagement

(25% probability)

Bearish Case ($1500-/oz): dependent on

1. Ramp up of Russian commodities supplies or destocking of Russian/SA inventories
2. Hard landing in China, the US or Europe
3. Faster Fed hiking cycle (large-scale positioning deleveraging in precious)
4. Accelerated BEV forecasts on gov support bringing forward price weakness & souring sentiment

(25% probability)