MKS PAMP GROUP

Precious Metals Outlook 2023 – revisions

Current Scorecard -- YTD Price Averages vs Original Forecasts:

- **Gold $1888.20 (vs our original forecast $1880/oz), Silver $22.53 (vs original forecast of $22.50/oz), Platinum $996 (vs $1100/oz), Palladium $1574 (vs $1800/oz) and Rhodium $11,070 (vs $13,000/oz)**

New 2023 Average Forecasts:

Gold revised up $50 to $1930/oz (from $1880/oz) – hard landing & financial instability risks escalate handcuffing the Fed. Prices will print new all-time-highs this year but conviction lies in higher floors vs runaway upside repricing

Silver revised up to $24/oz (from $22.50) - upside risks contingent on Gold outperformance & investor resubscription

Platinum unchanged at $1100/oz as tailwinds from Golds upside offsets the expected incremental hit to demand

Palladium revised lower to $1600/oz (from $1800/oz) on negative M2M performance, continued unwind of the Russian geopolitical premium, inventory destocking & higher hard landing risks

Rhodium revised lower to $11,500/oz (from $13,000/oz) on negative M2M performance, a slower than expected China reopening & higher hard landing risks

Explanation of Revisions for Gold & Silver: Why is this time different and why we are comfortable revising up now?

- **This is "it":** The failure of SVB and Signature Bank, despite being a "controlled explosion" from US policymakers, is a new *US-centric catalyst* and a game changing event for Gold and Silver. The forced UBS takeover of CS simply highlights pronounced global contagion fears. The developments in March officially confirm that the Fed has broken something more important within the broader financial markets, not just within a specific rate-sensitive sector (tech & crypto in 2H'22).

- **New risks & Fed U-turn:** There is now a higher risk of 1) future bank failures *(the Fed just hiked and bank runs in the digital age are extraordinary fast when the regulatory response is notoriously slow)*, 2) more policy bailouts and 3) weaker economic activity as credit availability &

financial conditions tighten. That's amidst a sticky inflation backdrop and all of which are positive gold drivers. A Wall Street crisis is increasingly likely to morph into a Main Street crisis which will force the Fed to U-turn & reverse course on policy this year. Historically and for decades, the Fed has overdone it, shown by the fact that Fed Funds tend to peak and not remain 'higher for longer' even in higher inflation regimes (e.g: 1980s)

- **What is already being priced?** Gold has partly priced in the lower probability of US soft landing; its also somewhat priced in more financial & economic uncertainty and less Fed hikes. Its not really pricing further policy bailouts & backstops and/or Fed rate cuts (prices then would usurp the previous 'peak liquidity' highs of $2070/oz). Gold is waiting for that other shoe(s) to drop which will likely take the form of a notably weaker US$, already under pressure from relatively tighter & hawkish monetary policy in Europe; that will provide a positive feedback loop for Gold prices

- **What is not being priced – geopolitics**: geopolitics is quietly escalating while financial markets have been focused on the US & European banking crises. Chinas clout is increasing, Russia is moving nuclear weapons to Belarus, there's a diplomatic deal between Iran & Saudi Arabia and a growing influence of China & Russia in Africa, all which is all driving greater regionalization. Not to mention ongoing and escalating social unrest (France, Israel, Latam) and strikes (UK, Europe).

- **Déjà vu March 2022:** We were apprehensive to revise up Gold forecasts given the similarities to March 2022, and the fact that it is still only Q1. Last year our original forecast in January 2022 was near target, but the upward revisions following the shock Russian invasion of Ukraine in March 2022 proved overly bullish; outsized gold rallies have shown to be extremely short-lived (years 2011, 2020 & 2022) especially if it hinges on geopolitics. This time geopolitics is not driving our higher forecast (it would be a tailwind and upside risk to our forecast) nor is it driving gold participation.

- **The marginal participant vs fundamentals**: Fundamentally, the backdrop is mixed to slightly bearish; Gold & Silver coin/bar demand has been extremely strong with volumes & premiums ramping up but that contrasts with largely net physical discounts in key regions due to destocking. Still, fundamentals play less of a role at higher prices (they come into play on a price correction) and the marginal player is both tactical & strategic investor demand. Investors, who remain very underweight precious metals, should reengage further in safehavens like Gold & Silver this year as financial stability risks and the ongoing banking crisis spurs a continued rethinking and reshuffling of wealth. For now, extreme volatility and the lack of liquidity in key safehaven assets (Global Fixed Income) is keeping capital undeployed, akin to the extreme financial market pain in 2H'22. Overall, the backdrop for US stocks remains fragile where we expect a grind lower and just simply tougher returns (in sharp contrast to the linear outperformances seen in 2010-2020 and 2020-2022 which hinged on easier monetary policy), which is a supportive backdrop for alternative assets to win over subscription. In addition, we expect Central Banks to ramp up their dedollarization programs this year and especially into the 2024 US elections, adding to golds support.

- **In a nutshell:** the Fed will have to choose between higher inflation, a harder landing or financial instability; all outcomes will keep safehavens in play, and Gold prices will likely retest and pierce all time highs ($2070/oz) this year. Silver is overdue a strong upside repricing once/if investors resubscribe (capital is just not being convincing deployed). Whether Gold forges new territory above all-time-highs and remains there depends on global policy making and the ability to abate & contain ongoing confidence fears. Where we have conviction is that the gold floors are higher and thus we have conviction in shifting up our average Gold forecast for 2023 so quickly . ~$1600/oz was the original Gold (physical) floor in 2H’22 which rerated to ~$1800/oz in Q1’23; that has shifted up to $1900/oz for the remainder of the year.

Risks to our bullish forecast include:

1. Severe credit tightening and /or extremely tight financial conditions (gold is first & foremost a ‘liquidity play’ then a ‘fear hedge’) which’ll drive a stronger US$ and deflationary pricing across most assets
2. Large scale physical deleveraging and/or CB selling or monetizing Gold as pricing in local currency terms remains lofty.
3. A US or European hard landing *before* policy responds: new recession lows put in before responsive easing monetary policies lead to larger rallies
4. The Fed, against all odds, walks the increasingly challenging tightrope and delivers a soft landing and brings inflation to target