MKS PAMP GROUP

Metals Strategy | Seasonal Report: Outlook for 2H 2021

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Seasonal Trends into 2H

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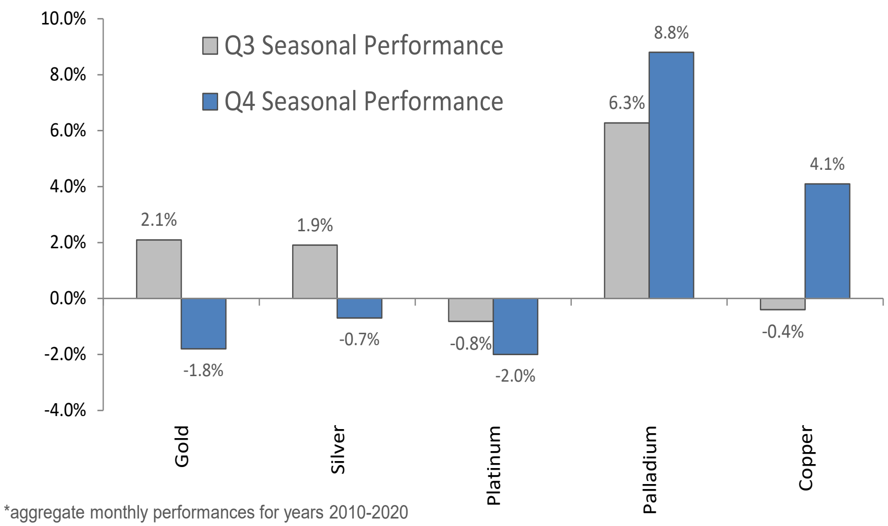
Seasonal trends* alone don't form the foundation of *any* trade idea (given the shortcomings around this typical data analysis), but they're usually a useful tool to supplement existing ideas, & help explain out/underperformances. Given we've entered the homestretch for 2021, its perhaps worthwhile to provide a review of how 1H 2021 performances stacked up against historical seasonal trends, and provide an overview of the outlook for metals performances and how they "should perform" into 2H and over the summer lull (July 4th week-end—Labor Day).

- **1H'21: Gold & Silver defied seasonal historical norms on both price (down) & flows (outflows). Platinum adhered to seasonal influences. Palladium & Copper outperformed tremendously due to idiosyncratic factors**
- **Peak Summer (now until Labor Day): All precious metals & JPY are traditionally winners; EM Equities, Oil & EMFX are losers. DM Equities & SPX put in neutral performances.**
- **2H'21 Outlook** *(if historical seasonal trends are any indication):* **Palladium should fly (+16%), Copper to post solid gains (+4%), Platinum is usually pressured and Gold & Silver are mixed (strong August gains of ~4%, but investor purges in Q4 usually dampen prices)**

Seasonal 2H metals performances since 2010



*aggregate monthly performances for years 2010-2020

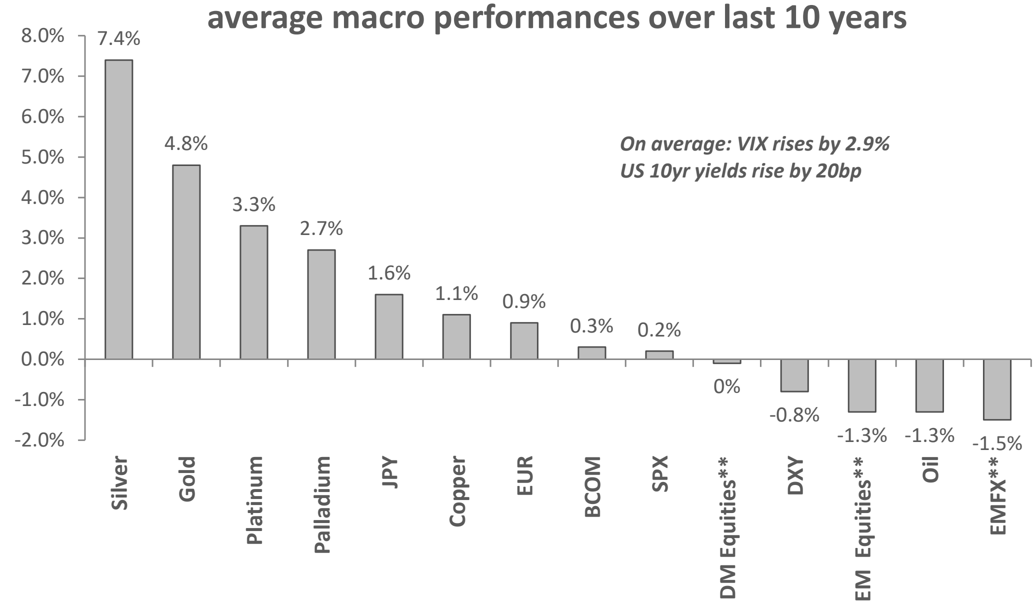
Source: Bloomberg, MKS PAMP Group

**monthly and quarterly performances for the 10 years since 2009 (2010-2020). Seasonal trends n commodities can be driven by large and mixed of forces, including traditional fundamental influences (e.g.: conventional re/restocking periods centered around holidays, weather & demand trends, corporate related budget financing & hedging targets & practices) as well as more new-age macro dynamics (e.g.: money flows around historically busy or illiquid periods, investor performances & trends and Fed hiking cycles). Certain commodities are also much more seasonally sensitive & reactive (NG, Ags/Softs) vs others (Gold which is arguably a rate or currency asset, driven by the seasonality of investor flows, and less so a "commodity").*

Macro assets:

- Precious metals are solid outperformers into Labor Day (see their August seasonals on pages 3-4), with Silver (+7.4%) & Gold (+4.8%) as macro investors take a step back from typical assets (DM equities & SPX put in flat performances) and the USD$ traditionally falls (-0.8%)
- Some of this seasonal weakness can be explained away by past dovish expectations around Jackson Hole, the 2011 European crisis (which skewed some data), and preemptive buying ahead of the seasonal physical demand pickup in September.
- EM assets (from EMFX to equities) traditionally face headwinds.

Peak Summer Seasonals*: average macro performances over last 10 years



* Peak Summer dates & performances evaulated from July 5 - August 31st, from 2010-2020

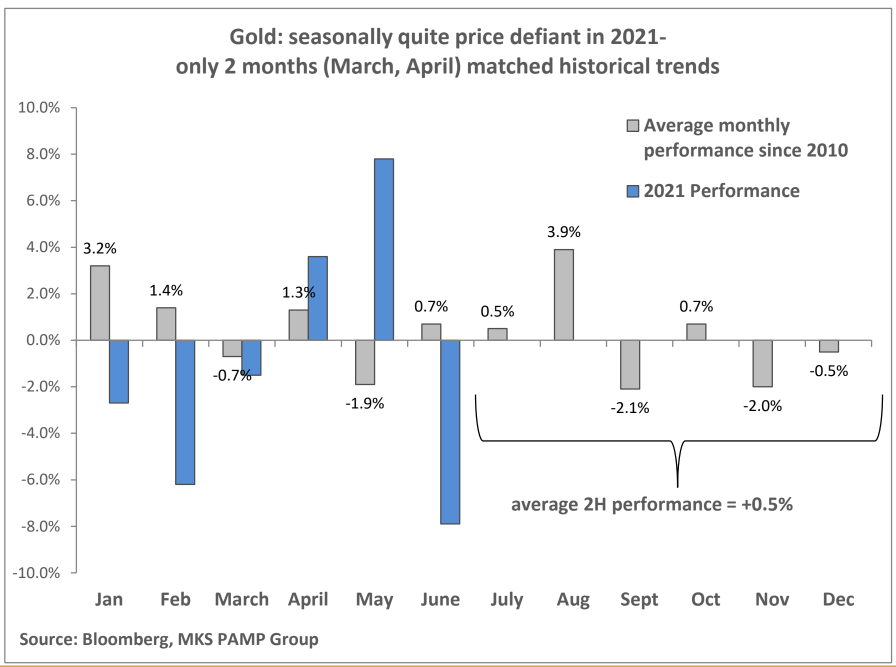
** MXEF index (Emerging Mkt Equity Index); MXWO Index (Developed World Equity Index); EMFX (JPMs EM FX Index)

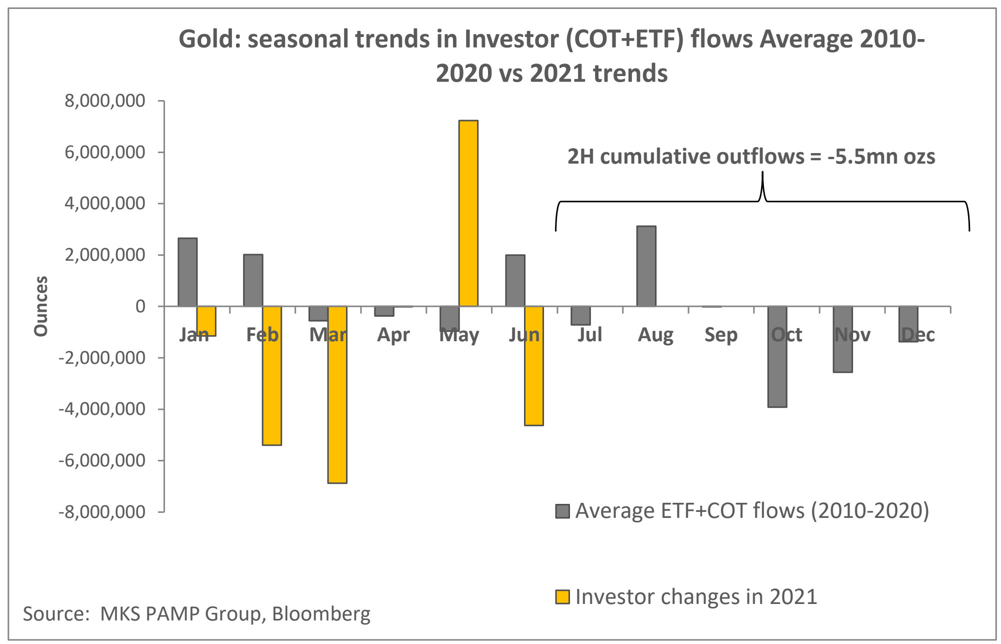
Source: Bloombrg, MKS PAMP Group

Backdrop: Seasonal trends** in commodities can be driven by large and mixed of forces, including traditional fundamental influences (e.g.: conventional re/restocking periods centered around holidays, weather & demand trends, corporate related budget financing & hedging targets & practices) as well as more new-age macro dynamics (e.g.: money flows around historically busy or illiquid periods, investor performances & trends and Fed hiking cycles). And, certain commodities are much more seasonally sensitive & reactive (NG, Ags/Softs) vs others (Gold which is arguably a rate or currency asset, less a commodity).

Precious Metals: Gold

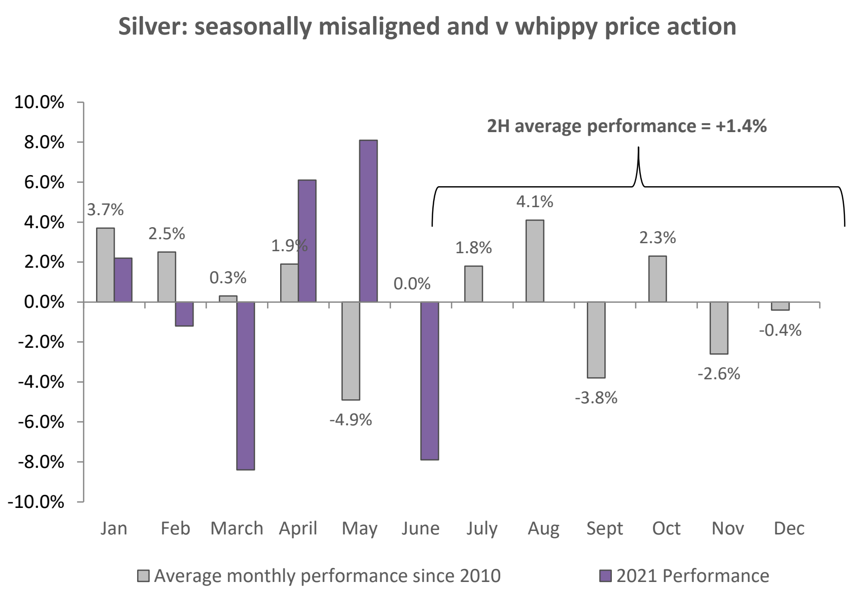
- Gold was seasonally quite defiant in 2021— only 2 months (March, April) matched historical 10yr average trends (2010-2020).
- Gold saw large investor outflows (in 1H '21) of -10.8mn oz, when it should've seen net large *inflows* of +4.8m oz (average of ETF+COT inflows the past 10yrs). The Q1 downsizing in flows and price remains an anomaly to many.
- In 2H, the historical cumulative average of gold flows is net -5.5mn oz (mostly ETF outflows seen in Q4). There's certainly 'room' for ETFs to deleverage as they hold ~100min oz, but so far have been resilient into taper talk. Theres less 'room' for COT to deleverage unless they flip short in 2H'21 (as was the case 2018-19); that's unlikely unless the Fed turns super hawkish at Jackson Hole.
- Gold prices also defied historical norms. 1H'21 or YTD Gold is down -7%, and over the past 10yrs it should be +4%. Golds meant to close 2H on average flat (+0.5%).
- August flows should be interesting (especially into Jackson Hole): its supposed to see the largest investor inflows of +3.1mn oz.
- Q4 is usually the main deleveraging period and on average Gold needs to contend with -7.8mn oz of sales. 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/hike in Decembers) are all potential reasons for this past seasonal liquidation.
- The strong expected 2H outflows and flat gold price action probably highlights a ramp up in physical demand (e.g.: by Diwali-related Indian buying).



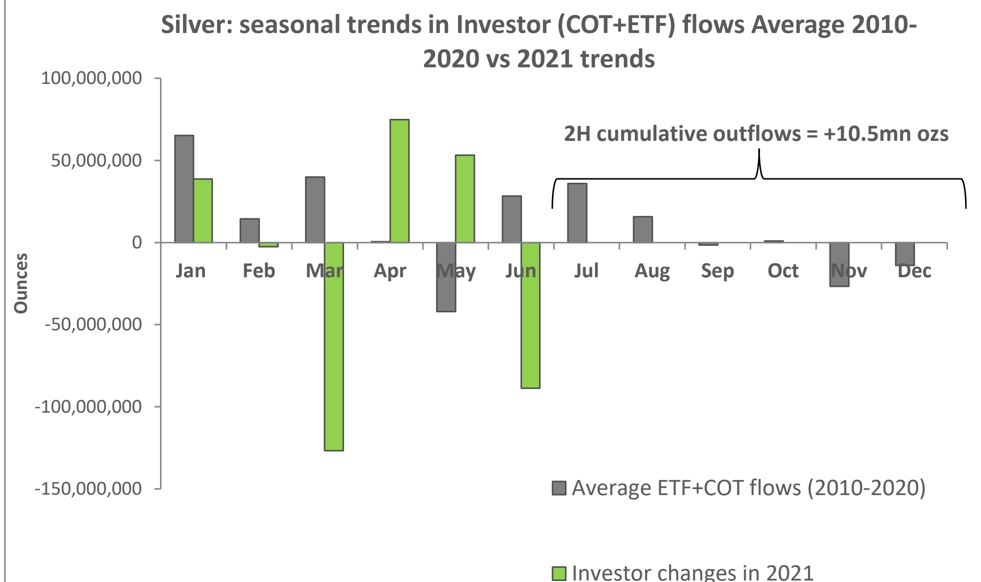


Precious Metals: Silver

- Silver was characteristically whippy in 1H'21 putting in –/+8% monthly swings; it also largely defied 1H historical trends (on average +3.5%) by being down –1.1% in 1H'21.
- Silver (like Gold) also saw 1H investor outflows of over 50mn oz, when it should've seen net large *inflows* averaging 106m oz (average of ETF+COT inflows the past 10yrs).
- In 2H, the historical cumulative average of Silver flows is +10mn oz, which has been associated with relatively better 2H price returns (vs Gold) of +1.4% .
- August is seasonally the best month for Silver (all year) with gains of +4.1% on average. We have already overcome the seasonally worst month (May) where its meant to post losses of –5% as investors adhere to the traditional "sell-&-go-away" mantra by deleveraging on average –42mn oz.
- Silvers strong outflows in March & June 2021 (-127mn oz & -90mn oz respectively), showcase the largescale influence investors have in a short amount of time. Currently, investors still own over 1bn oz of Silver, much of which was accumulated >$24/oz and any outflows will be contingent on Golds outlook.



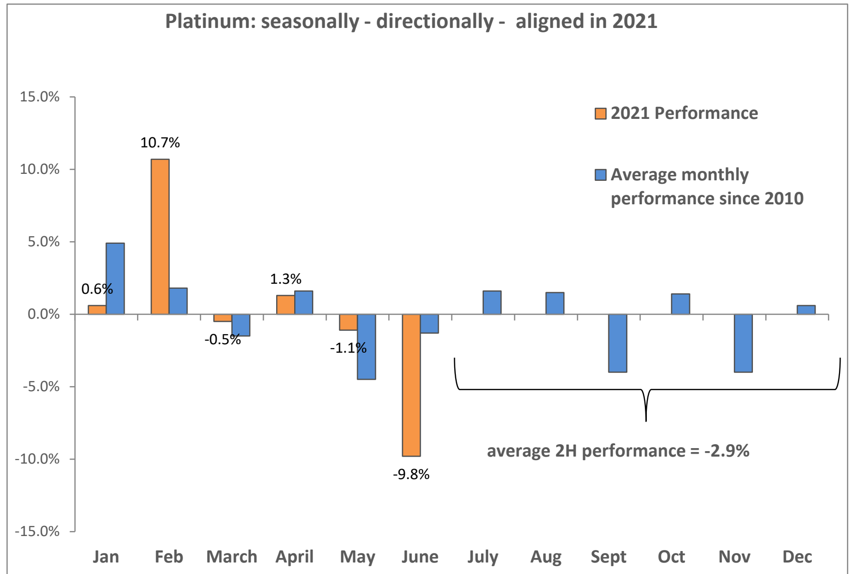
Source: Bloomberg, MKS PAMP Group



Source: MKS PAMP Group, Bloomberg

Metals: PGMs & Copper

- Platinum kept its seasonal trends in 1H'21—falling / rallying when it should. Its up 1.2% in 1H'21/YTD, which is spot on vs historical trends. That's notable in that Gold defied trends (due to whippy investor flows), while Platinum seems to adhered to fundamental influences.
- Palladium has put in a strong 1H, up almost 12%, which seems to "early" by seasonal trends. Its meant to rally almost 16% in the 2H vs putting in only mild gains in 1H (of 3.7%); Supply issues (Anglo, Norilsk) and tighter relative demand fundamentals have pulled demand forward.
- Copper has put in bull market gains in 1H'21 (+22%) as the macro reflation trade, short supplies and V-shape rebound in growth ensured outperformance. Like Palladium, it may have borrowed forward from strong seasonals.



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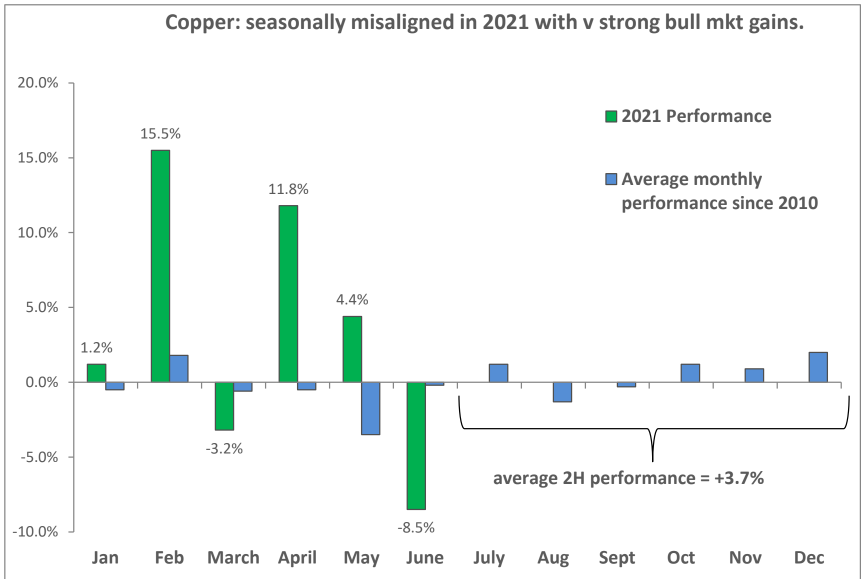

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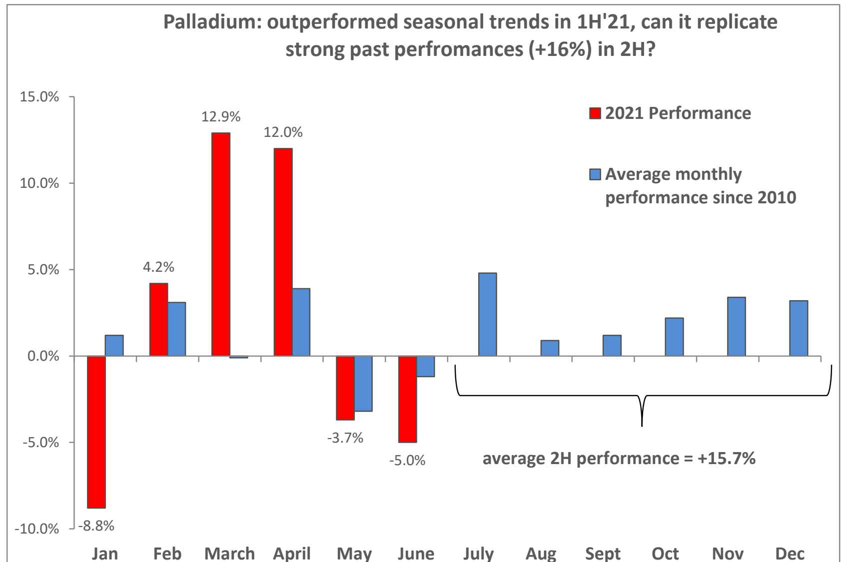

Source: Bloomberg, MKS PAMP Group

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