

Precious Metals: Review and Outlook

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www.preciousmetalsinsights.com

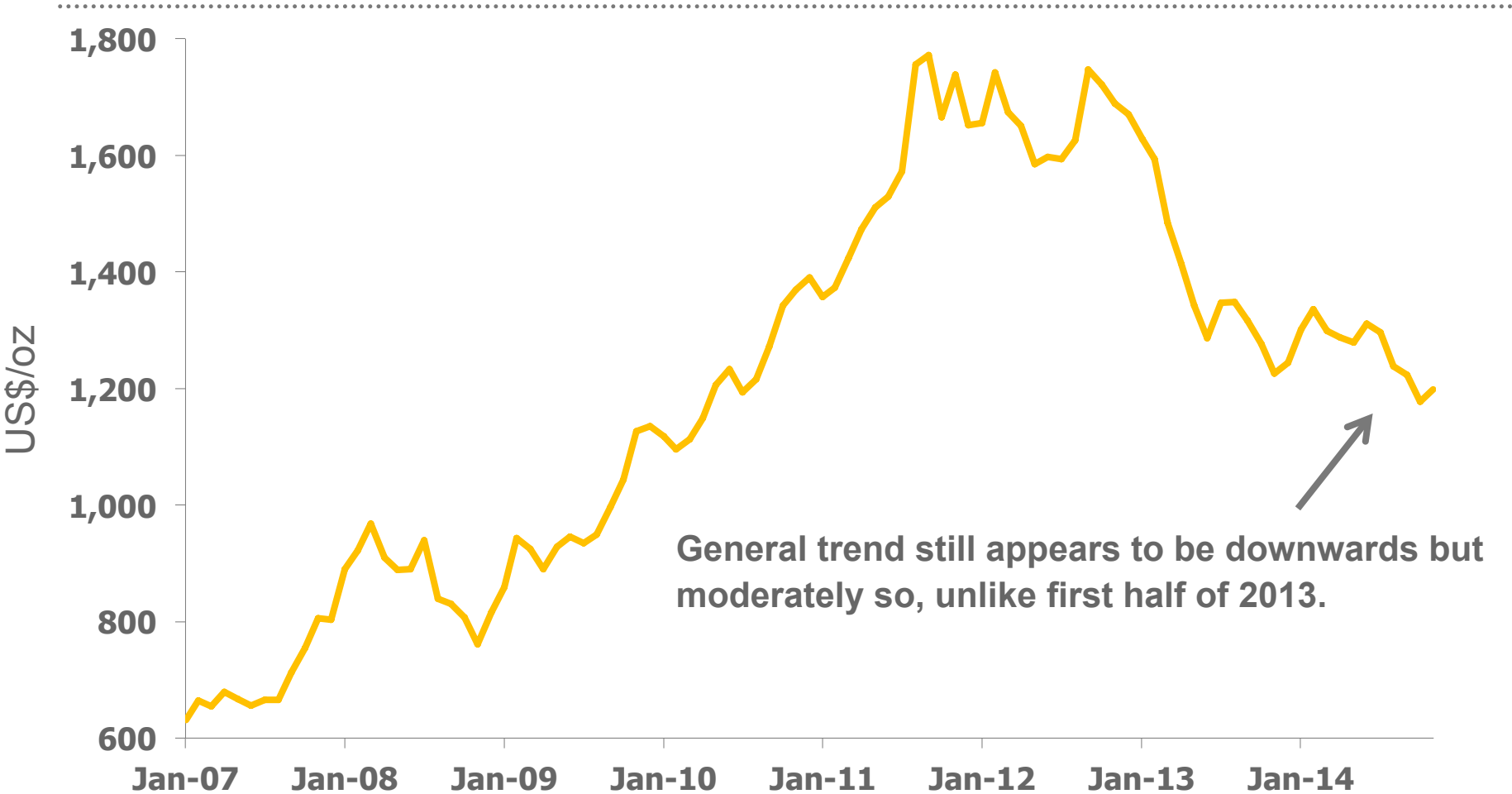
PRECIOUS METALS: REVIEW AND OUTLOOK

- Economic Assumptions
- Gold
- Silver
- Platinum
- Palladium

ECONOMIC ASSUMPTIONS

- Moderate slowdown in global GDP growth:
 - US the major exception
 - Eurozone and Japan especially weak
 - China moving towards 6% rate of growth
 - EMs generally 'underperforming'
- Tighter monetary policy in US but Fed very cautious about raising rates
- ECB engages in large-scale QE
- Continued appreciation of the USD against most currencies
- Inflation to stay at trivial levels in 2015; deflation threat in Europe/Japan
- Commodity prices in general remain depressed
- US stock market to be more volatile but still trend up, this year at least
- No 'systemically important' financial or political crises

GOLD PRICE: MONTHLY AVERAGES JAN-07 TO DEC-14



Source: LBMA

GOLD PRICE OUTLOOK 2015: CONSIDERATIONS

Supply/Demand

- Supply from both mine production and scrap will decline in 2015.
- Reduction in supply this year will not be large enough to affect price.
- Global jewellery consumption will increase but fail to reach 2013's level.
- Demand growth in China and India will be solid but unspectacular.

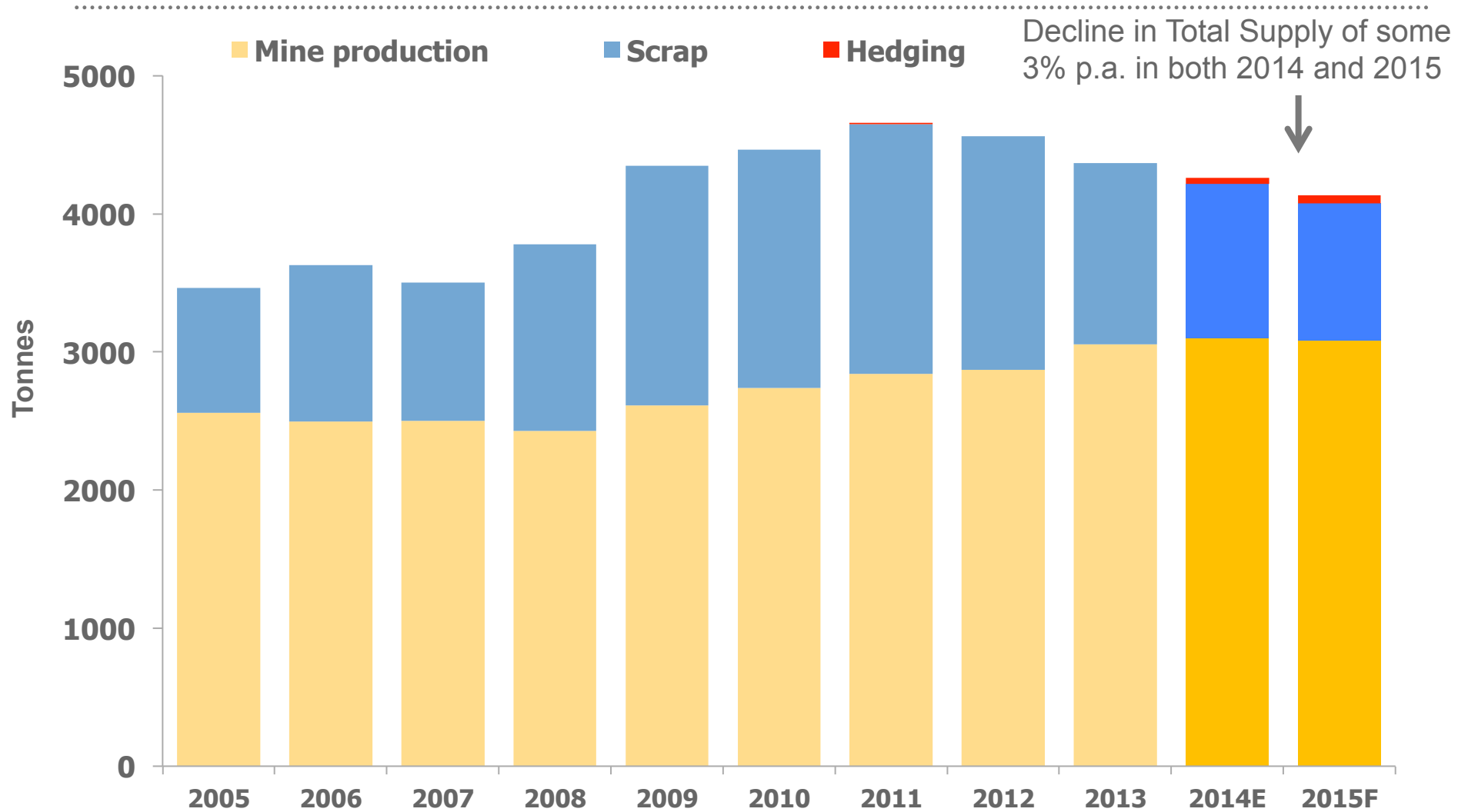
Bullion Surplus Absorption

- 'Surplus' will fall in 2015 but remain very large by historical standards.
- Net official sector purchases to continue but at a reduced level.
- Investment mostly limited to short term speculation and bars & coins.
- No grounds at present time for expecting a new wave of investor purchases.

Economic & Political Backdrop

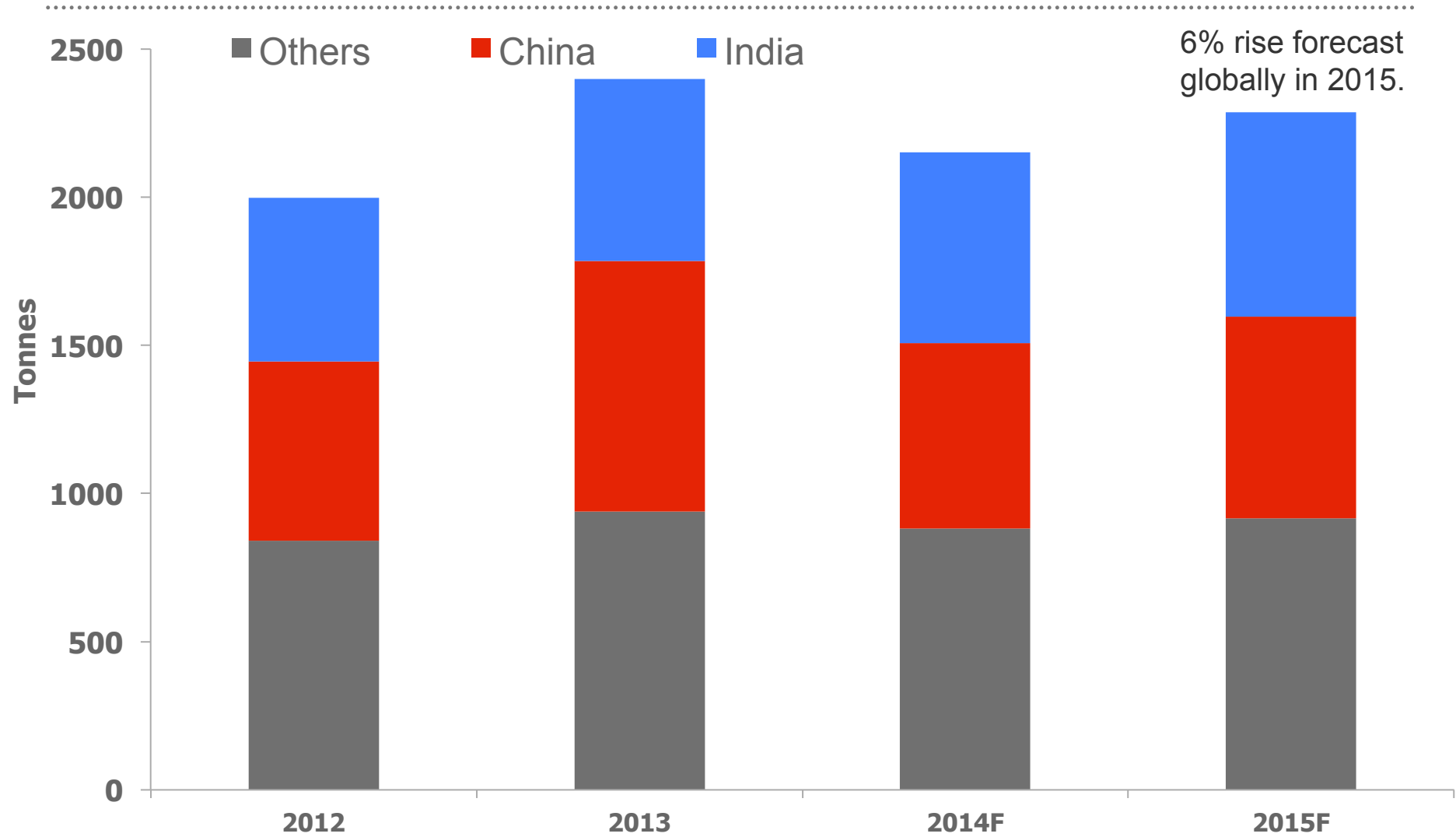
- Continued appreciation of the USD will be a major negative for gold.
- Tighter monetary policy in the US, with interest rates set to rise in 2015.
- Inflation to stay at trivial levels in 2015; deflation threat in Europe/Japan.
- Stock market to be more volatile but still trend up, this year at least.
- Political risk may from time-to-time support prices but to a limited extent.

GLOBAL GOLD SUPPLY: 2005-2015F



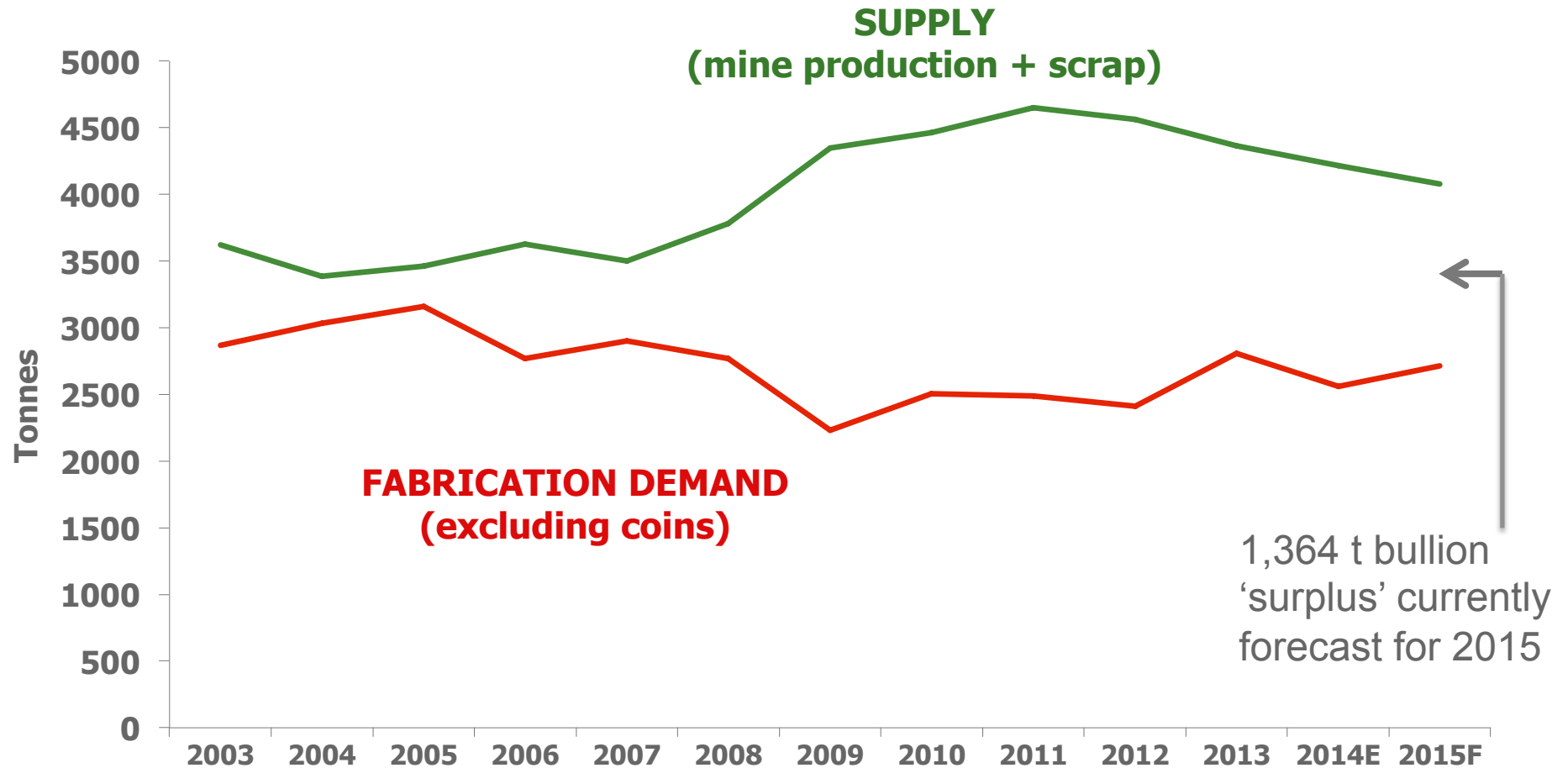
Source: Thomson Reuters GFMS; Precious Metals Insights

GLOBAL JEWELLERY CONSUMPTION: 2012-2015F



Source: Thomson Reuters GFMS; World Gold Council; Precious Metals Insights

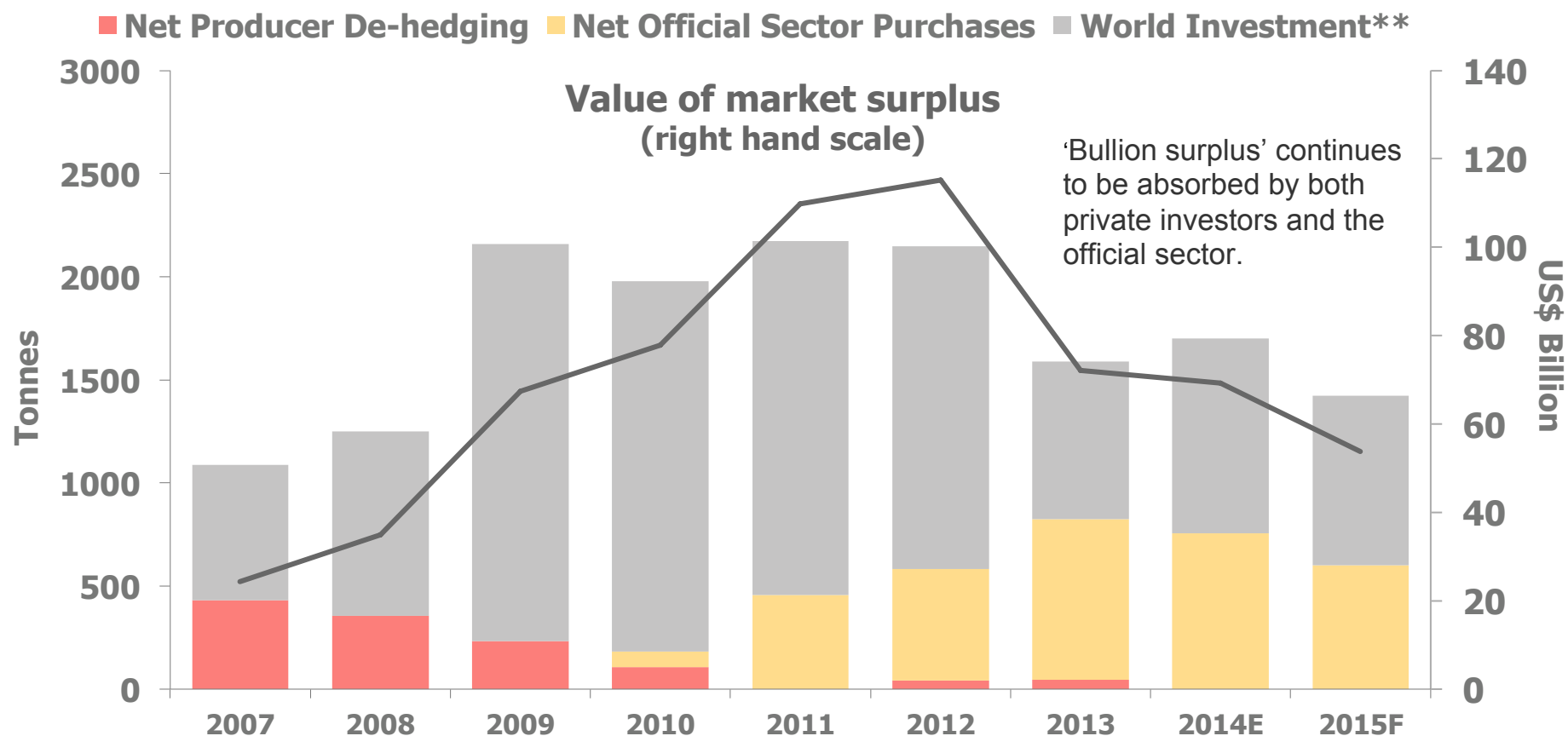
STRUCTURAL GOLD MARKET SURPLUS* FORECAST TO NARROW IN 2015



*Surplus = Mine Production plus Scrap minus Fabrication (excluding all coins)

Source: Thomson Reuters GFMS; Precious Metals Insights

GOLD MARKET SURPLUS* ABSORPTION

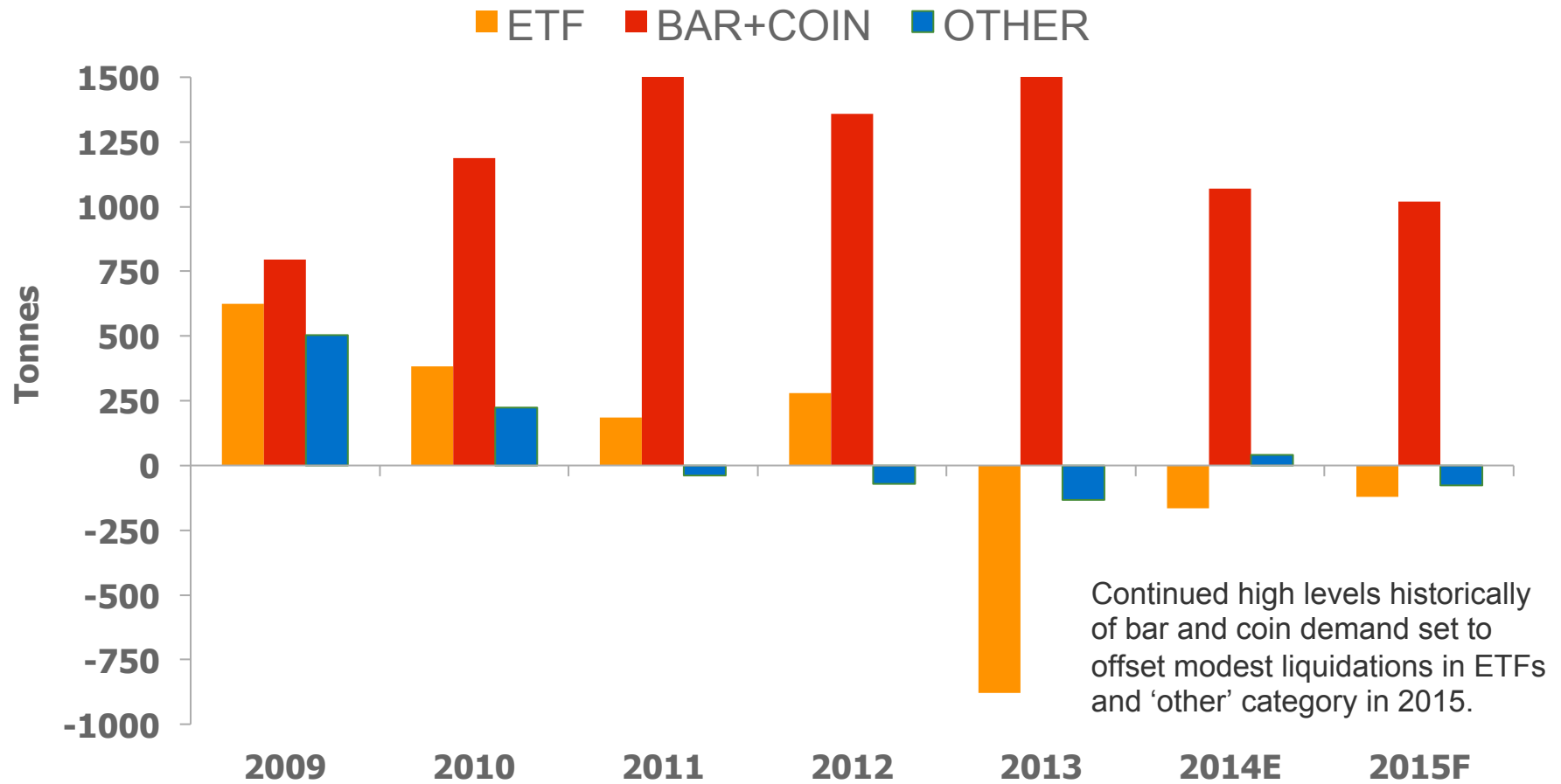


* Mine Production plus Scrap minus Fabrication (excluding all coins)

** World Investment is the sum of Implied Net Investment, Physical Bar Investment and all Coins & Medals

Source: Thomson Reuters GFMS, Precious Metals Insights

WORLD INVESTMENT*: ANNUAL BY SOURCE

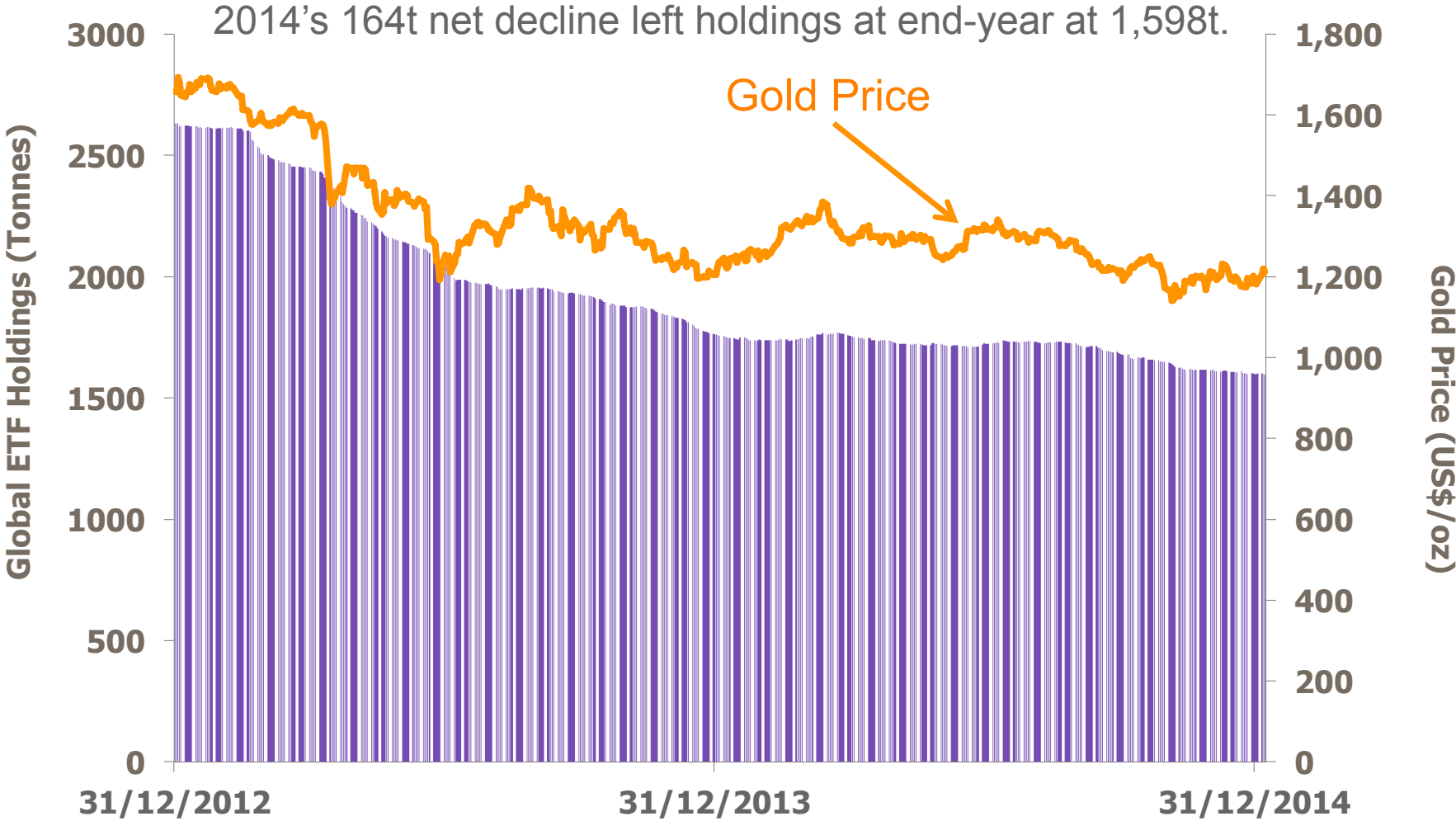


*World Investment is the sum of all categories of investment on a net basis in terms of their physical market impact.

Source: Thomson Reuters GFMS, Precious Metals Insights

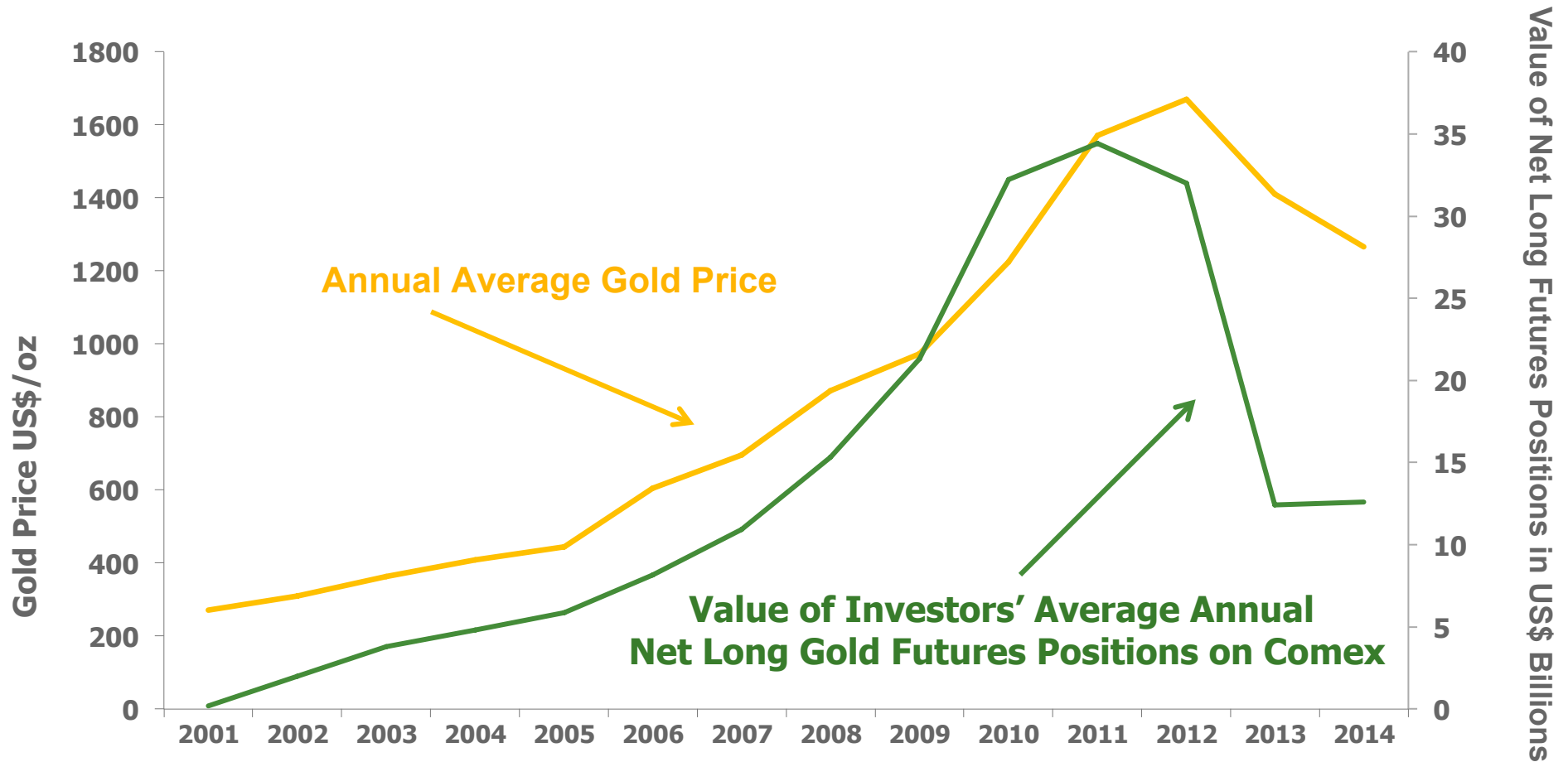
GLOBAL ETF HOLDINGS & GOLD PRICE

(daily, 31/12/2012 to 07/01/2015)



Source: Bloomberg

VALUE OF INVESTORS' NET FUTURES POSITIONS ON COMEX* AND THE GOLD PRICE



*Investors' net positions taken as sum of net non-commercial and non-reportable futures positions; annual averages

Source: CFTC; Precious Metals Insights

GOLD SUPPLY / DEMAND SUMMARY

-
- Drop in supply forecast for 2015, with mine production beginning a secular decline and a further fall in recycling expected. Overall reduction in supply not large enough to matter this year, except (at the margin) perhaps in terms of investor sentiment.
 - An increase in jewellery demand will support the price but not drive it higher. (A partial exception here is buying for Chinese New Year.) Importantly, demand growth this year in the two largest consumers, India and China, will be limited by domestic factors.
 - The fundamental market 'surplus' should fall in 2015 by some 300 tonnes to +/- 1,350 tonnes. However, this otherwise positive development will be offset by a reduced level of interest in purchasing gold from both private investors and the official sector:
 - Net global investment demand forecast to fall with this due mainly to lower bar + coin purchases plus some on-going ETF and OTC market gold sales
 - Official sector purchases are expected to decline from the exceptionally high levels recorded in 2013 and 2014
 - Underlying supply / demand factors (especially jewellery demand) will become more positive for gold over the medium term but their effect will be relatively limited in 2015.

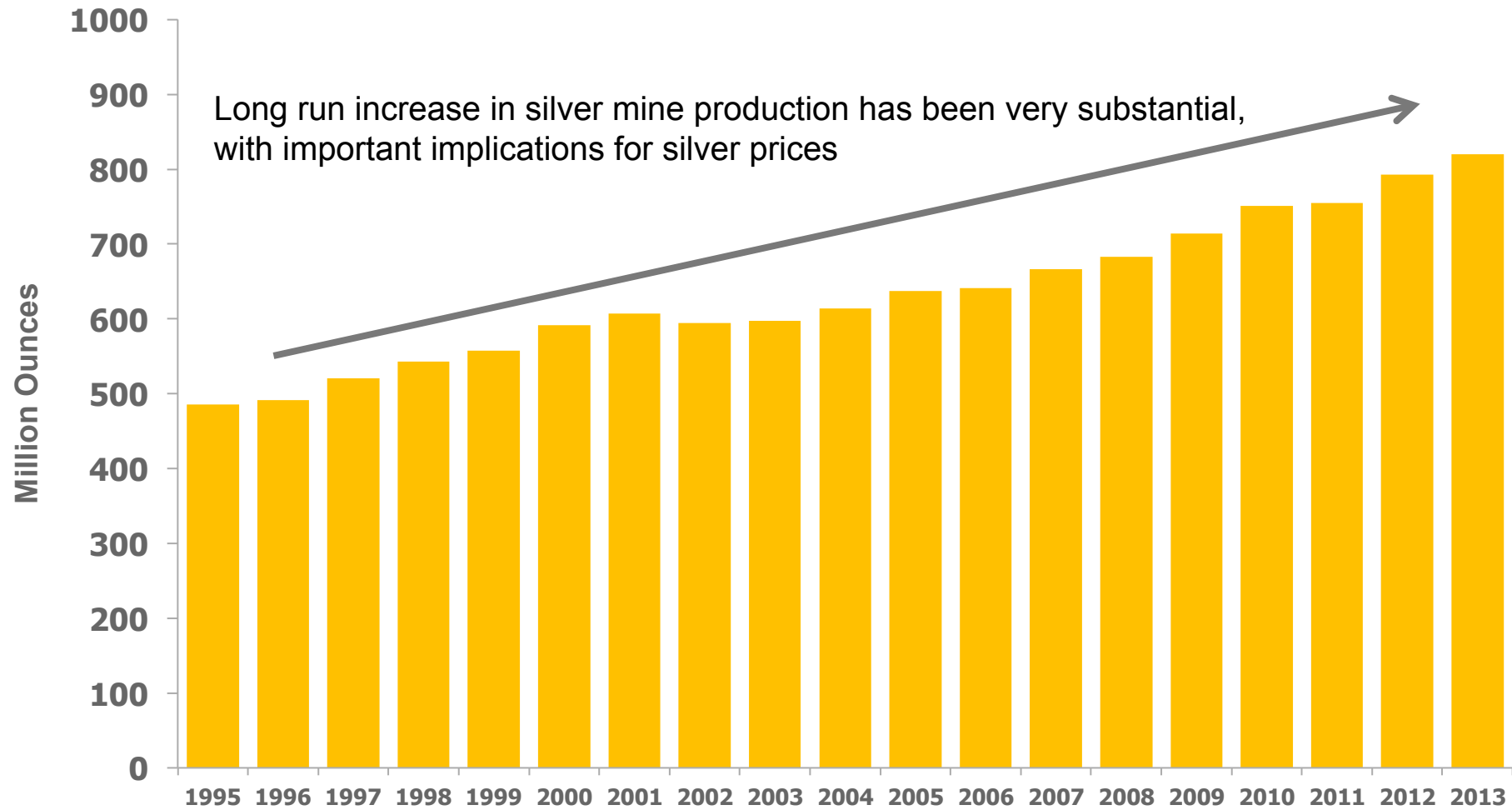
2015 GOLD OUTLOOK: CONCLUSIONS

- Chinese New Year related demand plus investors' concerns over Greece, ECB policy and potential financial impact of oil price collapse, CHF revaluation driving a short term price rally.
- A critical observation is that this rally does not represent a secular change in trend for gold. Indeed, it is probable that the upward move will run out of steam in the next few weeks and then be followed by a renewed slump in the price.
- Gold's supply/demand fundamentals this year will not support a recovery in the price unless investors' or central banks' appetite for gold increases markedly. In fact, the forecast is for investment demand and official purchases to both decline a little in 2015.
- A general move back into gold by investors in 2015 is highly improbable given forecasts of a stronger USD, limited interest rate rises in the US, falling inflation and continued stock market gains. Although perceived financial and political risk may grow, this will act more as a brake on existing longs selling than an incentive for new investor purchases.
- Positive longer-run economic factors for gold, e.g. the inevitable bear market for stocks or unsustainable debt levels and their consequences are not expected to have an impact this year.
- 2015 is therefore likely to see another, probably final, leg down in the gold price. PMI's current forecast is for a trading range of \$1060-\$1320, with an annual average of \$1173.

SILVER PRICE: MONTHLY AVERAGES JAN-07 TO DEC-14

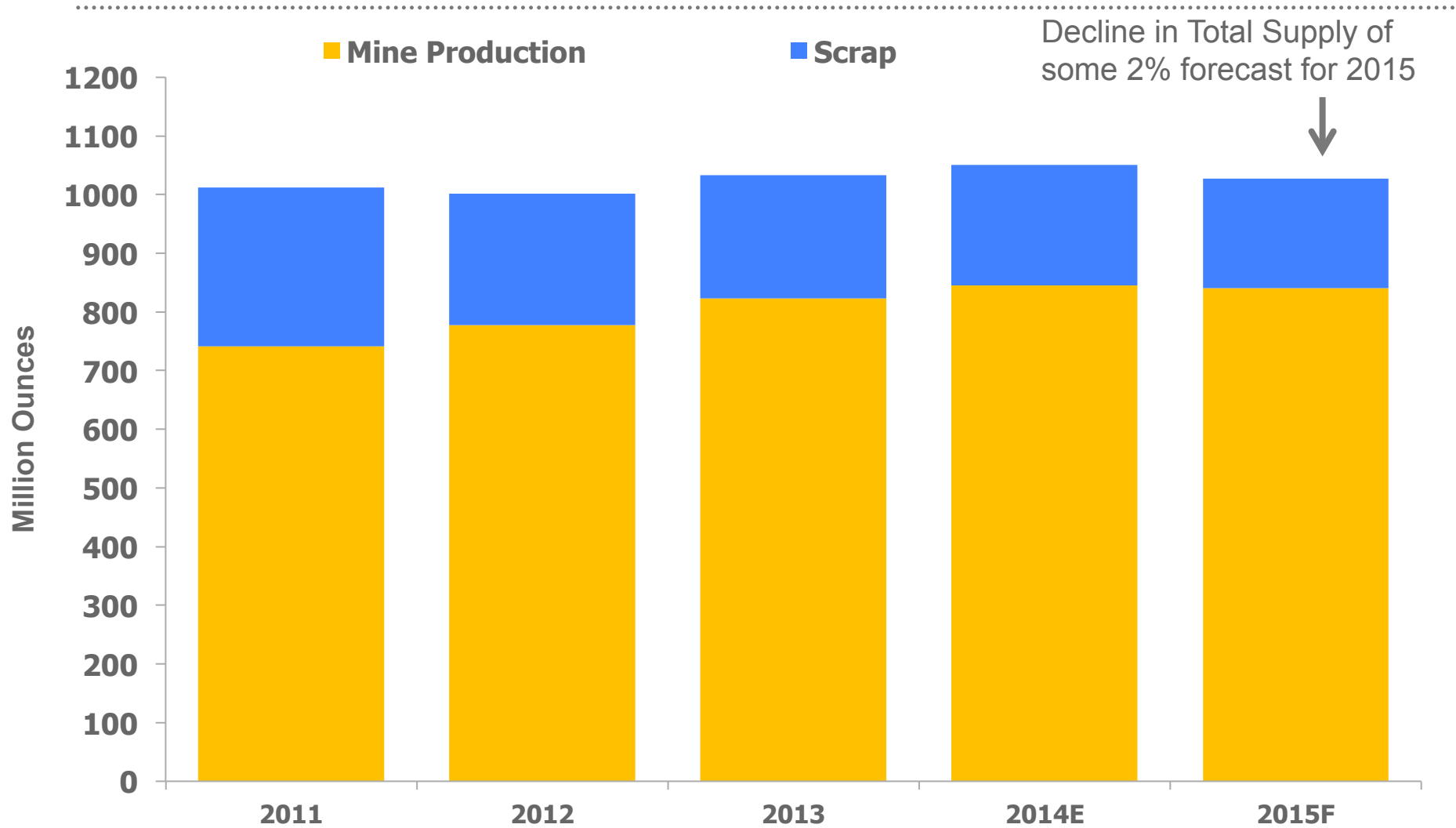


GLOBAL SILVER MINE PRODUCTION: 1995-2013



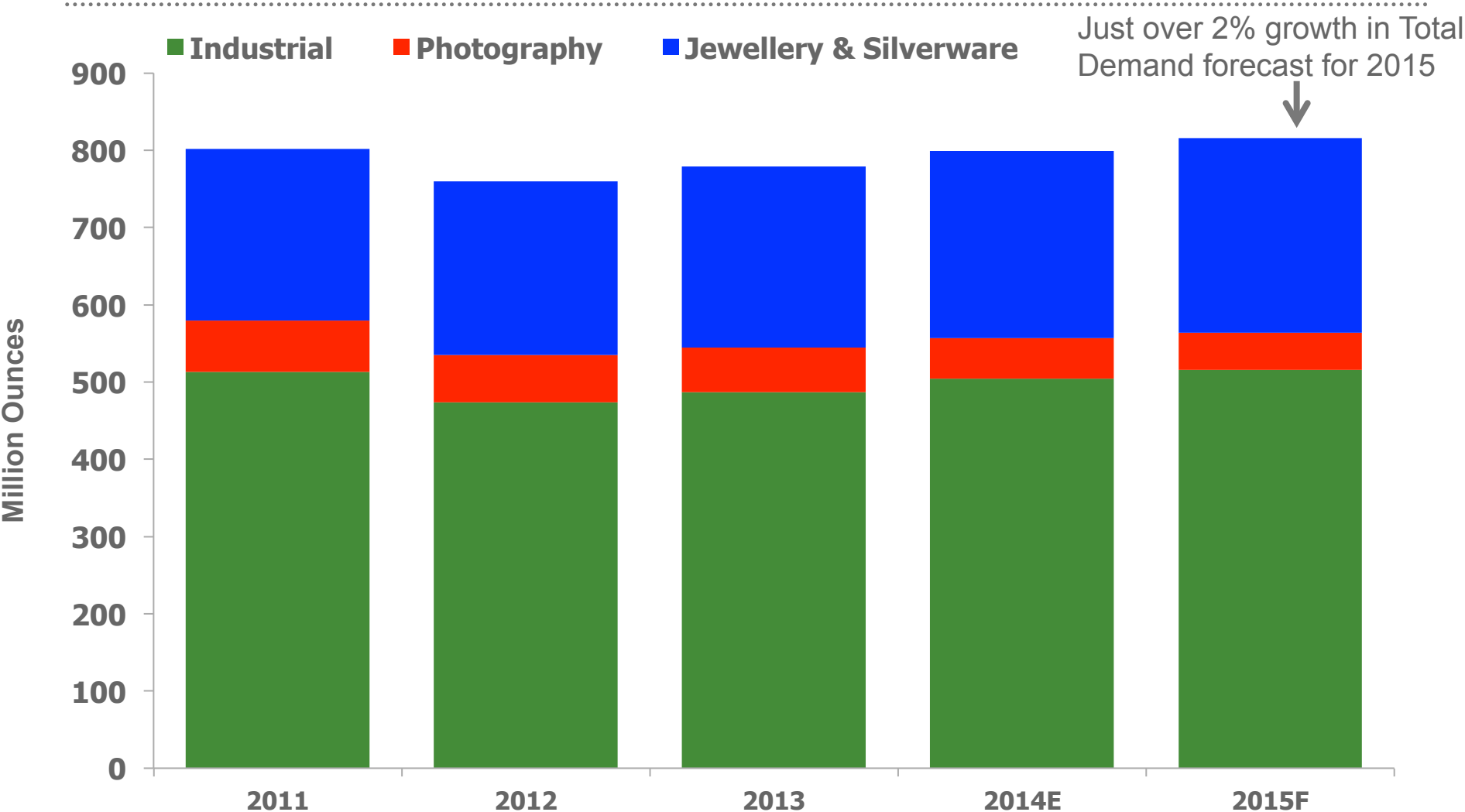
Source: Thomson Reuters GFMS

GLOBAL SILVER SUPPLY: 2011-2015F



Source: Metals Focus; Precious Metals Insights

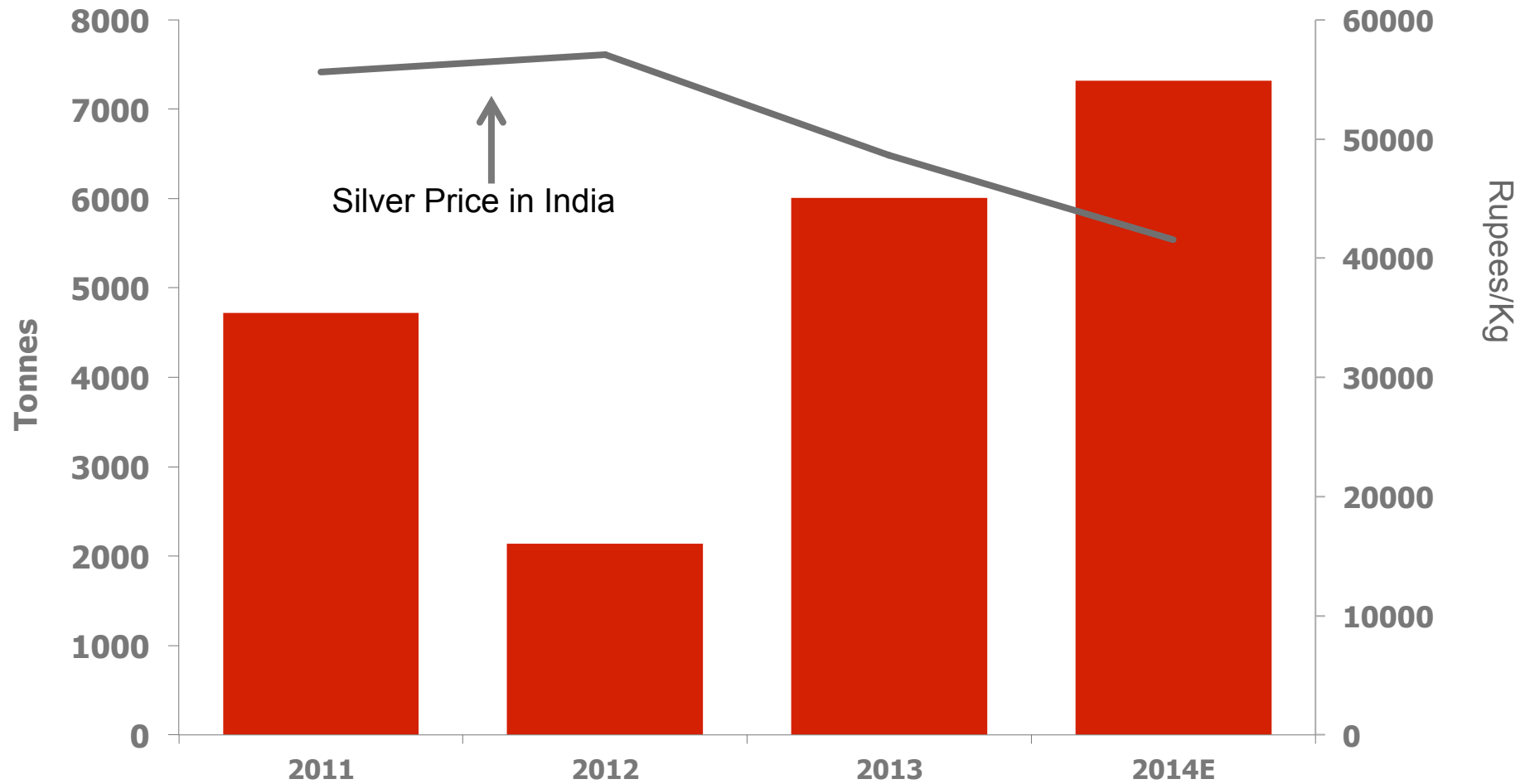
GLOBAL SILVER FABRICATION DEMAND: 2011-2015F



Source: Metals Focus; Precious Metals Insights

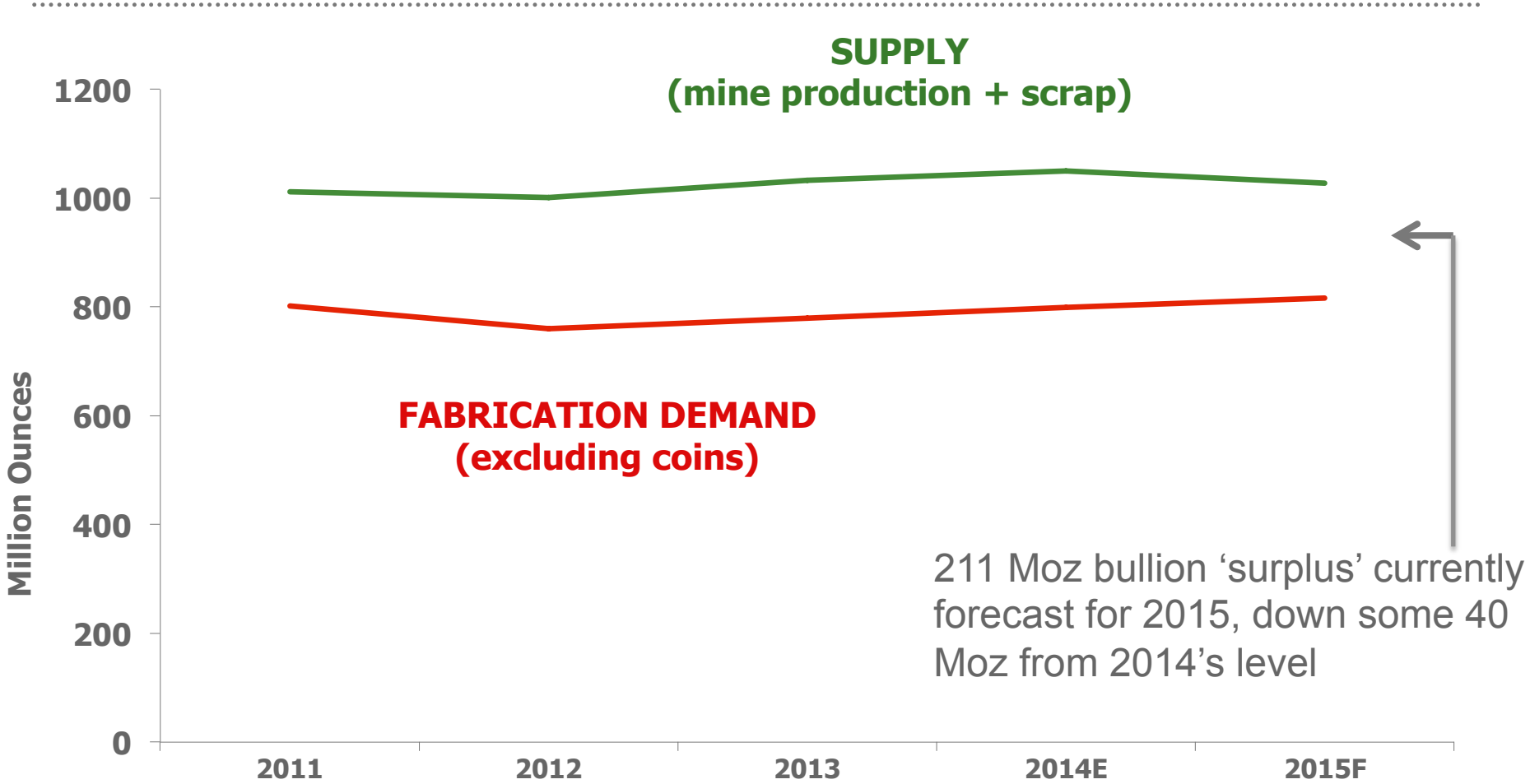
INDIAN SILVER IMPORTS*

235 Moz may have been imported in 2014, equivalent to 22% of global supply



*Bullion; Semis; Powder
Source: GTIS, Precious Metals Insights

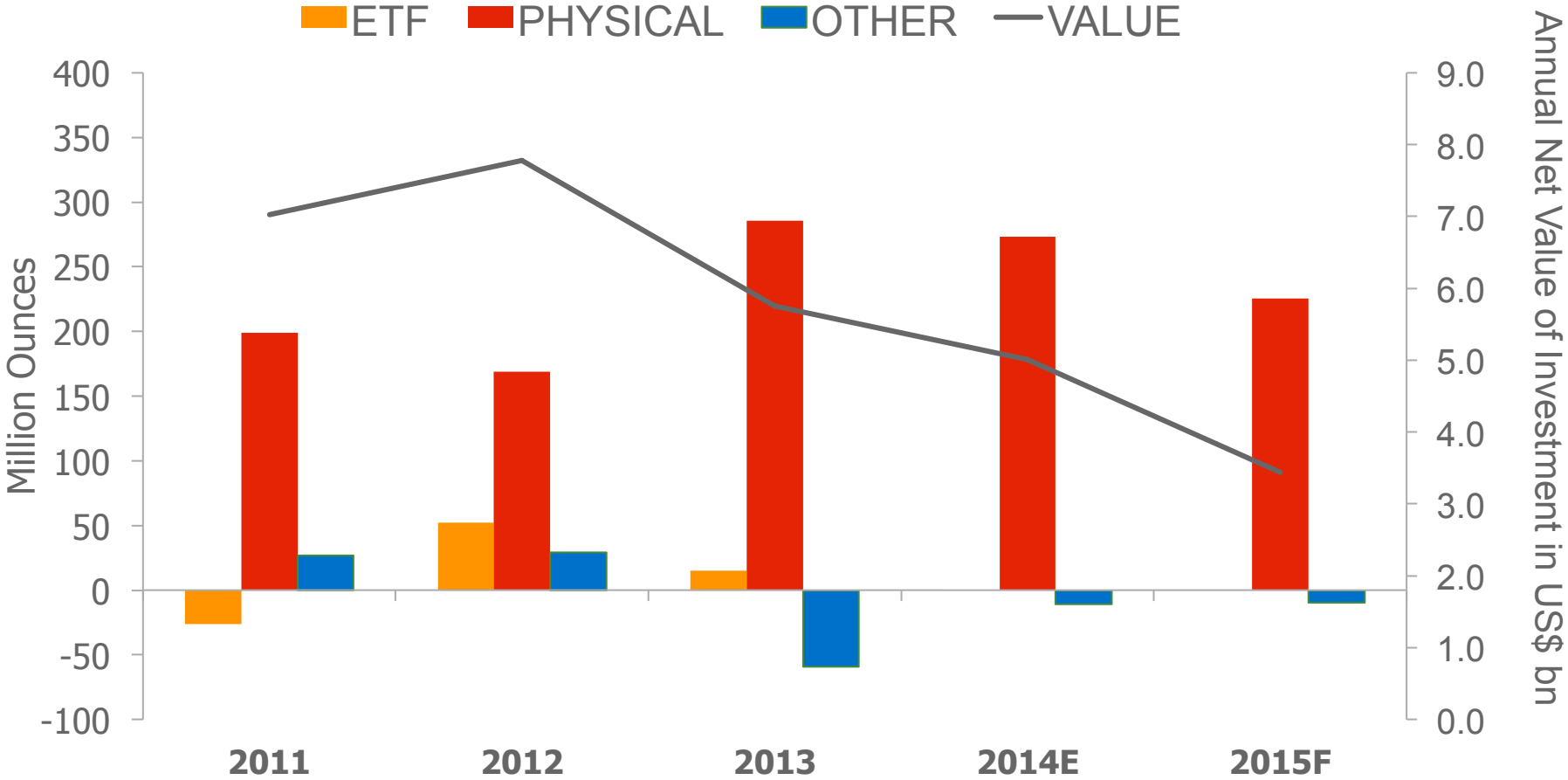
SILVER MARKET BULLION SURPLUS*



*Surplus = Mine Production plus Scrap minus Fabrication Demand (excluding all coins)

Source: Metals Focus; Precious Metals Insights

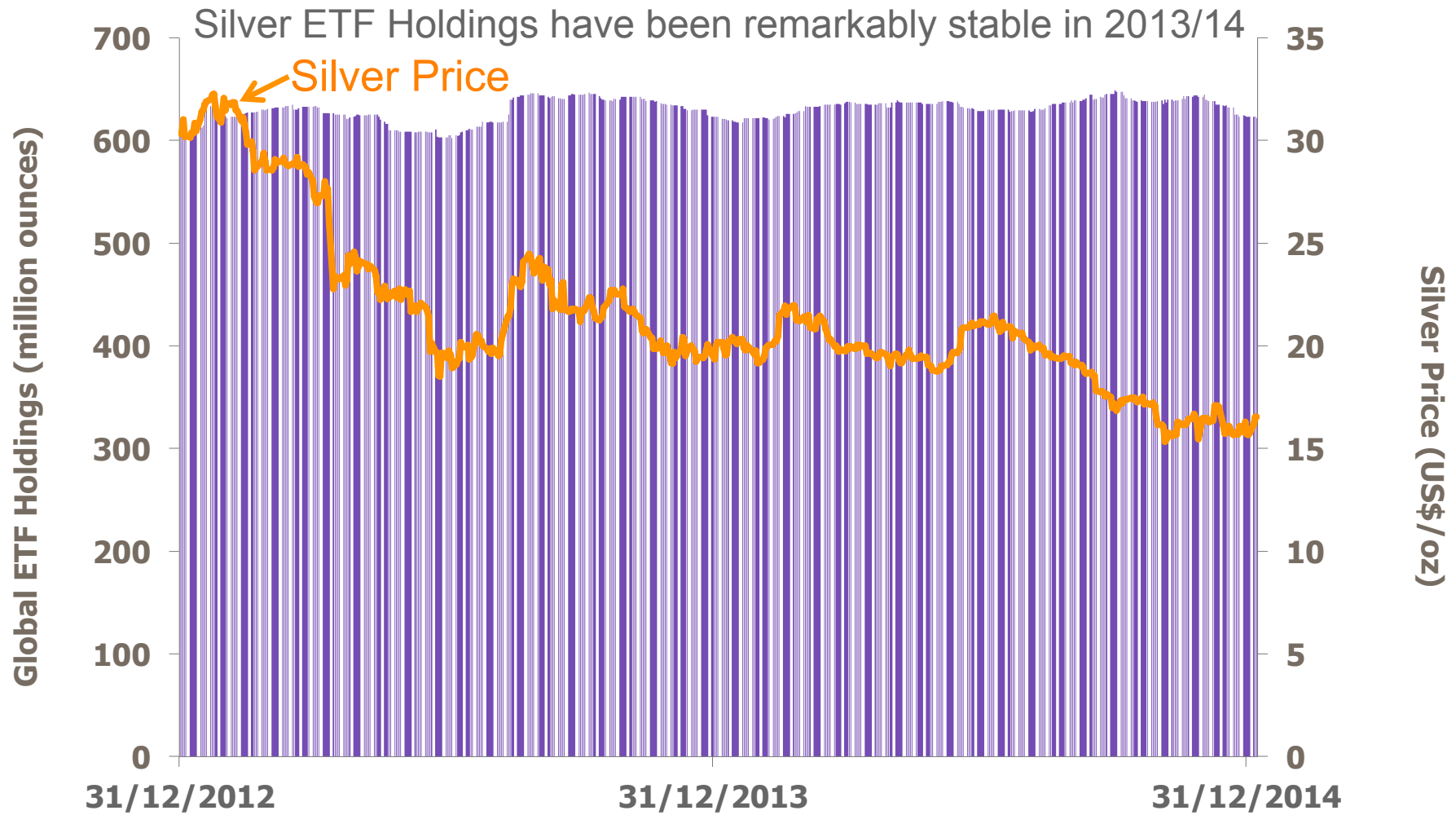
SILVER INVESTMENT: ANNUAL BY SOURCE



Source: Metals Focus; Precious Metals Insights

GLOBAL ETF HOLDINGS & SILVER PRICE

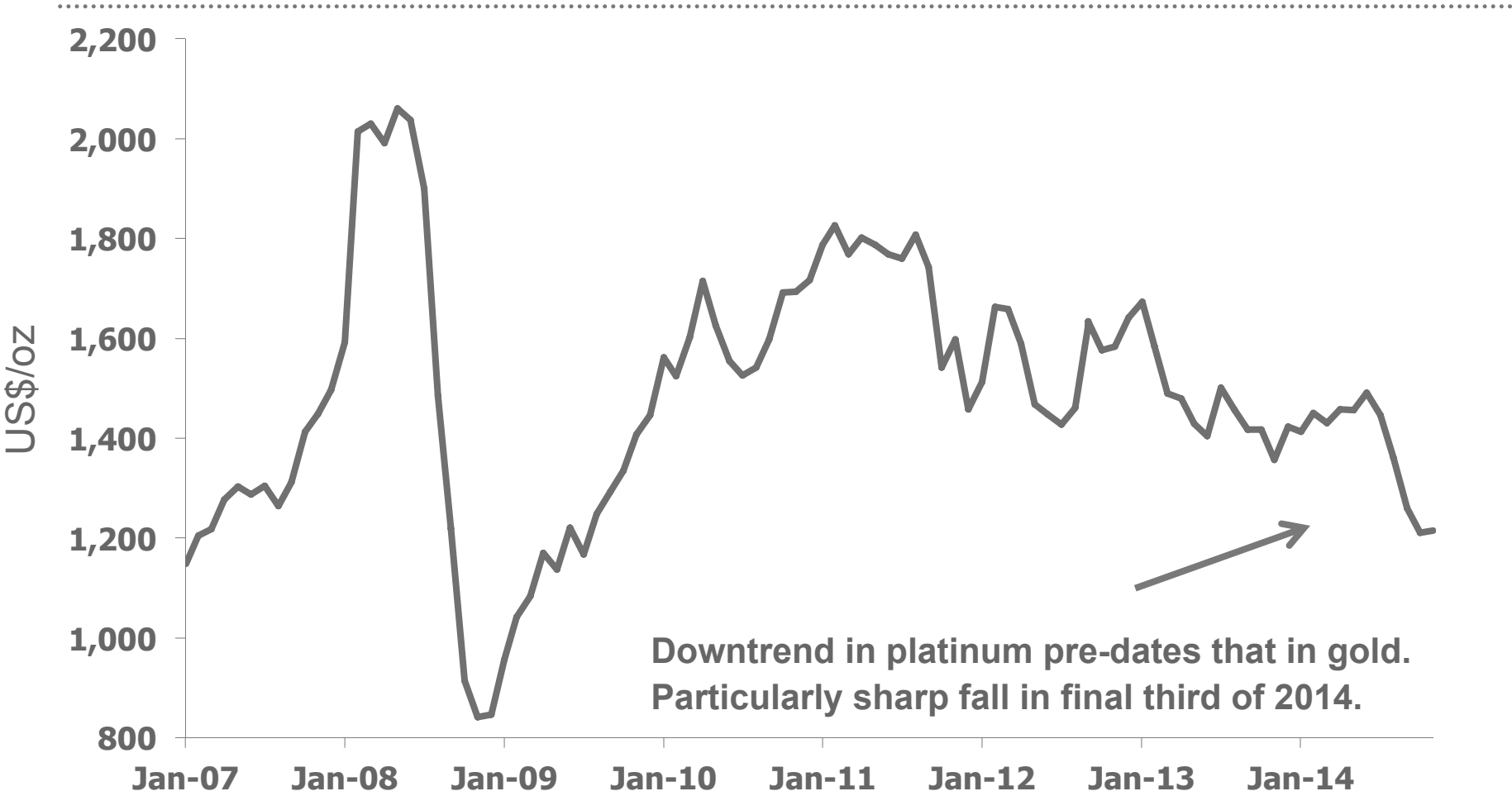
(daily, 31/12/2012 to 13/01/2015)



SILVER SUMMARY

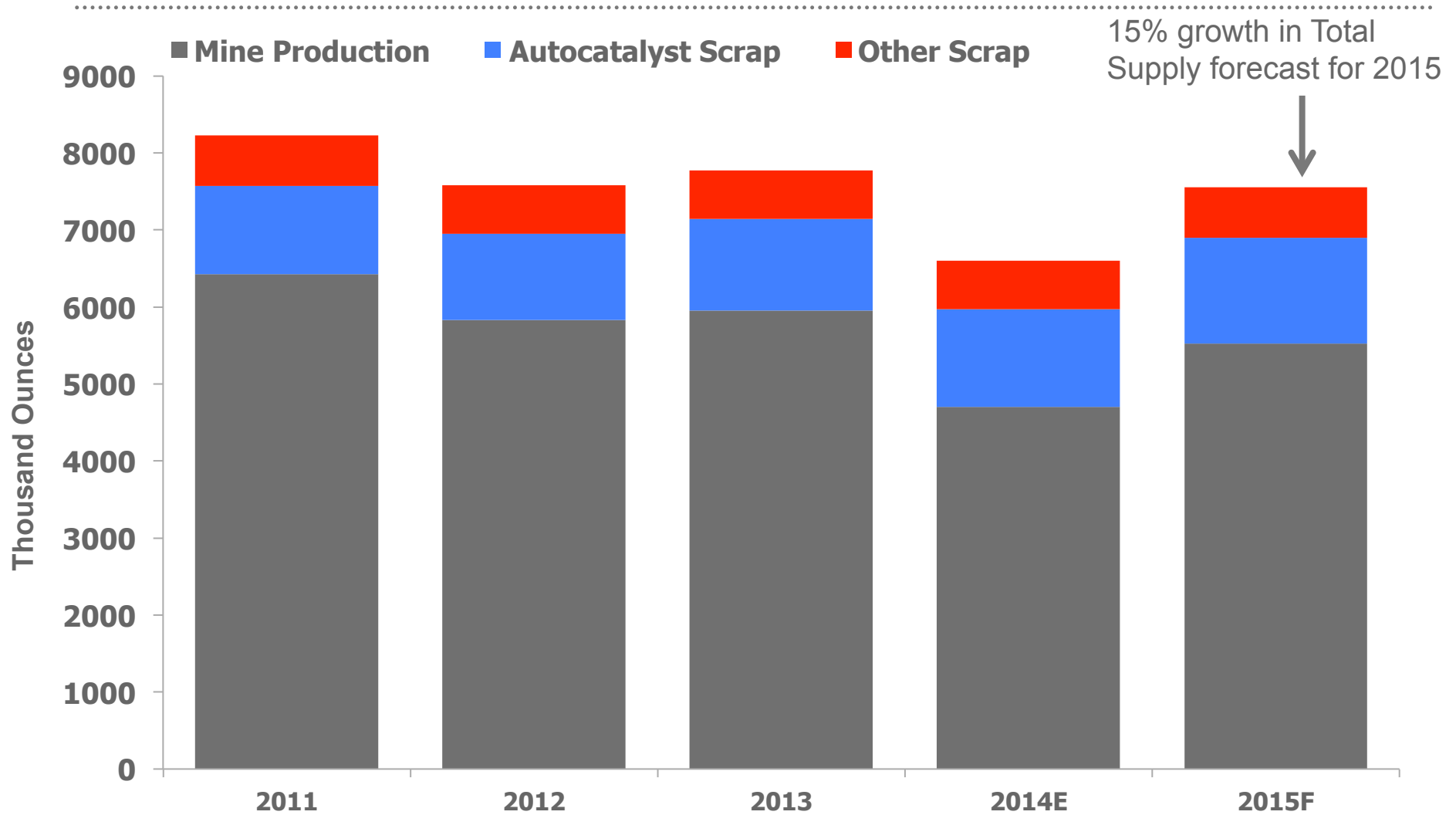
- 2% fall in supply from mine production plus scrap expected in 2015.
- Fabrication demand forecast to rise by 2%.
- Somewhat tighter physical market will provide limited support for the price.
- However, unlike gold, silver fabrication demand relatively price inelastic in the short term.
- Backdrop for investment not favourable due to rise in US interest rates, stronger dollar, low inflation, weakness in gold and other commodity prices.
- Investment mostly to come from buyers of physical bullion products, but they will require the incentive of low silver prices.
- Silver vulnerable to flagging retail investor interest, potential ETF outflows and reduced demand from India.
- Precious Metals Insights forecasts average price of \$15.95 in 2015, with trading range of \$13.90-\$18.45. (2014 average \$19.08 and trading range \$15.34-\$21.98.)

PLATINUM PRICE: MONTHLY AVERAGES JAN-07 TO DEC-14



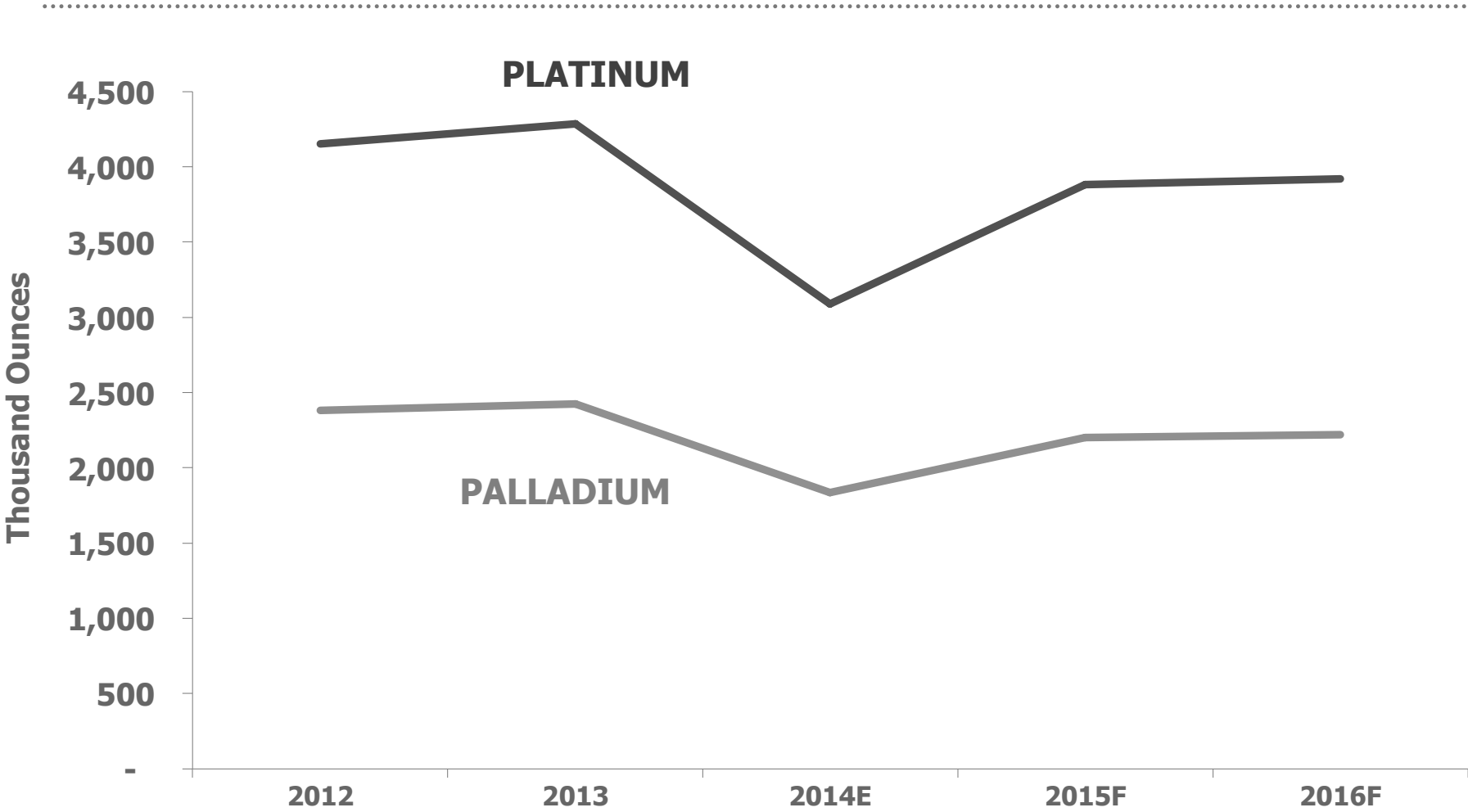
Source: LPPM

GLOBAL PLATINUM SUPPLY: 2011-2015F



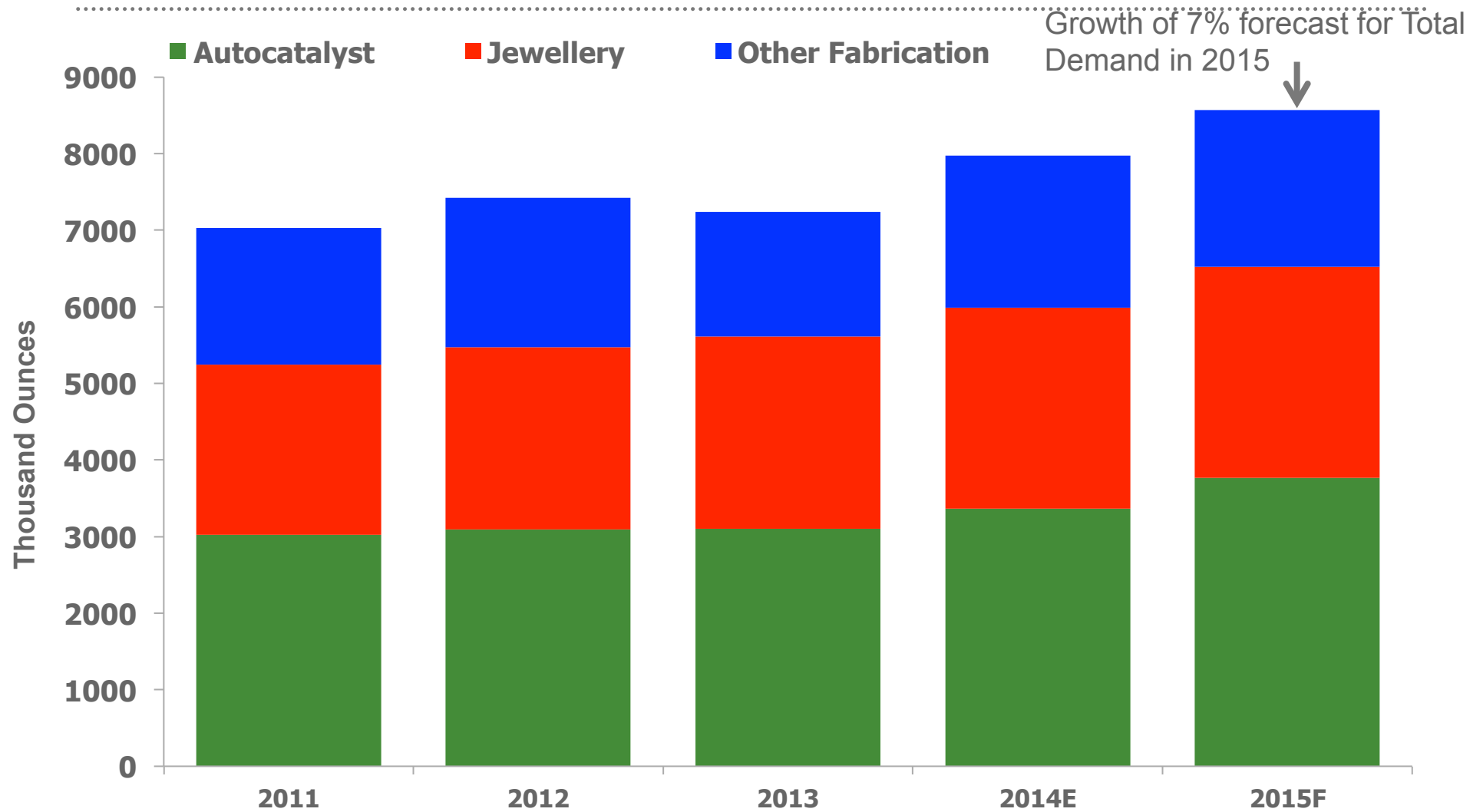
Source: Metals Focus; Precious Metals Insights

SOUTH AFRICAN PLATINUM & PALLADIUM MINE PRODUCTION



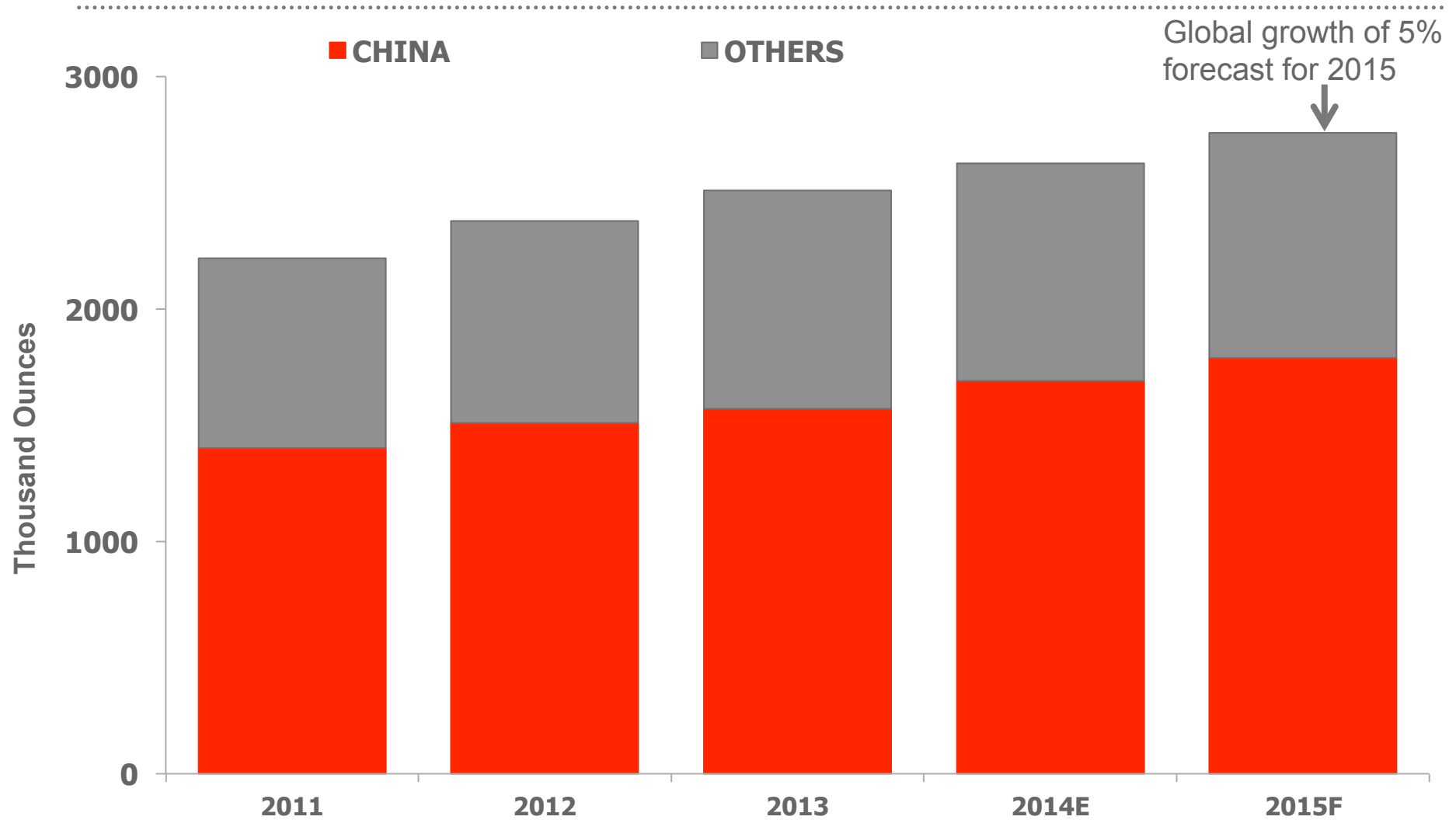
Source: Metals Focus; Precious Metals Insights

GLOBAL PLATINUM FABRICATION DEMAND: 2011-2015F



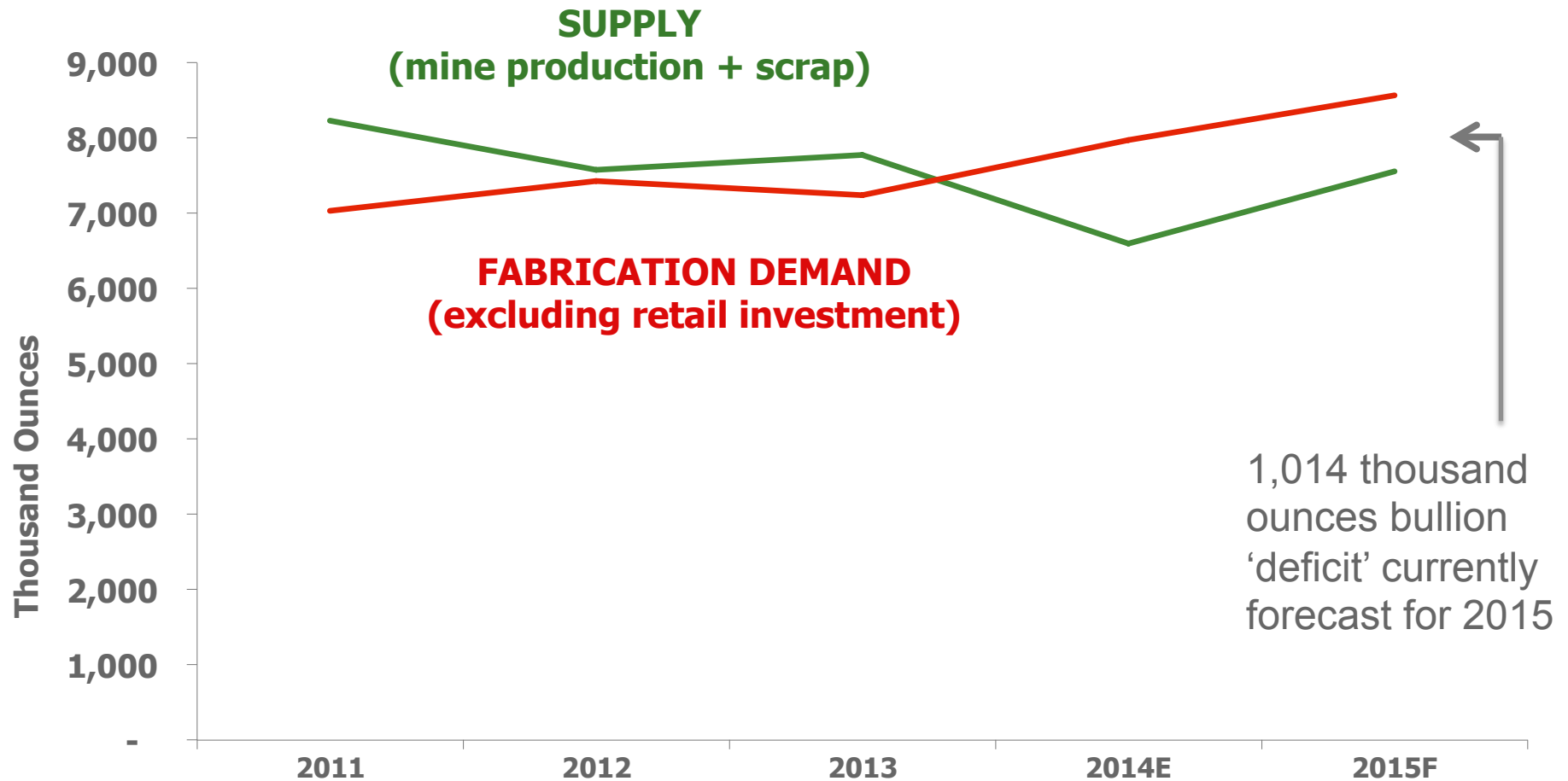
Source: Metals Focus; Precious Metals Insights

PLATINUM JEWELLERY DEMAND: 2011-2015F



Source: Metals Focus; Precious Metals Insights

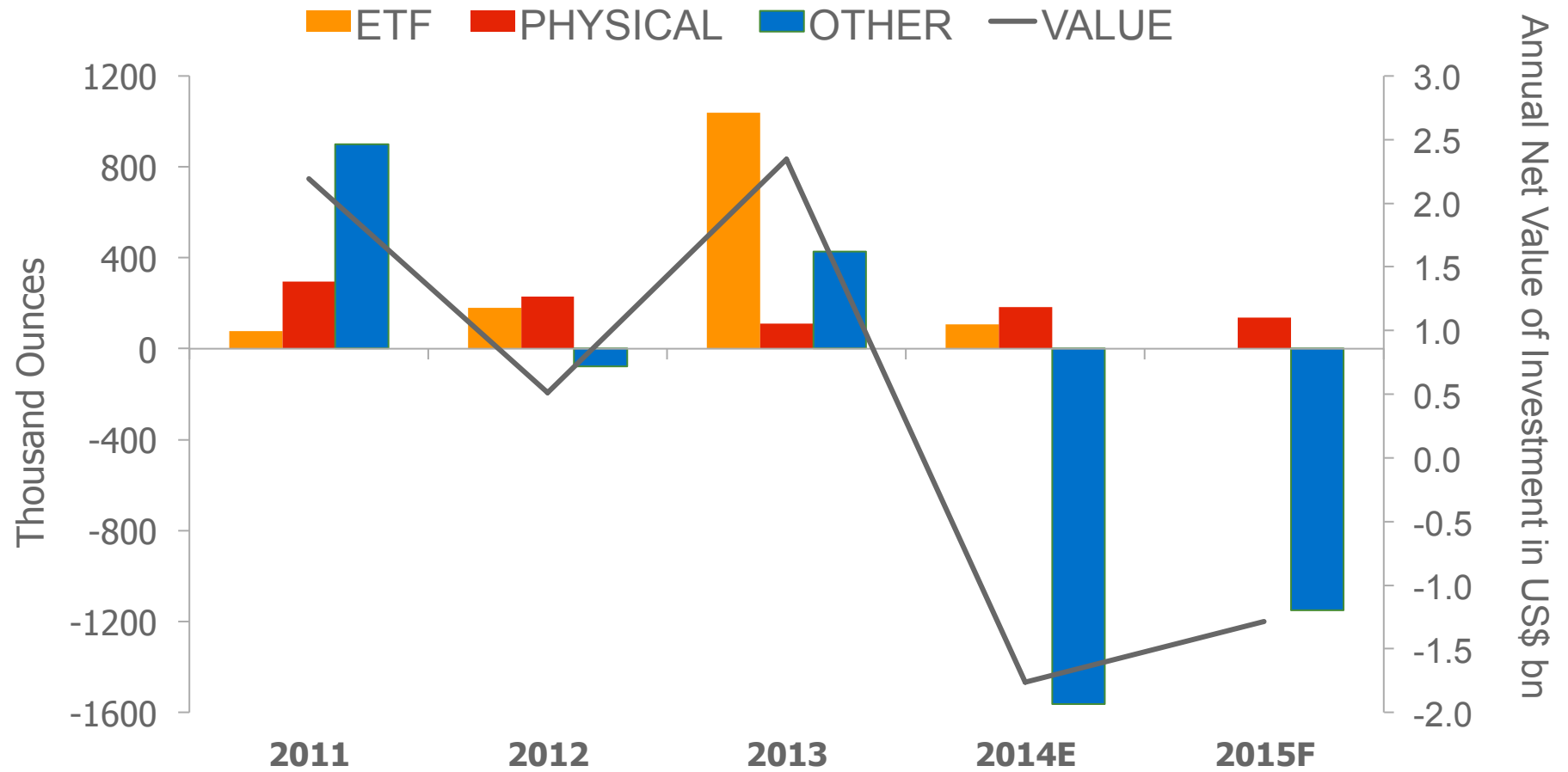
PLATINUM MARKET BULLION SURPLUS / DEFICIT*



*Surplus / Deficit = Mine Production plus Scrap minus Fabrication Demand (excluding retail investment)

Source: Metals Focus; Precious Metals Insights

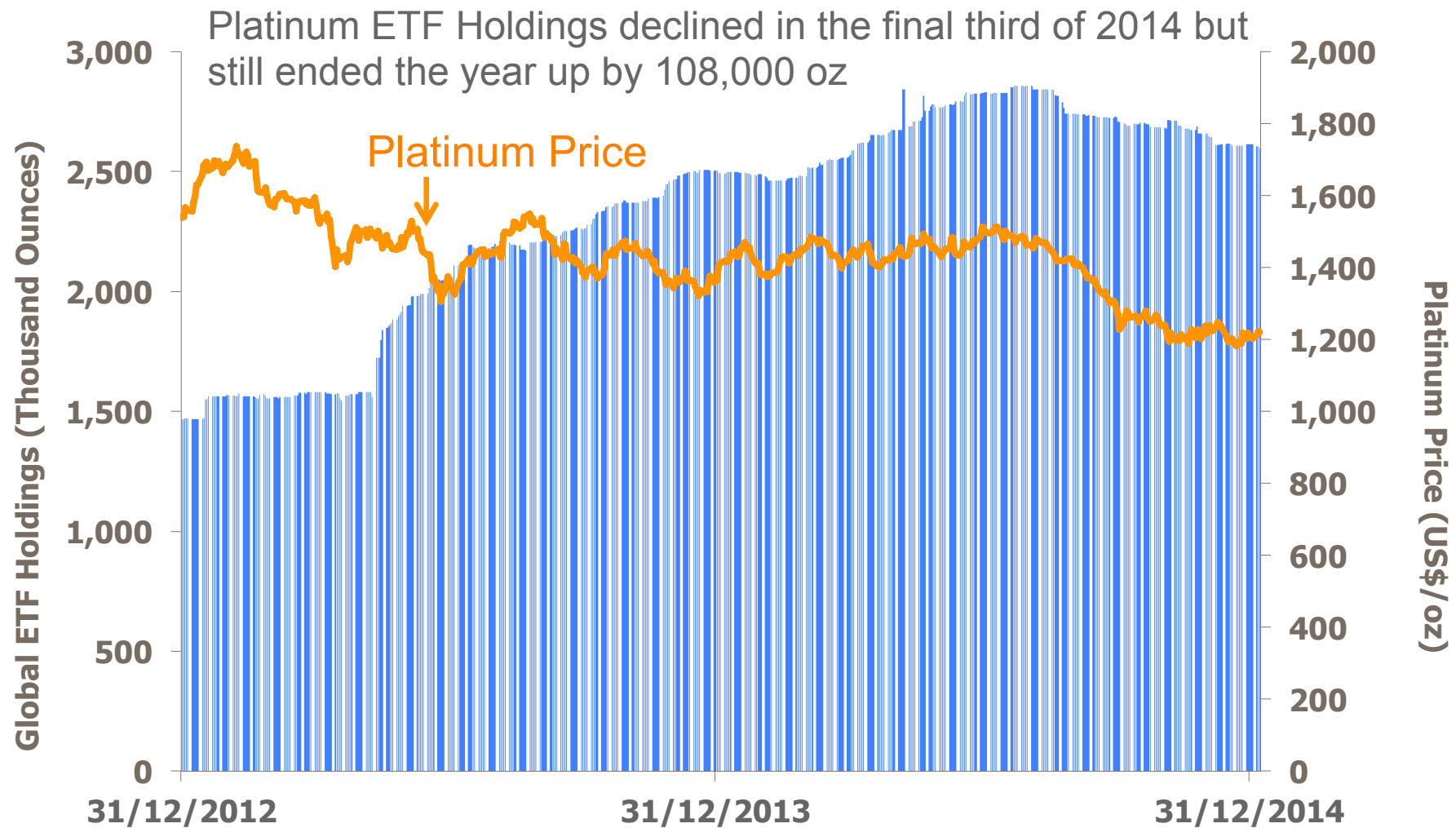
PLATINUM INVESTMENT: ANNUAL BY SOURCE



Source: Metals Focus; Precious Metals Insights

GLOBAL ETF HOLDINGS & PLATINUM PRICE

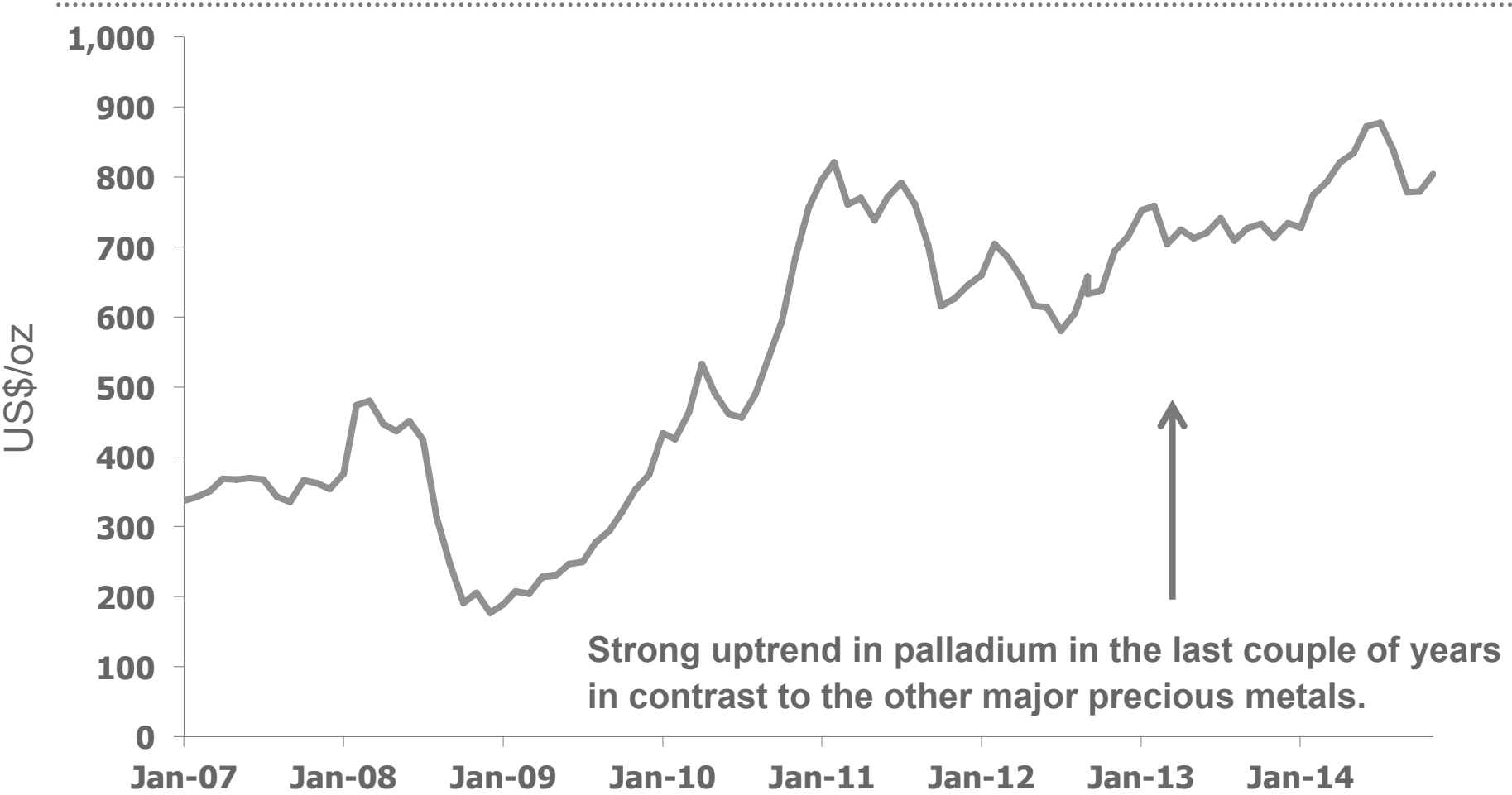
(daily, 31/12/2012 to 13/01/2015)



PLATINUM SUMMARY

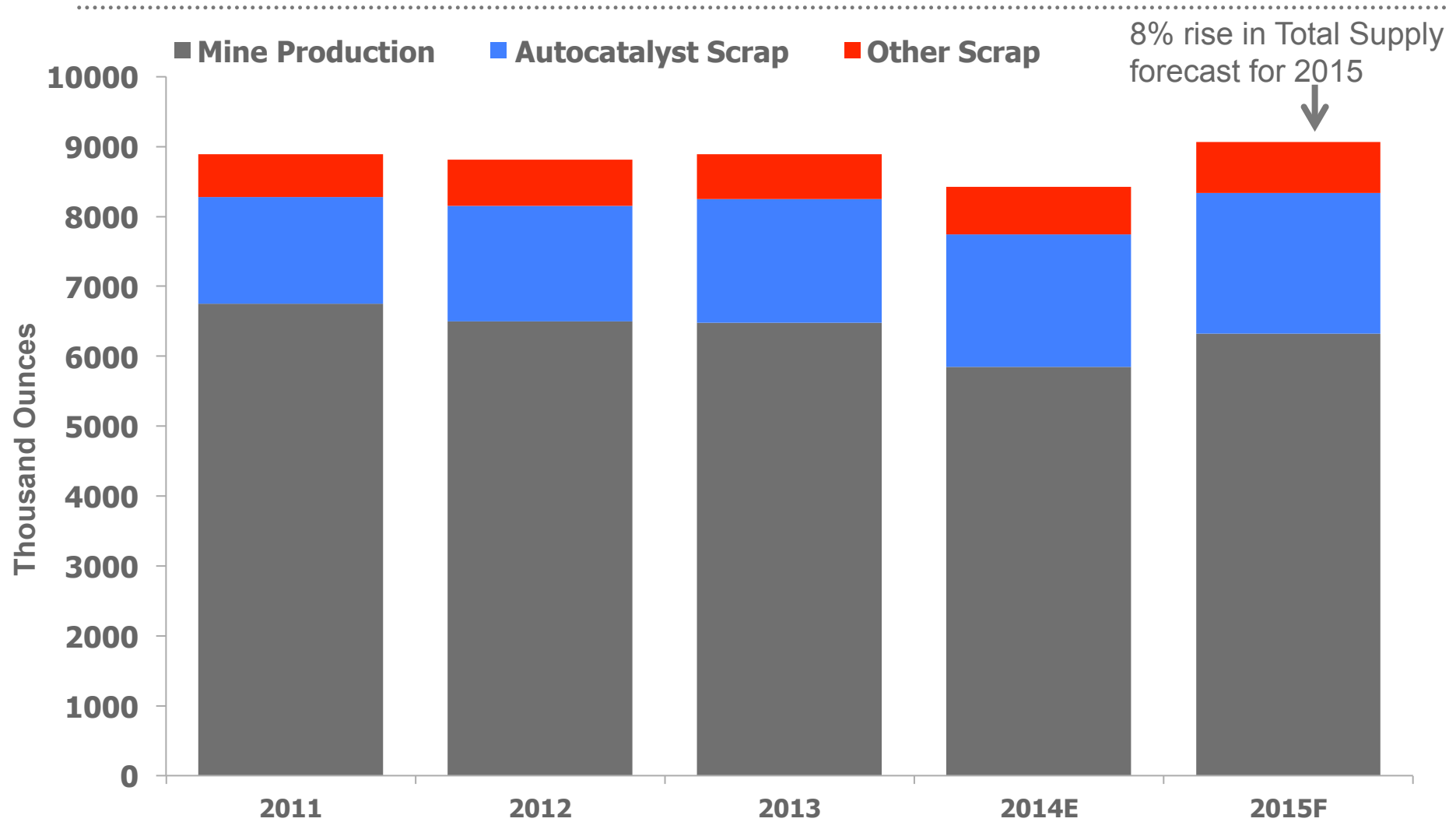
- 15% rise in supply from mine production plus scrap expected in 2015.
- Fabrication demand forecast to rise by 7%.
- Market to be in fundamental 'deficit' again this year but at a reduced level compared to 2014's strike-affected figure.
- Although any disruption to South African supply unlikely to be as severe as last year's the market is currently under-pricing this risk.
- On the other hand, platinum vulnerable to any worsening of the economic situation in Europe (re: autocatalyst demand) or China (re: jewellery demand).
- Investor interest forecast to be lacklustre this year even though longer term supply/demand trends point to good upside potential for the platinum price. Net investor sales will be necessary for the market's bullion 'deficit' to be covered.
- Precious Metals Insights forecasts average price of \$1,267 in 2015, with trading range of \$1,420-\$1,180. (2014 average \$1,385 and trading range \$1,512-\$1,183.)

PALLADIUM PRICE: MONTHLY AVERAGES JAN-07 TO DEC-14



Source: LPPM

GLOBAL PALLADIUM SUPPLY: 2011-2015F



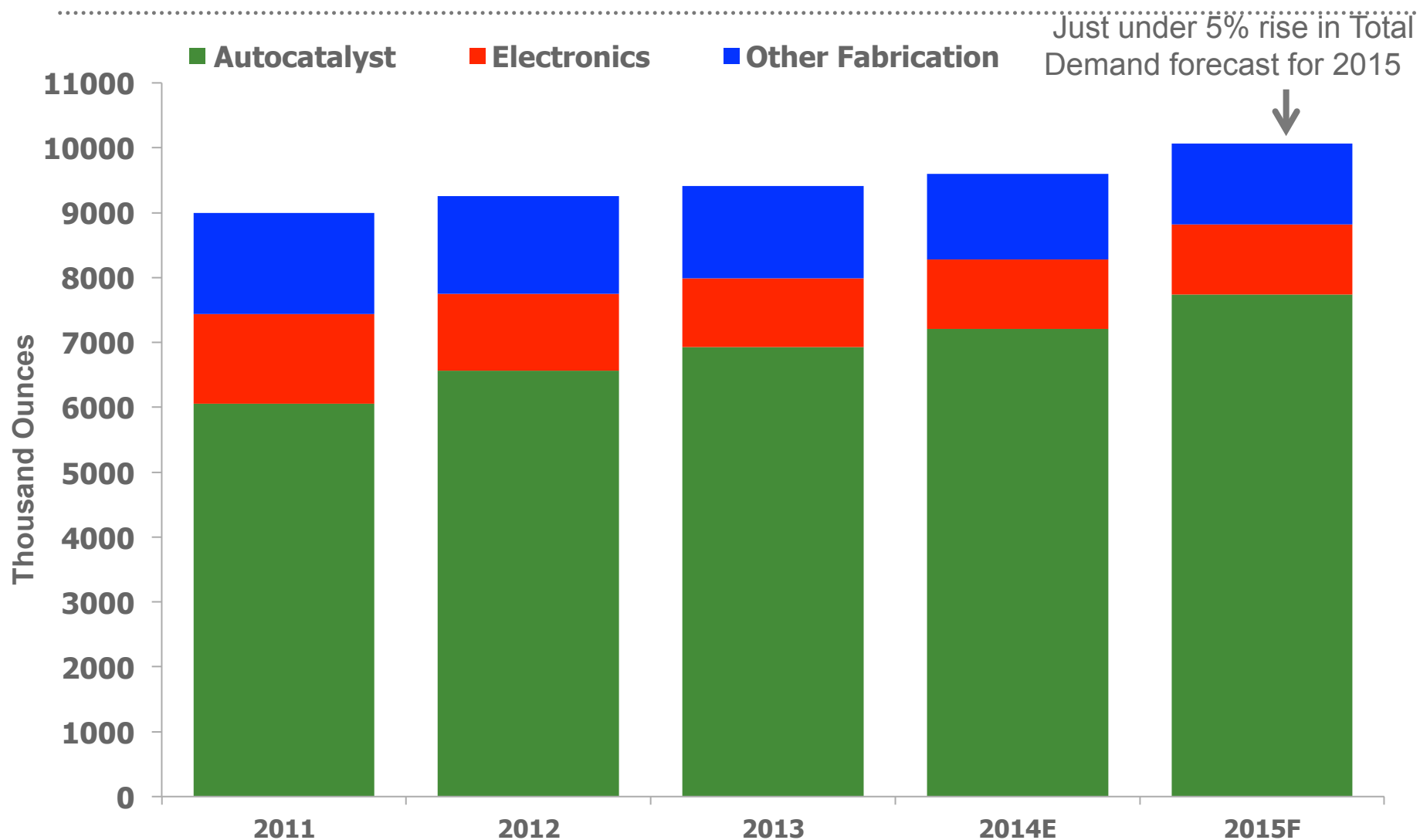
Source: Metals Focus; Precious Metals Insights

RUSSIAN STATE STOCK SALES: 2005-2014



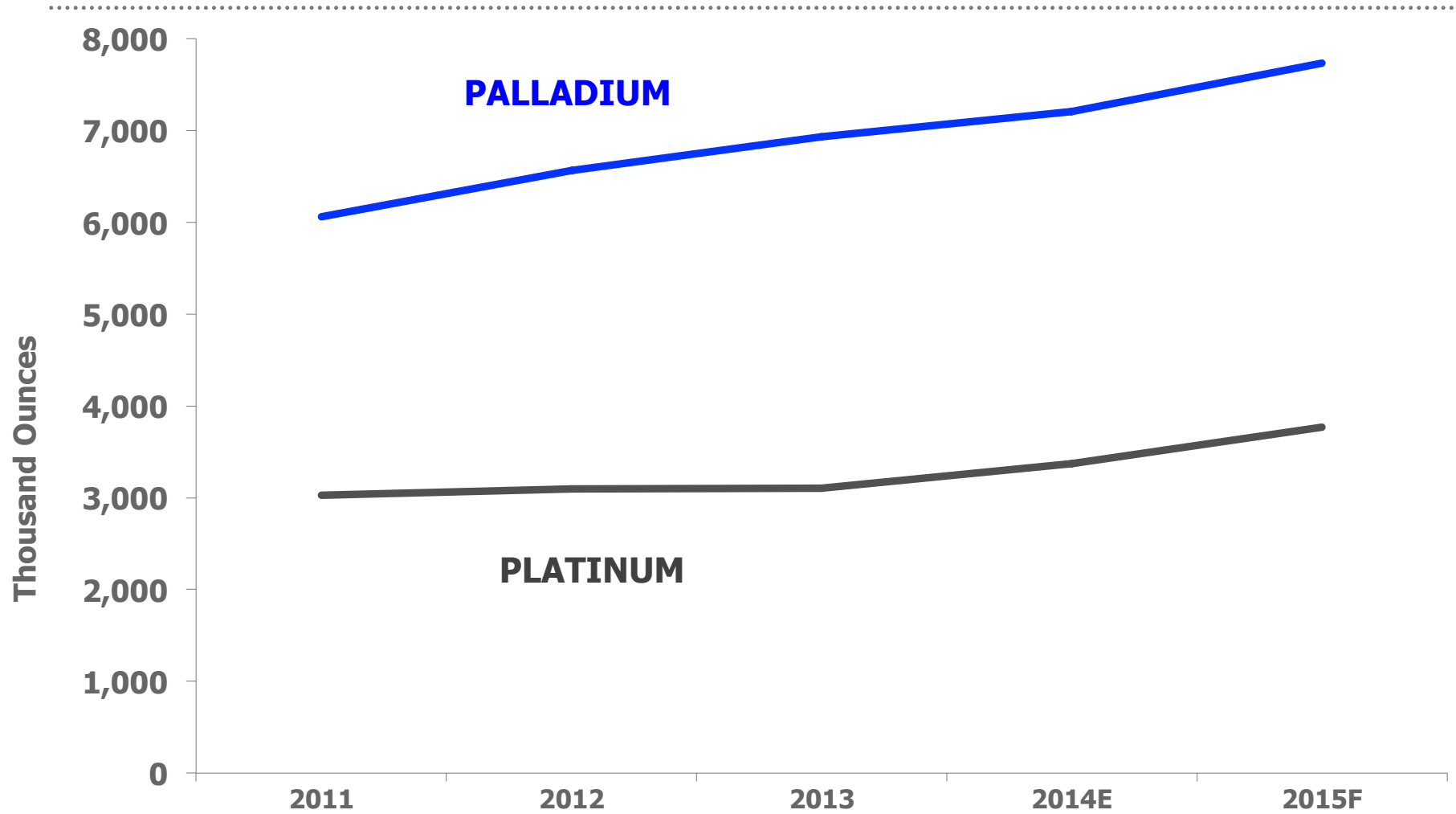
Source: Johnson Matthey; Metals Focus; Precious Metals Insights

GLOBAL PALLADIUM FABRICATION DEMAND: 2011-2015F

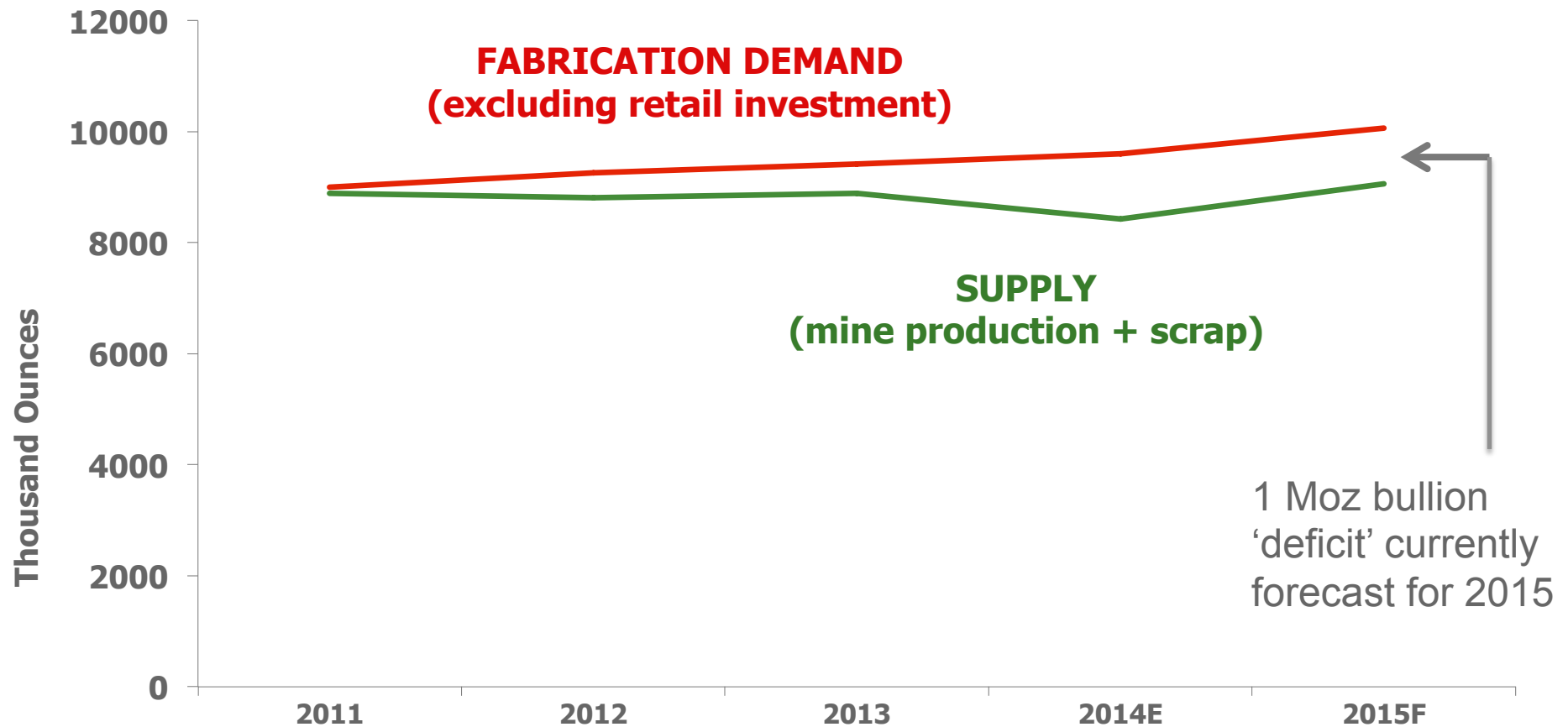


Source: Metals Focus; Precious Metals Insights

PLATINUM & PALLADIUM AUTOCATALYST DEMAND



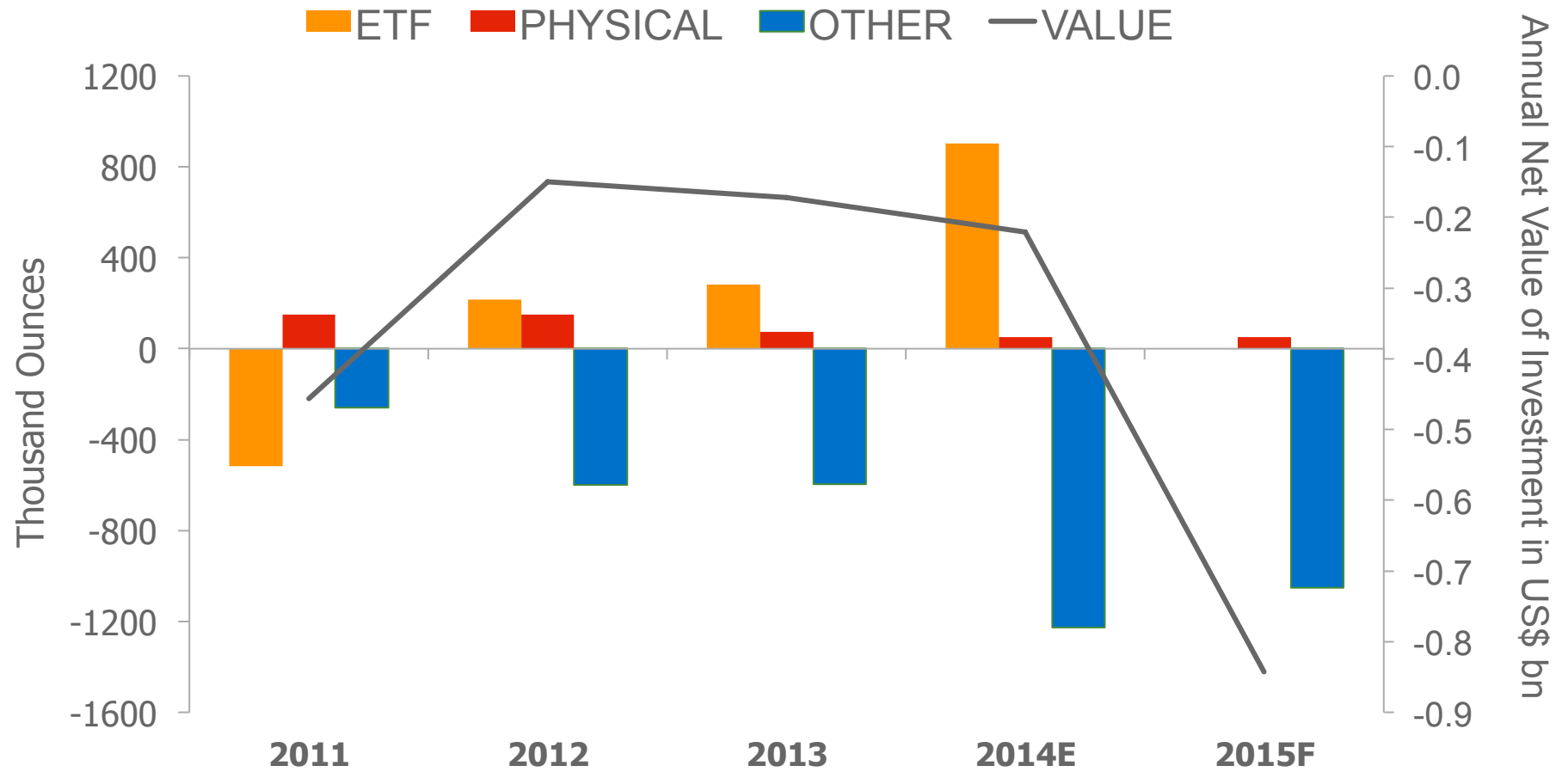
PALLADIUM MARKET BULLION DEFICIT*



*Surplus / Deficit = Mine Production plus Scrap minus Fabrication Demand (excluding retail investment)

Source: Metals Focus; Precious Metals Insights

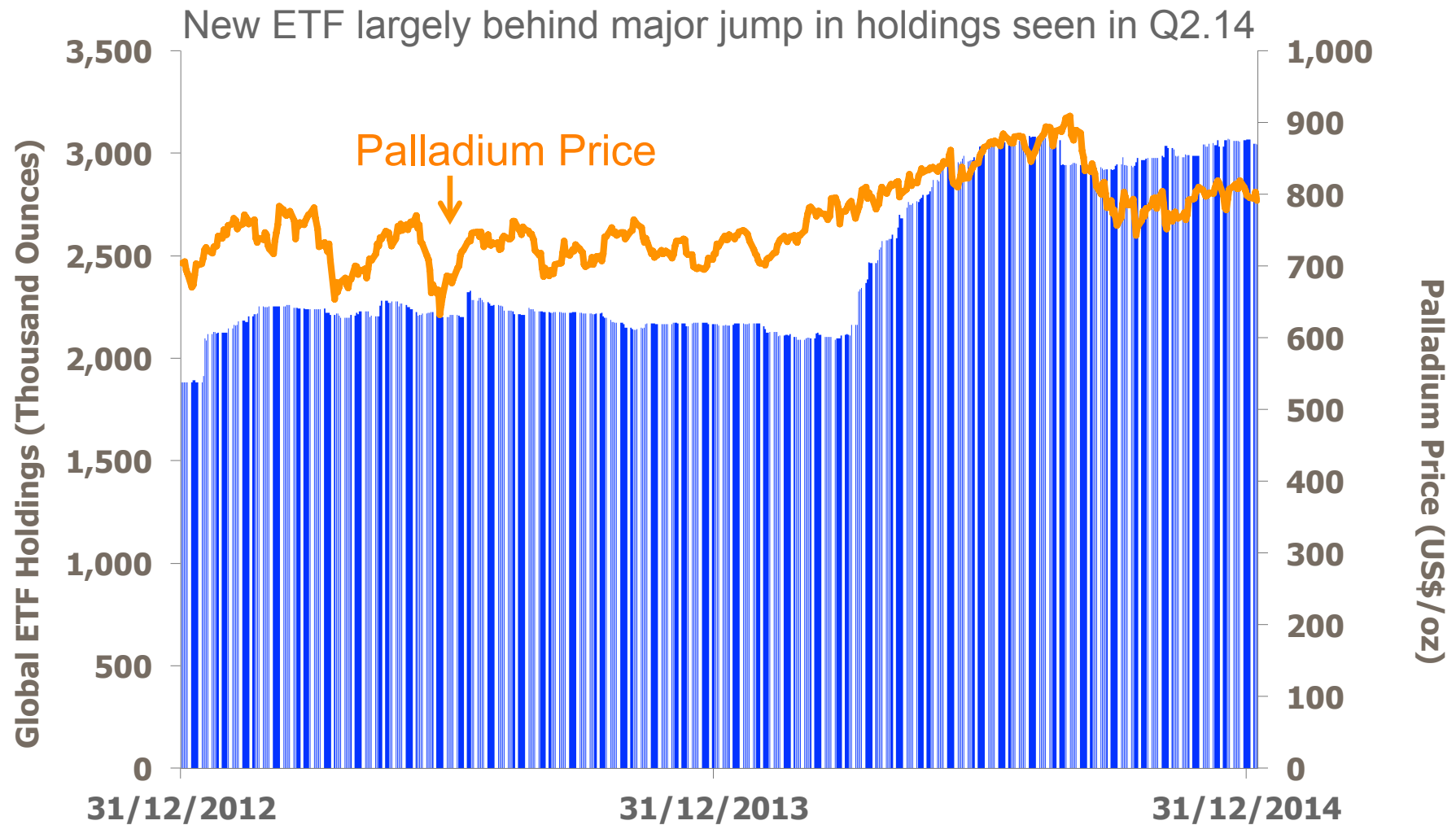
PALLADIUM INVESTMENT: ANNUAL BY SOURCE



Source: Metals Focus; Precious Metals Insights

GLOBAL ETF HOLDINGS & PALLADIUM PRICE

(daily, 31/12/2012 to 13/01/2015)



PALLADIUM SUMMARY

- Supply set to grow by some 8% in 2015 due to rebound in South African mine production and higher autocatalyst recycling.
- Fabrication demand forecast to grow by just under 5% in 2015, driven by an over 7% increase the use of palladium in autocatalysts.
- Comparing supply from mines plus recycling with fabrication demand (excluding bars and coins) the palladium market bullion 'deficit' will decline but continue to be substantial at just over 1 Moz in 2014.
- Assuming no Russian State stock sales, even a limited amount of net private sector investment could therefore push up prices. On the other hand, existing longs may take take profits on any increase in prices above the \$900 level.
- Precious Metals Insights forecasts a range of \$775-\$920 this year, with an average price of \$841. (2014 average was \$803, with a trading range of \$702-\$911.)

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