PMI

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LBMA 2015 Price Forecast - Philip Klapwijk, Precious Metals Insights

GOLD

Average $1,173 *High $1,320* *Low $1,060*

In the absence of a major, unexpected shock to the financial system this year it is difficult to see why gold's bear market should not continue. Nevertheless, losses ought to be mitigated by somewhat more favourable supply/demand conditions. Mine production may only fall slightly in 2015 but this is likely to represent a noteworthy turning point following many years of output growth. A further drop in scrap is also to be expected. Global jewellery demand will grow this year but those expecting fireworks from China or India are likely to be disappointed. As a result, the bullion surplus that either investors or the official sector needs to absorb will not shrink by all that much. Most importantly, the appetite of these buyers is unlikely to be that great, given relatively little incentive for safe haven or, especially, inflation hedging purchases in 2015. Moreover, gold's appeal will be limited due to continued stock market gains, further appreciation of the US dollar and the Fed eventually raising interest rates. All the same, a fair degree of resilience to these negative exogenous developments should see attrition rather than collapse in the gold price this year.

SILVER

Average $15.95 *High $18.45* *Low $13.90*

The slump in silver prices last year would have been yet more severe had it not been for record levels of Indian demand, massive retail investor purchases of bullion products and the stickiness of ETF holdings. Decent but unspectacular growth in fabrication demand and a small reduction in supply in 2015 is likely to be more than compensated for by losses in the aforementioned three areas. India's appetite for silver will at the margin be affected by a shift back towards gold now that the latter should be more freely available. Retail investors will continue to support the price but the volume of their purchases is expected to fall and they will need the incentive of lower prices. Finally, although a 'gold-style' bailout from ETFs is most unlikely some liquidation is probable if prices slide to new lows for the bear market to-date.

PLATINUM

Average $1,267 High $1,420 Low $1,180

Platinum prices are expected to be soft in 2015 due to a major recovery in South African mine production from last year's strike affected level that will more than compensate for higher platinum fabrication demand, most of this coming from auto catalysts. Moreover, there are risks that expected gains this year from the automotive sector may not materialise if the European economy slides back into recession, as this could severely affect the region's demand for diesel-powered vehicles. Similarly, expectations for moderate growth in Chinese platinum jewellery consumption would need to be revised if GDP growth in the country were to slow substantially. On the other hand, and more positively for the price outlook, the market is currently far too sanguine about the supply side and South Africa. Negative surprises here could therefore translate into substantial price gains driven also, in part, by speculative buy-side interest. Such purchases may also be motivated by buyers' expectation of a widening in the platinum:gold spread this year, as the white metal partially decouples from gold.

PALLADIUM

Average $841 High $920 Low $775

A major growth in palladium supply this year, principally from mine production and auto catalyst recycling should more than compensate for robust gains in fabrication demand, especially for auto catalysts and electronics. As such, the market's 'deficit' should be reduced, although it will still require a substantial drawdown of existing bullion stocks. This implies that the price should remain buoyant in 2015, with some bias to the upside. Palladium's gains will be capped though by investor dishoarding on higher prices and, more generally, the negative influence on sentiment of the rest of the precious metals complex being in the doldrums.

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