PICTET WEALTH MANAGEMENT

Precious Metals

2024 outlook

AUTHOR

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SUMMARY

- While gold is expected to appreciate moderately in 2024, its outperformance relative to other precious metals should end.
- Silver looks to us the most attractive of precious metals because of our expectations that major central banks will start easing rates as well as prospects for long-running physical deficits. Platinum should continue to outperform palladium, which remains unattractive in our view.
- Our 12-month projections per troy ounce are USD2,100 for gold, USD27 for silver, USD1,030 for platinum and USD1,050 for palladium.

GOLD'S OUTPERFORMANCE LIKELY TO BE CHALLENGED IN 2024

Gold has outperformed other precious metals since the start of the year thanks to robust demand. In particular, gold prices have been supported by strong official demand that does not exist for other precious metals.

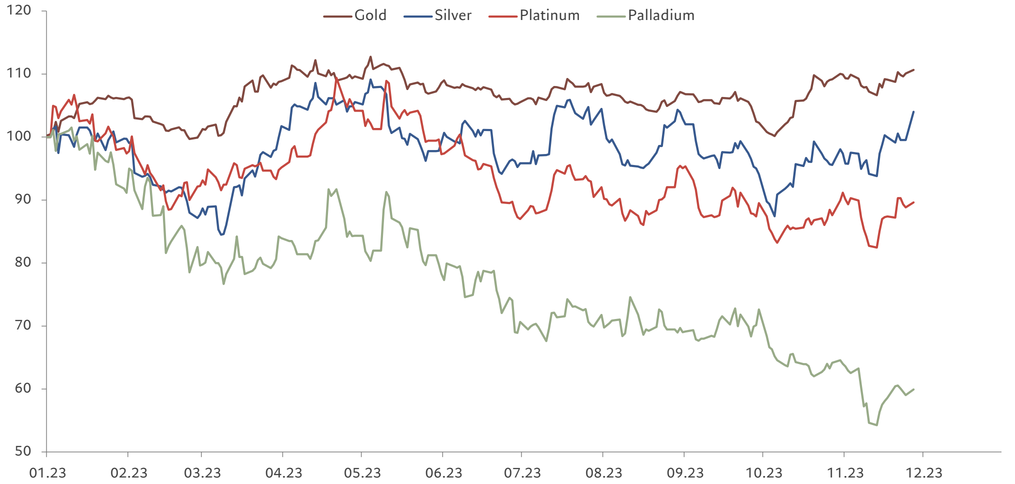
High geopolitical uncertainties have also provided support to safe-haven gold (and to a lesser extent silver), partially offsetting poor investment demand, stemming from the high opportunity cost of holding non-yielding gold and silver.

Looking into 2024, abating inflationary pressures and weakening global economic activity should lead major central banks in developed economies to shift their priority from fighting inflation to supporting growth. The start of monetary easing cycles should limit the upside for long-term interest rates, meaning that the drag on gold and silver caused by its opportunity cost could abate somewhat.

In addition, the global economic outlook could improve in the later part of 2024, providing a more supportive environment for industrial demand. Longer term, the structural shift towards green energy could also lead to higher industrial demand for silver, but also for platinum thanks to rising fuel cell needs. Overall, next year should prove more supportive of precious metals, but with gold performing less well than others (with the exception of palladium).

That said, the start of next year could remain challenging for precious metals based on our central forecast that the Fed will be more hawkish than the market is expecting, thus helping to keep the dollar strong.

Chart 1: precious metals' performance (rebased to 100 at the end of 2022)



Source: Pictet Wealth Management, LSEG, as of 28.11.2023

IMPROVING INVESTMENT DEMAND SHOULD HELP GOLD

Since 2022, there has been what is likely a structural shift in gold demand. On the one hand, investment demand is likely to be lower than in the last decade, but on the other official demand should stabilise at a higher level.

Because of higher inflationary pressures caused by structural factors such as demographic trends and the reconfiguration of global supply chains, central banks are unlikely to return to the previous extreme low levels on policy rates when they eventually shift to an accommodative monetary stance. As such, interest rates are likely to remain higher than in the past decade, meaning that opportunity costs could continue to weigh on investment demand for gold.

Regarding official demand, the weaponisation of the US dollar and other major currencies following the Russian invasion of Ukraine has likely led a number of countries that have a fraught relationship with the US to increase the share of gold in their FX reserves. This move can be linked to increasing erosion of the rules-based international order in general, which could mean geopolitical tensions persist. This would provide support for safe-haven demand for gold.

On a more tactical basis, our central scenario is that interest rates have likely peaked, which should help gold prices by lowering the opportunity cost. And long-term interest rates that remain relatively high compared to the recent past need not be completely negative for gold, as high long-term rates could also raise concerns about the ability of highly indebted countries to finance their debt. In such an

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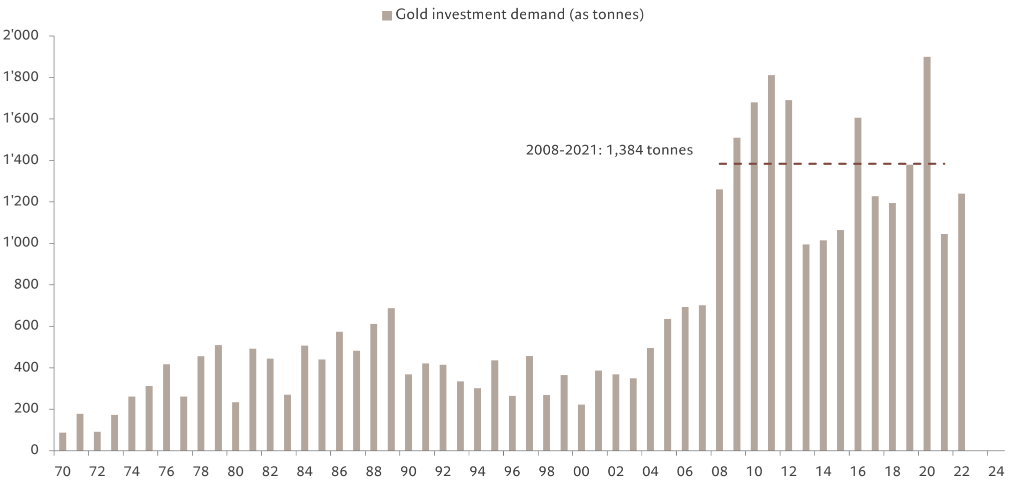
environment, one would likely see increasing inflows into gold, which bears no default risk.

Meanwhile, Q3 data from the World Gold Council suggest official gold demand in 2023 is likely to be as strong as the record levels of 2022. While this offsets the negative impact of high opportunity costs (hence explaining gold's resistance to this year's surge in US 10-year real interest rates), scope for significantly higher demand than the 2022 level of about 1,000 tonnes may be limited. In particular, the World Gold Council estimates a decline in unreported demand (official demand excluding reported demand from central banks) throughout the year (although it remains high on a historical basis), while a higher gold price could have a dampening effect on official demand.

Overall, our three-month projection for the gold price remains unchanged at USD1,930 per troy ounce, while the 12-month projection is adjusted higher to USD2,100 (previously USD2,050).

Chart 2: gold investment demand (in tonnes)



Source: Pictet Wealth Management, LSEG, as of 28.11.2023

SILVER LOOKS MORE ATTRACTIVE

Weakening global activity tends to weigh on industrial demand for precious metals, meaning that economic growth is key for the performance of silver relative to gold. While we expect global growth to be sluggish in H1 2024, we believe we could see a moderate recovery in H2. This would bode well for silver, which serves in part as an industrial metal. Furthermore, silver currently looks somewhat cheap relative to gold, based on history.

More important, the probable growth in physical demand for silver in the coming years as a result of the energy transition should favour physical deficits (i.e. excluding investment demand in exchange-traded products), which should support prices. That said, there are also factors that could moderate silver's gains. First, industry tends to be thrifty in its usage because of silver's high price (it is roughly 100 times more expensive than copper, also a highly conductive metal). Second, current

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inventories being high, these would first need to be drawn down before we see any surge in price. Furthermore, households' large holdings of silver could be mobilised should we see a growing shortfall in silver supply.

Overall, our three-month projection for the silver price has been adjusted lower to USD22 per troy ounce (previously USD22.50) and our 12-month projection to USD27 (previously USD27.5).

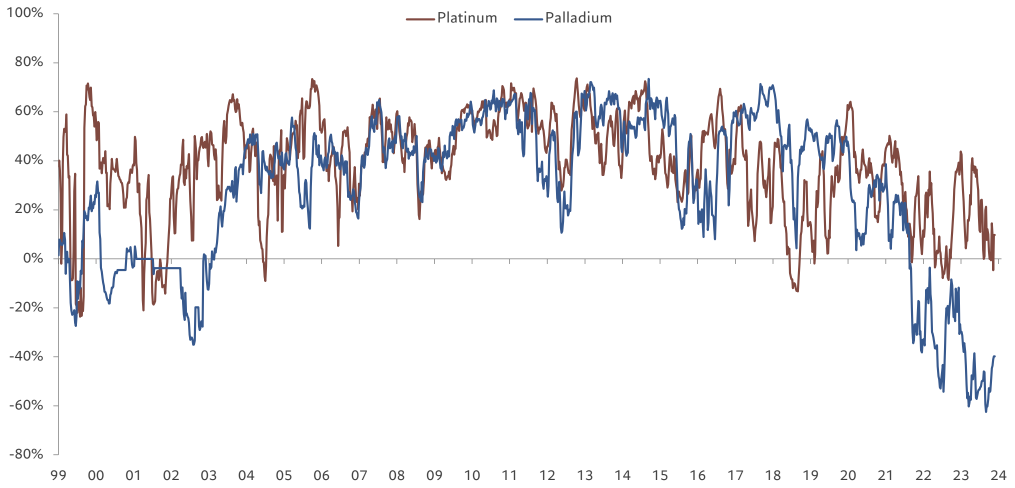
PREFERENCE FOR PLATINUM OVER PALLADIUM CONTINUES

The outlook for platinum and palladium is tightly linked to demand from the car industry. The ongoing decline in the market share of internal-combustion-engine cars in favour of electric vehicles should continue to weigh on industrial demand of both metals. Palladium is more exposed than platinum as there is a wider range of outlets for the latter (jewellery demand represents over 30% of platinum demand vs. less than 10% for palladium) but also because platinum continues to replace more expensive palladium in a variety of industrial uses. On a more tactical basis, investor sentiment (based on futures positions) is extremely negative on both these precious metals, which may magnify their upside potential.

A decline in power disruptions in South Africa has lessened supply risks (although the decline in metal prices at the start of November fed rumours that metal miners were set to cut production to protect their margins).

Overall, our three-month projection is being revised down to USD850 per troy ounce for platinum (previously USD900) and to USD950 for palladium (previously USD1,150). Our 12-month projection is now USD1,030 for platinum (previously USD1,100) and USD1,050 for palladium (previously USD1,200).

Net non-commercial positioning (futures only, as % of open interest)



Source: Pictet Wealth Management, LSEG, as of 28.11.2023

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