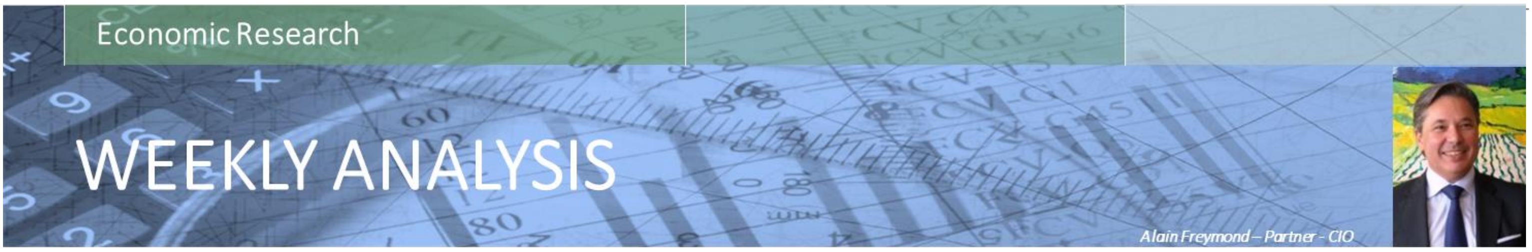


22 May 2020

Rise in gold fuels rise in silver, platinum and palladium

Fundamentals favourable to precious metals. Sharp rise in investment demand. Reduction of the gold/silver price ratio favourable to silver. Palladium benefits from a special situation.

Key points

- Stock market panic temporarily weighed on precious metals in March 2020
- Most key factors for precious metal prices are favourable
- Sharp rise in investment demand
- 100 million gold ounces in ETFs
- Narrowing of the price differential between gold and silver in 2020
- After the rise in gold and silver, a recovery of platinum and palladium seems more than likely
- Gold and silver: an essential insurance policy
- Platinum and palladium: attractive prospects with growth of above +20% expected in 2020

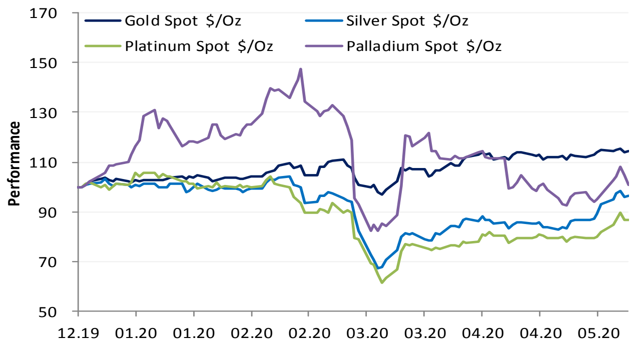
Stock market panic temporarily weighed on precious metals in March 2020

Precious metal prices did not escape the occasionally intense fluctuations in value that affected all financial assets during the health crisis that has shaken the planet these last few weeks. Gold, despite always being considered as the ultimate safe haven, was also affected by the wave of panic that overwhelmed financial markets in March. The -14.7% drop in gold prices between 9 and 16 March probably took many investors by surprise, although undoubtedly less than the massive collapse in silver prices, which dropped by -40% during the same period.

Platinum (-44%) as well as palladium prices (-44.7%) literally crashed, defying all logic, also driven by a wave of irrational panic on the one hand, and by forced sales by certain market participants on the other. The irrationality of this stock market behaviour became obvious quite quickly for gold prices, however, which soon rebounded, erasing in only a few days the losses generated by the panic selling in March. While financial assets and equities in particular rebounded somewhat from their lowest levels in the last week of March, gold prices went through the roof and soon exceeded their peak level of USD 1,700 per ounce reached at the beginning of March to soar above USD 1,750.

Only a few days were necessary for gold to regain its value as ultimate safe haven just as financial markets were beginning to move into a recovery phase.

Gold, silver, palladium, platinum (YTD 2020)



Sources: Bloomberg, BBGI

Gold prices thus resumed trending upwards and have now reached their highest level since their low of USD 1,046 per ounce on 3 December 2015, only 10% under their previous historical high of USD 1,921 per ounce reached on 6 September 2011.

While gold made a triumphant if logical comeback in the last few weeks, the changes in the prices of other precious metals were not correlated to that of the yellow metal. Indeed, after a first relative rebound far less significant than that of gold at the end of March, silver, platinum and palladium prices stabilised at levels far below those observed before markets collapsed in March.

While precious metals had posted positive year-to-date performances before the health crisis, only gold (+14.8%) further boosted its positive performance, while palladium (0%) finally stabilised after some very strong volatility. As for silver (-4.5%) and platinum (-13%), they are still down significantly after a second phase of revaluation that benefitted silver in particular.

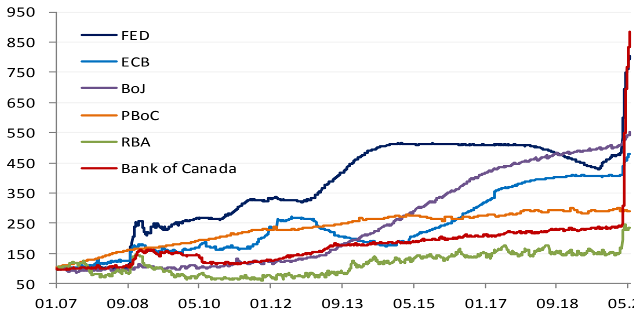
Most key factors for precious metal prices are favourable

Most key factors driving the prices of gold and other precious metals are actually increasingly favourable. Among the main factors supporting a long-term bullish trend, let us first note the persistence of **low or even negative nominal interest rates** in the main industrialised countries. **Real interest rates** are also negative, due both to nominal yields close to zero and to declining, yet still positive, inflation. Gold market fundamentals are clearly positive with **demand exceeding supply likely for the foreseeable future**. This imbalance favouring higher prices is also predicted for silver, palladium and platinum. **Investment demand, which rose very sharply** in the gold market, is also likely to intensify in other markets. The renewed tensions between the US and China have also **exacerbated geopolitical** risks a little further in a political context made more difficult since the Covid-19 crisis.

China's assertiveness towards Hong Kong and Taiwan these last few days heralds a cold war whose consequences may potentially be more serious than the economic fears relating to trade tensions in 2019. The major reorganisation of multinationals' supply chains currently unfolding is likely to reshuffle the cards among the actors of globalisation and cause a **reduction of globalisation's deflationary effects**. The fight against Covid-19 will also have changed a significant parameter in the management of national budgets and debt levels. Getting out of the crisis will require a **massive rise in budget deficits and debt levels**.

To end this list of positive factors for precious metals, the **monetisation of increased sovereign debt is inevitable** and entirely shouldered by central banks. The liquidity injections already thought to be close to **USD 10 trillion** will likely **rise further still in 2021**. The consequences of these various factors for inflation leave little room for doubt in our minds. After a short deflationary phase during the collapse of growth in Q2 2020, we are likely to see a **significant upswing in inflation in the next few quarters**.

Central bank balance sheets



Sources: Bloomberg, BBGI

Finally, while the VIX index, a stress indicator for equity markets, already seems to point to a normalisation of the situation, we actually believe that **high equity valuations have already substantially increased the risks of consolidation of stock indices**.

Over a few weeks, investor sentiment went from euphoria in January to panic in March to then return just as quickly to a surprising sense of optimism despite the still very uncertain context for many economic sectors.

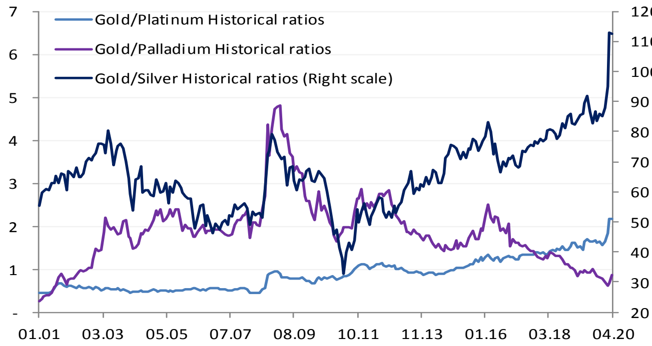
In this climate of high uncertainty, which could trigger new waves of profit-taking at any moment, precious metals still retain prospects for growth and seem perfectly well suited to help stabilise diversified portfolios in case of a return of the bear market for risky assets. In this context, we reiterate our favourable positioning towards gold and precious metals.

Narrowing of the price differential between gold and silver

It is not easy to try and rationalise a definition of the ideal ratio between the prices of gold and silver, even based on a historical analysis all the way back to Antiquity. Indeed, this ratio has changed quite significantly through time without us being able to easily determine an objective equilibrium ratio.

The value of gold compared to silver can also depend on the usefulness of one or the other for industrial and technological needs. However, beyond these considerations, we believe that the fluctuations in the ratios of the price of gold to silver as well as to platinum and palladium actually **depend on the fundamentals of physical supply and demand and especially of shifts in investment demand** and in how much investors consider precious metals a store of value in times of crisis.

Historical ratios



Sources: Bloomberg, BBGI

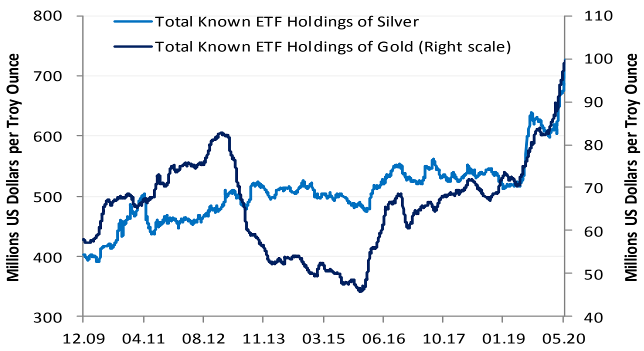
Initially positive investor mindset and investment demand for gold

In the last few weeks, we have noticed some quite usual behaviour from investors seeking safe haven during times of growing uncertainty, which are nevertheless certainly considered as temporary. The first reflex is usually to seek to balance out portfolio risks by reducing exposure to risky assets in favour of stable assets like gold. In this first phase of the analysis, the need for protection is not perceived equally by all, and many sceptics thus do not participate in the trend. Gold is usually the first precious metal to benefit from investors' fears and their return to risk-off mode. At first, the rise in gold corresponds to this influx of funds relating to investment demand. Momentum drives price increases and the further influx of funds more than fundamentals. The success of the long-gold strategy suggests other similar strategies, extending to other precious metals such as silver, which then seem cheap from a relative point of view. **As investment demand expands with the growing uncertainty, diversification into other precious metals becomes necessary to meet the rise in demand. Silver then seems easier to monetise due to its smaller denomination of coins than gold.**

Gold and silver: essential insurance policies

Since 1 January 2016, investment demand measured in gold ounces held by ETFs that invest in physical gold has increased together with the rising price of gold. From the low point of 46 million ounces reached at the end of December 2015 (price of gold USD 1,046), **investment demand doubled in four years** to return by the end of 2019 to the same level it had reached in 2012 when gold peaked at USD 1,921. Investment demand for physical gold has also grown steadily since the beginning of the year, only stopping for a week mid-March. It has now exceeded its November 2012 levels of 82.4 million ounces and is about to exceed the record figure of **100 million ounces. Despite the recent rise in gold prices, investment demand for physical gold is still likely to grow in the current context, which will remain uncertain for a while yet.**

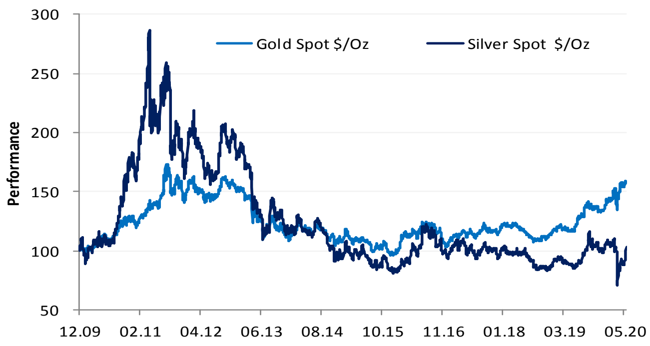
Total ETF holdings of physical gold & silver



Sources: Bloomberg, BBGI

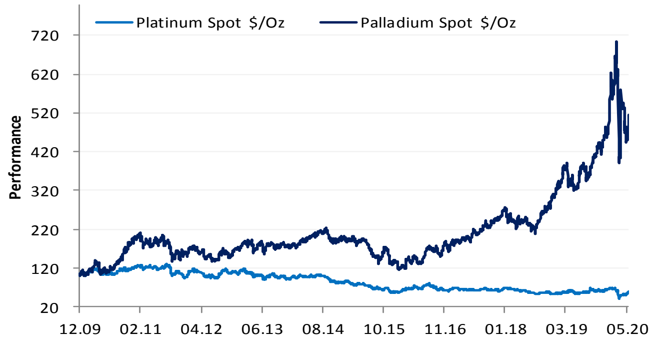
Gold prices are likely to rise and exceed their 2011 peak of USD 1,921 per ounce to reach USD 2,000 in 2020. Negative real yields are favourable to gold, and higher inflationary expectations will reinforce demand for a store of value. The gold/silver price ratio is at a historical high and points to an upcoming phase of normalisation probably based on an expansion of demand for silver as a store of value. Investment demand as measured by ETF holdings in physical silver showed spectacular growth in 2019 already, which has increased further still in 2020, representing a 42% rise over 15 months. Both precious metals are trending upwards, but the normalisation of the gold/silver ratio will necessarily require a more significant revaluation of silver prices, which are still far from returning to their 2012 high of USD 50. **At USD 17 per ounce, silver has a significant margin for progression and could initially already reach USD 22 in 2020. Hence, we believe silver offers the better prospects.**

Gold & silver 2010-2020



Sources: Bloomberg, BBGI

Platinum & palladium 2010-2020



Sources: Bloomberg, BBGI

Platinum and palladium: attractive prospects

These two precious metals have been particularly affected by the Covid-19 crisis and prospects of a global recession. Fears of a collapse in global economic activity have strongly influenced investors' perceptions of the outlook for industrial demand for these two metals. Platinum and palladium prices are quite closely associated with the fate of the global automobile sector.

The unprecedented drop in vehicle sales in all countries affected by the pandemic and the lockdown thus logically had a massive impact on stock market prices in March. However, the recovery in automobile production in China to 75% of its capacities in March must be taken into account. China represents 25% of the total demand for palladium.

Demand for platinum relating to the automobile sector represents approximately 33% of total demand, while it represents 85% of the demand for palladium. The decision to close mines in South Africa and Zimbabwe (80% of market shares) for nearly one month will reduce the supply of platinum and palladium in 2020. Furthermore, the generalised tightening of CO2 emission standards will also have an impact on the increase in demand for platinum and palladium for catalytic converters. The palladium market is in a situation of structural deficit in 2020 corresponding to approximately 15% of demand. We believe that despite the reduced production of vehicles in Q2, the palladium market will still be characterised by excess demand. However, excess supply of platinum relative to demand is likely to curb price growth for the latter. **Palladium prices might reach USD 2,600 and progress by +30% in 2020. Platinum could progress by +20% to USD 1,000.**

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