PRECIOUS METALS OUTLOOK 2021

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"The Vaccine versus The Virus"

At the start of 2020 a significant number of seasoned precious metals professionals, including ourselves, had become friendly to gold on the basis of a shift to an accommodative monetary policy by the Fed in Q4 2019, under pressure from President Trump, and with it the likelihood of lower interest rates and a weaker dollar, plus the fact that global markets were ever only a 'Trump Tweet" away from periods of high volatility. However no pundit or visionary could possibly have foreseen the drama that was about to unfold across the globe, caused by the onset of the COVID-19 pandemic that started to emerge in January and spread exponentially in March to send the world into lockdown and chaos and what followed in the gold market has been chronicled in detail in our review of 2020. Also our policy has always been to see how the global financial markets settle down in the first month of the New Year before forming and sharing our objective views and opinions. Looking ahead to the next eleven months, what will be the key macro economic drivers in 2021 and how will these impact the mainstream asset classes, particularly gold? In our view the key correlations to watch in terms of directional signals for gold are the usual suspects, i.e. the US dollar, equity markets, energy prices, interest rates and bond yields, with the last two being a function of global fiscal and monetary policies 'led by the Fed'. The key relationship to watch is between gold and 10 year US Treasuries and it is difficult to see too much upside potential for gold if yields probe higher. However while in depth research of these factors should help to shape our thoughts on where gold is heading in 2021, the elephant in the global economic room is the upcoming battle between "The Vaccine and The Virus' with the eventual outcome overshadowing everything else in terms of importance this year. Market watchers are used to forming views using traditional fundamental and technical analysis but we are now in a world where the main criteria to watch is the successful roll out of a range of vaccines around the world to fight and defeat the COVID-19 virus before irreparable damage is caused to the global economic, financial and social infrastructure. The early signs so far this year are mixed with good progress made in some parts of the world while there has been deterioration in other locations, but it is fair to say that a degree of stability has returned to global markets since President Joe Biden entered the White House on 20th January and a safe pair of hands on the tiller in Washington is exactly what is required to fight and win the battle.

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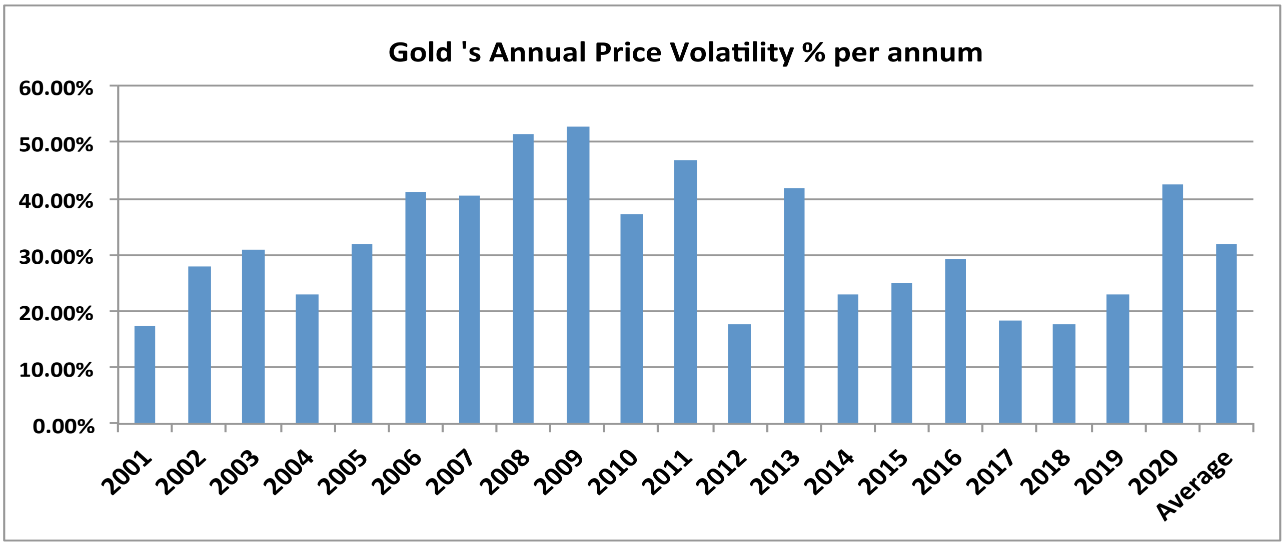

Apart from Gold's record breaking run to $2072 in August last year, the other big take away from 2020 was the return to the type of extreme price volatility last seen during the Global Financial Crisis in 2008 to 2009 and then again in 2011 and 2013, with the latter two years perhaps giving us a clue to what might happen to the gold price this year. When gold rose to a (then) record high of $1920 in September 2011 the range between the high and low for the year was $612 or 47% and traders started 2012 positioned for another year of extreme activity. But they were left disappointed as gold went back into its shell with a "high to low" range of just $269 or 18%. Increased volatility returned in 2013 with a range of $494 or 42% but once again market volatility was subdued in the following year with a narrow $260 or 23% range. Will history repeat itself in 2021 after the extraordinary events of 2020? In our view it could well do for the following reasons:

1. Gold posted gains every January for nine years in a row but this winning streak was snapped after an early rally to $1960 faded and the price fell back to end the first month of 2021 with a 2.75% loss at $1846.
2. The US now has a solid and reliable Chief of Staff in the form of President Biden, a seasoned politician that is consistent and measured in his views, someone that shows respect to friends and foes alike, as opposed to the erratic, inconsistent and bully boy approach of the former incumbent that favoured Government by social media and 'shoot from the lip', that made Donald Trump the gift that kept on giving to the gold market.
3. The (almost) universal view held by traders that the dollar could fall sharply in 2021 has become a crowded trade and the .DXY could well surprise on the upside if US Bonds yields start to increase as the US Government rolls out its $1.9 trillion pandemic fiscal relief package as we head through the year. A quick reminder that In the middle of February 2020 the yield on 10 year US Treasury Bonds was 1.15% p.a. with a gold price of $1650.
4. Investors are long. At the end of 2020 total ETF holdings stood at 76.38 Mio ounces valued at $144.97 billion, a year on year increase of 15.06 Mio or 25%. Will they keep buying in 2021 or book some profits?
5. Central Banks are long having added 5,292 tons since 2010 at lower prices and is today worth $321.66 billion. With big medical bills to pay courtesy of the COVID-19 pandemic we could see a reversal in flows from the official sector in 2021, although this is expected to reverse in 2022 when the global economy has stabilized.
6. Traders are long having been caught in the mid 1900's when gold quickly reversed direction last summer as it fell back from the record high of $2072 and a price around $1950 was seen as a bargain.
7. The roll out of vaccines across the world will pick up pace as 2021 progresses and by the second half of the year we should start to see life returning to something like normal with excess gold holdings being liquidated.

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What does this mean for the gold price? In our view the magic $2000 level now looks like a formidable overhead barrier to overcome and unless there are completely unexpected events, or 'Black Swans' such as serious health issues with America's 78 year old President and a Lady in The White House, it is difficult to see gold challenging last year's record high of $2072. There is enough bullish talk, however in the markets to help gold reclaim a foothold back above $1900 in H1 and head towards the band of technical resistance in place between $1950 and $1975, especially if silver does something special on the upside, as many are predicting. But as the year goes on, unless the virus looks like overcoming the vaccine, we could well see gold falling back towards the key band of congested technical support located between $1775 and $1750 in Q2, which should hold the downside. However a clear break and close below $1750 would likely trigger technical selling over the summer with the target being the band of long-term support located between $1675 and $1650 and we expect the lows of the year to occur in Q3. Such a move could well coincide with a strong recovery in physical demand from the world's two leading consumers, China and India, and a general pick up in jewellery demand as the world enters a sustained period of post COVID recovery with business and tourist travel making a strong comeback, thereby providing a solid base from which gold can be expected to recover towards $1900 in Q4 and set up a resumption of the bull market in 2022 with Central Banks returning to the buy side and investors having last year's record high of $2072 on their longer term radar screens and beyond that a blue sky target of $2300.

Silver was also a beneficiary of the Trump years in the While House with a 28% gain largely driven by investor inflows attracted by one of silver's twin roles as a cheap safe haven proxy for gold. The fact that silver underperformed gold during this period was a direct result of the Trade Wars rhetoric that President Trump used in discussions with China and the Eurozone throughout his tenure, which impacted the outlook for industrial demand, silver's other key role in the global commodity landscape. However after a complete implosion in March silver recovered impressively through the rest of 2020 to finally emerge from gold's shadow in 2020 to post a 49% gain, its' best annual performance since 2010. This rally was clearly driven by the massive scale of ETF inflows in silver and holdings have continued to grow at the start of 2021 with a 7% increase as a further 107 Mio ounces worth $2.89 billion was added in January and the industrial precious metal is now one of the most talked about asset classes in global financial and commodity markets amid reports of retail investors gunning for a short squeeze 'a la GameStop'. Silver surged towards key technical resistance set $30 at the start of February on huge ETF trading volume attracting headlines throughout the world fascinated by the prospects of a "David versus Goliath" battle between well-organised small-scale crowd investors versus the major banks and hedge funds. However with the CFTC and the new US Treasury Secretary Janet Yellen explicitly voicing their concerns about the volatility in silver, and a move by the CME to impose a big increase in margins

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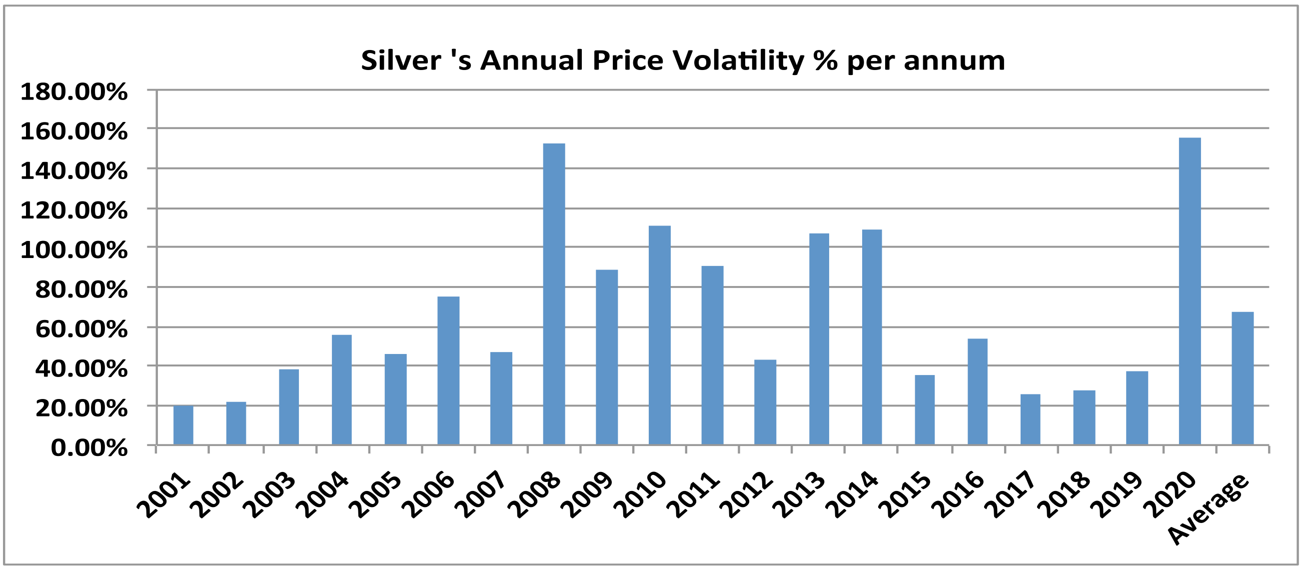
on futures, this early strength quickly dissipated with the price plunging by over 13% to $26 before recovering to $27 at the time of writing this report. With a record 62 million ounces of ETF inflows in the first week of February and open interest in the active March Comex Contract exceeding total stocks held in CME approved vaults by 162 Mio ounces, the scene is set for ‘fun and games’ in the global silver market in the coming weeks. Trying to form a view for the rest of 2021 in such volatile markets is a challenge and given the fact that markets today are driven by algorithm machines that engage in high frequency trading for fractional margins and are devoid of emotion simply following the numbers, the best approach is to watch the charts closely and study historical trading patterns.



The one thing that is certain is that the silver market is in a state of high anxiety having endured its widest annual “High to Low” trading range of the century in 2020 with 156% between a bottom of $11.66 in March and peak of $29.83 in August and periods of erratic price movement within those extremes. The closest to this amazing volatility was recorded in 2008 with 152% between the high and low as the onset of the Global Financial Crisis wreaked similar havoc in the silver market. But unlike gold during the same period, it took four years to really settle back to normality and this suggests another active year ahead of erratic and possibly extreme trading ranges. Another factor to watch closely is the potential for a supply side short squeeze, particularly in New York, as hordes of organised retail investors, egged on by social media platforms, try to replicate what a group of ultra rich, large scale investors led by the Hunt Brothers in the US, attempted but failed in 1980 when silver hit its record high of $50. In the current situation where the logistics of moving silver in bulk between major hubs such as London, New York and Switzerland in a COVID-19 dominated world, has become much more difficult than before the pandemic descended on humanity, and it has already had an impact with March silver trading at 50 cents per ounce above Loco London. Looking at total futures open interest on the COMEX versus silver physically held in CME vaults, the latest data shows that there are 90,552 contracts or 14,149 tons open in the active March contract and 69,005 contracts or 10,782 tons open in May while the total amount of CME deliverable silver held in New York is 12,356 tons. Also there are reports that a significant part of the huge stocks of London Good Delivery physical silver bars sitting in London vaults are pledged against Silver ETF’s to possibly compound the problem. Will a squeeze happen? Time will tell but market regulators in the US have already voiced their concerns about the sheer scale of the on-going volatility in the silver market, particularly as it involves the retail sector, and this could be enough to calm markets, which would obviously impact prices. Looking at the charts the potential trading parameters are wide with a band of long term support in place between $22 and $19 that should contain any major sell offs, while above the market $30 remains a key technical and psychological barrier to overcome but a clear break and close above this level would quickly target $35 and possibly bring $45 on to technical radar screens.

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Taking a look at platinum's performance under the four years of Donald Trump's Presidency it was the only one of the four precious metals not to flourish with the noble metal posting a loss of 15% under his watch, but this had more to do with the impact of the Volkswagen diesel scandal in the US in 2016 rather than any particular influence exerted by America's 45th President. However there is no doubt that the on-going trade wars stand off between the US and both China and the EU over that period weighed on industrial demand sentiment to add to Platinum's woes that saw it remain within a tight $750 to $950 trading range for most of this period before finally making a break to the upside in December 2020, penetrating key technical and psychological resistance to end the year on the highs at $1068 with an annual gain of 11%. The start of 2021 has seen platinum build on this strong close to reach a six-year high of $1270 after the release of the latest annual Johnson Mathey report that predicts a third straight year of supply deficits and a strong recovery in demand from the auto sector while primary mine production continues to struggle with the impact of the COVID-19 pandemic. Certainly nearby physical supply has been tight for some time with platinum now in a backwardation that has been a feature of palladium for a number of years and the prospects for platinum is 2021 are positive with positive fundamentals. Looking at the charts the clear break and close above the pivotal $1000 level was conclusive and brings to an end a bear market that has been in place since 2007 and the subsequent move above long term resistance pegged at $1150 points to a sustained technical rally towards $1500, particularly if the world does enter a post pandemic recovery phase from the summer onwards. On the downside forays below $1100 are now seen as buying opportunities.

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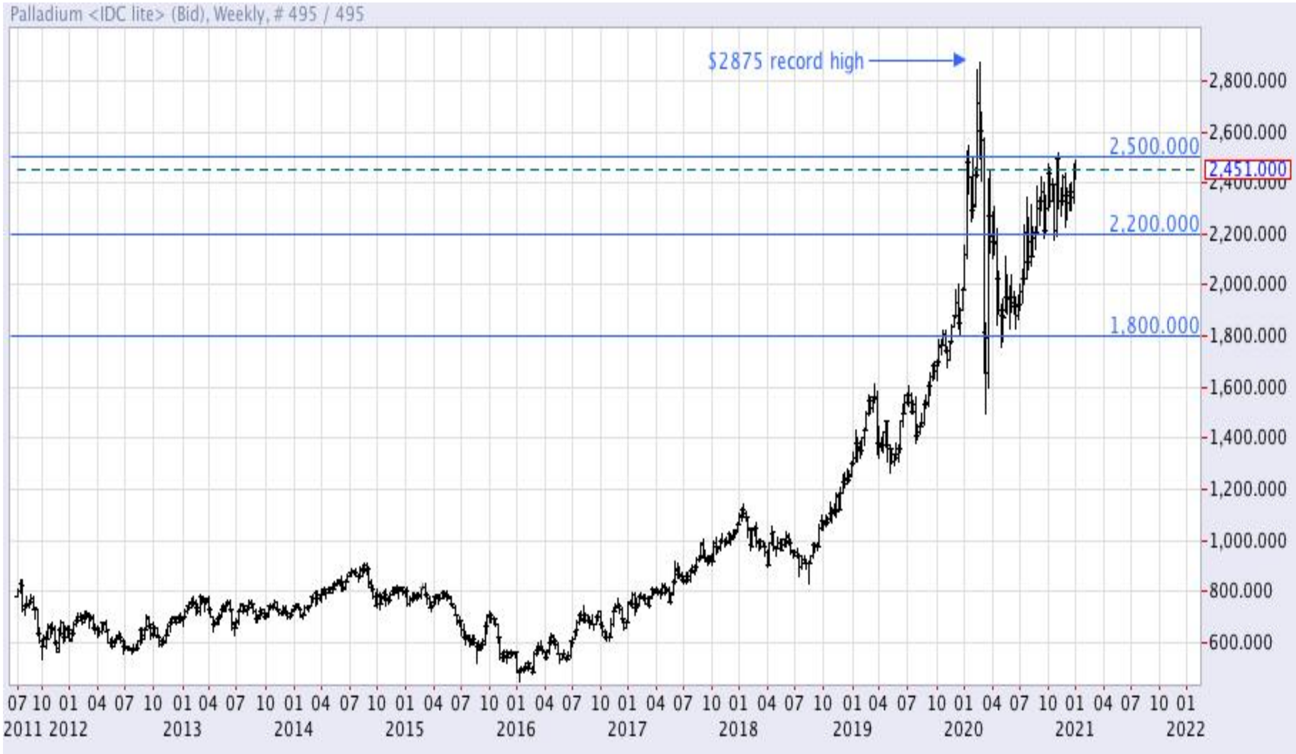

Palladium has been “top of the precious metals class” since it first broke above gold in early 2019 and last year it extended the sustained rally that started in January 2016, when the price was a distant $450, to reach a series of record highs that finally peaked at $2875 on 27th February last year, represented an astonishing gain of $2425 or 539%. It was also easily the biggest winner in the asset class league table during the Trump Presidency with a gain of 254% despite the potentially negative impact on industrial demand of President Trump’s approach to trade negotiations. The driver of palladium’s relentless rally over the last five years has been the chronic shortage of supply versus demand that has shows no sign of going away anytime soon, although there is some evidence of substituting palladium with platinum in gasoline automotive engines. Although the extent of the backwardation that has been in place for the last three years eased last year, it remains a deterrent to short selling and the fundamental shape of the market makes this type of trade dangerous, even for big banks with deep pockets. If you cannot deliver physical palladium into a short hedge there is “a problem Houston”. Although palladium retreated from the highs and spent the last four months of the year trading within a relatively tight technical trading range set by strong support located at $2200 and strong resistance pegged at $2500, it ended a record breaking year with a 26% gain at $2448 and looks well set for another solid year ahead with the extent of any advance being determined by the battle between “The Vaccine and The Virus”, with victory for the former likely to yield yet another record price in 2021. On the other hand if the battle continues for longer than expected it could result in a negative impact on demand from the auto sector and result in lower prices. Looking at the charts the $2500 level continues to provide an stiff overhead barrier to overcome but a clear break and close above this level would lead to a serious test of the all time high of $2875 with a clear boosting palladium into technical blue sky that would see a challenge of $3000 and beyond.

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Price Predictions for 2021 from Around The World

XAU Predictions 2021	High	Low	Average
Degussa	$2,680.00	$1,750.00	$2,300.00
Sharps Pixley	$2,230.00	$1,730.00	$2,130.00
Fast Markets	$2,455.00	$1,825.00	$2,120.00
UBS Limited	$2,300.00	$1,800.00	$2,100.00
StoneX Financial	$2,250.00	$1,790.00	$2,084.00
MKS Pamp	$2,300.00	$1,820.00	$2,072.00
ABN AMRO	$2,050.00	$1,750.00	$2,050.00
Metals Focus	$2,300.00	$1,800.00	$2,050.00
Metals Daily	$2,285.00	$1,810.00	$2,025.00
Commerzbank	$2,150.00	$1,750.00	$2,000.00
TD Securities	$2,131.00	$1,775.00	$1,994.00
Mitsubishi Corp.	$2,200.00	$1,600.00	$1,960.00
Standard Chartered	$2,200.00	$1,700.00	$1,958.00
Heraeus Metals	$2,120.00	$1,760.00	$1,955.00
CPM Group	$2,100.00	$1,800.00	$1,922.00
Sumitomo Corp.	$2,125.00	$1,710.00	$1,920.00
HSBC Securities	$2,010.00	$1,695.00	$1,907.00
Bank of China	$2,150.00	$1,575.00	$1,887.00
ED&F Capital Markets	$2,050.00	$1,680.00	$1,815.00
Natixis	$1,950.00	$1,700.00	$1,775.00
LBMA Averages	$2,168.00	$1,730.00	$1,974.00

XAG Predictions 2021	High	Low	Average
Degussa	$55.00	$22.00	$47.00
Sharps Pixley	$43.00	$20.00	$38.00
MKS Pamp	$40.00	$22.00	$32.50
StoneX Financial	$37.50	$24.86	$32.24
Fast Markets	$33.70	$23.20	$31.20
Metals Daily	$36.00	$24.10	$30.26
Metals Focus	$37.00	$23.90	$30.00
Heraeus Metals	$36.00	$21.00	$30.00
UBS Limited	$35.00	$21.00	$30.00
Standard Chartered	$35.00	$22.00	$28.80
Bank of China	$35.60	$21.70	$28.60
Mitsubishi Corp.	$32.00	$23.00	$28.50
CPM Group	$35.00	$22.00	$28.17
ABN AMRO	$30.00	$20.00	$27.20
TD Securities	$31.38	$22.50	$26.99
Commerzbank	$30.00	$22.00	$26.50
HSBC Securities	$27.90	$20.25	$25.50
ED&F Capital Markets	$29.50	$22.10	$24.50
Sumitomo Corp.	$29.10	$20.25	$24.50
Natixis	$27.00	$21.00	$22.90
LBMA Averages	$34.22	$21.50	$28.50

XPT Predictions 2021	High	Low	Average
MTSS UK Limited	$1,827.00	$1,007.00	$1,438.00
Metals Daily	$1,520.00	$1,000.00	$1,316.00
Sharps Pixley	$1,330.00	$980.00	$1,280.00
Fast Markets	$1,495.00	$980.00	$1,275.00
MKS Pamp	$1,450.00	$950.00	$1,205.00
Mitsubishi Corp.	$1,300.00	$900.00	$1,180.00
Bank of China	$1,300.00	$900.00	$1,175.00
Natixis	$1,300.00	$1,000.00	$1,175.00
Degussa	$1,480.00	$950.00	$1,150.00
CPM Group	$1,320.00	$850.00	$1,137.00
ABN AMRO	$1,350.00	$950.00	$1,136.00
Sumitomo Corp.	$1,260.00	$985.00	$1,130.00
Commerzbank	$1,250.00	$950.00	$1,125.00
Standard Chartered	$1,300.00	$900.00	$1,081.00
Metals Focus	$1,250.00	$920.00	$1,055.00
Heraeus Metals	$1,200.00	$850.00	$1,040.00
HSBC Securities	$1,210.00	$910.00	$1,036.00
TD Securities	$1,160.00	$835.00	$1,013.00
UBS Limited	$1,200.00	$900.00	$1,000.00
StoneX Financial	$1,118.00	$886.00	$970.00
LBMA Averages	$1,313.00	$928.00	$1,132.00

XPD Predictions 2021	High	Low	Average
TD Securities	$2,884.00	$2,125.00	$2,656.00
Sharps Pixley	$2,930.00	$2,230.00	$2,630.00
Metals Daily	$3,000.00	$2,300.00	$2,625.00
StoneX Financial	$2,860.00	$2,256.00	$2,618.00
Mitsubishi Corp.	$3,000.00	$2,100.00	$2,585.00
Natixis	$2,650.00	$2,100.00	$2,585.00
Fast Markets	$2,920.00	$2,230.00	$2,580.00
Metals Focus	$3,000.00	$2,250.00	$2,570.00
Degussa	$2,910.00	$2,200.00	$2,560.00
Standard Chartered	$2,850.00	$2,000.00	$2,500.00
MKS Pamp	$2,850.00	$2,200.00	$2,480.00
Commerzbank	$2,600.00	$2,200.00	$2,475.00
ABN AMRO	$2,600.00	$2,000.00	$2,437.00
CPM Group	$2,700.00	$2,000.00	$2,330.00
HSBC Securities	$2,710.00	$2,045.00	$2,327.00
Heraeus Metals	$2,900.00	$1,900.00	$2,300.00
UBS Limited	$2,600.00	$2,000.00	$2,300.00
Sumitomo Corp.	$2,625.00	$1,910.00	$2,265.00
MTSS UK Limited	$2,562.00	$1,823.00	$2,173.00
Bank of China	$2,500.00	$1,500.00	$2,000.00
LBMA Averages	$2,786.00	$2,078.00	$2,439.00

24GOLD PREDICTIONS 2021	Gold	Silver	Platinum	Palladium
High	$1,975.00	$36.00	$1,550.00	$3,100.00
Low	$1,650.00	$19.00	$950.00	$2,100.00
Average	$1,845.00	$27.50	$1,250.00	$2,600.00

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