

Silver, Platinum & Palladium Outlook

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Platinum to outperform other precious metals

- ▶ **Precious metal prices rose strongly in 2020**
- ▶ **We also expect higher prices in 2021**
- ▶ **Silver to modestly outperform gold again**
- ▶ **The stars are aligned for platinum. We expect an outperformance in percentage terms**
- ▶ **We also see modest upside in palladium prices**

Introduction

Silver, platinum and palladium had a very strong 2020. Silver had a stellar performance, rising by more than 46%. Palladium rose substantially, by 26%. Platinum was the weakest precious metal rallying by 'only' 10%. They started 2020 strongly. But the market panic between the end of February and 23 March resulted in sharply lower silver, platinum and palladium prices. They declined by between 25 and 40%. Then the recovery started, and prices rallied from 23 March to mid-August. There were a number of drivers of this. First, the Fed took measures to fight the dollar shortage and embarked on unlimited QE. Other central banks followed suit. Moreover, governments announced enormous fiscal spending plans to support the economy. This all supported investor sentiment, and investors sold the dollar as safe haven demand dissipated. This supported silver, platinum and palladium prices. Second, investors became more optimistic about the prospects for the global economy. They were looking through the near-term economic weakness. Silver, platinum and palladium are more exposed (than gold) to the global economy via industrial demand and the improved outlook for car sales, especially in China. Silver's stunning performance was mainly due to strong demand for gold, and a surprisingly strong recovery in industrial demand. As silver was relatively cheap compared to gold, investors switched to silver when gold prices rose. Silver prices peaked in August when gold prices peaked and some price weakness followed. Palladium is the most cyclical precious metal and China is an important market for gasoline cars. Hence palladium did very well. Palladium prices were relatively stable in Q4, and platinum prices caught up following the vaccine news on 9 November. What are the prospects for silver, platinum and palladium for 2021?

Silver to slightly outperform gold prices in 2021

We released our [Gold outlook](#) on 16 December 2020. The stars are aligned for gold prices but some cracks are appearing. We still expect prices to rise in 2021 on lower US real yields and a weaker dollar. The caveat is that long gold is still a crowded trade. For the same reasons we also expect silver prices to rise. Silver tends to profit from higher gold prices as they are both bought as an investment, as a safe haven (gold more than silver), and for jewellery. Silver has another interesting dynamic. Silver prices tend to outperform gold prices if investors are more optimistic about global growth and trade, because silver has a substantial industrial demand component. Indeed silver prices strongly outperformed gold prices in 2020 for this reason and because silver was relatively cheap. This wiped out four years of gold outperformance. The gold/silver ratio dropped from 126 on 18 March to just above 71 at the end of 2020 (see graph on the left below). This raises the question if silver is still able to continue to outperform gold in 2021. We think so. We expect a further recovery in the industrial sector, a lower US dollar and

lower US real yields. But it could be a bumpy ride, for two reasons. First, silver (like gold) is now a crowded. ETF positions in silver stand at an all-time high (see graph on the right below). Some position liquidation could result in considerable price weakness. Second, liquidity in silver is lower than in gold and thinner liquidity results in larger moves if they come. In short, we are positive on silver as long as silver prices are above the 200-day moving average (now at 21.8), and wait for price weakness to position for higher silver prices.

Silver had a strong catch-up



Source: Bloomberg, ABN AMRO Group Economics

... and investors piled into ETFs in silver



Source: Bloomberg, ABN AMRO Group Economics

The stars are aligned for platinum

We think that platinum prices have the largest upside potential this year. Slowly but surely the stars are aligning for this precious metal. First, a positive outlook for gold prices also supports the outlook for platinum. They are both used in jewellery and we expect a modest rise in jewellery demand especially from China (largest market for platinum jewellery). Moreover, some investors buy platinum as an investment alternative to gold if gold prices become expensive. Second, we expect an ongoing recovery in the industrial sector that will probably result in higher industrial demand for platinum. Third, we expect higher consumer demand for cars this year. Meanwhile, more stringent car emission regulation results in more platinum content for car catalysts. So we expect platinum demand for car catalysts to rise. Fourth, fuel cell technology for cars will continue to get more attention. Platinum is used in hydrogen cars and the content needed exceeds what is needed in regular diesel car converters. Last but not least, platinum is the cheapest precious metal. The ratios of platinum to gold, silver and palladium are still at very low levels. In short, we are positive on platinum as we expect demand to outpace supply. But the total ETF positions are at all-time high and some profit taking could result in temporary price weakness.

Platinum is cheap compared to gold ...



Source: Bloomberg, ABN AMRO Group Economics

... and cheap compared to palladium



Source: Bloomberg, ABN AMRO Group Economics

Modest upside in palladium prices

We also expect higher palladium prices in 2021 but the rise will probably be modest. There is still a supply shortage because of higher palladium demand for car converters to meet the more stringent emission standards in China and Europe in the future. We expect a rise in car sales in China, Europe and the US and higher palladium loadings in converters. We also expect higher industrial demand because of the ongoing recovery in the global industrial sector. The positive trend in gold and the other precious metals will probably spill-over to palladium as well. But it is unlikely that palladium will be used a lot in jewellery or as an investment vehicle. So palladium is mainly a cyclical play, but the market is very thin.

ABN AMRO Precious metals price forecasts

Changed in bold and red

End period	06-Jan	Dec 20	Mar 21	Jun21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22
Gold	1,950	1,894	1,925	1,950	1,975	2,000	2,025	2,050	2,075	2,100
Silver	28	26	26	27	28	29	30	31	32	32
Platinum	1,103	1,070	1,050	1,100	1,200	1,300	1,350	1,400	1,450	1,500
Palladium	2,463	2,450	2,300	2,400	2,500	2,600	2,650	2,700	2,750	2,800
Gold/silver ratio	70.9	71.9	74.0	72.2	70.5	69.0	67.5	66.1	65.9	65.6
Gold/platinum	1.8	1.8	1.8	1.8	1.6	1.5	1.5	1.5	1.4	1.4
Palladium /platinum	2.2	2.3	2.2	2.2	2.1	2.0	2.0	1.9	1.9	1.9
Average	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22	Q2 22	Q3 22	Q4 22	2022
Gold	1,918	1,938	1,963	1,988	1,951	2,013	2,038	2,063	2,088	2,050
Silver	26.2	26.5	27.5	28.5	27.2	29.5	30.5	31.3	31.8	30.8
Platinum	1,067	1,075	1,150	1,250	1,136	1,325	1,375	1,425	1,475	1,400
Palladium	2,398	2,350	2,450	2,550	2,437	2,625	2,675	2,725	2,775	2,700

Source: ABN AMRO Group Economics

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