2018 – The Year Ahead

Gold

As we head into 2018, CPM Group expects volatile global political developments, but economic and financial markets to continue to move steadily forward as they have through most of the past year. At some point economics and financial markets are expected to become more volatile, but it may be late 2018 or beyond before that happens. In such an environment gold prices are expected to tread sideways to slightly higher. Gold prices should be expected to move sideways to higher, providing an opportunity for investors to increase their gold holdings. CPM projects gold prices will rise about 2.3% to $1,288 on average in 2018, rising modestly during the year.

CPM Group's expectations are for gold prices to rise at an accelerated pace during 2019 and to rise to new record annual average prices between 2021 and 2024. Gold prices are projected to rise over the next five to ten years based on a combination of economic, financial, and political factors stimulating increased investment, continued central bank buying, and a decline in mine production after 2019. The next twelve to eighteen months could provide the best opportunity to increase gold holdings in a portfolio before the market begins to rise at a strong pace.

Silver

Silver prices are forecast to average $17.75 in 2018, up 3.8% over 2017. While growth in silver prices are forecast to outpace growth in gold prices during 2018 the relative value of silver is expected to continue lagging that of gold. At the end of 2017, the gold to silver ratio stood at 77. This ratio is expected to decline over the course of 2018, to 72.6 on an annual average basis. This is still well above the historical average of 56, however. Given the forecast for higher gold prices in the medium term, the present relative discount of silver prices to gold suggests that there could be a significant upside potential for silver when prices begin to move. CPM Group does not expect this more aggressive move higher in silver prices to occur until at least 2019. Given the historic volatility of silver prices, silver prices should be and can be expected to rise sharply higher very quickly. A combination of this volatility, near 30% premium in the 2018 projected gold-silver ratio to the historical ratio, coupled with improving fundamentals are all factors that make silver a compelling investment at present levels.

As in the case of gold, CPM Group believes that 2018 would provide a good buying opportunity for silver investors. Not only is the metal relatively undervalued, but there also are several fundamental reasons (supply and demand) coupled with lurking political and macroeconomic problems for investors to purchase silver at present levels. Investors are forecast to add 124.8 million ounces of silver to their holdings on a net basis during 2018.

Platinum Group Metals

As discussed at the start of this report, CPM expects platinum and palladium prices to be relatively subdued during 2018, with the potential for a multi-year sharp spike higher in prices at some point over the coming decade. While gold and silver prices are seen as rising in a similar fashion in the long run due to investors pouring into these metals as alternative stores of value and hedges against a host of economic and financial issues that may come home to roost in the years ahead, PGM prices are expected to rise more on fundamental trends: Lower South African production in the next several years preceding any major decline in fabrication demand for these metals from the auto industry.

Expectations of seasonal price strength in the precious metals complex should help support platinum and palladium at their present levels in the first quarter of 2018. Prices of the two metals are expected to continue to depart from each other for the rest of the year after moving in different directions in 2016 and 2017, reflecting different fabrication demand trends and varying investor interest in the two metals markets.

Platinum

Platinum prices are likely to move sideways with limited downside over the course of 2018. On the upside, prices may be capped by ongoing adverse fabrication demand trends, which have been in place for the past few years. It is worth noting that these less-positive trends are well-known to platinum investors, and are priced into the metal market. On the downside, prices should be supported by an expected slowdown in mine supply growth starting 2018 and several years thereafter. In the meantime there could be occasions throughout 2018 when announcements of supply disruptions, whether they are coming from labor issues or production curtailment, and/or financial stress from South African mining companies could help stimulate bouts of investor interest in the physical metal, pulling prices higher at any given time. In addition, spillover effects from the price movements of gold, possibly stemming from global political issues and potential economic and financial uncertainty, also could push platinum prices higher at some point during 2018.

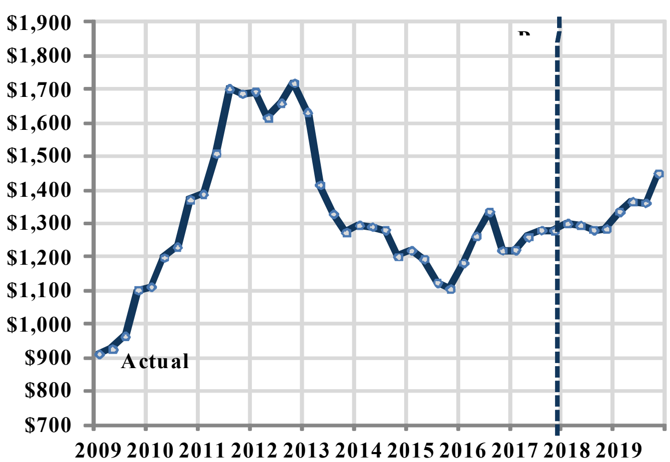
On an annual average basis, platinum is forecast to average $960 this year, up 0.9% from an annual average of $952 last year.

Optimism surrounding the prospect of electric vehicles (EVs), which do not use PGMs, intensified during 2017, which to some extent played a part in keeping platinum prices in a range over the course of last year. Such positive sentiment has its merit in that prices of lithium-ion batteries are declining and that advances in technologies are helping increase EVs' driving ranges and reducing recharging times. However, what one may miss is that positive developments in areas including battery price, driving range, recharging time, battery size, and battery safety, have not reached to a point where EVs are becoming as economical and practical as cars with conventional engines that use gasoline or diesel. CPM Group thinks it remains to be seen whether battery EVs will become the go-to technology in the next decade or so. It could very well be the case, but then the transition from automobiles with conventional engines to EVs lies beyond the coming decade. Therefore, EVs are not an immediate and medium-term threat to uses of PGMs in automobiles.

CPM Group's analysis also has suggested that a decline in diesel market share is a gradual process and is unlikely to result in a sharp drop in the use of platinum in auto catalysts in diesel cars in the next few years. The platinum market is far more likely to suffer from falling mine output before it suffers from sharp reductions in platinum use in auto emission catalysts.

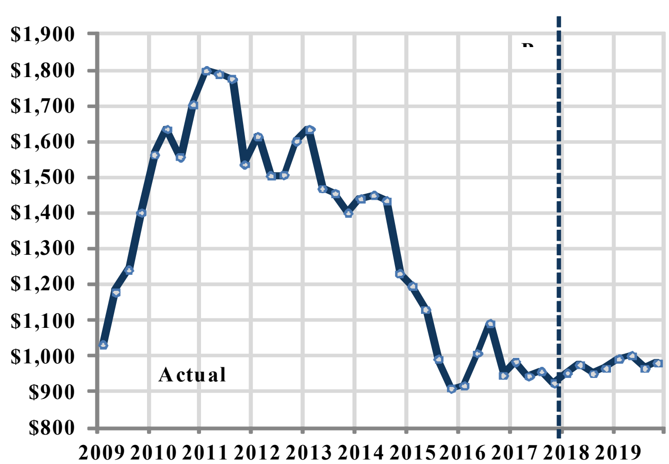
Platinum investors are presently factoring in the less bullish factor from the demand side, and are yet to begin to price in the supply-side slowdown that could occur in the medium term. Since South African platinum supply is likely to fall sharply before auto use declines on a long-

GOLD



SILVER

PLATINUM



PALLADIUM

term basis, the platinum market is likely to experience a period of several years of tight supply of newly refined metal relative to fabrication demand, which could push platinum prices sharply higher. Such a move may be a few years away, however. The price of platinum has limited downside from present levels, which should allow investors a good entry point to benefit from the healthier future supply and demand fundamentals in the metal's market.

Palladium

Palladium prices are expected to extend last year's strong performance in early 2018 as investors tend to build on an existing trend. Expectations of seasonal price strength in the precious metals complex in the first quarter also should help support palladium prices at elevated levels.

However, an expected slowdown in the U.S. and Chinese auto markets, an increase in palladium secondary supply, and large investor inventory may weigh on prices later in the year. Palladium prices could come down from their elevated levels but should be expected to remain higher than 2017 levels on an annual average basis. The annual average palladium price is projected to be around $953 in 2018, representing a 9.9% increase from last year.

On the upside, continued congestion on the Nymex palladium futures contracts should provide upward momentum to prices in the near term. Palladium prices may need some fresh bullish catalysts to rise significantly higher after having risen more than 55% at the end of 2017 from the end of 2016.

When palladium prices begin to decline in a sustained way, possibly after the first quarter of 2018, investors could begin purchasing palladium coins, although such investor buying is expected to only offer some underlying support to prices instead of propping up prices significantly higher considering

While palladium fabrication demand from the auto sector, the largest end-use of the metal, is likely to slow down in 2018, the total volume is forecast to be still high due to the sheer size of the U.S. and Chinese auto markets. This is expected to provide strong downside support to prices.

Palladium may have more downside risks than upside momentum in the medium term. The main reason behind the price rally in palladium last year was that a group of new, trend-following investors that had never had exposure to palladium entered the market and bought the metal in a quick fashion on expectations of further price increases. This very group of investors could easily exit the market when palladium prices start to decline in a meaningful way and/or the tight conditions in the palladium market start to ease in a sustained fashion.

Rhodium

In the first quarter of 2018, decent demand from automobile and chemical sectors and continued tightness in the physical market are expected to help rhodium prices extend the strong performance last year. Seasonal price strength in the precious metals complex in the first quarter also may provide further positive cues to prices. Prices could come off later in the year, weighed down by a projected slowdown in two key auto markets, the United States and China. Investors, including those investing in rhodium ETPs, also may take profits on higher prices, temporarily pushing prices lower. That said, prices should be expected to remain higher than 2017 levels on an annual average basis, helped by tighter market conditions and ongoing positive investor sentiment toward palladium and rhodium.