The London Bullion Metal Association (LBMA, representing the UK precious metal market’s main operators) has just published its annual overview of analyst forecasts for gold, silver, platinum and palladium prices in 2021.

The LBMA promises an ounce of gold at the end of the year to the analyst with the most accurate forecast for each metal, and has thus been able to draw up an overview of forecasts from a large number of operators.

Analysts are relatively upbeat about 2021 and on average expect all precious metals to make gains. This report summarises their various opinions along with OFI AM’s own views.

### Precious metals LBMA forecasts

<table>
<thead>
<tr>
<th>Metal</th>
<th>2020 actual average price*</th>
<th>Analysts’ 2021 average forecast</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>$1,769.60</td>
<td>$1,973.80</td>
<td>+11.5%</td>
</tr>
<tr>
<td>Silver</td>
<td>$20.55</td>
<td>$28.50</td>
<td>+38.7%</td>
</tr>
<tr>
<td>Platinum</td>
<td>$882.60</td>
<td>$1,131.50</td>
<td>+28.2%</td>
</tr>
<tr>
<td>Palladium</td>
<td>$2,192.50</td>
<td>$2,439.10</td>
<td>+11.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Metal</th>
<th>Actual average price in first half of January 2021* (4 to 14 January inclusive)</th>
<th>Analysts’ 2021 average forecast</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>$1,887.50</td>
<td>$1,973.80</td>
<td>+4.6%</td>
</tr>
<tr>
<td>Silver</td>
<td>$26.36</td>
<td>$28.50</td>
<td>+8.1%</td>
</tr>
<tr>
<td>Platinum</td>
<td>$1,084.10</td>
<td>$1,131.50</td>
<td>+4.4%</td>
</tr>
<tr>
<td>Palladium</td>
<td>$2,404.70</td>
<td>$2,439.10</td>
<td>+1.4%</td>
</tr>
</tbody>
</table>

*Based on LBMA precious metals prices • Source: London Bullion Metal Association
Summary of contents

2021 OUTLOOK

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Analysts expect prices to rise by 4.6% on average between the beginning and end of 2021.

2020 saw an unprecedented public health crisis that required the full support of the public authorities and pushed prices up by more than 20%.

Central banks in developed countries pulled interest rates down towards 0 and are now expected to continue propping up the economy by keeping interest rates where they are. This should enable governments to stick to their “whatever it takes” policy by providing households and businesses with huge amounts of support. The massive debt that has accumulated (debt/GDP ratios have risen by 15% to 20% in the space of a year in many countries) will thus be much more “manageable”. Interest rates therefore seem unlikely to return to normal in the years ahead.

Governments have provided a different kind of support during this crisis, with some countries sending cash to households directly. So inflation could soar if all this money, along with that put aside by many households during the crisis, suddenly gushes into the economy once the public health situation normalises. The central banks do not seem too concerned about this, saying they are prepared to take the risk as long as the economy recovers strongly.

Consequently, real interest rates (i.e. nominal interest rates adjusted for inflation) should remain in negative territory and could even fall lower. Gold’s performance is inversely proportional to that of real interest rates, so gold prices should rise automatically.

A weaker dollar could also have an impact as the USA has added more to its debt during this crisis than other countries have. Gold is dominated in dollars and should therefore benefit from this.

Conversely, some analysts expect gold prices to suffer (especially in the second half) as intensive vaccination campaigns will spark an economic upturn. Might this compromise gold’s role as a safe haven?

Historical patterns of General Government Debt

Source: FMI, October 2020
We at OFI AM feel very optimistic about the yellow metal.

We too believe inflation could make a comeback due to all the monetary, budgetary and fiscal policies introduced to tackle the pandemic, but we actually believe these expectations may in fact be underestimated. Setting aside the various decisions being taken, there are two other major factors to consider. First of all, base effects for commodity prices could trigger a surge in inflation, at least in the near term: oil prices are currently more than $40/barrel higher than they were last March, metal prices as a whole have risen, and the main agricultural raw materials have also seen their prices increase following a number of production incidents in various crop-growing regions.

We also need to factor in the inflationary potential created by the energy transition. It is absolutely crucial to stop using fossil fuels, and this will encourage the development of renewable energies. Yet renewables are less dense and therefore more costly to produce.

One of the features inherent to such sources of energy (i.e. their intermittence) means that dispatchable energy generation capacity cannot be shut down altogether even as renewables are being rolled out, unless costly storage solutions are used to ensure production continuity as demand fluctuates. This is why electricity is currently almost twice as expensive in Germany, which has developed a lot of renewable energy, than in France, where such sources of energy production are still only marginal.

**SUMMARY**

For all these reasons, inflation could surprise on the upside and drag real interest rates a little lower still, enabling gold prices to continue climbing.
Analysts are somewhat more optimistic about silver, which they see gaining 8.1% over the year.

The price of silver jumped in 2020 (+47%). Supply plummeted during the first half of the year as high numbers of coronavirus cases forced governments in the world’s two leading silver-producing countries, Mexico and Peru, to shut down mines temporarily (since the industry was not deemed essential). Health protocols were then adapted and mining activity was able to resume gradually starting from June. Mexico’s output fell by just over 5% and Peru’s by 12% during the year.

But it would be too simplistic to say that this temporary factor alone is responsible for the increase in silver prices. Last year’s gold rally (for the reasons mentioned above) was a determining factor for silver prices. Both metals are important components of precious metals holdings so their prices are closely correlated with each other, with silver generally gaining ground more rapidly. The momentum could continue in 2021 with the gold/silver ratio decreasing to 60:1 versus 75:1 currently, i.e. back to its 20-year average.

Industrial demand for silver is another major factor. Silver is expected to be among the biggest beneficiaries of the energy transition. Investment in renewable energies, especially solar panels (5g of silver per panel), has been increasing year in year out, and they now account for 12% of global demand for silver! Further impetus is likely to come from the green deals being announced by governments in Europe as well as the USA under the new Biden administration.

Demand is also likely to be shored up by the development of electric vehicles as silver is used to connect batteries together to form battery packs. This use for silver already accounts for 5% of demand and global sales of electric vehicles, while still limited for the time being, are growing rapidly. Some 2.25 million electric vehicles were sold in 2020 (a market share of 2.9%) along with 1 million plug-in hybrid vehicles (1.3%), which use small battery packs (the battery only gives them enough autonomy to drive for 30km to 50km).

**Summary**

We are as optimistic as the consensus about silver. Upcoming developments in e-mobility and the solar power industry, in particular, are expected to drive demand for silver. The International Energy Agency (IEA), for instance, reckons that solar power production capacity will have to increase 4-fold between now and 2030 if the promises made under the Paris Agreement are to be kept!
Platinum

Analysts are more upbeat about platinum prices, which are seen rising by an average of 4.4% in 2021.

The platinum market could find itself with a supply deficit for the second year running. This would put an end to years of surplus following the dieselgate scandal since platinum is used mainly in the manufacture of catalytic converters for diesel engines. The supply deficit should narrow this year, however.

In 2020, South Africa’s mines (which produce 80% of the world’s platinum) were shut down for many weeks at the start of the pandemic. Not only were there large numbers of coronavirus cases, protocols had to be adapted to enable miners to work in conditions deemed satisfactory from a health and safety perspective. Output did not return to normal until the second half of the year.

Anglo American Platinum, the world’s leading platinum producer, also faced some major operational issues as one of its plants involved in processing platinum-group metals was severely damaged in 2020. The group’s output therefore tumbled by 38% last year. Repairs should be completed in the first half of this year, and output should be able to catch up to some extent thanks to the amount of platinum ore that has accumulated since the incident occurred.

Environmental standards will be a hugely determining factor for platinum prices this year. China is rolling out its “China 6” standard this year in heavy-duty vehicles, which run almost exclusively on diesel. The platinum content in these vehicles is likely to increase 3-fold as a result! This factor alone could push global demand for platinum up by 3% to 5%, according to analyst Rene Hochreiter.

The jewellery sector could bounce back. It might make sense for consumers to buy platinum jewellery given the price differential between platinum and gold, which is at a historical high. This appears to have started happening in China towards the end of 2020, judging by comments made by various jewellery groups.

The developing hydrogen industry is also expected to prop up demand for platinum, as the metal is currently one of its crucial components.

A hydrogen car needs 5 to 10 times more platinum (for the fuel cell) than a conventional internal combustion engine car. Large amounts of platinum are required to produce hydrogen through water electrolysis. The metal is expected to be used on a larger scale over the coming years thanks to various government programmes: France plans to invest €7 billion in the industry by 2030 and Germany €9 billion, for instance. China, meanwhile, has placed hydrogen at the very core of its energy transition.

However, although around 30 countries have announced hydrogen programmes, there is no guarantee that the industry will be able to grow rapidly given current circumstances. But it will certainly prove to be a game changer in the medium term. Prices have risen by 20% year-to-date, so there seems to be little upside potential left for the short term.

**SUMMARY**

With platinum supply now fully restructured and the diesel market stabilising, we do not expect to see any further downward pressure on this metal. The sharp increase in demand triggered by new regulations should enable platinum prices to keep climbing on a longer-term horizon.
Palladium

Analysts see palladium prices rising by around 1.4%.

2020 turned out to be a mixed year for the automotive industry, with global car sales falling by about 15% but output also being hit hard in Russia and especially South Africa. Production is estimated to have dropped by 13%, thus partly offsetting sluggish automotive sales. The palladium market found itself with a supply deficit for the 9th year running, helping prices to gain 28%.

The automotive industry is expected to bounce back in 2021, although sales volumes will not manage to reach their 2019 (pre-Covid) levels. New emissions standards (Euro 6d ISC-FCM, etc.) requiring increased palladium content (for petrol vehicles) should push demand back up to 2019 levels.

On the supply side, palladium production is expected to return to normal in the world’s main palladium-producing countries, Russia and South Africa. The recycling industry, meanwhile, declined last year as many of its processing plants were shut down at the start of the pandemic. But it should be able to resume its underlying uptrend and start growing again, encouraged by high prices.

The palladium market is therefore expected to be in supply deficit in 2021 for the 10th year running, although the deficit will be narrower than in previous years.

There are various factors that could potentially compromise these forecasts:

• BASF, in a partnership with two South African producers, presented its new tri-metal catalyst technology in March 2020; it partly replaces palladium with platinum in petrol cars while complying with new emissions standards. Substitutable volumes are estimated at 300,000 ounces (~3% of the market). This new technology could begin being rolled out this year in limited volumes.

• The shortage of certain electronic components could keep a lid on car production for a few months, thereby limiting the production of catalytic converters and thus of platinum-group metals. Initial estimates point to a 3% to 5% reduction in global production due to these constraints, but this will largely depend on how long the shortages last.

SUMMARY

Thanks to a recovering global automotive market combined with a chronic shortage of available palladium (stocks of which have already been significantly drawn down), we believe palladium prices could move back up to their historical highs of February 2020 (i.e. before the global pandemic hit) and even overtake them.
Conclusion

Gold prices have dipped slightly in recent months. The public health situation is improving thanks to news of effective coronavirus vaccines, which means that we can expect the pandemic to be over sometime in the medium term.

But let us make no mistake. Massive economic stimulus, mostly provided by governments worldwide, could unleash considerable inflationary potential. The Fed is expected to keep interest rates in the region of 0% so as to avoid nipping the recent momentum in the bud and also because government debt levels are hitting new records. **Real interest rates will fall further in this case. This is the best form of support for gold prices, which could begin to trend upwards again in the coming months.**

The other precious metals are central to the energy transition, catering to short-term and long-term needs alike. Photovoltaic panels consume a lot of silver and are gaining more and more momentum each year. Emissions standards in the automotive industry are tightened on a regular basis, increasing demand for platinum-group metals each time. Last of all, platinum is expected to be used over the coming decade in the development of hydrogen.

**Precious metals therefore offer investors a good opportunity to diversify their portfolios by providing them with an effective hedge against inflation.**
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