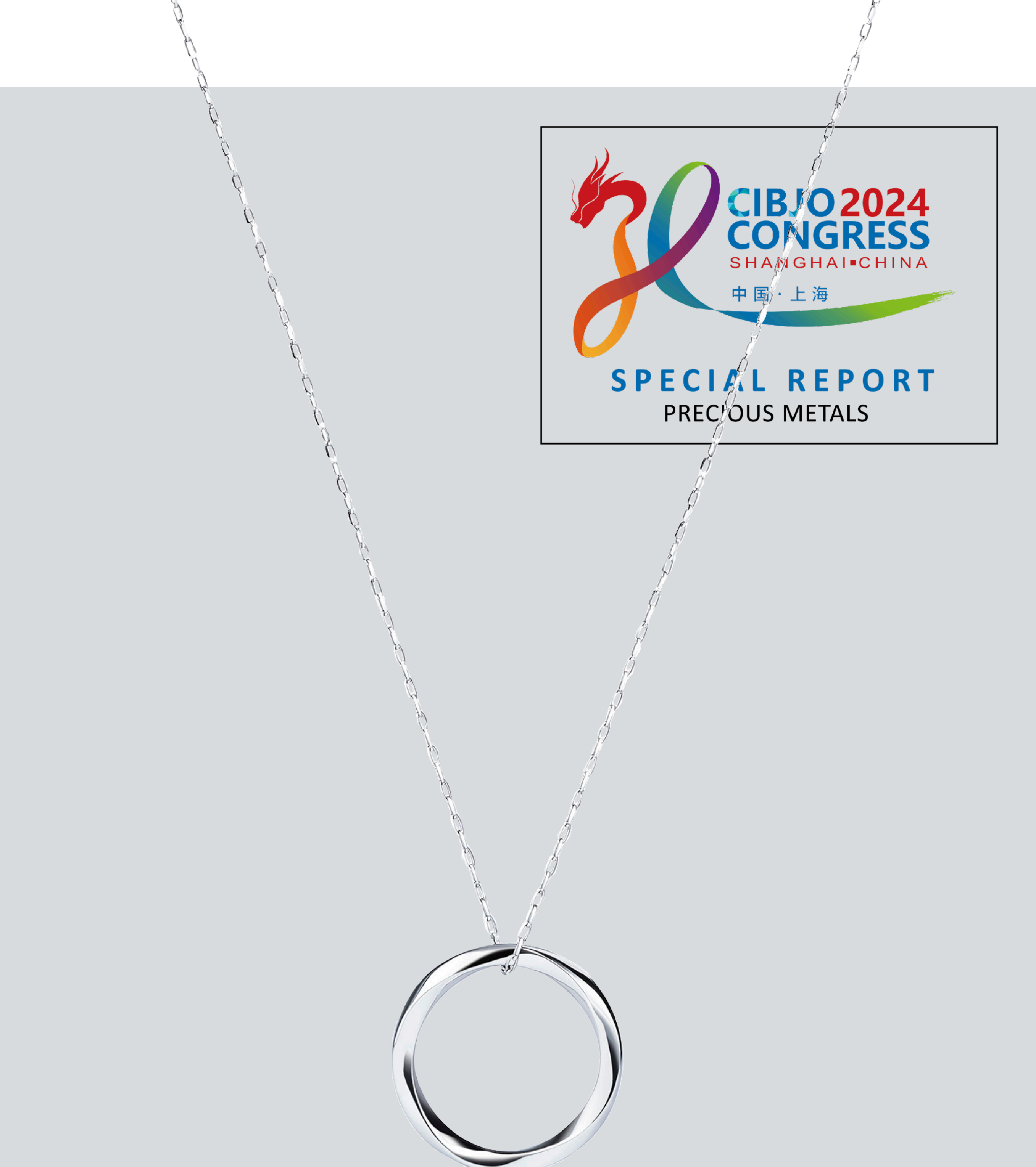

Despite geopolitical and economic concerns, precious metals markets resilient in 2023 and 2024

By Vaishali Banerjee, President
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The year had a rocky start, with continued inflation, geopolitical tensions, concerns of a recession and banking crises. But the second half showed significant resilience with higher than estimated growth in the United States and several major developing economies, along with fiscal spending and a continuing disinflation trend in preventing a global recession. Nonetheless, facing weak domestic demand and external headwinds, China's recovery was slow after its abandonment of COVID-19 controls towards end of 2022.

The group of precious metals showed differing movement. Gold's status as a store of value continued among institutions and consumers. Its jewellery demand was resilient globally in 2023. But elevated and rising prices, as well as weaker local currencies against the U.S. dollar has created a shift towards lower ticket prices and lower carat jewellery in certain large markets.

The high gold prices have also created opportunities for other categories such as platinum, offering differentiated high quality alternative.

Palladium, on the other hand, has suffered from a significant price drop on the expectation of accelerated vehicle electrification in the foreseeable future.

Environmental and social concerns are increasingly important in shaping investment and policy decisions with regards to the mining industry. While financial markets are creating ESG indices to build ethical investing, growing consumer and societal expectations are the key drivers for responsibly sourced metal for precious jewellery.

Across categories there has been a significant focus on initiatives to build sustainability and responsibility for the precious metals industry.

With initiatives such as launching information portals to help the trade and consumers learn about responsibly sourced metal, commitment to enhance transparency in the supply chain for gold, enhancing regulative requirements for responsible precious metals sourcing, and developing responsibly mined platinum grain, the industry has taken several steps in this direction.

Vaishali Banerjee, President of the CIBJO Precious Metals Commission.

GOLD

Gold Prices

The sluggish global recovery, inflation concerns and geopolitical tensions all contributed to gold's appeal as a safe-haven asset. Sanctions and self-reliance prompted changes in the consumption and investment patterns leading to gold prices to grow 15 percent in 2023.

The LBMA (PM) gold price reached record high of USD 2,078 per ounce on December 28, 2023. The gold price averaged USD 1,941 in 2023, which was a record 8 percent higher than previous year's average.

U.S. dollar interest rates went up by about 100 basis points for the year 2023, as inflation remained elevated and sticky in the first half of the year. On March 10, 2023, Silicon Valley Bank failed, marking the third-largest bank failure in United States' history and the largest since the 2007–2008 financial crisis. It was one of the three bank failures in March 2023 in the United States, and followed by the collapse of First Republic Bank in May 2023. In Europe, Credit Suisse, the second-largest bank in Switzerland, collapsed in March of 2023 and got merged with UBS. The banking crises kept gold prices remain elevated in the first half of the year.

Gold prices surged in the last quarter of 2023 after a powerful rally was sparked by central bank purchasing and mounting investor concern over the Israel-Hamas conflict from October 2023 and the continuing Russia-Ukraine war. A lower U.S. dollar boosted bullion prices in December.

Entering 2024, gold prices retreated in January and February, seeing ETF outflows and reduction in speculative positioning, before bouncing in March to above USD 2,100 and ended the quarter at USD 2,214. The LBMA (PM) gold price averages a record USD 2,070 per ounce in the first quarter of 2024, which is a significant 10 percent higher year-on-year and 5 percent higher than a record high in the last quarter of 2023.

Gold Demand

The annual gold demand in 2023 (excluding OTC) of 4,468t (144Moz) was 5 percent below a very strong 2022. However, inclusive of significant OTC and stock flows, total gold demand in 2023 was the highest on record at 4,930t (159Moz), a 4 percent year-on-year increase. Robust OTC demand was reflected in gold price strengthening during 2023 despite continued ETF outflows.

Bar and coin investment in 2023 saw a mild contraction of 3 percent year on year to 1,185t (38Moz), reflecting in part the base effect. The rising interest rate and the cost-of-living crisis caused a sharp decline in Europe, outweighing strong growth in China and Turkey.

Global gold ETFs saw a third consecutive annual outflow, losing 245t (8Moz) in 2023. The pace of outflows slowed significantly towards the year-end, but the hefty outflows in October dominated the Q4 picture.

Central bank buying maintained strong track in 2023. Annual net purchases of 1,037t (33Moz) led by China almost matched the 2022 record. Two consecutive year of consistent purchase of over 1,000t (32Moz) by central banks further strengthens the role of gold as a long-term store of value, especially during a volatile period.

2024 started with strong Q1 central bank buying at 290t (9.3Moz) despite high gold prices, mainly from Turkey, China and India, as well as sizeable OTC buying by investors of 136t (4.4Moz), which led the total gold demand to 1,238t (40Moz), a 3 percent increase year on year.

Retail bar and coin investment generated a 3 percent year-on-year increase to 312t (10Moz) in Q1 2024, supported by buying on high prices from Asia, especially China, which had the strongest quarterly demand for more than seven years. The strong appetite was backed by the value preservation needs due to a lack of investment channels and weaker local currency.

In contrast, global gold ETFs saw an eighth consecutive quarter of outflows of 114t (3.7Moz) in the first quarter, mainly in North America and Europe. However, the global assets undermanagement (AUM) rose to their highest for almost two years at USD 222 billion on soaring gold prices.

According to the World Gold Council (WGC), the global jewellery demand managed to secure marginal gain to 2,112t (68Moz) in 2023 despite record high gold prices. Growth was mainly contributed by China, supported by the strong value preservation needs.

In mainland China, the removal of severe restrictions due to COVID 19 in late 2022, formed the foundation for a gold

jewellery consumption revival in 2023. Coming out of a crisis, consumer's appeal for gold enhanced given its long held status as a store of value.

Gold jewellery consumption in China increased by 10 percent year on year, bringing the annual total to 630t (20Moz) in 2023. However, it remained below long-term average and 1 percent lower than 2019's pre-pandemic level.

Jewellery demand in China was led by heritage, mass appeal and 24k light-weight hard-pure jewellery. Hard pure is a relatively new technology to enhance hardness to 24k jewellery, to create differentiated product designs for fashion-savvy young consumers and to deliver higher retail margin.

Gold jewellery demand in China stood at 184t (5.9Moz) in Q1 2024, which was 13 percent higher than 10-year average, but a 6 percent down when compared to a very strong Q1 2023.

The demand is in line with the average pre pandemic levels. The year started with a strong January due to seasonal spending before and during spring festival and modestly lower gold price. However, March presented significant challenges for the gold jewellery market, with the local gold price surging by 10 percent, reaching record highs and dampening demand. Concerns over a potential price correction led retailers to hesitate in restocking, forcing consumers to delay purchases or opt for lighter pieces due to budget constraints.

In addition to the sanction imposed on Russian gold producers, in June 2024 the United States imposed sanctions on several Hong Kong firms for aiding trade in gold produced by an already sanctioned Russian miner. According to Trade Data Monitor (TDM), Hong Kong was the largest importer of gold from Russia as of 2023.

In India 2023, the gold demand declined by 4 percent year on year at 576t (18.5Moz), although this is not necessarily an indication of weakness given the local gold price trend, which has set several new record highs throughout the year. The strong gold prices led to a trend for lighter weight or lower-carat jewellery, as well as consumers simply reducing the volume of gold jewellery purchased. The higher margins charged on gem-set and 18k jewellery further encouraged this shift. Fourth quarter demand in India was down 9 percent from a relatively elevated Q4 2022 base.

Q1 2024 posted a 4 percent growth over a comparatively weak Q1 2023 at 95t (3 Moz), while the strong macroeconomics are supportive of gold consumption, the surging gold prices are a hindrance to gold jewellery demand in a price sensitive market like India. Recycling activities has gained momentum due to high prices. 18k gem-set jewellery delivering higher

margins for the retailers has seen better result than plain gold jewellery. Despite slowdown in demand, the Indian organised jewellery retailers are maintaining their aggressive expansion plans.

Turkey's jewellery demand continued its upward trend. The annual demand reached an eight-year high of 42t (1.4Moz), a 14 percent year-on-year growth in 2023. In Q1 2024, it delivered 11t (354koz) demand which was 19 percent higher and the strongest first quarter since 2015. The investment motives are likely to continue to fuel the gold jewellery demand in this high carat market.

Annual jewellery consumption in the United States continued its downward trend, following two consecutive years of relatively strong demand. Full year demand for 2023 was 5 percent lower at 137t (4.4Moz). The decline can be attributed in part to dropping from a high base in 2022 and return of spending on travel, outdoor dining and entertainment.

In Q1 2024, the U.S market fell by a modest 2 percent year-on-year as the gold jewellery consumption continue to normalise post the bumper years caused by pandemic. At 25t (804koz) it was a healthy in comparison to the average first quarter volume from 2010-2019 which is at 22t (707koz). The consumer sentiment is uplifted by the resilience of the economy and the labour market providing a positive impetus for gold demand.

Japan proved to be one of the more resilient markets with consistent quarter on quarter growth leading to annual demand of 16t (514koz) in 2023, a 6 percent year of year growth. The main area of growth was the quasi-investment 'Kihei' segment, which benefitted from the rising gold price. In contrast, lighter-weight and lower-carat "every day" designs suffered because of rising prices. White gold continued to see declines throughout the year.

PLATINUM

Platinum Prices

Platinum prices had a flat to minor decline in 2023, with the LPPM platinum price at USD 1,086 per ounce at the start of the year and ending at USD 1,006. The average LPPM price for platinum per ounce was flat at USD 967 compared to USD 961 in 2022.

Prices maintained at USD 1,000+ level in January but soon declined to USD 912 on February 16 and recovered to USD 981 towards the end of March. The second quarter saw platinum climbing back the USD 1,000+ price range on the back of robust investment demand, however, the prices continued to dip and remained subdued in the second half of the year, reclaiming USD 1,000 range only in the last week of December.

The platinum market is estimated to have a record deficit of 851koz (26.4t) in 2023. The 2023 deficit reflects a 2 percent decline in total supply and a 26 percent increase in demand versus 2022. In spite of healthy supply-demand conditions, the challenge came from the institutional investment activities which weighed on prices in 2023 as high releases from existing inventories filled the gap. Platinum did see a huge uplift at the start of the year, with South African exchange-traded product holdings almost doubling to their May peak of 897koz (27.9t), before giving most of it back in the second half of the year.

Mine supply increased by 1 percent year on year in 2023 to 5.6Moz. Major producing regions increased mined supply, led by South Africa and Zimbabwe, up 1 percent and 6 percent year-onyear respectively. Against this backdrop, mine supply remained depressed versus historical levels, as miners faced processing constraints and other headwinds such as ongoing electricity supply shortages in South Africa, strikes, planned closures and safety stoppages.

Recycling supply remained challenged, with auto catalyst recycling declining by 14 percent year on year in 2023 on low end-of-life vehicle availability. Total supply in 2023 at 7.2Moz (224t) was 2 percent lower versus 2022.

Platinum Demand

Total platinum demand for 2023 was at 8.0Moz (249t), driven by recovery in the automotive sector as well as growing industrial and investment demand. Investment demand was estimated at 318koz (9.9t) in 2023, representing a substantial improvement versus 2022 on reduced ETF disinvestment at 20koz (620kg) versus 558koz(17.3t) in 2022, higher bar and coin demand and a minor build in stocks held by exchanges.

Automotive demand totalled 3.2Moz (99.5t) in 2023, up 16 percent against 2022. This growth reflects ongoing higher-than-expected vehicle sales alongside substitution

of platinum for palladium in gasoline vehicles and higher overall loadings, particularly in the heavy-duty and off-road vehicle categories.

Total industrial demand reached 2.6Moz (81t), up 13 percent year-on-year, meeting expectations that 2023 would be the strongest year for industrial demand on record. Glass capacity additions (+39 percent) and, to a lesser extent, chemical capacity additions were the big drivers of the year-on-year growth of total industrial demand, offsetting the weaker petroleum and electrical sectors during 2023.

Total platinum demand in 2024 is likely to be 5 percent down from 2023 at 7.6Moz (236t), mainly coming from the reduction in industrial demand from the outstanding level in 2023. Combining the continued constraint supply and demand outlook, platinum market's deficit is expected to sustain but to a smaller size of 476Koz(15t.) This will be the second consecutive year of platinum market deficits.

Platinum jewellery fabrication demand declined marginally by 2 percent year on year to 1.9Moz (59t) in 2023 as growth in India, US, Western Europe and Japan was offset by weaker Chinese demand.

In China, 2023 saw the slow recovery in macro-economic factors and lower consumer confidence favouring gold as consumers looked for wealth preservation, which impacted other categories, including platinum. The jewellery retail sales were at 362koz (11t), a 15 percent decline over 2022, as retailers continued to prioritise pure gold products, leading to a significant decline in platinum orders especially from franchisees of national brands.

Some regional retailers outperformed, driven by additional efforts on platinum through meticulous category and inventory management. Metal-only platinum jewellery fabrication showed an uptick in November and December amidst gold dominance in the jewellery market, whilst platinum gem-set fabrication suffered a deep decline due to the depressed diamond market.

Platinum faced pressure throughout the first quarter of 2024, as many retailers consistently prioritised their pure gold products to meet top-line business targets in tough market conditions, together with weak gem-set demand. However, the over-reliance on pure gold posed a significant disadvantage for the overall margin and profit for jewellery retailers, which provides opportunities for platinum in future. There are early indications that some manufacturers and wholesalers have begun rebuilding platinum stocks after March. Some leading fabricator, retailers and wholesalers increased their platinum inventory by 20 percent - 40 percent and metal-only platinum jewellery fabrication turned positive in May 2024 and June 2024 indicating an upturn for platinum jewellery.

China has also presented significant challenges for the platinum industry with the limited range of alloys, the low availability of findings, a reduced ability to make and work with wires and tubings, and gold's early lead in manufacturing innovations. With PGI's help on promoting technological advances in the jewellery industry and bridging the innovation gap to gold, Chinese platinum manufacturers have created innovations such as the diamond cut, dark electroplating, electroforming, and mixed products with gold and other materials, creating hundreds of new SKUS, curated across a total of 28 branded platinum collections.

India continued its strong double digit growth quarter on quarter. With 20 percent growth in retail sales in 2023, platinum continues to be the fastest growing jewellery category in India. Platinum's growth in 2023 is significant, given the high gold prices kept consumers away from the jewellery stores and led to a decline in the dominant gold jewellery category. In addition, platinum designs with rose gold accents made platinum more visible among the gold consumers. Accounting for 30 percent all platinum jewellery ounce sales in India, the reach of platinum-in-gold section products now spans to almost 1,200 points of sale, supported by training programme that has reached almost 80,000 sales associates, with over 20,000 in 2023 alone.

With strong economic growth, a large base of young affluent urban population and precious jewellery being a core part of both economy and culture this market will continue to offer growth opportunity for platinum jewellery. Rapid expansion of organised retail with a focus on branded jewellery offering higher margin has been a key growth engine for platinum jewellery in India.

PGI India expanded the footprint for platinum jewellery in the GCC region with a test market in UAE. The country is a mature jewellery market and an established destination for precious jewellery for global tourists. With a dominant expat population from South Asia at more than 25 percent of the total population and a large base of Muslim men seeking precious pure white metal aligned to their cultural norm, the market offers a significant opportunity for platinum.

The U.S. market for platinum jewellery posted a marginal growth of 2 percent increase year on year in retail sales at the end of 2023, following two years of historical growth. These results follow two years of strong growth for the jewellery sector. In spite of normalising jewellery sales in 2023, platinum jewellery still outperformed other categories. High gold prices have offered platinum a good opportunity as the margin driver.

The Japanese jewellery market in 2023 has continued its growth path, despite the industry facing competition from consumer spending on other categories. With more consumers returning to stores, the market has witnessed rising sales for products at almost all price points. Platinum jewellery retail ounce sales are estimated to have a small increase of 1 percent YoY to 610koz. Demand for asset jewellery continues to be very strong and platinum is benefitting from rising gold prices, owing to its prestige as the precious metal for high quality jewellery that is now available at a favorable pricing against gold. According to Japan Mint, the number of platinum Kihei chains necklaces hallmarked during 2023 increased by almost 30 percent, while the number for gold Kihei chain necklaces grew by only 13 percent. Growth persisted during H1 2024, led by Kihei again and non-bridal demand.

For 2024, platinum's price advantage is creating opportunities to gain share from gold. As a high-quality precious metal platinum has the opportunity to offer a wide range of high-quality precious jewellery across price points.

PALLADIUM

The palladium market in 2023 witnessed a significant shift from the high-demand years preceding it. After a period of exceeding demand, it finally neared a state of equilibrium.

The LPPM (PM) palladium price per ounce declined from USD 1,795 in early January 2023 to USD 1,136 on December 28, 2023. The average palladium price was USD 1,339, which was more than 36 percent decline from the 2022 average.

Metals Focus estimated that the physical palladium supply declined 3 percent year-on-year to 9.1Moz (284t), as production losses from Russia were offset by gains in South Africa and Canada, whilst recycling fell on the back of

autocatalyst supply chain challenges and lower palladium prices.

Mine supply in 2024 is forecast to drop 6 percent due to cost-driven closures and maintenance in Russia. This will be practically offset by a rebound in recycling. Total palladium supply is set to continue its downward trend by 3 percent.

Palladium demand rebounded by 5 percent year-on-year to 10.2Moz (316t) in 2023, although still below the pre-COVID levels, mainly driven by recovery in the automotive demand to 8.5Moz (263t). In 2024, palladium automotive demand is projected to decline by 2 percent, with greater electrification expected and shrinking share of internal combustion engines.

Industrial demand fell in 2023, dragged by lower demand in electronics and medical applications due to substitution and thrifting, which is expected to continue in 2024.

Jewellery demand for palladium grew for the third consecutive year at 3 percent year-on-year to 235koz (7.3t), albeit contributing to a small fraction of the total demand. The growth was attributable to palladium use in white gold alloys for high-end jewellery and watches in Europe, which is also estimated to grow at a similar rate in 2024.

Physical market structural deficit widened to 1Moz (31t) in 2023 from 289koz (9t) in 2022, given expected reduction in supply and increased demand. Above-ground stocks totalled for 14 months of demand at end-2023, and will remain ample in 2024.

SILVER

The silver price in 2023 remained range bound with an average price growth of 7 percent. Market saw a deficit for a third year in a row at 184Moz (5,732t), according to the World Silver Institute, although declining by 30 percent year-on-year.

Underpinning the deficit is strong demand from industrial applications led by photovoltaic (PV), which offset double-digit year-on-year reduction in jewellery, silverware and investment. This led to a 7 percent year-on-year drop in total demand to 1,195Moz (37,169t), whilst total supply changed marginally to 1,045Moz (32,495t) in 2023.

On the heels of 2022's record use of silver in industrial applications, a new record high was set in 2023 at 654Moz (20,353t), growing at 11 percent year on year. Higher than expected PV capacity additions and faster adoption of new-generation solar cells raised global electrical and electronics demand by 20 percent year on year.

Growth mainly came from China, where silver industrial demand rose by a remarkable 44 percent, of which electrical and electronics demand jumped by 57 percent, primarily due to growth for green applications, chiefly PV. Last year, China's rapid expansion of PV production accounted for over 90 percent of global panel shipments.

After five consecutive annual gains, silver bar and coin demand fell by almost a third to a three-year low of 243Moz (7,562t). While all significant markets saw losses, with the decline particularly acute in Germany, at 73 percent, following the Value Added Tax increase at the start of 2023.

Most other Western markets saw steep declines due to cost-of-living issues and range-bound prices. However, one partial exception was the United States, where losses were smaller at 13 percent. The physical investment in India was down a hefty 38 percent from the high base in 2022 as record high rupee silver prices led to profit-taking, while fresh investors had only limited windows for bargain hunting. The growing popularity of exchange-traded products in India also impacted physical investment in the country.

Different from gold, which saw investors have net long positions for most of 2023, managed money positions for silver had flucturations and moved into negative territory at times.

Silver ETPs also had annual outflows for the second year in a row in 2023, falling by 4 percent to 964Moz (29,980t) by the year end. Most of the outflows were witnessed in the second half of 2023, as expectations on Federal Reserve's rate hike changed and silver price range bounded. This trend continued until March 2024 when UK funds saw sizable inflows. It is projected to have a modest rise of 50Moz (1,555t) in 2024.

Silver jewellery fabrication fell by 13 percent in 2023 to 203Moz (6,318t). The losses were concentrated in India, where demand eased after reaching its highest total in 2022. Domestic silver prices increased by 16 percent in 2023, undermining the buying interest from Indian consumers, whilst retailers also took the opportunity to destock. Excluding India, total offtake decline was modest at 3 percent, mainly due to weak jewellery consumption in the United States and Europe, on the back of issues such as cost-of-living plus destocking by retailers. In China, silver jewellery demand remained soft post-COVID with a modest year-on-year decline, as both consumers and retailers shift their focus on gold last year.

Jewellery fabrication is expected to recover in 2024 by a modest 4 percent, with India to be the highest contributor as retailers are expected to restock. The western markets will also deliver a marginal growth on the back of growth in discretionary spends and restocking. China will continue to stay in degrowth as consumers are likely to prefer gold.

Silverware demand in 2023 fell by 25 percent to 55Moz (1,717t). This mainly reflected an elevated base in 2022 when fabrication achieved a record high. As with jewellery, overall losses were almost entirely due to India, owing to high local silver prices.

The demand in 2024 is expected to rise by 7 percent, again mostly due to India on the back of ongoing economic strength and rising disposable incomes.

ESG INITIATIVES

Reduction of greenhouse gas (GHG) emission is key priority for gold mining companies, many have now set targets to reduce their GHG emissions by over 30 percent by 2023 and achieving net-zero emission by 2050.

In 2022 the gold industry came together to sign a Declaration of Responsibility and Sustainability Principles, convened by LBMA and the Wordl Gold Council (WGC). In 2023 it further showed its intent as the WGC announced its members commitment to provide enhanced transparency in the gold supply chain by publishing the name and location of their refining partners on annual basis. This initiative aims to build a robust and verifiable ledger of responsibly mined gold to enable creation of significant opportunities to enhance gold's appeal as a trusted asset class for investors and consumers.

WGC also announced a collaboration with the Copper Mark, Mining Association of Canada and ICMM to work towards building a single global responsible mining standard. Collectively they aim to drive impact at scale through more transparent and robust standard that encourages wider industry participation. The draft standard is expected to be launched in 2024

In response to the growing global trend of consumer seeking jewellery made of responsibly sourced metal, PGI launched an online information portal on responsible platinum to help the jewellery trade and consumers learn about how platinum is responsibly sourced, abiding by industry-leading guidelines concerning environmental standards, social impact and governance practices.

PGI China and the leading players through the China platinum jewellery supply chain are collaborating to jointly issue a platinum jewellery declaration of responsibility and sustainability principles.

In another big step in this direction Stuller, the No.1 supplier of fine jewellery and other jewellery tools in the United States, has started supplying certified responsibly mined platinum grains sourced from Anglo American. The metal is sourced in compliance with the London Platinum/ Palladium Market's (LPPM) responsible platinum / palladium guidance.

IN CONCLUSION

In summary, investment was the overarching theme for gold in 2023 both for institutional and retail investors. The gold price scored several record highs in the year and has continued the momentum.This is projected to lead to a slowdown in investment and consumption demand in 2024.

For platinum automative and industrial demand led the growth in 2023. Jewellery witnessed a marginal decline due to lowering demand in China. Platinum's price is expected to stay range bound at similar levels as 2023 and while the growth of automative demand is forecasted to be modest, the jewellery demand is set to recover in 2024.

Palladium had a challenging year and is likely to continue to witness a decline in 2024.

Silver had a year of robust industrial demand in 2023 But is now projected to show modest growth in demand both from industrial and jewellery sector. Hence, divergent demand sources will continue to play out in 2024.

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