REPORT ON THE GLOBAL PRECIOUS METALS MARKET FOR THE 2ND QUARTER 2021

9 Jul 2021, Prague – The first two months of the second quarter of this year were favourable for gold and precious metals. After the fall in prices in the first quarter, a reversal took place and the price of gold began to rise, with gold reaching **its peak at the end of May and the beginning of June,** and other metals during May. Then in June, there was a correction in all the monitored metals.

The reason for the slowdown in growth was **the US FED's announcement** in mid-June that they are likely to start raising their **benchmark interest rates in 2023.** In this age of rapid change, when the political and economic situation can change in a matter of days, such a statement should be taken with a grain of salt, because estimating the development of the economy two years in advance is more of an oracle than a serious forecast. With this statement, the FED is most likely trying to **cool down overheated commodity and other asset prices while slowing down the accelerating inflation,** which is the highest in **the US since 2008 and currently stands at 5 %.**

It looks like the US central bank succeeded for a while. The US dollar has started to strengthen. The price of gold and other assets fell by 4 % in one week and was the lowest since the beginning of May. This correction was short-lived, however, and prices began to rise again at the turn of June and July. Smart investors were thus able to take advantage of this brief correction to buy gold at prices that may not be repeated. **Interest** in **physical gold in particular is enormous and precious metals refiners have been at the limits of their production capacity for more than a year.** The gap between paper and physical gold is widening. Investors are willing to pay an increasing premium for the benefit of owning physical gold. We anticipate that this gap will continue to widen and the price of gold on the stock exchange will be a distant real price of physical gold.

An important aspect that exacerbates this contradiction is the set of regulatory measures for commercial banks known as Basel III. This **regulation puts physical gold at the level of cash.** So it makes no difference to banks‘ balance sheets whether they hold cash or physical gold. For EU banks, the measure started to apply at the end of June, but for UK banks the regulation is not effective until 1 January 2022. **Banks and other financial institutions have** already announced that they will increase **the volume of physical precious metals in their portfolios.**

Central banks continue to buy gold. Russia and China are publicly declaring that they are divesting assets allocated in US dollars and replacing them with either Chinese currency or physical gold. The central banks of Poland and Hungary are also buying gold. In the first quarter of this year, **36 % more gold was** purchased than in 2020. Demand has been growing continuously for 3 consecutive quarters and physical gold purchase **volumes** are the **highest since 2016.** In contrast, the level of gold held in ETFs is the lowest in two years.

The overall representation of gold in investment portfolios is currently at just one-third compared to 10 years ago, when gold reached its all-time price highs. Therefore, its **price is still likely to rise** further. **Inflation** will then be the **main driver** of gold price growth.

We are already witnessing a **sharp increase in the prices of real estate,** as well as other commodities, with year-on-year growth of more than 100 % being no exception. The growth in the volume of paper money in the economy is unprecedented, and if its **depreciation** was in the order of a few percent in previous years, we may see depreciation in the tens of percent **in the years to come.** Despite this fact, the **savings** of companies and households held in **bank current accounts** are the highest in history. **The real value of deposits has been decreasing due to inflation.** The fact that inflation can get out of control very quickly has been demonstrated, for example, by the inhabitants of Lebanon, which used to be known as the Switzerland of the Middle East.

Inflation reached 84.9 % in 2020, and banks have restricted cash withdrawals and transfers abroad. The population's savings in the Lebanese pound have lost almost 90 % of their value in one year. Anyone who thought they could ride out inflation by holding their savings in another currency is also disappointed because the banks are holding on to those savings and not allowing them to be withdrawn. The economy has collapsed and 80 % of the population over 65 receive no pensions or social benefits and have to rely on help from relatives abroad.

Precious metals in the 2nd quarter 2021

	Gold	Silver	Platinum	Palladium
The highest price USD/oz	1,915.70	28.765	1,280.00	3,026.00
Date	01-06-2021	18-05-2021	10-05-2021	04-05-2021
The lowest price USD/oz	1,710.10	24.26	1,027.00	2,469.50
Date	01-04-2021	01-04-2021	21-06-2021	21-06-2021

Gold – The gold price reached its highest level since the beginning of the year at the end of May and the beginning of June, only to be knocked down by the FED's announcement of a possible interest rate hike in 2023. The price of gold reached the limit of 1,750 USD per ounce. The important thing was that it did not break this limit and subsequently returned above the level of 1,800 USD/oz. Technically, this development is perceived as a signal that gold has ended the 8-month-long so-called bear market has entered a bull market phase – i.e. rising prices. The appropriate price for a bigger gold purchase is below $1,900 per ounce. However, gold may not stay below this level for long.

Silver – The price of silver did not deviate significantly from the direction of the price of gold. It still remains at its long-term average against gold, i.e. about 60 ounces of silver per ounce of gold. Silver did not even come close to the psychological level of USD 30/oz in the second quarter. It also fell after the US central bank's announcement, more than gold in percentage terms. The hope for silver is the rise in the price of gold, which follows, and the development of new technologies, especially electromobility, where silver is used as a superconductor.

Platinum – The platinum price approached the USD 1,300/oz in May, but did not surpass it. In the second half of June, it fell close to the psychological threshold of 1,000 USD/oz, but it did not break it either. Platinum remains in a bear market and its prospects are rather negative - price stagnation in the range of USD 1,050 - 1,200/oz. On the positive side, the introduction of the EURO VII standard for trucks is expected to increase the consumption of platinum in catalytic converters by up to three ounces per vehicle.

Palladium – The price of palladium briefly surpassed the USD 3 000/oz level, only to return below it. The miners are trying to influence the price with their statements about limiting production. The tightening of emission limits for passenger cars in China has had a positive effect on the price of palladium. In the short term, the price is negatively affected by the shortage of chips for cars, as a result of which palladium consumption is falling. In the short term, the price is negatively affected by the shortage of chips for cars, as a result of which palladium consumption is falling.

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