



# Precious Metals Price Analysis and Development Trends

2018 China Shanghai International Precious Metals Annual Meeting



CPM Group

Jeffrey M. Christian  
CPM Managing Partner  
7 December 2018

# Topics

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## Gold

Lower investment demand

Shift from long-term buy and hold investors to trend following, opportunistic investors

Central banks taking advantage of lower prices

There is no peak gold

The dollar

## Silver

Lower investment demand

The risk of repeating 1990 – 2005

## PGMs

The inherent inconsistency of SA producers' pitch

Deficits do not exist

SA production will fall

The shift in auto propulsion technology is long term

## Mining investment

Certain traditional mining investment strategies are not successful

What is less efficient

What works: The future of mining investment

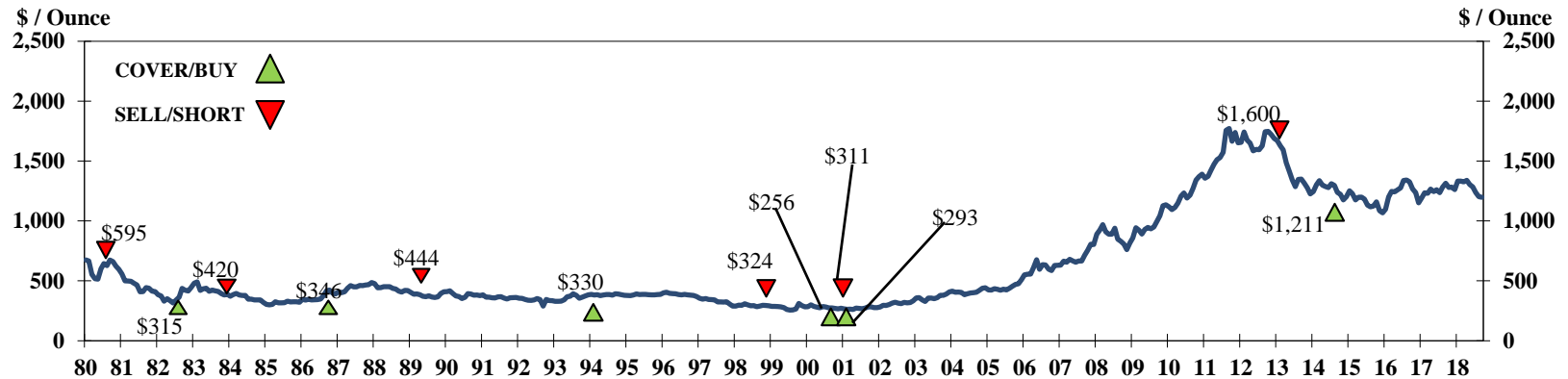
Bad Data, Bad Analysis, Bad Investment Decisions



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# Performance of Gold Research Recommendations

## Research Recommendations for Gold



### Gold Investment Portfolio Returns on Three Strategies

As of September 2018 from Initial Investment \$1 Million in December 1980

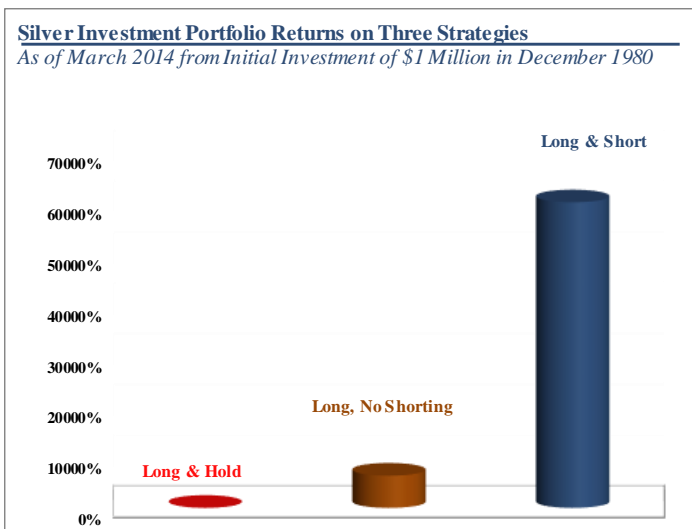


### Gold Investment Rate of Return Comparison

	<u>Portfolio 1</u> Bought and Held Gold	<u>Portfolio 2</u> Bought and Sold Gold	<u>Portfolio 3</u> Bought, Sold, & Shorted Gold
Initiated Positions	\$1,000,000	\$1,000,000	\$1,000,000
Value as of Sep 2018	\$1,922,293	\$30,581,479	\$115,708,018
Return as of Sep 2018	92%	2958%	11471%
<b>Annualized Rate of Return</b>	<b>1.91%</b>	<b>9.69%</b>	<b>13.70%</b>

Note: Returns based on CPM Group's published intermediate term buy and sell recommendations since December 1980

# Performance of Silver Research Recommendations



	<b><u>Portfolio 1</u></b>	<b><u>Portfolio 2</u></b>	<b><u>Portfolio 3</u></b>
	<b>Bought and Held Silver</b>	<b>Bought and Sold Silver</b>	<b>Bought, Sold, and Shorted Silver</b>
Initiated Positions*	1,000,000	1,000,000	1,000,000
Silver Price: \$16.28 December 1980			
Value as of September 2018	1,042,944	64,436,053	603,051,307
Silver Price: \$16.98	1.04	64.44	603.05
Return as of September 2018	4.3%	6343.6%	60205.1%
Annualized Rate of Return	-0.34%	11.59%	18.9%

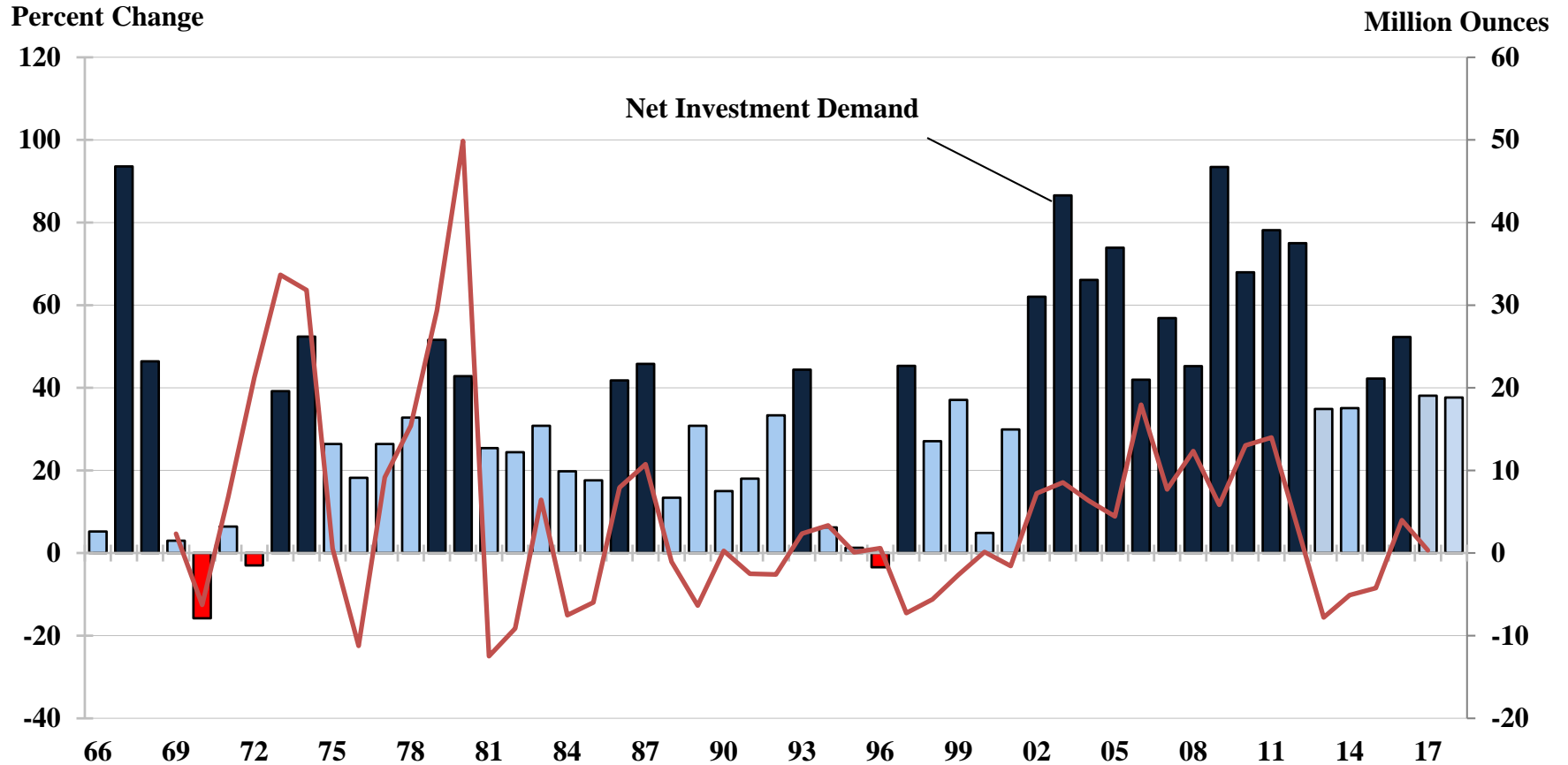
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***Gold***

# Net Gold Investment Demand

## Gold Investment Demand

Annual, Investment Demand Projected Through 2018, Prices Through 2017

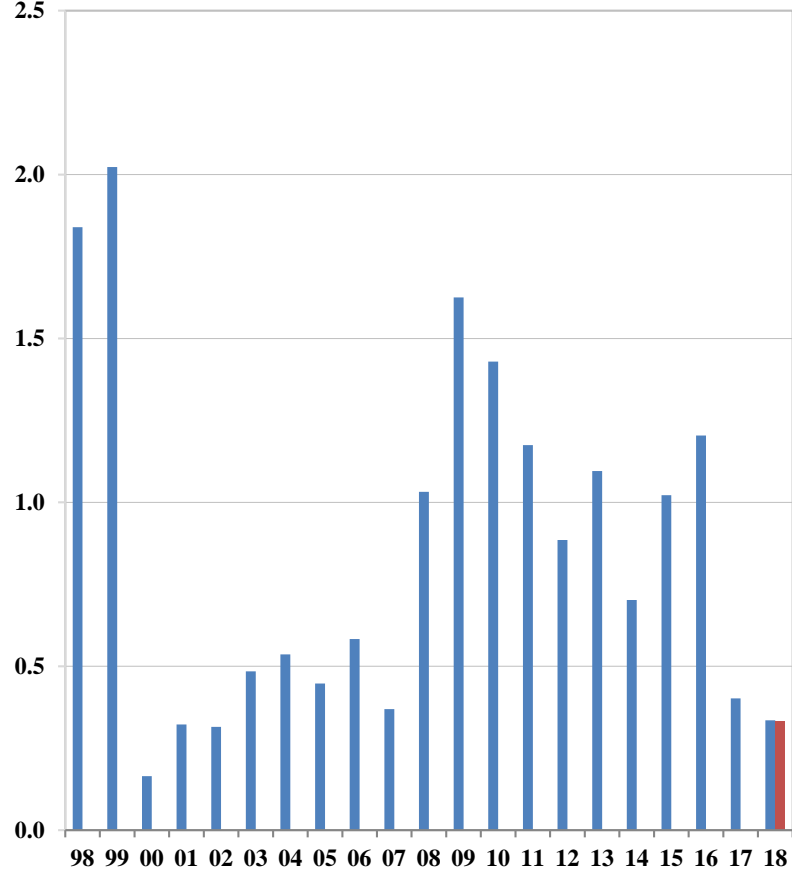


# Gold Coin Sales Remain Weak

## Annual U.S. Mint Gold Coin Sales to Dealers

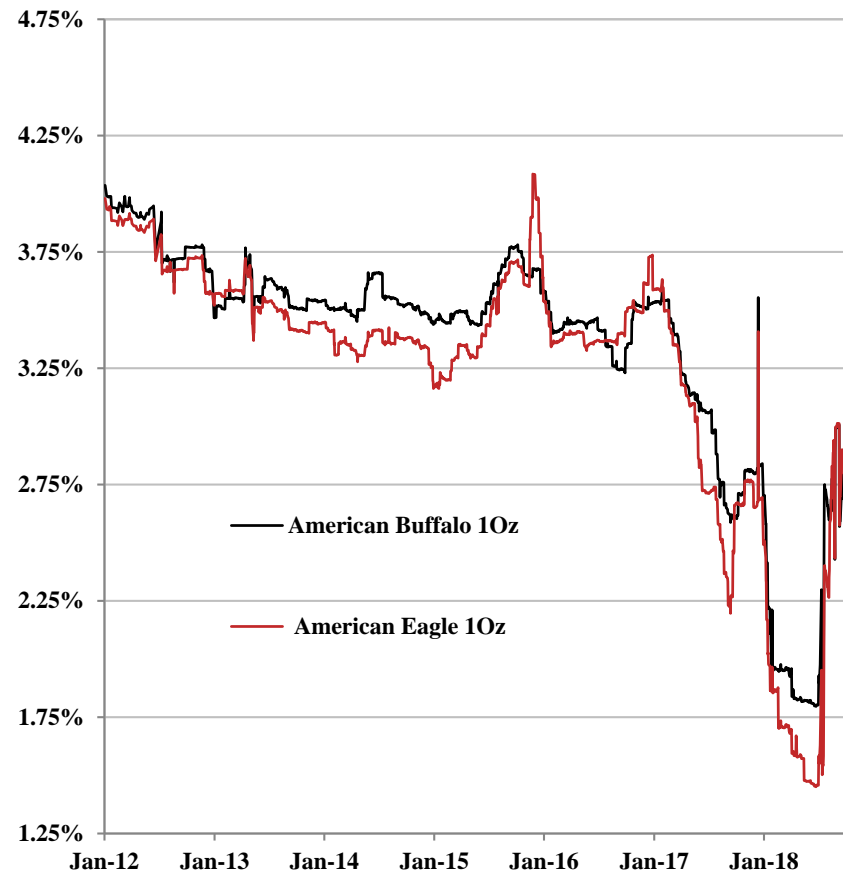
October 2018

Million Ounces



## Dealer Premia on U.S. Mint Gold Coins

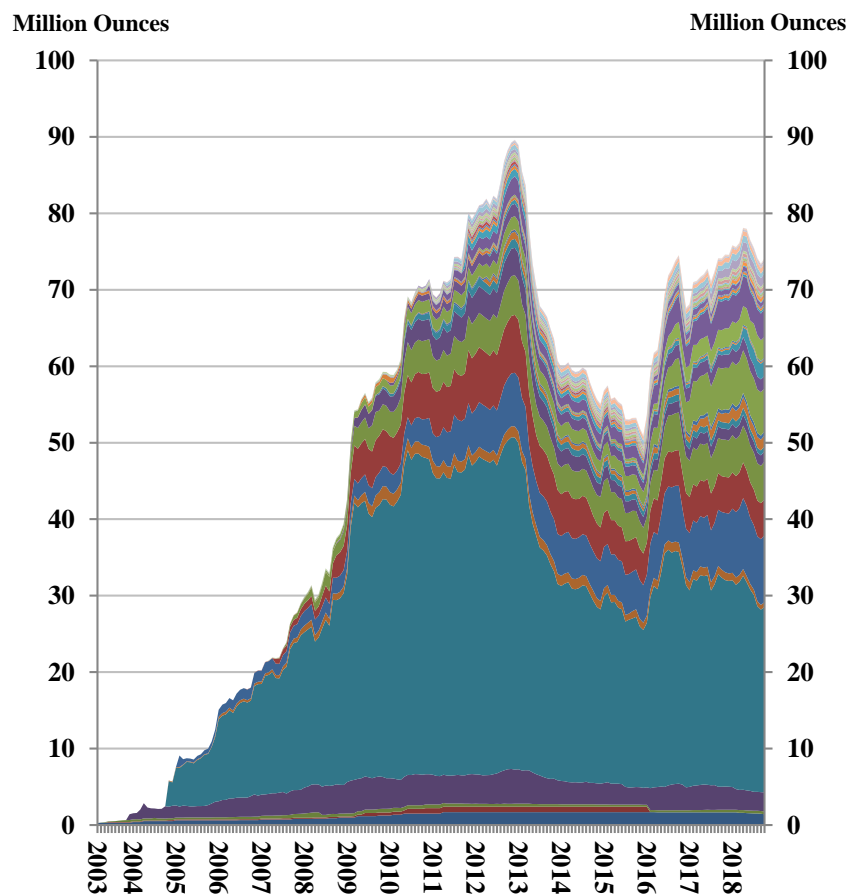
Daily Data through 31 Oct. 2018



# Investors Have Marginally Decreased Gold ETF Holdings

## Monthly Exchange Traded Products' Physical Gold Holdings

Oct. 2018



### Gold ETF Holdings

Data as of 31 October 2018

Changes from 30 September 2018

	Month-end Holdings		Δ %	Δ Ounce
<b>GLD</b>	<b>24,243,631</b>	↑	1.6%	380,120
<b>ZKB</b>	<b>4,680,875</b>	↓	-0.4%	-18,246
<b>IAU</b>	<b>8,763,557</b>	↑	1.9%	160,231
<b>PHAU</b>	<b>4,953,124</b>	↑	1.5%	74,381
<b>GBS - LSE</b>	<b>2,498,437</b>	↑	1.2%	29,993
<b>Total for Top Five ETPs</b>	<b>45,139,624</b>	↑	1.4%	626,479
<b>Total ETP Holdings</b>	<b>74,122,016</b>	↑	1.0%	708,780
<b>YTD Net Change to Total ETP Holdings</b>		↓	-0.6%	-438,151



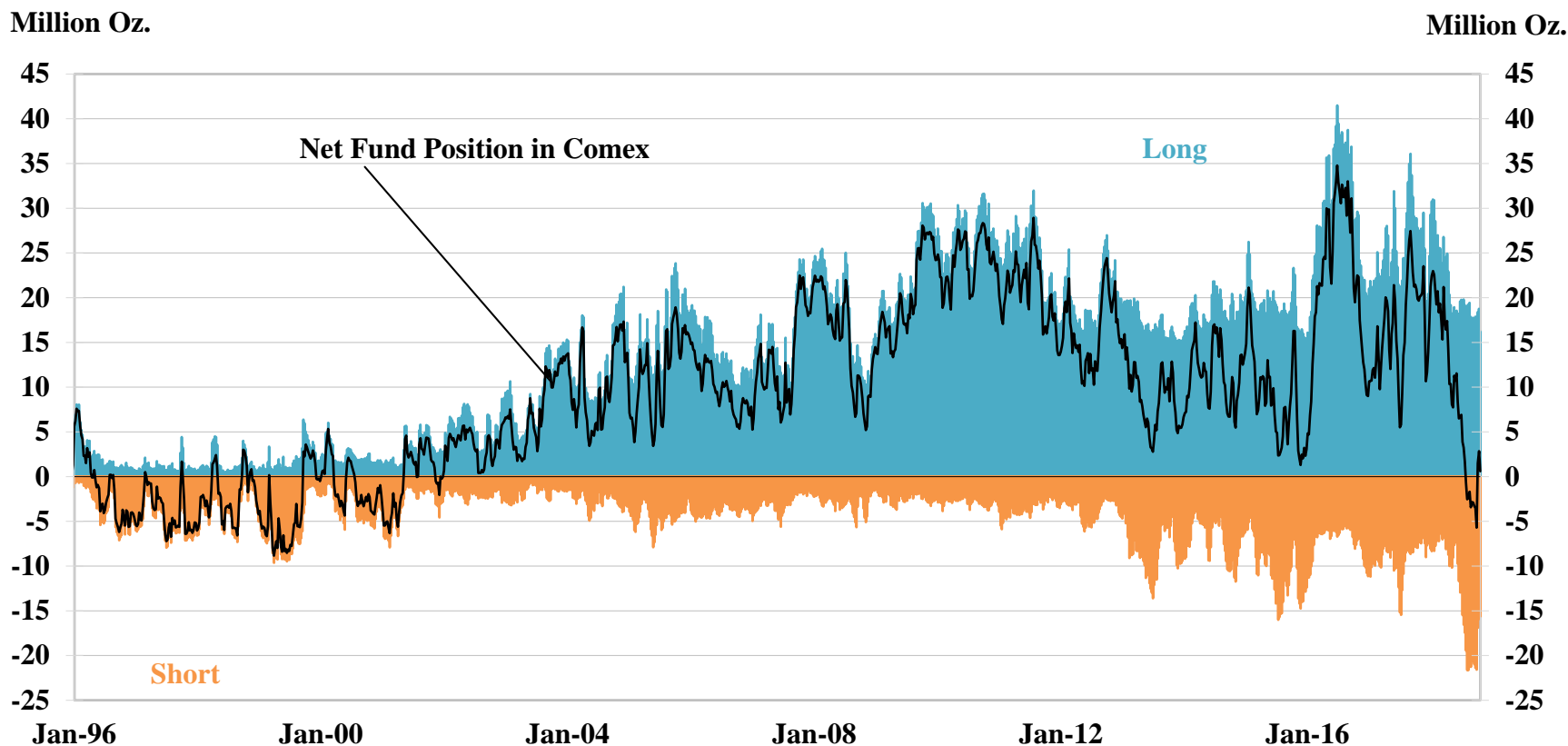
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# Institutional Investors Have Decreased Long Comex

## Gross Long and Short Positions of Non-Commercial Positions

Comex Gold Futures & Options. Weekly, through 30 Oct. 2018

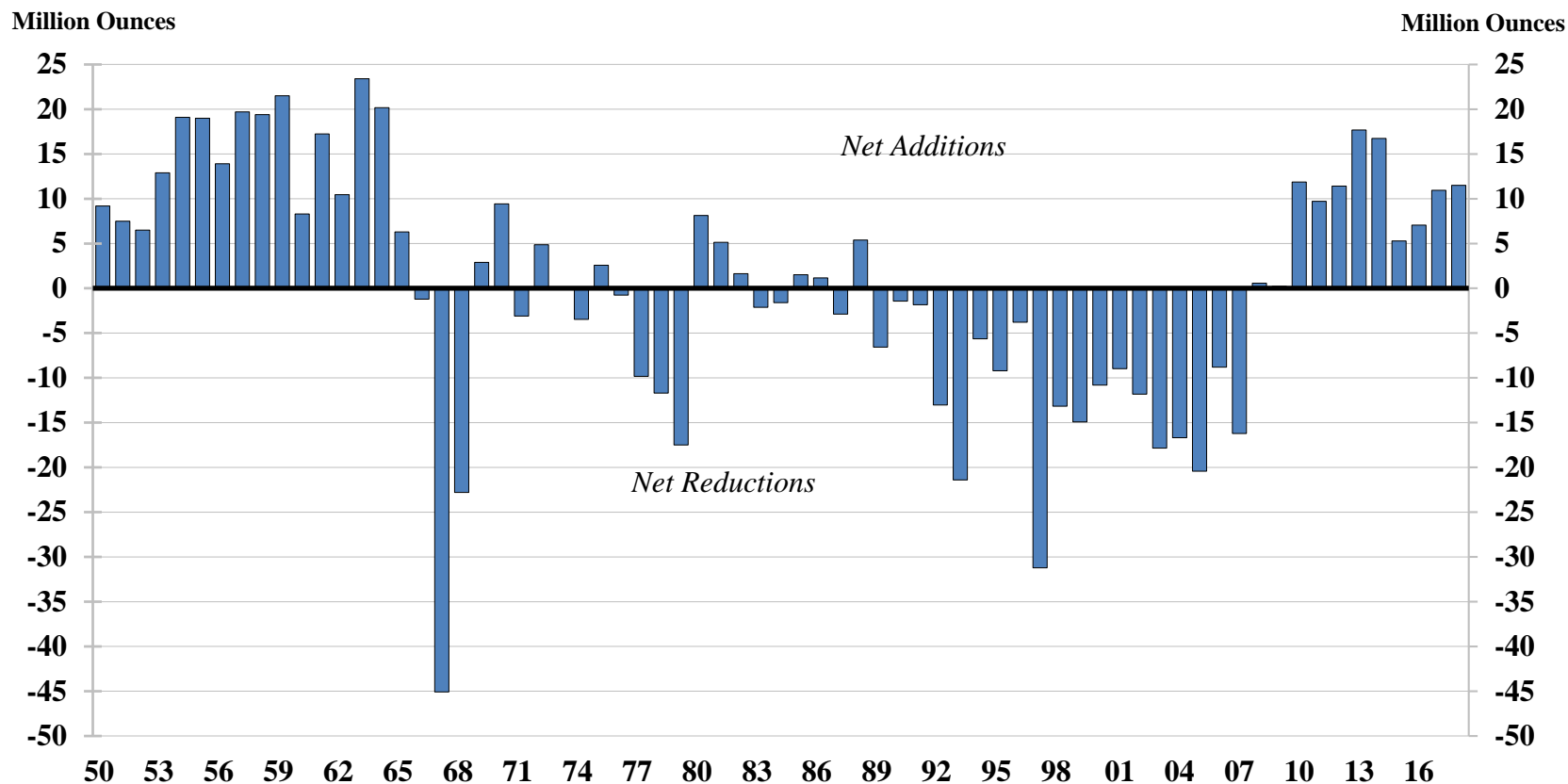


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# Central Banks Taking Advantage of Lower Prices

## Official Transactions

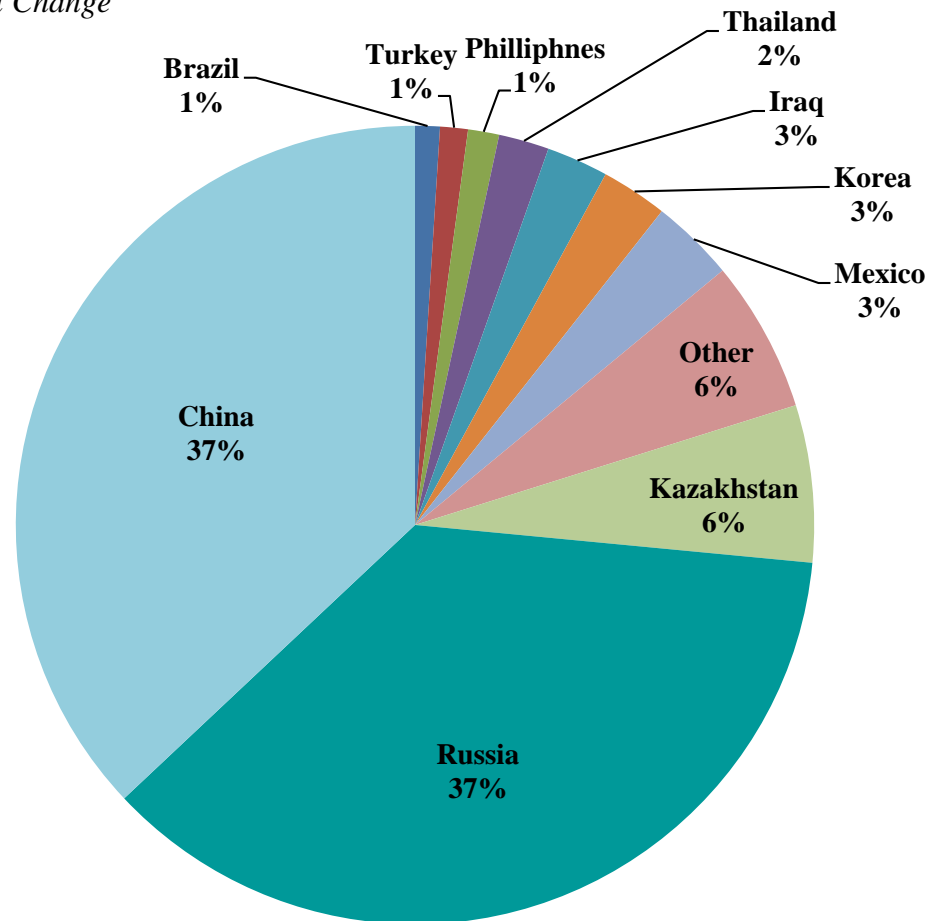
Annual Data, Projected through 2018



# Only A Handful of Central Banks Are Buying

## Shares of Central Banks in Gross Gold Reserve Additions, 2009-2017

*Percent of Cumulative Annual Change*



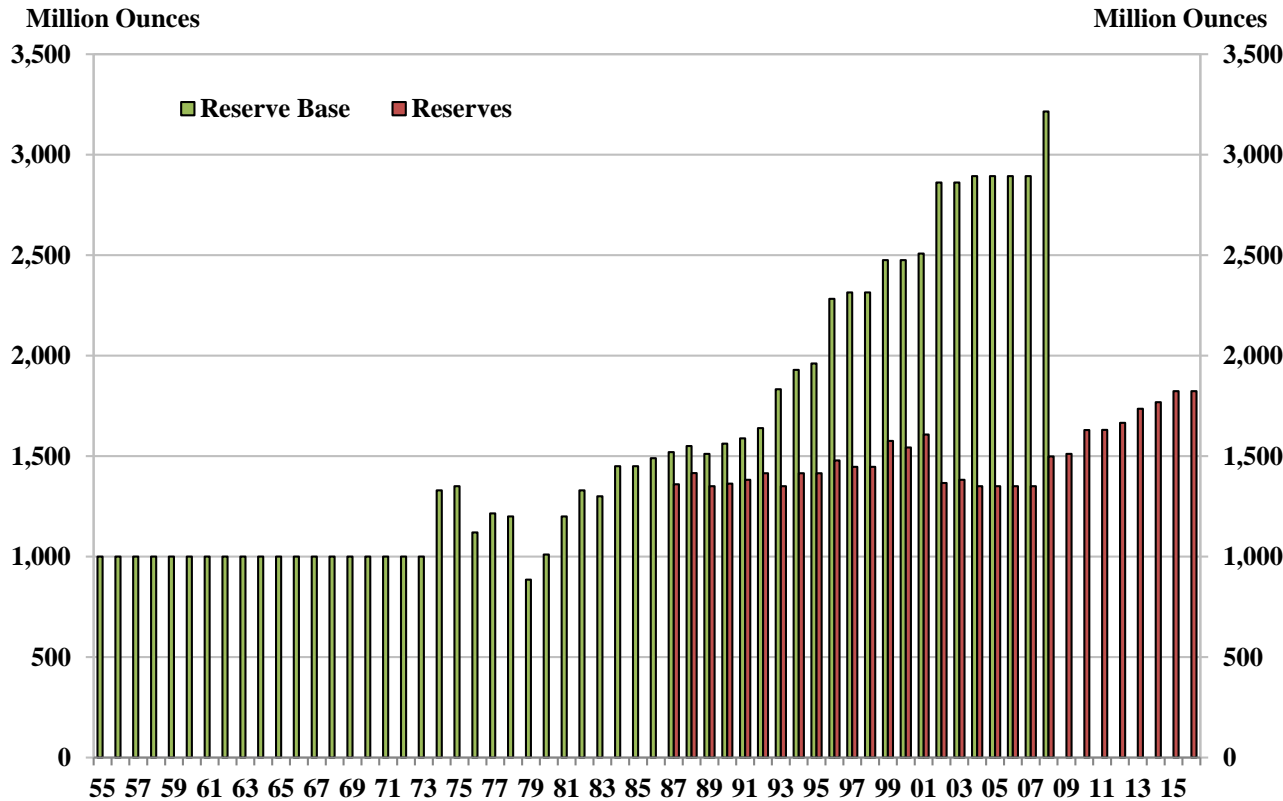
# Central Banks Took Advantage Of The Price Slump During 2018

## Million Troy Ounces

	Year-End 2017	YTD 2018	Net Change 2017-2018	Month of Reporting To IFS
<b>Countries Increasing Reserves</b>				
Russia	59.12	65.47	6.351	Sept.
Turkey	6.50	8.31	1.814	Sept.
Kazakhstan	9.68	10.77	1.093	Sept.
Hungary	0.10	1.01	0.914	Oct
India	17.93	18.64	0.708	Aug.
Poland	3.31	3.75	0.441	Sept.
Mongolia	0.14	0.42	0.280	Sept.
Argentina	1.76	1.93	0.168	Sept.
Tajakistan	0.50	0.63	0.128	Aug.
Kyrgyz Republic	0.22	0.31	0.090	Sept.
Colombia	0.33	0.41	0.080	Sept.
Philippines	6.31	6.36	0.050	Aug.
Qatar	0.95	1.00	0.050	Sept.
Egypt	2.46	2.49	0.030	Aug.
Serbia	0.62	0.64	0.020	Aug.
Greece	3.63	3.64	0.010	Sept.
Suriname	0.03	0.04	0.010	Sept.
Subtotal Gross Increases			12.238	
	Year-End 2017	YTD 2018	Net Change 2017-2018	Month of Reporting To IFS
<b>Countries Decreasing Reserves</b>				
Czech Republic	0.30	0.28	-0.020	Sept.
Australia	2.34	2.21	-0.130	Sept.
Germany	108.47	108.34	-0.130	Sept.
Indonesia	2.59	2.53	-0.060	Aug.
Mexico	3.87	3.86	-0.010	Sept.
Morroco	0.71	0.11	-0.600	Aug.
Sri Lanka	0.72	0.64	-0.080	May
Venezuela	5.21	5.18	-0.030	Jun.
Ukraine	0.82	0.78	-0.040	Sept.
UAE	0.25	0.24	-0.010	Aug.
Subtotal Gross Decreases			-1.110	
Subtotal Net Changes			11.128	

# Gold Reserves Are At All Time High

## Gold Reserves and Reserve Base



Bad data suggest reserves are at historical lows. They are not. In fact, they are higher than ever before.

And, these reserve figures exclude massive resources, including mineralized properties in China and Siberia.

Source: USGS.

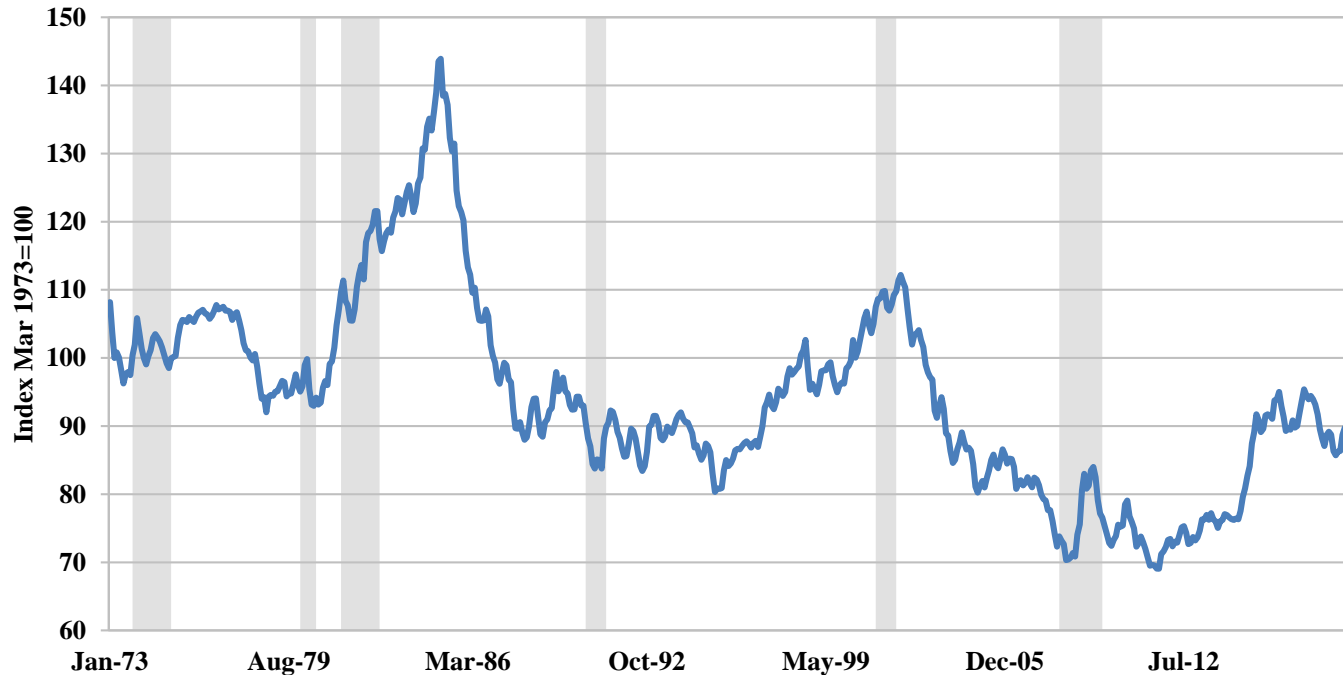
Notes: Reserve Base refers to the Measured and Indicated Resource. USGS discontinued its reporting of the Reserve Base as of 2009.

# The Dollar

*Many market observers continue to say the dollar cannot remain where it is or rise further. They say the dollar must fall sharply. They do not have strong intelligent arguments to support these views.*

## Trade Weighted U.S. Dollar Index: Major Currencies

Monthly Data through October 2018



Source: Board of Governors of the Federal Reserve System/FRED



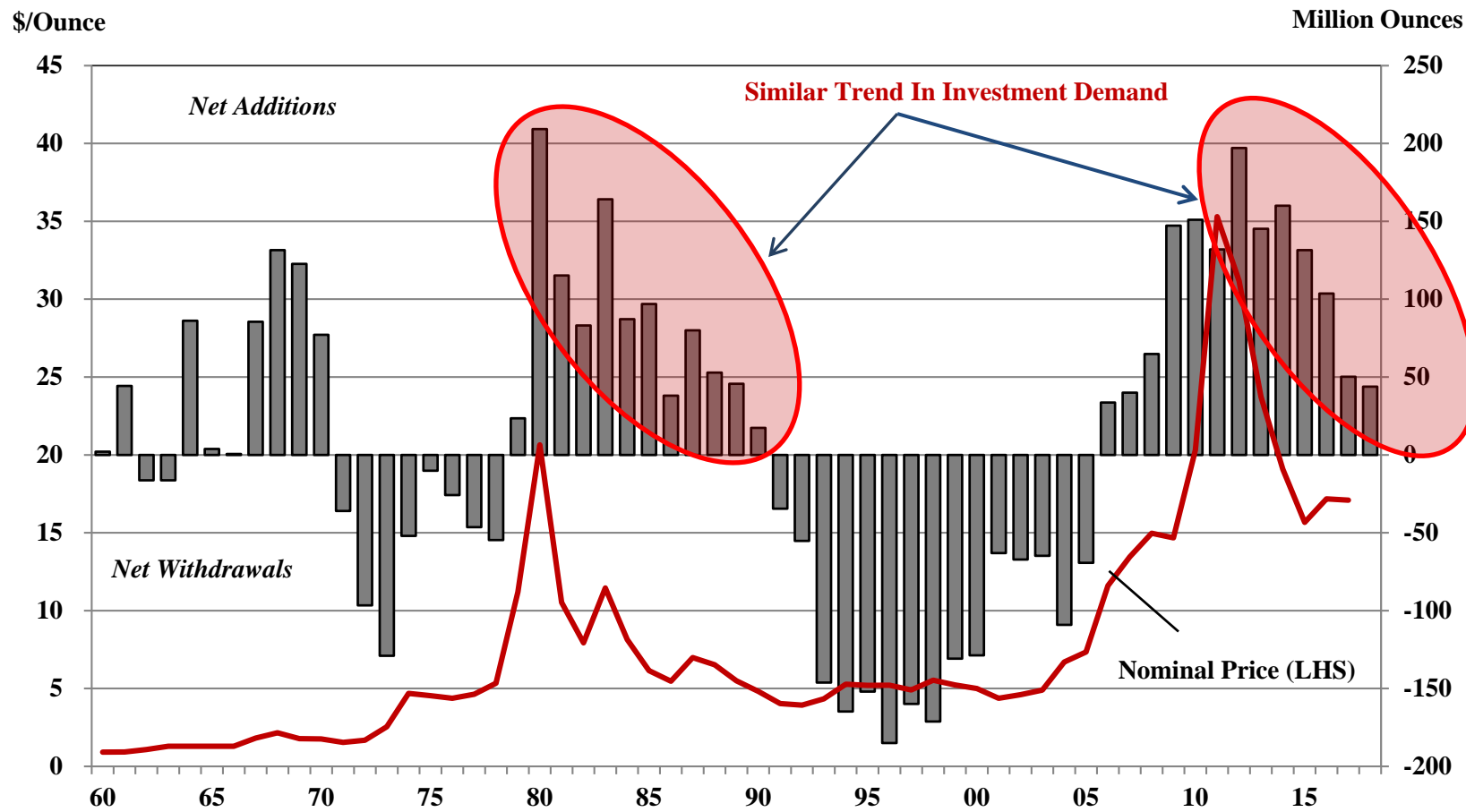
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*Silver*

# Investors Are Buying Less Silver

## Silver Market Balance – Net Changes In Inventories

Annual, Projected Through 2018. Prices through 2017.



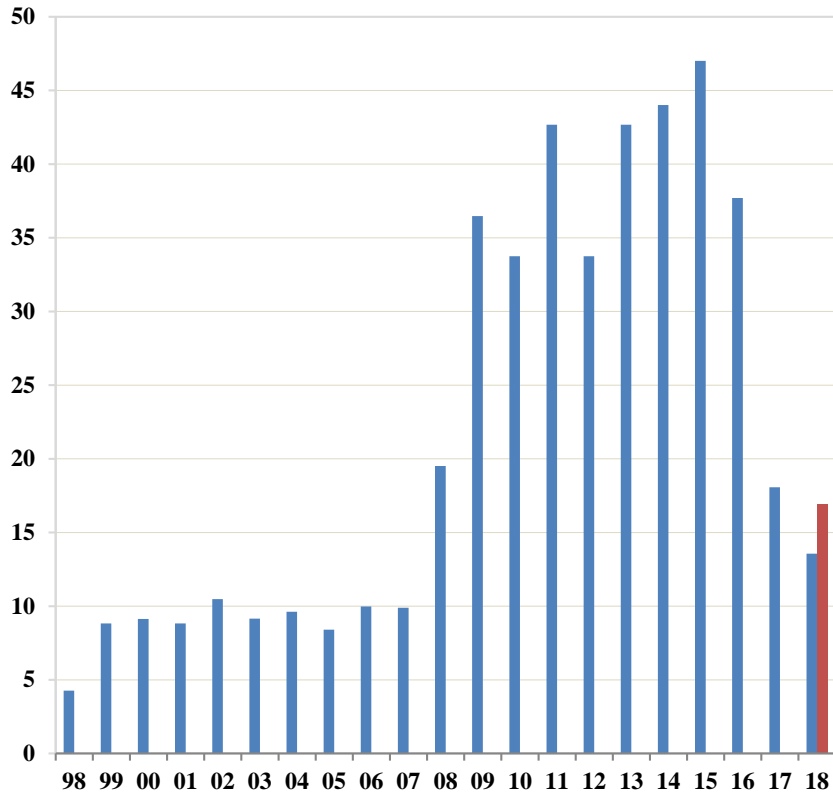


# Silver Coin Sales Have Slumped

## Annual U.S. Mint Silver Coin Sales to Dealers

October 2018

Million Ounces



## Dealer Premia on U.S. Mint Silver Coins

Daily Data through 31 Oct. 2018

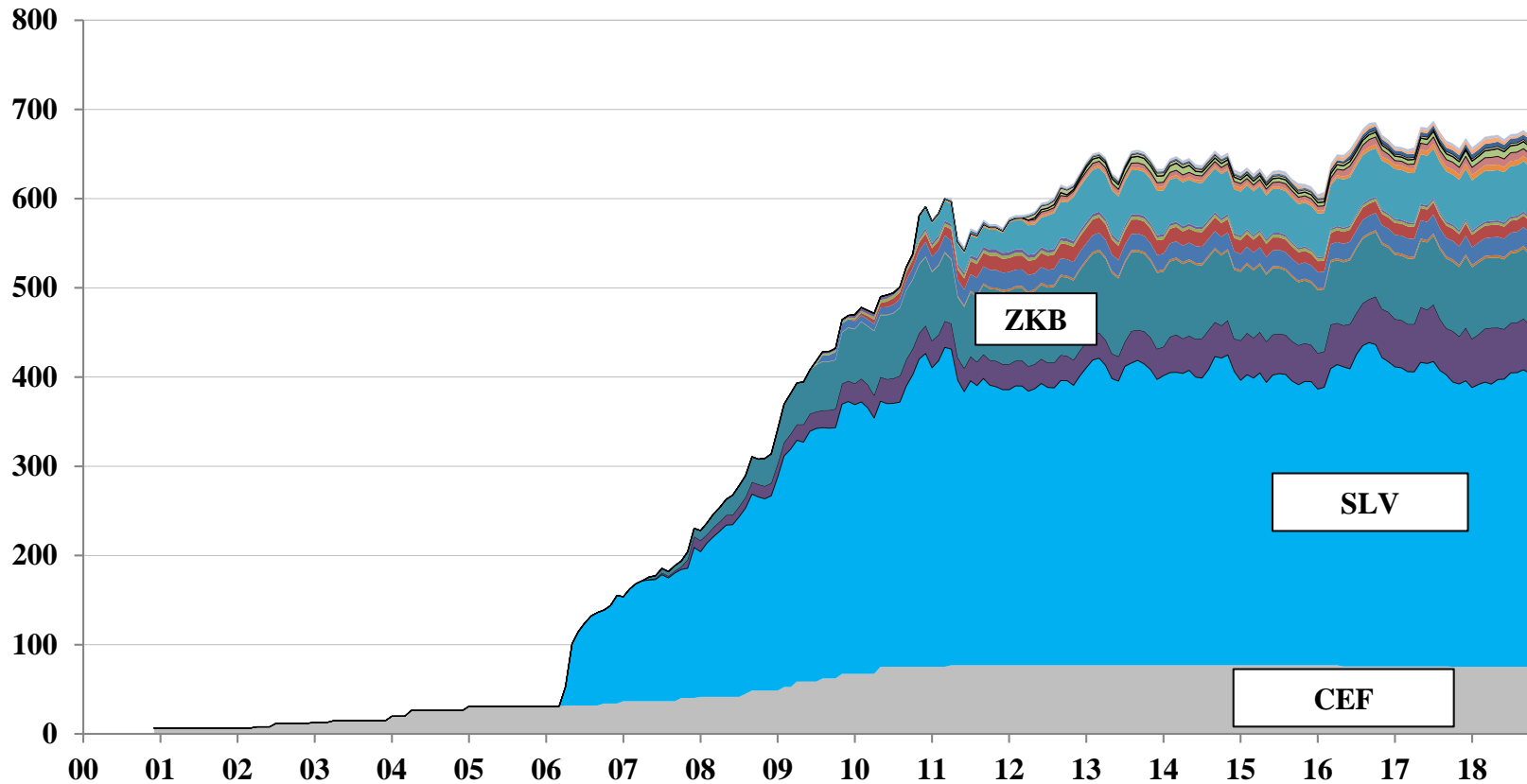


# Silver ETFs Holding On

## Monthly Silver ETP Holdings

October 2018

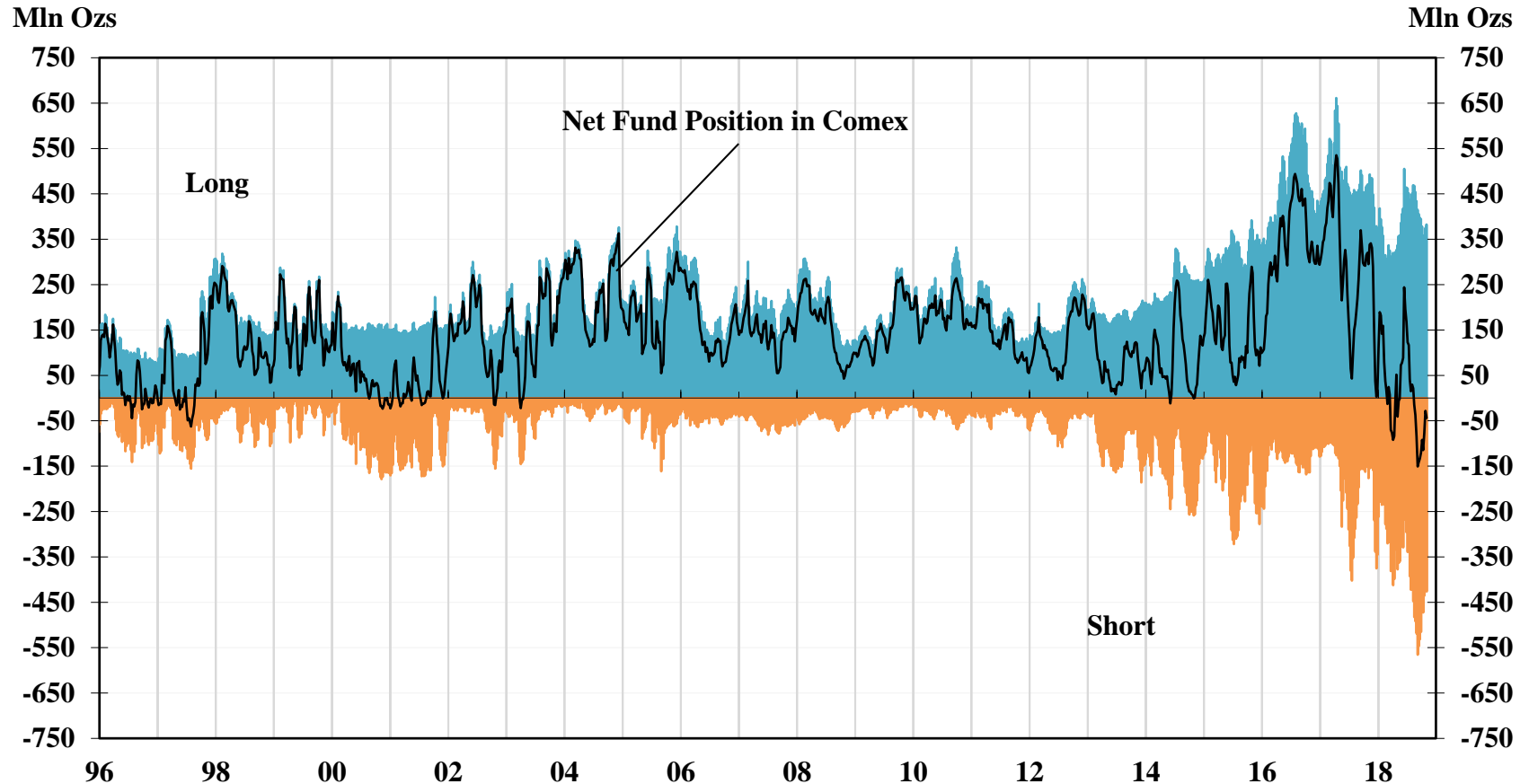
Mln Oz



# Institutional Investors Remain Net Short Silver

## Non-Commercial Gross Long and Short Silver Positions

Comex Futures & Options. Weekly Data, Through 30 Oct. 2018



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# *Platinum Group Metals*

# Cognitive Dissonance In PGM Producer Messages

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Producers continually damage PGM market credibility in the minds of institutional investors with mis-marketing that carries its own disproof.

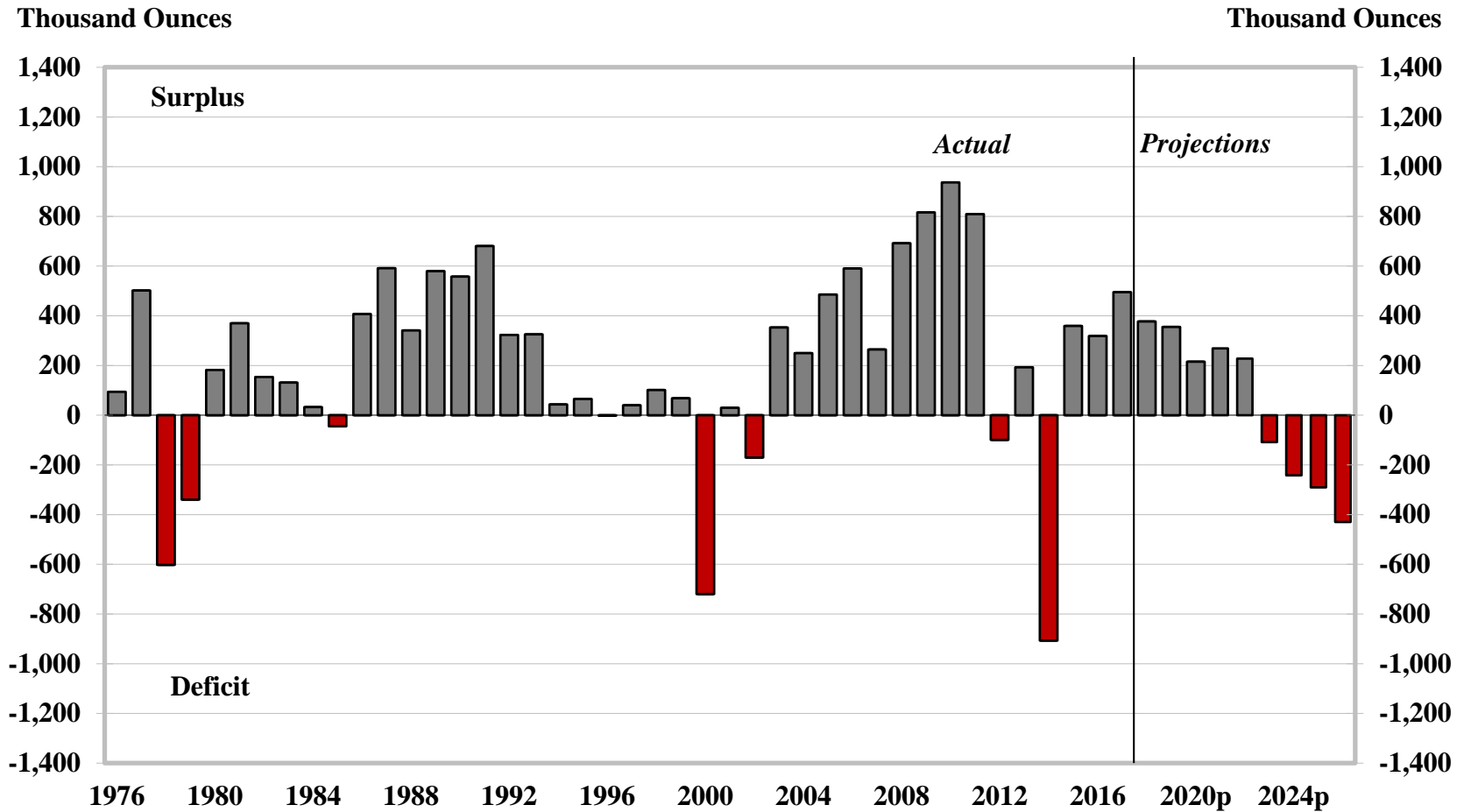
The message from producers repeatedly is broadcast:

1. The platinum market is in a long-term persistent deficit
  - Low platinum prices make no sense in the face of these deficits.
2. Platinum prices will not rise until investors buy more platinum, to sop up the persistent long-term surplus.

Some managers at some PGM mining companies are realizing the damage they are inflicting on their companies by mis-marketing PGMs to investors.

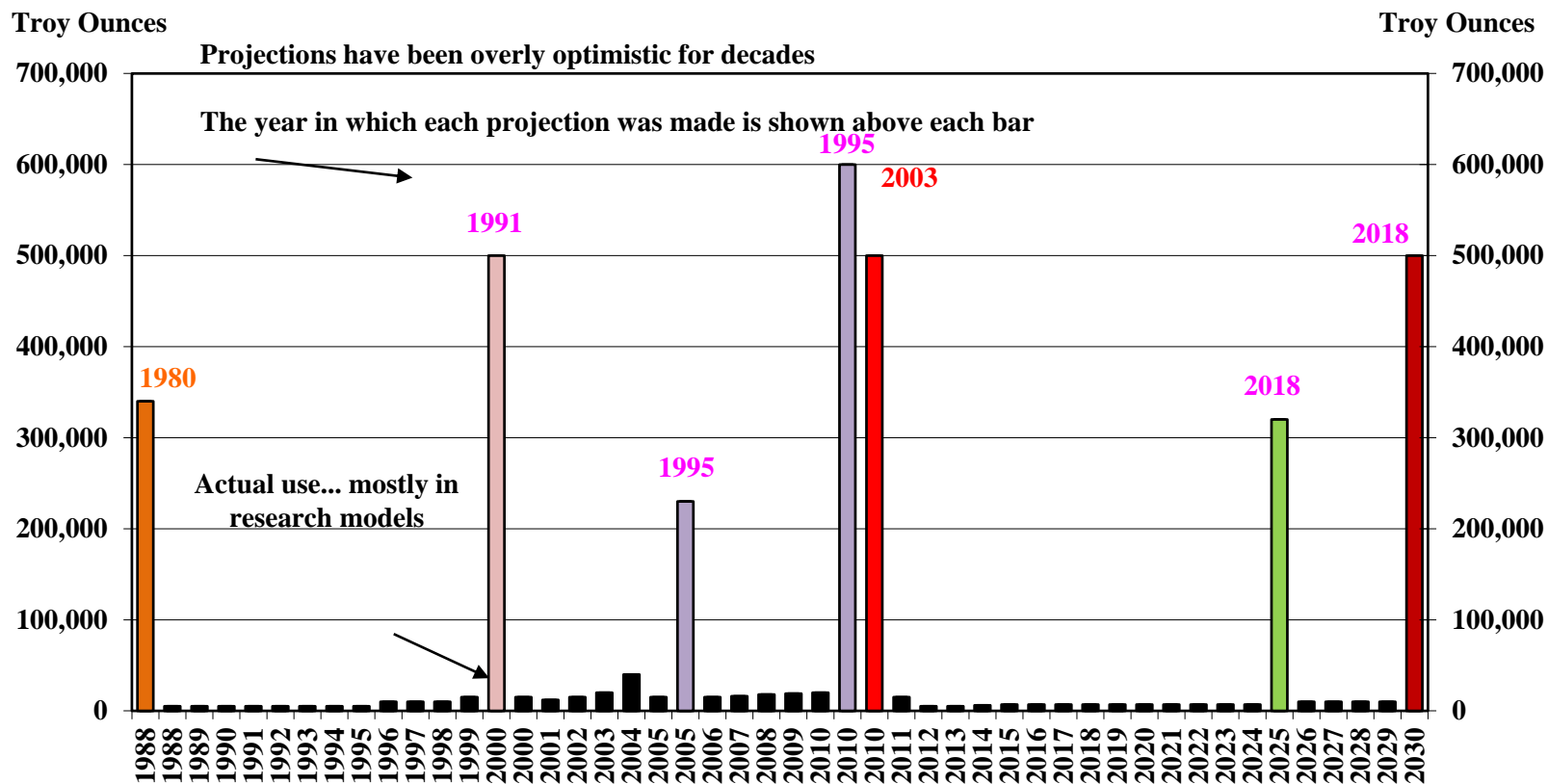
# The Reality Investors Know: There Is No Platinum Deficit

Platinum Surplus and Deficit, Base Case Scenario



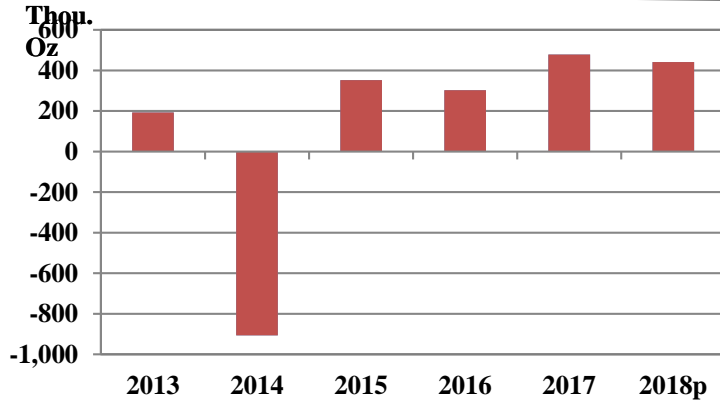
# Fuel Cells Platinum Use: Reality And Dreams

Projections of Future Platinum Use in Fuel Cells -- Always Optimistic

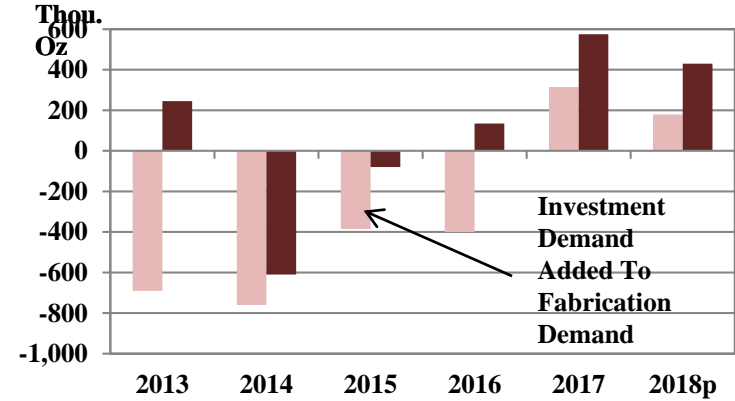


# Imaginary Deficits Disappear With Proper Accounting

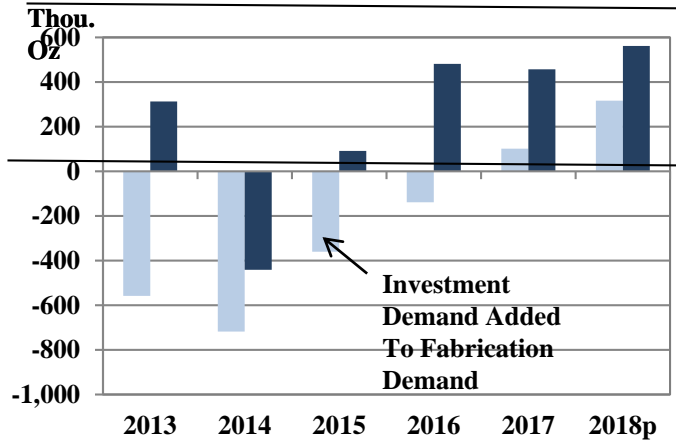
**CPM Group Platinum Market**



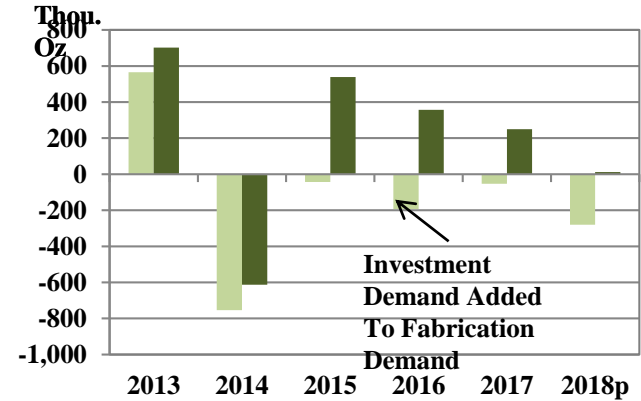
**SEA/WPIC Platinum Market Balance**



**Johnson Matthey Platinum Market Balance**



**GFMS Platinum Market Balance**





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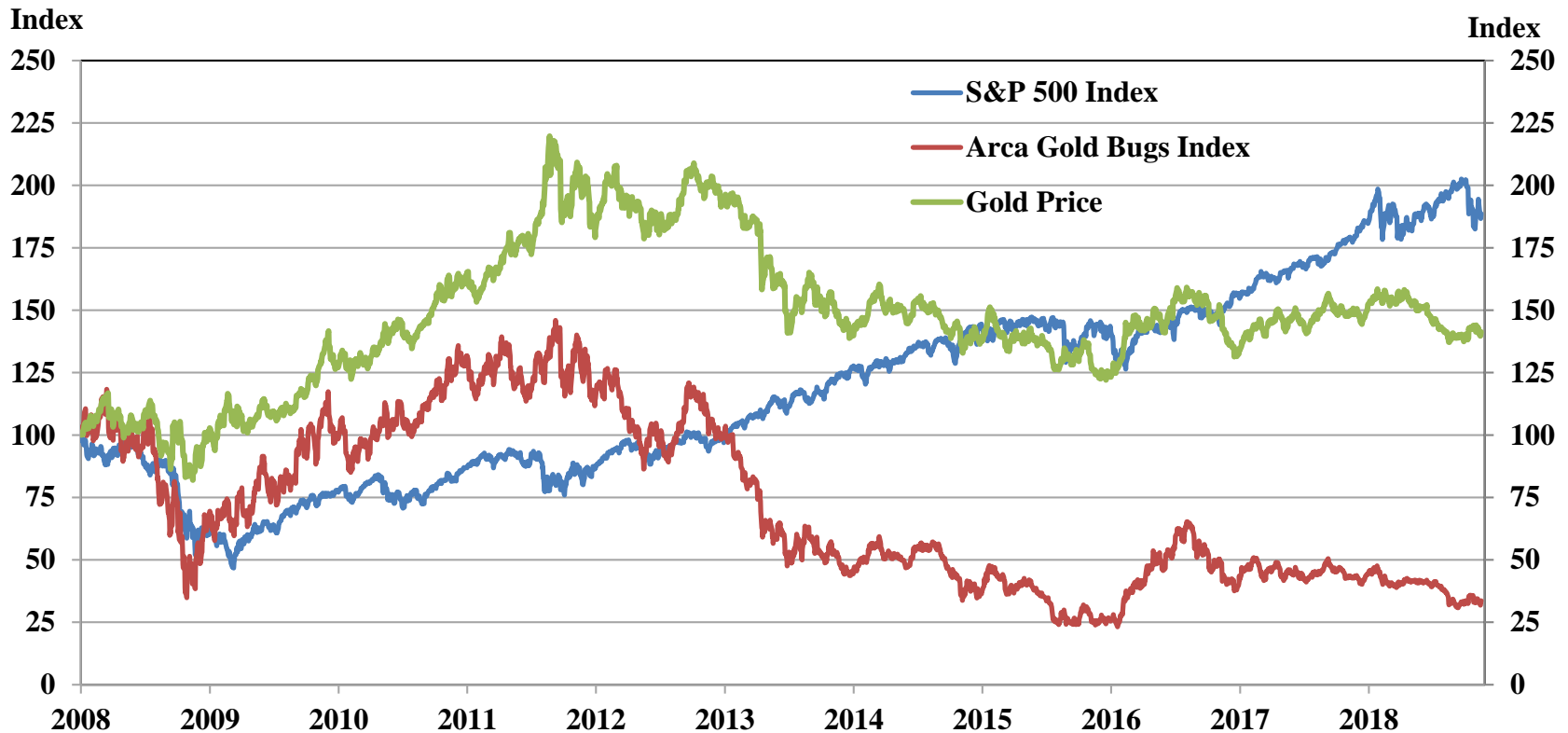
# *Mining Shares*

# Gold Shares Lag Gold and The World

Investors have been alienated by lagging performance.

## Major Gold Company Index, the S&P 500, and the Gold Price

Daily Data, Index 100=2 January 2008, Through 15 November 2018



# **Needed: New Approaches To Investing In Mining**

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**Several existing approaches to investing in mining are broken.**

- \* Some never have been effective**
- \* Others are not appropriate for today's markets dominated by:**
  - computerized trading, and**
  - professional money managers driven by quarterly returns.**

**What Works Less Well:**

- Sector mutual funds (not ETFs),**
- “True Believer” mining funds, and**
- The mis-definition of size measured in ounces instead of profits.**

**What Is Needed:**

- 1. Pooling risk through intelligently, objectively run funds,**
- 2. “Agnostic” Hedging of positions,**
- 3. Investment managers focused on profits at mining companies.**



# Research-Driven Research and Consulting

Thank You.

Research  
 Consulting  
 Asset Management  
 Commodities Management  
 Investment Banking Advice

## CPM Group Precious Metals Advisory

Vol. XXVIII, No. 9 | 3 September 2015

Next Scheduled Issue: 8 October 2015

### Perspective Flies Out The Window

This month's report has two articles up from. The first concerns the volatility that has roiled all financial markets, and some governments, over the past month. Much of the volatility originated in changes the Chinese government and People's Bank of China (PBOC) initiated, beginning in July but becoming more apparent in August. Many of these changes will bear long-term positive fruit. The shift to a new world paradigm for financial and monetary markets caught a lot of investors by surprise, however. Furthermore, the changes and the market reactions spawned an obscene amount of totally preposterous and over-sized fears in global commodities, equities, fixed income, and currency markets.

The first article deals with precious metals markets over the past month, and where they are likely to head.

The second article focuses on the immediate and long-term implications for gold markets and prices of a major shift in the PBOC's posture toward gold.

After falling sharply in July and early August, precious metals prices recovered by the end of the month. Gold prices had the strongest recovery, finishing the month at \$1,132, up from \$1,085.30 on 5 August, the lowest settlement price since February 2010, and up from \$1,094.90 on 31 July 2015. Other precious metals prices were also up from the lows that they reached during the first few days of August, but silver and palladium remained below their settlement prices at the end of July while platinum rose 2.0% over the course of August to \$1,010.50 from the end of July.

The rebound in gold prices, primarily, reflected investors covering previously established short positions. There was some increase in fresh long demand, but most of the buying seemed to be from investors buying back their short positions. Total open interest on the Comex gold futures market dropped -7.4% from the low of gold prices on 24 July to 1 September.

### Report Contents

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Price Targets.....	Rhodium.....	p.45
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Silver.....	Equities & Metals Tables.....	p.47-48

### Market Data

(Data as of 3 September; Changes from 4 August)

Commodity	Current	Change	% Chg	\$/oz
Gold	1,132.00	+42.80	3.9%	9420
Silver	14.75	+0.25	1.7%	1020
Palladium	1,010.50	+1.50	0.1%	4110
Rhodium	580.00	+2.00	0.3%	1820
Platinum	790.00	+1.00	0.1%	4000

\*Values given in \$/troy ounce

### Commodity Inventories

(Data as of 3 September; Changes from 4 August)

Commodity	Current	Change	% Chg	oz
Gold	8,894,242	-42,800	-0.5%	897,340
Silver	1,548,717	+287,360	19.2%	602,682
Palladium	12,818,610	+100,000	0.8%	7,980,580

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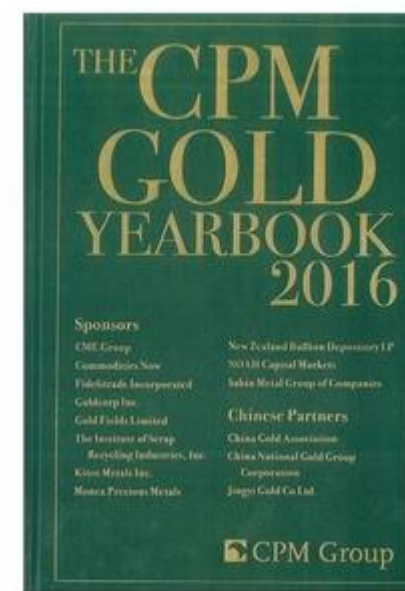
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