LBMA takeaways

The precious market just wrapped up another few days at the annual LBMA Conference. A full summary with slides of each session and other conference highlights are available here and here. Below are some takeaways and thoughts.

Sentiment, participation & delegate breakdown

- **The LBMA (in association with the SGE) essentially co-hosted the event in Shenzhen** (over Shanghai, Beijing); this was the first time China hosted an annual LBMA (HK hosted in 2012), signaling the perhaps belated acknowledgement of the Gold trade shift from West (US, London) to East. Over 600 delegates from 39 countries attended, making it the 5th largest conference attendance (Rome LBMA was the peak, unsurprising since it was 2010-2012 and all metals were high vol / high priced assets).
- **Representation from Gold physical hubs (India and China/HK combined) was over 20%** , almost double the representation last year in Boston. That is perhaps a little underweight given the push from LBMA & SGE (many panels were in Chinese requiring translators) to promote Gold (and Platinum!) investment and interest in the region. There were only a little over 30 delegates from the US, not unexpected given the distance and a fluid HK situation. As usual, commercial banks and refiners/fabricators made up the largest group of participants, producers were few and far between, but there were more marginally more investors vs last year (where they only represented 2% of the delegate total, mirroring the muted/disinterest and bearish paper positioning in Gold then).
- **Sentiment and spirits were drastically different** vs last years LBMA (which we termed it "Palladium Week" given the focus on its fundamentals/story & outlook over Gold). Overall, aggregate outlook is best described as **cautiously bullish (Gold);** the bear market years (2015-2018) are still fresh in many minds. This is decently aligned with the mildly bullish forecasts (on average delegates—the street—expect Gold to be ~$1650 by the next LBMA conference; that's ~11% above current levels (but tamer vs last years expected forecast which was 25% - and correct, for once—above current prices then).
- While Shenzhen was/is known as the free-trade zone (for metals) and a jewelry, trade & physical metals hub, given the proximity to HK, the **event sought to showcase another side; its certainly evolved into a tech/IT hub** (tencent, BYD & ZTE are headquartered there, Huawei was founded there); its a notably young and tech-savvy (and cashless) city, vs prior connotations of a traditional jewelry center.

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- **Sentiment was cautiously bullish for Gold, hopeful for Platinum, general disinterest in Silver, while market participants remain constructive palladium, but wary of rhodium.**
- **The average expectation/forecast* from delegates for Gold by the next LBMA is $1650 (11% above current prices), for Silver $23 (+32% from current prices), Platinum $1180 (+33%) and Palladium $1920 (+8%).**
- **Participants are most bullish the oversupplied, relatively underweight and relatively cheaper white metals (Platinum & Silver).**
- **Overall, the 2007-2012 bull market years and 2013-2015 bear market years were associated with trailing forecasts; the most 'correct' delegates have been was when Gold remained stable around $1200 in 2015-2018.**
- *At every LBMA, theres a delegate poll that provides the average expectation (less outliers) of Precious metals prices in 1 years time (at the following LBMA conference). While there are a few shortcomings (not every delegate votes, the market is structurally generally always bullish, forecasts need to be contextualized etc), those shortcomings exist every year.

Thoughts on some key recurring themes / topics both on panels and amongst conversations:

- **Gold: focus on near-term risks (positioning) over longer-term structural positives (e.g.: CB buying trends):** Central Bank buying trends wasn't a very popular theme nor cited as much, especially in comparison to last year and despite strong buying trends this year. It should've been because: 1) it is a key component in differentiating gold from the other precious metals who don't have similar structural demand, 2) forms the basis of the macro de-dollarization theme (or simply the depreciation of any/all fiat currencies) that is becoming more focal the later in cycle and more indebted the global economy becomes. Instead, there was a profound focus on 'tactical positioning' (CFTC, and to some extent ETFs) from both panelists and delegates; "overcrowded", "tactically long", saturation were common words that thread through conversations. Its to blame for both Golds recent poor/heavy price performance (despite some arguably new bullish catalysts), and is the foundation for the broadly hesitant outlook in the shorter-term. It simply indicates the market is soo short-termism; there are very few true investors and the larger generalist crowd (which we have insistently argued) is still not invested/involved.
- **Systematic intraday flow > investment; SGE / SHFE Silver as an example.** There was a notable disinterest in Silver, with a bearish bias (amongst panelists, not delegates) given the known physical overhang, growing stockpiles and a manufacturing slowdown. However, a point about SHFE/SGE turnover being over double CMEs, YET Open Interest has remained rather flat, was very interesting; it simply drives home the theme of more systematic/ algo intraday 'churn' (high volumes), but this money/flow remains very uncommitted or invested to Silver (low/flat positioning with OI flat).
- **The internationalization and opening up of Chinas (commodities/metals) markets:** the theme was a central focus and touted during the sessions and in conversations, which is clearly part of a structural drive to de-dollarize/re-commodidize China and is ultimately supportive-mildly bullish Gold/Precious metals. However while there're strategic plans to ultimately achieve this, the ongoing trade and growth / slowdown fears arguably has delaying ambitions. Current details and examples don't point to open competition/free trade/liberalized commodity markets (yet)—there is only one firm authorized to import Platinum into China, with a few international banks having Gold import licenses (and only a handful being Western banks); theres also talk that the gold import quotas for this year are unusually small (due to capital flight fears in light of a volatile / weakening yuan, trade & growth concerns).
- **Trade war takes all the blame, not politics:** Geopolitics, US politics, HK protests, Brexit featured less with talk around trade (and the subsequent impact on growth, particularly a focus on manufacturing) meant to encapsulate most of the geopolitical risks that remain unresolved.
- **Producer hedging:** while the industry as a whole has drastically changed their attitudes toward the practice over the decade, theres opportunistic cases/structures and very different approaches dependent on the region. There was no focus on the potential impact and/or threat of hedging from panelists, which was surprisingly given that Gold in many currencies are at/near record highs. There was some chatter around the idea that tactical producer hedging has dried up in 2019 which is/was aligned with the switch in the Fed from rate hikes to cuts; producer expectations have become more bullish and some flows are hinged on the Fed outlook.
- **Gold & Silver coin/retail demand:** theres been a notable divergence in North American Gold & Silver trends, with Silver coin sales strong and increasing, while Gold coin sales have been very weak especially over the summer. The divergence in prices between gold (at 6 year highs) and silver (still below $20) is one explanation—retail investors are cashing in on Gold, while theres been strong inflows into Silver coins (due to Golds rise, its poor-mans-gold and attracts a different type of investor).
- **ESG/Governance/Supply-chain provenance/responsible sourcing:** it remains and is becoming increasingly important, taking center stage. There was a disproportionate focus on the topic, from a range of participants—investors spoke about ESG and its impact & outlook for gold producers, the growing number of technology firms highlighted the benefits of block chain securing supply-chain provenance (which was also very evident as they made up the majority of exhibitions), and industry groups/research consultants provided the necessary insight and guidelines on the topic. The increased focus on ESG/responsible sourcing etc, was highlighted in the outcome of the delegate votes on each session — the most popular sessions were "Responsible Sourcing Workshop" and "Innovation in the Chinese Gold market". Overall, theres a drive to attach some value to it, but with industry groups only providing some guidelines/best practices, the tech firms will be left to fight it out when the physical international benchmark/standard (i.e.: LBMA 9999) is no longer "good enough". The OTC / physical market is likely to become more fragmented as end-users have specific requirements that perhaps cannot be proven/certified; that creates increasingly more quality layers/subdivisions within 'LBMA approved' and ultimately more questions than answers.

- **Platinum vs 'the rest':** Given the structural (un)availability issues and strong price action in both Palladium and Rhodium, there was a notable lack of interest/focus on these two vs the focus on Platinum. That's in stark contrast to last years LBMA where the PGM session drew the largest crowd with Palladium drawing most of the curiosity, even from non-PGM participants. Thus there seems to be some 'acceptance' (arguably, growing complacency) around S&D issues in Palladium and Rhodium, while Platinum still manages to 'tempt' in opinions and interest from plenty of panels and participants. They were focused in particular on the Platinum jewelry sector which is in a structural decline but perhaps isn't surprising given Shenzhen is home of the free-trade zone (for metals) and a jewelry / physical hub, so local speakers provided good insight on challenges in the jewelry market (economic slowdown, younger generation preferences have changed, competition from other metals and simply a lack of knowledge on what Platinum is given the major pullback in marketing in the region). The conversation, however, should've been on a potential bottom given that overall demand commands a decent share, Chinas property market is hitting consumer activity and is a large drag on the economy/growth, and structural declines don't simply reverse on their own.
- **Going green —>** the ongoing and stricter emission regulations, the path to EVs (hybridization), the ongoing debate around PT/PD substitution, the upside in PT with FCEVs is always a mainstay at the recent precious conferences. While there wasn't a major change in thesis or story (vs London Platinum Week), a few highlights include:
    - There was generally a lot of chatter around blue skies (or lack there) and Chinas green revolution, which was inadvertently prompted by the smog. Interestingly, auto number plates in Shenzhen are either blue (traditional ICE petrol cars) or green (EVs, or hybrids); the government has openly labelled consumers/ drivers "polluters" vs "green users" that anecdotally seems to have caught on with locals / taxis that tout the success of BYD and are quick to explain the difference in plates/cars. Similarly, it was noted on a panel that Chinese auto sales are soft because consumers are holding out for the next new genEV creating pent-up demand.
    - There was more of a focus on Fuel Cells from both participants and delegates. Anglo Platinum provided an insightful presentation on the investment in H2 and the adoption of FCEVs (even a small share—eg: FCEVs account for 5% of total autos—creates >3m oz of total Pt demand).
    - Substitution always generates strong opinions depending on how that participant is aligned along the supply-chain. Still, while its perhaps happening incrementally, it hasn't been enough to provide any physical/ leading signals.
    - Platinum bulls will argue ETF/investor demand is accumulating ahead of 'the switch', "clean diesel" has finally arrived (Euro6 arguably wasn't even that clean), longerterm demand drivers (FC, SA supply risk), and its attractive risk-reward profile, etc. While platinum bears lean on 2 core drivers: 1) weak auto AND jewelry markets that aren't showing much turnaround and can still fall further, from impactful levels, into the next global recession, 2) palladiums deficit risks widening platinums surplus due to the producer response and/or platinum has missed its opportunity to induce supply cutbacks.
    - Implats/NAP: the news of Impala buying NAP was topical and while the two core deal drivers (1. an increased belief and commitment to palladiums benefits & S&Ds, 2. diversification outside of South Africa) is widely accepted, two additional thoughts are worth exploring. There is perhaps more to #2 that pertains to labor/political risk and the relevant relationships North American Palladium unions have the various SA unions (FWIW, there was almost no talk or cited fear around S.A supply risk and the current wage dispute that is still unresolved…). The other thought is that many panelists cited the fearfulness major *Gold* producers have (of returning to being the 'ill-disciplined child'), and are in a better position to generate FCF and returns (vs the "lost decade" before 2018) preferring to play it safe and pay dividends; the same sense of hesitancy is not palpable with PGM producers who seem willing to capitalize at the first sign of price strength.

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