Precious Update:

This note will cover:

- The Saudi oil disruption, the Fed (pages 1, 2) and implications for havens like Gold (page 3)
- Platinum Week thoughts (page 4)

The drone attack on Saudi Arabias Aramco oil facilities, should take the focus this week; it certainly risks spoiling the risk-on / reflation party we’ve seen the past two weeks that saw US yields rebound and investors rotate out of havens into cyclical high beta trades such as base metals. Without fear mongering (or citing the conspiracies surrounding the weekends events), a few thoughts as they pertain to macro, geopolitical and the gold/precious outlook:

- Its not only about the actual supply-side numbers and whether softer demand, trade, global stocks, US production and/or SPR release can plug the outage (~5% of global supply cut—see full report from Equity Research here); its also about geopolitics and perception given that macro markets were abnormally nervous this summer, there’s an upcoming Fed meeting, the investigation is ongoing as to the source of the attack (Yemeni Houthi rebels have claimed responsibility yet US and Saudi have pointed at Iran), at a time when US foreign policy is now increasingly unpredictable and/or unfocused (after Boltons exit) and the markets are late cycle seemingly awaiting some shock to derail high valuations.

- This is a major geopolitical development indicated by the ~20% repricing overnight in Brent—prices usually always overshoot, but not to this extent—the largest 1day repricing since 1991 with the kneejerk reaction that held most intraday gains into the NYMEX close. The Saudi attack marks a turning point in 1) the recent macro thinking (out of safehavens and into reflation and cycicals), which should now reverse, and 2) the focus within oil circles from slowing growth and/or trade on demand, to supply risk and the incremental premium the market may demand. It confirms geopolitical risk is back on (since it ups the risk of military retaliation), increases the uncertainty over how both the US and Saudi may respond politically, and brings forward the question of retaliation in the region for finger pointing (e.g.: the Strait of Hormuz, a critical chokepoint for 1/3rd of global oil supply is effectively controlled by Iran).

- While the usual bombastic Tweet (the US is “locked and loaded”) has perhaps been overlooked by most havens for now, the attack and subsequent response in oil prices is enough to renew attacks on Powell (“Will Fed ever get into the game? Dollar strongest EVER! The oil hit. Big Interest Rate Drop, Stimulus!”); any major oil disruption simply makes it easier for Powell to reduce opposition to any cut. A 25bp Fed cut is fully priced in and locked, with a special focus on Powells press statement. After a somewhat dovish ECB decision last week (restarting open-ended QE, and cutting rates further negative), the idea of monetary easing reaching their limits at many DM CBs (excluding the Fed) gaining traction AND this weekend’s fresh geopolitical developments, there’s less risk of “mid-cycle cut” outlook; Powell more likely leans pre-emptively dovish (citing international trade tensions & geopolitics which have clearly risen) feeding into the largely dovish positioning/market expectations, which is a potential catalyst for the next leg higher in Gold (sustained move lower in DXY). There are also other CB decisions (BOE, BOJ, SNB) which can impact the US$.

- The market was looking forward to some positive trade updates or momentum (given that the US was considering an interim trade agreement with China with Beijing signaling ag purchases) and an extension in the recent reflation trade, but after this Saudi oil attack, trade rhetoric should takes a backseat as the US administration refocuses attention to Middle East and the Feds response. If fear and subsequent demand for havens can subside in the short-term, with oil refocusing on finding a fairer higher range (as it prices in the risk of further supply risks/geopolitics), the implications for longer-term inflation is notable; most CBs are either sidelined or easing, keeping rates low but with a pickup in both US wages and core CPI, real yields risk rising (posing a large threat to gold but one which would help base metals out of their hole).
CHART:

The US$ is unfairly strong vs two core commodities (gold & oil as a geopolitical and inflation proxies).

Oil has convincingly broken short-term range; floors in the review mirror.

**Gold AND Oil, vs the $**

*...divergence shouldn't last*

![Chart showing the relationship between the US Dollar, gold, and oil prices.](chart.png)

**Source:** Scotiabank Commodities Strategy

*GOLD Spot (GOLD SPOT $/oz) gold • Oil vs DXY Weekly 25APR2014-16SEP2019*
Implications for GOLD & SILVER:

- The recent decision to perhaps explore an interim trade deal with China, was not a game-changer in overall US-China dispute, but helped prompt a relief rally in risk assets and triggered a Gold unwind through $1490 (down ~5% from ‘peak fear’ seen the end of August) and Silver through $17.40 (down 11% from recent peak).

- Gold has been surprisingly very well bid the end of last week despite stronger yields, its core promoter/driver recently. US real yields and Gold have enjoyed strong -0.97 correlation the past 6 months, arguably when markets began their insatiable hunt for recession hedges or havens. Thus with real 10yr yields rallying above 0.20% last week (up from a bottom of -0.1% in August), a simple regression indicates gold should’ve been closer to $1450. This ~$50 “premium” vs yields and in light of Silver weakness, can be explained away by a mildly softer US$, some steady inflows below $1500, but the ability (or stubbornness) to fade risk-positive developments.

- The lack of a sustained reaction in typical havens today—gold, silver, the JPY—with markets adding an additional geopolitical layer (potential threat of a proxy war) over the existing framework (trade war, rate cuts and/or currency war on slower global growth and limits to monetary easing), is surprising. Outsized positioning across most “trade hedge” havens (Bonds, Gold, Silver etc) and a stronger US$ (for a range of reasons that requires further explanation) explains part of the inability to capitalize and reprice back toward recent highs, but that should be short-lived on an incrementally dovish Fed. Gold saturation certainly poses some short-term downside risk, but a structural driver (geopolitical escalation) has been renewed which puts the target back on $1600 Gold (> $20 Silver).
PLATINUM/ CME WEEK TAKEAWAYS: Precious metals industry participants gathered in NYC last week for Platinum/NYMEX/CME week and while we won’t recap each event, below are a few thoughts around conversations and presentations attended:

- Sentiment from many players remain quite upbeat given the largely sustained strong metals pricing.
- PGMs: there was an acceptance that between most information sessions, there were no real structural changes to the story and drivers in Platinum and Palladium:
  - Palladium remains in a sustained deficit, albeit one that is shrinking in 2019 due to supply growth, flat demand and increased recycling. The price action, in face of a sustained auto-recession in key markets, is well cited ‘proof’ of stricter emission standards taking hold (RDE in Europe, China 6a/b being accelerated etc). There’s known risk for a pullback as tightness has eased (fed by ETFs, NN Palladium Fund and previously bottlenecked WIP inventory), but historical lack of liquidity and fickle/unexplained nature of price action has deterred many discretionary players. Persistent disagreement on both the topic of substitution and extent of it occurring (if at all) amongst participants, while there was a lack of focus of the impact of the trade war and/or threat of auto tariffs on supply chains and specific PGM needs by end-users.
  - Platinum continues to battle through a supply overhang (but one in which above ground stocks are its lowest in 45 years, if taking into account ETF demand. WPIC). Given that the fundamental picture hasn’t improved much, the market remains in surplus but one in which auto declines (Europe) shouldn’t shoulder all the blame; acceptance that jewelry (particularly China) is at a critical inflection point to halt structural demand declines. Strong investor (ETF, Cot) inflows, hasn’t been enough to soak up excess metal - Ex-ETF/investment demand, the (WPIC) surplus is 1.2m oz (15% of supply) or 1.3m oz (SFA). Downside risks: high PA/Rh prices encourages previously mothballed mines to restart while core demand areas (auto, jewelry) remain weak. Platinum positive drivers include: substitution (from PD), higher PGM loadings from China, 6s (15% of supply) or 1.3m oz (SFA).

- There was a lot of focus, questions and concerns around Rhodium. While many agree parabolic pricing isn’t sustainable (due to tightening emission regulations and a scramble to secure Nox-fighting Rhodium with WIP stocks still ‘tied’ up in SA but due to return to market in 2H), there was an apprehension to talk about 1) the fact there is no substitute (no presentations focused on the substituting way from Rhodium with prices sitting at historical >5x peak vs platinum), 2) the role Chinese participants (both investors and industrial end-sues) have played, 3) the impact of the trade war and uncertainty on fabricator buying trends. There is another driver outside of stricter Chinese emission regulations that is occurring— China has imported all of their 2018 needs in the first half of 2019 (why), that comes at a high costs (elevated lease rates) while the market is expected to largely be in a surplus (in near-term)...

- Gold: speculation and interest is mounting, that with rising prices, it’ll drive further acquisitions after years of underinvestment, creating a sellers market for smaller gold producers available for M&A. The WGC hosted an Investment Summit with a respected range of speakers covering wide ranging Gold topics: 3 noteworthy takeaways include: 1) Real assets (not just Gold) is becoming increasingly more attractive due to the purposeful debasement of currencies, 2) The Fed would not be easing if there was no trade dispute, upping inflationary risks, 3) Two aspects of China’s economy is underestimated by global economy/markets (#1 the sheer size with 300m people shifting to middleclass over the next decade, #2 the tolerance of the Chinese to overcome obstacles) . A handful of presentations Q&A focused on crypto’s and the potential threat of to both Gold and precious markets—most answers aimed to separating the benefits of blockchain vs the risks and “work” cryptocurrencies/bitcoin etc need to do. The topic is certainly no longer fringe.

- There is still no consensus over the weeks label/name; most large financial institutions (most of whom attended the ~350 person CME dinner) refer to the week as “NYMEX/CME week”, while the traditional corporate players (largely attending specific one-one-one dinners) refer to it as “Platinum Week”…

WPIC Q2 Platinum report here
World Gold Councils report on “Gold: the most effective commodity investment” September 11 2019 here
The information contained in this presentation is being provided for information and discussion purposes only. An investment decision should not be made solely on the basis of the contents of this presentation. This presentation is being provided upon the express understanding that no representation or warranty, express or implied, is made, or responsibility of any kind accepted, by The Bank of Nova Scotia, Scotiabank Europe plc, or any of their respective affiliates ("Scotiabank™"). their directors, agents or employees with respect to the completeness or accuracy of the information, conclusions and opinions provided herein, or as to the achievement or reasonableness of any projections, targets, estimates, or forecasts and nothing in this presentation should be relied upon as a promise or representation as to the future. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. This presentation has not been prepared (i) by a member of the research department of Scotiabank, or (ii) in accordance with the legal requirements designed to promote the independence of investment research. It is considered a marketing communication for regulatory purposes and is solely for the use of sophisticated institutional investors. This presentation does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the UK Prudential Regulation Authority and the UK Financial Conduct Authority, and its content is not subject to any prohibition on dealing ahead of the dissemination of investment research.

The information contained in this presentation reflects prevailing conditions and our judgment as of the date of the presentation, all of which are subject to change or amendment without notice, and the delivery of any such amended information at any time does not imply that the information (whether amended or not) contained in this presentation is correct as of any time subsequent to its date. Scotiabank undertakes no obligation to update or correct any information contained herein or otherwise to advise as to any future change to it. Scotiabank does not provide any applicable tax, accounting or legal advice and in all cases independent professional advice should be sought in those areas.

This presentation incorporates information which is either non-public, confidential or proprietary in nature, and is being furnished on the express basis that this information will not be used in a manner inconsistent with its confidential nature or be disclosed to anyone other than as may be required by law or to those who have been informed of the confidential and proprietary nature of this presentation. This presentation and its contents are strictly confidential to the person to whom it is delivered and may not be copied or distributed in whole or in part or disclosed by such persons to any other person without the prior written consent of Scotiabank. This presentation and the information contained herein remain the property of Scotiabank.

This presentation is not and shall not be construed as an offer, invitation, recommendation or solicitation to sell, issue, purchase or subscribe any securities or bank debt in any jurisdiction or to enter into any transaction. Nothing in this document contains a commitment by Scotiabank to sell, issue, purchase or subscribe for financial instruments, or securities, to provide debt or to invest in any way in any transaction described herein, or otherwise provide monies to any party. Any participation by Scotiabank in any transaction would only be provided in writing after satisfactory legal, financial, credit, accounting and commercial due diligence, as well as being subject to internal approval processes. Any transaction implementing any proposal discussed in this document shall be exclusively upon the terms and subject to the conditions set out in the definitive agreement related thereto.

This presentation is not directed to or intended for use by any person resident or located in any country where the distribution of such information is contrary to the laws of such country. Scotiabank, its directors, officers, employees or clients may currently or from time to time own or hold interests in long or short positions in any securities referred to herein, and may at any time make purchases or sales of these securities as principal or agent. Scotiabank may also have provided or may provide investment banking, capital markets or other services to the companies referred to in this presentation.

Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc., Scotia Capital (USA) Inc., Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of CIPF. Scotia Capital (USA) Inc. is a registered broker-dealer with the SEC and is a member of the NASD and SIPC. The Bank of Nova Scotia is authorised and regulated by the Office of the Superintendent of Financial Institutions of Canada. Scotia Capital Inc. is authorised and regulated by the Investment Industry Regulatory Organization of Canada. The Bank of Nova Scotia and Scotiabank Europe plc. are authorised by the UK Prudential Regulation Authority. The Bank of Nova Scotia is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Scotiabank Europe plc is regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia’s regulation by the UK Prudential Regulation Authority are available upon request. Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.
The information contained in this presentation is being provided for information and discussion purposes only. An investment decision should not be made solely on the basis of the contents of this presentation. This presentation is being provided upon the express understanding that no representation or warranty, express or implied, is made, or responsibility of any kind accepted, by The Bank of Nova Scotia, Scotiabank Europe plc, or any of their respective affiliates ("Scotiabank"), their directors, agents or employees with respect to the completeness or accuracy of the information, conclusions and opinions provided herein, or as to the achievement or reasonableness of any projections, targets, estimates, or forecasts and nothing in this presentation should be relied upon as a promise or representation as to the future. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. This presentation has not been prepared (i) by a member of the research department of Scotiabank, or (ii) in accordance with the legal requirements designed to promote the independence of investment research. It is considered a marketing communication for regulatory purposes and is solely for the use of sophisticated institutional investors. This presentation does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the UK Prudential Regulation Authority and the UK Financial Conduct Authority, and its content is not subject to any prohibition on dealing ahead of the dissemination of investment research.

The information contained in this presentation reflects prevailing conditions and our judgment as of the date of the presentation, all of which are subject to change or amendment without notice, and the delivery of any such amended information at any time does not imply that the information (whether amended or not) contained in this presentation is correct as of any time subsequent to its date. Scotiabank undertakes no obligation to update or correct any information contained herein or otherwise to advise as to any future change to it. Scotiabank does not provide any applicable tax, accounting or legal advice and in all cases independent professional advice should be sought in those areas.

This presentation incorporates information which is either non-public, confidential or proprietary in nature, and is being furnished on the express basis that this information will not be used in a manner inconsistent with its confidential nature or be disclosed to anyone other than as required by law or to those who have been informed of the confidential and proprietary nature of this presentation. This presentation and its contents are strictly confidential to the person to whom it is delivered and may not be copied or distributed in whole or in part or disclosed by such persons to any other person without the prior written consent of Scotiabank. This presentation and the information contained herein remain the property of Scotiabank.

This presentation is not and shall not be construed as an offer, invitation, recommendation or solicitation to sell, issue, purchase or subscribe any securities or bank debt in any jurisdiction or to enter into any transaction. Nothing in this document contains a commitment by Scotiabank to sell, issue, purchase or subscribe for financial instruments, or securities, to provide debt or to invest in any way in any transaction described herein, or otherwise provide monies to any party. Any participation by Scotiabank in any transaction would only be provided in writing after satisfactory legal, financial, tax, accounting and commercial due diligence, as well as being subject to internal approval processes. Any transaction implementing any proposal discussed in this document shall be exclusively upon the terms and subject to the conditions set out in the definitive agreement related thereto.

This presentation is not directed to or intended for use by any person resident or located in any country where the distribution of such information is contrary to the laws of such country. Scotiabank, its directors, officers, employees or clients may currently or from time to time own or hold interests in long or short positions in any securities referred to herein, and may at any time make purchases or sales of these securities as principal or agent. Scotiabank may also have provided or may provide investment banking, capital markets or other services to the companies referred to in this presentation.

Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc., Scotia Capital (USA) Inc., Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of CIPF. Scotia Capital (USA) Inc. is a registered broker-dealer with the SEC and is a member of the NASD and SIPC. The Bank of Nova Scotia is authorised and regulated by the Office of the Superintendent of Financial Institutions of Canada. Scotia Capital Inc. is authorised and regulated by the Investment Industry Regulatory Organization of Canada. The Bank of Nova Scotia and Scotiabank Europe plc. are authorised by the UK Prudential Regulation Authority. The Bank of Nova Scotia is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Scotiabank Europe plc is regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia’s regulation by the UK Prudential Regulation Authority are available upon request. Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.