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MACRO SUMMARY: Unprecedented, unexpected and unprepared

(see summary on page 2)

Upcoming dates:

⇒ **Updated Official Scotia GBM base metals forecasts will be released on April 9th**

⇒ **Metals *Strategy* Call focusing on the outlook for Gold, Copper and other metals, on Tuesday April 14th at 10am E.T (please reach out to your sales rep for details)**

⇒ **Updated Official Scotia GBM precious metals forecasts will be released on April 15th**

Sections:

- Macro overview & summary: pg. 2
- Charts of the month: pg. 3-5
- Gold: pg. 6-7
- Silver: 8-9
- PGMS: pg. 10-11
- Precious Positioning table: Pg. 12

Gold: Large dislocations within the Gold market stole the show after some hefty margin related selling in March. However Gold has simply found it post crisis floor (like it did in post Lehman); it gets taken out with the deflation knock alongside every asset, but then begins to react to inflationary stimulus; this time around the bull run trajectory is more bullish than the 2009-2012 cycle given low/slow growth profile and unprecedented stimulus.

Silver: Silver will begrudgingly tag behind any Gold rise and should continue to underperform in the near-term up until the inflection point when the global economy can fully capitalize on stimulus measures and growth rebounds convincingly.

Platinum, **Palladium**: the PGM Basket rose to new all time highs (due to byproduct strength but mostly ZAR weakness) of almost R30,000/oz, with major supply disruptions in S.A and ongoing logistical and transportation issues more than offsetting the negative demand impact of lockdowns and auto plant closures. Historically and relatively tighter metals (Palladium & Rhodium) are to remain super volatile with availability sporadic and tight, while Platinum's surplus is due to narrow

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VIRUS: its been labeled the great leveler with eerie milestones met (well over 1m cases globally) but the rate of change seems to be rolling over, with risk remaining around a 2nd wave (an "M" curve which is what happened during the Spanish flu and is occurring/feared in China with imported cases). Antibody tests/ data in the near-term (vaccine in longer-term) and a relaxing of extreme national lockdowns could inject some balance into the economies.

CRISIS TYPES: it started as a health crisis, morphed into a economic one (and some argue a financial one but the Fed can counter liquidity issues, while it has a harder time countering or controlling equity market risks, credit and simply people getting sick). It is also a deflationary demand crisis, a supply chain crisis, a labor market crisis and an energy price crisis

GROWTH: markets and sentiment quickly cycled through varying shaped recoveries ("V-U-or L", but also "↓" or "Nike Swoosh" recoveries). The standard base / low / high scenario analysis has given way to larger and growing tail risks (inflationary "Nike Swoosh" vs depressionary "↓"). Official Scotia forecasts hinges largely on a "V-shaped" recovery later in 2H'20 (with recessionary stats for most economies in Q2); we remain a little more cautious

DATA: There has been limited recognition or no reaction to some of the high frequency data in the US (initial claims) or namesake ones that provide insight on consumer confidence & trends (NFP, auto sales). Risk markets tend to price in worse case scenarios and they've perhaps done that with added uncertainty; thus with *some* visibility returning with data, that's (bizarrely) soothing for markets. In addition, theres simply no precedent, thus data is expected to be wild, uninterpretable and untradeable (as kneejerk algo reactions remain sidelined negatively impacting liquidity/volumes). Ultimately what go us into an economic crisis (a health crisis) will lead us out.

FISCAL & MONETARY POLICY RESPONSE: The once unthinkable very quickly became a reality but 'too much' was/is being done on policy action, because developed economies (Europe and US) acted 'too late' to stem the spread of the virus; swift pre-emptive totalitarian action by governments, creates an ugly precedent for authoritarian and permanently bigger government, surveillance states where airport health screenings become routine, borders remain closed, especially if 2nd waves reemerge. Unprecedented monetary & fiscal policy has started both earlier (*before the* Q2 recession) and ramped up faster than anytime beforehand (the US' $2tn fiscal package dwarfs the 2008 package) and includes alternative new policies/method ('Coronabonds', which has been floated in Europe but not greenlighted and quasi-MMT—the Fed is using the bond market, not Treasury, as the main conduit, global ZIRP etc); unlimited QE, imminent negative interest rates is essentially here leading to unlimited deficits & a highly uncertain growth recovery with wider tail risks. Ultimately, a larger wealth gap (aggressive global monetary policy) and a need to hedge out massive inflationary response with real assets are the perhaps the obvious longer-term winners to such drastic measures. Oh and permanently slower growth. (See graph on page 3)

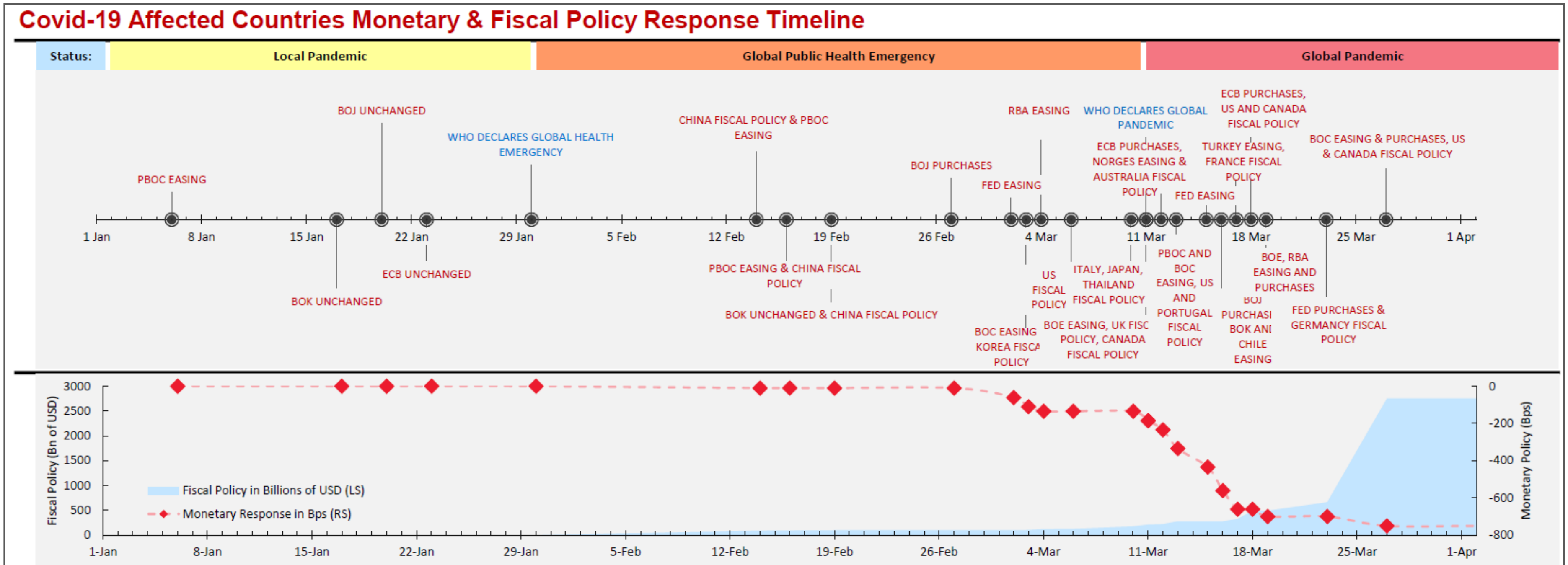
LIQUIDUITY VS the *PERCEPTION* OF LIQUIDITY: the irony is that even with extraordinary liquidity injections, the liquidity party (2010-2019) is over as banks and other providers (while much better capitalized vs 2008) remain hesitant about lending, as the markets await the economic/market casualties of Covid-19. The tide — of unlimited liquidity, at any cost (no growth—think WeWorks) spurred on by decades of globalism & international trade— has gone out. Quality now really matters.

GLOBALISM vs PROTECTIONISM: Trade wars was just the ugly cousin to this same phenomenon (borders-up protectionism). Global interdependence and globalization rests on the idea that the consumer can have anything 'on-demand' that spurred travel, free trade & low-cost imports from China. The age of ultra-mobility & 'cheapest is best' is behind us as society, companies & government will likely fundamentally change their thinking about security, global supply chains/reliance on China and what 'critical interests' are, respectively.

SOCIO-ECONOMIC IMPACT: many comparisons have been made—will 1H'2020 be remembered as 9/11 (best case?), the 1929 Great Crash or the end of WWII in 1945 — all major defining events that sparked radical changes in the way societies & economies were organized, some for generations

POLITICS: Less cooperation less coordination in a time of need. Policy action has been correlated NOT coordinated (theres a major difference). Trumps "American First" mantra has strengthened while the coherence of the Eurozone is once again looking fragile (as the proposal to mutualize debt via Coronabonds being resisted by Germanys Merkel & Netherlands). There is a US re-election and any lesson in international cooperation will likely be rejected (Trumps still calls it's the Chinese virus)

Chart of the month #1: an attempt to provide a quantitative real-time snapshot of the recent & quickly evolving fiscal (programs announced, LHS) & monetary policies (rate cuts, RHS) announced by most major economics impacted by COVID-199 (as of April 2nd 2020) —> **800bps of global rate cuts (620 bps driven by G-10 CBs—see page 7) and almost $3 tn has been pledged by COVID-19 affected countries!**



Note: Fiscal policy numbers are converted using exchnage rates on the day of announced policy. Easing equates to traditional rate cuts and not repo operations.
Source: Scotiabank Commodity (Metals) Strategy

Chart of the month #2

Before COVID-19 spread to the rest of the world, there were large (and sustainable) divergences across major asset classes; Slower and lower global growth in a post GFC work was being priced into commodities and Bonds (yields), while equities remained relative outperformers. Q1'2020 changed everything and leveled the playing field

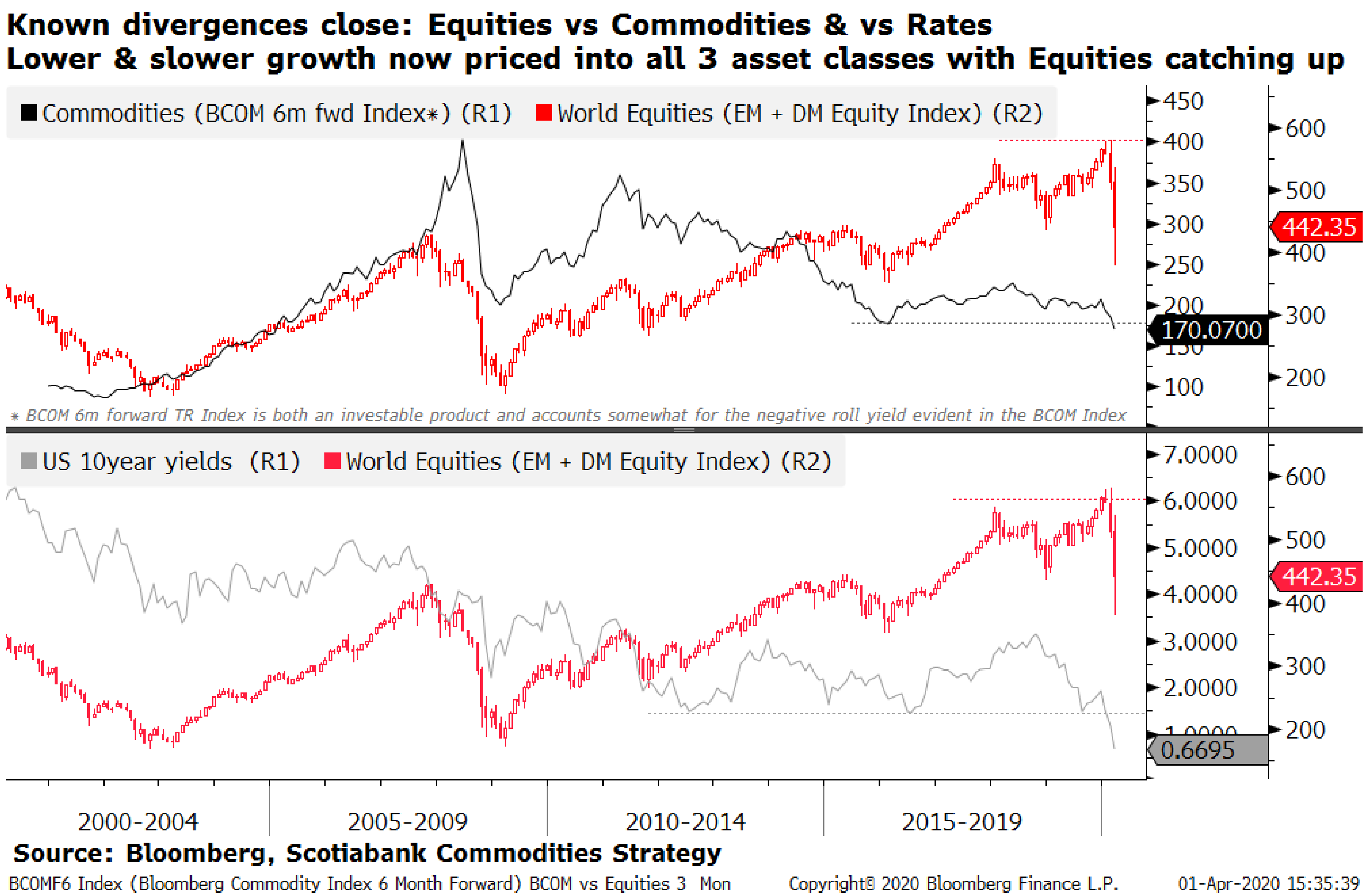


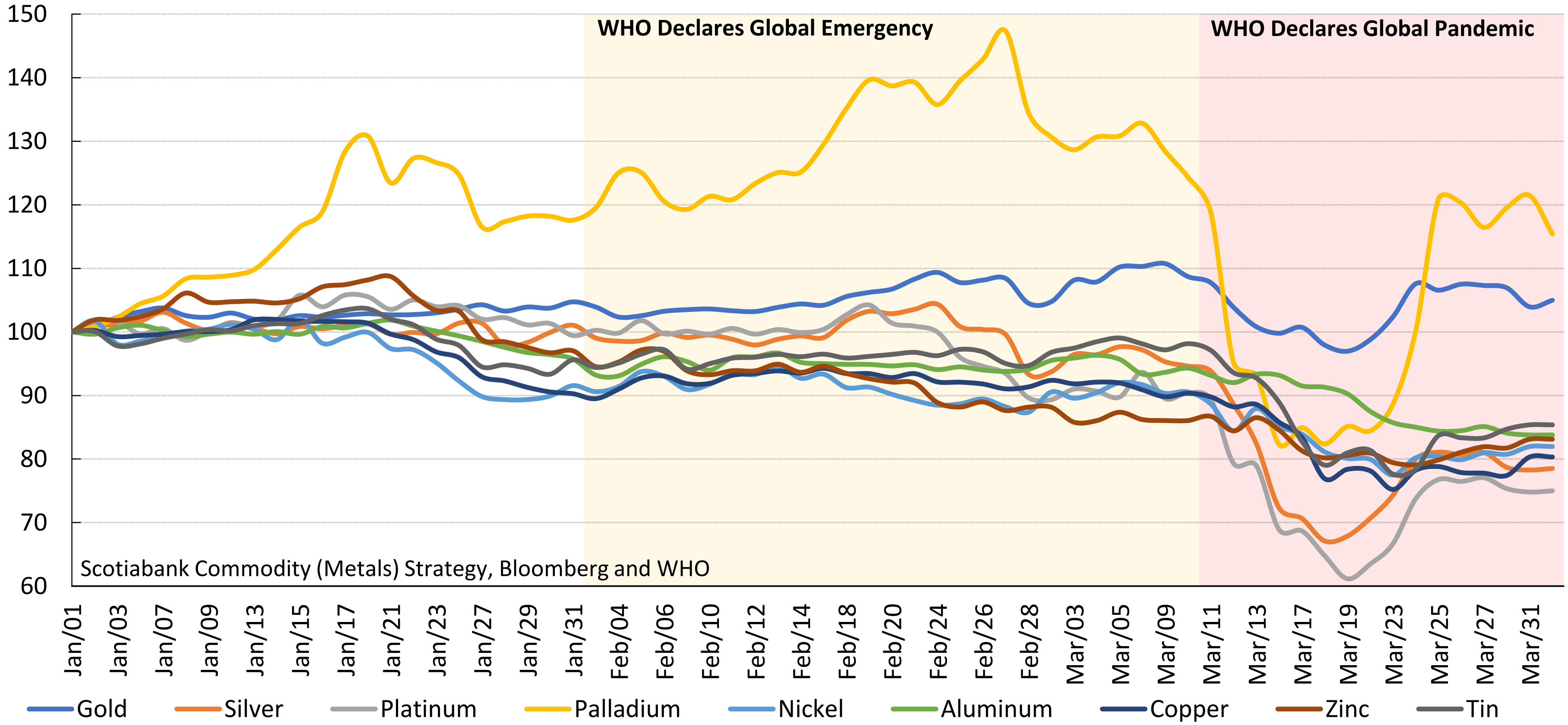
Chart of the month #3: Precious and base metal performance through escalating COVID-19 periods; Gold has relatively outperformed all industrial metals, especially on risk adjusted basis.

Precious and Base Metal MoM Performance

Date	Gold	Silver	Platinum	Palladium	Nickel	Aluminum	Copper	Zinc	Tin
Feb-20	$ 1,585.7	$ 16.7	$ 866.3	$ 2,616.6	$ 12,187.0	$ 1,676.5	$ 5,617.3	$ 2,009.8	$ 16,267.0
Mar-20	$ 1,577.2	$ 14.0	$ 723.1	$ 2,363.1	$ 11,434.5	$ 1,492.5	$ 4,938.8	$ 1,894.8	$ 14,667.0
Difference	-$ 8.51	-$ 2.69	-$ 143.21	-$ 253.44	-$ 752.50	-$ 184.00	-$ 678.50	-$ 115.00	-$ 1,600.00
% Change	-0.54%	-16.15%	-16.53%	-9.69%	-6.17%	-10.98%	-12.08%	-5.72%	-9.84%

Source: Scotiabank Commodity (Metals) Strategy, Bloomberg

Chart: Precious and Base Metal Index Performance Since Jan 2020



GOLD: Large dislocations within the Gold market stole the show after some hefty margin related selling in March. However Gold has simply found it post crisis floor (like it did in post Lehman); it gets taken out with the deflation knock alongside every asset, but then begins to react to inflationary stimulus; this time around the bull run trajectory is more bullish than the 2009-2012 cycle given low/slow growth profile and unprecedented stimulus.

- Gold prices whipsawed within a $250 range in March, but after technically finding solid support at $1450, reverted into a holding formation around $1580-1640. The narrative is a lot more constructive now:
  - Fast money positioning is clearly a lot cleaner, with COT taking down 1/3rd of peak positioning (-7.4m oz) while ETFs continued to add in March (+3.6m oz)
  - Max macro fear has dialed back from extreme levels as risk appetite and some conviction in US equities return given massive global monetary and fiscal stimulus.
  - Headwinds are emerging in the US$ and funding pressures are relieved
  - Unprecedented structural themes have emerged faster than many believed (Unlimited QE, imminent negative interest rates, unlimited deficits & direct monetization, highly uncertain growth recovery outlooks with wider tail risks)
- Gold should be through recent highs of $1700, as the market is beginning to acknowledge these drivers. However through a commodity & trading lens, gold demand is weak.
  - India – its largest consumer—is on lock down
  - EM CBs are likely to downsize the pace of their gold purchases given the negative impact of both oil and weaker currencies.
  - The general lack of short-term liquidity in the (gold) system - whether for EFPs or risk appetite for outright pricing - is bearish for outright gold, since its a liquidity product. Any potentially large player participant who could potentially be active in Gold as an alternative asset (vs Treasuries), could be a deterred.

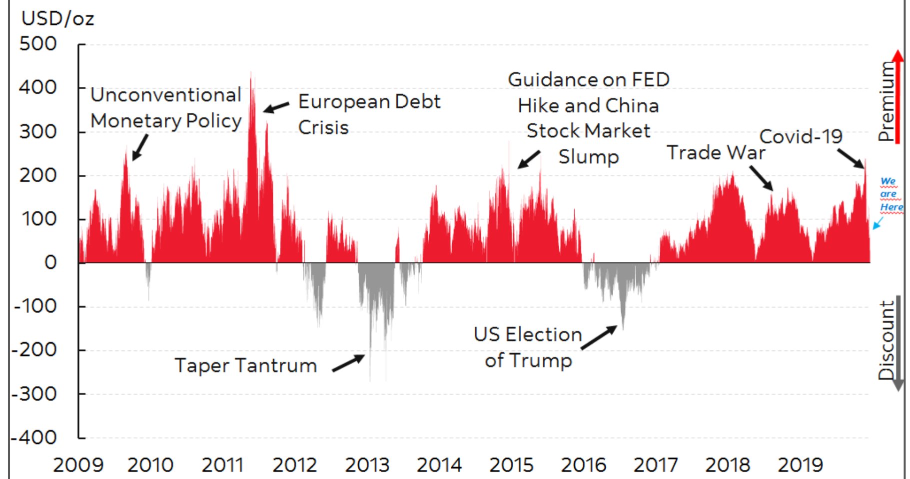
⇒ **Overall, the largescale inflow from Western retail & institutional should offset weaker physical demand and the short-term illiquidity headwinds.**

- The numerous large refineries closed in the Swiss canton of Ticino (until April 5th) have asked for permission to partially reopen; the ramp-up process has started but will be gradual and slow (but arguably faster than reopening mines). Together with some primary supply being shut down (1% of global supply& counting), the market seems to be calling for a gold shortage.... There is certainly a shortage of *certain* product (eg: 100 oz bar) in certain regions (Europe, US), but not a global fundamental shortage, more so intermittent bottlenecks, that will be alleviated once refineries restart and new air/transportation routes are formed.
- Post Lehman crisis, gold repriced 94% in 2 years; that's too lofty given its a $1600 asset (not a $800 one) but another a test of $1800 is in the cards, as prices attempt to find a footing to kick start a stronger bull run.

Gold response into a crisis: into Lehman (2008) vs into COVID-19 (2020)
Most havens (excluding cash/USD) are dumped during EXTREME market volatility

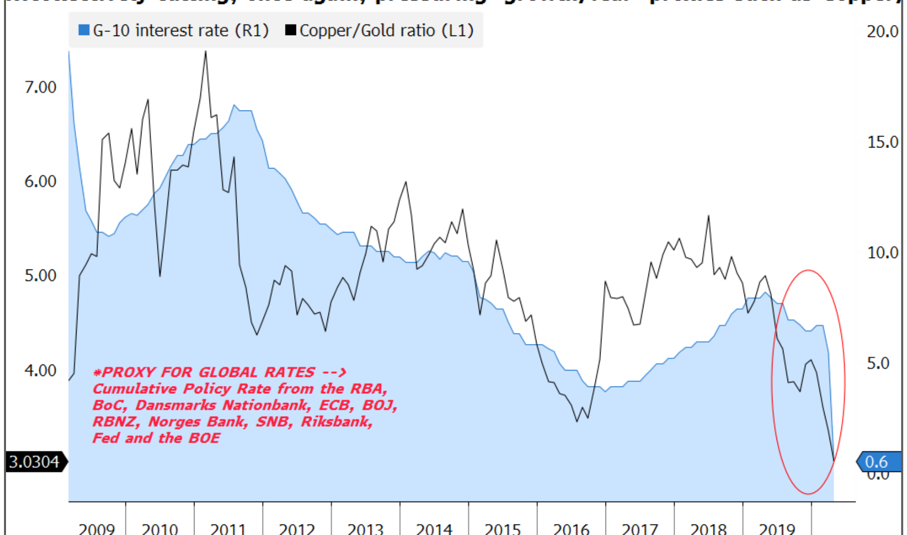
Source: Scotiabank Commodities Strategy, Bloomberg
GOLDS Comdty (GOLD SPOT $/OZ) COVID vs 2008 Daily 15JUL2008-31DEC2010 Copyright© 2020 Bloomberg Finance L.P. 08-Apr-2020 10:28:26

Gold Trades at a Fear Premium of ~$85 (vs recent peak pf >$200)



Source: Scotiabank Commodity Strategy (Metals) Calculations, Bloomberg
Note: Premium/discount is estimated using a multi variate OLS robust regression using a 10 year rolling window approach. Endogenous features include safe haven currencies and real interests. Our model is able to explain 95% of the variation in gold since 1999. A positive number indicates gold is trading at a premium due to safe haven inflows. A negative number illustrates gold is trading at a discount.

G-10* Central Bank cumulative interest rate
...collectively cutting, once again, pressuring 'growth/fear' proxies such as Copper/



Source: Scotiabank Commodities Strategy, Bloomberg
.G10 S 91511857 Index (BBG CIX OF G-10) G10 CB easing vs Cu/Gol Monthly 27JAN20 Copyright© 2020 Bloomberg Finance L.P. 08-Apr-2020 10:29:39

Investors: share of Gold in Equity portfolios underweight but rising (due largely to unwind of risk) overweight on actual oz basis, but underweight as a % of portfolios

Source: Bloomberg, Scotiabank Commodities Strategy
.GC/SPX2 U Index (gold AUM as a % of SPX mkt cap) Gold AUM as % of SPX Weekly 2 Copyright© 2020 Bloomberg Finance L.P. 08-Apr-2020 10:32:01

SILVER: Silver will begrudgingly tag behind any Gold rise and should continue to underperform in the near-term up until the inflection point when the global economy can fully capitalize on stimulus measures and growth rebounds convincingly.

- Silver traversed a lot of ground in March, falling from ~$18, through $12 (levels not seen since 1H 2009), before settling down over 16% MoM. The massive underperformance vs Gold is evidenced in the Gold/Silver ratio repricing strongly out of a multi-decade range, from <100 to 124! That is not surprising , given:

    1. Major dislocations across ALL asset classes in Q1,
    2. The extent of the macro fear & uncertainty driving an overreach for safe / quality assets and USDs
    3. Silvers relatively saturated fundamental profile and industrial properties (where consumer demand dropped off due to sudden economic stops)
    4. The lack of CB demand in Silver, which supports Gold relatively better on any turn in paper/investor positioning

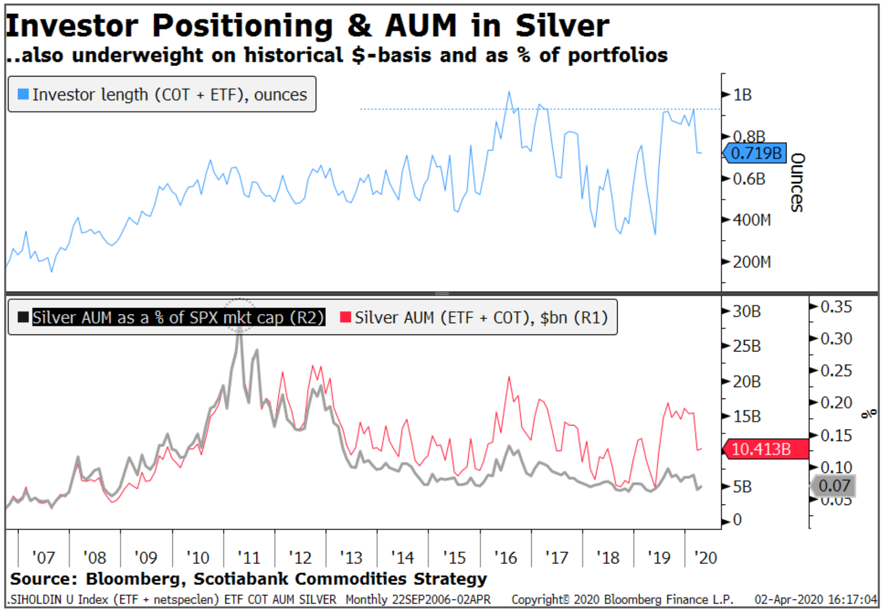
- After reaching a high of $19 in Q1'20 driven by strong investor inflows, Silver came under similar margin related pressure in March (~210m oz of outflows largely from COT investors) which was no match for the renewed weakened physical and retail demand.

- Record high exchange inventories continued to grow to 400m oz (~40% above recent highs) as markets priced in cascading global manufacturing and economic sudden stops leading to a recession in Western economies.

- The known inability for the majority of the industry/producers to self-regulate supply, given Silver is by-product by nature (~65% of supply) creates additional headwinds. While other industrial metals have witnessed some supply response (S.A PGM producers on lockdown, some Latam Gold & Base metals producers curbing operations), there is no primary supply response in Silver.

- The "return to cash costs" is a common theme that is party attributable to Silver (the all-in sustaining cost for *primary* Silver production in 2019 was $10.40); other methods to find sustainable floors in the short-term includes the model-implied Silver price with WTI at $22.50, putting it at $10.15

- However, viewing silver through a *precious* lens, and given the overall very constructive Gold backdrop, its outlook should improve in the medium-longer-term. Increasingly lower yields, a slowing global growth outlook & uncertainty around the COVID-19 recovery, and unprecedented stimulus measures will drive decent demand for cheap precious or real asset exposure.


Investor Positioning & AUM in Silver
..also underweight on historical $-basis and as % of portfolios
Investor length (COT + ETF), ounces
1B
0.8B
0.719B
0.6B
400M
200M
Ounces
Silver AUM as a % of SPX mkt cap (R2)
Silver AUM (ETF + COT), $bn (R1)
30B
25B
20B
15B
10.413B
5B
0
0.35
0.30
0.25
0.20
0.15
0.10
0.07
%
'07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20
Source: Bloomberg, Scotiabank Commodities Strategy
.SIHOLDIN U Index (ETF + netspeclen) ETF COT AUM SILVER Monthly 22SEP2006-02APR
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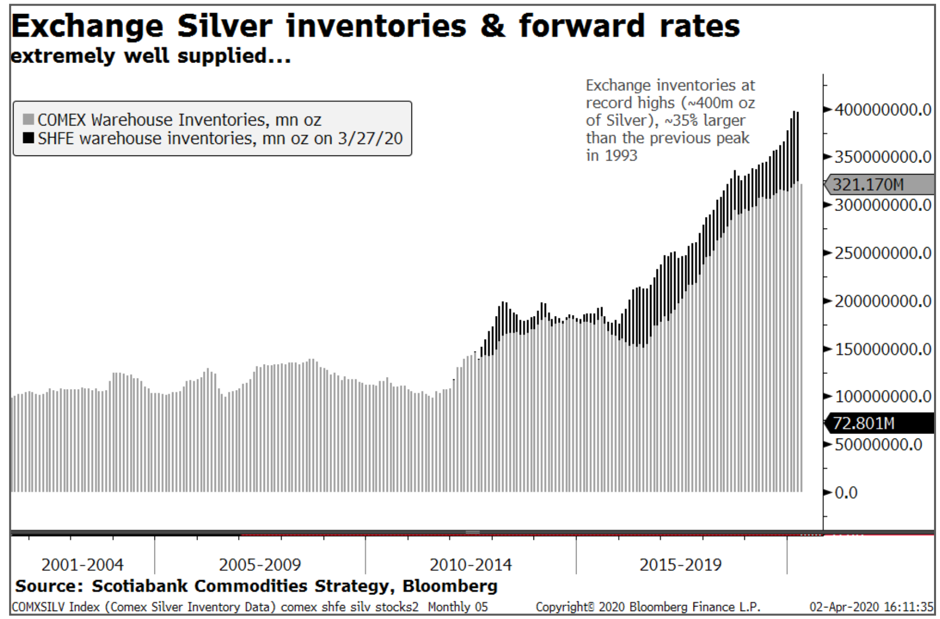
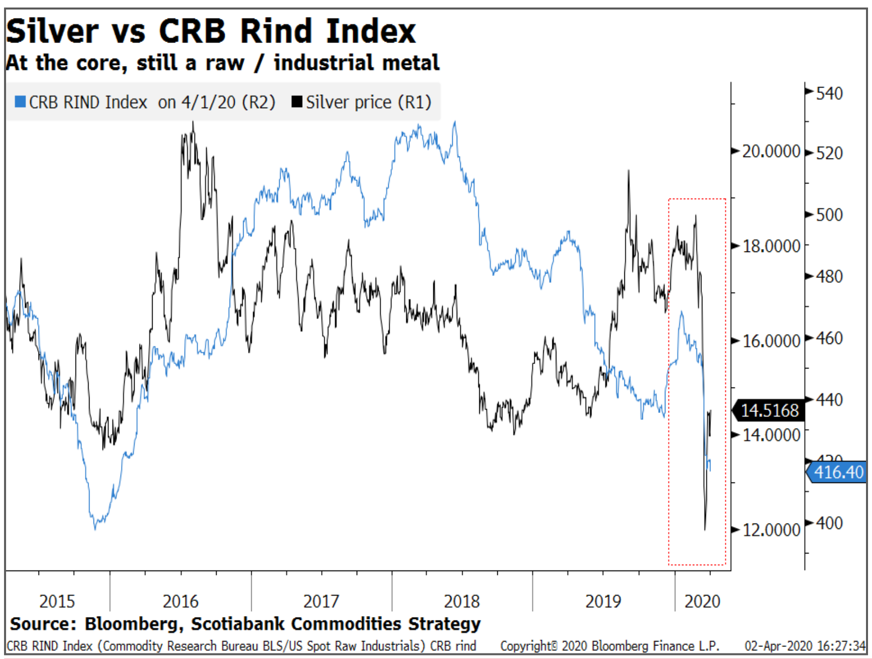
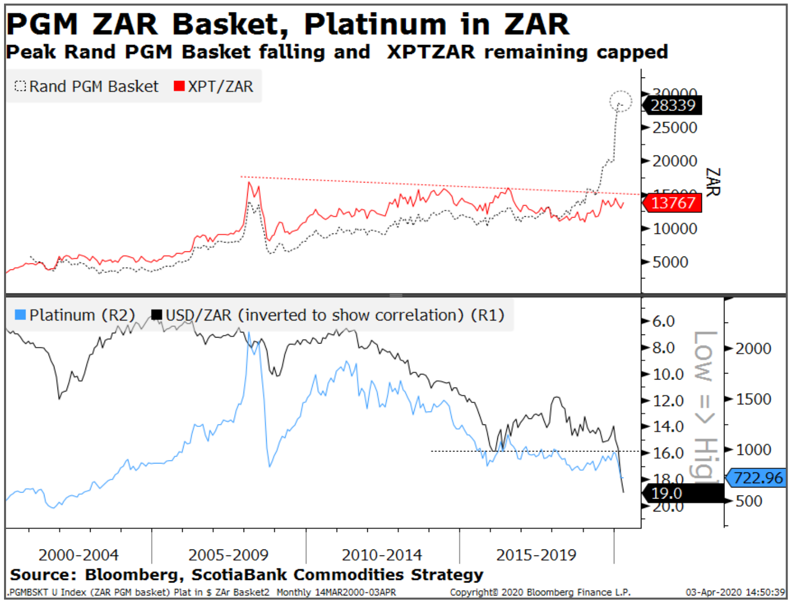

Exchange Silver inventories & forward rates
extremely well supplied...
COMEX Warehouse Inventories, mn oz
SHFE warehouse inventories, mn oz on 3/27/20
Exchange inventories at record highs (~400m oz of Silver), ~35% larger than the previous peak in 1993
400000000.0
350000000.0
321.170M
300000000.0
250000000.0
200000000.0
150000000.0
100000000.0
72.801M
50000000.0
0.0
2001-2004
2005-2009
2010-2014
2015-2019
Source: Scotiabank Commodities Strategy, Bloomberg
COMXSILV Index (Comex Silver Inventory Data) comex shfe silv stocks2 Monthly 05
Copyright© 2020 Bloomberg Finance L.P. 02-Apr-2020 16:11:35

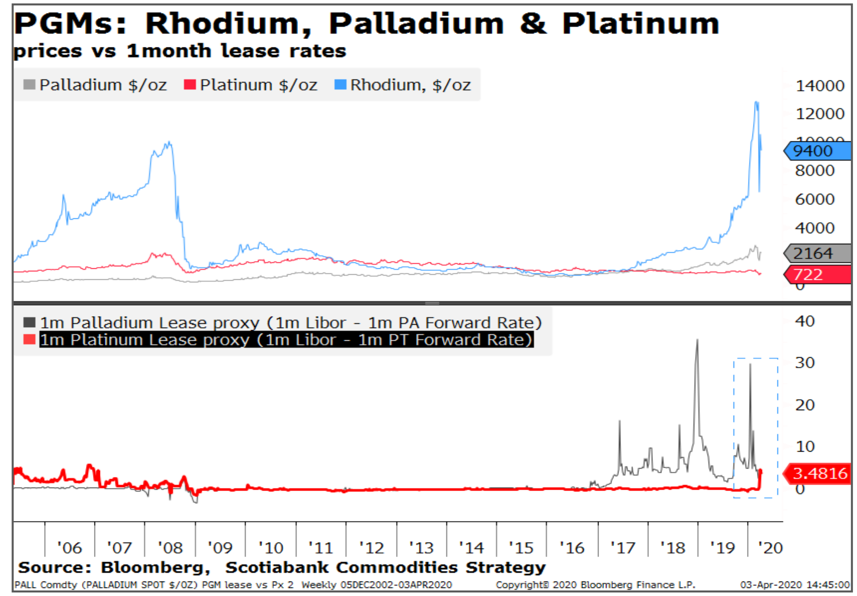

Silver vs CRB Rind Index
At the core, still a raw / industrial metal
CRB RIND Index on 4/1/20 (R2)
Silver price (R1)
540
20.0000
520
500
18.0000
480
16.0000
460
14.5168
440
14.0000
416.40
12.0000
400
2015 2016 2017 2018 2019 2020
Source: Bloomberg, Scotiabank Commodities Strategy
CRB RIND Index (Commodity Research Bureau BLS/US Spot Raw Industrials) CRB rind
Copyright© 2020 Bloomberg Finance L.P. 02-Apr-2020 16:27:34

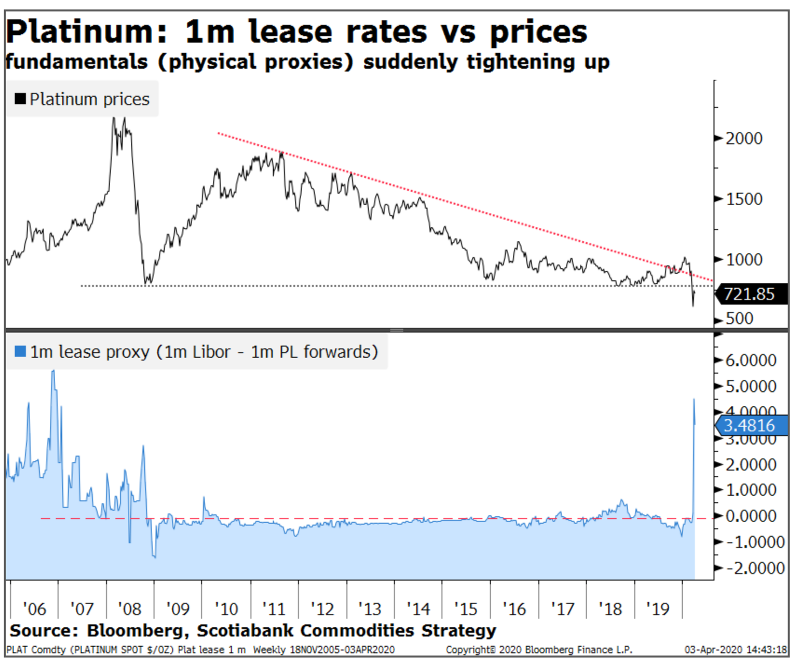

Silver and Gold/Silver ratio
remain structurally long GC/SI; new higher ratio until economy rebounds
Silver price
22.00
20.00
18.00
16.00
14.50
12.00
Gold / Silver ratio
140
130
120
111.3848
100
90
80
70
60
2014 2015 2016 2017 2018 2019 2020
Source: Bloomberg, Scotiabank Commodities Strategy
XAG Curncy (Silver Spot $/Oz) Silver trendline Daily 17JUL2014-02APR2020
Copyright© 2020 Bloomberg Finance L.P. 02-Apr-2020 16:15:49

PGMs: the PGM Basket rose to new all time highs (due to byproduct strength but mostly ZAR weakness) of almost R30,000/oz, with major supply disruptions in S.A and ongoing logistical and transportation issues more than offsetting the negative demand impact of lockdowns and auto plant closures. Historically and relatively tighter metals (Palladium & Rhodium) are to remain super volatile with availability sporadic and tight, while Platinum's surplus is due to narrow

- Platinum & Palladium put in a set of diverging and volatile performances in March with both coming under indiscriminate selling pressure in the 1st half, while Palladium was able to put in a “U”-shaped price recovery back up toward $2500, Platinums recovery was meek only rebounding through $700, after reaching dipping below 18year lows of $600.
- The PGM industry saw a series of significant fundamental headlines and developments in March (Anglos converter explosion, BASFs 3way autocatalyst, large-scale auto plant shutdowns starting in China and *not* ending in Detroit, changes in Nornickels supply split output etc). The most significant development was South Africa announcing all mines to close for 21days due to a national lockdown. Overall, a very rough estimate indicates that a 21day shutdown of ALL operations in SA would result in a ~250K oz PT, 150k oz Pd & ~40K oz of Rhodium losses (which *excludes* the AMS force majeure which is expected to further impact production as it extends for much longer than 3 weeks). The risk is that further force majeures together with transportation and logistical difficulties impact the flow of material even further, which more than offsets the demand impact.
- This affected/s the entire mining supply chain (primary production halted, refining & smelting operations on care & maintenance) that had an immediate effect on PGMs as its likely only a matter of weeks until WIP/ inventories are run down. Even with a ramp-up in Q2’20 after Easter, capacity won’t be operating at 100% until perhaps Q3’20 which will likely be associated with some forced restructuring.
- The sudden economic stop and shutdown of auto production and plants across predominantly Europe, S.A and US is largely viewed as temporary with the impact on both PGM demand (due to falling car sales) expected to hit hard in 1H’20; global auto sales in February have already dropped by > 20% YoY, vs Jan -10% YoY NSA, Chinas bottom was an -82% YoY drop seen in Feb with global auto sales likely to worsen in March AND April. However, note Chinas production lines are ramping back up (to ~40% capacity) and South Korea is also slowly starting up with even US & European automakers looking to secure (necessary) supplies in anticipation of a recovery later in the year.
- Platinum lease rates have spiked (1m proxy at its highest level since 2008) and the curve has moved into a back (also first time since 2008) due to 1) the S.A lockdown, 2) perhaps some preemptive substitution from consumers (after the BASF announcement), 3) the return of the Chinese jewellery & investment bod (SGE turnover has ramped up) , 4) further investment demand for ingots, 5) industrial user switching from leasing to outright buying.
- Investors in platinum deleveraged a chunky 1.5m oz of Platinum throughout March (predominantly COT outflows) versus relatively smaller outflows in Palladium of 500K oz (360K z of COT outflows vs ETF outflows of 140K oz). Overall, Palladium ETF & warehouse stocks have withdrawn ~140K oz of metal in March - that's large and precursor of further tightness. On the contrary, its tough to decipher whether Platinums 140k oz of ETF outflows is purely investor liquidation (on price underperformance) or due to some recent tightening trends
- Usually in bear risk markets or saturated commodity markets, there is asymmetric response to the *fear* of demand, over the fear of supply. I.E: in the short-term, the uncertainty over further demand destruction will negatively hang over platinum rallies, while it will likely have the opposite effect on Palladium & Rhodium (by inducing the little demand to be brought forward and tightening balances in the short-term). Any potential downside in PGMs is being curbed by arguably larger supply cuts due to S.A being on lockdown but that may change if national lockdowns are extended and auto plants remain offline for longer impacting demand side (more than supply).







Snapshot: April 2

BloombergNEF is tracking road congestion data for the following cities to gauge the impact of the Covid-19 outbreak on road fuel demand:

April 2	Cities covered	Snapshot: April 2
Asia		
China	Beijing, Shanghai, Guangzhou, Hong Kong, Taipei	Congestion increasing
Japan	Tokyo, Osaka	Congestion decreasing
South East Asia	Singapore, Jakarta, Bangkok, Kuala Lumpur, Manila	Congestion stable below normal levels
India	New Delhi, Mumbai	Congestion stable below normal levels
Europe		
Italy	Rome, Milan, Turin, Naples	Congestion stable below normal levels
Spain and Portugal	Madrid, Lisbon	Congestion stable below normal levels
Germany	Berlin, Munich, Hamburg	Congestion stable below normal levels
France	Paris, Lyon, Marseille	Congestion stable below normal levels
U.K.	London, Manchester, Birmingham	Congestion decreasing
Scandinavia	Copenhagen, Stockholm	Congestion stable below normal levels
Rest of Europe	Zurich, Athens, Istanbul	Congestion stable below normal levels
North America		
U.S.	Seattle, San Francisco, Los Angeles, Dallas, Houston, Chicago, Washington D.C., New York, Phoenix, Atlanta	Congestion stable below normal levels
Canada	Toronto, Montreal, Vancouver	Congestion stable below normal levels
Mexico	Mexico City	Congestion decreasing

Source: BloombergNEF. Note: Green signals a recovery from the disruption caused by Covid-19 with increasing road congestion, red indicates the impact of Covid-19 on road traffic is increasing causing congestion to decline, orange indicates a stable trend with congestion levels below normal.

1 Tracking the impact of COVID-19 in on road traffic: April 2, 2020 BloombergNEF

Gold

	Net COT Contracts	ETF oz	Net COT oz	Total oz
2/28/2020	230,846	86,889,418	23,084,600	109,974,018
3/31/2020	157,409	90,538,605	15,740,900	106,279,505
Difference	(73,437)	3,649,187	(7,343,700)	(3,694,513)
% Change	-31.81%	4.20%	-31.81%	-3.36%

Silver

	Net COT Contracts	ETF oz	Net COT oz	Total oz
2/28/2020	61,689	618,528,415	308,445,000	926,973,415
3/31/2020	14,011	648,873,994	70,055,000	718,928,994
Difference	(47,678)	30,345,579	(238,390,000)	(208,044,421)
% Change	-77.29%	4.91%	-77.29%	-22.44%

Platinum

	Net COT Contracts	ETF oz	Net COT oz	Total oz
2/28/2020	33,976	3,483,532	1,698,800	5,182,332
3/31/2020	10,999	3,146,310	549,950	3,696,260
Difference	(22,977)	(337,222)	(1,148,850)	(1,486,072)
% Change	-67.63%	-9.68%	-67.63%	-28.68%

Palladium

	Net COT Contracts	ETF oz	Net COT oz	Total oz
2/28/2020	4,366	566,074	436,600	1,002,674
3/31/2020	753	424,875	75,300	500,175
Difference	(3,613)	(141,199)	(361,300)	(502,499)
% Change	-82.75%	-24.94%	-82.75%	-50.12%

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