



H1 2023 Gold and Silver Market Review and Outlook

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Transcript

Shree Kargutkar: Good day, everyone. My name is Shree Kargutkar. I'm a managing partner and portfolio manager at Sprott Asset Management and today, I will be covering gold and silver as well as the precious metals mining space in a first half 2023 Update as well as a second half 2023 Outlook.

The rate hike cycle that commenced in March 2022 has been nothing short of a whirlwind, propelling us through one of the fastest hiking cycles on record. But today, we find ourselves contemplating the end of this historic tightening cycle. In fact, there are strong indications that the hiking cycle may be drawing to a close.

As we look into the second half of 2023, the market consensus seems to point to a shallow contraction in the US economy in late 2023 and a slowdown in growth for the developed markets.

However, it is difficult to rule out or ignore the possibility of a hard landing ahead. Through the first half, gold rose by 5.2% through the first half of the year and was one of the best performing assets over this period, especially through the tumultuous month of March when we experienced a mini-banking crisis. The second quarter was a bit volatile for gold as it hit a 52-week high of US\$2,052/oz in Q2, only to pull back and test US\$1,900/oz. Curiously, as gold rose through the first half, investors were net sellers of the bullion, as total gold holdings of the ETFs declined by 1.2M oz.

Demand for physical gold came from countries like China and India as well as central banks. Global central banks reported gold purchases in Q1 2023 totaling 243 tonnes, or nearly 8 million ounces. Central bank gold buying completely overshadowed the sales we saw out of gold bullion ETFs.

Looking into the second half of 2023, we expect to see continued demand for gold out of central banks and buyers in the Eastern hemisphere. This should translate to good support for gold prices in the months ahead. Closer to home, reduced hawkishness is also likely to provide good support for the price of gold.

Silver's path through the first half has been less charmed. It was not a beneficiary of central bank buying. At the end of June, silver had declined by 4.9%. ETFs were small sellers of silver bullion through the first half of the year as nearly 2.6 million ounces of silver were liquidated by various ETFs around the world. Beneath the near-term weakness lies a robust supply-demand picture for silver. According to the silver institute, the silver market has been in a deficit since 2019. The demand for silver from the solar cell industry continues to rise by double digits annually. Mine production is unable to keep up with demand and above-ground stockpiles are being drawn down. The longer the supply-demand imbalance persists, the higher the likelihood that we will see silver prices react to the upside.

Our update would be incomplete without a glance at the precious metal mining space. Nearly every mining company in the world saw their costs rise through 2022. This inflationary period appears to be stabilizing and, in some instances, costs of mining consumables are actually declining. This is a big positive for the bottom lines of the precious metal miners.

With gold prices rising over 5% through the first half, and costs stabilizing, precious metal miners are once again experiencing margin expansion. Over the past few years, we have seen a trend with precious metal miners. They have shifted their attention away from spending money on growth projects and instead rewarding shareholders through dividends and share buybacks. We expect this trend to continue in the back half of the year. We are also seeing mergers and acquisitions return in our space as Newmont and Newcrest are looking at combining their operations. So far in 2023, the total deal value of M&A in the precious metal sector has already surpassed the 2022 number.

The back half of 2023 is likely to build on the strength of the first half. Tailwinds are building for gold and silver while valuations of precious metal miners remain exceptionally cheap. We are quite bullish on the precious metal sector as a whole.

Thank you so much and we wish you prosperity in the year ahead.

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