Degussa

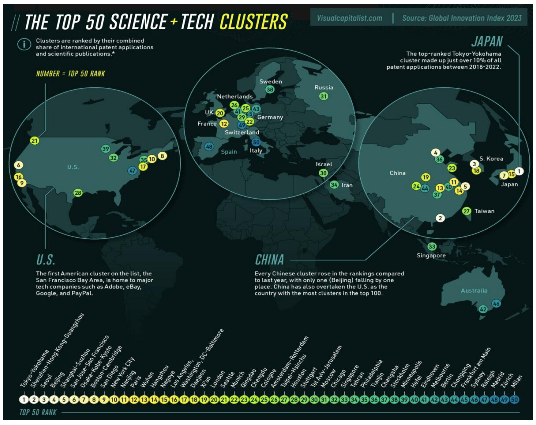
GOLD AND SILVER.

Market Report

March 2024

Over 159 nations, lead by BRICS, are banding together in pursuit of financial autonomy outside of the dollar-based system. In 2023, the EU narrowly avoided a recession thanks to unexpected growth in Spain. China's push for local EVs to enter the global market may present interesting investment opportunities, despite the waning popularity of Tesla EVs in the West, while the ongoing Farmer Protests may increase agriculture prices and prove damaging to fragile EU economies.

Highlights



Data from the Global Innovation Index 2023 shows where the top 50 science and technology hubs are located around the world. The ranking accounts for total share of international patent applications and scientific publications, with the Tokyo-Yokohama cluster ranking highest and Hong Kong being second in line. That said, China was the country with the largest number of clusters (24), followed closely by the US (21), showing the tight competition between the two nations. While the US leads in R&D expenditure, nearly all of China's clusters rose in ranking (patents & publications) compared to the previous year.

Source: Zerohedge

China cut its 5-year loan prime rate by 25 basis points in an effort to boost the overall economy and market sentiment. The cut aims to lower mortgage costs by bringing the 5-year rate down to 3.95%. Some skepticism remains over weak loan demand and ongoing issues in real estate, such as new home sales continuing to slide. However, the cut shows that authorities are delivering on promises of support, though turning the sector around will possibly require ongoing intervention.

Precious Metals & Commodities

Both precious metals and commodities are expected to continue on an upward trajectory over the long-term. Agriculture and oil are expected to rise in the short term due to supply uncertainties, but flatten in the mid-term.

Indicator	Gold	Silver	Copper	Oil	Agriculture
Current	↗	↗	→	↗	↗
Outlook	↗	↗	→	→	→
Trend	↗	↗	↗	↗	↗

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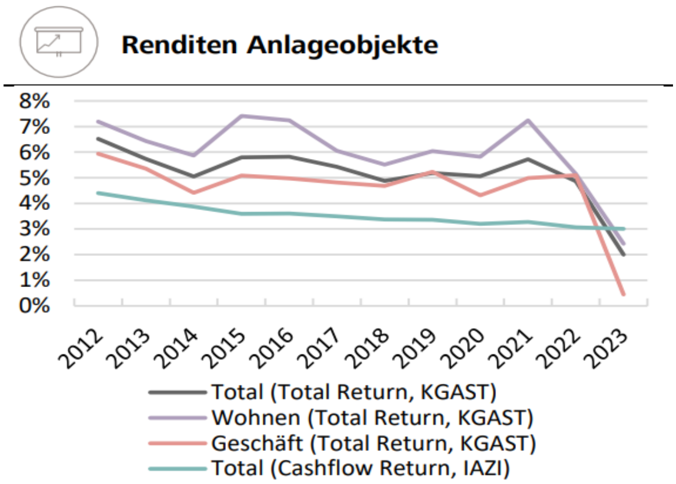
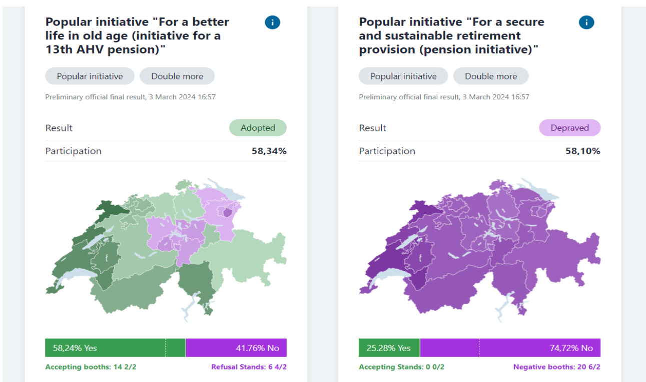
Spot on Switzerland

In 2023, investment properties in the portfolios of institutional investors were devalued across the board, marking the end of a roughly 20-year era of steady appreciation gains on the Swiss real estate market. However, the valuation markdowns have so far been relatively moderate in view of the abrupt and sharp turnaround in interest rates. This is due to hidden reserves, the discounted cash flow method used and the ongoing housing shortage. As the transaction markets, with very few properties with known price data, continue to provide no reliable signals for stronger devaluations, it remains difficult to assess the market price trend. Following a possible slump in the transaction market due to an interest rate shock, the downside risks for directly held properties are higher than the opportunities for rising prices. Overall, it can be said that liquidity, especially for indirect real estate investments, could be significantly lower than may have been communicated in the relevant documentation. Particularly if, due to changes in the general conditions, such as a political improvement in the position of tenants or increased implementation of laws on migration flows, many larger institutional investors suddenly wish to divest part of their relatively low-return real estate portfolio, it may become very difficult to remain capable of acting. In this respect, it would make sense to hold the properties directly or at least insist on a separate share class.



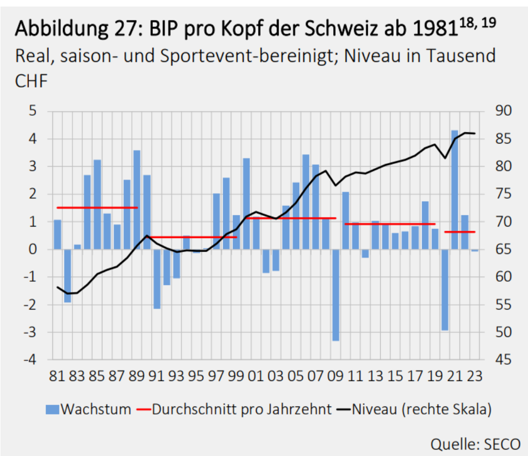
Quelle: IAZI, KGAST, Raiffeisen Economic Research

Swiss Highlights



Source: Zerohedge

With the current vote, the population is supporting increased redistribution from the working population and companies to pensioners. This development is increasingly burdening the future viability of the pension system and is symptomatic of how short-term convenience can reduce long-term competitiveness.



With the exception of the crisis years at the beginning of the 1990s, the current decade is clearly the weakest in terms of per capita GDP growth. This development shows that the Swiss economy has reached saturation point and is likely to continue in the direction of the Japanese scenario of prolonged zero growth.

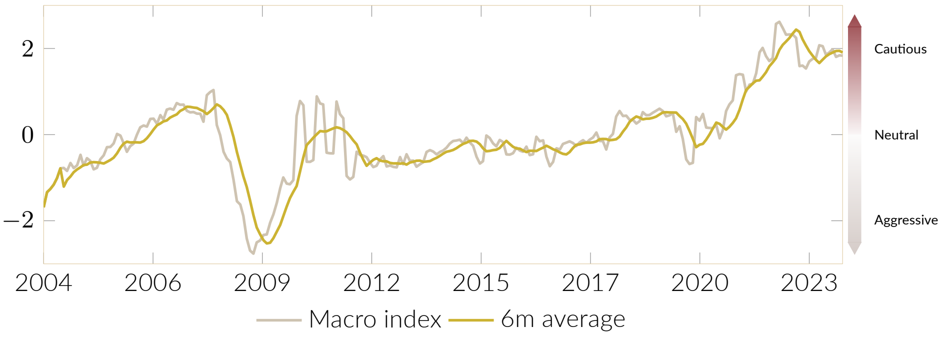
Switzerland

Switzerland's inflation rates are at 12 month lows. While unemployment rates have continued to increase in the last quarter, profit margins remain steady at 12-month highs. Government bond yields have lowered slightly, while dividend yields remain fairly stable amidst lower volatility.

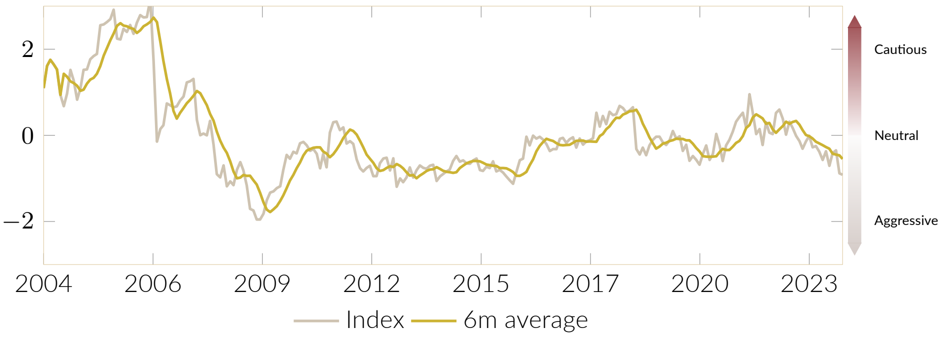
Switzerland

RISK: NEUTRAL

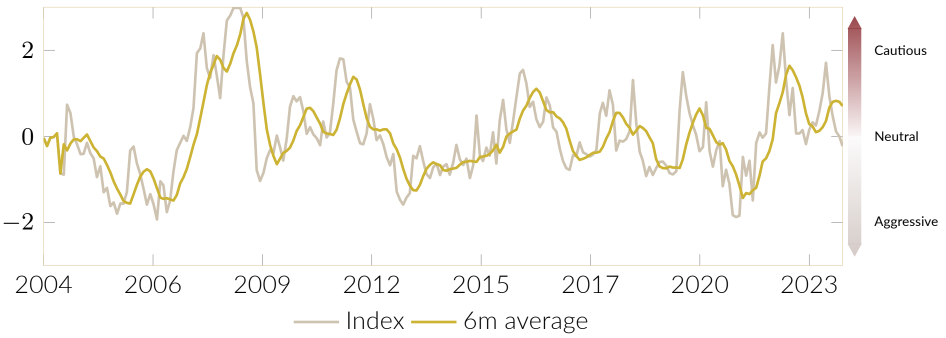
Business Cycle



Investment Environment

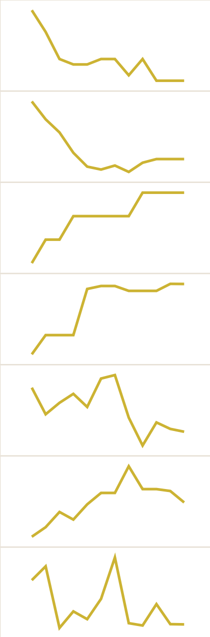


Market Behaviour



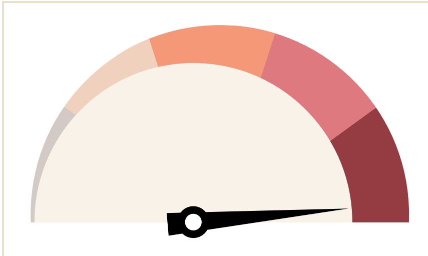
Key Macro Statistics

CPI
M1 YoY%
Unemployment
Profit margin
Real 10y yield
Dividend yield
Volatility

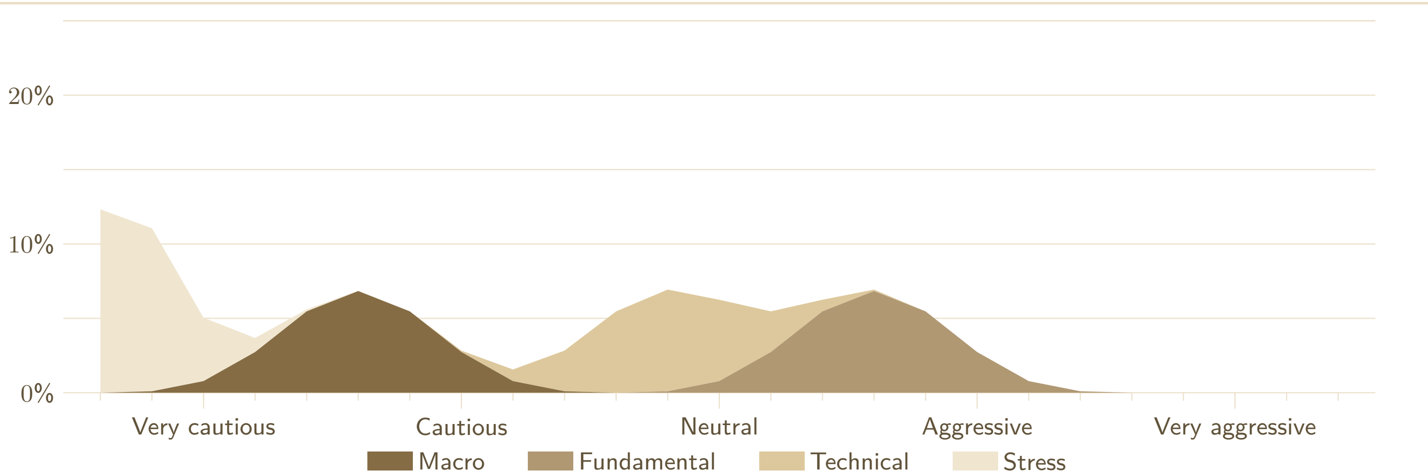


Trend (12m)

Monetary Stability



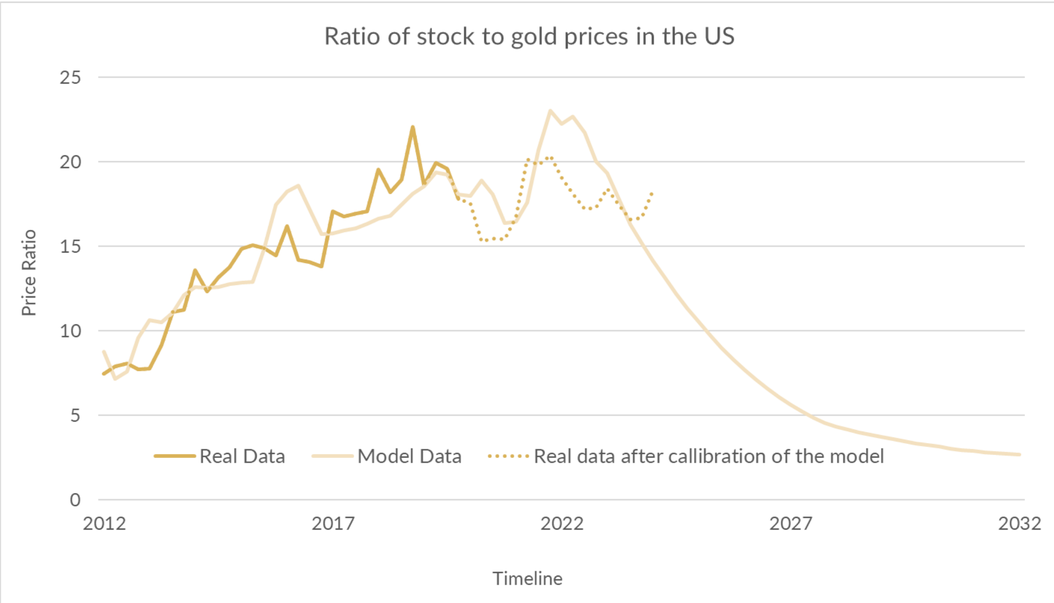
CH Market Risk Signal



Prediction Model Gold or Stocks?

The current level of debt compared to production of the real economy is similar to the situation in the Germanic nations before the world wars in the 1910s, and the situation in France before the French Revolution in the 1790s. In such high debt level scenarios, the likelihood of instability and a deleveraging process is increased. Since gold holdings are normally free from another's liability, the deleveraging process has a far gentler impact on gold prices than, for example, equities. The upcoming deleveraging process can be modelled using coupled differential equations which leads to the expectation that gold will perform better than stocks from 2022 onwards. The model was calibrated in 2019, and has not since been adjusted for new input data.

Based on this data, the peak at which economic activity assets (such as equities) will outperform gold is around Q3 2022. From then on, the model predicts a outperformance of gold towards stocks (light line). When looking at the real data of stock to gold price (dotted line), we see the trend of gold outperforming stocks already began early in 2022. Whether we will experience another countermove or not is currently difficult to predict, but the long term trend for higher gold performance remains clear.



Gold Feature

In 2022, Zimbabwe announced it would be launching locally-minted gold coins to be sold to the public following a period of hyperinflation. From June 2022 to January 2023, its central bank sold over 25,000 coins valued at more than 28 million USD. Corporations made up 84% of purchases while 16% were individuals. According to the nation's bureau of statistics, MoM inflation fell during that same period from a high of 30.74% to 1.1%. Nevertheless, an ongoing devaluation of Zimbabwe's currency prompted an initiative in May 2023 to reduce its dollar dependance by launching a gold-backed digital currency. However, foreign currency demand remained high, due to the loss of faith in the local currency by its citizens.

This year, Zimbabwe announced an initiative to anchor its currency to gold. The goal is to increase stability amid the relentless devaluation which saw the local dollar fall 40% against the US dollar this year, following a 90% plunge in 2023. According to Zimbabwe's Finance Minister, the intent is to tie exchange rates to gold in an effort curb rampant inflation and volatility. A gold-backed currency, coupled with policy reform could be pivotal to transform the nation's struggling financial system.

The move away from dollar dependency follows the trend seen in the last several years, primarily by BRICS and Global South nations. This trend furthers the USD's decline in global relevancy, which nevertheless remains the dominant currency in its share of global foreign reserves by a fair margin. This new initiative, however, demonstrates that in times of crises, people turn to gold.