Degussa

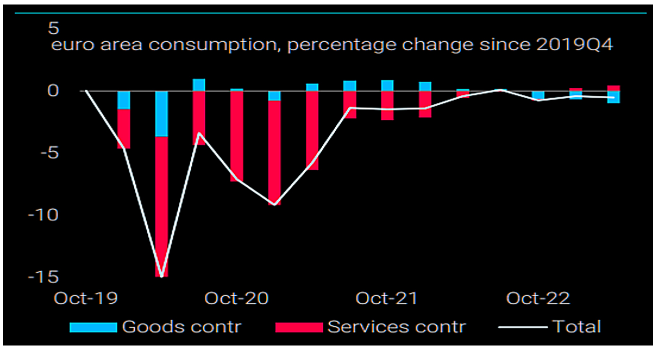
GOLD AND SILVER.

Market Report

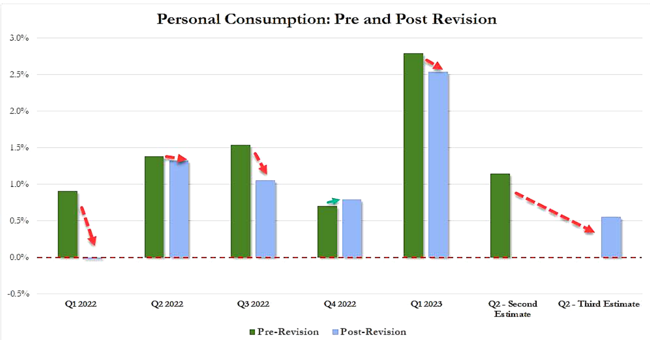
October, 2023

China's markets plummeted due to a flight of foreign investors following news about record unemployment. However, fundamentals indicate China is likely in a recovery phase. The G20 summit revealed some further shifts in geopolitical alliances, raising questions about the future geopolitical and geoeconomic landscape. The ongoing war in Ukraine has prompted European leaders to prepare for a "worst case scenario" as growing tensions raise fears of escalation, while ESG funds have seen a bigger decline in 2023 than in the previous 3 years combined.

Highlights



With the exception of Q4 2022, personal consumption data has been revised lower for every quarter since the Fed began tightening rates, suggesting the economy was weaker than estimated. With the extra Covid savings virtually depleted, Q4 growth is expected to fall sharply as headwinds like student loans and high energy prices take their toll.



Personal consumption in Europe shows a depressionary tendency in the region, which, coupled with decreasing consumer health in the US is hinting that the world's largest consumer base is heavily challenged and therefore headwinds for the global economy are on the horizon.

Precious Metals & Commodities

Precious metals indicate an ongoing upward trajectory, though they are in a short-term consolidation phase. Oil and copper are expected to remain flat in the short and mid-term, but remain bullish long-term, while agriculture is expected to flatten in the mid-term amidst its long-term upward trend.

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

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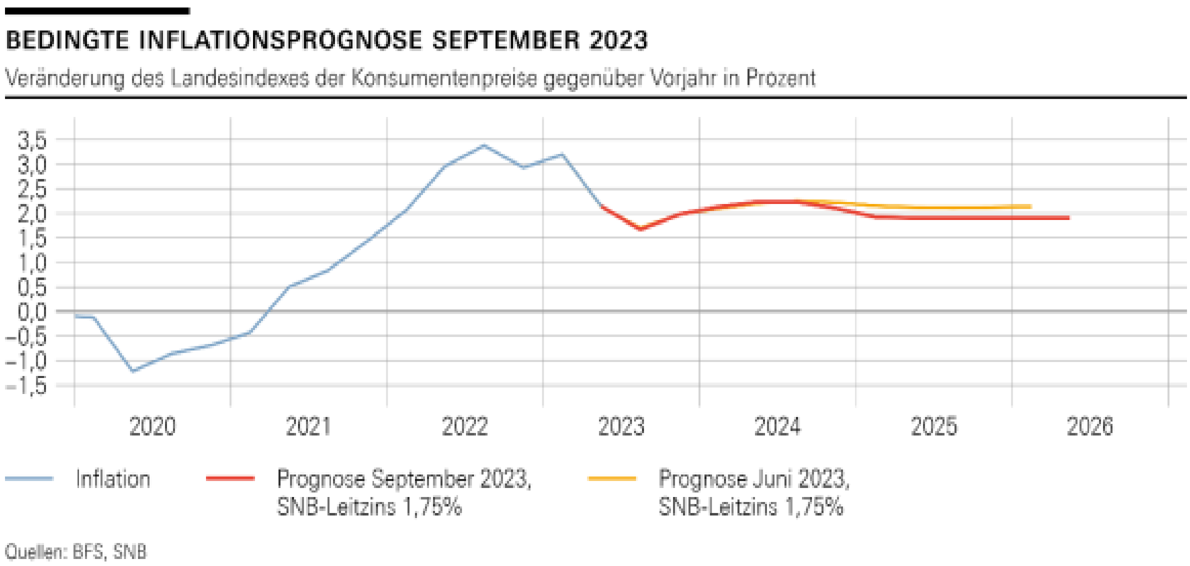
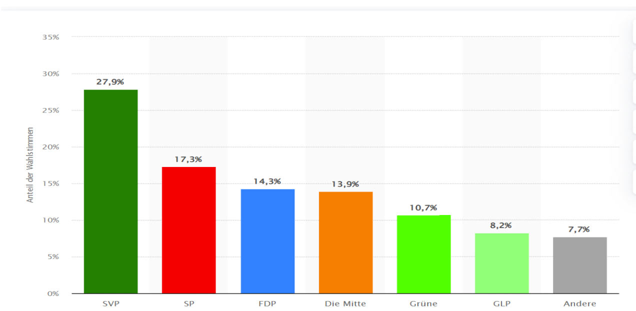
Spot on Switzerland

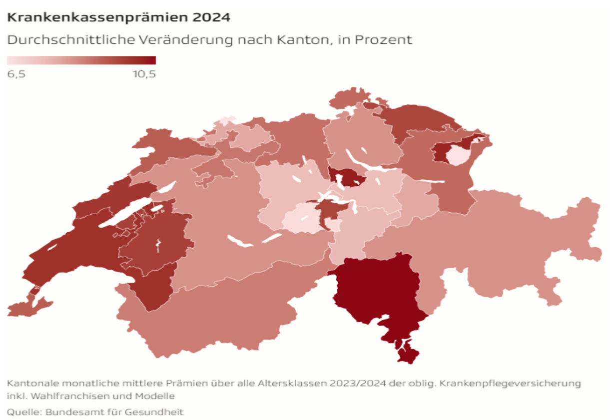
The Swiss National Bank's inflation forecasts assume ongoing inflation of around 2%. These forecasts contradict the perception of citizens, who are confronted with higher cost pressures on essential goods. Global economic concerns may reduce inflationary pressures, but these hardly take into account geopolitical and trade-related circumstances. It can therefore be assumed that the SNB will have increasing difficulties in legitimizing the increased interest rates in a challenging economic environment despite sustained inflation. It can therefore be assumed that the next few quarters will be characterized by a stagflationary environment, which will provide little tailwind for assets and, overall, will tend to result in a loss of real value after adjustment for inflation.



Swiss Highlights



With the upcoming National Council and Council of States elections—the first after the increased use of emergency legislation at the federal level—Swiss citizens do not seem to be looking for a big change. The Swiss People's Party (SVP), which tends to be critical of the state, will gain slightly at the expense of the Greens according to the Sunday poll on voting behavior and will continue to be, by far, the strongest parliamentary group. However, a changed political map is not to be expected, especially in view of the situation that SVP politicians increasingly follow the regimentation and prohibition course of the other parties, as can be exemplified by the foie gras motion of a Zurich SVP National Council member.



The Swiss economy is increasingly suffering from rising cost pressures from energy prices, food inflation, rent costs and escalating health insurance fees. This development not only affects consumer behavior but also increases wage pressure and poses political risks for populist electoral behavior, especially with demands to support citizens with lower incomes.

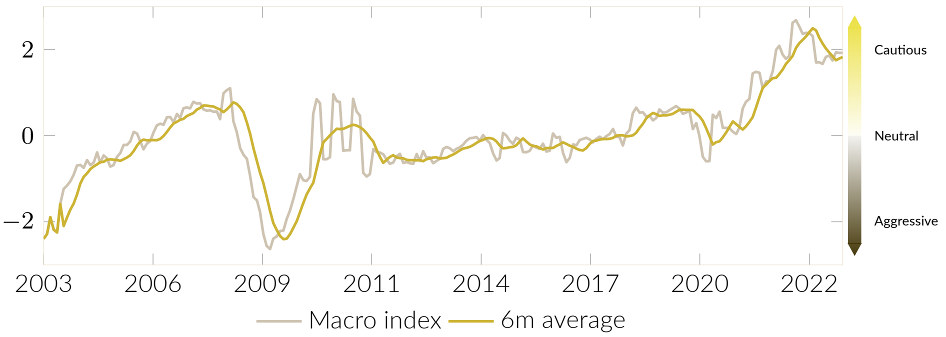
Switzerland

Switzerland's inflation rates have leveled out after dropping in early 2023. Monetary uncertainty remains high, amidst a plunge in money supply. Unemployment rates have risen, however profit margins have rebounded. Treasury yields have fallen over the year, while dividend yields have shown fairly stable growth, possibly supported by lowering volatility.

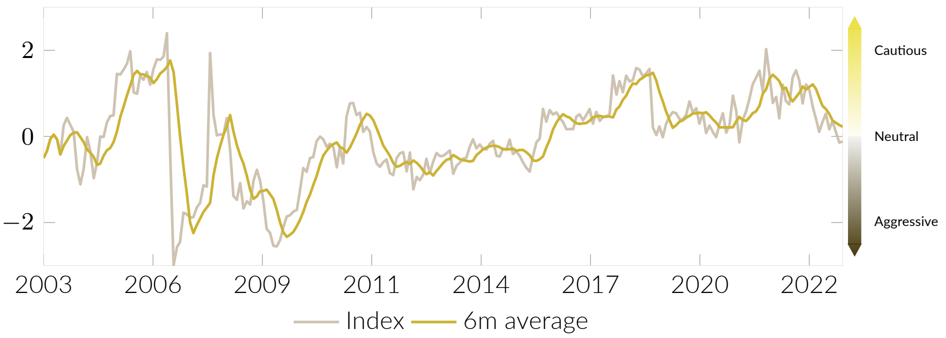
Switzerland

RISK: HIGH

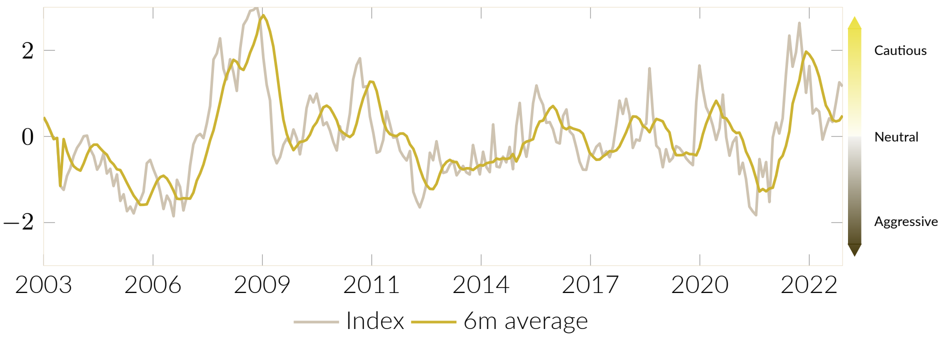
Business Cycle



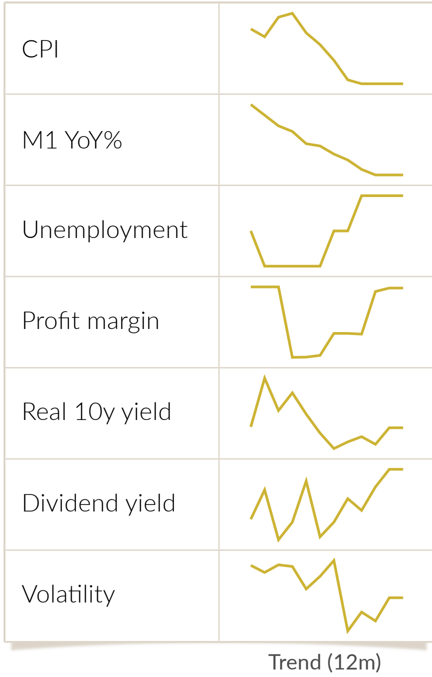
Fundamental Analysis



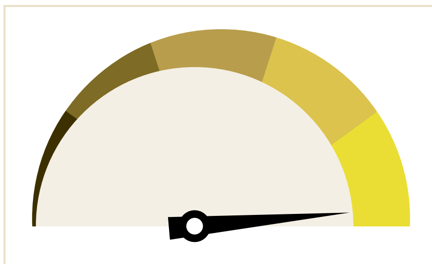
Technical Analysis



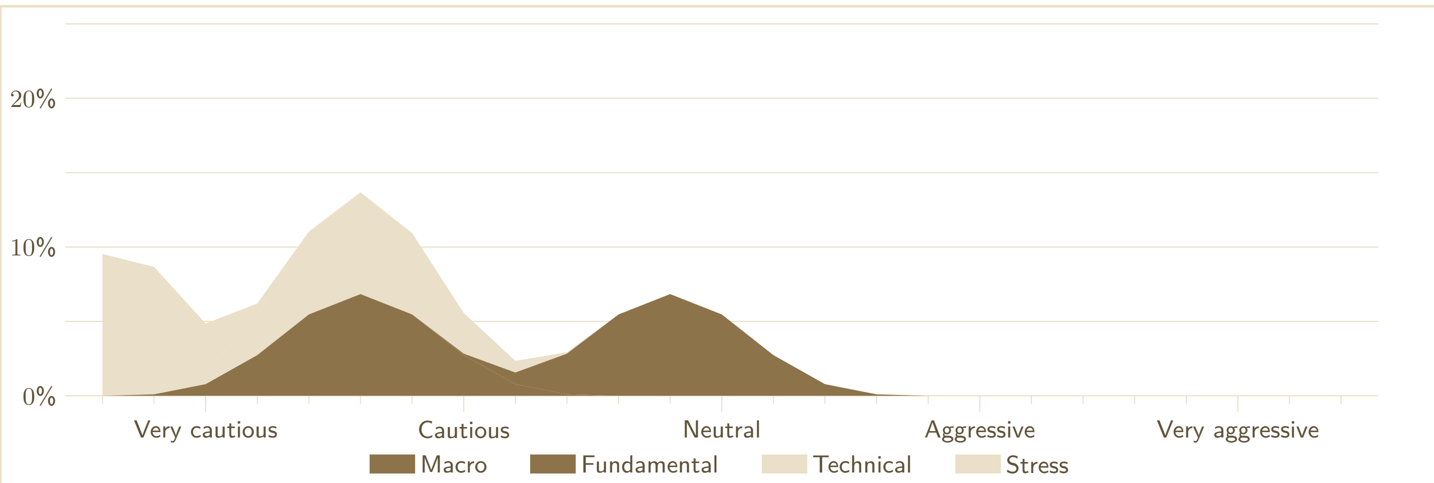
Key Macro Statistics



Monetary Uncertainty



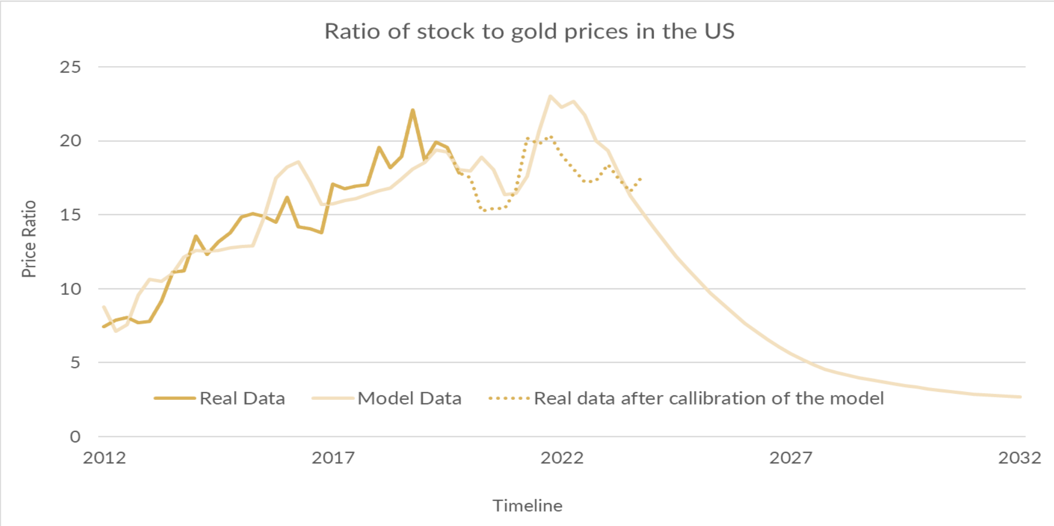
CH Market Risk Signal



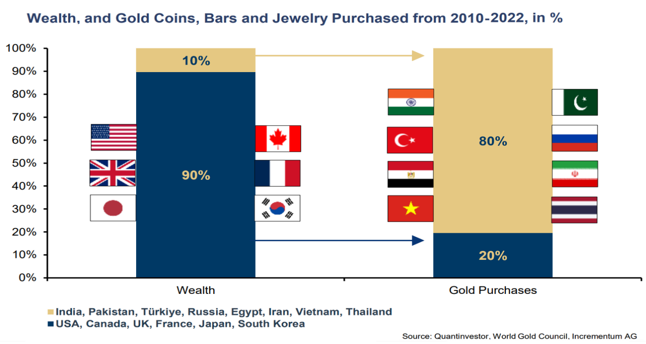
Prediction Model Gold or Stocks?

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



Emerging markets have become a driving presence in the global economy and collectively account for 87% of the population, 76% of land area, 44% of GDP, 76% of global GDP growth over the past two decades, and 76% of FX reserves. In 2022, central bank gold purchases reached record highs, with reported purchases predominantly from emerging economies in Asia and the Middle East. Significant acquisitions came from Turkey, Egypt, Iraq, Qatar, the UAE, Uzbekistan, India, and Mongolia. The trend has continued into 2023, with Singapore announcing substantial purchases in Q1. As global alliances are being reshaped, understanding gold reserves becomes crucial to anticipating the future landscape of geopolitics, particularly in the context of a potential monetary showdown involving a new international monetary system backed by gold.

Western sanctions on Russia have prompted nations to reassess financial risk and embrace a more multipolar world. This shift is concurrent with the West to East gold flow. With the exception of Turkey, the above mentioned emerging economies are all part of the Non-Aligned Movement (NAM), whose apparent growing alignment has the potential to accelerate and attract nations across the Global South, creating a dynamic which may strain relationships within the G20. If we exclude the G7 from the G20, we are left with BRICS and 7 other nations. While Australia and possibly South Korea are likely to align with G7, the remaining 5 are either closely affiliated with or have recently been offered membership to BRICS, leaving the G20 split down the middle.

These NAM nations, along with China and Russia, are forming a gold-anchored bloc possessing the infrastructure capable of establishing an independent gold price system if or when they decide to detach from western markets. These central banks view gold as a geopolitical weapon as well as a monetary tool, and would therefore seek to increase gold prices. The introduction of a gold-backed currency by major Eastern powers could lead to a "final showdown" disclosure of gold holdings. Given the significant inflows from the West, this would likely place the East at a distinct advantage.