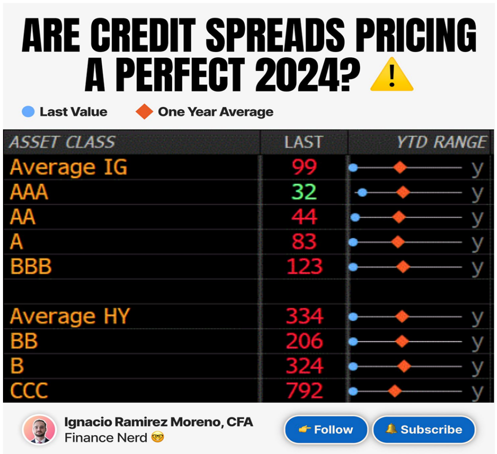
Degussa
GOLD AND SILVER.

Market Report

January, 2024

The question of where interest rates are headed as 2024 dawns, has markets celebrating and analysts advising caution. Oil prices are likely to rise in 2024 due to geopolitical tailwinds, while an overhaul of the current global financial system is potentially on the cards for the new year. The political pendulum in Europe (and beyond) has begun to swing away from globalist, socialistic systems, as voters blame policies and the politicians behind them for the current economic instability.

Highlights


ARE CREDIT SPREADS PRICING A PERFECT 2024? ⚠

Last Value · One Year Average

ASSET CLASS	LAST	YTD RANGE
Average IG	99	y
AAA	32	y
AA	44	y
A	83	y
BBB	123	y
Average HY	334	y
BB	206	y
B	324	y
CCC	792	y

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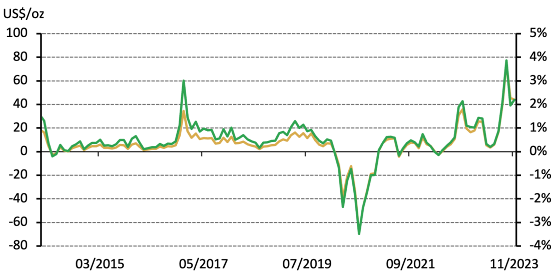
Amidst confidence by some of smooth sailing ahead in credit markets, likely stemming from hopes the Fed will swiftly slash rates, there are concerns that optimism may be misplaced. Spreads across ratings are at abnormal lows even as analysts forecast increasing defaults due to higher rates and weaker economies. Risky corporate debt in particular has seen spreads compress to their tightest in over a year and a half, yet recovery rates for distressed companies are frighteningly low, and at a time when defaults are predicted to rise. Simply put, credit markets appear to be disregarding growing risks on the horizon.



In November, Shanghai's average gold price premium held steady at US$44/oz. Stable demand and reduced imports compared to earlier in the year may have contributed to maintaining the SHAUPM-LBMA price premium by keeping local supply tight. The correlation between increasing gold prices and increasing spread indicates the physical market is driving higher prices while the paper market exerts downward pressure.

Precious Metals & Commodities

Precious metals indicate an ongoing upward trajectory. Copper, agriculture, and oil are expected to remain flat mid-term but signal bullish over the long-term, with the potential for a short-term rise in oil and agriculture.

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

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Spot on Switzerland

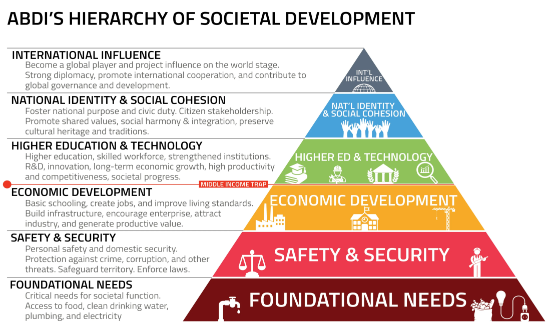
Construction activity for Swiss residential real estate cannot keep pace with population growth, which is primarily caused by immigration. Estimated construction activity is on a downward trend throughout Switzerland and will further exacerbate the already very low vacancy rate. There should be around 35,000 vacant rental apartments for just over 4 million households in 2024, i.e. a vacancy rate of less than 0.85% (significantly lower than an optimal vacancy rate of 1.27 for a healthy real estate market according to Wüest & Partner). The pressure on asking rents is thus increasing massively, in part because the affordability of residential property has decreased even further—despite slower price increases—due to the higher interest rate level. The difference between new rents and existing rents, which are almost 30% higher in Zurich, for example, could prove interesting. For a creative real estate developer with the right real estate strategy, this represents a relatively simple earnings potential of almost 30%. As an institutional real estate investor, you can also benefit from this ethically debatable approach.

	2021	2022	2023*	2024*
Bautätigkeit Wohnungen CH	45'300	46'000*	42'000	40'000
Bautätigkeit Wohnungen ZH	7'800	8'500	8'500	8'500
Leere Mietwohnungen CH	60'800	52'600	44'200 [4]	35'000
Leere Mietwohnungen ZH	4'700	3'900	3'200 [4]	2'800
Angebotsmieten CH [1], vs. VJ.	1,0%	2,7%	3,5%	4,0%
Angebotsmieten ZH [1], vs. VJ.	1,1%	3,2%	5,5%	4,5%
Preise Wohneigentum CH [2], vs. VJ.	7,5%	5,4%	1,0%	0,5%
Preise Wohneigentum ZH [3], vs. VJ.	9,3%	5,7%	2,0%	1,0%
Referenzzinssatz	1,25%	1,25%	1,75%	1,75%

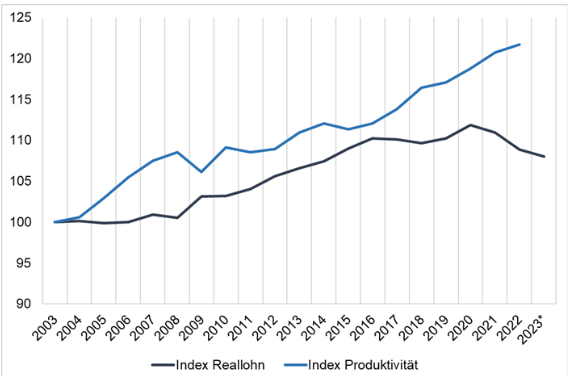
* Prognose Zürcher Kantonalbank
[1] Homegate-Angebotsmieten
[2] Für die Schweiz: Wüest Partner Mischindex
[3] Für den Kanton Zürich: Zürcher Wohneigentumsindex (ZWEX)
[4] Keine Prognose, Zahlen schon bekannt

Quelle: Zürcher Kantonalbank

Swiss Highlights



Migration policy seems to be the big topic in the winter session of the Swiss parliament. Environmental and climate issues were also discussed as perennial topics. Sound economic policy, the strained real estate market, and issues relating to financial market and currency stability appear to be of secondary importance. This could be interpreted as a good signal that Switzerland can primarily concern itself with issues of self-actualization and charity. This is also demonstrated in the current discussion around a tax bonus for full-time employees, in which higher earners opt to forego additional income that would push them into a higher tax bracket and fall victim to progression, and choose rather to enjoy additional leisure time. On the flip side, it may be seen as a serious problem that our representatives are not concerned about economic prosperity and are putting Switzerland's future at risk.



Looking back over 20 years, productivity and the macroeconomic environment paint a relatively attractive picture for Switzerland. When looking at the development of real wages, citizens may ask themselves why only around a quarter of the total increase in productivity has gone into their pockets and where the rest is to be found. This may be an individual problem, but it can have social consequences if the majority of citizens see themselves on the losing side and adjust their voting behavior accordingly. On the other hand, there is a lack of income for further consumption-driven growth and potential home buyers to support the construction industry. However, there is still a gold-rush mood in consumption, in the real estate industry and in politics, even if normal workers may not necessarily agree with the figures.

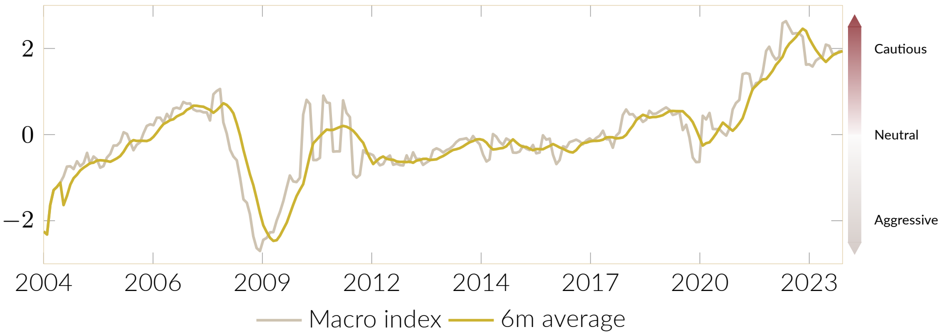
Switzerland

Switzerland's inflation rates remain level after dropping in early 2023. Unemployment rates have increased over the past 12 months, however rebounded profit margins remain steady. Government bond yields have fallen over the year, while dividend yields have shown fairly stable growth, with a slight drop in Q4.

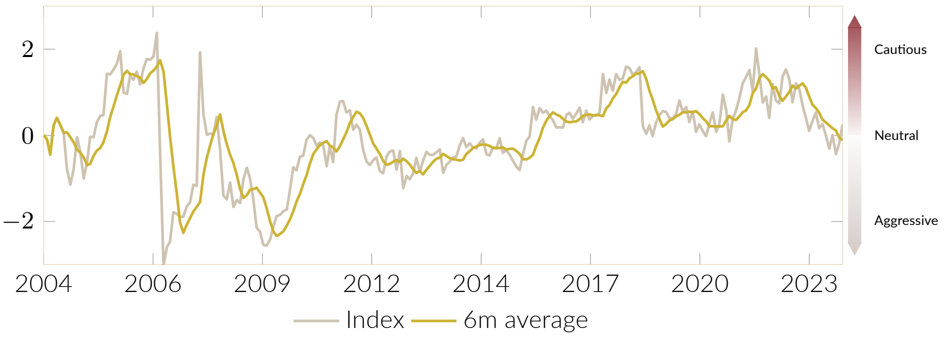
Switzerland

RISK: HIGH

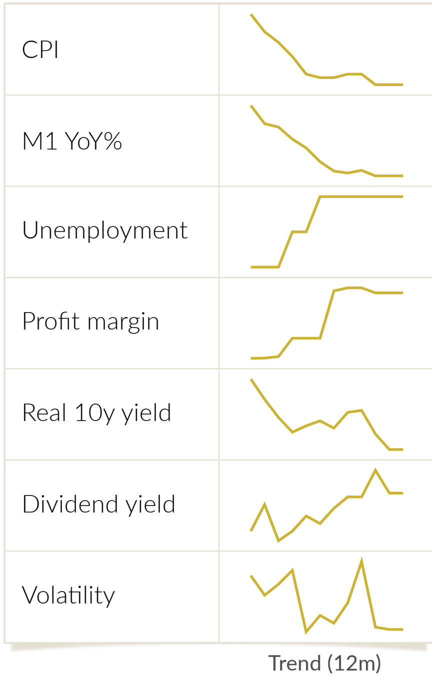
Business Cycle



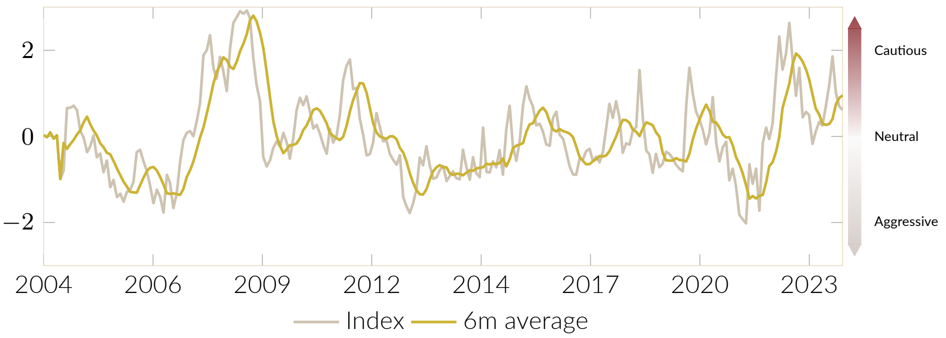
Investment Environment



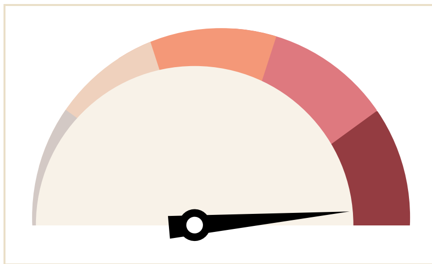
Key Macro Statistics



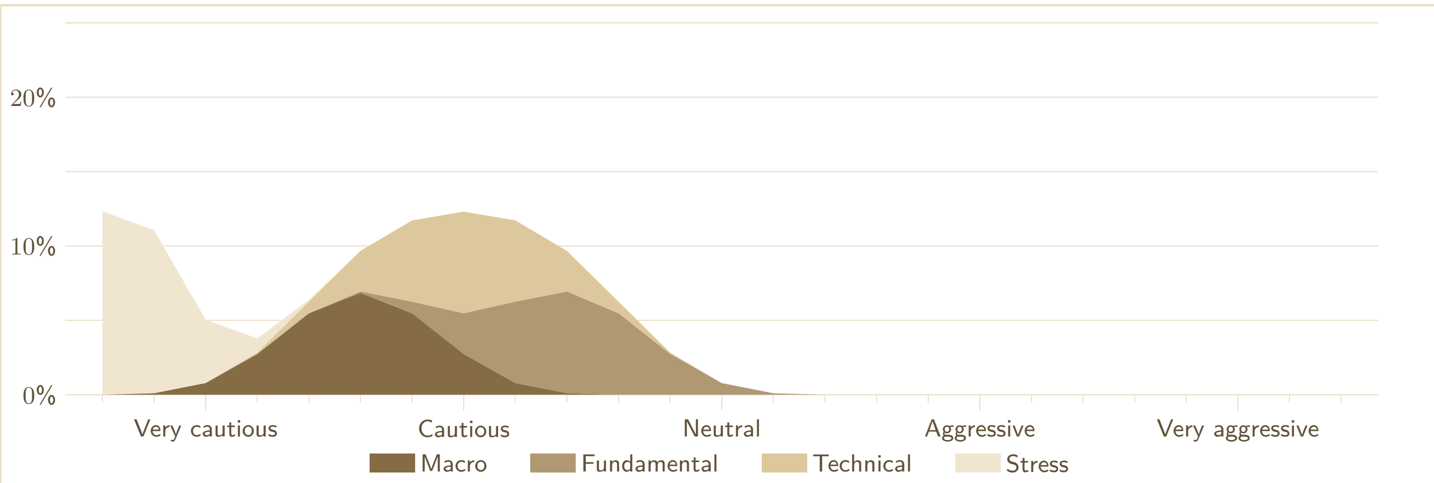
Market Behaviour



Monetary Stability



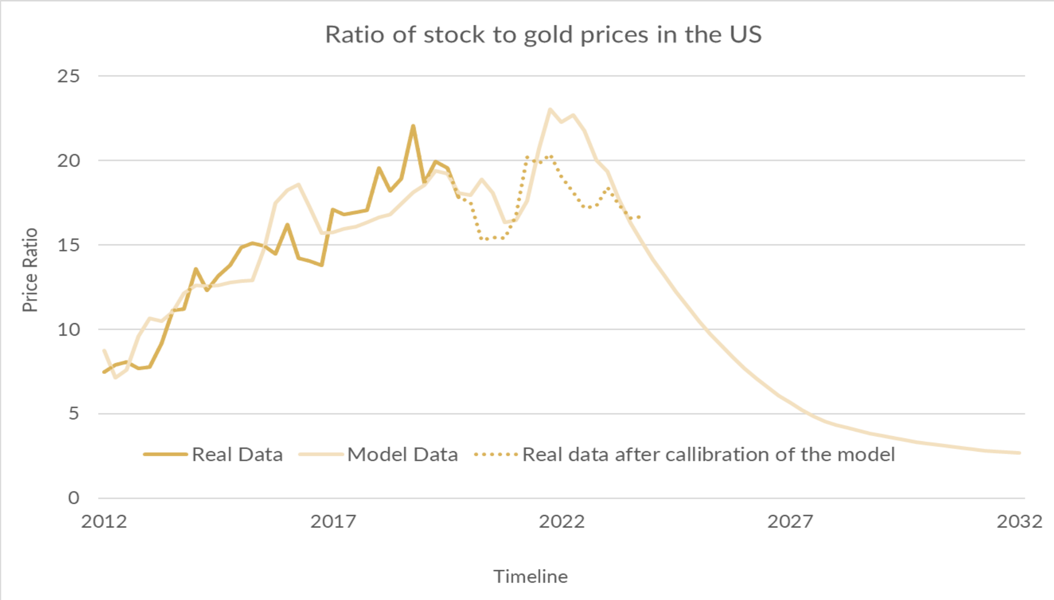
CH Market Risk Signal



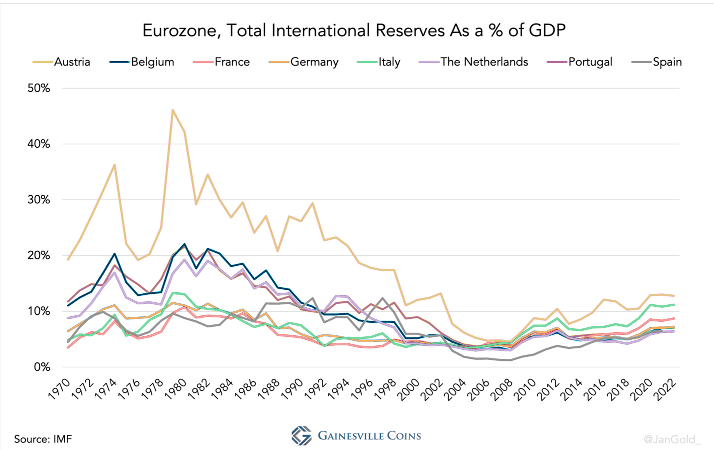
Prediction Model Gold or Stocks?

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



European central banks have varied approaches to and requirements for their gold holding policies, however, from the early 1980s several smaller and medium-sized economies, most notably Portugal, sold significant gold reserves in what may have been a move to balance their holdings—relative to GDP—with larger European economies like Germany and France.
At this time China had also begun to adjust its gold reserves proportionate to the size of its growing economy, mirroring the actions of European nations. While no specific level of gold holdings is required by law, reserves in line with GDP appears to have become a common guideline in the eurozone.

Dutch central bank (DNB) Director of Financial Markets recently confirmed in an interview that the DNB has equalized its gold reserves relative to GDP with other eurozone countries and globally, following a decision undertaken in consultation with the Dutch Ministry of Finance. By holding sufficient gold reserves in proportion to its economy, the DNB explained they feel prepared in the event of a future financial crisis where gold's price would surge and could underpin a new gold standard.

These sentiments align with analyses that various central banks around the world may be preparing for an eventual return to gold-backed currencies, while the apparent close cooperation and alignment of reserves by European central banks indicates the possibility of an eventual coordinated monetary transformation with the intention of stabilizing global finance with gold's enduring qualities. Gold's intrinsic value and ability to skyrocket in a crisis makes it suitable to underpin any currency, and foreshadows gold gaining an increasingly prominent monetary role.