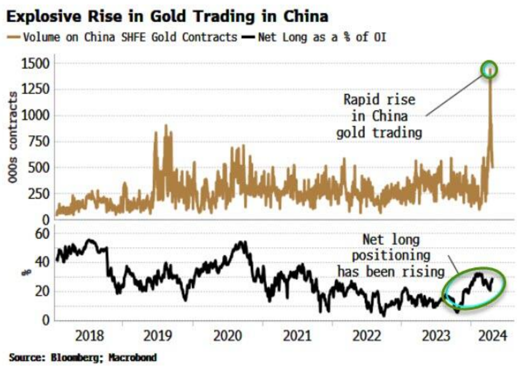
Degussa
GOLD AND SILVER.

Market Report

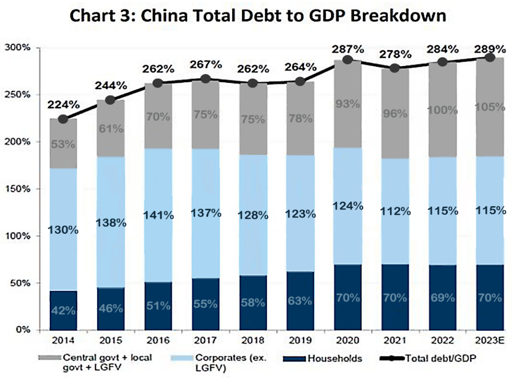
May 2024

Foreign holdings of US Treasuries reached a new record of $7.965 trillion in February, quelling fears over the market's ability to absorb the number of Treasury bonds the US was putting on the market. Major buyers were Japan, the UK, and Belgium. A trend of central banks calling for national legislation to protect cash has been picking up steam. Amongst the reasons for this shift from going cashless is the recent growing geopolitical uncertainties, which have been heating up in the Middle East.

Highlights



The much-increased activity in China's gold markets is likely responsible for a large portion of gold's recent rally. Chinese investors seeking to diversify from the property sector is part of the story, however, a similar rise in copper, which can be used as collateral in China, could be interpreted as a move by policy makers to hedge against fiat currency.



Sources: Wind, Bloomberg, BIS

China's debt to GDP has been fairly stable in the years since 2020. Following the rising threat of a full-blown property crisis amidst speculations of China going the way of Japan, the PBOC adapted its policies, shifting excess capital away from the property industry toward increased domestic innovation and technology as well as fueling much of the ASEAN growth. Due this policy shift, China has likely sidestepped going down a similar path as Japan.

Precious Metals & Commodities

Precious metals, as well as oil and copper are expected to experience some short-term consolidation before potentially moving higher, while agriculture remains on an upward trend.

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

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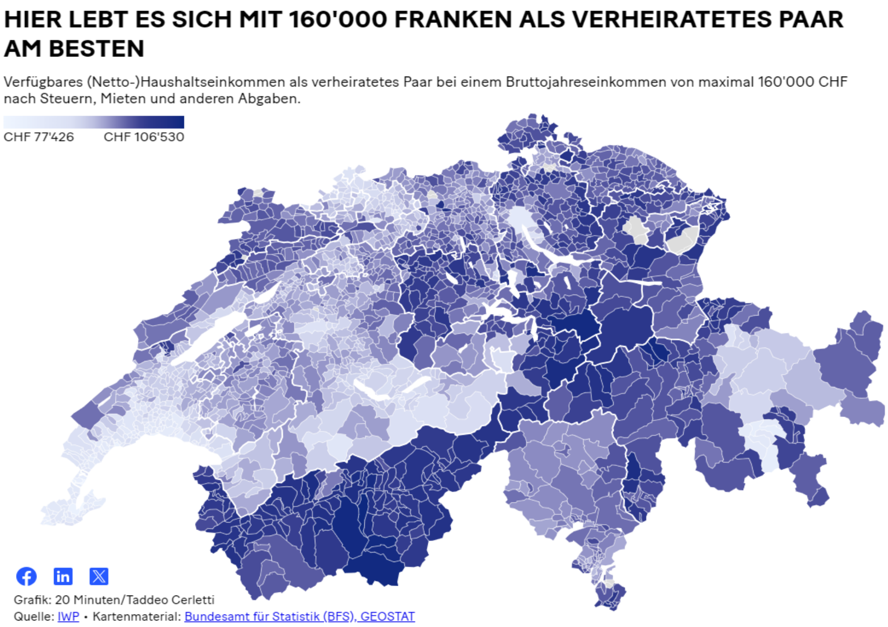
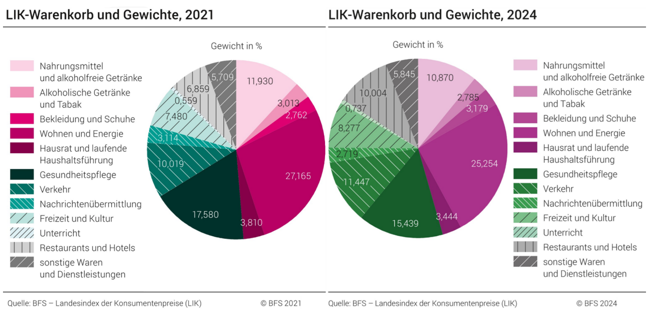
Spot on Switzerland

A study by the Institute for Swiss Economic Policy analyzed disposable income for married couples in all 2,136 Swiss municipalities. It found that for dual-earning couples without children making an annual joint gross salary of 160,000 CHF, the village of Oberems in Valais has the highest amount left over after taxes, duties, and average rent costs at 106,500 CHF, about two-thirds of their income. In contrast, couples in Tannay, Vaud are left with just 77,500 CHF—less than half their income—due to high costs of living. Overall, the study revealed couples tend to have more money to live on in more provincial areas of central, eastern, and south western Switzerland where rents are lower. However, wages and the affordability of housing vary significantly between regions. A separate UBS analysis showed home ownership has become unaffordable for most Swiss households, falling from 60% able to afford the median home 20 years ago to just 15% today. Rapid increases in prices are seen across most cantons. The problem spans into the rental market as well with rents rising by almost 5%; the strongest increase in 15 years. This is due in part to a lull in construction which is exacerbated by increasing regulation of the rental market.

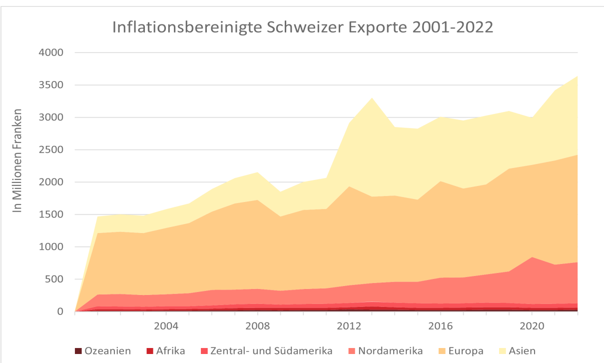


Swiss Highlights



Source: BFS

In 2023, household energy prices rose 27%, while rents rose by almost 5%, the strongest increase in 15 years. Considering 58% of Swiss are renters, it seems counterintuitive for the BFS to decrease housing and energy weighting in their CPI basket, given the high inflation of both and their necessity as a base good. However, according to the latest published stats, Swiss households apparently spend 2% points less on housing and energy (25%) than in 2021 (27%), leaving one to wonder why the official reporting differs from people's real experience and why the calculation was changed in this manner.



Source: Source: BFS

Swiss exports to Asia and the US diverged from their respective trajectories in 2020, with US exports declining while exports to Asia had increased 70% by 2022. Although exports to Europe are still the highest in CHF amount, the increase in Asian exports account for the majority of growth since 2020.

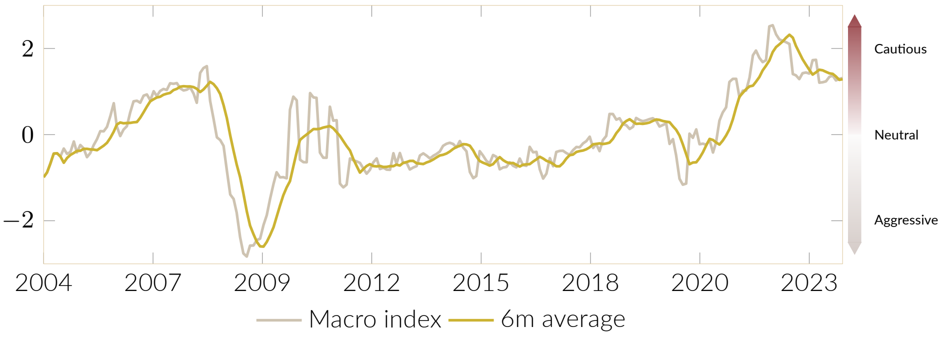
Switzerland

Switzerland's inflation rates have ticked up while unemployment rates remain at 12-month highs, nevertheless, profit margins appear strong. Government bond yields have seen a slight uptick, yields are overall uninspiring amidst rising volatility. The overall outlook is neutral.

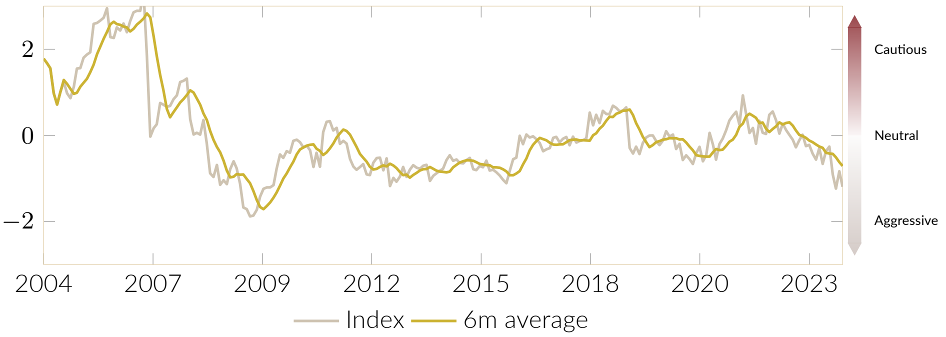
Switzerland

RISK: NEUTRAL

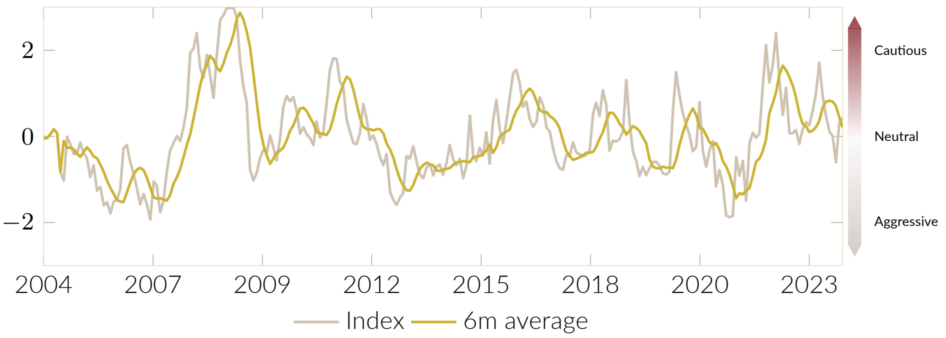
Business Cycle



Investment Environment

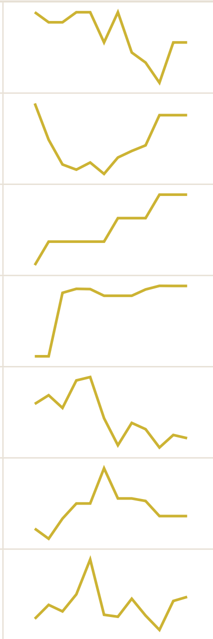


Market Behaviour



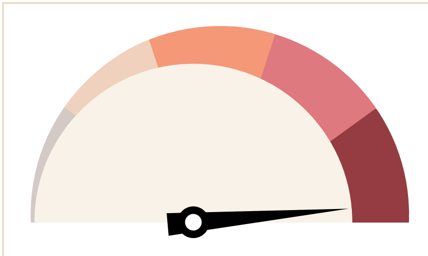
Key Macro Statistics

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

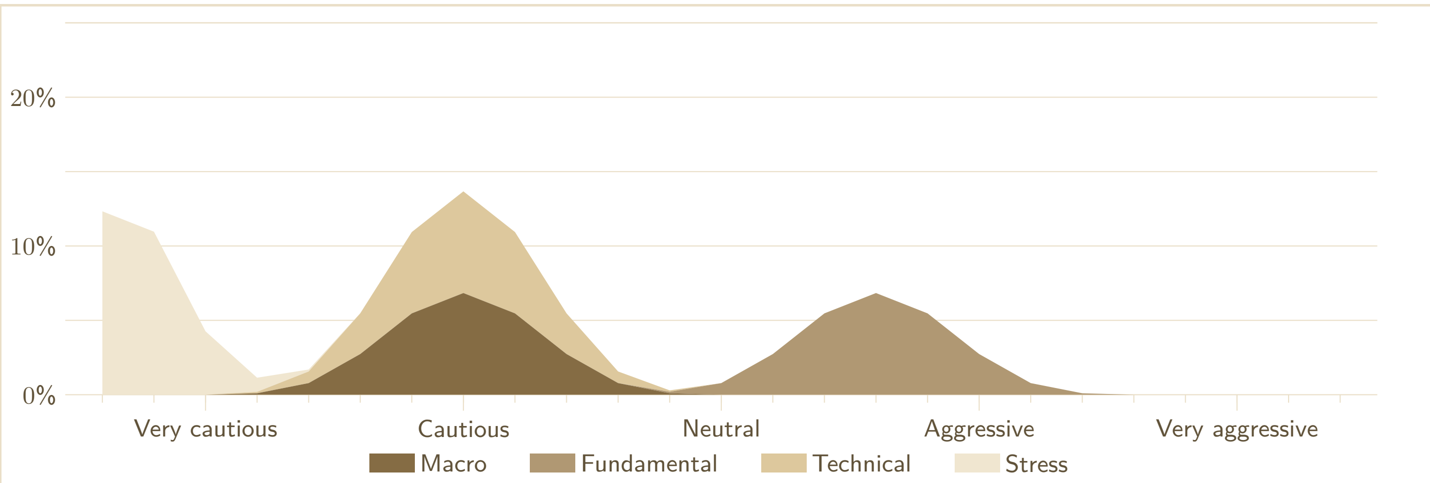


Trend (12m)

Monetary Stability



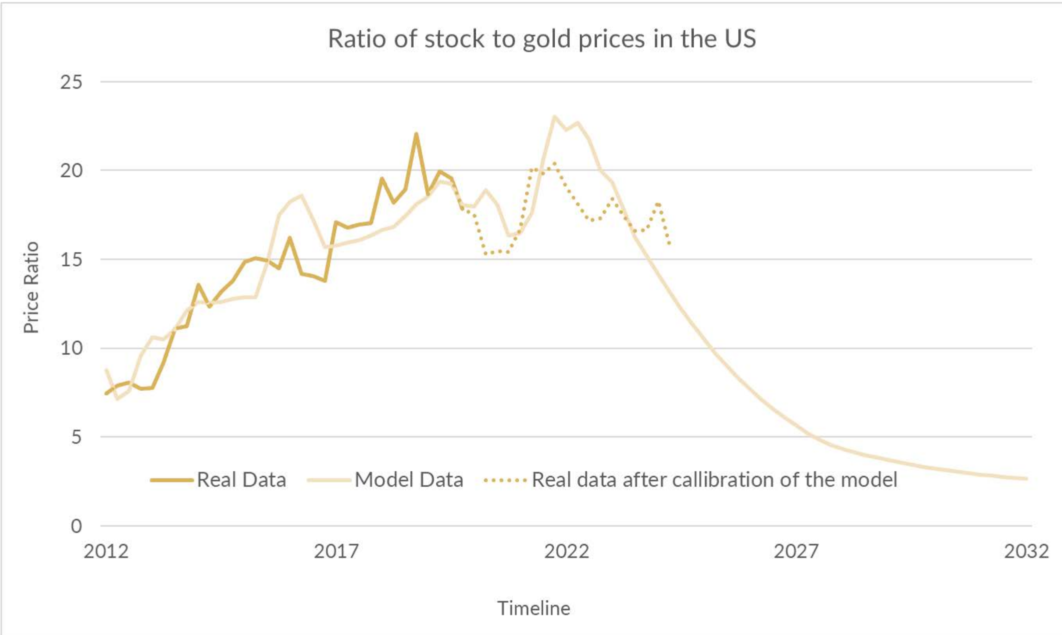
CH Market Risk Signal



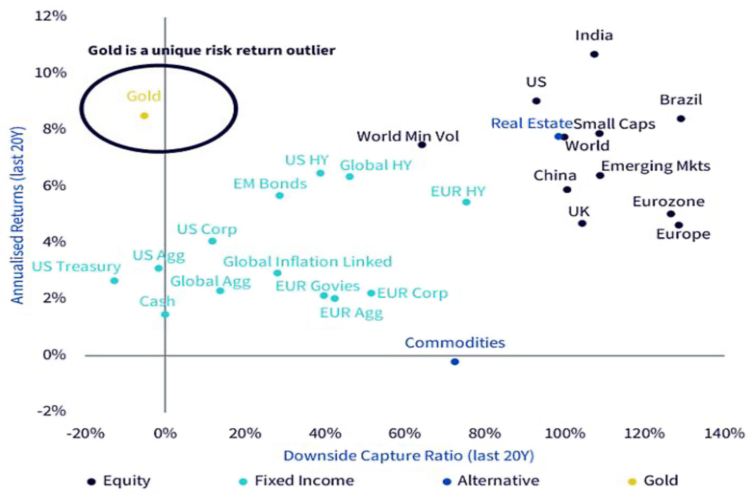
Prediction Model Gold or Stocks?

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



Source: WisdomTree, Bloomberg

In a recent study conducted by WisdomTree on the performance of various asset classes over the last 20 years, gold stood out for its ability to both increase returns and significantly reduce downside risk. This makes a strong case for viewing gold as an effective diversifier in a balanced portfolio. Rather than trying to time short-term fluctuations, investors are better off maintaining a strategic allocation to gold for its consistently positive impact on mitigating overall investment risk while enhancing returns.

Central banks evidently share this sentiment as they have been consistently stocking up on gold for the past several years. According to the World Gold Council, over 2023 central banks had purchased a net 1,037 tonnes, falling a mere 45 tons shy of 2022's multi-decade record.

The buying trend has continued into 2024, and according to Switzerland's foreign trade statistics, in February alone, China received 54 tonnes of gold from Swiss refineries, making their total for the year (thus far) 132 tonnes. In that same month, 36 tonnes went to India, which has a total of 50 tonnes year-to-date, and over 9 tonnes each to Hong Kong and the United Arab Emirates. Countries with the main outflows of gold were the US at 40 tonnes, followed by Uzbekistan at 23 tonnes, and Canada at 22 tonnes.

The indication of gold reserves transferring from the US to China may be a reflection of a similar geopolitical and economic power shift.