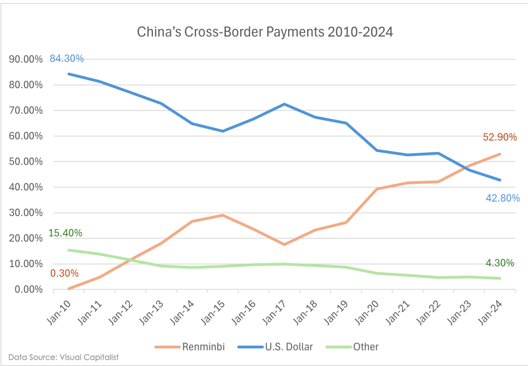
Degussa
GOLD AND SILVER.

Market Report

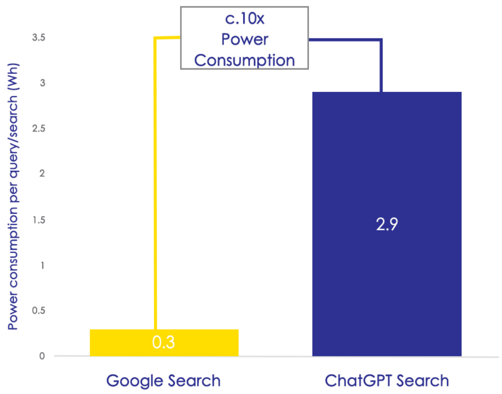
June 2024

Sticky inflation has prompted the Fed to maintain benchmark rates between 5.25% and 5.5%, pushing market expectations of a rate cut down the road to September. The Japanese yen appears to be entering hyperinflationary territory, having recently crashed against the dollar, sparking rumours of currency interventions. Finally, a Swiss-hosted peace conference, set to take place in June, hopes to find resolutions to the war in Ukraine, however, without Russia present, it appears unlikely that much will come of it.

Highlights



In 2010, less than 1% of China's cross-border payments were settled in its local currency, compared to 83% in USD. However, by Q1 2023 the RMB share surpassed dollars for the first time, with over half of Chinese payments now RMB-settled. Foreign willingness to trade RMB assets has contributed to the USD's declining dominance in favor of China's growing de-dollarization. While the USD remains the top currency for global foreign exchange settlements, RMB use grew most over the past decade.



Source: Zerohedge

Grid regulators are warning of increased electricity demand over the next five years. This is driven by government subsidies for EVs and energy-intensive AI data centers, indicating energy and utility sectors may benefit from commodity-driven inflation. Meanwhile, high-valuation tech could suffer weakening margins both from power constraints and rising energy costs. Energy stocks currently offer more attractively priced exposure to inflation and power demand increases, representing an indirect investment play on AI advancement.

Precious Metals & Commodities

Oil is expected to remain flat in the short and mid-term. Copper and agriculture may experience some mid-term consolidation, while precious metals are likely to remain on an upward trajectory.

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

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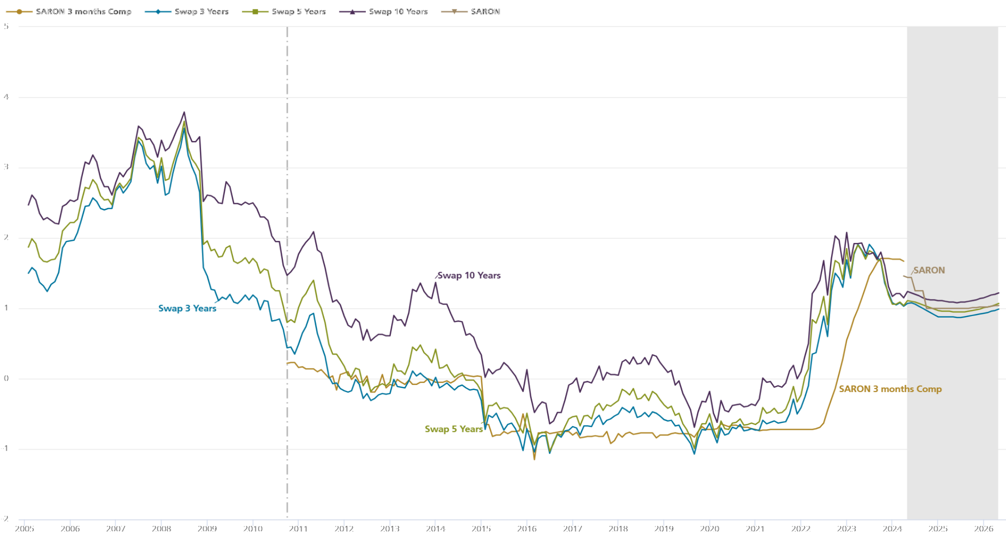
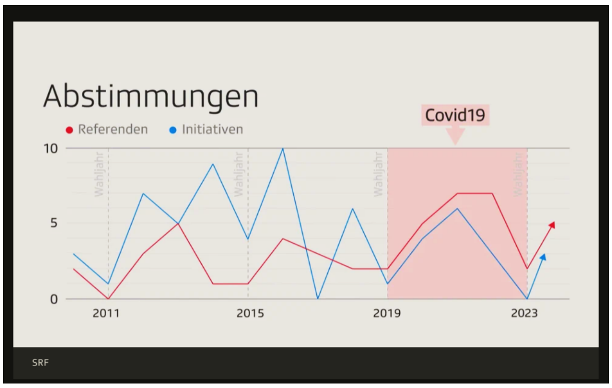
Spot on Switzerland

With inflation falling below the 2% mark, it is likely that the SNB will further reduce interest rates so long as inflation continues to fall in line with targets. Following the rate cut late March from 1.75% to 1.5%, a study by UBS determined the SNB could further lower key interest rates by 25 basis points in June, in prompt response to possible cuts by the ECB to avoid consequent appreciation of the Swiss franc. However, given inflation in Switzerland is under control, despite a slight decrease in the CHF FX rates, there is scope for some strengthening of the Swiss franc, which would further ease inflationary pressure. Depending on the interest rate policy of the Fed and ECB over the second half of the year, and the resilience of the global economy, there is the possibility for even further rates cuts by the SNB, particularly given their history of sharp cuts during times of global economic downturn. While a negative interest rate in the short term is not expected, a near zero could be possible. Bond markets are expecting the key interest rate to be lowered to 1% within the next 12 months.



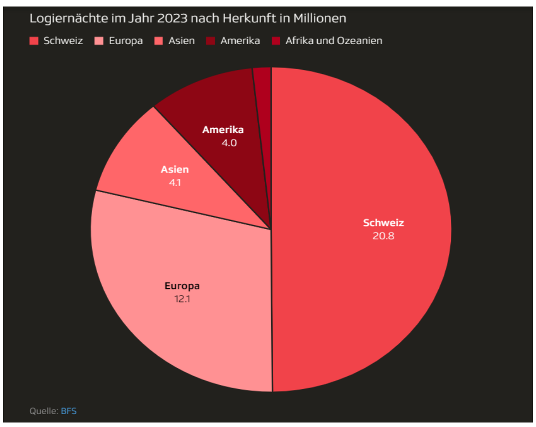
Quellen: Bloomberg, UBS Switzerland AG
Werte bis einschliesslich 2010 basieren auf Libor und ab 2011 auf SARON. Der effektive Zinssatz des Produkts berechnet sich aus Marge + Compounded SARON der jeweiligen Abrechnungsperiode. Für die Berechnung des Zinssatzes kann der Compounded SARON nie kleiner als null sein.

Swiss Highlights



Source: SRF

Switzerland is facing a round of referendums this year that are pivotal to shaping the Switzerland of the future. Voters will be falling in line with Agenda 30 and WHO goals if the Freedom and Physical Integrity initiative fails, and conversely, the Renewables Energy Law passes. The Premium Relief and Cost-Brake initiatives, while alleviating the burden of the poorer class, will be placing the biggest cost-burden on the middle class. With the lack of full disclosure over the financing of the Cost-Brake initiative, there's a risk of furthering the Great Reset goal of eradicating the middle class.



Source: Source: BFS

The Swiss Hotel Industry Association reported their "best year ever" in 2023 with over 2 million more overnight stays than the previous record year of 2019. Domestic tourism remains strong while foreign demand is still recovering from the Covid slump. US tourists reached a new record while the UK posted a large increase as British travelers opt for closer, cheaper trips amid inflation. While German visitors remain below pre-2020 levels, other European markets are recovering well. Strongest growth is seen from long-haul markets like Southeast Asia and the US. The tourism industry is expected to set another record in 2024.

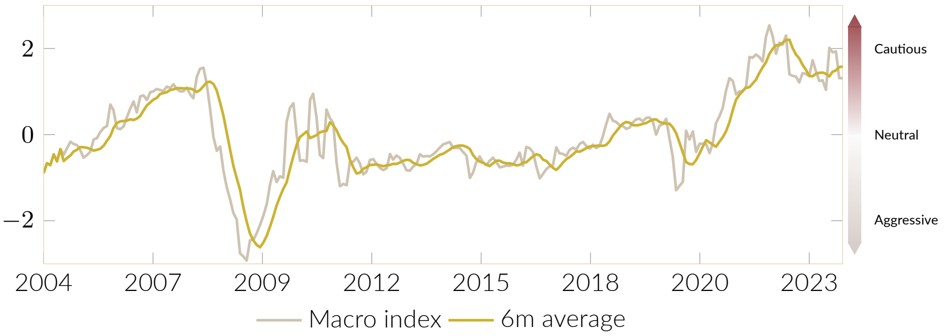
Switzerland

Switzerland's inflation rates have ticked up while unemployment rates remain at 12-month highs. Nevertheless, profit margins appear strong. Yields are overall uninspiring and the interest rate curve remains flat. The overall outlook is neutral.

Switzerland

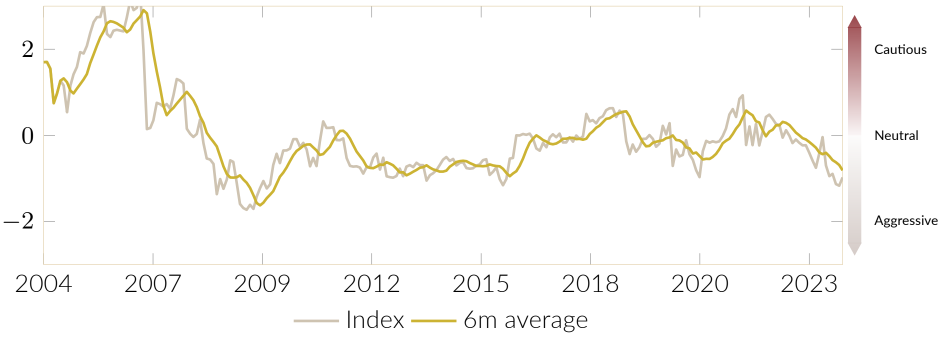
RISK: NEUTRAL

Business Cycle

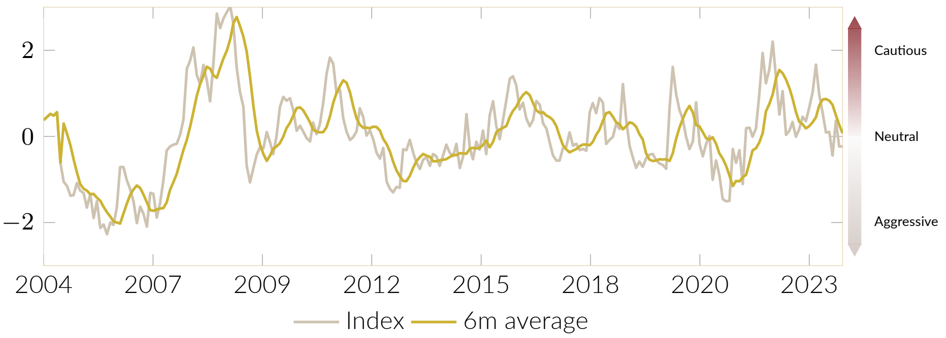


Key Macro Statistics

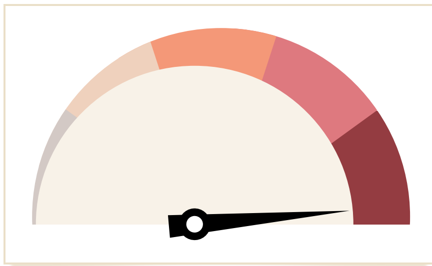
Investment Environment



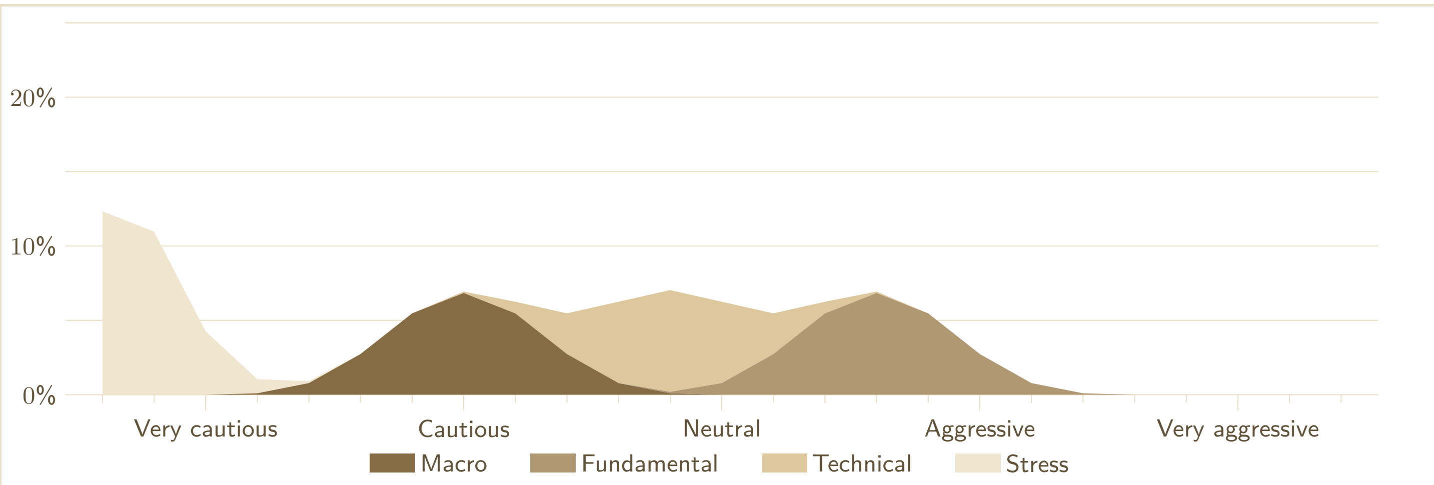
Market Behaviour



Monetary Stability



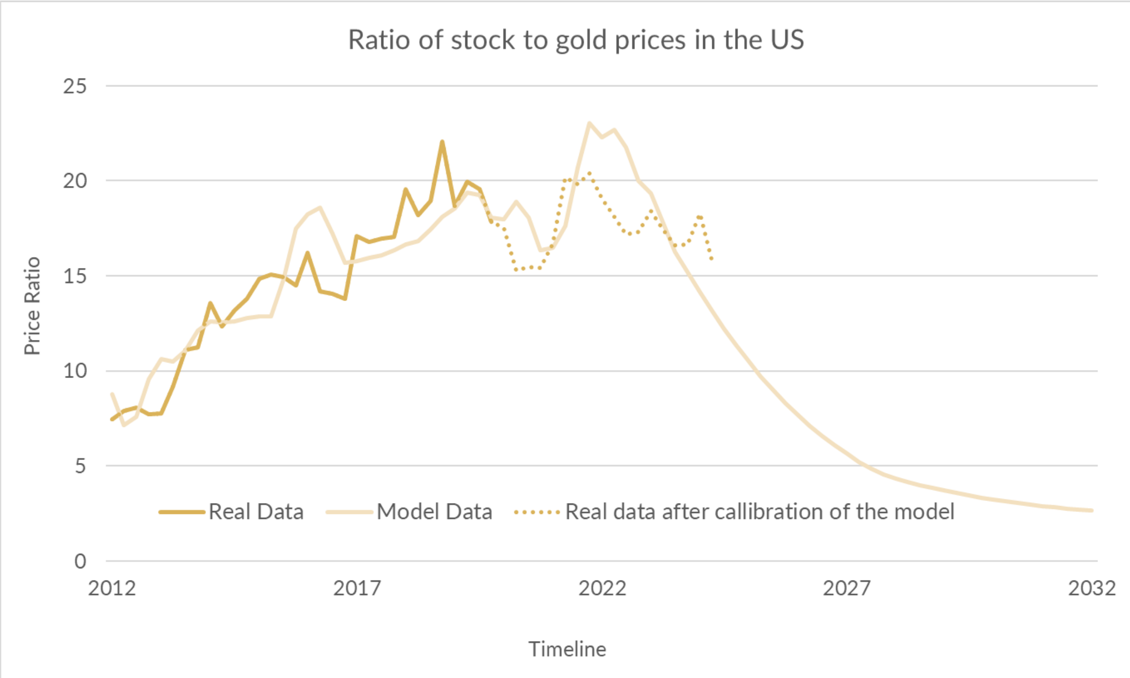
CH Market Risk Signal



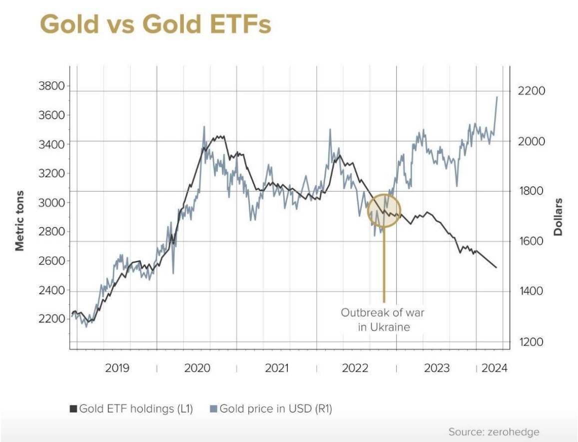
Prediction Model Gold or Stocks?

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



Demand for gold has been increasing since 2016, however, it is only since 2022 that demand for gold ETFs decoupled from demand for physical gold. The reason behind this is also, in large part, the same reason for gold's current and ongoing bull market: namely, nations are becoming increasingly wary of holding dollars and other Western-based paper assets when these can so easily be confiscated or instrumentalised against them.

This new understanding of the fragility of ownership rights, coupled with uncertainties over the real state of the US economy, has birthed a trend of securing national assets on domestic soil, as an increasing number of nations are repatriating their gold reserves from the United States and the UK. Countries taking such measures include Nigeria, South Africa, Ghana, Senegal, Cameroon, Algeria, Egypt, and Saudi Arabia.

Central bank buying is largely responsible for physical gold's ongoing rise as nations across the globe seek to hedge against the growing threat of looming crises, yet the true amount of central bank purchases is generally understood to be vastly under reported. What is known is that global central bank gold purchases have tripled since the onset of the war in Ukraine. Any geopolitical or financial shocks (or fear of shocks) are likely to prompt central banks to buy more and drive up the price of gold. Given that geopolitical tensions and economic uncertainties are far from resolved, it is likely that the gold bull market has only just begun.