Degussa

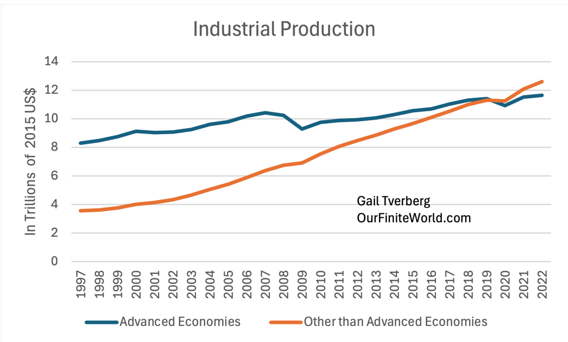
GOLD AND SILVER.

Market Report

August 2024

The Fed has left interest rates at current levels but left the option open for a possible rate cut in September due to increased confidence in inflation rates easing toward the 2% goal. Nevertheless, analysts question whether a soft landing can be achieved, based on the lack of historical precedence. China recently concluded its Third Plenum which, along with its Nine Point Guideline seeks to improve the quality of its capital markets and increase its consumption rate by strengthening social safety nets. In energy news, a Swiss and Danish collaboration seeks to validate thorium molten salt nuclear technology in hopes of producing more affordable energy.

Highlights



Source: Our Finite World

GDP growth rates of OECD as a group have been steadily declining since the 1960s, although the extent has been somewhat masked by simultaneous debt growth. Research suggests this decline is strongly correlated to lower oil consumption. As interest rates have risen, it's increasingly unlikely that GDP growth of advanced economies can be sustained. Complex systems like the global economy tend to self-organize into new configurations, particularly during times of disruptions such as inflation, financial crises, or resource conflicts. Given the rise in industrialization of emerging markets, a restructuring of global economic power may be underway.

Source: Zerohedge

China's central bank cut its key 7-day reverse repo rate and mortgage reference rates, marking the first of such cuts since August 2023. The PBOC lowered the 7-day rate by 10bps to 1.7% to boost liquidity and support the economy. Benchmark lending rates were also lowered by 10bps. While more rate cuts may be on the horizon, some analysts argue fiscal policy will need to do more heavy lifting if the government hopes to achieve its growth targets.

Precious Metals & Commodities

Copper, oil, and agriculture are expected to remain flat for the foreseeable future, while precious metals are likely to remain on an upward trajectory.

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

Degussa Goldhandel AG
www.degussa-goldhandel.ch
info@degussa-goldhandel.ch

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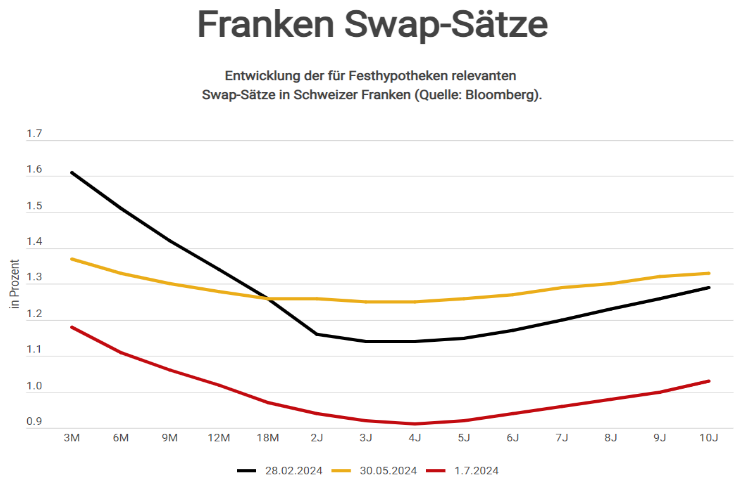
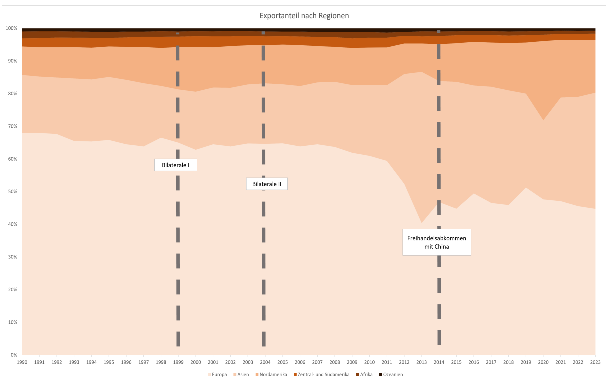
Spot on Switzerland

The Swiss National Bank (SNB) has taken a leading role internationally by cutting interest rates in March and June, despite already low interest rate levels. In contrast, other central banks have waited longer or have not yet taken action. As a result of the SNB's monetary policy decision in June, negative real interest rates have been brought about, as the inflation rates of 1.4% in May and 1.3% in June are higher than the SNB policy rate of 1.25% and also higher than the yields on 10-year Swiss government bonds. These have fallen from 0.89% to 0.58% since the end of May. Currently, three to four further rate cuts are priced in by the end of 2025. The Swiss franc swap rates, which are the key size for mortgage rates, have shifted significantly downwards, while effective mortgages have only followed to a limited extent but could also give way more strongly. Overall, Swiss monetary policy is thus again quite expansionary and could positively stimulate the economy, which seems sensible given the European growth weakness. From an investor's perspective, Swiss small caps and locally operating companies represent an interesting alternative to international equity markets.



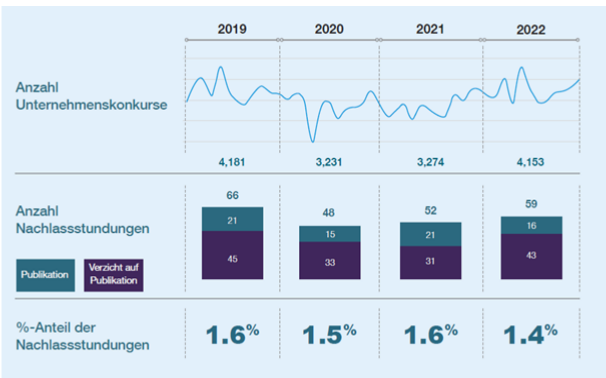
Source: Cash

Swiss Highlights



Source: BFS

Following the unsuccessful framework negotiations with the EU, the Federal Council is now actively working on new, integrative bilateral agreements based on the principle of "strengthening sovereignty through binding rules", and this claim is at the forefront of the effort. Whether this political statement is actually effective, and therefore a rapprochement with NATO would be beneficial to sovereignty, remains an open point. From an economic perspective, however, it can be observed that the relative export share has not been strengthened by the conclusion of agreements. In fact, the export share to Europe has continuously declined with the bilateral agreements. The free trade agreement with China has also not led to an increase in the relative export share to Asia.



Source: Alvarez & Marsal

Swiss companies are financially better positioned than their European competitors. Since 2023, the insolvency risk for Swiss companies has slightly decreased compared to the previous year. In the past year, only 6.9% of domestic companies were in a financial situation requiring a turnaround. In contrast, almost one in ten companies in Europe are facing financial difficulties, leading to an increase in the so-called "Distress Level" to its highest since the corona years. Although some Swiss companies are struggling with more difficult framework conditions, overall a healthy economic development can be assumed. However, it remains to be seen how the current crisis will affect restaurants, bakeries, and other retail businesses.

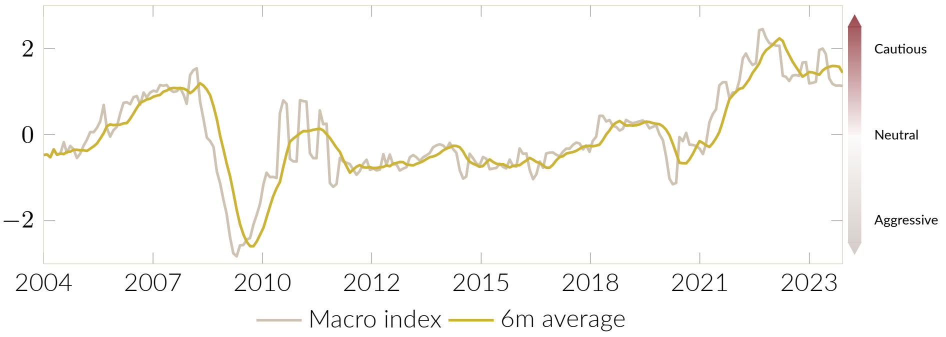
Switzerland

Switzerland's inflation rates are holding steady at a 12-month mid-range while unemployment rates remain at 12-month highs. Profit margins have lowered over the last quarter while yields are overall uninspiring. Monetary uncertainty and business cycle risks remain high, making the overall outlook cautiously neutral.

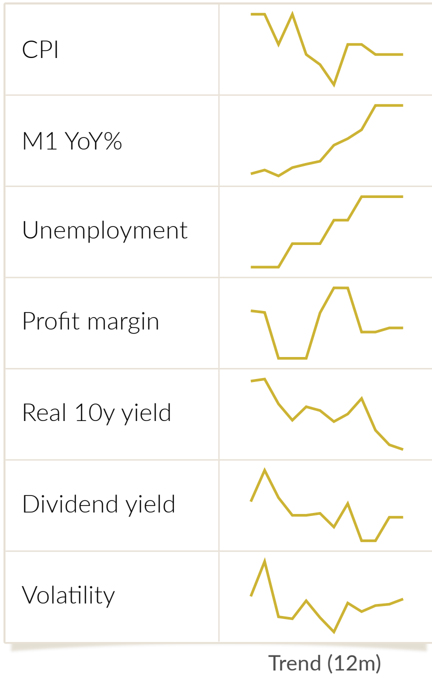
Switzerland

RISK: NEUTRAL

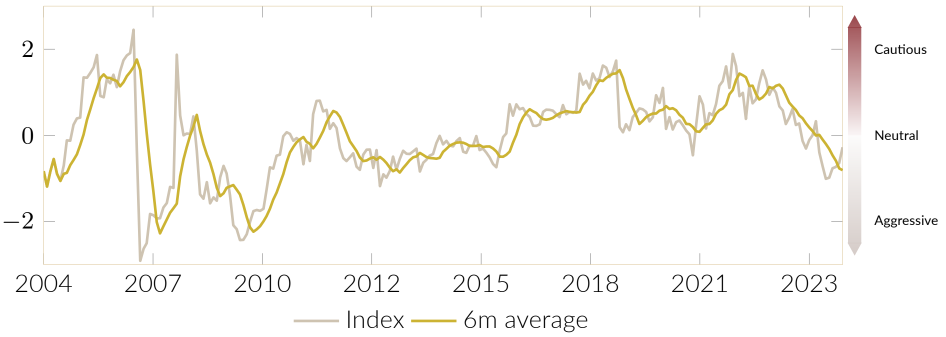
Business Cycle



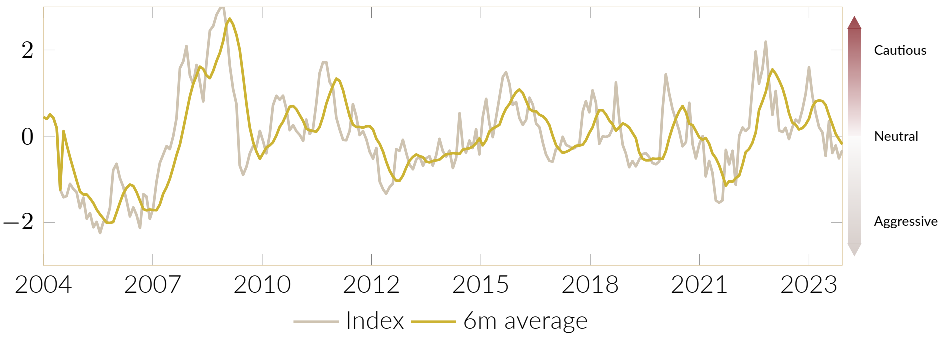
Key Macro Statistics



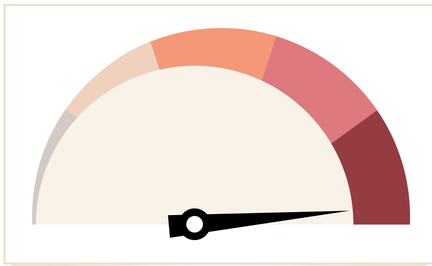
Investment Environment



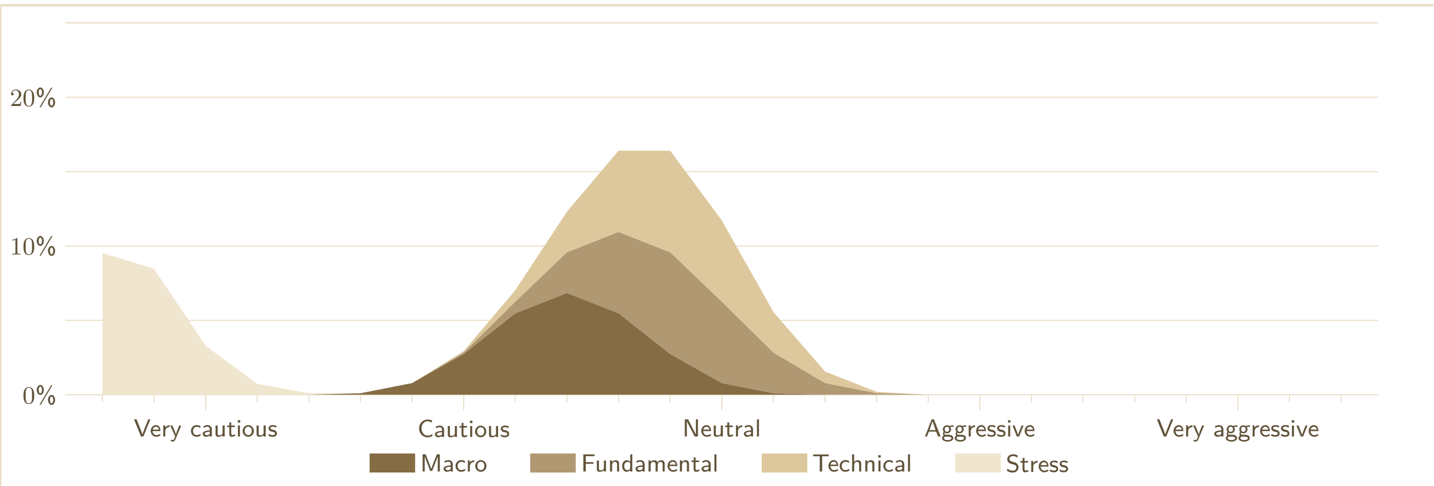
Market Behaviour



Monetary Stability



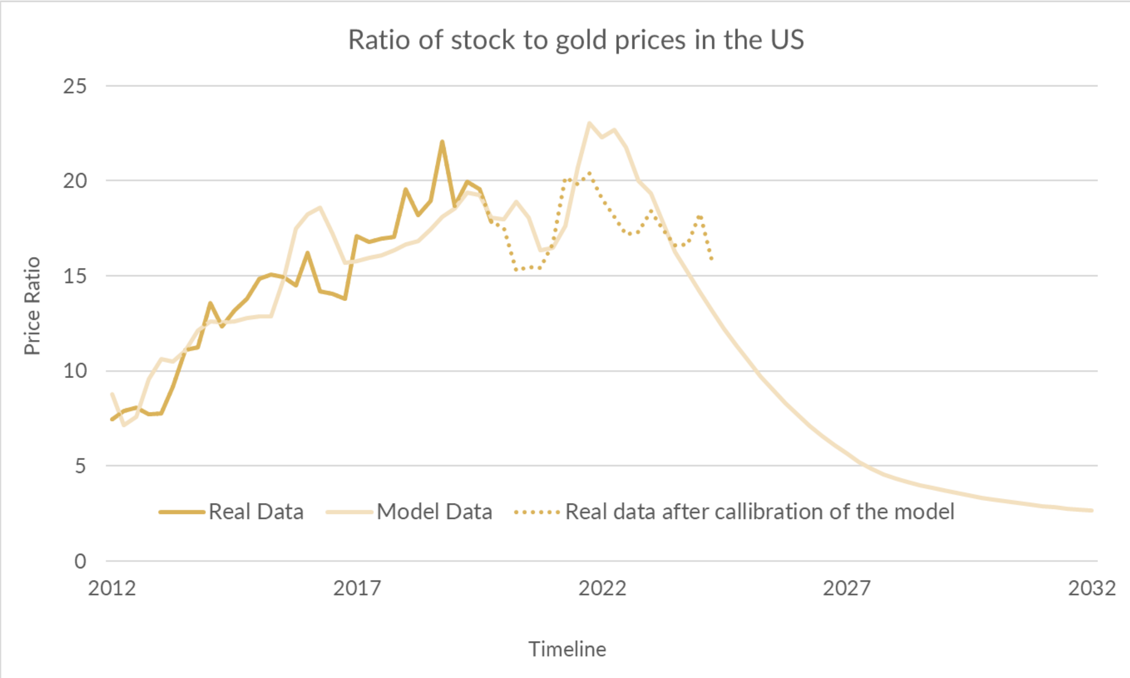
CH Market Risk Signal



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

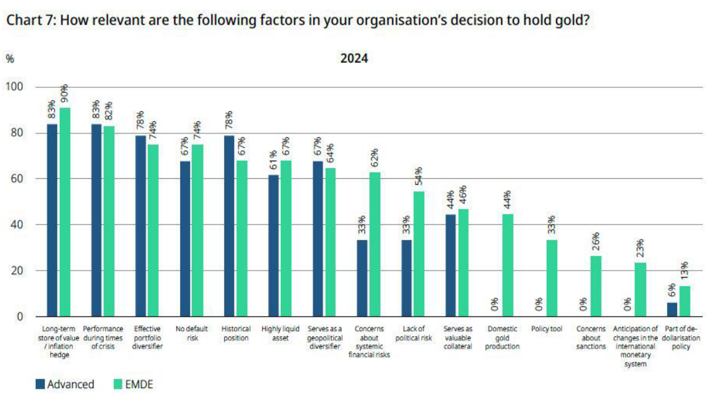


Image Source: Money Metals

Based on a World Gold Council survey, the pace of central bank gold buying is likely to continue for the foreseeable future. Of the 69 banks surveyed, 29% plan additional gold purchases within the next 12 months, while 3% aim to decrease their reserves. Over 80% anticipate global gold stockpiles will rise over the next 12 months, while 69% foresee higher reserve levels over the next 5 years.

While central banks from emerging and developing markets had some priorities that were not shared by those from advanced markets, there was a general consensus that gold's store of value and hedge against inflation, its performance during crises, and its use as an effective diversifier are the primary reasons for their decision to hold or increase their gold reserves.

Following its bull run earlier this year, gold briefly broke out of its 3-month consolidation phase, printing a new all-time high of $2,473 per ounce (at the time of writing). Investors who are still on the fence about adding gold to their portfolio or increasing their gold ratio, may consider how much value would have already been added had they purchased at the onset of 2024, and how much potential is yet to come. Considering gold's historical performance, price expectations for the ongoing bull run range from $3000-$3500 per ounce which still makes a good case for entry, even at current price levels.