Degussa

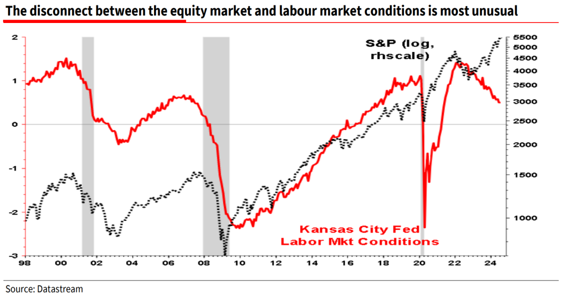
GOLD AND SILVER.

Market Report

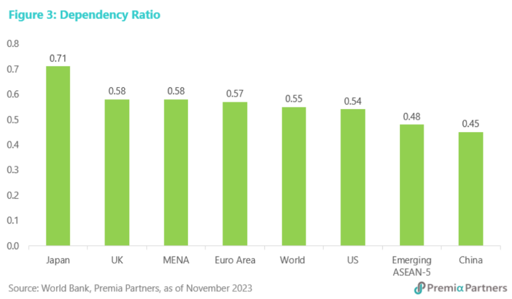
September 2024

The fragility of US equity markets was demonstrated in the panic sell-off earlier this month, in large part due to a rate hike by the Bank of Japan. Eurozone economic data shows mixed results with positive growth in France, Spain, Belgium and Italy, while Germany saw unexpected contraction. Western nations are feeling the competition from China's growing high-tech goods exports, resulting in tariffs of up to 100%, while a threat from Iran to close the Strait of Hormuz risks a rise in oil prices.

Highlights



Source: Zerohedge



Source: Premia Partners

The recent turmoil in equity markets were likely caused by several key factors including growing recession perceptions in the US, unwinding of the yen carry trade, and internal dynamics of momentum-driven markets. A further likely contributor is the deteriorating US labor market conditions. Historically, the Kansas City Fed labor market index has closely tracked the stock market, however, divergence has occurred since late 2022. Some analysts are questioning how long optimism can keep stocks propped up and at what point will investors once again pay heed to underlying economic fundamentals.

The IMF forecasts strong collective nominal GDP growth of 56% between 2022-2028 for Emerging ASEAN-5 nations. Drivers for this outperformance include China+1 strategy, urbanization, gross capital formation, increased income per capita and middle-class consumption. Youthful demographics also play a major role as measured by the dependency ratio; the number of non-working dependents per 100 working age people. Emerging ASEAN had a dependency ratio of just 0.48 in 2022, well below major market averages and significantly lower than Japan's 0.71. This suggests there is ample workforce potential to power economic growth through increased production, spending, and tax revenues.

Precious Metals & Commodities

Copper and agriculture are expected to remain flat in the short and mid-term, while oil is expected to rise mid and long-term. Precious metals are likely to remain on an upward trajectory.

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

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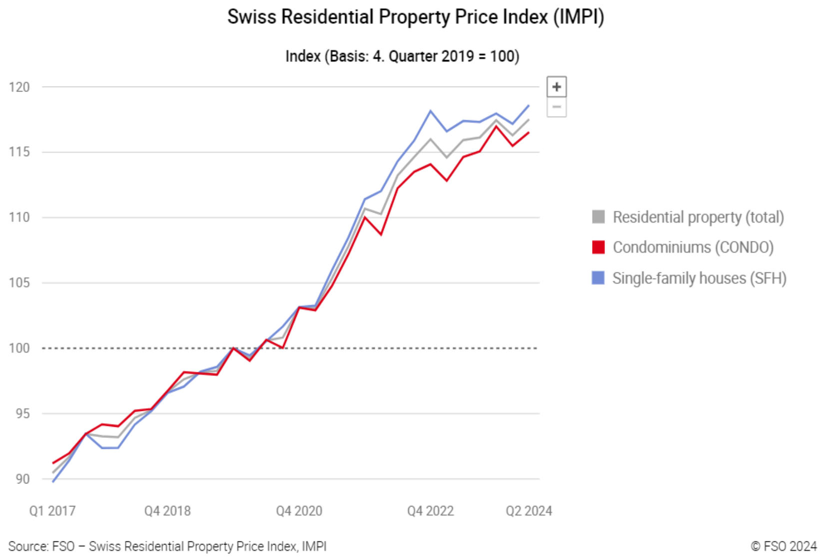
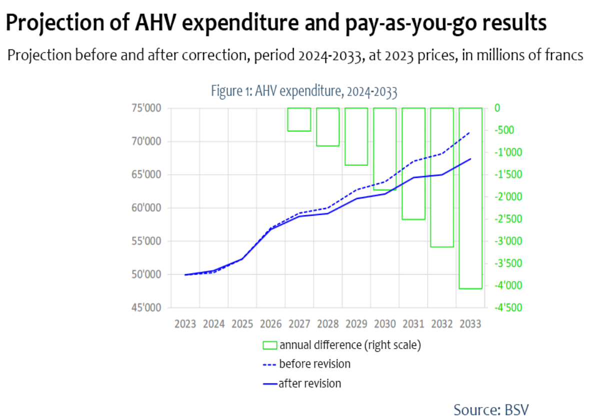
Spot on Switzerland

The Swiss National Bank (SNB) raised concerns over the risks Switzerland's real estate market pose to the banking sector, in particular investment properties as they involve higher risks than owner-occupied housing. This market has grown by 87% since 2010, driven by the historically low interest rates prevailing for over a decade, and currently accounts for 40% of GDP, according to an IMF report. Due to persistently high demand and dwindling supply, the market is now valued by up to 40% more than warranted by market fundamentals, increasing the danger of price corrections and with it risks to the financial system.



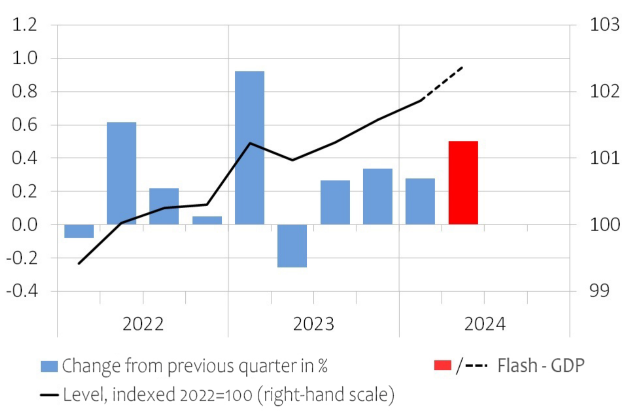
Source: Blick

Swiss Highlights



Source: Infosperber

The Federal Social Insurance Office (FISO) detected two faulty formulas in their model for calculating long term expenditure for the AHV which led to implausibly high predicted costs. FSIO's reassessment stated that spending would be around 4 billion lower in 2033. However, that figure does not take into account that the error actually resulted in cumulative underreporting which totals 14 billion less expenditure by 2033. The new projection means the 13-month AHV initiative, which was voted in earlier this year, is actually much more feasible than initially stated. A further correction, calculated by the ETH and published September 16th, found the non-cumulative error came to 2.2 billion.



Source: SECO

Switzerland's early "flash GDP" estimate for Q2 2024, based on preliminary production data available around 45 days after quarter-end, found that real economic output likely increased by 0.5% during the period. The estimate noted that industry was likely the biggest contributor to the above average growth, with the service sector coming in second. The flash figure is subject to revision once complete data is available.

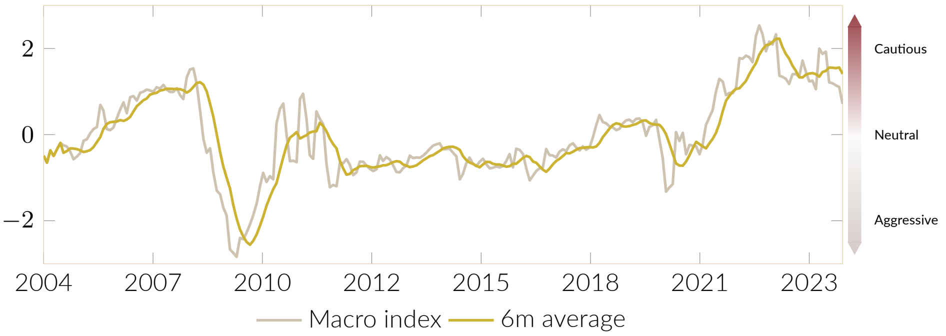
Switzerland

Switzerland's inflation rates are holding steady at a 12-month mid-range while unemployment rates remain at 12-month highs. Yields are overall uninspiring. Monetary uncertainty and business cycle risks remain high, making the overall outlook cautiously neutral.

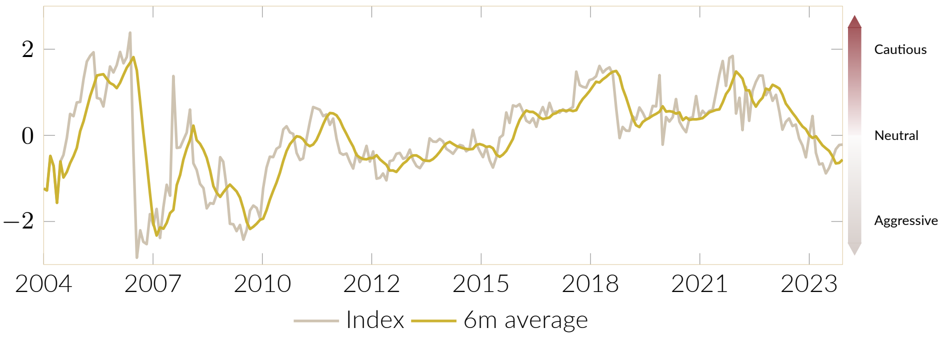
Switzerland

RISK: NEUTRAL

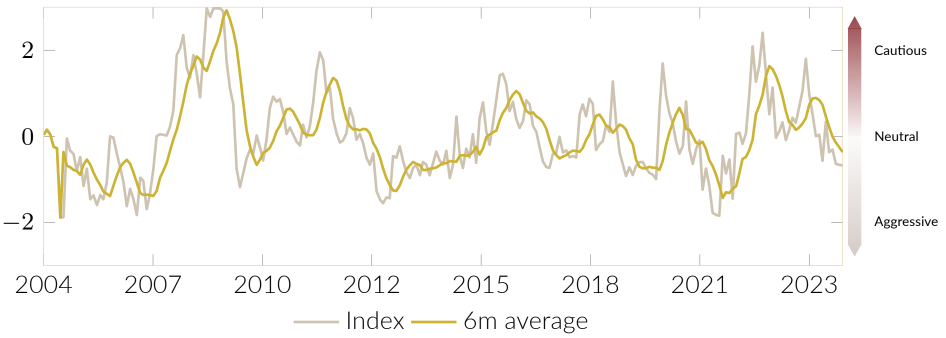
Business Cycle



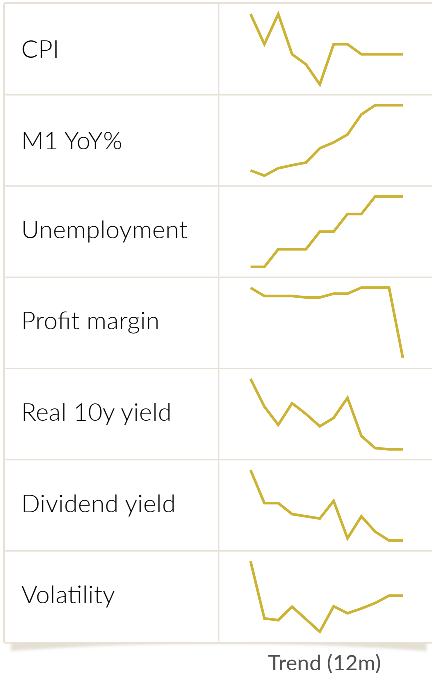
Investment Environment



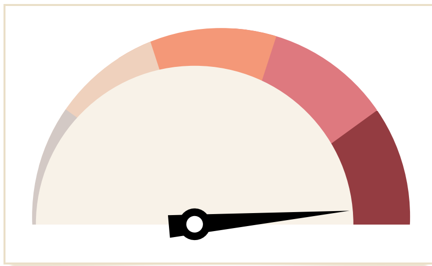
Market Behaviour



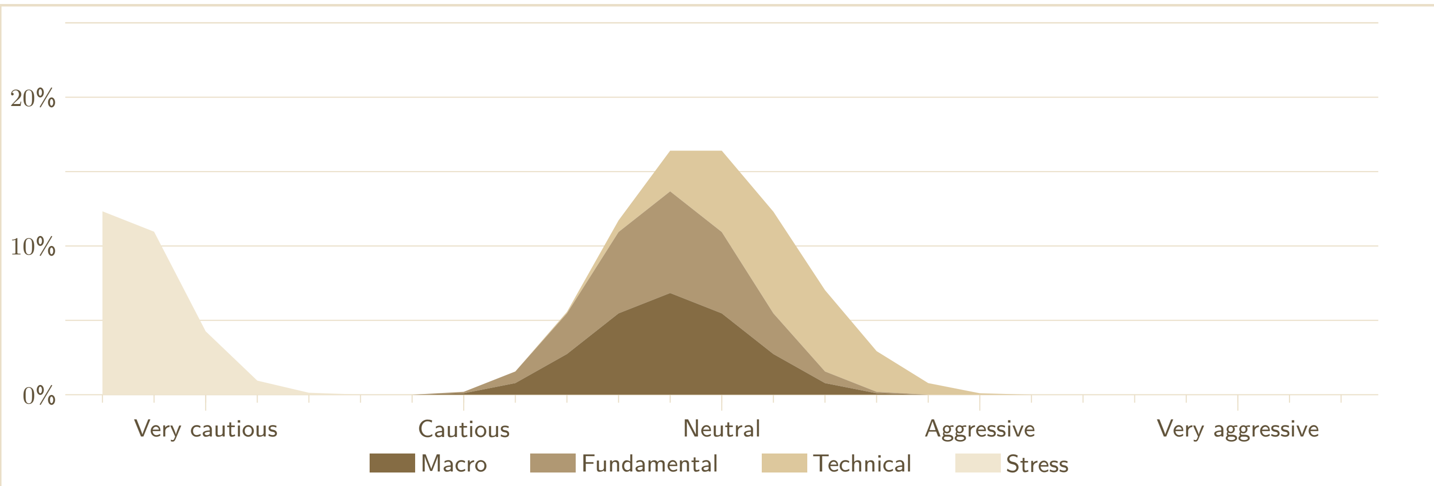
Key Macro Statistics



Monetary Stability



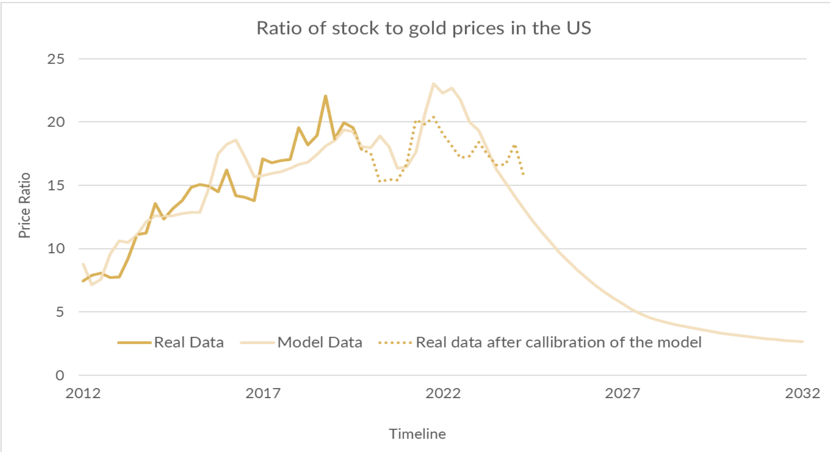
CH Market Risk Signal



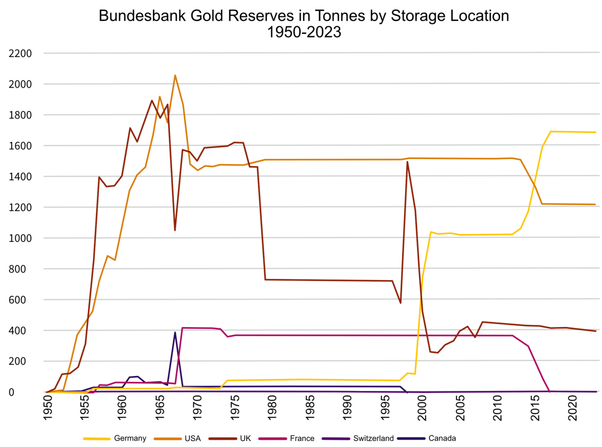
Prediction Model Gold or Stocks?

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



Gold plays an integral role in German traditions, ranging from historical economic crises to modern asset allocation. In the aftermath of WW1, the Reichsbank relentlessly printed money in response to rising prices; recklessly expanding credit. By 1923, Germany experienced hyperinflation, with prices doubling every few days. The currency deteriorated to where 4.2 billion Reichsmarks were needed to buy a single dollar. To restore confidence in its currency, Germany launched the Rentenmark which was supported by bonds pegged to the same value as 1 kilo of gold under the pre-war gold standard; sending a clear message that gold remains a beacon of stability during volatile times. In like manner, Austria, Poland, and Hungary likewise sought forms of tying their currencies to gold to resolve their own hyperinflation.

Immediately following WW2, Germany, not initially a member of the Bretton Woods System, did not hold gold reserves, however, beginning around 1952 Germany began to accumulate gold during its "economic miracle" period of strong exports and a current account surplus under the Bretton Woods gold standard. Gold flows within the European Payments Union contributed, as did transfers from other central banks, and by 1968 its reserves peaked at 129.69 million ounces. In 1999, Germany's contribution of foreign reserves, which included 7.46 million ounces of physical gold making up 15% of the reserves, was transferred to the European Central Bank.

Today, the Bundesbank holds the 2nd largest national reserves globally. Between 2013-2017, it repatriated 674 tonnes of gold from foreign reserves, demonstrating strategic, long-term commitment. Research in 2023 by the University of St. Gallen showed Germans own an average of 205 grams of gold per person. For perspective, Swiss and Americans own an average of 95 and 181 grams, respectively. Swiss private investors hold roughly 265 tonnes of gold, while German investors hold 9,089 tonnes. In Germany, more gold is in private hands than held by the German central bank, indicating the notion of gold as a secure store of personal wealth persists. Marking 100 years since hyperinflation's impacts, gold still signifies stability through challenges of the past and uncertainties of the future.