Degussa
GOLD AND SILVER.

Market Report

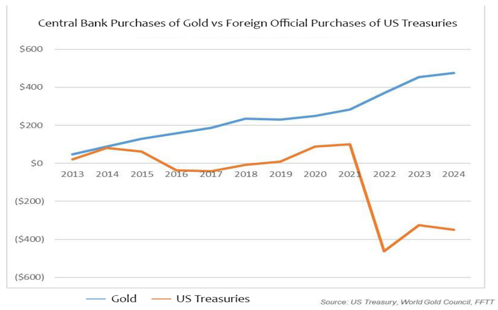
4 October 2024

Historical precedent suggests that the Fed's 50bps rate cut is a warning that the US economic health is not as robust as headlines would have us believe, and that equity risk metrics have increased in all sectors outside of consumer staples and cyclicals. The EU may require a reassessment of some of its more idealistically driven ambitions if it wishes to avoid diminishing competitiveness with China and the US. Finally, a federal decision to entrust the management of Switzerland's state pension securities (AHV) to a US bank is raising alarm bells over potential political ramifications.

Highlights

Source: Hong Kong Free Press

Following a Politburo meeting, the Chinese government announced plans to adjust housing policies, lower mortgage rates, and inject over $140 billion into state-run banks to enhance lending in order to achieve its full year growth target of 5%. Recent economic data shows slower growth of 4.7% in Q2 and youth unemployment rates at 18.8%. The stimulus efforts, including substantial cash handouts to families, signal a shift toward more aggressive economic easing, with hopes to stabilize and revive consumer confidence. Effects on China's equity market is evident in the nearly 15% increase (at the time of writing).



Source: Zerohedge

While the dollar remains the primary medium for global transactions, many nations, particularly within BRICS, are increasing their gold reserves as a store of value. Experts highlight that dollar dominance is diminishing, especially since the US imposed sanctions on Russia, prompting countries to diversify away from the dollar. Central bank gold purchases have surged as interest in US Treasuries have plummeted, signaling a significant shift in global financial dynamics. The rising USD/gold prices reflect this trend, indicating the dollar's declining value and status as a reserve currency.

Precious Metals & Commodities

Copper, oil, and agriculture are expected to remain flat in the short and mid-term. Precious metals are expected to have some sideways consolidation following the September increase but remain on an upward trend.

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

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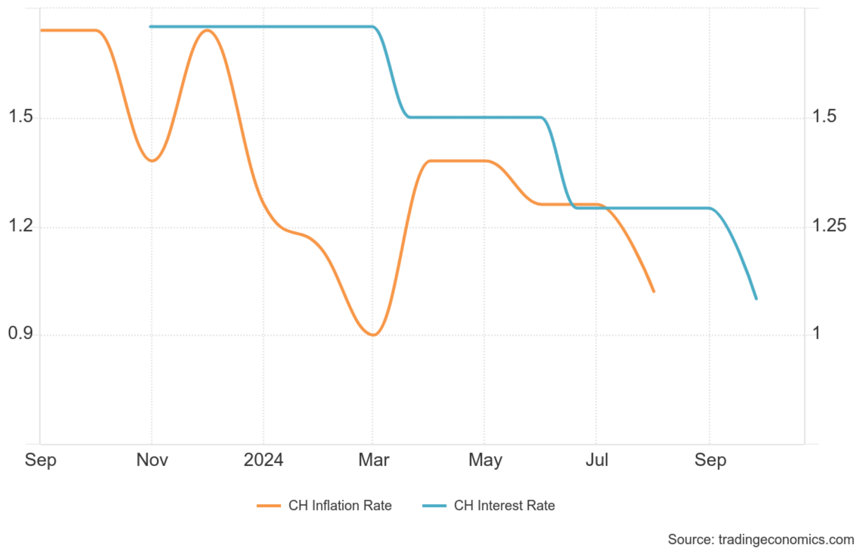
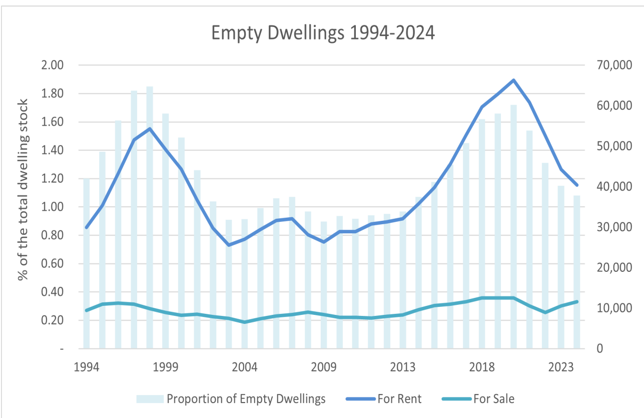
Spot on Switzerland

The Swiss National Bank (SNB) lowered interest rates for the third time this year following the Federal Reserve's recent 0.5% cut. The central bank lowered its inflation forecasts to 1.2% for this year and 0.6% for 2025, down from previous estimates. The SNB indicated that further interest rate cuts might be needed to maintain medium-term price stability. Additionally, it remains ready to intervene in the foreign exchange market to protect the Swiss franc from excessive appreciation. The SNB projected modest GDP growth of 1% for this year, attributing it to the franc's appreciation and slow global economic conditions.



Source: SNB

Swiss Highlights



Source: BFS

Switzerland has fewer vacant apartments and homes available to rent, with the vacancy rate falling to 1.08% in June, down 5.1% from the previous year. This corresponds to nearly 3,000 fewer vacant homes. Central Switzerland had the least number of vacancies, with the lowest vacancy rate led by canton Zug at only 0.39%. The canton with the most vacancies was Bern, while Jura had the highest vacancy rate at 2.98%. Given the growing housing shortage, rents are expected to continue rising in the coming years. UBS forecasted rents would increase 4% by late 2024 and an additional 3% in 2025, according to Swiss Info.

Source: SECO

Switzerland's consumer confidence indicator fell 2.2 points to -34.56 in August, down from -32.4 in July. While this was an improvement of 6 points from August 2023, it remains weak historically, with consumer sentiment ranging between 18.34 at its highest in Q4 1972 and -49.24 at its lowest in Q4 2022, and with a mean of -6.22. Consumers rated the moment to make a major purchase at -32.3 compared to -30.1 the month before. Expectations of prices rising over the next 12 months increased slightly from 96.85 to 97.04, however the 5-year price projection has improved with a 98.95 rating vs 101.76.

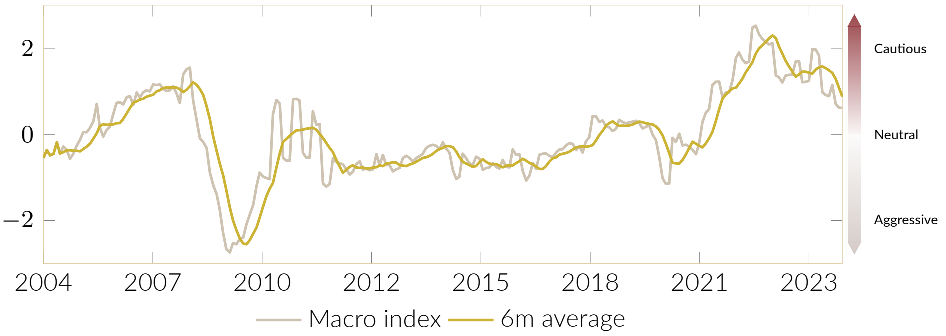
Switzerland

Switzerland's inflation rates have dropped to 12-month lows while unemployment rates remain elevated. Yields are overall uninspiring, and volatility has risen. Monetary uncertainty and business cycle risks remain high, making the overall outlook cautiously neutral.

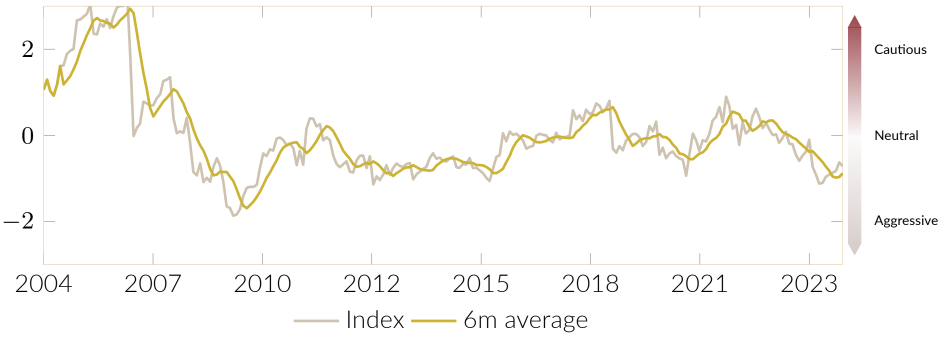
Switzerland

RISK: NEUTRAL

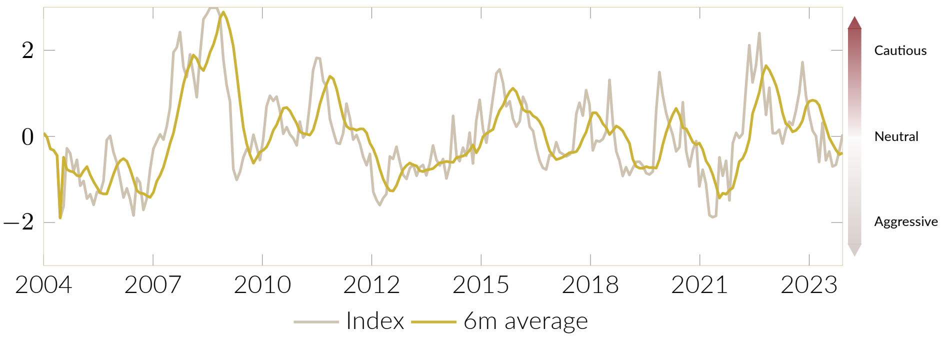
Business Cycle



Investment Environment

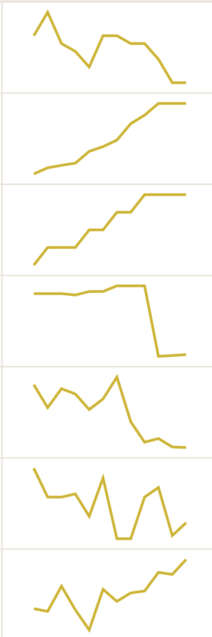


Market Behaviour



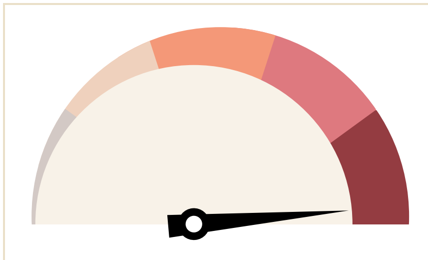
Key Macro Statistics

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

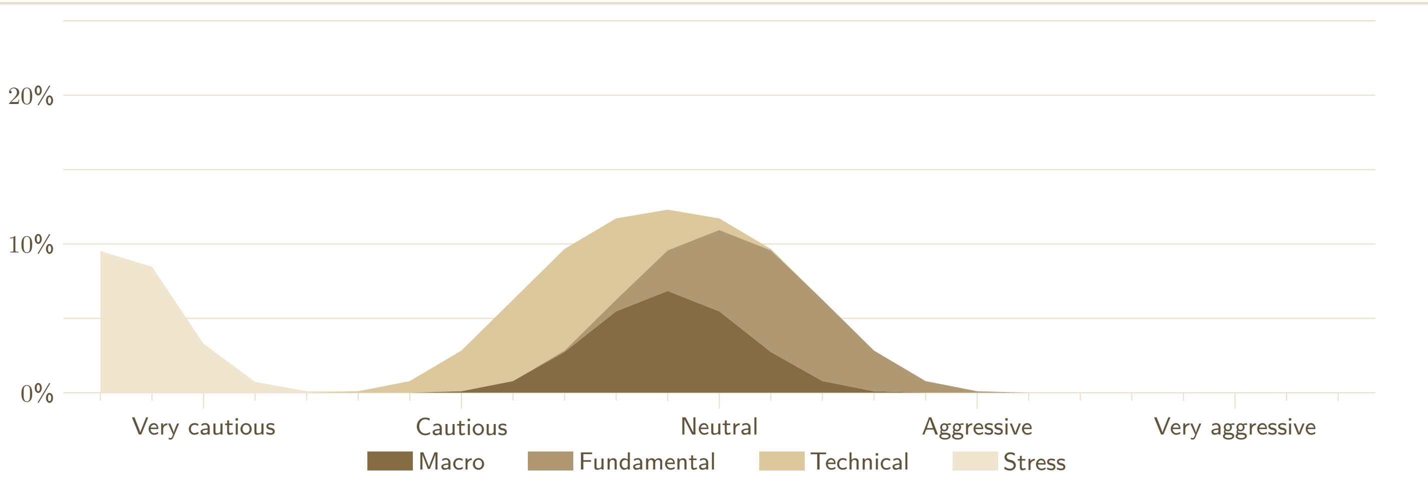


Trend (12m)

Monetary Stability



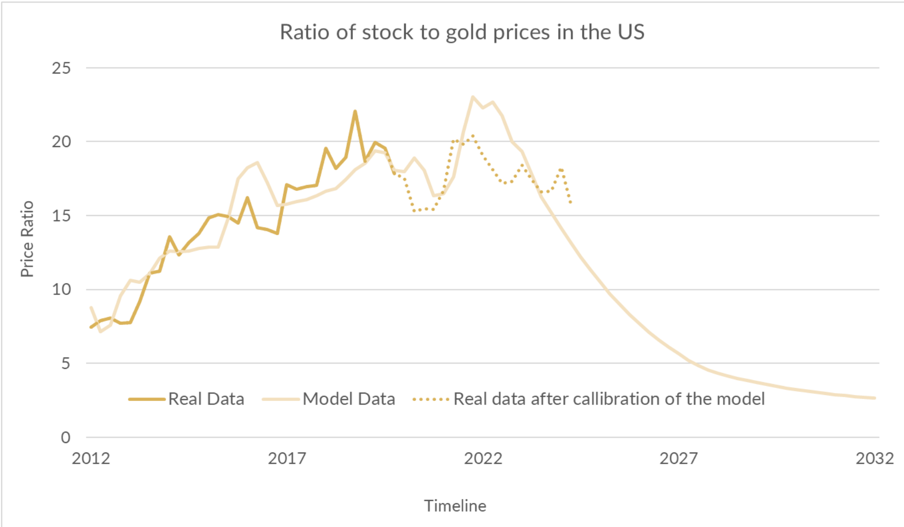
CH Market Risk Signal



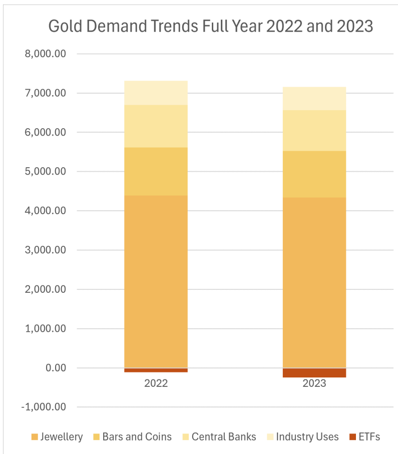
Prediction Model Gold or Stocks?

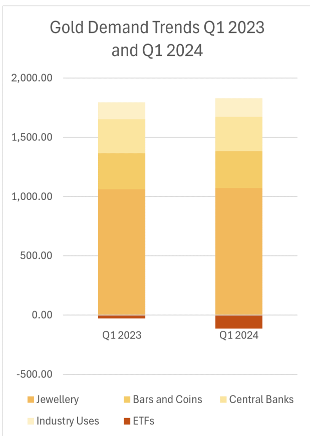
The current level of debt compared to production of the real economy is similar to the situation in the Germanic nations before the world wars in the 1910s, and the situation in France before the French Revolution in the 1790s. In such high debt level scenarios, the likelihood of instability and a deleveraging 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





Changes in gold demand trends have been most notable in the decreased demand for gold ETFs which fell 123% between 2022 and 2023 and over 300% between Q1 2023 and Q1 2024, according to data by the World Gold Council. Central bank demand has remained steady, with 71% of central banks viewing gold as a strategic asset in 2024, compared to only 12% in 2020, according to Gold Reporter. Industry uses increased by just over 10% between Q1 2023 and Q1 2024, while bars, coins, and jewellery demand remained fairly consistent.

The high jewellery demand, which made up 62% of the total demand in Q1 2024 and includes fabrication, consumption, and inventory, is particularly interesting from a western-based perspective where jewelry is seen more as a nice shiny decoration to be worn rather than a serious investment contender. However, in many other nations, gold jewelry is highly valued as a means of storing wealth as well as a sign of status. As a soft yet corrosion-resistant metal, gold has been crafted into intricate jewelry and historic coins, used in art and decoration, and as a means to store generational wealth throughout the majority of civilizations within the course of human history.

Gold hit a new all-time-high in September at 2,580 dollars per ounce (at the time of writing). Given the demand trends and gold's limited supply, the likelihood of prices continuing to rise is fairly conclusive. Physical gold has an appeal that goes beyond its monetary value. Its characteristics have inspired an almost visceral appreciation of the noble metal by humans since the dawn of time. Its density and lustrous appearance provide a sensory impact that draws the eye and intrigues the hand, while its role as a hedge against inflation as well as economic and geopolitical shocks makes it a vital component of any balanced portfolio, with the recommended ratio being at least 10% of total assets.