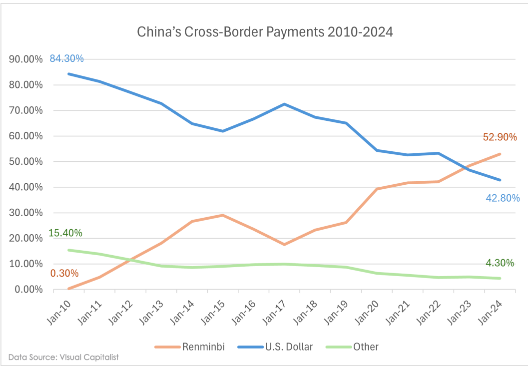
GOLD AND SILVER.

Market Report

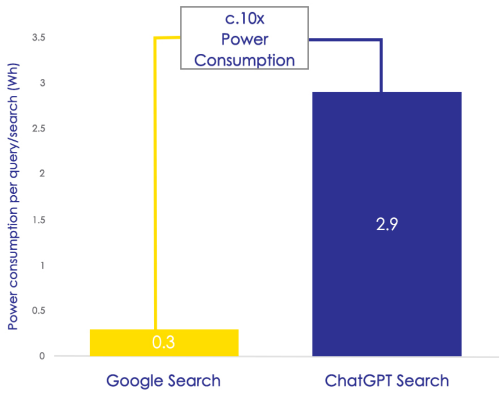
June 2024

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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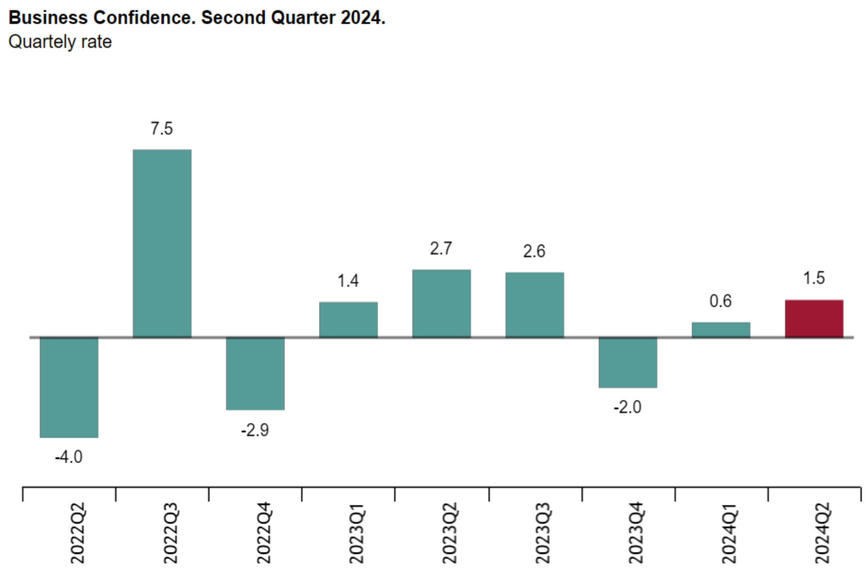
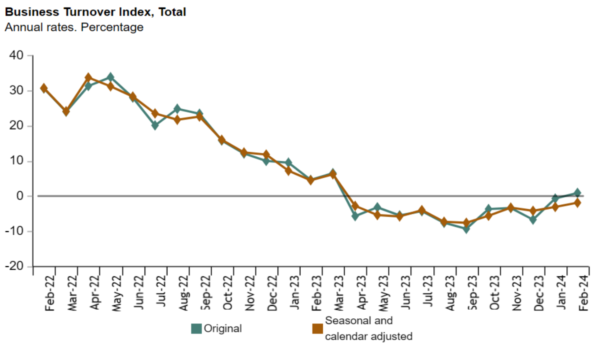
Spot on Spain

The Business Confidence Index increased by 1.5% in the second quarter of 2024 when compared with the first quarter. By autonomous communities, 14 showed an increase in Business Confidence, while 3 decreased. The largest increases were recorded in La Rioja (4.4%), Illes Balears (4.3%) and Cantabria (3.7%). The decreases were recorded in Galicia (-0.9%), Comunidad de Madrid (-0.7%) and Comunidad Foral de Navarra (-0.1%). Looking back over the first quarter of 2024, 20.1% of business establishments managers expresses a favourable opinion regarding the performance of their business. Conversely, 17.1% had an unfavourable opinion. Regarding predictions over business performance over the second quarter, 23.1% projected that the performance of their business will be favorable, while 13.8% thought it would be unfavorable. Regarding price levels, 14.5% of business establishments managers foresee that the price level of their business will increase in the second quarter of 2024, while 4.7% estimate that it will decrease. Sector-wise, transport and accommodation (4.1%) registered the greatest increases, while trade and construction (0.1%) registered the only decreases. 13.1% of business establishments managers considers that employment, referring to personnel hired in their business, will increase in the second quarter of 2024, while 7.8% believe that it will decrease.



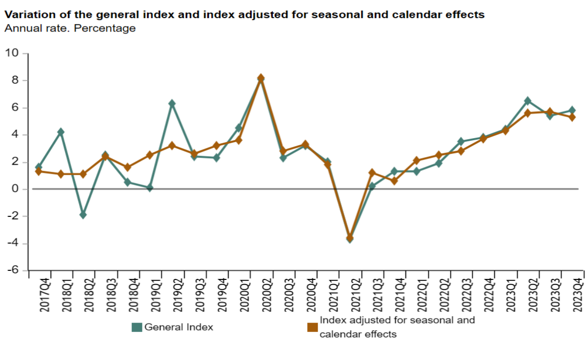
Source: BCI Q2 2024, INE

Spain Highlights



Source: BTI, INE

The Business Turnover Index provides a comprehensive, weighted measure of the business turnover for the following economic sectors: extractive and manufacturing; electricity, water supply and waste treatment; trade; and non-financial market services. Following its decline into negative territory in March 2023, the annual rate has been inching upward, with the unadjusted series registering an annual variation of 0.9%. Of the sectors analysed, only one showed negative monthly rates. Trade showed the highest increase of 2.3%, while the only decrease of -3% was in electricity, water supply, and waste management.



Source: HLCI, INE

The seasonally adjusted labour cost per hour worked increased by 5.3% in Q4 2023 compared with the same period in 2022. Wages increased by 4.3%, while other costs increased by 8.2%. The highest annual rates for Q3 were in ICT at 8.9%, and professional, scientific, and technical activities at 8.4%. Labour costs fell the most in the electricity and gas sector at -3.2%. Health and social services, and mining and quarrying industries had the smallest increase of 2.2% and 2.7%, respectively.

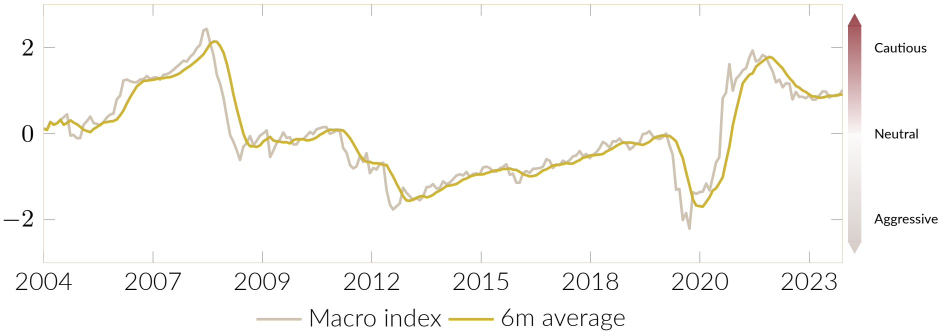
Spain

Inflation remains elevated although profit margins have ticked up amidst low unemployment rates. With monetary stability at high risk, Spain's market risk is signaling cautious with a pinch of aggressive.

Spain

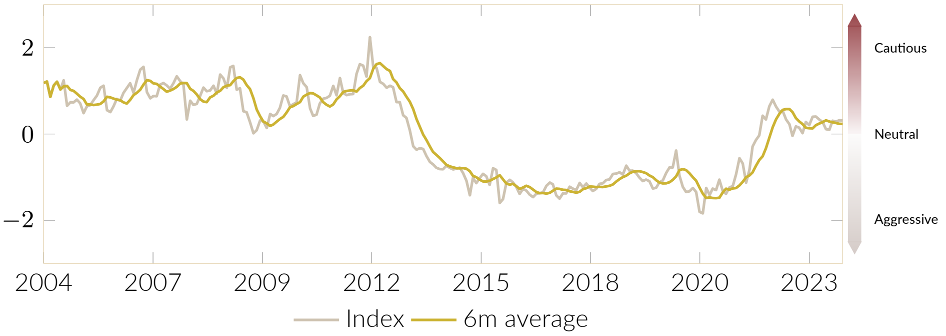
RISK: NEUTRAL

Business Cycle

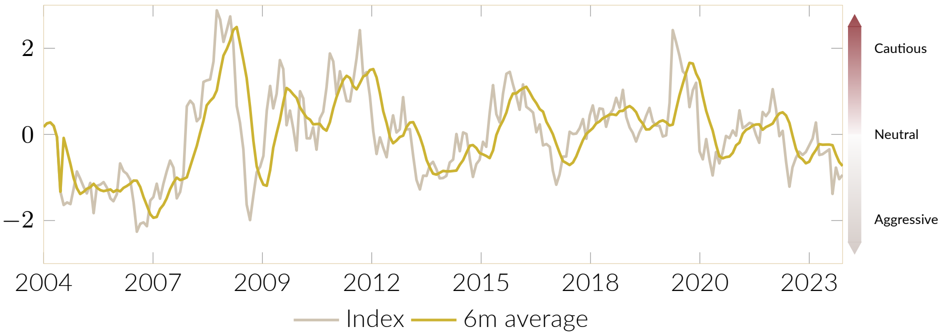


Key Macro Statistics

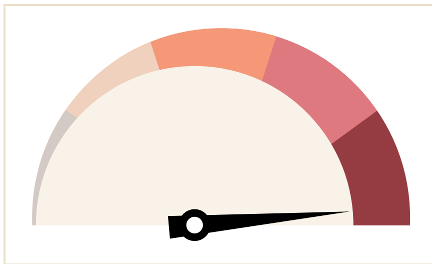
Investment Environment



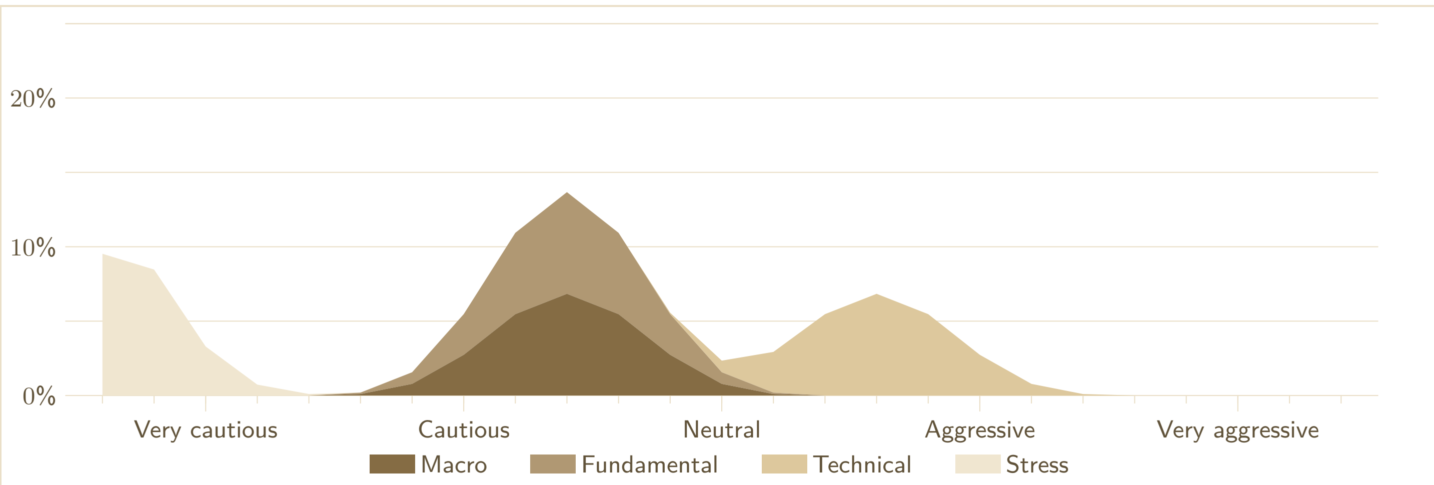
Market Behaviour



Monetary Stability



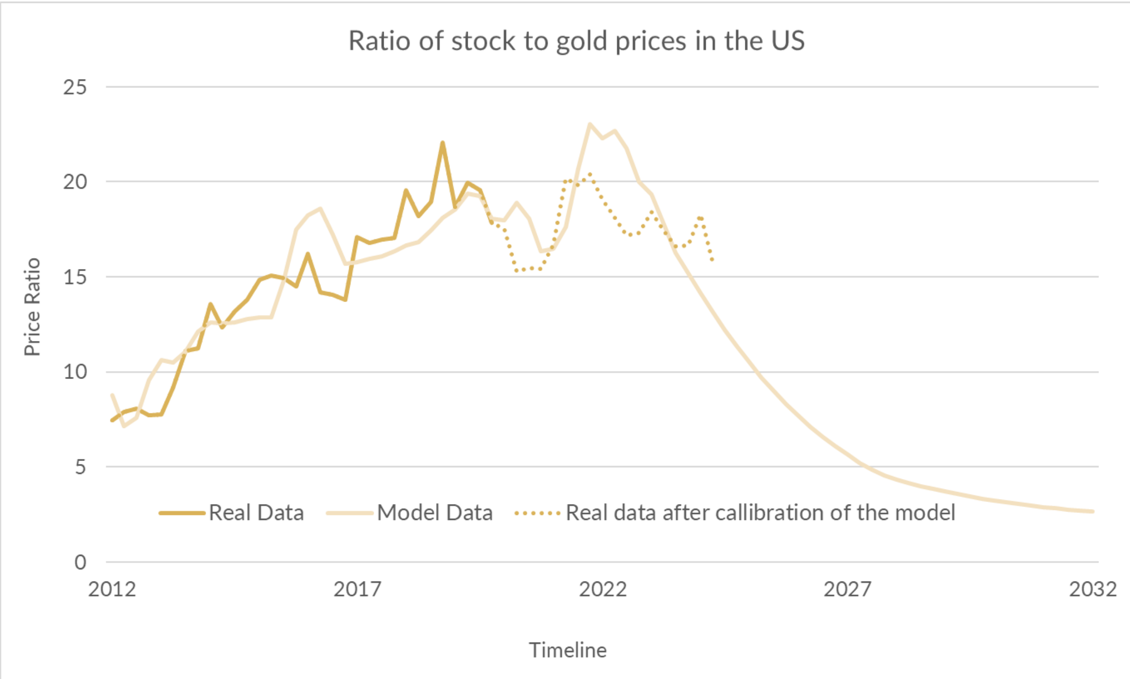
Spain Market Risk Signal



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 weaponized 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.