Degussa

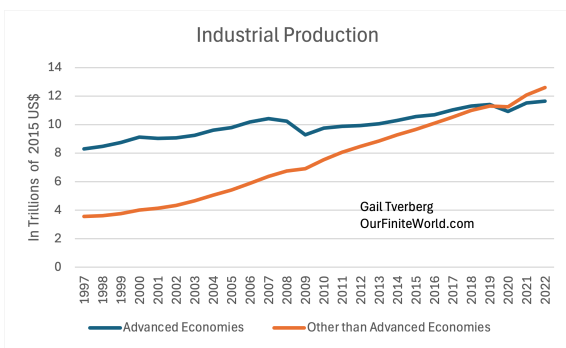
GOLD AND SILVER.

Market Report

Aug 2024

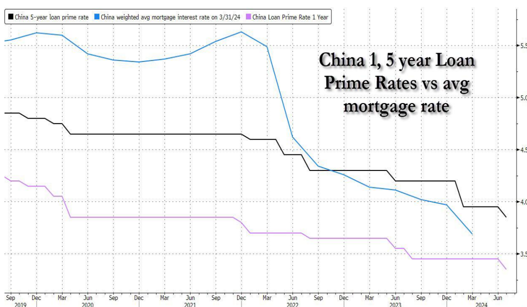
The Fed has left interest rates at current levels but left the option open for a possible rate cut in September due to increased confidence in inflation rates easing toward the 2% goal. Nevertheless, analysts question whether a soft landing can be achieved, based on the lack of historical precedence. 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	↗	↗	→	→	→

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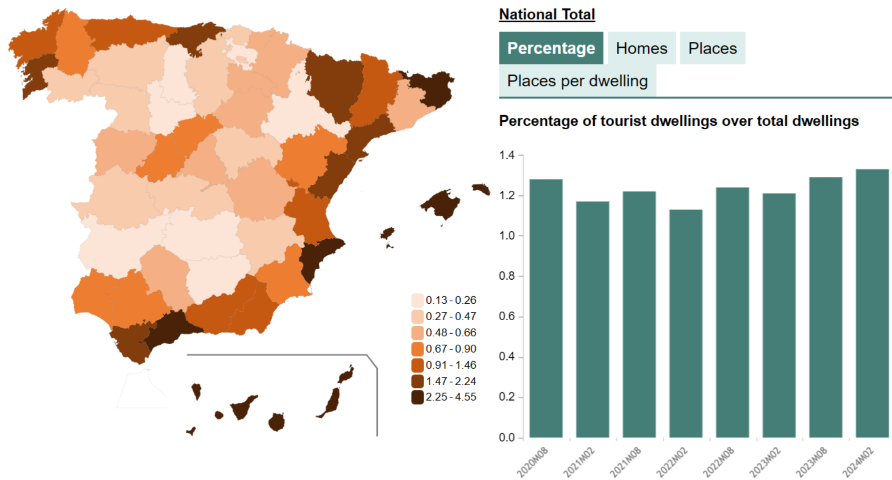
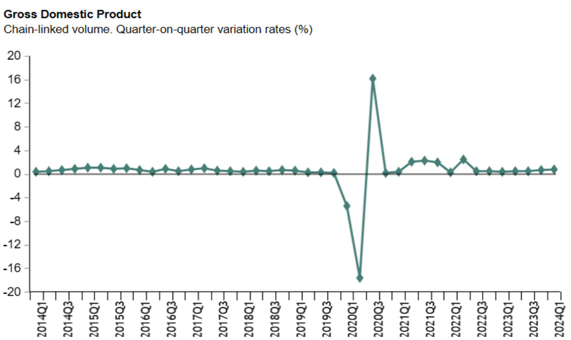
Spot on Spain

Despite rules introduced to regulate overtourism, Spain has seen a 9% rise in tourist rentals over the last year, with some cities having one rental per 1.5 sq km. This exacerbates the country's housing crisis, as locals struggle with high rents and prices. Barcelona recently announced plans to eliminate all tourist rentals by 2028 to mixed response. Local residents welcome the move, having faced issues like unsafe buildings and disrespectful tourists. However, others question if it will meaningfully address affordability, arguing for increased housing construction instead. Other major cities like Madrid, Valencia, and Seville have also restricted new rental licenses or renewals in busy areas. Data gathered from the 2021 Population and Housing Census indicated that the percentage of tourist homes over the total number of homes on a national level has increased, with the majority of the imbalance seen in Málaga, Alicante, Gerona, and the islands. While tourism is important for local economies, residents argue overdevelopment risks losing neighborhood character. Debate continues on balancing tourism, housing, and quality of life.



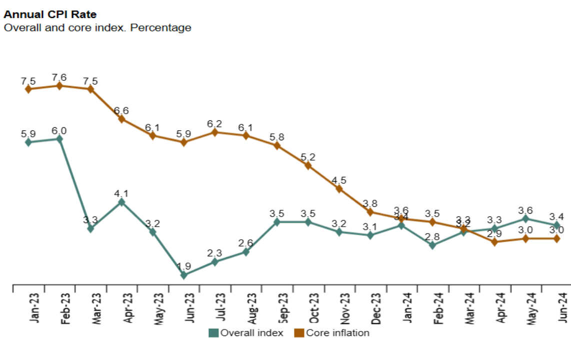
Source: Measurement of the Number of Tourist Dwellings in Spain and their Capacity, INE

Spain Highlights



Source: GDP, INE

Spain's economy grew by 0.7% quarter-over-quarter in Q1 2024, exceeding forecasts. This steady performance was achieved despite headwinds from the weak euro area, inflation, and interest rate hikes. Key drivers included strong labor markets and international tourism. External demand contributed more to growth than domestic demand, which is explained by the strength of Spain's tourism sector. On the production side, all major sectors expanded, led by construction, manufacturing, and services. Exports and imports both increased solidly in Q1.



Source: CPI, INE

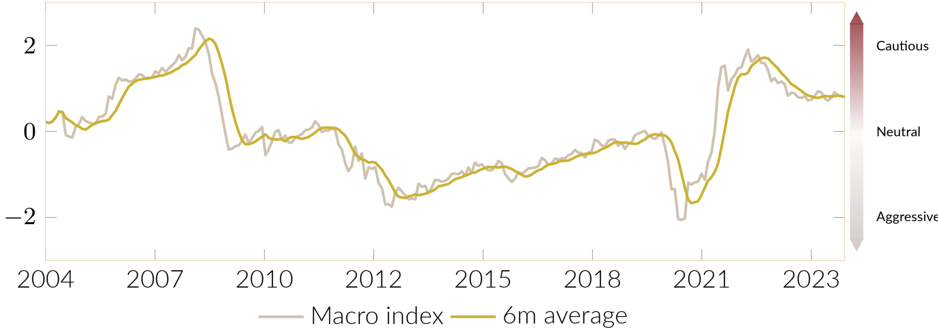
Spain's annual inflation rate fell to 3.4% in June, down 0.2 points from May, although core inflation (general index excluding unprocessed food and energy products) remained steady at 3.0%. Transportation saw the largest decrease, with fuel prices down over a point year-over-year. Food and non-alcohol prices dipped 0.2 points compared to June 2023, primarily due to lower oil and fat costs. Leisure and culture contributed most positively, with package tour prices rising more than the previous year.

Spain

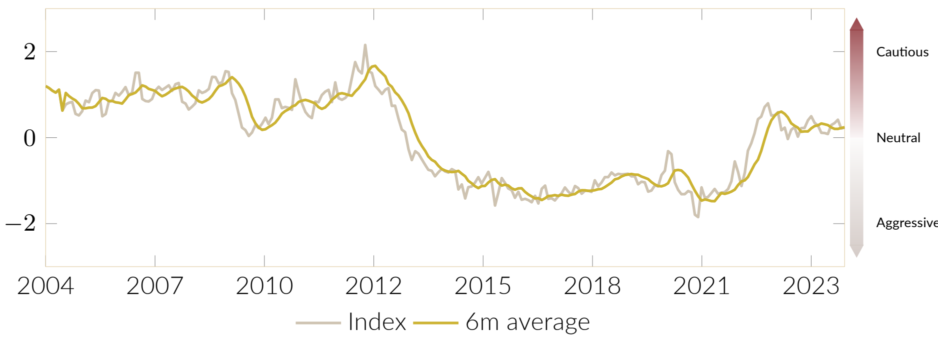
Inflation has dropped and profit margins are holding mid-range amidst low unemployment rates. With monetary stability at high risk, Spain's market risk is signaling cautiously neutral.

RISK: NEUTRAL

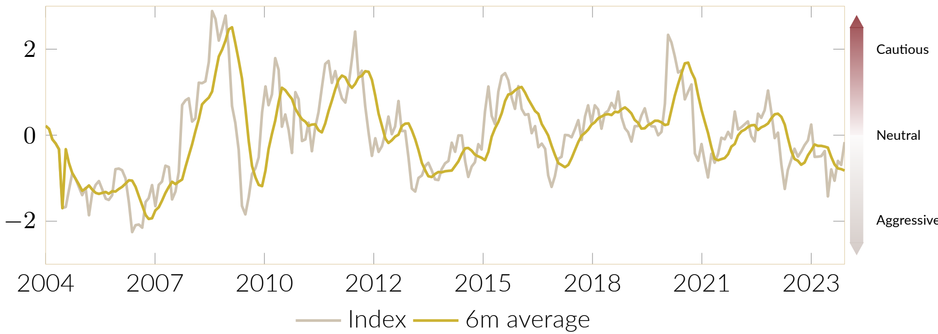
Business Cycle



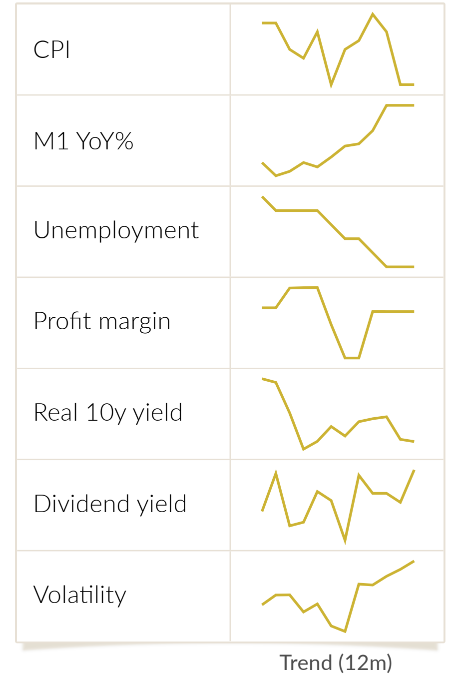
Investment Environment



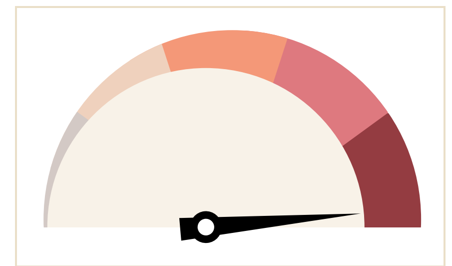
Market Behaviour



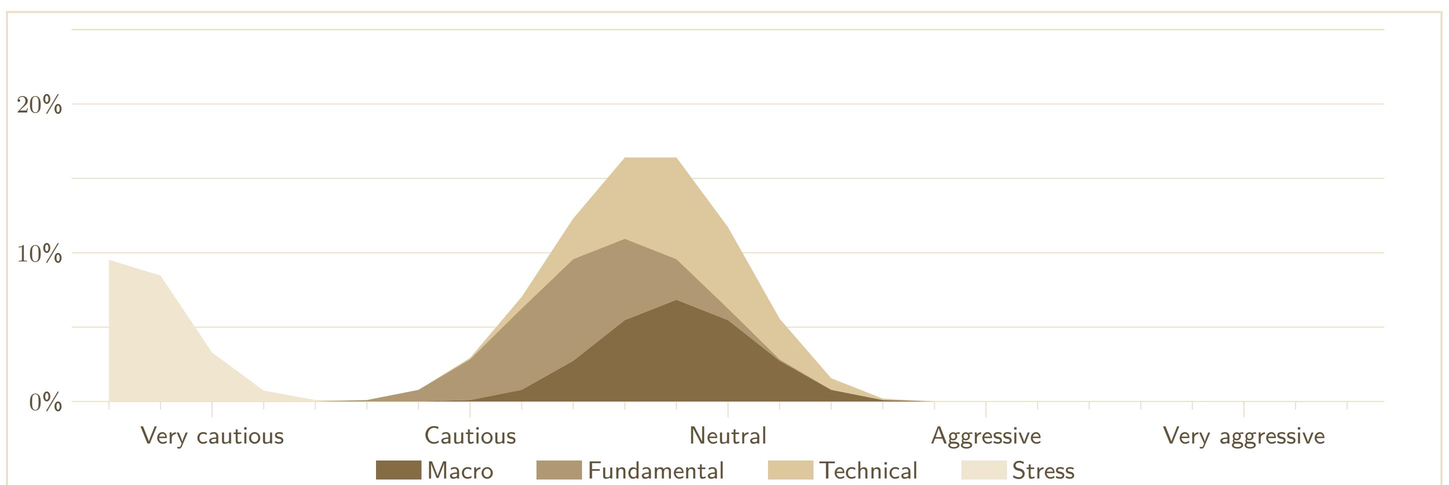
Key Macro Statistics



Monetary Stability



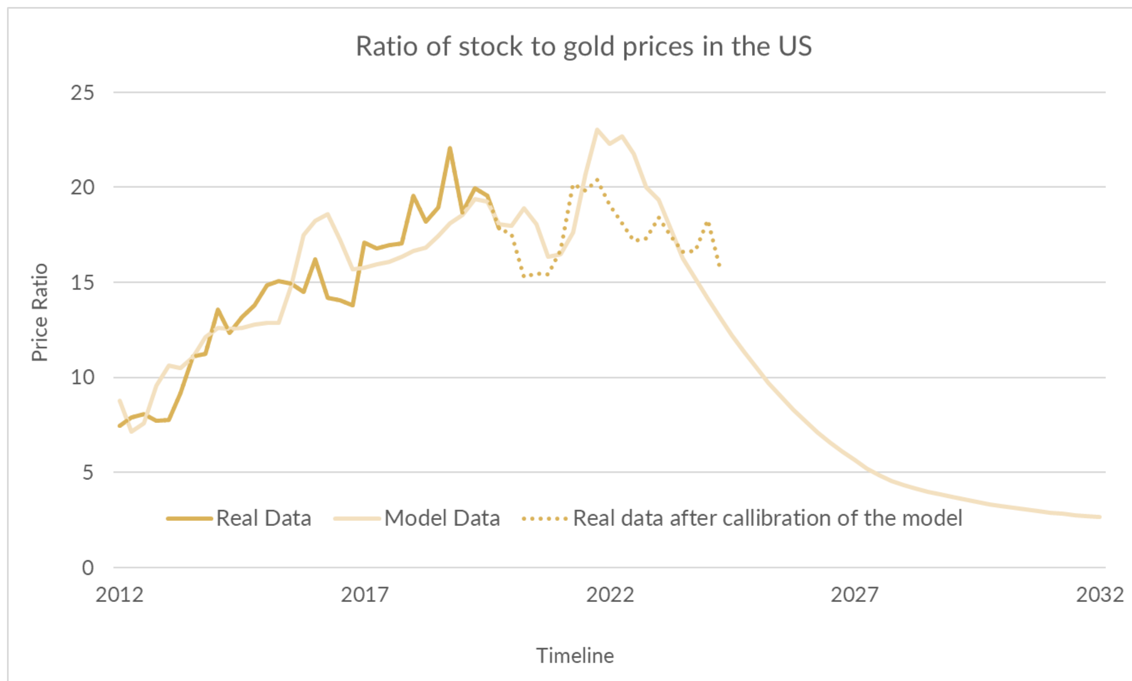
Spain Market Risk Signal



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

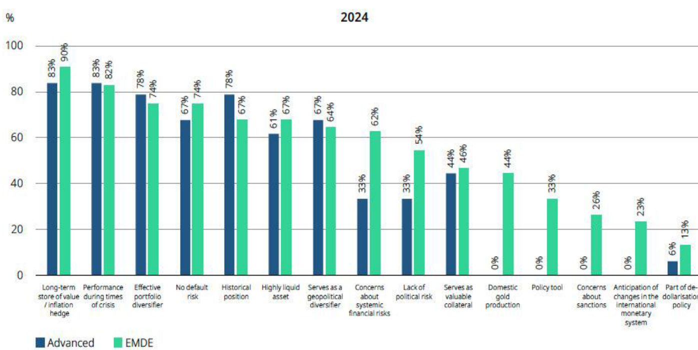


Image Source: Money Metals

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.