Degussa

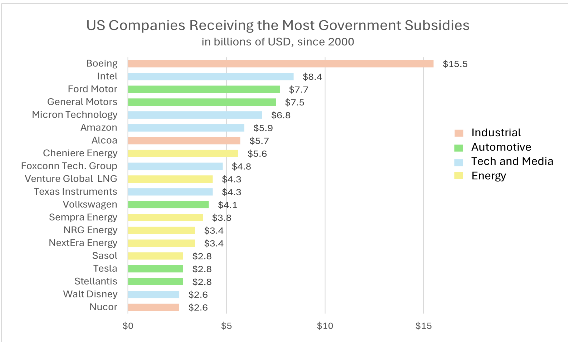
GOLD AND SILVER.

Market Report

4 January 2025

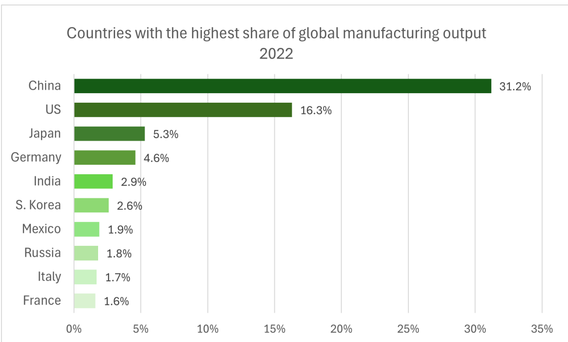
China is easing monetary policy to boost its economy which has been weakened by low consumption and increased trade restrictions. Sticky inflation has made the Fed slightly more hawkish for 2025, while strongly overvalued asset prices are signaling caution for investors in US markets. Germany and France face economic and political challenges, straining the EU's future prospects. Finally, nuclear energy is gaining popularity as China and Italy plan to construct numerous reactors, aiming for nuclear power to meet 15% and 10% of each nation's demand, respectively. At the same time, France is advocating for nuclear energy to be central to EU decarbonization policy.

Highlights



Source: Zerohedge

Since 2000, US companies have received significant taxpayer support through government subsidies which aim to address critical industries and secure domestic production. Boeing tops the list with over $15 billion, while Intel follows with over $8 billion to bolster the US semiconductor supply chain. Subsidising large, and sometimes poorly performing companies such as Boeing, seems questionable for a nation that propagates free markets and demands import taxes from its competitors. Investors are therefore advised to use caution when investing in companies that rely on US governmental support, as this can quickly be retracted with changing political trends.



Source: Zerohedge

In 2022, China led global manufacturing, contributing 31% of the world's output, valued at over $5 trillion and accounting for nearly 30% of its GDP. The US, in second place, lagged 15 percentage points in global output, with manufacturing at just over 10% of its GDP. China's manufacturing output roughly equaled the combined output of the next seven largest manufacturing nations.

According to a 2024 China Briefing report, manufacturing still accounted for over 25% of GDP, with export revenue exceeding 90% of total exports. The industry attracts significant foreign investment and absorbed 27.1% of total FDI in the first 11 months of 2024. China's 2025 government spending targets will likely spur increased manufacturing, offering potential investment opportunities.

Precious Metals & Commodities

Copper, oil, and agriculture are expected to remain flat in the short and mid-term but remain bullish long-term while gold and silver are expected to resume their upward trajectory.

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

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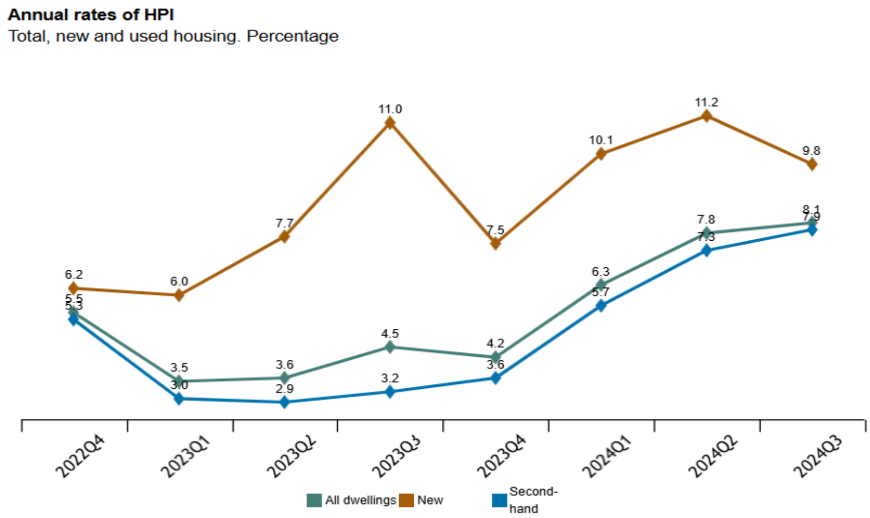
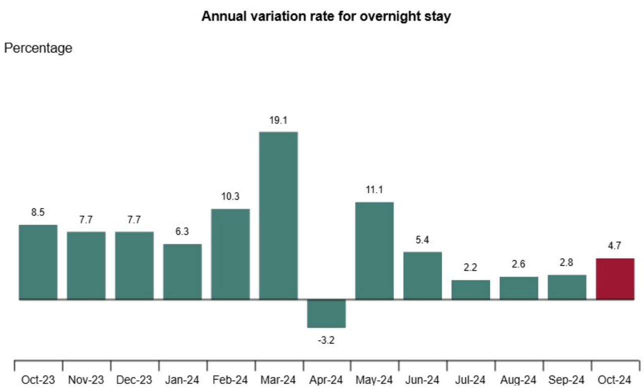
Spot on Spain

Spanish housing prices rose 8.1% year-over-year in Q3 2024, with new housing up 9.8% and second-hand homes up 7.9%. Both categories showed identical quarterly growth of 2.8%. All regions experienced price increases, with Navarra leading at 10.7%, followed closely by Andalucía (10.6%) and Aragón (10.3%). The Balearic Islands saw the most modest growth at 5.8%, while Catalonia and Asturias recorded increases of 6.8% and 6.9% respectively. In September 2024, the number of mortgages on dwellings surged by 33.9% compared to the previous year, with an average amount of €150,528, up 4.5%. The average interest rate for residential mortgages was 3.14%, with 38.6% at variable rates and 61.4% at fixed rates. Mortgage modifications increased by 15.7% with interest rate changes accounting for 77% of mortgage adjustments.



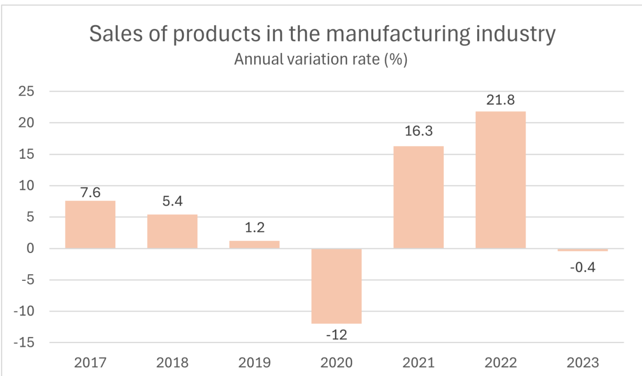
Source: HPI, INE

Spain Highlights



Source: INE

Spain's tourism sector showed robust growth in October 2024 compared to the same month last year. Hotel overnight stays were up 4.7% year-over-year, totaling 33.9 million. International visitors drove the increase, rising 6.7%, while domestic stays grew 0.1%. The UK and Germany dominated foreign visitors, accounting for 25.2% and 20.7% of non-resident stays respectively. Balearic Islands led non-resident stays, while Andalusia remained popular with domestic travelers. Hotel profitability improved significantly, with revenue per available room up 7.5% to €82. Five-star hotels commanded the highest rates, averaging €271 per night, with Marbella emerging as the premium destination at €195.



Source: INE

Spain's manufacturing sector saw a slight decline in 2023 compared to the previous year, with sales dropping 0.4% to €552.4 billion. Food processing led total internal sales, contributing 22.4%, followed by motor vehicles at 11.8%. Manufacturing of coke and refined petroleum products contributed 8.4% but was nevertheless down by 20.9% year-over-year, followed by the chemical industry (-12.4%) and metallurgy (-11.9%). Motorless cycles had the largest increase in sales value, soaring 73.4%, followed by olive oil which rose 52.4%. By region, Catalonia led manufacturing with 21.7% of sales, followed by Andalusia (11.7%) and Comunitat Valenciana (10.7%).

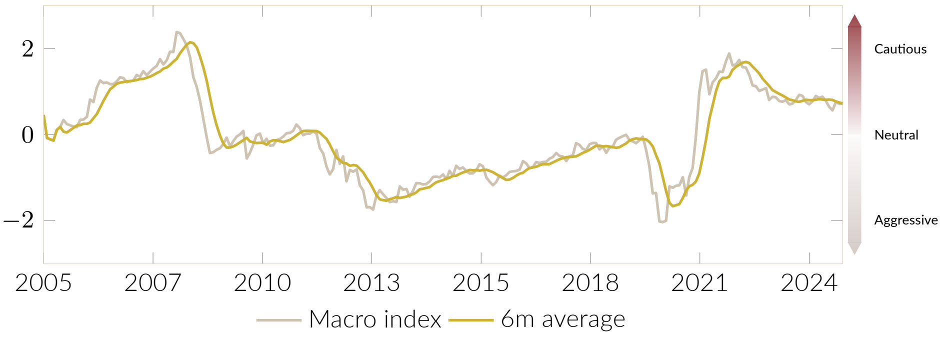
Spain

Inflation rates continue to trend higher, nevertheless profit margins have remained elevated amidst low unemployment rates. Equity markets have had some positive movement, however, bond yields remain slumped. Monetary stability has further lowered in risk, making Spain's overall Market Risk signal cautiously neutral.

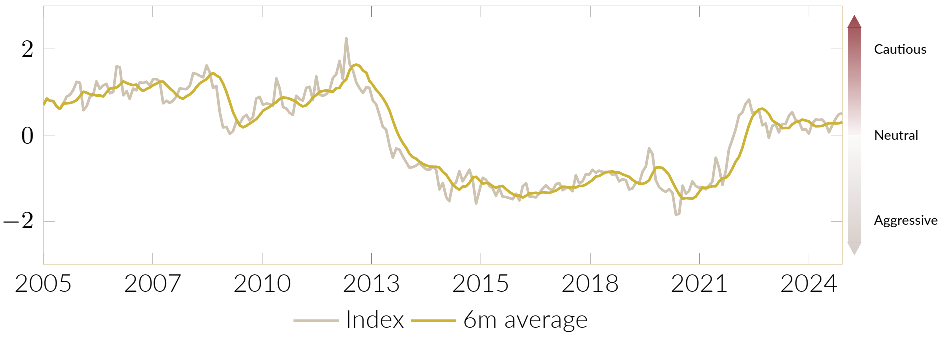
Spain

RISK: NEUTRAL

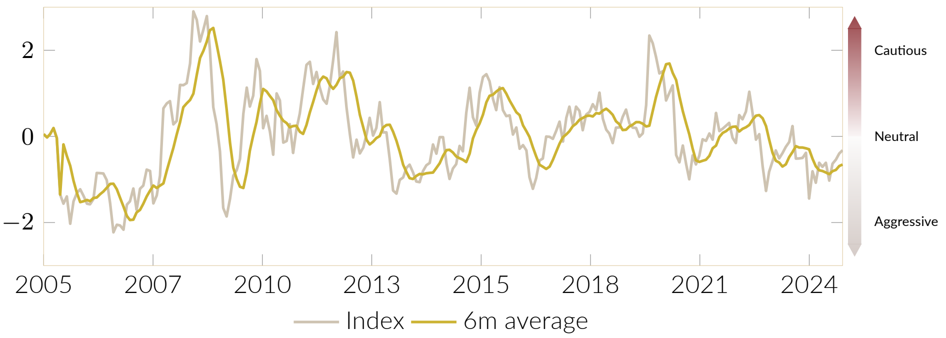
Business Cycle



Investment Environment

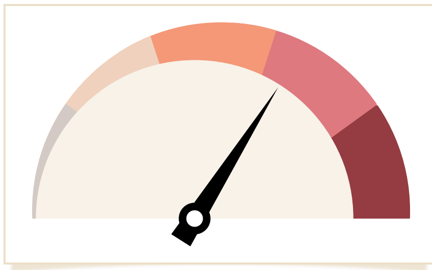


Market Behaviour

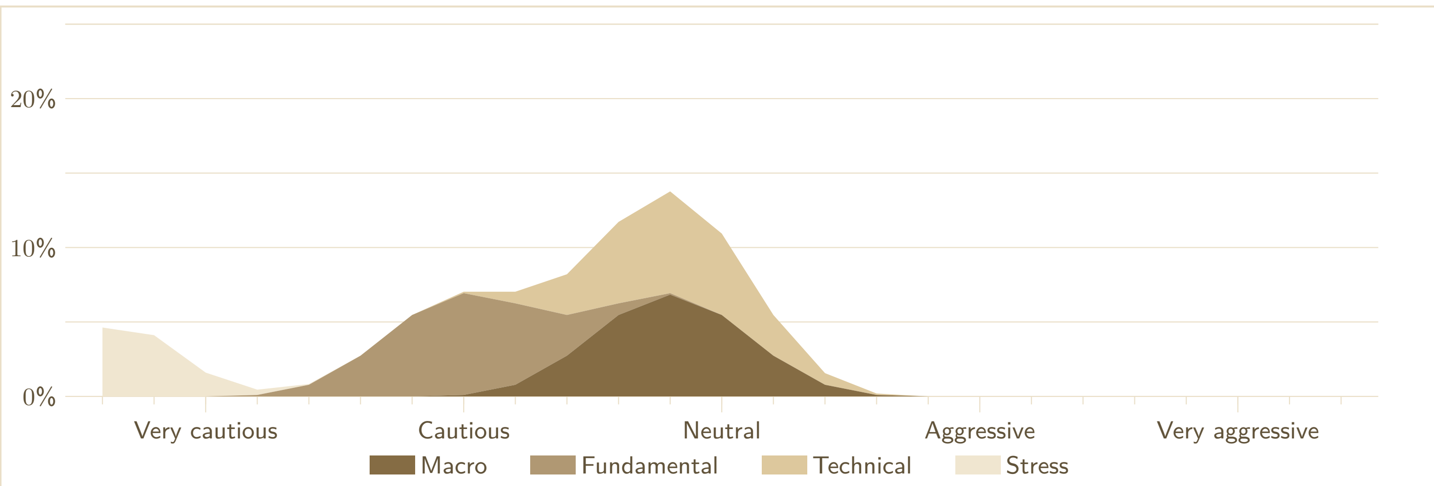


Key Macro Statistics

Monetary Stability



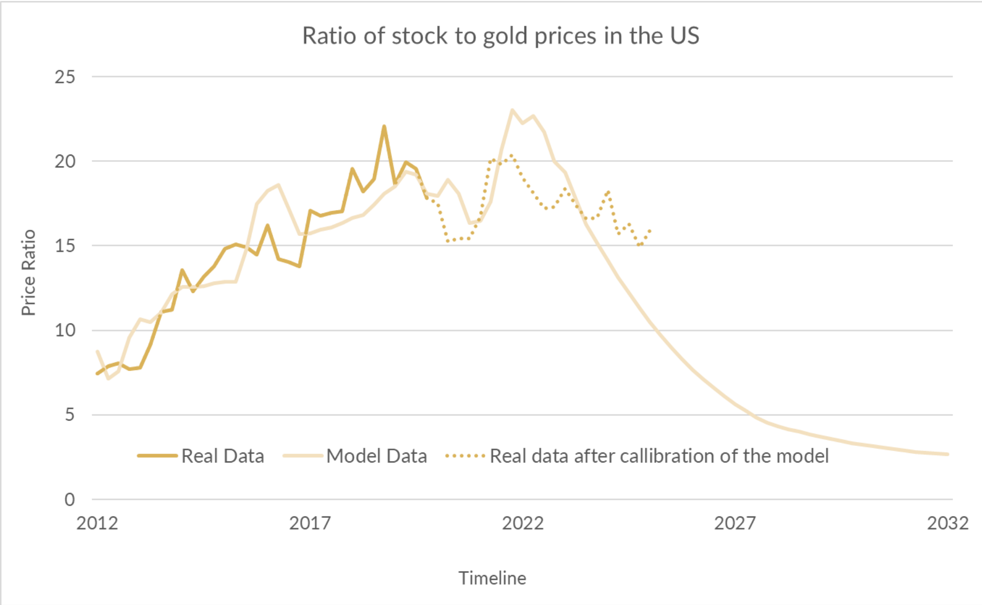
Spain Market Risk Signal



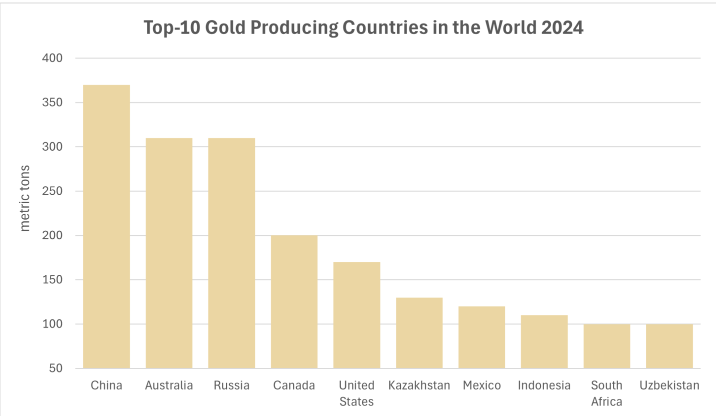
Prediction Model Gold or Stocks?

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



Data Source: World Trade Scanner

In November 2024, Chinese officials announced the discovery of a potentially record-breaking gold deposit in the Wangu gold field of Hunan province. The initial findings reveal over 40 gold veins containing approximately 300 metric tons of gold at depths up to 2,000 meters, with a further 1,000 tons at 3,000 meters deep. The deposit's estimated value is around $83 billion and features high-quality ore with concentrations up to 138 grams per metric ton. Additional test drilling in peripheral areas suggested potential for more discoveries in the region, indicating this could be part of a larger gold-rich zone.

China maintains its position as the world's leading gold producer, producing 370 metric tons in 2024, or over 10% of global output. The industry, primarily state-controlled, includes major players like China Gold International Resources, Shandong Gold, and Zijin Mining Group. Despite this, China's consumption, which according to Reuters was over 740 metric tons in the first 3 quarters of 2024, is well above its production capacity and therefore requires significant imports from abroad. While the gold deposit discovery represents a major find, based on China's current consumption rates, the deposit would only supply the country's needs for a little over 1 year, according to an article by Oil Price.

After a six-month pause, China's Central Bank resumed building its gold reserves in November, adding 160,000 ounces and bringing its total holdings to 72.96 million ounces. This move came despite gold prices hovering near record highs. Experts suggest this decision reflects China's anticipation of further price increases following the US presidential election and represents a strategic effort to strengthen the international credibility of the yuan.