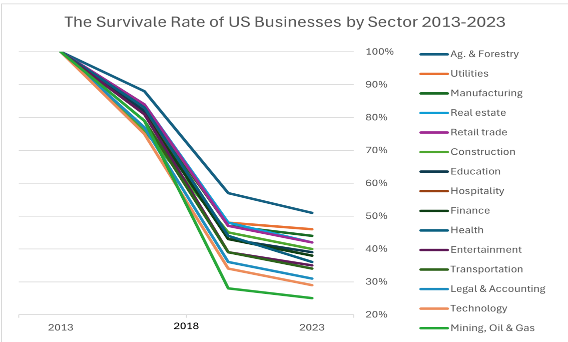
Degussa
GOLD AND SILVER.

Market Report

4 February 2025

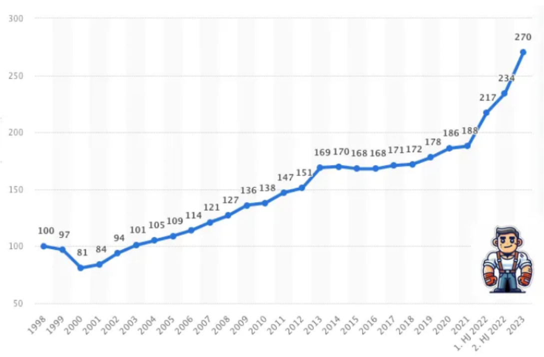
The US government is taking steps to lower their budget deficit, however, in order to do so, the Fed may find itself between a rock and a hard place when it comes to its monetary policy decisions. The outlook from major banks including JP Morgan, UBS, and BNP Paribas for 2025 have a consensus on continued (but slowed) US economic growth, ongoing stagnation challenges for the EU, hope for a recovery in China with sufficient stimulus, a likelihood of inflation remaining sticky but not unmanageable, and a bullish outlook on US equities, AI investments, and gold.

Highlights



Source: Visual Capitalist

Data from Visual Capitalist shows the survival rate by sector of American companies born in 2013. Agriculture and Forestry were the most resilient, with over half still operating in 2023, while only a quarter of Mining, Oil and Gas firms survived. The first year shows a 20% decline in survivors in most sectors, while the years between 2014 and 2021 saw the steepest declines, likely in part due to the Covid lockdowns. By 2023, just 35% of all private businesses developed in 2013 were still functioning.



Index of Electricity Price Development for Households in Germany from 1998 to 2023 (1998 = Index 100)

Source: Brawl Street Journal

Germany's electricity prices tripled since 2000 despite a massive build out of wind and solar, indicating that the "cheap" energy transition is costly for consumers. Experts at MIT criticized metrics like the Levelized Cost of Energy (LCOE) for overvaluing intermittent renewables while undervaluing energy sources like nuclear, and advocate instead for system-wide models. When policy makers adopt flawed metrics to guide their decisions, they risk harming economies and taxpayers.

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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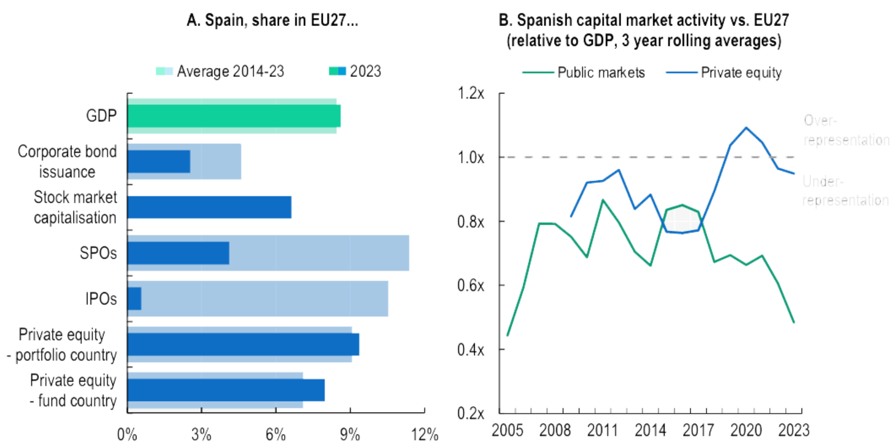
Spot on Spain

According to an OECD report, Spain's capital markets are less active compared to other European countries, especially when considering the size of its economy. That being said, on a global level, the EU as a whole is underrepresented. Since 2017, Spain has seen a noticeable decrease in the total capital raised in its public equity and bonds markets relative to its GDP. On the other hand, private equity financing has become more prominent. Although domestic investment into private equity funds is still lower than its economic weight would indicate, Spanish companies are receiving slightly more private equity investment by foreign investors than would be expected based on its GDP. This trend highlights a shift towards private equity as a significant source of financing for Spanish businesses.

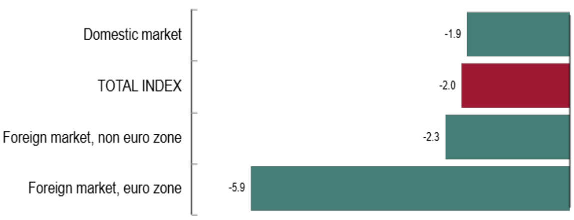
Figure 1.2. Spanish capital market activity relative to aggregate EU figures



Source: OECD Capital Market Review of Spain 2024

Spain Highlights

Industrial Turnover Index, Total and by market. November 2024
Annual rate. Percentage



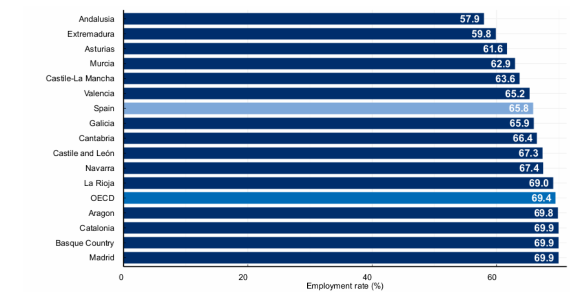
Source: ITI, INE

In November, the adjusted Industrial Turnover Index (ITI) decreased by 0.4% year over year, while increasing 0.9% month over month. The original ITI series showed an annual variation of -2.0%, with all markets experiencing negative rates, most notably a 5.9% decrease in the euro area's foreign market. Energy lead positive monthly rates at 12.8%, while Durable consumer goods saw the largest decline o f -0.9%. Year over year, turnover increased in seven Autonomous Communities and decreased in ten others. The largest increases were in Illes Balears (17.8%), Principado de Asturias (16.9%), and Comunidad de Madrid (3.4%), while the largest decreases were in Comunidad Foral de Navarra (-9.2%), Comunitat Valenciana (-8.9%), and Aragón and Cantabria (-5.6% each).

The state of regional labour markets

Figure 1: Regional employment rates

(a) Employment rate for the working age population (15-64 year-olds), 2023



Source: OECD

According to an OECD report, Spain's 2023 employment rate ranged from a low of 57.9% in Andalusia to a high of 69.9% in Basque Country, Catalonia, and Madrid. Spain's national employment rate at 65.8% is just shy of the OECD benchmark of 69.4%. However, labour productivity scored above the OECD benchmark in 11 out of 15 regions, led by the Basque Country, with levels at 19% above the regional average. Galicia saw the strongest annual growth in labour productivity, while productivity fell by 0.4% in Extremadura. Labor shortages varied across the country, with Basque Country facing the most severe shortages and Andalusia the least.

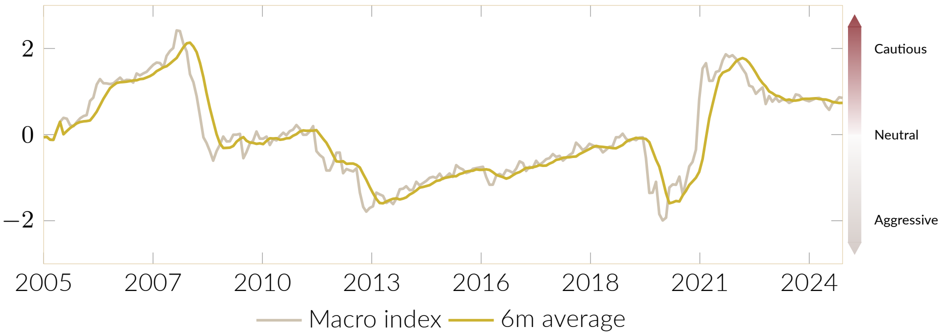
Spain

Inflation rates continue to trend higher, nevertheless profit margins have remained elevated amidst low unemployment rates. Equity markets have lowered slightly, and bond yields remain slumped. Monetary stability has slightly risen in risk, making Spain's overall Market Risk signal cautious with a hint of aggressive.

Spain

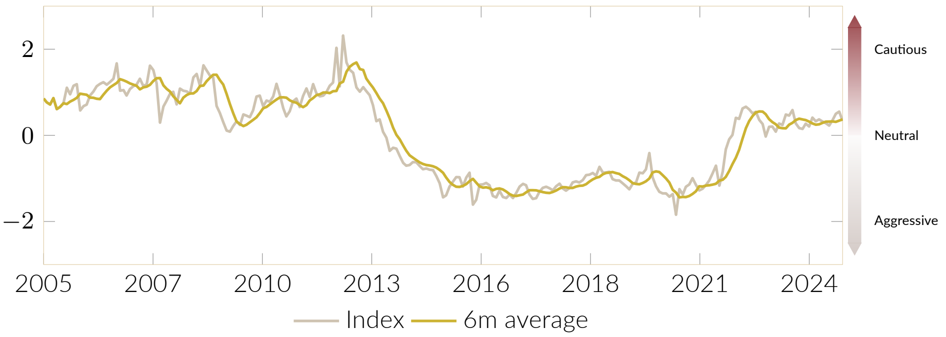
RISK: NEUTRAL

Business Cycle

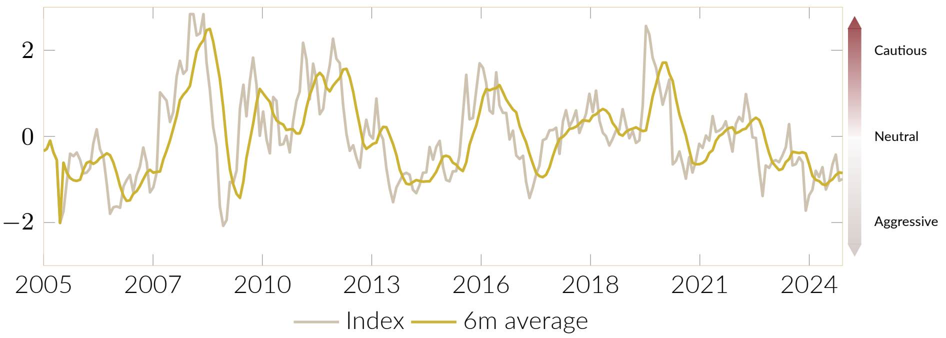


Key Macro Statistics

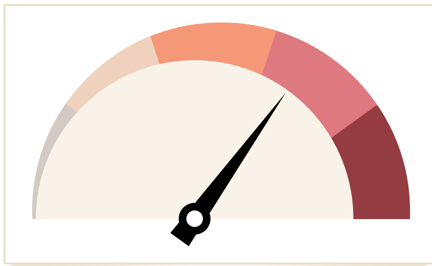
Investment Environment



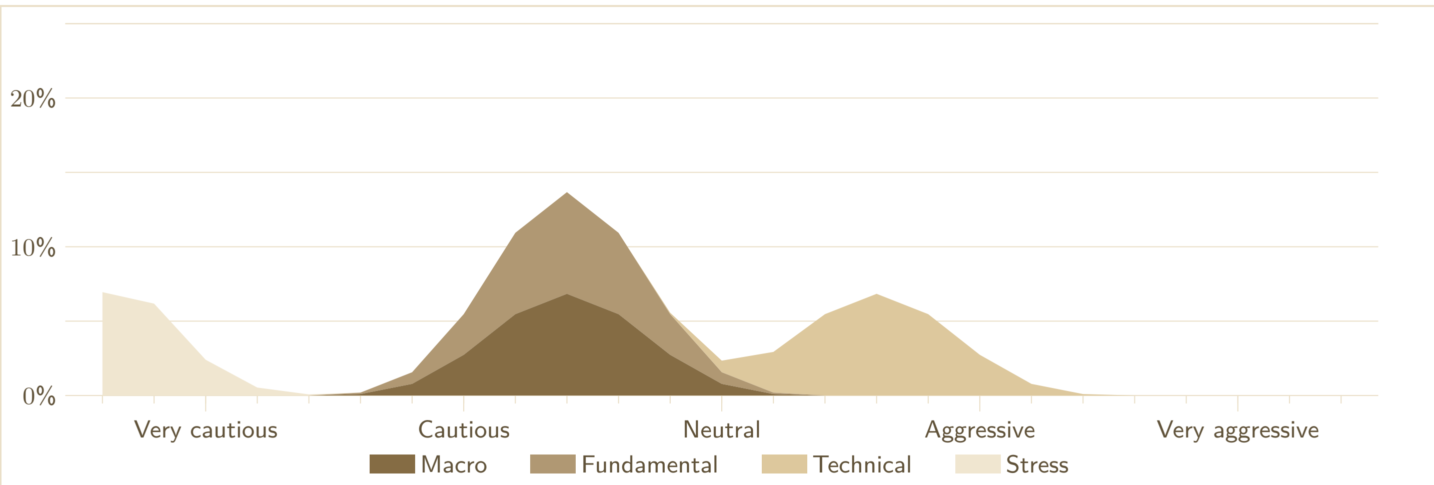
Market Behaviour



Monetary Stability



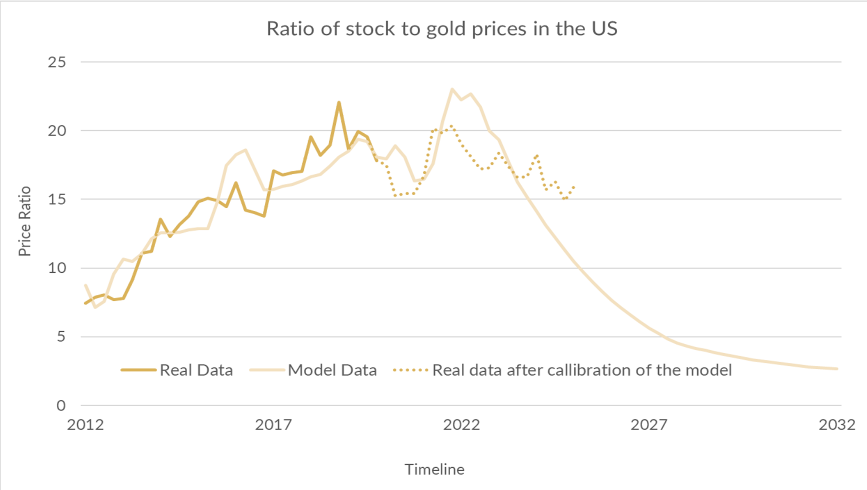
Spain Market Risk Signal



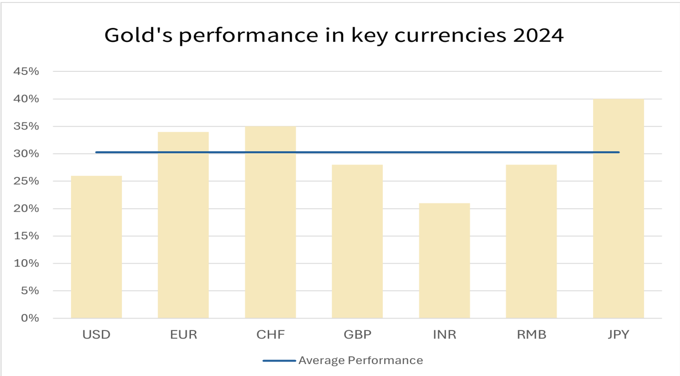
Prediction Model Gold or Stocks?

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



Data Source: World Gold Council

Gold emerged as the standout performer in 2024, surpassing all major asset classes and solidifying its role as a robust portfolio diversifier. According to the World Gold Council, throughout 2024, the LBMA Gold Price PM achieved an impressive 40 new all-time highs, with the highest peak reaching 2,777 USD per ounce on October 30. This remarkable performance saw gold appreciate over the year by 26% in USD, 34% in EUR, and 35% in CHFs.

Several key factors contributed to gold's stellar performance. Strong demand from central banks and investors provided a steady foundation for price increases, while heightened geopolitical risks, stemming from increased conflicts and a busy electoral year globally, further bolstered gold's appeal as a safe-haven asset. Additionally, periods of lower yields created a favorable opportunity cost, while a weakening US real economy provided added incentive to make gold an attractive investment option. While a strong US dollar rally toward the end of the year caused gold to give back some of its gains, it has since hit a new all-time high in EUR at 2,764, in CHF at 2,591, and in USD at 2,868 (at the time of writing).

Historically, gold has demonstrated consistent growth, and over the past 45 years, the gold spot price index (in USD) has maintained a compound annual growth rate of 5.52%. While predictions vary slightly for 2025, the majority consensus is that prices will continue to rise, albeit possibly at a slower pace than in 2024. Among the big names in the financial sector, Goldman Sachs adjusted their gold price projection from 3,000 USD/oz to 2,910 USD/oz by the end of the year. JPMorgan forecasts gold prices rising to 3,000 USD/ounce by late 2025, while UBS set their prediction at 2,850 USD/oz by year's end. From the Asian perspective, HSBC predicted gold's price will be 2,625 USD/ounce in 2025, while MUFG projected gold will reach 3,080 USD/oz by Q4 2025. As central banks are expected to continue to increase their gold holdings throughout the year, gold will likely continue to be one of the "must have" assets for 2025.