MAY 2024

The Sharp Perspective

OUR MONTHLY COMMENTARY

Gold prices set fresh highs, before once again consolidating. The timing of the first US interest rate cut seems to be driving prices

- Uncertainty on many fronts, combined with expectation for lower interest rates are providing the bullish back drops
- Fund buying continues to be a driving force, with price dips so far being short-lived
- Although ETFs remain net sellers, some regions are buying, while others are selling
- US election likely to keep the broader market nervous, which should keep interest in gold high

Silver prices have started to play catch-up with gold, which has seen the Gold/Silver ratio drop sharply

- Prices climb through 2020 & 2021 highs to reach levels not seen since 2012. Next resistance levels seen around $35 per oz

Platinum rallies and funds get more involved, but palladium still lags behind

- Funds still net short palladium, but will rising commodity prices make those shorts uncomfortable?

KEY TAKEAWAYS

- Gold sets fresh record high at $2,450 per oz
- Market focused on Fed rhetoric
- Silver switches from underperforming to overperforming gold…
- …silver breaks above 2020-2021 highs
- Platinum reverts to trade at a premium to palladium

Gold had a month of two-halves in May – new highs, followed by consolidation

After consolidating in the second half of April and into early May, spot gold prices then resumed their upward voyage to set a new high at $2,450 per oz on May 20, they have since once again pulled back to consolidate. The day-to-day oscillations in the gold price are firmly tied into expectations about when the US Federal Reserve (Fed) will make their first rate cut. Poor unemployment claims data on May 9, left the market thinking a rate cut may come sooner than later and that weakened the US dollar and prompted buying into commodities. Then comments by Fed official, Michael Barr, on May 20, saying that the "Fed will need to allow tight policy further time to continue to do its work", suggested the Fed was still potentially hawkish and could even raise rates again, this led to dollar strength that weighed on gold and other commodity prices. Over the following few days after May 20, gold prices dropped 5% to around $2,325 per oz and over the same period, copper prices dropped 8% from its record high.

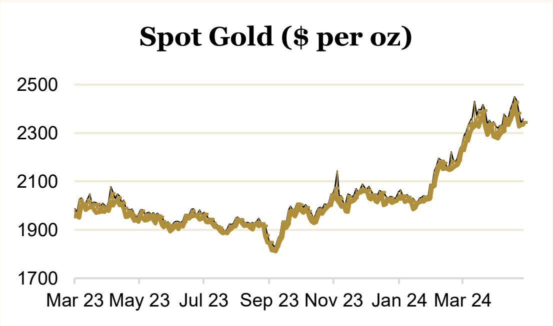

CHART 1

So much uncertainty supportive for gold

While the Fed's stance may be driving short term fluctuations in the gold price, considerable uncertainty on so many other fronts is underpinning the overall upward trend in prices. This uncertainty includes the geopolitical situations over Russia/Ukraine, China/Taiwan and Israel/Palestine, political situation in the US with the US presidential election and how that could impact geopolitics around the world going forward and on the economic front, concerns over skyrocketing government debt, especially the US's $34.7 trillion of national debt. In 1980, US Federal debt was 34.6 percent of GDP, in 2000 it was 57.7 percent and today it is 122.3 percent. Is this debt model sustainable – if not then what happens to the US dollar and the US economy?

Fighting inflation gets costly

The US is in a difficult situation. If it does not get inflation under control and must raise interest rates further, then it would add significant cost to servicing its debt. BlackRock's Larry Fink and JP Morgan & Chase's Jamie Dimon have both voiced concern about the US debt with the former saying it needs "urgent" attention and the latter saying it is the "most predictable crisis in history". Concerns about the debt are not new, but common sense says there is no room for complacency – 'chickens come home to roost'. The debt cannot go on growing forever, estimates suggest if it exceeded 200 percent of GDP then it would become unmanageable and lead to default. While that could be 20 years away, confidence that the US will take corrective fiscal action could fade, which would speed up the time frame for a crisis.

Is the dollar set to lose its mightiness?

US treasuries have traditionally been the go-to place for investors looking for the ultimate safe-haven, with other major currencies and gold being used to lesser extents. But, that now seems to be slowly changing, at least for some investors, especially some sovereign investors. As per above, there is concern whether the US's fiscal situation and reliance on international investors buying its debt is sustainable. Some already seem to be voting with their feet reducing counter-party risk by diversifying away from US assets for other safe-havens, especially gold. This has been seen by the pick-up in institutional buying of gold. But there is a second reason why some countries are moving away from the dollar. When a country holds a high proportion of their reserves in US treasuries and relies on the US dollar for international trade, it means the country is in many ways tied into the goodwill of, or at least a constructive relationship with, the US. With the world order changing, that might not sit comfortably with up-and-coming countries that might want to reduce their counterparty risk and increase their independence. This has become more of an issue since the US has weaponized the US dollar and its influence in the global payments system. The US and its partners' sanctions on Russia have barred Russia from the global financial system and have frozen Russia's central bank's overseas assets. This could prompt more countries to seek independence from the US dollar. Not wanting to rely on the US may increase if Donald Trump wins the US presidency and stirs up international relations again. Any such development could lift demand for gold as sovereign states look to diversify away from holding the reserves in US assets.

Funds get longer

The funds trading Comex gold increased their net long position by 25,596 lots between late-April and 21st May, taking the net long fund position to 229,806 contracts. This is the highest it has been since April 2022, but the net position is still well below the peak of 353,649 contracts seen in February 2020, when markets were getting jittery as the pandemic started to unfold.

China retail demand surges

As China's property crisis continues and as the currency weakens, more investors have turned to gold as an investment. According to the China Gold Association, national gold consumption reached nearly 1,090 tonnes in 2023, an increase of 8.8 percent year on year. And the buying appears to be continuing, as gold prices in China are commanding an $85 per oz physical premium over the London international benchmark price. Rising gold prices, a weakening currency, the potential for geopolitics to deteriorate should Donald Trump win the US election, all seem to be encouraging strong buying in China. And, investors may be taking comfort from the fact their central bank had also been buying gold. There is, however, evidence of a lot of speculative activity on the Shanghai Futures Exchange, so that is something to be wary of.

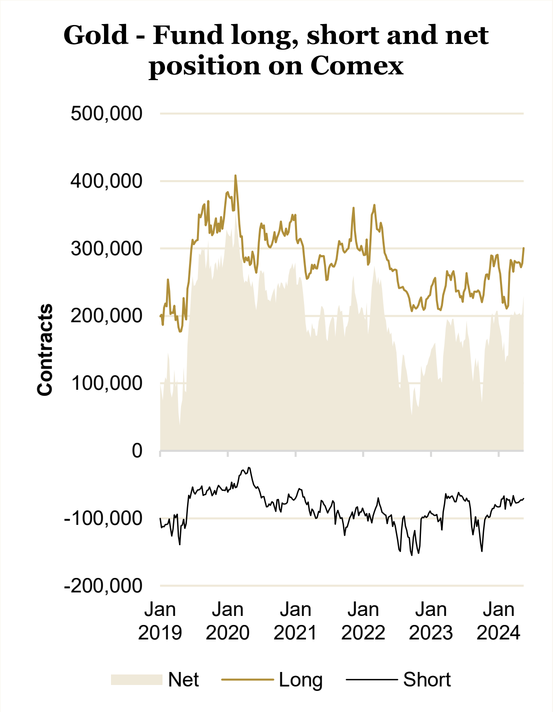

CHART 2

ETF investors continue to sell

While the funds continue to buy gold, the ETF investors remain net sellers. Assets under management fell to 3,079 tonnes as of the end of April, compared with 3,113 tonnes at the end of March. While there has been fresh buying into ETFs, it has been more than offset by selling. Regionally, Asia has seen the lastest inflow, North America saw a small inflow, while Europe has led on the outflow.

SUMMARY & TECHNICAL

The uptrend remains intact, but overhead selling has emerged. Given changing time-frames over US rate cuts, prices are expected to get more volatile. But, given a lot of uncertainty on so many political, geopolitical and economic fronts, investor and central bank interest in gold is expected to remain high.

Gold Statistics

	2020	2021	2022	2023	Q4 2023	Q1 2024	Mar-24	Apr-24
London prices								
$/oz	1769.97	1799.87	1801.167	1942.988	1976.26	2069.33	2148.91	2335.89
£/oz	1378.80	1308.412	1457.435	1562.57	1592.00	1630.54	1686.36	1865.85
€/oz	1549.38	1308.41	1457.43	1796.32	1837.04	1905.12	1973.37	1865.85
Parity prices								
Australian - A$/oz	2543.80	2393.13	2589.74	2923.98	3,019	3,153	3,291	3,590
South Africa Rand/kg	29,352	26,519	29,139	35,952	36,862	39,142	40,686	42,257
Japan Y/g	189,104	197,644	241,248	273,806	292,091	307,850	323,220	359,353
India Rupee/oz	131,445	133,434	142,184	160,596	162,790	171,999	179,167	194,837
COMEX - futures contracts*								
Stocks ('000oz)#	38,157	33,805	23,180	19,191	19,191	17,585	17,585	16,848
Vol (million contracts)*						15.74	6.65	6.21
OI ('000 contracts)#						455	508	520
CFTC (Futures Only Data) non-commercial*								
Net Positions#	268,872	213,157	136,880	207,718	207,718	162,907	141,636	204,210

*Figures are period averages unless marked by *, indicating total in the period, or #, indicating value at the end of the period.*

~ = data not available yet, italics = estimates, OI= Open Interest on the exchange

Silver outperforming gold in May

Silver prices have followed gold's lead, but have generally been more active than gold, as investors saw silver as a catch-up trade. As a result, the gold/silver ratio has dropped to 1:74 in late-May, from 1:87 at the end of April. Spot silver prices rallied to a high of $32.51 per oz on May 20, they have since been consolidating in the $30.00-32.25 per oz range. So for now, prices are holding up well. At this year's high, silver prices were up 36.6% since the start of the year, while gold was up 18.8% - this highlights silver's out performance.

Strong industrial demand

As well as attracting demand as a proxy for investing in gold, silver is benefitting from strong industrial demand from solar panel installations, especially in China. China installed 45.7 GW of solar panels in the first quarter, which was up 36% from the same period in 2023. China is not the only country adding solar capacity, global solar capacity is expected to triple between 2022 and 2027 and is expected to see strong growth for years to come as the world moves towards carbon zero. Globally, demand from the solar industry jumped to around 193 million oz in 2023, from 125 million oz in 2022. In addition, as the outlook for global economic growth has improved in recent months, so has the outlook for silver as the metal is used widely across industry, in engineering, electronics, chemicals, consumer products and in jewellery.

Funds increase long exposure

The funds trading Comex silver have continued to increase their net long position, which stood at 59,644 contracts on May 21, up from 54,494 contracts at the end of April. But, unlike gold that has seen the longs add positions and the shorts cut positions, silver has seen both longs and shorts add to their positions, suggesting the market is becoming more polarized. Like gold, the current net long position is the largest it has been since February 2020, when the net long position rose to 77,877 contracts.

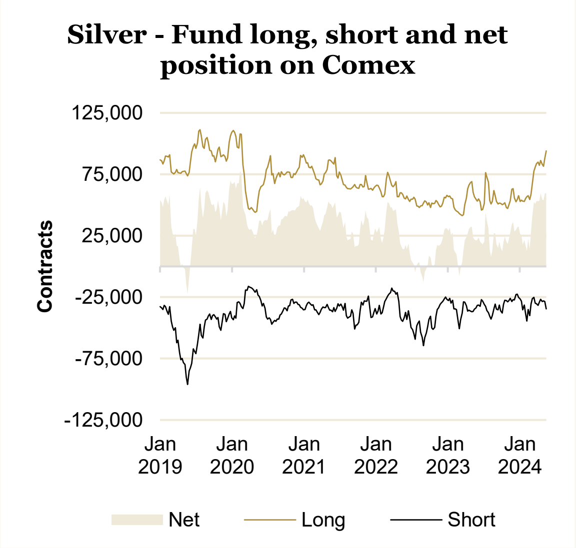

CHART 3

TECHNICAL – Last month we said "the charts suggests an upward trend has now taken over from the previous downward trend". That has since proved to be the case as prices have moved up through the April high and indeed the highs from 2020 ($29.85 per oz) and 2021 ($30.04 per oz). This now targets the previous highs that were seen between 2011 ($49.81 per oz) and 2012 ($35.39 per oz). That said, prices have already pulled well above the upward trend line now, so some consolidation is likely.

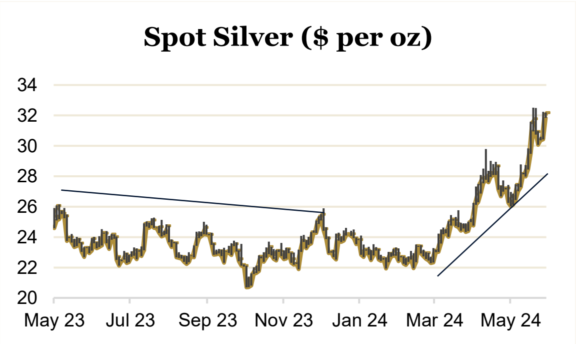

CHART 4

SUMMARY – Silver's industrial/fabrication demand outlook is improving and seeing that, combined with the investment appetite for gold, with silver being a proxy for gold, means the outlook is strong, which supports the overall upward trend. But, the already rapid advance, as seen by the year-to-date rise, compared with gold, means silver prices are likely to be volatile, especially if the funds get more polarized.

Silver Statistics

	2020	2021	2022	2023	Q4 2023	Q1 2024	Mar-24	Apr-24
London Prices (US$/oz)								
Spot London price	20.55	25.14	21.73	23.39	23.23	23.36	24.40	27.60
Parity (London) prices								
Japan (Y/g)	2,196	2,761	2,911	3,296	3,433	3,475	3,670	4,246
India (Rupee/oz)	1,526.1	1,863.8	1,715.4	1,933.3	1,750.4	1,913.5	2,034	2,302
COMEX – futures contracts								
Stocks ('000oz)#	396.5	355.7	299.0	253.9	253.9	292.7	292.7	264.0
Vol (million contracts)*						4.59	1.55	2.97
OI ('000 contracts)#						160.7	160.7	166.3
CFTC (Futures Only Data) non-commercial								
Net Positions#	54,779	26,458	31,027	31,863	31,863	50,836	50,836	54,494
Other Indicators								
Gold/Silver ratio#	1:72	1:78	1:76	1:86	1:86	1:86	1:86	1:75

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Platinum and palladium prices diverge with platinum's stronger fundamentals

Investors have been bullish on gold for a long time now, but as gold has got more expensive investors have tvurned their attention to some of the other commodities that were being left behind and that look well placed to benefit from a pick-up in global economic activity. Copper, the other base metals and silver followed higher in March, with platinum then following in late-April. Alas, palladium has generally been left behind and that seems to be due to it not having as strong fundamentals as the others. The move to electric vehicles is seen as a headwind of the platinum group metals (PGM), but platinum should fair better than palladium, as it has a more diverse demand base, that being jewellery and a catalyst for the production of hydrogen. The latter will be a growth industry as demand for renewable energy grows. The former could also pick-up now that gold is trading at $1,300 per oz premium to platinum.

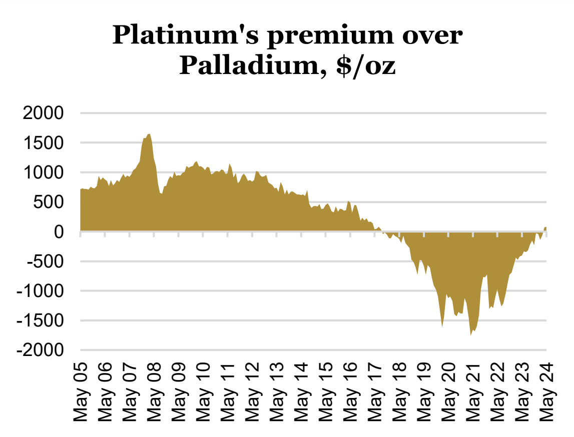


CHART 5

Pt trades at a premium to Pd again

Traditionally platinum traded at a premium to palladium, a premium that ranged between $300 and $1,700 per oz between the early 2000s and 2016, then in 2017 it switched with palladium trading at a premium and that was generally the case until just recently. As Chart 5 shows, platinum has now reclaimed the higher price, platinum is trading at an $85/oz premium to palladium, so potentially the start of a new trend.

Funds polarized on the PGMs

Given platinum's strong price performance it is unsurprising to see that the net long fund position has increased to 27,649 contacts as of May 21, up from 6,797 contracts in late-April. The longs have been buying and the shorts have been covering. Conversely, the funds remain net short 10,424 contracts of palladium, which is slighly less than the net short 11,070 contracts they held in late-April. Despite the difference in the outlooks, the large gross short position (16,646 contracts) in palladium does look at risk, as a general rising tide in commodities may well lift palladium prices too.

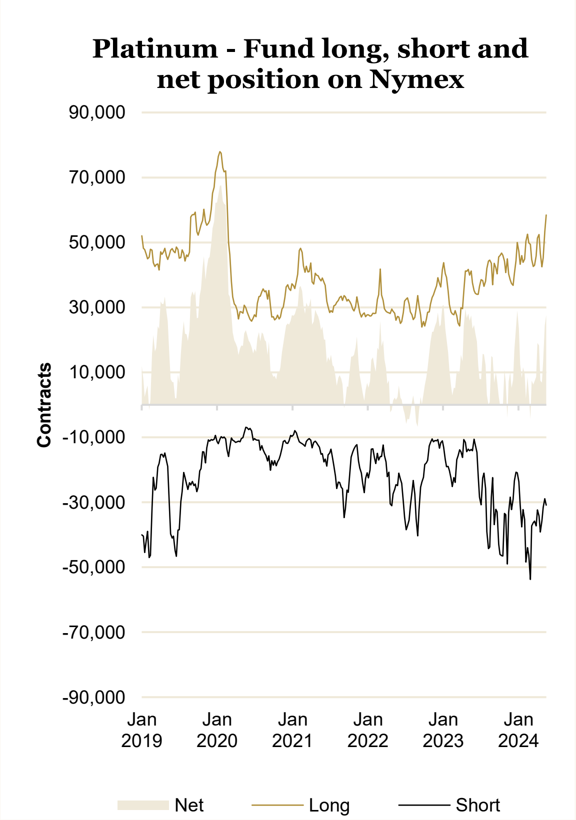


CHART 6

CHART 7

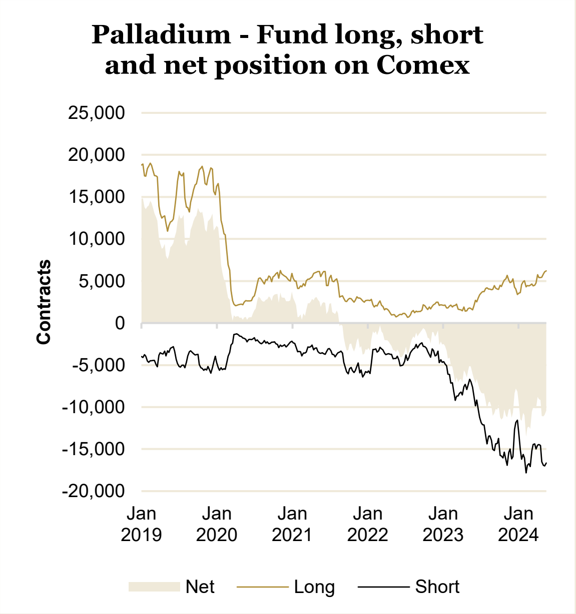
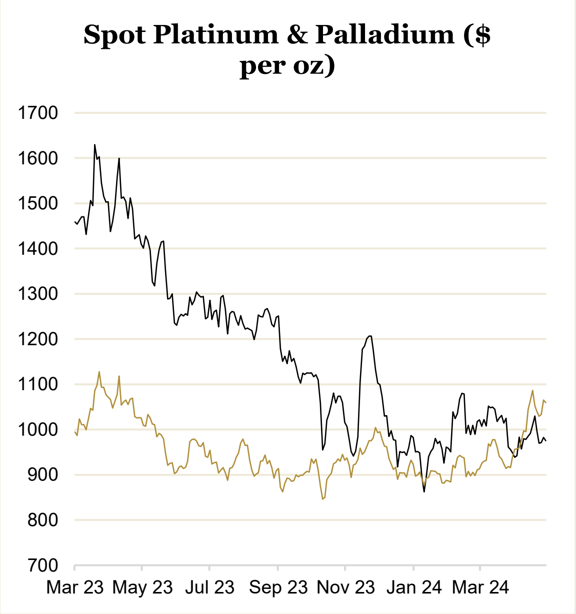


CHART 8



TECHNICAL & SUMMARY – Platinum appears to have turned a corner and is emerging from its flat, bouncing-along-the-bottom trend, to an uptrend and with the net long position still quite small, the path of least resistance may be higher. While palladium's outlook seems weak, the market seems vulnerable to a short-covering rally. Palladium's price discount to platinum may prevent it losing market share in auto catalytics.

PGM Statistics

	2020	2021	2022	2023	Q3 2023	Q4 2023	Mar-24	Apr-24
London Prices (US$/oz)								
Platinum	884.49	1091.24	961.24	966.88	931.27	913.85	894.65	910.82
Palladium	2197.06	2398.86	2108.33	1338.69	1251.05	1087.30	938.22	1015.19
Japanese Parity Prices (Y/g)								
Platinum	94,499	119,829	128,748	136,253	134,671	135,067	133,875	136,997
Palladium	234,734	263,419	282,390	188,648	180,914	160,703	140,395	152,696
South African Parity Prices (Rand/kg)								
Platinum	14,668	16,078	15,551	17,891	17,445	17,045	17,007	17,245
NYMEX Stocks ('000oz)								
Platinum#	623.10	482.00	167.20	206.20	219.30	206.20	184.10	200.96
Palladium#	138.1	95.2	53.4	36.7	36.4	36.7	36.7	51.4
CFTC Futures Only Data Long / (short) non-commercial)*								
Platinum	25,829	4,469	24,666	23,662	7,326	23,662	3,601	7,195
Palladium	2,714	-3,109	-2,206	-7,801	-10,309	-7,801	-12,315	-9,900
Other Indicators (US$/oz)*								
Pt-Au spread	-816	-858	-747	-1,056	-947	-1,056	-1,161	-1,400
Pt-Pd spread	-1,295	-966	-723	-113	-366	-113	-65	-107

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