#06 AUGUST 2024

The Sharp Perspective

OUR MONTHLY COMMENTARY

Gold prices set fresh highs in August and remain well supported on global issues and ahead of September's expected US rate cut

- US economic data in August supported the view that the US Federal Reserve will start cutting interest rates in September.
- "The time has come for policy to adjust," said Fed chair Jerome Powell at the Jackson Hole central bank symposium, cementing expectations for a rate cut.
- Funds, ETF investors and central banks continue to increase exposure to gold.
- Globalisation led to a long period of low inflation, deglobalisation is now likely to cause inflation as it will necessitate massive capital expenditure, especially in the West.
- The long lead up to the first US rate cut has given markets time to position themselves for it, will this turn out to be a 'buy the rumour, sell the fact' set-up?

Silver's downward price trend continues, general global economic weakness weighs on sentiment

- Long term demand outlook set to improve given silver's use in a plethora of high-tech applications.

PGM prices remain depressed, but weak prices are prompting a supply response that should start to tighten the fundamentals

- The PGMs face another year of supply deficits, with the deficits being filled by drawing down inventory that had built up in previous years. Its important to remember stocks cannot be drawn down indefinitely.

KEY TAKEAWAYS

- Gold prices set a fresh high in August, and are still holding up well.
- The market is focused on the expected US Federal Reserves' first rate cut in September .
- There is potential for a market shock if the rate cut were to be delayed.
- Gold's move to successive highs highlights that the underlying factors remain supportive.
- A broader market correction could drag gold prices down initially.
- Silver prices continue to trend lower in the face of weaker global economic activity.
- Low PGM prices hurting producers, more production cuts are expected to send PGM markets further into deficit.

Gold sets fresh record highs again in August, as US rate cut anticipated

Worse than expected US employment data in early August triggered a broad market sell-off that included a $113 per oz drop in the gold price. The weak data also strengthened the market's conviction that the US Federal Reserve would make its first rate cut in September, with some also calling for a 50-basis point rate cut, instead of a more usual 25-basis point move. While gold's initial reaction was negative, as investors sold gold to raise money for margin calls in less liquid markets, the secondary reaction was more in line with the development. Bad data could mean the US was heading for a recession, which could mean a rotation out of equities into safe-havens and lower interest rates would reduce the opportunity cost of holding gold, as well as weakening the US dollar – all bullish drivers for gold. As a result, after the initial sell-off to $2,364.35 per oz on August 5, gold rallied to set a fresh all-time high at $2,531.70 per oz on August 20. The three previous peaks seen in April, May and July being at $2,431.55 per oz, $2,450.05 per oz and $2,483.70 per oz. Fed Chair Jerome Powell, later cemented expectations that interest rates were set to fall when he spoke at the central bankers gathering in Jackson Hole, saying "The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks".

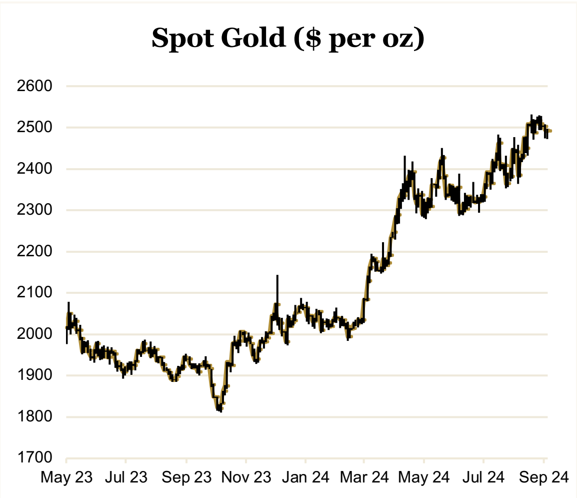

CHART 1

Majority expect a 25-basis point Fed cut

According to interest traders using CME futures, the probability of a 25-basis point cut in the Fed target rate at the next Federal Open Market Committee meeting on September 18, was 67%, with a 33% probability for a 50-basis point cut. While 50-basis points is now less likely, gold prices have come off the boil and were trading back either side of $2,500 per oz in early September. The next potential pivot point is likely to be the release of the August jobs report on September 6. Anything that suggests a 50-basis point cut may well see gold rally further. Conversely, there is a risk that with the rate cut so long in coming, that the market has already baked in the cut and the first cut turns out to be a 'buy the rumour, sell the fact' setup.

A safe haven in a troubled world

The fact that gold prices have been moving from one record high to another since the start of 2024, suggests more investors, professional money and central banks are turning to gold for its safe-haven in these troubled times. Troubled in many ways, with wars, geopolitical tensions, social unrest, political uncertainty, currency devaluation (especially the Chinese yuan), inflation, staggering amounts of government debt, and some underperforming equity markets, as well as potentially overvalued equity markets. Gold seems once again to have become the standout safe haven, while bitcoin is failing to shine, at some 20% below its all-time high. Even the US dollar, as measured by the Dollar Index is 12% below its most recent (2022) high.

Structural change will be inflationary

Running parallel with geopolitical tension and some major regional conflicts/wars are the deglobalisation and green transition trends. The former is likely to increase geopolitical tensions but also create uncertainty. Both trends also have an inbuilt inflationary element to them as it means considerable new capex to build industrial and manufacturing supply chains to diversify away from China. Building new supply chains in the West will be many times more expensive than building them in China, and that will mean higher prices for finished products, therefore inflation.

Central banks buying continues

Reported net purchases by central banks rose 37 tonnes in July, with Poland (14t), Uzbekistan (10t), India (5t), Jordan (4t), Turkey (4t), Qatar (2t) and Czechia (2t) the buyers, while Kazakhstan sold 4 tonnes. The World Gold Council also reported that the State Oil Fund of Azerbaijan added 10 tonnes in the second quarter, taking its holdings to 114.9 tonnes.

Investor buying for fourth month

Exchange Traded Fund investors have been net buyers of gold for four months now, taking holdings to 3,167 tonnes as of late-August, compared with a low of 3,079 tonnes in April. The switch to net buying from net-selling came after a protracted period of profit-taking as seen in the chart. Holdings peaked at 3,915 tonnes in October 2020, and again at 3,886 tonnes in April 2022, before falling to this April's low. Given gold prices have been trending higher since September 2022, it does seem as though investors were late to get on board and with current holdings well below the record levels, there may be considerable capacity for more buying, especially given how troubled the world is.

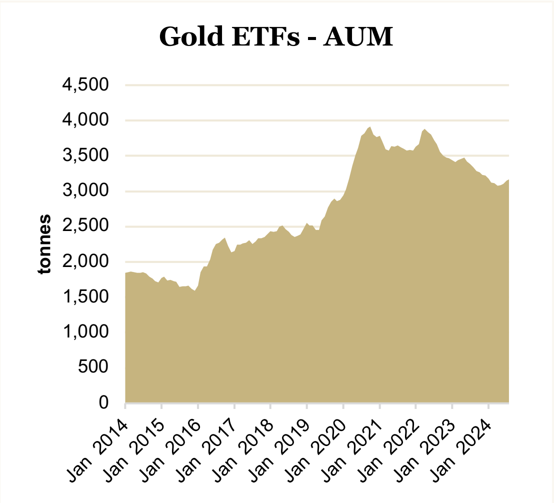

CHART 2

Funds turn net buyers again

The net long fund position peaked at 285,024 contracts in mid-July, before dropping to 238,749 contracts in early-August. Profit-taking (51,708 contracts) and short-covering (5,433 contracts) were behind the move that saw the net long position drop by 46,275 contracts, but over the rest of August, the net position climbed 55,696 contracts to 294,445 contracts, with 45,211 contracts of fresh buying and 10,485 contracts of short-covering driving the increase. The current net long position is 59,204 contracts below the February 2020, high of 353,649 contracts. With 343,330 longs and 48,885 shorts, the market remains decidedly bullish.

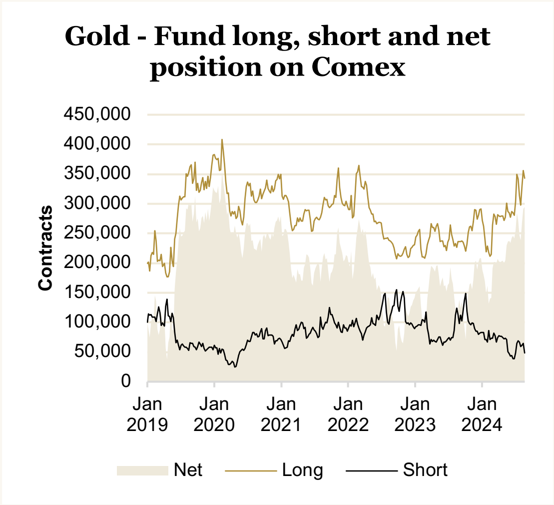

CHART 3

Low volumes despite price volatility

Trading volumes on Comex dropped to 4.4 million contracts in August, compared with 6.3 million in July, this despite the dip and rebound in both price and the net long fund position. Open interest is high at 520,000 contracts, up from an average of 470,000 during the first seven months of the year, which ties in with the relatively large fund position.

TECHNICAL ANALYSIS

After a strong rally from June's low, prices ended August in consolidation mode, but prices are holding up well being only a few percentage points below the high. Having climbed over $200 per oz over the past three months there may be room for more of a pullback – trendline support is around $2,440 per oz.

SUMMARY

The situation across markets, economies and geopolitics remains supportive for gold. The only question ahead of the likely US rate cut is whether markets have already anticipated the change and the market has set itself up for a 'buy the rumour, sell the fact situation'. If so, it is possible that markets corrects ahead of the FOMC meeting. Any dips are likely to be seen as buying opportunities.

Gold Statistics

	2020	2021	2022	2023	Q1 2024	Q2 2024	Jul-24	Aug-24
London prices								
$/oz	1,769.97	1,799.87	1,801.17	1,942.99	2,069.33	2,337.69	2,392.90	2,468.11
£/oz	1,378.80	1,308.41	1,457.43	1,562.57	1,630.54	1,852.42	1,860.56	1,909.39
€/oz	1,549.38	1,308.41	1,457.43	1,796.32	1,905.12	2,067.61	2206.27	2242.235
Parity prices								
Australian - A$/oz	2,544	2,393	2,589	2,924	3,153	3,547	3,583	3,714
South Africa Rand/kg	29,352	26,519	29,139	35,952	39,142	42,780	43,599	44,549
Japan Y/g	189,104	197,644	241,248	273,806	307,850	364,369	377,863	361,158
India Rupee/oz	131,445	133,434	142,184	160,596	171,999	195,010	200,023	207,025
COMEX - futures contracts								
Stocks ('000oz)#	38,157	33,805	23,180	19,191	17,585	16,505	17868.00	17031.00
Vol (million contracts)*					15.74	15.89	6.29	4.42
OI ('000 contracts)#					508	448	504.2	519.95
CFTC (Futures Only Data) non-commercial								
Net Positions#	268,872	213,157	136,880	207,718	199,294	246,229	246,601	294,445
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								

Choppy month for silver prices

Silver once again failed to set even a fresh monthly high in August, while gold set a fresh all-time high. Indeed, each peak in silver's price since the May 20 peak at $32.51 per oz, has been lower, with peaks at $32.30 (May 29), $31.75 (July 11) and $30.19 (August 26). That said, when gold prices rebounded after the early-August sell-off, silver prices did rebound more aggressively, to the extent that the gold/silver ratio dropped from 1:90 on August 6, to 1:84 on August 26, before climbing back to 1:88 by month-end.

Temporary underperformance

Silver's industrial uses are facing headwinds as global economic activity is subdued, especially in China, and as the solar panel industry is experiencing production cuts due to earlier oversupply. As a result, when US data in early August caused some traders to fear the US was heading for a recession, silver suffered a sharp sell-off, with prices falling to $26.46 per oz on August 7, from $29.22 per oz on August 2. China is attempting to boost economic growth with targeted stimulus and the slowdown in the solar industry is bound to be short-lived, given the need for the world to increase renewable energy generating capacity. In addition, with silver used across a wide range of high-tech industries, which are all growing fast, the outlook for silver demand growth is robust. Given where the gold/silver ratio lies, suggests silver has become undervalued compared with gold over recent years. In the 20th century the ratio averaged 1:47.

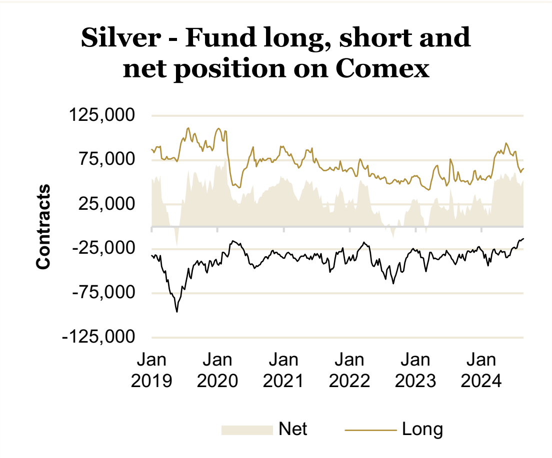

CHART 4

Funds reduce exposure to silver

The funds trading Comex silver have slightly increased their net long position to 52,186 contracts, up from 49,061 contracts at the end of July. Both camps have reduced their exposure, with longs holding 65,715 contracts, compared with 67,416 contracts at the end of July, and the shorts held 13,529 contracts, compared with 18,355 contracts at the end of July. This equates to 1,701 contracts of long liquidation and 4,826 contracts of short covering. The gross short position is now at the lowest it has been since the start of 2019.

Technicals look weak

Silver prices are trending lower, with a series of lower highs and lower lows mapped out on the chart. Uptrend lines have also been broken. The August low, did, however, hold above the April low at $26.01 per oz. A higher low and higher high are now needed to indicate the downtrend has run its course. The high gold/silver ratio also suggests silver is already weak.

CHART 5

SUMMARY

There are a lot of bullish calls for silver in the market and while its underperformance to gold can be somewhat justified by the current economic climate, the longer-term demand outlook for silver suggests it is undervalued. While silver is in a higher trading range than it was in 2021-2023, and that was above the 2014-2020 range, silver does not yet seem in any hurry to push and hold above $30 per oz.

Silver Statistics

	2020	2021	2022	2023	Q1 2024	Q2 2024	Jul-24	Aug-24
London Prices (US$/oz)								
Spot London price	20.55	25.14	21.73	23.39	23.36	28.86	29.75	28.52
Parity (London) prices								
Japan (Y/g)	2,196	2,761	2,911	3,296	3,475	4,500	4,697	4,173
India (Rupee/oz)	1,526	1,864	1,715	1,933	1,942	2,408	2,486	2,392
COMEX - futures contracts								
Stocks ('000oz)#	396.5	355.7	299.0	253.9	292.7	255.7	302.7	306.2
Vol (million contracts)*					4.59	7.20	1.63	1.94
OI ('000 contracts)#					160.7	155.3	151.3	131.8
CFTC (Futures Only Data) non-commercial								
Net Positions#	54,779	26,458	31,027	31,863	50,836	50,836	49,061	52,186
Other Indicators								
Gold/Silver ratio#	1:72	1:78	1:76	1:86	1:86	1:86	1:87	1.88

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PGM prices remain in the doldrums

The PGM metals continue to trade in the lower levels of their ranges with both prices back under $1,000 per oz, with platinum prices trading at a discount to palladium again. While palladium prices continue to bounce along the bottom, platinum prices are following silver's downward trend, with August's high, below the June's high, which in turn was below May's high. This low price environment, combined with the market's depressed view on the outlook for the PGMs, due to the inevitable rise in electric vehicles (EV), is a headwind for PGM producers, with Northam Platinum saying the platinum mining industry is facing an irreversible decline. The company expects South Africa's platinum output to fall to to 3.5 million oz over the next five years, from current levels of 3.9 million oz, as mines deplete and investors have been reluctant to invest in new projects. Impala Platinum and Sibanye Stillwater have also raised concerns about the prospects of the platinum industry in South Africa at these low price levels. All of which suggests a supply response is underway, which could start to further tighten the fundamentals.

Market deficit eats into inventory

Not only will the weak price environment lead to lower primary production, it will also likely impact secondary supply. In addition, with the uptake of battery-only EVs (BEV) slowing in countries outside of China and with plug-in hybrid EVs (PHEV), which require catalytic convertors, growing in popularity, then perhaps demand for PGMs from the auto industry will not fall as fast as the market had earlier feared. These trends are set to tighten the PGMs' fundamentals and lead to another year of supply deficits. In recent years, there has been enough inventory to fill the supply/demand gaps, but stocks can only last for so long. Once the inventory is depleted, then the outlook for the PGMs will brighten once again.

Fund selling weighs on the PGMs

The funds' stance on platinum and palladium are quite different and have been for a long time. The funds have been short palladium since September 2021, and have generally been long of platinum for most of the period shown in the chart. The palladium positions has become more polarised with the longs generally getting longer as the shorts have got shorter. In platinum, the trend this year has generally been one of short-covering, but there has also been some long liquidation since June. On balance, palladium looks the least stable with its large short position still on the books, while prices have flattened out after a significant downward trend that has seen prices fall to $964 per oz, after a high of over $3,400 per oz in 2022.

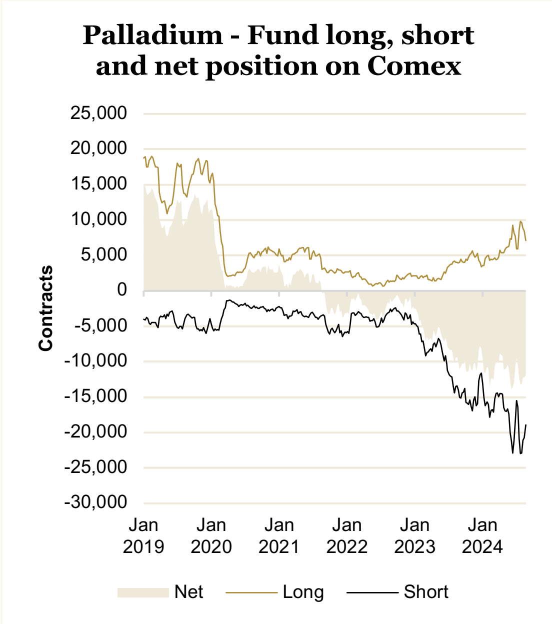

CHART 6

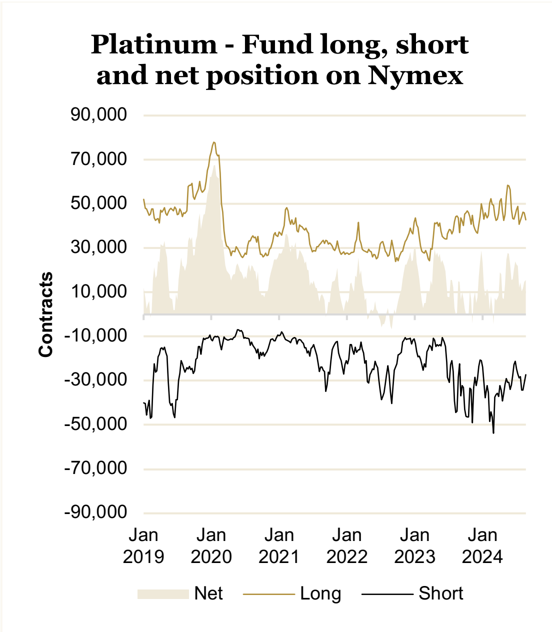

CHART 7

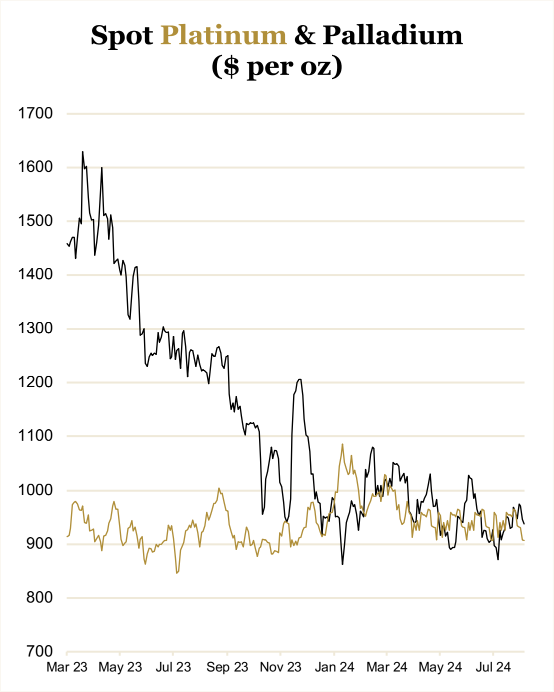

CHART 8

SUMMARY

The PGM prices remain weak and despite the markets being in supply deficits, sentiment remains depressed. But, producer restraint and falling inventories suggest the fundamentals are slowly improving and that could speed up on more production cuts.

PGM Statistics

	2020	2021	2022	2023	Q1 2024	Q2 2024	Jul-24	Aug-24
London Prices (US$/oz)								
Platinum	884.49	1091.24	961.24	966.88	915.79	980.94	981.40	944.38
Palladium	2197.06	2398.86	2108.33	1338.69	989.99	972.46	924.40	931.55
Japanese Parity Prices (Y/g)								
Platinum	94,499	119,829	128,748	136,253	138,591	52,928	154,972	138,191
Palladium	234,734	263,419	282,390	188,648	149,827	51,514	145,972	136,314
South African Parity Prices (Rand/kg)								
Platinum	14,668	16,078	15,551	17,891	17,097	17,956	17,881	17,046
NYMEX Stocks ('000oz)								
Platinum#	623.10	482.00	167.20	206.20	200.96	174.84	155.51	145.59
Palladium#	138.1	95.2	53.4	36.7	51.4	34.7	43.9	43.9
CFTC (Futures Only Data) non-commercial#								
Platinum	25,829	4,469	24,666	23,662	7,195	18,322	14,314	15,733
Palladium	2,714	-3,109	-2,206	-7,801	-9,900	-11,685	-13,091	-11,860
Other Indicators (US$/oz)#								
Pt-Au spread	-816	-858	-747	-1,056	-1,400	-1,353	-1,498	-1,592
Pt-Pd spread	-1,295	-966	-723	-113	-107	2	56	-20

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