#10 DECEMBER 2024

The Sharp Perspective

OUR MONTHLY COMMENTARY

Gold prices tried to rebound in December, but ran into selling, causing further consolidation. Expect increased volatility as Trump charges back into office

- Gold prices are holding up well considering the 27% gain last year. The market is being buffeted by many cross winds and the forecast is for more stormy weather ahead once Trump starts to throw his weight around
- Markets are braced to see how Trump handles the wars, the foreign entities of concern, Nato, trade and climate change
- This is likely to lead to a period of increased price volatility, not only for gold but for other markets. And, gold is likely to react to their moves too
- The fact gold prices have held up well despite multi-month high US treasury yields and multi-year highs in the US dollar, suggest gold is being sought after for its safe-haven properties – this is not surprising given the extent and range of issues the world faces
- The market remains bullish judging by the titles of articles in the media; this might highlight the strong underlying interest in gold, but equally it prompts caution – especially given the high opportunity cost of holding gold at these levels
- Funds and investors reduced exposure to gold in recent months, but that is normal behaviour ahead of year-end

Silver has retreated more than gold has and looks more vulnerable in the short term given sluggish industrial demand

- Market is bullish for silver as it is for gold, but there are some headwinds for silver
- Demand from solar industry likely to soften as China destocks

PGM prices are back below $950 per oz as manufacturing and the auto market remain weak

- Platinum outlook looks brighter than palladium's

KEY TAKEAWAYS

- Gold prices likely to see increased volatility as Trump takes office and introduces new policy
- There are many things to be bullish about gold and many of these are unlikely to go away any time soon, such as high global debt, de-dollarisation and heightened geopolitical risks …
- …but there are bearish factors to contend with too, mainly the strong US dollar, relatively high US yields and a lot of open profit that has not been realised yet
- There has been some investor and fund profit-taking, but that is usual ahead of year-end
- Silver and PGM prices face headwinds as manufacturing is generally struggling and Trump's policies on trade could make things worse

Gold consolidates in December after an outstanding performance in 2024

After a blistering performance in 2024, that at one stage saw gold prices up 35% on the year, the market consolidated into year-end. Having peaked in October at $2,790.90 per ounce, prices fell back to a low of $2,536.95 per oz in November. They have since been consolidating in a fairly choppy range either side of $2,650 per oz. Given the political, economic and geopolitical uncertainty the world currently faces, it is not surprising prices have consolidated after such a performance. Gold ended the year up $561 per oz, a rise of some 27%, beating the 12.8% rise in the Dow Jones Industrial Average and the 24.9% rise in the Nasdaq.

Uncertainty lies ahead

Ahead of President-elect Donald Trump's inauguration on January 20, both the US dollar and US 10-year treasury yield have been climbing from strength to strength, with the former reaching 109.50 in early January, up from around 104 just ahead of the US Election, while the 10-year US treasury yield has climbed to 4.57%, up from around 4.3% over the same period. Given their strength it is not surprising gold is not at its high, but that said, given their rise, gold seems to be holding up extremely well. The last time the yield was at this level was in May 2024, when gold prices were trading at $2,325 per oz. The last time the Dollar Index was this high was in November 2022 when gold prices were around $1,750 per oz. This could suggest that gold prices are over-priced, but it is probably more a case of how much gold is sought after as a safe-haven in these troubled and uncertain times.

Consolidating is healthy

After the gains in 2024, it is healthy for the market to consolidate as we know prices rarely go up in straight lines. Periods of consolidation allow buyers and sellers to get accustomed to the new prices, the higher prices will have attracted profit-taking and scrap into the market, both of which will need to be absorbed by buyers.

The selling and extra supply that comes into the market at the higher price, combined with the bargain hunting into price pullbacks are the cause for the volatility. Once the extra supply is absorbed and if the buying interest is still there, then the rally is likely to resume – hence the market adage "The trend is your friend".

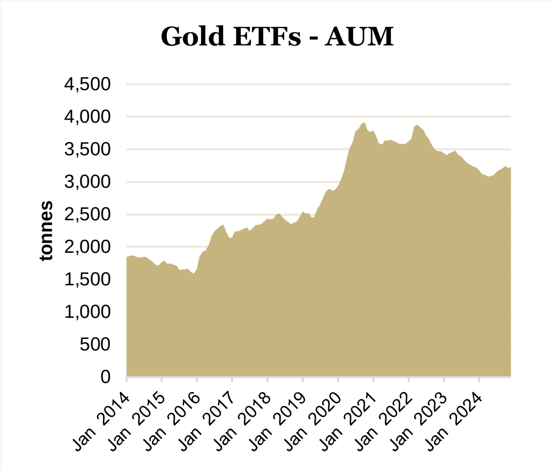

CHART 1

ETF investors return as buyers

Investors returned as net buyers in December, buying 7.5 tonnes (up to December 27), this after being net sellers of 28.4 tonnes in November. On a tonnage basis, ETF investors were holding about three tonnes less on December 27, than they were at the end of 2023, technically making it the fourth year of year-on-year declines. But, over the year, the trend has changed from being net sellers to net buyers, as the chart shows.

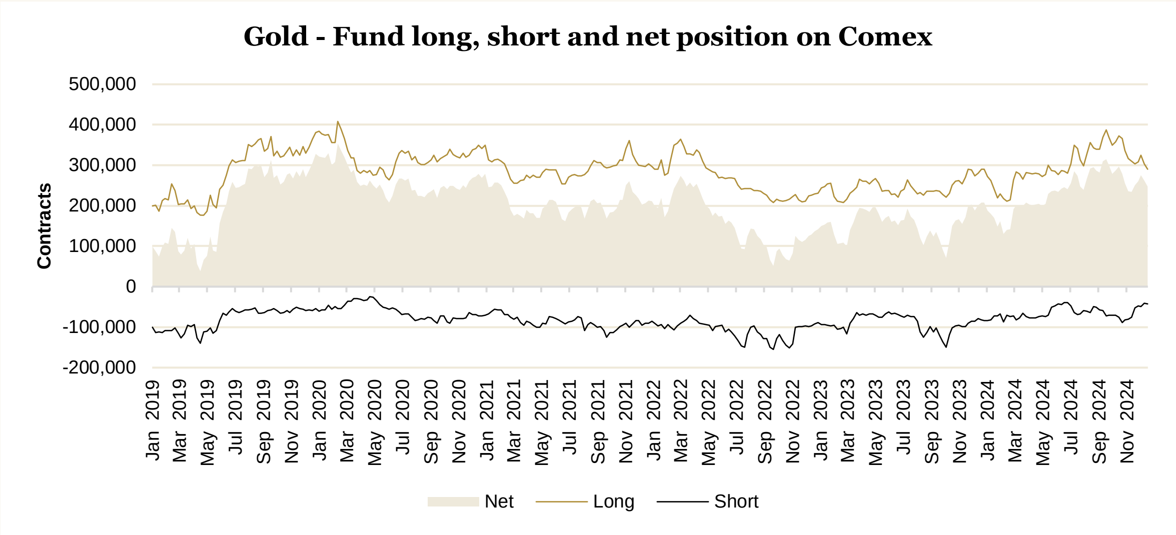

CHART 2

Funds – a mixed picture

Both the long and short funds trading Comex gold have reduced exposure in recent weeks, with the net long position dropping slightly in the process. The net long fund position stood at 247,629 lots on December 24, down from 250,338 contracts at the end of November. As the chart shows, the gross long position has fallen to 289,416 contracts from a recent peak of 324,332 contracts on December 10, and the gross short position has fallen to 41,787 contracts from a recent peak of 87,487 contracts on November 5. Reducing exposure ahead of year-end is quite normal behaviour for funds and we would not read too much into that. What is noteworthy from the chart is that the gross short position is relatively low – the smallest position was 24,653 contracts, which was seen in April 2020, in the early stages of the Covid-19 when markets sell-off (for context, the Dow sets its low in late-March 2020). Also noteworthy is that the gross long position seems to struggle to move and hold above the 400,000 contracts – the high in 2024 was 387,572 contracts.

Market bullish, but no room for complacency

The market is generally bullish for gold as seen by the numerous articles in the media with titles including: “gold to reach $3,000/ oz”, “gold’s rally to continue”, “nothing to stop gold-silver rally, “expect another record year for gold” and “Gold’s ‘spectacular’ rally has more room to run next year”.

Is so much bullishness just a sign of the trend, or perhaps it should be taken as a warning? Either way there is no room for complacency, especially given the opportunity cost of holding gold is high as US treasury yields and US equities are strong and rising and the dollar is rising too, while jewellery buying is weak, ETF investors are not showing much commitment and central bank buying has slowed. But, despite the high opportunity cost, it is also hard not to be bullish for gold given so much uncertainty and so many situations that could sour.

There is geopolitical uncertainty over Russia, Ukraine, Israel, Palestine, Taiwan, the South China Sea, Iran and North Korea. In addition, Trump looks set to shake-up global trade, NATO and climate change, to name a few. On top of that there are growing concerns over the unprecedented amount of global debt, especially in the US, the weaponizing of the US dollar and the SWIFT international payment system. Indeed, concerns about these are prompting some de-dollarisation in some quarters. While meaningful de-dollarisation will likely take decades, it is something that needs to be monitored and anticipated. The trend in increased central bank gold buying may indeed be a sign that governments are starting to diversify away for a US dollar centric system.

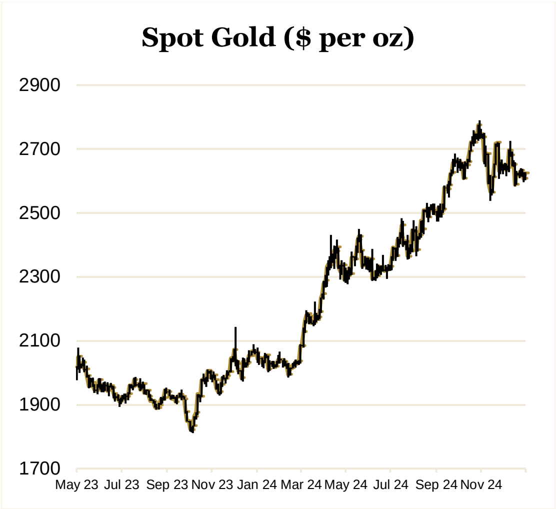

CHART 3

TECHNICAL ANALYSIS

After the February-April rally, prices consolidated by trading sideways, the same seems to be happening now after the June-October rally. So far there has been a series of higher lows (November, mid-December and late-December) and higher highs (late-November and mid-December), which suggests consolidation.

SUMMARY

Gold prices are consolidating after a significant upward move since October 2023. Given there are both bullish and bearish present factors and potential developments, and the world is braced for significant upheaval as Trump takes power, the market is likely to experience increased volatility as it absorbs various geopolitical, economic and irrational shocks. All the uncertainty is likely to attract good scale down buying interest.

Gold Statistics

	2021	2022	2023	2024	Q3 2024	Q4 2024	Nov-24	Dec-24
London prices								
$/oz	1,799.87	1,801.17	1,942.99	2,386.42	2,476.21	2,662.47	2,653.39	2,643.95
£/oz	1,308.41	1,457.43	1,562.57	1,866.06	1,904.12	2,077.17	2,082.17	2,088.55
€/oz	1,308.41	1,457.43	1,796.32	2,206.46	2,253.43	2,495.63	2,497.07	2,522.47
Parity prices								
Australian - A$/oz	2,393	2,590	2,924	3,619	3,697	4,081	4,062	4,174
South Africa Rand/kg	26,519	29,139	35,952	43,505	44,455	47,643	47,532	48,160
Japan Y/g	197,644	241,248	273,806	361,653	368,858	405,537	407,295	406,640
India Rupee/oz	133,434	142,184	160,596	199,820	207,405	224,866	223,893	224,659
COMEX - futures contracts								
Stocks ('000oz)#	33,805	23,180	19,191	21,908	17,112	21,908	17,874	21,908
Vol (million contracts)*				60.24	14.84	13.77	5.88	3.44
OI ('000 contracts)#				459.42	528	459	458	459
CFTC (Futures Only Data) non-commercial								
Net Positions#	268,872	213,157	136,880	247,629	315,390	247,629	234,367	247,629

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

Gold/silver ratio at multi-month high on weak industrial demand outlook

Silver has been consolidating, as indeed has gold, but the depth of silver's pullback (17.6%) from the October high has been deeper than gold's pullback (9.1%). Silver has performed more like the base metals, that have generally seen lower lows in December, while gold has put in a series of higher lows since its November low. The weaker performance seemed to be tied into the ongoing sluggish industrial performance in China and the world in general. The JP Morgan global manufacturing purchasing managers' index (PMI) dropped to 49.6 in December, from 50 in November, showing global manufacturing had entered contraction mode again. Gold's outperformance relative to silver has seen the gold/silver ratio climb to 1:91 in late-December, the highest it has been since February last year.

Like gold, market bullish for silver

Judging by the title of articles in the metals' media, the market generally remains bullish for silver, with some expecting it to outperform gold in 2025, as 2024 was the fourth consecutive year of a supply deficit, with another deficit forecast for this year. Various banks and traders are looking for silver prices to reach into the $36-40 per oz range in 2025. One area to be cautious of, however, is how well will demand from the solar industry be, as China's solar PV manufacturing is going through a destocking phase and Trump may push back on renewable energy projects in favour of fossil fuels. A potential bright spot for silver is the jewellery market as silver has potential to gain market share from gold.

Fund – longs cut and shorts add exposure

The net long fund position has eased slightly to 40,163 contracts in December (up to December 24), from 42,783 contracts at the end of November, but as the solid area part of the chart shows, the trend in the net long position is falling, it was as high as 66,355 contracts as of October 22. Since then the shorts have added 11,904 contracts taking their position to 27,688 contracts. Given these dynamics it looks like the longs have been taking profits ahead of year-end, while the shorts have been getting more bearish.

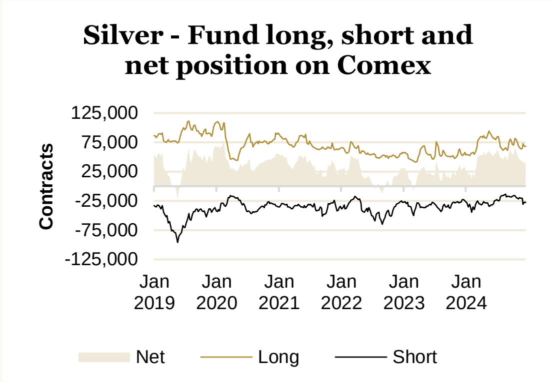

CHART 4

TECHNICAL ANALYSIS

The series of lower lows and lower highs since the October peak does not look constructive, but that said it is a similar pattern to what was traced out in May-August, and that was followed by another rally. The August low was 18.6% below the May high, the low (so far) in this latest pullback was 17.6% below the October peak.

CHART 5

SUMMARY

Silver is likely to continue to take its cue from gold, but likewise it is likely to underperform gold on the upside as the industrial outlook remains weak and with Trump soon entering the arena that may remain the case for a while. The funds also look less committed than those in gold. Given the medium term outlook though, dips are likely to attract buying.

Silver Statistics

	2021	2022	2023	2024	Q3 2024	Q4 2024	Nov-24	Dec-24
London Prices (US$/oz)								
Spot London price	25.14	21.73	23.39	28.24	29.42	31.34	31.14	30.46
Parity (London) prices								
Japan (Y/g)	2,761	2,911	3,296	4,283	4,389	4,772	4,779	4,685
India (Rupee/oz)	1,864	1,715	1,933	2,365	2,464	2,646	2,627	2,588
COMEX - futures contracts								
Stocks ('000oz)#	355.7	299	253.9	318.9	305.1	318.9	306.7	318.9
Vol (million contracts)*				21.6	5.09	4.74	1.78	1.21
OI ('000 contracts)#				151.1	144.7	151.1	132.9	151.1
CFTC (Futures Only Data) non-commercial								
Net Positions#	26,458	31,027	31,863	40,163	62,188	40,163	46,323	40,163
Other Indicators								
Gold/Silver ratio#	1:78	1:76	1:86	1.9	1:82	1:90	1:86	1:90

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PGMs stuck in downward price trends as industrial outlook weighs on sentiment

Palladium prices were under pressure in December, with prices setting a fresh-multi-month low at $989.20 per oz at the end of the month. Prices are dangling above the February and August lows at $854 per oz and $835 per oz respectively. Platinum remains volatile, while drifting lower for most of December, it lurched lower between December 26-31, putting in a low at $903 per oz, which was just above the September low at $901.70 per oz, but it was back above $940 in early-January. Like silver, the PGMs are struggling in the face of weak industrial demand, with the PGMs also affected by weak auto demand and still growing EV demand. That said, one positive trend for the PGMs in 2024 was that plug-in hybrids (PHEV) saw stronger growth rates than battery only EVs (BEV) and PHEVs will still need catalytic converters, whereas BEVs do not need them.

Platinum jewellery potential

Platinum jewellery was once seen as almost superior to gold jewellery, helped by platinum prices being higher than gold, which saw demand for platinum jewellery boom in China between 2010 and 2014, but after that it started to lose its appeal, especially when prices started to trade at a discount to the gold price. But with platinum still very much seen as a luxury precious metal, its $1,700 per oz price discount to gold, may see it gain market share again in the jewellery market.

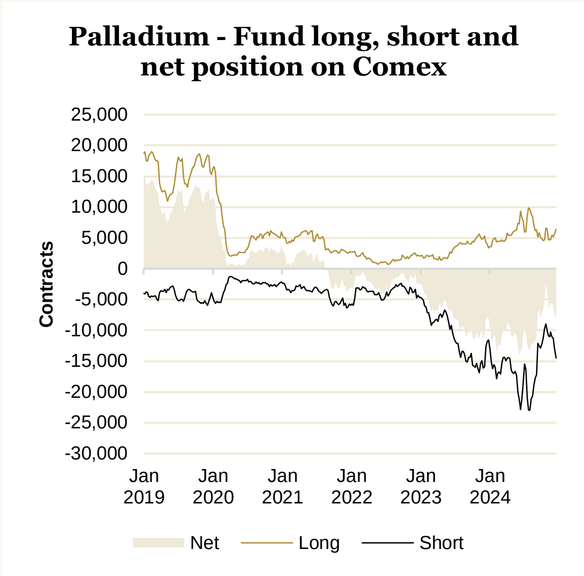

CHART 6

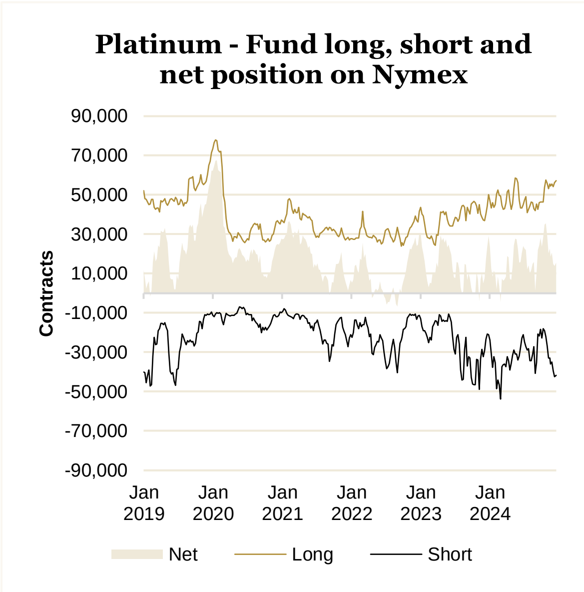

CHART 7

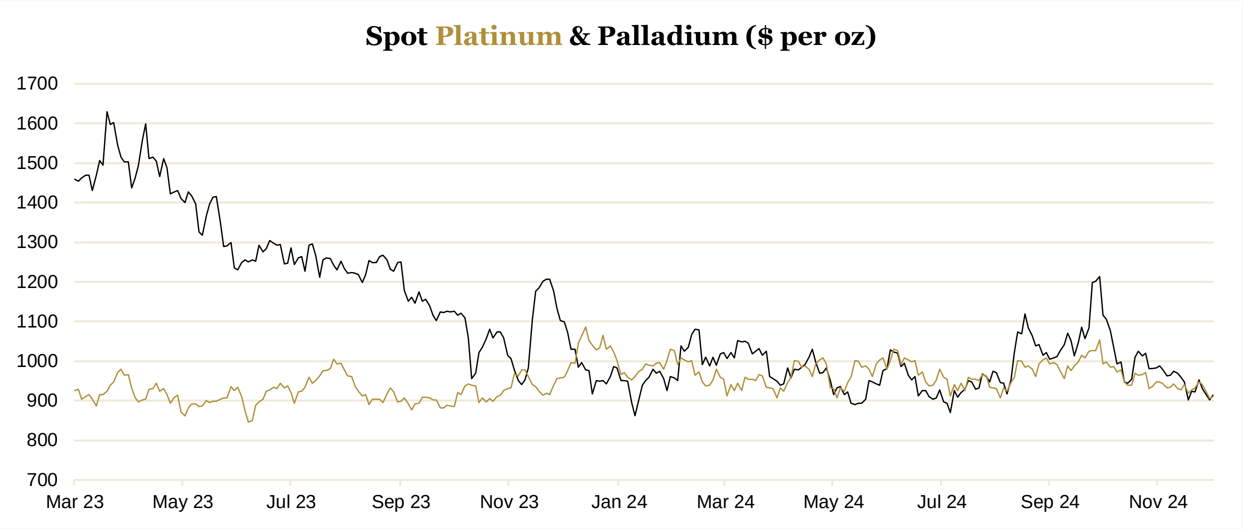

CHART 8

Funds remain long of platinum

The net long fund position in platinum has continued to trend lower, reaching 15,648 contracts as of December 24, down from late-November's 18,660 contracts and the recent peak of 35,543 contracts in late-October. The diverging lines on the chart shows that the market is getting more polarised with both longs and shorts increasing exposure, with the shorts increasing at a faster pace than the longs. The funds' net short palladium position has been growing again, it had shrunk to 5,643 contracts in early-December, but has since grown to 8,089 contracts. It had been as large as net short 13,914 contracts in mid-June.

SUMMARY

The PGMs are still depressed by the ongoing weakness in the manufacturing and auto sectors and are unlikely to get much lift while gold prices are consolidating.

There is potential for a recovery in auto demand in 2025, especially after a generally weak 2024, and as PHEVs see stronger growth than BEVs. In addition, with gold jewellery demand being affected by the high gold price, there is a big opportunity for platinum jewellery to grow market share, but this will no doubt take time.

Platinum is also in a slightly stronger position than palladium on the fundamental front as a supply deficit in 2025 will deplete producer inventories that had built up in recent years - this should help the market start to build a base.

PGM Statistics

	2021	2022	2023	2024	Q3 2024	Q4 2024	Nov-24	Dec-24
London Prices (US$/oz)								
Platinum	1091.24	961.24	966.88	955.205	963.32	965.98	962.48	935.79
Palladium	2398.86	2108.33	1338.69	983.20	970.39	1010.77	1009.72	953.17
Japanese Parity Prices (Y/g)								
Platinum	119,829	128,748	136,253	144,787	143,728	147,102	147,741	143,925
Palladium	263,419	282,390	188,648	148,911	144,626	153,891	154,991	146,598
South African Parity Prices (Rand/kg)								
Platinum	16,078	15,551	17,891	17,438	17,302	17,280	17,242	17,045
NYMEX Stocks ('000oz)								
Platinum#	482.00	167.20	206.20	269.97	144.97	269.97	137.15	269.97
Palladium#	95.2	53.4	36.7	38.5	39.3	38.5	38.5	38.5
CFTC (Futures Only Data) non-commercial#								
Platinum	4,469	24,666	23,662	15,648	24,401	16	22,676	15,648
Palladium	-3,109	-2,206	-7,801	-8,089	-6,733	-8,089	-6,294	-8,089
Other Indicators (US$/oz)#								
Pt-Au spread	-858	-747	-1,056	-1,703	-1,666	-1,703	-1,706	-1,703
Pt-Pd spread	-966	-723	-113	12	-12	12	-28	12

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