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The Sharp Perspective

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Gold prices ramp up to fresh record highs, before pulling back to consolidate

- Gold prices sail into uncharted waters backed by strong momentum with prices rising across currencies
- The price rise into strong headwinds suggests committed buying…
- …buying that is not concerned about the opportunity cost
- Funds taking part in the rally, while ETF investors are scale-up selling
- Prices have run into supply above $2,400 per oz, changes in China's market have taken some of the heat out of the market
- The US Federal Reserve's less dovish stance also likely to see the market review its position

Silver prices briefly started to outperform gold in April, with the Gold/Silver ratio dropping to 1:82, before returning to 1:86

- The price trend appears to have turned higher and there is room for the funds to get more active

The PGMs rallied strongly off a low base, but sentiment remains marred by the uptake of EVs

- Platinum has a brighter outlook than palladium, but neither PGM is blessed with strong fundamentals at present, but production cuts should help that.

KEY TAKEAWAYS

- Gold sets record high at $2,431.50 per oz
- The $850 high from 1980, would be the equivalent of $3,200 per oz in today's money
- So far funds continue to hold on to their net long position
- Silver remains undervalued compared with gold, judging by long term Au/Ag ratios
- PGMs follow gold, but only half-heartedly

Gold sets fresh record high at $2,431.50 per oz, before pulling back to consolidate

Spot gold prices continued to push on with their advance in April, even though they faced dual headwinds from rising bond yields and a strengthening US dollar. Prices established a fresh record high of $2,431.50 per oz on April 12, they held up in high ground for a while, before pulling back to consolidate towards month-end. Interestingly, the April high is still a long way below what the inflation-adjusted 1980 high would have been. Chart1, shows nominal and real prices for gold on an annual average price basis. The actual high in 1980 was $850 per oz – on an inflation-adjusted basis that would be the equivalent of $3,200 per oz today.

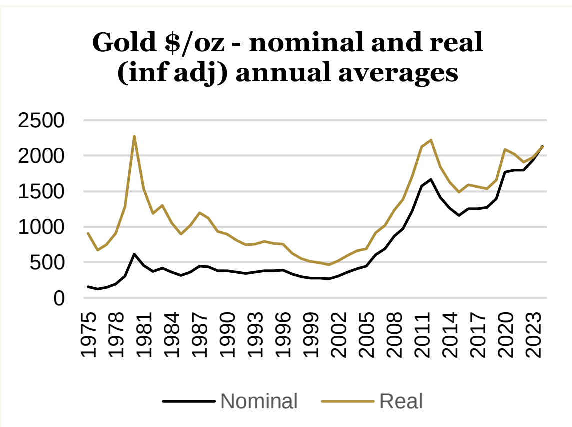


CHART 1

What is gold telling us?

There have been many arguments as to what has been driving gold prices higher. The fact the rally continued while bond yields and the dollar have climbed does suggest we are not in a normal market situation. The Dollar Index reached 106.50 in April, up from 100.60 at the end of 2023, and US ten-year treasury yields have climbed back to 4.6%, up from 4.2% at the start of the month and 3.8% at the end of 2023. To ignore such headwinds suggests there is an overriding desire to own gold, almost regardless of cost and opportunity cost. It is unclear why this desire has been quite so strong, but its out there. While there are many reasons to be concerned about how stable our world is, including widespread geopolitical unrest, greater awareness of social inequality, sticky inflation, some sky-high equity markets, massive levels of debt, the rise of both popularist and autocratic governments and the impact of climate change, none of these issues has dramatically changed in recent months, save for the conflict in the Middle East. So, it maybe that gold has risen as much as it has because the price rise has been widespread therefore has a lot of momentum. As the table below shows, gold prices have been rising in most currencies, with gains averaging 19% so far this year in the seven currencies listed in the table below.

Gold price gains across selected currencies

per oz	01/01/2024	19/04/2024	% gain
USD	2,078	2,380	14%
EUR	1,877	2,234	19%
JPY	293,512	367,854	25%
GBP	1,632	1,921	18%
CHF	1,748	2,165	24%
INR	172,873	198,445	15%
CNY	14,775	17,229	17%
Average			19%

Why so much interest in gold?

While the interest in gold is now broad based, it started off with particular interest from central banks and buying by Chinese investors. Between 2010 and 2021, central banks bought an average of 473 tonnes of gold per annum, this shot higher to 1,082 tonnes in 2022 and 1,037 tonnes in 2023. China has been the largest buyer, with Poland, Singapore, Czech Republic, Iraq, India and the Philippines all notable buyers. With geopolitical tensions running high over Russia/Ukraine, China/Taiwan and over the Israel/Gaza/Iran, the trend in central bank buying is expected to continue. As well as hedging against uncertainty, there seems a move by numerous central banks to distance themselves from relying heavily on the US dollar for international trade, which in turn means they do not have to keep as much of their reserves in US dollars and US treasuries. While these have been seen as safe havens, they come with political risk, whereas gold, while it does not have a yield, does provide independence as it is a tangible non-fiat asset.

Chinese investment buying

Chinese investors have also turned to gold as the Chinese yuan has weakened and traditional Chinese investment vehicles have not been performing well. As well as an increase in physical buying, there has been increased activity on the country's gold exchanges. At 7.2500 to the USD, the yuan it has weakened by 15% since the 6.3000 level seen in 2022. The Chinese property market is saddled with bad debt, so confidence in the sector has suffered. And, equity markets have been weak too, with the CSI 300 Index at 3,500, down some 40% from its peak of 5,800 in 2021. But in recent weeks, the CSI 300 has started to rebound, so gold may face more competition again from the Chinese equity market, which has now lagged well behind other international stock markets. The gold exchanges have also tightened trading margins and limit the maximum number of contracts that can be held.

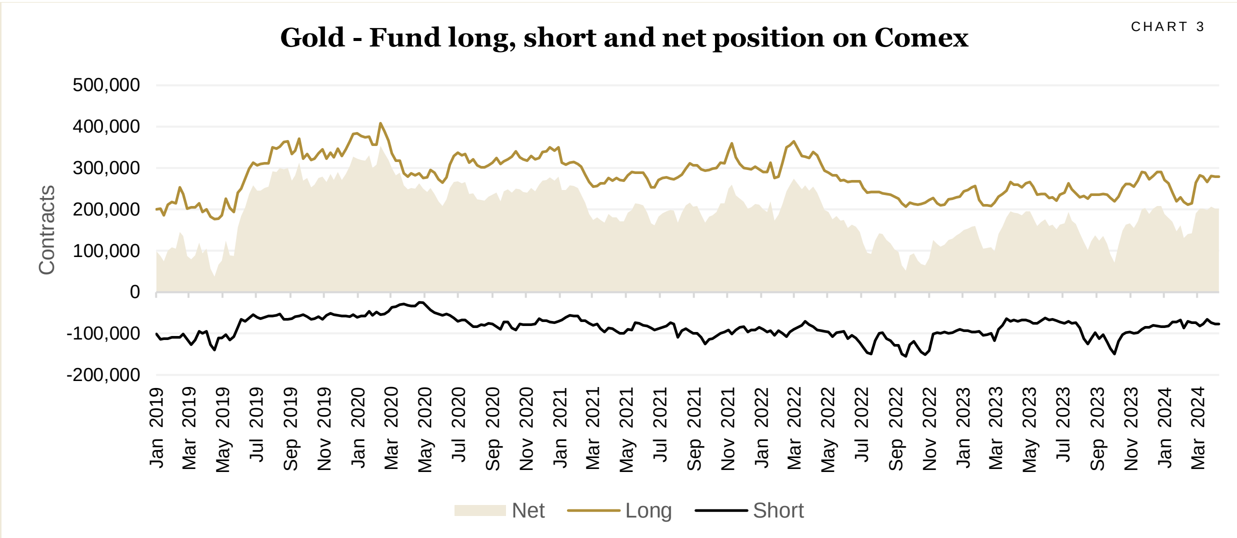
Gold ETFs - AUM, tonnes CHART 2

Investors taking profits into rising price

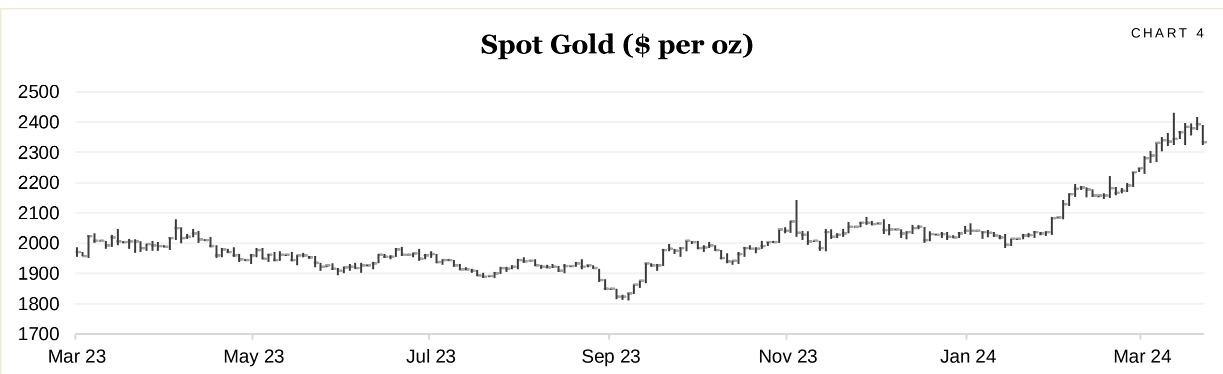
Holdings of gold in exchange traded funds (ETF) peaked 3,915 tonnes in October 2020, with another slightly lower peak of 3,884 tonnes seen in April 2022, see Chart 2. But, overall investors seem to be taking profits into the rising price, rather than increasing their exposure into the rally. As of mid-April, holdings stood at 3,001 tonnes, down from 3,118 tonnes a month earlier and down 23% from the peak. Outflow has been ongoing for ten months.

Funds remain committed

While ETF investors have been taking profits, the net fund position on Comex has been holding steady in recent weeks, see Chart 3. As of April 16, there were 278,777 longs pitched against 76,854 shorts. The net long position was 201,923 contracts, hardly changed from where it was a month earlier, 201,602 contracts, but the position is up from net long 131,168 contracts from mid-February. The bulk of the increase has come from fresh buying, rather than from short covering. Since mid-February the longs have increased exposure by 61,272 contracts and the shorts have reduced exposure by 9,483 contracts. Given price weakness towards the end of April, it will be interesting to see whether the funds see this as a buying opportunity, or whether they take profits.



TECHNICAL – Gold prices have been trending higher since October, see chart 4, with the recent rally pushing prices into uncharted waters. Resistance is evident above $2,400 per oz, nearby support is expected in the $2,145-2,175 per oz area. Should that not hold then the former peaks at $2,120, $2,088 and $2,065 are areas where support may be found.



SUMMARY – The headwinds gold faces have increased as the Fed has toned down its dovishness and trading restrictions on China's exchanges and a stronger Chinese equity market may dampen the attractiveness of gold for a while. That said, there are still many bullish underlying factors, including geopolitical risks and record high western equity markets.

Gold Statistics

	2020	2021	2022	2023	Q4 2023	Q1 2024	Feb-24	Mar-24
London prices								
$/oz	1769.97	1799.87	1801.167	1942.988	1976.26	2069.33	2024.45	2148.91
£/oz	1378.80	1308.412	1457.435	1562.57	1592.00	1630.54	1603.35	1686.36
€/oz	1549.38	1308.41	1457.43	1796.32	1837.04	1905.12	1876.17	1973.37
Parity prices								
Australian - A$/oz	2543.80	2393.13	2589.74	2923.98	3,019	3,153	3,102	3,291
South Africa Rand/kg	29,352	26,519	29,139	35,952	36,862	39,142	38,485	40,686
Japan Y/g	189,104	197,644	241,248	273,806	292,091	307,850	302,745	323,220
India Rupee/oz	131,445	133,434	142,184	160,596	162,790	171,999	167,816	179,167
COMEX - futures contracts*								
Stocks ('000oz)#	38,157	33,805	23,180	19,191	19,191	17,585	17,126	17,585
Vol (million contracts)*						15.74	3.61	6.65
OI ('000 contracts)#						455	424	508
CFTC (Futures Only Data) non-commercial*								
Net Positions#	268,872	213,157	136,880	207,718	207,718	162,907	141,636	199,294

*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 follows gold on the way up and on the way down

Silver's price rally continued until April 12, when prices set a high of $29.79 per oz, before falling back to around $27 per oz towards month-end. The strength in gold, fueled interest in silver and as is often the case, silver has outperformed gold, as seen by the gold/silver ratio dropping to around 1:82 at one stage in April, having spent most of the first quarter in the 1:86 to 1:92 range. But, as gold prices pulled back towards month-end, so the ratio climbed back toward 1:86. By historic standards, silver is relatively cheap compared with gold. Firstly, while prices recently got close to the 2021 high of $30.04, they are still well short of the 2011 high, when prices reached $49.81. Likewise, the gold/silver ratio shows silver has not kept up with gold as between 2000 and 2019, the ratio oscillated either side of 1:65, while since 2022 (ignoring the Covid wobble) it has been in a 1:74-1:96 range.

Bullish fundamentals

The push to replace fossil fuel power generation with renewables, combined with demand for energy sovereignty (something which became more urgent after Russia's invasion of Ukraine) means solar and wind farms will have to replace the enormous supply that currently comes from coal, oil and natural gas. Silver's use in solar panels is good news for silver demand. In 2023, it is estimated 5,018 tonnes of silver was used in photovoltaic cells, up from 1,505 tonnes in 2014, showing CAGR of 14.3%, which is a significantly high level of growth. The installation of solar capacity has a habit of exceeding expectations, as such we should expect even faster growth in the decades ahead, which will help counter some of the thrifting that is happening within the industry.

Funds increase long exposure

The funds trading Comex silver have been adding to their net length, with the net position rising to 53,359 contracts as of April 19, up from a recent low of 14,499 contracts in late-February. As Chart 5 shows, the gross short position is relatively low, while in recent weeks the gross long position has been the highest it has been since June 2021.

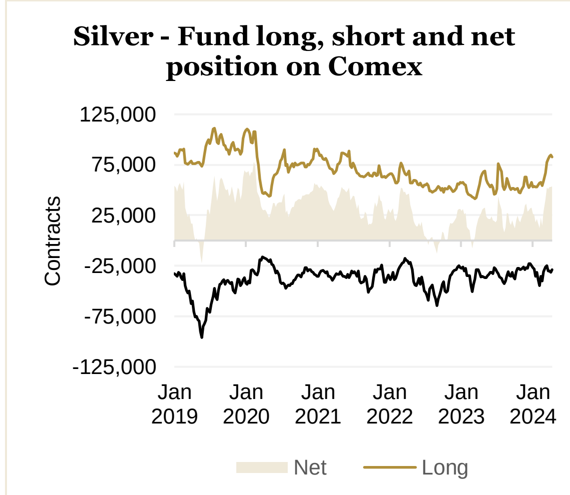


CHART 5

That said, as the left-hand side of the chart shows, the gross long and short positions have previously been considerably larger, which suggests there is room for fund activity to pick-up, especially with interest in the gold market being so strong.

TECHNICAL – The chart suggests an upward trend has now taken over from the previous downward trend. Having got close to challenging the February 2021 high at $30.94 per oz, prices are now pulling back towards the uptrend line to consolidate.

CHART 6

SUMMARY – Silver has some bullish underlying factors in that it has underperformed gold in recent years, industrial demand is set to grow at a considerable pace and it is likely to benefit on the back of gold being in favor. The chart looks constructive and the funds seem to be slowly warming to silver too.

Silver Statistics

	2020	2021	2022	2023	Q4 2023	Q1 2024	Feb-24	Mar-24
London Prices (US$/oz)								
Spot London price	20.55	25.14	21.73	23.39	23.23	23.36	22.69	24.40
Parity (London) prices								
Japan (Y/g)	2,196	2,761	2,911	3,296	3,433	3,475	3,395	-
India (Rupee/oz)	1,526.1	1,863.8	1,715.4	1,933.3	1,750.4	1,913.5	1,907.3	1,882.6
COMEX – futures contracts								
Stocks ('000oz)#	396.5	355.7	299.0	253.9	253.9	292.7	255.2	292.7
Vol (million contracts)*						4.59	1.73	1.55
OI ('000 contracts)#						160.7	142.9	160.7
CFTC (Futures Only Data) non-commercial								
Net Positions#	54,779	26,458	31,027	31,863	31,863	50,836	52,435	50,836
Other Indicators								
Gold/Silver ratio#	1:72	1:78	1:76	1:86	1:86	1:86	1:90	1:86

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Platinum and palladium get some lift out of the doldrums, but not much

Platinum and palladium prices have generally followed gold's lead, but remain near multi-year lows, while gold has been setting record highs. That said, both metals put in strong rebounds to their March/April highs, compared with February lows with platinum and palladium rallying 16% and 29% respectively. These were off a low base though. The rally apart, both metals are out of favour as the PGMs seem plagued with the never ending image that demand will weaken as consumers transition to electric vehicles. Catalytic converters account for 40% of platinum demand and 80% of palladium demand. In reality, internal combustion engined vehicles (ICEV), will still be around for a long time and emissions standards will if anything only get stricter, so there is no-sudden death scenario for the PGMs and that might mean the market undervalues them at times.

Mixed fortunes

While all the PGMs face weaker demand from catalytic converters, platium has potential to see stronger demand from other areas. Jewellery used to be a strong market for platinium and its low prices relative to gold could see that return. Platinum used to trade at a significant premium to gold. Between 2005 and 2008, this ranged between $200 and $1,300 per oz, so a lot has changed with platinum now trading at a $1,400 per oz discount to gold. But this discount, could prompt demand for jewellery to recover, as platinum is still a precious metal. Demand is also likely to pick up from the growing hydrogen economy where it is used in fuel cell vehicles and to make hydrogen using electrolyzers that use platium as a catalyst. The US, EU and China are all pushing the use of hydrogen.

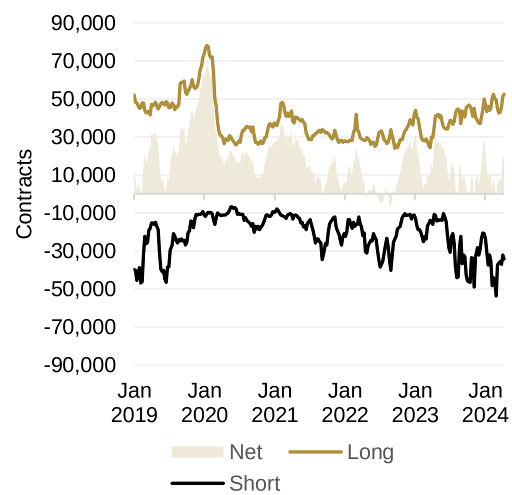
Low prices hit producers

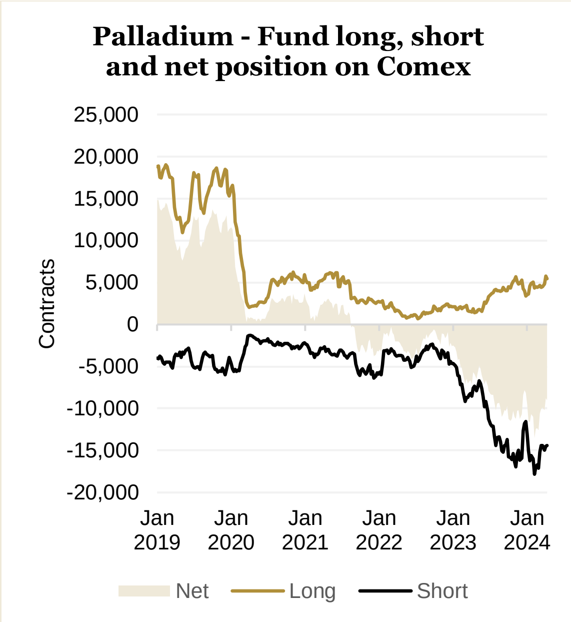
With platinum and palladium prices trading either side of $1,000 per oz, many producers are being forced to take cost-cutting action. This in turn will lead to production cuts that should start to rebalance the markets. As well as low PGM prices, producers face rising cost, lower ore grades and labour unrest.

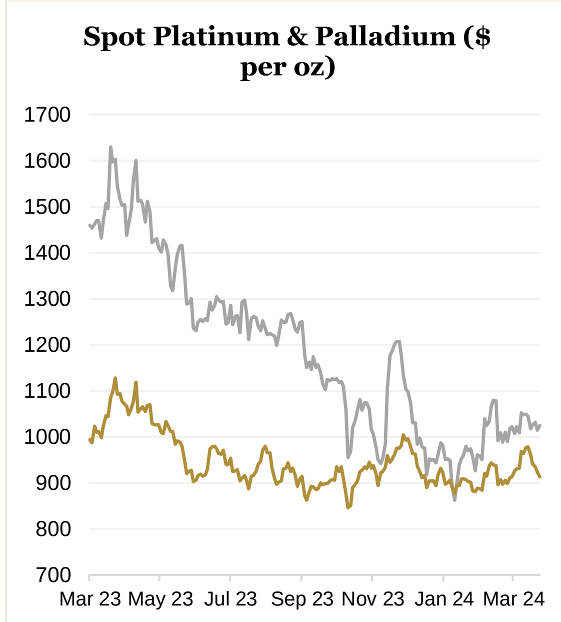
Funds heavily short palladium

Given platinum's more robust outlook and because gold's performance it is not so surprising that the funds are long, net long 18,241 contracts of platinum, up from 6,280 contracts a month ago. Conversely, they are short palladium, net short 9,034 contacts, with 14,448 shorts against 5,414 longs, which is little change from a month ago. As such, there is room for significant short-covering in both PGMs should they start to follow gold more.

Platinum - Fund long, short and net position on Nymex







TECHNICAL & SUMMARY – After a very energetic 2018 to 2022, when palladium prices ran from $850 to $3,400 per oz, prices have now returned to a base level. While there is short-covering potential for both PGMs, platinum is the metal with the brighter future on both its jewellery and hydrogen counts. PGM production cuts, a good outlook and a strong gold market, could favour platinum.

PGM Statistics

	2020	2021	2022	2023	Q3 2023	Q4 2023	Feb-24	Mar-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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