MARCH 2024

The Sharp Perspective

SHARPS PIXLEY

Gold prices start to reflect increased concern over the growing risks in geopolitics and financial markets.

- Gold prices sail into uncharted waters as a more dovish Federal Reserve prompts buying.
- Central bank interest in gold remains strong as some hedge against the weaponization of the US dollar.
- Chinese buyers bank on gold as other local investments underperform.
- Funds increase bullish bets…
- …while ETF investors have not joined the party.
- US interest rate cycle expected to set direction for gold prices, but other underlying trends expected to provide support.

Silver prices follow gold, but for now lack independent energy to push their own agenda, as can be seen by the Gold/Silver ratio languishing around 1:87.

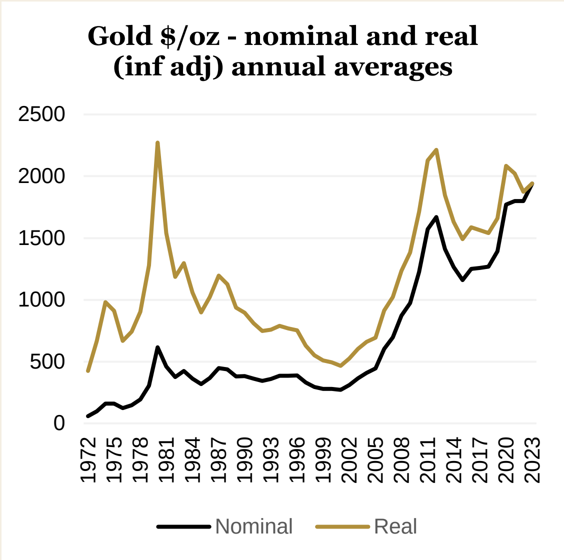
- The price trend appears to have turned higher and there is room for the funds to get more active.

The Platinum Group Metals (PGMs) have seen some short-covering, but they have not seen follow-through buying yet.

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

Gold sails into uncharted waters as fresh all-time highs established

As March has unfolded gold prices have rallied at a fast pace, setting numerous all-time highs in the process - the latest being $2,224 per oz. This was above the previous all-time high of $2,148 per oz set in December 2023. As such, gold prices are now in uncharted waters (although you could argue that the 1980 high at $665 per oz, on an inflation-adjusted basis would be the equivalent of $2,460 per oz today. See Chart 1).



Multiple bullish drivers

There have been multiple drivers behind the rally in gold prices; the one the market has reacted to most is any anticipated change in the Federal Reserves' stance on interest rates. In line with this, the release in late-February and early-March of worse than expected US economic data on initial jobless claims and manufacturing, combined with an all-important drop in US inflation data, sparked the latest run-up in gold prices. The data provided ammunition for the Fed to turn more dovish, should it wish too. Indeed, this turned out to be the case as the Federal Open Market Committee (FOMC), at its meeting on March 20, signalled that three quarter-point cuts were still likely this year. This was just what the market wanted to hear.

But what of the other drivers?

While the recent rally has been largely Fed driven, the origins of the rally date back to October last year, when there was a surge in safe haven buying following Hamas' attack on Israel on October 7. This abruptly ended the downward trend in gold prices that had seen prices fall to $1,810 per oz, from $2,065 per oz in May. The attack sparked fears that increased tension could lead to a regional war that could involve numerous oil producers and disrupt oil supplies.

Chinese investors favouring gold again

China's economy is weak, the property sector is in crisis, households have become cautious after the shock that Covid and long-lasting lockdowns inflicted, and many foreign investors have pulled funds out of the country as geopolitical tensions have increased. The Chinese yuan reflects the malaise in the economy, against the US dollar it has fallen to 7.2000; prior to Covid it tended to trade either side of 6.7000. Weakness in China's property and stock markets, combined with restrictions on investing in cryptocurrencies, have encouraged investors to buy gold. In 2023, China's investment demand rose 28% and jewellery consumption climbed 10%, according to the World Gold Council.

The weaponizing of the US dollar

Since the end of World War II, the US dollar has dominated the global payments system with most foreign trade and international transactions conducted in dollars. This has led to the dollar acting as the world's primary reserve currency. But over the past decade, or so, the US has taken advantage of its control over the international payment system to try to force its will on countries, companies and individuals who it has fallen out with it, by denying the perpetrators access to the US banking and clearing systems. The US has increasingly used this power against the likes of North Korea, Iran and Russia. Seeing this, more central banks (especially in emerging markets), have started to diversify away from holding most of their reserves in US dollars and relying on the US-run international payment system.

One way to do this has been to increase the amount of gold and reduce the amount of US treasuries held in their reserves. Between 2010 and 2021, central banks bought an average of 473 tonne 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 war, the trend in central bank buying is expected to continue.

Gold ETFs - AUM, tonnes

Source: World Gold Council

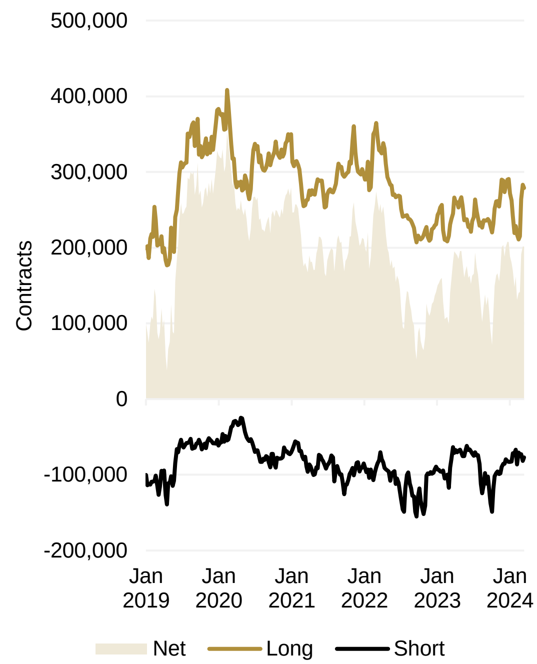
Investors taking profits into rising price

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-March, holdings stood at 3,118 tonnes, some 20% below the peak and the outflow has been ongoing for nine months.

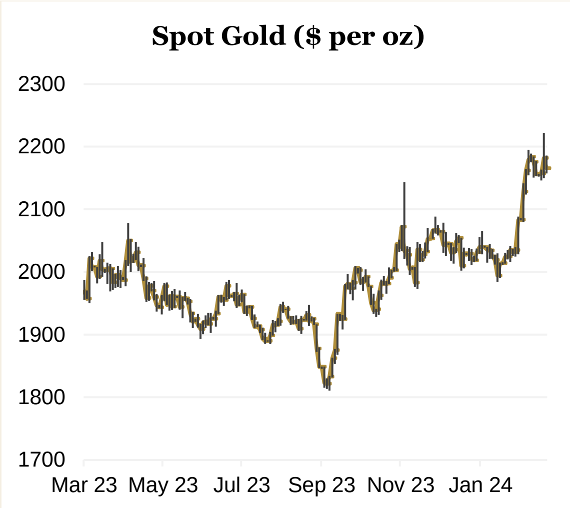
Funds - net long position increases

While investors are reducing exposure into the price rally, the net fund position on Comex has been getting longer, see Chart 3. As of March 19, there were 278,732 longs pitched against 77,130 shorts. The net long position has climbed to 201,602 contracts, which is up from a low of 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 61,227 contracts and the shorts have reduced exposure by 9,207 contracts.

Gold - Fund long, short and net position on Comex



TECHNICAL – Gold prices have been trending higher since October, see chart 4, with the recent rally pushing prices into uncharted waters. Prices have run into some resistance above $2,220 per oz, with nearby support evident on the chart initially at $2,145 per oz. Should that not hold, then the former peaks at $2,120, $2,088 and $2,065 are area where support may be found.



SUMMARY – The prospect of lower US interest rates and a weaker dollar are proving a bullish background for gold and one that is encouraging fund buying. The underlying trends of central bank buying and Chinese investor buying of physical gold are also supporting factors. Given geopolitical risks, record high equity markets that may be looking toppy, demand for gold looks set to remain robust.

Gold Statistics

	2020	2021	2022	2023	Q3 2023	Q4 2023	Jan-24	Feb-24
London prices								
$/oz	1769.97	1799.87	1801.167	1942.988	1929.18	1976.26	2034.63	2024.45
£/oz	1378.80	1308.412	1457.435	1562.57	1523.76	1592.00	1601.92	1603.35
€/oz	1549.38	1308.41	1457.43	1796.32	1772.57	1837.04	1865.82	1876.17
Parity prices								
Australian - A$/oz	2543.80	2393.13	2589.74	2923.98	2,962	3,019	3,066	3,080
South Africa Rand/kg	29,352	26,519	29,139	35,952	36,138	36,862	38,189	38,485
Japan Y/g	189,104	197,644	241,248	273,806	278,978	292,091	297,198	302,939
India Rupee/oz	131,445	133,434	142,184	160,596	143,268	162,790	169,094	167,969
COMEX - futures contracts*								
Stocks ('000oz)	38,157	33,805	23,180	19,191	20,240	19,191.0	18,502	17,126
Vol (million contracts)							5.48	3.61
OI ('000 contracts)							433	424
CFTC (Futures Only Data) non-commercial*								
Net Positions	268,872	213,157	136,880	207,718	115,815	207,718	147,791	141,636

*Figures are period averages unless marked by *, indicating the period end. OI= Open Interest on the exchange*

~ = data not available yet, italics = estimates

Silver follows gold higher, but remains far from all-time highs

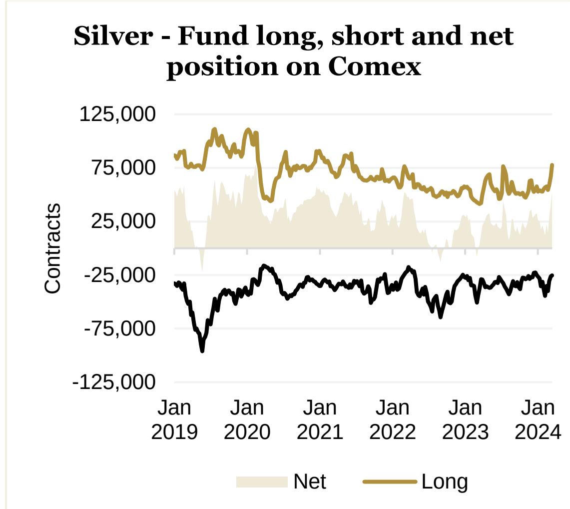
Silver prices rallied in March, to reach a high at $25.77/oz, up from $22.30/oz at the end of February. The high just overcame the December high at $25.76/oz, but only just. So, while silver prices have been influenced by the same factors as gold, as discussed in the gold review, they are lagging gold overall. Firstly, silver prices are not setting fresh highs, prices remain below the May 2023 high at $26.15/oz, (not to mention the highs from 2021 and 2011, when prices reached $30.04 and $49.81 respectively). This underperformance is well reflected in the overall upward sloping Gold/Silver ratio that is around 1:88. Between 2000 and 2019 it oscillated either side of 1:65 and, ignoring the Covid wobble, since 2022 it has been in a 1:74-1:96 range. Given gold has been setting new highs and silver is well off its highs, silver is in an interesting position, especially as industrial demand from the solar panel industry is looking bright.

Investors' interest

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.

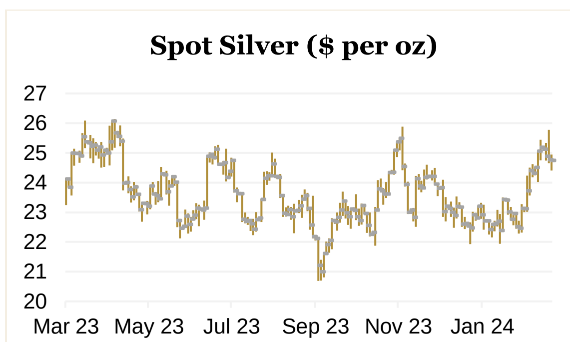
Funds increase long exposure

The funds trading Comex silver have been adding to their net length, with the net position rising to 52,435 contracts, up from a recent low of 14,499 contracts in late-February. As Chart 5 shows, the gross short position is relatively low, while the gross long position at 77,632 contracts is the highest it has been since June 2021.



That said, as the left-hand side of the chart shows, the gross long and short position have previously been considerably higher, 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, with prices now needing to overcome the May 2023 highs at $26.15 per oz, to break higher. The previous highs ran between $26.90/oz (March 2022) and $30.04/oz (February 2021).



SUMMARY – Given the pick-up in interest and performance in gold, it is surprising that the focus has not turned on silver's lagging performance yet. The chart looks constructive, and the funds seem to be slowly warming to silver too.

Silver Statistics

	2020	2021	2022	2023	Q3 2023	Q4 2023	Jan-24	Feb-24
London Prices (US$/oz)								
Spot London price	20.55	25.14	21.73	23.39	23.57	23.23	22.95	22.69
Parity (London) prices								
Japan (Y/g)	2,196	2,761	2,911	3,296	3,408	3,433	26,302	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 (Moz)*	396.5	355.7	299.0	253.9	253.2	253.9	253.2	255.2
Vol (million contracts)*							1.31	1.73
OI (‘000 contracts)*							136.4	142.9
CFTC (Futures Only Data) non-commercial*								
Net Positions	54,779	26,458	31,027	31,863	20,105	31,863	21,426	52,435
Other Indicators								
Gold/Silver ratio*	1:72	1:78	1:76	1:86	1:83	1:86	1:89	1:90

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Platinum and palladium prices remain in the doldrums

Platinum and palladium prices have had a month of two-halves in March, first rising on the back of broad based short-covering, prompted by expectations that lower interest rates would lead to better economic growth and a pick-up in auto sales. But, prices then headed lower again after the rally, 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 engine 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.

Low prices hit producers

Platinum and palladium prices below $1,000/oz are forcing more producers to take cost-cutting action, which in turn will lead to production cuts that should start to rebalance the markets.   With more producers now under pressure it looks as supply restraint is the most likely factor to underpin prices in the short-term. Although so far producers have been cutting workforces in an effort to stem losses, rather than reducing output, but that is likely to follow as workforces shrink.

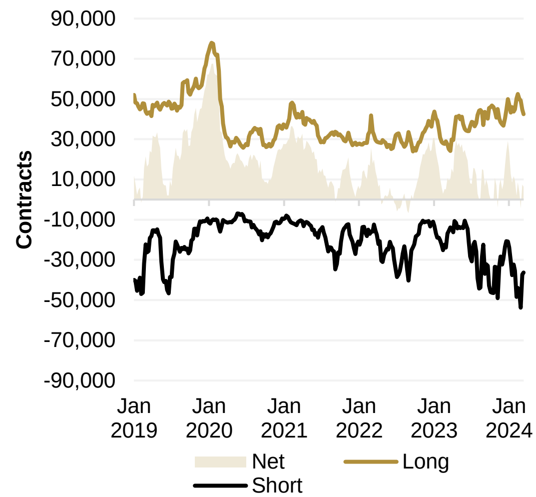
Mixed fortunes

While all the PGMs face weaker demand from catalytic converters, platinum has potential to find areas of stronger demand. Jewellery used to be a strong market for platinum, its low prices relative to gold could see that return. But, is also has potential to see demand pick up from the growing hydrogen economy where it is used in fuel cell vehicles and to make hydrogen using electrolysers that use platinum as a catalyst. The US, EU and China are all pushing the use of hydrogen and according to the World Platinum Investment Council, this global push could make clean hydrogen production the largest source of platinum demand by 2040, accounting for as much as 35 percent of demand.

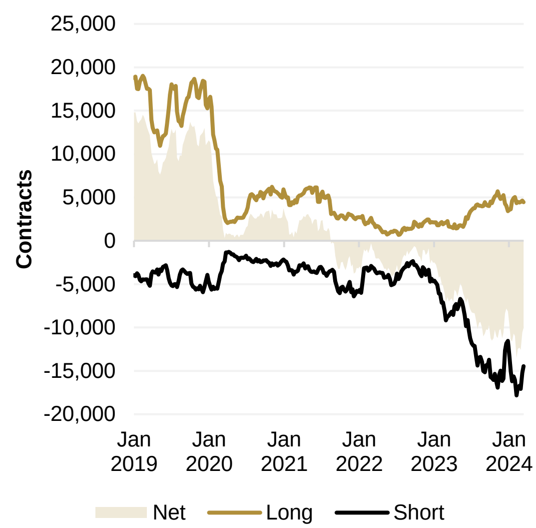
Funds heavily short palladium

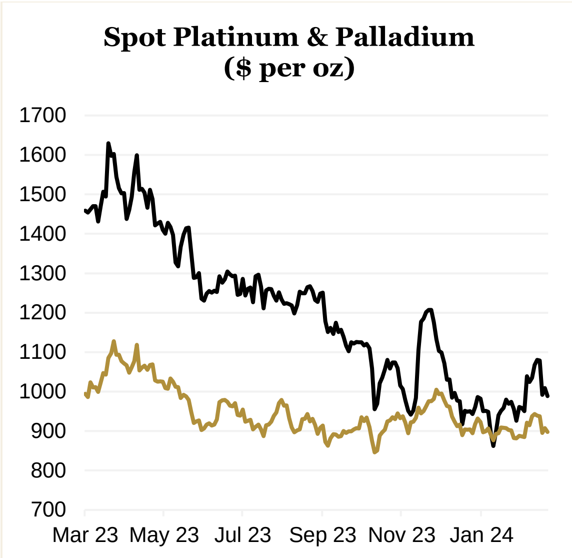
Given platinum's more robust outlook and because gold's performance it is not so surprising that the funds are long, net long 6,280 contracts of platinum. Although the market is quite polarised with 42,540 longs and 36,260 shorts. Conversely, they are short palladium, net short 10,109 contacts, with 14,446 shorts against 4,427 longs. 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



Palladium - Fund long, short and net position on Comex





TECHNICAL & SUMMARY – After a very energetic 2018 to 2022, when palladium prices ran from $850 to 3,400 per oz, prices 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	Jan-24	Feb-24
London Prices (US$/oz)								
Platinum	884.49	1091.24	961.24	966.88	931.27	913.85	926.30	894.65
Palladium	2197.06	2398.86	2108.33	1338.69	1251.05	1087.30	984.14	938.22
Japanese Parity Prices (Y/g)								
Platinum	94,499	119,829	128,748	136,253	134,671	135,067	135,304	133,875
Palladium	234,734	263,419	282,390	188,648	180,914	160,703	143,753	140,395
South African Parity Prices (Rand/kg)								
Platinum	14,668	16,078	15,551	17,891	17,445	17,045	17,386	17,007
NYMEX Stocks ('000oz)*								
Platinum	623.10	482.00	167.20	206.20	219.30	206.20	205.90	184.10
Palladium	138.1	95.2	53.4	36.7	36.4	36.7	36.7	36.7
CFTC Futures Only Data Long / (short) non-commercial)*								
Platinum	25,829	4,469	24,666	23,662	7,326	23,662	11,549	3,601
Palladium	2,714	-3,109	-2,206	-7,801	-10,309	-7,801	-10,700	-12,315
Other Indicators (US$/oz)*								
Pt-Au spread	-816	-858	-747	-1,056	-947	-1,056	-1,129	-1,161
Pt-Pd spread	-1,295	-966	-723	-113	-366	-113	-48	-65

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