JULY 2024

The Sharp Perspective

OUR MONTHLY COMMENTARY

Gold prices supported by an escalation in geopolitical risks and US monetary policy outlook

- US Federal Reserve looks increasingly likely to cut interest rates in September – the risk is this turns out to be a ‘buy-the-rumour, sell-the-fact’ setup.
- Assassinations of Hamas and Hezbollah leaders on foreign soils raises geopolitical tensions in the Middle East.
- Gold demand rises in the second quarter, but high prices have become a significant headwind for jewellery demand, especially in China and India.
- Fund longs have started to take profits, but the trend in ETF buying picked-up momentum in July.

Silver prices have been relatively weak compared with gold, with the general global economic weakness weighing on sentiment

- Concerns that the solar panel industry has been over producing panels, which will lead to production cuts, has become a temporary headwind for silver demand.

PGM prices remain depressed, but will demand be as weak as the market fears? In addition, more production cutbacks are expected

- Demand for plug-in hybrid and hybrid EVs looking stronger than battery-only EVs, this should be supportive for PGMs.

KEY TAKEAWAYS

- Gold prices set a fresh high in July, and are still holding up well.
- Underlying factors remain supportive, but a broader market sell-off could drag gold prices down.
- Demand for safe havens expected to increase as US presidential election approaches.
- Silver prices struggle in the face of weaker global economic activity.
- PGM markets in the doldrums, but production cutbacks may put an end to destocking.

Gold consolidated in June, but held up well compared to other metals

With markets becoming ever more convinced the US Federal Reserve will start cutting interest rates in September, the backdrop for gold has remained bullish. Rising geopolitical tensions in the Middle East, with the assassination of senior Hezbollah and Hamas leaders in Beirut and Iran respectively and the volatile US election race were additional supporting factors for gold that helped push prices up to a fresh record high of $2,483.70 per oz on July 17. But despite all these bullish factors, the main driver of high gold prices this year is thought to have been the huge buying by Chinese speculators. If they liquidate, then all the underlying bullish factors are likely to take a backseat while the market corrects. Given the underlying bullish factors are unlikely to go away anytime soon, any such sell-off is likely to provide another buying opportunity.

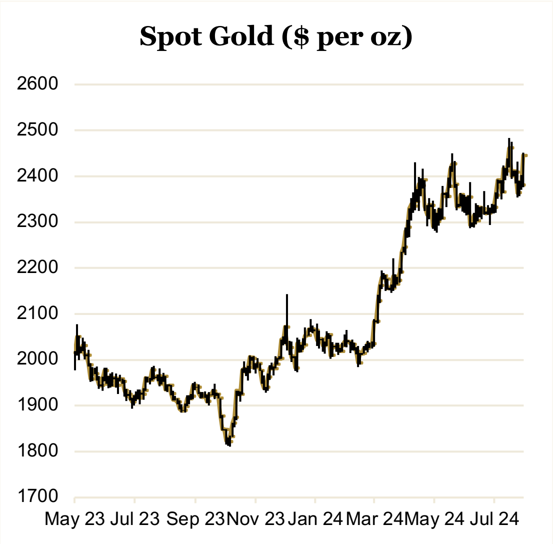

CHART 1

Fed says first cut could be in September

Fed chair Jay Powell said at the July 31 FOMC meeting that a reduction in the policy rate could be on the table as soon as September, but that the Committee would need even greater confidence that inflation was falling before they were willing to cut. While core CPE price index fell to 2.63% yoy in June, services inflation remained high at 5%.

But, the July US jobs report was weaker than expected, which probably gives the Fed the evidence it needs. However, with the US introducing, or raising, tariffs as trade tensions grow, the downward trend in US inflation may not last that long.

Gold trends - WGC

The World Gold Council published its second quarter report on gold, its main findings were that record high gold prices came about on the back of continued central bank buying, strong over-the-counter investment and an upturn in Western ETF inflows, while the high prices hit jewellery consumption. Despite the latter, total gold demand, including OTC investment, was 6% higher yoy, at 1,258 tonnes. The two polarized parts of the demand trends were jewellery demand that fell 19% to a four-year low of 391 tonnes, while 329 tonnes of OTC investment demand was up 53%, yoy. Supply climbed 4% to 1,258.2 tonnes.

Weak jewellery demand

China and India together account for roughly half of global jewellery consumption, but as both countries demand is more price elastic than in many mature western markets, the sharp price rises this year have had a significant impact on overall global jewellery demand. China's demand fell by 35% and India's by 17% in the second quarter, compared with the same period in 2023. Indeed, the drop in demand from China and India, accounted for 76% of the drop in global jewellery demand. China's Q2 demand was some 46% below the ten-year average and was the weakest since Q2 2009. The combination of the poor housing market, weak domestic stock markets and strong price gains, especially in local currency, have all weighed on Chinese retail demand. Indian jewellery buyers have a reputation of being price sensitive, but with the government cutting import duty on gold to 9%, from 15%, jewellery prices are expected to fall and demand is expected to get a boost as a result.

Investment demand – mixed trends

While jewellery demand in China and India was weak, investment demand in these countries was strong. China's demand for bar and coins surged 60% to 80 tonnes in the second quarter with buying fueled by the price rises, the weak performance in housing and equities and as a hedge against a weaken currency. The yuan has weakened to 7.27 to the USD, from 7.03 at the start of the year. Indian demand for bars and coins was also strong in the second quarter, rising 46% to 43 tonnes. Elsewhere, investment demand has been healthy, but in the West, buying interested was more than countered by investors taking profits in the bars and coins they held.

ETF investors

Investors, as seen by the amount of gold held by ETFs, turned net buyers in the second half of May, when they held 3,069 tonnes, they had increased this to 3,144 tonnes buy late-July, with all regions seeing an increase in July. Holdings are, however, still some 20% below peak holdings of 3,919 tonnes seen in October 2020. Given increased geopolitical tensions, especially between Iran and Israel, and with the potential for geopolitical and trade tensions to rise even further should Donald Trump win the US presidential election, then it would not be surprising to see more investors protect their portfolios by buying more gold.

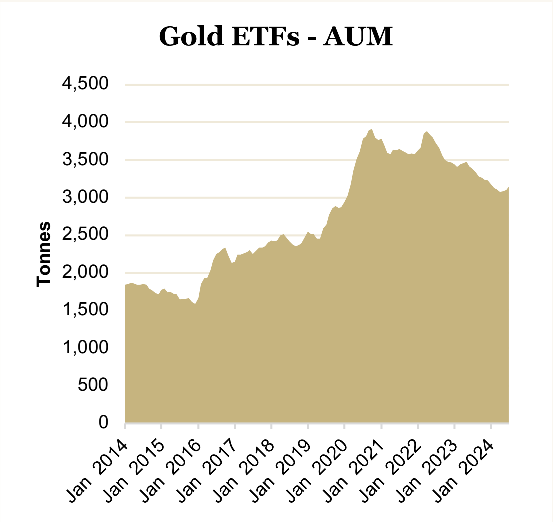

CHART 2

Funds become more polarized

The funds trading Comex gold saw the net long fund position rise to 285,024 contracts on July 16, before easing to 246,601 on July 30, this compared with 246,229 contracts at the end of June. So profit-taking and fresh selling have emerged in the second half of the month.

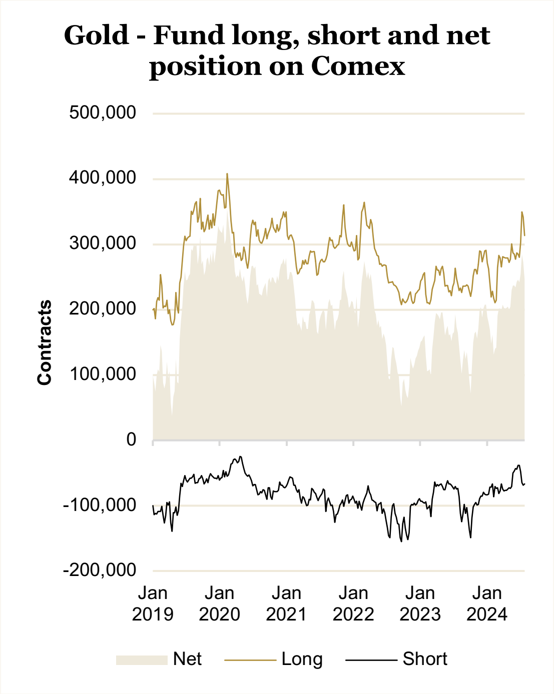

CHART 3

Price volatility means high volumes

Trading volumes on Comex were high in July, as gold prices saw more volatility and the net long fund position first climbed and then fell. 6.3 million contracts traded in July, compared with 3.5 million contracts in June. Given high prices and fresh short selling, combined with profit-taking, volumes look set to remain high in August.

TECHNICAL ANALYSIS

Fresh highs were seen in gold prices in April, May and mid-July, and the corresponding lows were also higher, suggesting the uptrend is intact. But, the late-July rally just failed to reach the mid-July peak and prices were consolidating at month-end, so it is not that clear on the chart whether the uptrend will continue, or whether there is room for more consolidation.

SUMMARY

Gold prices are consolidating and are generally holding up well, but with equity market correcting lower, there is risk that margin calls in other markets mean investors take profits where they have them - this could be a headwind for gold for a while. Overall, the underlying factors seem supportive for gold but a broad based correction across markets may well drag gold lower with it.

Gold Statistics

	2020	2021	2022	2023	Q1 2024	Q2 2024	Jun-24	Jul-24
London prices								
$/oz	1,769.97	1,799.87	1,801.17	1,942.99	2,069.33	2,337.69	2,325.84	2,392.90
£/oz	1,378.80	1,308.41	1,457.43	1,562.57	1,630.54	1,852.42	1,829.57	1,860.56
€/oz	1,549.38	1,308.41	1,457.43	1,796.32	1,905.12	2,067.61	2161.35	2206.27
Parity prices								
Australian - A$/oz	2,544	2,393	2,589	2,924	3,153	3,547	3,501	3,583
South Africa Rand/kg	29,352	26,519	29,139	35,952	39,142	42,780	42,772	43,599
Japan Y/g	189,104	197,644	241,248	273,806	307,850	64,369	367,342	377,863
India Rupee/oz	131,445	133,434	142,184	160,596	171,999	195,010	194,161	200,023
COMEX - futures contracts								
Stocks ('000oz)#	38,157	33,805	23,180	19,191	17,585	16,505	16505.00	17868.00
Vol (million contracts)*					15.74	15.89	3.50	6.29
OI ('000 contracts)#					508	448	448.35	504.2
CFTC (Futures Only Data) non-commercial								
Net Positions#	268,872	213,157	136,880	207,718	199,294	246,229	236,585	246,601

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 struggles to keep up with gold

While gold set fresh highs for the year in July, which were also fresh all-time nominal highs, silver topped-out at $31.75 per oz in July, thereby failing to overcome the high posted in May at $32.51/oz. Silver's underperformance, relative to gold, also shows up in the gold/silver ratio that climbed to 1:86 in July, up from 1:80 at the end of June. While silver has underperformed gold in July, it still has outperformed gold since the start of the year, with silver prices ending July up 22%, compared with gold's 18.6% gain.

Temporary headwinds from industry

Weakness in China's economy, which has weighed on demand for industrial metals, has been a headwind for silver, as it has for base metals. So too have reports that the global solar panel manufacturing industry is in a state of oversupply with manufacturers now having to make production cuts. This will see consumption for silver fall back from the strong growth it has witnessed in recent years. That said, any pullback is likely to be temporary as the glut in solar panel supply has seen solar panel prices fall, which has boosted deployment and therefore demand.

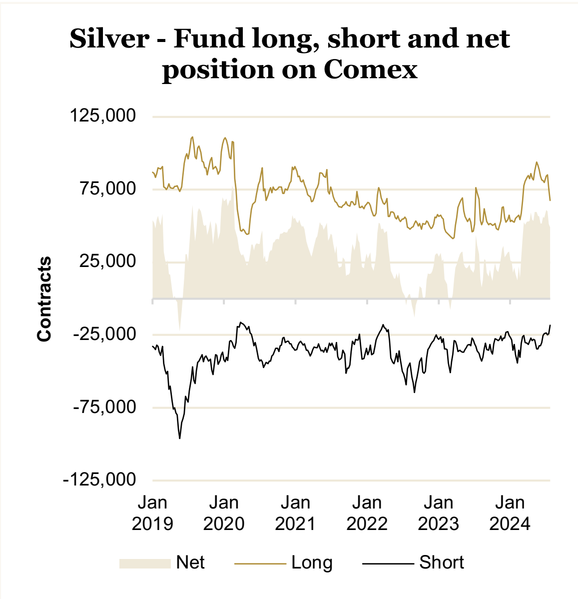

CHART 4

Fund longs take profits

The funds trading Comex silver have cut their net long position to 49,061 contracts as of July 30, down from a recent peak of 61,056 contracts seen on July 9. Most of the pull back has happened due to long liquidation rather than fresh shorting. Indeed, shorts have also cut their position. Since the peak in the net position, longs have cut 16,935 contracts and shorts have cut 4,937 contracts. As the chart shows, the net long fund position is still relatively high and stands at 63% of its peak (since 2019).

Low treatment charges impact on silver

Low treatment charges for copper, zinc and lead are forcing some Chinese smelters to lower throughput. In turn, this will impact the amount of by-product silver produced and is likely to encourage higher imports of silver. This is expected to keep the western market tight, especially as the silver market is reportedly expected to be in a supply deficit this year, as it has since 2021, according to The Silver Institute.

CHART 5

TECHNICAL LOOK WEAK

Silver prices on the chart have started to trend lower with the February-to-June up trend line now broken. In addition, a series of lower highs and lower lows has developed. Support is expected around the $26 per oz level, this is where the early-May low was and it is also where the peaks were in April and May 2023.

SUMMARY

Silver has performed strongly this year, so its deeper pullback than gold is not so surprising, but silver is now looking weaker than gold is on the charts. With industrial metals prices correcting lower, silver is likely to follow, especially as the solar panel manufacturing industry needs to cut production and consolidate, which will hit demand for silver for a while. Longer term, the fundamentals look bullish, but it faces temporary headwinds.

Silver Statistics

	2020	2021	2022	2023	Q1 2024	Q2 2024	Jun-24	Jul-24
London Prices (US$/oz)								
Spot London price	20.55	25.14	21.73	23.39	23.36	28.86	29.59	29.75
Parity (London) prices								
Japan (Y/g)	2,196	2,761	2,911	3,296	3,475	4,500	4,673	4,697
India (Rupee/oz)	1,526	1,864	1,715	1,933	1,942	2,408	2,470	2,486
COMEX - futures contracts								
Stocks ('000oz)#	396.5	355.7	299.0	253.9	292.7	255.7	255.7	302.7
Vol (million contracts)*					4.59	7.20	2.09	1.63
OI ('000 contracts)#					160.7	155.3	155.3	151.3
CFTC (Futures Only Data) non-commercial								
Net Positions#	54,779	26,458	31,027	31,863	50,836	50,836	55,978	49,061
Other Indicators								
Gold/Silver ratio#	1:72	1:78	1:76	1:86	1:86	1:86	1:79	1:87

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PGMs have found bases, but remain subdued with uncertain outlooks

The PGM metals remain significantly depressed compared with gold and silver, with the PGM prices bouncing along in low ground, while gold prices set fresh record highs and silver prices are trading some 10% below the May 2024 high, which was the highest prices had been in 12 years. Generally, the emergence of the electric vehicle and the corresponding weaker outlook for internal combustion engine (ICE) vehicles that need autocatalyts, seem to have signed the fate of the PGMs, at least in investors' minds, but we are not so bearish.

Too early to write-off the PGMs

Despite the recent slowdown in EV adoption outside of China, ICE vehicles are still going to be around for many decades, albeit it in shrinking numbers, so there will still be demand of autcatalysts. In addition, PGM supply is now being reviewed due to the low prices, which will help tighten up the supply side of the equation. Amplats and Impala Platinum have announced restructuring plans in South Africa and Sibanye-Stillwater has said its Stillwater operation in the US could also be closed if the market does not pick-up. Recent trends in EV uptake and the type of EVs in demand, points to a slower uptake of battery-only EVs, with plug-in hybrids and hybrids expected to become a bigger part of the global fleet. As these types of EVs both require autocatalysts, demand for the PGMs is unlikely to fall as fast as the market fears.

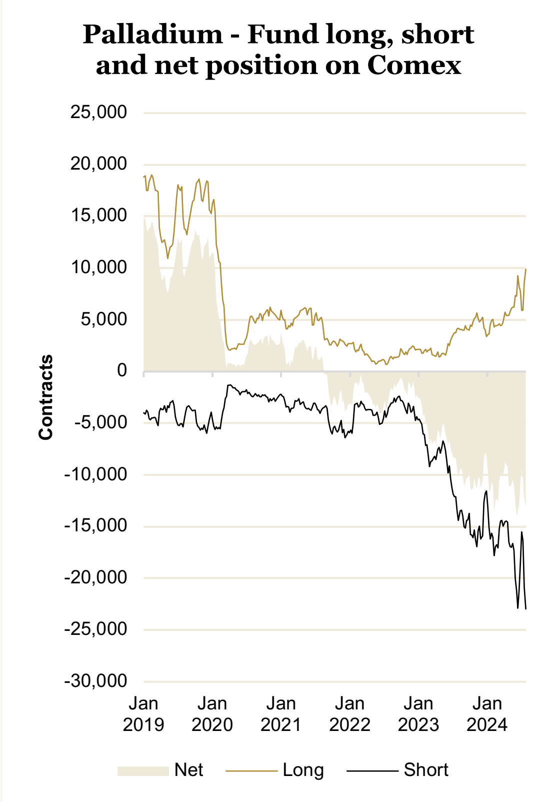

CHART 6

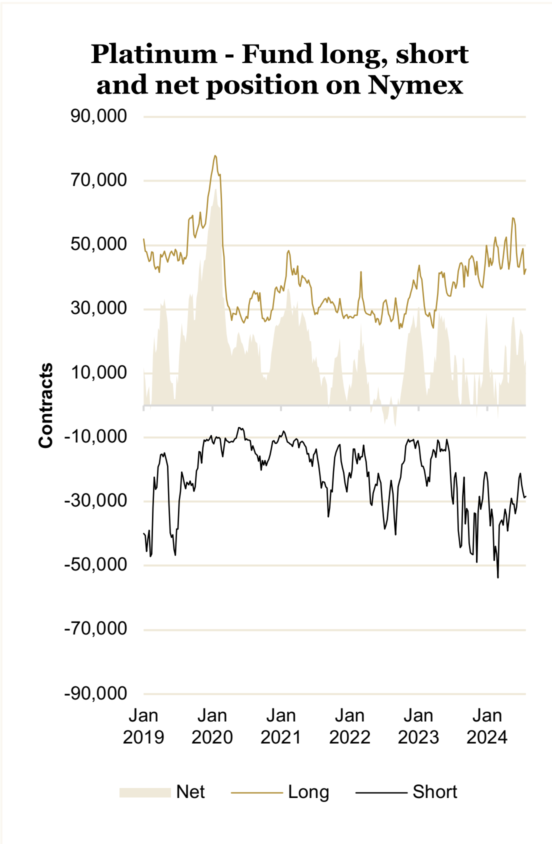

CHART 7

Fund selling weighs on the PGMs

A look at the fund chart for palladium shows the funds are getting more polarised, with the short and long positions both growing. Given, the changing EV story and the fact that palladium prices are now below those of platinum, may mean the palladium shorts find themselves wrong-footed. The funds' platinum position seems to be following the gold and silver positions more, with the longs liquidation and the shorts starting to get shorter again.

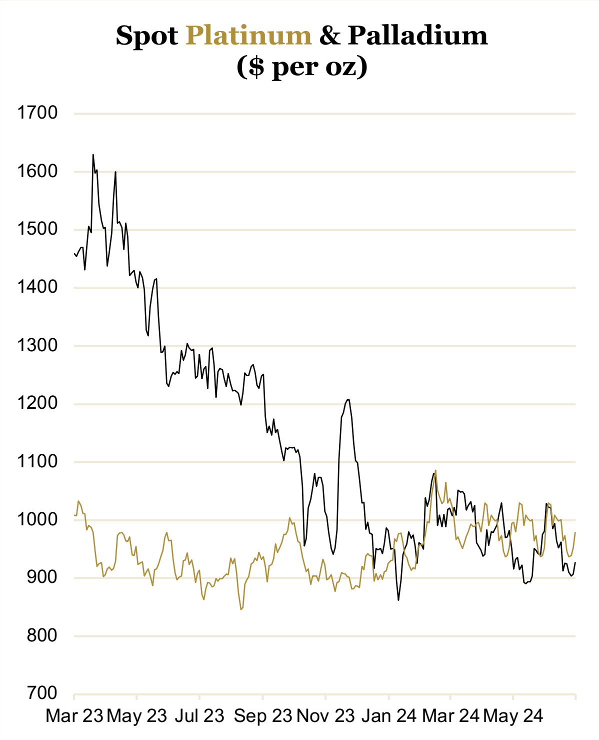

CHART 8

SUMMARY

The PGM prices started to give back some of the gains seen in June, and as a result they remain the weaker part of the precious metals camp by far. With silver prices also showing weakness and with the possibility that broad based market weakness weighs on gold prices, then the path of least resistance for the PGMs seems to be to the downside. That said, we would be wary of expecting too much on the downside for palladium as the funds are already short and the fund longs seem to be in scale-down buying mode, so may be will to accumulate more into the price weakness. With prices for all PGMs low, the risk of further production cut announcements is also high, which may become a concern to shorts, or consumers who have destocked.

PGM Statistics

	2020	2021	2022	2023	Q1 2024	Q2 2024	Jun-24	Jul-24
London Prices (US$/oz)								
Platinum	884.49	1091.24	961.24	966.88	915.79	980.94	984.97	981.40
Palladium	2197.06	2398.86	2108.33	1338.69	989.99	972.46	924.40	924.40
Japanese Parity Prices (Y/g)								
Platinum	94,499	119,829	128,748	136,253	138,591	152,928	155,565	154,972
Palladium	234,734	263,419	282,390	188,648	149,827	151,514	146,000	145,972
South African Parity Prices (Rand/kg)								
Platinum	14,668	16,078	15,551	17,891	17,097	17,956	18,114	17,881
NYMEX Stocks ('000oz)								
Platinum#	623.10	482.00	167.20	206.20	200.96	174.84	146.77	155.51
Palladium#	138.1	95.2	53.4	36.7	51.4	34.7	31.2	43.9
CFTC (Futures Only Data) non-commercial#								
Platinum	25,829	4,469	24,666	23,662	7,195	18,322	20,603	14,314
Palladium	2,714	-3,109	-2,206	-7,801	-9,900	-11,685	-12,906	-13,091
Other Indicators (US$/oz)#								
Pt-Au spread	-816	-858	-747	-1,056	-1,400	-1,353	-1,353	-1,498
Pt-Pd spread	-1,295	-966	-723	-113	-107	2	2	56

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