#09 NOVEMBER 2024

The Sharp Perspective

OUR MONTHLY COMMENTARY

Gold prices consolidate below highs as traders weigh up what a Trump presidency will mean for the markets

- After gains of 35% since the start of the year, and 54% since the start of the rally in October 2023, a period of consolidation is unsurprising given the rapid pace of the rally
- …it is also constructive
- Trump's proposed policies on trade, tariffs, and tax cuts are potentially inflationary. The market has interpreted these as bullish for the US dollar and yields, which may weigh on gold prices
- However, inflation, a larger federal deficit, and heightened geopolitical stress could also support higher gold prices. For now, the market appears to be discounting this perspective
- Geopolitical tensions have risen in the Russia/Ukraine war, but an Israel/Hezbollah ceasefire has slightly eased tension in the Middle East – the latter has seen gold prices pullback
- Funds and ETF investors have been taking profits, but there is no evidence of a significant shift toward increased bearish sentiment

Bullish sentiment in silver has been dampened as Trump's likely trade and tariff policies may damage industrial demand

- Fund profit-taking and some increase in short selling in November have weighed on prices

Concerns about global industrial demand have also weighed on PGM prices

- Platinum and palladium are projected to face supply deficits this year and next. These deficits should support prices as uncertainty surrounding industrial demand diminishes
- The anticipated decline in demand for internal combustion engine vehicles due to the rise of EVs may not occur as rapidly as some have predicted, as plug-in hybrid EVs are expected to maintain a significant share of EV sales

KEY TAKEAWAYS

- Gold prices are consolidating after the strong gains seen over the past 14 months…
- …this is not surprising given the recent headwinds from strong US dollar and US yields
- Some fund and investor profit-taking has emerged, again this is not surprising ahead of year-end and considering the gains
- Central bank buying has slowed
- The rally started after Hamas attacked Israel in October 2023. Will a ceasefire now signal an end to the rally – unlikely given all the other geopolitical risks and uncertainty
- Silver and PGM prices encountered a headwind as markets are concerned that Trump's policies on trade could damage global industrial activity, thereby weakening industrial demand for precious metals
- Silver and the PGMs face supply deficits in 2024 and 2025, so overall prices should be supported, although market sentiment can always override market fundamentals

Gold's rebound stalled in November, market now consolidating

Gold reached its most recent price peak of $2,790.90 per ounce on 30 October. Since then, the price has fallen to $2,536.95 per ounce, a decline of $254 (approximately 9%), before rebounding to $2,720.50 per ounce. However, the rebound stalled on 25 November, and since then, prices have been consolidating around $2,650 per ounce. Following such strong gains since late June – during which prices rose by nearly $500 per ounce – it is unsurprising that the market has paused; indeed, this can be seen as a healthy development. So far this year, prices have risen by 35.3%, despite a generally strong US dollar and rising US Treasury yields, both of which typically act as headwinds for gold demand and prices.

Mixed outlook for gold under Trump

In the aftermath of the US presidential election, once it became clear that Donald Trump would be the next president, gold prices sold off. This is a typical market reaction to a Republican Party win. However, this time, Trump's proposals for tax cuts, import tariffs, and increased federal spending are seen as inflationary, which in turn could lead to the Federal Reserve's monetary easing spree being short-lived. This appears to be the interpretation driving the strength of US Treasury yields and the dollar. That said, one could equally argue that higher inflation, an increase in the federal deficit, escalating trade tensions, and the potential for heightened geopolitical risks could boost safe-haven demand for gold. Perhaps this will emerge as a secondary market reaction once Trump assumes the presidency again.

Headwinds and tailwinds

The stronger dollar, which has seen the US Dollar Index rise to 108 from around 100 in late September, and the rebound in US 10-year Treasury yields to 4.46% in November (up from 3.62% in mid-September), present headwinds for gold. High gold prices have also weighed on demand from jewellery buyers, coin and bar buyers, and central banks, as potential buyers are reluctant to purchase at elevated prices.

According to World Gold Council data, third-quarter year-on-year demand from these sectors fell by 9%, 9%, and 49%, respectively. However, tailwinds have come from investment, ETFs, and industrial buyers.

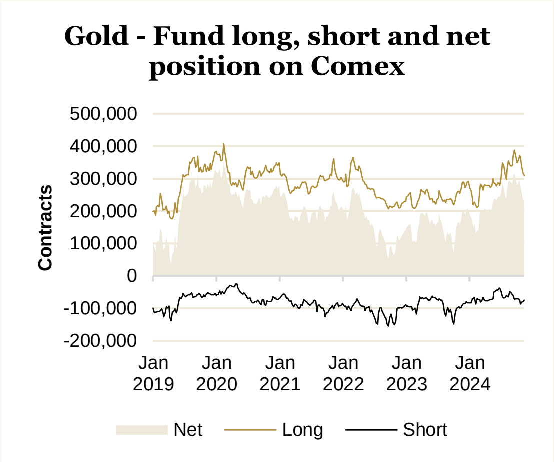

CHART 1

Fund profit-taking underway

Funds trading Comex gold have reduced their net long position to 234,367 contracts as of 19 November, down from 278,653 contracts at the end of October and from a peak of 315,390 contracts at the end of September. Since the September peak, long positions have decreased by 78,218 contracts, bringing their total to 309,354 contracts, while short positions have increased only slightly, by 2,805 contracts, to 74,987 contracts. This indicates that the pullback is driven primarily by profit-taking rather than a shift towards bearish sentiment in the market. Since the start of 2019, the gross long position has ranged between 176,691 and 408,349 contracts, averaging 283,497 contracts. At 309,354 contracts, the current gross long position is 9% above the average and 5.8% above the median of the range.

ETF selling emerges

ETF investors were late to join the gold price rally, turning net buyers only in May this year and remaining so until October. However, November has seen them revert to net selling. Between May and October, they bought approximately 156 tonnes of gold, averaging 31 tonnes per month. In the first three weeks of November, they sold around 33 tonnes. Some market participants had anticipated that ETF investors would continue as steady buyers, given their late entry into the rally and the relatively modest 156 tonnes purchased during the previous months. However, with Bitcoin surging since the US election result was confirmed, some investors may have rotated out of gold and into Bitcoin. Bitcoin has risen by approximately 70% since early October.

Central bank buying slows

China's central bank reportedly did not purchase any gold for its reserves in October, marking six months of absence from the market after an 18-month buying spree. According to World Gold Council (WGC) figures, central bank gold buying overall declined by 49% in the third quarter compared with the same period last year. However, there are reports that some central banks have been acquiring gold through unofficial channels or have simply chosen not to report their purchases. This might be due to the publicity surrounding earlier buying activity, which fuelled the price rally and increased their acquisition costs. If central banks are indeed aiming to further diversify away from the US dollar, they may feel the need to find ways to purchase gold without driving prices higher. A strategy of exercising restraint, allowing periods of profit-taking, could be the approach they have decided to adopt.

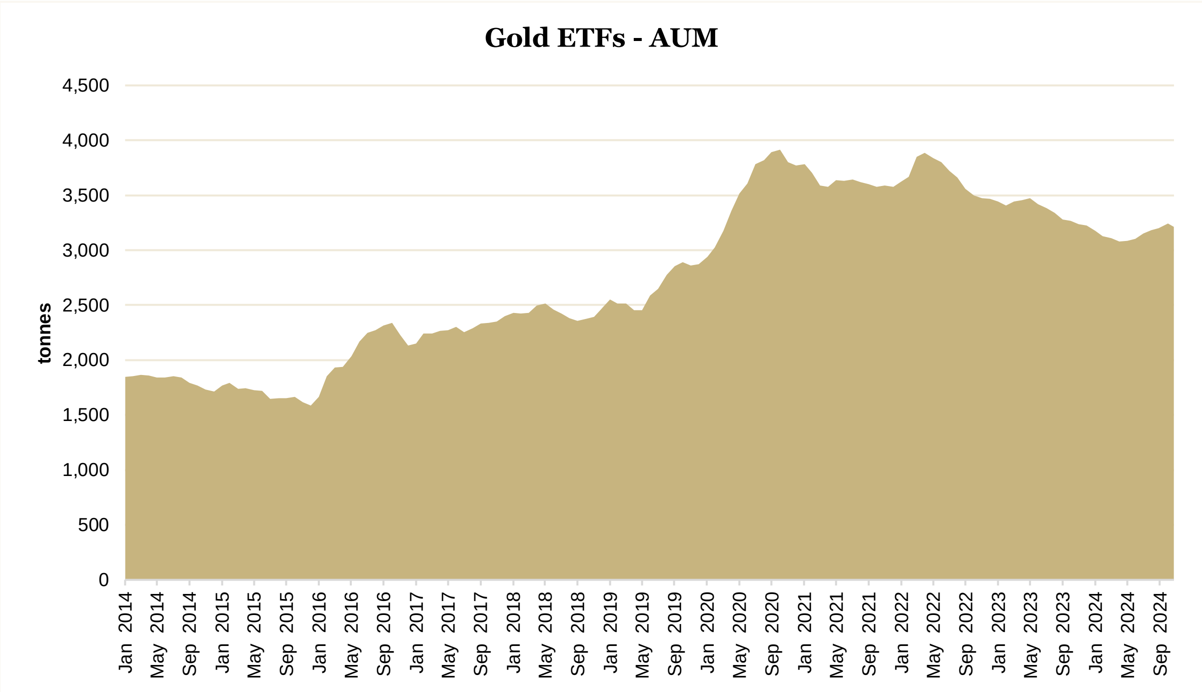

CHART 2

Mixed geopolitical developments

The November rebound in gold prices was partially driven by the escalation in the war between Russia and Ukraine. The US and UK allowing Ukraine to fire long range missiles at military targets inside Russia provoked President Putin to change Russia's nuclear doctrine setting new conditions under which nuclear weapons could be used. To back up this message, Putin went on to use a new type of long-range hypersonic missile, one that could carry multiple nuclear warheads, against Ukraine. Then, news that a ceasefire between Israel and Hezbollah in the Lebanon was enough to see gold prices pullback.

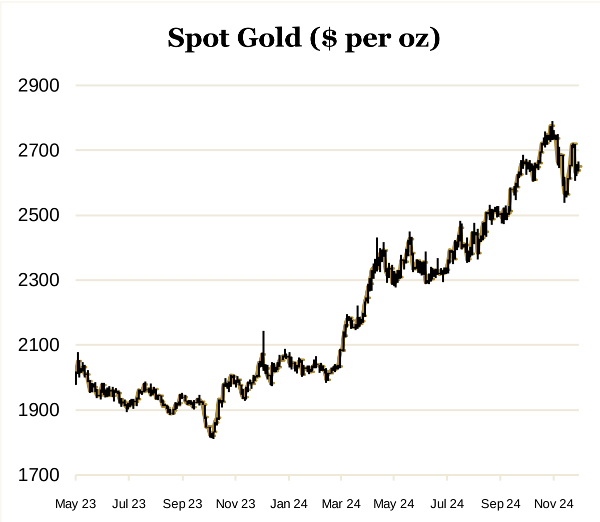

CHART 3

SUMMARY

Gold prices are consolidating after what has been a dynamic performance over the past 12–15 months. Multiple cross-currents continue to flow through the markets, influencing gold. With Donald Trump set to become the next president, uncertainty surrounding economic, trade, socio-economic, and geopolitical issues has increased further. As a result, gold is expected to remain an active market and a vital instrument for investors, households, and central banks alike. Whether it is used as insurance against the unknown, protection against inflation or currency debasement, a means to secure greater sovereignty, or purely as an investment, gold remains a key asset. At its October peak, gold prices had risen 35% since the start of the year and 54% since October 2023, when Hamas attacked Israel. If the October attack served as the catalyst for the bull run, the question now is whether a ceasefire will bring a quieter period for gold or whether the market will remain on edge until Trump reveals more details of his policies. We believe the latter is more likely.

Gold Statistics

	2020	2021	2022	2023	Q2 2024	Q3 2024	Oct-24	Nov-24
London prices								
$/oz	1,769.97	1,799.87	1,801.17	1,942.99	2,337.69	2,476.21	2,690.07	2,653.39
£/oz	1,378.80	1,308.41	1,457.43	1,562.57	1,852.42	1,904.12	2,060.81	2,082.17
€/oz	1,549.38	1,308.41	1,457.43	1,796.32	2,067.61	2,253.43	2,467.35	2,497.07
Parity prices								
Australian - A$/oz	2,544	2,393	2,589	2,924	3,547	3,697	4,007	4,062
South Africa Rand/kg	29,352	26,519	29,139	35,952	42,780	44,455	47,237	47,532
Japan Y/g	189,104	197,644	241,248	273,806	364,369	368,858	402,676	407,295
India Rupee/oz	131,445	133,434	142,184	160,596	195,010	207,405	226,046	223,893
COMEX - futures contracts								
Stocks ('000oz)#	38,157	33,805	23,180	19,191	16,505	17,112	17,133	17,874
Vol (million contracts)*					15.89	14.84	4.45	5.88
OI ('000 contracts)#					448	528	569	458
CFTC (Futures Only Data) non-commercial								
Net Positions#	268,872	213,157	136,880	207,718	246,229	315,390	315,390	234,367

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

Concerns over industrial demand dampen silver's near-term outlook

Silver has followed gold's lead, but its recent pullback has not attracted as much bargain hunting as gold. This is reflected in the gold/silver ratio rising sharply to 1:88 from around 1:80 in late October. Concerns about the increasing likelihood of trade wars and tariffs have weighed on industrial metals, with silver also feeling the impact. At the end of November, silver prices were down 12.2% from their October high, compared with a 4.8% decline in gold prices. Given the uncertainty surrounding trade and its potential to act as a headwind on global economic growth, the previously bullish sentiment towards silver may wane for a time, at least until the market gains more clarity on Trump's policies. That said, pent-up demand could grow, as suggested by the latest Chinese Caixin Manufacturing Purchasing Managers' Index (PMI), which rose to 51.5 in November from 50.3 in October. This improvement indicates that China's recent series of stimulus measures may finally be gaining traction. This bodes well for the outlook – provided Trump's policies do not derail China's growth.

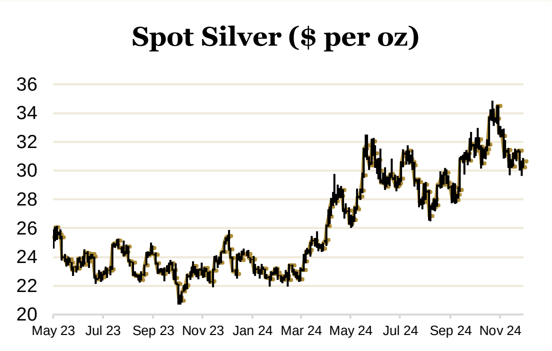

CHART 4

Funds cut long position

The funds trading Comex silver cut their net long position to 46,323 contracts by November 19, down from 60,431 contracts at the end of October and a recent peak of 66,355 contracts on October 22. Since the October peak, the longs have cut their gross position by 16,200 contracts and the shorts have increased their gross position by 3,832 contracts. As the chart shows, while the gross long position remains quite elevated, the gross short position is small.

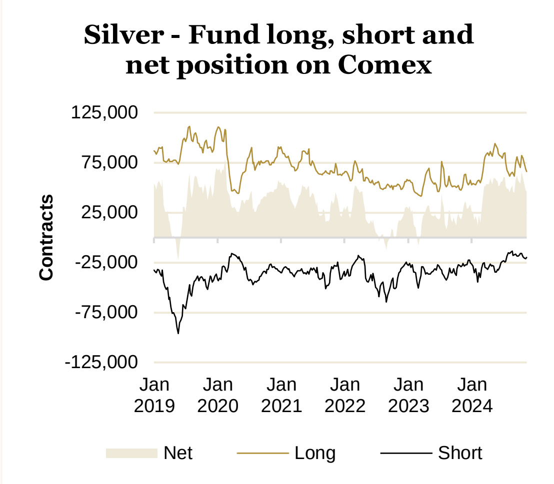

CHART 5

TECHNICALS – PRICES CONSOLIDATE

Despite the recent pullback in silver prices, the uptrend line from the February low remains intact. By the end of November, this line was at $29.45 per ounce, compared with the end-of-month price of $30.60 per ounce. The price action has formed a potential head-and-shoulders pattern, but for confirmation, prices would need to break below the neckline, which stood at $29.48 per ounce at the end of November. As such, the area just below $29.45 per ounce is likely to serve as an important support zone on the chart that needs to hold. Conversely, prices would need to climb back above $31.55 per ounce to appear less vulnerable.

SUMMARY

Silver has delivered a strong performance in 2024, with prices up 44% at their peak and still up 28.6% by the end of November. However, the aftermath of the US election has strengthened the dollar and US Treasury yields, raising concerns about economic growth and potential trade wars. These factors have weighed on silver prices and dampened the broader market outlook. That said, the silver market's fundamentals remain bullish. The green energy transition continues to accelerate, boosting silver demand from the solar panel industry. Silver also plays an indispensable role in semiconductors, with demand surging as artificial intelligence gains momentum. These factors are expected to result in silver experiencing its fourth consecutive year of supply deficits in 2024, with another deficit anticipated in 2025.

Silver Statistics

	2020	2021	2022	2023	Q2 2024	Q3 2024	Oct-24	Nov-24
London Prices (US$/oz)								
Spot London price	20.55	25.14	21.73	23.39	28.86	29.42	32.41	31.14
Parity (London) prices								
Japan (Y/g)	2,196	2,761	2,911	3,296	4,500	4,389	4,852	4,779
India (Rupee/oz)	1,526	1,864	1,715	1,933	2,408	2,464	2,724	2,627
COMEX - futures contracts								
Stocks ('000oz)#	396.5	355.7	299.0	253.9	255.7	305.1	308.6	306.7
Vol (million contracts)*					7.20	5.09	1.76	1.78
OI ('000 contracts)#					155.3	144.7	155.1	132.9
CFTC (Futures Only Data) non-commercial								
Net Positions#	54,779	26,458	31,027	31,863	50,836	62,188	66,355	46,323
Other Indicators								
Gold/Silver ratio#	1:72	1:78	1:76	1:86	1:86	1:82	1:82	1:86

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PGMs back below $1,000 per ounce, with palladium having a volatile time

Palladium has been more volatile than platinum in recent months, primarily due to the US pushing G7 allies to impose sanctions on Russian exports of palladium. This threat unsettled some funds that were heavily short on palladium, leading to a wave of short-covering, as shown in the accompanying chart. However, there has been little evidence of fresh buying interest. The gross short position fell to a low of 9,031 contracts at the end of October, down from 22,960 contracts at the end of July.Since then, it has risen again to 11,020 contracts. At the same time, the gross long position has also declined, dropping to 4,726 contracts in mid-November from 9,869 contracts at the end of July.

Funds remain long of platinum

While funds remain net short on palladium, they have continued to hold net long positions on platinum. More recently, these positions have become increasingly polarised, as short positions have grown while long positions have largely been maintained at relatively high levels.The increased interest in shorting platinum is linked to the broader downturn in the outlook for industrial activity following Donald Trump's election victory. His inclination to impose tariffs on imported goods, including those from countries with Free Trade Agreements, has added to the uncertainty.

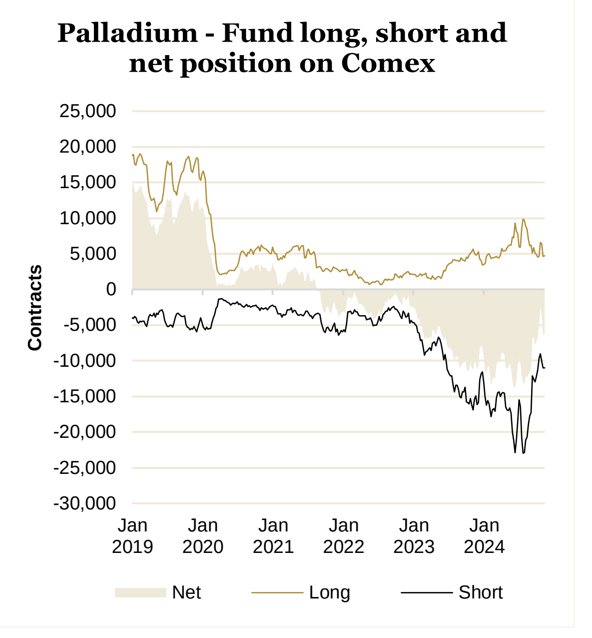

CHART 6

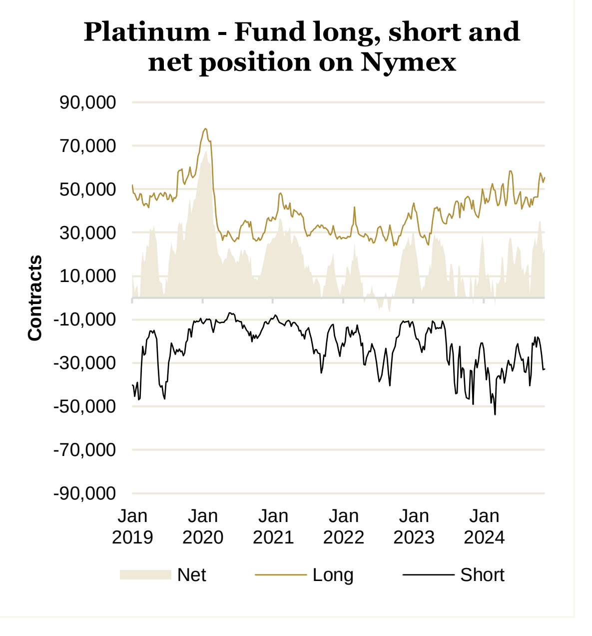

CHART 7

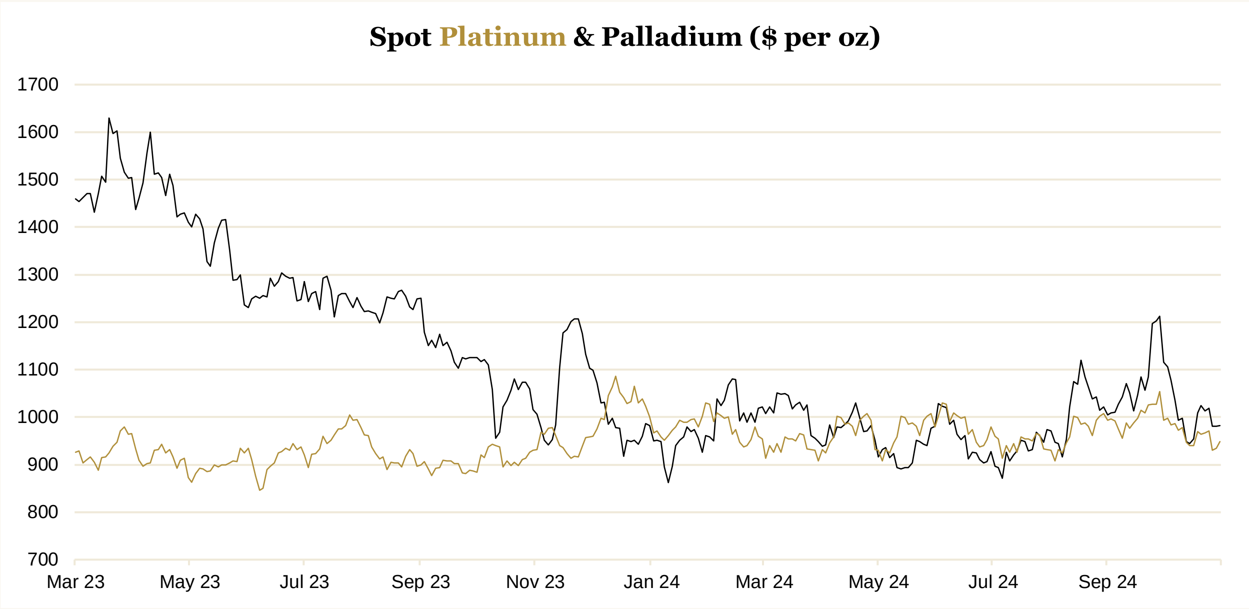

CHART 8

PGMs fundamentals remain bullish with supply deficits in 2024 and 2025

Platinum is projected to remain in a supply deficit in 2025, marking the third consecutive annual deficit, according to the World Platinum Investment Council/Metals Focus report. On the bullish side, demand from auto-catalysts, the jewellery industry, and investors is expected to grow steadily, while supply constraints persist. On the bearish side, industrial demand is forecast to decline. The three years of deficits (2023–2025) are expected to help rebalance the market after the significant surpluses recorded in 2021 and 2022. Similarly, palladium is forecast to remain in deficit in 2024 and 2025, before shifting to a surplus in 2026. Sentiment around PGMs has been negatively impacted in recent years by the rise of electric vehicles (EVs). However, with plug-in hybrid electric vehicles (PHEVs) generally selling better than battery-only EVs and being seen less as a transitional EV solution, this negative sentiment may have been overstated.

SUMMARY

Platinum has been rangebound since 2022, but as the stock overhang diminishes, its stronger fundamentals are expected to provide increased support. Palladium, on the other hand, has experienced significant volatility over the past decade, rising by more than 600% between 2016 and 2022 before surrendering most of those gains. While palladium prices now appear more rangebound, the metal retains the capacity for volatility, as demonstrated in October and November. Overall, the ongoing supply deficits are likely to provide support for both platinum and palladium.

PGM Statistics

	2020	2021	2022	2023	Q2 2024	Q3 2024	Oct-24	Nov-24
London Prices (US$/oz)								
Platinum	884.49	1091.24	961.24	966.88	980.94	963.32	999.67	962.48
Palladium	2197.06	2398.86	2108.33	1338.69	972.46	958.21	1069.44	1009.72
Japanese Parity Prices (Y/g)								
Platinum	94,499	119,829	128,748	136,253	152,928	143,728	149,641	147,741
Palladium	234,734	263,419	282,390	188,648	151,514	142,703	160,084	154,991
South African Parity Prices (Rand/kg)								
Platinum	14,668	16,078	15,551	17,891	17,956	17,302	17,554	17,242
NYMEX Stocks ('000oz)								
Platinum#	623.10	482.00	167.20	206.20	174.84	144.97	139.39	137.15
Palladium#	138.1	95.2	53.4	36.7	34.7	39.3	38.5	38.5
CFTC (Futures Only Data) non-commercial#								
Platinum	25,829	4,469	24,666	23,662	18,322	24,401	34,876	22,676
Palladium	2,714	-3,109	-2,206	-7,801	-11,685	-6,733	-5,080	-6,294
Other Indicators (US$/oz)#								
Pt-Au spread	-816	-858	-747	-1,056	-1,353	-1,666	-1,756	-1,706
Pt-Pd spread	-1,295	-966	-723	-113	2	-12	-128	-28

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