#07 SEPTEMBER 2024

The Sharp Perspective

OUR MONTHLY COMMENTARY

SHARPS PIXLEY LTD BULLION BROKERS LONDON

Gold repeatedly set fresh record highs in September, with US monetary policy and the deteriorating geopolitical situation supporting the rally

- The US Federal Reserve's 50 basis point interest rate cut ensured further dollar weakness and a bullish backdrop for gold prices
- The escalation in geopolitical risk was further reason for investors to seek safe-havens
- Iran's greater involvement in the Middle East conflict now raises the risk of oil supply disruptions, which in turn raises the risk of a wider confrontation
- Funds increased their exposure to gold, but funds will be sitting on large unrealised profits, which raises the risk of profit-taking
- ETF investors have only been net buyers for five months, they were late to the party so may have more catching up to do
- High gold prices are dampening physical demand from consumers and a rebound in Chinese equities is a potential headwind for Chinese buying

Silver prices momentarily broke higher to set a 12-year high, but so far the market has struggled to build on that development

- US interest rate cuts and Chinese stimulus to boost industrial demand for silver

PGM prices rally on prospects for better industrial demand

- Improved demand outlooks and supply deficits to support PGM prices
- Jewellery industry looking to promote platinum jewellery given high gold prices impact the affordability of gold jewellery

KEY TAKEAWAYS

- Gold continued to set fresh highs in September
- With bullish developments priced in, there is risk of profit-taking
- Further US rate cuts will provide ongoing support…
- …as will further escalations in the geopolitical situation, especially in the Middle East
- A broader market correction could drag gold prices down initially
- Silver prices set 12-year highs in September, but lacked follow-through buying
- The lower interest rate environment, plus the Chinese stimulus, to boost demand for industrial precious metals

Multiple factors push gold to fresh highs throughout the month

Gold prices had a stellar performance in September, climbing from one record high to another, with the most recent high at $2,685.60 per oz. There are multiple drivers, but the initial trigger for the upward acceleration in prices was the higher than expected US Consumer Price Index (CPI) and Producer Price Index (PPI) data that showed inflationary pressures were still around, even though the US was almost certainly about to cut rates. In the immediate aftermath of the Federal Reserve's interest rate cut, gold prices dropped $30 per oz, but the sell-off was short-lived and the fact the interest rate cut was 50-basis points (bp) and not the more normal 25bp, was seen as overall bullish for gold. This was especially so given the other considerations, such as the deteriorating geopolitical situation in the Middle East with Israel's focus shifting to Lebanon, where an intense air bombardment got underway.

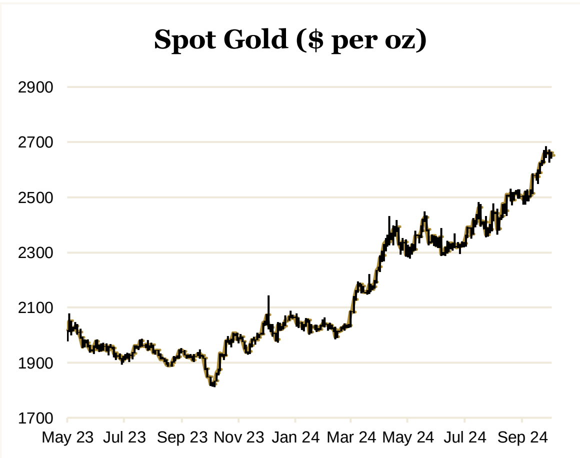

CHART 1

Heightened geopolitical tension

Israel's pivot to target Hezbollah in Lebanon and the speed, scale and effectiveness of the attacks has raised the risk in the Middle East, as seen by Iran's rocket attack on Israel. But, so far other powers in the Middle East do not seem to be taking sides, suggesting that this is still a contained conflict, Israel against the non-state resistance groups of Hezbollah and Hamas, with Iran so far supporting the groups that they nurtured.

If Israel and Iran go to outright war, then that could produce a bigger global problem as it is more likely that such a development could see Iran target the oil supply chain. Not only would higher oil prices be inflationary, but they would have far reaching, indeed global, economic implications.

Oil - about availability, not quantity

Oil prices had been trending lower since July when they were around $87.70 per barrel. They fell to a low of around $68.50 per barrel in early-September but have since climbed to $75 per barrel. There is no shortage of oil, indeed Saudi Arabia has been producing below its quota to prop up oil prices while some other OPEC (Organization of the Petroleum Exporting Countries) producers have been producing over their quota, so Saudi and others could raise output if needed. But, the real issue here is if Iran effectively disrupts the oil supply chain by blocking the Straits of Hormuz. This could have a massive impact as around 30% of the world's oil trade passes through the Straits. This would no doubt bring the US and its allies into the conflict as they try to keep the Straits open. Any spike in the oil price would increase investors' need for safe-havens and send gold prices higher. Although, if other markets sold off on the development, then there could be a brief spell of gold selling as institutional investors liquidate gold positions to raise funds for margin calls. But once that selling had run its course, we would expect gold prices to rise on safe-haven buying and as a hedge against inflation.

Price a headwind for physical demand

While investors love a bull market, gold consumers do not. The run of record high prices has seen physical demand fall sharply, apart from a blip in Indian demand in August following their import duty cut. While physical demand is weak, scrap supply is rising. This weakness in physical demand has shown up in the local prices in China and India, which are the two largest consumers of gold. The discount to the London spot price in China is $9.60 per oz and $14.80 per oz in India. Key will be whether exchange traded funds (ETF) soak up the surplus.

Opportunity costs rise in China

Physical and investment demand in China might now weaken further following China's numerous stimulus announcements in September. Some of the stimulus was aimed at encouraging financial institutions to support equity markets and as equities have since rallied strongly, we expect some rotation out of gold and into equities. Likewise, any stability in the property market could also be a headwind for gold. In the days following the stimulus measures, the Chinese CSI 300 equity index rallied over 20%.

ETF investors continue to buy gold

Exchange traded fund (ETF) investors have been net buyers of gold for five months now, taking holdings to 3,196 tonnes in late-September, up from 3,167 tonnes at the time of [last month's report] and up from this year's low of 3,079 tonnes in April. The switch to net-buying from net-selling came after a protracted period of profit-taking as seen in the chart. Given ETF investors have only relatively recently turned net buyers and given the overall bullish backdrop for gold, there is potential for more buying. Holdings are still well below the October 2020 peak of 3,915 tonnes.

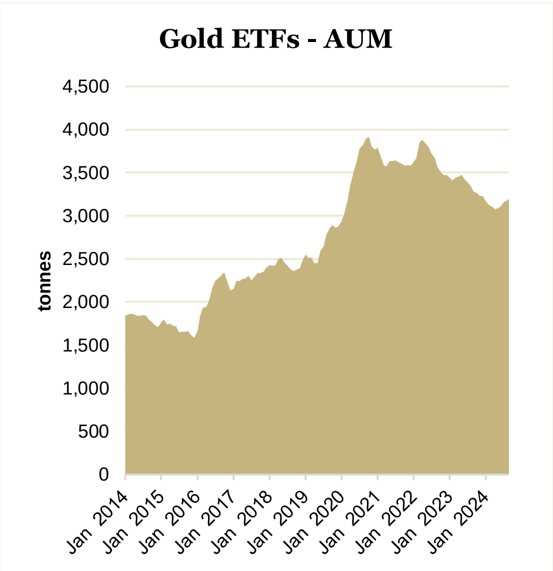

CHART 2

Funds getting longer

The net long fund position dropped ahead of the Fed rate decision, but has since grown again. At the end of August it stood at 294,445 contracts, it dipped to 282,501 contracts on September 10th, before climbing to 315,390 contracts on September 24th. The position is now closing in on the high (353,649 contracts) seen in February 2020. The fund position has become more polarised with 387,572 longs now pitched against 72,182 shorts. This compared with 343,330 longs and 48,885 shorts at the end of August.

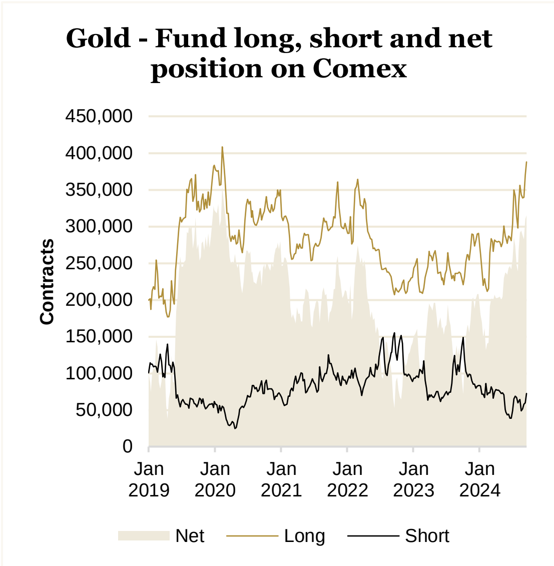

CHART 3

TECHNICAL ANALYSIS

The February to April rally was followed by consolidation between April and mid-June, which in turn has been followed by another rally. The first rally travelled $447 per oz, the latest one is up $393 per oz, so far. Prices started to consolidate again in late-September, but as of October 3rd, prices were holding up well. The trendline connecting the February low and the August low is now at around $2,500 per oz – this a likely support area.

SUMMARY

The backdrop is generally bullish for gold. Geopolitical risks are increasing, especially following Iran's latest missile attack on Israel. Investors and funds are buying, as are central banks, albeit for different reasons and the dollar and US treasury yields are weakening. However, a recovery in Chinese equities and the fall-off in physical demand are headwinds. Another risk is that the large gross long fund position must be sitting on significant unrealised profits. Profit-taking could unfold if broader markets were to get spooked.

Gold Statistics

	2020	2021	2022	2023	Q2 2024	Q3 2024	Aug-24	Sep-24
London prices								
$/oz	1,769.97	1,799.87	1,801.17	1,942.99	2,337.69	2,476.21	2,468.11	2,567.62
£/oz	1,378.80	1,308.41	1,457.43	1,562.57	1,852.42	1,904.12	1,909.39	1,942.41
€/oz	1,549.38	1,308.41	1,457.43	1,796.32	2,067.61	2,253.43	2,242.24	2,311.78
Parity prices								
Australian - A$/oz	2,544	2,393	2,589	2,924	3,547	3,697	3,714	3,795
South Africa Rand/kg	29,352	26,519	29,139	35,952	42,780	44,455	44,549	45,216
Japan Y/g	189,104	197,644	241,248	273,806	364,369	368,858	361,158	367,555
India Rupee/oz	131,445	133,434	142,184	160,596	195,010	207,405	207,025	215,167
COMEX - futures contracts								
Stocks ('000oz)#	38,157	33,805	23,180	19,191	16,505	17,112	17031	17112
Vol (million contracts)*					15.89	14.84	4.42	4.13
OI ('000 contracts)#					448	528	520	528
CFTC (Futures Only Data) non-commercial								
Net Positions#	268,872	213,157	136,880	207,718	246,229	246,229	294,445	315,390

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 prices reach 12-year highs

Silver had been lagging gold's performance in recent months and had struggled to set fresh highs for the year despite gold setting multiple record highs. This changed in September, when the rally in silver prices powered ahead to reach a high of $32.71 per oz, overcoming the May high at $32.51/oz in the process. This was the highest silver prices had been since December 2012. This recent relative overperformance has seen the gold/silver ratio fall to 1:82, down from 1:90 in August.

Temporary underperformance

US interest rate cuts provide a better climate for not only US economic growth, but global growth too, and that will be good for silver's industrial demand. What is more, the Chinese stimulus measures taken in September have a good chance of also boosting Chinese growth as well as global growth. Combined, this has lifted the outlook for physical silver demand, meaning industrial and investment demand for silver are now aligned. On top of that, now that the trend in silver prices has broken higher and given silver is still relatively weak compared with the gold price, when viewed over the long term, bullish sentiment is likely to grow. The long-term ratio, since the gold standard was abandoned in the 1970s, is 1:65, suggesting that at today's gold price silver could be trading around $40 per oz. Indeed, the ratio in the 20^{th} century averaged 1:47, which would imply a $55 per oz silver price.

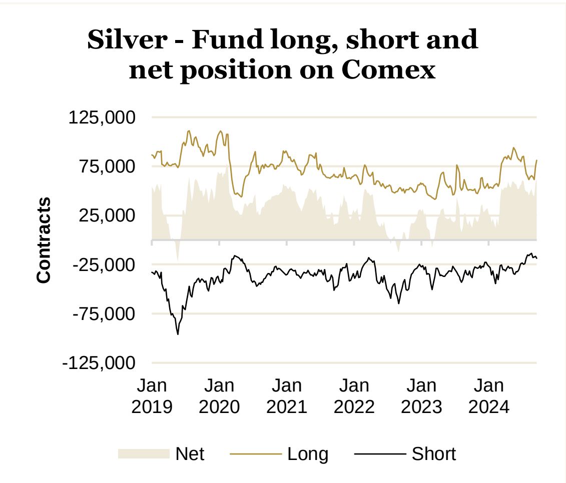

CHART 4

Funds increase exposure again

The funds trading Comex silver have increased their net long position to 62,198 contracts, up from 52,186 contracts at the end of August. Both camps have added to their positions since the end of August, with longs holding 81,029 contracts, compared with 65,715 contracts and the shorts holding 18,831 contracts, compared with 13,539 contracts. The gross short position is still relatively small, as the chart shows. The highest gross long position on the chart is 111,282 contracts, that was seen in July 2019.

Technicals – waiting for confirmation

While silver prices set a fresh multi-year high in September, they have not yet managed to hold above, or consolidate above, the previous high. This could be seen as a double-top formation, but if it is, it is likely to be a temporary top as the overall upward trend does seem intact with a series of higher highs and higher lows since the 2020 low.

CHART 5

SUMMARY

Prospects for stronger global industrial growth, following the US rate cut and Chinese stimulus, bode well for physical silver demand. Setting a 12-year high, if only briefly, was another encouraging sign. Overall silver will continue to follow gold's lead and if gold continues to climb then silver may be able to outperform gold on a percentage basis as firstly the gold/silver ratio is still relatively high and secondly the industrial demand outlook looks set to improve.

Silver Statistics

	2020	2021	2022	2023	Q2 2024	Q3 2024	Aug-24	Sep-24
London Prices (US$/oz)								
Spot London price	20.55	25.14	21.73	23.39	28.86	29.42	28.52	30.01
Parity (London) prices								
Japan (Y/g)	2,196	2,761	2,911	3,296	4,500	4,389	4,173	4,296
India (Rupee/oz)	1,526	1,864	1,715	1,933	2,408	2,464	2,392	2,515
COMEX - futures contracts								
Stocks ('000oz)#	396.5	355.7	299.0	253.9	255.7	305.1	306.2	305.1
Vol (million contracts)*					7.20	5.09	1.94	1.52
OI ('000 contracts)#					155.3	144.7	131.8	144.7
CFTC (Futures Only Data) non-commercial								
Net Positions#	54,779	26,458	31,027	31,863	50,836	62,188	52,186	62,198
Other Indicators								
Gold/Silver ratio#	1:72	1:78	1:76	1:86	1:86	1:82	1.88	1:82

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PGMs lift off the lows, palladium spiked high as Russia threatened supply

The factors pushing gold higher have helped improve sentiment across the other precious metals too. Given PGM prices have been weak, the combination of the better outlook for global industrial demand, following the US rate cut and China's stimulus, and the record setting gold price, saw the PGMs put in a stronger performance than gold. From the lows in early September to the highs, platinum rose 13%, silver was up 18% and palladium was up 23%, with the latter getting an extra boost when Russia's President, Vladimir Putin, pondered whether Russia should put export limits on some of its key commodities. Given Russia is the largest single producer of palladium, it accounts for 42% of global production, it is unsurprising the market reacted the way it did. From a low of $908 per oz in early September, prices spiked to $1,123 per oz on September 18th, before falling back to $995 per oz. Compared to palladium's $215 per oz range, platinum prices held within a $117 per oz range.

High gold prices could benefit platinum

In the past, platinum jewellery had a reputation of being more valuable as the metal was more expensive than gold. Prior to 2015, platinum tended to trade at a premium to gold, with the premium tending to range between $200-600 per oz, although at one point the premium reached $1,500 per oz. When platinum prices moved to a discount to gold, platinum jewellery lost some of its appeal, especially in China. Today with gold prices soaring, the cost of gold jewellery is causing affordability issues for retail buyers, so there is a move to try to make platinum jewellery popular again, given platinum prices are $1,650 per oz cheaper than gold prices. In 2016, platinum jewellery demand was 2.5 million oz, it has since fallen to 1.3 million oz. So, a recovery in demand for platinum jewellery could go a long way in restoring confidence in the metal.

Fund short-covering/ buying dominates

The more bullish sentiment in the precious metals has led to short-covering in both PGMs, with some fresh buying seen in platinum too, while some palladium longs liquidated. In palladium, the net short position dropped to 6,733 contracts, it had been short 11,860 contracts at the end of August. Longs cut exposure to 5,867 contracts, compared with 7,074 contracts at the end of August. So short-covering was an important driver in palladium. In platinum, the longs added 3,152 contracts taking the gross long position to 46,103 contracts, while shorts covered 5,516 contracts taking the gross short position to 21,702 contracts.

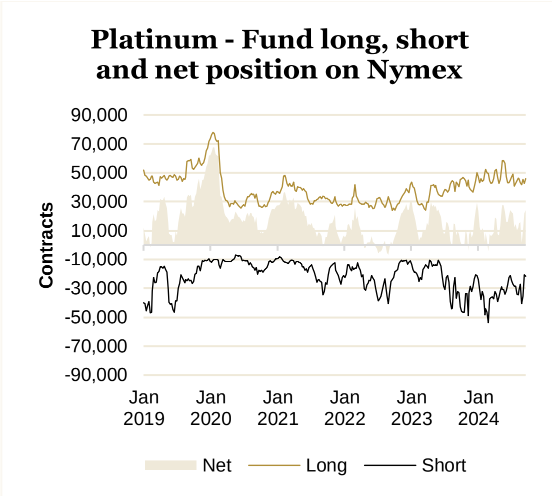

CHART 6

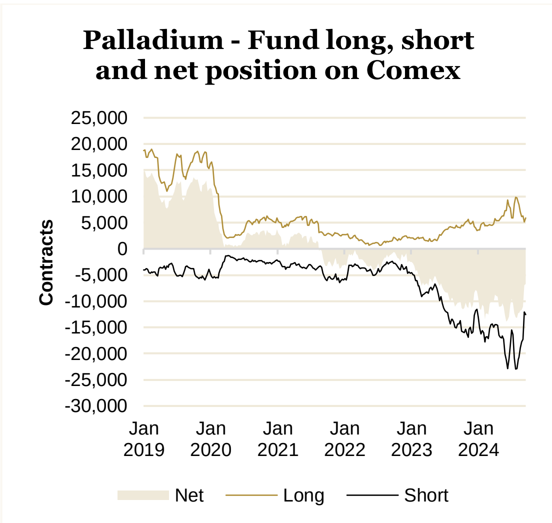

CHART 7

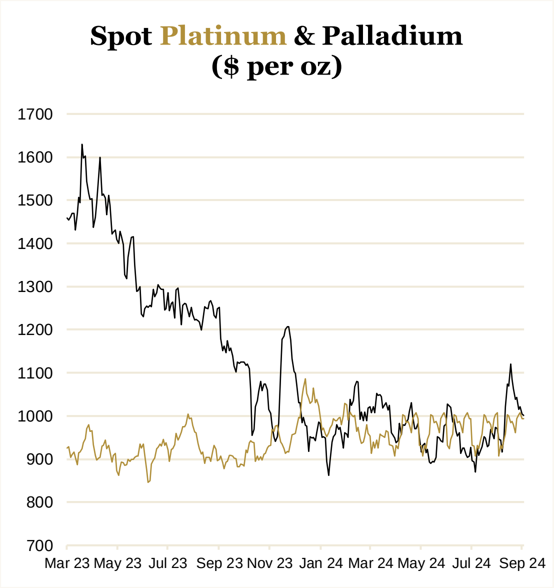

CHART 8

SUMMARY

The PGM prices have recovered on the back of the prospects for better industrial production that the lower US interest rate environment and Chinese stimulus bring. All eyes will be on whether the jewellery industry can foster a recovery in demand for platinum jewellery.

PGM Statistics

	2020	2021	2022	2023	Q2 2024	Q3 2024	Aug-24	Aug-24
London Prices (US$/oz)								
Platinum	884.49	1091.24	961.24	966.88	980.94	963.32	944.38	964.17
Palladium	2197.06	2398.86	2108.33	1338.69	972.46	958.21	931.55	1018.67
Japanese Parity Prices (Y/g)								
Platinum	94,499	119,829	128,748	136,253	152,928	143,728	138,191	138,021
Palladium	234,734	263,419	282,390	188,648	151,514	142,703	136,314	145,823
South African Parity Prices (Rand/kg)								
Platinum	14,668	16,078	15,551	17,891	17,956	17,302	17,046	16,979
NYMEX Stocks ('000oz)								
Platinum#	623.10	482.00	167.20	206.20	174.84	144.97	145.59	144.97
Palladium#	138.1	95.2	53.4	36.7	34.7	39.3	43.9	39.3
CFTC (Futures Only Data) non-commercial#								
Platinum	25,829	4,469	24,666	23,662	18,322	24,401	15,733	24,401
Palladium	2,714	-3,109	-2,206	-7,801	-11,685	-6,733	-11,860	-6,733
Other Indicators (US$/oz)#								
Pt-Au spread	-816	-858	-747	-1,056	-1,353	-1,666	-1,592	-1,666
Pt-Pd spread	-1,295	-966	-723	-113	2	-12	-20	-12

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