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The Sharp Perspective

#11 MONTHLY COMMENTARY
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Gold sprints out of the gate as 2025 starts, setting fresh record highs on the way

The extended rally reflects the extent and range of issues the world faces

- Strong upward price momentum was seen in the gold market in January with numerous factors in the driving seat, including fund, investment and central bank buying
- The fact gold prices have extended the rally despite the strong dollar, relatively strong US treasury yields and record high US equity markets, suggests there is a secular change underway in the gold market…
- …investors are buying gold for the protection it offers from massive global debt, increased geopolitical tensions and a world that is becoming increasingly uncertain as such things as AI evolve
- China's appetite for gold has been increasing as its economy, property, equity and bond markets are suffering, as is its currency
- The expansion of the BRIC countries and their interest in moving away from relying on the US dollar is another factor supporting gold

Silver has started to outperform gold in 2025, this despite a generally poor global industrial outlook

Is silver attracting investment attention as its price is still a long way from the record high?

PGM prices rise on the back of strength in silver and gold, but the outlook is subdued

PGMs expected to see stronger demand from the auto industry in 2025

KEY TAKEAWAYS

Gold's strong performance in 2024 has flowed seamlessly into 2025

Trump presidency has brought with it considerable uncertainty and angst, increasing demand for gold as a safe-haven

The US' disruptive trade policies threaten global growth

Strong price trends feed on themselves, so fund and investment buying continues

There are many things to be bullish about gold and many of these are unlikely to go away any time soon, such as high global debt, de-dollarisation and heightened geopolitical risks …

…but there are bearish factors to contend with too, mainly the strong US dollar, relatively high US yields and a lot of open profit that has not been realised yet

The silver market seems to be pivoting to focus on the investment opportunities rather than the outlook for industrial demand, which remains weak

PGM prices have rebounded but their outlooks are not that bright unless the investment appetite picks-up

Gold starts 2025 in a bullish mood as markets brace

After the strong performance in 2024, that saw gold set fresh record highs on 40 occasions, gold has started 2025 in a similar vein, with fresh highs set on January 30-31 and again in early February.

The all-time high has now reached $2,866.70 per oz, basis London spot prices, while the high on Comex April gold reached $2,893 per oz. While the uncertainty surrounding President Donald Trump's second term has been a strong driver of demand for gold, so have many other factors.

These included periods of dollar weakness, a string of central bank interest rate cuts (ECB, Bank of Canada, Sweden's Riksbank), strong fund and ETF buying, with reports of further central bank buying too. The reason why Chicago Mercantile Exchange (CME) prices are trading at such a premium to London prices seems to be rooted in fears that Trump may put more broad-based tariffs on imports, including precious metals, which could lead to liquidity issues for those with short futures positions on CME. All in all, it has been an interesting start to 2025, and there are many cross currents still swirling around the market, suggesting 2025 will be another active year for the gold market.

CHART 1

Gold – Fund long short and net position on Comex

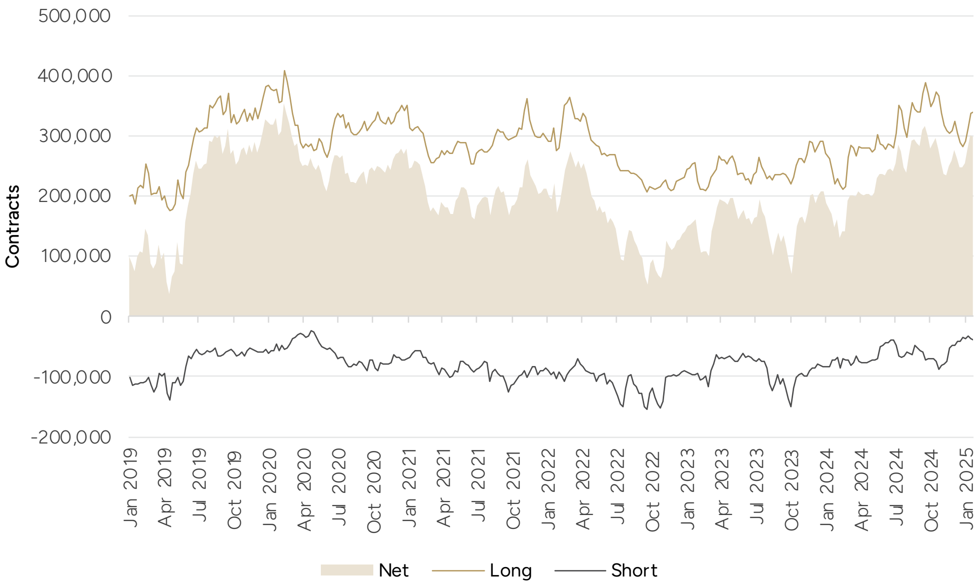
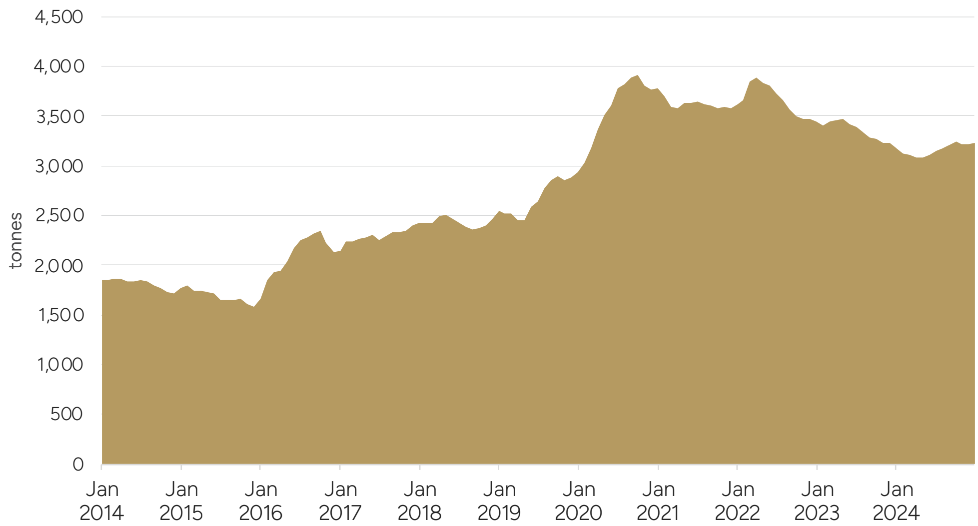


CHART 2

Gold ETFs – AUM



Gold ignores US dollar yo-yoing

Gold prices have been heading higher since the start of the year, with very few pullbacks along the way. While the dollar strengthened through to January 13, rising from 108 at the year-end to 110.18, basis the Dollar Index, it then fell back to 107 towards month-end, only to rebound back towards 110 when Trump announced his tariffs, the dollar then fell back to 108 as Trump deferred the implementation of the tariffs against Canada and Mexico. Gold's apparent decoupling from the dollar, suggests other factors are driving gold prices.

ALL IN ALL, IT HAS BEEN AN INTERESTING START TO 2025, AND THERE ARE MANY CROSS CURRENTS STILL SWIRLING AROUND THE MARKET, SUGGESTING 2025 WILL BE ANOTHER ACTIVE YEAR FOR THE GOLD MARKET.

Funds extend exposure

The funds trading CME gold added more positions with the net fund long position rising to 299,409 contracts by January 28, up from 247,279 contracts at the end of December, an increase of 21%. During January, the longs added 55,464 contracts taking the total to 338,371 contracts, while the shorts added 3,334 contracts to a total of 38,962 contracts. Over the past six years, the largest net long position has been 353,649 contracts, seen in the early days of the pandemic, with the largest gross long and short positions being 408,349 contracts and 155,073 contracts respectively. Given the already high net long position and record high prices it is interesting that the funds are still active buyers and that the shorts are still fairly small in size. This suggests overall bullish sentiment remains strong.

China – an active ETF buyer

Investors in ETFs were slow to get back into owning more gold in recent years. Considering this bull market got going in October 2023, ETF holdings did not start to rise until May last year, they have since climbed only by 5.1% to 3,236 tonnes, up from 3,080 tonnes April 2024, but still 17.3% below the peak holding of 3,915 tonnes from October 2020. Since ETFs started to see net inflows again, the countries that have added most to the ETFs are the US (59 tonnes, a 3.9% increase) and China (26.5 tonnes, a 31.7% increase). With China's property market remaining in the doldrums, its equity market struggling, its bond yields slumping, cryptocurrencies banned and its currency weak, China's appetite for gold looks set to remain strong. As well as retail demand for gold rising, China's central bank bought around 10 tonnes of gold in December, taking reserves to 2,280 tonnes and accounting for some 5.5% of total official reserves. China's proportion of gold in its reserves is relatively low, gold makes up 70% of US reserves, an average of 67% of Germany's, France's and Italy's and around 26% of Russia's. As a large holder of US treasuries and dollars, the Peoples Bank of China are expected to look at diversifying their reserves away from US assets – as of April 2024, they held $749 billion in US debt, equivalent to some 8,320 ounces of gold.

Elevated US gold premium

Concerns that Trump might enforce across the board tariffs on imports spooked traders on the CME and prompted the exchange for physical (EFP) premium between CME and loco London to trade at an elevated level as shorts started to cover. CME prices, at one stage, traded at a $50 per oz premium to London prices. This triggered a rush to import more gold into the country before tariffs were implemented as shorts realised it would be cheaper to buy London gold, ship it to Switzerland to be converted into 1kg bars that are CME deliverable, and deliver it against their shorts than to buy back or roll forward their short positions basis elevated CME prices. This flow tightened up immediate availability in London, which saw gold lease rates spike higher. It also saw Swiss refineries' processing times extend. But, with no across the board import tariff announced in early February and with Comex warehouse stocks shooting higher to 32.3 million ounces at the end of January, up from 21.9 million ounces at the end of December, the EFP premium has narrowed to around $5 per oz.

Sentiment remains bullish, but...

There are numerous factors supporting gold prices and more than a few potentially big picture reasons why investors and governments may want to hold more gold for the long term. Supporting reasons include lofty US equity valuations, the strength of the dollar and unhealthy geopolitical trends that could escalate now that Trump is in the White House. One such example, is his plan for the US to take over Gaza. Big picture structural reasons include central bank reserve diversification, BRICS de-dollarisation and a desire to protect against massive amounts of fiat-currency debt. But, while all these are potential issues, commodity prices rarely travel in straight lines, but that is largely what gold has done since October 2023, when prices were around $1,850 per oz. They have moved more than $1,000 per oz, some 55% in 17 months. During this period the biggest pullback has been 9.1%, ironically seen in late-October and early November last year, just before and just after Donald Trump won the election.

SHORTS REALISED IT WOULD BE CHEAPER TO BUY LONDON GOLD, SHIP IT TO SWITZERLAND TO BE CONVERTED INTO 1KG BARS THAT ARE CME DELIVERABLE, AND DELIVER IT AGAINST THEIR SHORTS THAN TO BUYBACK.

CHART 3

Spot Gold ($ per oz)

Gold Statistics

	2021	2022	2023	2024	Q3 2024	Q4 2024	Dec-24	Jan-25
London prices								
$/oz	1,799.87	1,801.17	1,942.99	2,386.42	2,476.21	2,662.47	2,643.95	2,708.64
£/oz	1,308.41	1,457.43	1,562.57	1,866.06	1,904.12	2,077.17	2,088.55	2,194.11
€/oz	1,308.41	1,457.43	1,796.32	2,206.46	2,253.43	2,495.63	2,522.47	2,615.22
Parity prices								
Australian - A$/oz	2,393	2,590	2,924	3,619	3,697	4,081	4,174	4,352
South Africa Rand/kg	26,519	29,139	35,952	43,505	44,455	47,643	48,160	50,751
Japan Y/g	197,644	241,248	273,806	361,653	368,858	405,537	406,640	424,416
India Rupee/oz	133,434	142,184	160,596	199,820	207,405	224,866	224,659	233,565
COMEX - futures contracts								
Stocks ('000oz)#	33,805	23,180	19,191	21,908	17,112	21,908	21,908	32,290
Vol (million contracts)*				60.24	14.84	13.77	3.44	5.33
OI ('000 contracts)#				459.42	528	459	459	549
CFTC (Futures Only Data) non-commercial								
Net Positions#	268,872	213,157	136,880	247,629	315,390	247,629	247,629	299,409

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

SUMMARY

Sentiment in the gold market is not surprisingly bullish, but there is no room for complacency. In times of broad market corrections gold prices can sell-off sharply as traders clammer for liquidity. The question is whether Trump's heavy-handed re-entry into geopolitics undermines confidence in financial markets. Overall, the outlook remains bullish, but there are likely to be setbacks alone the way.

Silver's strong performance in January, lifted by ongoing interest in gold

Since the end of 2024, silver prices have rallied 11.2% to $32.47 per oz, from December's close at $28.91 per oz.

This compares with gold's rise of 9.2% over the same period. There has been nothing to be bullish about on the industrial demand front as China's, Europe's and Japan's manufacturing activity remains in contraction mode, with the US only just seeing some expansion.

Also, the imposition of US tariffs raises the likelihood of broad-based trade wars that will likely further weigh on trade and economic growth. This suggests that interest in silver is coming from the financial sector, some of it from short-covering and some from investment. In the past, silver has at times outperformed gold when speculation and investment interest is hot. Are we entering such a time? The fact that the gold/silver ratio peaked at just shy of 1:92 on January 27, and is now falling, suggests investment appetite has picked up in late-January and early February.

Funds increase exposure

Like in gold, the funds trading Comex silver have seen both the longs and shorts increase exposure to silver. The net long position had climbed to 44,368 contracts by January 28, up from 37,889 contracts at the end of December, an increase of 17.1%. The longs added 7,649 contracts, while the shorts added 1,170 contracts. For reference, the peak net long position was 77,877 contracts seen in February 2020 at the start of the pandemic. With the net long position 43% below the peak net long position, compared with gold's net long position just 15% below its peak position, there may be more potential buying interest in silver than in gold, especially given gold continues to set fresh record highs on a regular basis, while silver is still some 35% below its record high, that was set in 1980. The gold/silver ratio is also elevated compared with the average of 1:65, seen since the 1970s when the gold standard ended.

CHART 4

Silver - Fund long, short and net position on Comex

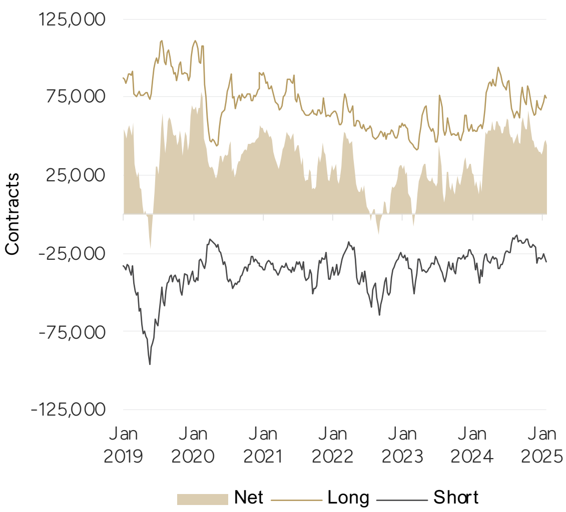
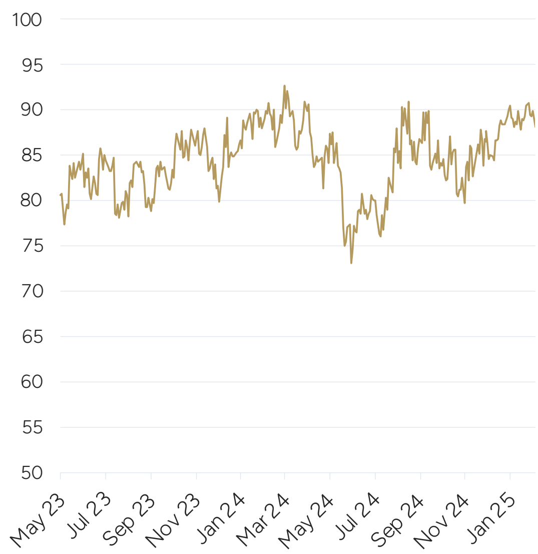


CHART 5

Gold/Silver ratio



Silver Statistics

	2021	2022	2023	2024	Q3 2024	Q4 2024	Dec-24	Jan-25
London prices (US$/oz)								
Spot London price	25.14	21.73	23.39	28.24	29.42	31.34	30.46	30.37
Parity (London) Prices								
Japan (Y/g)	2,761	2,911	3,296	4,283	4,389	4,772	4,685	4,759
India (Rupee/oz)	1,864	1,715	1,933	2,365	2,464	2,646	2,588	2,619
COMEX - futures contracts								
Stocks ('000oz)#	355.7	299	253.9	318.9	305.1	318.9	318.9	359.1
Vol (million contracts)*				21.6	5.09	4.74	1.21	1.22
OI ('000 contracts)#				151.1	144.7	151.1	151.1	167.6
CFTC (Futures Only Data) non-commercial								
Net Positions#	26,458	31,027	31,863	40,163	62,188	40,163	40,163	44,368
Other Indicators								
Gold/Silver ratio#	1:78	1:76	1:86	1.9	1:82	1:90	1:90	1:88

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Silver also sees London-New York arbitrage opportunity

Comex silver prices have also traded at a premium to loco London price, enough to attract shipments to New York, which has tightened availability in London, causing the lease rates to widen.

As a result, silver stocks in Comex warehouses had climbed to 359 million ounces by the end of January, from 319 million ounces at the end of December.

SUMMARY

Once again after a significant pullback between October and December, prices have rallied with strong momentum. With silver lagging behind gold in numerous ways, it may have some catch-up potential.

PGMs have followed gold and silver higher since the start of the year

Like silver, despite depressed economic and manufacturing data that signals weak industrial demand for the industrial precious metals, prices have seen some strength.

Palladium prices have reached a high of $1,028.50 per oz and platinum a high of $986.70 per oz, which were up by 12.8% and 9% respectively since the end of 2024.

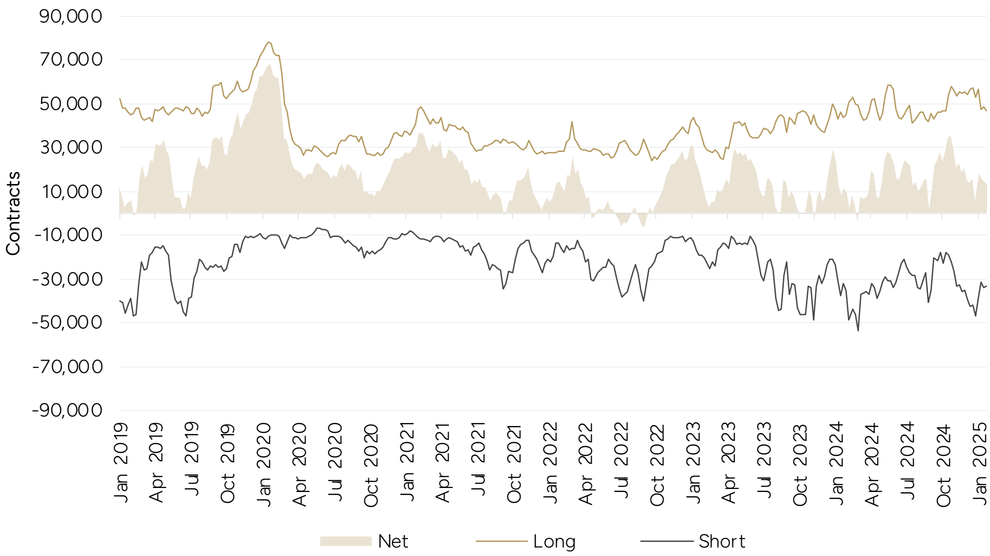
This strength in the absence of a pick-up in industrial demand suggests some investment buying or perhaps investment repositioning at the start of the new year.

Funds – short-covering drives buying

PGM prices have risen, but it seems more to do with fund short-covering rather than fresh buying. The net long position on platinum climbed to 13,373 contracts by January 28, from 5,656 contracts at the end of 2024, but the increase in the net position happened on the back of 13,740 contracts of short-covering, while longs reduced exposure by 5,723 contracts. In palladium, the net short position retreated to 7,084 contracts by January 28, from net short 8,671 contracts, with the shorts reducing exposure by 2,998 contracts and the longs cutting 1,411 contracts. The lack of fresh buying in both metals is not a sign of confidence in the metals' near-term outlook.

CHART 6

Platinum – Fund long, short and net position on Nymex



LBMA analysts forecasts

In line with the current market situation and performance, the 2025 average price forecast by the 30 analysts surveyed by the London Bullion Market Association (LBMA) expected platinum prices to average $1,021.64 per oz, $65 higher than the actual average seen in 2024, while the average forecast for palladium was $991 per oz, just higher than 2024's actual average of $983 per oz.

PGM outlook

The outlook for both PGMs could benefit from a recovery in auto demand as there has been some slow-up in the uptake of battery-only EVs (BEV). This could be good for catalytic convertor demand as lower sales growth in BEVs means stronger growth for internal combustion engine (ICE) vehicles, plug-in hybrids (PHEV) and range-extended EVs (REEV), all of which have petrol/diesel engines and therefore need catalytic convertors. In addition, Trump may remove the EV subsidies, which could see ICE vehicles regain market share from EVs at an even faster pace.

CHART 7

Palladium – Fund long, short and net position on Nymex

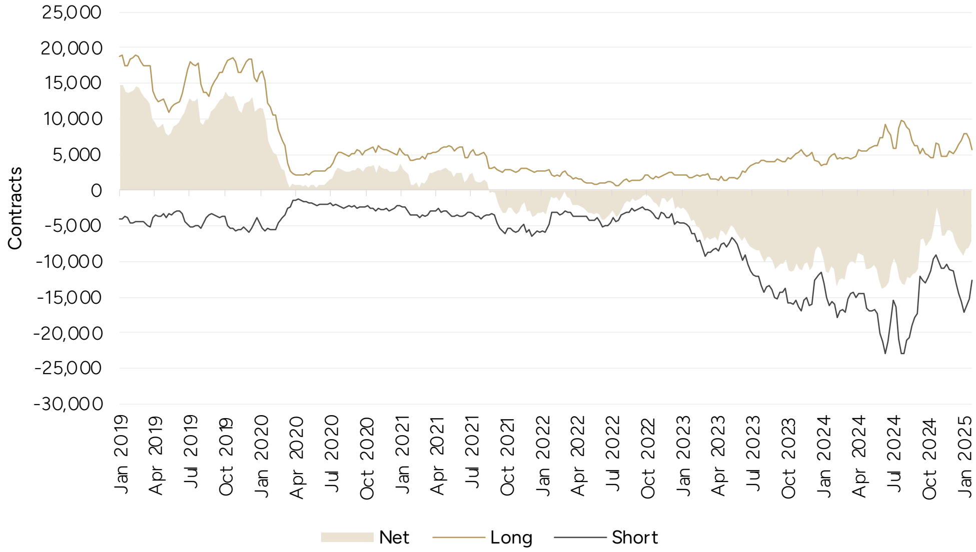
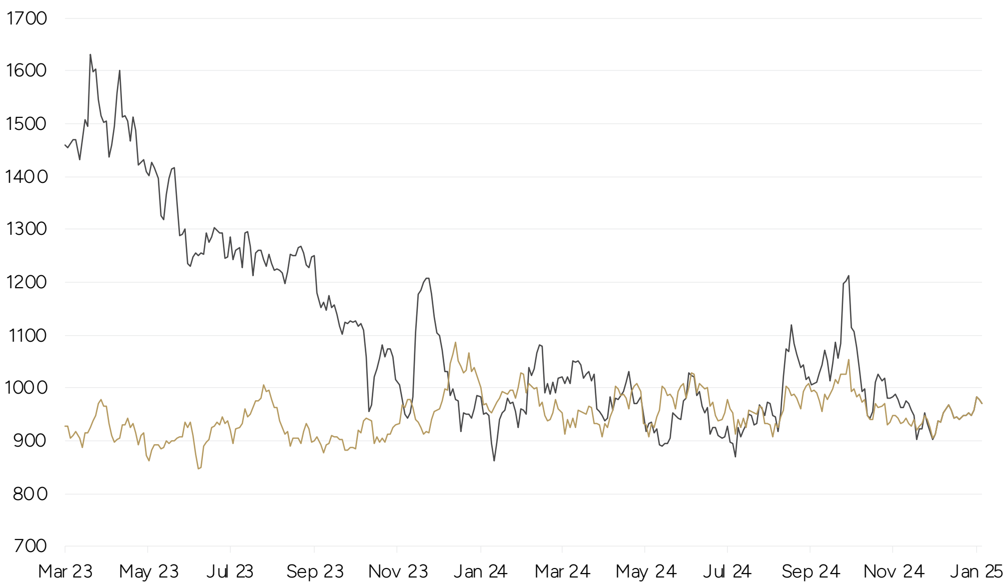


CHART 8

Spot Platinum and Palladium ($ per oz)



PGM Statistics

	2021	2022	2023	2024	Q3 2024	Q4 2024	Dec-24	Jan-25
London prices (US$/oz)								
Platinum	1091.24	961.24	966.88	955.205	963.32	965.98	935.79	948.89
Palladium	2398.86	2108.33	1338.69	983.20	970.39	1010.77	953.17	952.66
Japanese Parity Prices (Y/g)								
Platinum	119,829	128,748	136,253	144,787	143,728	147,102	143,925	148,682
Palladium	263,419	282,390	188,648	148,911	144,626	153,891	146,598	149,272
South African Parity Prices (Rand/kg)								
Platinum	16,078	15,551	17,891	17,438	17,302	17,280	17,045	17,779
NYMEX Stocks ('000oz)								
Platinum	482.00	167.20	206.20	269.97	144.97	269.97	269.97	416.02
Palladium	95.2	53.4	36.7	38.5	39.3	38.5	38.5	38.5
CFTC (Futures Only Data) non-commercial#								
Platinum	4,469	24,666	23,662	15,648	24,401	16	15,648	13,373
Palladium	-3,109	-2,206	-7,801	-8,089	-6,733	-8,089	-8,089	-7,084
Other Indicators (US$/oz)#								
Pt-Au spread	-858	-747	-1,056	-1,703	-1,666	-1,703	-1,703	-1,888
Pt-Pd spread	-966	-723	-113	12	-12	12	12	-15

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SUMMARY

The PGMs are getting some price lift but the outlook is only mildly positive. Demand from auto catalyst should remain firm and platinum jewellery has potential to gain market share from gold, given the $1,800 per oz price differential. There is also the potential that more sanctions are applied to Russia that could further disrupt Russian palladium trade flows. The downside should also be limited as lower prices are likely to lead to production cuts.

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