Degussa

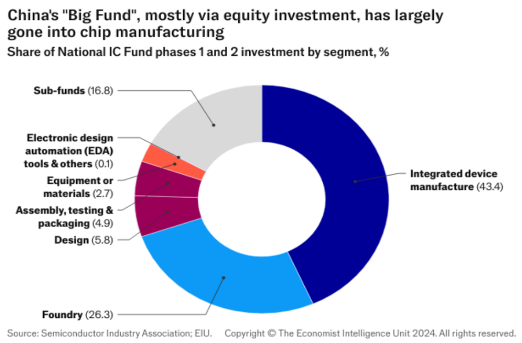
GOLD AND SILVER.

Market Report

4 December 2024

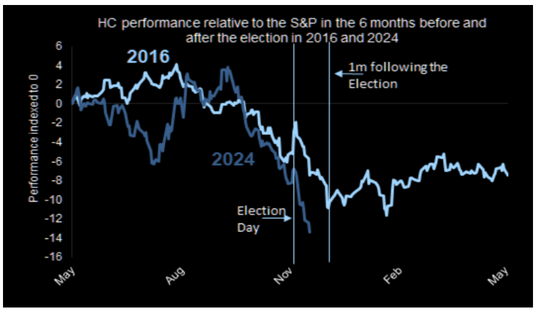
Japan's central bank is considering raising rates again. Although they remain uncommitted to specific timing, a decision to raise interest rates could have adverse effects on US bond and equity markets due to the large amount of US securities owned by Japanese investors. The EU's ongoing energy issues exacerbate its ability to remain competitive on the global stage, underscoring a critical need to reassess its strategic priorities.

Highlights



Source: The Economic Intelligent Unit

In March 2024, China allotted over $27 billion for the third phase of its National IC Fund, aiming to boost technological advancement amid US export control efforts. This phase focused heavily on chip-making equipment, following previous investments in fabrication and upstream design. This month, Beijing announced plans to spend a further $4.6 billion on a 12-inch wafer fabrication facility. This project aims to boost domestic semiconductor production, addressing gaps in Chinese chipmaking capabilities. The initiative reflects China's broader efforts to enhance its semiconductor industry amid global competition and geopolitical pressures.



Source: Zerohedge

The healthcare sector is grappling with increasing uncertainties, leading to a decline in pharma valuations. Investors have been exiting the sector since 2022, with a recent plunge following Trump's election win, mirroring the 2016 election period. Healthcare stocks hit 15-year lows and under performed the S&P500 by about 20% year-to-date, prompting Goldman Sachs to highlight the challenges of trading highly contentious, election-related sectors.

Precious Metals & Commodities

All commodities are expected to remain flat in the short-term but remain on an upward trajectory, long-term. Gold and silver are expected to rise mid-term, while copper, oil, and agriculture will likely remain flat.

Indicator	Gold	Silver	Copper	Oil	Agriculture
Current	→	→	→	→	→
Outlook	↗	↗	→	→	→
Trend	↗	↗	↗	↗	↗

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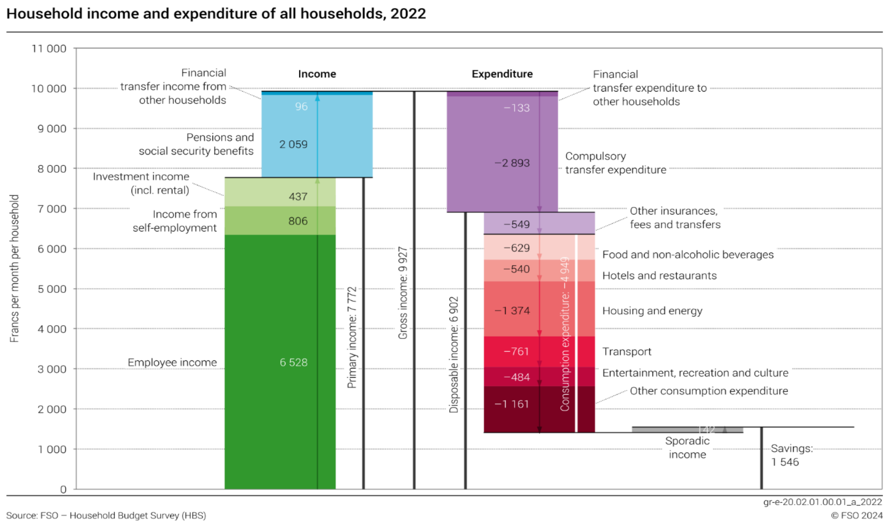
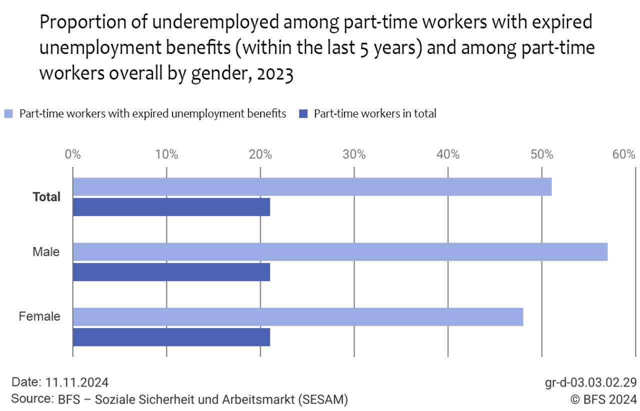
Spot on Switzerland

Swiss household finances remained largely stable in 2022 compared to 2021. Monthly incomes averaged between CHF 9,921 for couples with children to CHF 3,381 in single-person households aged 65 and over. The average monthly disposable income held steady at CHF 6,902, however, consumer spending increased, returning to pre-pandemic levels and accounting for 49.8% of gross income. Employment remained the primary income source at 73.9%, while mandatory expenses, including taxes and insurance, consumed 30.5% of gross income. The average household managed to save CHF 1,546 monthly, representing about 15.6% of their gross income, although lower-income groups, particularly retirees, often reported negative savings rates.



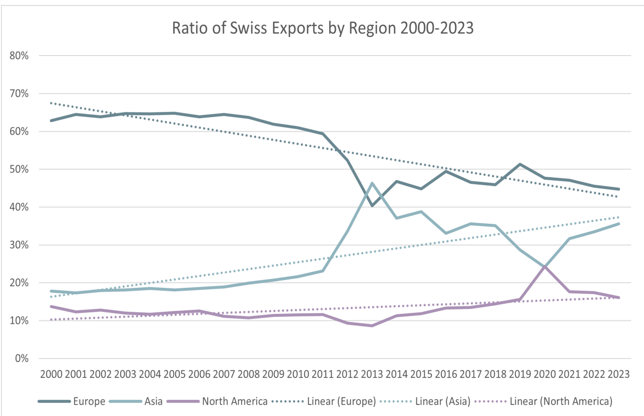
Source: BFS

Swiss Highlights



Source: BFS

From 2019-2023, approximately 25,000 people per year lost their unemployment benefits, with significant fluctuations during the Covid years. While 53% find employment within the first year and 66% within five years after losing benefits, their reintegration into the workforce comes with notable challenges. These individuals typically earn lower wages, with a gross median hourly wage of CHF 29.80 vs CHF 37.80. They are also more likely to work in atypical employment arrangements, including on-call work and temporary positions. The affected population disproportionately includes people aged 45-64, those without vocational training, and foreign nationals.



Source: BFS

The ratio of Switzerland's exports to the EU have steadily declined since the 2000s, while exports to Asia and the US have increased. The reason for this is the EU's ongoing economic challenges, the biggest one being lack of consumption power. At the onset of Quantitative Easing in 2008, the ECB began to purchase European bonds, and with the money that was then created, investors began to primarily buy real estate and US stocks, propping up the US stock market, but doing nothing to help the local populace or its own economy. If the current EU policy doctrine doesn't address this issue, then Switzerland should make an increased effort to diversify away from the EU in favour of more fertile investment grounds such as strong Asian economies.

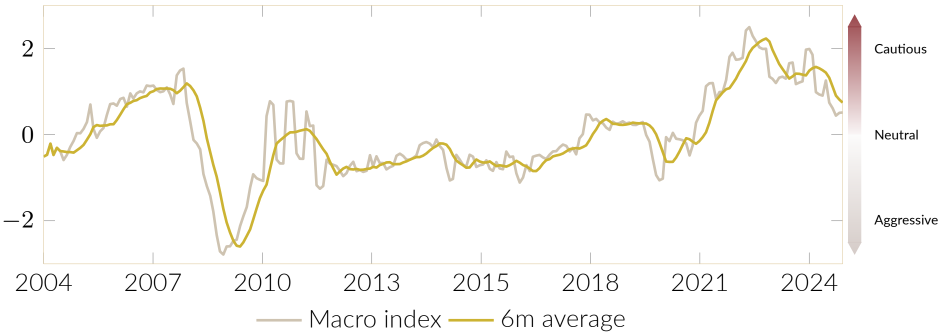
Switzerland

Switzerland's inflation rates have dropped to 12-month lows while unemployment rates remain elevated amidst a plunge in profit margins. Dividend yields have trended up in the last quarter, however, monetary uncertainty remains high, giving an overall risk signal from very cautious to aggressive.

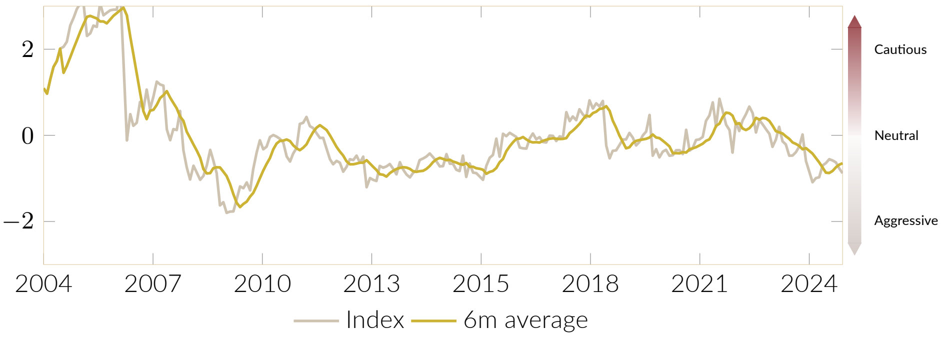
Switzerland

RISK: NEUTRAL

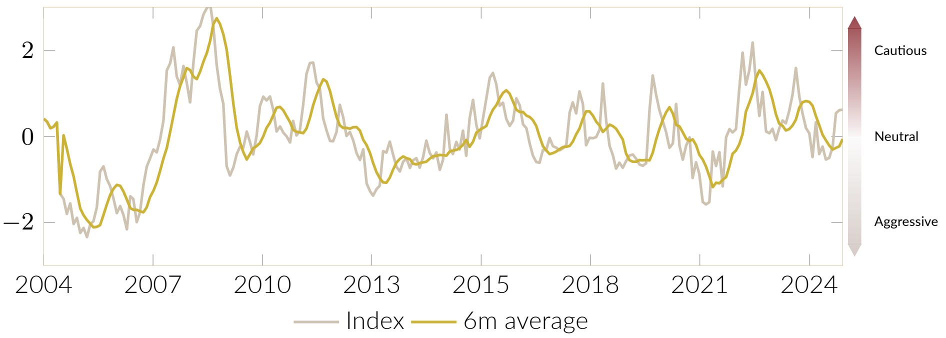
Business Cycle



Investment Environment



Market Behaviour

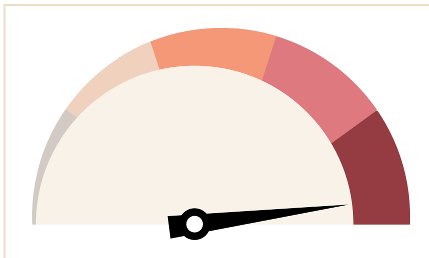


Key Macro Statistics

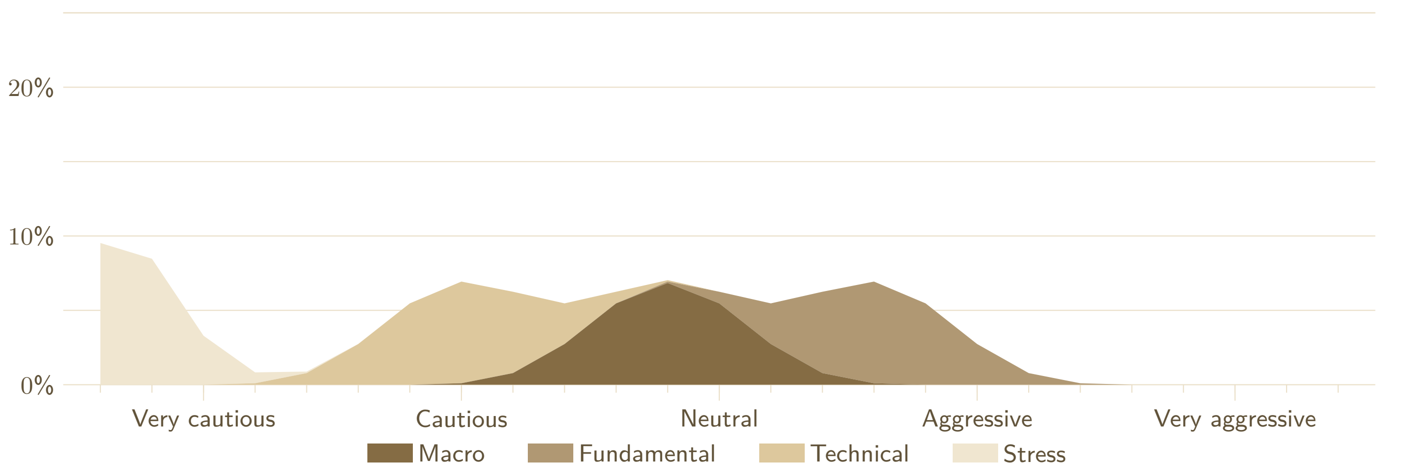
CPI	
M1 YoY%	
Unemployment	
Profit margin	
Real 10y yield	
Dividend yield	
Volatility	

Trend (12m)

Monetary Stability



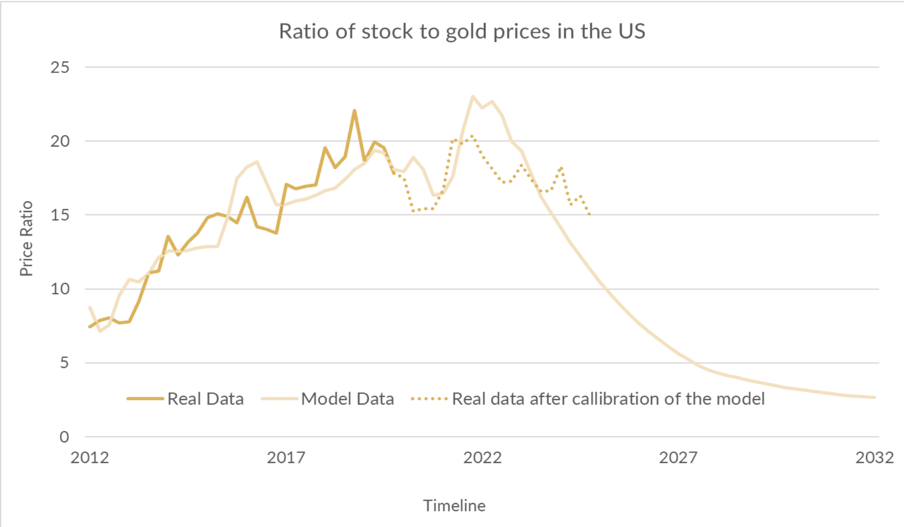
CH Market Risk Signal



Prediction Model Gold or Stocks?

The current level of debt compared to production of the real economy is similar to the situation in the Germanic nations before the world wars in the 1910s, and the situation in France before the French Revolution in the 1790s. In such high debt level scenarios, the likelihood of instability and a deleveraging process is increased. Since gold holdings are normally free from another's liability, the deleveraging process has a far gentler impact on gold prices than, for example, equities. The upcoming deleveraging process can be modelled using coupled differential equations which leads to the expectation that gold will perform better than stocks from 2022 onwards. The model was calibrated in 2019, and has not since been adjusted for new input data.

Based on this data, the peak at which economic activity assets (such as equities) will outperform gold is around Q3 2022. From then on, the model predicts a outperformance of gold towards stocks (light line). When looking at the real data of stock to gold price (dotted line), we see the trend of gold outperforming stocks already began early in 2022. Whether we will experience another countermove or not is currently difficult to predict, but the long term trend for higher gold performance remains clear.



Gold Feature

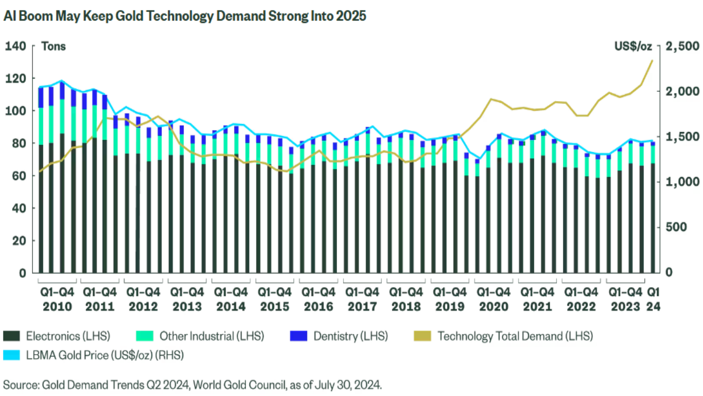


Image Source: SSGA

The electronics sector, which accounts for roughly 80% of gold's industrial use, may be on the cusp of a notable demand surge, driven by AI technologies. Recent data from the World Gold Council reveals that gold usage in electronics has seen three consecutive quarters of double-digit growth, with an 11% increase in the latest quarter. The precious metal's unique properties—exceptional conductivity, corrosion resistance, and malleability—make it nearly irreplaceable in many modern devices from EV batteries to the high-end chips used for AI and other high-performance computing. Major chip manufacturers report their 2024 high-end memory chip inventory is already sold out, with 2025 production largely reserved, while the World Semiconductor Trade Statistics Group forecasts 16% growth across the semiconductor market in 2024, indicating sustained demand for gold within these sectors.

Despite this growing technological demand, gold's role in electronics remains relatively modest compared to its traditional drivers. Industrial and technological applications currently account for just 8% of total gold demand, while jewelry (47%), investments (28%), and central bank purchases (17%) dominate the market. Industry experts suggest that even if technological demand doubles due to AI advancement, it wouldn't dramatically alter gold's supply-demand dynamics at this time.

Nevertheless, the metal's expanding role in emerging technologies, from LEDs to advanced driver assistance systems and robotics, suggests a steady increase in industrial demand. As AI continues to evolve and computing needs grow more sophisticated, gold's importance in the electronics sector appears poised for consistent growth.