Degussa

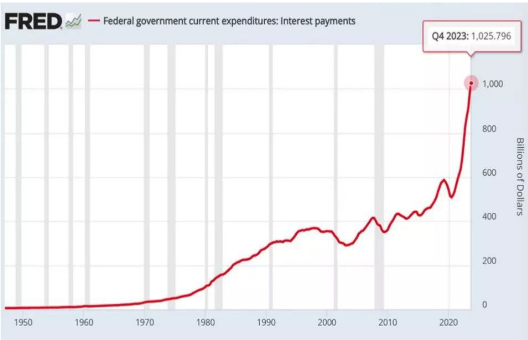
GOLD AND SILVER.

Market Report

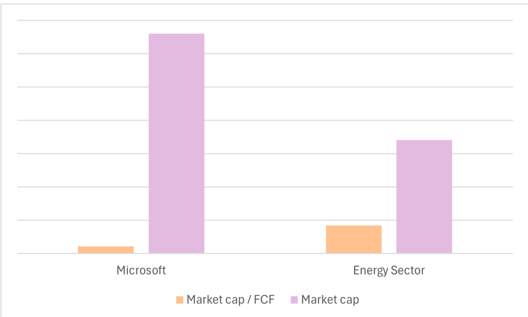
April 2024

According to recent data, over 100M new consumers will enter the market in 2024 and are predicted to add $2.8B to the world economy. This new demographic, primarily comprised of lower middle-class from emerging Asian economies, will likely shape the future of global commerce. India has signed a preferential trade agreement with 4 European nations which aims to make India increasingly attractive to foreign investment. Oil prices are likely to keep rising due to self-imposed supply restraints by OPEC+ nations and the ongoing geopolitical tensions, which have been exacerbated by the recent elections in Taiwan.

Highlights



America's post-covid "economic miracle" was fueled primarily by debt from credit programs and tax giveaway. Liabilities imposed on future workers is estimated to be 559% of GDP, while covering the interest payments on this debt is requiring the government to take out more debt. Solutions to pay back creditors, such as sustained central bank support, would only kick the can down the road, while a currency reform would grossly devalue the dollar.



Microsoft's market cap is nearly double that of the US energy sector despite generating a free cash flow only one quarter that of energy utilities. This disparity is most clearly shown in the annual dividend yield, with Microsoft offering only a 0.71% annually, while energy stocks are offering around 3%.

Precious Metals & Commodities

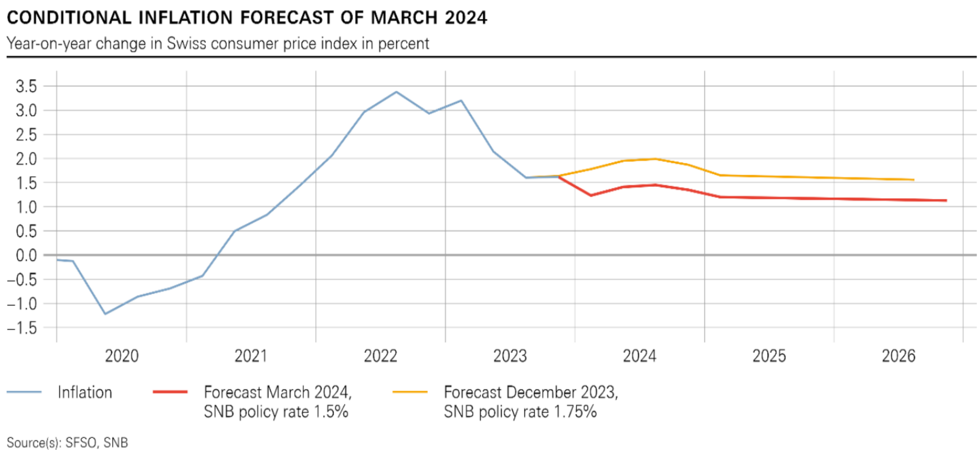
Precious metals, oil, and commodities are expected to continue rising in the short and long-term due to geopolitical tensions and supply uncertainties. Copper is expected to remain flat.

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

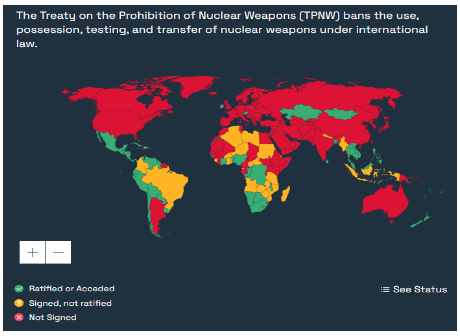
Degussa Goldhandel AG
www.degussa-goldhandel.ch
info@degussa-goldhandel.ch

Spot on Switzerland

The SNB's decision to reduce the key interest rate due to lower inflation rates is likely to have opened the door to further cuts. However, imported inflation/deflation will make the decisive contribution to future interest rate policy. With rising commodity prices and increasing loss of confidence in the fiat currency system—as can be seen from the gold price, especially the physical market price in Shanghai—imported inflation could in turn increase the inflation forecast despite the potential appreciation of the Swiss franc. However, the SNB has communicated that inflation is primarily determined by domestic suppliers and that little price pressure is to be expected here. Given this statement, further interest rate cuts are still possible this year, even if the times of negative interest rates are not just around the corner. The Swiss economy could very well do with a further economic stimulus, as GDP has been kept on a marginally positive growth rate primarily due to extending the public sector and migration. The SNB's de facto solo action has led to a short-term devaluation of the Swiss franc, but this could be combated with renewed currency interventions, although the SNB's overall perception of the situation is more relaxed. Therefore, only external shocks are likely to cause a fundamental change in the interest rate situation, with a forecast of 1.0 to 1.25% in December. The focus should therefore be on two scenarios: simultaneous pre-hyperinflationary devaluation of all currencies with a corresponding rise in real values and increased imported inflation, or an expansion of geopolitical crises with the strengthening of the safe-haven currency "franc". The second scenario is reduced by the de facto abandonment of Switzerland's neutrality and the dwindling legal security of property rights, at least for non-European funds. However, with the EU's ongoing economic contraction policy, some companies, especially German ones, will still move their production and assets to Switzerland. All in all, lower interest rates and a stronger Swiss franc can be expected.

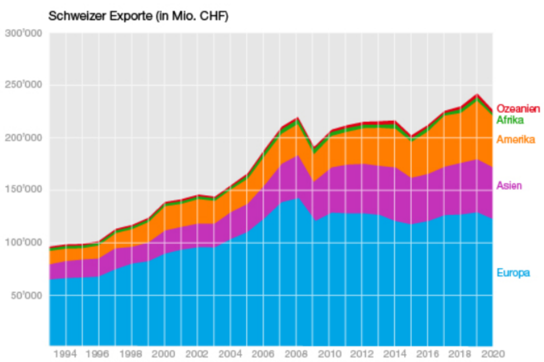


Swiss Highlights



Source: Nuclear Threat Initiative

The NATO-friendly Swiss government does not want to join the efforts towards a world free of nuclear weapons so as not to offend its transatlantic friends, but must now fight against an unholy alliance of army opponents and neutrality advocates.



Source: Source: EZV

Swiss exports have been stagnating since 2008 and have been on a downward trend in recent years, leading UBS economists to resign themselves to the fact that they can see no ray of hope and are primarily concerned about industry.

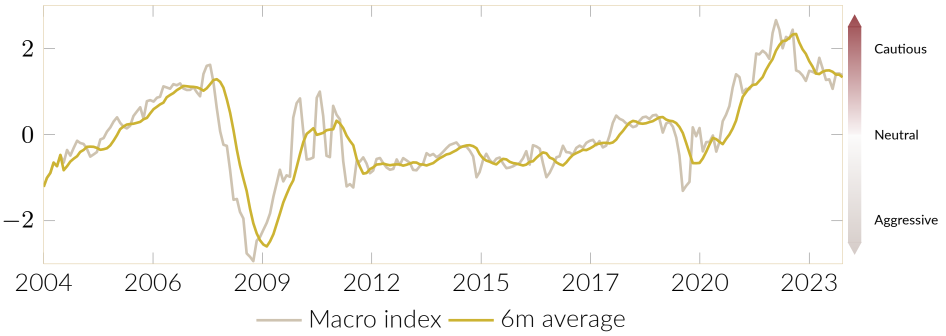
Switzerland

Switzerland's inflation rates are at 12 month lows. While unemployment rates have continued to increase in the last quarter, profit margins remain steady at 12-month highs. Government bond yields have lowered slightly, while dividend yields remain fairly stable amidst lower volatility.

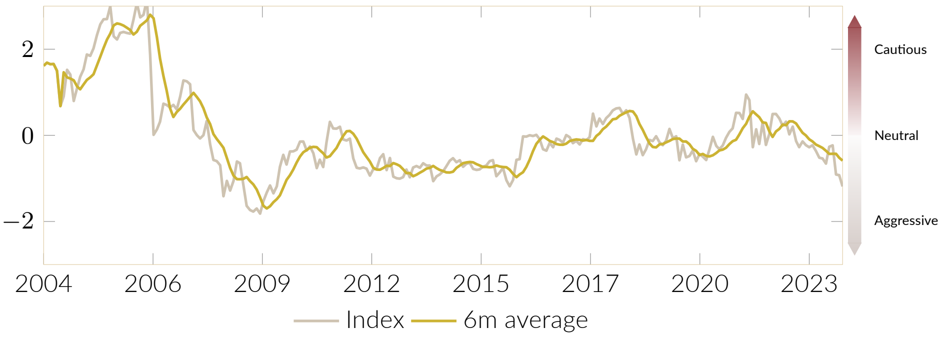
Switzerland

RISK: NEUTRAL

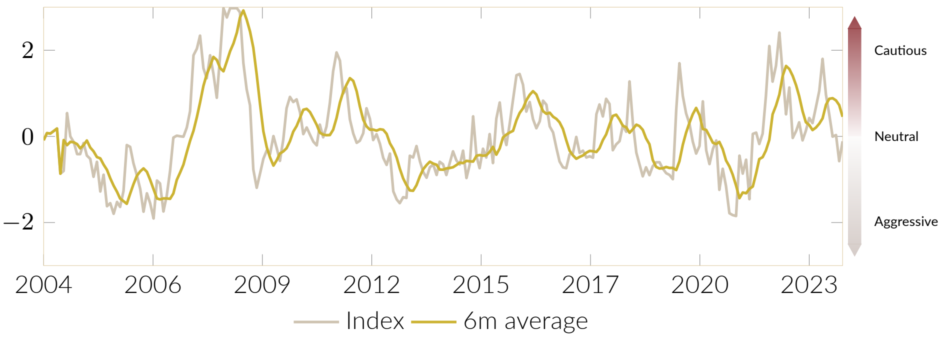
Business Cycle



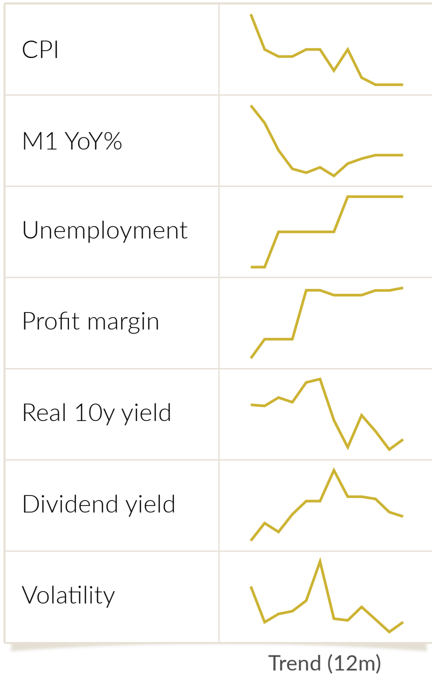
Investment Environment



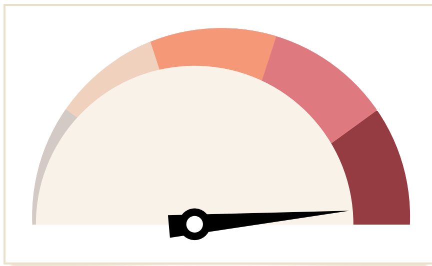
Market Behaviour



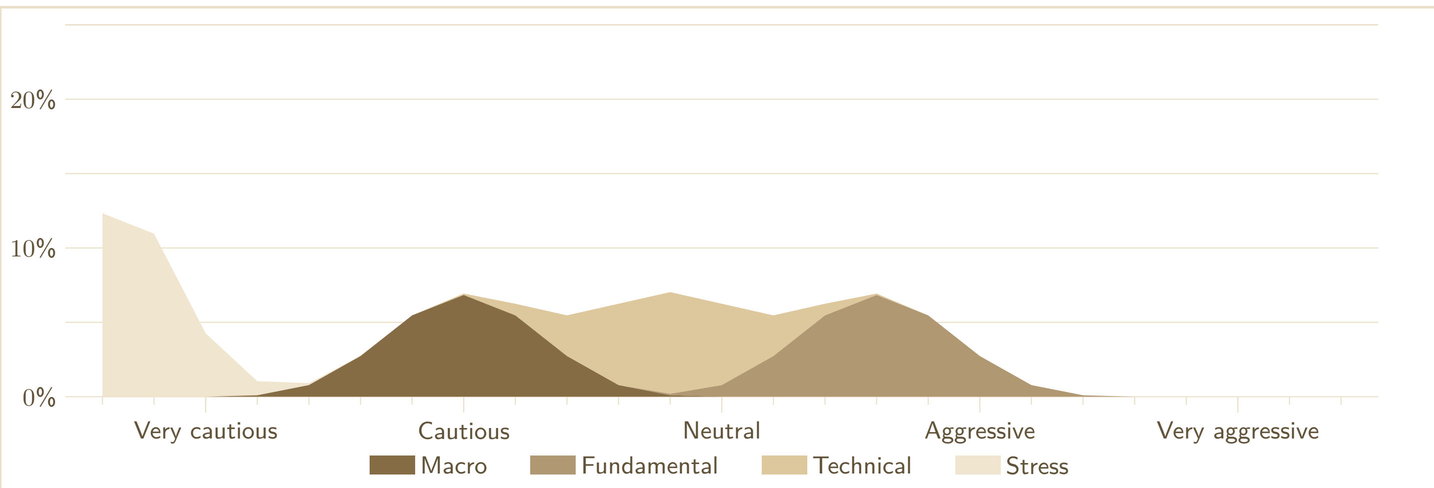
Key Macro Statistics



Monetary Stability



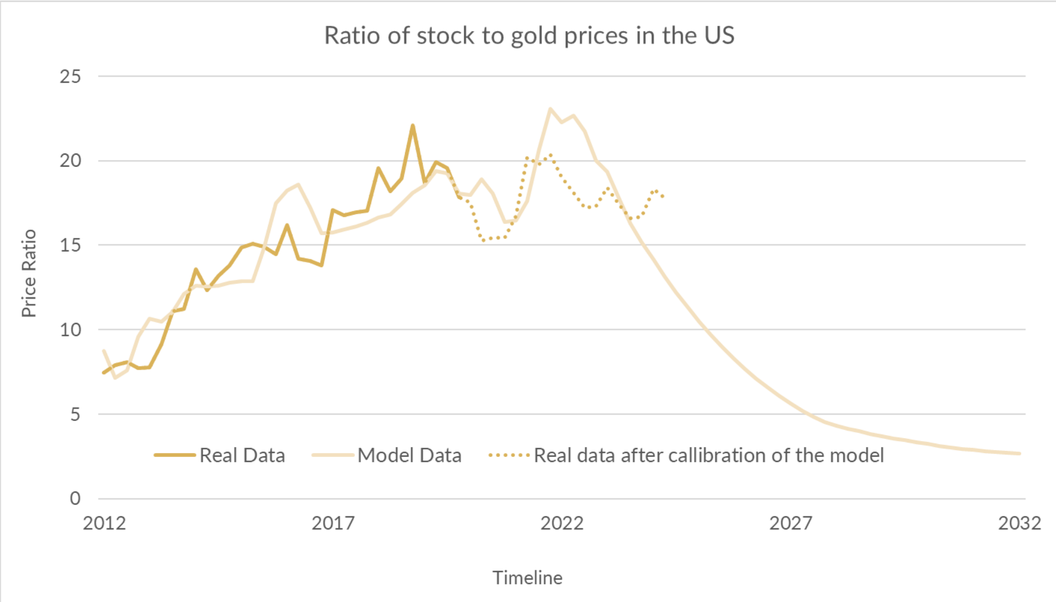
CH Market Risk Signal



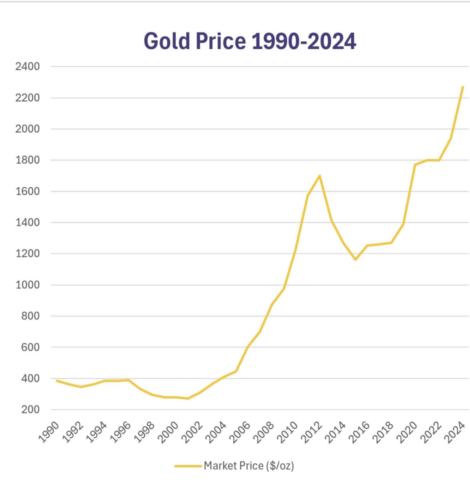
Prediction Model Gold or Stocks?

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



March began with an impressive run in gold, which hit a new all time high of $2,268/oz (at the time of writing). A look at forecasts for 2024 published by some of the world's largest banks demonstrates that gold has already surpassed all predictions within the first quarter of the year.

However, this isn't the first time, nor the most spectacular, that gold has seen such performance. In the run-up to the 2008 financial crisis, gold experienced a multi-year bull run going from around $400 in 1990 to peaking at $1700 in 2012—a 325% increase. Given that gold does not necessarily "increase in price" so much as currencies decrease in purchasing power, the ongoing inflation and de-dollarization could be put down as one underlying factor. The geopolitical uncertainties and increasing tensions between the West and Russia, the ongoing trade and technology war between the US and China, central banks' increased purchases, and the rise and expansion of BRICS nations are additionally likely contributing factors.

There is no way to predict for certainty what gold will do next, however, until all the above issues have moved closer to being resolved, gold will likely continue to prove appealing as a safe haven.