BETWEEN THE TWO PANDEMIC WAVES, LET'S FOCUS ON METALS

Last week, the price of gold fell to $1'875 per ounce, contradicting the opinion of many analysts.
It means about $200 less (-10%) than the "all-time high", achieved in early August.
It should be specified that the "all-time high" was a nominal record and not a real one.
Taking into account the rate of inflation, it is possible to compare the peak of $ 1'921 reached in September 2012 with this of today ($ 2'150).
Translating this situation to the levels of the early 1980s, we could expect to see prices rise today up to $ 2'700.

The Federal Reserve announced that is going to keep the rates close to zero *"at least until 2023"*.

In principle, low rates should incentivize the purchase of gold, but considering low global inflation, they will probably end up holding back capital from heading towards the safe haven asset par excellence. Furthermore, even with very low inflation rates, maintaining liquidity, as a safe haven asset too, would still entail a loss in value of about 2% per year.

Moreover, the weakness of the dollar appears stabilized. The depreciation of the greenback has temporarily stopped, and, as it is well-known, gold is negatively correlated with it.

Unfortunately, the current geopolitical, commercial, economic and financial tensions will not cease soon, corroborated by the risk of a tail-hit coming from the health crisis in the next months.

That's why, at this particular time, investing in gold can be considered more like "a pause for reflection" to better evaluate what is happening, than a definitive retreat.

Why silver can be an opportunity in the following months?

Without inflation, one of the main reasons to buy gold drops down.
For silver, however, the situation could be different.
When production will return to normal silver demand for industrial purposes will rise and so will its price.

In November 2008, two months after the bankruptcy of Lehman Brothers, gold and silver touched their lows for the year.
In the case of silver, however, it was necessary to get back to almost three years before to spot lower prices.
In fact, at that time, the outbreak of the crisis led to fears of market liquidity exhaustion and deflation of the main economies. The reaction of the central banks, with the Fed in the lead, was proportional to the concerns and conceived to avoid the risk.

Clearly, we face a silver "oversell", but this could be a great opportunity for a rebound when the pandemic will subside. Moreover, there will be less need to recourse to the safe haven by buying gold, because financial tensions may have arisen.

In fact, the recovery of the global economy would not coincide with a return of inflation to a large extent. The future scenario will more likely tackle the spectre of deflation.

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October 2020 Newsletter

Metal Bullish Themes

- US fiscal stimulus package to be passed this year or even before the elections
- Strong growth in demand for physical gold in the Middle East
- Broad money supply expansion, rising federal debt and the Fed's monetary framework
- Interest rates to remain ultra-low for the foreseeable future
- Coronavirus cases are in a dramatic rise across Europe
- Chinese economic recovery has been stronger than feared
- Biden's compromise to invest in green tech a boost for copper demand
- The Fed will not increase rates for years, excellent for gold
- Growing chance of fresh relief from Washington to boost gold prices
- Appreciation of the euro against greenback is supportive for gold
- Fed embraces higher inflation, fundamentally positive for gold
- Fed Chair Powell introduces a new policy framework, allowing for average inflation targeting
- Yield curve control positive for gold
- Inflation dragon takes to the air with gold

Metal Bearish Themes

- Improved productivity thanks to telework means bad news for gold
- Gold is a reservoir for required margin call money
- Iron ore future demand to wane
- Optimism among investors is adverse for gold
- Fool's gold as fiat inflation hedge
- Palladium affected by decreasing car sales worldwide
- Gold yields no interest
- Gold does not disappear, it is accumulated
- Mining companies are price takers rather than price setters
- Declining demand from the automotive sector for platinum
- A 30-year commodity down-cycle is not over before 2020-2023

Quant & Partners Ltd

The View, Harbour Reach, La Rue De Carteret, St.Helier, Jersey JE2 4HR, +44 1534 734503
1 Knightsbridge Green, London SW1X 7NE, +44 20 3097 0280

info@quantandpartners.com
www.quantandpartners.com