IF YOU LIKE GOLD, YOU SHOULD LOVE SILVER, AGAIN

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IN A WORD :

The precious metals markets have been on a tear recently. Powered by the perfect storm of geopolitical worries, negative real interest rates and a weakening USD, both gold and silver have moved sharply higher in recent days and weeks. Even though we are technically overbought, and a short-term pullback is probable, we continue to believe that the stars are aligned for further gains. We upgrade our target range for gold to USD 1900-2100 and remain buyers of silver on pullbacks.

We upgrade our target range for gold

A couple of weeks ago we upgraded our target price (on gold). However, the markets are moving fast and our USD 2050 target has already been reached.

Even though we are technically overbought and a pullback is now quite likely, we continue to believe that the positive catalysts for higher prices remain firmly in place.

Three major catalysts could drive the yellow metal higher.

- Real interest rates are low (or negative) all over the world. History shows that real assets, especially precious metals, tend to do well in such environment. As central banks have committed to keeping interest rates low for an extended period and one can hope that the economic recovery will drive inflation expectations higher, this is not going to change soon.

- We still live in a world in which geopolitical worries are (unfortunately) abundantly present. Not only is there the economic risk of the pandemic, but also US/China tensions continue to intensify. We should not forget that the upcoming US election might fuel additional uncertainty. Gold typically does well when times are uncertain. This is clearly the case today.
- Finally, the USD has been weakening against most major currencies. Even though the greenback is oversold in the short term, a large trade deficit, an ever-increasing budget deficit and less favourable growth and interest rate differentials with the rest of the world (particularly Europe) could further weaken the US currency. Gold, like most major commodities, is inversely correlated with the USD.

Therefore, we upgrade our price range for gold to USD 1900-2100 and remain buyers on pullbacks.

Silver is finally catching up

The silver price has been on a roll of late, rallying strongly from very depressed levels and doubling from its March lows.

Finally silver seems to be following gold higher. The gold/silver ratio has narrowed slightly, but is still at historically high levels.

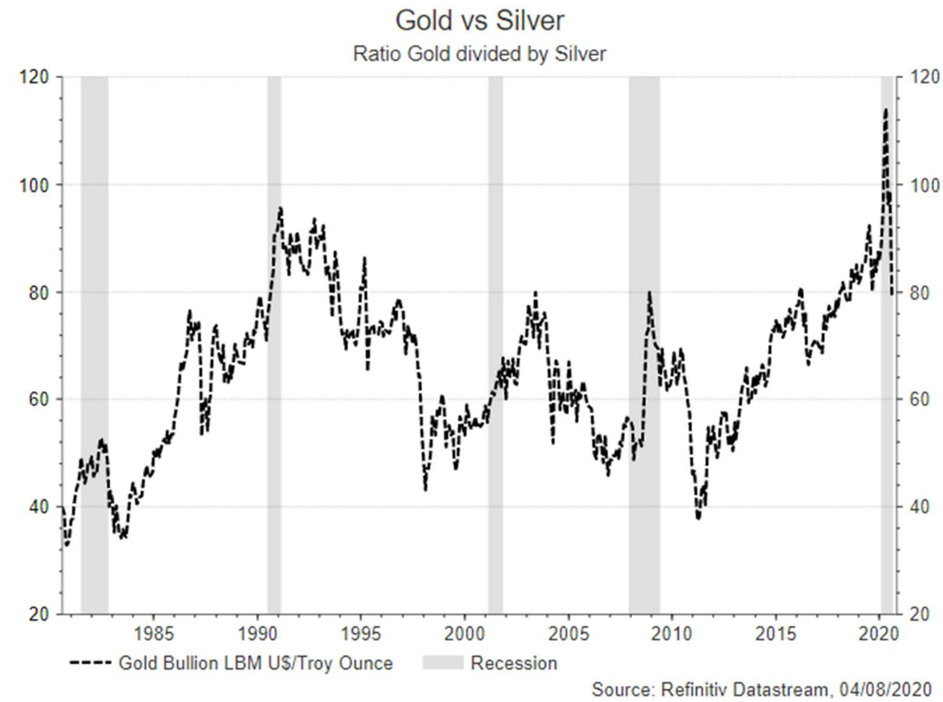
Until recently, silver was not able to benefit from safe haven flows as gold did. During the last couple of months, the markets seem to have realized that silver is a precious real asset too, and quite cheap for that matter. (The silver price is at about half its historical high while gold is at an all-time high).

Unlike gold, silver is not only a precious metal but also an industrial metal. Therefore, it will also benefit from a potential economic recovery.

Technically we are quite overbought, but the overall trend is decisively rising.

Although the old saying: "If you like gold you should love silver" has not worked very well over the past couple of years, it is probably going to be restored to its former glory.

In short, we see further upside and are buyers on dips.


Gold vs Silver
Ratio Gold divided by Silver
120
100
80
60
40
20
1985
1990
1995
2000
2005
2010
2015
2020
Gold Bullion LBM U$/Troy Ounce
Recession
Source: Refinitiv Datastream, 04/08/2020


Gold vs Silver
1980=100
350
300
250
200
150
100
50
0
1985
1990
1995
2000
2005
2010
2015
2020
Silver
Gold
Recession
Source: Refinitiv Datastream, 04/08/2020

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