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# Precious metals: Gold shining bright; silver is brightening too

19 September 2024, 2:56 pm CEST, written by UBS Editorial Team

**Gold reached an all-time high of USD 2,607/oz earlier this month, rising more than 25% year to date. It's not just the expectations of lower yields at play, with further support from macro and geopolitical uncertainties, and the continuing trend of USD diversification by central banks.**

Geopolitical tensions should likely extend well beyond the fourth quarter, with the next US government (and its policies) uncertain, but also significant unresolved conflicts centered in both Ukraine and Gaza possessing no obvious catalyst to end.

We expect gold to remain a favored market hedge for both geopolitical and rate risks. Historically, the metal has outperformed equities during periods of elevated volatility, which again proved to be the case in recent months despite a less dovish market consensus on the pace of Federal Reserve rate cuts ahead.

This rally could go further, in our view. We target USD 2,700/oz by mid-2025. Alongside the near-term risk drivers, we anticipate greater gold ETF demand to gather pace in the coming months. According to the official gold ETF data published by the World Gold Council, physically backed gold ETFs rose in August to mark the fourth consecutive month of inflows. Total holdings have rebounded to nearly 3,182 metric tons, the highest since the start of the year, narrowing the year-to-date loss to 44 metric tons. We recommend that a diversified USD-denominated portfolio should include a 5% allocation to gold as a broad portfolio hedge.

Silver has lagged gold. The well-followed gold-silver ratio signaling the pair's relative value rose back above 85x after hitting lows of around 73x in late May. Weakness across base metals and wider commodities likely acted as a drag, while China solar exports and domestic installations also showed signs of weakness recently. Despite this, we maintain

our view that silver is set to benefit from a rising gold price environment, which is aligned with Fed policy easing. Our expectation that the silver market will remain in deficit over the coming years implies continuous declines in above-ground inventories, which should help fundamentally underpin prices as well as act as a tailwind for investor interest. We see silver outperforming gold over 12 months, with the potential for its ratio to test the long-term average of just below 70x.

Prospects of greater rate cuts by the Fed have given the platinum group metal (PGM) prices a bit of a lift as of late. But PGM prices have been lacking a clear directional trade this year. While market surplus considerations should remain a burden for palladium prices, platinum's apparent market deficit suggest that prices are likely to move higher. Production cost aspects also favor higher prices, especially platinum, with PGM production basket prices trading more than 20% into the cost curve for South African miners. Headwinds come from a softer vehicle market and weaker industrial application demand. In summary, the PGMs lend themselves for volatility selling strategies.

Main contributors: Dominic Schnider, Wayne Gordon, Giovanni Staunovo

Original report - [Precious metals: Gold shining bright; silver is brightening too, 18 September 2024.](#)

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