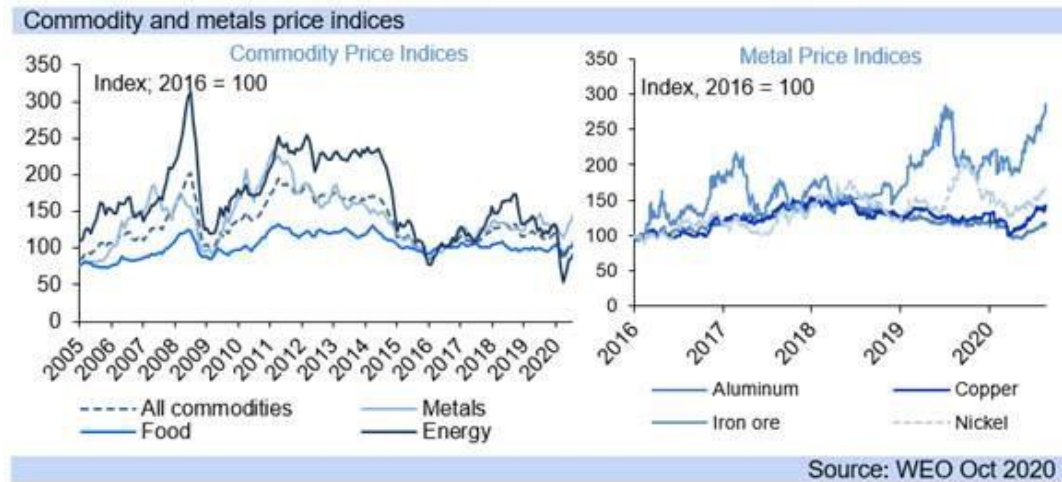
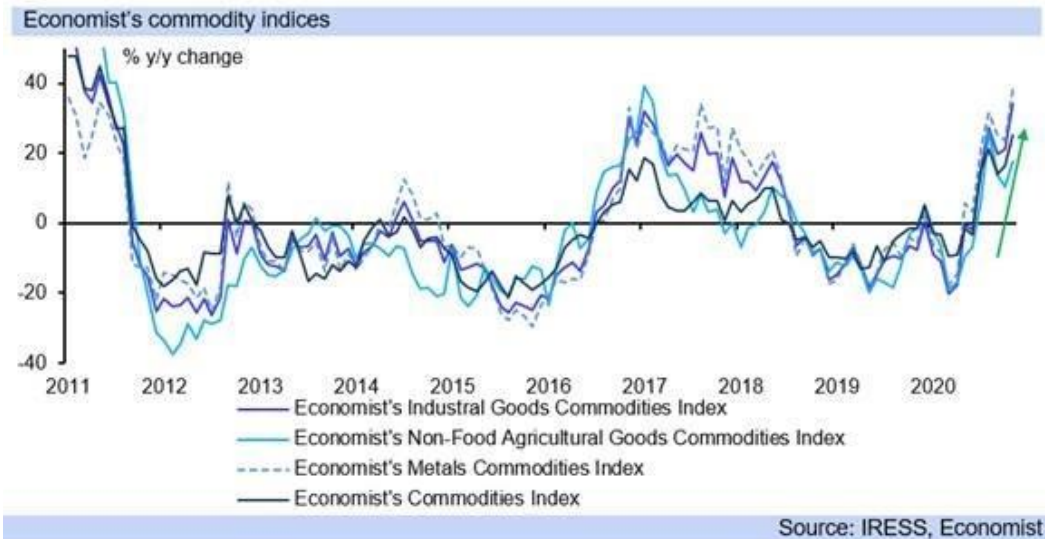
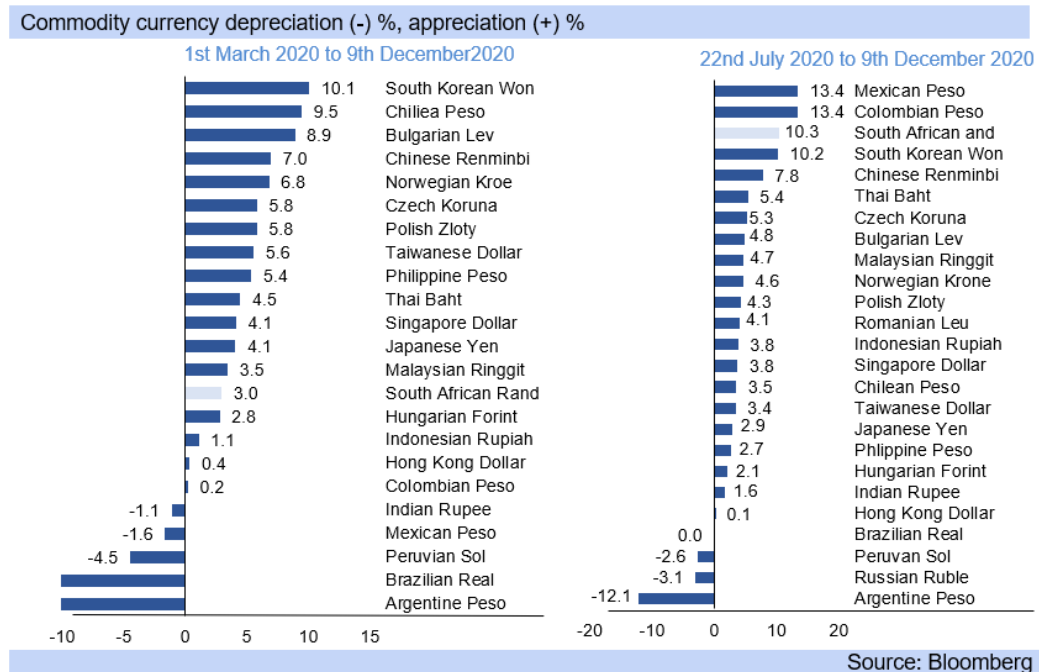
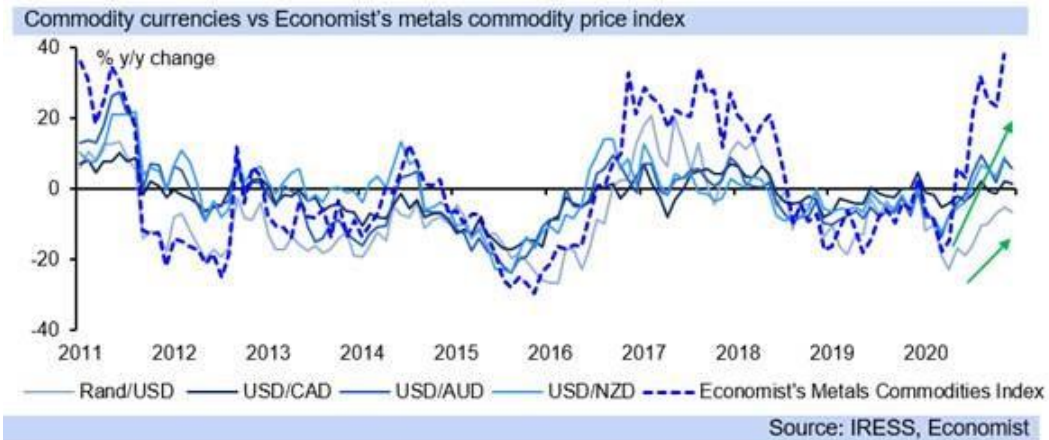


SA Economics

Wednesday 9 December 2020

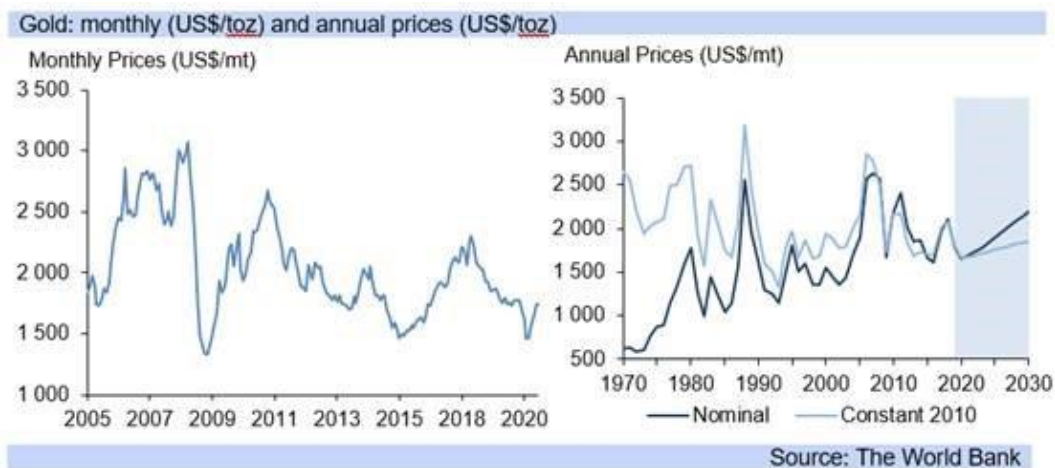
Gold & Commodities note: commodity prices continue to lift on vaccine optimism, driving commodity currencies stronger, with the rand reaching R14.88/USD as risk-on escalates, driving EM currencies stronger too



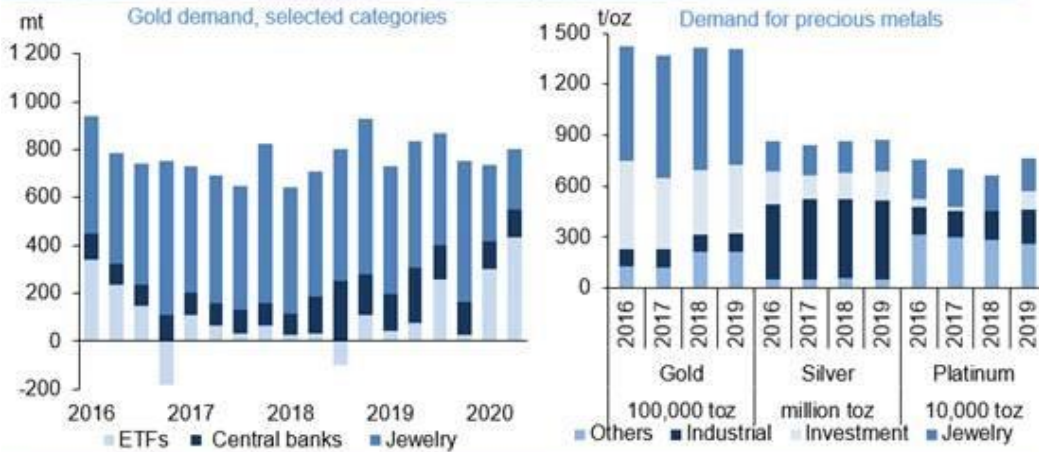


- Commodity prices continue to rise on market expectations of strong global economic recovery over 2021 as vaccinations start in the UK, sparking optimism that all advanced economies will roll out vaccination coverage to their populations, returning economic activity to normal.
- Such high levels of market optimism are driving very strong risk-on investor behaviour, causing EM currencies to strengthen on rising risk taking, with the rand reaching R14.88/USD today as foreigners continue to show interest in SA portfolio assets.
- The Economist Commodities Index shows prices rose by 25.3% y/y over November, 16.5% y/y in October, and 13.8% y/y in September, as the commodities' run strengthens, sparking off with a 15.2% y/y price lift in July, after contracting over the first six months of the year.

- Metals' commodities prices are seeing even more of a surge, up 37.9% y/y in November, after lifting 23.5% y/y in October, 25.1% y/y in September and 31.6% y/y in August (21.9% y/y July), having started their climb in May already at 5.8% y/y (June 3.2% y/y) .
- The strong global financial market sentiment is heavily geared towards recovery, ignoring the rising cases of Covid-19 around the world as the Northern Hemisphere winter deepens, with markets geared instead towards good news.
- Additional lockdown restrictions to contain rising Covid-19 cases would hinder global economic recovery, particularly in the US with the change in leadership expected to bring in some tightening as the world's largest economy continues to see rampant infections.
- However, the incoming US democrat administration is already seeing support from a bipartisan group of senators to bring in new fiscal stimulus measures, with the democrats attaining just under a majority in Senate, but with good stimulus support already prevailing.
- While markets have taken a strong risk-on stance, the global recovery is still likely to be uneven, and not reach pre-Covid levels quickly, with some downside to market sentiment
- However, markets are tending to only see the upside currently, which is a risk for the outlook both for commodity prices and currencies, as they are not expected to continue to rise throughout 2021, having built in in expectations of global recovery ahead of time.

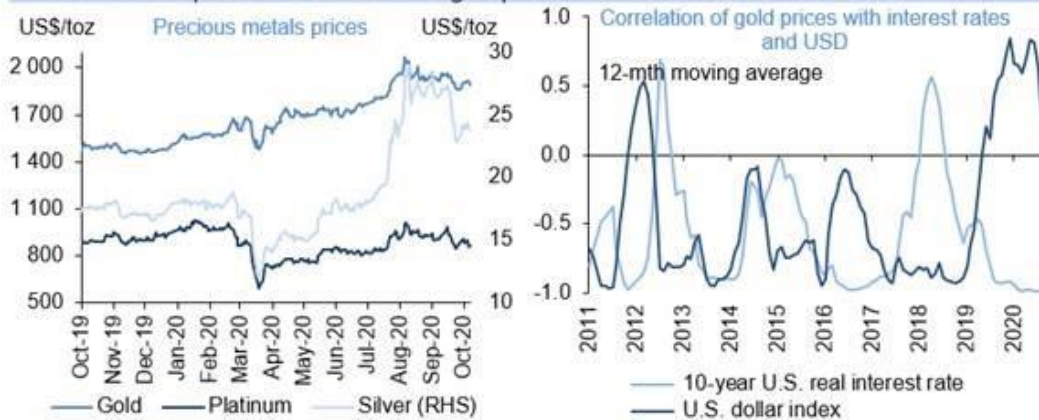


Gold demand, selected categories and demand for precious metals



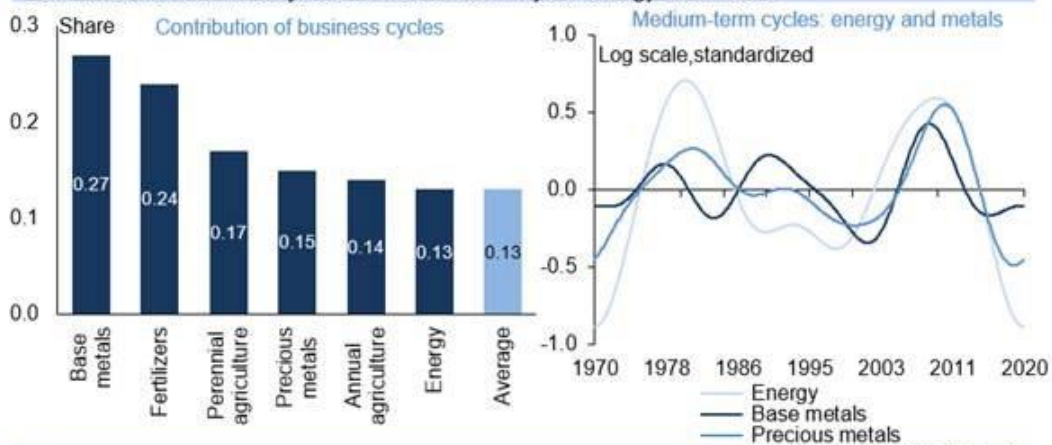
Source: The World Bank

Precious metals prices and correlation of gold prices with interest rates and US Dollar



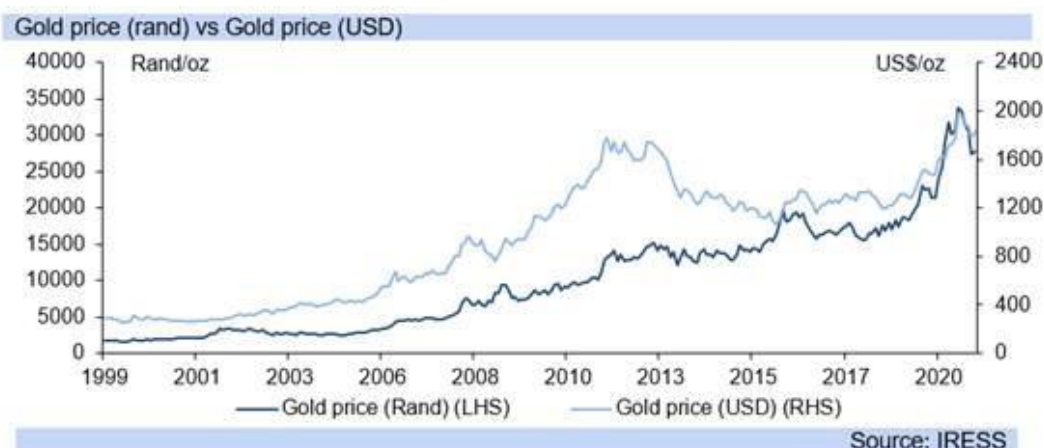
Source: The World Bank

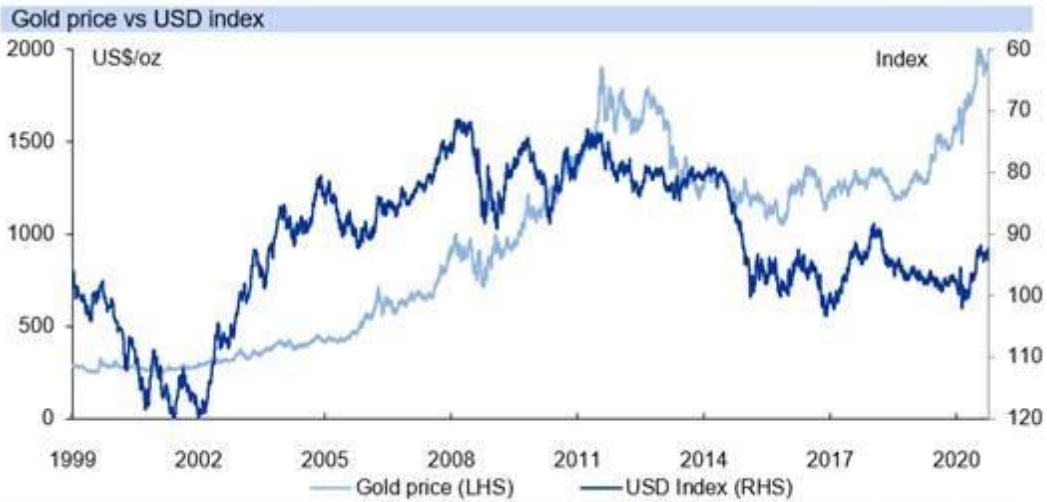
Contribution of business cycle and medium-term cycle: energy and metals



Source: The World Bank

- The heightening of economic growth expectations in financial markets does not mean that the global economy will see an almost V shaped recovery, and instead, a swish, or U shape with a collapsed right arm, is still the most likely outcome.
- Failing to vaccinate developing and low income economies' populations as well will not eradicate the effects of Covid-19 on the global economy, or on global economic recovery and will also not allow economic activity levels to return to normal.
- Covid-19 has shown multiple waves of infections, and many economies are seeing a second surge, or even multiple waves, which still pose health risks, and risks of rising fatalities, as well as risks to economic activity and recoveries in these economies.
- Even wealthy nations procuring vaccinations for their entire populations run the risk of the vaccine averse refusing inoculation, with a recent survey showing as low as just around half of respondents in the US willing to take the necessary doses.
- The vaccines themselves, while seen as panaceas by the financial markets and certainly sparking much needed hope and optimism, will not necessarily offer complete or permanent immunity, and if not applied throughout the world's population, will not eradicate Covid-19.
- Nevertheless, market optimism has seen the gold price retreat as safe haven assets lose attraction, although the yellow metal continues to be supported by zero-bound US interest rates, and the expectations they will remain at such lows for a lengthy period.
- The gold price, at US\$1 859/oz, has dropped below its US\$2 075/oz historic high reached in August this year, and could continue to wane back towards US\$1 800/oz, even dropping below this level next year.
- With the global economy still likely to see a marked period before full recovery, commodity prices have room for disappointment, and are likely to remain volatile. In the short-term however, ongoing market enthusiasm is likely to be supportive and bring further gains.
- The rand has managed to convincingly pierce the key R15.00/USD resistance level today, as international developments give the main steer. The domestic GDP print at substantially better than consensus expectations likely provided some uplift, but not the main driver.



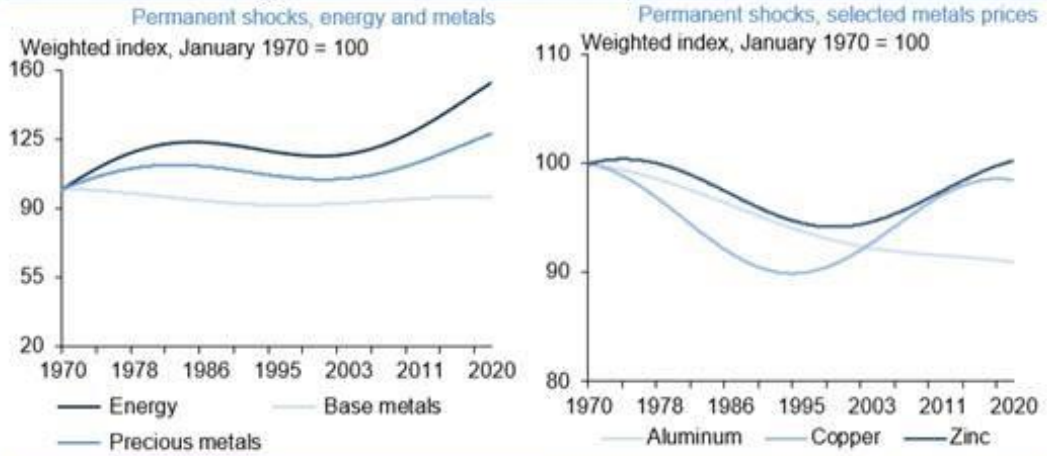


Source: Iress



Source: The World Bank

Permanent shock, energy and metals and selected metals prices



Source: The World Bank