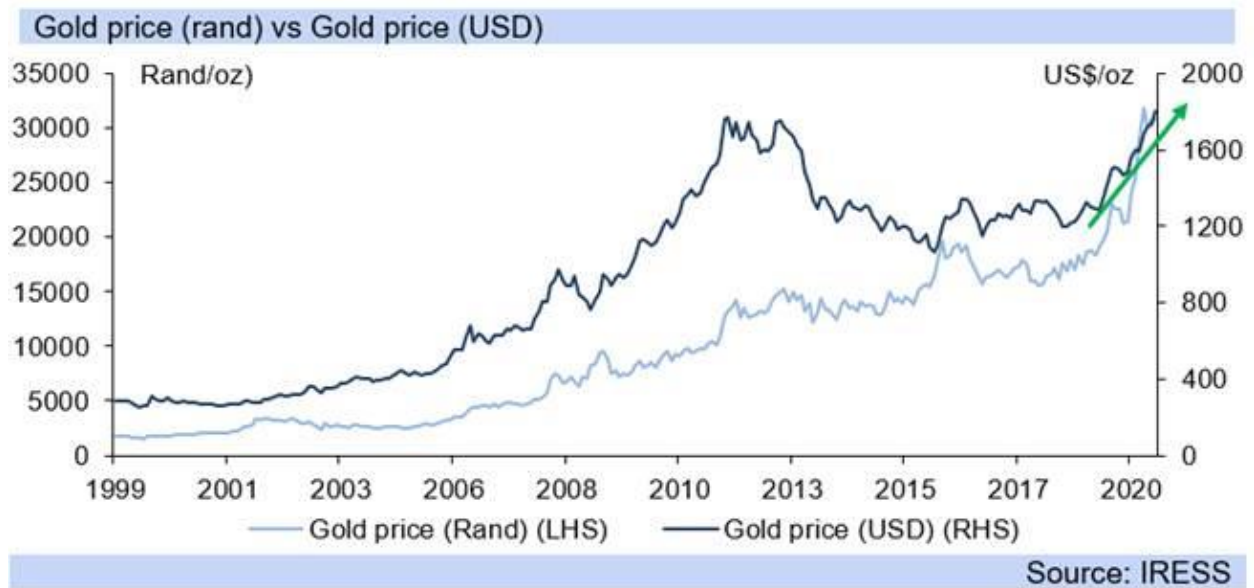


Gold & Commodities Note

Wednesday 8 July 2020

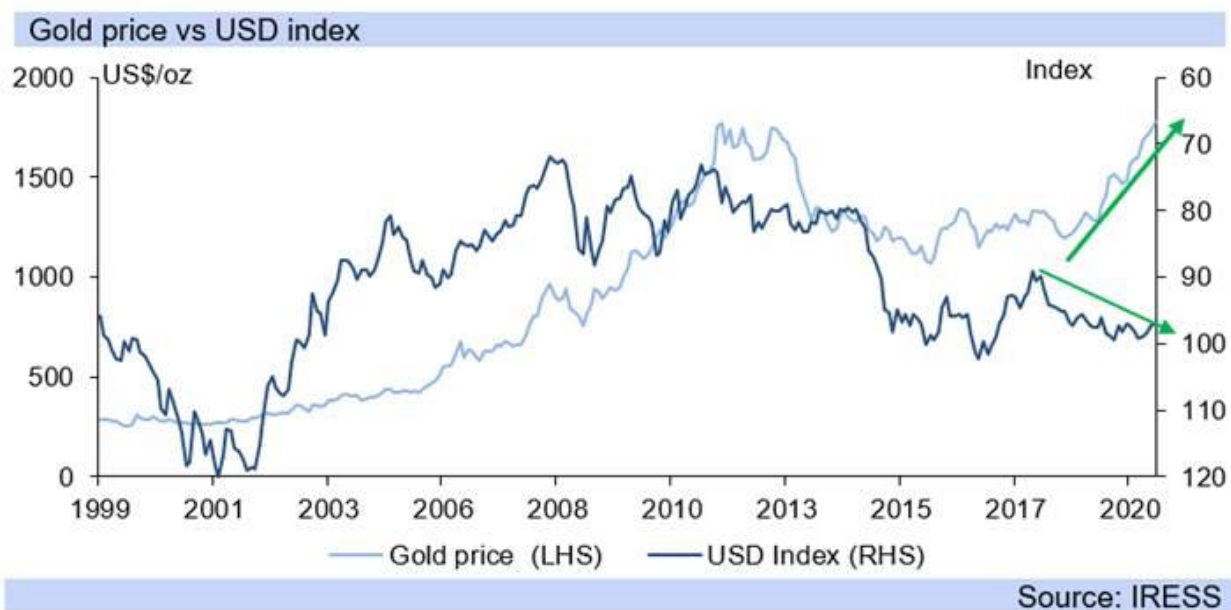
The gold price is striving towards a new all-time high, while commodity prices are in the process of recovering from their collapse in March, as optimism, if patchy, continues to build on the global recovery



- The gold price reached US\$1 815/oz today, increasingly approaching its all-time high of US\$1 921/oz, as the yellow metal has climbed in value on the back of the huge scale of QE globally, while the still

generally risk averse environment compared to before March this year also adds some support. In particular, gold-backed EFT flows are buoying the rally in the gold price.

- The gold price is well up today from a year ago of US\$1 407/oz, or R19 947/oz, and also up on the US\$1 576/oz recorded in mid-February this year (R23 491/oz), gaining from the weakness of the US dollar which places upwards pressure on the gold price, i.e. the gold price is a measure of real value and QE itself is inflationary (i.e. QE increases the supply of dollars).
- Turning to commodity prices generally, the index (Economist Commodities price index) was only down -3.3% y/y in June, in March and April it was down -9.5% y/y and -9.0% y/y respectively. Metal prices have seen more uplift, and were 3.2% higher in June than a year ago, with economies' reopenings having boosted sentiment for these key industrial inputs.
- While threats to the global recovery are seen to be lessening, risks remain, particularly a tightening of lockdown restrictions on further waves of Covid-19 infections. Recent comments from the Fed's Vice Chair that "(w)e have a lot of accommodation in place; there's more that we can do, there's more that we will do, if we need to" is supporting gold's further rally.
- Overall, the outlook is becoming increasingly optimistic on perceived evidence that a faster US-led global economic recovery than was previously expected could occur. If sustained, this is likely to provide support to commodity prices over July, and spur greater risk-taking, in turn bolstering commodity prices even further.



- In general though, the stabilisation and then uplift in commodity prices led by expectations that the global economy will turn rose on easing lockdowns, is likely to continue this year, although the recovery is likely to be patchy, not linear - both for commodity prices and for the global economy itself.
- In May, commodity prices were only down by -1.6% y/y for example, but were down by -3.3% y/y in June (Economist Commodities index). Furthermore, commodity prices rose by 8.4% in May versus April, but fell by -2.0% then in June versus May.

- The patchy performance is also evidenced in metal prices themselves, which were up 5.8% y/y and 15.5% m/m in May, but fell -2.1% m/m in June, leading to only a 3.2% y/y lift last month. A similar pattern emerged for industrial commodities, although non-food agricultural commodities have been more stable in their gains.
- Financial market sentiment, determined by waxing and waning Covid-19 risks to economic activity, tends to lead expectations on future economic performance. The reduction in the levels of uncertainty in markets since March, if patchy and showing some small reversals along with the gains, are key in stabilising and bolstering commodities prices.
- The gold price seems likely to see further marked gains this year, supported by unprecedented quantitative easing programmes of advanced economies. This will place pressure on the US dollar to weaken, absent any further marked risk adverse events, and US dollar weakness drives strength in the gold price.

Overview of the World Economic Outlook Projections (% change)

| | Projections | | Difference from April 2020 WEO Projections ^{1/} | | Q4 over Q4 ^{2/} Projections | | |
|---|-------------|------|--|------|--------------------------------------|-------|------|
| | 2020 | 2021 | 2020 | 2021 | 2019 | 2020 | 2021 |
| World Output | -4.9 | 5.4 | -1.9 | -0.4 | 2.8 | -3.5 | 4.6 |
| Advanced Economies | -8.0 | 4.8 | -1.9 | 0.3 | 1.5 | -7.2 | 5.1 |
| United States | -8.0 | 4.5 | -2.1 | -0.2 | 2.3 | -8.2 | 5.4 |
| Euro Area | -10.2 | 6.0 | -2.7 | 1.3 | 1.0 | -8.6 | 5.8 |
| Germany | -7.8 | 5.4 | -0.8 | 0.2 | 0.4 | -6.7 | 5.5 |
| France | -12.5 | 7.3 | -5.3 | 2.8 | 0.9 | -8.9 | 4.2 |
| Italy | -12.8 | 6.3 | -3.7 | 1.5 | 0.1 | -10.9 | 5.5 |
| Spain | -12.8 | 6.3 | -4.8 | 2.0 | 1.8 | -11.4 | 6.3 |
| Japan | -5.8 | 2.4 | -0.6 | -0.6 | -0.7 | -1.8 | 0.0 |
| United Kingdom | -10.2 | 6.3 | -3.7 | 2.3 | 1.1 | -9.0 | 6.9 |
| Canada | -8.4 | 4.9 | -2.2 | 0.7 | 1.5 | -7.5 | 4.6 |
| Other Advanced Economies ^{3/} | -4.8 | 4.2 | -0.2 | -0.3 | 1.9 | -5.1 | 5.5 |
| Emerging Market and Developing Economies | -3.0 | 5.9 | -2.0 | -0.7 | 3.9 | -0.5 | 4.2 |
| Emerging and Developing Asia | -0.8 | 7.4 | -1.8 | -1.1 | 5.0 | 2.4 | 3.9 |
| China | 1.0 | 8.2 | -0.2 | -1.0 | 6.0 | 4.4 | 4.3 |
| India ^{4/} | -4.5 | 6.0 | -6.4 | -1.4 | 3.1 | 0.2 | 1.2 |
| ASEAN-5 ^{5/} | -2.0 | 6.2 | -1.4 | -1.6 | 4.6 | -1.4 | 6.1 |
| Emerging and Developing Europe | -5.8 | 4.3 | -0.6 | 0.1 | 3.4 | -7.0 | 6.6 |
| Russia | -6.6 | 4.1 | -1.1 | 0.6 | 2.2 | -7.5 | 5.6 |
| Latin America and the Caribbean | -9.4 | 3.7 | -4.2 | 0.3 | -0.2 | -9.0 | 4.1 |
| Brazil | -9.1 | 3.6 | -3.8 | 0.7 | 1.6 | -9.3 | 4.5 |
| Mexico | -10.5 | 3.3 | -3.9 | 0.3 | -0.8 | -10.1 | 4.8 |
| Middle East and Central Asia | -4.7 | 3.3 | -1.9 | -0.7 | - | - | - |
| Saudi Arabia | -6.8 | 3.1 | -4.5 | 0.2 | -0.3 | -4.4 | 4.1 |
| Sub-Saharan Africa | -3.2 | 3.4 | -1.6 | -0.7 | - | - | - |
| Nigeria | -5.4 | 2.6 | -2.0 | 0.2 | - | - | - |
| South Africa | -8.0 | 3.5 | -2.2 | -0.5 | -0.6 | -2.1 | -2.8 |
| <i>Memorandum</i> | | | | | | | |
| Low-Income developing Countries | -1.0 | 5.2 | -1.4 | -0.4 | - | - | - |
| World Growth Based on Market Exchange Rates | -6.1 | 5.3 | -1.9 | -0.1 | 2.3 | -4.9 | 4.8 |
| Commodity Prices (US Dollars) | | | | | | | |
| Oil ^{6/} | -41.1 | 3.8 | 0.9 | -2.5 | -6.1 | -42.6 | 12.2 |
| Nonfuel (average based on world commodity import weights) | 0.2 | 0.8 | 1.3 | 1.4 | 4.9 | -0.8 | 1.3 |

Source: IMF WEO June 2020

1. Difference based on rounded figures for the current and April 2020 WEO forecasts. Countries whose forecasts have been updated relative to April 2020 WEO forecasts account for 90% of world GDP measured at purchasing-power-parity weights.
2. For World Output, the quarterly estimates and projections account for approximately 90% of annual world output at purchasing-power-parity weights. For Emerging Market and Developing Economies, the quarterly estimates and projections account for approximately 80% of annual emerging market and developing economies' output at purchasing-power-parity weights.
3. Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.
4. For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year.
5. . Indonesia, Malaysia, Philippines Thailand, Vietnam
6. Simple average of prices of UK Brent, Dubai Fateh and West Texas Intermediate crude oil. The average price of oil in US dollars a barrel was \$61.39 in 2019; the assumed price, based on futures markets (as of May 19, 2020) is \$36.18 in 2020 and \$37.54 in 2021.

Top ten commodities exports cumulative for May 2020

| Description | Value |
|--|--------|
| Coal; Briquettes – whether or not pulverized, but not agglomerated | R6.7bn |
| Gold, (gold plated Platinum) unwrought - Gold | R6.3bn |
| Ores – Iron Ores and Concentrates – Agglomerated | R5.5bn |
| Platinum, Palladium unwrought or in powder form – Platinum | R4.0bn |
| Ferroalloys, Ferro Chromium (mass of more than 4% of carbon) | R3.7bn |
| Platinum, unwrought or powder form | R3.5bn |
| Ores, Rhodium– Iron Ores and Concentrates – non agglomerated | R3.3bn |
| Platinum, unwrought or in semi-manufactured forms – Other | R2.8bn |
| Ores – Manganese ores and Concentrates | R2.5bn |
| Fruit and nuts | R2.4bn |

Source: SARS Customs & Excise