



REPORT ON THE GLOBAL PRECIOUS METALS MARKET FOR THE 3RD QUARTER 2021

5 October 2021, Prague – In the third quarter of this year, gold moved in a relatively narrow band around the price of USD 1,800 per troy ounce.

The only exception was Monday morning, **9 August**, when a rather unusual situation occurred – these situations occur occasionally in financial markets and are known as **Flash Crash**. This time, **as a result of low liquidity on the Asian market**, the gold price fell below USD 1,700, only to return **almost immediately** to USD 1,750. It was caused by favourable news from the US labour market, which came after the markets in Asia closed on Friday, 6 August, as well as by the fact that 9 August was a public holiday in Japan and Singapore. Then it only took a very small volume of gold sold to trigger such a flash drop, which triggered an avalanche of automatic sell-offs. However, the good news for gold was that its price returned almost immediately to higher levels and did not keep on falling further. This emergency situation shows that **gold has relatively strong positions** around the level of USD 1,750 per ounce and any move below this level will trigger further purchases and staying longer below this level is unlikely.

We talked about the possibility of **higher inflation** at the end of last year, when the term inflation was almost a dirty word among central bankers and they were talking more about the necessary incentives (meaning the constant pumping of money) of the economies rather than about the imminent danger of multi-percent inflation. In less than 9 months, **central bankers themselves warn of inflation**. The American ones, however, are still pretending that this is a temporary phenomenon, but the main reason for this pretence is the fear of a collapse of the market in shares and other securities. Any sign of a reduction in the inflow of funds into economies can cause not a Flash Crash, but a real and long-lasting decline in these assets, and thus a rather deep crisis.

Therefore, **the US Federal Reserve** currently **faces the dilemma** of whether to let inflation rise or try to dampen it, which could mean **risking a stock crash**. At its September meeting, the FED announced that the priority target is economic growth in terms of employment and, according to this figure, they will take further steps that will lead either to reducing bond purchases and raising interest rates already in 2022 or to maintaining an easy monetary policy – i.e. a continuous flow of money into the US economy.

The **European Central Bank cut its bond purchases** in September as **inflation in the EU is the highest in 10 years**. Countries across the world are struggling with rising inflation, and the Czech Republic is no exception. **Inflation in our country is at its highest level since 2008**, which is why the **CNB** raised its interest rates sharply at its last meeting.

Other central banks are buying gold – while getting rid of reserves held in US dollars. Central banks bought another additional 199 tonnes of gold in the second quarter. This has been the highest quarterly increase since 2019. They have bought **333 tonnes of gold since the beginning of the year**. The central bank of Thailand bought the most – 90 tonnes, followed by the Hungarian bank – 63 tonnes.

Prices are rising across the economy – energy, food commodities, oil, natural gas. All prices are close to their historical highs. Precious metals seemingly remain in the shadow of these assets for the time being, but it's worth remembering that **the price of gold has risen extremely in the past year, i.e. by 25%**. Gold has become by **8% cheaper** since the beginning of this year. **In the sum of the two years, however, gold is still in the red, +17%**.



The issue of rising inflation clearly needs to be considered when building a portfolio of savings and assets at the current time. The volume of deposits in **current accounts is growing** significantly. **When inflation** occurs, the value of the money thus stored decreases. **At 4% inflation**, a household **with EUR 20,000 in its account** will lose EUR 800 in one calendar year, **losing more than EUR 2 a day**. If inflation continues to rise, and this is certainly not out of the question, if basic commodities rise in price by tens to hundreds of percent, **the depreciation will be even higher**.

Precious metals in the 3rd quarter 2021

	Gold	Silver	Platinum	Palladium
The highest price USD/oz	1,833.50	26.91	1,145.00	2,866.50
Date	07-09-2021	06-07-2021	16-07-2021	08-07-2021
The lowest price USD/oz	1,689.70	21.50	911.00	1,835.00
Date	09-08-2021	30-09-2021	20-09-2021	30-09-2021

Gold – The gold price was in a relatively narrow band of USD 1,750 – 1,830 per troy ounce. The US Federal Reserve’s moves to reduce bond purchases and subsequently raise interest rates will be important for the price until the end of the year. The FED, however, is only paying lip service and has not decided to take any action yet. They still declare the inflation to be temporary. This may be supportive for the gold price growth, probably until the FED is forced to act. However, the question is whether their actions will then lower the price of gold. This discussion opens with an example of the procedure of the ECB, which has already reduced its bond purchases, however, the price of gold has remained virtually unresponsive.

Silver – It has definitely been a disappointment this year. At the beginning of the year, many commodity analysts predicted a bright future for silver, but this has not been confirmed yet. Its hope is the development of “green” technologies, the implementation of which has been delayed this year due to a shortage of some of the materials necessary for the production of solar panels, and it has been postponed until 2022. The price of silver is so low that it now has to rise, because around USD 21 per troy ounce, silver mining becomes economically disadvantageous.

Platinum – The platinum price is now below USD 1,000 per ounce, which is the average level since 2015, when the Dieselgate scandal broke and heralded a downturn in the platinum price. The development of hydrogen cars remains a hope for platinum, as does the growing popularity of platinum jewellery in Asia. Overall demand for commodities and rising inflation may also help prices. However, we do not expect a sharp price increase in the near future.

Palladium – The price of palladium fell by 36% during the quarter. This development is due to the failure of the automotive industry caused by a shortage of chips or semiconductors necessary for their production. Russian palladium miners responded to the sharp drop in price by radically reducing the amount of palladium supplied to the market. They are trying to prevent the price from falling further, but so far they have not been very successful. The drop in demand from automakers is really dramatic. A revival is expected at the turn of the year.



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