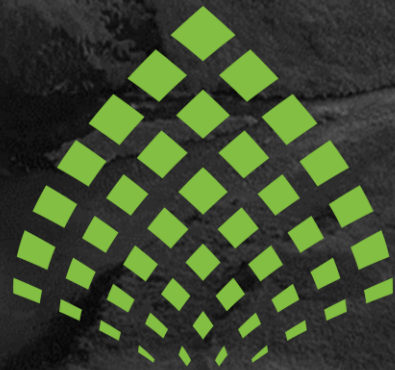




# Monthly Market Insights

## May 2024



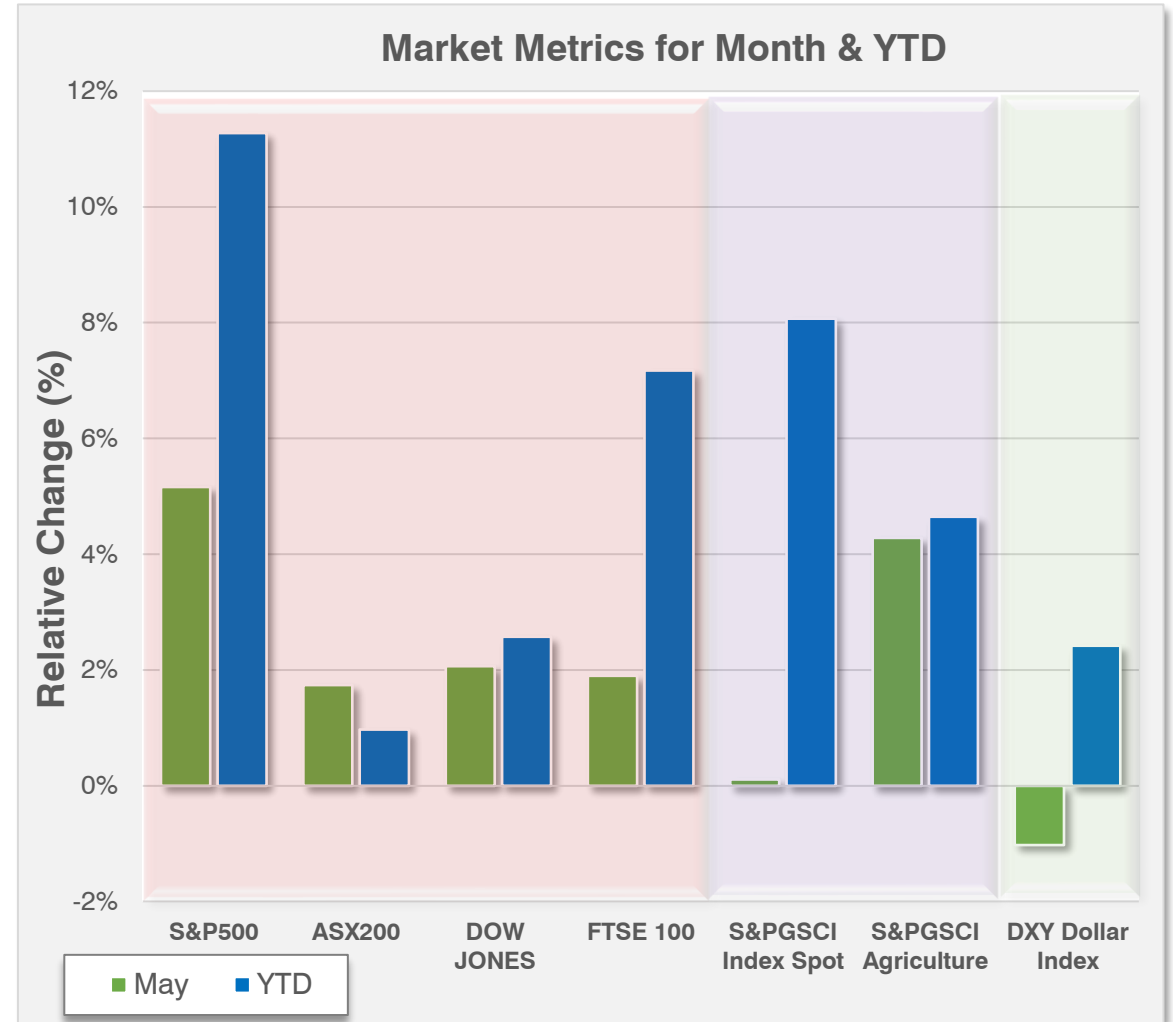
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ASSET MANAGEMENT

# Monthly Market Insights - Review of May 2024

## Market Indices for May 2024

- Dollar index has first decline in 2024
  - ✓ Fiscal dominance – bond investors are seeking greater yields to hold US treasuries as fears about the “debt cliff” take hold.
  - ✓ The interest on US debt is approaching the largest line item in the budget, surpassing defence spending.
  - ✓ US dollar weakened following disappointing US GDP data leading traders to speculate that interest rates cuts are likely this year, further pressuring the US dollar and boosting monetary metal prices.
- **Stagflationary conditions** appear to have set in to US markets with persistent inflation and sluggish growth. Fiscal dominance, or the ineffectual nature of interest rates on inflation due to the overpowering influence of interest expense, the likely culprit.
- **US Equity Indexes Remain Bullish but driven mainly by megacap tech sector:**
  - ✓ US equity indexes continued to “melt higher” in May, reflecting investor optimism about growth and continued interest in the “magnificent 7” megacap tech stocks.
  - ✓ The S&P’s ~5% gain was its best May since 2009 and the second-best in the last 20 years. However, it was an uneven month for individual stock investors. The S&P500 outperformed the equal-weighted S&P 500, which gives equal consideration to each stock, for the fifth consecutive month of 2024.
  - ✓ Despite this, a sell-off was noted towards the latter part of May as news emerged that the US economy grew at a slower pace in Q1 than initially reported reflecting softer consumer spending on goods.
- **Electricity Demand and Infrastructure Needs:**
  - ✓ Growing demand for electricity requires new power generation capacity, including potential upgrades to the US power grid.
  - ✓ Electrification in Europe and China also drives demand for industrial metals.



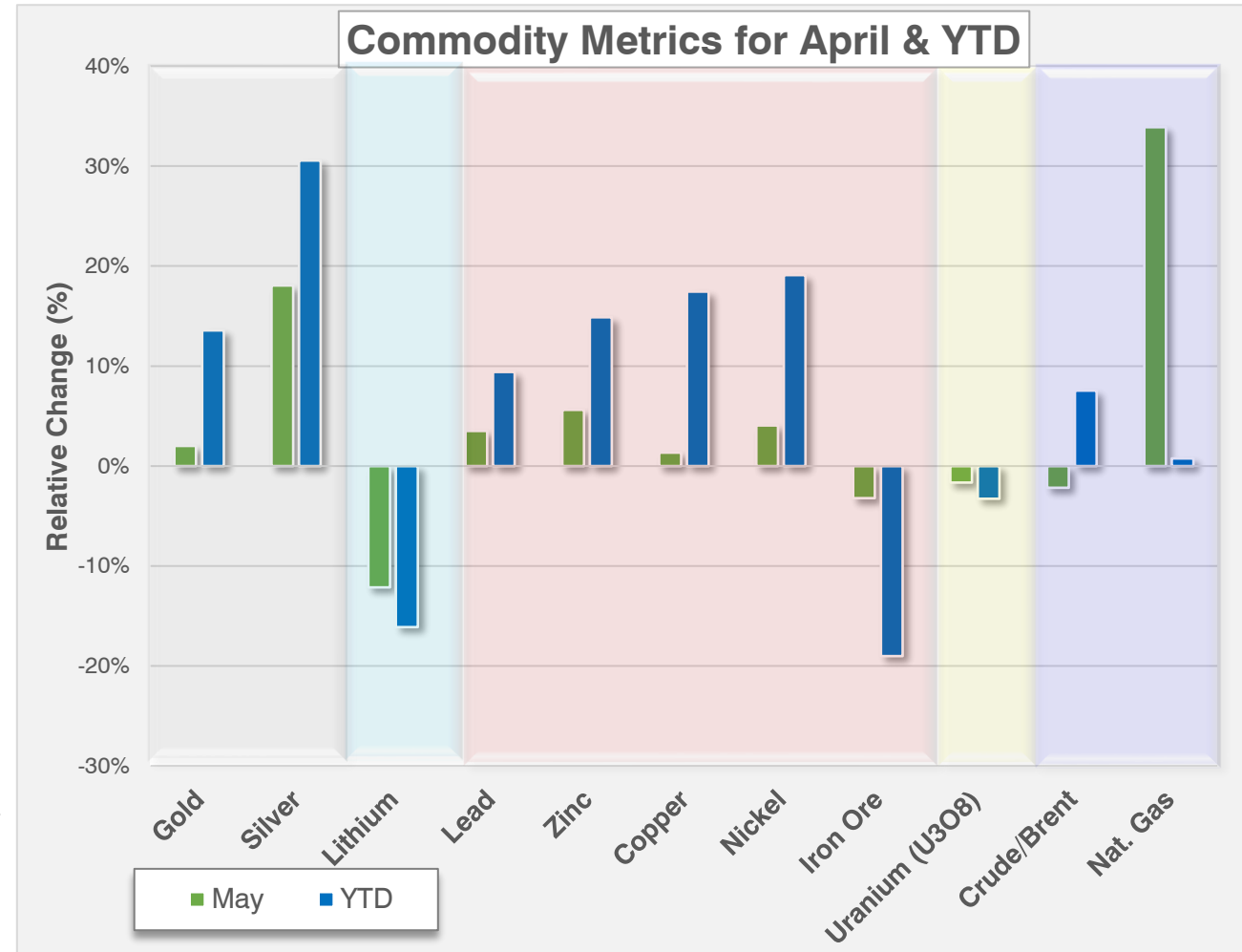
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# Monthly Market Insights - Review of May 2024

## Mixed metal performance during May as Iron Ore & Li decline but base & monetary metals surge

- Gold has diverged from real interest rates since the Federal Reserve started raising rates, and the unprecedented move to confiscate Russian holdings of US debt.
- Silver rebounded to climb to a **new 11-year closing high** of US\$32.05/oz
- All base metals experienced an increase in price over May as demand increases from manufacturing sector improvements in the USA and China, and supply shortages. Some rallies reverted at month end due to Chinese manufacturing concerns.
- The LME 3-month copper contract reached an all-time high in May primarily due to supply tightness, plus a squeeze on short positions on COMEX.
- Drivers for Industrial Metals Rally:
  - ✓ Stabilising Chinese growth; Stockpiling due to a new Cold War
  - ✓ US tariffs signalling industrial revival; Potentially weaker USD
  - ✓ Electrification of everything, including AI and cloud computing
- Lithium (carbonate) prices continue to decline as EV demand cools off and hybrid EV demand surges.
- Uranium price consolidated following recent rapid uptick. Price outlook remains very bullish on demand / supply fundamentals.
- Iron ore declined following its recent uptick as negative sentiment around the outlook for US interest rate cuts later this year and a weaker Chinese currency take hold,
- Natural gas had a significant increase over May to seasonal demand changes.



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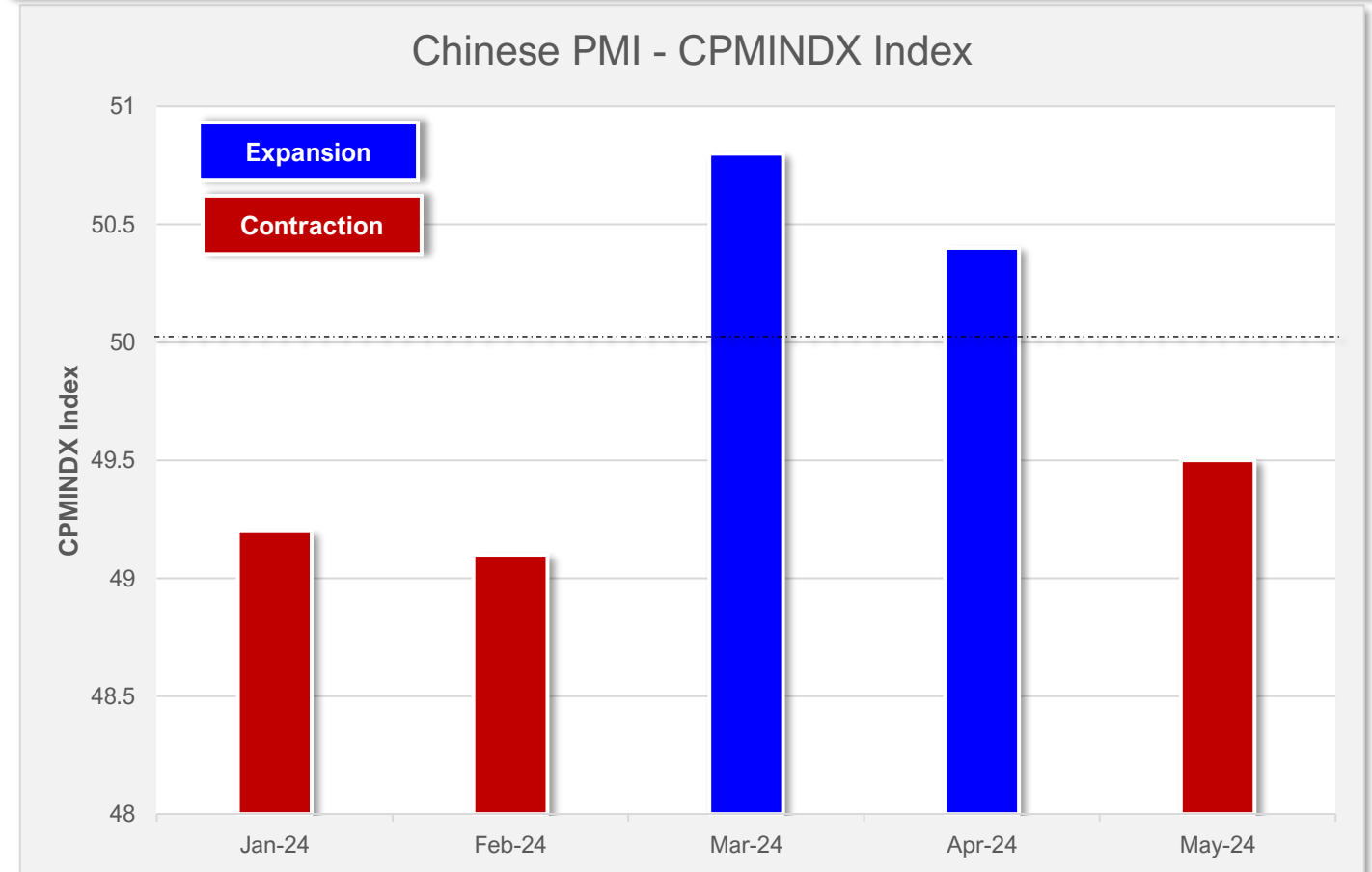


# Commodities – what is influencing the price changes?

## Manufacturing Purchasing Managers' Index (PMIs)

- PMI Indices are commonly used as an indicator of the overall economic condition in the manufacturing sector.
- They are widely tracked and reported on as leading economic indicators.
- A level above 50 indicates economic expansion, while <50 indicates a contracting economy
- Index presented across: CPMINDX, the Chinese Manufacturing PMI represented by the China Manufacturing Purchasing Managers Index
- **Surprise Chinese PMI Drop Flags Threat From Weak Demand** - The surprise decline in China's manufacturing PMI into contraction in May raises concern that weak demand is short-circuiting a recovery on the supply side of the economy.
- The drop in this key gauge was larger than typical for this time of year. The expansion in non-manufacturing activity also slowed.

### Chinese manufacturing sector revert to contraction



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**Chinese PMI declined below 50 in May indicating manufacturing contraction following 2 months of expansion**

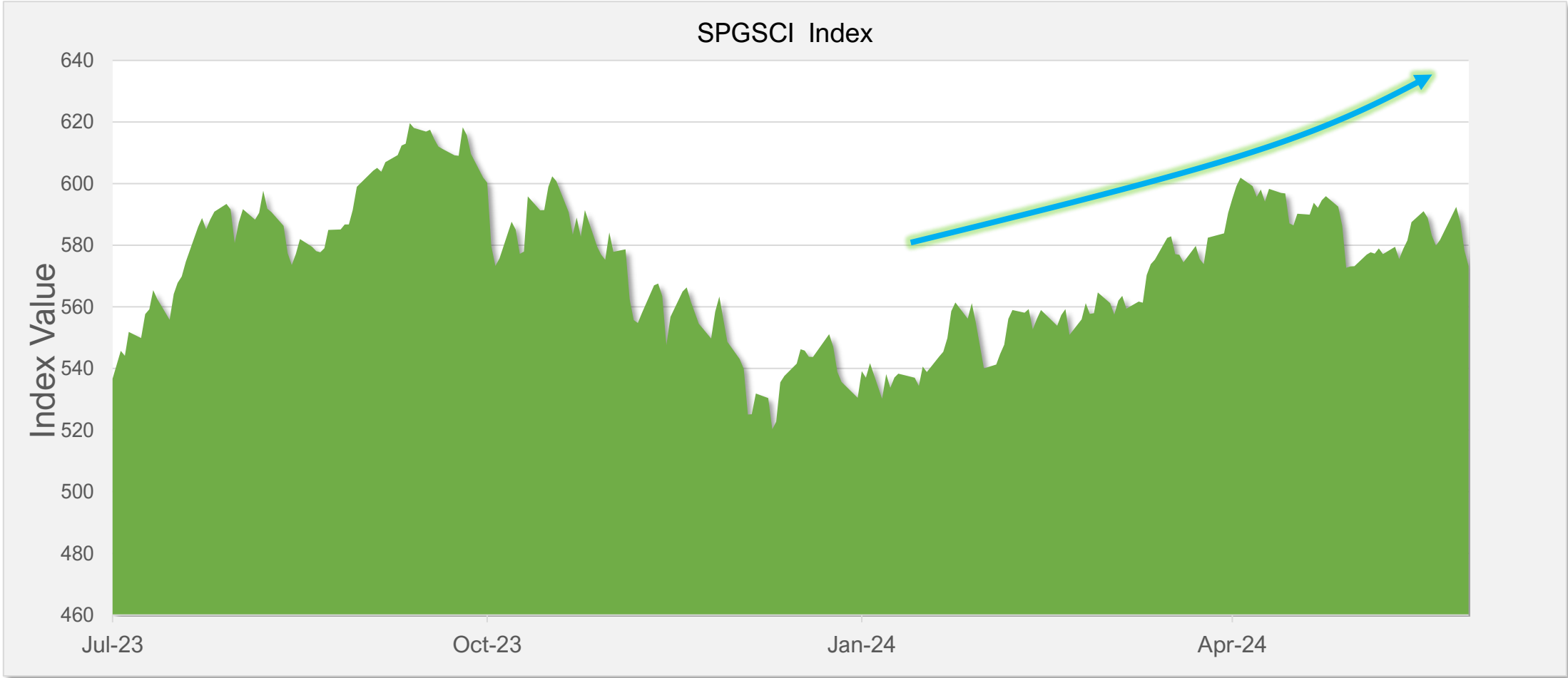


# S&P Global Commodity Index

MONTHLY / YTD CHANGE

May	YTD
0.1%	8.1%

Bullish Commodity Trend Continues although the pace has slowed



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# Monthly Market Insights

## Commodity Reviews

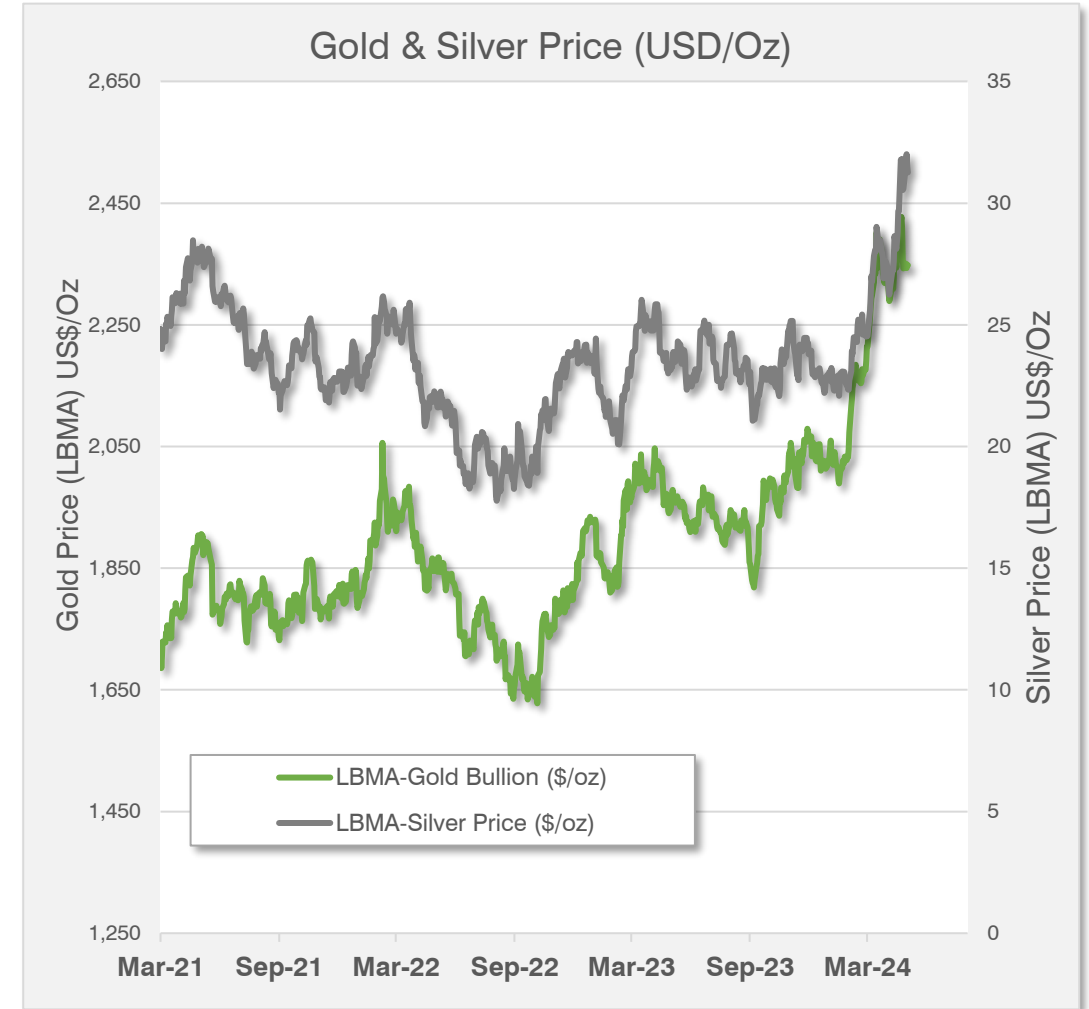
# Gold / Silver

	May	YTD
Au	2.0%	13.6%
Ag	18.1%	30.6%



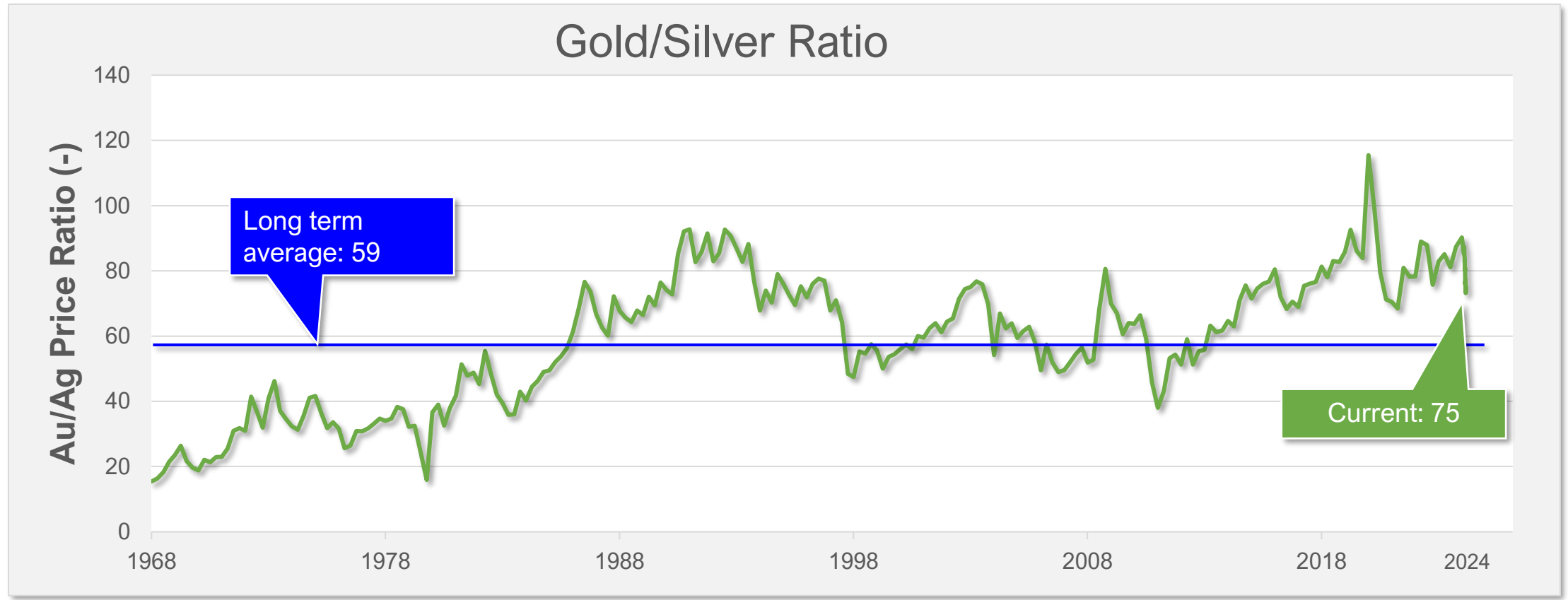
## Increased central bank & Asian demand drives Au prices to new (nominal) highs / Ag surges to 11-year high

- The nominal price of gold has experienced a record-setting surge in recent months, climbing beyond \$US2400 (A\$3754) per ounce. This remarkable rise has occurred despite high real bond yields that adjust for inflation, and a strong US dollar, both of which typically undermine gold's performance.
- US dollar weakened following disappointing US GDP data leading traders to speculate that interest rates cuts are likely this year, further pressuring the US dollar and boosting monetary metal prices
- Amid one of the most challenging geopolitical tensions in decades, there is a return to gold as a neutral reserve asset. This is particularly evident in the record gold purchases by central banks.
- Gold has diverged from real interest rates since the Federal Reserve started raising rates, and the unprecedented move to confiscate Russian holdings of US debt.
- The freezing of Russian currency reserves has vividly shown the world that debt-based currency reserves are ultimately just promises, which can be rendered worthless in an instant during a conflict. This has led to a renewed recognition of gold's uniqueness as a neutral reserve currency without counterparty risk. The structural rise in central bank demand is now a crucial factor, primarily because such demand is relatively less sensitive to price fluctuations. It can be said that central banks have effectively established a price floor for gold.
- Silver prices appear to have broken out of a decades-long resistance due to increasing demand from both industrial (solar) and monetary buyers reaching an 11-year high. Silver embodies a hybrid form of store of value and consumer commodity, as it has both monetary and technological or industrial uses due to its properties.
- Silver has the highest electrical conductivity amongst all metals making it essential for the electrification of the world's energy systems and energy transition towards greater adoption of solar energy.



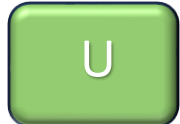
## Silver is still “cheap” compared to historical standards – the Gold/Silver Ratio

The silver-to-gold ratio is at a near all-time high versus historical performance suggesting a significant revaluation is possible for silver in the medium term. A breakout appears to have begun.





May	YTD
-1.7%	-3.3%



## Some pullback, but price outlook remains very bullish on demand / supply fundamentals

- The US Senate has passed the Prohibiting Russian Uranium Imports Act, which bans the importation of low-enriched uranium produced in Russia into the USA.
- NexGen announced the completion of its purchase of 2.7M lbs of U3O8 for US\$250M in unsecured convertible debentures. These debentures can be converted into approximately 23M common shares of NexGen, representing~4.3% of NextGen shares.
- Kazakh uranium miner Kazatomprom, the world's largest producer of uranium, reported a net profit decline in 1Q24. The company attributed this to a 55% drop in natural uranium sales, which was largely due to the timing of customer-scheduled deliveries.
- Investor interest in large-capitalisation uranium stocks continue with the price of Denison Mines Corp. reaching a new 13-year closing high \$3.31/share while industry giant Cameco Corporation reached a new all-time closing high of \$75.63/share.
- South Korea Power Plan Eyes Nuclear, Renewables as Demand Surges - government proposal to add further 4.9GW of nuclear to curb emissions and meet surging demand from data centres to semiconductor manufacturing.
- Recent significant uptick in yellowcake (U<sub>3</sub>O<sub>8</sub>) spot price has been driven by a continued decline in mobile uranium inventories.
- Structural supply shortage projected over next 10 years with limited scope for near-term supply response



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# Uranium ETFs

	May	YTD
Sprott Uranium Miners ETF	9.0%	19.2%
Sprott Junior Uranium Miners ETF	9.6%	25.9%



## Uranium ETF Soars to 10-Year High Amid Rising Demand and Russia Import Ban

### Russia's Role in Uranium Supply:

- In 2022, Russia was the third-largest uranium supplier to the U.S., after Canada and Kazakhstan.

### ETF Performance:

- Uranium-related ETFs have surged this year.
- Global X Uranium ETF (URA) reached its highest level since April 2014, with over \$3 billion under management.
- The ETF saw a six-session winning streak, the longest in over a year.
- Sprott Uranium Miners ETF (URNM), managing nearly \$2 billion, hit its all-time high since its 2019 launch.

### Uranium Prices:

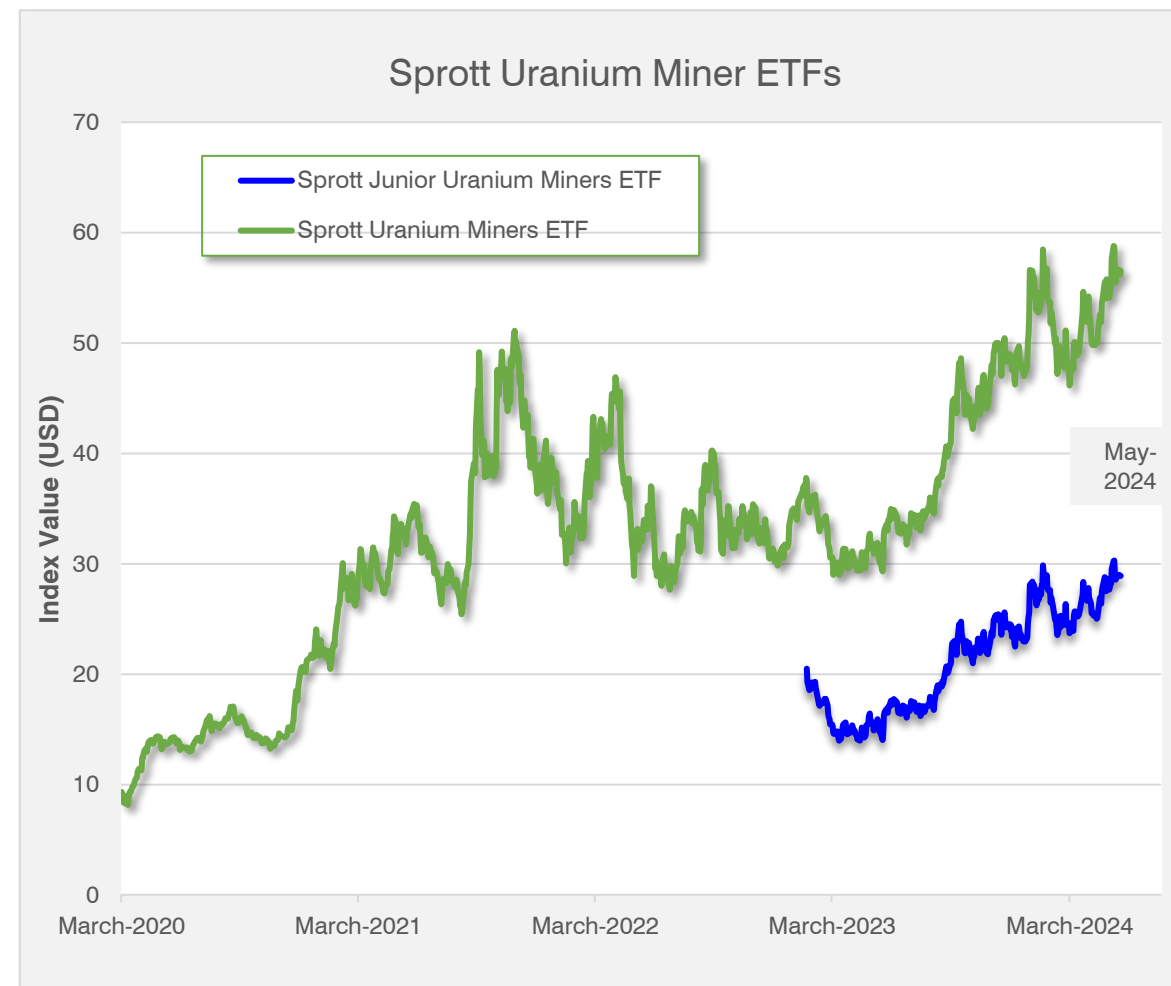
- Spot uranium prices peaked at \$106.40 per pound in February, up from last summer, before settling above \$90.
- Prices expected to rise further due to tight supply and high demand.

### Legislation Impact:

- President Joe Biden signed legislation limiting Russian uranium imports, unlocking \$2.7 billion to boost domestic supplies.
- Ban expected to impact the nuclear-energy market, potentially driving prices above \$100 per pound.

### AI Demand:

- The growth in artificial intelligence has increased demand for nuclear energy to support data centres and storage needs.



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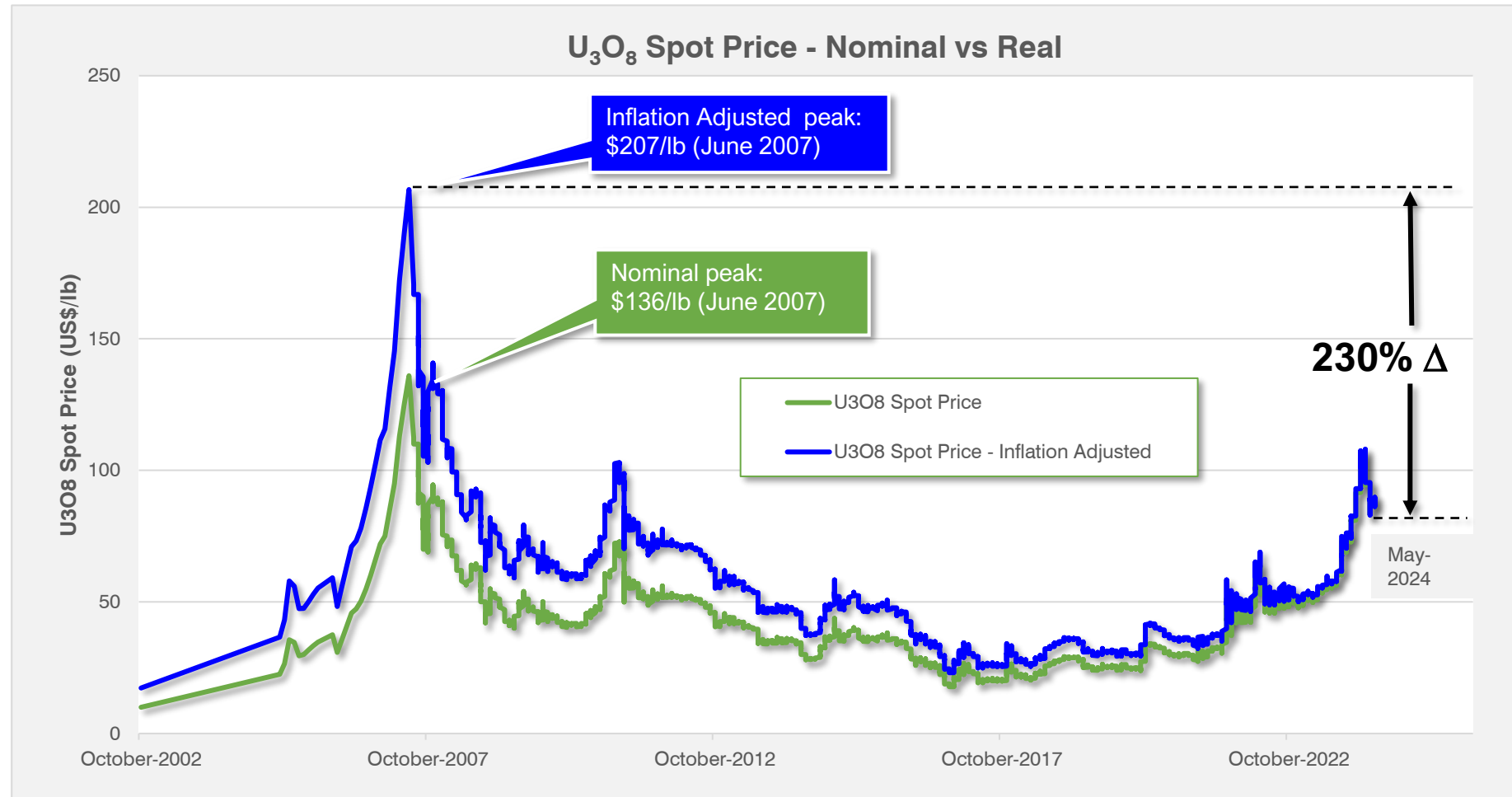


# Uranium – Historical Spot Price adjusted for Inflation

U

How “cheap” is the current Yellowcake spot price on an inflation adjusted basis?

- The previous spot price peak was June 2007 where it reached US\$136/lb.
- Inflation adjusting this into today's dollars it equates to **US\$207/lb** ( $\Rightarrow$  230% above current spot price)
- Hence, significant room for the spot price to keep increasing before reaching most recent high.
- In real terms the  $U_3O_8$  price remains modest



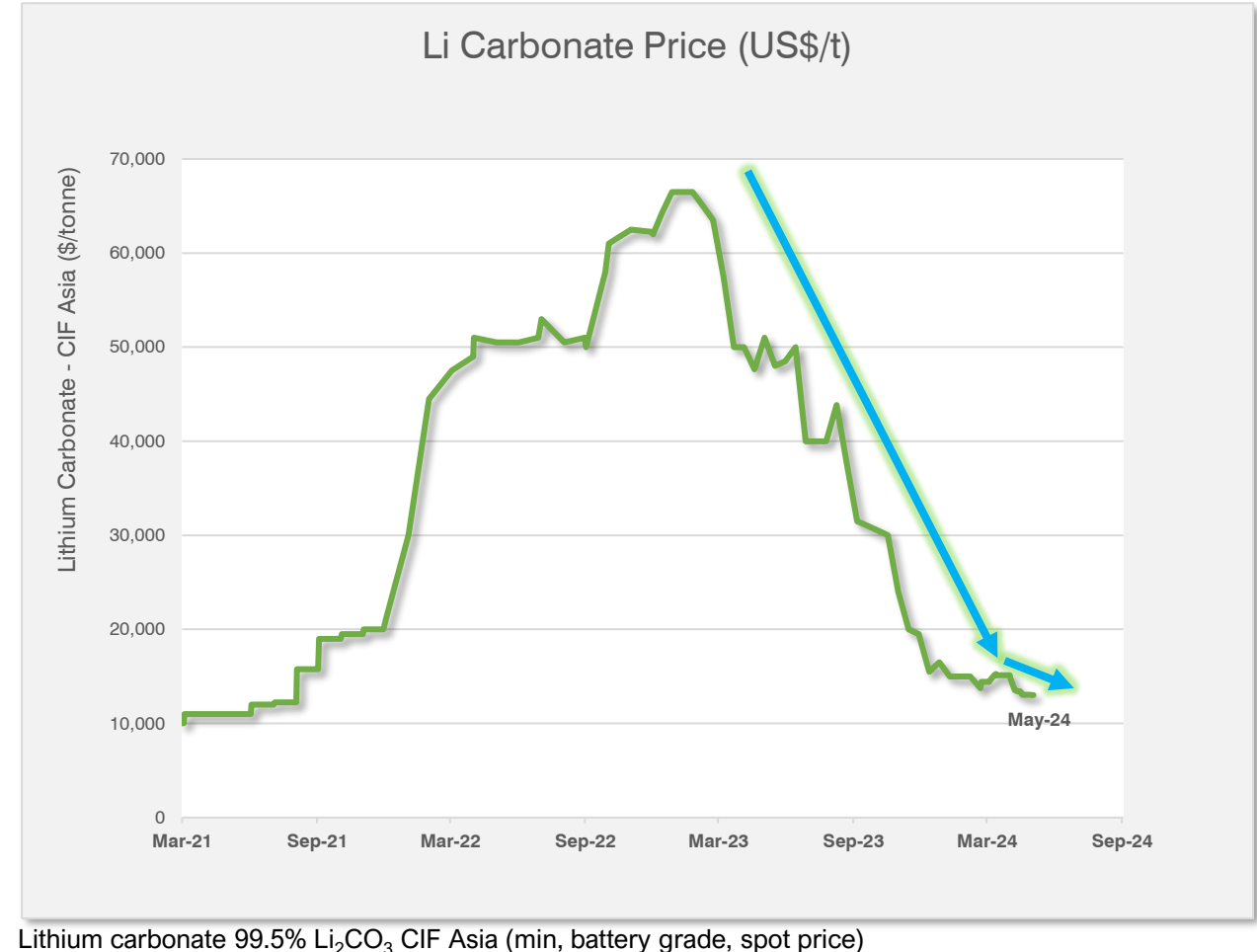
Source: U price: Cameco & Numerco, CPI: US Federal Reserve

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## Lithium Market Challenges Force Production Cuts and Industry Consolidation

- Market Volatility:
  - The price of lithium carbonate – the white salt that goes into making lithium-ion batteries – is down 80% from its 2022 peak. It is forcing miners of the raw material, spodumene, to cut production and headcount to preserve capital while opening up opportunities for consolidation in the industry.
  - Lithium mining companies had a relatively high cash flow to capital expenditure ratio two years ago. This has declined sharply and even turned negative for some, which implies that lithium companies will have to rely on external sources to find capital for projects.
  - Australian spodumene miner Pilbara Minerals Ltd. will halt dividend payments in 2024 to preserve capital while Core Lithium Ltd. will suspend mining operations near Darwin. In the US, Piedmont Lithium Inc. laid off 27% of its workforce.
  - Albemarle Corp., the largest lithium producer in the world, cut its headcount and lowered the 2024 capital spending plan from \$2.1 billion to between \$1.6 and \$1.8 billion. Prices declined by 80% in 2023, with similar trends in spodumene.
- Regional Price Trends:
  - China: Slight decrease in spot prices amid low demand.
  - Europe and US: Prices mostly down.
- Codelco's Entry into Lithium Market: Codelco acquires majority stake in SQM's Chilean assets.
  - Deal faces challenges from Tianqi and indigenous consultations.



# Nickel & Copper

	May	YTD
Cu	1.3%	17.5%
Ni	4.1%	19.1%



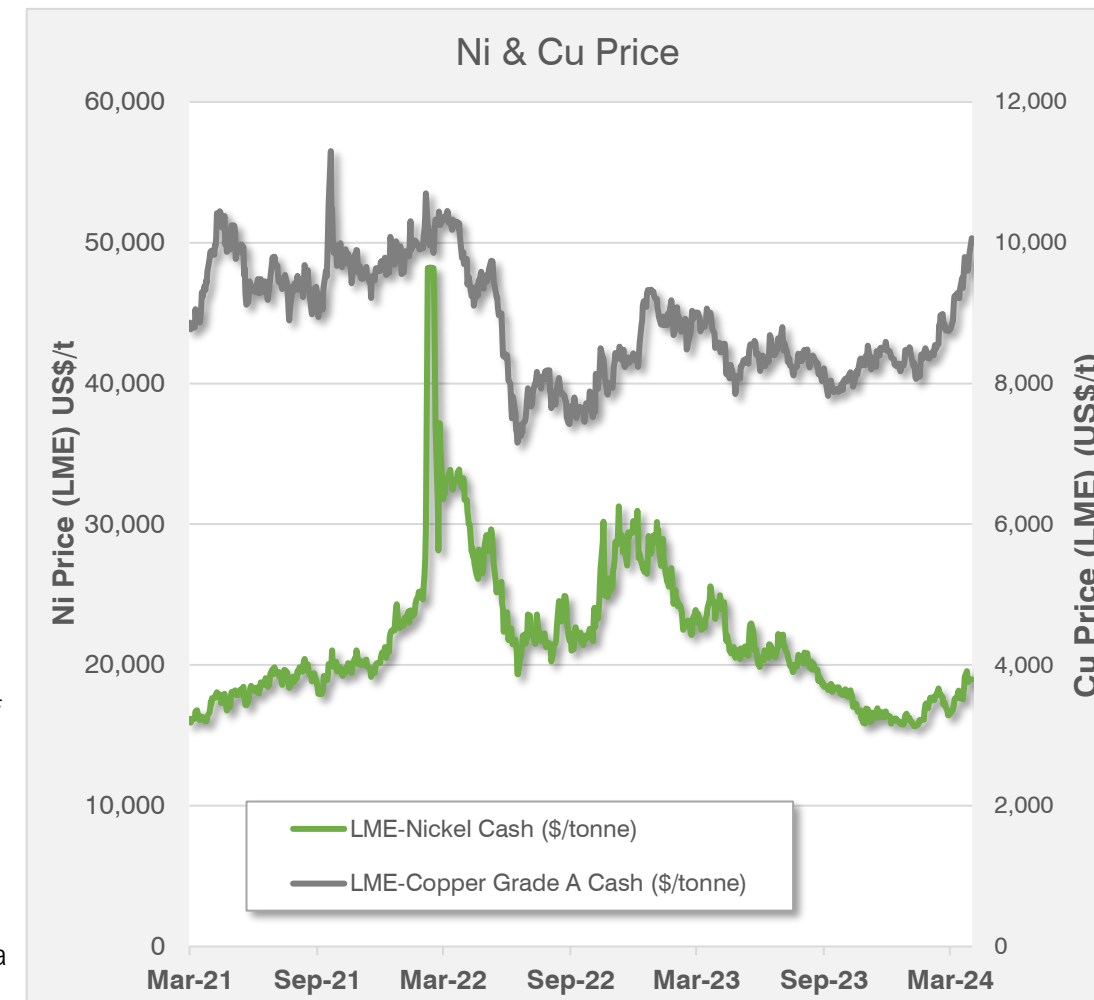
Upward price trajectory continues although near term outlook has turned bearish

## Copper:

- The LME 3-month copper contract reached an all-time high in May primarily due to supply tightness, plus a squeeze on short positions on COMEX. Hedge funds and other financial players are driving up copper prices, contributing to a record spread between LME & COMEX prices, which neared \$1,300/t.
- Despite recent peaks, Cu prices are now sliding, hinting at a potential market cooldown as economic fundamentals are reevaluated. Concerns over forthcoming US interest rate cuts & an unexpected contraction in China's factory activity have adversely affected most metals in late May.
- Indonesia has postponed its ban on Cu concentrate exports until the end of the year, originally set to start at end of May. This delay removes a potentially bullish driver for copper, which recently surged to a record high, and alleviates pressure on the global smelting.
- Panama faces over US\$36 billion in international arbitration claims, roughly half of its GDP, following the 2023 closure of First Quantum Minerals' Cobre Panama mine. First Quantum is seeking \$20 billion through the International Court of Arbitration in Miami and \$30 billion via the World Bank's International Centre for Settlement of Investment Disputes in Washington, DC.

## Nickel:

- The LME has approved the first Indonesian refined nickel brand, "DX-zwdx."
- Indonesia's Ni production soared from 0.6M t in 2018 to 2.03M t in 2023. The country's policy of banning ore exports in 2020 has boosted local refining and production & they now are a major exporter of refined Ni & battery-grade Ni products. The policy has faced international opposition, notably from the EU, but remains effective.
- Indonesia's trade with China has shifted from raw ore to various nickel products, enhancing its market power.
- The new LME listing supports liquidity and marks a shift in global nickel supply towards Indonesia and China.



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Anglo declined BHP's third offer, which BHP opted not to enhance, much to the rejoice of shareholders

- Anglo American is starting the formal process to sell its coal assets and explore options for its nickel operations.
  - This move follows the rejection of three takeover proposals from BHP Group.
  - Investors are pressuring Anglo to boost its value through improved efficiencies and asset sales.
  - The company plans to divest steelmaking coal assets, demerge its South African platinum unit, possibly mothball nickel mines, and sell or demerge De Beers.
  - Work on its fertilizer project in northern England will be slowed down.
  - CEO Duncan Wanblad announced coal and nickel will be the first to go through the divestment or demerger process, followed by the platinum unit and De Beers.
  - Anglo's coal assets in Australia have attracted increased interest recently, valued between \$5.6 billion and \$7.9 billion by Bank of America analysts.
  - The spin-off of Anglo American Platinum could include a London listing, similar to the Thungela Resources spinoff.
- BHP plans to bring investors to its Escondida mine in Chile to demonstrate that it can increase its copper output without relying on significant acquisitions, such as the unsuccessful \$75 billion bid for Anglo American.

# Lead & Zinc

	May	YTD
Pb	3.5%	9.4%
Zn	5.6%	14.9%



## Both base metal prices continued to improve in May with rally easing at month end

- All base metals experienced an increase in price over May as demand increases from manufacturing sector improvements in the USA and China, and supply shortages. Some rallies reverted at month end due to Chinese manufacturing concerns & profit-taking actions by investors.
- This comes after a substantial rally fuelled by tight mine supplies and a positive outlook on the global economy, which has led prices to surge beyond fundamental values.
- Despite this downturn, analysts suggest the potential for further declines may be limited as investors continue to buy on dips, anticipating a continued bull run.
- Additionally, there is ongoing pressure on Chinese smelters to reduce output, further complicating the market dynamics.
- Surprise Chinese PMI Drop Flags Threat From Weak Demand - The surprise decline in China's manufacturing PMI into contraction in May raises concern that weak demand is short-circuiting a recovery on the supply side of the economy.
- The drop in this key gauge was larger than typical for this time of year. The expansion in non-manufacturing activity also slowed.
- This market behaviour underscores a complex interaction between macroeconomic strategies and physical metal demands, suggesting a cautious but potentially resilient outlook for base metals.



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May	YTD
-3.2%	-19.0%



## Prices decline due to Chinese demand and the outlook remains uncertain

- The IODEX 62% Fe fines benchmark reversed its recent uptrend during May as Chinese demand outlook deteriorated following PMI reports below 50.
- The steel-making ingredient had a 3.2% loss this month, the worst performance in two months.
- China's factory activity unexpectedly contracted in May, posing a potential threat to the country's economic growth target of around 5% this year.
- New commitment by China to limit steel mill capacity as part of its broader initiative to conserve energy and reduce carbon emissions during 2024-25 is also a likely contributor.
- Despite reduced steel production, which saw a decrease of 10 million tons in the first four months of 2024 compared to the previous year, iron ore inventories remain near two-year highs due to ongoing shipments from Brazil and Australia.
- This situation is exacerbated by China's ongoing efforts to address its property market crisis, which has significantly dampened steel demand.
- The outlook for iron ore remains subdued, with expectations of continued market volatility amid uncertain regulatory impacts on steel production, as noted by market analysts and researchers.



# Oil & Natural Gas

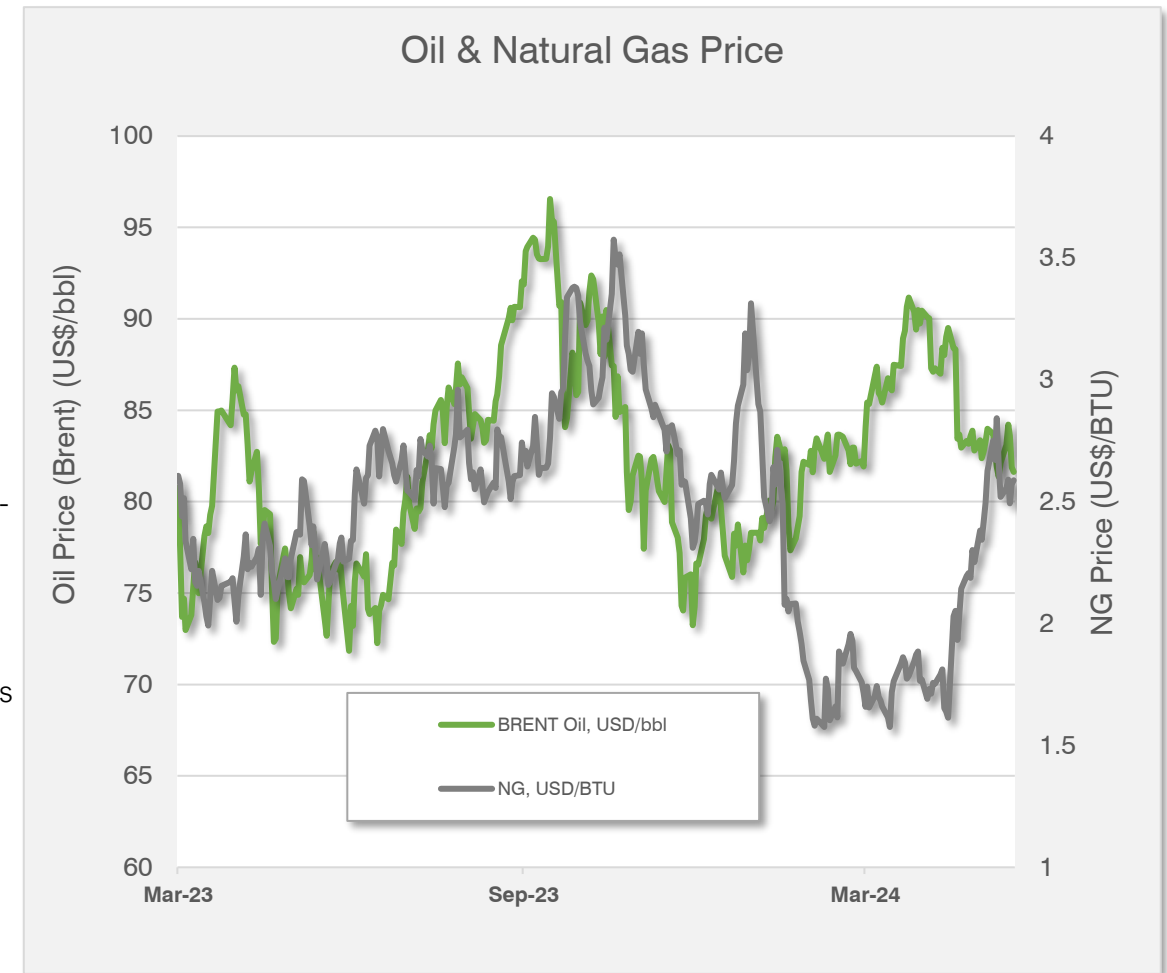
	May	YTD
Oil	-2.2%	7.6%
NG	33.9%	0.7%

Oil

NG

## Improvement in NG prices over May due to increased seasonal demand

- Global petroleum markets have stabilised after disruptions from the pandemic, Russia's invasion of Ukraine, and subsequent sanctions.
- Production and consumption are growing at similar rates; inventories are near normal; prices are inflation-adjusted average; and volatility is low.
- Speculators have reduced oil positions, moving capital to more dynamic markets like power, gas, metals, and soft commodities.
- Contrary to forecasts, crude and fuel stocks have not depleted due to increased output from the US, Canada, Brazil, Guyana, and some OPEC members.
- Ukraine's drone attacks on Russian refineries have decreased, and Middle East conflicts have not disrupted crude production.
- Brent prices in May are around \$83 per barrel, aligning with the long-term inflation-adjusted average.
- U.S. crude and refined fuel inventories are close to ten-year seasonal averages, indicating a balanced market.
- Gasoline and diesel prices in May are also close to their inflation-adjusted averages since 2000.
- Total U.S. natural gas consumption rose & power generation consumption increased MoM causing price rise in NG - Natural gas reached a new 6-month closing high of US\$2.84 per million British thermal units. (MMBtu).
- Saudi Arabia is selling a 0.64% stake in oil giant Aramco as the kingdom pushes ahead with diversifying the economy.



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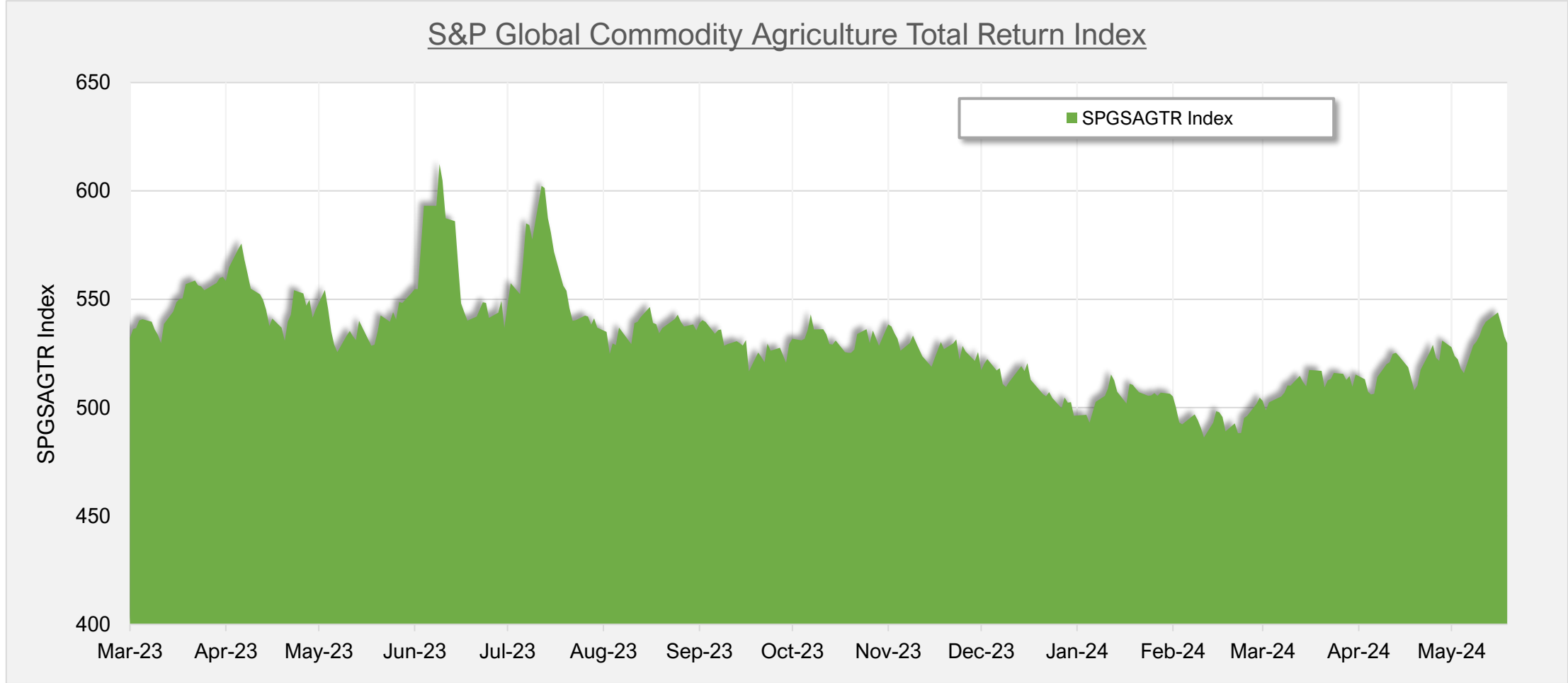
# Agriculture

S&P GSCI Agriculture Index

May	YTD
4.3%	4.6%



This sub-index of the S&P GSCI, provides investors with a benchmark for investment performance in the agricultural commodity markets



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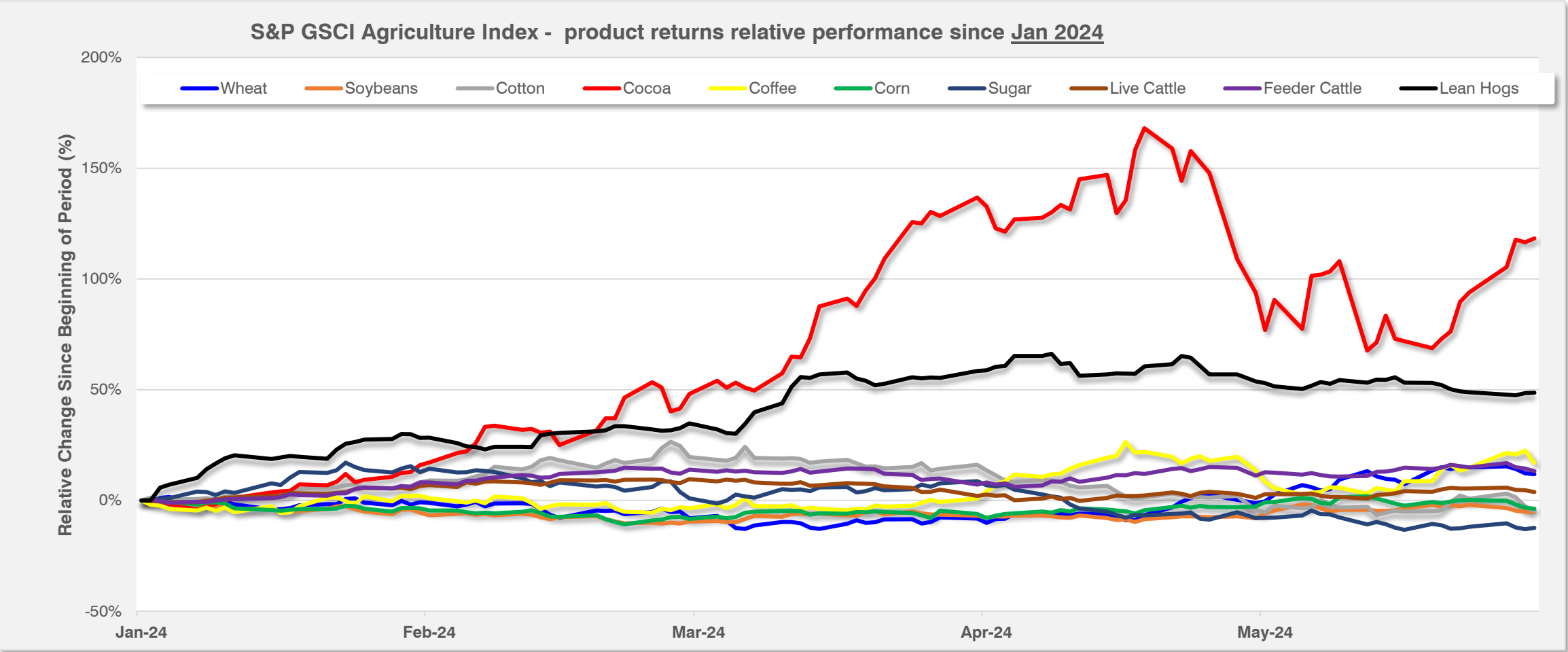




May	YTD
4.3%	4.6%



Price escalation due to structural inflation, weather-related shortages & seasonal effects. Cocoa & pork largest gainers



# Other Commodity Sector Updates

## “Critical Minerals” News from across the sector

- ANTIMONY: Tight supply, solar demand drive antimony prices to record high. Antimony prices are rising to record highs due to high demand from the solar sector outstripping supply. This demand-supply gap is expected to persist, highlighting the West's reliance on China for key minerals. Antimony ingot prices in China reached a record 127,500 yuan (\$17,588.88) per metric ton on May 29, up 56% in 2024. European antimony prices also hit a record \$21,000 per ton, up 75% this year. Global supply is constrained by declining ore grades and depleting mines, according to Chinese investment bank CICC.
- RARE EARTHS:
  - Rare earth elements play a crucial role in various industries, driving technological advancements and sustainable practices
  - Rare earth prices may continue to weaken. According to the SMM survey, the operating rate of downstream magnetic material companies has decreased compared to previous periods. The ongoing decline in rare earth oxide prices has eroded sellers' confidence, leading to an increase in cheaper supplies and further drops in market transaction prices. Consequently, the rare earth market has shown no significant improvement, and prices are expected to remain weak in the foreseeable future.
  - China's rare earth quotas for 2024 are projected to increase at a slower rate due to a supply glut, according to industry participants. The country typically issues mining, smelting, and separation quotas twice a year, with 2023 seeing an unusual issuance of three batches. For 2024, the estimated mining output quota is 270,000 metric tons, a 6% increase from the previous year's 255,000 tons, which had a 21.4% growth rate.
  - Analysts are predicting the total mining output quota will rise to 280,000 tons, a 9.8% increase from 2023. The smelting and separation quota for 2024 is expected to be 254,000 tons, a 4.2% rise from 2023, which saw a 20.7% increase. The first rare earths mining quota for 2024, unveiled in early February, was 135,000 tons, 12.5% higher than the first quota of 2023 but smaller than the previous year's 19% increase.
  - Market participants are closely watching the volumes for the second quota of the year, as the market is still dealing with a supply glut due to weaker-than-expected demand. An East China-based market insider noted that if the total quota increases at a pace similar to 2023, prices could face more downward pressure. In the first four months of 2024, China exported 18,049.5 tons of rare earths, marking a 10% year-on-year increase.
  - Factors Influencing Rare Earth Prices: Prices fluctuate due to industrial demand, production challenges, and market dynamics. High demand from the electric vehicle and renewable energy sectors, combined with production complexities, significantly impact pricing. Global supply chain disruptions, economic conditions, and trade policies create volatility in rare earth prices. Efforts to secure supply chains, such as domestic mining and recycling initiatives, are critical to mitigating these risks.

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# Monthly Market Insights Chart / Topic of the Month

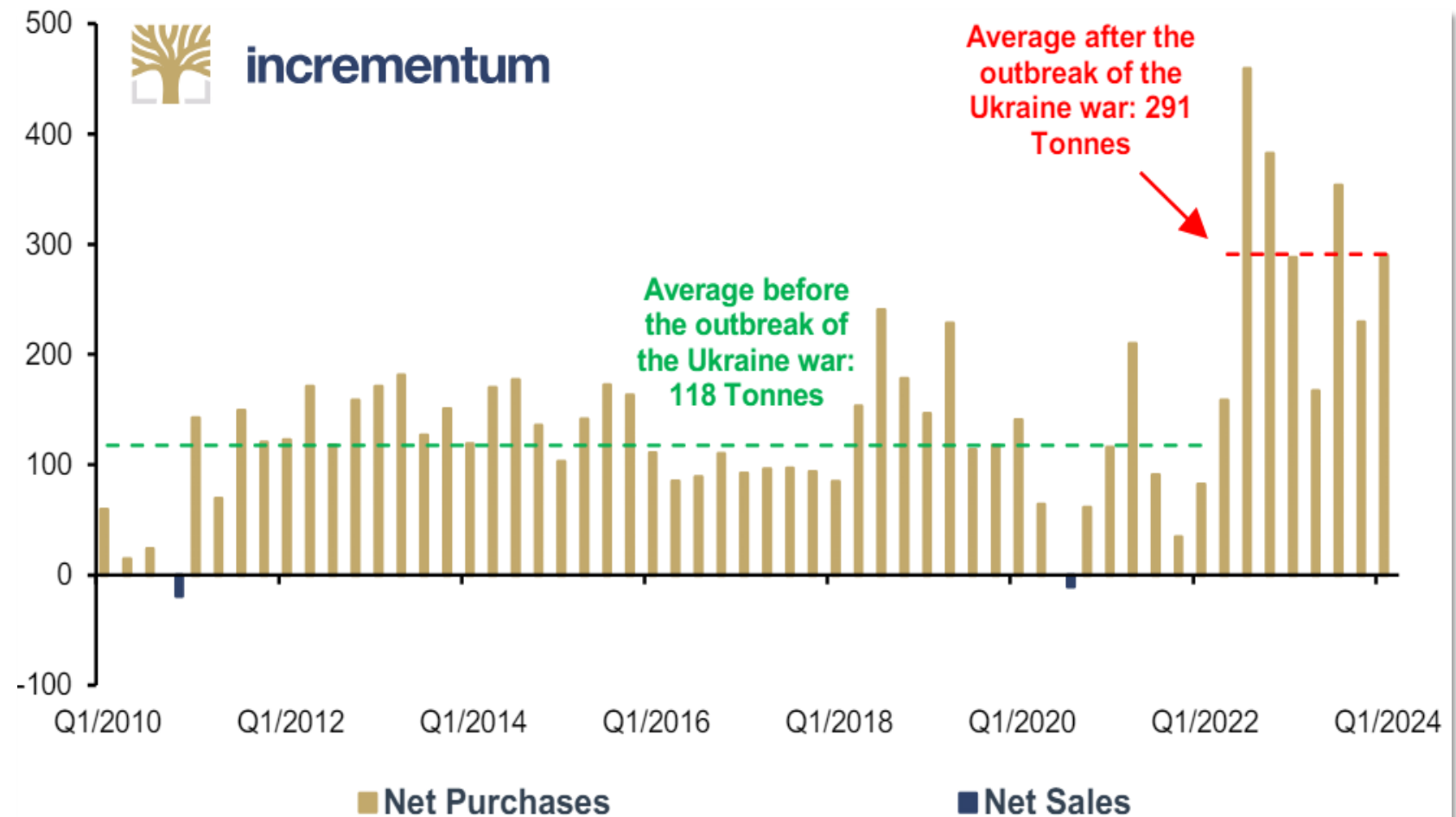
# Chart of the Month - Gold Holdings of Global Central Banks

Significant rise in Gold purchases with East and Central Asian central banks the main buyers

Au

## Global Central Bank Gold Purchases, in tonnes, Q1-2010 – Q1-2024

- Central banks are diversifying their foreign exchange reserves away from traditional assets like the US dollar and euro. Gold offers a way to reduce reliance on these currencies & spread risk.
- Central banks have emphasized gold's importance in crisis response, its diversification benefits, and its value as a store of wealth.
- With ongoing global uncertainty in 2024, these reasons for holding gold remain highly relevant.
- Rising geopolitical tensions, especially involving Russia and China, have made these countries more cautious about holding assets that could be subject to sanctions or other political risks. Gold is seen as a safer, politically neutral asset.
- The above is one of the recent drivers of gold's price rise.



Source: Incrementum AG, <https://www.incrementum.li> › In Gold We Trust Report; World Gold Council (2024)



# Eden Asset Management

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## REFERENCES:

S&P Global Capital IQ, Bloomberg, Incrementum AG, Numerco, SMM

