

PRECIOUS APPRAISAL SPECIAL REPORT

20th March 2023



GOLD BOUNCES HIGHER AS UNCERTAINTY PERMEATES THE FINANCIAL SECTOR

UBS acquires Credit Suisse for \$2.35 bn following a weekend of earnest negotiations

The gold price rose to more than \$2,000/oz for only the fourth time ever this morning as the merger between Credit Suisse (CS) and UBS failed to quell investors' worries about stability in the US and European financial systems. The deal aims to contain the crisis of confidence in the banking sector on both sides of the Atlantic; however, uncertainty appears to be here to stay which could keep the gold price elevated.

The Fed's rapid ramp-up from ultra-low interest rates has begun to hurt the banking sector. The collapse of Silicon Valley Bank started a chain of events that have so far led to CS being absorbed by rival bank UBS. Investors have turned to the established safe-haven assets of gold and silver to combat the uncertainty in financial markets.

The deal is, in part, bankrolled by the Swiss National Bank (SNB) which has committed a CHF100 bn liquidity line to UBS. If UBS and the SNB had not stepped in and had allowed CS to enter bankruptcy this week, there could have been significant damage inflicted on the Swiss banking system, along with a risk of contagion to other regions. Deals of this nature can either serve to calm fears or accelerate them if the market views them as one-off fixes, and not practical for further bailouts. For now, it looks like some confidence has returned to the financial market as gold gave back gains during the day and equity markets returned into the green.

In the US, liquidity outflows from small and medium-sized banks into large institutions could harm the stability of these institutions that account for 50% of US commercial and industrial lending and 45% of consumer lending. Swift action from central banking authorities to take over the UK arm of Silicon Valley Bank and arrange the UBS-CS merger make it clear that international regulators have learned from the 2008 financial crisis and have mechanisms in place to stop a wider collapse of the banking sector.

The perceived risk of further concerns in both the US and European banking sectors could drive the gold price higher on safe-haven demand. There has been some profit-taking around \$2,000/oz today. The gold price is within touching distance of a new, all-time high but is currently overbought, and a pullback is likely this week before any further significant move to the upside.

The FOMC meeting on Wednesday is the next significant event for the precious metals. The current market-implied outcome for Wednesday's meeting is a 25 bp hike, with a ~30% chance of a pause. The Fed needs to maintain a balance between continuing to fight inflation and recognising that US and European financial markets are beginning to show cracks. Anything less than 25 bp (pause or cut) is likely to weaken the dollar which could support the gold price at its current level or help it to edge higher.