

SECTOR UPDATE

Metals And Mining – China

Gold: Rally Takes A Breather; Downside Cushioned By Escalating Geopolitical Tensions

Gold prices are taking a breather around US\$2,650/t oz amid profit taking activities and a rebound in the US dollar. High gold prices have hampered jewellery and central banks' demand. ETF inflow will support the upward momentum, with North America/Europe showing renewed interest in gold. Gold prices could remain rangebound while searching for new upside catalysts with downside cushioned by escalating geopolitical tensions. Maintain MARKET WEIGHT.

WHAT'S NEW

- **Gold prices take a breather amid profit-taking and rebound in US dollar.** Spot gold prices seem to be taking a breather subsequent to the recent rally fuelled by the first Fed rate cut, currently holding up well around US\$2,650/t oz level. Profit taking activities, a rebound in the US dollar and the recent Chinese equities surge on stimulus measures have led to some rotations out of the traditional safe-haven asset.
- **China's domestic gold prices trading at a discount since mid-Aug 24.** In Sep 24, Shanghai Gold Exchange (SGE) Gold Benchmark price recorded a relatively modest increase of 3.7%, lagging behind international gold prices (London Bullion Market Association (LBMA) Gold Price +5.0%). The domestic gold price has been trading at a discount since mid-Aug 24, mainly due to the appreciation of the renminbi and weak domestic gold demand.
- **Volatility remains elevated from the changing Fed rate cut expectations; downside cushioned by the escalation of geopolitical tensions/US election uncertainty.** The higher price volatility mainly stemmed from the changing Fed rate cut outlook, with market expecting another two rounds of Fed rate cuts by year-end. Robust Sep 24 US' jobs reports have cooled market expectation on a steep Fed rate cut next month. According to CME FedWatch Tool, market is now pricing in 97.4%/80.2% probabilities of two 25bp rate cuts in Nov 24 and Dec 24 respectively. However, we believe the downside is still well cushioned by the escalation of the Ukraine-Russia war and Middle East tensions as well as uncertainties from the US presidential election.
- **High gold prices suppress gold jewellery demand; gold bar emerges as new favourite.** The spike in gold prices has suppressed the demand for gold jewellery. As of 1 October, the listed prices of major gold jewellers were about Rmb748-768/g (vs early-24's Rmb620/g). China Gold's basic gold price and retail price on the same day were Rmb597.60/gram and Rmb611.60/gram respectively. Gold jewellery's sales volume during Golden Week was reported to have declined by about 20% yoy, consumers held back their purchases and gold jewellers did not benefit from the gold price rally.
- According to the latest data released by the National Bureau of Statistics, 8M24 retail sales of gold, silver, and jewellery above the designated size amounted to Rmb218.6b (-2.5% yoy). The monthly yoy decline steepened from Apr 24's -0.1% yoy to Aug 24's -12.0% yoy as a result of the continued uptrend of gold prices. We are seeing an emerging trend of gold bar investment in China due to its better value preservation and avoiding additional making charges/premiums charged by gold jewellers.

PEER COMPARISON

Company	Ticker	Rec	Price @ 4 Oct 24 (HK\$)	Target Price (HK\$)	Upside/ (Downside) to TP (%)	Market Cap (HKD m)	PE		P/B		EV/EBITDA		ROE (%)
							2024F (x)	2025F (x)	2024F (x)	2025F (x)	2024F (x)	2025F (x)	
SD Gold	1787 HK	BUY	18.10	20.50	13.26	132,675	18.4	13.3	2.2	1.9	15.6	10.7	11.6
Zijin Mining	2899 HK	BUY	18.56	21.50	15.84	524,364	14.2	11.8	3.3	2.8	11.0	9.4	24.9

ETFs			
SPDR Gold Shares	2840 HK	1,907	581,254
Value Gold ETF	3081 HK	62.78	2,543

Source: Bloomberg, UOB Kay Hian

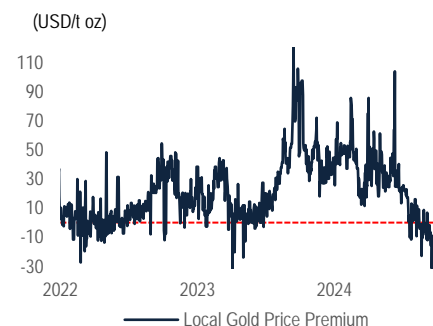
MARKET WEIGHT
(Maintained)

SECTOR PICKS

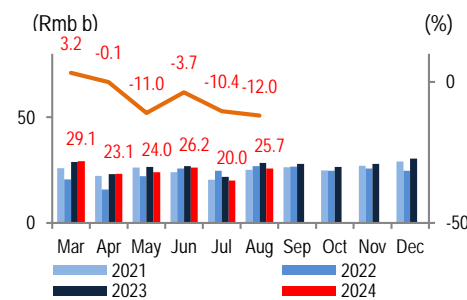
Company	Rec	Target Price (HK\$)	Share Price (HK\$)
Shandong Gold	BUY	20.50	18.10
Zijin Mining	BUY	21.00	18.56

Source: UOB Kay Hian

SGE GOLD BENCHMARK PM VS LBMA GOLD PRICE AM



CHINA MONTHLY GOLD, SILVER, JEWELLERY SALES VALUE

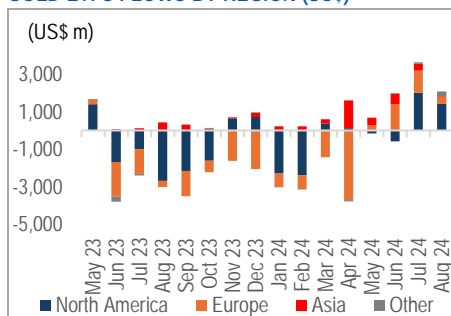


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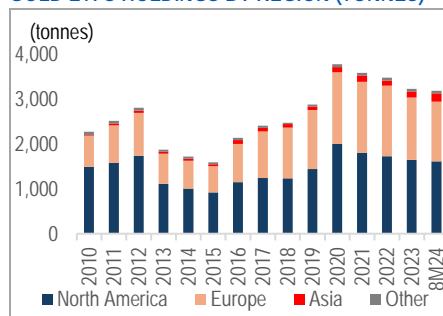
- Lowest monthly net purchase by central banks since Mar 24.** According to World Gold Council, central banks reported net buying of +8 tonnes (-78% mom) in Aug 24, the lowest since Mar 24 and was significantly lower than the 12-month average of +33 tonnes. Although the net purchase has slowed, gross sales have not shown signs of acceleration, which indicates that central banks are likely to have adopted a wait-and-see approach instead of a trend reversal.
- Gold ETF inflow – key pillar supporting the upward momentum.** Global gold ETFs have seen a persistent inflow since May 24 with signs of North America and Europe showing renewed interest in gold. The inflows continued into Sep 24, and global gold ETFs AUM/collective holdings reached US\$267.9b/3,196 tonnes as of 20 Sep 24, US\$10.6b/14.3 tonnes higher compared with end-Aug 24's level with North America contributing US\$1.6b/18.2 tonnes. We believe this is just the beginning of the inflows especially for western countries, as we still see huge potential ahead which should continue to support the upward momentum.

GOLD ETFS FLOWS BY REGION (US\$)



Source: World Gold Council, UOB Kay Hian

GOLD ETFS HOLDINGS BY REGION (TONNES)



Source: World Gold Council, UOB Kay Hian

ESSENTIALS

- Maintain MARKET WEIGHT on the metals and mining sector**, with precious metal being our top pick. Range-bound gold prices may keep momentum-seeking investors on the sidelines. We expect gold price volatility to remain elevated, largely dependent on the changing expectations regarding the magnitude/pathway of the upcoming Fed rate cuts. However, we believe the downside is still well cushioned by the escalation of geopolitical tensions and uncertainties from the US presidential election ahead. We remain bullish on gold as the monetary tightening era has just begun and central banks' de-dollarisation drive is far from ending.
- We maintain BUY on Shandong Gold with a target price of HK\$20.50**, pegged to 20x 2024F PE. With more upcoming rate cuts and an expected decline in treasury yield, the weakening dollar should lift metal prices denominated in dollars and boost bullions' appeal as a non-yielding asset. Shandong Gold has guided for 2024 gold mine output of no less than 47 tonnes (2023: 41.78 tonnes) and will remain as the largest domestic gold miner. We like the company for its pure-gold exposure and it should be among the key beneficiaries of the gold price rally.
- We maintain BUY on Zijin Mining with a target price of HK\$21.00**, pegged to 17x 2024F PE (+2SD). Zijin is currently among the top 10 miners globally in terms of attributable gold reserves. Zijin targets to achieve 85/100-110 tonnes mine-produced gold output by 2025/28 (2023: 68 tonnes), which should then lead to a more balanced earnings contribution. Zijin's gold all-in-sustaining cost was the second lowest globally in 2023 at US\$1,161/oz.

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