

GOLD MARKET UPDATE

October 10, 2024



A TALE OF TWO GOLD MARKETS

How Western Investors View the Gold Market

- ▶ Gold is a passive (dead) asset
- ▶ Gold earns no interest so gold falls as real rates rise
- ▶ Bonds are better than gold when rates fall
- ▶ Deficits are good for stocks
- ▶ Debt levels are manageable (a non-issue)
- ▶ The exceptional U.S. economy will always attract capital
- ▶ The Fed is cutting rates to avoid a hard landing

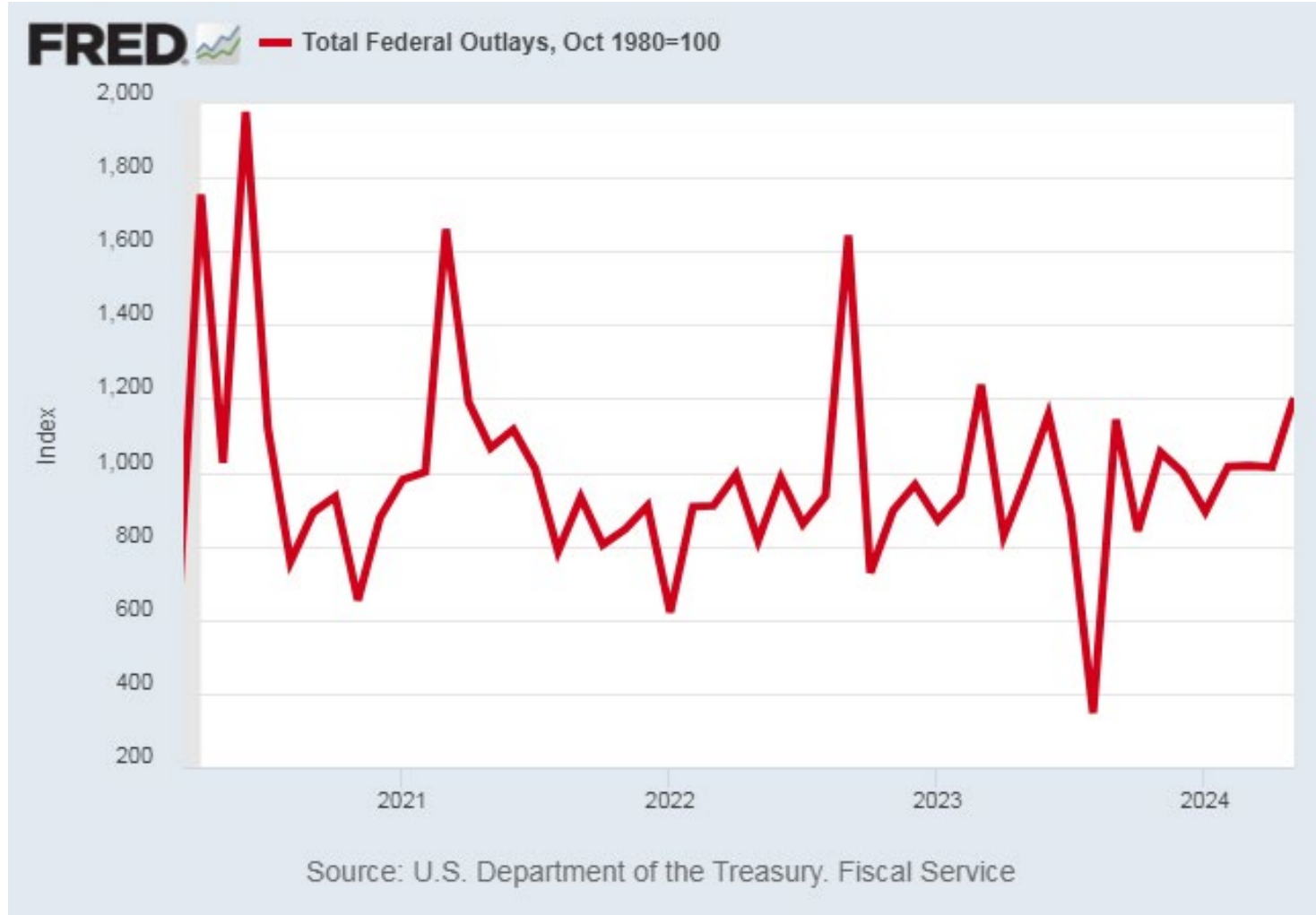
The west is driven by monetary policy

How the East Views the Gold Market

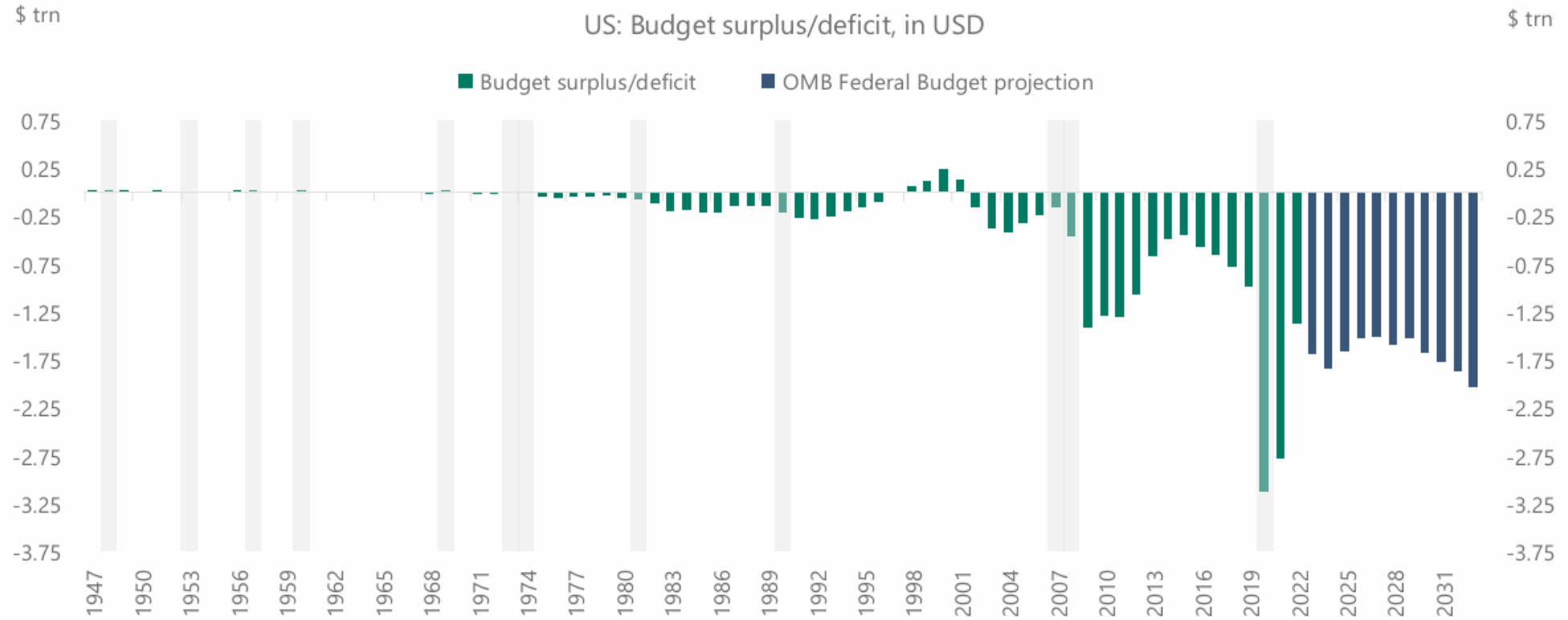
- ▶ Gold is an active asset that cycles like the dollar
- ▶ Gold does not depreciate like the dollar
- ▶ Gold is no one's liability and can't be sanctioned
- ▶ Deficits are inflationary
- ▶ Debt is destabilizing
- ▶ Capital is leaving the U.S. due to a negative NIIP
- ▶ The Fed is cutting rates due to fiscal pressures

The east is focused on fiscal policy

U.S. FEDERAL GOVERNMENT SPENDING IS ON THE RISE AGAIN



U.S. DEFICITS ACCELERATE DESPITE GROWING ECONOMY AND LOW UNEMPLOYMENT



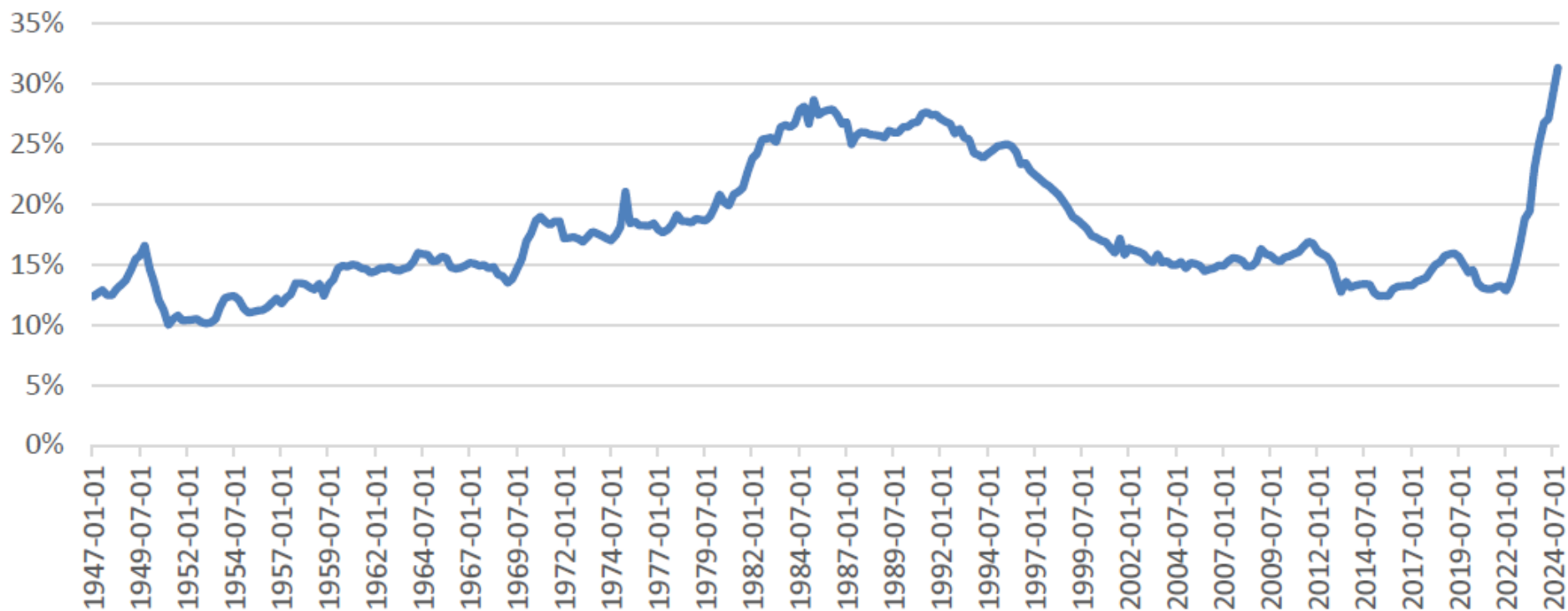
U.S. FEDERAL INTEREST EXPENSE IS NOW 33% OF ANNUAL TAX RECEIPTS

US Federal Insolvency Ratio

Gross Interest Expense divided by Federal Receipts

Assumes: \$34T debt that grows 2% per Q, \$4.9T annual tax receipts in 2024 (up 10% y/y), avg. UST borrowing rate goes from 3.0% to 4.0% linearly over next 5 Q's

Source: US Treasury

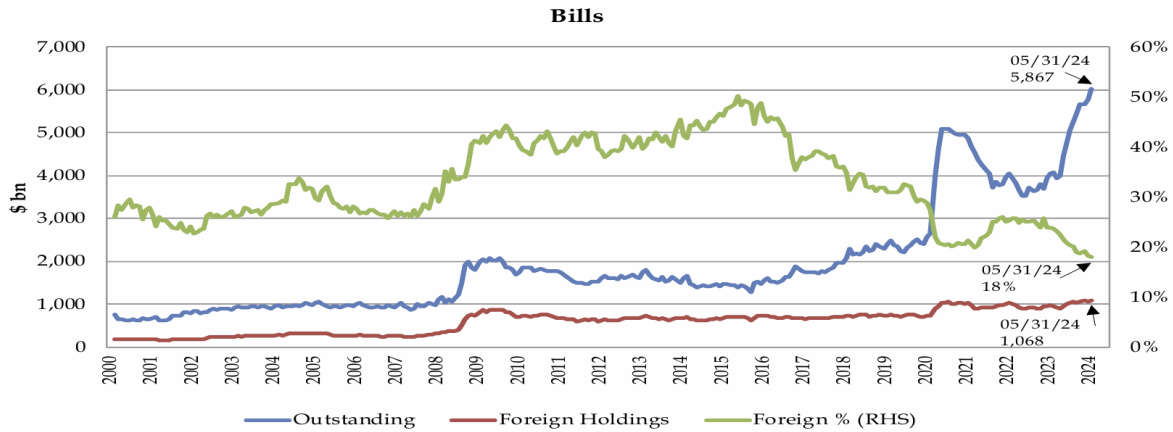


FOREIGN INVESTORS SEE THE DEPRECIATION OF THE DOLLAR VS GOLD

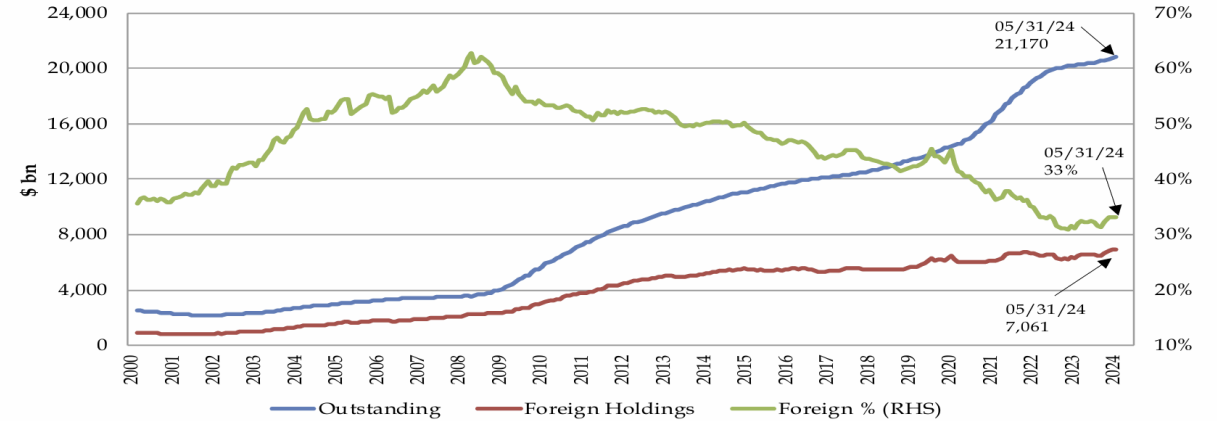


FOREIGN INVESTORS ARE AVOIDING U.S. SOVEREIGN DEBT TO REDUCE RISK

Total Foreign Holdings



Nominal Coupons, TIPS, and FRNs

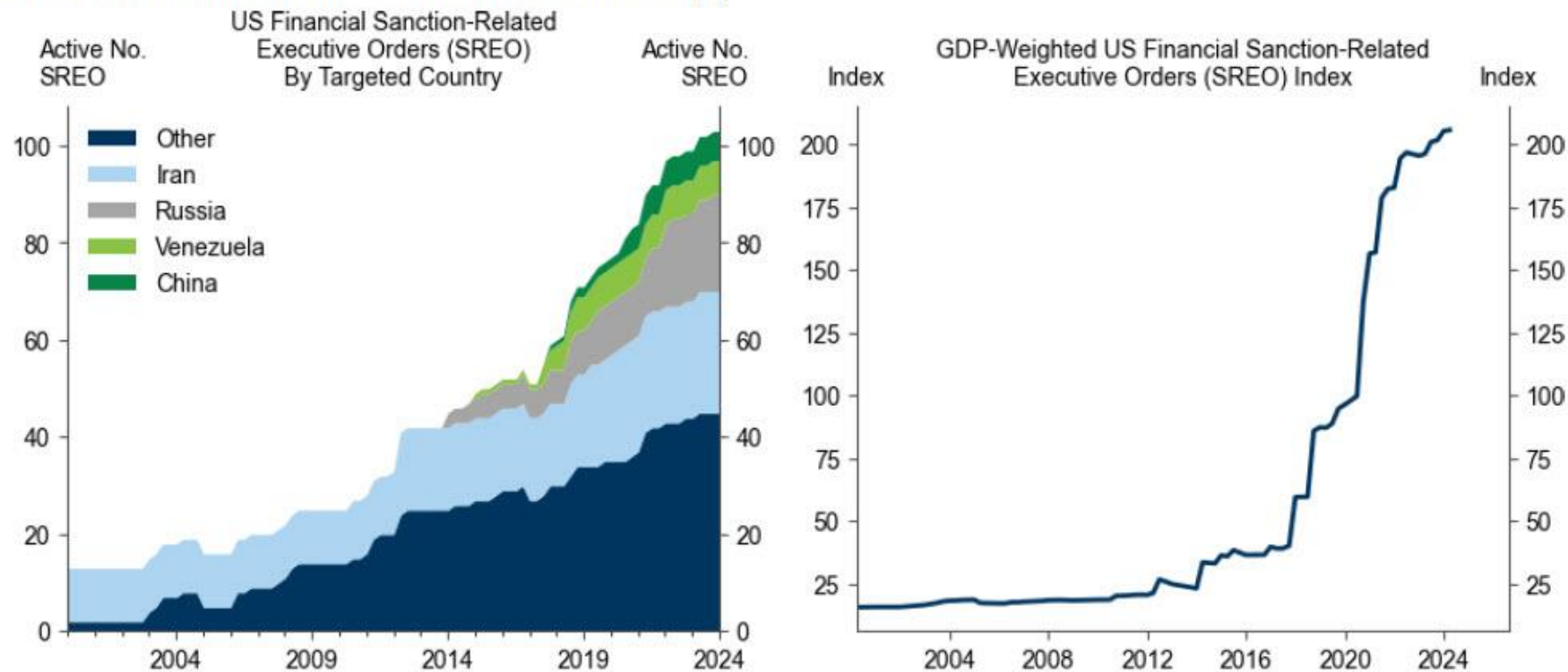


Source: Treasury International Capital (TIC) System as of May 2024.

For more information on foreign participation data, including more details about the TIC data shown here, please refer to Treasury Presentation to TBAC "Brief Overview of Key Data Sources on Foreign Participation in the U.S. Treasury Securities Market" at the Treasury February 2019 Refunding.

FOREIGN CAPITAL SEES RISING RISK OF U.S. SANCTIONS

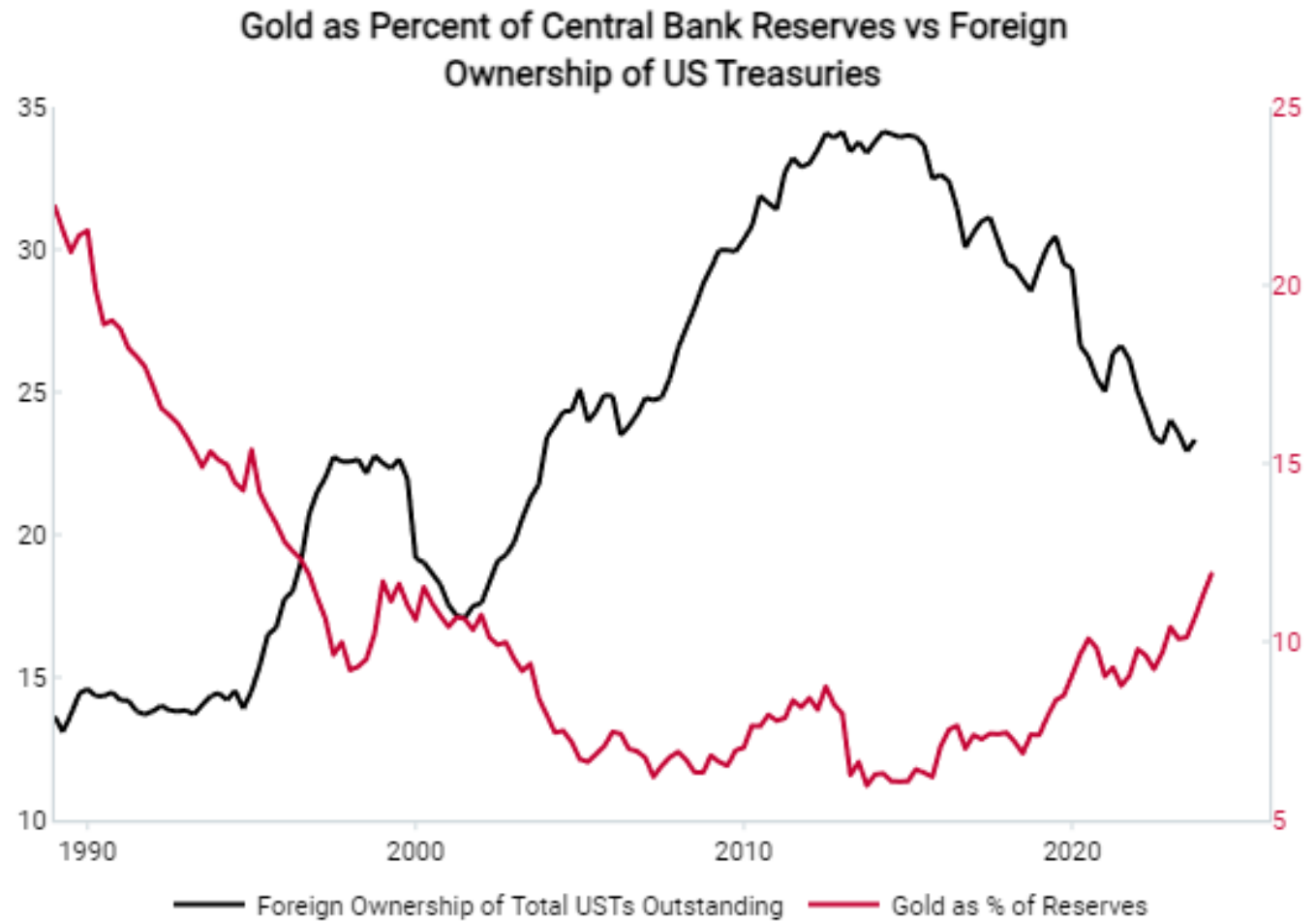
Exhibit 8: Our Index of US Financial Sanctions Has Risen Sharply



Left panel: Active US financial sanctions by country, as reported by OFAC, current as of April 23, 2024. Right panel: The index multiplies the count of financial sanctions per country with their share in world GDP based on purchasing-power parity (PPP).

Source: OFAC, Haver Analytics, IMF, Goldman Sachs Global Investment Research

CENTRAL BANKS ARE DUMPING TREASURIES FOR GOLD

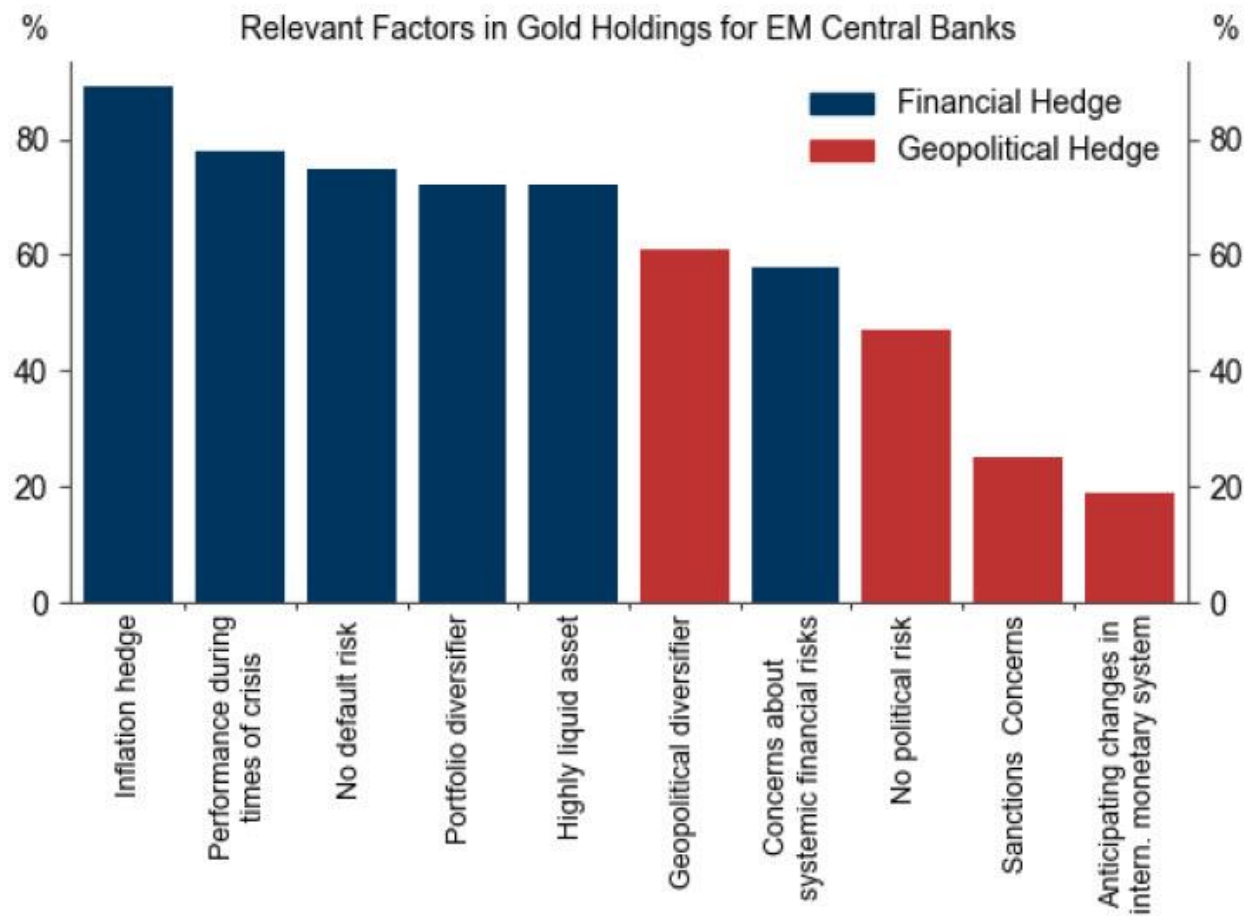


Updated: Sep 27, 2024



CENTRAL BANKS BUY GOLD TO HEDGE DOLLAR INFLATION, DEFAULT RISK AND AVOID SANCTIONS

Exhibit 5: EM Central Banks Report Buying Gold As a Financial and Geopolitical Hedge

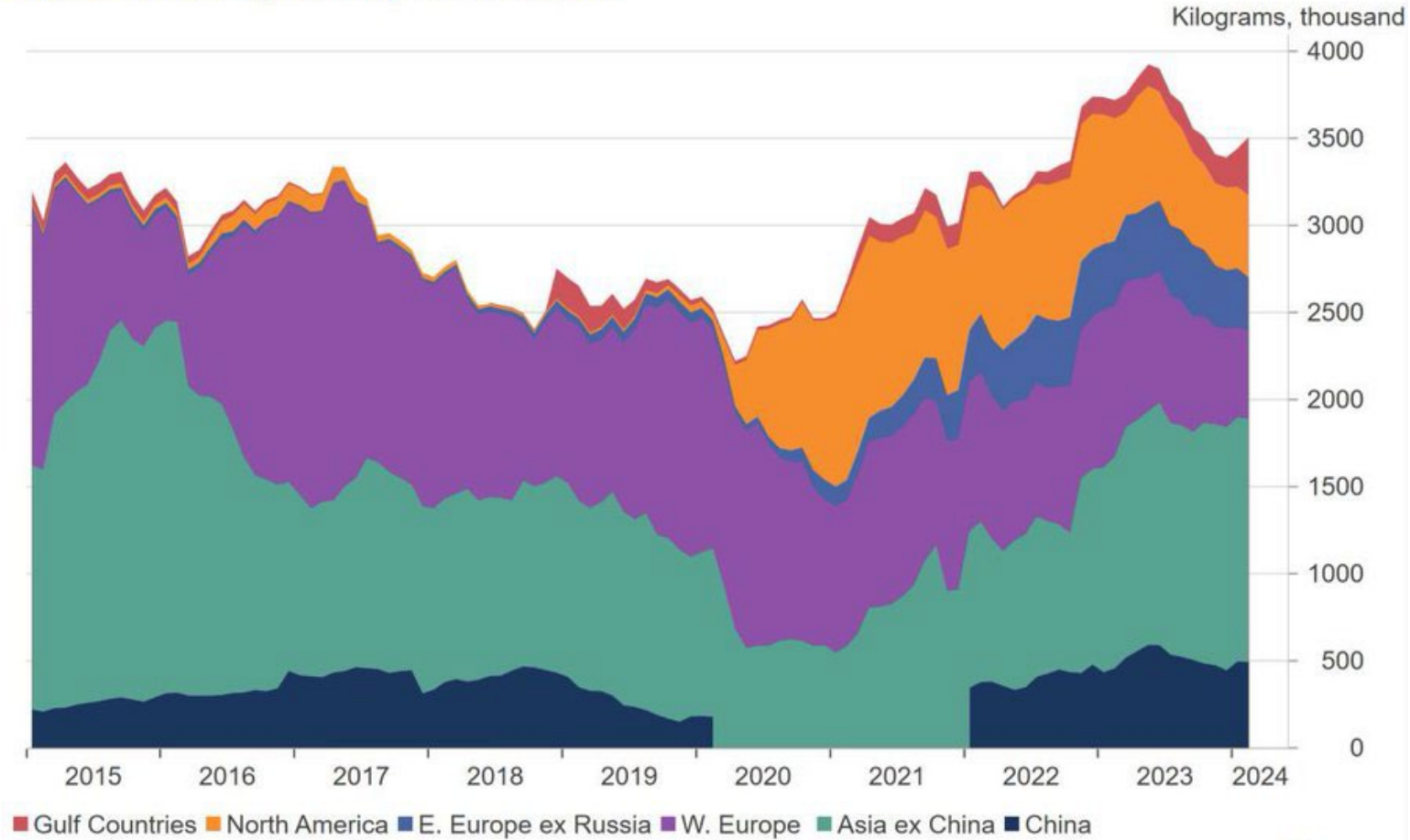


The chart shows the percentage of EM central banks that considered the factors to be 'highly relevant' or 'somewhat relevant' in their gold holdings decisions. 37 EM central banks were surveyed between 7 February and 7 April 2023 as part of the Central Bank Gold Reserves survey.

Source: World Gold Council, Goldman Sachs Global Investment Research

PHYSICAL GOLD IS INCREASINGLY HEADED TO ASIA

Swiss Gold Exports by Destination

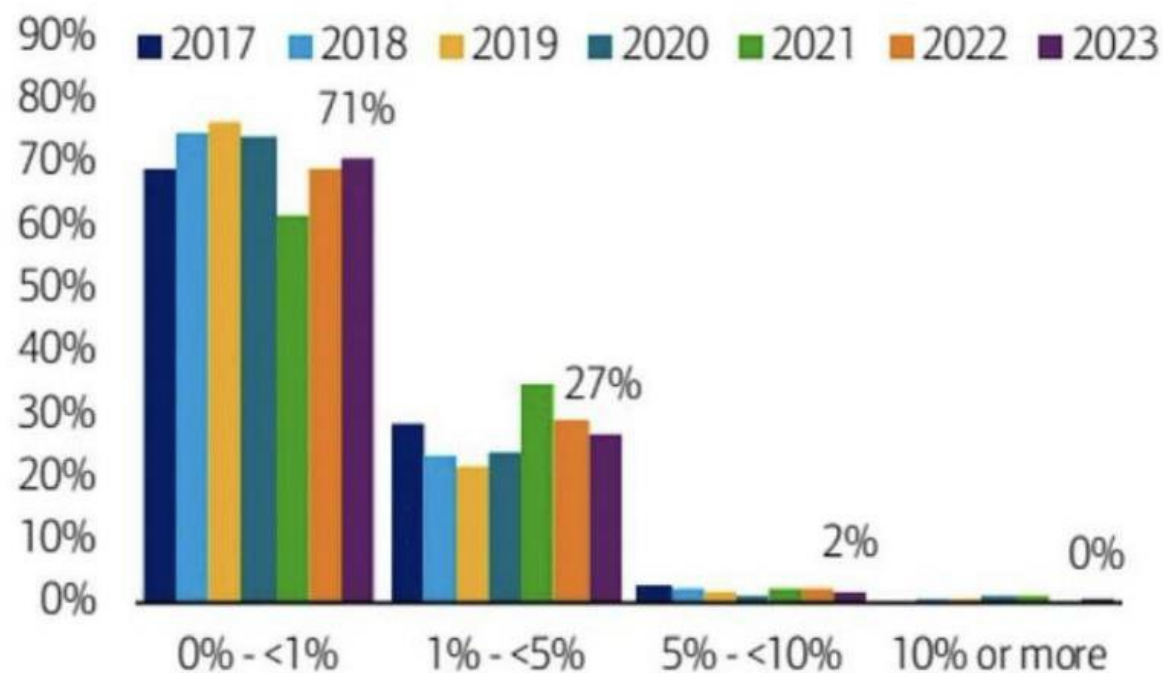


MACROBOND

WESTERN INSTITUTIONS HAVE ALMOST NO EXPOSURE TO GOLD

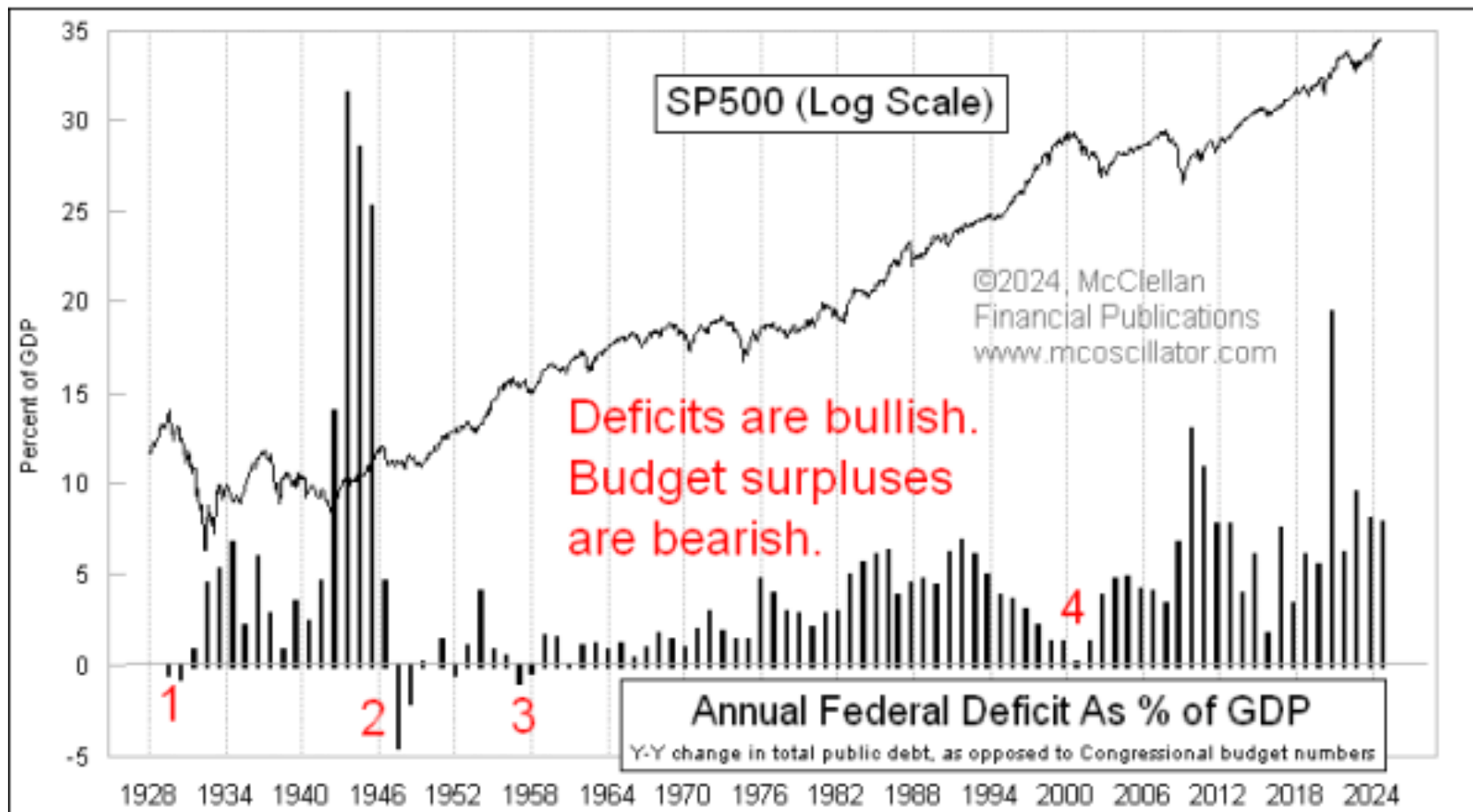
Exhibit 60: 71% of advisors have little to no exposure in Gold (<1% of assets)

Asset allocated to gold among all book of business



Source: Wealth Management Marketing Research, BofA US Equity & US Quant Strategy
BofA GLOBAL RESEARCH

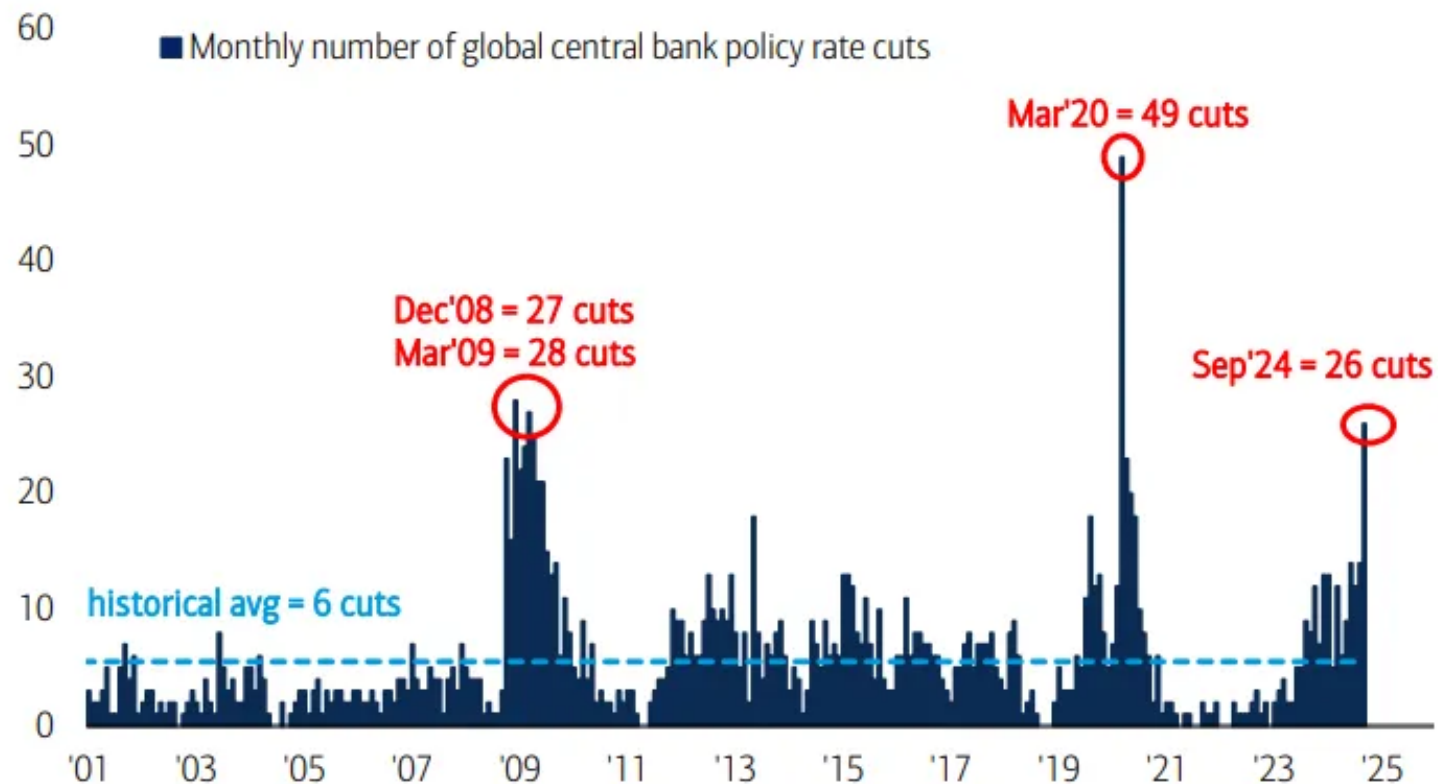
WESTERN INVESTORS SEE DEFICITS AS BULLISH FOR STOCKS



CENTRAL BANKS ARE RAPIDLY CUTTING RATES WORLDWIDE

Chart 2: September 2024 was 4th biggest month for central bank policy rate cuts this century

Monthly number of global central bank policy rate cuts

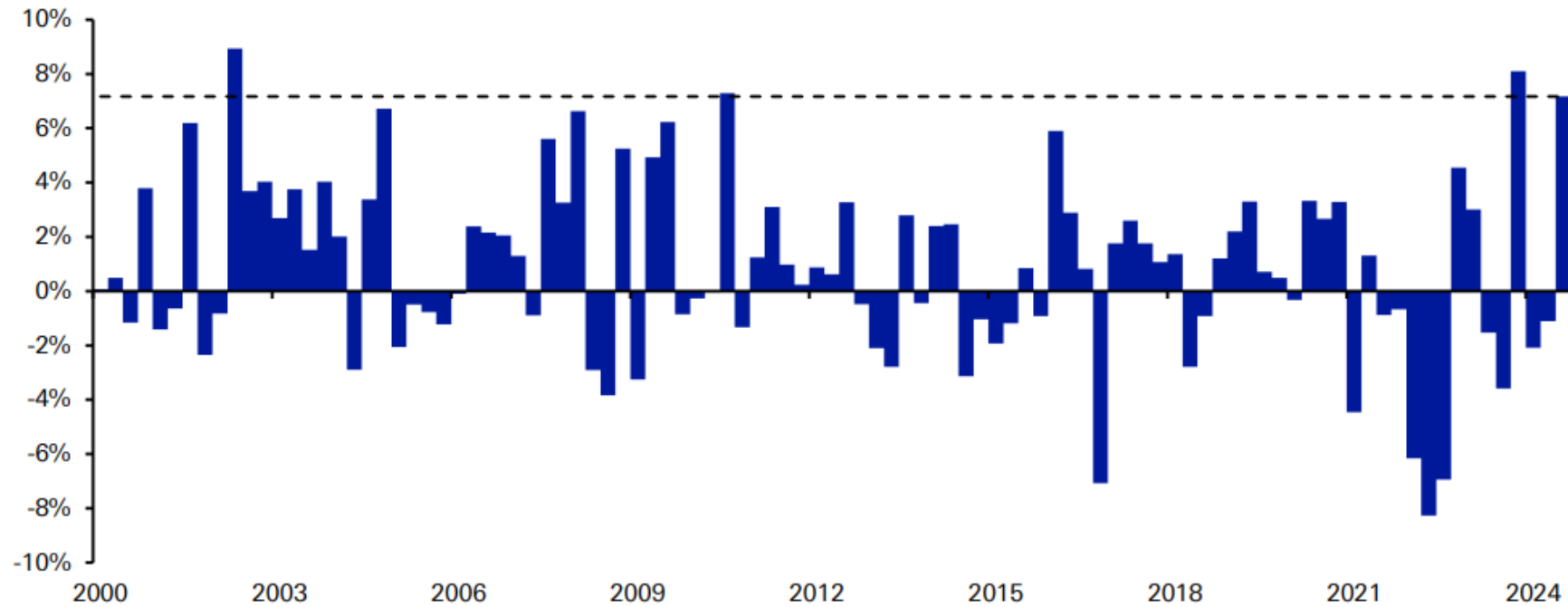


Source: BofA Global Investment Strategy, Bloomberg. Large sample of 100+ central banks.

BofA GLOBAL RESEARCH

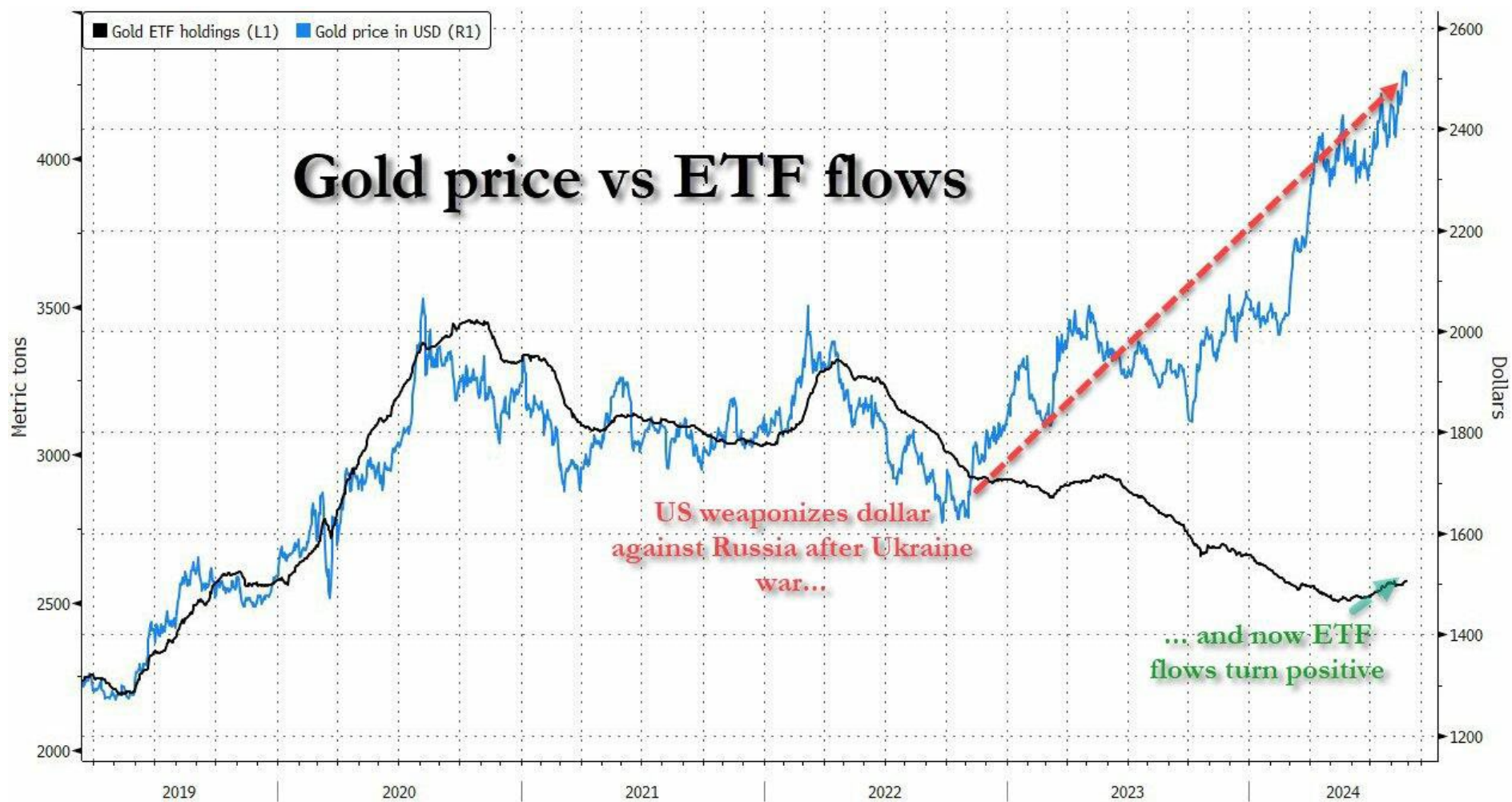
U.S. INVESTORS LOVE BONDS AS RATES FALL

Figure 3: Quarterly Performance of Bloomberg's Global Bond Aggregate - As of Friday, it was on track for its 4th best quarterly performance of the 21st century

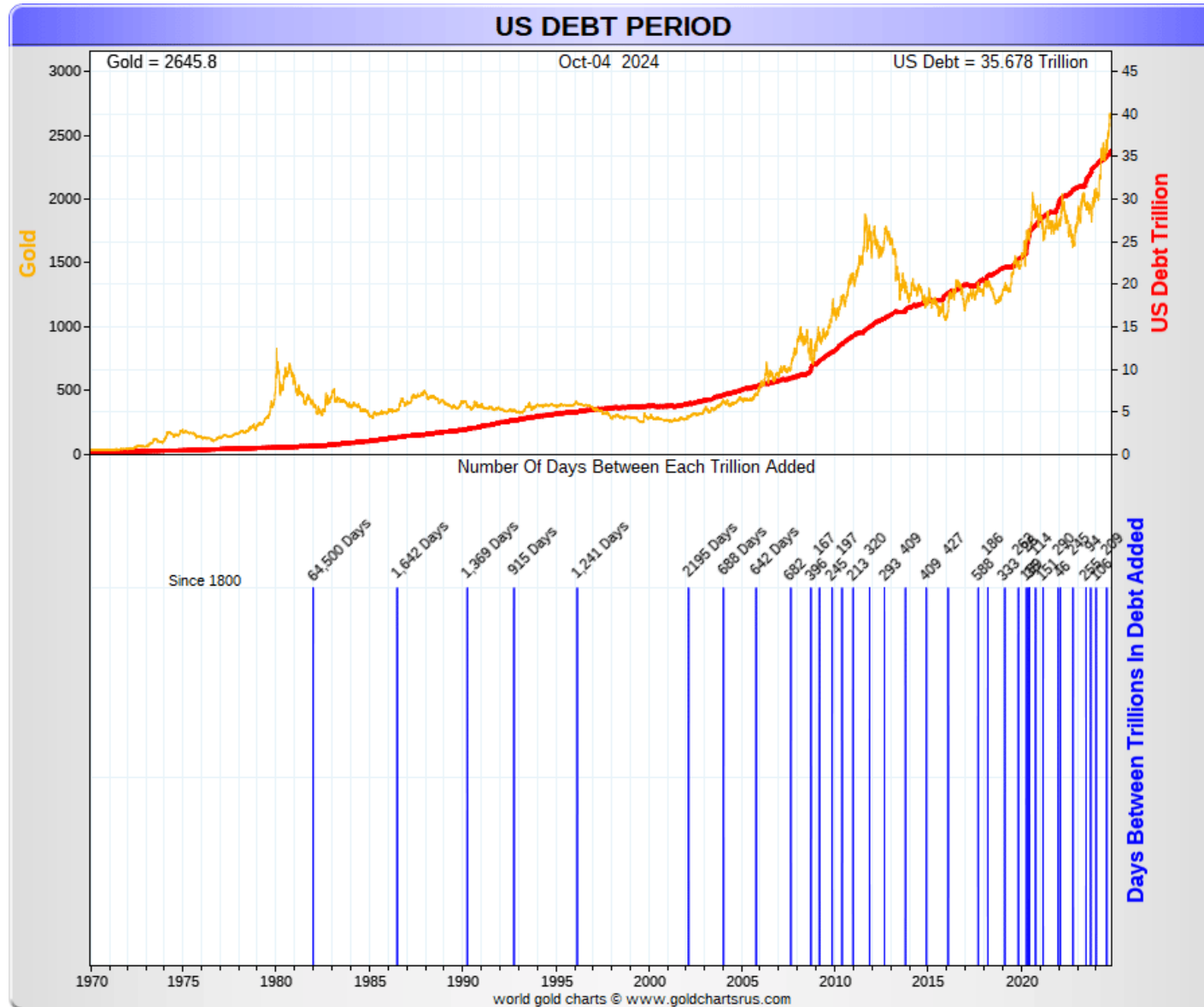


Source : Bloomberg Finance LP, Deutsche Bank

AS THE FED RAISED RATES, ETFS WERE SOLD, GOLD PRICE FELL, UNTIL UKRAINE



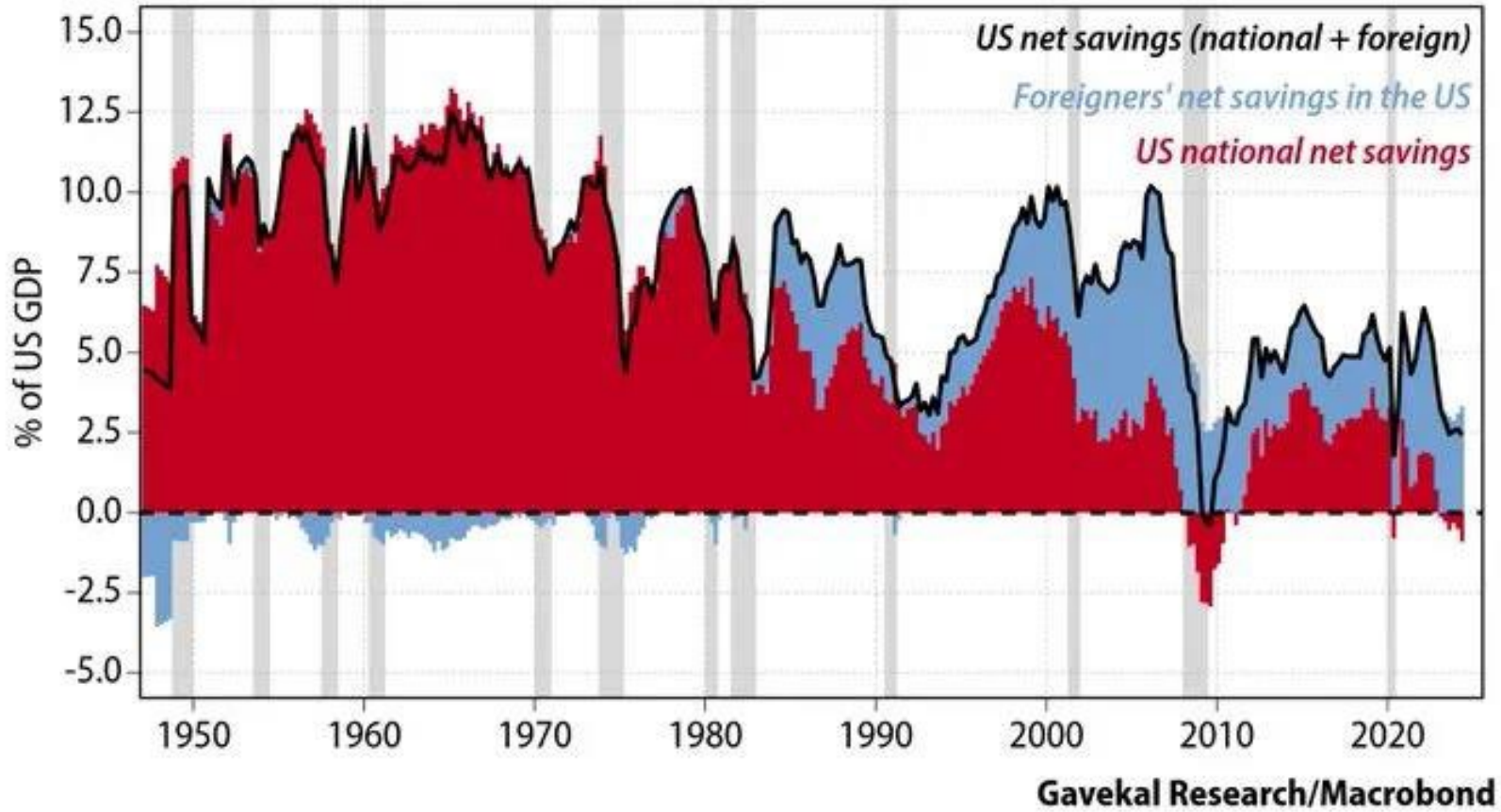
AS U.S. DEBT GROWTH ACCELERATES, SO DOES THE GOLD PRICE



FOREIGN CAPITAL IS LEAVING THE U.S. FED LIQUIDITY MUST REPLACE IT TO FUND RESHORING

The US economy now relies entirely on foreign net savings

Grey: US recessions



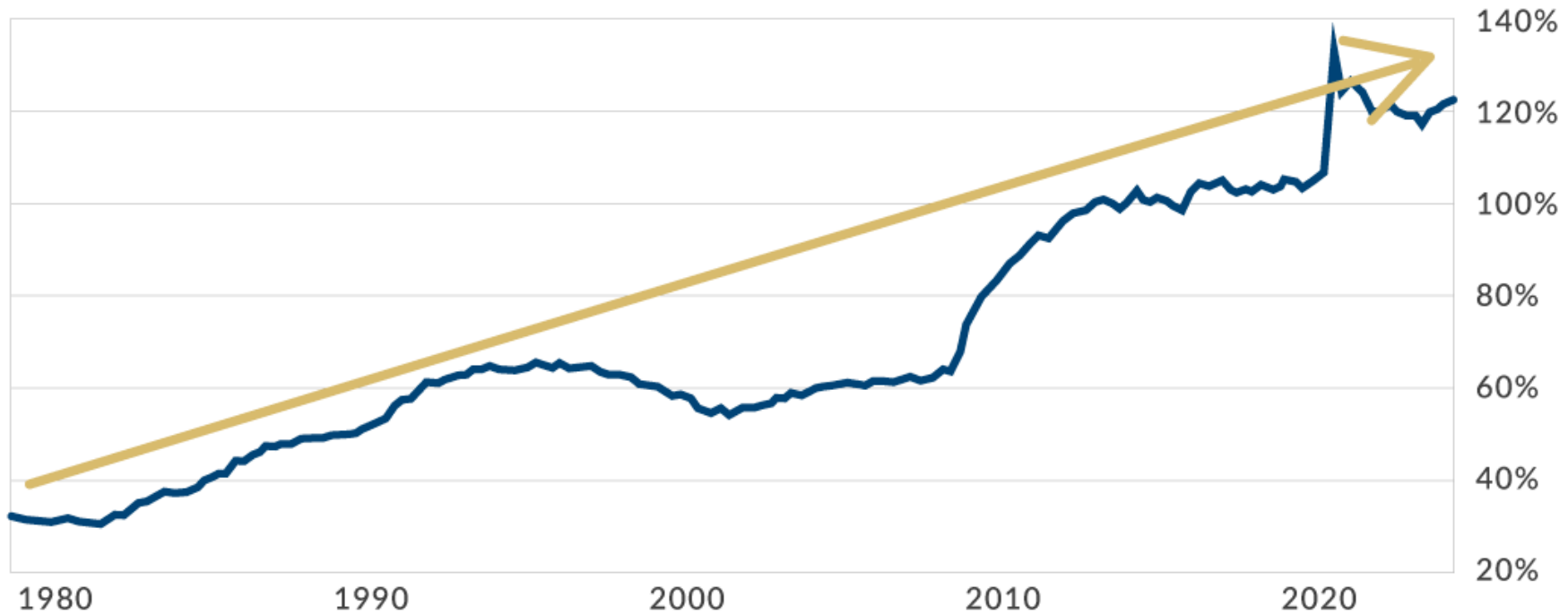
U.S. FINANCIAL CONDITIONS ARE EXTREMELY LOOSE AND NEED TO BE



THE U.S. DEBT MUST BE INFLATED AWAY

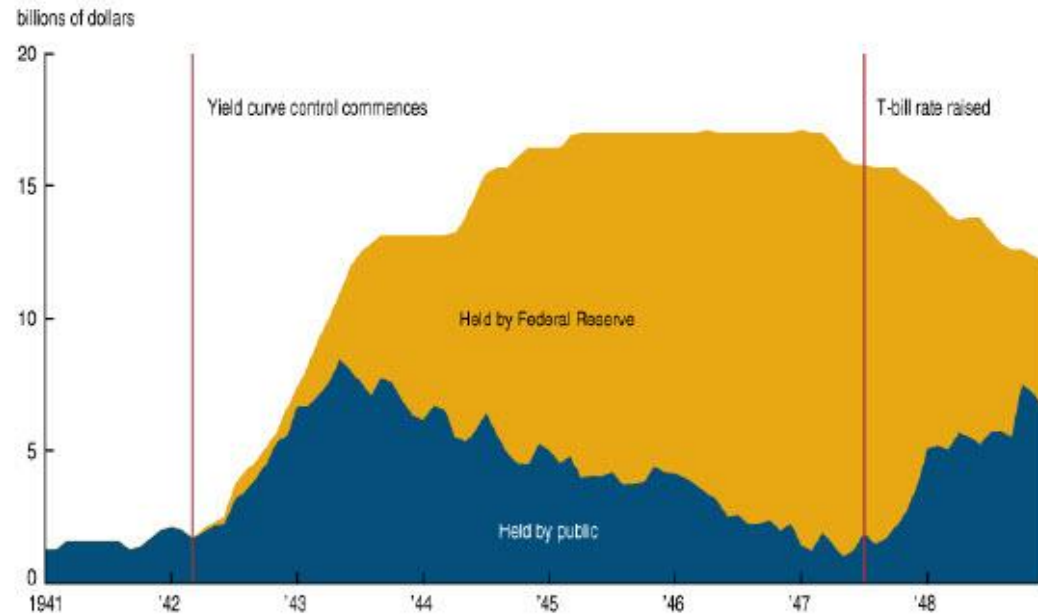
U.S. Federal Debt to GDP Ratio

OVER FOURTY YEARS



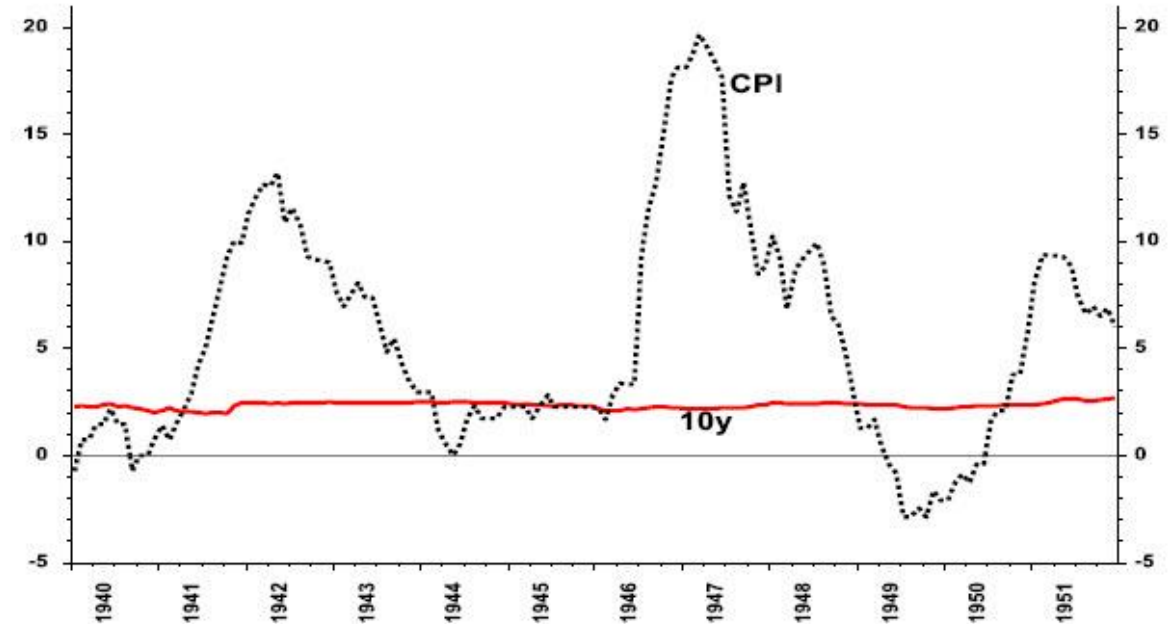
AFTER WW2, U.S. REAL RATES FELL TO -14% TO REDUCE DEBT/GDP

Huge Fed buying of T-bills during US YCC 1942-1951



Source: <https://www.chicagofed.org/publications/economic-perspectives/2021/2>

US 10y bond yields were pinned at 2.5% during the US YCC



Source: Datastream

THE NEXT MOVE

Conclusions

- ▶ Gold stocks are trading for less than a third of historical levels. They need Western investors to increase their gold exposure.
- ▶ Western investors have been buying bonds when they should be buying gold like Eastern/Asian investors
- ▶ When Western investors decide that fiscal issues outweigh Fed monetary policy...

Gold will run through \$3,000 and gold stocks will more than triple.

When will Western investors join the party?

In our opinion, when one or more of these occur:

- ▶ When The Fed Funds Rate falls to less than 2.5%
- ▶ When 10 yr Treasury yield rises to 5%
- ▶ When annualized U.S. interest expense hits \$1.6T
- ▶ When the Fed starts increasing its balance sheet again
- ▶ When US headline inflation hits 4%