

GOLD MARKET UPDATE: THE WEST IS LOSING CONTROL OF THE GOLD PRICE

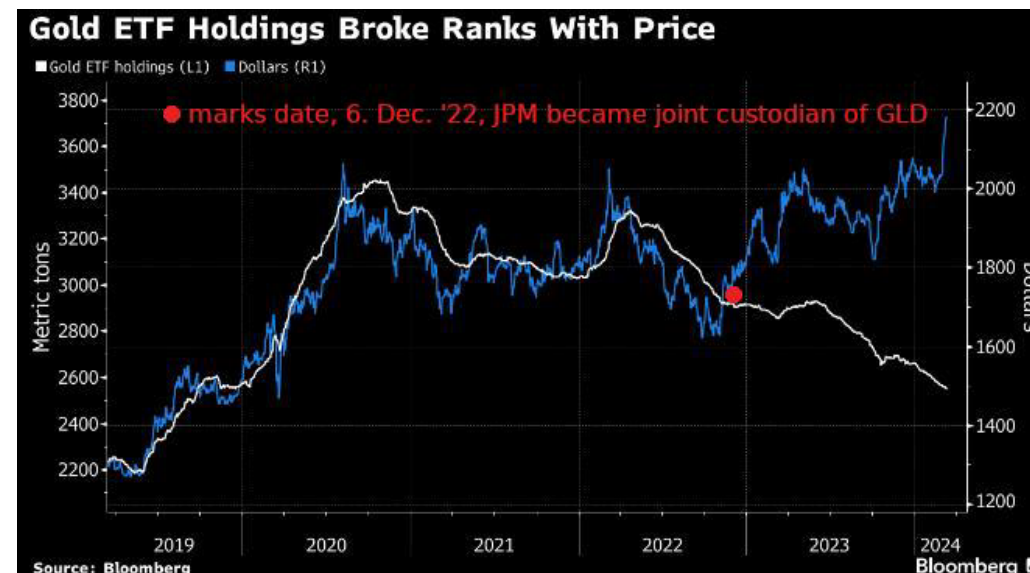
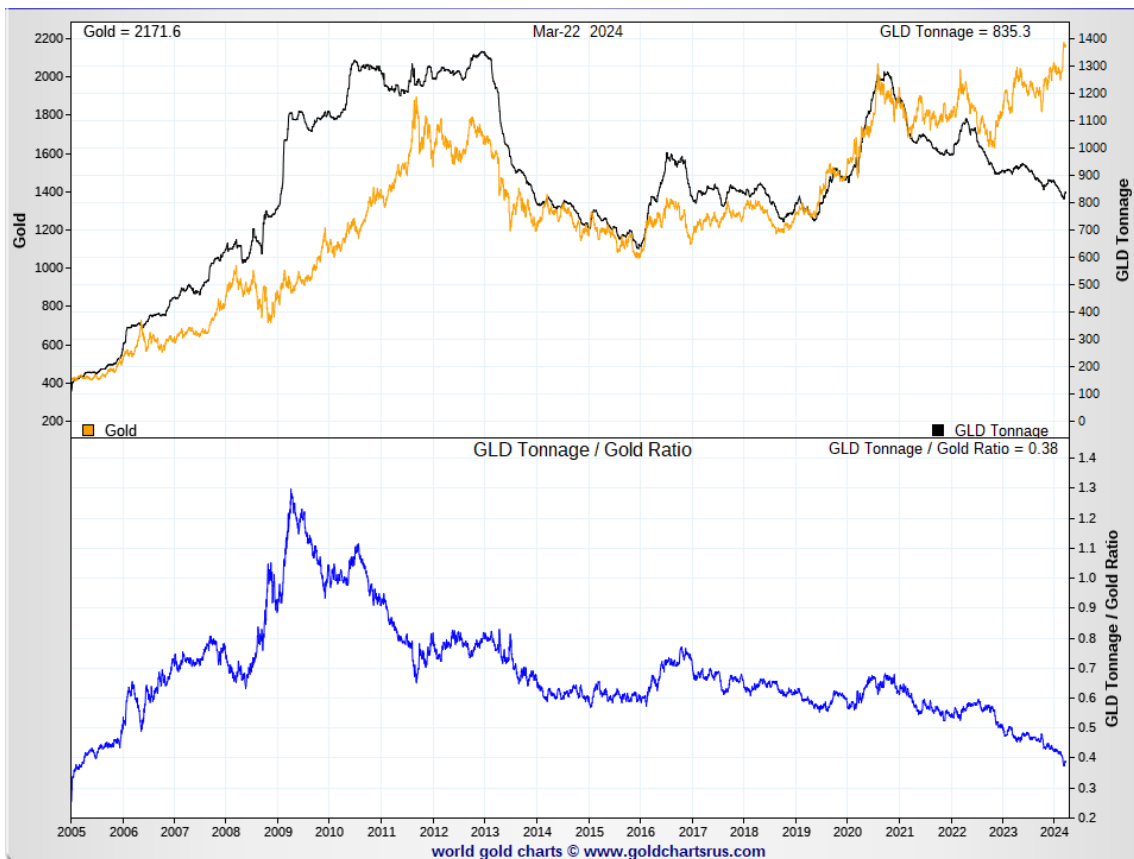
April 2024



THE EAST IS BUYING WHILE THE WEST SELLS

- ▶ The east now sets the price as it sucks gold out of western hands
- ▶ The Shanghai-London gold price premium rocketed in 2023, averaging US\$29/oz or 1.5%, the highest in history, and hitting US\$120/oz on September 14

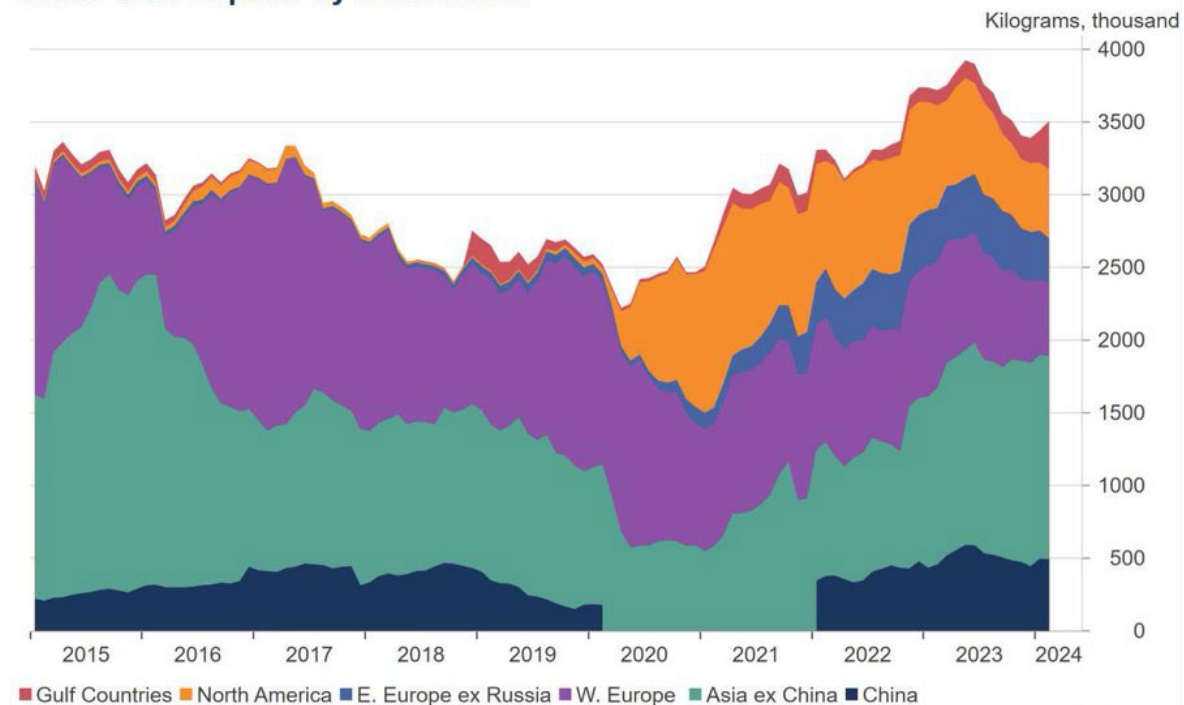
Gold Tonnage vs Gold Price



GOLD IS BECOMING AN OIL CURRENCY

- ▶ 20% of global oil trades were in non-dollar currencies in 2023, up from zero in 2021
- ▶ In Q1 2024, Swiss gold exports to Gulf Coast Council countries jumped by the most in 10 years
 - ▶ Swiss gold exports to Persian Gulf energy exporters began rising almost immediately after the U.S. sanctioned Russian FX reserves in 2022
- ▶ Oil importers are using their own currencies to buy oil with final settlement in universally-accepted central bank gold
 - ▶ Russia and China are pricing gold at 2 barrels per gram gold or nearly US\$5,000/oz
- ▶ The oil price will now be another price driver for gold. The U.S. made the dollar as good as gold for oil in the early 70s

Swiss Gold Exports by Destination

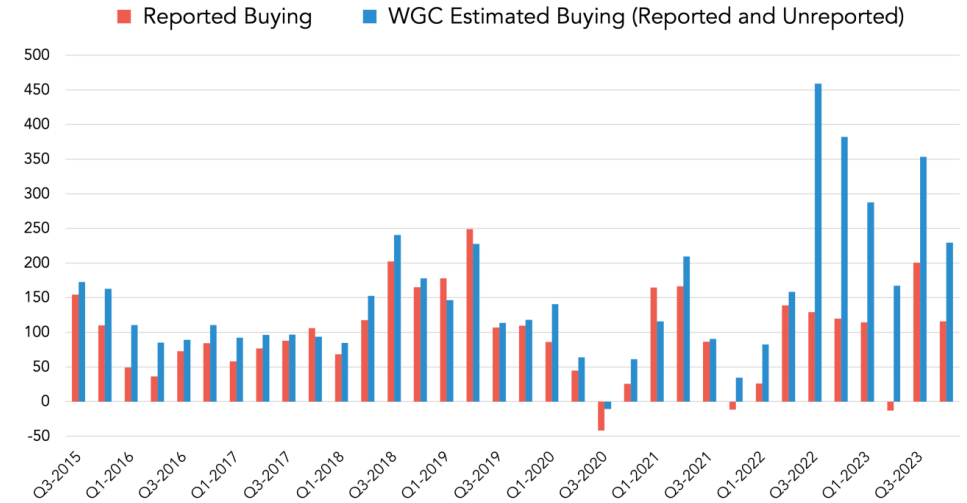


MACROBOND

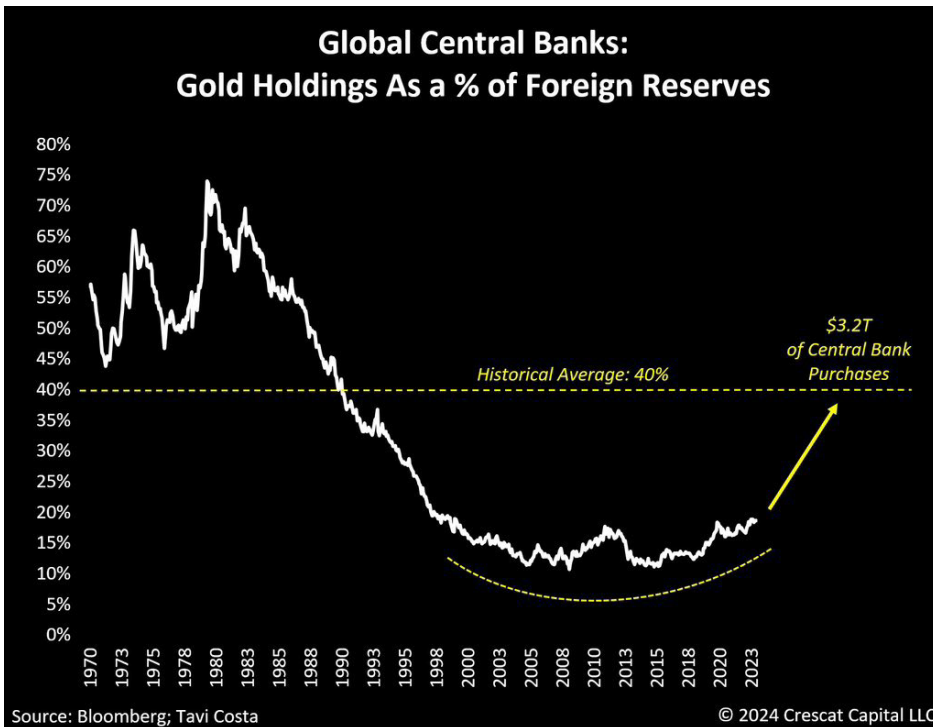
CENTRAL BANKS ARE THE BIGGEST GOLD BUYERS

- ▶ Purchases in 2023 were at record levels
- ▶ Massive buying is required to return to historical levels
- ▶ Price insensitive buying has broken old relationships such as inverse correlation to real interest rates
- ▶ Gold is replacing dollar denominated assets in central bank reserves

Quarterly Central Bank Gold Buying (in tonnes)

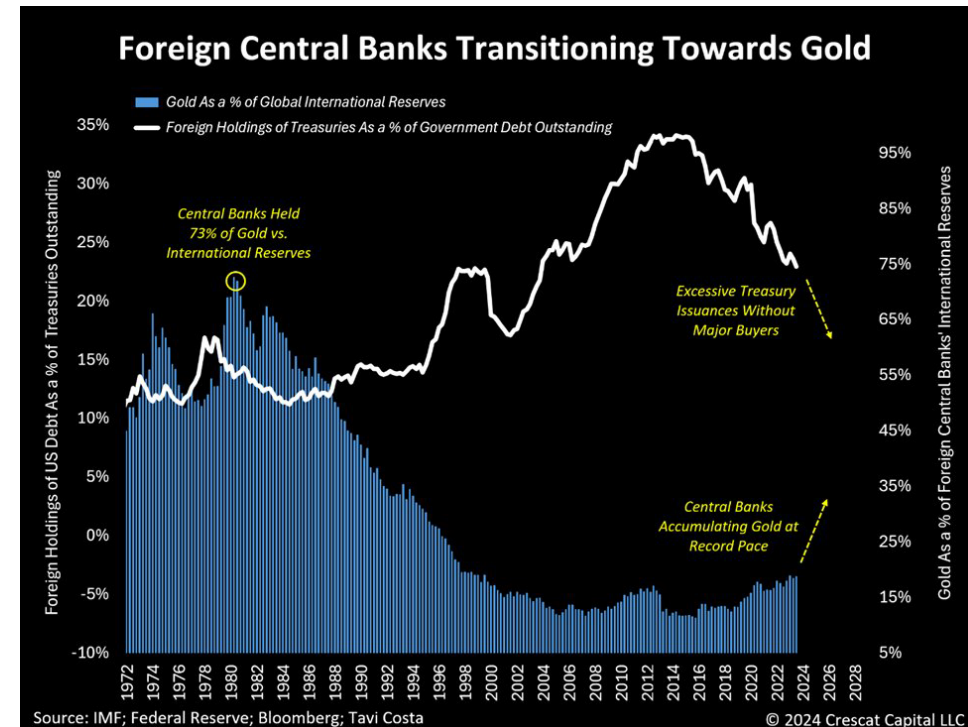


Source: World Gold Council



Source: Bloomberg; Tavi Costa

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Source: IMF; Federal Reserve; Bloomberg; Tavi Costa

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WESTERN GOLD OWNERSHIP IS LOW AND FALLING

- ▶ Gold is now 0.5% of investible assets vs about 2% historically
- ▶ There is no room for western buyers without an enormous price run
- ▶ Gold shares are near historic lows vs gold price
- ▶ Western purchasers will drive gold stocks towards normal levels vs. gold

VanEck Vectors Gold Miners ETF/SPDR Gold Shares (NYSE)

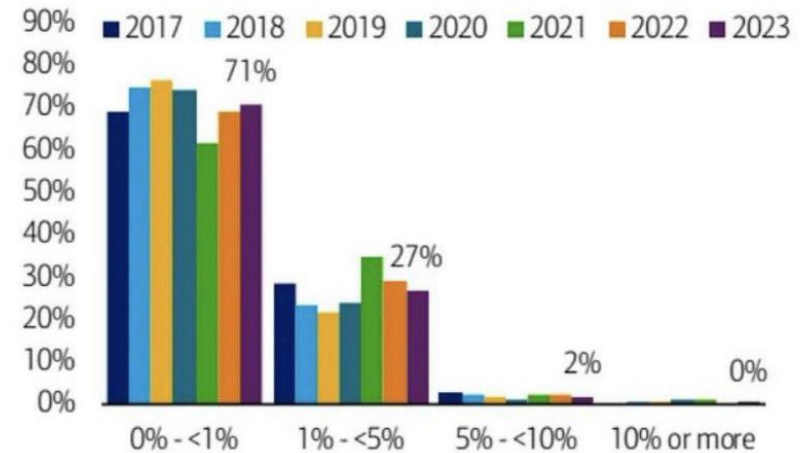


Gold vs Gold Miners



71% of advisors have little to no exposure to gold (<1% of assets)

Asset Allocated to Gold Among All Book of Business

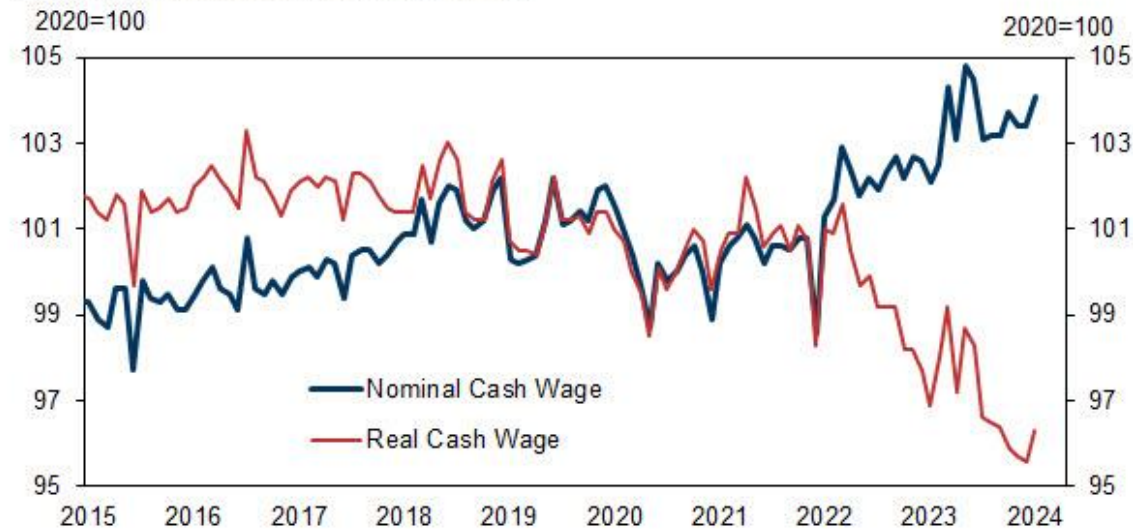


Source: Wealth Management Marketing Research, BofA U.S. Equity & U.S. Quant Strategy

THE YEN CARRY TRADE IS ENDING

- ▶ Negative interest rates encouraged Japanese investors to invest abroad and foreign investors to borrow in yen for investment in foreign markets, especially Treasuries
- ▶ Japanese portfolio (stock and bond) investments abroad equals ¥531.3 trillion or about US\$3.54 trillion
- ▶ The BOJ implemented NIRP and YCC in 2015 to counter deflation/create inflation
- ▶ NIRP & YCC have finally worked. Wage and price inflation are rising. Real rates are still very negative
- ▶ Policies were reversed in March 2024. Ongoing rate hikes are now expected
- ▶ We should see the yen up, dollar down and more Fed support of the Treasury market needed. This is good for gold. In 2015, bringing in ZIRP dropped the yen 20%, popped the dollar and helped push gold to a multi-year bottom

Exhibit 2: Nominal and Real Wage Indices

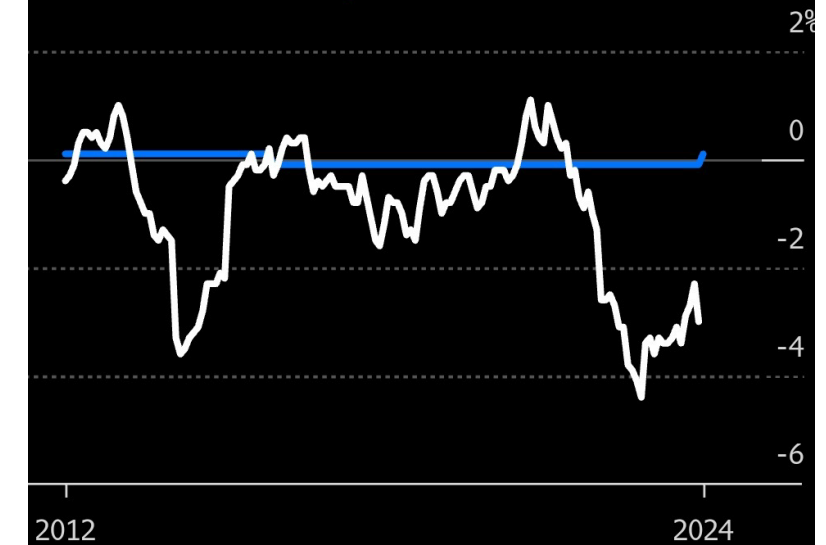


Source: Ministry of Health, Labour and Welfare

Really Negative

Japan's real interest rate is still deeply negative after first hike since 2007

Real interest rate BOJ policy rate



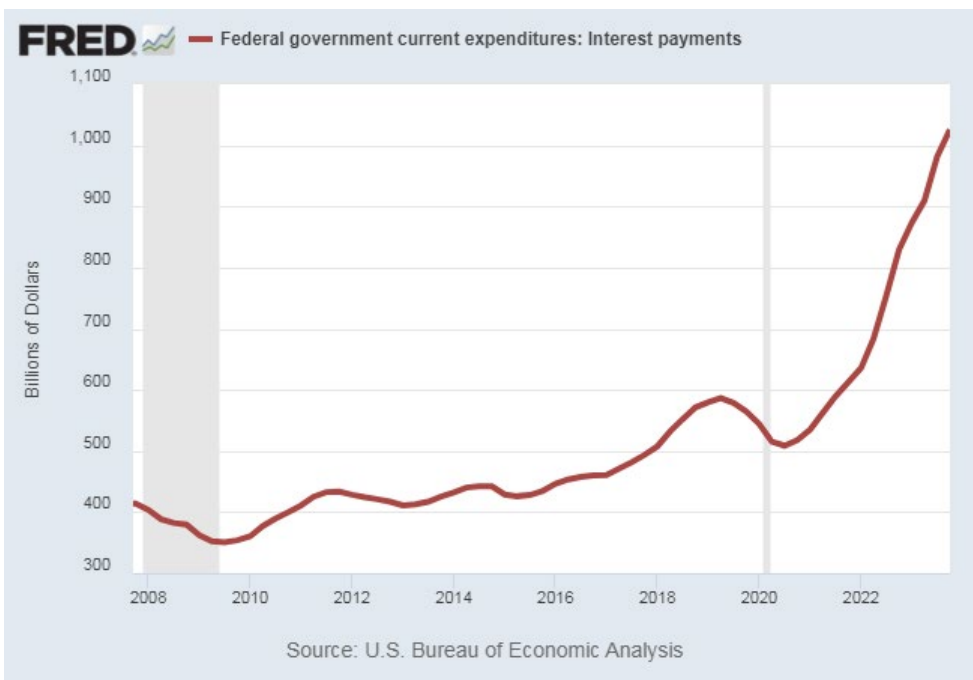
Source: Bloomberg

Note: Shows policy rate minus overall inflation. Feb 2024 based on estimate.

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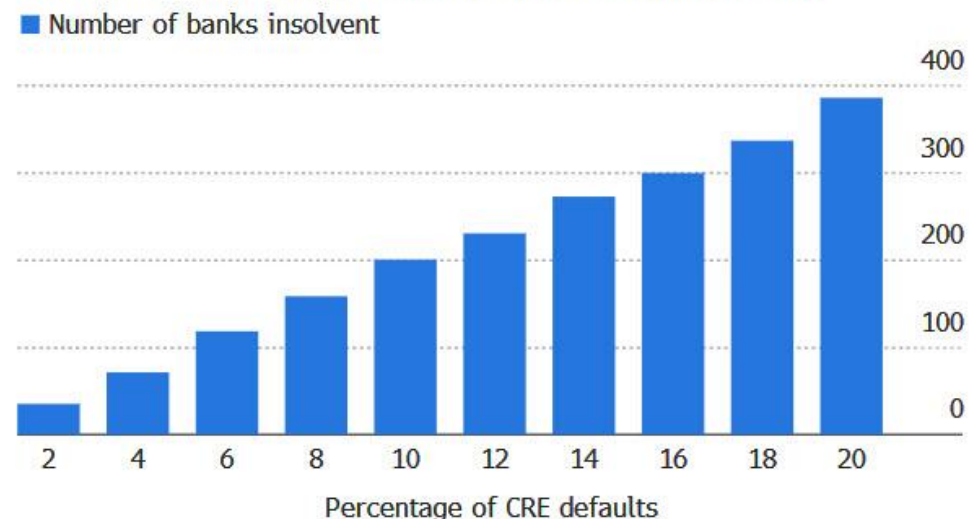
THE SOVEREIGN DEBT DOOM LOOP IS HERE

- ▶ BoA predicts annualized Treasury interest expense will hit \$1.6T by year end 2024, becoming the largest budget item
- ▶ Fed rate hikes have driven the U.S. deficit and debt into hyper drive, likely reaching \$40 trillion by 2025
- ▶ A higher deficit raises borrowings, increases interest expense which increases borrowings
- ▶ Treasury issuance is now mostly short duration which is ‘money-like’ QE
- ▶ GS predicts 300 regional banks may go bust due to CRE defaults and higher for longer
- ▶ The Fed must cut rates into a highly inflationary environment
- ▶ The dollar will be sacrificed



Hundreds of US Banks May Go Bust as CRE Decays

NBER study shows significant impact on financial institutions



Source: National Bureau of Economic Research
 Note: Bars show how many US banks would end up insolvent due to a given scenario for CRE distress if all uninsured depositors withdraw funds.

Bloomberg

THE BTC PHENOMENON: IS IT EATING GOLD'S LUNCH?

- ▶ There is room for both. They serve different objectives and investors
- ▶ The advantages of BTC: strictly limited quantity, easily transferable, secure, cheap storage
- ▶ BTC is speculative...it runs with liquidity and assets like NDX...a risk-on asset. Gold is risk-off
- ▶ BTC has little or no relationship to the economy or the financial system. Gold has a huge global work force, mining and refining, pays huge taxes, sits in central banks as a major reserve asset and has a significant role in FX markets
- ▶ BTC is less used commercially now than it was 3 years ago. Gold is becoming an international trade currency for final settlement of oil and potentially other commodities via the BRICS
- ▶ BTC is highly volatile, which is risky especially for borrowers and lenders. Gold is far more stable and is therefore commonly used as a hedge and as collateral
- ▶ Gold is widely owned and universally accepted as final settlement. BTC is not there (yet?)