Gold Market Update

October 6, 2022

The energy crisis is creating a sovereign debt crisis and that is what we think will drive the gold price over the next few months. Two of the world's major economies... Germany and Japan... have suddenly become twin deficit countries. Their currencies are plummeting against the dollar along with the British pound. All three are clearly entering a recession. Tax revenues are falling as government expenditures rise to deal with the consequences of recession and sky-high energy prices, including subsidies to industry and individuals. Budget deficits are rising quickly and QE seems inevitable as we have just seen in the UK. At the same time, trade deficits are soaring as these energy importers meet the demands of energy exporters. All of this is against a backdrop of historic and unsustainable sovereign debt.

As the yen, pound and euro fall, the energy bill in US dollars becomes more destructive. We clearly have the makings of a global crisis.

We think this crisis is coming to the US in the weeks ahead. Many commentators expect the Fed will pivot when the stock market falls far enough to trigger the famous Fed put. We think a sovereign debt crisis is more urgent and real. The dollar and dollar-denominated securities are over-owned by foreigners who need the dollars to pay for energy and support their currencies. The Treasury market is about to be swamped with supply as the Fed adds $1T in sales to a deficit that is growing as tax revenues fall, recession expenditures rise, foreign investors press the sell button and rising rates threaten to push the current $600 Billion annual Federal interest expense higher on a $31T debt.

The logical solution is a pivot to Yield Curve Control. What about inflation, the current top priority of the Fed, you may ask? We think the pressures on the Treasury will be immense. Many economists think a drop in inflation is coming as supply chains heal, bloated inventories are worked off, year-over-year base effects help with the math and a global recession does its magic. In any case, a sovereign debt crisis where national governments cannot meet their obligations will suddenly seem more urgent. Gold will be the preferred form of money and store of wealth. We think the price will shock us all, and soon.