

Gold Has Broken Out

Our Prediction: A New All-Time High Gold Price in 2021

June 26, 2019



Gold



www.stansberryresearch.com

Source: Bloomberg

Spot Gold



Why Has Gold Broken Out?

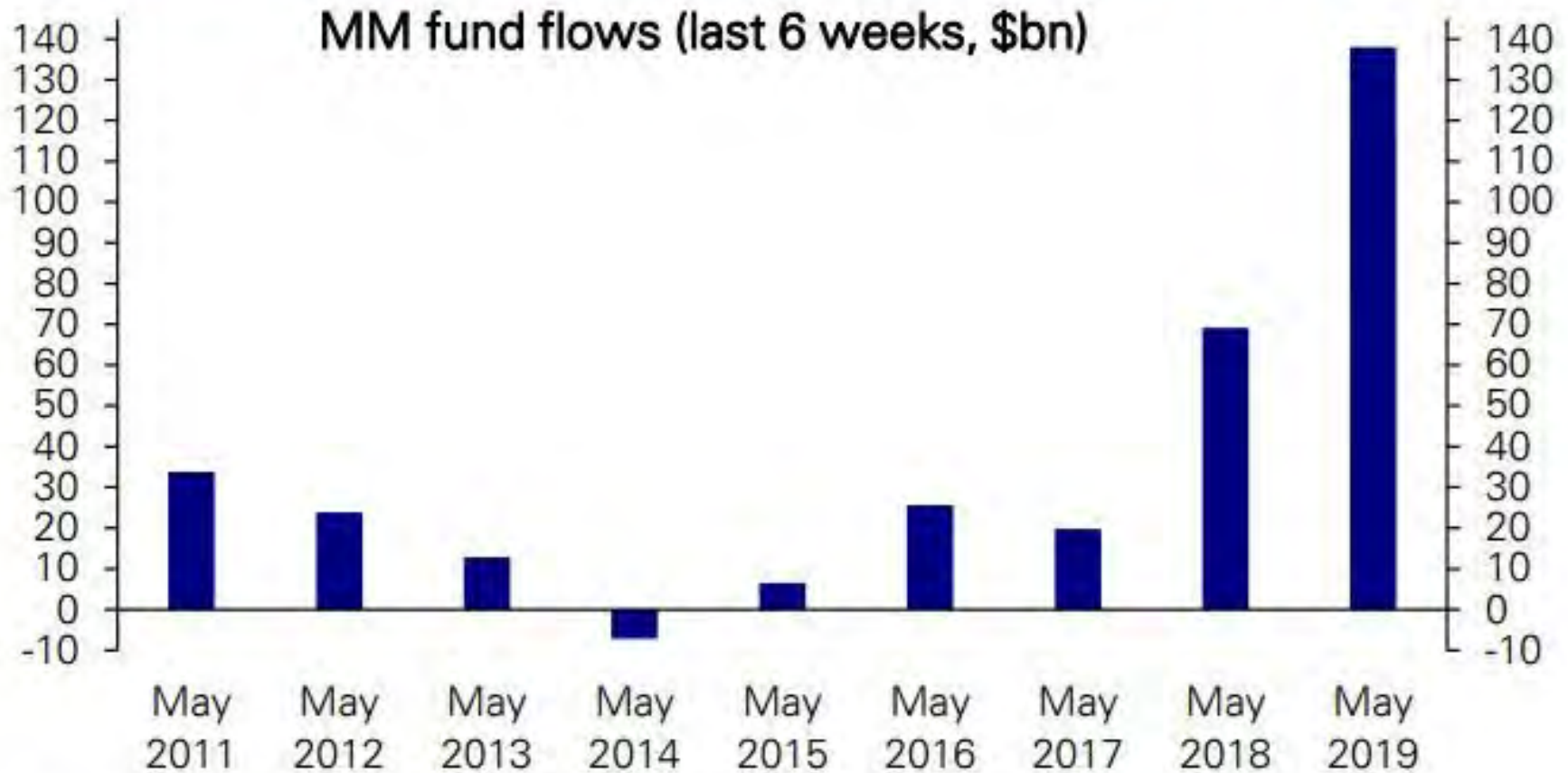
- All major Central Banks have signalled that they are ready to launch major new monetary stimulus programs to generate growth and inflation
- The Fed has stated that its non-conventional tools (NIRP, ZIRP and QE) are no longer non-conventional
- Global bond markets are taking rates down and screaming that a recession is coming
- The economic data is weak and getting weaker
- Evidence is mounting that monetary stimulus does not work
- Gold is now at all-time highs in 72 currencies



Money is Moving from Risk Assets to Treasuries and Gold

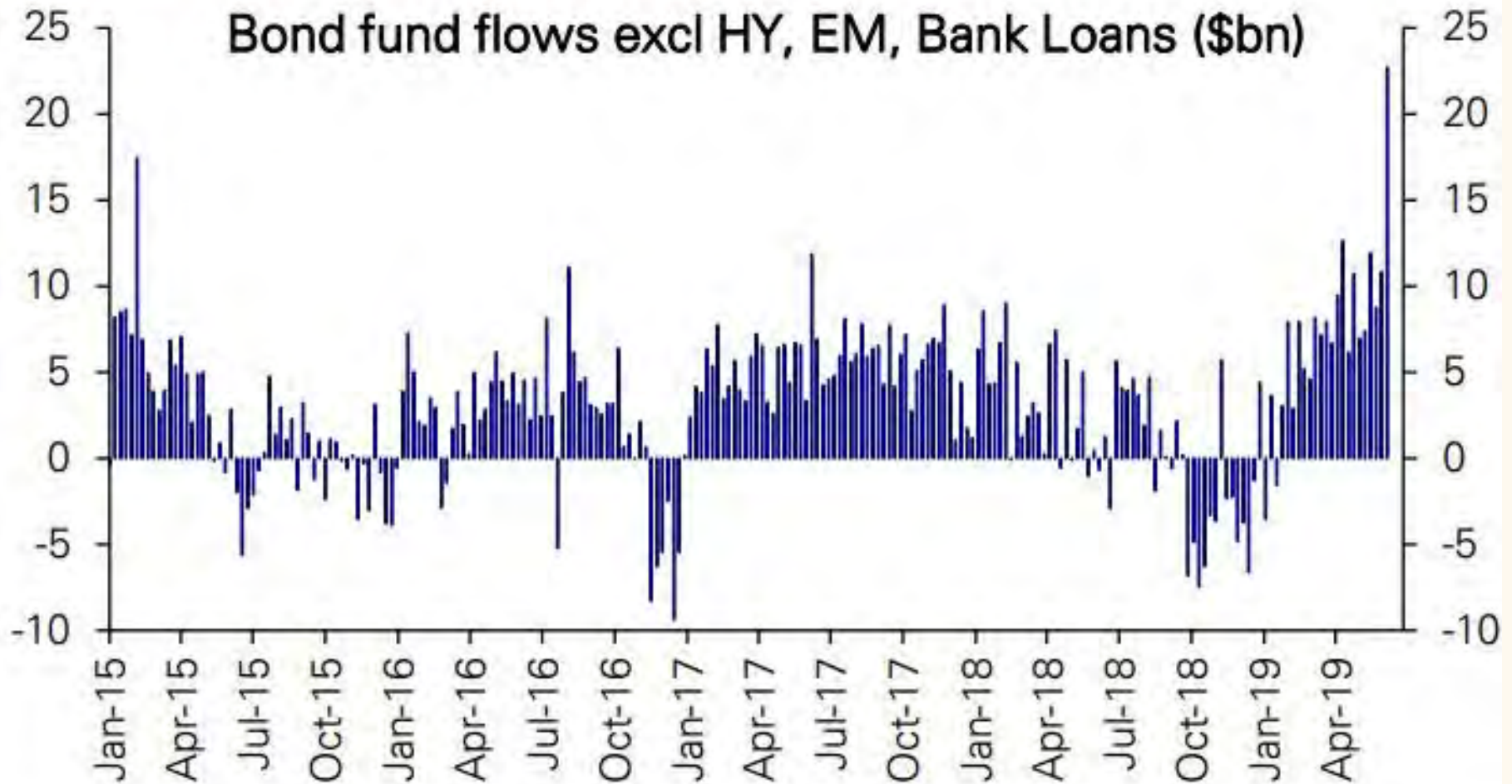
- Money Market funds are up
- Investors are selling equities and moving to bond funds
- Rotation into utilities and consumer staples from growth stocks

Figure 7: Money-market funds have seen almost \$140bn flow in over the last 6 weeks, dwarfing those in corresponding periods in previous years



Source : Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver

Figure 4: Bond fund flows excluding the riskier categories (HY, EM and bank loans) saw their largest weekly inflow on record



Source : Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver

Figure 8: Within equities, defensive funds such as those targeting low vol stocks have been seeing large inflows

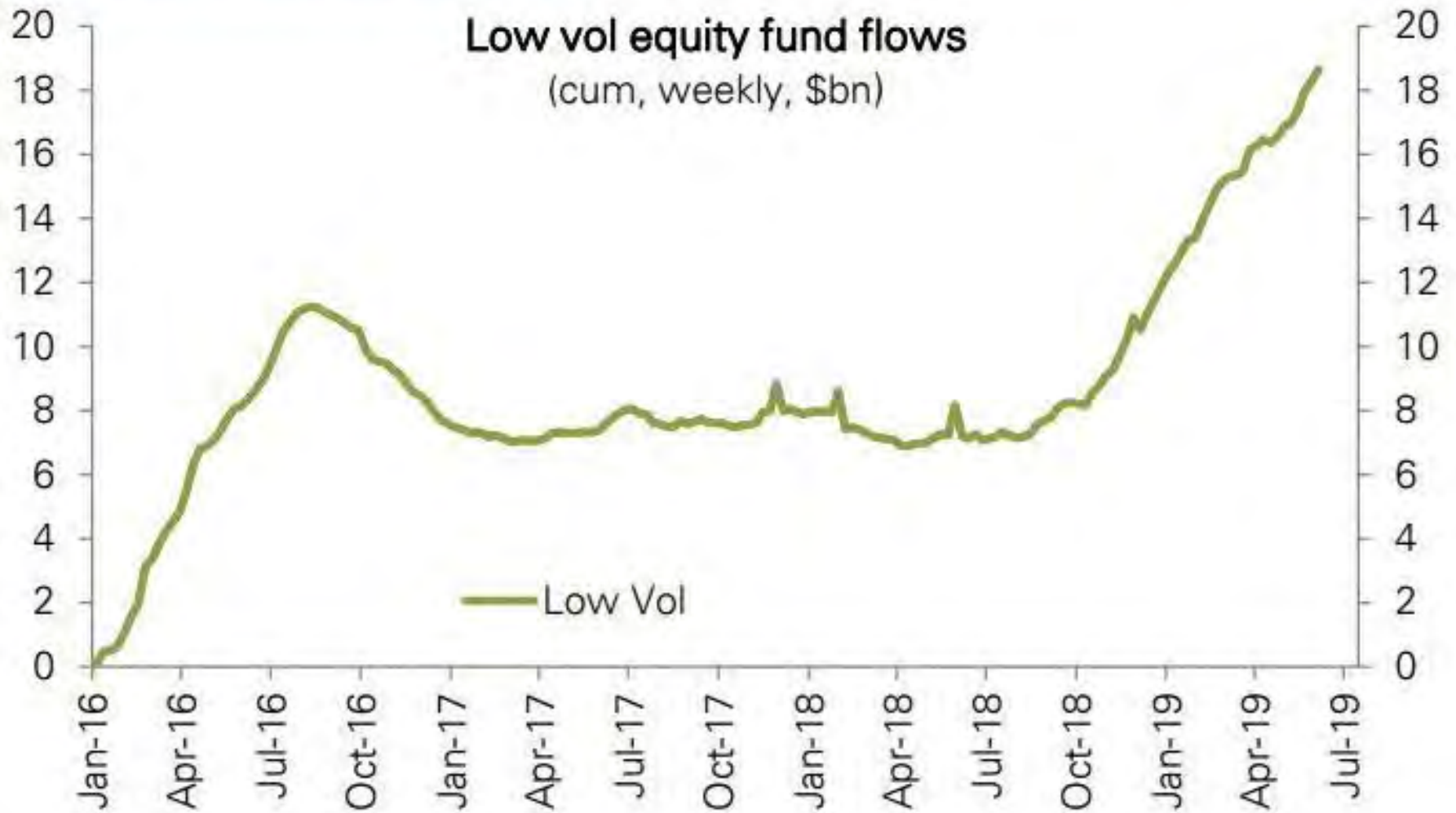
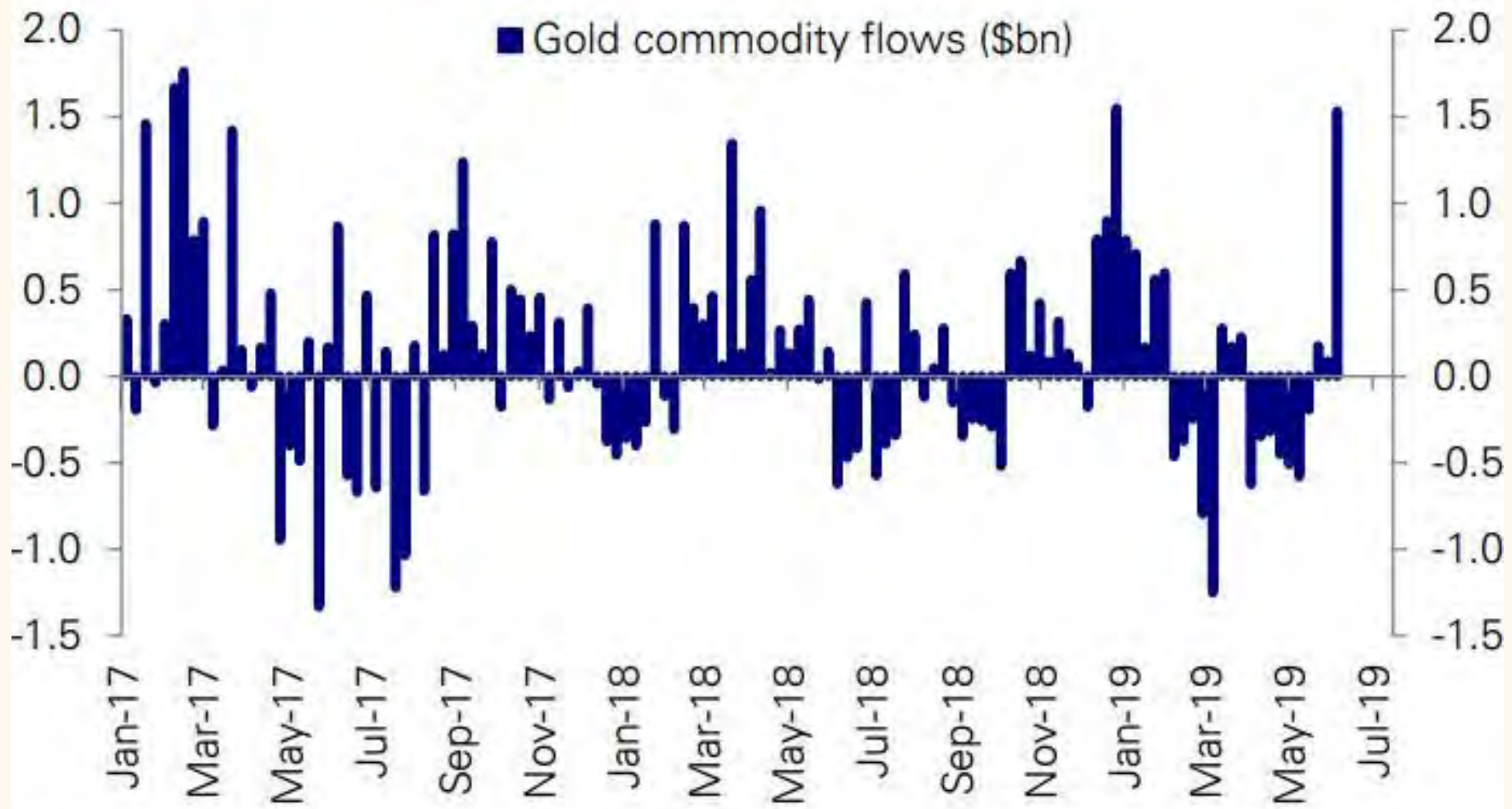


Figure 9: Gold funds saw a very strong inflow this week



Source : Deutsche Bank Asset Allocation & Delta-1 Strategy, EPFR, Haver



CHINESE & RUSSIAN GOLD RESERVES

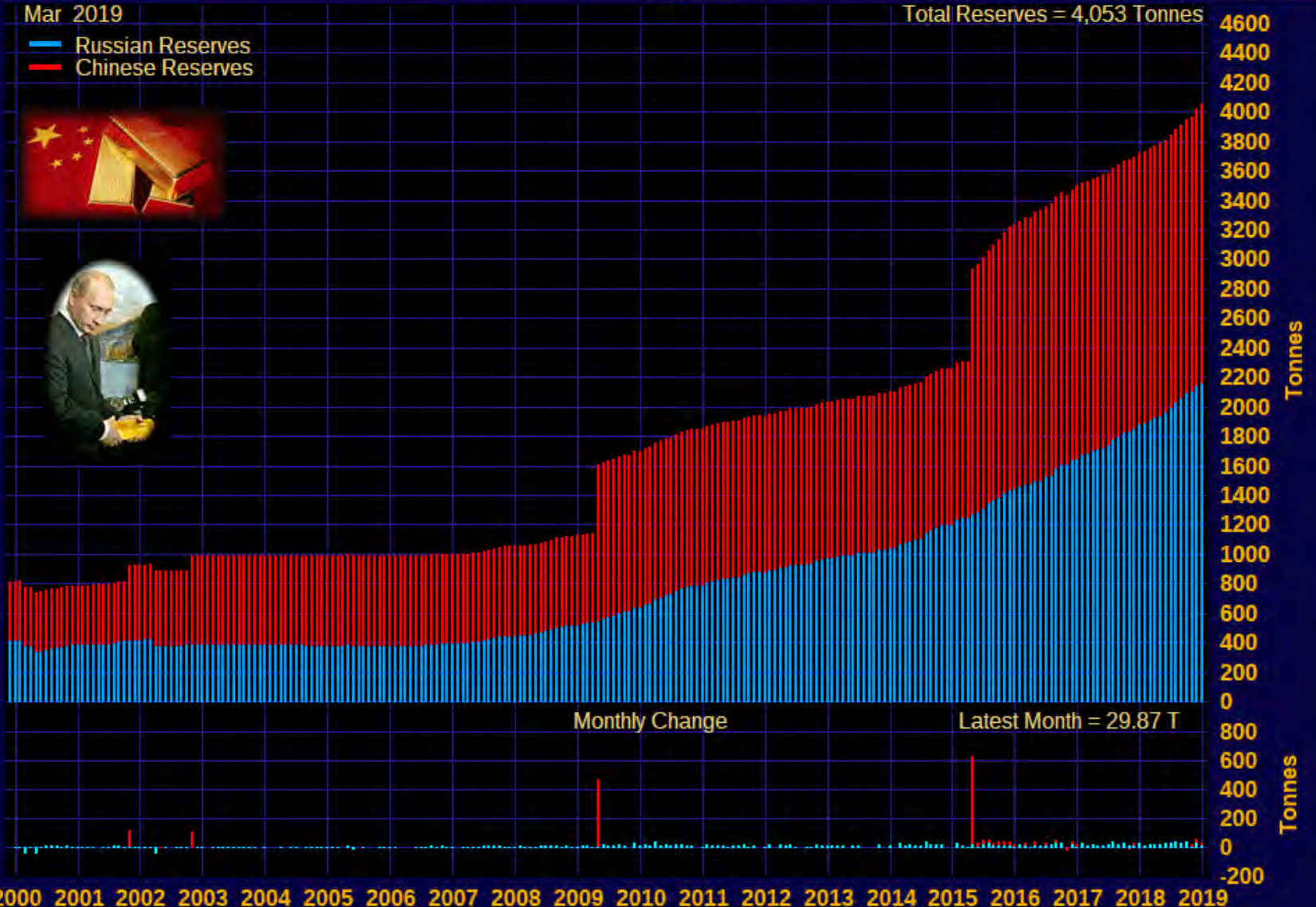
Tonnes of Gold



Mar 2019

Total Reserves = 4,053 Tonnes

- Russian Reserves
- Chinese Reserves



2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

world gold charts © www.goldchartsrus.com

Looking at the Fed: Rate Cuts Don't Save Markets

- Rate hike cycles break things...the economy can't handle 9 hikes to a FF Rate of 2.25-50. Ten years of ZIRP effectively restructured the economy around free money
- The Fed has now signalled three rate cuts over the next year...a rate cutting cycle
- The Fed will be cutting rates with record low unemployment (3.6%) while saying the economy is strong
- Fun historic fact: Every single time the Fed cut rates when unemployment was below 4%, a recession immediately ensued and unemployment shot to 6%-7%
- In January 2001, the Fed's surprise cut that sent the Nasdaq up 14% in a single day, still the index's largest move since its creation in 1971. Following that day, the Nasdaq fell 57% before hitting bottom in October 2002
- The Fed's first rate cut in September 2007 gave the Dow its biggest one-day percentage gain since 2003 but that was the top...markets collapsed

Fed Funds Rate



Recessions shown in gray

Source: St. Louis Fed

— Civilian Unemployment Rate (left)
— Effective Federal Funds Rate (right)



\$\$FEDRATE Effective Federal Funds Rate INDEX

© StockCharts.com

1-May-2019

Open 2.39 High 2.39 Low 2.39 Close 2.39 Chg +0.00 (+0.00%) -



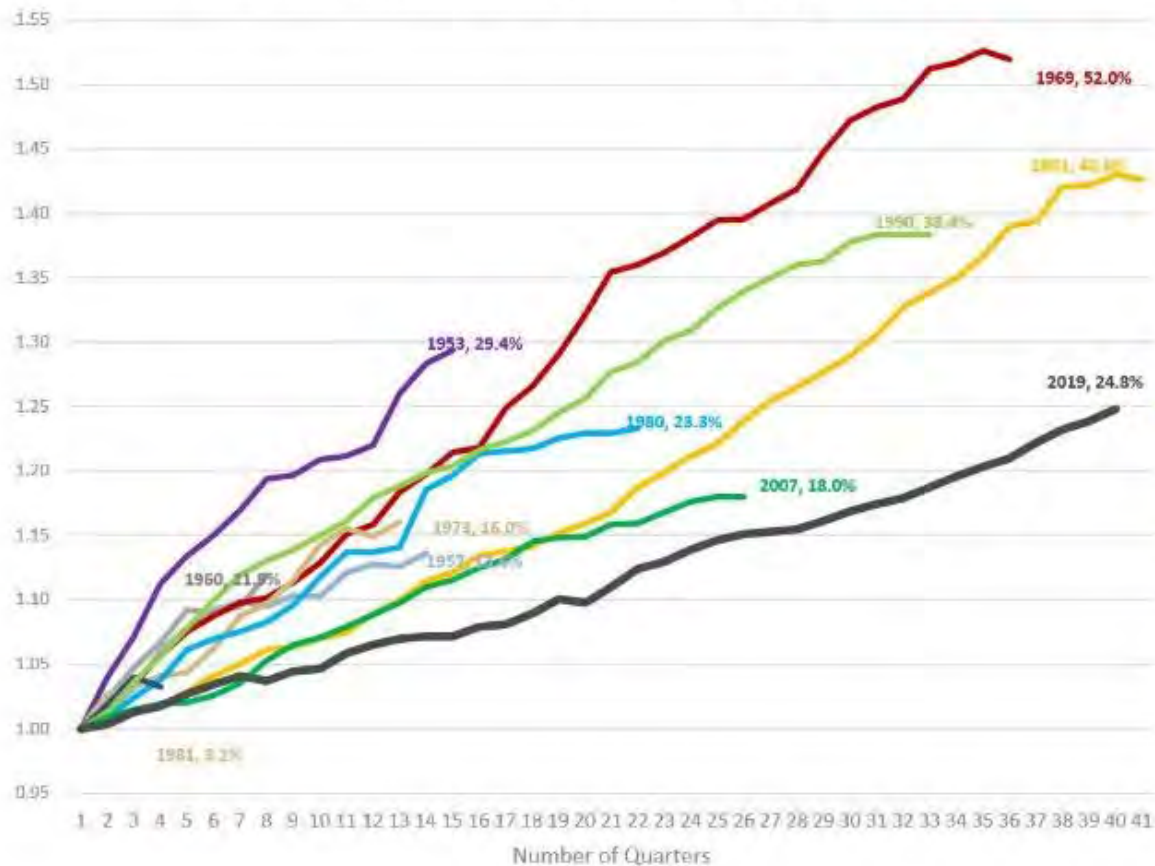
Investors Are Learning CB Policies Don't Work...But We'll Get Them Anyway

- The Fed has never hit a projection...the latest abrupt shift proves it
- The theory of lower rates leading to more investment and growth has failed...growth has been anaemic at best
- New money comes as debt which is weighing down performance.
- New money goes to speculation, buy-backs and M&A
- Zombie companies are kept alive by free money

Current vs. Previous Economic Expansions



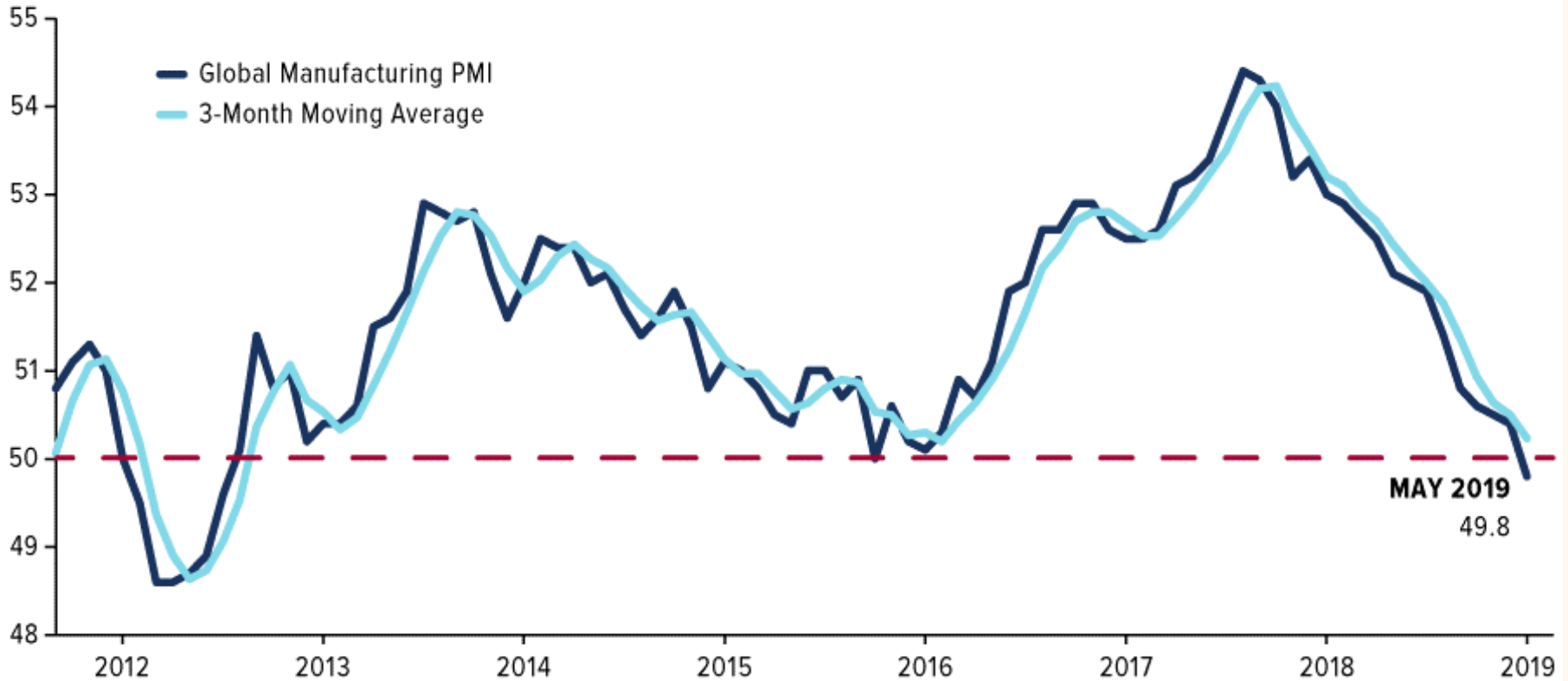
Real GDP Cumulative Performance by Expansion



Expansion	Annual Growth	Cumulative Growth	Duration Quarters	Rank
1970	4.8%	52.0%	35	1
2001	3.5%	42.6%	40	2
1990	4.0%	38.4%	32	3
1953	7.1%	29.4%	14	4
2019	2.2%	24.8%	39	5
1980	3.9%	23.3%	21	6
2007	2.6%	18.0%	25	7
1973	4.7%	16.0%	12	8
1957	3.7%	13.6%	13	9
1960	5.8%	11.9%	8	10
1981	3.2%	3.2%	4	11

Global Manufacturing PMI Contracts for the First Time Since 2012

Jan. 2012 – May 2019



Source: Bloomberg, U.S. Global Investors

Did Someone Turn Off the Spigot? Global Semiconductor Sales Plunge

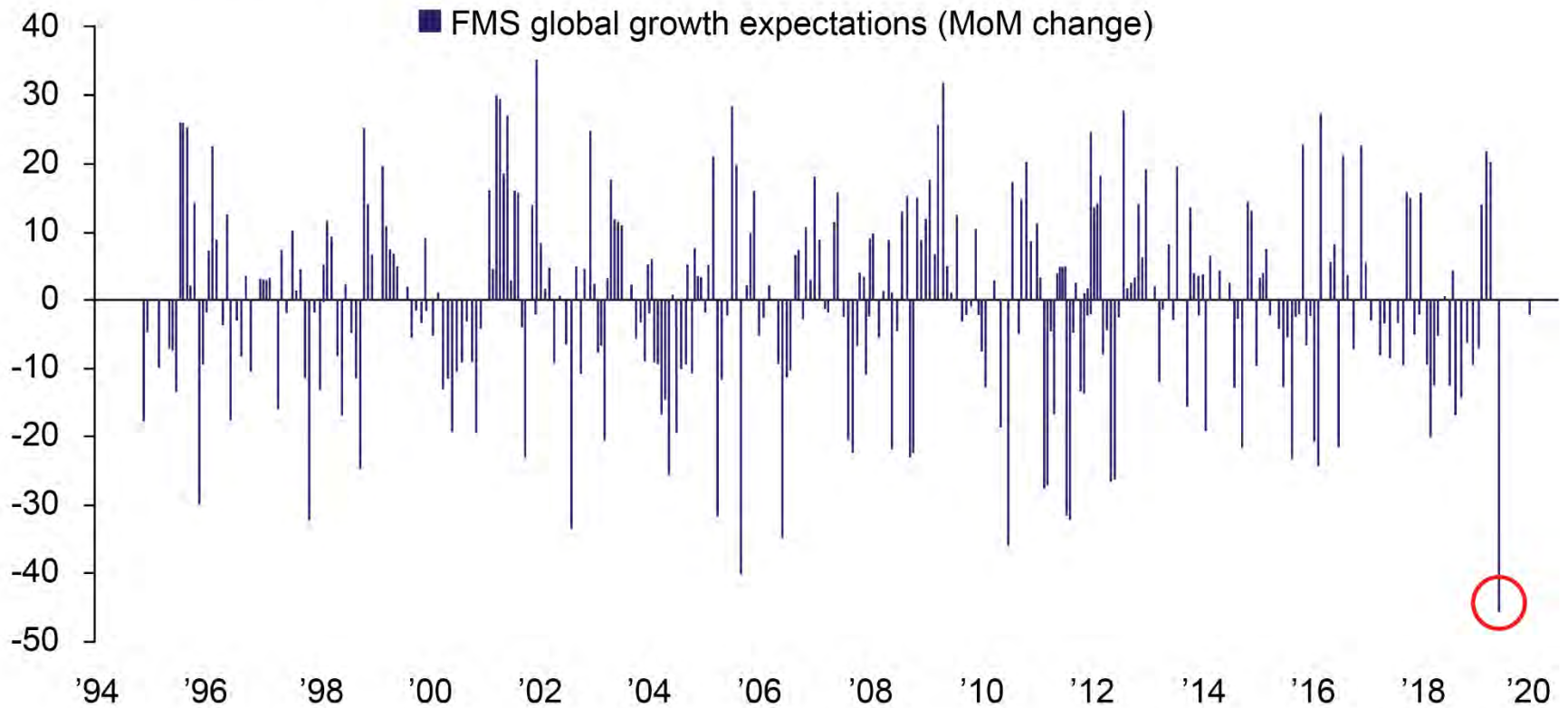
Billion \$, 3-month moving averages



Source of data: World Semiconductor Trade Statistics

WOLFSTREET.com

Record drop in FMS global growth expectations



Source: BofA Merrill Lynch Global Fund Manager Survey

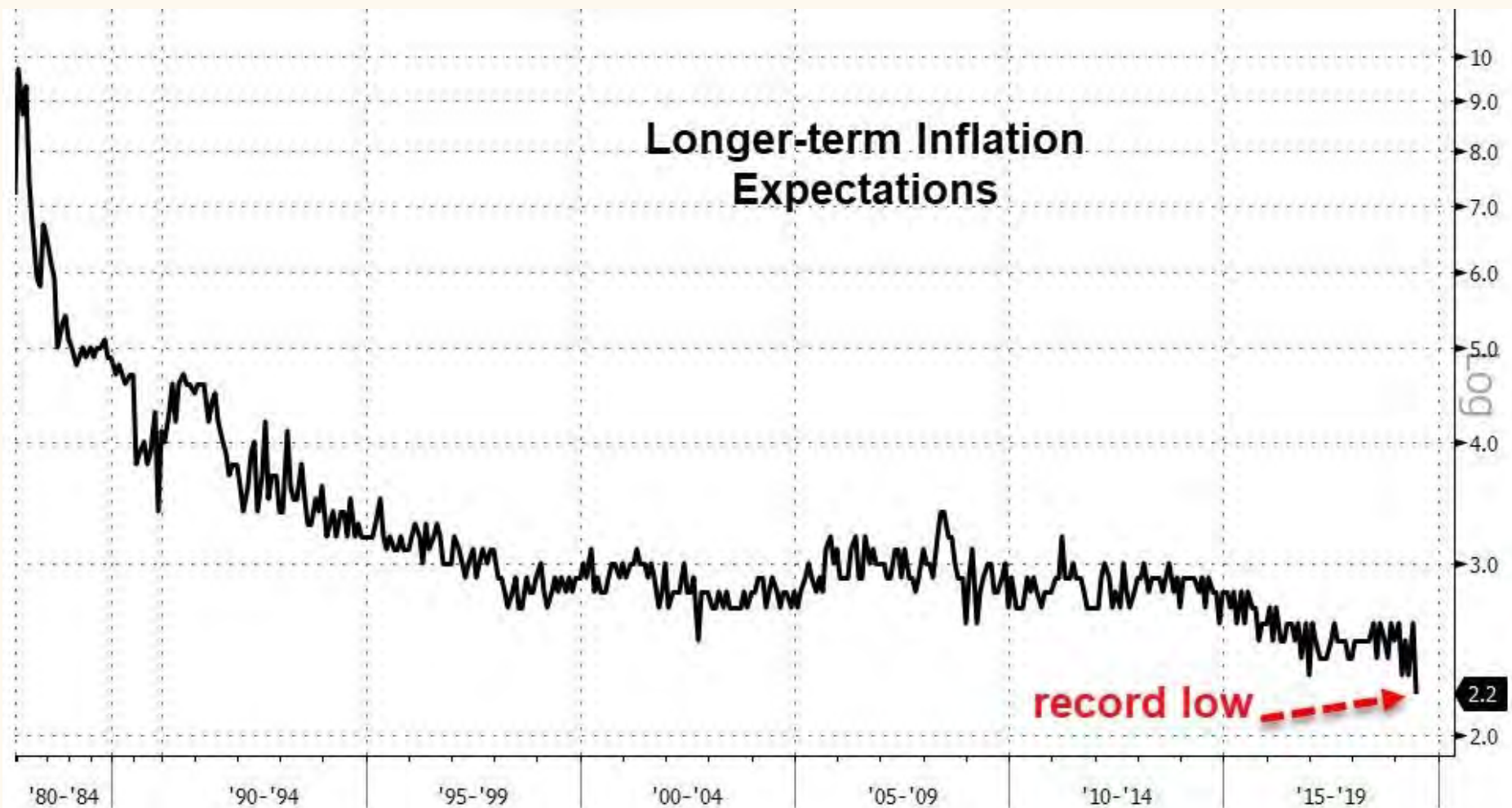
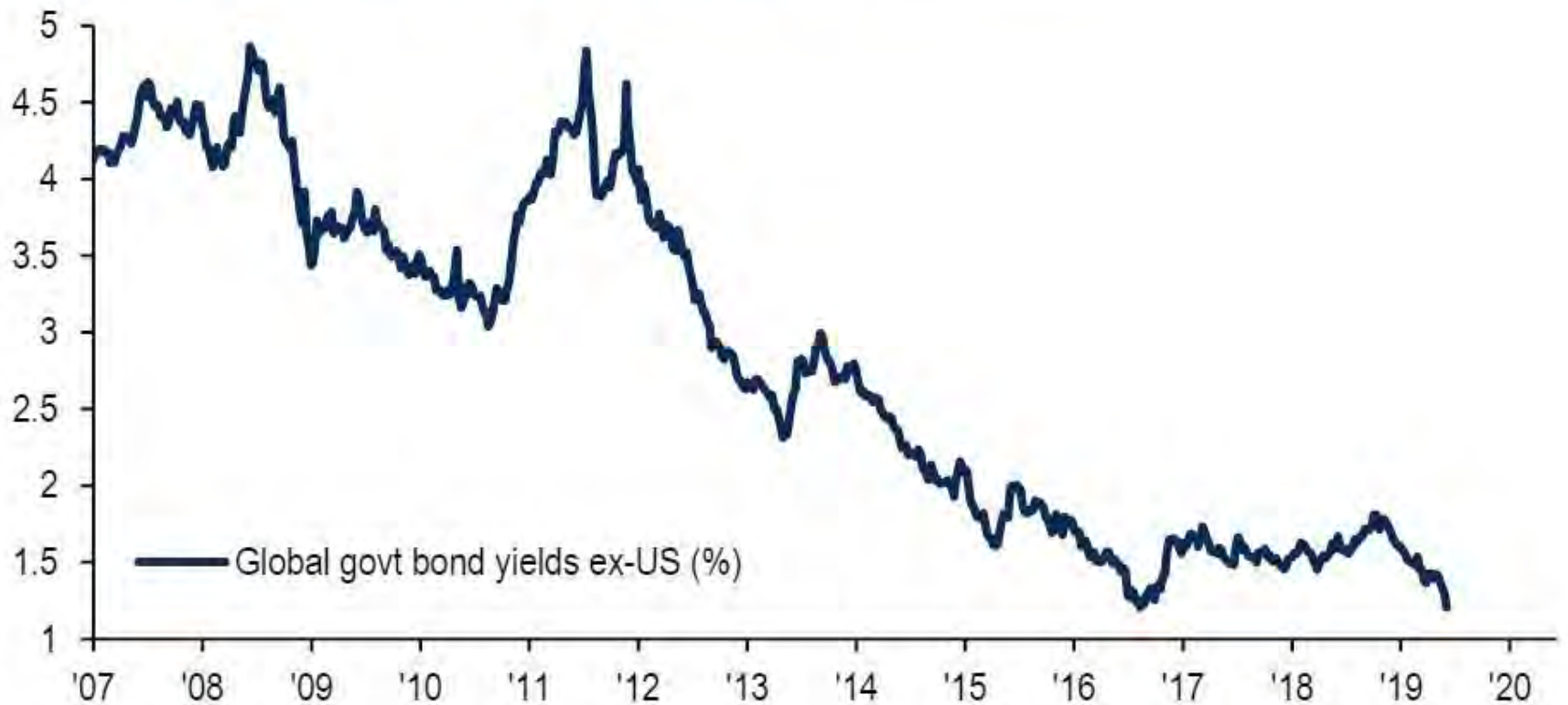


Chart 3: Global government bond yields ex-US at all-time lows



Source: BofA Merrill Lynch Global Investment Strategy, Haver. Note chart shows equal weighted bond yields for Japan, China, UK, France, Italy, Germany, Canada, Spain, Australia, Belgium, Netherlands, Austria, Poland, Portugal, Israel, Russia, Malaysia, Sweden, Ireland

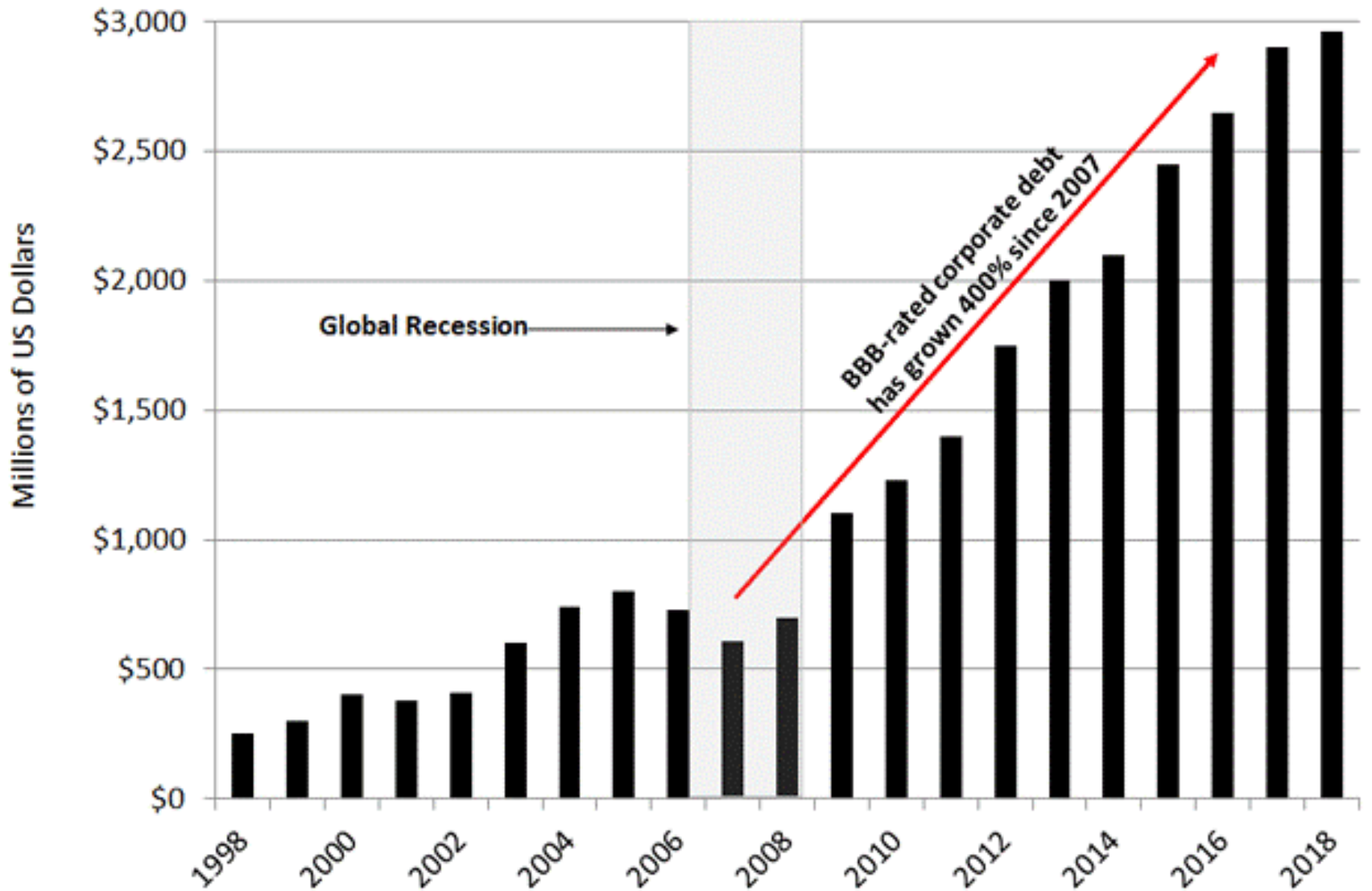


Other Shoes to Drop?

- Corporate debt has soared
- Quality of corporate debt has collapsed
- More than half corporate debt is one notch above junk
- Banks, especially in Europe, are looking weak and they are all interconnected

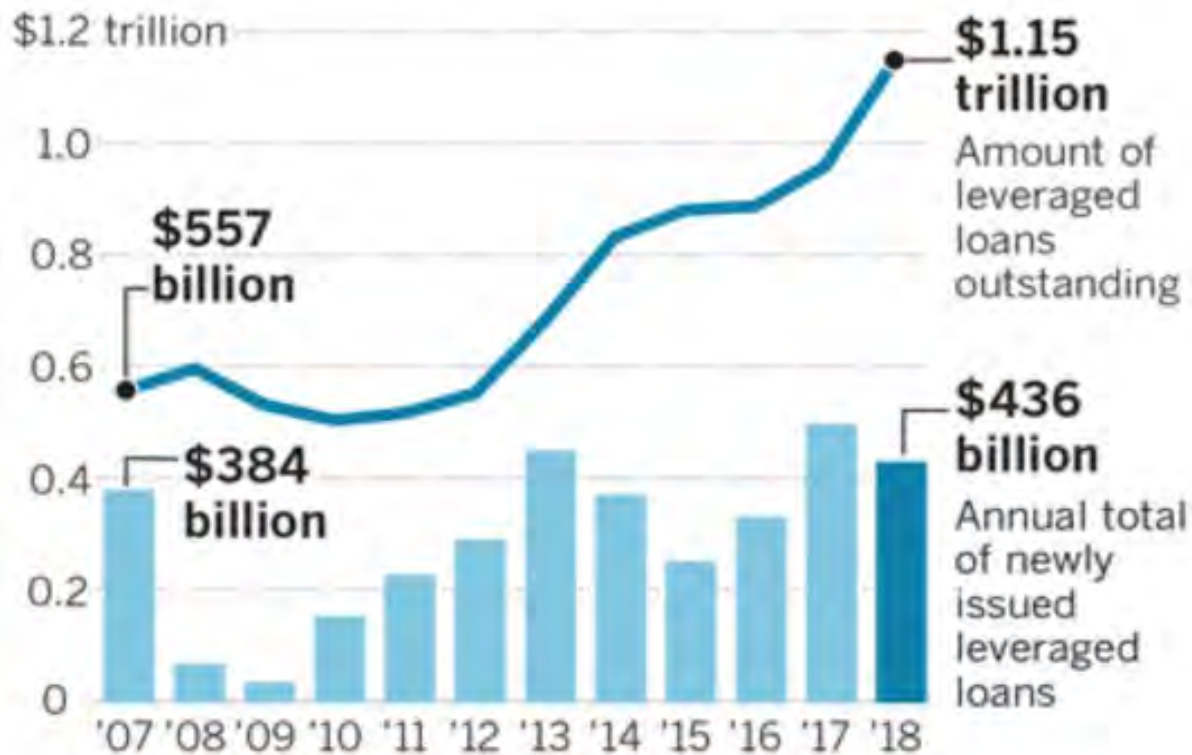
Growth in BBB-Rated Corporate Debt

IN THE MONEY



Risky corporate debt is growing

An increase in a risky type of corporate debt is creating concerns. Here is the growth of total outstanding leveraged loans and the annual amount of new loans.

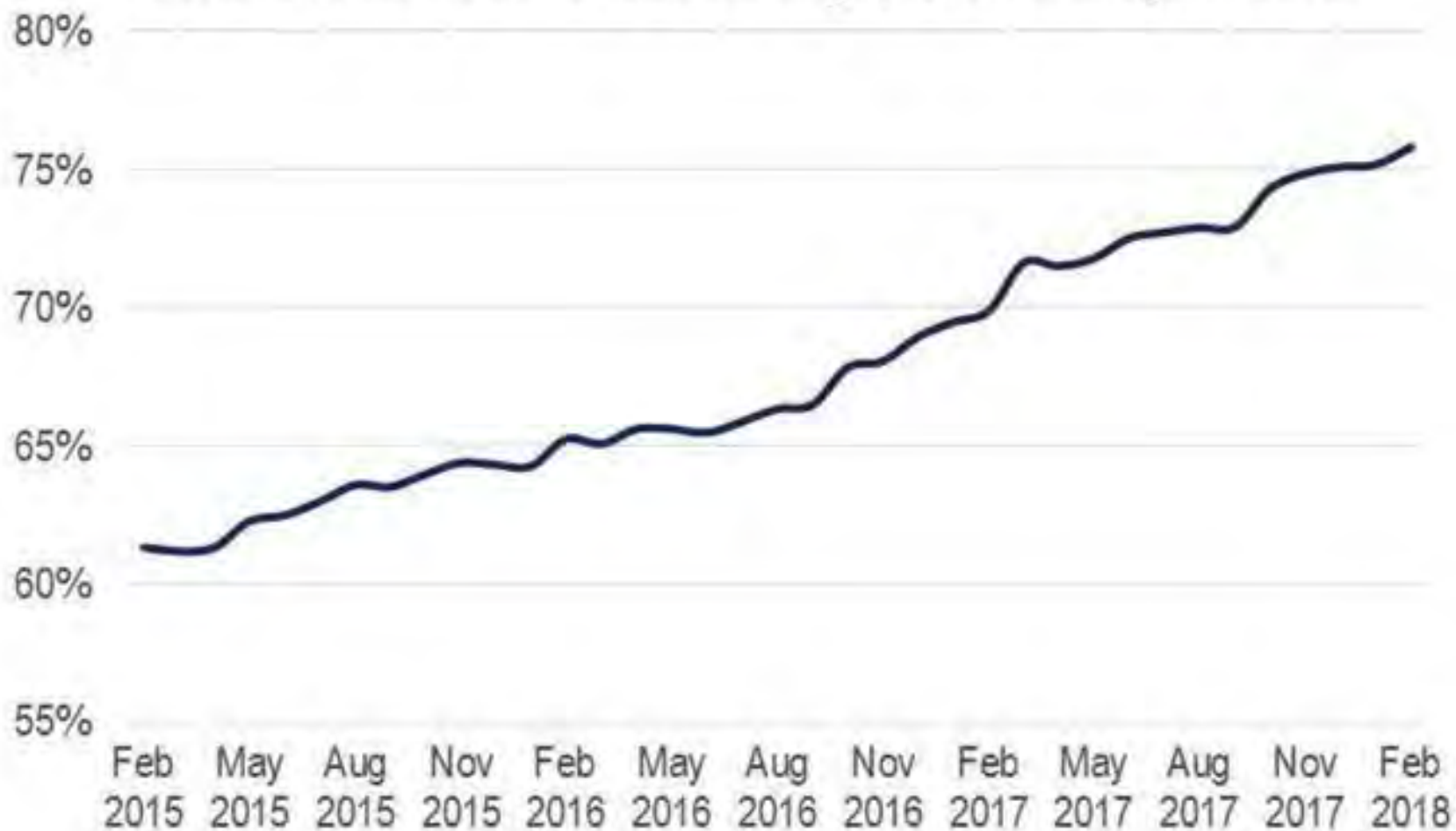


Source: S&P Global Market Intelligence

Paul Duginski / @latimesgraphics

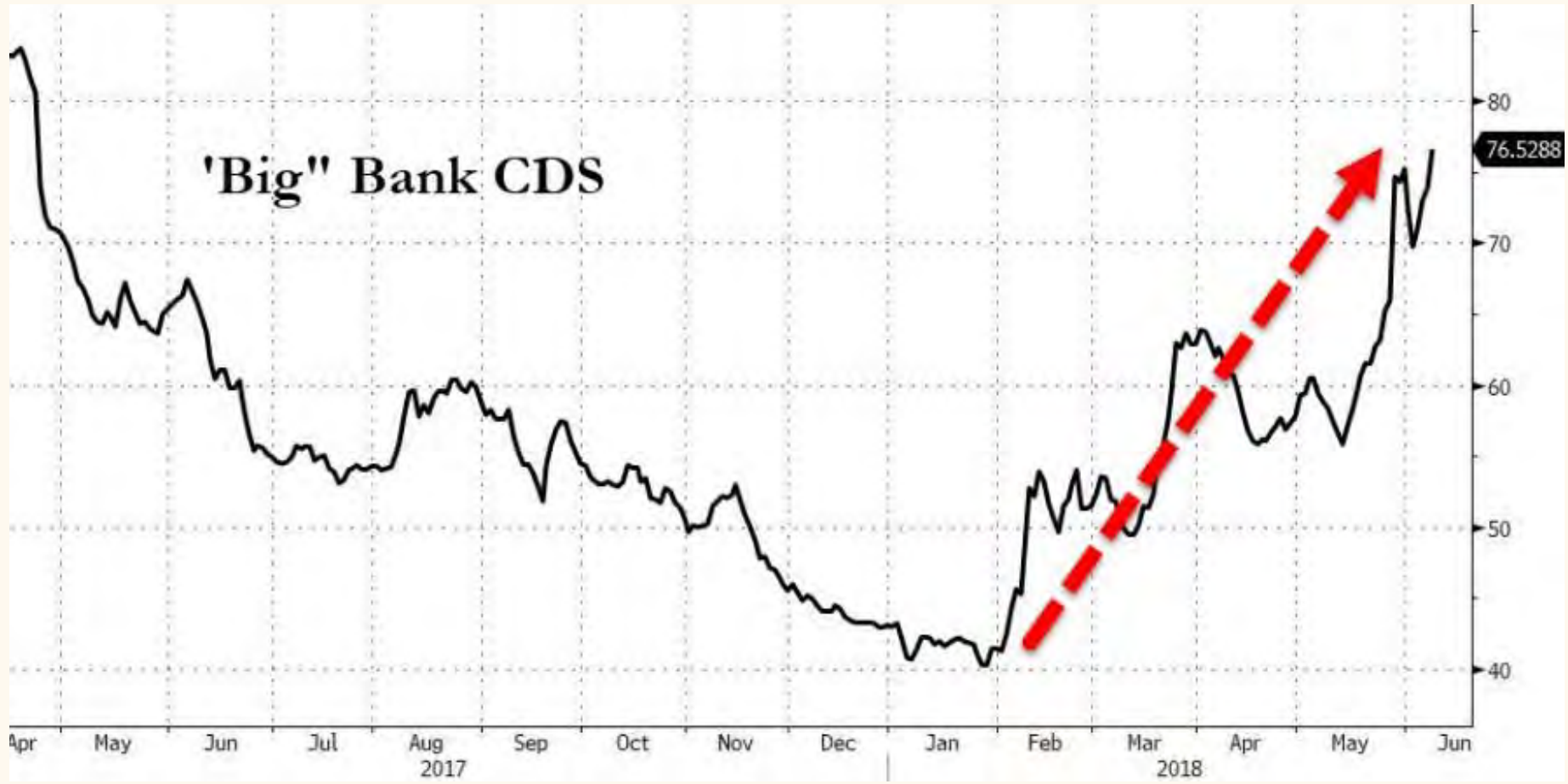
Yet Another Record for US Covenant-Lite Loan Issuance

Covenant-lite share of outstandings, U.S. leveraged loans



Source: LCD, an offering of S&P Global Market Intelligence

'Big" Bank CDS



Conclusion

- Global recession is on the way
- Central Bank response will be aggressive and ineffective
- Gold will soar, as a preserver of wealth