



# Gold and Other Metals in 2020



CPM Group

Denver Gold Group  
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Denver

# Themes

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## *Gold and The World*

There are increased risks in the world.

They are not what many gold market people think they are.

The world financial system is not collapsing.

Gold prices probably will rise.

## *Re EVs and the Future Of Motive Propulsion Technology:*

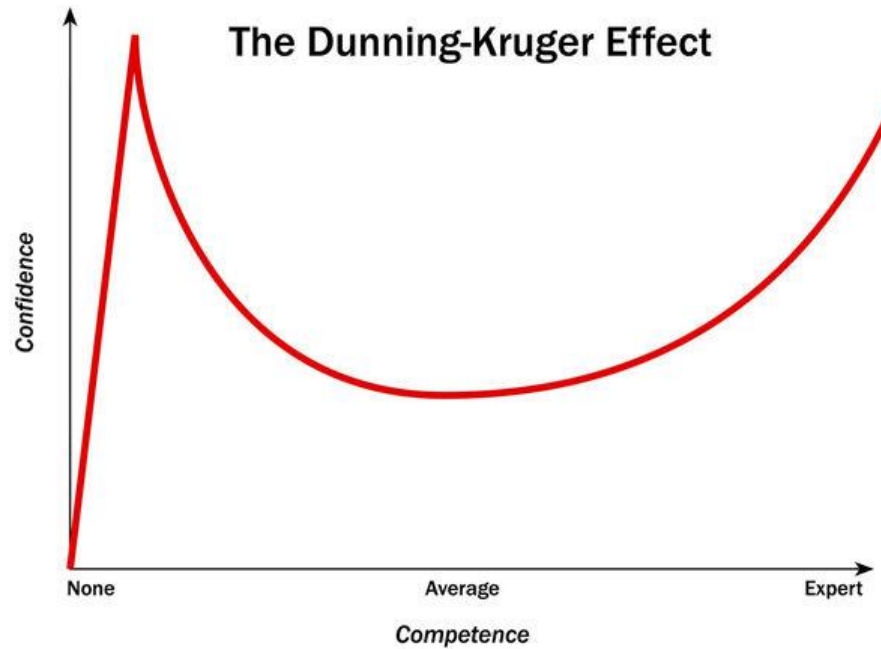
There are a lot of bullish views for metals related to the advent of EVs that are not supported by fact or logic.

The speed with which the auto market may transition to EVs is grossly misjudged.



# The Dunning Kruger Effect

I am not thinking of whom you think I am thinking of. This is much a bigger problem.



The psychological phenomenon of illusory superiority was identified as a form of cognitive bias in Kruger and Dunning's 1999 study, "Unskilled and Unaware of It: How Difficulties in Recognizing One's Own Incompetence Lead to Inflated Self-Assessments".

# Let's Be Honest: Economics and Finance

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## *The world financial system has not collapsed*

- Not in the decade since the Great Recession and Global Financial Crisis.
- Not in the half century or longer since various Cassandras became more prominent in their pronouncements that the end was near.
  - Reagan ran in 1980 on the proposition that the U.S. federal deficit of nearly \$1 trillion was unsustainable and unsupportable.

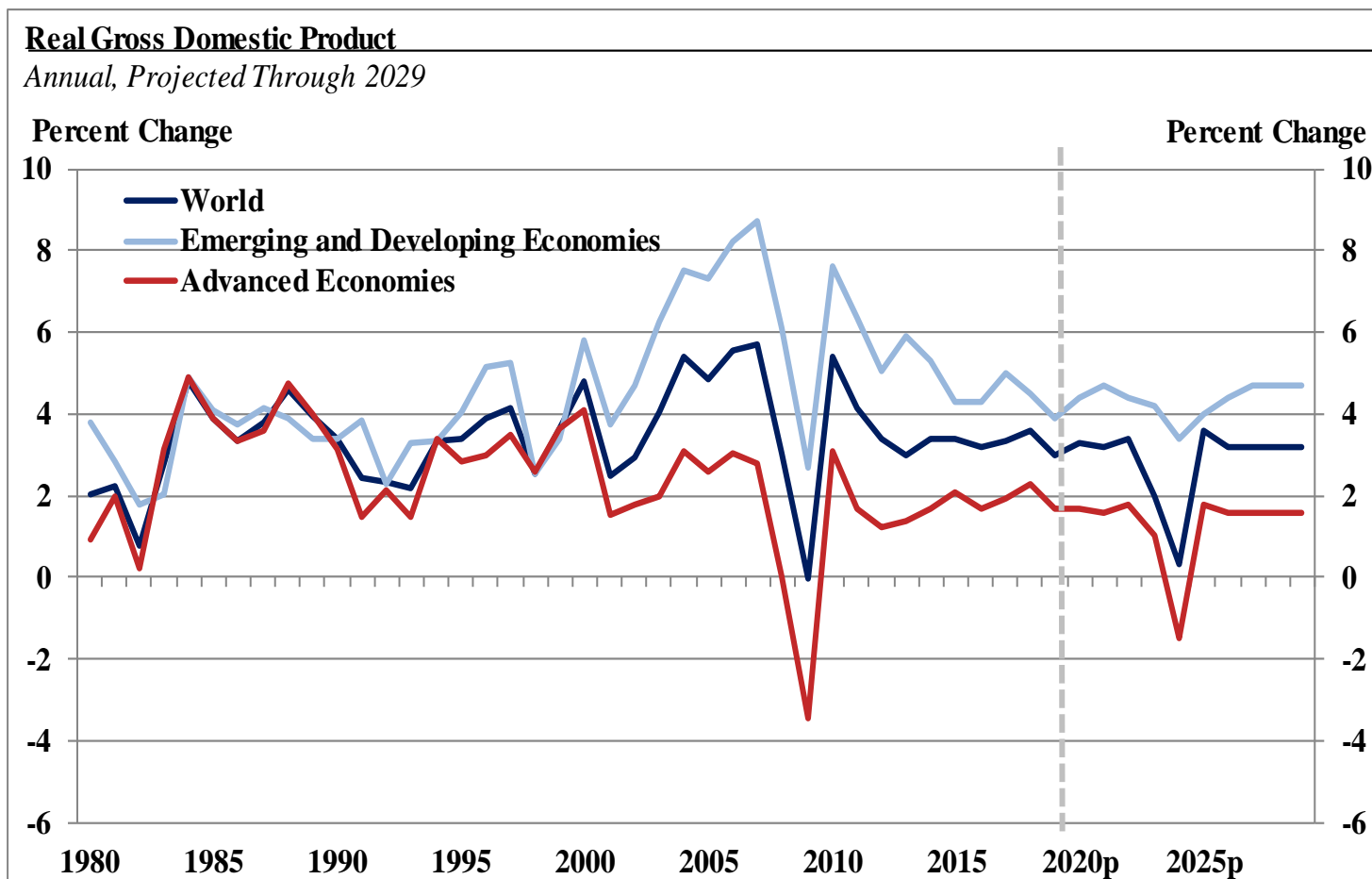
## *Maybe... the powers that be have figured it out?*

**This is not to say that the massive global debt, deficits, and derivatives markets will not ultimately cause problems.**

- But it could be *later* than many gold bugs expect
  - It is starting now, but could take several years to really develop.
- And the *problems are likely to be papered over*
  - As they were in 1980, 1987, 1991, 2001, and 2007 – 2009.



# Possibly A Larger Recession Later



# Let's Be Honest: Economics and Finance, continued

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## **The dollar will not collapse any time soon.**

- It has defied calls for its demise for many years.
- In order for the dollar to collapse, other currencies must rise.
- Massive relative dollar liquidity protects the dollar from quick replacement.

## **Interest rates have been low for a decade, and may stay low for years...**

- ... until they rise.
- Watch the spreads between benchmarks and 'applicable' rates, and
- Between what large governments and corporations pay versus all of us.

## **The stock market just keeps rising**

- A decade long slow steady advance.
- Fueled by massive government cash and stock buy back programs.

## **Overall underlying economic conditions**

- The longest period without a recession since at least 1850.



# The Economy Was More Volatile in the Good Old Days

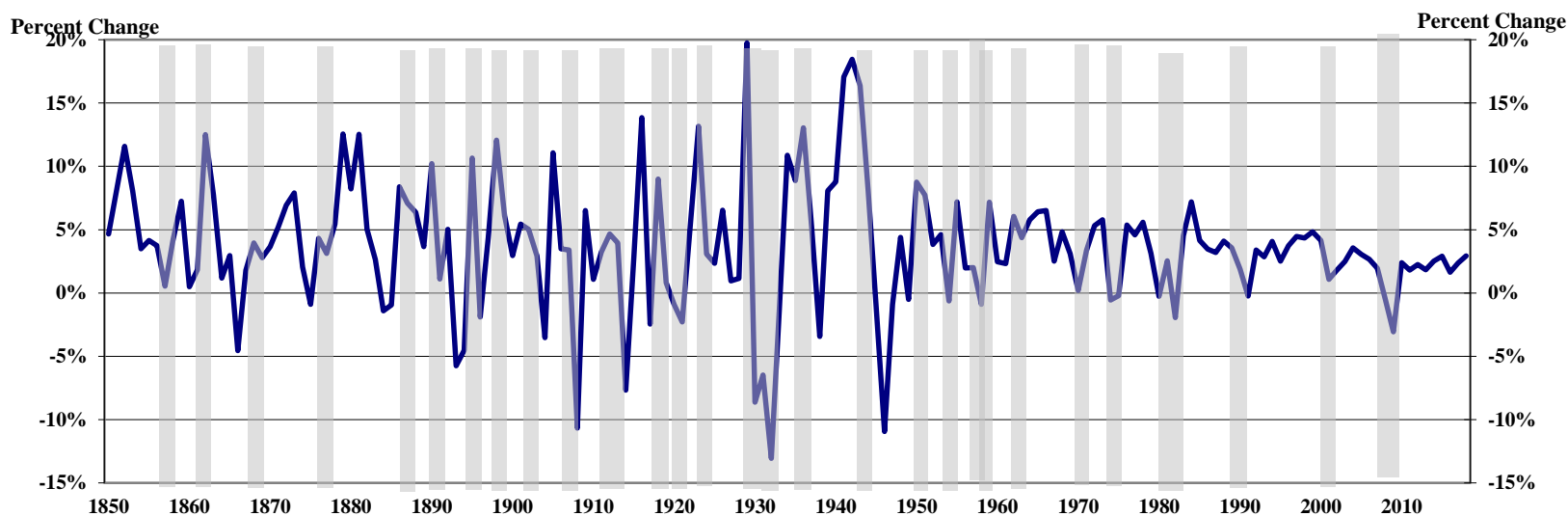
*U.S. real GDP: 1850 – 1919, 16 recessions, 22 month average length;  
1945 – 2009, 11 recessions, 10 months average length*

Gold Standard.

Numerous periods of  
hyperinflation and  
deflation

Recessions in 60 of  
91 months,  
1907 - 1914

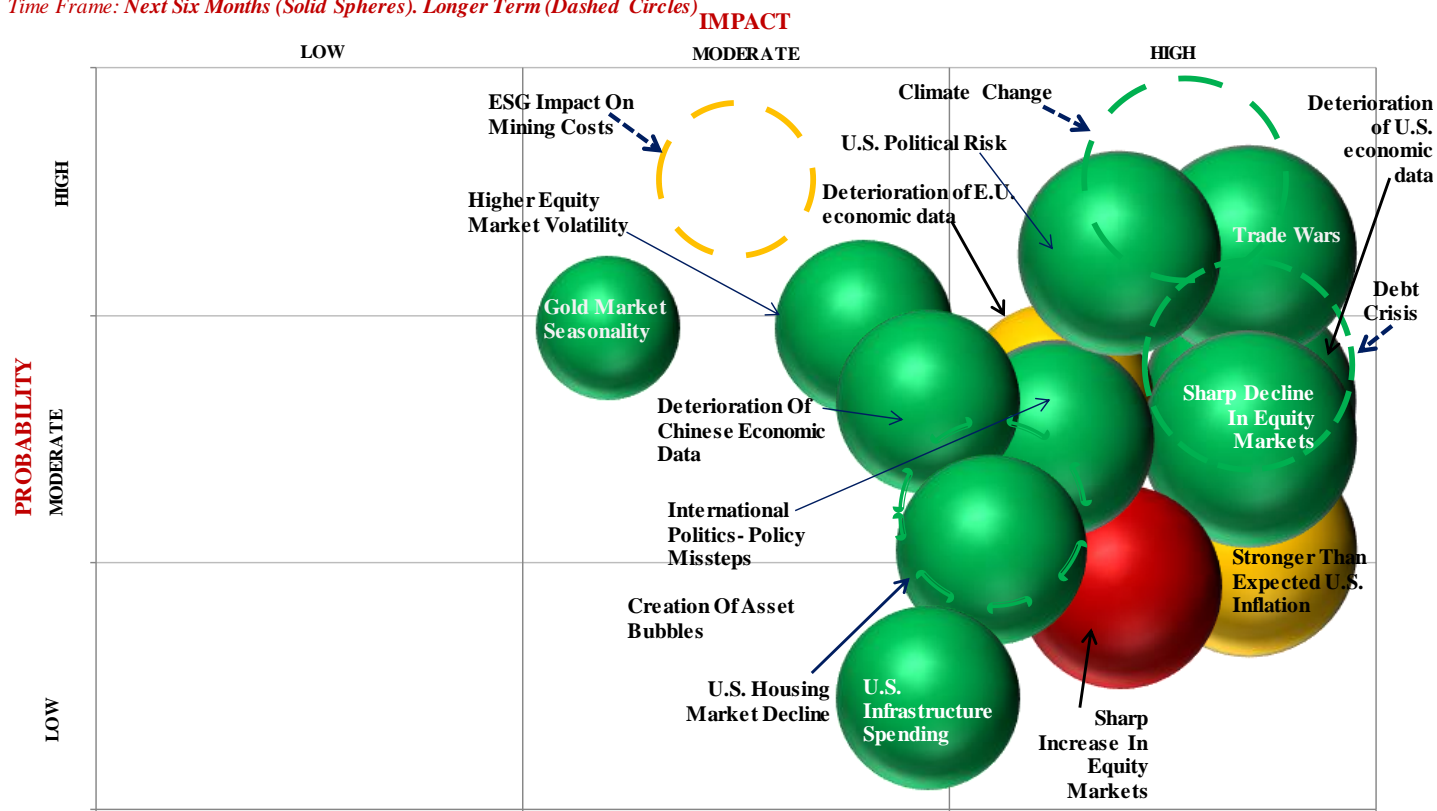
Progressively less volatile  
economic conditions.



# Big Issues Are Growing Larger, But Not Disrupting Yet

Risks, Probabilities, and Impact Of Factors Affecting U.S. Dollar Gold Price

Time Frame: Next Six Months (Solid Spheres). Longer Term (Dashed Circles)



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# What If Some People Are Wrong?

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Various commentators, especially ‘gold bugs’ have been predicting the collapse of the global financial system **since the 1970s**.

Massive deficit financing, 12% per annum growth in debt for decades, and unbound monetary policy *had* to lead to the collapse of the global financial system.

**It has not happened yet.**

**What if they do not know what they are talking about?**

**What if ... the thousands of economists and bankers at the Fed, other central banks, and the global financial industry know more about money and banking than the largely self-proclaimed polemicists?**



# Here Is Another Example: Interest Rates

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## Negative Interest Rates

Observers keep saying that the **\$13 trillion** in bank deposits on which deposit holders are paying interest is going to cause enormous problems.

1. They don't say why or how this will cause problems.
2. They don't answer the question: *Why would anyone pay interest to hold deposits.*  
The answer: Because they are making a fortune using it as collateral for derivatives.
3. They do not address: *What does a world of negative interest rates affect the yield curve in interest rates?*  
The answer: Maybe it means that an inverted yield curve that *more or less* presaged recession from 1947 through 2008 does not carry the same signal post the Global Financial Crisis.



# Let's Be Honest: Politics

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**The political problems we see may *not* be consequential to gold and financial markets.**

- U.S. political disfunction, the 2020 elections.
- Brexit, the future of Europe.

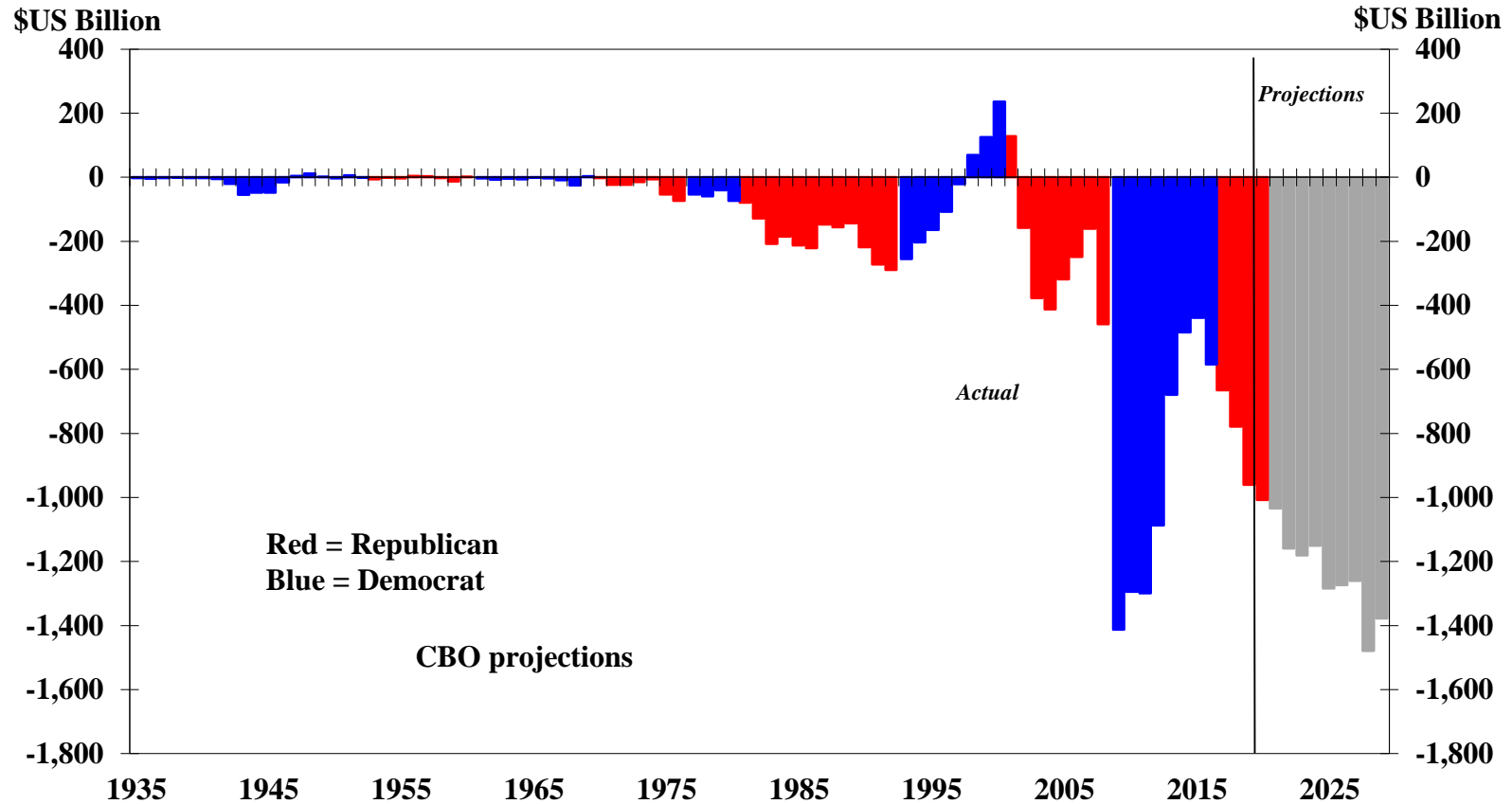
**Others are likely to be important, but they are slower to emerge.**

- The rise of nationalism and tribalism globally.
- The discrediting of democratic processes and non-oligarchic 'free' markets worldwide.
- The breakdown of U.S. hegemony and international cooperation, at least with the U.S.



# U.S. Federal Debt : These Trillions Are Structural

## U.S. Budget Surplus & Deficit



# Where To Look For The Cracks In The System

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When the system starts to move toward one of those periodic financial crises and recessions....

1. The problems probably will be related to debt.
2. The problems will not first appear in the major markets that everyone is watching.
3. The problems probably will first appear in some obscure corner of the debt market.
  - Just like they appeared first in collateralized mortgage obligations in 2007.
  - One place to watch: The value and liquidity mismatch in equity market values and derivatives written on those equity markets, similar to that which developed in the CMO markets leading up to 2007.



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***Gold***

# Gold Prices: The Stealth Bull Market

Gold Prices: 1 December 2010 to 31 December 2019



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# Gold Price Determination

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## **1. Stock Demand determines the Gold Price.**

- a. Investor demand primarily, applying greater price pressure.
- b. Central banks are important, but more price elastic and sensitive.

## **2. Price Determines Levels, Growth, and Trends in Other Fundamentals.**

- a. Mine Production
- b. Secondary recovery from scrap
- c. Fabrication demand

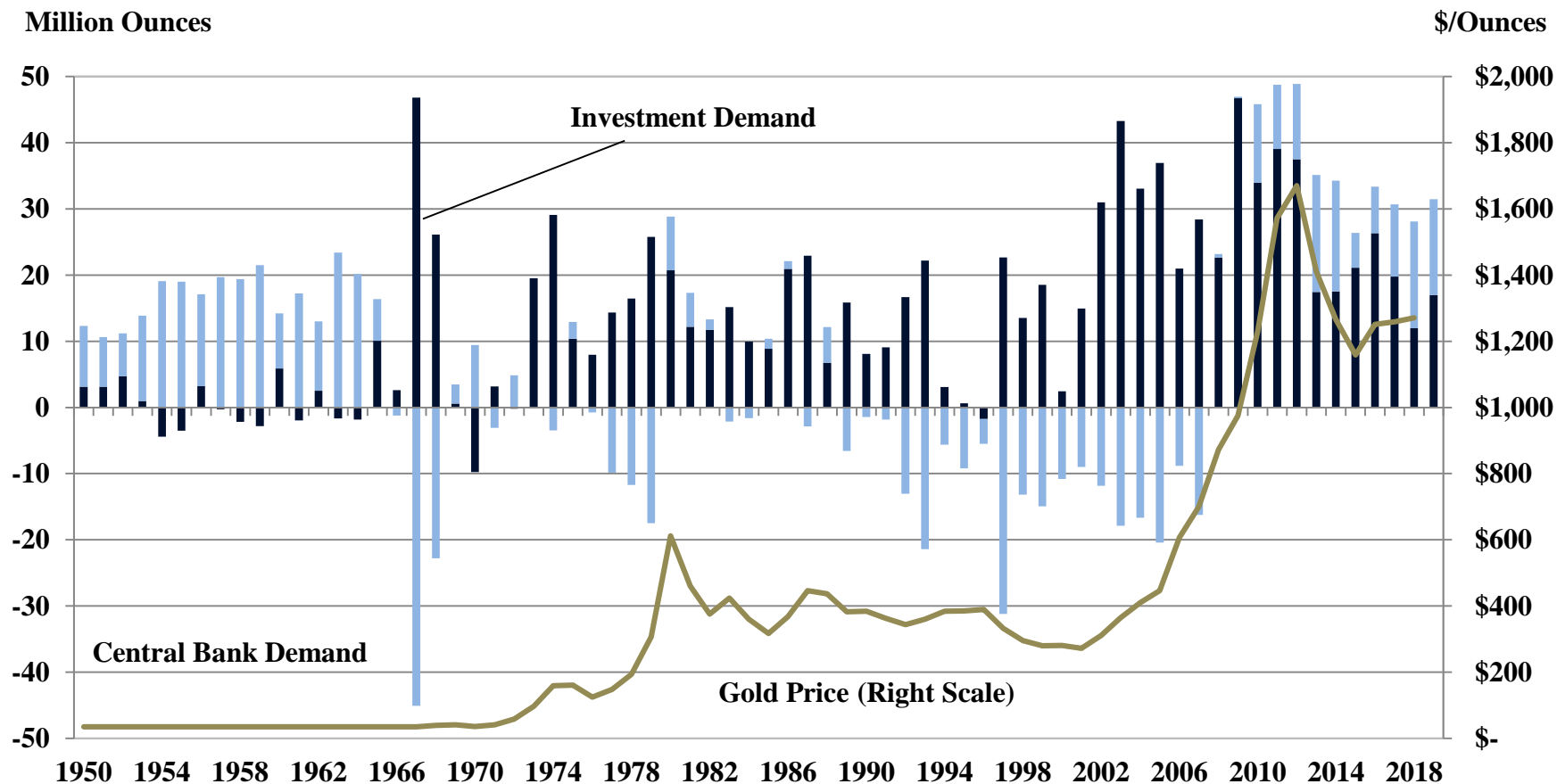




# Stock Demand for Gold

## Gold Stock Demand and Annual Average Gold Prices

Annual Data, projected through 2019



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# Gold Realities

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**Investors bought less gold in 2018 and 2019 than they did in any year since 2001.**

- Some long-term investors have become turned off to gold's performance based on former long-held unrealistic expectations.

**Central banks will buy gold, but they are bargain hunters.**

- No central bank sees gold as the denominator of a future currency regime.
- Central banks want to add modest amounts of gold to their monetary reserves. They are buying more gold in 2018 and 2019 partly because investors fled the market, driving prices down \$200 in the first 8 months of 2018.

**They will back off when prices rise.** (Note, when, not if.)

The gold market is adequately supplied

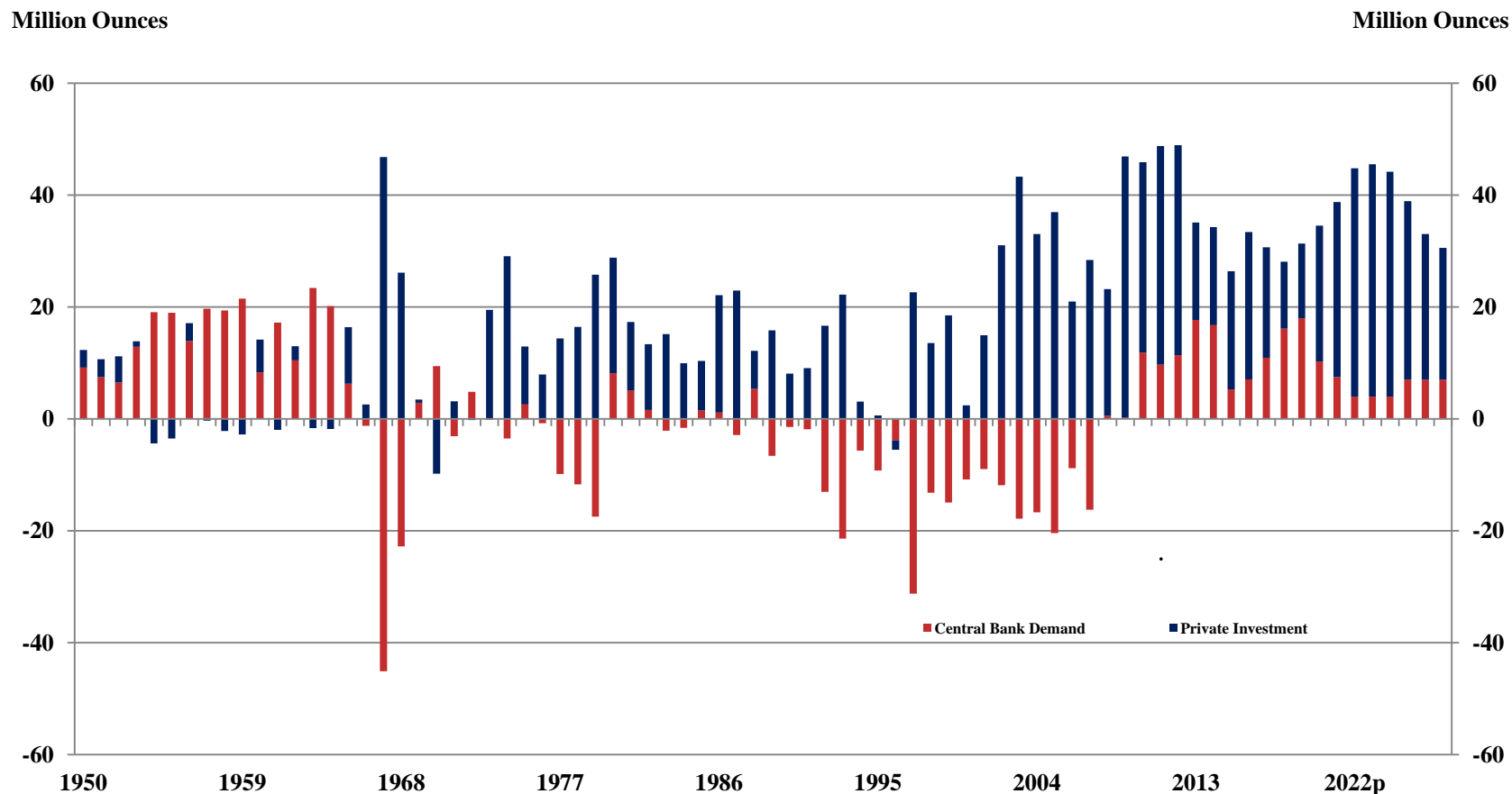
- **The world is not running out of mineable gold.**
- The mining industry needs to reform the ways it looks for gold.



# Positive Investor and Central Bank Demand To Keep Prices Up

## Gold Stock Demand

Annual Data, Projected Through 2027



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# Investors have moved away from buying physical metals

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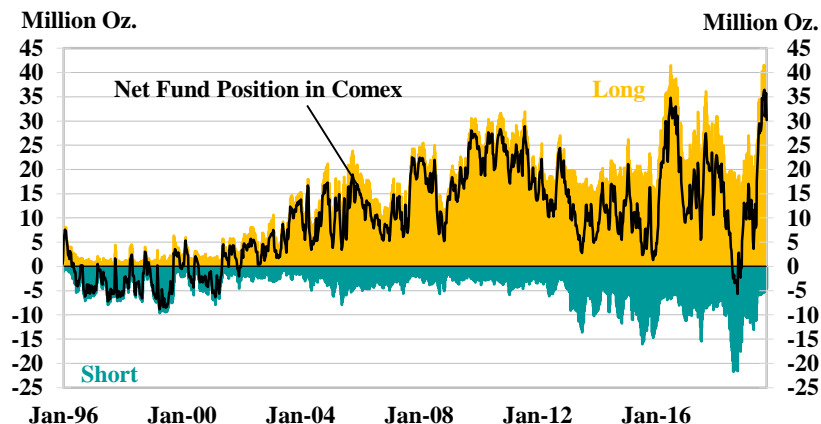
- Gold investor physical demand fell 74% from 2008 to 2018.
- Silver demand fell 89% from 2012 to 2018.
- Platinum demand fell 57% from 2013 to 2018.
- Buying levels fell further in 2019.
  - Gold demand off 5.1% 2018 to 2019.
  - Silver demand off 26.5%
  - Platinum demand off 41.6%\*

*\* A shift from unreported to reported ETF holdings masks this.*
- Most of the buying behind the rise in prices since June has been futures, options, and forwards.

# The Recent Rally Was Futures, Forwards, ETFs; Not Coins

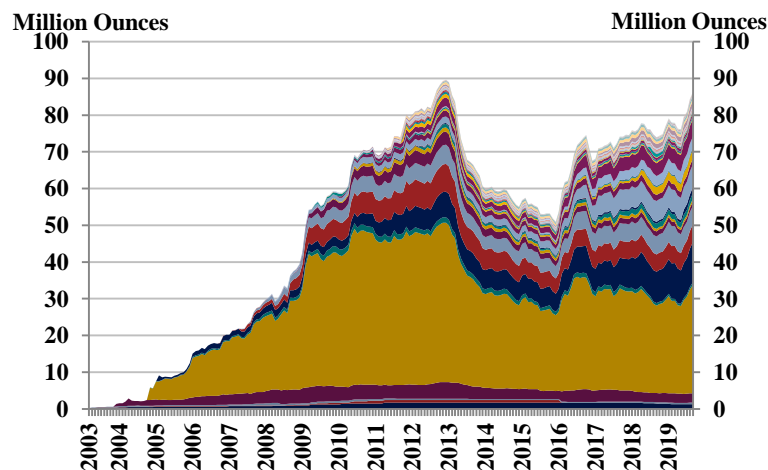
## Gross Long and Short Positions of Non-Commercial Positions

Comex Gold Futures & Options. Weekly, through 01 Oct. 2019



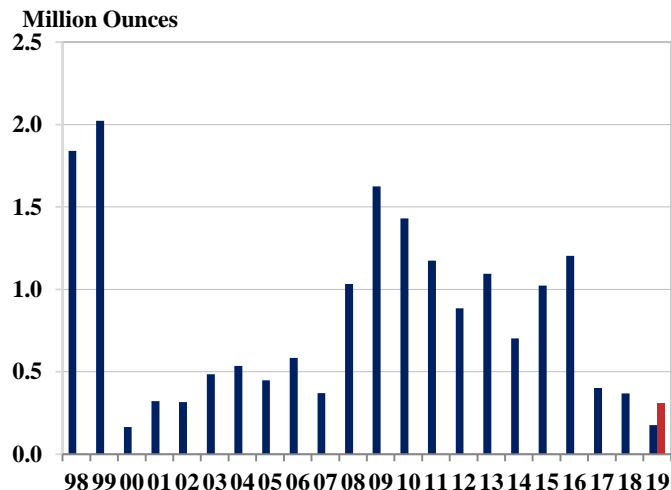
## Monthly Exchange Traded Products' Physical Gold Holdings

Sep. 2019



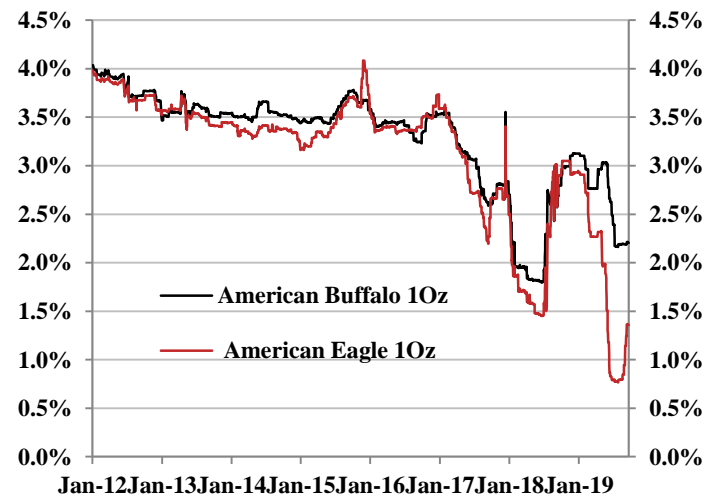
## Annual U.S. Mint Gold Coin Sales to Dealers

September 2019



## Dealer Premia on U.S. Mint Gold Coins

Daily Data through 30 Sep. 2019



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# Recent Research

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Two research projects undertaken by CPM Group in 2018 – 2020 shed light on shifts in investor attitudes toward gold, commodities, gold shares, mining shares.

## **1. The Shift To Futures From Forwards**

## **2. Canadian Mineral Industry Investor Dynamics**

Findings:

1. Of 6,800 hedge fund and commodity fund managers, 132 invest in precious metals.
  - a) Of these, only 35 base their investments on fundamentals and macroeconomic trends and analysis.
2. There are massive shifts in investment management away from fundamentals, specific company investments, personally managed funds *toward* mechanical, indexed, EFT, technically and AI driven funds.
3. The need for the mining industry to project more knowledge and less marketing hype.

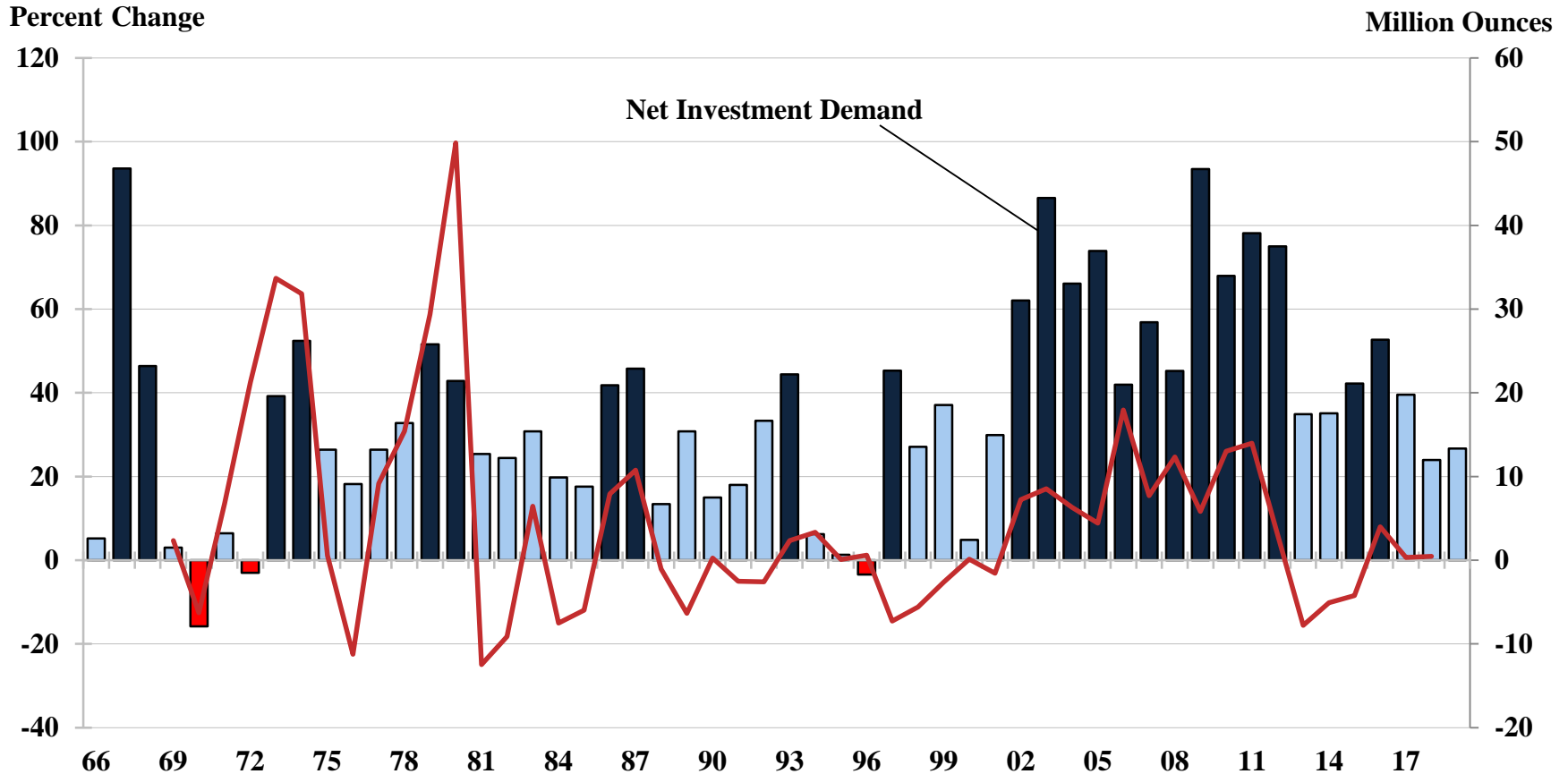


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# Gold Investment Demand Lowest Since 2001

## Gold Investment Demand

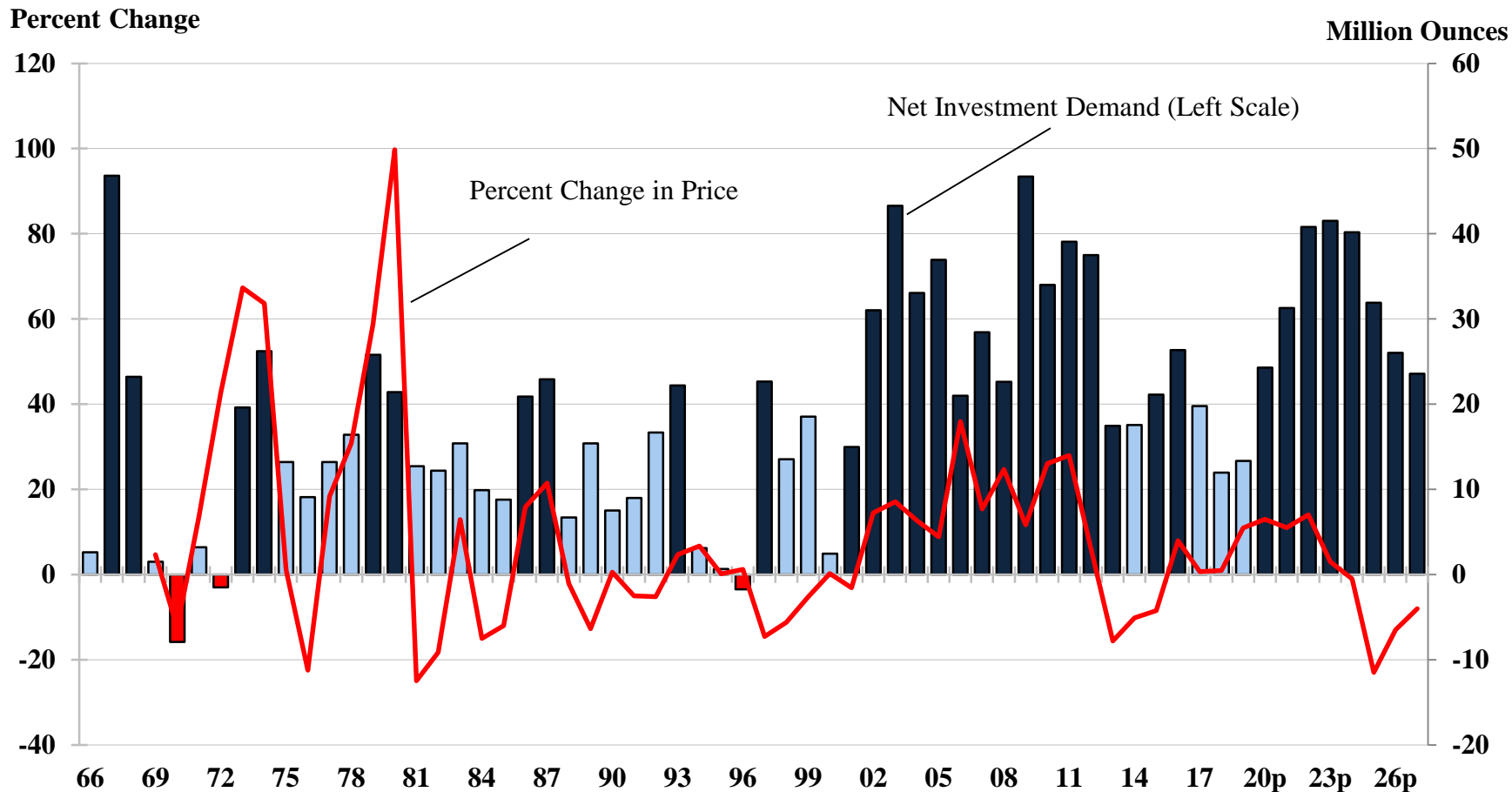
Annual, Investment Demand Projected Through 2019, Prices Through 2018



# Longer Term Gold Investment Demand Outlook

## Investment Demand and Gold Prices

Annual, Projected Through 2027



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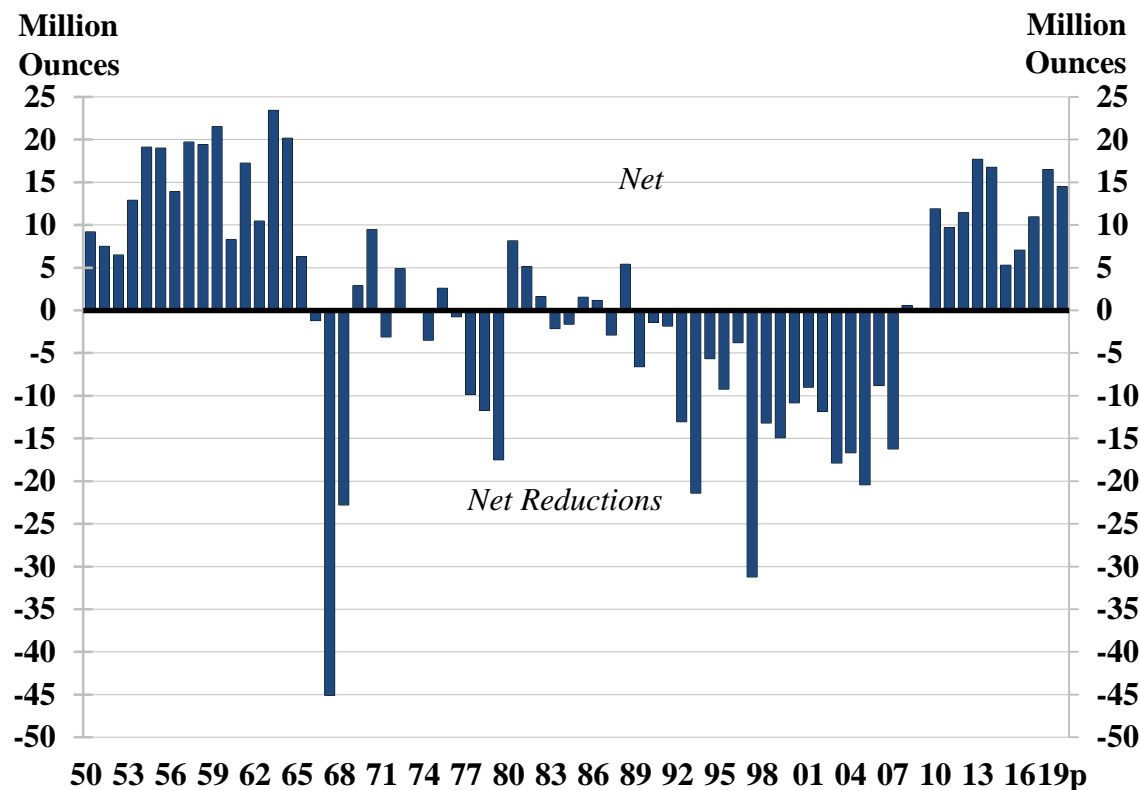
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# *Central Banks*

# Central Banks Are Bargain Hunters

## Official Transactions

Annual Data, Projected through 2019



**Central banks want to add gold to their monetary reserves.**

None of them see gold as becoming the basis of a future currency regime, however.

**Central banks are more price sensitive than private investors.**

They have been buying more lately because investors were buying less, which drove the price lower. When investors return as buyers central banks will scale back on their buying.



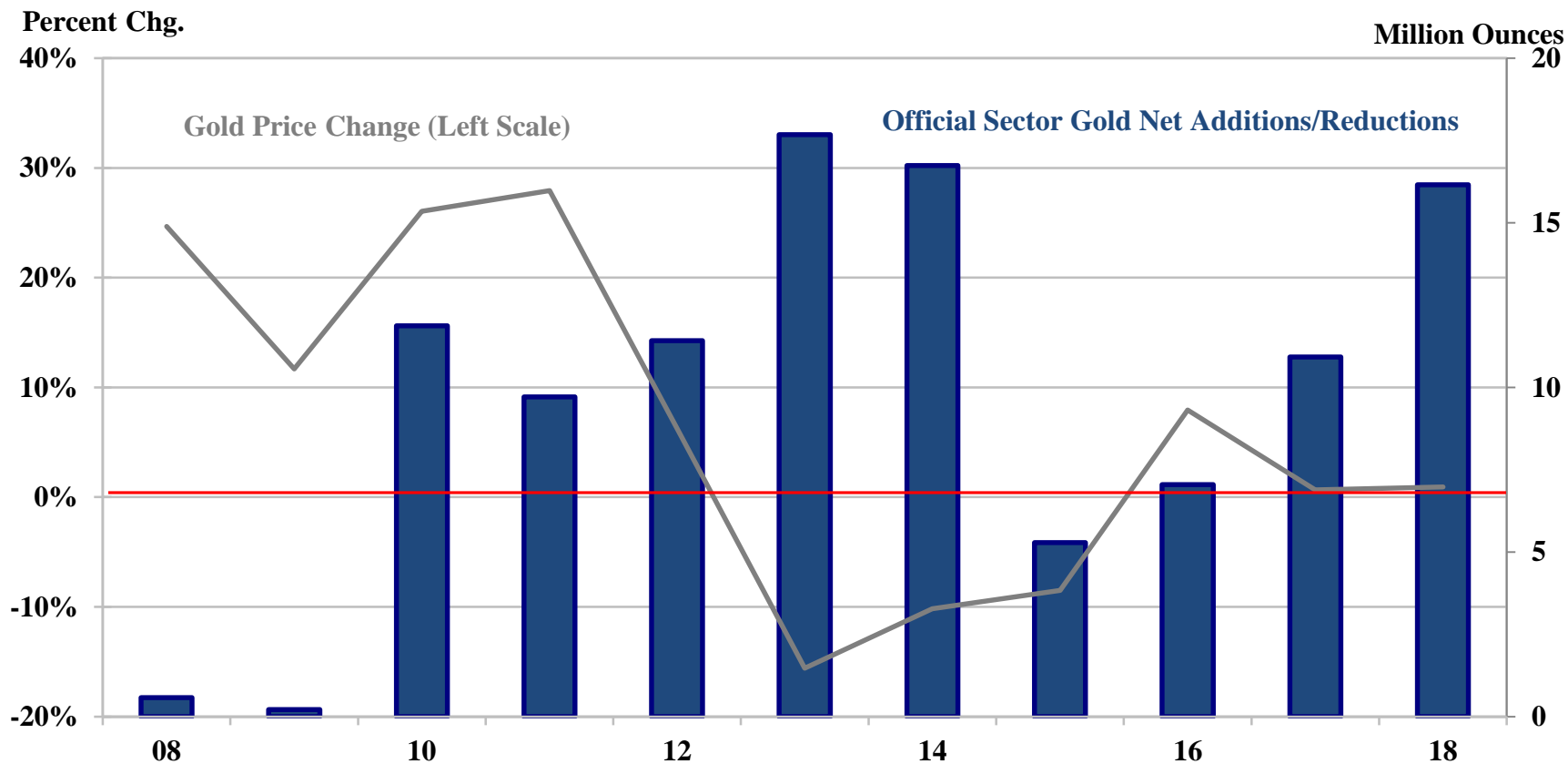
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# Central Banks Have Typically Been Price Sensitive

## Gold Prices and Shifts in Central Bank Gold Reserves

Annual, Through 2018

Correlation: **-0.52**

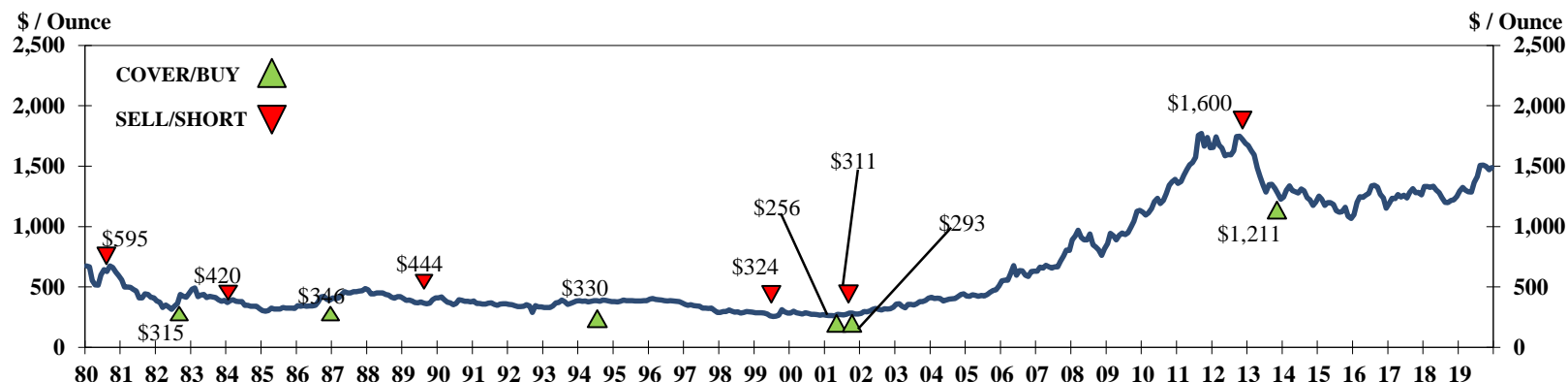


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# *Gold Price Outlook*

# Performance of Gold Research Intermediate Recommendations

## Research Recommendations for Gold



### Gold Investment Portfolio Returns on Three Strategies

As of December 2019 from Initial Investment of \$1 Million in December 1980



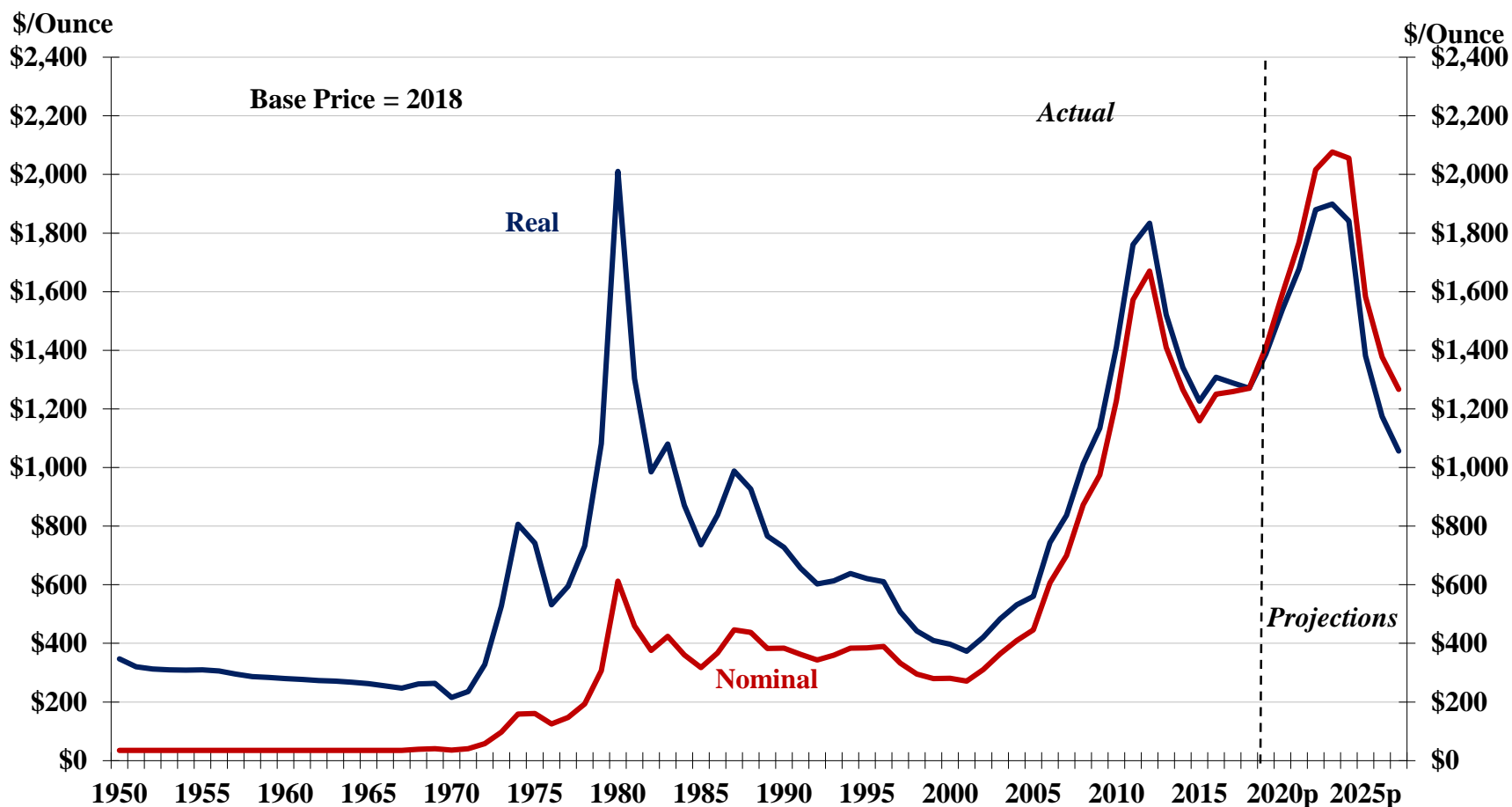
	Portfolio 1 Bought and Held Gold	Portfolio 2 Bought and Sold Gold	Portfolio 3 Bought, Sold, & Shorted Gold
Initiated Positions	\$1,000,000	\$1,000,000	\$1,000,000
Value as of Dec 2019	\$2,367,505	\$30,627,383	\$108,529,775
Return as of Dec 2019	136.8%	2,963%	10,753%
Annualized Rate of Return	2.36%	9.17%	12.2%

# Medium-Term Gold Price Projections



# Long-Term Gold Price Projections

Real and Nominal Gold Prices



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## *Energy Metals*



# Electric Vehicles Face Major Constraints

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Some projections have unattainably fast rates of market penetration for EVs.

There are massive constraints that will limit EV market penetration

## **1. Insufficient electricity**

- a) And most of the electricity will come from hydrocarbons, mostly coal and natural gas.

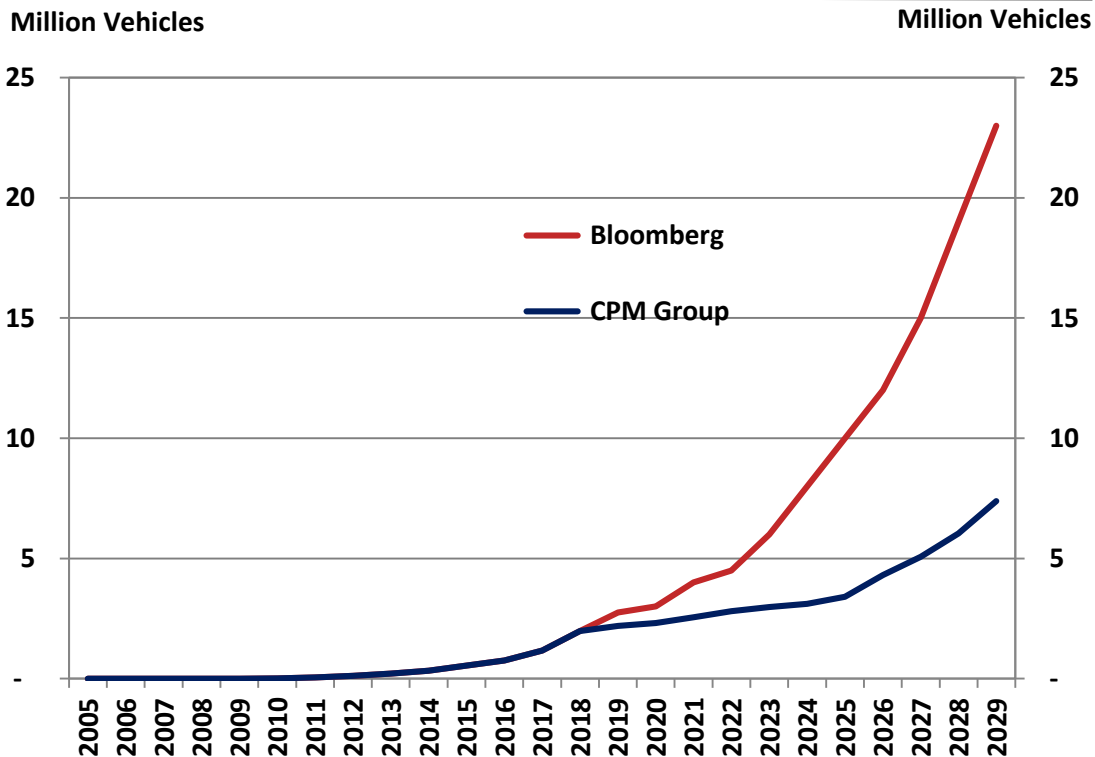
## **2. Insufficient stable electricity distribution grids.**

## **3. Massive capital requirements** for parts manufacturers to build factories

- a) Most of these companies cannot access the necessary capital.
- b) Rapid changes in technologies further hinders ability to build manufacturing capacity

# There Is Great Uncertainty Over Future Motive Power

Global Passenger Light Duty Electric Vehicles



Which technology will  
'win'

Petroleum products are here  
for decades, regardless

Speed of adoption unknown

Technological changes keep  
increasing uncertainty

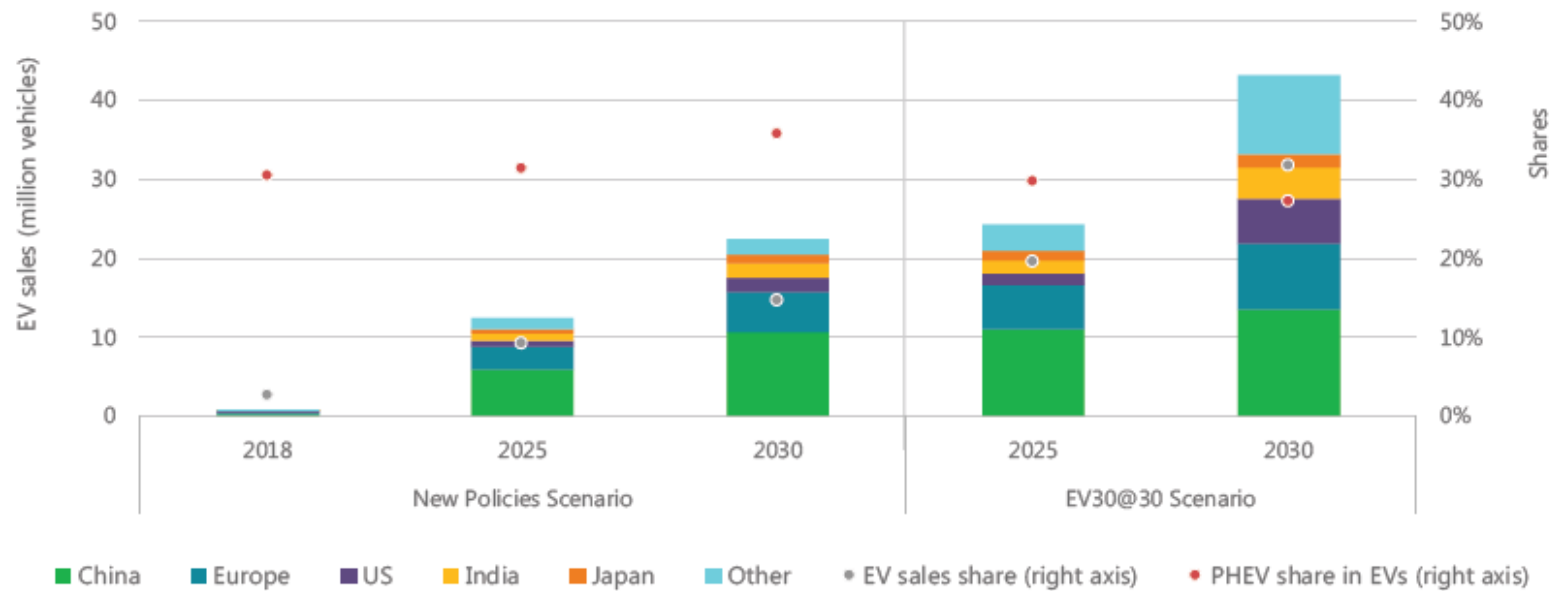
EVs may be an interim,  
transition form of power

Hydrogen fuel may supplant  
EVs if Liquid Organic  
Hydrogen Carriers are  
commercialized.



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## Electric vehicle sales



# Thank You.

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