

Gold and Other Metals in 2020



Denver Gold Group Jeffrey Christian 23 January 2020 Denver

Themes

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:

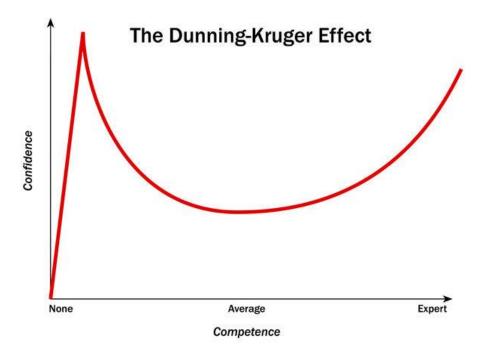
There are a lot of bullish views for metals related to the advent of EVs that are not supported by fact or logic.

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

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?

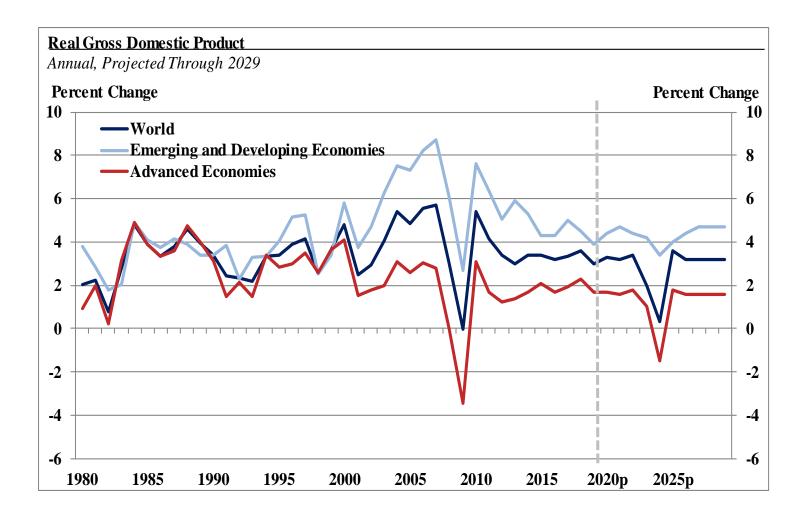
This is not to say that the massive global debt, deficits, and derivatives markets will not ultimately cause problems.

-- 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

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.

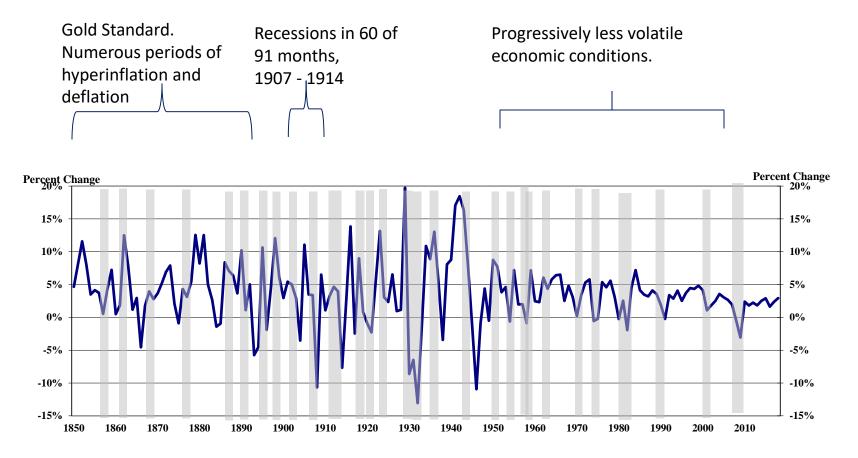
Overall underlying economic conditions

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



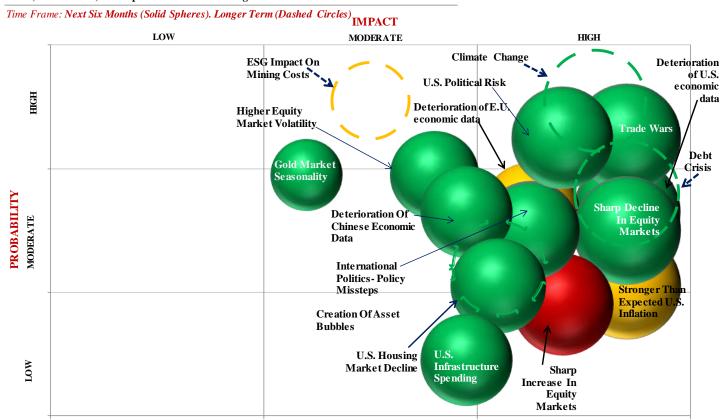
The Economy Was More Volatile in the Good Old Days

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





Big Issues Are Growing Larger, But Not Disrupting Yet



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



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 polemists?



Here Is Another Example: Interest Rates

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

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.

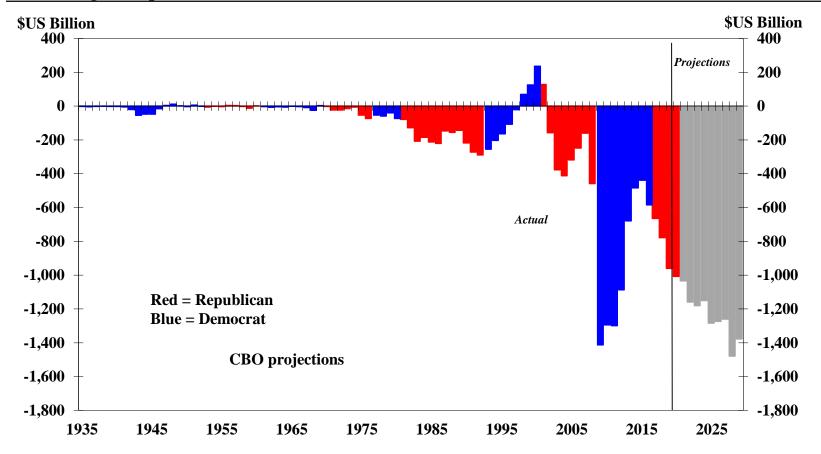
Others are likely to be important, but they are slower to emerge.

- 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



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Where To Look For The Cracks In The System

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

1. The problems probably will be related to <u>debt</u>.

2. The problems will *not first appear in the major markets* that everyone is watching.

- **3.** The problems probably will first appear in <u>some obscure corner</u> 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.







Gold Prices: The Stealth Bull Market



Gold Prices: 1 December 2010 to 31 December 2019



Gold Price Determination

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

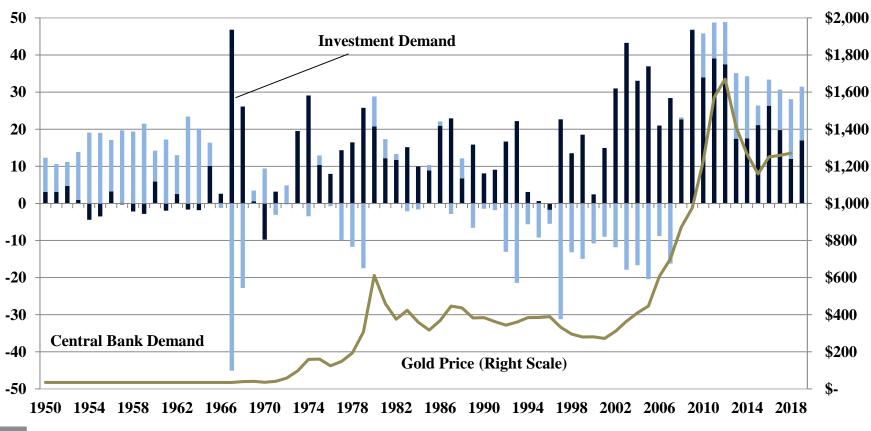


Stock Demand for Gold

Gold Stock Demand and Annual Average Gold Prices

Annual Data, projected through 2019

Million Ounces



\$/Ounces

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Gold Realities

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.



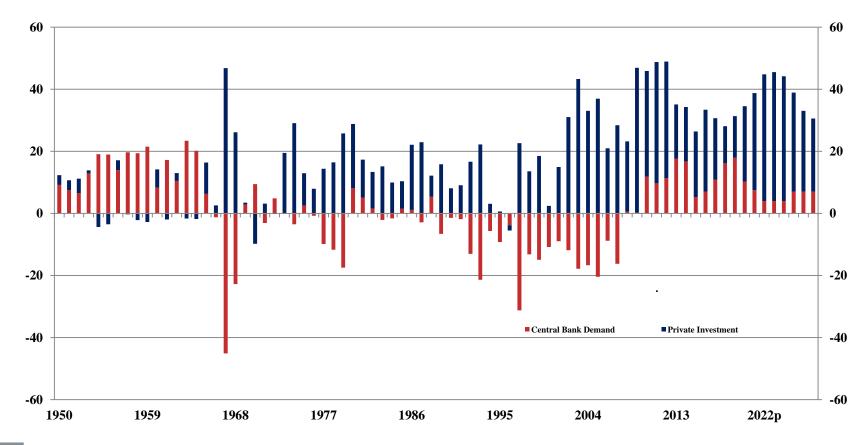
Positive Investor and Central Bank Demand To Keep Prices Up

Gold Stock Demand

Annual Data, Projected Through 2027

Million Ounces

Million Ounces



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Investors have moved away from buying physical metals

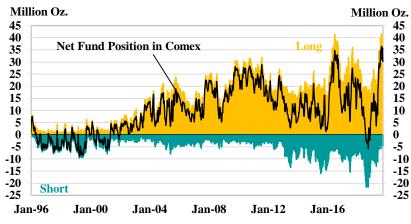
- Gold investor physical demand fell 74% from 2008 to 2018.
- Silver demand fell 89% from 2012 to 2018.
- Platinum demand fell 57% from 2013 to 2018.
- Buying levels fell further in 2019.
 - Gold demand off 5.1% 2018 to 2019.
 - Silver demand off 26.5%
 - Platinum demand off 41.6%*
 - * A shift from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

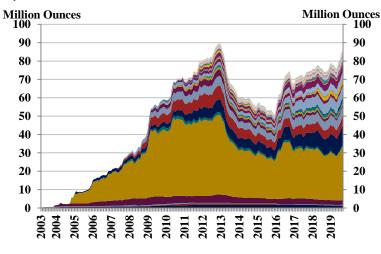
Comex Gold Futures & Options. Weekly, through 01 Oct. 2019



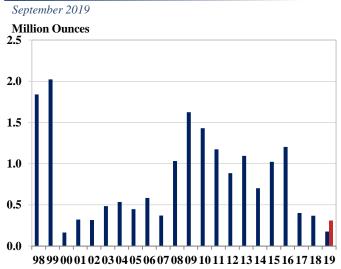
Monthly Exchange Traded Products' Physical Gold Holdings

Sep. 2019

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Annual U.S. Mint Gold Coin Sales to Dealers



Dealer Premia on U.S. Mint Gold Coins

Daily Data through 30 Sep. 2019



Recent Research

Two research projects undertaken by CPM Grorup 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.



Gold Investment Demand Lowest Since 2001

Gold Investment Demand

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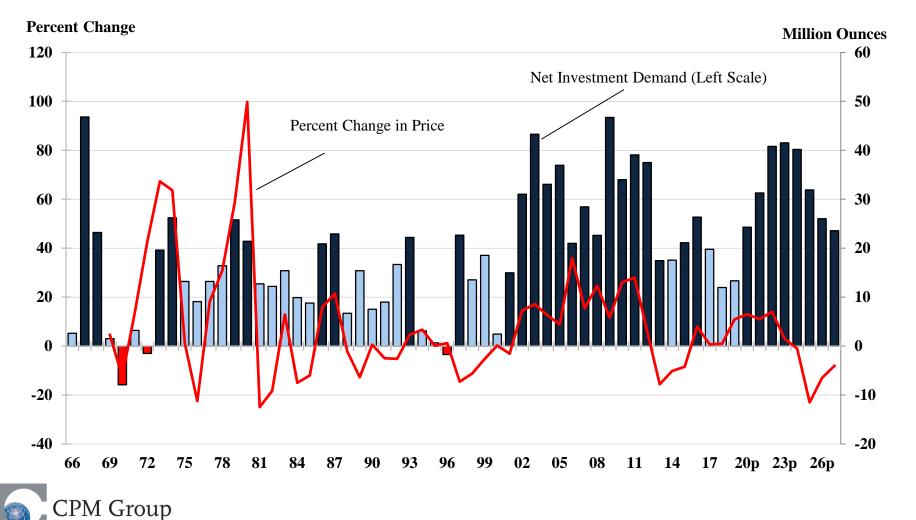
Annual, Investment Demand Projected Through 2019, Prices Through 2018

Percent Change Million Ounces Net Investment Demand -20 -10 -40 -20

Longer Term Gold Investment Demand Outlook

Investment Demand and Gold Prices

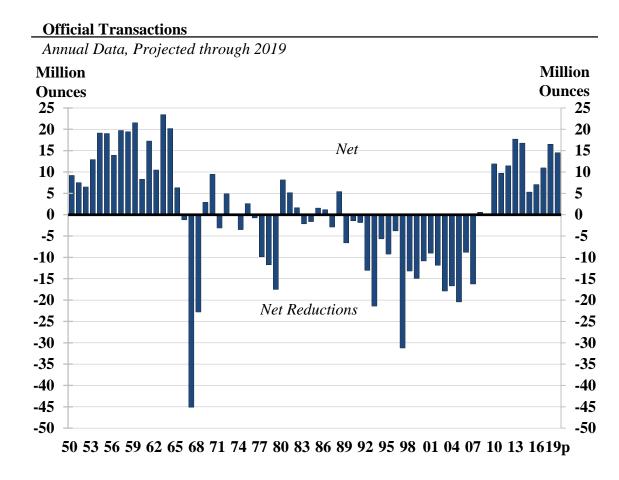
Annual, Projected Through 2027



Central Banks



Central Banks Are Bargain Hunters



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Central banks want to add gold to their monetary reserves.

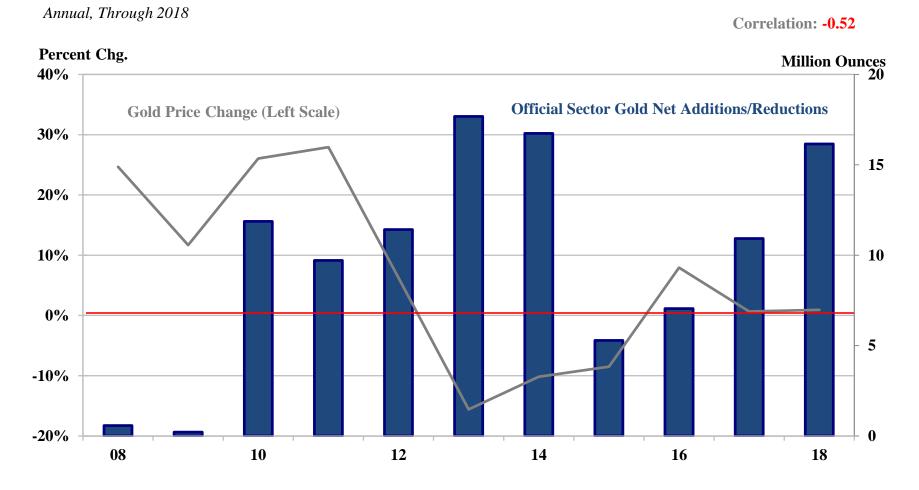
None of them see gold as becoming the basis of a future currency regime, however.

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.

Central Banks Have Typically Been Price Sensitive

Gold Prices and Shifts in Central Bank Gold Reserves



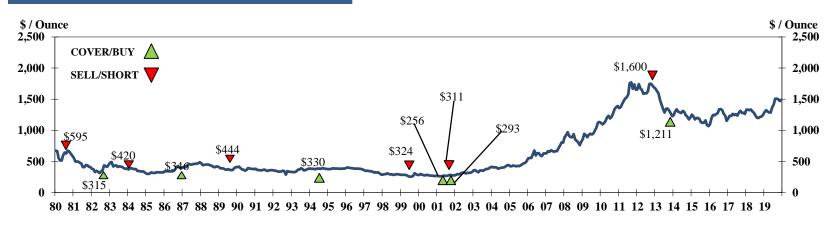


Gold Price Outlook



Performance of Gold Research Intermediate Recommendations

Research Recommendations for Gold

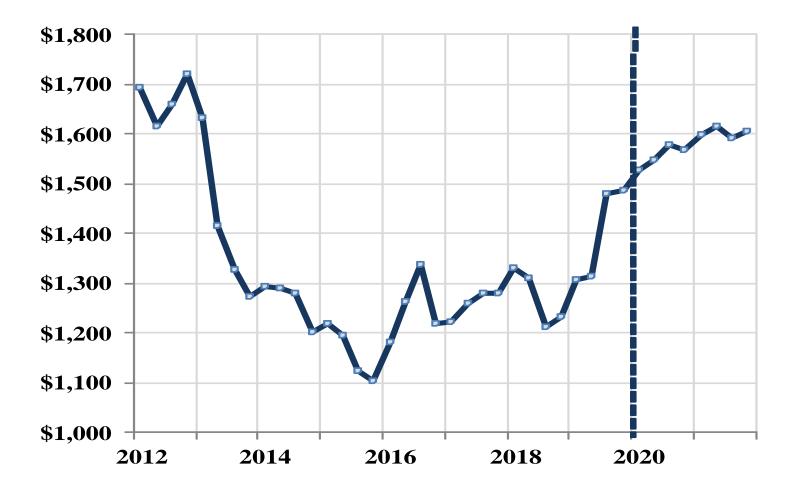


	estment Portfolio Returns on Three St ember 2019 from Initial Investment of \$1		Portfolio 1 Bought and Held Gold	<u>Portfolio 2</u> Bought and Sold Gold	<u>Portfolio 3</u> Bought, Sold, & Shorted Gold	
December 12,000% -		Long & Short	Initiated Positions	\$1,000,000	\$1,000,000	\$1,000,000
10,000% - 8,000% -	-		Value as of Dec 2019	\$2,367,505	\$30,627,383	\$108,529,775
6,000% -	-		Return as of Dec 2019	136.8%	2,963%	10,753%
4,000% - 2,000% - 0% -	Long, No Shorting Long & Hold		Annualized Rate of Return	2.36%	9.17%	12.2%

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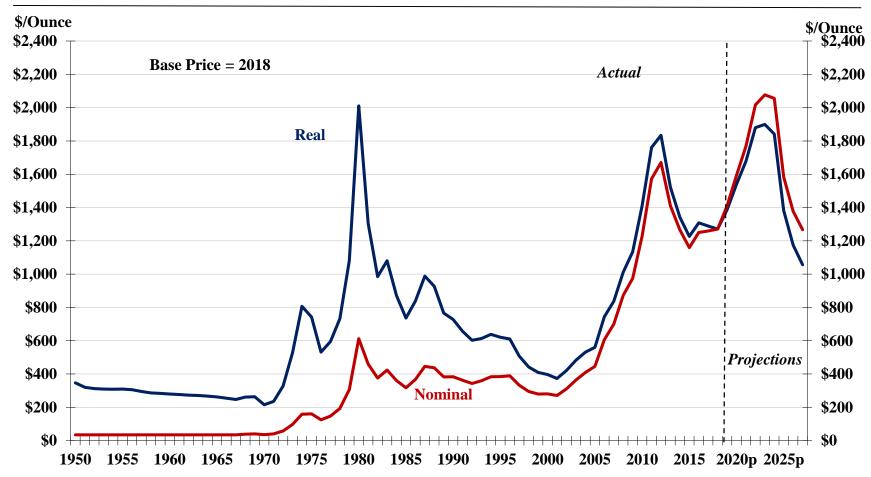
Medium-Term Gold Price Projections





Long-Term Gold Price Projections

Real and Nominal Gold Prices





Energy Metals



Electric Vehicles Face Major Constraints

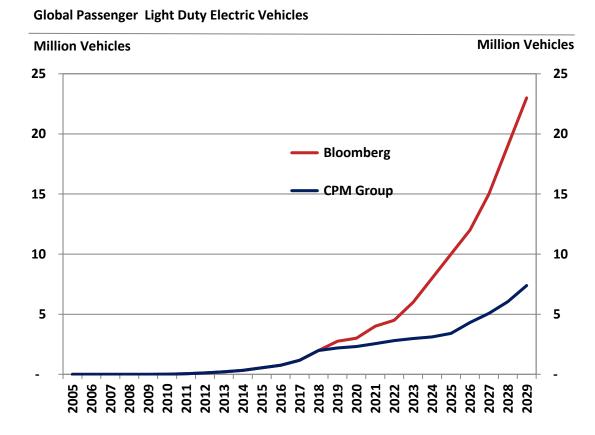
Some projections have unattainably fast rates of market penetration for EVs.

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



Which technology will 'win'

Petroleum products are here for decades, regardless

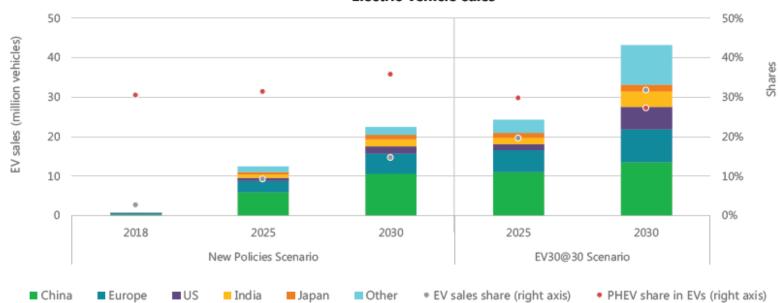
Speed of adoption unknown

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.





Electric vehicle sales



Research-Driven Research and Consulting

Thank You.



This month's report has two articles up front. The concerns the volatility that has roiled all financial kets, and some governments, over the past month. M of the volatility originated in changes the Chinese ernment and People's Bank of China (PBOC) initia beginning in July but becoming more apparent in Aug Many of these changes will bear long-term positive f The shift to a new world paradigm for financial monetary markets caught a lot of investors by surp however. Furthermore, the changes and the market re tions spawned an obscene amount of totally preposter and over-sized fears in global commodities, equi fixed income, and currency markets.

The first article deals with precious metals markets the past month, and where they are likely to head.

The second article focuses on the immediate and term implications for gold markets and prices of a m shift in the PBOC's posture toward gold.

After falling sharply in July and early August, premetals prices recovered by the end of the month. C prices had the strongest recovery, finishing the mont \$1,132, up from \$1,085.30 on 5 August, the lowest se ment price since February 2010, and up from \$1,09 on 31 July 2015. Other precious metals prices were up from the lows that they reached during the first days of August, but silver and palladium remained b their settlement prices at the end of July while plati rose 2.6% over the course of August to \$1,010.50 the end of July.

The rebound in gold prices, primarily, reflected invest covering previously established short positions. The was some increase in fresh long demand, but most of buying seemed to be from investors buying back t short positions. Total open interest on the Comex p futures market dropped -7.4% from the low of gold pr on 24 July to 1 September.

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Report Contents

Price Targets ... Cold.

Perspective Plies Out The Win-

or has two	articles up front. The first	Market Data (Data at of 3 September, Charger from 4 August				
volatility that has roiled all financial mar-		Nemes: Connex New	uty Active Prices		96 A	55
se governmenta, over the past month. Mach ity originated in changes the Chinese gov- People's Bank of China (PBOC) initiated, July bub becoming more apparent in August. e changes will bear long-term positive frait. a new world paradigm for financial and rhets caught a lot of investors by surprise, thermore, the changes and the market reac-		Ciold	1.134.00	+	1.05	342
		Sher	14.70	+	0.2%	0.03
		Patron	1,998.00	*	1.7%	54.0
		Paladium	581.60	+	2.24	113
		Thefinn	792.00	4	424	-40 01
		"Filedon yaics a M apri p	4,13			
		Nymex Comex Inv	enitories oz		Δ	es.
	nount of totally preposterous	Cold				
	obal commodities, equities,	Digible	6,894,942	4	-42,401	6591343
currency m	arkets.	Registered	824,877	4	-317,564	682,682
		Teral	7,216,619	+	-148.94T	7,569,582
	recious metals markets over	Silver				
ud where th	ry are likely to head.	Highle	113,484,090	4	-1.010.200	110,222,470
		Registered	52,797,330	4	-3,012,240	55,829,350
	on the immediate and long-	Toral	168241,200	4	-4.140.625	172,381,829
	arkets and prices of a major	Tizinam Tatal				
's posture to	neard gold.	thighle	97,339	+	22,012	75,237
		Registered	28,396	4	-22.840	51,000
ply in July	and early August, precious	Total	825,587	4	-311	126,138
overed by 1	he end of the month. Gold	Pallalian - Total				
mgest reco	very, finishing the month at	Bigible	42.587	4	-1.98	90,355
	5 August, the lowest settle-	Registered	29,978	4	-4.871	44,823
	010, and up from \$1,094.90	Teral	10,525	4	42,039	125,359
5. Other precious metals prices were also		Open Interest	05		Δ	15
that they i	reached during the first few	GM				
st, but silver and palladium remained below		August	2,671,389	+	25,228,480	27,889,768
ices at the	end of July while platinum	Omler	51,856,200	. *	20,381,900	1,250,300
	f August to \$1,010.50 from	Total	41,200,000	+	1,05,400	41,666,588
e course o	r rugae to anorozo nom	Silver	SETTION.			000500
		July September	222,998,080	+	22 222 000	10,000,000
d mices	stimarily, reflected investors	Total	121,015,000	1	-59 (275,040	580,133,000
	hed short positions. There	Raisson	10.000000			
		3 day	3,682,000	4	-165,388	1,246,500
	ing demand, but most of the	Omster	3,967,880	Ť	85,430	3,899,956
	investors buying back their	Total	3,982,880	+	10,410	1,899,556
	interest on the Comex gold	Publican September	3315,000	4	28.38	1.521.500
oped -7.49	from the low of gold prices	December	479,480	+	310,200	128,284
tember.		Tetal	1792.300	÷	104,700	3,651,600
		"Data as of 1 July, chan	per from 3 June			
		Indicators			765	\$5
\$		DIRA	10,814.8	+	40%	-154
Win	Platimum	FT Wald Stock lades	296.8		40.	210
	Palladium	PT Gold Mines listers	881.8		8.0%	30.0
	Rhodium p.45	CRB lades	296.5	4	-5.0%	4.2
	Precision Mietals Price Table	7-80x	130%	+	-ces	-2.00
	Equities & Metrics Tables.p.47-48	ICE Dollar Index.	96.37	4	2.0%	
		\$ / Ears	8.85		1.7%	SOLE

Research

Consulting

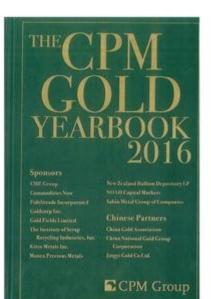
Asset Management

Commodities Management

Investment Banking Advice

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