

July 16, 2021

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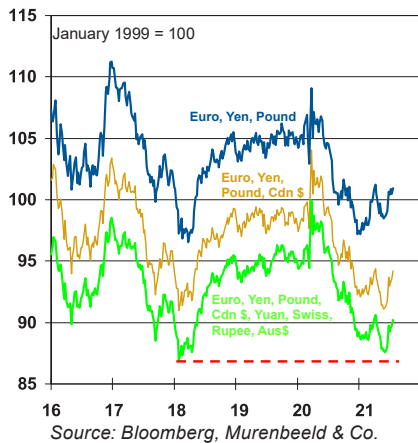
GOLD PRICE



	Jul-12	Jul-13	Jul-14	Jul-15	Jul-16
Gold - LBMA PM Price	1792.40	1813.85	1823.20	1823.75	1824.30
Gold - COMEX	1805.90	1809.90	1825.00	1829.00	1810.80
Silver - HH	2620.50	2616.50	2613.50	2628.50	2572.50
Platinum - NYME	1121.70	1109.80	1126.50	1136.00	1107.00
Crude Oil - NYME	74.10	75.25	73.13	71.65	71.48
CRB Bridge - NYBOT	212.71	214.12	213.38	212.25	212.58
US \$ Index (EFXR0C)	101.03	101.47	100.94	100.99	101.20
Fed Funds (Overnight)	0.10	0.10	0.10	0.10	0.10
US 10-Year TIPS Yield	-0.9817	-0.97	-1.02	-1.05	-1.05
TSX Global Gold Index	295.92	301.48	303.79	308.03	300.11
S&P 500	4384.63	4369.21	4374.30	4360.03	4327.16

Source: Bloomberg, Murenbeeld & Co.

US DOLLAR INDEX



Review

Gold rose some \$18.30 this week (Friday pm/Friday pm), mostly in connection with Powell's semi-annual testimony to Congress. In his prepared comments Powell noted that *reaching the standard of "substantial further progress" [toward the Fed's goals] is still a ways off*, which suggests that the time to taper asset purchases is also still a ways off.

by Martin Murenbeeld

Under questions from the (House) Committee on Financial Services *the central bank chief largely stuck to his view that the inflation increases would be transitory and eventually subside ... despite admitting ... that the inflation readings had caught the Fed off-guard*. Bottom line: *it would be a mistake to act prematurely [he noted]* (FT 07/14).

TSX GOLD INDEX



Gold Price Last 5-days

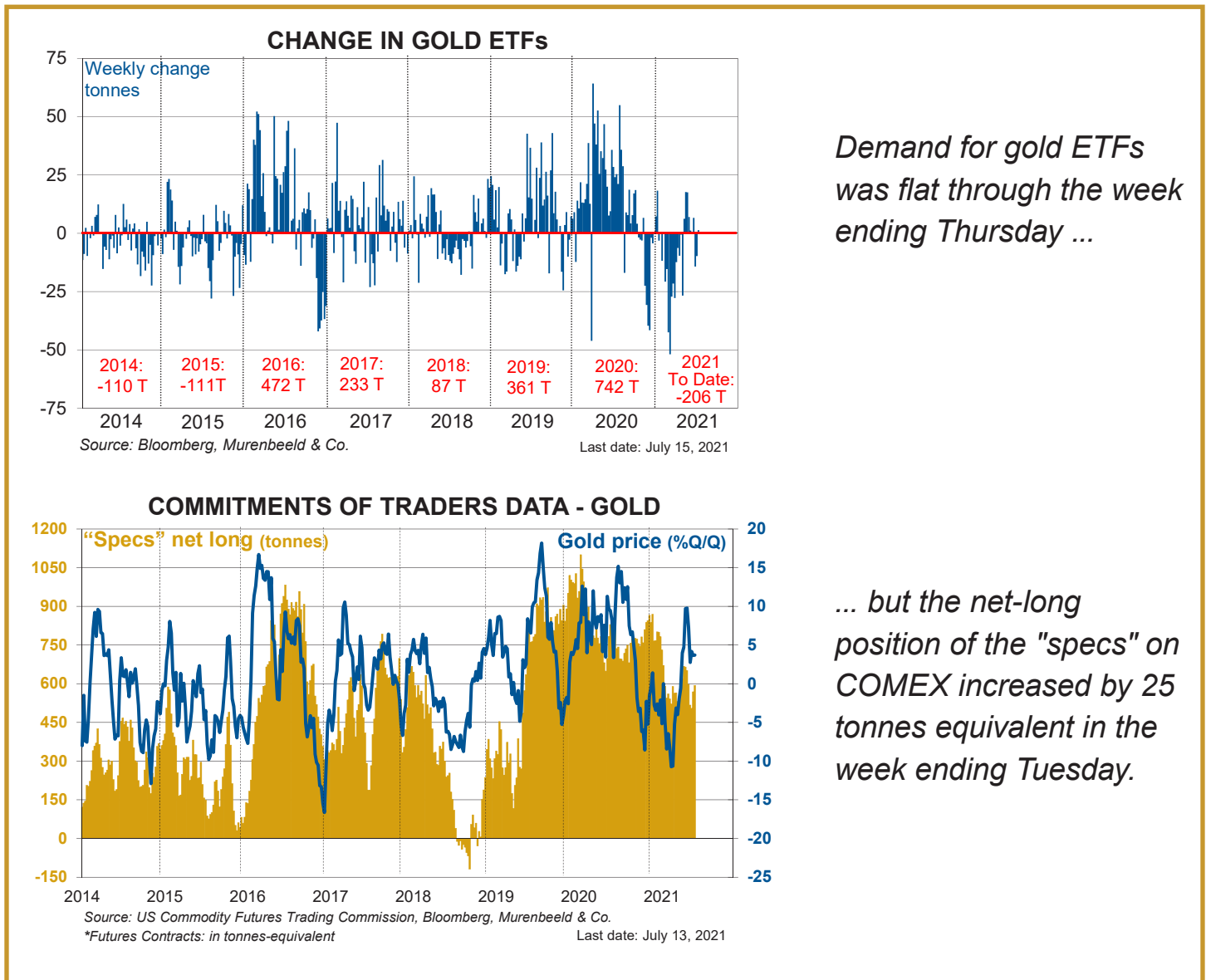


Not all Fed officials are on board with Powell's views: *Federal Reserve Bank of St. Louis President James Bullard said the central bank has met its goal of achieving "substantial further progress" on both inflation and employment, urging policy makers to move forward in reducing stimulus* (Bloomberg TV 07/15). Bullard's comments may have taken some of the punch out of the gold price thereafter.

Clearly, the market remains absorbed with just when the Fed's tapering of asset purchases might begin, and gold seems to hang on each nuanced suggestion of just when (as do the dollar and interest rates). We are keeping our eyes on real interest rates however, which we fully expect to remain deeply negative through 2022-23.

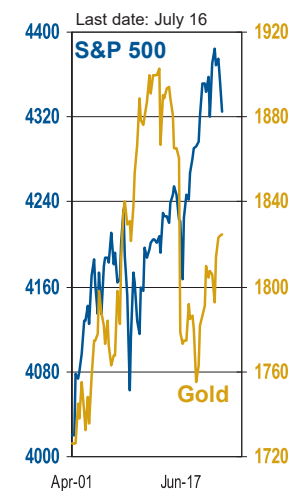
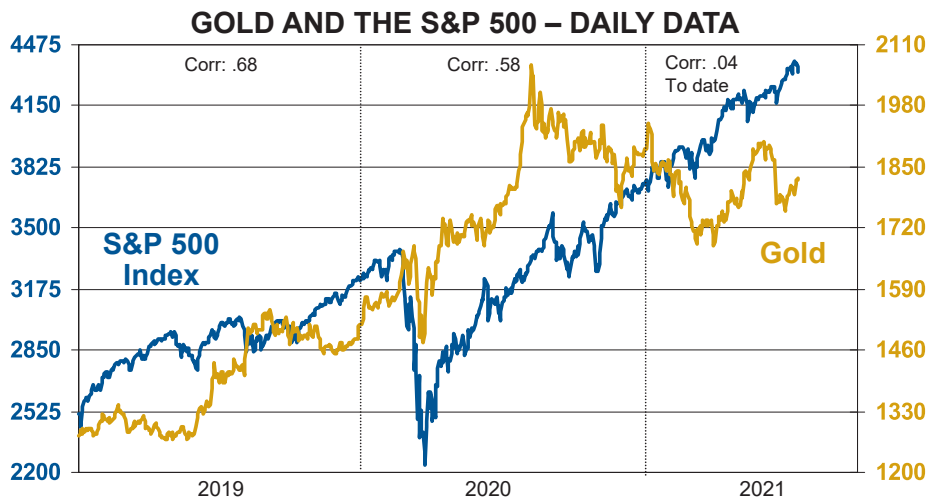
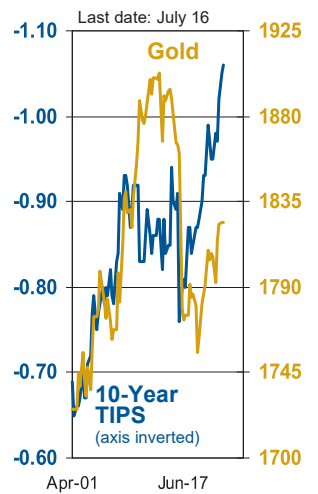
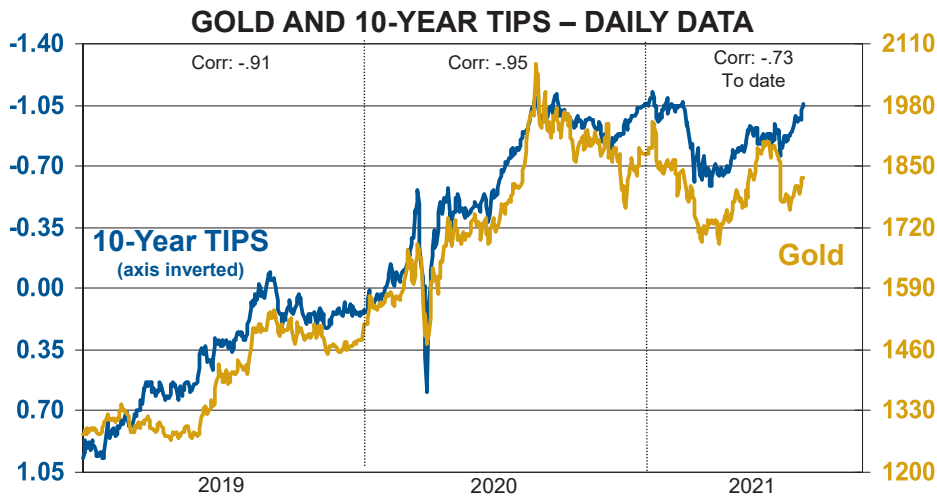
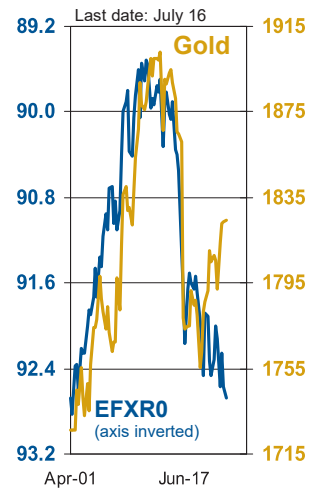
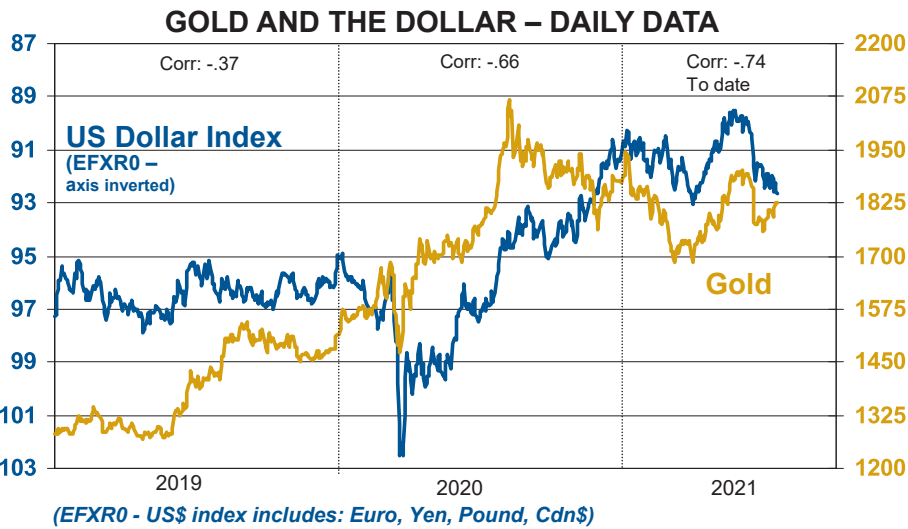
This week we include our set of charts, updated, that

provide a broader view of important economic and gold market factors and trends. These are categorized into bullish and bearish factors/trends, which underlie last week's update of gold price scenarios through 2022. Scenario A is based on the bearish set of factors/trends, whereas Scenarios B and C are based on the bullish set of factors/trends.



Demand for gold ETFs was flat through the week ending Thursday ...

... but the net-long position of the "specs" on COMEX increased by 25 tonnes equivalent in the week ending Tuesday.



Source: Bloomberg, Murenbeeld & Co.

Gold is slowly coming back into line with the 10-year TIPS yield; the 22-day rolling correlation has moved to -0.84 (and is -0.73 year to date).



This presentation provides support for the gold price forecast scenarios that can be found on slide 2 and 37.

Forecast Update – 07/09/2021

Gold Price Outlook - Update		20-2	20-3	20-4	21-1	21-2	21-3	21-4	22-1	22-2	22-3	22-4
Actual		1711	1909	1874	1794	1815						
Scenario	A						1763	1735	1707	1674	1639	1601
	B						1836	1871	1901	1933	1967	2003
	C						1910	1972	2065	2164	2275	2395
Probability	A						0.20	0.15	0.15	0.15	0.15	0.15
	B						0.50	0.55	0.55	0.50	0.50	0.50
	C						0.30	0.30	0.30	0.35	0.35	0.35
Probability-Weighted							1844	1881	1921	1975	2026	2080
Factor for Geopolitical Crises							0	0	0	0	0	0
FORECAST							1844	1881	1921	1975	2026	2080
Market	p.m. fix				1806							
07/09/21	Futures Market - Close						1809	1813	1815	1817	1820	1822

The probability-weighted projection has gold around \$1900 at year-end 2021, and close to \$2100 at year-end 2022. Scenario A, the bearish scenario, has gold falling back into the \$1600's over the forecast period, but the probability of Scenario A is judged to be low. We are more partial to Scenario C, which could see gold as high as \$2400 by year-end 2022.

Forecast Update – 07/09/2021

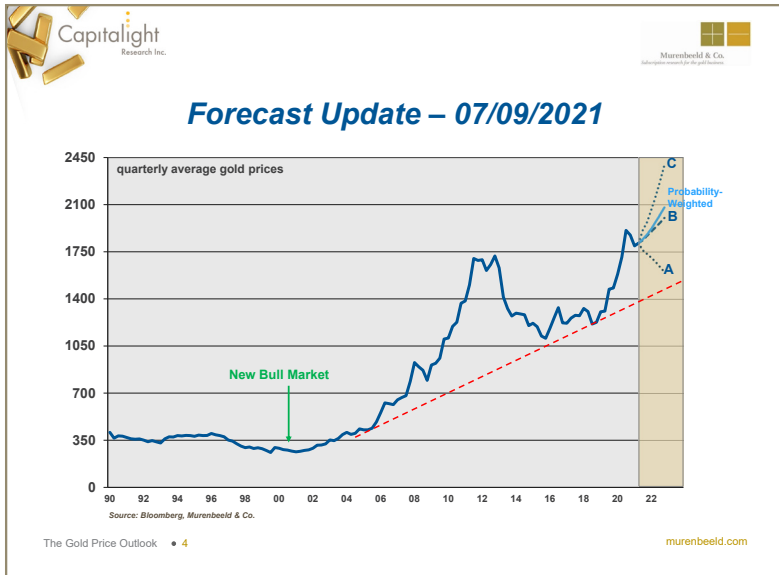
Bullish/Very Bullish – 50/35%

- High government debt levels will ensure real interest rates will remain very negative
- Gold should take out its all-time inflation-adjusted high (\$2953) during this bull cycle

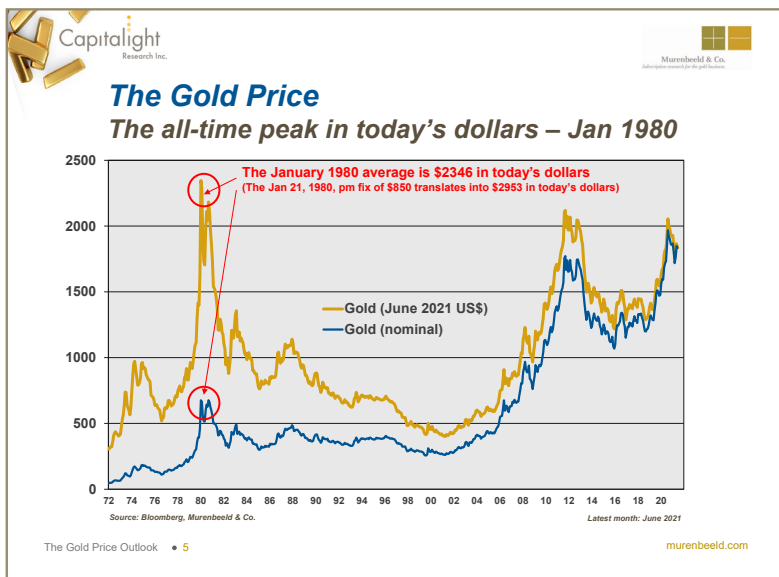
Bearish – 15%

- Gold retreats to the low \$1600s in 2022
- Gold will recover on rising debt problems and inevitable dollar weakness thereafter

We think gold will set a new inflation-adjusted high during this bull cycle. Real interest rates will remain very negative in Scenarios B and C, inflation will prove to be more stubborn than anticipated, and the US dollar should weaken significantly over the next 6-8 quarters.



The current bull market is a continuation of the one that commenced in early 2000. That bull market was interrupted by the 2012-16 bear market, which commenced when the Federal Reserve decided to taper its (Great Recession-induced) interest rate/QE policies. (Scenario A suggests there will soon be another taper-induced bear market interruption.)



For another perspective, note that gold averaged \$675 in January 1980 (during the Iran Hostage Crisis) and was fixed on January 21, 1980 at \$850 (pm fix). These prices translate into \$2346 and \$2953 respectively in today's dollars (which takes inflation into account). Our view is that these levels will be taken out before this long bull market ends!

Overview

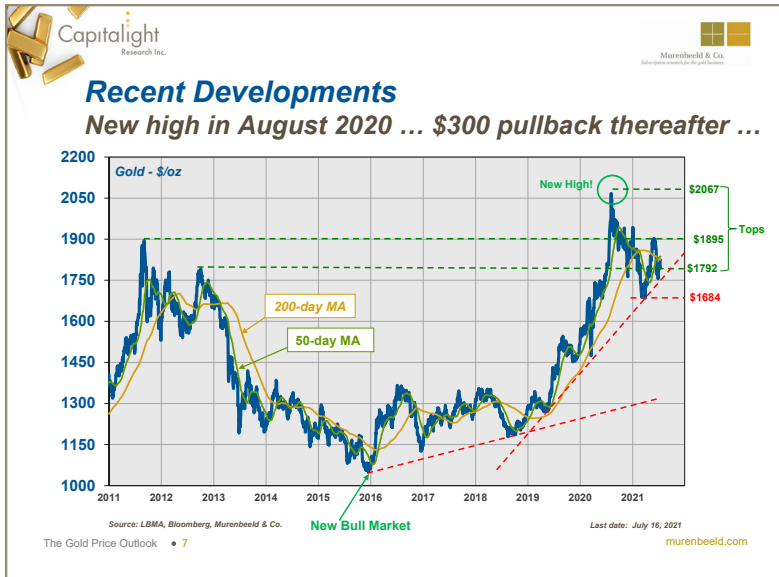
1. Recent Developments
2. Bullish gold factors
3. Bearish gold factors
4. Gold price outlook

Source: Bloomberg, Murenbeeld & Co.

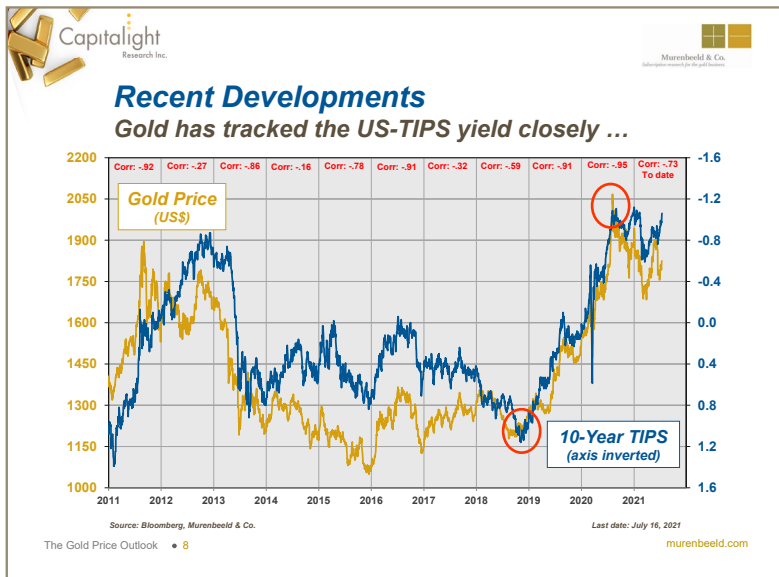
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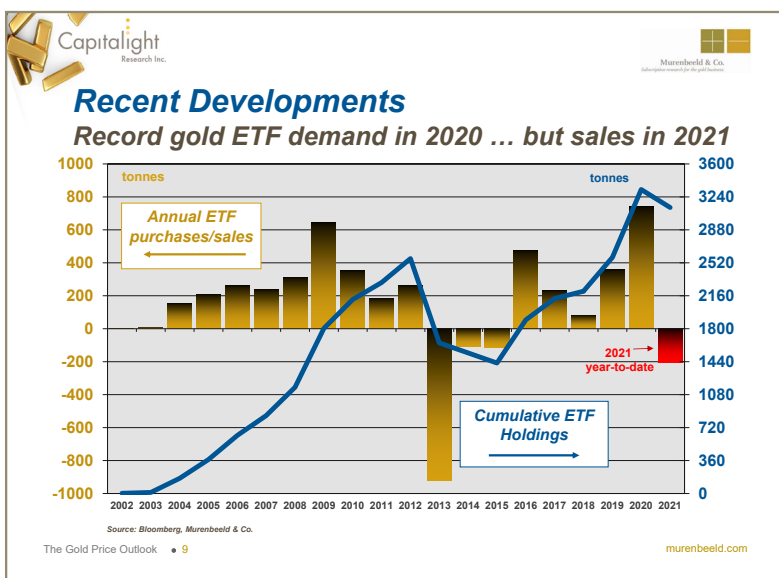
Bullish factors dominate the gold price outlook, although we cannot totally rule out a short bear market as modeled in Scenario A!



But first some recent developments. The 2012-2016 bear market ended late 2016, and then gathered pace in late 2018 as US interest rates declined again (see next chart). Gold set a new all-time high with a fix of \$2067.15 on August 6, 2020, at the height of the Covid crisis. It retreated sharply on the back of emerging recession worries and a firming dollar. (Gold also declined by some \$210 in March 2020 on Covid-recession worries!)



This chart shows a major turn in the US TIPS yield late 2018, which helped gold rise sharply thereafter. Gold's upward surge was arrested after August 2020 by another turn in the TIPS yield. We expect the TIPS yield to remain very low (i.e., around -1.0%) for an extended number of quarters.



Investment demand for gold was very strong in 2020. This demand ebbed in 2021 as bitcoin soared, equity markets remained very attractive and the dollar moved higher. We expect ETF demand to pick up going forward.

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Outlook - Bullish Factors

1. **Global debt levels at record levels and will rise further**
 - Rising debt levels will keep real interest rates low indefinitely
2. **The US dollar remains seriously overvalued**
 - It will/must inevitably decline
3. **Inflation will reappear**
 - The post-Covid recovery is pushing inflation upwards
4. **Central banks to remain accommodative**
 - Central banks focused on maximum employment
5. **Mine supply will begin to contract**
 - Output interruptions on account of Covid have already occurred
6. **Consumer demand in China and India will improve**
 - India and China account for 50% of consumer demand

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There are at least six bullish factors in our gold outlook. And, most notably, the global policy response to Covid-19 has compounded some pre-existing bullish factors, such as rising global debt levels.

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Bullish: (1) Global Debt

Levels were already excessive before Covid ...

Country/Region	2019	2020
Japan	234.9	266.2
Canada	86.8	147.8
US	108.2	127.1
UK	85.2	103.7
Italy	134.6	155.6
China	57.1	66.9
Euro Area	84	96.9

Source: IMF Fiscal Monitor April 2021, Murensbeid & Co. The Gold Price Outlook • 11 murensbeid.com

Fiscal deficits were already excessive before the Covid crisis. But now, with Covid, the debt/GDP ratios for Canada and the US are likely to rise by 20-30% in 2020-21. Debt levels in excess of 90% tend to impair growth more broadly, furthermore, which in turn limits fiscal and monetary policy choices.

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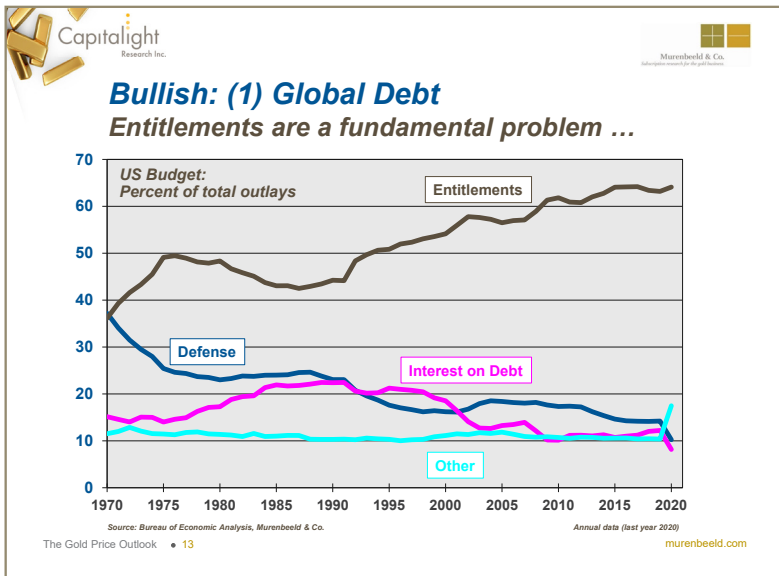
Bullish: (1) Global Debt

... budget deficits add to debt levels ...

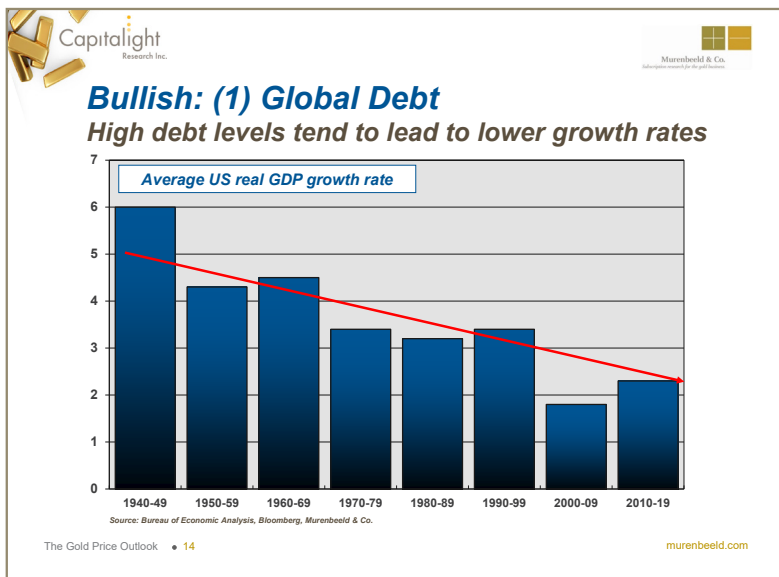
Country/Region	2019	2020	2021
US	-6	-16	-14
Eurozone	-1	-8	-7
Japan	-3	-12	-10
UK	-2	-13	-11
Canada	-1	-11	-9
China	-6	-11	-10

Source: IMF Fiscal Monitor - April 2021, Murensbeid & Co. Annual data. The Gold Price Outlook • 12 murensbeid.com

The US CBO (Congressional Budget Office) projects this year's fiscal deficit to be 13.4% of GDP, slightly lower than the IMF's April 2021 projection. Regardless, deficits are at record levels everywhere and it is not clear just how these will decline – given the increased dependence on government largesse and voter reluctance to be taxed.



Entitlements now take up more than 60% of most OECD economies' budget expenditures. Covid will not slow the upward trend. (Defense and infrastructure used to be the big-ticket expenditures – but no longer. No surprise, infrastructure in North America has been seriously neglected – which the Biden Administration wants to address with a \$3 trillion plan. It's accordingly hard to see budget deficits back at a more traditional 3% of GDP.)



Reinhart and Rogoff noted in their book (*This Time Is Different: Eight Centuries of Financial Folly*) that high government debt levels (typically above 90% of GDP) tend to dampen growth rates. Yet, higher GDP growth rates are required to reduce debt/GDP ratios. The solution? More inflationary growth?

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Bullish: (1) Global Debt
Government choices are limited ...

Government Choices:

Continue to boost growth with: *Gold positive*

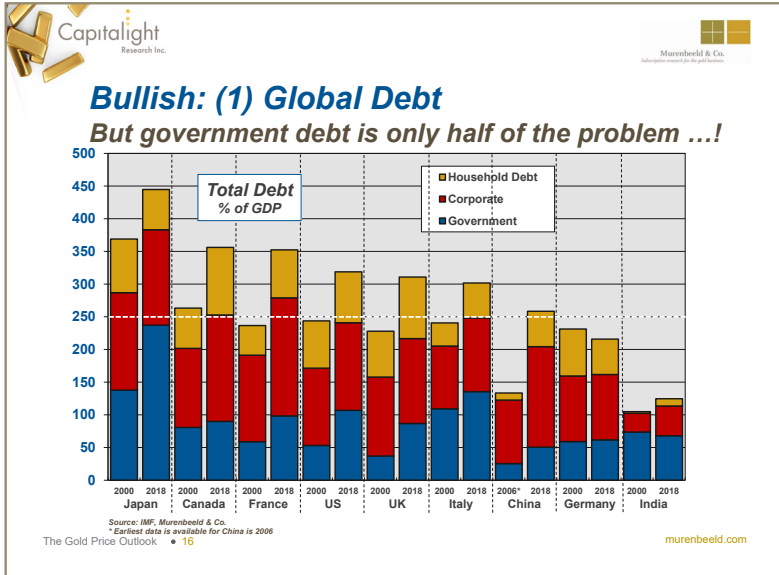
- Expansive monetary/fiscal policies
- Inflation, devaluation and financial repression ...

Shift to more policy austerity with:

- Higher taxes and cuts to entitlements
- Creative destruction through depression, deflation, and default *Gold negative*

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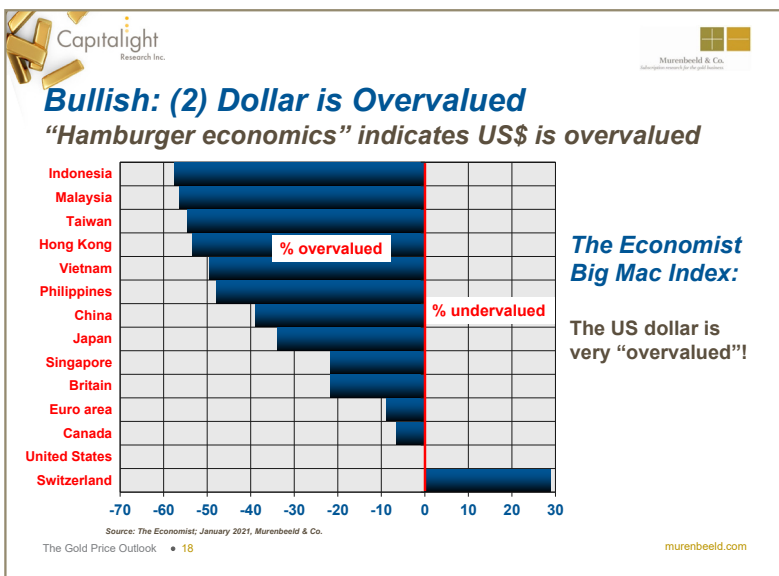
Lower growth rates are clearly undesirable – but what can governments do? The choices are stark: governments can print/inflate/devalue to boost nominal growth (which should then reduce the debt/GDP ratio). Or governments can accept a severe economic recession/depression, massive write-offs, and economy-wide “creative destruction”. We think governments will favor the first choice – hence the bullish gold outlook!



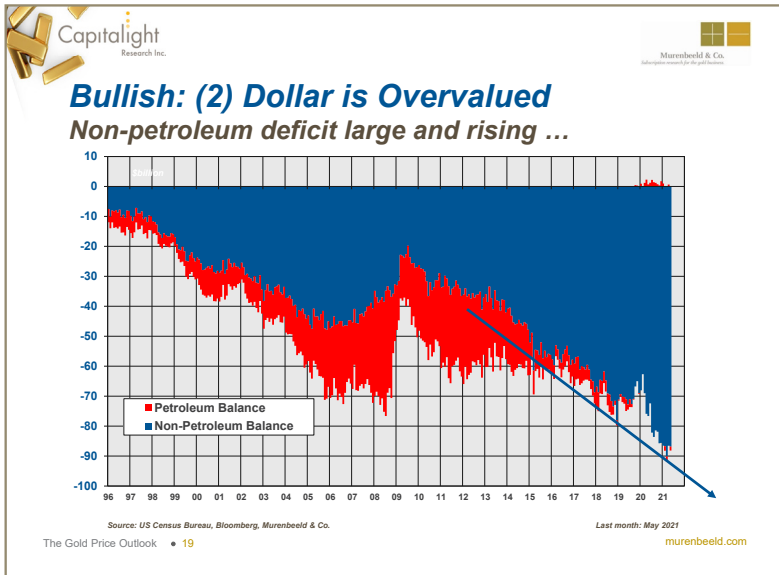
Last, government debt is only half the problem! When household and corporate debt is added, total debt for many countries exceeds 250% of GDP. In short, the Western World is grossly overindebted. And any adoption of Modern Monetary Theory will further add to the overall level of indebtedness!



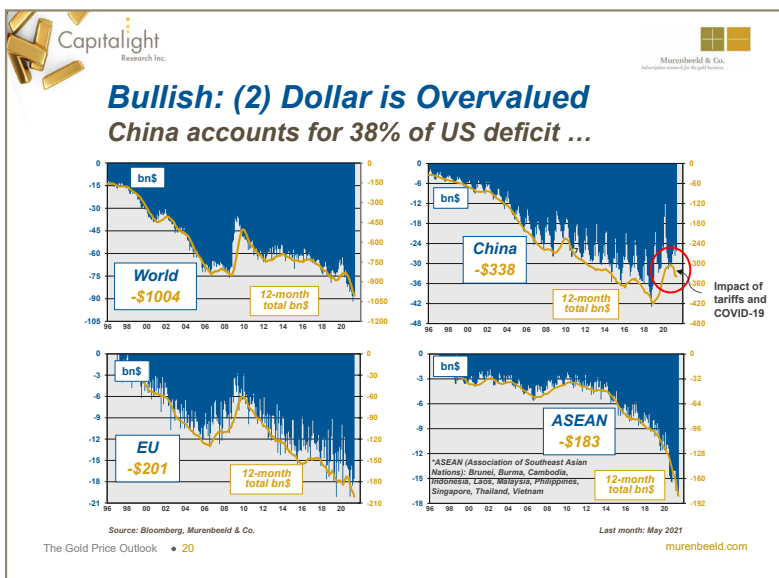
The second bullish factor is the overvalued the US dollar. The long-run fate of “reserve” currencies, and the dollar in particular, is that they become seriously overvalued when trading partners persist in keeping their own currencies undervalued against the reserve currency. The resulting global imbalance will eventually necessitate a reserve currency devaluation. Unfortunately, in recent years other factors have interfered with the dollar’s necessary devaluation (i.e., US-China trade war, the Covid pandemic, etc.). But current global imbalances cannot continue indefinitely.



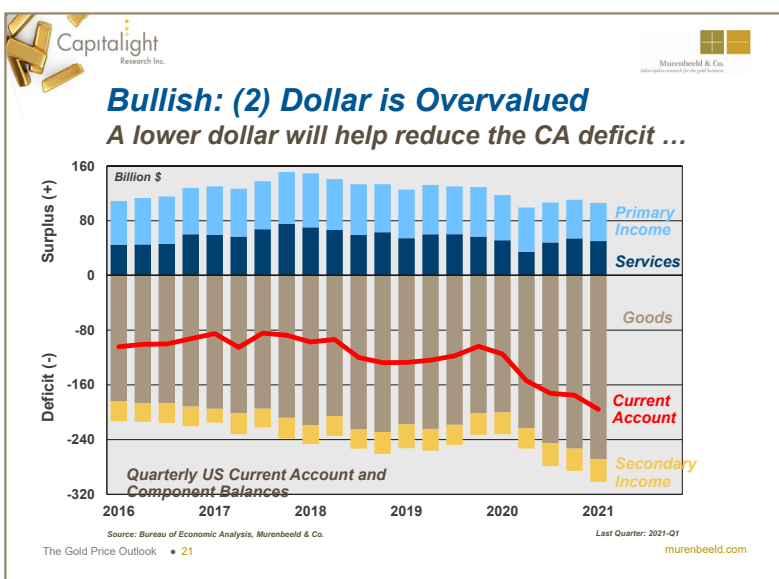
The Economist’s Big Mac Index is one simple measure of the US dollar’s overvaluation. According to this index the Asian currencies are 30-60% undervalued!



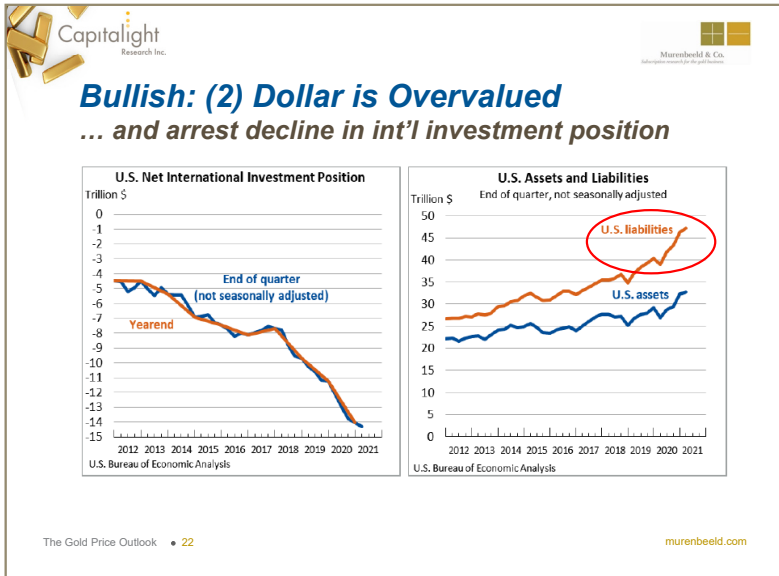
US dollar overvaluation shows up clearly in US trade data ...



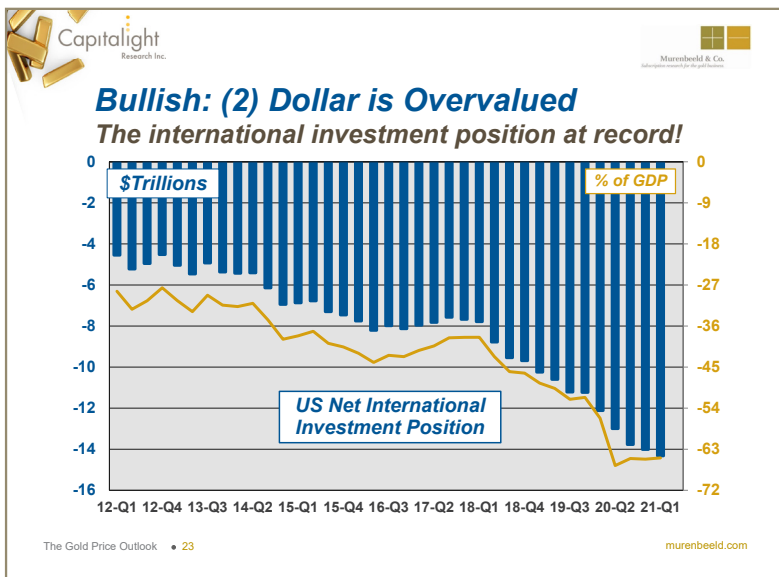
... the US trade deficits with China, the ASEAN countries, and the EU are particularly excessive – suggesting the dollar is uncompetitive when it comes to trade in goods and services.



This chart highlights the US current account, which takes into consideration all trade other than trade in financial/investment assets and liabilities. As the current account deteriorates, US financial/investment liabilities to the rest of the world increase ...



... which shows up in the estimate of the net US international investment position, now nearly -\$15 trillion (or -65% of GDP). (For students of the gold standard system, it is noteworthy that US gold reserves total less than \$0.5 trillion at today's gold prices – meaning gold prices would have to be 30 times higher in order for the US to “pay off” its international indebtedness!!)



The international investment position can be interpreted as a cumulative total of the current account deficit; each quarter's CA deficit requires offsetting international financial inflows (i.e. offsetting net financial liabilities).

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Bullish: (3) Inflation

Inflation has been absent – but no longer

Reasons to expect higher inflation

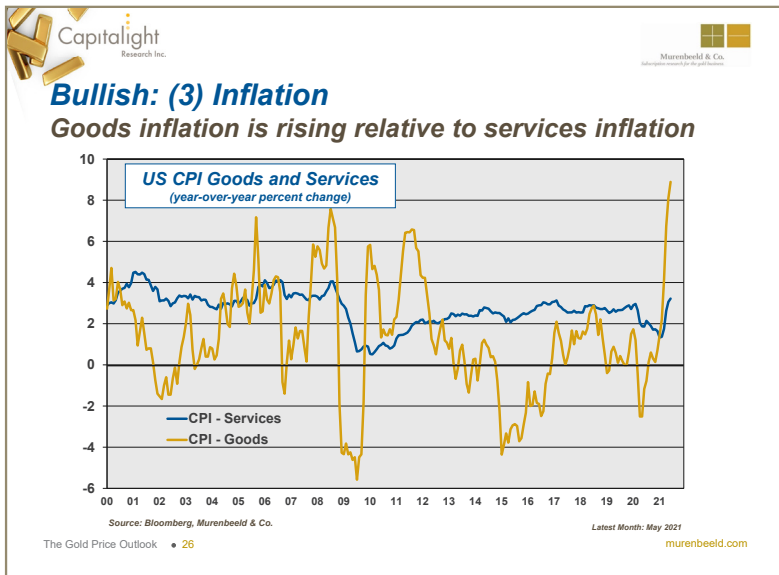
- **Globalization is in retreat**
 - “Made at home” policies are proliferating; cheaper foreign goods are being substituted with more expensive domestic goods; “made in America” is pro-labor but also more expensive!
- **Money supplies have risen dramatically**
 - Today's asset price inflation will be followed by tomorrow's general price inflation!
- **Commodity prices have picked up**
 - Higher commodity prices (i.e., oil) will feed into higher inflation rates!
- **Pent up demand is outstripping supply**
 - Surging demand is causing significant price pressures in specific sectors of the economy; not all these pressures will dissipate!

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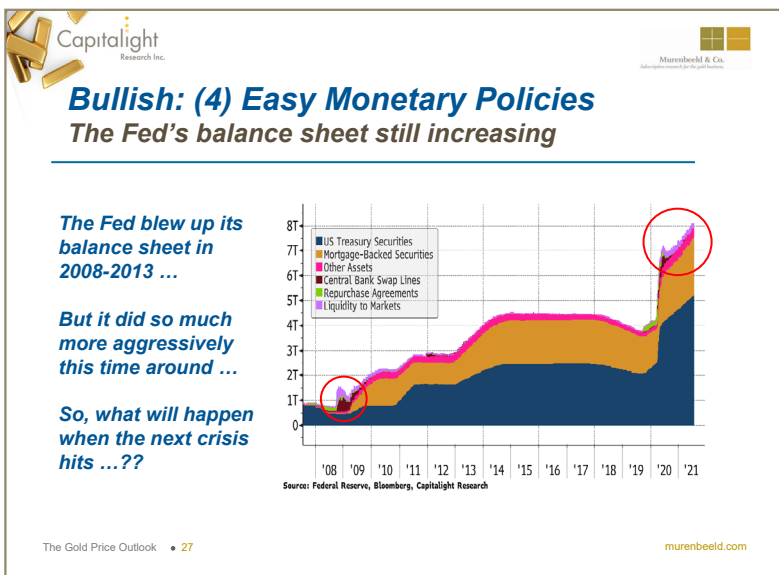
We haven't said much about inflation in recent years; it's been a non-issue. But this will change going forward.



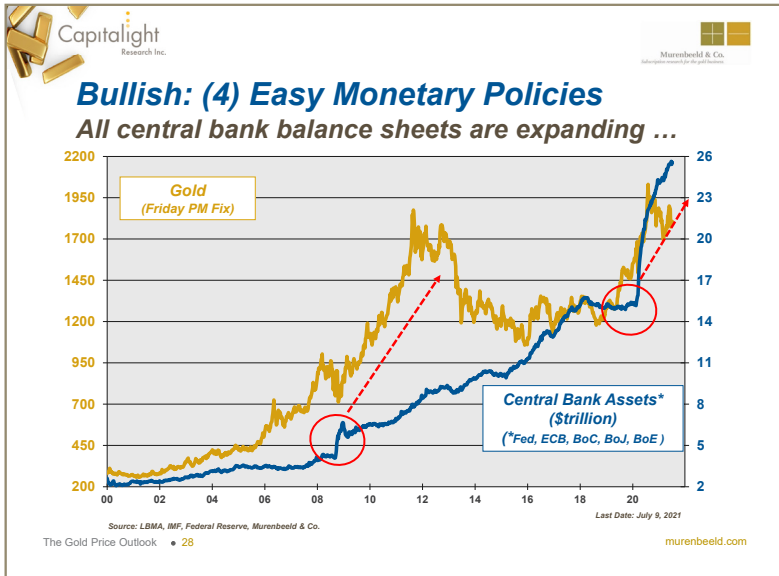
Inflation expectations have risen since March 2020 (when Covid hit), commodity prices have returned to pre-Covid levels, and with the opening of the global economy pent-up demand and supply problems will ensure inflation rates will remain well above most central banks' target rates for an extended period of time.



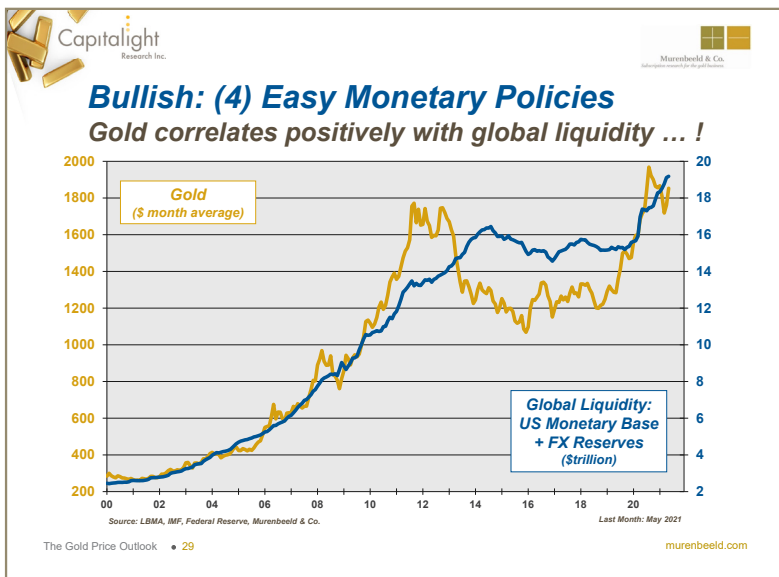
Goods inflation has ramped upwards in recent months on the back of supply problems (i.e., labor, chips, outsourcing, etc.), and services inflation is moving upwards as well (as employers are bidding for workers in the service sectors).



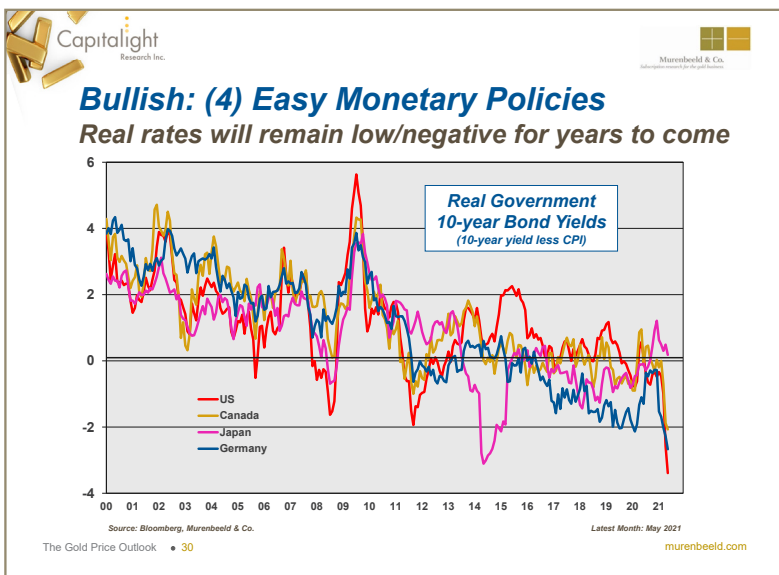
The Fed's balance sheet has surged more rapidly and dramatically than it did in 2008-09! Will the next crisis lead to yet more QE!?



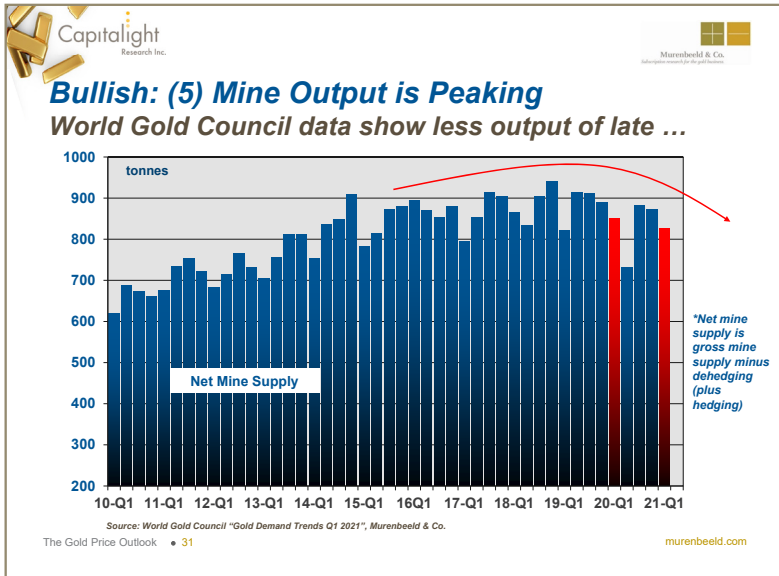
When central bank balance sheets collectively rise gold inevitably surges as well.



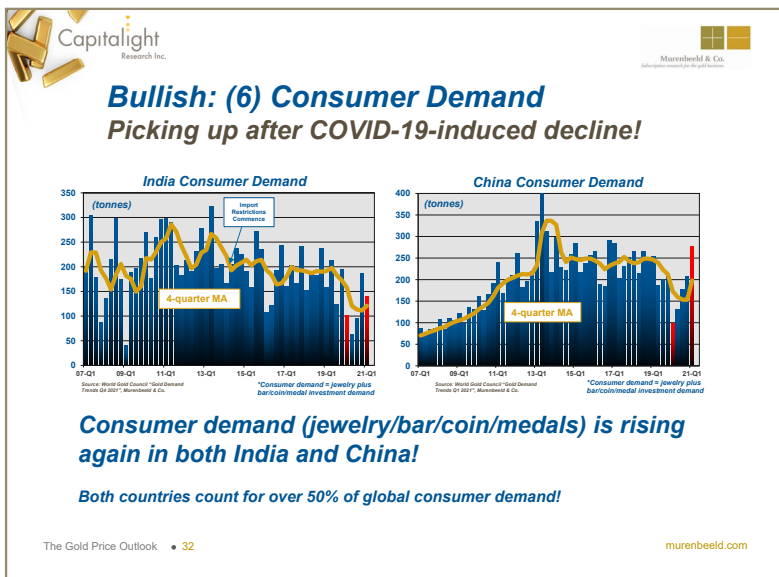
Indeed, gold and global liquidity are closely linked, and Covid has led to a sharp expansion in global liquidity.



As liquidity expands, nominal interest rates typically decline. Real interest rates are now negative in many countries (including the US), and we expect these to remain negative for the foreseeable future.



The pandemic has had a negative impact on mine output, but the medium-term outlook already called for some decline; not enough gold is being found!



Recent data on Chinese and Indian consumer demand (from the World Gold Council) indicate that the Covid-induced decline in demand is giving way to more normal demand patterns.

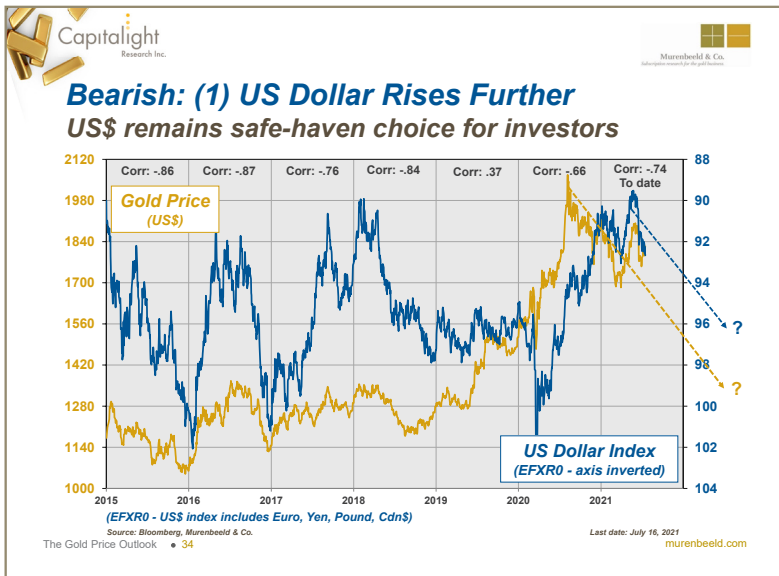
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Outlook - Bearish Factors

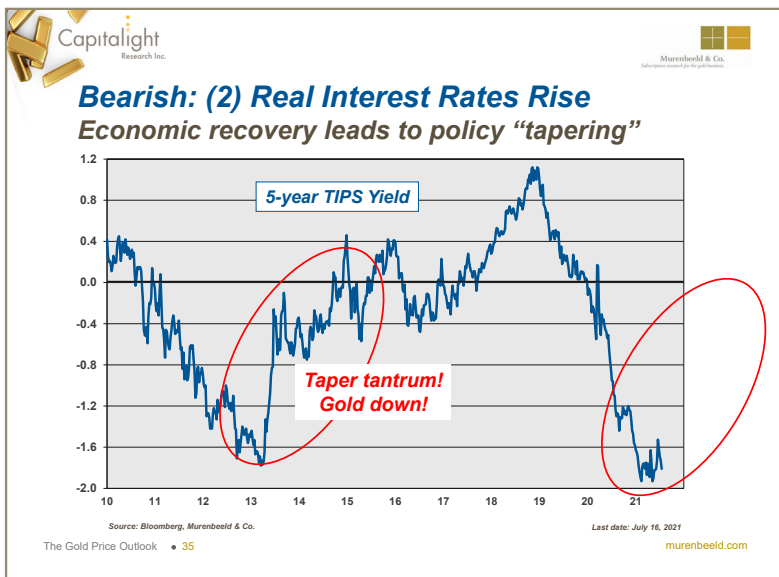
- The US dollar continues to rise**
 - Other central bank policies are also very stimulative and the dollar will retain its safe-haven status when crises hit
- Real interest rates commence rising**
 - The return to some "normalcy" after the Covid crisis, together with inflation, will force the Fed and other central banks to "taper" aggressively
- Central banks reduce their balance sheets**
 - A shift to Volcker-like policies on the back of inflation will push normal yields sharply higher - and risk a new recession ... before central banks back off

Source: World Gold Council "Gold Demand Trends Q1 2021", Murensbeeld & Co.
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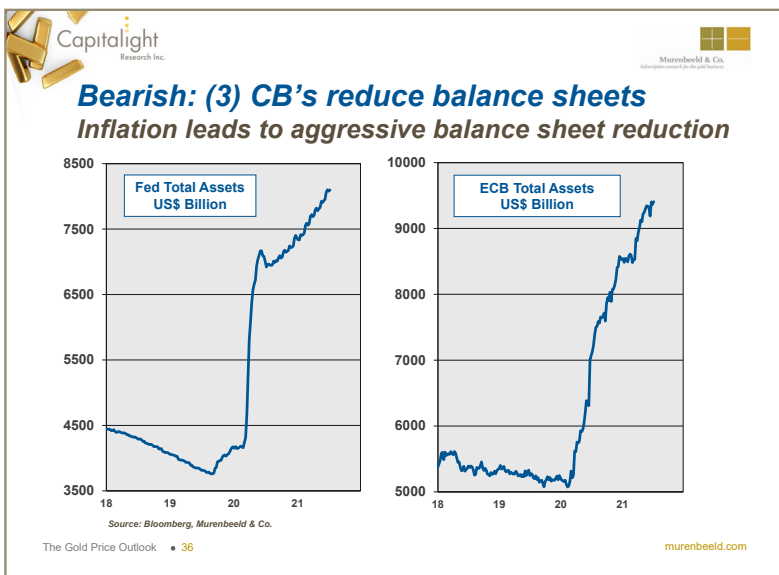
The bearish factors are essentially those related to central bank policy tightening and a firm dollar. These factors could set up a brief bear market in gold, not unlike that we witnessed during 2012-2016. The bear market will not last as long however as policies will reverse the moment a recession threatens.





The US dollar is generally negatively correlated with gold. The dollar's decline in 2020 accordingly helped gold. The rise of the dollar in 2021 to date has not been positive for gold. Gold will face a major hurdle if the dollar continues to rise this year and next.



There was a taper tantrum in 2013, when the Fed communicated its desire to reduce QE. This set up a four-year bear market for gold. The Fed has gone out of its way currently to relieve the markets of any "taper" worries, but now that inflation is well above the Fed's target the Fed will come under pressure to change its policy.



The Fed and other central banks have blown up their balance sheets. With inflation threatening, and a desire not to repeat the 1970's inflation period, policymakers will come under pressure to reduce their balance sheets. For as long as they are able to do this before a recession occurs, gold will suffer. (There was a tolerance for recession in the early 1980's – after Volcker jacked up interest rates. That tolerance is not present today!)

Forecast Update – 07/09/2021

Gold Price Scenarios

	2021-ave	2021-end	2022-ave	2022-end
Scenario A: p = 20-15%	1777	1721	1655	1601
Scenario B: p = 50%	1829	1886	1951	2004
Scenario C: p = 30-35%	1873	2019	2225	2427
Final	1833	1901	2000	2090

Source: Murenbeeld & Co – Updated July 9, 2021

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This slide summarizes the data from slide 2.




Thank You



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Subscription research for the gold business.

We hope everyone is staying safe and enjoying the summer!

*Have questions or feedback?
Send us an email at
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