



The SA Bullion Gold Report

Third Quarter 2017

Analyst: Hilton Davies

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Table 1: Gold Performance to 30 September 2017 (% per annum)¹

	Quarter ²	1 Yr	3 Yr	5 Yr	10 Yr	Since 31/12/1999
Gold in US Dollar	3.2	-2.9	3.0	-6.2	5.6	8.7
Gold in Rand	7.4	-4.8	8.1	3.4	13.0	13.7
Gold in Euro	-0.1	-7.8	4.1	-4.6	7.6	7.8

¹ Based on LBMA PM Fixes.

² Not annualized for periods of less than one year

Table 2: Quarter-End Gold Prices and Exchange Rates¹

	Gold in US\$/ oz	R/\$ rate	Gold in R/ oz ²	\$/€ rate	Gold in €/oz
30 Sep 2007	743.00	6.90	5,124.29	1.42	522.98
30 Sep 2008	884.50	8.28	7,324.23	1.42	624.03
30 Sep 2009	995.75	7.58	7,545.29	1.46	682.62
30 Sep 2010	1,307.00	6.97	9,115.41	1.36	958.35
30 Sep 2011	1,620.00	8.07	13,068.70	1.34	1,204.73
30 Sep 2012	1,776.00	8.26	14,671.89	1.29	1,377.27
30 Sep 2013	1,326.50	10.19	13,519.96	1.35	980.41
30 Sep 2014	1,216.50	11.30	13,749.86	1.26	964.40
30 Sep 2015	1,114.00	14.17	15,788.27	1.12	996.02
30 Sep 2016	1,322.50	13.79	18,242.50	1.12	1,179.93
30 Sep 2017	1,283.35	13.53	17,363.72	1.18	1,088.02

Note 1: Gold prices in US\$ and € are LBMA PM Fixes.

Note 2: Gold price in Rand from Rand Refinery.

Note 3: Gold prices at 31/12/1999 were \$290.25, R1,785.04 and €289.09

Table 3: Calendar Year Performance of Gold

	% US Dollar	% ZA Rand	% Euro
2007	31.9	27.9	18.9
2008	4.3	41.1	9.7
2009	25.0	-0.4	21.1
2010	29.2	16.1	38.2
2011	8.9	33.0	12.6
2012	8.3	13.6	6.2
2013	-27.3	-11.8	-30.3
2014	0.1	10.4	13.4
2015	-11.4	19.1	-1.1
2016	7.7	-2.5	13.3
2017 year-to-date	11.5	9.3	-1.9

Figure 1: 21st Century Chart of Gold Price in US Dollar (LBMA PM Fix)

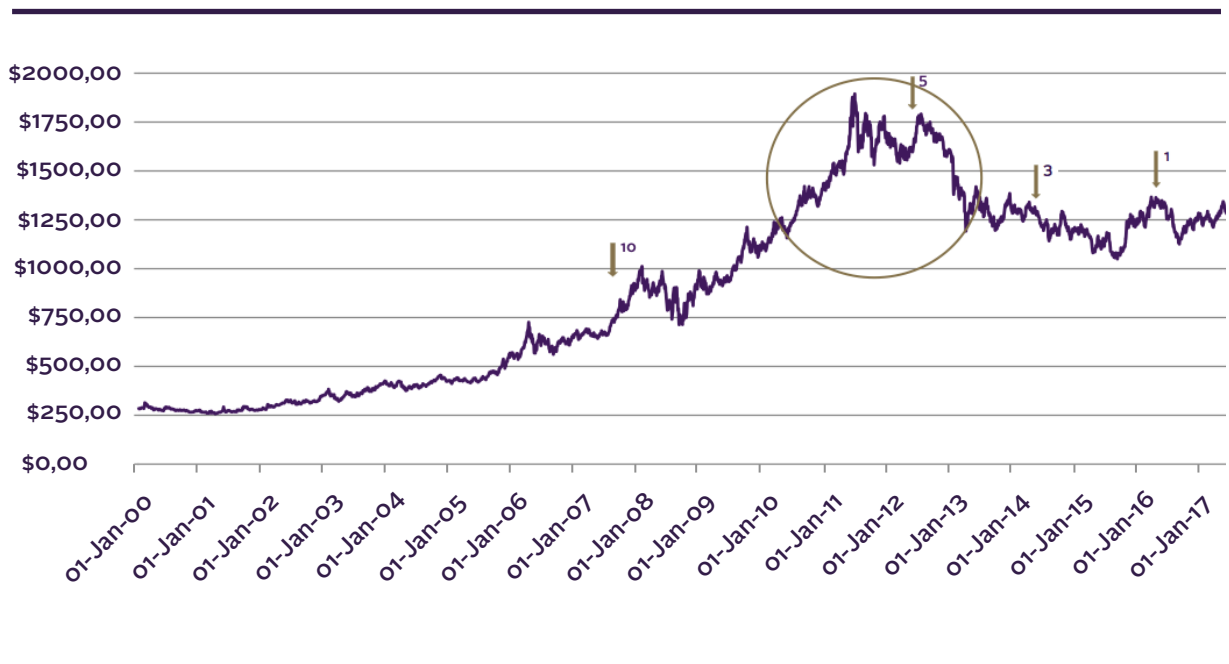
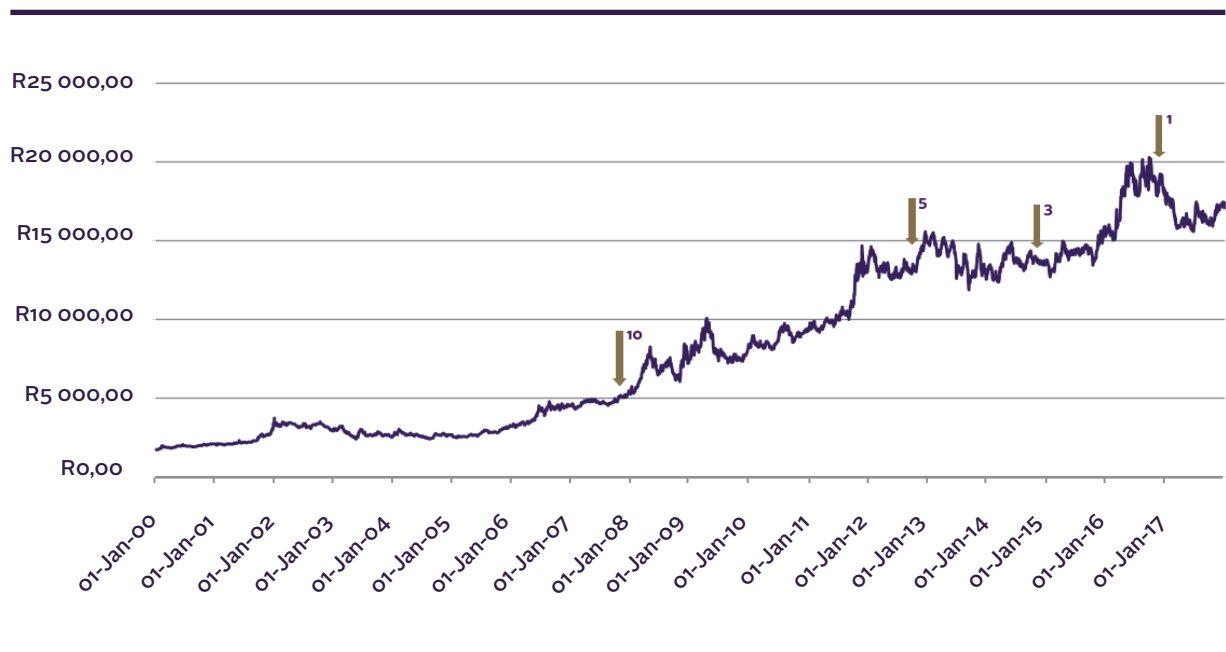


Figure 2: 21st Century Chart of Gold Price in ZA Rand (Rand Refinery First Pricing)



Gold Price Action

Beginning with gold priced in US Dollar:

Gold had a strong and fairly steadily-rising quarter. It lifted by \$40 an ounce, or 3.2%. In the last three years gold has traded in a strongly-defined price channel. Prior to that gold had a monumental boom-and-bust in the heady days of Quantitative Easing and failing banks. The steep-sided and tall mountain on the price chart (see Figure 1) has its bases on the two sides around mid-2010 and mid-2013.

The five year performance figures make for grim reading as the starting point at 30 September 2012 was the high point before the huge washout of the Financial Crisis-inspired boom-and-bust in the gold price. Far more useful in getting a big picture perspective of the trajectory of the gold price are the longer term performance figures derived from the 10-year return (i.e. from 30 September 2007) and from the start of this century i.e. 31 December 1999. Over ten years gold has returned 5.6% per annum and this century (17 $\frac{3}{4}$ years) the compound annual return comes in at 8.7%. Without doubt these are highly credible returns compared to cash in the bank at around 2% per annum.

Moving on to gold priced in South African Rand:

It goes without saying that the performance of gold in Rand is a function of the performance of gold in US Dollar, as described above, and adjusted by Rand performance relative to the Dollar.

In the quarter the Rand depreciated by a large 4% against the Dollar resulting in a very large 7.4% gain in the Rand gold price. The Rand is working off its gains achieved against the Dollar in the last year.

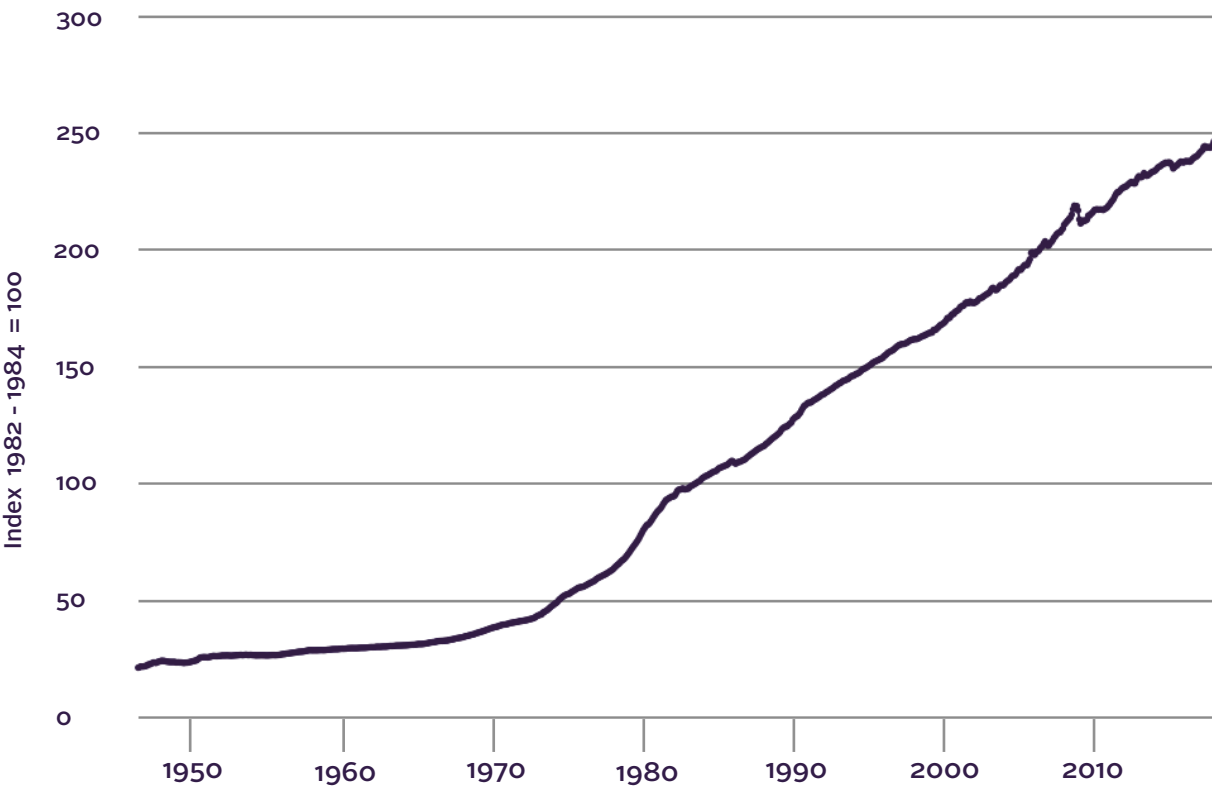
Bumpiness in the Rand and in Dollar Gold is highly evident in the 1, 3 and 5 year measurement terms. Most instructional are the longer periods and here we look to 10-year compound annual returns of 13.0% and for this century of 13.7%. These figures trounce South African cash in the bank at around 7% per annum.

A Brief note on the United States and its Currency

One of our most common refrains at SA Bullion is: “To understand gold you have to understand the Dollar. To understand the Dollar you have to understand the United States”. The first part of that refrain flows from the Bretton Woods Accord which, signed in 1944, caused all commodities, including gold, to be priced in US Dollar. The second part flows from an executive action taken by President Richard Nixon on 15 August 1971 when he ‘closed the gold window’ and thereby effectively took America and the world off the gold standard.

By delinking the Dollar from gold, President Nixon removed the gold-backing restraint on money supply and freed the Federal Reserve to engage in more inflationary monetary policy than ever before. The effects on official price inflation figures (i.e. the flip side of Dollar depreciation) are readily apparent from this chart from the end of World War II to the present:

Chart: Consumer Price Index for All Urban Consumers: All Items



Source: <https://fred.stlouisfed.org/series/CPIAUCSL#o>

Today, US inflation (CPI-U) continues to go forward at around 2% per annum whilst economic growth continues to stagger and lurch at around the same level, at best.

For those who wish to read just one sentence on this matter: Faltering economic activity and political discord amplified by an impetuous president continue to imperil the Dollar and intensify risks in markets that are vulnerable to turmoil.

Some latest economic details:

- September 2017 U6 Unemployment is reported at 8.29%. Shadow Government Statistics has this figure at 21.9%.
- September Payroll Survey has Employment losing 33,000 jobs and when adjusted for hurricanes this figure is lifted to 71,000.
- Real Construction Spending continues to intensify its downtrend and is 23% below 2007 levels. Six-month Smoothed Home Sales have turned increasingly negative.
- Although for only the most recent months, these figures above are more of the same, indicating a non-recovered, poorly-expanding US economy notwithstanding phenomenal monetary and fiscal stimulus.

President Trump has been singularly unsuccessful in passing legislative reform. In fact in this easiest honeymoon period of a presidency (and with a Republican Party-controlled Congress) he has not managed to pass a single piece of transformative legislation. But notwithstanding his lack of success, he could be successful in passing tax reform legislation with the effect of slashing tax rates, particularly for the rich (and eliminating estate taxes for the rich). If he should succeed in this area, he could provide meaningful stimulus to parts of the economy that would be good for corporations, stock markets and the rich. On the negative side of the ledger the US Public Debt would balloon as tax revenues shrink, and the US Dollar would pay a nasty price. This would be very good for gold, but as usual the middle class and the poor would be left behind as Trickle-Down economics does not work in reality.

Bitcoin

Cryptocurrencies in general and Bitcoin in particular, have been the in-vogue topics of conversation this year and have caused us to be on the receiving end of many related questions. It stands to reason that we would be asked our opinion of Bitcoin, after all we are in the business of “gold as a competitor to cash in the bank”.

Cryptocurrencies seek to operate in a realm outside of the control of governments. They are intended to be of limited supply so that depreciation as a result of oversupply will not occur. In these two respects they mimic precious metals. Furthermore they are intended to operate using technologies that ensure successful operation between mutually distrusting parties and they are intended to transcend national boundaries. In many respects they are therefore a digital-era version of gold, and the anti-thesis of government-controlled fiat currency.

But not so fast.

Bitcoin requires full faith in the Bitcoin market. And with nothing behind it, aside from many individuals with criminal backgrounds, this is a big ask.

Bitcoin has multiplied 879,999 times. Ethereum (the number 2 cryptocurrency), is up 5,400% in the last six months. These increases in price do not reflect behavior of currencies. These performances are reflective of speculations gone mad. As the esteemed Jeffrey Christian has recently put it: “Bitcoin is a pet rock”.

For those unfamiliar with Gary Dahl's invention – in 1975 this advertising executive packaged rocks that were then sold as ‘pets’. The fad caught on and in six months Dahl sold 1.5 million pet rocks to a fad-obsessed public. The following year pet rocks were out of vogue and were consigned to the scrap heap of fickle humanity's playthings.

Again, to quote Christian: “Bitcoin is a scandal waiting to happen. It is divorced from fundamental realities.” We are convinced that someday the gullible public will wake up to the fact that the Emperor has no clothes. Everyone ought to know what happens to fads that go through the roof. If Bitcoin should continue to find buyers at stratospheric levels and maintain these, then it would be the first of thousands of such fads in human history to achieve this. In our opinion the rich speculators who were the bulk of the early ‘investors’ into Bitcoin and the other cryptocurrencies, will offload to the average-joe punter who will then lose his socks – as it usually works.

Bitcoin and the other cryptocurrencies could not be further from our position on currencies. They are a fiction. We stand for fundamental realities and logic. We understand that red 22 on the roulette wheel will make some gamblers rich. But we still don’t like betting and we don’t like the thought of having to find bigger fools than ourselves to whom we would have to offload our Bitcoins so as to make a profit.

SA Bullion

It has been six months since we last brought you some news about our business. In the interim we have passed through another grueling audit cycle where once again we have come through with an unblemished audit report from Grant Thornton. This was no surprise to us at SA Bullion but is always worth mentioning as we understand the importance of ‘corporate health and hygiene’ where one is in the ‘trust’ business. This latest report is unblemished report no.12 for us.

In June we conducted our first Garden Route Roadshow and in September we conducted our first Pretoria Roadshow. Both marketing tours were great successes, largely due to the quality of the financial advisors with whom we met, and the quality of preparation by our Head of IFA Distribution, Adnaan Bazier, to whom I again offer my thanks.

Lastly, I would like to end on a very happy and uplifting note. Our SA Bullion family has grown! SA Bullion director, and my great friend, Clint O’Brien, became married to Miranda Dols in a dream wedding in Tuscany, Italy in August. We congratulate the newlyweds and wish them many decades of marital happiness!



Hilton Davies
24 October 2017