



The SA Bullion Gold Report

Third Quarter 2016

Analyst: Hilton Davies

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Table 1: Gold Performance to 30 September 2016 (% per annum)¹

	Quarter ²	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr
Gold in US Dollar	0.1	18.7	4.3	-0.1	-4.0	8.2
Gold in Rand	-7.4	15.5	15.2	10.5	6.9	14.6
Gold in Euro	-0.6	18.5	10.6	6.4	-0.4	9.6

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 2006	599.25	7.77	4,655.06	1.27	473.15
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

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

Note 2: Gold price in Rand from Rand Refinery

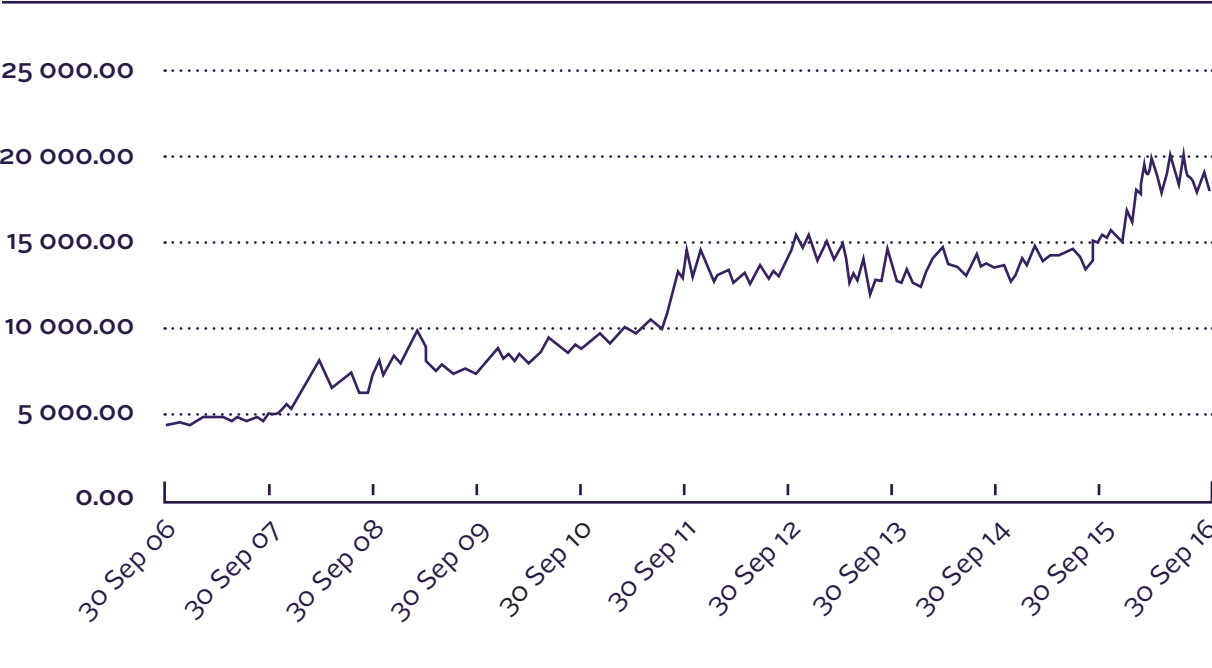
Table 3: Calendar Year Performance of Gold

	% US Dollar	% ZA Rand	% Euro
2006	23.2	37.0	10.2
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 year to date	23.8	11.9	20.5

Figure 1: Ten-Year Chart of Gold Price in US Dollar (LBMA PM Fix)



Figure 2: Ten-Year Chart of Gold Price in South African Rand



Gold Price Action in the Third Quarter

This past quarter gold hardly moved in leading currencies. In South African Rand gold posted a negative 7.4% as the currency produced a positive 7.5% against the US unit. For the year to 30 September 2016 gold had a very strong run in all currencies. In Dollar gold appreciated 18.7% and in Rand gold rose by 15.5%.

Ten-year compound annual performance to 30 September has been a very credible 8.2% per annum in Dollar and 14.6% per annum in Rand.

Donald Trump vs Hillary Clinton

Unsurprisingly, we have been fielding a lot of questions as to the potential impact of a President Trump versus a President Clinton come 20 January 2017 following the US presidential elections that are set to take place on 8 November. Usually this would not be an area that we would delve into, and usually our response to such questions would be that the markets are much bigger than any president or government. But this time it is different. And this time we are able to make reasonable assessments and project some likely outcomes for the US Dollar and gold depending on the winning candidate.

Change, or not?

Our take on the ideologies of the two presidential candidates is that one would like to take America back to what it was fifty or sixty years ago, and the other would like to embrace change.

Trump stands for a white, male-dominated, militarily-dominant, business-before-all-else, small-government, nationalistic nation. Clinton stands for a non-discriminating, globally-cooperating, socially-just, highly-regulated, liberal nation.

Irrespective of view-points on these aspects mentioned above, there is no getting away from change. It is a certainty. Bear in mind that 20,000 years ago there were no humans in what is today continental USA. Shortly before Columbus made landfall in the new-world in 1492 it is estimated that there were around 7 million Native Americans in today's USA. By the time the Pilgrim Fathers landed the Mayflower at Plymouth Rock in 1620, around 6 million of the local inhabitants had been killed by European disease. Essentially all of the remaining Native Americans were killed by the new arrivals over the next 300 years. The influx of people has continued unabated. In the current times America is drawing in approximately 1 million new immigrants each year (mostly from Asia). Change is a certainty.

Fear of change is also a certainty.

The candidates

Hillary Clinton is a social-justice campaigner and lawyer; and a long term career politician. The US democracy is highly adversarial and messy, and so unavoidably Clinton has picked up political battle-scars and has a record book with some blemishes. What we don't like about her is that she is part of that rather awful system. What we do like about her is that she is part of that rather awful system. We think that she is basically a good person with good intentions and that she is fairly similar to the US presidents of the last 50 years, excluding Nixon. [Note: our view of the range of possibilities is probably enormously wider than that of most Americans as we have a greater experience of truly bad humans becoming presidents. To people like us almost all American politicians are clustered around the centre].

Donald Trump is an unscrupulous and unprincipled human being and businessman. He has absolutely no moral authority. He is a racist, a sexist, an Islamophobe, a xenophobe and a con-man. He is divisive, he traffics in conspiracy theories, he is a shameless liar, a climate-change denier and a bombastic braggard. He is a demagogue and authoritarian populist. He is a poor specimen of human being.

Trump and his support base

Trump is not really a Republican or conservative in the true sense. When one thinks of former President Ronald Reagan's three-legged stool definition of the main ingredients:

Religious conservatism; National security conservatism; and Economic conservatism.

One is hard pressed to find Donald Trump ticking all three of those boxes.

Trump is an amoral and prurient philistine and certainly not a religious conservative. One can however account for Trump as a national security conservative. Regarding the third item, his economic ideals are at the heart of this essay and more about that coming up, but suffice to say for now, Trump is no economic conservative. His main support groupings:

1. Dyed in the wool Republicans

Trump won the Republican Party primaries to become that party's nominee to run for president. This very fact of standing as the Republican Party's nominee, and not some minor party's nominee (as he had attempted with the Reform Party in 2000) means that he is assured of large institutional

support and a big 'always Republican' vote. [Of course he is taxing many of these supporters and inflicting much damage on their psyche]

2. Victims of a changing world

Trump's main support comes from the 75 million victims of a changing world. America's participation in globalization post-collapse of communism resulted in approximately 11 million manufacturing jobs relocating from America to China and other low-cost countries. The 11 million affected workers supported around 75 million people and these previous breadwinners have largely been left behind. Their cities and industries once prospered from the Industrial Revolution but now in the age of the Digital Revolution and automation they find no fit. Trump's 40 million adult voters largely come from this group.

To add insult to injury for Trump's 40 million voters - they have been on the wrong side of affirmative action and immigration. They feel that government has systematically marginalized them. They don't see government as their government. They hate the government. They feel that their religion is under threat by an increasingly secular state and by immigrants bringing their own, and different, religions with them. And to top it off, they have been decimated by the collapse of the oil industry due to the collapse of the oil price due to the oversupply by Saudi Arabia and Iran. Their cultural and economic world has been ravaged and they see Trump as their savior. He will deliver their Rapture. With Trump they will become rich and stick it to the government. So they think.

Trump represents just one leg of Reagan's stool, but through the appointment of Gov. Mike Pence as his vice-president nominee and some spurious words and actions, he has been able to procure a large evangelical support base, most of whom would fall within this subset of 'victims of a changing world'.

3. Others

America has become large and unwieldy and has many forces working against it today. An intersection of aging population, massive and continually growing public debt, casualties of wars, competition for scarce resources, corporate bullying and ever-increasing regulation has brought about much disaffection even though these things are not readily attributable to specific political parties. Add to this that democracy is built on compromise and compromise is not working very well and this results in many millions of unhappy Americans who want to blow up the status quo. It is not hard to see that Donald Trump is the man for that job.

Lastly, we will point out that Trump stands for slashing taxes for the rich (like his enormously rich benefactor Robert Mercer who is the principal behind the scenes). This is in opposition to Clinton who would raise taxes (just a little bit!) for the richest 1% of Americans. This group that is small in numbers is influential in funding the right wing Super PACs that support Trump's campaign.

What would happen if Donald Trump won?

Of course the US president does not write the laws of the land. Congress writes the laws and puts them on the president's desk. Nonetheless, the president of the United States of America is enormously powerful. If Trump were in the White House and Congress were controlled by the Republican Party, as is currently likely, then one might expect that he would give Vice President Pence the latitude to work with Speaker of the House Paul Ryan and Leader of the Senate Majority

Mitch McConnell to push through Pence's Christian right wing agenda that would be anti-abortion, anti-refugee and anti-LGBT. Trump's impact would be different and much more difficult to discern.

Trump has said many astonishing things about which he clearly understands very little. If he were to be believed the US would default on its sovereign debt. We know this because he told us that he would 'negotiate down' the national debt. He obviously does not understand that a negotiated 'haircut' would mean default and all the dire consequences that go along with a default. The US and the global economy would go into a tailspin, power would move East and the US would never be the same again. [And gold would go through the roof]. However, much of what this extremely ignorant man has to say cannot be taken seriously and one would have to imagine that in a position of power he would be reigned-in by capable people around him.

Where we can take Trump's word with some seriousness is in areas of taxation and spending. Trump's tax plan would significantly reduce marginal tax rates on individuals and businesses and increase deductions four-fold. His proposal would cut taxes at all income levels, although the largest benefits would accrue to the highest income earners. The plan would reduce federal tax revenues by \$9.5 trillion over its first decade. It would cause the national debt to escalate dramatically.

Some broader context –

US National Debt held by the Public (i.e. not Gross National Debt which is substantially higher) currently stands at 75% of Gross Domestic Product. With current laws in place national debt as a proportion of GDP is slated to almost double in the next 30 years:

Financial Year-End	2006	2016	2026	2036	2046
National Debt held by the Public as % of GDP	35%	75%	86%	110%	141%

Source: US Congressional Budget Office

US National Debt held by the Public currently stands at \$14 trillion (Gross National Debt exceeds \$19.6 trillion). Under current law this figure is slated to rise over ten years to \$23.6 trillion. Under the proposed laws of the candidates the National Debt held by the Public:

Financial Year-End	2016	2026
National Debt held by the Public under current law	\$14.0 trillion	\$23.6 trillion
National Debt held by the Public under Pres Clinton	\$14.0 trillion	\$23.9 trillion
National Debt held by the Public under Pres Trump	\$14.0 trillion	\$35.2 trillion

Source: Committee for a Responsible Federal Budget

Under the proposed laws of the candidates the Gross National Debt:

Financial Year-End	2016	2026
National Debt held by the Public under current law	\$19.0 trillion	\$29.1 trillion
National Debt held by the Public under Pres Clinton	\$19.0 trillion	\$29.6 trillion
National Debt held by the Public under Pres Trump	\$19.0 trillion	\$39.5 trillion

Source: Committee for a Responsible Federal Budget

Implications

A President Clinton would have an indiscernible effect on the US budget, the annual deficit and the US National Debt. President Clinton would have little or no effect on the current downward trajectory of the US Dollar (as per current laws) and therefore upward trajectory of gold.

A President Trump would have a very significant effect on the US budget, annual deficits and the accumulated US National Debt. President Trump would have a dramatic weakening effect on the trajectory of the US Dollar and commensurately a dramatic strengthening of the upward trajectory of gold.

The link between national debt levels and currency strength flows from the effect of a worsening economic structure due to higher debt levels. IMF research indicates that increasing public debt leads to increasing long term interest rates. The effect is 0.05 percentage points per 1.0 percentage point rise in national debt over and above the 50% Public Debt to GDP level. The current deteriorating US economic structure is well-understood and factored into expected trajectories. President Trump laws would cause \$11.4 trillion in national debt over-and-above that which is planned under current law over ten years. This additional amount would equate to an additional 42 percentage points of National Debt to GDP over ten years and the transmitted effect would be an increase of 2.1 percentage points to long term interest rates by 2026 (- laws remaining the same).

Last word

A President Trump would sicken Americans and non-Americans who place some value on moral leadership. But more to the point concerning the US Dollar and gold, an irresponsible and populist President Trump would inflict very significant damage to the US economy and currency which in turn would be extremely beneficial to the gold price in Dollars.

Finally, the route to 270 Electoral College votes for Donald Trump appears difficult and unlikely, judging by leading polls at time of writing. If the election were held tomorrow America would get its first female president in 241 years. But then a lot can change by November 8.

Hilton Davies



7 October 2016