



THE SA BULLION GOLD REPORT

Fourth Quarter 2019

ANALYST HILTON DAVIES

DATE 14 JANUARY 2020

TABLE 1: Gold Performance to 31 December 2019 (% per annum)¹

	QUARTER ²	1 YR	3 YR	5 YR	10 YR	SINCE 31/12/99
GOLD IN US DOLLAR	2.5	19.0	9.9	4.8	3.5	8.7
GOLD IN RAND	-4.4	20.1	10.7	9.5	10.4	13.3
GOLD IN EURO	0.3	34.4	7.2	6.7	6.1	8.1

¹ Based on LBMA Gold Price (PM) note: previously known as LBMA PM Fix.

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
31 DEC 2009	1,087.50	7.36	8,008.08	1.43	757.97
31 DEC 2010	1,405.50	6.61	9,298.44	1.34	1,047.67
31 DEC 2011	1,531.00	8.07	12,360.37	1.30	1,179.37
31 DEC 2012	1,657.50	8.50	14,044.10	1.32	1,253.02
31 DEC 2013	1,204.50	10.28	12,385.67	1.38	873.14
31 DEC 2014	1,206.00	11.34	13,679.58	1.22	990.22
31 DEC 2015	1,068.25	15.26	16,298.82	1.09	979.48
31 DEC 2016	1,151.00	13.80	15,886.86	1.04	1,109.56
31 DEC 2017	1,291.00	12.46	16,085.83	1.19	1,080.44
31 DEC 2018	1,282.90	13.98	17,932.79	1.26	1,017.34
31 DEC 2019	1,527.10	14.11	21,539.75	1.12	1,366.91

NOTES

① Gold prices in US\$ and € are LBMA Gold Price (PM).

② Gold price in Rand from Rand Refinery.

③ Previous quarter-end gold prices were \$1,489.90, R22,534.74 and €1,362.51.

④ Gold prices as at 31 December 1999 were \$290.25, R1,785.04 and €289.09.



TABLE 3: Calendar Year Performance of Gold

	% US DOLLAR	% ZA RAND	% EURO
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	12.2	1.3	-2.6
2018	-0.6	11.5	-5.8
2019	19.03	20.1	34.4

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

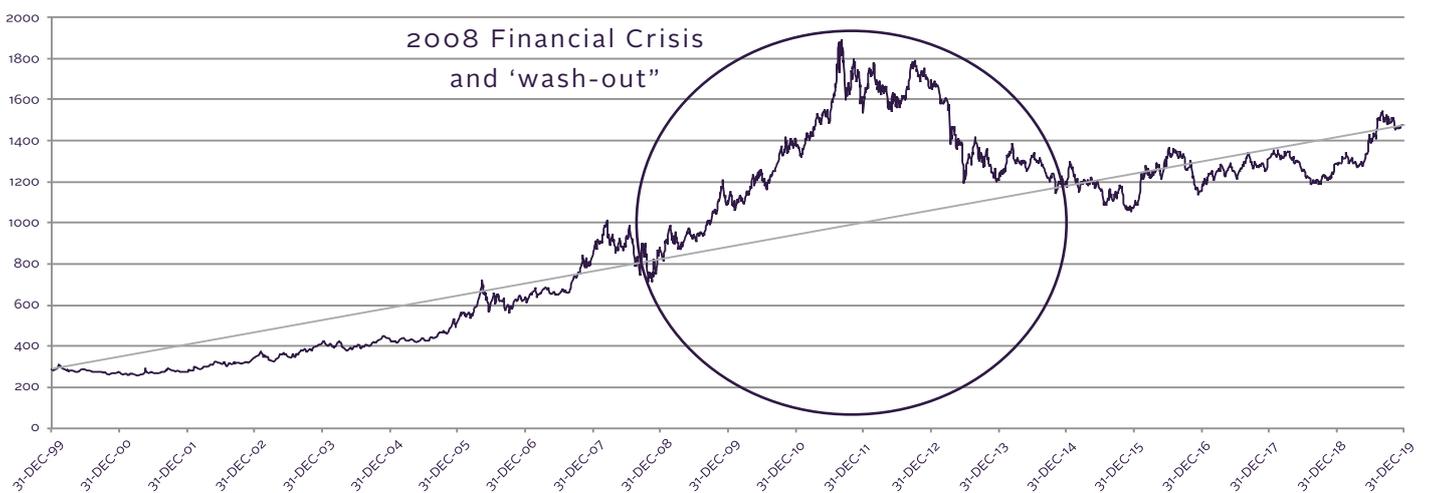
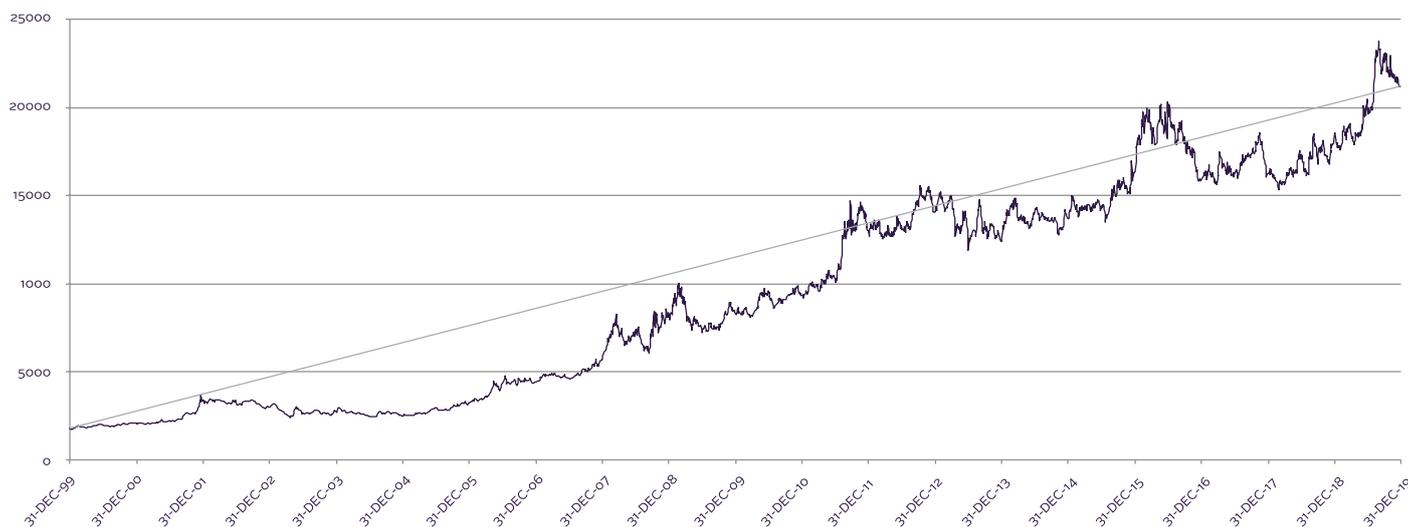




FIGURE 2: 21st Century Chart of Gold Price in ZA Rand (Rand Refinery First Pricing)



GOLD PRICE ACTION

Gold had a strong last quarter of 2019 in US Dollar, posting appreciation of 2.5%. Due to significant Rand strengthening in the quarter, Rand Gold performance was negative at -4.4%.

Gold had a huge up-year in 2019. In Dollar the appreciation was 19% and in Rand it was 20%. In Euro the appreciation was very dramatic due to Euro depreciation. Euro Gold was up an incredible 34% in 2019. The longer term picture of gold as contained in the above data tables has been excellent over virtually any period and in virtually any currency.

We have completed the first 20 years of this 21st century, and in this time period Dollar Gold has gone from \$290 to \$1,527; Rand Gold has gone from R1,800 to R21,539; Euro Gold has gone from €289 to €1,366. Gold has been a fantastic monetary asset. These price appreciations converted to compound annualized growth rates are computed to be 8.7% p.a. in USD, 13.3% p.a. in ZAR, and 8.1% p.a. in Euro. I can't see how one could have wished for more.

US NATIONAL DEBT

At SA Bullion one of our well-known refrains is that to understand gold one has to understand the Dollar. And to understand the Dollar, one has to understand the US government. In a nutshell, gold is priced in Dollar due to the US coming out of World War II as the victor, and setting the terms of the new world order in the Bretton Woods Accord of 1944. And of course, the Dollar is an instrument of trust issued by the government (broadly-speaking to include all governing authorities) of the United States of America. As the Dollar is issued by the government, the financial wherewithal of the government is of critical importance to the good standing of the Dollar.

Another of our well-known refrains is that the single most important long term predictor of the gold price is the balance sheet (or 'wealth') of the issuer of the Dollar – the US government. Of course it is rare in modern times for a country's government to have a positive balance sheet.



The norm is that countries have debt. Countries (really their governments) have generally borrowed from the public. This happens as parties get into power and then arrange for their governments to make public borrowings so as to fund their pet projects.

In the three years that Donald Trump has been President of the US, the National Debt of the country has skyrocketed. And this in good economic times when the opposite should occur. There are two main reasons for this state of affairs. One is that government spending has dramatically increased, and the other is that government income has dramatically decreased. The decrease in income is due to the Trump tax cuts for the rich.

The budget deficit this fiscal year will exceed \$1 trillion (repeat: this in good economic times). During Trump's tenure, US National Debt has gone from \$19.9 trillion to \$23.2 trillion. With an economy (GDP) worth \$21.7 trillion, this means that National Debt is significantly greater than the size of the economy. National Debt now equates to \$70,100 per American citizen. National Debt per taxpayer weighs in at \$187,400. These numbers are staggering and a reasonable person would have expected that the debt picture would have dramatically improved during these last three years, given US and global economic performance.

The takeaway from the information above is that the political will to improve America's debt standing does not exist. If Trump wins a second term it is likely to deteriorate a lot further. If Democrats emerge as winners in November, the debt picture is similarly likely to deteriorate a lot further. In any event we expect America to continue racking up debts at an ever-increasing pace. We also expect the Dollar to continue to lose ground as it has since the US currency was established in 1913, and more to the point, as it has since the US currency went off the gold standard in 1971.

IMPEACHMENT OF THE PRESIDENT

On 18 December 2019 Donald J Trump became the 3rd United States of America president to be impeached since the office commenced on 30 April 1789. In the history of humankind Trump is the 16th president in the world to ever gain this notorious status.

“So what?” you might ask. As perpetual students of gold, the Dollar and the US and their linkages, we see important issues and although they are matters of high-speculation, we see it as our job to bring these matters to your attention. But first, some context.

SIMPLISTICALLY, HOW DOES IMPEACHMENT OF THE PRESIDENT WORK IN THE US?

Impeachment of the President is a process that is conducted in Congress. There are two chambers in Congress – the House of Representatives and the Senate. It is in the House that the President is ‘charged and convicted’, resulting in Impeachment. Thereafter, the Articles of Impeachment - essentially the charges and conviction - are conveyed to the Senate where the President receives sentencing. Essentially the only important outcomes are removal from office, or not.

SIMPLISTICALLY, WHAT ARE THE DONALD TRUMP ARTICLES OF IMPEACHMENT?

In term of the US Constitution, Trump has been impeached by the House for ‘High Crimes and Misdemeanors’. Article 1 is Abuse of Power and Article 2 is Obstruction of Congress. In essence, Trump has been found guilty of extorting a foreign government (Ukraine) to meddle in the forthcoming US Presidential Election for his personal benefit. Furthermore, Trump has been found guilty of a cover-up and of instructing his officials to defy lawful subpoenas from a Congressional Inquiry into the matter. Source: H. Res.755 on <https://congress.gov>



SIMPLISTICALLY, HOW HAS THE IMPEACHMENT PROCESS BEEN WORKING AND HOW WILL IT CONCLUDE?

First off, one must understand that the US is not a true democracy with a one-man one-vote system. The House represents the people, while the Senate represents the land. Let me explain...

The House is made up of a fixed number of 435 elected Representatives. Through a complex system using the 10-yearly national population census as a basis, each Representative currently represents a Congressional District (or voting constituency) that is home to approximately 747,000 citizens.

The Senate is made up of a fixed number of 100 Senators. Each state of America (there are 50) is accorded two Senators. The Senators therefore, represent “the land” or more precisely, the states. This means that the vast, numerous and under-populated states of the interior (like Wyoming and Montana), have as much power in the Senate as do the behemoths of California, Texas and New York.

The US has two major political parties – the Democratic Party and the Republican Party. The majority of Americans live on the two narrow belts of the East Coast and the West Coast. These people mostly vote Democrat. The minority of Americans live in the vast hinterland. These people mostly vote Republican. For these reasons (simplistically), the House is controlled by Democrats and the Senate is controlled by Republicans. And of course Donald Trump is a Republican. The leading Republican Senators have indicated that they have no intentions of impartiality or conscience in the Trump trial, and one can conclude therefore that the likely outcome is that Trump will not be removed from office irrespective of his guilt and complicity.

But you never know...It is possible that new, even more damning things could come to light that makes it impossible for some Republican Senators to shamelessly protect their President; and it may turn out that the President not only abused his power but also broke the law.

WHAT EFFECTS MIGHT FOLLOW A SENATE ACQUITTAL?

Financial markets expect Trump to be acquitted and so one would expect that there would be little to no immediate effect on stock-markets, bond markets, currencies and gold.

For the rest of 2020 Trump would probably be emboldened and more manic than he has been thus far and one could assume that he will reward his protectors, torment his opponents, pardon his criminally-convicted accomplices, vilify the media, strong-arm weak countries for benefit, demand fealty and subservience like an emperor, oppress state institutions, bully congress to pass further tax cuts for the rich and increase his record budget deficits. This translates into ‘good for assets where the rich are invested’, poor for the Dollar, heightened stockmarket risks, and heightened geo-political risks. These events are likely to be good for gold as a hedge against a depreciating Dollar and as a safe haven in an increasingly dangerous Trump-led world.

In the US Presidential Election set for 3 November 2020, Trump would probably find improved odds of re-election and might well win a second term.

If Trump wins a second term in November, for the ensuing four years expect all of the above, but greatly amplified. We would fasten our seat belts with high gold exposure.



WHAT EFFECTS MIGHT FOLLOW A SENATE CONVICTION AND REMOVAL FROM OFFICE?

In the unlikely event that Trump were removed from office then Vice-President Mike Pence would be installed as President. If this came to pass, then it is entirely possible that Pence would be impeached for his complicity in this Ukraine affair. Then the Speaker of the House – Nancy Pelosi – would become President. In either scenario it is likely that matters would be calmer until the November elections with a caretaker President and it would then be likely that the Democratic Party would perform well in the elections – perhaps even winning the House, the Senate and the Presidency.

If this scenario came to pass, one could expect greater fiscal prudence, softer foreign relations, more multilateral 'globalism', more independence of the Fed, increasing of tax rates for the rich and corporations, and generally a return to more normalcy. This translates into rising personal and corporate taxes, shrinking budget deficits, rising interest rates and deflating financial markets that have been "juiced-up" by Trump. This scenario would also likely be good for gold as capital flees falling equities and enters into gold as a safe haven asset.

ALLAN GRAY

It was with great sadness that we learned of the death of Allan W.B. Gray on 10 November 2019. In 1974 Allan established Allan Gray Investment Counsel, and this enterprise has blossomed into South Africa's largest privately-owned investment management business today.

At SA Bullion we owe a great deal to Allan. Much of our SA Bullion value system and core beliefs owe their origins to this great man and mentor. On a personal level a significant part of my career development occurred under the wise direction of Allan. When I resigned as a director from Allan Gray and set out on a new course, it was with admiration and deep-affection for Allan and his family. Allan's success lay not only in the tremendous business empire that he built, but also in the successful investment businesses that were spawned by people who 'grew up' in Allan's fold – businesses like Oasis Asset Management, Element Investment Managers, and, we would like to think, SA Bullion Management.



SA BULLION NEWS

At the start of this new-year and new decade we have some exciting new developments to report.

We have commenced with a new line of business that buys and sells secondary market (i.e. pre-owned) Krugerrands, of all denominations. To operate this area of business we have recruited an experienced goldsmith from a precious metals refinery. We are delighted to welcome Nathan Cloete to the team. In the month that Nathan has been with SA Bullion he has already made a significant contribution and we look forward to a thriving market-making business under his direction.

Our offices at the Old Castle Brewery in Woodstock, Cape Town, have served us well for approximately 10 years. But for the best reasons we have outgrown them. And so I am happy to announce that on 1 March we are relocating to a magnificent new office development in Upper Woodstock called Brickfield Canvas. To see something of this wonderful development go to <https://brickfieldcanvas.com>. We expect to have photographs uploaded to our blog soon. This move will provide us with double the office space that we currently have, it will give us ample parking space, and the development comes with a huge standby generator to address loadshedding agonies. Furthermore, Brickfield Canvas offers us convention facilities, a coffee bar, a gym and great access from major road networks. We look forward to hosting you in our new offices soon!

We thank you for your patronage in 2019 and wish you all success for 2020.

A handwritten signature in black ink that reads "Hilton Davies" with a flourish underneath.

HILTON DAVIES
14 January 2020