



# THE SA BULLION GOLD REPORT

Third Quarter 2020

**ANALYST** HILTON DAVIES

**DATE** 10 OCTOBER 2020

**TABLE 1:** Gold Performance to 30 September 2020 (% per annum)<sup>1</sup>

	QUARTER <sup>2</sup>	1 YR	3 YR	5 YR	10 YR	SINCE 31/12/99
GOLD IN US DOLLAR	6.3	26.5	13.7	11.1	3.7	9.7
GOLD IN RAND	4.4	41.9	22.6	15.2	13.4	15.3
GOLD IN EURO	2.1	17.9	13.9	10.0	5.3	8.8

<sup>1</sup> Based on LBMA PM Fixes.

<sup>2</sup> Not annualized for periods of less than one year.

**TABLE 2:** Quarter-End Gold Prices and Exchange Rates<sup>1</sup>

	GOLD IN US\$/OZ	R/\$ RATE	GOLD IN R/OZ <sup>2</sup>	\$/€ RATE	GOLD IN €/OZ
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
30 SEP 2018	1,185.40	14.11	16,731.92	1.17	1,013.99
30 SEP 2019	1,489.90	15.13	22,534.74	1.09	1,362.51
30 SEP 2020	1,883.95	16.97	31,975.34	1.17	1,606.44

**NOTES**

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

② Gold price in Rand from Rand Refinery.

③ Previous quarter-end gold prices were \$1,771.60, R30,630.96 and €1,573.54

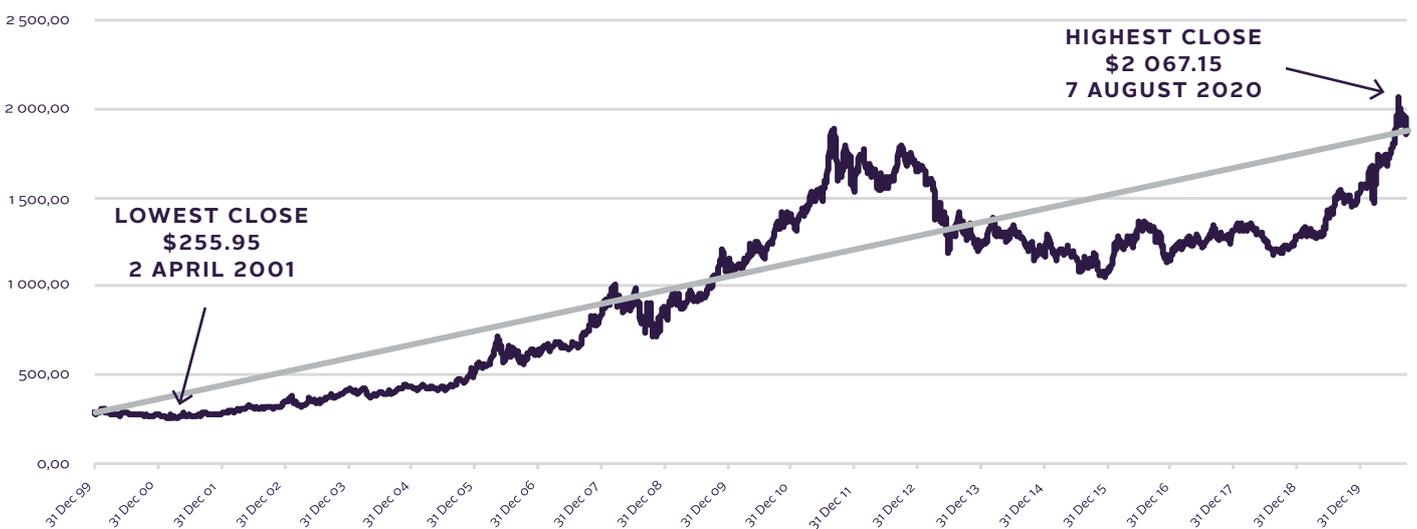
④ Gold prices as at 31 December 1999 were \$290.25, R1,785.04 and €289.09



**TABLE 3:** Calendar Year Performance of Gold

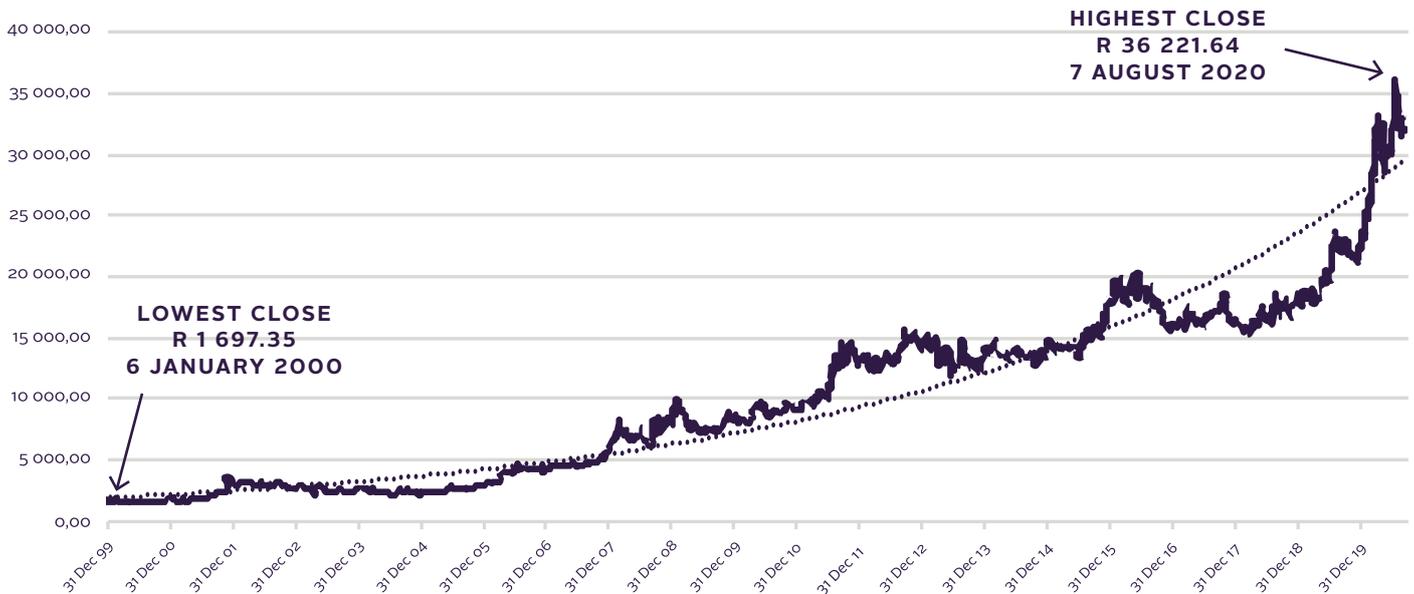
	% US DOLLAR	% ZA RAND	% EURO
2010	29.2	16.1	38.2
2011	8.9	33.0	12.6
2012	8.3	13.6	6.2
2013	-27.3	-11.8	-30.3
2014	0.1	10.4	13.4
2015	-11.4	19.1	-1.1
2016	7.7	-2.5	13.3
2017	12.2	1.3	-2.6
2018	-0.6	11.5	-5.8
2019	19.0	20.1	34.4
2020 YEAR-TO-DATE	23.4	48.5	17.5

**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**

In the third quarter, in US Dollar, the gold price outlined a mountain. In the first half, beginning at \$1,771.60 the gold price appreciated strongly and closed at an all-time record high of \$2,067.15 on 7 August. Subsequently, the price descended the other side of the mountain to end the quarter at \$1,883.95. Notwithstanding the descent, the quarter was still a strong lift for USD-Gold with a return of 6.3%.

Over the past 12 months, in US Dollar, gold posted an extremely strong 26.5% gain. This result is largely attributable to weakening of the US currency due to the COVID-19 pandemic and the historic mishandling of it by an incompetent US President.

This century, i.e. since 31 December 1999, USD-Gold has provided investors with an annualized return of 9.7%. This number compounded over 20 years and nine months equates to an incredible total return of 549%.

In the third quarter, in SA Rand, the gold price outlined a flattened mountain. In the first half, beginning at R30,630.96 the gold price appreciated to close at an all-time record high of R36,221.64, also on 7 August. Subsequently the price declined to end the quarter at R31,975.34. In the quarter ZAR-Gold returned a strong 4.4%.

Over the past 12 months, in SA Rand, gold posted a staggering return of 41.9%. This result is attributable to a very strong USD-Gold performance and additionally to a collapse in the Rand of approximately 11% over the period. An economic recession, the COVID-19 pandemic and a disastrous government together conspired to batter the long-suffering national currency.

This century, i.e. since 31 December 1999, ZAR-Gold has provided investors with an annualized return of 15.3%. This number compounded over 20 years and nine months equates to a staggering total return of 1,691%.

In the future 20 years leading up to 2040 we cannot see what would cause significant changes in these trajectories described above.



## UNITED STATES, ELECTED LEADERS, AND POLICIES

In this report we step out of our usual 'financial world' paradigm and talk politics. Long term clients know us to repeat: To understand gold one must understand the Dollar. To understand the Dollar, one must understand the government and the economy of the USA. And to understand the government and the economy of the USA, one must understand US policies and politics.

In a few weeks' time the voters of the United States go to the polls in what are the most consequential elections in a lifetime. If ever there was a time that we should perhaps speculate in the political realm and put forward our best guesses, it must surely be now at this time.

This is essentially an essay in politics, and we do not care whether people are conservative or liberal, we 'call it as we see it'. And then we offer our best guess scenarios into the future.

## FIRST, A WORD ABOUT CULTURE AND TWO MEN

**As amateur anthropologists we simplistically observe the major cultural traits of the world to be:**

Africa, Middle East and Asia	– honour and shame
The West	– right and wrong
Latin (Spain, South America, Central America)	– power and fear

Following the War of Independence, the last British troops retreated from New York City on 25 November 1783 and Britain forever lost its colony in the west. America had finally shaken off the yoke of King George III and what the American public believed to be his tyranny (In reality, it is a mixed and complex story). Since that time, America has been a democracy. It is the oldest democracy in the world. The country adopted its Constitution in 1789, which famously begins with "We the people...". In the time since then America has been the world leader of the cultural theme of 'right and wrong'. It has rewarded and punished other countries for being right or wrong / good or bad / democratic or undemocratic. That is, until Trump assumed the presidency in 2016.

Donald Trump's natural inclinations are authoritarian by nature, and he lusts for power and the fear of his enemies. He has worked to destroy public trust in his own US Government and its institutions so as to build his "only I can fix it" cult. He is a tribalist, and tribalists can attract great followings of people who are keen to hitch their wagons to that of their revered leader (His years of displaying faux-dominance on his reality TV show The Apprentice went a long way to building his tribe). It is not his desire to unite and build cohesion in his country for the prosperity and happiness of all. It is his desire to divide the nation, solidify his tribe, and unite them against the other half of the country who are the enemy. Trump's chief galvanizing themes are white victimhood and masculine dominance (He does not enjoy much support from Blacks and women).

In South Africa we have seen this story before. When describing Donald Trump, one could be describing Jacob Zuma. Both men are despotic and self-serving. Both are eager to further their own ends by any means and have no qualms about leaving a broken nation. Zuma's chief galvanizing themes were black victimhood and masculine dominance. After nine years of damaging the law enforcement agencies and truth-based institutions (scientific, medical, legal etc) for his own personal interests, Zuma left a legacy of malfeasance and ineptitude. The damage to South Africa is permanent.

After four years in the White House, if he loses this election, Trump's legacy will be a country beset by a racial crisis and a public health/economic crisis. Both have been avoidable to some degree or other, but Trump's personal interests have lain in other directions. History will treat Trump as it now treats Zuma – and it will not be kind. The damage to the United States is permanent.



## US ELECTIONS

**On Tuesday 3 November 2020 approximately 150 million Americans will go to the polling stations. They will cast their votes for candidates in numerous different races including:**

- President of the United States;
- All 435 seats in the House of Representatives;
- 35 seats in the Senate (out of 100);
- Many other state and local elections

A few decades ago America's voters were categorized in groups of thirds. One-third were solid left. One-third were solid right. And one-third were 'untethered voters' or 'independents' who might be persuaded by policy issues to vote either way and essentially determined the outcome of presidential elections. The middle group has been steadily shrinking this century, and then in his uniquely polarizing way, Trump drove a huge wedge into the independents driving them one way or the other, so that today only 8 to 12% of voters are now true independents. Fully 88% to 92% of voters are entrenched on the big cultural issues and therefore defined by identity politics.

Analysis of the 2016 Presidential Election revealed that the biggest predictors of Donald Trump or Hillary Clinton support were views on racism and sexism. In the present 2020 Presidential Election the biggest predictors are on the issues of equal treatment of racial groups, women, and religions. In the run-up to the 2016 election Trump understood where the Evangelicals stood. It is a foundational piece of Christian belief that America is their country and that it is under attack. Humans have occupied America for approximately 15,000 years. Christianity arrived with the Europeans in 1607. It reached its zenith in the 1950s and 1960s and given the changing demographics and secularization of the country, will probably never again regain the dominance it held for those 20 years. During his election campaign in 2015, Trump did an infamous deal with Jerry Falwell and the Evangelicals – the Evangelicals would throw their support behind the amoral Trump and he would give them hard-right Supreme Court judges. Both sides have kept up their ends of the deal (but Falwell and his wife have recently fallen into disgrace and out of influence by virtue of the exposé of a ten-year *ménage à trois* with a hotel "pool boy".)

The polls presently indicate Democratic Party nominee ex-Vice President Joe Biden winning the White House and taking his Vice-President nominee Senator Kamala Harris with him. But of course, polls do not predict. They give a likely outcome if the matter were to be decided at the time of the poll. The proven best predictors of US Presidential election outcomes are the betting shops. These have Biden winning at a 60% probability and Trump at 40%. The candidates from the Libertarian and Green parties have no chance.

The House of Representatives is the most democratic institution in US Government. The House represents the People (or more precisely, the 435 Congressional Districts). Every seat in the House is up for re-election every two years (unlike the presidency which is every four years). Two years ago, Americans registered their disdain for Trump and his efforts to slash health insurance and they put a significant majority of Democrats in the House. It is likely that this majority will increase.

The Senate is a counterbalancing institution to the House. The Senate represents the Land (or more precisely, the 50 states). Each state has equal power in the Senate, meaning that a small state with just one million inhabitants like Montana has as much power as America's most populous state – California – with approximately 40 million inhabitants. The voting structure of the Senate favours the Republican Party as the majority of states, while low in population numbers, are largely rural and conservative. The Senate was controlled by the Republican Party prior to Trump winning his presidential term and remains that way today. The 'call' for winning control of the Senate on 3 November is presently 50/50 for the two main parties.

President Trump has benefited from a vacancy, a retirement and a death in the Supreme Court. These have permitted him to deliver his side of the deal to the Evangelicals. Irrespective of election outcomes, we expect that the court will wield



hardline right-wing ideological power for decades to come. The rights and status of women, minorities and immigrants will decline (By “immigrants” we mean recent immigrants – not the immigrants from 1607 to 1973). We think that Roe v Wade will be overturned, and abortion will be outlawed. Big corporations will benefit from increased protections and the environment will suffer from decreased protections. Christianity will gain status and the many other organized religions will lose status – especially in schools. Gun controls will weaken. And perhaps most importantly – more power and protections will go to the President (if Trump wins in November).

## CORONAVIRUS AND TRUMP

In our previous quarterly report we compared the disastrous federal response of President Trump (who has assumed all important decisions for himself) to the high-quality federal response of Germany. As the key vital statistic, we compared the two nations Deaths per million of population. The German number was 109 while the US number was 420. We said that the numbers were almost unchanging for Germany and rising fast, for the US. Those numbers today: Germany at 115 and the US at 657. In terms of COVID-19 deaths, the US is in a league of its own. And if Trump loses this 2020 election, this will have been the final nail in the coffin for him.

**We will not revisit the material of last quarter but offer three new insights on this subject.**

1. A favourite boast of Trump is that he took “powerful” and decisive action on 31 January 2020 when he barred entry by Chinese nationals into the US. He boasts that his decision went against the position of “everyone else in the room” – all 21 public health experts and officials. Whilst true, there is more to the story. The experts were considering consequences of such a decision and better solutions. Trump in his inimitable way, forced the issue. The consequence was that 40,000 US citizens in China went rushing home. They filled every commercial flight, and they packed the US airports on entry. All without masks, protective equipment, sanitizing and distancing. The authorities had no means to test and no capacity for contact tracing. New York was hit by a tsunami of Coronavirus that was overwhelming. Trump did this. Against the advice of people who knew better.
2. The COVID-19 pandemic has been accompanied by a pandemic of misinformation. This misinformation is objectively a serious threat to global public health. Following the first major analysis of more than one million mainstream articles since January 2020, on 30 September 2020, a team of scientists from Cornell University released the results of their study on Coronavirus misinformation. The study found that antivaccination groups, 5G opponents, and political extremists are significant contributors of misinformation and conspiracy theories, but they found that another source dominated them all. They found that the President of the United States is the largest driver of COVID-19 misinformation in the world. The objective: to create public distrust.

Reference: Coronavirus misinformation: quantifying sources and themes in the COVID-19 ‘infodemic’ by Sarah Evanega, Mark Lynas, Jordan Adams, Karinne Smolenyak; the Cornell Alliance for Science, Department of Global Development, Cornell University, Ithaca, New York.

3. Donald Trump has caused the White House to become one of the Coronavirus hot spots of America. He and at least three dozen of his staff have become infected in one of the most highly protected establishments in the world. At an individual level, Trump’s actions would be of minor consequence, but at a national level his actions in causing the Executive Branch of the United States and the top level of the military to become infected with this disease is gross recklessness. Furthermore, following the best treatments in the world (that are not available to anyone else) he is broadcasting to the American public that the disease is a minor inconvenience, while it has killed approximately 220,000 Americans. His supporters will no doubt find something inspiring in this but the untethered voters have shown their dismay and Trump’s ratings have plunged a further 7 points.



## ELECTION OUTCOMES AND SPECULATIONS

The Presidency, the House of Representatives, and the Senate are each extremely important in the complex system of governing the United States of America. At SA Bullion we know that our clients expect 'big picture' prognostications from us, and while we will very often prove to be wrong due to the massive complexity of these things, we slightly more often prove to be right. And so, our thoughts on the three most likely outcomes:

### 1. The Democrats win everything

- Increased taxes for the rich and for corporations
- Reduced taxes for the poor and middle class
- Massive small business stimulus programmes for COVID-19 recovery
- Improved economic performance
- Expanded public healthcare particularly in terms of COVID-19 response
- Expanded programmes for minority groups
- Improved social harmony
- Widening national budget deficit and record national debt
- Overall, increasingly negative state finances that are relatively poor for the Dollar and relatively good for gold.

### 2. The Democrats win the Presidency. The House and the Senate remain unchanged.

- Logjams and disharmony aplenty as the Senate undercuts initiatives by the opposition
- Few if any major fiscal changes pass
- Relatively poor economic performance
- Poor stock market performance
- Senate might go Democrat in mid-term elections in 2022
- Not especially positive or negative for Dollar or gold.

### 3. No change. Presidency, the House and the Senate all remain unchanged.

- More tax cuts for the rich and for corporations
- Reduced benefits for the poor and middle class
- Elimination of Affordable Care and Planned Parenthood
- Mediocre stimulus programmes favouring Trump's rich friends
- Increasingly authoritarian Trump; erosion of democracy and much social strife
- Relatively mediocre economic performance
- Widening national budget deficit and record national debt
- Overall, increasingly negative state finances that are poor for the Dollar and good for gold.

## SOUTH AFRICA AND THE RAND

The economy is in deep recession and is forecast to experience a calendar-year contraction of 6.5% in 2020 (Source: Moody's 28/9/2020). Unemployment is at record levels and the Zondo Commission continues to unearth unspeakable depravity by Zuma and his acolytes. And yet, in recent times we have seen the slightest glimmer of hope for South Africa and its beleaguered Rand. On the basis of revelations at the Zondo Commission, the Directorate for Priority Crime Investigation (commonly known as the Hawks) has swooped on leading alleged-gangsters who would appear to be complicit in State Capture. If this proves to be the Snowball Effect at work, there may just be some hope for the country and its currency.



## SA BULLION NEWS

Your gold bullion manager was at pains to ensure that it had robust processes and systems in place for the COVID-19 pandemic and related lockdown. Based on the predictions of the leading epidemiological modelers' we had expected a six-month home-based work period. This turned out to be the case. As from 28 September we once again have a full and happy office at Brickfield Canvas. We hope it lasts.

In the lockdown period we went through three company year-end audits with only minor inconveniences due to COVID-19. All three companies had good financials and unqualified audit opinions, as you would expect.

The new website went live in the last quarter and although the website is always in a state of development, we are happy to have this new, clean, and functional version up and running. We are most grateful to our design agency ([www.mustard.agency](http://www.mustard.agency)) and software developers ([www.overdrive.co.za](http://www.overdrive.co.za)) for sterling work.

In the second quarter report we advised you of our intentions to launch a Krugerrand Fractional-Ownership Programme. I am delighted to report that this programme is now ready for roll-out. Accompanying the email release of this report you should also find an e-brochure for the programme. We expect a large number of clients to sign on for this programme. To manage the process we will be conducting a staggered roll-out. We will contact you and all our clients over the next few weeks. A broader public roll-out will follow in time, but for now our focus is on existing clients. We invite our qualifying clients' to participate!

SA Bullion has some exciting new developments - in both the retail space and the institutional space - that are presently in the works. We look forward to advising you of these in the months ahead.

HILTON DAVIES  
10 October 2020