



THE SA BULLION GOLD REPORT

Third Quarter 2021

ANALYST: HILTON DAVIES

DATE: 15 OCTOBER 2021

TABLE 1: GOLD PERFORMANCE TO 30 SEPTEMBER 2021 (% PER ANNUM)¹

	QUARTER ²	1YR	3YR	5YR	10YR	SINCE 31/12/99
GOLD IN US DOLLAR	-2.3	-8.1	13.5	5.5	0.7	8.6
GOLD IN RAND	-14.2	-17.8	16.3	7.6	7.2	13.2
GOLD IN EURO	-5.2	-7.1	13.8	4.8	2.2	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 ¹	R/\$ RATE	GOLD IN R/OZ ²	\$/€ RATE	GOLD IN €/OZ ¹
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
30 SEP 2021	1,730.95	15.19	26,284.48	1.16	1,492.25

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
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	23.6	28.7	12.3
2021 YEAR-TO-DATE	-8.3	-5.2	-2.8

FIGURE 1: 21ST CENTURY CHART OF GOLD PRICE IN US DOLLAR (LBMA PM FIX)

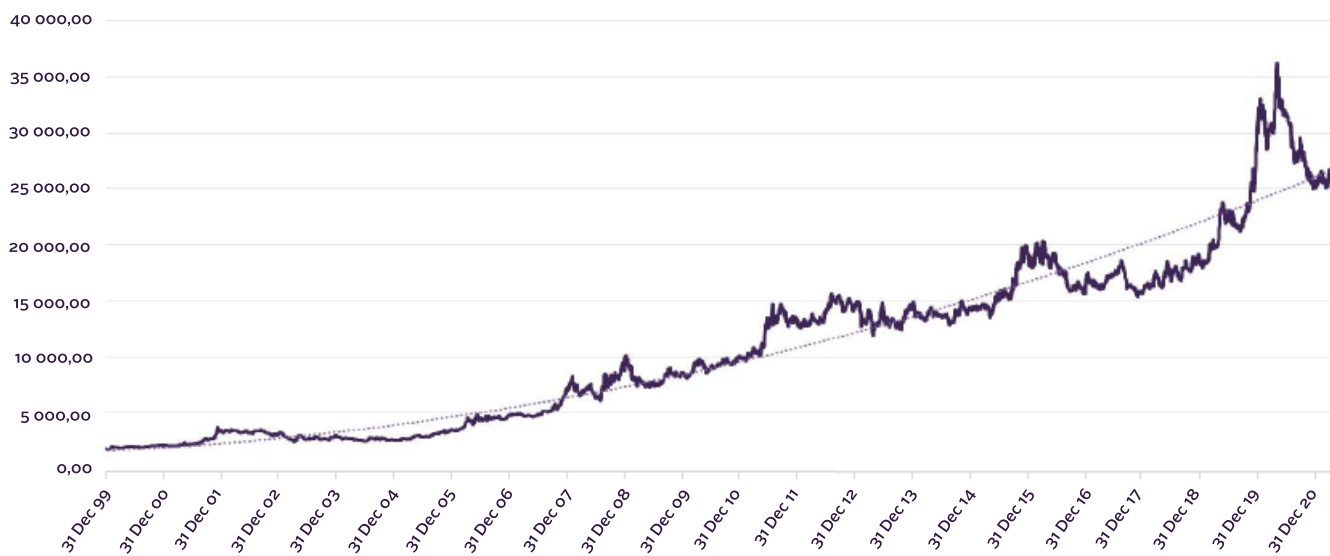


NOTES

Chart is not in logarithmic scale and therefore more recent movements are graphically exaggerated.



FIGURE 2: 21ST CENTURY CHART OF GOLD PRICE IN ZA RAND (RAND REFINERY PRICING)



NOTES

Chart is not in logarithmic scale and therefore more recent movements are graphically exaggerated.

GOLD PRICE ACTION

In the third quarter, in US Dollar, the gold price delivered a poor return of -2.3%. Over the past 12 months, in US Dollar, gold posted a similarly poor return of -8.1%. This has largely been on the back of more hawkish-than-expected statements from the US Federal Reserve about “tapering” and “tightening”.

Over the past three years USD Gold posted an excellent return of 13.5% per annum compounded.

This century, i.e. since 31 December 1999, USD Gold has provided investors with an annualized return of 8.6%. Compared to the return on USD cash in the bank, this result is excellent.

In the third quarter, in SA Rand, the gold price delivered an extremely poor return of -14.2%.

Over the past 12 months, in SA Rand, gold posted a similarly extremely poor return of -17.8%. These awful results are attributable to the poor underlying USD result discussed above, and in addition, a very strong Rand performance relative to the Dollar.

Over the past three years ZAR Gold has provided investors with a terrific annualized return of 16.3%.

This century, i.e. since 31 December 1999, ZAR Gold has provided investors with an annualized return of 13.2%. Compared to the return on ZAR cash in the bank, this result is exceptional.



US Inflation

US Consumer Price Inflation (CPI-U) is surging. The annual inflation rate for all items has peaked at 5.4%, just a little shy of its 30-year high of 5.6% set in January 1991. The ShadowStats Alternate CPI-U Estimate restates current headline inflation so as to reverse the government's inflation-reducing gimmicks of the last four decades, which were designed to understate CPI. The ShadowStats CPI-U number has peaked at an annualized rate of 13.4%.

The US authorities have practiced extremely loose monetary (Federal Reserve money creation) and fiscal policies (Federal Government deficit spending) so as to stimulate aggregate demand, and thereby, economic growth. August 2021 Money Supply growth surged to new highs with Basic M1 (Currency in circulation plus bank Demand Deposits) up a record 96% from its pre-pandemic trough!

Simultaneous to loose policies, the Coronavirus Delta Variant is boosting production costs. Workers on unemployment benefits are reluctant to re-enter the work force while the Delta Variant is raging causing steep wage increases, and the virus is disrupting critical production inputs, such as semi-conductors, leading to constrained supply and rapidly rising prices.

TABLE 4: US CPI NOT-SEASONALLY ADJUSTED ANNUAL RATES (%), FOR PREVIOUS 10 YEARS

2011	3.2
2012	2.1
2013	1.5
2014	1.6
2015	0.1
2016	1.3
2017	2.1
2018	2.4
2019	1.8
2020	1.2

Source: Bureau of Labor Statistics, U.S. Department of Labor


TABLE 5: US CPI NOT-SEASONALLY ADJUSTED MONTHLY RATES ANNUALIZED (%), FOR 2021

JANUARY	1.4
FEBRUARY	1.7
MARCH	2.6
APRIL	4.2
MAY	5.0
JUNE	5.4
JULY	5.4
AUGUST	5.3
SEPTEMBER	5.4

Source: Bureau of Labor Statistics, U.S. Department of Labor

US Economic Growth

US Economic Growth thundered forward again in the first two quarters of 2021 as the economy continued to recover from the hard lockdowns of the first half of 2020. However, since mid-year, Gross Domestic Product (GDP) has disappointed, even as inflation has taken off.

There are indications of cooling off from China's PMI, Germany's ZEW and the US' Conference Board Indicators. Much of this recent weakness can be attributed to the new Coronavirus variant and global supply shocks (caused by the pandemic).

TABLE 6: US GDP SEASONALLY ADJUSTED QUARTERLY RATES (ANNUALIZED) (%), FOR PREVIOUS 10 QUARTERS

Q1 2019	2.4
Q2 2019	3.2
Q3 2019	2.8
Q4 2019	1.9
Q1 2020	-5.1
Q2 2020	-31.2
Q3 2020	33.8
Q4 2020	4.5
Q1 2021	6.3
Q2 2021	6.7

Source: Bureau of Labor Statistics, U.S. Department of Labor



TABLE 7: THE CONFERENCE BOARD US GDP SEASONALLY ADJUSTED ANNUAL RATES (%) FORECAST

2022	3.8
2023	3.0

Source: Bureau of Labor Statistics, U.S. Department of Labor

US Economic Conditions in the Near and Mid-Term

Economic growth has disappointed in the past two months, even as inflation has exceeded expectations. Rising costs (inflation) and lower growth rates are the trend at present, and indicate stagflation as the current and near-term paradigm.

Definition: Stagflation

Stagflation is characterized by economic stagnation which is at the same time accompanied by inflation.

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Stagflation is usually very damaging to the economy and stock markets. Stock markets prefer economic growth, not slowing growth rates or outright recession. And inflation generally translates into rising interest rates to contain runaway inflation. Taken together, slowing GDP and rising CPI are typically harbingers of poor times for shares, a mixed story for bonds, and good times for gold, silver and commodities.

Gold and silver's historically strong performance in stagflationary periods is attributable to:

1. Capital preservation motives of investors as stock market volatility and losses on shares cause a flight to safe havens;
2. Lower real interest rates (i.e. nominal interest rates minus the inflation rate) and maybe even negative real interest rates cause a flight from loss-making cash in the bank to precious metals and commodities that are benefiting from general inflation.

Generally in stagflationary times bonds might offer an attractive alternative to shares but in the present times, bonds are coming off record low yields, presenting constrained opportunity in a risk-off scenario.

Gold Performance in Stagflationary Times

President Nixon took the US off the Gold Standard in 1971. Since the signing of the Bretton Woods Accord in 1944, all currencies of the world have been referenced to the US Dollar, which until 1971 had gold-backing. Nixon therefore took all currencies of the world off the Gold Standard in 1971.

In this experimental 50-year period of unbacked currencies, gold has been the best performer during periods of stagflation, along with defensive assets. Equities have suffered the most, and bonds have had mixed results.



TABLE 8: PERFORMANCE OF ASSET CLASSES DURING STAGFLATION SINCE 1973 (ANNUALISED AVERAGE ADJUSTED RETURN):

Asset	Performance (%)
Gold	32.2
S&P GSCI Index (commodities)	17.5
US Treasury & Agency Bonds	9.6
US Corporate Bonds	6.1
US Dollar Index (proxy for cash)	0.9
S&P 500 Index (major US stock market index)	-6.6

Source: Bloomberg and World Gold Council

Stagflationary periods have typically been the worst periods for shares and the best periods for gold. Gold has also been a top performer in deflationary periods. In reflationary periods it has been a good performer, and it is only in Goldilocks periods that gold has been a poor performer.

Short term economic predictions are a little like weather predictions in that one can only hope to be right a little more than half the time (Particularly if weather is very stable!). Long term economic predictions are more like climate predictions, and here one can hope to be right most of the time, over the long sweeps of time.

Given US economic conditions (especially budget deficits and national debt) as well as political forces, we at SA Bullion do not see any great Goldilocks periods in the future decades. We are fairly confident that in the decades ahead gold will prove to be a better investment than cash in the bank, and will simultaneously offer an excellent risk-diversifier for your investment portfolio.



SA BULLION NEWS

In our SA Bullion International business we are thrilled to have entered into agreements with Philoro Edelmetalle – one of Europe’s top precious metals dealers, and a relatively young and highly innovative firm (like SA Bullion!).

In SA Bullion International it has become our ambition to move away from being married to brands, and rather to be married to propositions. What does this mean? When SA Bullion International commenced operations two years ago, we initially offered vaulting services in Zurich and Dubai for three Rand Refinery gold products: Krugerrand, 100g Minted Bar and 1kg Cast Bar. We have a terrific 16-year history with Rand Refinery and are deeply loyal to the firm.

As time passed, we experienced various “inter-continental challenges”. These varied from lack of minted bar supply to Covid-related shutdowns of airlines. The nature of our SA Bullion offerings means that we need constant supply, constant off-take and minimal transportation. Furthermore, we require excellent propositions: i.e. top-quality products that are standardised for quality and priced keenly. We are less concerned about names or brands.

For our 100g Minted Bar and 1kg Cast Bar offerings we now have the liberty of dealing in numerous top-quality brands. This has zero effect on you, our client, but a great effect on SA Bullion as we have to procure product when sometimes that procurement might be difficult or impossible, in one brand. We have become agnostic about brand and now include Rand Refinery, Philoro, PAMP, Argor Heraeus, Al Etihad Gold, Austrian Mint, Valcambi and others.

For our Krugerrand offering (with vaulting in Zurich-only) we of course, remain with that unique brand. For our silver kilobar offering (with vaulting in Dubai-only), we offer the Al Etihad silver kilobar only. These are our only brand-specific exceptions now.

And that concludes our 50th Quarterly Report!

We hope you have weathered the worst of the pandemic and wish you a favourable run down towards year-end.

A handwritten signature in black ink that reads "Hilton Davies". The signature is written in a cursive, flowing style.

HILTON DAVIES

15 OCTOBER 2021