



# THE SA BULLION GOLD REPORT

First Quarter 2022

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DATE: 10 April 2022

**TABLE 1:** Table 1: Gold Performance to 31 Mar 2022 (% per annum)<sup>1</sup>

	QUARTER <sup>2</sup>	1YR	3YR	5YR	10YR	SINCE 31/12/99
GOLD IN US DOLLAR	7.1	14.8	14.3	9.2	1.5	8.9
GOLD IN RAND	-0.9	11.2	13.7	11.7	8.2	13.2
GOLD IN EURO	8.6	20.1	14.6	8.3	3.4	8.4

<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 <sup>1</sup>	R/\$ RATE	GOLD IN R/OZ <sup>2</sup>	\$/€ RATE	GOLD IN €/OZ <sup>1</sup>
31 Mar 2012	1,662.50	7.68	12,776.01	1.33	1,246.63
31 Mar 2013	1,598.25	9.32	14,902.44	1.28	1,245.90
31 Mar 2014	1,291.75	10.57	13,737.29	1.38	936.59
31 Mar 2015	1,187.00	11.96	14,194.58	1.07	1,106.22
31 Mar 2016	1,237.00	14.83	18,345.95	1.14	1,084.85
31 Mar 2017	1,244.85	12.92	16,080.80	1.07	1,164.93
31 Mar 2018	1,323.85	11.83	15,656.29	1.23	1,074.57
31 Mar 2019	1,295.15	14.70	19,035.46	1.12	1,152.68
31 Mar 2020	1,618.30	18.02	29,165.00	1.10	1,466.02
31 Mar 2021	1,683.95	14.96	25,191.89	1.17	1,436.91
31 Mar 2022	1,933.85	14.49	28,011.82	1.12	1,732.73

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

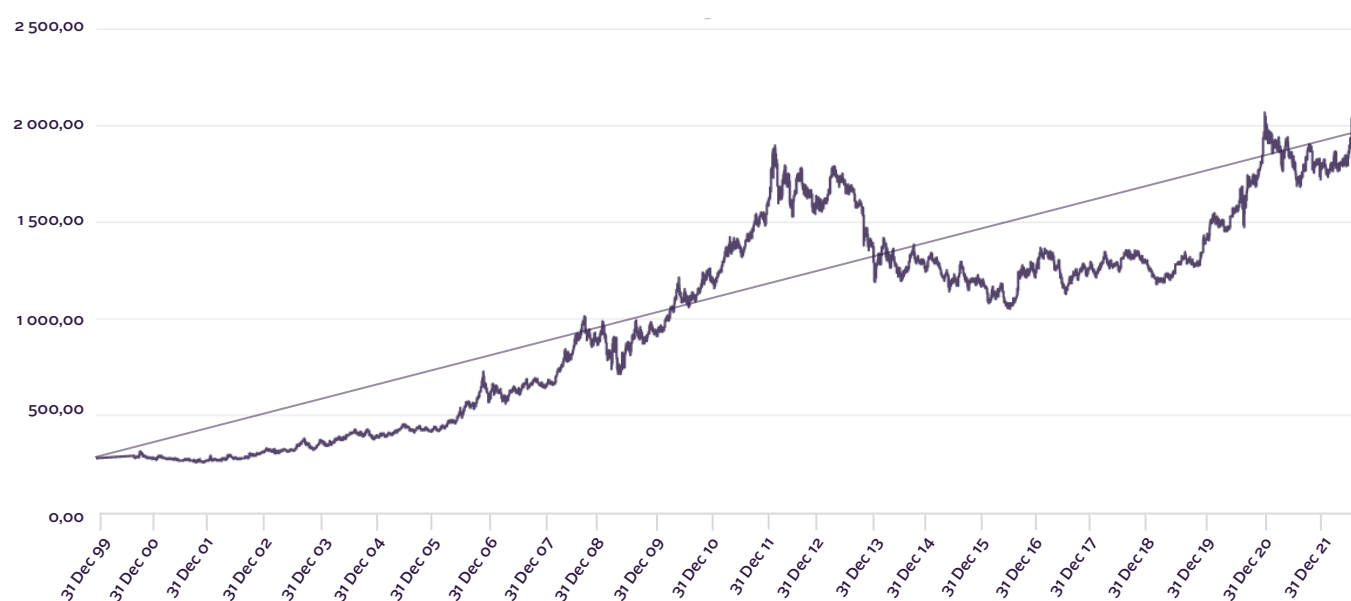
Note 4: Gold prices at 31/12/2021 were \$1,805.20, R28,272.50, and €1,595.98



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

	% US DOLLAR	% ZA RAND	% EURO
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	-4.4	2.0	4.0
2022 year-to-date	7.1	-0.9	8.6

**FIGURE 1:** Chart of Gold Price in US Dollar from 31 December 1999(LBMA PM Fix)

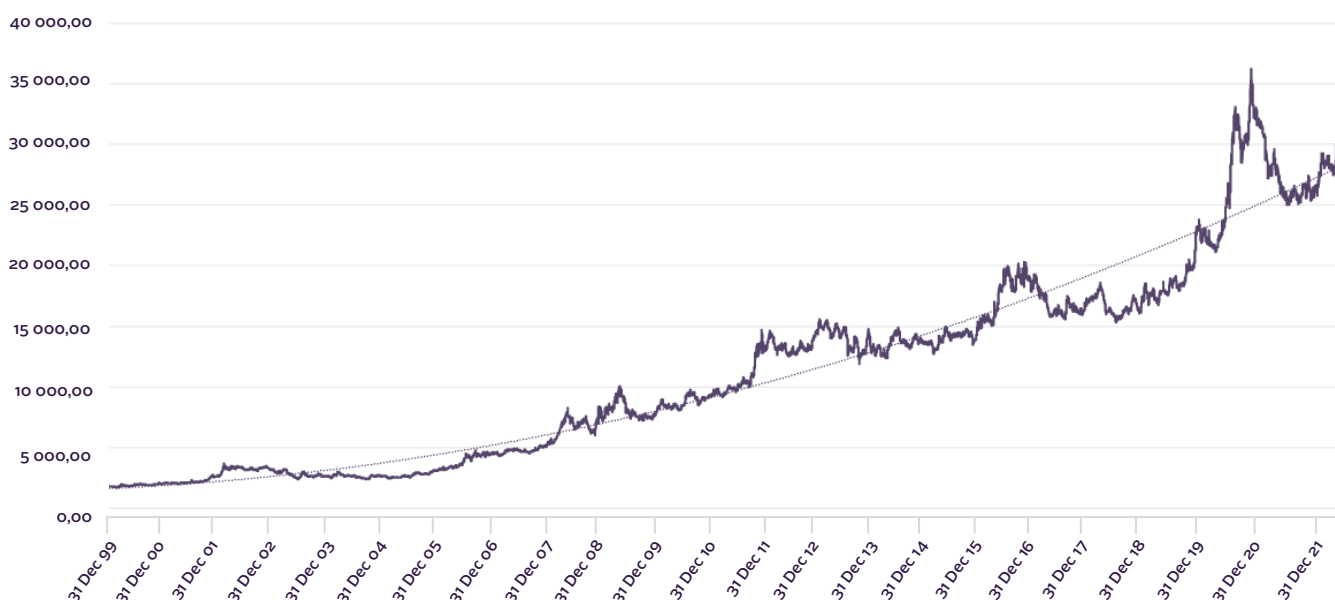


**NOTES**

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



**FIGURE 2:** Chart of Gold Price in South African Rand from 31 December 1999



**NOTES**

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

## Gold Price Action

In the first quarter USD Gold advanced more than \$100 per ounce or 7.1%, largely in response to the Russian invasion of Ukraine. In addition to a strong quarter USD Gold had a very strong 12-month period, up almost 15%. Price performance over three years has been very strong and over 22¼ years (i.e., since 31 December 1999), performance has been outstanding at 8.9% compounded annually.

ZAR Gold experienced a weak first quarter, entirely due to dramatic strengthening of the Rand. The South African currency appreciated 7.5% in just three months when the rate moved from R15.66/\$1 to R14.49/\$1. Over every longer measurement period the picture is quite different. Over the last 12 months ZAR Gold is up more than 11%, and the numbers are similar for the longer periods. Price performance over 22¼ years has been outstanding at 13.2% compounded annually.

It has been interesting to observe the gold price denominated in Euros. EUR Gold has been exceptionally strong in the past quarter and year, due to a combination of strong USD Gold performance and very poor Euro performance. Over the last year the Euro has given up 5% relative to the Dollar. Over the last ten years the Euro has given up nearly 20% relative to the Dollar.



## End of The Peace Dividend - a return to wasting money and people on war

In early-1989 the USSR admitted defeat following their invasion and nine-year war with Afghanistan. Later that fateful year, in November 1989 the Berlin Wall came down. Soon thereafter the Iron Curtain came down and the great Soviet Empire collapsed.

More than any other symbolic event, the tearing down of the Berlin Wall by the disillusioned citizens of communist countries, signaled the end of the Cold War. The Cold War was that period that began following World War II when the US and the USSR became the two dominant and antagonistic superpowers of the world. They avoided direct conflict for fear of mutually assured nuclear destruction but ran proxy wars and aggressively threatened and undermined each other.

Europe has been an eons-old battleground and for many centuries it was entirely usual for a country to expend half of its economic output (50% of GDP in today's language) on war. Many times, countries would spend even up to 80% of GDP on war. This wasteful expenditure of precious capital and destruction of human productive capacity ensured that economic growth was paltry, and that society remained essentially two-tiered, with the rich and the poor. The global middle class remained small.

The collapse of the Soviet Union curtailed the great and belligerent military threat that it presented. First World countries (i.e., highly developed nations) were able to slash military spending and channel productive capital into health, education, welfare, and development. First World countries soared. The Peace Dividend was released, and the world has flourished for 30 years.

In a NATO pact of 2014 member countries committed to spending a minimum of 2% of GDP on defense by 2025. Member countries have mostly been well-below the 2% target. The estimated range for 2021 for the 30 member nations is from a high of 3.82% for Greece, to a low of 0.57% for Luxembourg. Generally, the closer to Russia the higher the defense spending. See tables for highest proportionate expenditure on defense, and highest monetary expenditure on defense by NATO countries in 2021:

Highest Expenditure on Defense in 2021 (% of GDP)

Greece	3.82%
United States	3.52%
Croatia	2.79%
United Kingdom	2.29%
Estonia	2.28%
Latvia	2.27%
Poland	2.10%
Lithuania	2.03%
Romania	2.02%
France	2.01%

Highest Expenditure on Defense in 2021 (Billions of US Dollars)

United States	811
United Kingdom	73
Germany	65
France	59
Italy	30
Canada	27
Spain	15
Netherlands	14
Poland	13
Turkey	13



The Russian Invasion of Ukraine is unlike other invasions and wars of the last thirty years. This is not simply a regional war, and it is not another proxy war (USA vs USSR). This invasion is significant because Russia has attacked the Liberal International Order by invading a democratic and sovereign nation. In so doing Russia has ended the flourishing times that were introduced in 1990. The near-optimal deployment of capital in Europe and NATO countries has been brought to a screeching halt. Vladimir Putin's invasion of Ukraine has ended the Peace Dividend, for Europe, NATO countries, the Highly Developed Nations, and the whole world.

*Definition: Liberal International Order*

*'Liberal' is that belief in the universal equality of individuals and freedoms, both individual and collective. 'Political Liberalism' entails the rule of law, the sovereign equality of states, as well as protections for human rights, political rights, and civil liberties. 'Economic Liberalism' entails free-market oriented policies. 'Liberal Internationalism' entails principled multilateralism and global governance.*

In the first week of Putin's invasion of Ukraine, Germany announced a doubling of its defense spending from one day to the next. All NATO countries and most foreign allies are ramping up their military-spend at the expense of more productive endeavours. The chief victims of this reallocation of fiscal spending will be the global middle class (who will see less healthcare, education, welfare, and development for their taxes) and global political stability (which does poorly when the middle class is thinned out).

There is no reversing of this process. Putin and the Russian government have shown that they cannot be trusted on the big things, and the First World countries must protect themselves in more of a Cold War vein, no matter how unappealing.

The great economic and social benefits of the Peace Dividend are now being undone.

### Evaporation of Global Food Security – a return to mass starvations

The Russian invasion of Ukraine happens to have another major consequence - one that comes from the world no.1 grain producer invading the world no.5 grain producer. Whilst the global middle class will suffer from unwinding of the Peace Dividend, the poor will suffer from greatly elevated grain prices. The food-stressed, over-indebted, poor countries (mostly in Africa, the Middle East, and South and Central America) will not only contend with much higher basic food prices, but they will also find that with much less disposable income in the budgets of rich countries, food aid will be less forthcoming. As it is, around 10 million humans die each year from starvation [source: [www.un.org](http://www.un.org)]. That number will rapidly rise by hundreds of percent.

The people of dozens of countries like Yemen, Ethiopia, South Sudan and Haiti will pay a high price for Putin's invasion as wheat, cooking oil and other commodities skyrocket in price and collapse in supply.



## Petrol Station closing down – petrol prices to rise

From an economic perspective Russia can be viewed as a giant petrol station. The country is a major gas, oil, and coal producer. Energy sanctions and threats to supply have caused commodity prices to rise dramatically and these price changes will cause financial hardship across the globe and outsized hardship for most emerging nations.

## A Destabilized World

Putin has offered various reasons for invading his neighbour:

1. Ukraine was committing genocide against ethnic Russians in the Donbas and Russia was going in on a peacekeeping mission;
2. Ukraine is a nazi nation and he was going in to de-nazify the country;
3. Ukraine is not a real country, and that Ukraine is actually part of Russia;
4. Ukraine is looking to manufacture weapons of mass destruction, thereby presenting a threat to Russia;
5. NATO is looking to expand into Ukraine and this is a provocation to Russia and represents increased threats.

All of these reasons offered by Putin are demonstrably false:

1. There has been zero evidence of genocide. As a secondary response one would say that this is a reason given in bad faith as Russia and Putin have been masters of genocide. In Afghanistan the Soviets killed more than one million Afghans. In 1999 – 2000 Putin conducted obliteration bombing of the city of Grozny in Chechnya. In Syria in the last ten years Putin's forces have committed unspeakable atrocities against the Syrian population so as to keep the Russian puppet Bashar Al-Assad in power.
2. Like many countries' Ukraine does have some neo-Nazis but in the 2019 elections 73% of the population voted for a Jew as their president.
3. Ukraine is as much a country as Russia is a country. Like most countries, Ukraine has a long and complicated history, but it is not the history that defines nationhood – it is the national acceptance of a shared collective fate for all its peoples that defines nationhood. And Ukrainians most definitely accept a shared collective fate as evidenced by the referendum of 1991 when 93% of all voters voted YES to the question: "Do you support the Act of Declaration of Independence of Ukraine?"
4. There has been zero evidence of weapons of mass destruction or the manufacturing thereof.
5. NATO is a defensive alliance, not offensive. Since the establishment of NATO in 1947 the organization has not invaded a country once, whereas Russia and Putin have done so many times. As a secondary response one would have to ask why then did Putin not invade his other neighbours that have joined NATO in recent years viz.: Poland (1999), Latvia (2004), Lithuania (2004) and Estonia (2004). And of course his neighbours Norway (1949) and Turkey (1952, maritime border) have been NATO members for seventy years and more.

Putin operates from a position of grievance, ambition and insecurity. And he presides over a nation that is a declining power. Russia has an economy that is equivalent in size to Italy (or New York City). It projects power through military might and no other way. It does of course have over 6,000 nuclear warheads and therein lies Putin's trump card. Putin has not developed his country and his people. Education, healthcare and infrastructural development are all massively sub-standard. Per capita household income is just \$6,000 per annum, and the people are getting poorer. Meanwhile, Putin has made himself the richest person in the world (ever) as he and his cronies are estimated to have stolen approximately a trillion dollars of the nation's wealth (where the GDP of Russia is approximately \$1.5 trillion).



If Putin should be successful with his invasion of Ukraine, the geopolitical implications for the world will be considerable:

- Sweden and Finland would almost certainly seek to join NATO thereby ratcheting up tensions in the region. Finland was invaded by Russia in 1939 and has first-hand knowledge of the obliteration bombing that comes with that;
- Georgia would expect to be next on Putin's list for invasion and annexation and should be very worried;
- China could very well be emboldened to follow Putin's lead and execute its long-term ambition of invading and annexing Taiwan;
- Russia and China would likely forge a much stronger and more aggressive alliance of autocracies taking on the Liberal International Order that so threatens their leaders' self-interests. Russia offers the projection of military power and China brings the projection of economic and technological power. The two countries have their disagreements, but they would be united against their mortal enemy – democracy and open society; and
- Populists with authoritarian tendencies around the world will be emboldened to thumb their noses at rules-based, free and fair society and pursue ruthless autocracies.

Win or lose, there are big implications ahead. No matter the outcomes, we can expect a massive and ongoing cyber assault by the Russians on NATO country infrastructures. Electricity grids, nuclear power stations, state agencies, financial systems and energy systems (like the May 2021 ransomware attack on Colonial Pipeline) will be high priorities for destabilization and revenge.

## SA Bullion viewpoints

At SA Bullion we cannot predict the military results of the Russian invasion of Ukraine. But we do have some very clear macro-economic thoughts:

- The geopolitical risks are rising (fast);
- The world is going to be worse off for Putin's invasion (irrespective of outcome);
- The Ukrainian and the Russian peoples are going to be massively worse off;
- Economic power is migrating to China and if they play their cards right, they could be the big winner of Putin's invasion even if Putin is the big loser);
- Political parties and governments of many countries will experience upheavals depending on the outcome of Putin's invasion;
- Commodity prices will be high and volatile;
- Commodity supply shortages will flare up;
- Various countries are likely to go bankrupt and their currencies fold; and
- Inflation will be high and remain elevated, leading to interest rate pressure.

Third world countries are where politics is equally as important to the health of currencies as economics. Rising geopolitical risks means rising risks for the Rand.

Gold is the ultimate safe haven in such times. Everyone should own some physical gold.

HILTON DAVIES

10 APRIL 2022