THE SA BULLION GOLD REPORT

Second Quarter 2022

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DATE: 10 July 2022

TABLE 1: Gold Performance to 30 June 2022 (% per annum)[1]

	QUARTER [2]	1YR	3YR	5YR	10YR	SINCE 31/12/99
GOLD IN US DOLLAR	-6.0	3.6	8.9	7.9	1.3	8.5
GOLD IN RAND	5.1	16.8	13.9	12.8	8.4	13.3
GOLD IN EURO	0.1	17.4	11.9	9.7	3.2	8.3

1 Based on LBMA PM Fixes.
2 Not annualized for periods of less than one year

TABLE 2: Quarter-End Gold Prices and Exchange Rates[1]

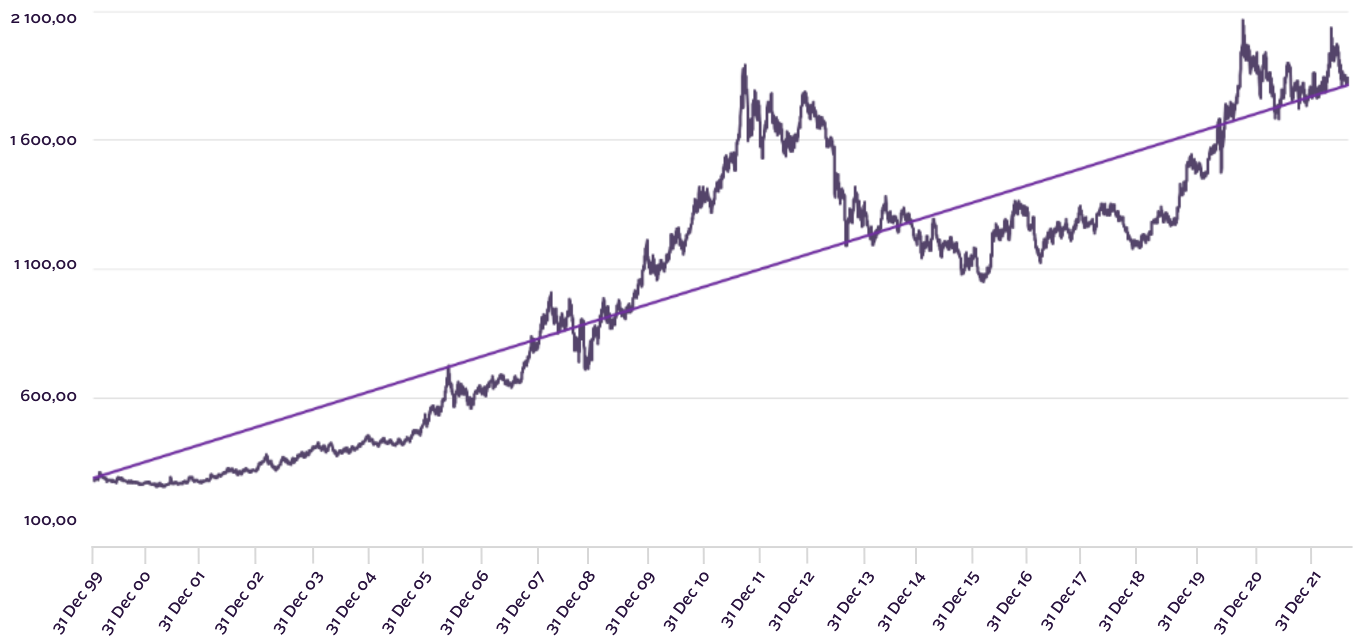
	GOLD IN US$/OZ [1]	R/$ RATE	GOLD IN R/OZ [2]	$/€ RATE	GOLD IN €/OZ [1]
30 June 2012	1,598.50	8.21	13,123.35	1.27	1,260.45
30 June 2013	1,192.00	9.97	11,881.85	1.30	914.39
30 June 2014	1,315.00	10.64	13,986.58	1.37	962.66
30 June 2015	1,171.00	12.34	14,451.28	1.11	1,046.19
30 June 2016	1,321.50	14.91	19,703.56	1.11	1,187.50
30 June 2017	1,243.50	13.00	16,164.25	1.14	1,089.93
30 June 2018	1,250.45	13.85	17,323.96	1.16	1,074.14
30 June 2019	1,409.00	14.13	19,919.74	1.14	1,237.81
30 June 2020	1,771.60	17.29	30,630.96	1.13	1,573.54
30 June 2021	1,755.45	14.36	25,205.63	1.19	1,477.04
30 June 2022	1,817.75	16.20	29,450.09	1.05	1,733.71

Note 1: Gold prices in US$ and € are LBMA PM Fixes.
Note 2: Gold price in Rand from Rand Refinery.
Note 3: Previous quarter-end gold prices were $1,933.85, R28,011.82 and €1,732.73.
Note 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
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	0.7	4.2	8.6

FIGURE 1: 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: Gold Price in South African Rand from 31 December 1999 (Rand Refinery)

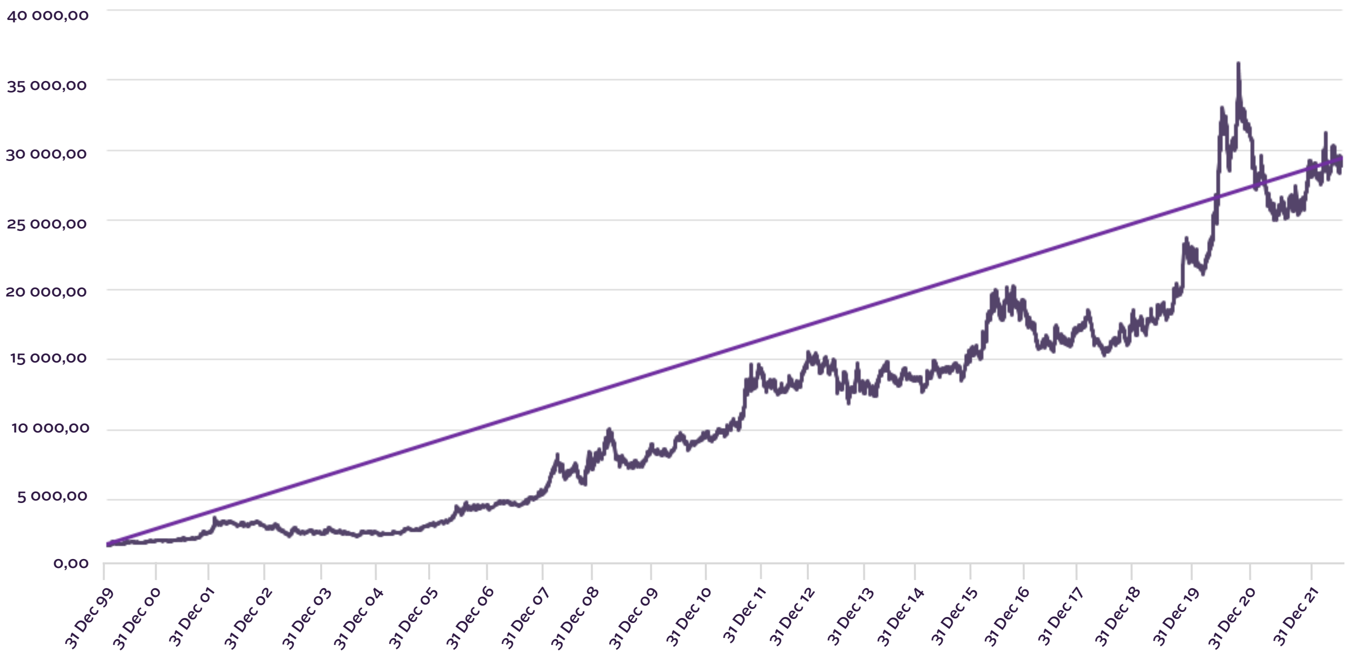


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Chart is not in logarithmic scale and therefore more recent movements are graphically exaggerated.

GOLD PRICE ACTION

In US Dollar, gold had a very poor quarter as the price per troy ounce declined from $1,933.85 to $1,817.75. Over the longer periods gold price performance in US Dollar has been excellent. In the 22½ years since the start of this century, the price appreciation of gold has been an impressive annualized 8.5% per annum in US Dollar.

In South African Rand, gold had a very strong quarter. Similarly, in Rand, gold had an extremely strong year, producing performance of 16.8%. These results are largely attributable to Rand weakness. This is a mirror image of where we were exactly one year ago. This century gold has rewarded South African investors with a compound annual return of 13.3% per annum, thus validating the long-term proposition for South Africans.

THE US AND GLOBAL BIG PICTURE

In a nutshell

Interest rates have been too low for too long. Money supply has been too high for too long. Velocity of Money has been slowing too rapidly and for too long. See Figures 3 – 5.

Add to that Putin's invasion of Ukraine (which has greatly magnified these problems), and we have inflation taking off and economic growth rates sinking down.

The Macro Reasons

The Global Financial Crisis of 2008 had its roots in the Greenspan Fed (Federal Reserve run by Governor Alan Greenspan) that ultimately led to the great sub-prime mortgage problem and the failure of the major investment bank, Lehman Brothers. The response of the central banks was to flood the system with money (mostly through Quantitative Easing) and to drive interest rates to very low levels. Their actions were extreme, to say the least.

Finally in late 2016, The US Federal Reserve began a slow process to normalize interest rates.

The Covid-19 pandemic began in early 2020. This set off a global panic starting in February 2020, and the subsequent actions of central banks have been truly extraordinary. These actions sought to drive interest rates down to an effective zero rate (Figure 3), and to flood the system with money (Figure 4).

FIGURE 3: US Effective Fed Funds Rate (3 years) (basis points)

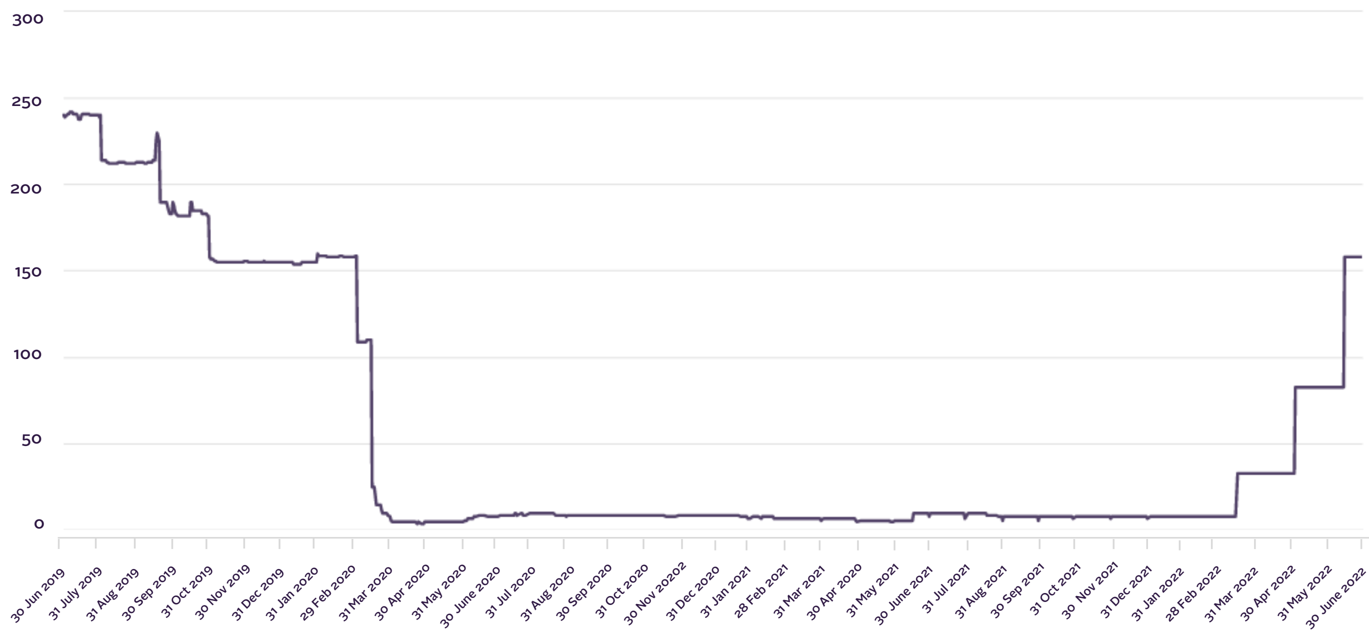
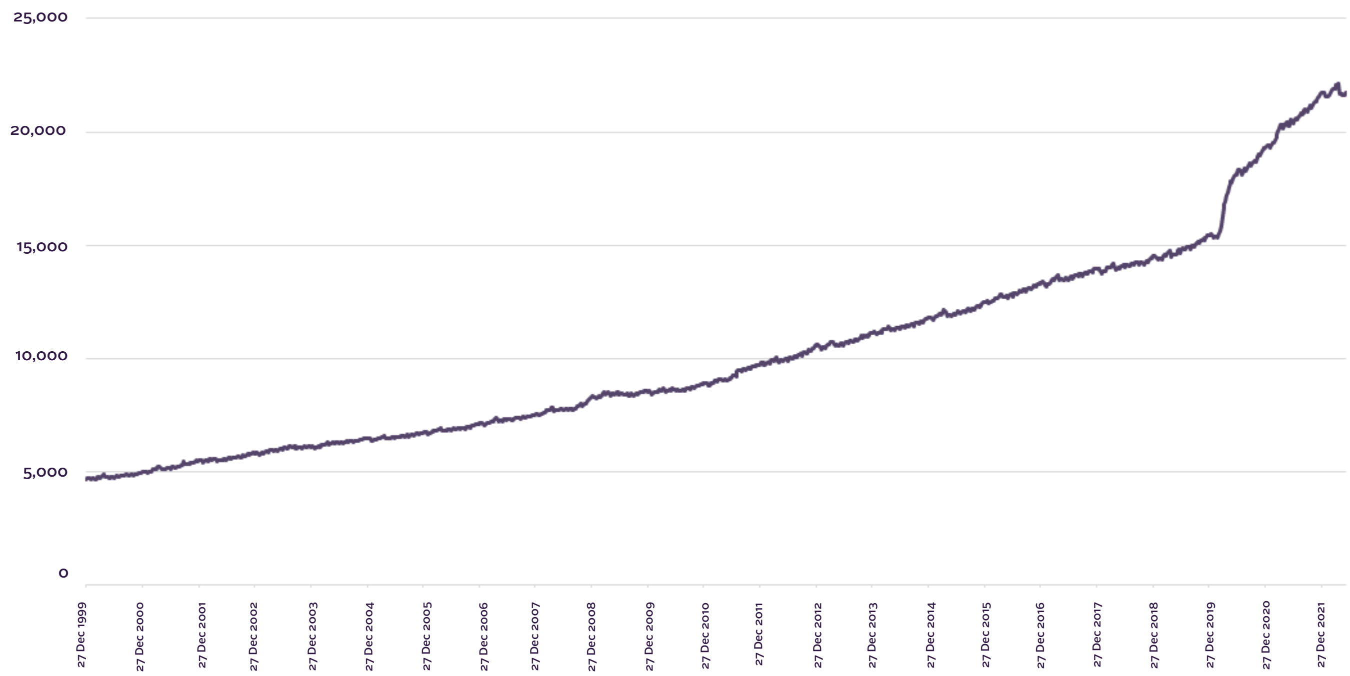


FIGURE 4: US M2 Money Supply (long term) ($ billions)



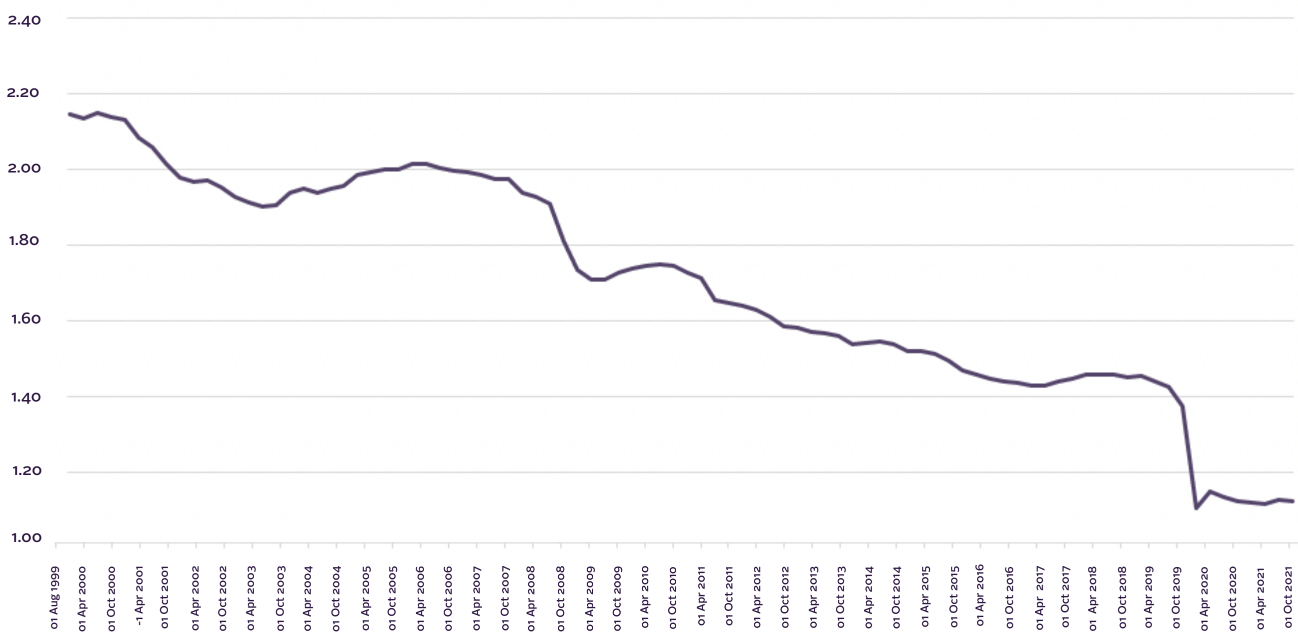
Added to central bank actions, the fiscal response of the US government in cutting taxes and providing Covid grants conspired to drive equity markets to stratospheric levels, and to destroy holders of cash.

Although equity markets raced to record levels by the end of 2021, shares did not all participate equally. A handful of shares, the FAANG stocks (Facebook/Meta, Amazon, Apple, Netflix, Alphabet/Google) and other leading tech stocks like Tesla dominated the lift-off of share indices. All the while, the majority of shares had not had meteoric rises, and many had suffered from the huge rotation to the market leaders. This dislocation is now enormous and mean reversion is likely.

Velocity of Money is the turnover rate of money in an economy. Typically a rising Velocity of Money means that a Dollar is cycling through domestic transactions more frequently and generally this is an indicator of improving economic activity. Conversely, a declining Velocity of Money typically indicates that there is a structural weakening going on.

In the US in recent years, corporations have taken advantage of low interest rates and issued record amounts of debt so that they are now sitting on the highest corporate debt mountain in history. As interest rates rise, the effect will be a negative one for debt-servicing businesses and will serve as a brake on economic activity (see Figure 5).

FIGURE 5: Velocity of US M2 Money Supply (long term) (GDP/M2)



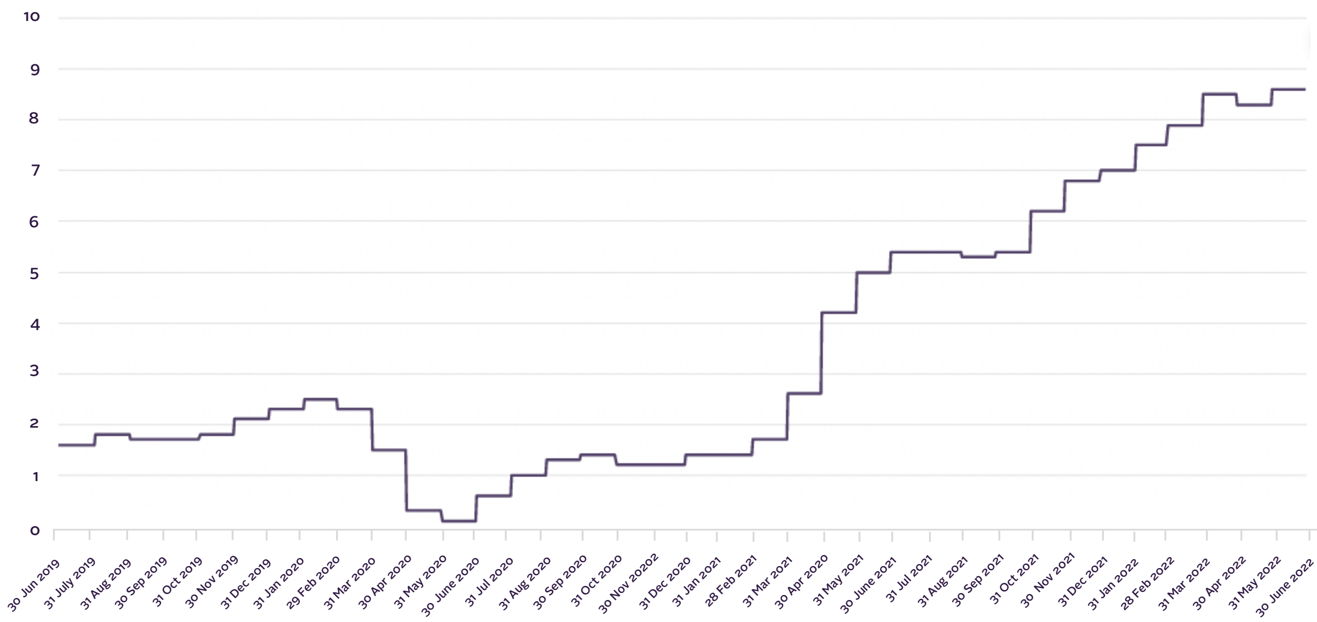
So what are our current global Macro-Economic Conditions?

We have rapidly rising inflation due to (1) central banks' excessive money supply policies, (2) supply chain bottlenecks resulting from Covid, and (3) Putin's invasion of Ukraine causing supply-side shocks in food and energy prices (see Figure 6).

We have the US Federal Reserve (and most central banks) yanking interest rates upward to get inflation under control, but not so much as to cause a recession (see Figure 3). Central banks hope for a 'soft-landing' where inflation gets tamed by higher interest rates but without causing economic contraction.

We have had extremely high stock, bond and property markets that are turning down viciously as they respond to rapidly rising interest rates, and more importantly, the prospect of much more raising of interest rates to come.

FIGURE 6: US CPI Inflation Rate (%) (3 years)



UKRAINE

We do not profess to be experts in matters of war and diplomacy, but we will offer our opinion of what we see as the likely outcome of Putin's invasion of Ukraine and its global economic ramifications. Our opinions have been shaped by our reading of credible experts.

In 2014 Putin invaded Crimea and seized this portion of Ukraine for Russia. The Crimean Peninsula was not connected to Russia (it later became connected across the Sea of Azov by the enormous Crimean Bridge).

On 24 February 2022 Putin again invaded Ukraine. This time his intention was to take the whole country but that objective became 'right-sized' by a vigorous response of the Armed Forces of Ukraine (AFU) with the massive support of all the leading democratic nations of the world.

Putin has conquered the south-eastern part of Ukraine from Russia to Crimea via the Ukrainian cities of Mariupol, Berdyansk and Melitopol. This gives Russia the land-bridge from Russia to Crimea that Putin has so desired.

In the last two months Putin has concentrated his forces on taking the Donbas (the Donets Basin Region) in the east of Ukraine. As at the time of writing this report Putin has almost gained control of the entire region.

What do we expect?

We expect that in a matter of days or weeks Putin's forces will have taken control of the entire Donbas.

The cost to human life in fulfilling Putin's ambitions has been high. Four and a half months into this invasion the death rate of Ukrainian soldiers has been around 6,000 per month. For Russia the number has been around 10,000 per month. The injury rate is many times those numbers.

The cost to Russia in pursuing this adventure has been enormous. The direct military cost is estimated to be around $900 million per day. The total cost (military and economic) is estimated to be more than 20 times that – at around $20 billion per day. For reference, the entire Russian military budget last year was $64 billion.

Russia has depleted its military very significantly. It's military of approximately one million personnel has experienced huge shrinkage from death and injury. It's military materiel (especially tanks and armoured personnel carriers) has taken extremely high losses, and it's arsenal has been significantly depleted. The Russian forces are exhausted and need to re-group.

We expect that Putin will exhort his forces to conquer all of Donbas, the so-called Luhansk People's Republic and Donetsk People's Republic, in addition to the so-called Republic of Crimea, and then enter into diplomatic talks.

We do not believe that Russia will give up any of the territory that they have seized, and Ukraine and its allies will not be able to force the Russians to leave. Ukraine will have to accept that Putin has taken approximately 20% of their country.

We believe that the war will remain a 'contained war'. We believe that as much as there may be threats of nuclear weapons being used, there will be no nuclear warfare.

We expect that Ukraine will not agree to remain out of the EU and NATO. We expect that Ukraine will vigorously seek to join these multi-lateral institutions and seek mutually-assured security.

We do not expect a return to normal. We believe that the Peace Dividend that we wrote of last quarter, has been lost for a generation. NATO defense spending will be very high for many years to come. Many of Russia's small neighbours will be very fearful of a similar fate to Ukraine's and will look to democratic powers for assistance. The democratic powers will engage with Putin but on very different terms. Putin will be a distrusted pariah until his death and Russia can only hope for redemption after his exit.

All of this means a more expensive world for doing business. And therefore, there is a cost to all of us. Food, energy and commodities will be permanently elevated in price. Hundreds of millions of people will be forced into poverty and millions will starve to death. Global harmony will be more remote and the China/Taiwan matter is going to be much more costly to all of us.

Our Global Macro Economic Perspective

Spiking commodity prices, central bank tightening, energy supply dislocations, and retreating equity markets are a combination of highly distasteful ingredients.

The Putin invasion of Ukraine introduces much global hardship and geopolitical instability.

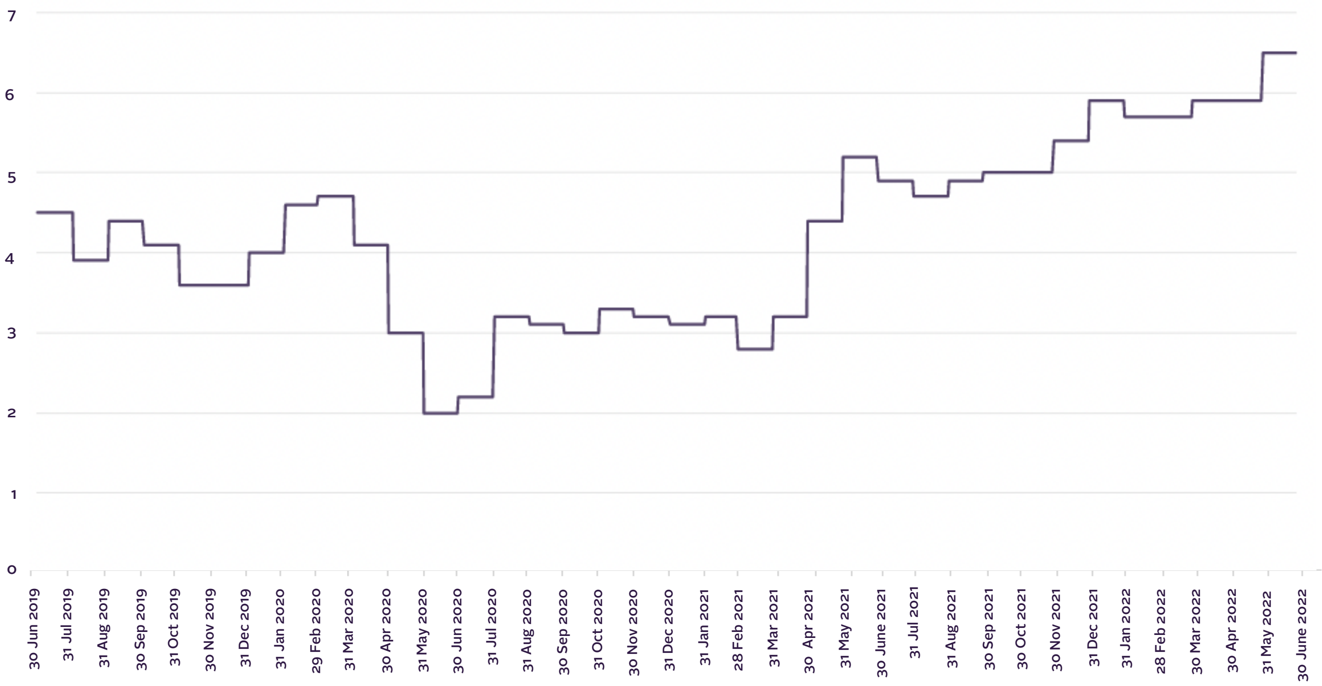
In all of this there might be an element of gold becoming more sought after as a safehaven, but overall it is our view that all assets and all forms of money will have to live with the opposite of a Peace Dividend (a 'Russian War Tax'?) and face a less prosperous and more erratic ride. All that we are sure of is that diversification is the one non-negotiable in the personal financial mix.

SOUTH AFRICAN CONDITIONS

Since the depths of South Africa's hard lockdown for Covid-19 in mid-2020, inflation has turned strenuously upwards. In June 2020 the CPI rate stood at 2%. Today it stands at 6.5% (see Figure 7).

The Rand suffered a tremendous collapse in the early days of the pandemic along with the currencies of all emerging economies. Subsequently, however, it recovered all of those losses. But in the last 12 months we have seen the Rand lose substantial ground against the Dollar as the woes of Eskom, the South African government, and the South African economy have become manifest.

FIGURE 7: Chart of SA CPI Inflation Rate (%) (3 years)



Our South Africa Macro Economic Perspective

South Africa has been gutted by Zuma and his cabal. At this point our democratic structures and institutions do not serve us well and the fabric of our economy is disintegrating quickly. In our Third Quarter 2019 report we wrote: "... the biggest risk to South Africa and the Rand today is Eskom". This remains the same today, except one could also add "the Zuma faction".

Economic growth is dismal, the policies of government are even worse, and the Rand is reflecting these problems. The State Capture Commission has been bringing governing party malfeasance to light, but the evildoers seem intent on bringing the state to its knees so as to avoid prosecution for their crimes.

It is our view that South Africans should largely insulate themselves from Rand risk. In respect of money, this means holding exposure to gold, Dollars and Euros

SA BULLION NEWS

SA Bullion has had proprietary agreements with South Africa's premier financial regulator - the South African Reserve Bank - for many years. These agreements have enabled our investment management service in Krugerrands to become the highly-refined investment offerings that exist today.

Our more recent wholesale and retail dealing services (commencing July 2018) have not required South African Reserve Bank involvement, nor the high level of refinement as demanded by investment clients and Financial Advisors. Notwithstanding, in the last 18 months we have taken steps to enhance the credibility and robustness of our dealing service and we are delighted to announce to you that the South African Reserve Bank and its subsidiary the SA Mint have approved our status as an SA Mint Authorised Dealer. SARB and SA Mint conduct comprehensive legal analysis in respect of a dealer's compliance with legislative standards and obligations, and for this reason this stamp of approval is highly regarded and not easily obtained. We are pleased to offer you this important mark of credibility in the gold dealing space and invite you to review the SARB and SA Mint websites to see our name in lights (so to speak).

Most of our clients would know that our offshore business, SA Bullion International, offers dealing and vaulting in Dubai and Zurich.

The structures of the precious metals markets in South Africa and the UAE are fairly similar, but Switzerland is quite different. Amongst other things, Swiss refineries are organized for extremely large-volume business (servicing central banks and massive Italian jewellery manufacturers around Milan and Monza where most of the world's gold chain is manufactured).

We are contracted to leading Swiss refinery PAMP, but we are better suited to dealing with wholesale and intermarket dealers where smaller volumes (less than $100 million) are the norm. We are fortunate to have excellent relations with leading Swiss dealer Philoro Global and were delighted to receive the company's Managing Director, Mr Cristian Stanciu, and the company's Compliance Officer, Ms Manuela Hagler, for a site visit at our offices in Cape Town in May. Philoro subsequently communicated a highly favourable assessment and our relations could not be better. These good relations translate into good servicing of you, our client.

The three South African SA Bullion companies have completed their Financial Year End 2022 annual audits and all three show respectable condition and received Unqualified Audit Opinions, as you would expect. The companies' financial statements have been submitted to their respective regulators. SA Bullion International has a May financial year-end and the audit is therefore a work in progress.

In Closing

The financial markets presently confront strong headwinds and investment decision-making is fraught with difficultly. But at SA Bullion we are pleased to be able to offer you a safehaven for a portion of your wealth – one that should do well for you in the years ahead.

Hilton Davies

Hilton Davies
10 July 2022