The SA Bullion Gold Report

Q2 2011

SA Bullion

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Gold Performance to 30 June 2011 (% per annum)

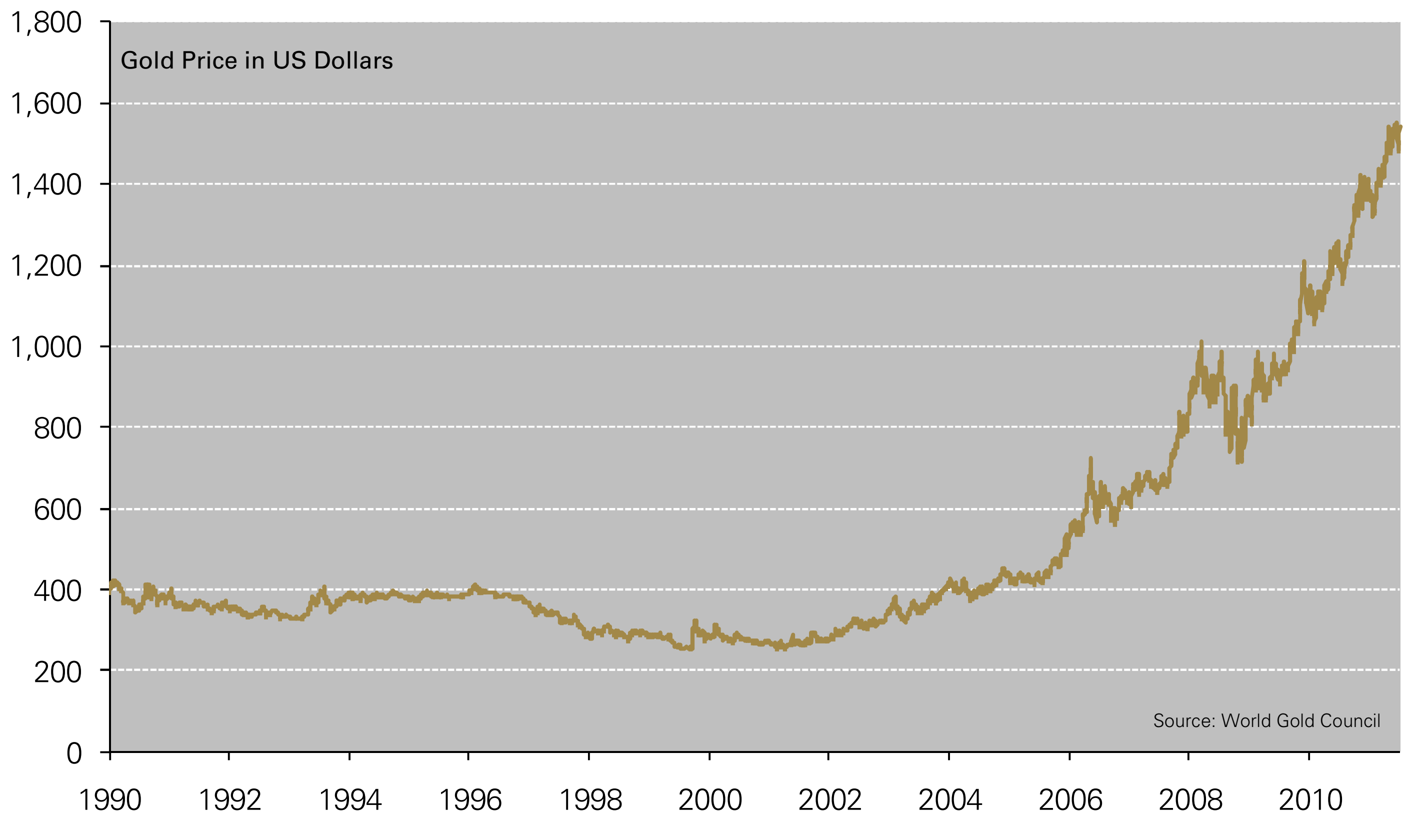
	Quarter*	1 Yr	2 Yr	3 Yr	5 Yr	10 Yr
Gold in USD	4.6	21.0	26.9	17.4	19.7	18.7
Gold in ZAR	4.6	7.0	18.9	11.9	18.4	16.7

** not annualized for periods of less than 1 year*

Gold Prices

	Gold in USD/oz	Gold in ZAR/oz
30 June 2001	270.60	2181.41
30 June 2006	613.50	4375.33
30 June 2008	930.25	7282.14
30 June 2009	934.50	7216.67
30 June 2010	1244.00	9536.25
31 Mar 2011	1439.00	9748.51
30 June 2011	1505.50	10199.01

Note 1: The above prices are LBMA Afternoon Fix prices.
Note 2: At time of writing gold prices were $1,546.15 and R10,438.15



Hypothesis

The leading industrialized nations of the world are in a financial predicament and their currencies can look forward to a bleak future. As a secure currency bet gold must be a leading contender. Let me explain.

Macro Picture

The US, the European Monetary Union, the United Kingdom and Japan, collectively the majority of the global economy, are economic blocs that are suffering the great deleveraging process that follows one of the greatest credit booms of all time. Whilst in each of these leading nations (or blocs) the private sector experienced dramatic credit contraction commencing 2008, their governments have assumed the burden of credit expansion so as to stave off deflation and disastrous economic contraction. In the process these nations have become monstrously over-indebted and now sit with a huge problem of a different stripe.

Granted, these are mere words and you need evidence. Stay with me and let’s take a look at some hard numbers from the US. Perhaps next quarter we will interrogate the numbers from the other industrialized nations – but of course we have a particularly great interest in the US. Gold is after all priced in US dollars. So here goes:

US Demographics

Population[1]	311 million
Number of taxpayers[2]	111 million
Official Unemployed[3]	13.8 million
Actual Unemployed[3]	24.8 million
Families[1]	82.1 million

US National Debt and Citizenry

National Debt[4]	$14.3 trillion
National Debt per man, woman and child[4 and 1]	$46,466
National Debt per taxpayer[4 and 2]	$129,681
National Debt per family[4 and 1]	$175,543

US National Debt and Economy

National Debt[4]	$14.3 trillion
GDP (1 year of economic output) [2]	$15.0 trillion
National Debt to GDP ratio[4 and 2]	95.6%

The Highly-Leveraged US Economy

National Debt[4]	$14.3 trillion
Household Debt[4]	$13.3 trillion
Business Debt[4]	$10.9 trillion
Financial Institutions Debt[4]	$14.4 trillion
State and Local Governments Debt[4]	$2.5 trillion
Total Debt[4]	$55.4 trillion
Total Debt per man, woman and child	$176,000
Total Debt per family	$669,000
Savings per family	$6,967

The Federal Reserve is mandated by Congress to maintain maximum employment and price stability. In its mandate the Federal Reserve is failing miserably.

In the face of unprecedented fiscal and monetary stimulus the economy is limping forward with a growth rate of 1.9% p.a., down from 3.1% p.a. the previous quarter. Official unemployment is reported at 9.2% but the broader measure tops 16% and the trusted group Shadow Government Statistics (SGS) has reported unemployment at around 23%! Unemployment is entrenched at exceptionally high levels and is unlikely to moderate in any meaningful way for a very long time. Meanwhile CPI has reached 3.6% p.a. for the 12-month period ended May and 5.1% when annualizing the most recent 6 month period. SGS report CPI at 7% p.a.! The monetary inflation adventure of the Federal Reserve in the last three years is starting to stoke consumer inflation.

What we see today can best be described as "pushing on a string". The US economy is a credit driven economy but it has become so over-extended, and the government is becoming such a large component of the economy, that new credit is having less and less of an effect in driving growth. The opportunity to stimulate employment and maintain price stability is getting away from the authorities.

US house prices have certainly not helped the situation. Since the peak in July 2006 house prices are down 33% and back to 2003 price levels (source: Case-Shiller). This drop in prices has had a significant bearing on monetary policy as a very large number of American households have weak balance sheets and are vulnerable to insolvency in the face of declines. In no small measure Quantitative Easing was engineered to bring long term interest rates down so as to prop up house prices and therefore home equity. This policy has not worked, and instead it has stoked inflation – the very thing that is most hurting the average household today.

Meanwhile, on the interest rate front we see nominal rates remaining at around 0% p.a. which means that real interest rates (i.e. adjusted for inflation) are now at the most exceptionally negative level of around -5% p.a. Savers are being decimated in the process and the reckless borrowers of past years are being rewarded at their expense. This is as we have been predicting for years:

Industrialized nations have to stoke inflation and destroy their currencies so as to repay debts in the future at debased values

Outcomes of these policies are that:

Economic growth will be pedestrian to poor (and possibly disastrous)
Consumer inflation will become high and remain elevated
Real interest rates will be horribly negative
Cash in the bank will be a route to penury
Gold will be the hard currency antidote to debased currencies

Other

There is much else to discuss. Concerning the US we would like to talk about future budget deficits, the end of QE II and contracting liquidity, potential recession, the Balance of Payments and a fall in Comex longs.

Concerning the rest of the world we would like to talk about inflation, real interest rates, PIGS (Portugal, Italy, Greece, Spain) and the Euro, declining Chinese growth rates, increasing Chinese inflation rates, slowing Australia, Japanese stagnation and global reflation.

And concerning gold we would like to talk about supply and demand and about central banks becoming significant buyers of gold as they diversify out of the US Dollar and the currencies of industrialized nations.

Unfortunately we're unable to address all these items in this report as we endeavor to keep this report 'a quick read'. We will have another opportunity next quarter.

In Closing

We can be certain of nothing, but following exhaustive study of the economic forces at play in the world today we remain emboldened to advocate investment in gold as a premier currency decision for the long term.

Sources:
1. US Census Bureau
2. Federal Reserve
3. US Bureau of Labor Statistics
4. US Treasury

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