



THE SA BULLION GOLD REPORT

First Quarter 2020

ANALYST HILTON DAVIES

DATE 2 APRIL 2020

TABLE 1: Gold Performance to 31 March 2020 (% per annum)¹

	QUARTER ²	1 YR	3 YR	5 YR	10 YR	SINCE 31/12/99
GOLD IN US DOLLAR	6.0	25.0	9.1	6.4	3.4	8.9
GOLD IN RAND	35.4	53.2	22.0	15.5	13.6	14.8
GOLD IN EURO	7.3	27.2	8.0	5.8	6.0	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 Rates¹

	GOLD IN US\$/OZ	R/\$ RATE	GOLD IN R/OZ ²	\$/€ RATE	GOLD IN €/OZ
31 MAR 2010	1,115.50	7.31	8,154.49	1.35	825.07
31 MAR 2011	1,439.00	6.75	9,717.63	1.42	1,014.52
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

NOTES

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

② Gold price in Rand from Rand Refinery.

③ Gold prices at 31/12/1999 were \$290.25, R1,785.04 and €289.09

④ Gold prices at 31/12/2019 were \$1,527.10, R21,539.75, and €1,366.91



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	19.03	20.1	34.4
2020 YEAR-TO-DATE	6.0	35.4	7.3

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

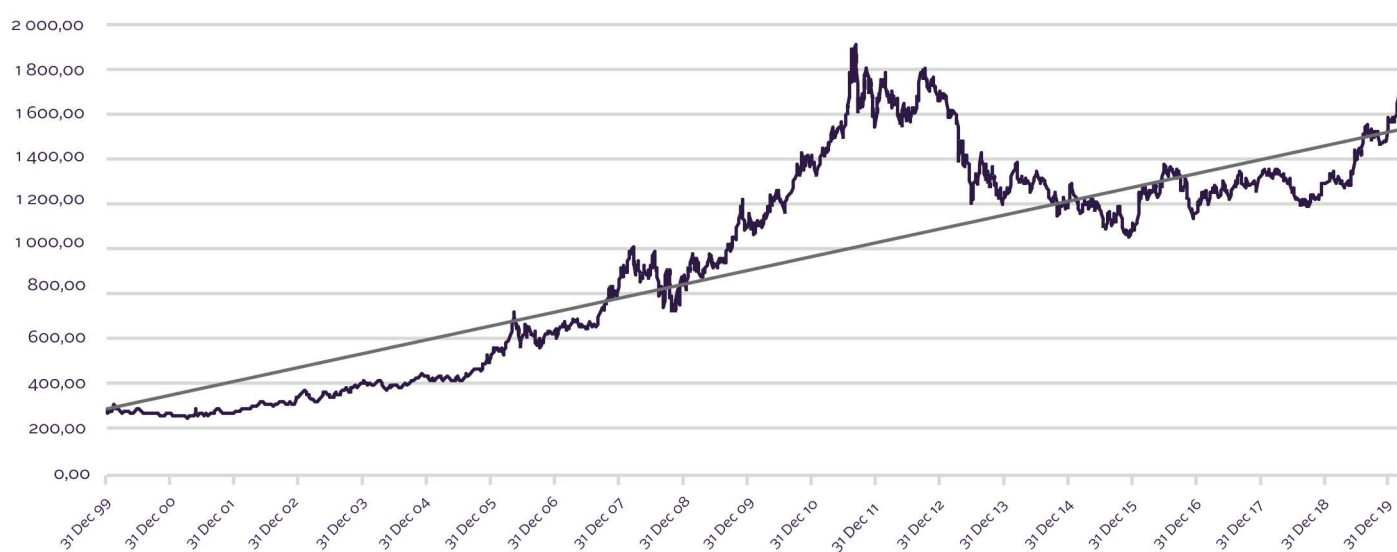
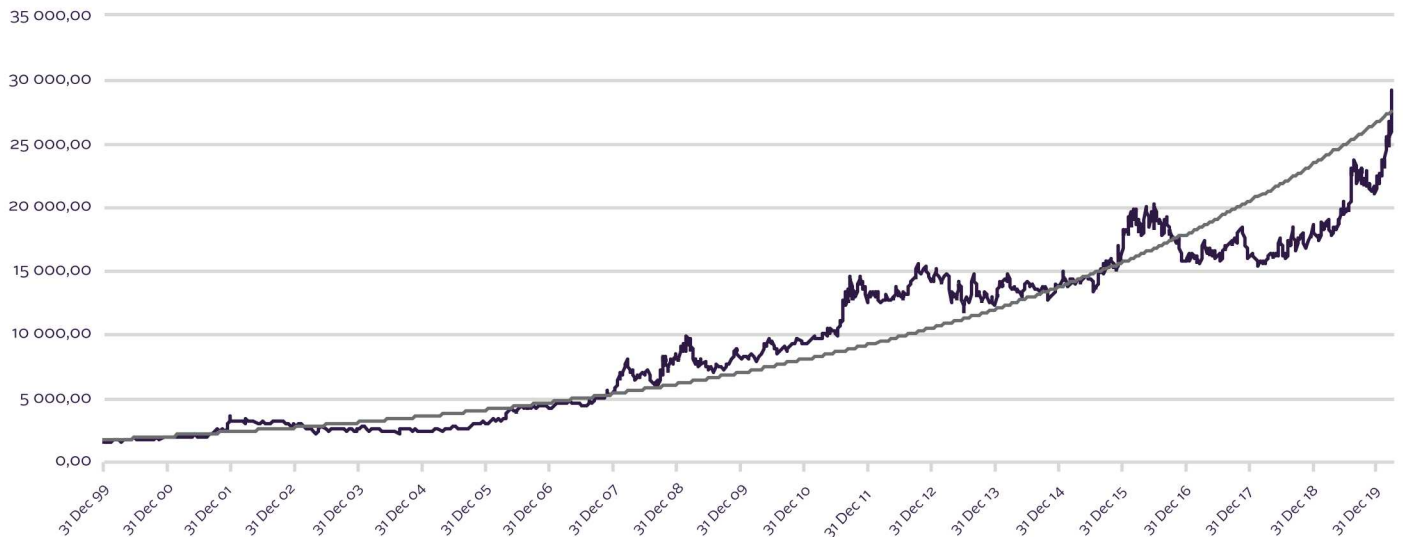




FIGURE 2: Chart of Gold Price in South African Rand from 31 December 1999



GOLD PRICE ACTION

In US Dollar the gold price posted a very strong 6% gain in this quarter. The metal has had an extremely strong 12 months with a rise of 25%. In this 21st century gold has done an excellent job as the currency that protects holders from currency depreciation. Gold has delivered an annualized return of 8.9% over the full period. This high and compounding return in hard currency in a tangible asset over more than 20 years is just fantastic.

In South African Rand the gold price appreciation in this quarter has been something to behold. In this quarter gold is up a whopping 35.4%! Over the last 12 months gold is up 53.2%! These results are obviously largely due to Rand depreciation but nonetheless, our story is once again borne out and our clients can be extremely pleased with their investment decisions. Gold has produced the currency protection that South Africans have been looking for.

Since the turn of the century gold in Rand has delivered an astounding compound return of 14.8% per annum over the 20 years and 3 months. We are so glad that so many South Africans have been invested in gold with us but we are also despondent in that we have not been able to get our message out sufficiently. South Africans need investment in gold bullion for currency protection in the long term.

CORONAVIRUS IMPACT ON THE WORLD – THE BIG PICTURE

According to the World Health Organisation (WHO) the mortality rate of the disease known as COVID-19 (a contraction from 'Coronavirus 2019') is presently estimated to be 3.4%. This means that approximately 3.4% of all humans who contract COVID-19 are anticipated to die. There is no cure for COVID-19 and herd immunity can only begin at a level where 60% of the population has been infected and recovered. Unless the chain of transmission of the virus is broken (which is extremely unlikely, requiring draconian 'Suppression') or a vaccine is developed and deployed, outbreaks of the infection will continue for some years until at least 60% of the world's population has been infected. This would equate to around 4.6 billion cases and around 157 million deaths. The outcomes could be a lot better or a lot worse.



Reviewing from a dispassionate and extreme position for a moment, financially- and economically-speaking, the best response to COVID-19 might have been to let the disease run its course (the full-blown ‘herd immunity’ approach) without any intervention other than to work on a vaccine. Around 200 million to 300 million people would die, including collateral deaths. At \$1,000 to \$2,000 per fatality the worldwide cost of such an approach might be in the range of \$200 billion to \$600 billion. Rationally-speaking, there would be a depreciation effect for each and every currency i.e. there would be a short-term inflation spike in every country and consumers would have to part with more money for their goods and services, but effects would be relatively small. Aside from many healthcare-related disruptions, economic functioning would experience relatively little setback, particularly as the worst affected age group is the post-retirement cohort.

Suppression is the opposite extreme to the full-blown, herd immunity approach as described above. It involves the almost total lockdown and isolation of affected areas. This approach seeks to abruptly quell the contagion and break the chain of transmission. The disease then dies naturally as it runs out of human hosts. This approach can only be adopted in the very early stages of contagion. It can be highly effective and has been the approach of China. It comes at a devastating cost to the affected citizens but it is excellent for the population as a whole. It is an approach that requires a highly effective leadership structure with massive political capital and an enforcement apparatus to back them up. If successful, the financial cost and economic burden is the best of any approach.

Mitigation is the very broad middle-ground. It comes at great financial cost. It is the approach that has been adopted almost universally, as it is politically not too risky for government leadership; and where governments have “blown it”, mitigation is their only option.

Mitigation strategy involves a slowing of the spread of the disease (through social distancing, lockdowns, closing of borders etc) and an effort to ramp-up healthcare provision to care for the sick. It comes at enormous cost as lockdowns cause cessation of business operations leading to loss of economic production, they lead to foreclosures and bankruptcies, and they lead to loss of taxes for government. And then ramping-up of healthcare provision comes at enormous cost. Additional unquantifiable costs include permanent loss of productive people, loss of learning and skills development, and social and mental health damage. According to the IMF (see www.imf.org) global GDP in 2019 was valued at \$90.5 trillion. It is entirely conceivable that the year 2020 will see a cost to GDP in the region of 5%. In addition to this loss of \$4.5 trillion of economic output, governments are having to dig deep in their pockets to fund emergency relief (rescue) packages to businesses and consumers. The US alone has ratified a rescue package worth \$2 trillion. Multi-lateral institutions have been requested to provide funding aid to poorer countries in their fight against the virus amounting to \$1 trillion. The worldwide governmental and super-governmental costs beggar belief. Our best guess is that Coronavirus is going to cost in the region of \$10 trillion when all is done and dusted.

Our best guess as it pertains to gold is that ramped-up worldwide government deficits and debt, related to COVID-19 will lead to gold price appreciation of 10% and more, in hard currencies, and substantially more in Emerging Market currencies.

UNITED STATES OF AMERICA, THE DOLLAR AND GOLD

POLITICAL LEADERSHIP

President Trump’s handling of the US response to COVID-19 has been an unmitigated disaster and tens of thousands of Americans will die because of him.

Coronavirus began in Wuhan, China the day before Christmas. Within two months China had flattened the curve. This country with three times the population of America had the pandemic under control and with new cases trending towards zero. Their total death count stands at 3,312.



The US had a two months 'heads-up' as to what was coming their way. Instead of using this time to get to grips with the problem and develop a national strategic plan, Trump chose to use the time to call the contagion a 'hoax', blame it on the opposition, ridicule the scientists, minimize the issue and prevail upon the public that there was 'no problem' and that the "churches will be full for Easter". Trump has demonstrated himself to be like that other wealthy and self-absorbed American who managed to get himself elected president and then proved to be unable to lead the country in a time of crisis. Herbert Hoover was a catastrophe for America as it plunged into the Great Depression. The country got saved by Roosevelt.

At time of writing the US has had 5,131 deaths. Deaths have accelerated to beyond 1,000 per day. The number is doubling in less than 3 days. In 9 days' time Americans will be dying at the rate of more than 8,000 per day and by then they will have a total death count in excess of 40,000. And that will be the start. The richest and most powerful nation in the world has objectively demonstrated the least competence of any developed nation. Where Germany, a fraction of the size of America, conducts 70,000 tests per day, America is only able to eek out 10,000 per day. Where leaders of most countries of the world have instituted nationwide lockdowns, Trump is delivering wildly flailing messages and leaving the important decisions to whomever will make them – including state governors and even mayors. Co-ordination of healthcare provision and medical equipment acquisition is almost non-existent. These are the actions of a Third World autocrat. But not of an autocratic strongman. Rather an autocratic weakman. One who is desperately worried about his election prospects and his ratings, not his nation.

Trump's action should not surprise. In the Transition, after Trump won the election in November 2016 and before he took office in January 2017, he fired the 700 people who were meant to go in and get the Obama administration handover briefings, including for disaster response. In 2018 Trump fired the pandemic team in the National Security Council. In 2019 Trump ignored the warnings of impending pandemic that he received from his own agencies.

EPIDEMIOLOGY

The WHO advises that the COVID-19 mortality rate is 3.4%. When infection counts are growing exponentially, any stated mortality rate massively understates the real rate - by even up to 10 times. Presently America has a mortality rate of 2.4% (5,112 deaths divided by 215,000 cases). The numerator (viz 5,112) is from yesterday. But the denominator, which is from yesterday, is actually incorrect. When a person contracts the virus in the first week they are incubating. In the second week they are sick. They only begin to die in the third week (more or less). Therefore the cases in the denominator (viz 215,000) that have been incurred in the last 14 days should largely be excluded. Those cases are yet to begin dying.

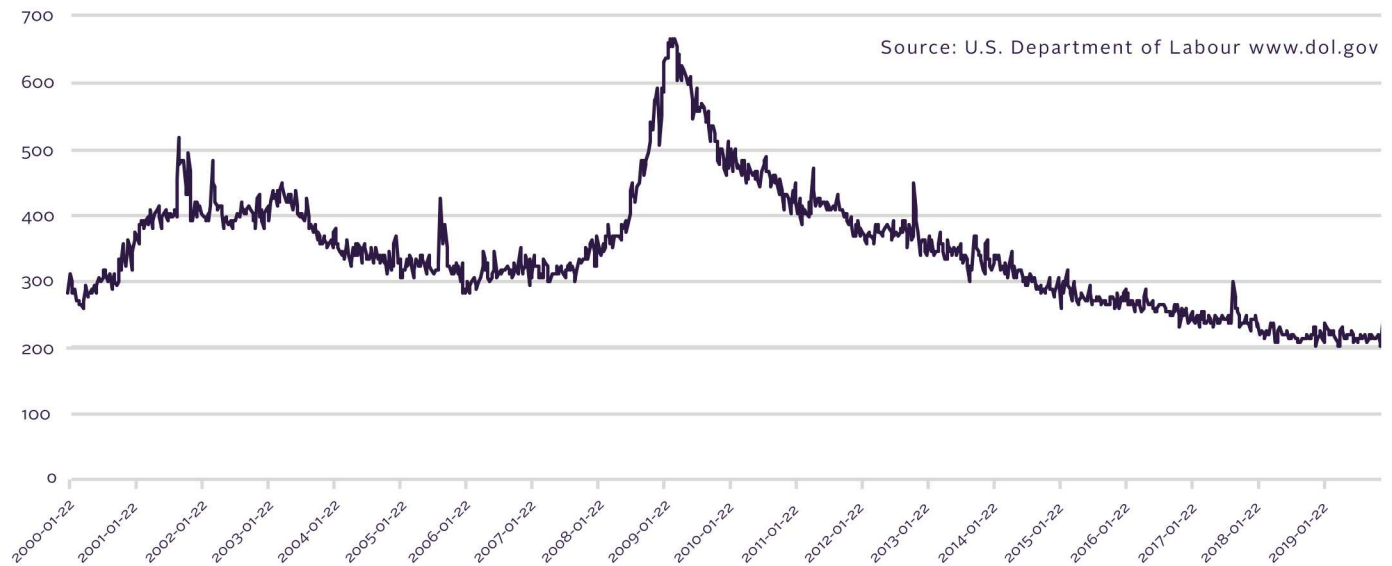
As of 1 April Trump has done a complete about-turn and stated that he now believes the advice of scientists and that his government expects 100,000 to 240,000 American deaths. If we work on Trump's numbers and a WHO death rate of 3.4%, this implies that 2.9 million to 7 million Americans will contract the Coronavirus. As at 1 April that figure is 215,000. Ten days previously it was 33,592. The growth rate is over 20% per day. Giving a doubling time of 3.5 days. Those figures of 2.9 million and 7 million cases will be achieved at this rate after just four and five doublings. That is to say, in 14 and 17 days. President Trump is pinning his hopes on the pandemic completely ending by 15 to 18 April. Given the catastrophic ineptitude of Trump's COVID-19 response to date, we wouldn't hold our breaths. (But we do hope for the innocent citizens).

ECONOMICS

One of the strongest indicators of the direction of the US economy is Unemployment Insurance Weekly Claims. These claims are from newly unemployed people who are registering to receive unemployment benefits. In the 21st century the worse recorded number was for the week ended 28 March 2009, in the depths of the Global Financial Crisis. In that week 665,000 Americans filed for jobless claims. The worst number ever recorded was for the week ended 2 October 1982. In the height of the Oil Crisis and a deep recession the number came in at 695,000. As is apparent from the chart below, in recent times the numbers have been coming in at around 200,000.



FIGURE 3: US Unemployment Benefits Initial Claims (Weekly)



For the week ended 21 March claims came in at 3,300,000. That is not a typo. Over three million. It is so great that it was pointless trying to put it on the chart above.

Then came the last week of March. For the week ended 28 March the Department of Labor released the numbers today. Please know that this is not an error: 6,648,000.

COVID-19 is decomposing the economy of the United States of America. In two weeks almost 10 million jobs were lost. This in a total work force of approximately 165 million. In our estimation the US Unemployment Rate must have risen from approximately 3.6% to around 10%. Secretary of the Treasury Steve Mnuchin has stated that he foresees the rate going to 20% and James Bullard, St Louis Federal Reserve Bank President has put forward a rate at 30% by the end of the Second Quarter.

DOLLAR AND GOLD

In response to the economic impact of COVID-19 the US government has created a \$2 trillion rescue package. The package supplies a boost to unemployment benefits, a cash grant to citizens in the amount of \$1,200, tax breaks and loan guarantees, bailouts to big business and many other bits and pieces.

So where does the money come from? The US Treasury has already commenced with selling short term Treasury bills and has thus far raised about \$280 billion. Treasury will raise the \$2 trillion in addition to its overspend requirements that necessitate the raising of \$1 trillion in debt this year. Taken together, this means that US National Debt will rise by over \$3 trillion to give an accumulated figure at around \$25 trillion. And next year will likely be about the same. In short – staggering!

Our best guess is that ramped-up government deficits and debt will lead to US Dollar depreciation of around 10%. We therefore envisage gold price appreciation in US Dollar of 10% from here.



SOUTH AFRICA, THE RAND AND GOLD

ECONOMICS

In this past quarter in addition to its usual travails South Africa has been subject to a Sovereign Debt rating downgrade by the rating agency Moody's. The downgrade was expected and therefore largely priced in, but the effect of South Africa's expulsion from the WGBI Index is hurting the Rand and will for a long time as foreign investment managers are forced to liquidate their South African bonds and repatriate their capital offshore.

A significant driver of the Moody's downgrade was their forecasts of South African economic growth. They forecast annualized rates of contraction for Q1 at -4% and Q2 at -8% and for the whole of 2020 at -5%. Of course much of this severity can be laid at the feet of COVID-19, but tragically South Africa is coming off a dreadful base into this storm.

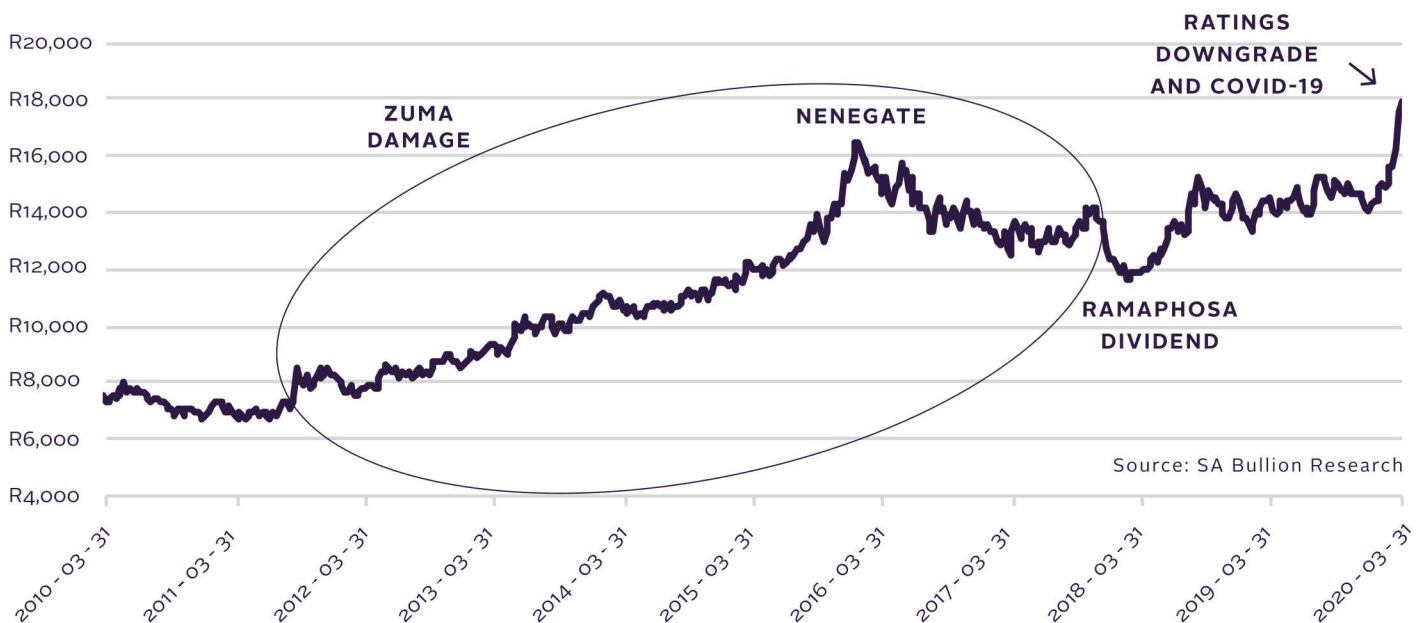
The national debt:GDP ratio has worsened from 30% to 60% since 2008. South Africa can thank Jacob Zuma for that. And now it will get a lot worse in the next 10 years. A ratio at 80% is baked in.

About the only piece of good news for South Africa in recent times has been the Russia/Saudi oil war. Although it helped precipitate a stock market plunge, a much lower oil price for a net importer like South Africa is great news. An eventual reversal will not be pleasant though. At that time inflation will pop up and the Rand will deteriorate further.

RAND

The Rand has had terrible headwinds in the last month. See chart below:

FIGURE 4: Rand : Dollar Exchange Rate for 10 Years ended 31 March 2020





The combination punch of the Moody's downgrade and the immediate impact of the state Lockdown and foreshadowing of COVID-19 times to come have left the Rand reeling. The Rand lost 22% of its value in the quarter.

It gets worse: In the two days subsequent to quarter-end the Rand has lost further substantial value. It is our view that the market is experiencing a synthetic short on the Rand. This type of action follows a global crisis that sets off a flight to Dollar, particularly from Emerging Markets, leaving a worldwide shortage of Dollars. At that point lenders are unwilling to part with Dollars, the price of Dollars runs up and local currencies run down. At this point it would take intervention by the IMF and World Bank to reverse the rot.

In the mean time, the course of action is clear – get out of the Rand and get into gold for the double benefit of physical gold exposure and that it is priced in Dollar.

THE FUTURE BEYOND COVID-19

The world will be changed by this pandemic. It will be changed in ways that we cannot begin to foresee.

What we can be sure of is that recovery packages worldwide will result in inflation. The flip side of this is currency depreciation. Therefore one would rationally expect hard currency gold price appreciation following termination of the synthetic short on Emerging Market currencies.

We will likely see a rearrangement of political forces. In recent decades political ideologues have sought to destroy truth and reason, science and expertise. They have sought to destroy trust in government and faith in institutions. Leading peddlers of conspiracies and faithlessness include the present right-wing leaders of America, Great Britain, Brazil, Hungary and Russia. COVID-19 is immune to conspiracies. It is susceptible only to science and truth. It is going to sort the hucksters from the truth-tellers. And this will lead to a tamping down of right-wing conspiracies and hopefully a rising of good old-fashioned honesty and a reestablishment of earned trust in competent government.

We will likely see an undoing of the Trump-led anti-globalism and a return to a high degree of international cooperation. COVID-19 has comprehensively undone the America First ideology. America cannot stand apart, aloof and arrogant. The world is small and thoroughly interconnected. In large part we rise and fall together. This virus will refocus America, Britain and the world on what really matters at a socio-political level: shared health, shared climate, shared prosperity and shared mobility.

Science and sheer brainpower will regain lost status as the ideologues lose ground to COVID-19 and the public prefer not to support falsities. Epidemiological research will benefit. Health sciences will benefit. Healthcare systems will be re-envisioned and restructured. Nurses and paramedics will gain status. The World Health Organisation will become greatly elevated. Multi-lateral institutions will be re-discovered after being smashed up by Trump, Johnson, Bolsonaro and the rest. The public won't want to make that mistake again.

The public will re-learn the greatest investment sentence ever spoken:

"Remember that the future will not necessarily be like the past. Therefore we should diversify."

(Dr Harry Markowitz, father of Modern Portfolio Theory and Nobel Economics Prize winner)



SA BULLION NEWS

On 1 March we moved into our new offices at Brickfield Canvas in Upper Woodstock. We are delighted with the new premises and are looking forward to showing them off when we get back to some degree of normalcy.

In our previous report we advised you of our new business channel - dealing in secondary market Krugerrands, on both buy-side and sell-side. I am happy to report that this new line has immediately taken off and Nathan Cloete has been kept very busy. We have a highly-efficient system that begins with an online component on www.sabullion.co.za in 'Buy/Sell Krugerrand'. According to Google Reviews our clients are impressed with service.

Our clients know only too well that all SA Bullion clients' brand-new gold comes from what is probably the premier gold refinery in the world - Rand Refinery - and its joint venture with the South African Reserve Bank, namely Prestige Bullion. We can't speak highly enough of Rand Refinery and Prestige Bullion. But although these enterprises score top marks in our books, they are not immune to issues of COVID-19.

SA Bullion is fully-operational through the national Lockdown period but is unable to acquire gold due to supplier closures. Our upstream suppliers and ourselves are fully geared to hit the ground running on 17 April. We anticipate a second Lockdown but hope to get a few days of trading to deal with pent-up demand. In order to manage new flows we have established a Pre-Order and Queuing System for local and international new business. We invite you to go to www.sabullion.co.za and get your applications logged so that you may receive priority service post-Lockdown.

South Africa and virtually all countries of the world are going to be ravaged by COVID-19 in the weeks ahead. With all our heart, we wish you well.

HILTON DAVIES
2 April 2020