Weekly Market Summary

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Gold and Silver Shooting Up! Buy Now and Keep Buying!!

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Latest Update on Coronavirus: Confirmed cases last at 15.68 million (from 13.98 million last week), with the death toll from the pandemic fast approaching the 650,000 mark (637,210 last versus 593,457 deaths the week before). British Prime Minister Boris Johnson warned the UK will still be dealing with the pandemic in mid-2021 and said his government is preparing for a second wave of infections over the winter. Hong Kong reported a record 115 new cases, as the city's outbreak worsens despite tightened restrictions. US cases have surpassed the 4 million mark, doubling over a span of six weeks after infections surged in Sun Belt states, while President Trump cancelled the Republican convention in Florida. The world needs to "*gear up*" with public health measures for the next year-and-a-half as the development of a vaccine will take time, Soumya Swaminathan - the WHO's chief scientist - said on an online live forum.

A store of value is an asset that maintains its value without depreciating over the years. Gold and other metals qualify for this definition as their shelf lives are essentially perpetual and their supply is finite, whilst their value can only surge in an environment where depressed global interest rates (even negative) - coupled with unsustainable global debt growth - add serious vulnerabilities to future economic growth and the stability of fiat currencies. Throughout history, many economies have used gold, silver and other precious metals as currencies because of their ability to store value and their relative ease of transport. The United States was on a gold standard, where US dollars were redeemable for a specific weight of gold (at a fixed rate of $35 per ounce ... And we're last at $1,895, "Hoo-ah!" 😊). Commercial banks and the US Federal Reserve banks had a gold reserve requirement whereby they had to keep reserves of gold in their vaults equal to a fraction of the money they issued. Then, as the world rebuilt itself after WWII, the US saw its gold reserves steadily drop as money flowed to war-torn nations and its demand for imports. By 1968, a Gold Pool, which included the US and a number of European nations, stopped selling gold on the London market, allowing the market to freely determine the price of gold. From 1968 to 1971, only central banks could trade with the US at $ 35/oz. And in August 1971, President Richard Nixon ended direct US dollar convertibility into the yellow metal. With this decision, the international currency market, which had become increasingly reliant on the dollar since the enactment of the Bretton Woods Agreement, lost its formal connection to gold, entering the era of fiat money (i.e. a currency declared as a legal tender by a government decree, but is not tied to a physical commodity).

Over the past 24 hours, gold has traded near $1,900, edging very close to its all-time high set almost nine years ago ($1,922 on September 6th, 2011), as concerns about global growth buoyed haven demand. Indeed, increasing signs that the prolonged coronavirus pandemic is stalling an economic recovery – as well as recent surge in tensions between the U.S. and China - are underpinning demand for the yellow metal. Bullion is now heading for a seventh weekly gain, the longest stretch since 2011, whilst silver is poised for its biggest weekly advance in about four decades, surging to its highest in almost seven years (last at $22.50/oz versus $18.00 earlier this month and $11.75 on March 18th!) A weakening risk sentiment, negative real rates, a depreciating US dollar, concerns over the economic cost of the health crisis and geopolitical uncertainties have put both precious metals on track for their biggest annual gain in a decade. UBS Group AG raised its near-term forecast for gold to reach $2,000 an ounce by the end of September, citing its qualities as a diversifier in a low-rate world. "*When interest rates are zero or near zero, then gold is an attractive medium to have because you don't have to worry about not getting interest on your gold and you see the gold price will rise as uncertainty* *in the markets are rising*," Mark Mobius, co-founder at Mobius Capital Partners, said in a Bloomberg TV interview. "*I would be buying now and continue to buy, because gold is really on a run, it's doing well*."

On the geopolitical front, Secretary of State Michael Pompeo cast China's leaders as tyrants bent on global hegemony. President Xi Jinping "*isn't destined to tyrannize inside and outside China forever unless we let him*," Pompeo said yesterday. "*Securing our freedoms from the Chinese Communist Party is the mission of our time*." His comments came after the U.S. unexpectedly ordered China to close its consulate in Houston within 72 hours, following what it said were years of espionage directed from the diplomatic compound against U.S. commercial and national security assets. China has rejected the accusations and this morning, ordered the U.S. to close its consulate in the southern Chinese city of Chengdu. Also on investors' radars is the prospect for further fiscal and monetary policy measures as the path to economic recovery remains uncertain. European Union leaders this week agreed on an unprecedented stimulus package worth 750 billion euros (390 billion in grants and 360 billion in low-interest loans) to pull their economies out of the worst recession in memory and tighten the financial bonds holding their 27 nations together, while the Federal Reserve meets next week (July 29th) to decide if further accommodation is needed. While there is more need than ever to keep governments spending, the extra money being printed will likely prompt investors to increase their gold exposure, Jake Klein, executive chairman at Evolution Mining Ltd., said in a Bloomberg TV interview. "There is good reason to believe that we will go past that record," Klein said, referring to prices. "*Gold has a long way to go and prices will be strong*."

Below is a coverage of other major stories that have shaped our world this week and will most likely keep a bid under the gold/silver market:

Threat to Dollar's Global Supremacy Revived by the EU Stimulus Deal: The US dollar is facing renewed questions about its status as the globe's primary reserve currency. Whilst the greenback still accounts for more than 60% of global reserves and remains the most widely used currency for international transactions, it risks ceding ground to the Euro after EU leaders agreed to a 750 billion euro stimulus package that enhances the appeal of the shared currency and euro-denominated assets - according to analysts from Credit Agricole and Mizuho Int'l Plc. Under the accord, EU nations will jointly issue debt that could offer a liquid, highly rated fixed-income alternative to US Treasuries as a haven. Additionally, the Euro's strong correlation with equities suggests it will continue climbing as the recovery fund makes the region's stocks more attractive. EUR/USD was last trading at 1.1590, up from 1.1225 at the start of the month!

Insiders Who Nailed Market Bottom Are Starting to Sell Stocks: As US stocks climb to their most expensive levels in two decades, the executives in charge of the companies benefiting from the rally are showing signs of anxiety. Corporate insiders, whose buying correctly signaled the bottom in March, are now mostly sellers. Almost 1,000 corporate executives and senior officers have unloaded shares of their own companies this month, outpacing insider buyers by a ratio of 5- to 1-, data compiled by the Washington Service showed. Only twice in the past three decades has the sell-buy ratio been higher than now! A range of stimulus programs set to expire in coming weeks, with the most critical near-term deadline being for enhanced jobless benefits set to run out at the end of July, will need to be expanded and extended if policy is to avoid swinging form recovery driver to recessionary drag (otherwise, there is always a Federal Reserve meeting just around the corner ready to save the day! 😊)

Think Real Yields Can't Go Lower? Think Again! This morning, the real 10-year Treasury yield (i.e. nominal yield minus the inflation breakeven) dropped briefly to -0.91%, under the previous all-time low set in December 2012. Meanwhile, the nominal 10-year yield fell below 0.60% (last at 0.58%). These developments are awful news for savers and anyone trying to run a pension fund. They have also resulted in a fall for the dollar and a big rise in gold/silver. In turn, the combination of cheap money and a weaker dollar that flatters multinationals' profits also helped the stock market rally for a fourth consecutive week. A previous similar episode seven years back ended with Ben Bernanke's famous "*taper tantrum*", as nominal yields shot up in the spring of 2013 when the US Fed Chairman began to raise the subject of tapering off the central bank's bond purchase operations. This time around, however, Jerome Powell won't bring a taper tantrum II anytime soon and therefore traders shouldn't be surprised if real yields head further down!

President Trump's Priorities Seem to Get Mixed Up! President Donald Trump, at a White House coronavirus briefing yesterday evening, again complained that the US had to shut down its economy to protect against the virus, whilst also suggesting that the trade accord with China means *"much less to me*" because of what Trump called that country's role in the spread of coronavirus. "*The trade deal means less to me now than when I made it*," he said. Trump has sought to pin blame on China for the outbreak as polls show a growing number of voters disapprove of his handling of the pandemic. Last Tuesday, the US President expressed well wishes for Jeffrey Epstein's jailed associate Ghislaine Maxwell, who is currently charged with sex trafficking of underage girls. "*I just wish her well, frankly*," Trump noted!

Dr. Fauci Will Always Be Our Hero! The most senior infectious disease in the US government (I nearly thought that was Bill Gates' job following this morning's CNN interview!) was invited to throw the first pitch of the 2020 major League Baseball season. The doctor - wearing a cap, jersey and mask of the Washington Nationals - only managed a horrible wide throw that sparked plenty of reactions on social media. After the throw, Fauci and Nationals' catcher, Sean Doolittle, tapped gloves instead of shaking hands (Nice!!). Fauci's throw went viral with many in the US drawing parallels with how it summed up the way 2020 has gone so far: "*He clearly doesn't want anyone to catch anything*" or "*Turns out Dr. Fauci is roughly as bad at throwing a baseball as Donald Trump is at being President*" 😊

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