Truth Seeking: Is The Gold Bull Market Ending?

Taki Tsaklanos | February 5, 2013 | Articles: Insights | 0 Comments

A couple of days ago, Credit Suisse published their latest gold market analysis. The report "Gold: The Beginning Of The End Of An Era" called the end of the 12 year bull run. Bloomberg wrote: *"Bullion will average $1,740 an ounce this year and $1,720 in 2014, before dropping to $1,500 the following year, Credit Suisse said in a report yesterday."*

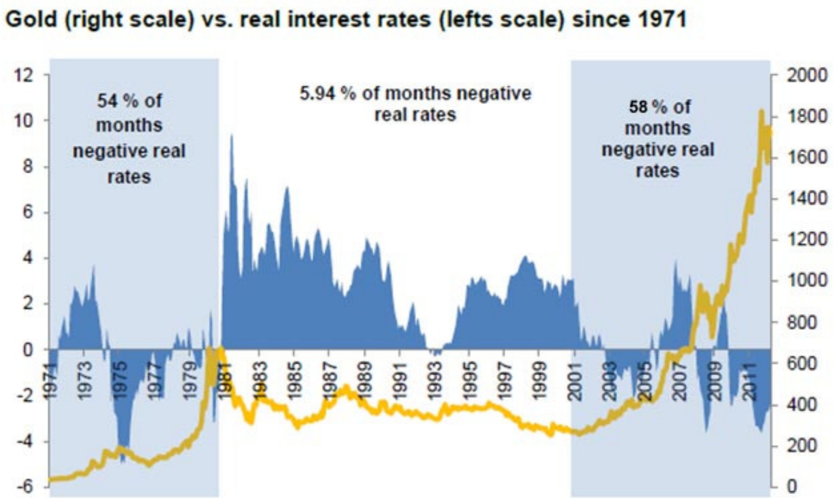
In a short summary on Business Insider the two key arguments from the report were presented with some interesting charts.

> *The article argues that the 2011 peak of $1921 was the top and that now the run of the cult metal is coming to an end. The argument essentially boils down to two arguments, which are related. The **first** is that we're seeing rate normalization. When real interest rates are ultra-low, gold does well historically. The **second** is that the era of crisis is over, and so the impulse to hedge against collapse (or massive volatility) is diminishing.*

The mission of Gold Silver Worlds is not to argue about price forecasts, for sure if the work is well detailed like the report from Credit Suisse. It is written by top analysts who are following the precious metals sector for years. However, it is our mission to bring transparency about the dynamics, drivers and fundamentals of the precious metals. This article looks thoroughly at the conclusions from the report, with an unbiased view.

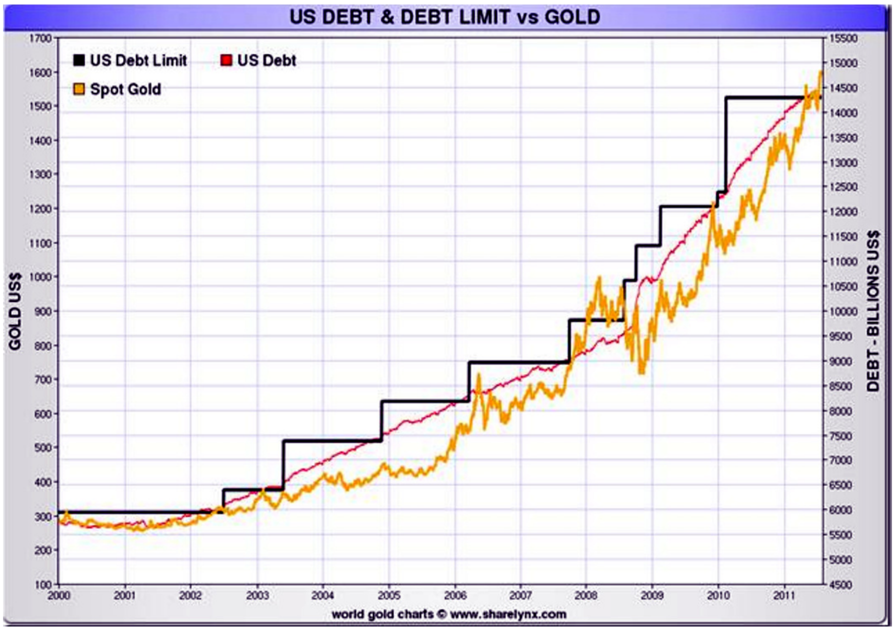
Real interest rates & inflation

The first argument of the report points to rising real rates. While it is correct that the Treasury yield has made a historical low in the summer of 2012, it does not imply that real rates will be positive nor that the gold price cannot increase with rising real rates. The following chart shows that even with positive real rates (both in today's bull run and the one in the 70's), the gold price can rise simultaneously.



The key question in our opinion is how high real rates are allowed to rise given the huge debt levels (which many commentators refer to as a "Ponzi scheme"). With today's historic low interest rates, every percentage increase will result in additionally 160 billion dollars cost of debt servicing (US only). Interest rates simply cannot go higher without severe consequences.

Financial repression is the choice of political leaders to keep on expanding the unseen debt creation. Today's monetary system is tied to nothing but promises; the monetary base has exploded over the past years; the value of every additional unit of currency keeps on decreasing. It is reflected in the next chart.

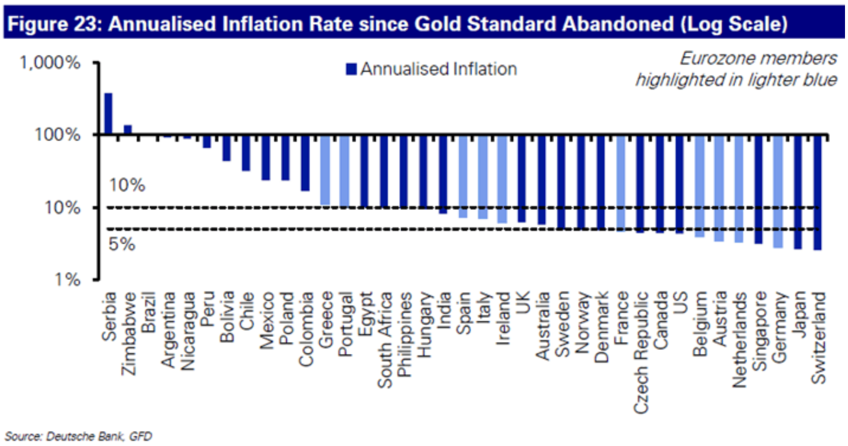


Furthermore, all major economic regions have committed themselves to unseen monetary stimulus. With ongoing Quantitative Easing (QE) in the US, Japan has committed to unlimited QE and aims for higher inflation (with Yen gold at all-time highs). In the UK, Mr. Carney is considering to abolish the inflation target "temporarily." In that respect, Jim Rickards pointed out that nominal GDP targeting is a very likely objective of central banks. He said on King World News: "If the Fed targets NGDP, what they are really saying is they don't care about inflation anymore, they've given up. I've said all along the Fed wants inflation, and this is a way of getting it. It's also a way of destroying the debt by cheapening the dollar." Nominal GDP targeting was also echoed in Mark Carney's words in December 2012 and in Davos in January 2013.

All this "money creation" in a fiat based currency system simply does not come without consequences. Marc Faber explained that currency debasement is one of "unintended consequences of money printing." Now, linking this back to gold, the fact of the matter is that a higher gold price is simply the result of a devaluing currency. The gold price does not go up in a currency; it is the value of that currency that goes down. Sadly, there is no reference in the Credit Suisse report to that key principle.

As reported by Bloomberg, Credit Suisse explicitly stated that inflation should not be expected: *"With global growth now improving and inflation expectations contained, we feel that downside risks are building for gold."*

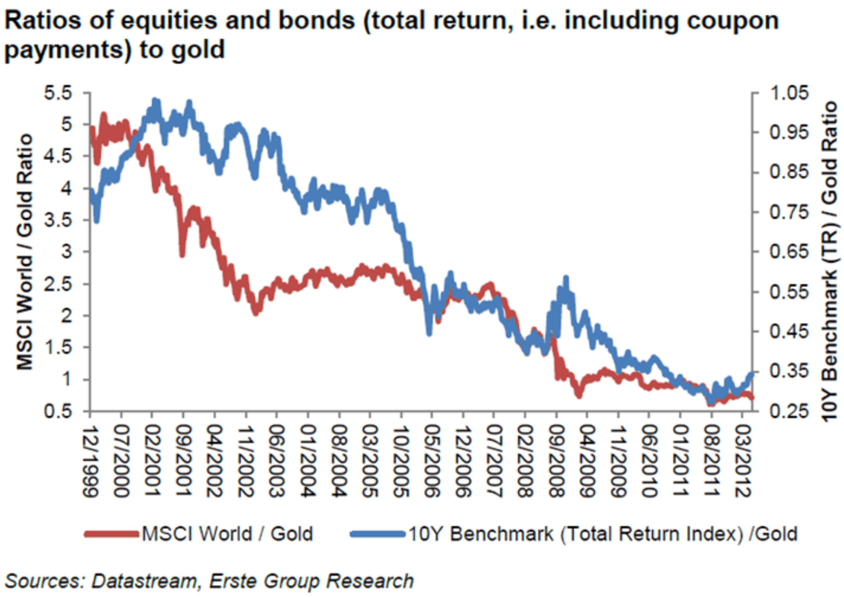
Credit Suisse assumes a lowering inflation risk. Interestingly, the US Fed committed only a few weeks ago to keep on easing until the unemployment rate drops to 6.5%. As reported in a recent article, the economy would need to add nearly 5 million jobs to achieve that target. In the very best case scenario, the US would get there by 2015, with a US Fed balance sheet of almost 6 trillion dollar (doubling from today's levels). Undoubtedly, the monetary inflation created by the central bank will result in price inflation. Even without giant government stimulus, the annualized inflation rate since August 1971 (when the world was taken off the gold standard) has been 5% in the US. Source: DB Research.



Volatility

This brings us to the second argument mentioned in the report: volatility has decreased significantly in the past months in the light of increasing equity markets. This is a clear example of the consequences of inflating the monetary base. In fact, neoclassical economists and analysts (by far the majority) have a hard time understanding that inflation IS the increase in the monetary base. Inflation CAN result in price inflation (expressed in the CPI) but that's only one of the possible outcomes. As Marc Faber explains in an earlier article: "Central banks simply cannot determine what will happen with the money that is created. The key point is that inflation does not necessarily occur in wage inflation or in consumer prices. The additional liquidity can create unpredictable sorts of inflations. For instance, it can result in a housing boom, in employment wage inflation, or in commodity price inflation. Furthermore, not every price increase will occur at the same rate, with the same intensity, at the same time. " He adds to it: "High monetary inflation brings distortions in the price mechanisms and volatility."

The next chart shows the return of gold (courtesy "In Gold We Trust 2012"). The left-hand scale shows the ratio of the MSCI World equity index to gold while the right-hand one depicts the ratio of a total return index of 10Y US Treasuries to gold. The chart clearly highlights the fact that the relative strength of gold (falling ratio) vis-à-vis both asset classes.

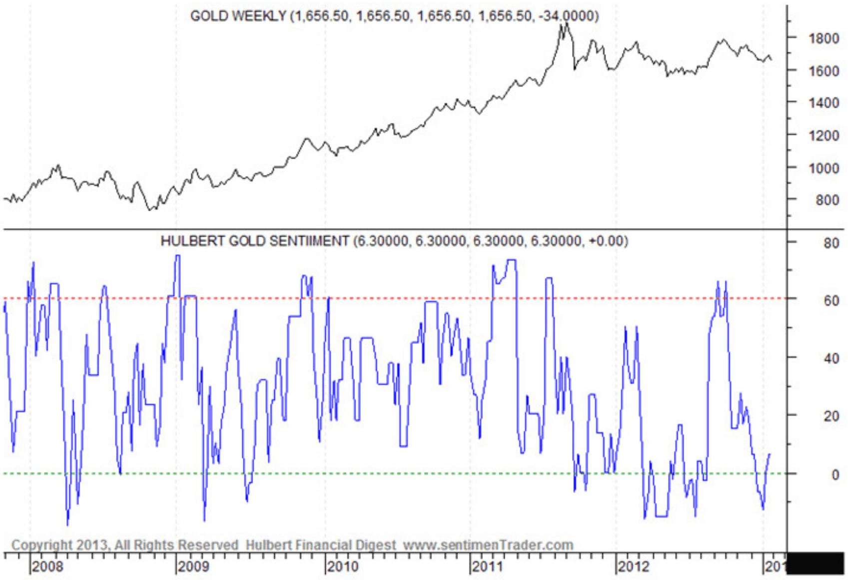


It is more than obvious that the gold price and equity prices CAN rise simultaneously, at a similar pace as the previous chart shows (especially in the period 2002-2008).

Related to the second argument, Bloomberg mentioned: *"Given its historical role as a store of value, it was not surprising that investor demand for gold increased substantially," Kendall said in the report. "We feel that this sideways drift will turn into a modest downward trend over the course of this year."*

At this point it gets interesting as well. In a recent article on Gold Silver Worlds, Ronald Stoeferle, managing director and fund manager at Incrementum Liechtenstein, explains the most important fundamental underpinning the physical gold market: there is an insatiable demand out of Asia, in particular China and India. Asian demand for physical gold was 30 times bigger than central bank demand in the time period between 2007 and 2011. Furthermore, Asian people have a totally different purchasing power than the people in the Western economies. Gold has NOT become more expensive for them as the GDP per capita in China and India have risen at the same pace as the gold price. Additionally, governments actively stimulate the ownership of the metal. Gold is being used in an increasing number of trading transactions overseas, including oil for gold.

In closing, we believe the sentiment is a reliable contrary indicator. As the Hulbert Gold Sentiment index shows, sentiment is currently at depressed levels. Although this point can be categorized under speculation, we would not exclude that financial institutions are stimulating a negative sentiment. Chart courtesy: SentimenTrader.com.



Gold Silver Worlds has been advocating that readers conduct their own research instead of taking reports or predictions as given. Research has shown that [half of the predictions of analysts and gurus are wrong](). In that respect, this contribution should help readers to look at the total picture, as we believe not all relevant elements were taken into account in Credit Suisse's report. This article does not say anything about the company itself, the analyst who wrote the report, the trustworthiness of the figures in the report, or their price predictions.

Rate this

Latest articles

- 05 feb - Truth Seeking: Is The Gold Bull Market Ending?
- 05 feb - Silver Is The Element Of Change – New Educational Video
- 04 feb - Will Gold & Silver Follow Copper's Upside Breakout?
- 04 feb - How The Job Market & The Fed Affect Gold Prices
- 03 feb - Lower Euro Gold & Stronger Euro As ECB Balance Sheet Is Shrinking

0 comments ★ 0

Leave a message...

Discussion | Community | Share

No one has commented yet.

Comment feed Subscribe via email

CONNECT WITH US

- 13,421 Followers Follow

Free weekly newsletter: timely insights & news

Yes, Sign Me Up! MOST READ | TOP 7

- What now for the price of Silver?
- Nick Barisheff: Destruction of currency, rise of Gold
- Research shows all paper money failed
- More signs of silver shortage
- Invisible experiment with money and Gold
- Less than 900 days for hyperinflation in the US?
- We created conditions for catastrophic failure

GOLD & SILVER PRICE OUTLOOK | MOST READ

- Silver outlook for 2013
- Global Gold Outlook For 2013
- Negative real rates continue to drive gold
- Three experts about the Gold & Silver price drops
- Stoeferle bullish because of Asian fundamentals
- Gold price: stage three
- Nick Barisheff confirms $10,000 gold price outlook

BUYING GOLD & SILVER | MOST READ

- Physical Gold: antidote against the global debt crisis
- Unallocated Gold: avoid this risk when buying Gold

- [Gold confiscation: tips to protect your wealth]
- [4 facts every GLD investor must know]

MONEY & INFLATION | MOST READ

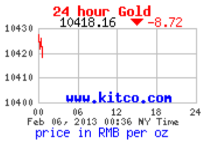
- The printing press is running hot, but where is inflation and how will it affect Gold?
- Unintended consequences of printing money
- Bond bubble ready to burst, Gold bubble to inflate
- 2012 tipping point, bankers lost
- Does China plan a Gold-backed Renminbi?
- Tragedy of the euro – what about Germany
- The case for higher Gold based on monetary history
- Gold & stable monetary base lead to economic prosperity: Germany's case

GOLD & SILVER UNDERVALUED | MOST READ

- Why Mainstream Media, Main Street And Institutions Fail To See The Benefits Of Gold
- Why Silver manipulation must end by Ted Butler
- John Embry expects a Silver price explosion
- Silver supply squeeze in 1980 could be a warm-up
- Manipulation of Gold Price & Crash of Paper Gold
- Could the financial crime affect the Gold price
- Infographic: Is Silver The New Gold?

TODAY'S SPOT PRICE

Gold **Silver**



SEARCH THIS SITE

Search … Go

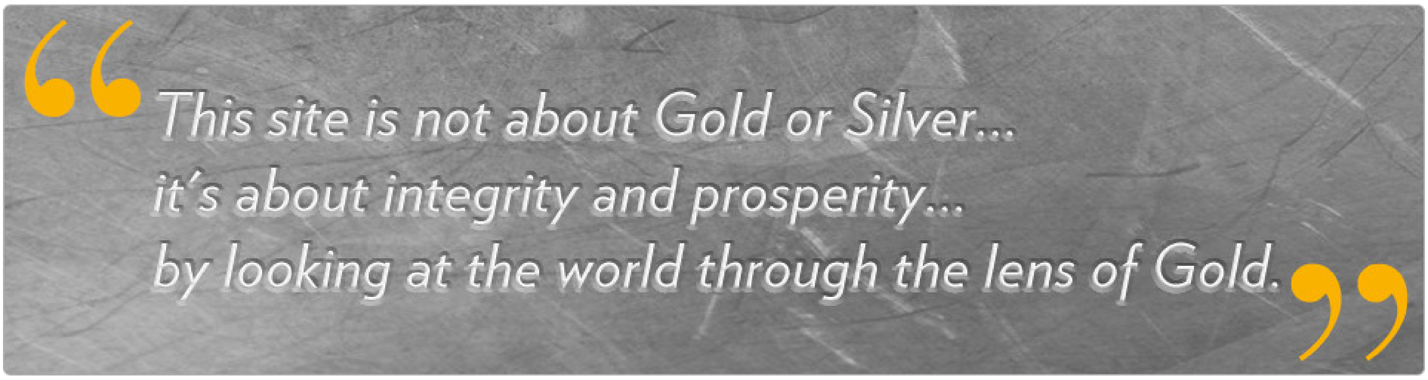
WEEKLY FREE NEWSLETTER

Our selection of best articles. One short mail per week.

Yes, Sign Me Up!

Gold Silver Worlds

- Submit an article
- Our partners
- Contact us
- About us
- Privacy & disclaimer



Gold and silver prices over 200 years | Gold to silver price ratio, Dow Jones to gold price, gold vs US dollar rate | Money supply and monetary base to gold price ratio till 2012