
NEWSLETTER

JULY | 2024

SINCE THE INVASION OF UKRAINE IN FEBRUARY 2022, THE PRICE OF GOLD HAS RISEN +35%.

GROWING GEOPOLITICAL TENSIONS, RUNAWAY GOVERNMENT DEBT AND CURRENCY DEBASEMENT - IS IT TIME TO BUY GOLD?



US DEBT GRENADE

**HAS THE PIN BEEN PULLED?
U.S. GOVERNMENT DEBT HAS EXPLODED TO \$34 TRILLION,
EQUATING TO \$103K PER PERSON, UP FROM \$55K 10 YEARS AGO.
60% OF U.S. PERSONAL INCOME TAXES IS CONSUMED BY INTEREST.
FOR THE FIRST TIME IN ITS HISTORY, THE U.S. IS SPENDING MORE ON
DEBT INTEREST THAN DEFENCE.**

The American warehouse retailer, Costco, began selling gold bars last year. For a couple of grand, its customers could purchase 24-karat one-ounce gold bars that fit easily in the hand. They have been flying off the shelves, according to the company, sometimes running out in just hours. Analysts estimate Costco's gold sales may be as high as US\$200 million a month.

Gold is popularly considered a safe-haven asset and a hedge against financial uncertainty. Americans have good reason to fret about their country's long-term economic health, as the U.S. government has not balanced its books since 2001.

The budget deficit this year alone is expected to reach \$2 trillion. If Washington does not cut spending and/or increase taxes, the U.S. debt mountain will continue to grow until, in a recent worst outcome forecast by Bloomberg, by 2034 it could rival that of Italy at 140% of GDP. An unsustainable high debt burden is marked with a low credit rating - Moody's rates Italy's at just one notch above 'junk'.

Moody's continues to maintain the gold standard AAA rating on U.S. Treasuries. But credit rating agencies have not distinguished themselves in anticipating debt crises e.g. investors lost fortunes on U.S. subprime mortgages rated AAA 'money safe'.

All the gold in the world is worth \$12 trillion at present prices. The present market value of all U.S. Treasuries is over double this sum. If confidence in U.S. debt evaporates, there is not enough gold in the world to replace U.S. Treasuries as the world's premier safe-haven.

**“GOLD IS MONEY.
EVERYTHING ELSE IS
CREDIT.”**

**J.P. MORGAN, FOUNDER OF
J.P MORGAN CHASE & CO.**



**THE CHINESE
HAVE BEEN BUYING
GOLD LIKE THERE IS
NO TOMORROW,
SENDING ITS PRICE TO
AN ALL-TIME HIGH.**

CHINA GOLD RUSH

THE CHINESE SAVINGS RATE WAS 32% LAST YEAR, COMPARED TO JUST 4% FOR AMERICANS. U.S. CONSUMERS BOUGHT 136 TONNES OF GOLD JEWELLERY, WHILE THE CHINESE BOUGHT 630 TONNES IN 2023.

Faced with downturns in China's property, stock and currency markets, sales of gold bars and coins surged 28% to 28 tonnes last year, as the Chinese turned to gold to preserve their savings. 'Gold beans' also became a popular entry point into the gold boom. Weighing just one gram and costing as little 600 yuan (\$80), they are collected in glass jars as a store of wealth.

The People's Bank of China also embarked on a gold-buying spree that lasted eighteen straight months.

After the invasion of Ukraine in 2022, the US and its allies froze \$300 billion of Russia's foreign exchange holdings denominated in dollars, euros and sterling. This alarmed China, which has over \$3 trillion of foreign exchange reserves. To diversify its holdings, China has been exchanging its dollars for gold. China's central bank officially acquired 225 tonnes in 2023, but covertly it is thought to have bought as much as 735 tonnes.

China's gold hoard now stands at 2,250 tonnes, making up almost 5% of China's total foreign reserves - the highest ever. But China's stockpile is still just a fraction of the U.S., which has the world's largest gold holdings with over 8,100 tonnes, accounting for 70% of the nation's total currency reserves.

"The idea of digging something up out of the ground, in S. Africa or someplace and then transporting it to the United States and putting into the ground, in the Federal Reserve of New York, does not strike me as a terrific asset." Warren Buffet

Turning to gold in times of trouble carries an opportunity cost, tying up capital which could otherwise be in productive assets. Stocks are productive assets because you have a claim on a share of earnings. Other productive assets include bonds which pay interest and property which collects rents. Gold pays nothing, while racking up costs for security, storage and insurance.

An asset that pays you for ownership has inherent value, whereas gold's value depends on being scared of investing in productive assets.

**"SCARED MONEY
DOES NOT MAKE MONEY"**



APOCALYPSE

THE DOOMSDAY CLOCK IS PRESENTLY SET AT 90 SECONDS TO MIDNIGHT, THE CLOSEST TO THE HOUR IT HAS EVER BEEN. ACCORDING TO THE PANEL OF INTERNATIONAL ATOMIC SCIENTISTS WHO SET THE CLOCK, WAR, CLIMATE CHANGE AND ARTIFICIAL INTELLIGENCE ARE PUSHING HUMANITY TOWARD GLOBAL CATASTROPHE.

After a nuclear winter, plague, asteroid hit, alien invasion or takeover by AI, would gold still be valuable in a post-apocalyptic world? Would anyone be willing to barter food, water and medicine for shiny bits of metal? If you are truly concerned about the world ending, sell gold now - an ounce at the current price of \$2,400 buys a lot of canned food and bottled water.

Gold is the fear trade, its price rising with the ranks of the fearful during inevitable periodic crises, such as the 9/11 terrorist attack in 2001, the financial meltdown in 2008 and the the pandemic in 2020.

At the end of the day on 9/11 gold closed up +6%. Gold prices also held up pretty well during the Covid-19 pandemic market sell-off: from 13 February to 23 March 2020, global stocks declined -33%, while gold dropped less than -1%.

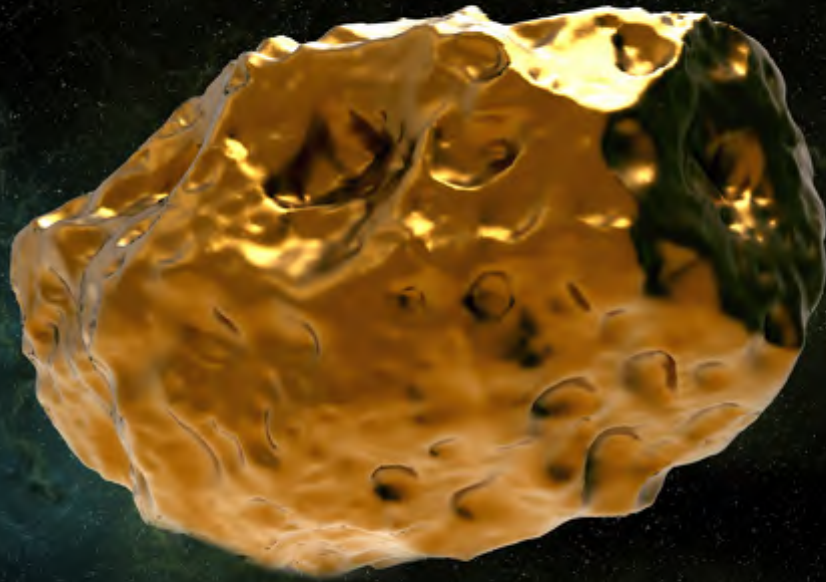
The 2008 Global Financial Crisis scarred investors to such an extent, it sustained demand for safe-havens for years after, which caused gold to double in value by 2011.

While gold enjoys a reputation for being a safe-haven, it is not risk-free. From 1980 to 2001 gold lost -70% of its value.

Of course the return on any investment depends on when you buy and sell. If you happen to buy gold at the peak of a bull cycle and sell at the bottom of a bear run, you will lose money.

Gold has since gone on to hit an all-time high (US\$2,450) earlier this year. But after adjusting for inflation, it is still down -10% from its 1980 peak. However, over the same time frame, the dollar has lost almost three-quarters of its buying power due to inflation.

Money is a measure of value, but not a store of value. An ounce of gold is always an ounce of gold.



THE END OF GOLD

JUST 0.0000000004% OF THE EARTH'S CRUST IS MADE UP OF GOLD. ALL THE GOLD THAT HAS BEEN MINED WOULD FIT IN A CUBE THAT IS 23 METERS (75 FT) WIDE ON EVERY SIDE.

All of the gold found on Earth was formed in explosive deaths of stars, having arrived from outer space in meteorites. The last to fall to Earth was 4 billion years ago, so the supply of gold is now finite.

About 244,000 tonnes of gold have been discovered to date, of which 187,000 tonnes have been mined, leaving current known reserves of 57,000 tonnes, according to the US Geological Survey. Gold is being mined at around 3,000 tonnes a year, so clearly the known supply will be exhausted in less than two decades from now. New gold discoveries and new technologies to extract uneconomic reserves will likely push that date back somewhat. However, it seems unlikely large-scale gold mining will continue beyond the next 50 years.

Gone are the days when someone could chance upon an exposed gold nugget in a riverbed, like that which set off the 1848 California gold rush. After centuries of mining, most of the world's high-grade gold deposits have been exhausted: the average mine grade has fallen from ten grams per ton in the early '70s down to barely more than one gram per ton today - equivalent to recovering a teaspoon of gold from a Statue of Liberty's worth of ore.

Gold is recyclable and virtually indestructible, so we will never run out of gold, even when we can no longer mine it. But if every central bank were to follow China's lead in swapping currencies for gold, or if every Chinese and Indian - the biggest buyers of gold jewellery - were each to buy just an ounce,

there is not enough gold above and below ground to meet the demand.

How will the depletion of gold mines affect the price of gold? As the supply of gold stagnates and its availability declines, its rarity value will only increase. Venturing into the realm of speculation, startups are already developing technology with the goal of mining asteroids. For commercial space gold mining to be economic, it would require astronomical gold prices. But

IF THE WORLD HAS PASSED GOLD PEAK PRODUCTION, BUT NOT PEAK DEMAND - GOLD PRICES COULD SKYROCKET.



INSURANCE

GOLD IS A NON-PERFORMING AND NON-PRODUCTIVE ASSET. IT IS ALSO AN ASSET WHICH IS HIGHLY LIQUID, WITHOUT LIABILITIES OR CREDIT RISK. A UNIVERSALLY ACCEPTED CURRENCY, ITS SCARCITY HAS PRESERVED ITS VALUE OVER TIME.

Gold's role in a portfolio should be more insurance than investment. Insurance against geopolitical risk, economic instability and currency devaluation.

As with any insurance policy, protection costs. But no one cancels their property, health or life insurance because their house did not burn down, they did not suffer an illness or meet an untimely end.

The thing with insurance is you hope it never pays out. But you buy insurance anyway for the peace of mind. The same rationale applies to gold's place in a portfolio.

YOU HOPE NEVER TO HAVE TO RELY ON GOLD, FOR WHAT IS GOOD FOR ITS PRICE, IS USUALLY BAD FOR THE WORLD. BUT A DECLINING GOLD PRICE SIGNALS INCREASING CONFIDENCE IN THE FUTURE, WHEN EVERYTHING ELSE IN YOUR INVESTMENT PORTFOLIO SHOULD BE APPRECIATING.

ALL INVESTMENTS INVOLVE THE RISK THAT YOU MAY NOT GET BACK ALL THE MONEY YOU INVESTED.

THE VALUE OF AN INVESTMENT CAN CHANGE QUICKLY AND MAY GO DOWN AS WELL AS UP.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RETURNS.

INVESTORS SHOULD BUILD A DIVERSIFIED PORTFOLIO TO SPREAD RISK.

Asia Pacific Investment Advisors Ltd

6/F Wings Building, 110-116 Queen's Road, Central, Hong Kong SAR

Registered Address: Rms 1 & 3, 8/F, Won Hing Building, 74-78 Stanley Street, Central, Hong Kong SAR

Tel: +852 9189-9633; email: sean.c@apg-hk.com

website: www.apiahk.com

Registered with the Hong Kong Securities and Futures Commission (AAG391)

Insurance Authority Licensed Insurance Broker (FB1449)