Alps Precious Metals Group

Monthly Commentary and Update

April 2017

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Negative Interest Rates

As the month of April begins, a snapshot of global interest rates would astound many an economist from days gone by. A likely comment from such an ancestor might be something on the order of: "…A plethora of negative signs in front of the stated yields to maturity?!? Surely this is a misprint…." But no; consider:

Country	1mth yld	2yr yld	5yr yld	10yr yld
Belgium	-0.62%	-0.56%	-0.15%	0.78%
France	-0.53%	-0.50%	0.05%	0.92%
Germany	-0.98%	-0.80%	-0.46%	0.26%
Italy	-0.38%	-0.08%	0.77%	2.09%
Japan	-0.12%	-0.19%	-0.13%	0.07%
Nthrlnds	-0.75%	-0.75%	-0.38%	0.50%
Norway	0.68%	0.62%	0.96%	1.63%
Spain	-0.39%	-0.23%	0.43%	1.61%
Switzerland	-0.89%	-0.90%	-0.60%	-0.14%
UK	0.14%	0.13%	0.55%	1.10%
US	0.77%	1.26%	1.87%	2.36%

Currently, the only relatively developed countries on earth that offer rates of interest that could possibly build a pool of real savings to fund investment are Greece, Russia, South Africa and Turkey. Given the issues these jurisdictions face, even their interest rates may not be high enough.

When inflation rates are added – either official government numbers or more reliable private measurements – nearly the entire global bond market is trading at negative real interest rates across the expanse of the yield curve; additionally, as can be seen above, negative *nominal* interest rates permeate the short end of the curve. Individuals and Institutions around the world are thus faced with an investing landscape in which savings are penalized.

A world mad enough to thwart the engine of long-term investment and tax productive labor is a world on a collision course with massive failure and upheaval. So what is keeping the bid down on Precious Metals, especially given the current setting where storage rates are often less dear than the penalty one must pay for the privilege of owning short-term bonds?

Our guess is three-fold. One, the major end-buyer of physical precious metals is China. As the Middle Kingdom is happy to be able to purchase physical at/near the PAPER Gold price, their vested interest is served by the Paper price remaining suppressed. Therefore, China is logically content to participate in paper Gold/Silver price suppression with source #2, Western interests who are not interested in seeing Gold's price rise (as that would represent a vote of no confidence in the Central Bank/Planners schemes). Third, the advent of Bitcoin has offered material competition to Gold and Silver as an alternative currency.

All three of these impediments to a rising Precious Metals price will be instantly overcome in a crisis in confidence similar to those in the past. That confidence crisis will be here soon enough and Precious Metals should enjoy a significant uptick in demand.

Spring Flowers bring Fall Showers

In the Spring of 2008, my hedge fund partner and I faced a decision. The time had come for us to rollover our "long protection-short risk" Investment Grade Index Credit Default Swap. The collapse of Bear Stearns had just occurred; however, markets had rallied and Lehman Brothers, the firm with which we had a material amount of swap exposure, had rallied as well. In fact, from a low of around $20/share in March, Lehman rallied all the way back to $50/share by May – prompting the young broker who was our Lehman CDS coverage to exclaim "we'll be putting a lot of shorts on our stock out of business". However, our view was that things were not so sanguine.

We asked ourselves that if the markets resumed their dicey path such that “another Bear Stearns came to pass”, then who on the landscape would survive? Merrill was untouchable because of their massive retail presence across the U.S. Goldman was similar due to their position as the Global #1 institutional firm. Morgan Stanley was similar to Goldman and the banks like JP Morgan, Citi, and Bank of America were also sacrosanct. But Lehman? No doubt they were a big player institutionally, but who outside of Wall Street even knew who they were? The government had driven the JP Morgan acquisition of Bear Stearns, but how much dry powder was left for a similar takeover? If there was a sacrificial lamb that could be identified, it seemed to us that Lehman was a possible candidate. As a result, we exited all of our exposure to Lehman, consolidating all of our swap exposure to Merrill and Bank of America (which at the time were two independent firms). Obviously, we and our clientele were thankful that we had made that decision.

The point of this bit of history is to raise the issue of what the impact to the markets would be if another Lehman-like failure – or worse - occurred. Speculation has been swirling around Deutsche Bank for some time. Note the following chart of its stock price:

From the lows of September 2016, DB nearly doubled by the end of January 2017. From that high, DB has methodically trended down to its current level of @$16.25. At the very least, DB is at a critical technical level. If it cannot hold 16 - and then 15 - the stock is likely to revisit its lows.

What does the current landscape offer in terms of saving Deutsche Bank if it falls into a death spiral? The German government claims it will not bail out the institution (and it is theoretically unable to do so according to the EU governing accords). Keep in mind that DB is ten times the size of Lehman Brothers, Deutsche is extremely exposed to the derivative market (the vast majority of DB's revenues are generated from that business line) and interest rates are already negative. Bail-in and additional monetary insanity by Global Central Banks are the probable "solutions" that will be employed.

"SIFI" is the new acronym for "Systemically Important Financial Institutions". In these post-2008 days, a twist to the name results in the following: "SITUUBFI" or "Systemically Important and Therefore Unanswerable for Unconscionable Behavior Financial Institutions". This also applies to their Central Bank enablers. "Caveat Emptor" when it comes to any dealings with the status quo financial system.

An Unknown Known

When markets go haywire, strange events come to pass. "All correlations go to 1.0" was the slogan describing the unexpected event that came to pass in 2008. In terms of Precious Metals, volatility was certainly present in the '08 debacle. After selling off over 30%, Gold and Silver bottomed in October of 2008 and began a rally of over 200% that would last three years. However, that rally was relatively smooth throughout the time period. The question to be explored here is what premium over paper (if any) will likely be enjoyed by a holder of Physical Precious Metals if acute stress hits the financial markets?

Research and interviews with precious metal dealers yield a couple of examples which can be highlighted to get some sort of handle on what the premium Physical will offer over Paper in distressed markets. In 1980, during the inflation-adjusted highs in the precious metals markets, Silver Coins traded at a 40% premium to Silver's paper spot price. Recently, during the selloff in paper Gold and Silver in 2008, paper Silver fell to @$9.00 per ounce. Simultaneously, the market had numerous sessions in which WHOLESALE Silver Coins traded at ** $17/oz. ** as buyers scrambled to have the physical in their possession.

Note that the market for Physical did NOT enjoy the same premium during the massive precious metals selloff of 2013. The reason why speaks to the general setting of financial markets at the time. 2013 saw risk markets rocketing higher. In 1980 and 2008, risk markets performed in the exact opposite manner. So when can one expect a more significant premium for physical over paper then that which occurs in relatively calm general markets? When "calm" is the last term an observer of markets would use to describe them.

Therefore, the “Known” is that Premiums will be far more significant for Physical Precious Metals if global risk markets seize up as they have done many times in the past. The “Unknown” in today’s market is just how significant these premiums will be. This is an unknown because the involvement of China is significantly greater in global Precious Metals markets than it ever has been. What will premiums be in this brave new market for holding the actual store of labor/value (whether coins or bullion) versus an ETF/piece of paper which “attempts to reflect the price/performance of gold”? The answer is no one truly knows – a complete “Unknown”. What one can surmise from the past is that having holdings in physical precious metals in an uncertain and volatile market setting is likely to be a coveted – and quite well bid – portfolio position.

Update on Alps and Liechtenstein Precious Metals

March/April saw/will see more visits to our facility by prospective clients who are based in the Western hemisphere. All interested parties have nothing but positive things to say about what LPM has built and the quality of the people who are the company. We continue to believe that a due diligence site visit will lead to our prospects being convinced that building a business relationship with APM/LPM is a wise and prosperous decision. Please let us know if you would like to arrange a tour of our facility and meetings with our team.

Alps Precious Metals Group via our partnership with Liechtenstein Precious Metals Group is dedicated to providing the global standard for the finest and most secure storage and trading of Physical Precious Metals. Our Vault is constructed to the highest security standard in the world (“Class 10”) and, via our relationship with Lloyd’s of London, insures each client’s specie at 100% of its market value. Our trading desk provides liquidity on each and every business day with as little as next day settlement. All of these benefits are enjoyed while simultaneously being freed from the status quo global financial system. Contact us (www.alpspmg.com) to discuss how APM/LPM can become a trusted partner in the creation, protection and utilization of the hard money portion of your portfolio.

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