Alps Precious Metals Group

Monthly Commentary and Update

April 2018

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C) **First Goldman, Now Morgan Stanley?!?**

The Same Side of the Trade

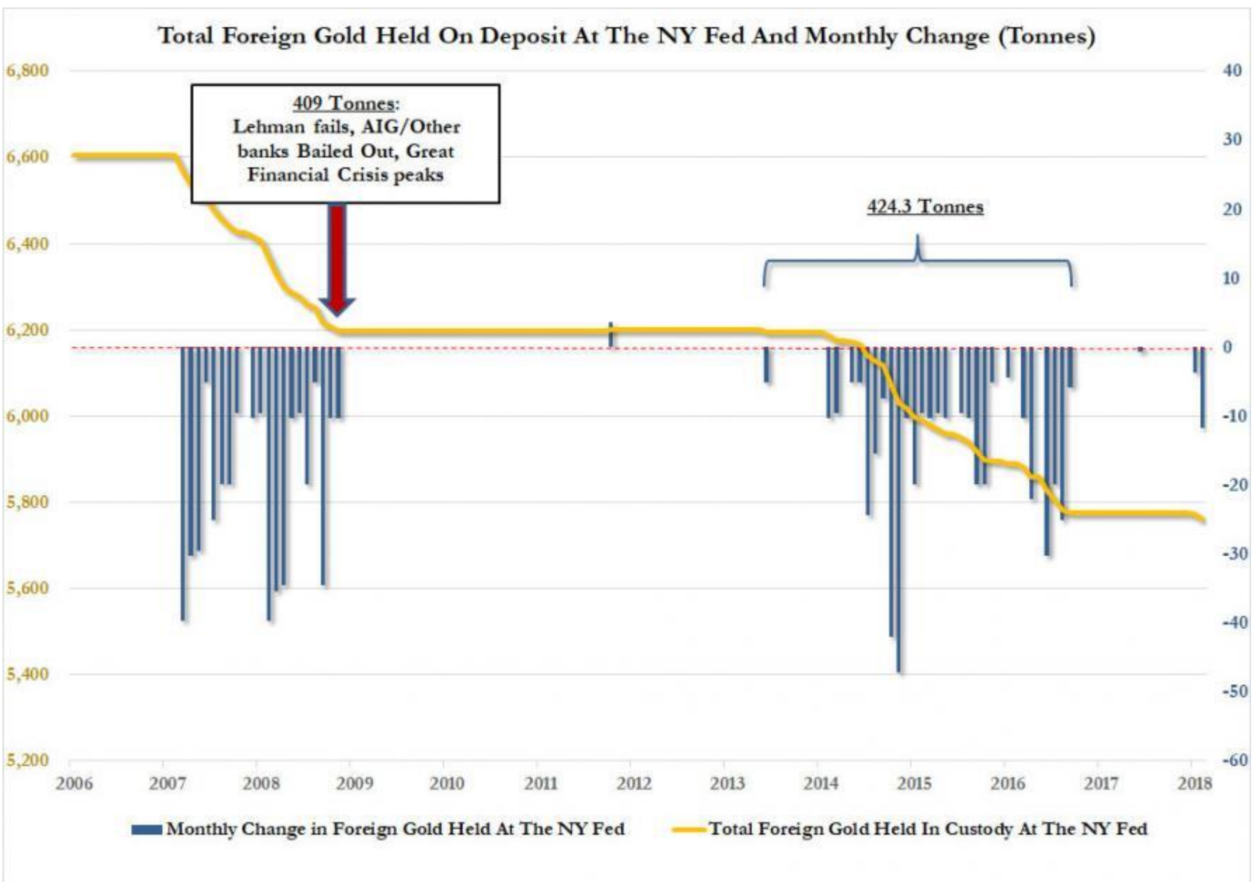
Updating the current official status of the Gold positions of Central Banks, we present the following chart from the International Monetary Fund:

WORLD OFFICIAL GOLD HOLDINGS
International Financial Statistics, April 2018*

		Tonnes	% of reserves**
1	United States	8,133.5	75.0%
2	Germany	3,373.6	70.4%
3	IMF	2,814.0	1)
4	Italy	2,451.8	68.0%
5	France	2,436.0	66.2%
6	Russia	1,880.5	17.6%
7	China	1,842.6	2.4%
8	Switzerland	1,040.0	5.3%
9	Japan	765.2	2.6%
10	Netherlands	612.5	67.1%
11	Turkey	591.0	21.9%
12	India	558.1	5.6%
13	ECB	504.8	27.8%
14	Taiwan (People's Republic of China)	423.6	3.8%
15	Portugal	382.5	62.5%
16	Saudi Arabia	322.9	2.7%
17	United Kingdom	310.3	8.5%
18	Kazakhstan	307.0	41.4%
19	Lebanon	286.8	21.5%
20	Spain	281.6	17.0%

As we have been chronicling over the past year, Russia has methodically been accumulating the Midas metal; to the point where now it has passed China in official holdings. We have also noted that "official" Chinese holdings would qualify as "fake news", given that the country's actual holdings are likely 10x of the official claims. Nonetheless, the leaders of the BRICS countries are unquestionably adding to their Precious Metals stockpiles.

Additionally, these benighted Central Banks and Governments are moving to bring their globally-dispersed specie "back home to Momma". Turkey is the latest country to join Germany, the Netherlands and others in saying "Thanks, but no Thanks" to the New York Fed's continuing to store a portion of their bullion. In fact, the last 12+ years have seen, almost exclusively, withdrawals from the NY Fed's Vault, as the following chart details:



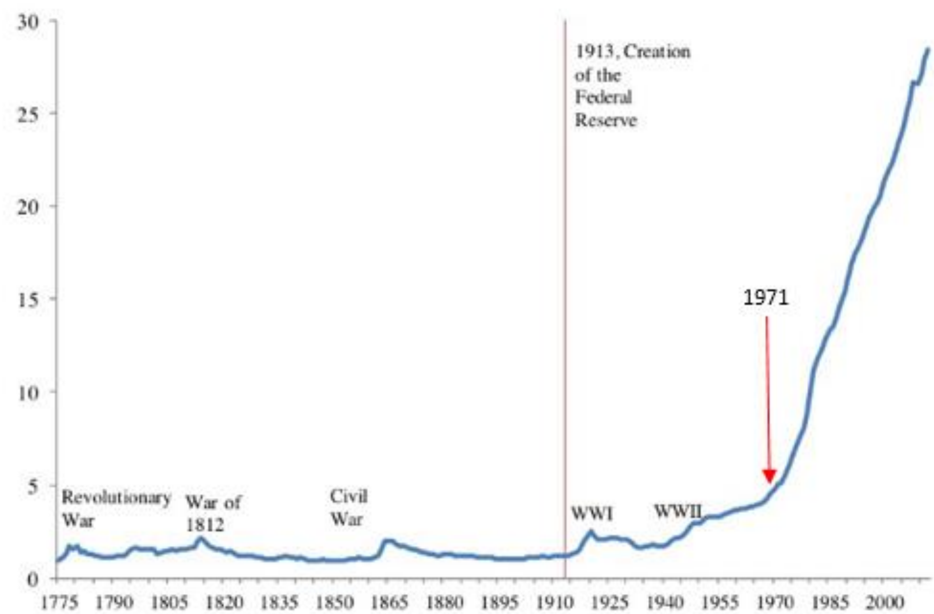
The only logical conclusion is that worldwide confidence in the U.S. is falling, accompanying a move by many countries – most importantly China and Russia – to move away from the U.S. dollar in global trade. A reasonable conclusion would be to get in the wake of these giant players and enjoy one's own physical bullion position; and, just as important, safekeep those holdings somewhere other than the very Global banks which are vulnerable to a risk market reset.

Stagflation, Anyone?

A particularly unpleasant state of affairs in an economy is known as "Stagflation". While any of the "'flations" are bad, "stag"flation is a nasty confluence of factors which result in higher general prices along with stagnating economic growth - arguably, the worst of all possible worlds. The last stringent episode of this unwelcome malady was in the decade of the 1970's.

And what was the central cause of the malaise endured during those days? We would argue the "fiat for all seasons", President Nixon's reneging of the U.S.' commitment to exchange our gold for U.S. dollars on demand. Note the unmitigated explosion in the following graph:

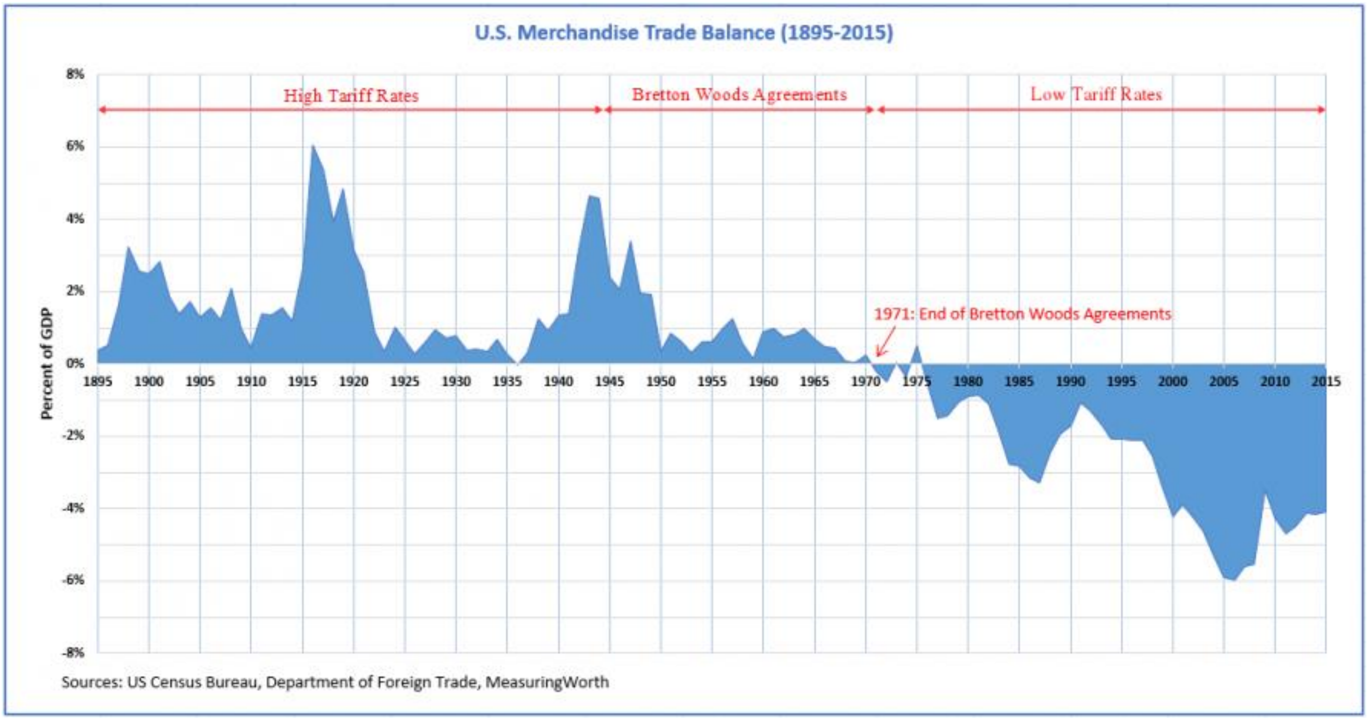
Figure 1. Consumer Price Index, United States, 1775-2012
(level, 1775=1)



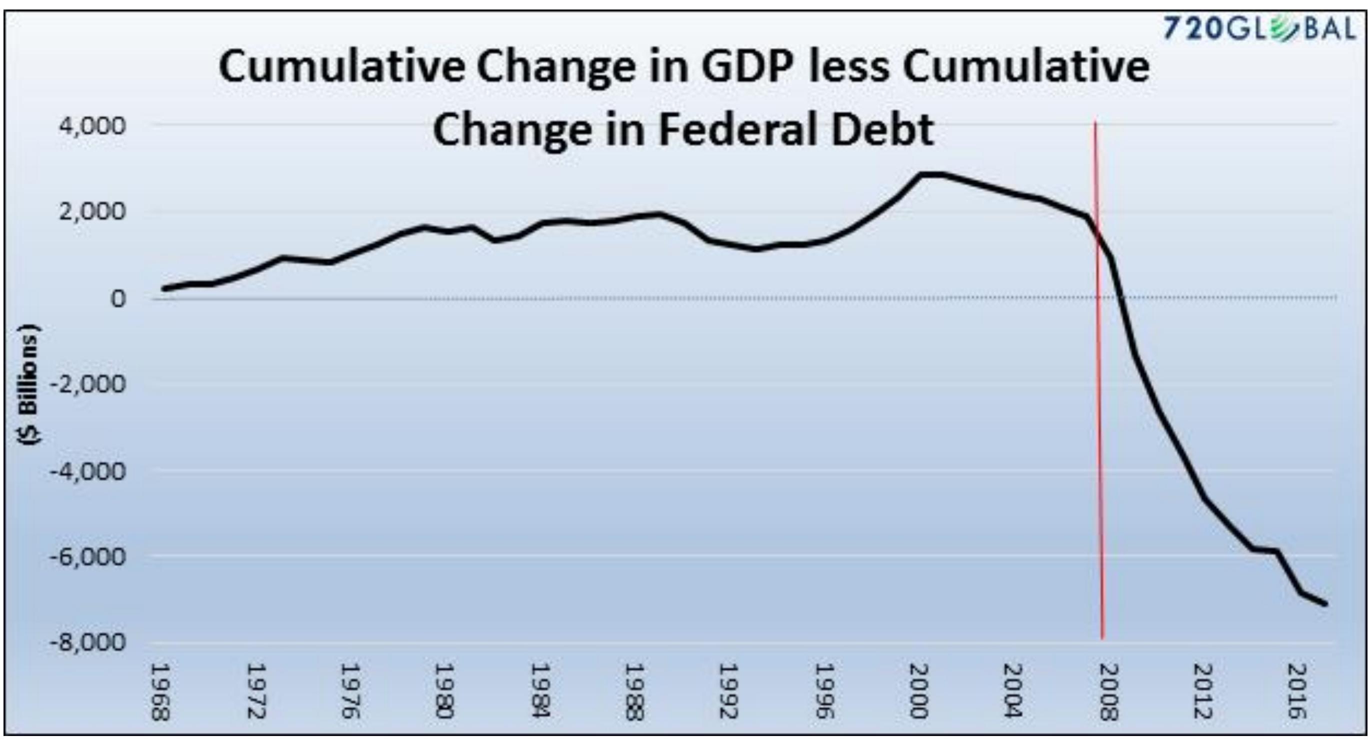
Sources: Bureau of Labor Statistics, Historical Statistics of the United States, and Reinhart and Rogoff (2009).

What also accompanied this cowardly decision? Trade deficits which have basically never ended since 1971. Stagflation died when Paul Volcker allowed markets to set the Fed Funds rate in the early 1980's, but since his time, the Government and Fed have returned to their old ways of being "smarter than markets" in attempting to gerrymander economic outcomes. The following graphs display these realities; especially the third of 3, which describes the true "enabler" of this Potemkin risk rally since 2009:

U.S. Trade Balance - 1895-2015

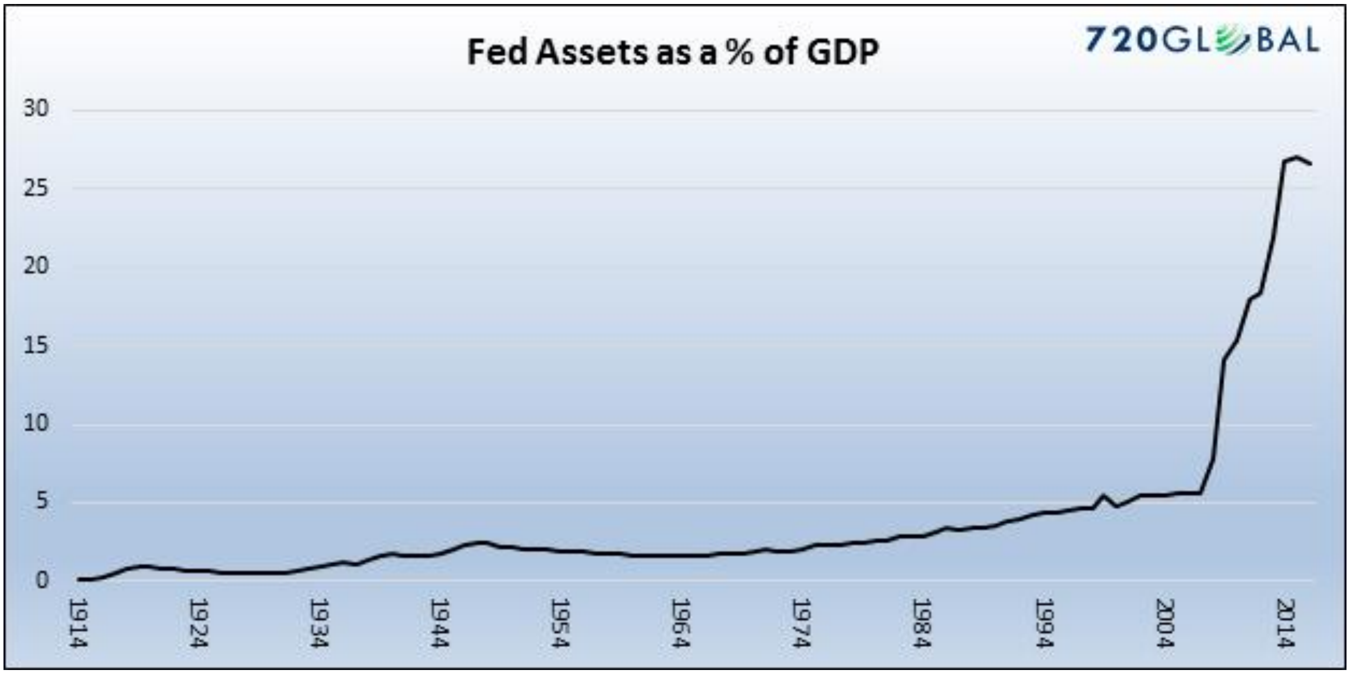


True GDP - 1968-2018



Data Courtesy: St. Louis Federal Reserve (FRED) and Baker & Company Advisory Group/Zero Hedge

The Enabler - The Federal Reserve of Ben Bernanke, et.al.



Data Courtesy: Global Technical Analysis and St. Louis Federal Reserve (FRED)

Our view is that Precious Metals enjoy their strongest bid when global confidence in the economic status quo is at an ebb. Stagflation is certainly a scenario in which confidence wanes precipitously. If the Fed and other Central Banks must tame an inflation monster that they created, they may have no choice but to be tighter with policy than they prefer. If so, one can envision a stalling economy which still has inflation risk due to pent-up wage inflation pressure which will take time to move through the system. In terms of early signs that this may come to pass, look no further than the latest Philadelphia Fed report. Note the gaping "alligator jaws' at the right side of the graph:

Data for both Philadelphia Fed graphs Courtesy: Zero Hedge

Keep in mind that during the 1970's episode of Stagflation, Gold enjoyed its strongest run in history, from $32/oz. to over $800/oz. Adding exposure to both physical Gold and Silver at this point in the game is arguably well advised.

First Goldman, now Morgan Stanley?!?

In the September 2017 edition of our monthly report, we noted that of all the status quo banking firms on earth, the most unlikely advocate of Gold would be Goldman Sachs; and, yet, it was "Government Sachs" themselves who wrote an extensive research piece that month endorsing the Precious Metal. Turn the calendar forward 7 months and here we have Morgan Stanley following suit. One could even argue that Morgan Stanley's endorsement of Gold goes even further, as the white shoe Wall Street firm emits the heresy that Gold is actually the best measurement of true value! Writes M/S's Michael Wilson:

"...Due to the many criticisms and changing methodologies of the consumer price index as a true measure of inflation, we use the price of gold as a very good proxy of the true value of a dollar over long periods of time...."

So given that, what is the actual valuation of the S&P 500 over the last 90 years? Behold, the graph:

Exhibit 17:

The real price of the S&P 500 (S&P 500 divided by the price of gold)

Source: Bloomberg, Morgan Stanley Research

The conclusion that Mr. Wilson proffers from this graph is that the S&P 500 is in its 3rd secular bull market of the last century. However, he tempers that call with a *cyclical* call for an interim bear market which, in keeping with cyclical bears in past secular bulls, will be relatively mild.

Our counter view is that while this graph is priceless in terms of telling the truth as to real valuations, we believe that the hyperbolic experiments of the nutty professors in the Marriner S. Eccles building have produced both a phony "recovery", as well as, in real terms, a muted rally which is in the process of failing. Keeping the line from falling below the channel this time will prove to be a bridge too far, even for the madmen/women at the helm of the printing presses of the Fed, ECB and BoJ. We believe that the level last seen at the Iran Hostage crisis will be revisited. Those long Precious Metals at that time will have a bevy of inexpensive assets at their disposal which they will be able to purchase with what Morgan Stanley itself has dubbed Real Money.

Alps and Liechtenstein Precious Metals

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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