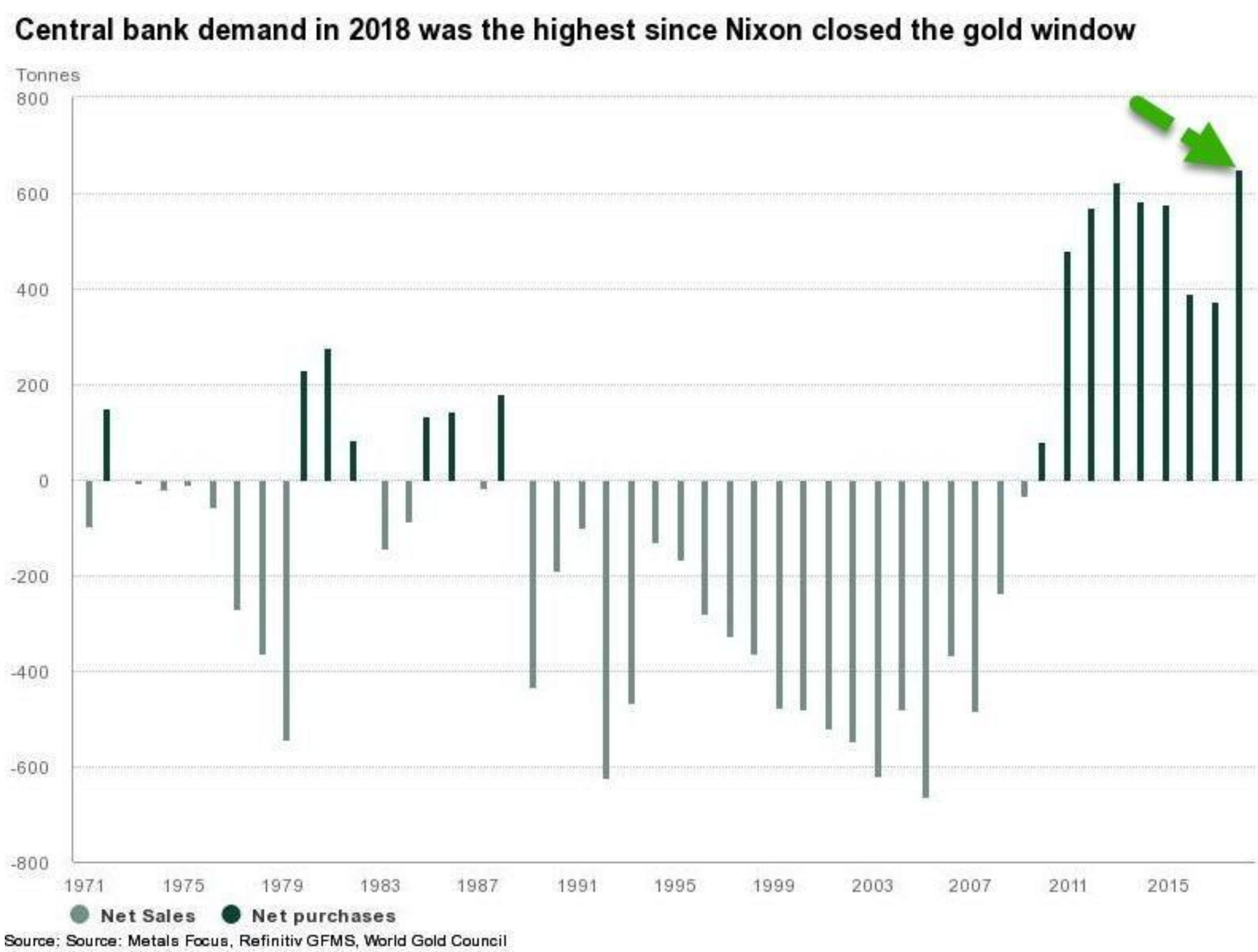
Alps Precious Metals Group

Monthly Commentary and Update

February 2019

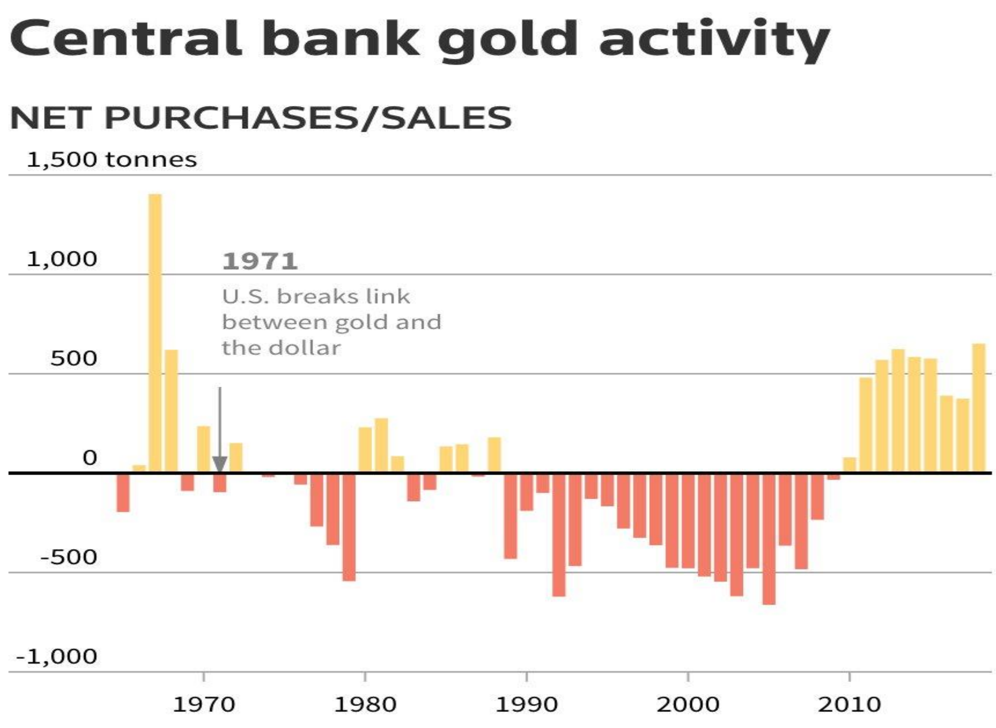
A) Keeping up with the Governors Joneses
B) The Recession before the Reset
C) Quotables

Keeping up with the Governors Joneses



In the nearly 50 years since Richard Nixon single-handily reneged on the obligation of the United States to exchange dollars for Gold upon the demand of the dollar holder, Central Banks have in general been sellers of the Precious Metal. By a margin of 2-to-1 in years, the financial seers of government have dishoarded their Gold holdings, regarding them as relics of a far-gone financial order that are no longer needed. For instance, the Government/Central Bank of Canada, which presides over a country that has almost as much Gold and Silver within/under her land as any other, has completely unloaded its entire possession of refined Precious Metals. However, the last ten years have seen a reverse of Global Central Bank net sales into net purchases. We have chronicled in past commentary that the demand is an "Eastern" Central Bank phenomenon, while the source of the supply is largely a "Western" one. We believe that this reality is liable to come with some very unpleasant consequences for the sellers.

Note also the following graph, which is largely the same as the one above, but filling in some blanks and showing some of the activity just prior to 1971:



Source: Metals Focus, Refinitiv GFMS, World Gold Council, Vincent Flasseur | REUTERS GRAPHICS

A philosophical sea-change occurred following Nixon's unchallenged rash decision; however, the last 9 years have seen some Central Bankers around the world are beginning to heed the financial wisdom of old in constructing their balance sheets. Our suggestion to the Institutions and Family Offices with whom we speak is that it would be wise to emulate them. This is a time when "keeping up with the Joneses" will reap benefits when the coming "Big Reset" unfolds.

To add to this line of thinking, consider the following table produced by Brent Johnson of Santiago Capital. What is fascinating is that while a 10x rise in Gold's price is required to get most countries' "M0" issuance to be fully backed by the Midas metal, an 100x move still doesn't get the job done for China's "M2" issuance! Why should private Institutions and Families join the bandwagon? Because rising Gold purchases and prices will benefit even the sellers - unless they go "Canuck"!

SANTIAGO CAPITAL

G8 Countries, China & Switzerland Monetary Aggregates vs Gold Reserves

Monetary Aggregates (Local Currency)

	Country	Exchange Rate ($US)	M0 (Local)	M1 (Local)	M2 (Local)
1	Canada	1.3343	$93,290,000,000	$1,001,740,000,000	$1,653,767,000,000
2	China	0.1473	¥7,320,000,000,000	¥55,170,000,000,000	¥182,670,000,000,000
3	France				
4	Germany				
5	Italy				
	Euro	1.1342	€ 3,217,700,000,000	€ 8,248,937,000,000	€ 11,671,079,000,000
6	Japan	109.6300	¥102,439,000,000,000	¥774,471,000,000,000	¥1,014,180,000,000,000
7	Russia	0.0152	8,981,000,000,000p.	20,573,000,000,000p.	44,892,000,000,000p.
8	Switzerland	0.9958	CHF 555,345,000,000	CHF 668,696,000,000	CHF 1,013,146,000,000
9	UK	1.3035	£81,832,000,000	£1,775,222,000,000	£2,412,143,000,000
10	US	1.0000	$3,400,839,000,000	$3,781,000,000,000	$14,455,000,000,000

Monetary Aggregates ($US Equivalent)

	Country	Gold (Tons)	M0 ($US)	M1 ($US)	M2 ($US)
1	Canada	-	$69,916,810,313	$750,760,698,494	$1,239,426,665,667
2	China*	1,843	$1,078,236,000,000	$8,126,541,000,000	$26,907,291,000,000
3	France	2,436			
4	Germany	3,370			
5	Italy	2,452			
	Euro	8,763	$3,649,515,340,000	$9,355,944,345,400	$13,237,337,801,800
6	Japan	765	$934,406,640,518	$7,064,407,552,677	$9,250,934,963,058
7	Russia	2,066	$136,511,200,000	$312,709,600,000	$682,358,400,000
8	Switzerland	1,040	$553,012,551,000	$665,887,476,800	$1,008,890,786,800
9	UK	310	$106,668,012,000	$2,314,001,877,000	$3,144,228,400,500
10	US	8,134	$3,400,839,000,000	$3,781,000,000,000	$14,455,000,000,000
	Total	**31,179**	**$9,929,105,553,831**	**$32,371,252,550,371**	**$69,925,468,017,825**

Gold price needed to back each country's Monetary Aggregates

	Country	Gold (Ounces)	M0 (Gold $)	M1 (Gold $)	M2 (Gold $)
1	Canada	-	NA	NA	NA
2	China*	59,169,515	$18,223	$137,343	$454,749
3	France	78,207,780			
4	Germany	108,193,850			
5	Italy	78,721,460			
	G8 Euro Area	281,336,115	$12,972	$33,255	$47,052
6	Japan	24,560,325	$38,045	$287,635	$376,662
7	Russia	66,328,930	$2,058	$4,715	$10,287
8	Switzerland	33,389,200	$16,563	$19,943	$30,216
9	UK	9,952,550	$10,718	$232,503	$315,922
10	US	261,498,000	$13,005	$14,459	$55,278
	Total	**1,001,357,725**	**$9,916**	**$32,327**	**$69,831**

* There is widely held belief that China has more gold reserves than currently reported

Source: M0, M1 and M2 via www.tradingeconomics.com. Euro Area M0 via Bloomberg
Gold Reserves via World Gold Council
Euro Area Gold reserves figure includes France, Germany, Italy as well as ECB Gold holdings of 505 tons
Dates of figures are as of November 2018 - January 2019
Assumes 32,105 ounces of gold / ton and a current gold price of $1,280

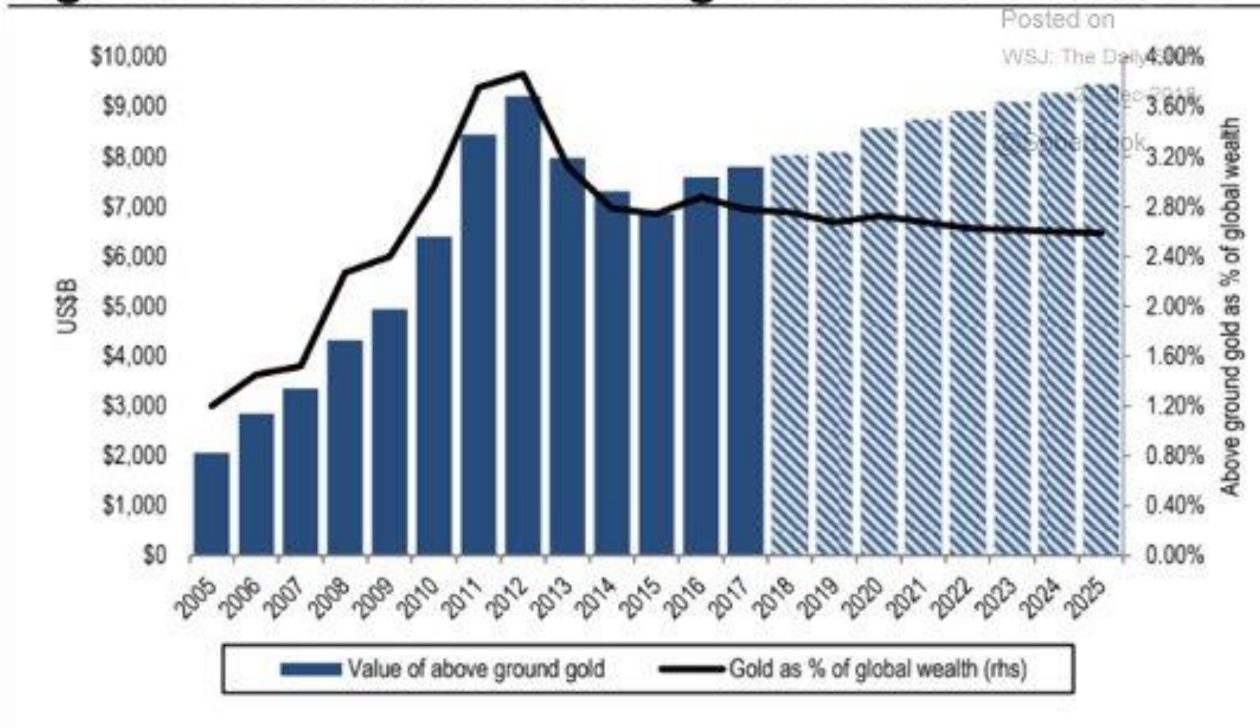
Oh, yeah, and if China wants to back their *DEBT* issuance, they need lots more Gold at a lot higher dollar price:

China's Debt Problem is Bigger Than It's Gold Hoard

	Chinese Gold Holdings					
Source	Tons	Oz.	$1.3K per oz	$4K per oz	$10K per oz	$13K per oz.
PBOC	1,842	59,221,589	$76.99B	$236.8B	$592.2B	$769.88B
Hong Kong Imports 2001-2017	9,177	295,046,974	$383.56B	$1.18T	$2.95T	$3.84T
Chinese Mining 2000 -2016	5,210	167,183,640	$217.34B	$668.7B	$1.67T	$2.17T
Shanghai Imports?	3,000	96,452,100	$125.39B	$385.8B	$964.5B	$1.25T
Approx Total	19,229	617,904,303	$803.2B	$2.47T	6.18T	$8.03T

Finally, how much of a reallocation to the sector by Institutions and Family Offices (alongside the Eastern Central Bank trend) will it take to materially move the supply/demand needle in favor of much higher prices? As this concluding graph describes, not much:

Figure 28: Gold as Percentage of Global Wealth



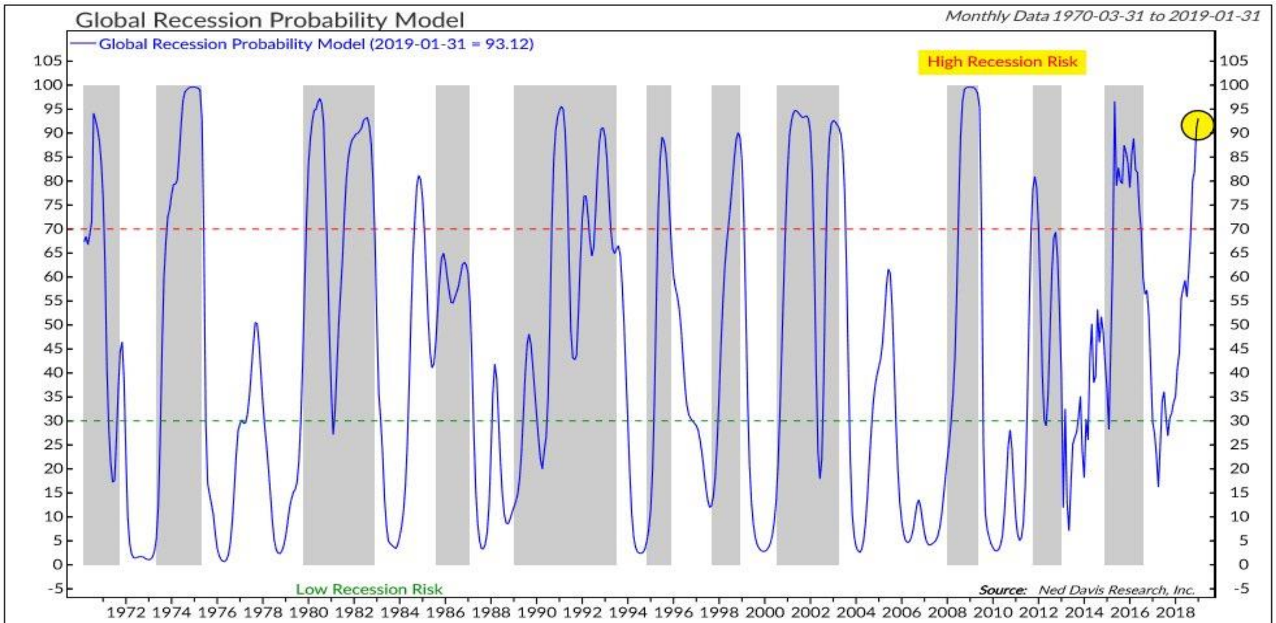
Source: World Gold Council, Credit Suisse estimates

Also sourced from Incrementum.

<u>The Recession before the Reset</u>

The fear of all those who have endorsed this reckless, 10-year experiment by Global Central Bankers can be summarized in the following question: “Will this “new era” global economy be able to stand on its own and absorb the inevitable recession without endless money printing to artificially lower interest rates?”. Even more frightening to this benighted crowd is what happens if “QE-version-fill-in-the-blank” is instituted, but DOESN’T WORK. Well, we may have the opportunity to soon discover the answer. For as Ned Davis’ research concludes, the next recession is imminent, as this “nearly batting 1.000” model details over that same “since Nixon said ‘We’re just kiddin’” 50-year stretch:

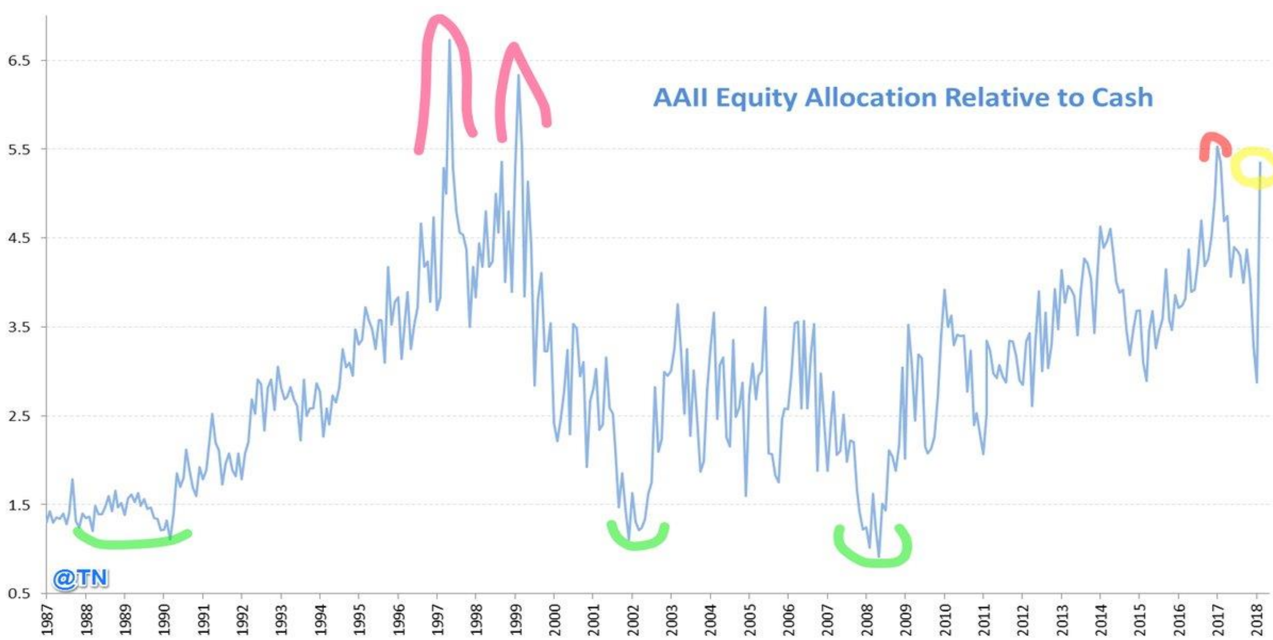
NDR global recession probability now at 93. Less than 10% it's a false signal.



Shaded Areas Represent OECD-Defined Global Recession Periods

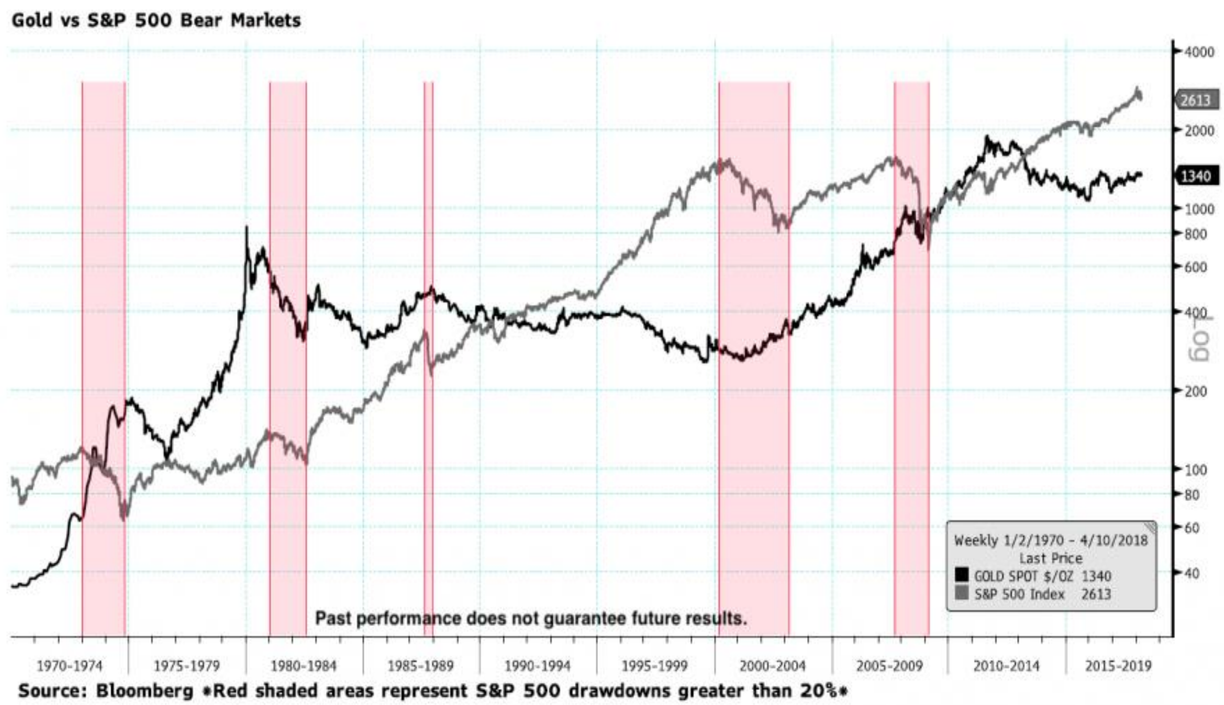
Analysis Dates: 1970-03-31 - 2019-01-31		
	Actual:	
Probability Model	Recession (% of Time)	No Recession (% of Time)
Above 70	90.32	9.68
Between 30 and 70	50.25	49.75
Below 30	15.74	84.26

Couple this with what is going on in stock allocations:

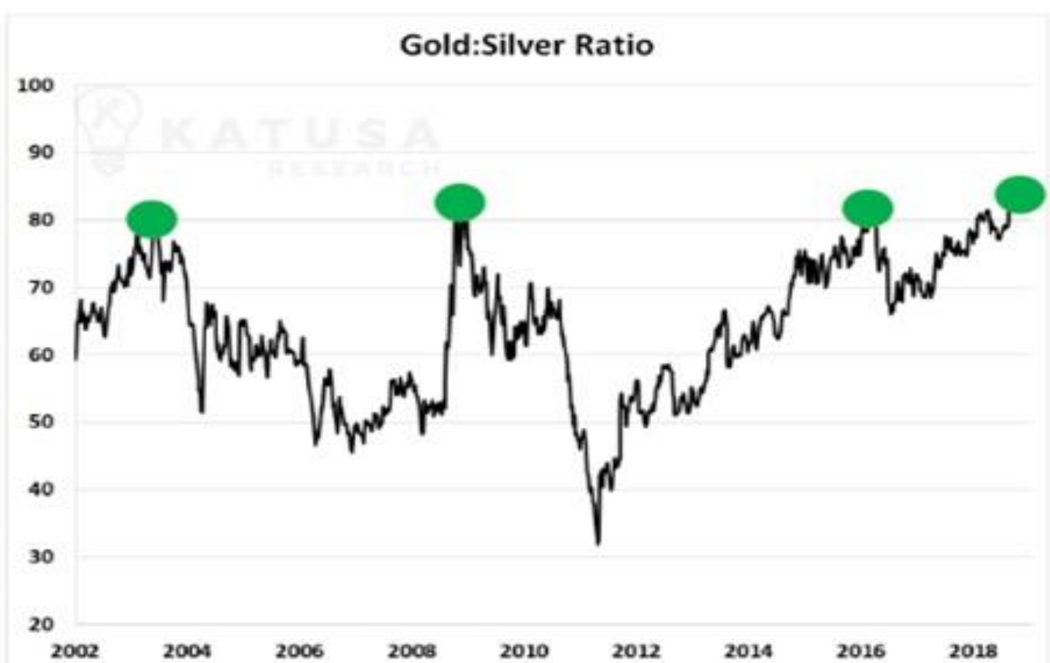


and a doozy of a "One/Two" punch of Bear Market Recession is conceivably on our doorstep.

As to the remedy for this unpleasant probability, we are led back to our favorite graph. Gold is one of the primary answers…………



And this chart adds even more evidence:



Source – Katusa Research

The tale of the tape of the graph above as described by Katusa Research is as follows:

After the Gold:Silver ratio hit 80:

*From 2004-2006, gold went up **85%**.*

*From 2008-2011, gold gained **171%.***

*And in 2016, it gained another **28%.***

That's three massive moves in the price of gold in the 21st century… about one every six years. *(Source: Katusa Research)*

We would add one closing addendum to Katusa's thoughts – Silver did even better during the dates cited!

Quotables

To conclude this month's report, we highlight the following two quotes which say a great deal in a small amount of space:

From Bill Fleckenstein's 1/31/19 thoughts (https://www.fleckensteincapital.com/home.aspx):

My friend, Joanie McCullough, summed it all up in today's note as follows:

"Does it occur to anybody just how painted into a corner the Fed might be…Their debauched actions have thrown savers under the bus, overseen the diminution of the value of U.S. labor, triggered a yield famine along with all the nasty collateral damage that accompanies it, catalyzed numerous, destructive bubbles, extinguished our ability to assign value, fostered extreme financialization, encouraged the widening of the income inequality gap, oppressed our purchasing power, infected the global economies, incited price instability, massaged wage stagnation, hampered sustainable growth by promoting its lame substitute, (promoted) buying frenzies, facilitated dislocation in commodities and in general, ran amok. Okay, kids. Those're just some of the 'benefits' of Federal Reserve monetary policy. Written right off the top of my head in no particular order; feel free to add that which I have missed."

O Gold! I still prefer thee unto paper, which makes bank credit like a bark of vapor.

Lord Byron

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.

James P. Hunter
Managing Partner
Alps Precious Metals Group