Alps Precious Metals Group

Monthly Commentary and Update

September 2017

A) **Reality Check**
B) **Natural Disaster Aftermaths**
C) **Goldman goes long Physical Gold?**

Reality Check

From Merriam-Webster's Dictionary of the English Language:

communism

1 a **:**a theory advocating elimination of private property
  b **:**a system in which goods are owned in common and are available to all as needed
2 b **:**a totalitarian system of government in which a single authoritarian party controls state-owned means of production

socialism

1 **:**any of various economic and political theories advocating collective or governmental ownership and administration of the means of production and distribution of goods
2 a **:**a system of society or group living in which there is no private property
  b **:**a system or condition of society in which the means of production are owned and controlled by the state
3 **:**a stage of society in Marxist theory transitional between capitalism and communism and distinguished by unequal distribution of goods and pay according to work done

Based on these straightforward definitions, what would be the proper term describing these realities?:

Entry #1:

Federal Reserve and Foreign Holdings of U.S. Treasury Securities ($ trillion)

	Fed SOMA Holdings	Non-Fed Holdings	Total Marketable	% Fed of Total
> 5 years	931	2,918	3,849	24.19%
> 10 years	546	1,047	1,593	34.29%
> 20 years	477	970	1,447	32.93%
Memo:				
Foreign Holdings of LT Treasuries *		5,286	58.05%	
o/w: Foreign Official		3,814	41.88%	
Federal Reserve - LT Treasuries		2,117	23.25%	
FED plus Foreign Holders		**7,403**	**81.30%**	
FED plus Foreign Official Holders		5,931	65.13%	

* LT = Longer than one-year
Data Source: Federal Reserve, Treasury

Global Macro Monitor

Entry #2:

"…Norway Government Forces Sovereign Wealth Fund To Buy $100 Billion More In Stocks "To Safeguard The Country's Riches"…" *(source – Bloomberg)*

Entry #3:

- **Without any recession or crisis, major central banks are purchasing more than $200 billion a month in government and private debt, led by the ECB and the Bank of Japan.**
- **The ECB and BOJ balance sheets exceed 35% and 70% of their GDP.**
- **The Bank of Japan is now a top 10 shareholder in 90% of the Nikkei.**
- **The ECB owns 9.2% of the European corporate bond market and more than 10% of the main European countries' total sovereign debt.** *(source – Financial Times)*

Entry #4:

Figure 2: Relevant **market size** estimates and the **share owned by central banks** (mid-August 2017)[1]

		Central bank holdings/market capitalisation				
		Gov't	ABS	Covered	Corp. IG	Equity
US	Fed holdings ($bn)	2,447	1,786			
	US market size ($bn)	10,637	9,000			
	% of market	**23.0%**	**19.8%**			
Eurozone	ECB holdings (€bn)	1,361	25	226	104	
	EZ mkt. size (€bn)	6,478	140	840	2,037	
	% of market	**21.0%**	**17.7%**	**26.9%**	**5.1%**	
Japan	BoJ holdings (¥tn)	434.0			3.2	16.0
	Japan market size (¥tn)	979.7			23.8	598.4
	% of market	**44.3%**			**13.5%**	**2.7%**
UK	BoE holdings (£bn)	435			10	
	UK market size (£bn)	2,008			319	
	% of market	**21.7%**			**3.1%**	

Source: Deutsche Bank, ECB, BoE, Fed, BoJ, Bloomberg Finance LP, SIFMA

In a bankruptcy, the bond holders are the entities with the first claim to the assets of the defunct company; therefore, as long as an entity has issued debt, the true "owner" of that entity is the lender. When Central Banks are the lenders, then one must revisit the understanding of "a Western, Capitalistic system"; and upon examination of the facts ask if in fact one exists in 2017. Given the current trajectory of world governments and Central Banks/Planners, it appears that, sadly, these quotes of Karl Marx are all too prescient:

"Democracy is the road to socialism."

"The ruling ideas of each age have ever been the ideas of its ruling class."

"The theory of Communism may be summed up in one sentence: Abolish all private property."

So too these gems from Vladimir Lenin:

"The goal of socialism is communism."

"While the State exists there can be no freedom; when there is freedom there will be no State."

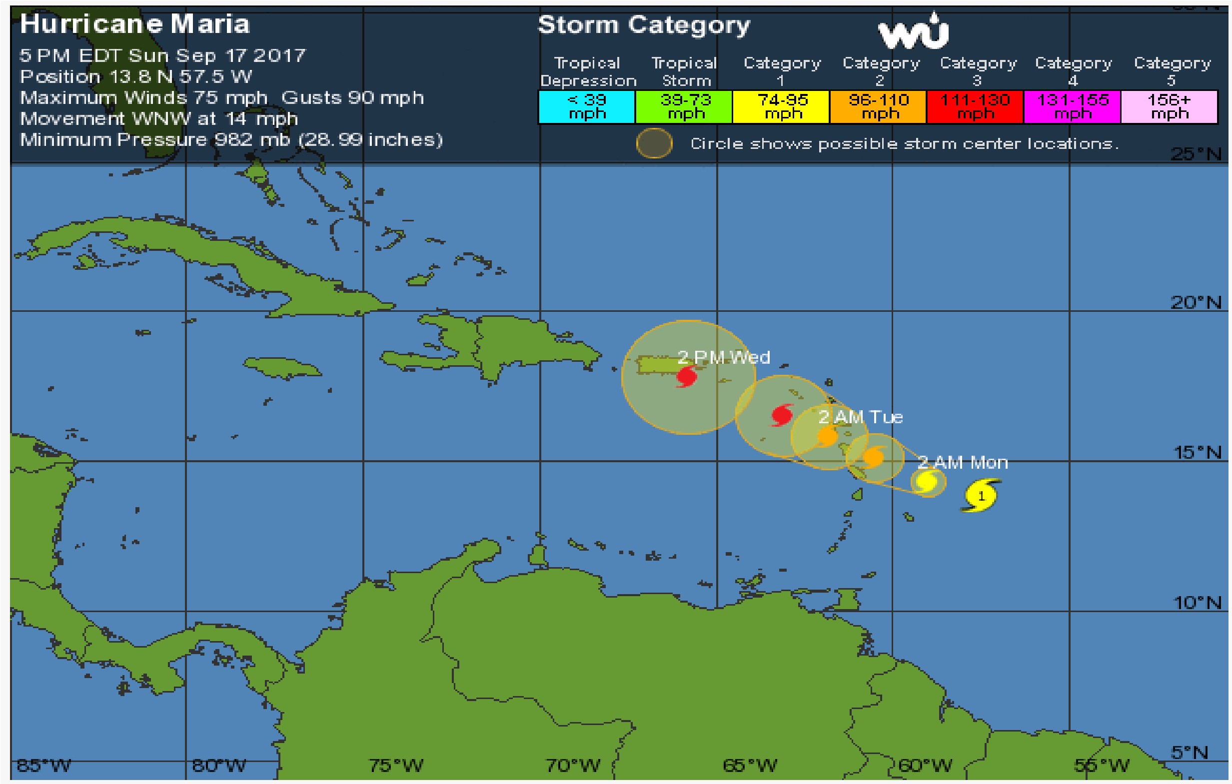
"The best way to destroy the capitalist system is to debauch the currency."

Consider the zeitgeist being taught at each and every "Top University" in our land and the general world-view of the graduates thereof. Many of these grads now run the banks and Central Banks of the world - which have been systematically debauching the currencies of these "great democracies" for decades. This is not to imply conspiracy; the players on the world stage are simply acting out what they've been taught in such a manner that will enrich and empower themselves. No, where the course of the West is taking us is to the exact same place it took Lenin and his cronies – Oligarchy.

How to deal with this reality? Well, if one assumes the truism that power corrupts and absolute power corrupts absolutely, then the current status quo will collapse. Owning Physical Gold and Silver has historically been the key to surviving the loss of confidence in the "way things are" or, more importantly, the efforts to see that "the way things are" remain. Our guess is that this time will NOT be different.

Natural Disaster Aftermaths

The plight of Houston and South Florida have made for some sobering images and thoughts. When considering the ultimate costs – in terms of physical property, mental fortitude and financial - we believe that they may end up being far higher than has been assumed in these days just following the storms' impact. Historically, two major natural disasters can be seen as having a material impact on the financial markets: A) The San Francisco earthquake of 1906 which preceded and was a material driver of the Panic of 1907, and, B) The Florida hurricanes of 1926 and 1928 which caused a massive crash in Florida property values – just prior to the 1929 stock market crash. Lag times between event and settlement are sure and certain, but consequences are always lurking. This would be especially true if something else unpleasant comes to pass with a good 6-8 weeks to go in hurricane season and the clusters of earthquakes which have occurred lately:



Southern California's most recent mega-quake was in 1857, also estimated to be magnitude 7.8, when the area was sparsely populated.

Here's what a hypothetical magnitude 8.2 earthquake would look like in Southern California -- a quake that begins near the Mexican border and moves north and west through L.A. County into central California. (Los Angeles Times)

<u>Goldman goes long Physical Gold?</u>

When the "Vampire Squid" goes off the general script, one would be wise to sit up and pay attention. Goldman's Chief Commodity Strategist Jeff Currie's report of September 5, 2017 entitled "Gold – The Geopolitical Hedge of Last Resort" started out benign enough by stating that G/S sees the price of gold falling to $1250/oz by the end of the year. Poo-poohing any upward direction in Gold's price is Goldman's calling card. Where the message diverted somewhat was when Currie discussed the importance of owning the actual physical metal as opposed to futures.

In the sub-section of the report entitled "Liquidity Matters", Currie stated the following:

"…The importance of liquidity was tested during the collapse of Lehman Brothers in September of 2008. Gold prices declined sharply as both traded volumes and open interest on the exchange plunged. After this liquidity event, investors became more conscious of the physical vs. futures market distinction……The lesson learned was that if gold* liquidity dries up along with the broader market's, so does your hedge – unless it is physical gold in a vault, the true 'hedge of last resort'…." (JPH Note: "*" = Paper Gold)*

Note that the broad market seems to be following Goldman's advice to prefer physical to paper. The following tables from the World Gold Council's "Gold Demand Trends Q2 2017" tell the following story for <u>Physical</u> Gold: **<u>Demand Up/Supply Down</u>**:

Investment

Investors added 56t to global ETF holdings in the second quarter. Q2 bar and coin demand was up 13% y-o-y

- Europe dominates the ETF market in 2017, accounting for 76% of inflows in H1
- Q2 Chinese and Indian bar and coin demand were both up sharply on last year's relatively low levels
- US demand was exceptionally weak in Q2

Tonnes	Q2'16	Q2'17	YoY
Investment	450.3	296.9	-34%
Total bar & coin demand	212.9	240.8	13%
India	32.3	40.7	26%
China	40.2	62.6	56%
Gold-backed ETFs	237.4	56.0	-76%

Central banks and other institutions

Central bank demand up 20% y-o-y, but overall pace remained restrained

- **Central banks purchased 94.5t in Q2, bringing the H1 total to 176.7t**
- **Turkey bought 21t in Q2; its first significant addition to reserves since the 1980s**
- **Central bank of Russia continued to add to its gold holdings, which now account for 17% of total reserves**

Tonnes	Q2'16	Q2'17	YoY
Central banks & others	78.4	94.5	▲ 20%

Technology

Gold used in technology rose 2% y-o-y, driven by growth in demand for bonding wire, Printed Circuit Boards (PCBs) and LEDs

- **Strong memory chip demand generated double-digit y-o-y growth in gold bonding wire**
- **Demand for LEDs, particularly in the automotive sector, continued its recovery**
- **PCB usage was buoyed by continued adoption of wireless charging and ongoing smartphone demand**

Tonnes	Q2'16	Q2'17	YoY
Technology	80.1	81.3	▲ 2%
Electronics	63.0	64.3	▲ 2%
Other Industrial	12.5	12.7	▲ 1%
Dentistry	4.6	4.3	▼ -5%

Overall demand for gold in technology was 81.3t in Q2, marking the third consecutive quarter of y-o-y growth.

Supply

Total gold supply declined 8% in Q2: mine production was steady while recycling levels continued to drop back after the 2016 surge

- **Mine production in Q2 was virtually flat y-o-y, in line with our expectation that growth will soon end**
- **Net de-hedging continued, albeit by a modest 5t, in the subdued Q2 price environment**
- **Recycling fell 18% y-o-y as the market continued to normalise after the strong 2016**

Tonnes	Q2'16	Q2'17	YoY
Total supply	1,160.3	1,065.9	▼ -8%
Mine production	793.8	791.2	▼ 0%
Net producer hedging	24.0	-5.0	-
Recycled gold	342.5	279.7	▼ -18%

We will regularly mark news from these quarterly reports; our suggestion will be to pay special attention to the “Technology” category. Don’t be surprised to see significant uptrend in this crucial category; in fact, the equation is likely to be “Dynamic shift in Oil Supply curve due to Fracking = Dynamic shift in Gold Demand curve due to Technology”.

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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