GLOBAL GOLD™ OUTLOOK

We've been busy as beavers here at Global Gold!

Following a successful transition and significant changes to our core team, we have been working tirelessly on a number of important improvements in our service quality and overall client experience. Many of the key upgrades have either been enacted or are almost there, and we are very happy to share with you the most visible changes and practical benefits.

For our clients, the most noticeable revision is our new Client Login Portal. From the feedback we've heard, it's been a hit! Our clients now have a greatly improved, much more comprehensive and dynamic picture of their account, including up-to-date information on their metals' holdings, a history of past transactions, and continual access to Global Gold's current conditions and storage contract. They will also be able to track their current transactions and directly access many of the forms needed for buying and selling metals, or making changes to their client profile. And forgetting your password will be easily fixed by a click of a button.

Moreover, storage invoicing will be simpler and more efficient, with payment possibilities in one of four reference currencies. Finally, our new database system will give us more flexibility for continual improvements in the future, as well as serve as a blueprint for versions that will be used across our entire group.

We continue working on and expanding this improvement process, with the aim of including further features such as the capacity to place purchase or sell orders online and to share in timely specials we receive from our providers. Additionally, we plan to expand our product range and to offer new types of bars and coins. Stay tuned for those changes...we'll certainly keep you posted.

With the relocation of our Advisory Center to Ebmatingen, near Zurich, from Rapperswil, Scott, Sibylle, Marco, and Rene are looking forward to helping our clients and contacts top-up their metals' holdings during this calm before the storm.

GLOBAL GOLD
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"Peak Gold": What it really means for investors

Over the last few months, the number of reports, analyses and even news headlines on "peak gold" has been on the rise. A superficial reading of the relevant coverage would suggest that we are approaching a historic turning point, as the world's gold mines are running out and robust global demand is set to face the diminishing supply of physical gold. However, a more in-depth look at the determinant factors and forces behind the slowdown of gold production can provide a far more nuanced view for gold investors.

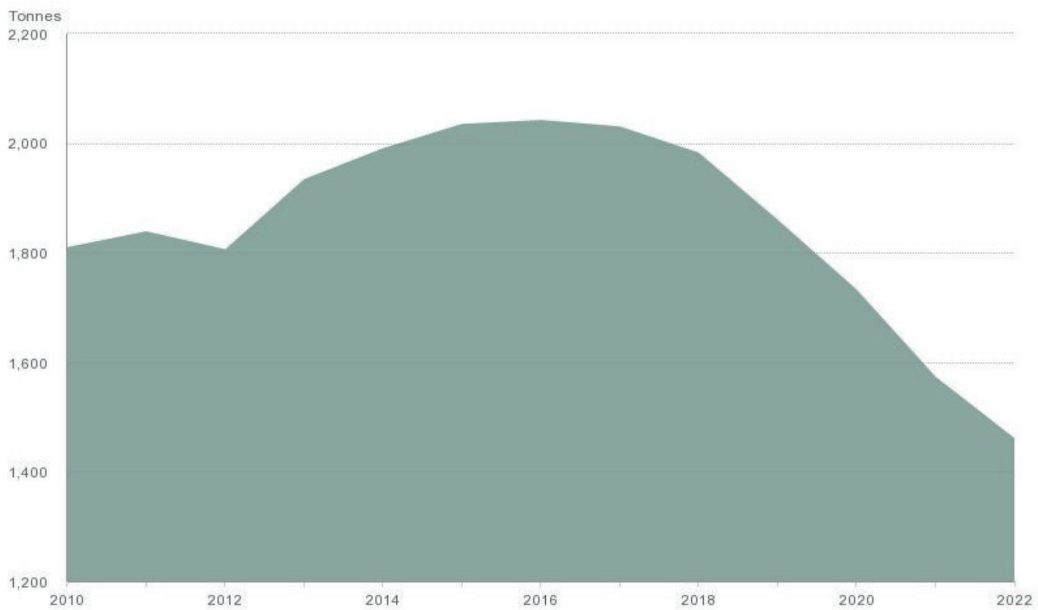
What is "peak gold"?

Analysts, investors and experts in precious metals have long examined the state of global gold supply, debating at which point in time the world will have produced the most gold in a year that it ever will. This point, also known as "peak gold", would be of immense economic, geopolitical and investing importance. It would signify the beginning of new era, with an ever-increasing number of exhausted mines and dried-up gold reserves around the world disrupting the balance of supply and demand as we know it. While some reports place peak gold in our near future, others argue that the line has already been crossed.

While different analysts have identified peak gold in different years, most seem to agree on the period between 2015-2018. Back in 2015, a report by Goldman Sachs suggested there were only two decades of "mineable" gold left. Throughout 2016, more studies and reports also provided more evidence pointing to similar conclusions. This September, World Gold Council Chairman Randall Oliphant echoed the same sentiment in a Bloomberg interview, suggesting that we were likely already past the peak gold point.

Oliphant also highlighted that especially given the global political risks and record demand in India and China, "it's really hard to see how we're going to produce enough gold to meet all this demand". Other industry insiders seem to share the same fears. David Harquail, CEO of Franco-Nevada Corp., reinforced the peak gold thesis, pointing to the fact that the gold industry continues to be in an ex-growth phase, where new mining projects are simply replacing older assets that are running out of ore.

Gold production projection of currently operating mines



Source: Metals Focus Database of Mines, World Gold Council

A closer look at the assumptions of the theory

The obvious conclusion for gold investors would be to celebrate the coming era of skyrocketing gold prices, as supply dwindles, and the greatest gold rush of all time ensues in the markets. Such a scenario sounds very enticing. However, instead of taking the news at face value, it is worth examining the matter in more detail and understanding what the decline in production actually means for gold in the mid- and long-term.

One of the main problems with most peak gold analyses and projections is that they are based on estimates of known mineable reserves of gold. However, the number of known reserves increases over time as new discoveries are made thanks to technological and scientific advances. Even as the currently operational mines might be slowly exhausting their reserves, new projects and potential discoveries remain untapped.

In this context, "peak gold" can be seen as the gradual depletion of the current, relatively easily accessible deposits. Once these are completely mined, the industry would be forced to move on to new locations that are currently not preferred, because they either involve higher production costs or present other challenges. Nevertheless, higher gold prices would motivate miners to seek out and explore new discoveries and deposits, as well as invest in research and new technologies.

Furthermore, one must bear in mind that the gold market is extensive and quite complex. Currently, the precious metal is being mined in every continent except Antarctica. However, as gold traditionally holds its value and does not corrode, it also has a strong recycling industry, refining and re-smelting the metal, which accounts for 1/3 of the total supply on average.

Therefore, "peak gold" can be viewed as a temporary supply restriction, which would trigger gold price increases in the mid-term. But it also has a much more important aspect to it: over the long term, the depletion of mines currently in operation translates to a "gap-up" of the gold price, as the production costs for new discoveries are drastically lifted. In other words, "peak gold" might not mean the end of our gold supply, but it could introduce a whole new average price range and "price floor" for gold.

Mining industry under pressure

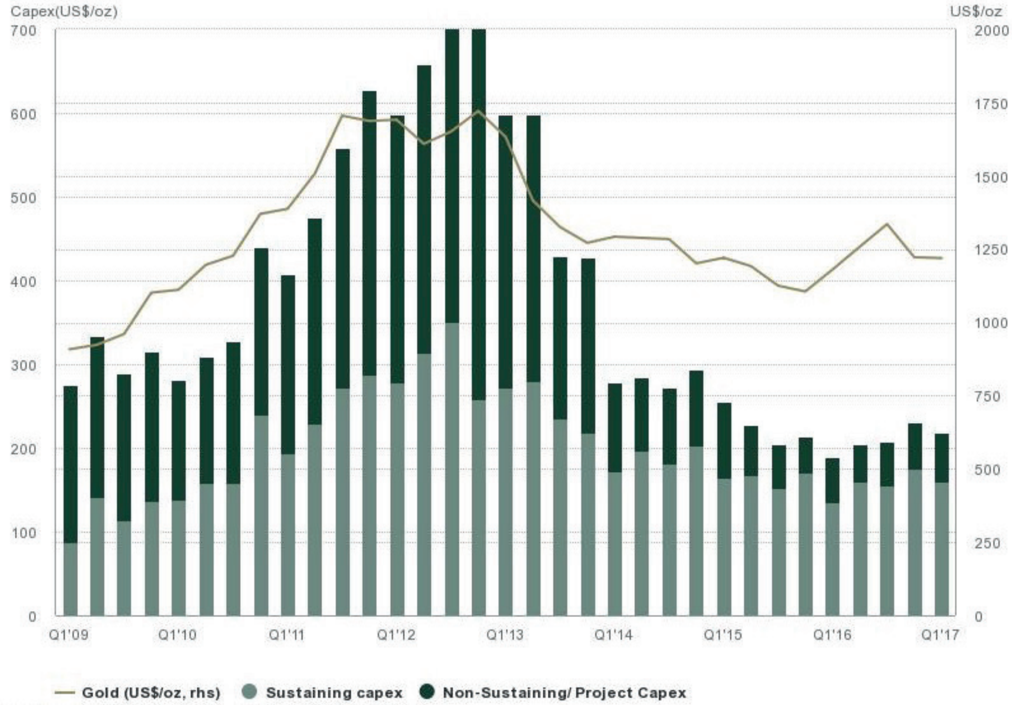
Gold production has levelled off over the last few years and weak performances in the mining industry have raised significant concerns around the mid-term outlook for gold supply. As the World Gold Council put it in a report published in May, "Having plateaued in recent years, mine production will soon enter a period of decline. The production profile of currently operating mines shows a relatively steep dropoff over the next 5 to 10 years."

The collapse of South African gold production, seen by many as the "canary in the coal mine", strongly highlights the industry's struggles. In 1970, South Africa produced over 1,000 tonnes of gold. However, in recent years production has come to a screeching halt. Over the last few years, Australian miners, the world's second-largest producers, have also been under increasing pressure. Industry adviser MinEx Consulting is projecting gold production in the country to peak in 2021 and to halve by the mid-2050s as existing reserves dry up.

Nevertheless, ageing mines are not the industry's only problem. The modernization of mining operations might have revolutionised the entire sector, but the expensive mining equipment, specialized vehicles and machinery, and the massive amounts of capital involved, also meant that the production costs have skyrocketed in the last couple of decades. Thus, apart from the familiar forces of supply and demand, the cost of production has also played a major role in the gold market. As the "Cost of Goods Sold" increases for the miners, it follows that the price will need to reflect and justify their operational pressures accordingly.

The mining industry relies upon a diverse variety of special materials, equipment, parts and energy. It can also be quite vulnerable to regulatory changes and local political pressures, as we recently saw in South Africa, Indonesia and Tanzania. The overall operations depend on an elaborate and relatively fragile supply chain, and a shortage, a disruption or even a price spike in one part of the chain can have a significant impact on the miners' production capacity.

Project capital expenditure at multi-year lows



Source: Metals Focus Database of Mines, World Gold Council

What it means for the investor

As more and more currently mined reserves are set on a depletion path over coming years and decades, while at the same time the gold production costs are projected to continue to climb, the long-term view appears decisively positive for gold prices. Currently, however, as we find ourselves at the lowest point of a decade-long downtrend of mining output, "peak gold" might not suffice to explain the miners' underperformance.

"Growth in mine output is at its lowest point since the financial crisis" wrote Daniel Hynes, ANZ's senior commodity strategist, earlier this year. Nevertheless, before rushing to draw "bigger picture" conclusions from this trend, it is important to consider the price levels of gold in the aftermath of the 2008 crisis. Peaking at almost $1,900, it presents a sharp contrast to today's price range, dramatically weakening the incentive for miners to invest in new projects.

In fact, as is historically the case, many poorly-managed mines even rush to shut down their operations altogether as gold prices decline. At the same time, the larger mining companies can afford to "hibernate" and wait out the bearish period. Miners thus return to higher output levels and to higher capital expenditure as gold prices pick up and return to a level that is deemed "worth their while".

For gold investors, it is strategically useful to understand what lies behind the short-term price movements and the longer-term trends in the gold market, and to be able to distinguish between the two. "Peak gold" presents a prime example in demonstrating the importance of this distinction. A short-term, speculative approach to peak gold can be very risky and problematic. Misinterpreting low production output as depleted reserves or "the world running out of gold mines" can lead to misguided investment decisions.

On the other hand, for those investors with a long-term view and a clearer understanding of its implications, peak gold represents a strong positive signal for gold's price in the coming years, as currently active mines approach depletion and miners are forced to move on to new projects, facing higher production costs.

Furthermore, in the long run, short-lived price fluctuations notwithstanding, as gold's value is ultimately derived from the fact that is a finite, non-renewable resource, its benefits as an investment extend well beyond its day-to-day price for the investor that views the precious metal as a way to secure and preserve their wealth for the long haul.

Stock market rally: "A permanently high plateau"?

Since the beginning of the stock market rally, the divide between the optimistic and sceptical voices has gradually widened. Today, the divergent views appear to contrast more sharply than ever, as investors in both camps appear to be looking at the same picture but reaching antithetical conclusions. Some see cause for celebration and hopes of continuing growth and record highs, while others see the perfect storm brewing.

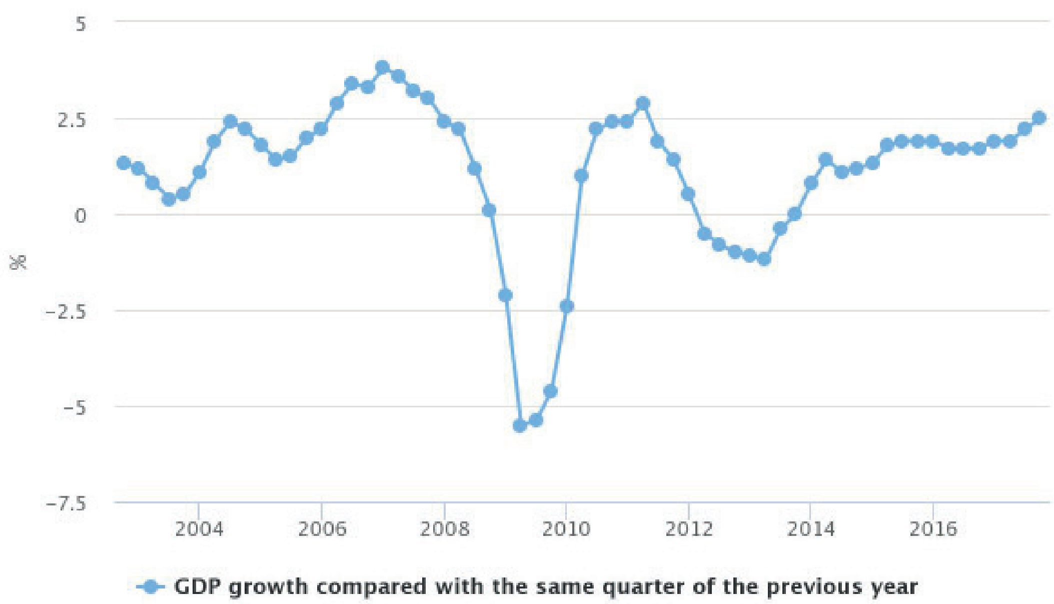
Foundations for optimism

It is easy to see why one would be sceptical of the sustained and persistent optimism reflected by the markets' performance. Worrying news and relevant political events appear to be consistently dismissed and shrugged off as the uptrend continues uninterrupted, while valuations are at unusually high levels. It brings to mind Irving Fisher's stance back in 1929 when he boldly pronounced that stock prices had "reached what looks like a permanently high plateau", nine days before the Crash.

However, it is not merely the power of denial and wishful thinking that are fuelling the rally. Over the last year, we have seen a number of positive economic signs emerge both in the US and EU, as well as in emerging markets. On a global level, economies are once again expanding after years of stagnation and according to most projections, growth is here to stay. Take the International Monetary Fund, for example, which forecasts global growth of 3.6% for 2017 and 3.7% for 2018.

In the US, after a slowdown earlier this year, GDP is headed for a 4.5% annualized growth pace in the fourth quarter. Employment data is also on an encouraging path, US exports have risen, and US factory output is up. In October, consumer confidence hit its highest point in 17 years.

Eurozone growth back up to 2011 levels



Source: Eurostat

In Europe, a strong return to growth has largely put to rest the destabilization fears that arose post-Brexit. Unemployment in the Eurozone has hit its lowest level in 8 years according to Eurostat, while GDP growth reached 2.5% in the last year. Consumer spending and business investments have also increased, as corporate earnings continue to provide a strong boost to investor sentiment.

Strong vital signs like these can provide fertile ground for optimistic projections going into 2018 and can go some way towards justifying the market's response.

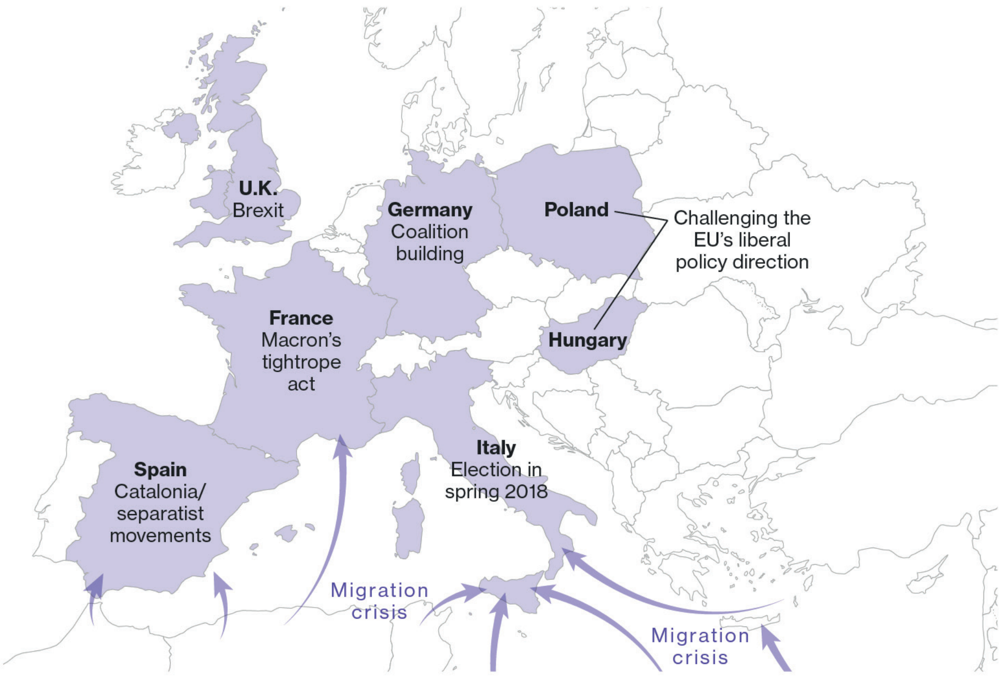
Throwing caution to the wind

Despite all of this good news, an entirely positive and completely confident outlook on the market rally's sustainability involves a fair amount of confirmation bias. By prioritizing and placing a greater weight on reports and data that confirms optimism, while ignoring evidence to the contrary, one risks the validity of their entire assessment. A prime example of this can be found in the way the markets have repeatedly dismissed significant geopolitical events and real risks that many analysts believe should have been taken much more seriously.

In the US, the ongoing controversies around the Trump administration, the escalating Russia-related investigations and even the North Korean crisis seem to have gone virtually unnoticed by the markets. The strain on the country's international relations and the challenges to and from its allies have failed to make a dent in Wall Street's undeterred optimism.

Over in Europe, the shopping list continues to grow. The far-right AfD party managed to enter the German parliament after last September's election, while Angela Merkel secured a weaker-than-expected victory and is still struggling to form a coalition government. Eurosceptic Andrej Babis, the second richest man in the Czech Republic, achieved a sweeping victory in the recent elections joining Poland and Hungary in their opposition to the EU liberal line.

Political Risk Is Alive and Well in Europe
Euro-area economy's health masks instability



Bloomberg

In Austria, 31-year-old Sebastian Kurz's victory in the legislative elections sent a strong signal that the country is shifting politically to the right. French President Macron is fighting an uphill battle to pass a series of unpopular reforms, while his approval rating has been dropping more steeply than any President since Jacques Chirac in 1995.

In addition to all this, the Catalonian secession efforts erupted in late October and quickly escalated from an independence vote to a full-blown national crisis. These trends, in combination, seem to challenge the notion that the EU escaped last year's unity crisis unscathed.

Even as investors managed to dismiss these developments as low-probability risks or largely irrelevant, it is hard to imagine that the Fed's unwinding plans and the European Central Bank's tapering intentions were as easy to ignore. As we wrote in our previous Outlook in August, the era of "Quantitative Tightening" that the Fed has already kick-started will not come without risk. As JPMorgan CEO, Jamie Dimon, warned this summer: "We act like we know exactly how it's going to happen and we don't."

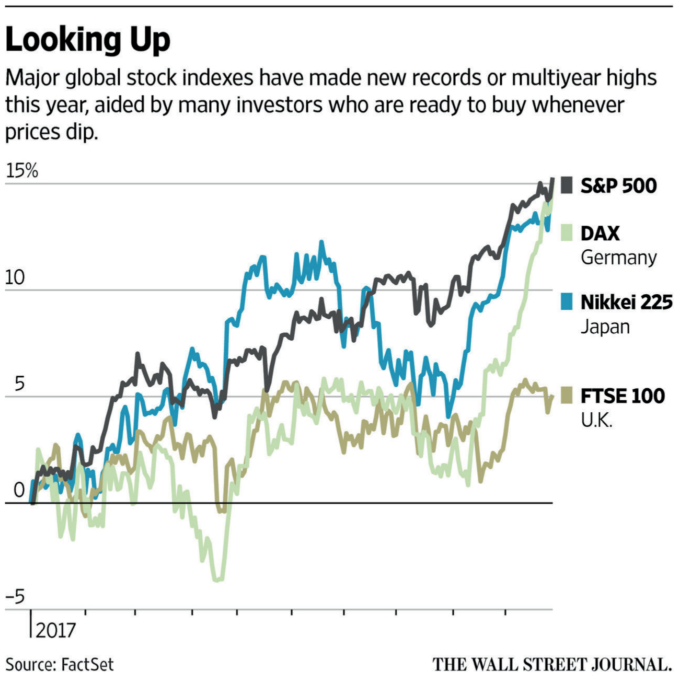
Onwards and upwards, at any cost

Since its 2009 lows, the S&P 500 has gone up more than 250%, the second-longest bull period in its history, and it hasn't registered a correction over 10% after a peak since February 2016. At the same time, volatility stands at all-time lows; October, historically the most volatile month of the year, marked the calmest month on record.

Despite high valuations, investors are still happy to buy into expensive stocks, and the overall sense of safety has also led many to "buy on the dip". They increase positions on slight market pull-backs, confident that it will continue to sharply rebound time and time again.

This "race to the top" is globalized with the Nikkei 225 Index in Japan at its highest level in years, along with the FTSE 100 in London and the DAX 100 in Germany equally setting all-time records. What is also increasingly prevalent is the repetitive pattern of quick rebounds in the markets after bad news triggers declines and investors rush to buy in, therefore supporting the uptrend.

Arguably, this behaviour might be playing a much more significant part in the rally's sustainment that the fundamentals and the economic data.



Irrational exuberance, as Ben Bernanke characterized this kind of investing mind-set during the dot-com bubble, can buoy markets and push them higher than reasonably justified. But should a correction eventually take place, there is an exacerbated risk that a sharp reversal in psychology, from complacent optimism to sheer despair, would lead to massive panicked selling triggering a serious decline.

Precious Metals as the only safe bet

It is generally unwise to try to predict a bull market's peak or bear market's bottom. Speculation of this kind can be extremely risky and not suited for investors with a longer horizon and an emphasis on wealth preservation. From where we stand today, it is very hard to pinpoint an upcoming retracement or a reversal of the markets' uptrend, and the rally could very well continue into 2018 and beyond.

However, there is one thing that is certain and that is that an eventual correction will inevitably take place. Depending on the circumstances that trigger it, it could be mild and followed by a bounce-back, or it could kick-start a more widespread sell-off that could lead to much more extensive losses. Therefore, it can be argued that it is only a matter of time before gold will be once more called upon to act as shelter in the storm. In this case, we could expect significant price increases, or even a full-blown surge, according to the severity of the correction.

Even if the economy continues on a growth path, the risks ahead are multifaceted and important to consider when planning ahead. Especially on the geopolitical front, surprises and existing underlying pressures have a remarkable potential for disruption. At this point, the overwhelming confidence reflected in the markets and the fact that most eyes are still firmly fixed on skyrocketing stock prices presents a rare buying opportunity for gold.

After all, it is far more preferable to be among the first to get in the gold rally, than among the last in an ageing bull market.

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