Gold: Strategic investment post Covid -19

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Fear Demand and Beauty of Gold as an asset class

•**Exponential rise in Gold prices is always due to fear demand not love demand (i.e jewellery demand)**

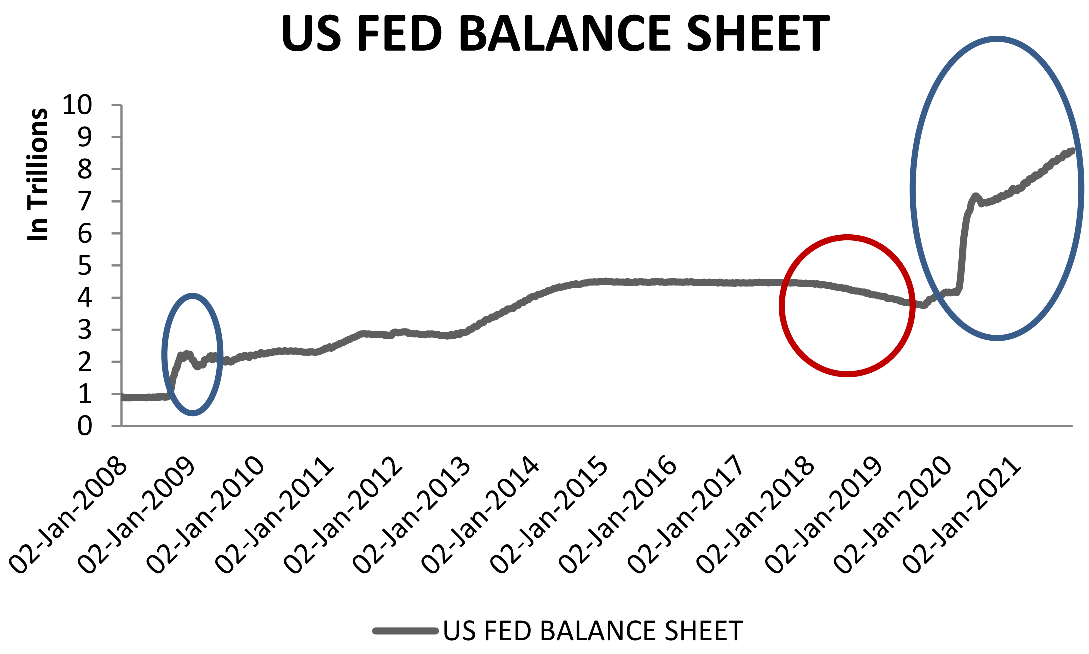
• Gold has defied all the traditional factors for limited period of time which has played major role in determining its outlook.

•Post 2008 crisis markets and traditional theories have changed but post 2020 covid-19 crisis we are in uncharted territory no body knows when it comes to monetary policy or path to normalcy of monetary policies as this kind of monetary experiment have never been done in the history of financial market.

• There's a myth " They will never stop printing" and what if something goes wrong from here ………..

•It's a win win for gold if inflation keep inching higher gold will move up and if liquidity is drained through tapering and rate hikes then global economy will slowdown further then too eventually gold will move up.

Fed's balance sheet one of the main reasons to be in Gold



Before the financial crisis of 2008, the Fed's balance sheet was right around $880 billion. However, after multiple rounds of QE, the Fed's balance sheet has ballooned to roughly $8.5 trillion now.

The fact that global debt to GDP increased by 35% to over 355% in 2020, compared to an increase of only 10% in 2008 and 15% in 2009, does not bode well: the world is awash in debt. In this context, as gold is holding we see potential for the price of gold to perform relatively well even as monetary tightening remains on the table.

The U.S.'s public debt needs to get serviced. As much of the $25 trillion debt load is comprised of U.S. 5, 10, and 30-year Treasuries, its servicing payments most closely resemble the 10-year yield. At current yield and debt load, the U.S. (U.S. taxpayers) would dish out approximately $380 billion in annual servicing payments alone. Thus, as the U.S. debt load increases perpetually, key rates need to be suppressed continuously to prevent the servicing from spiralling out of control.

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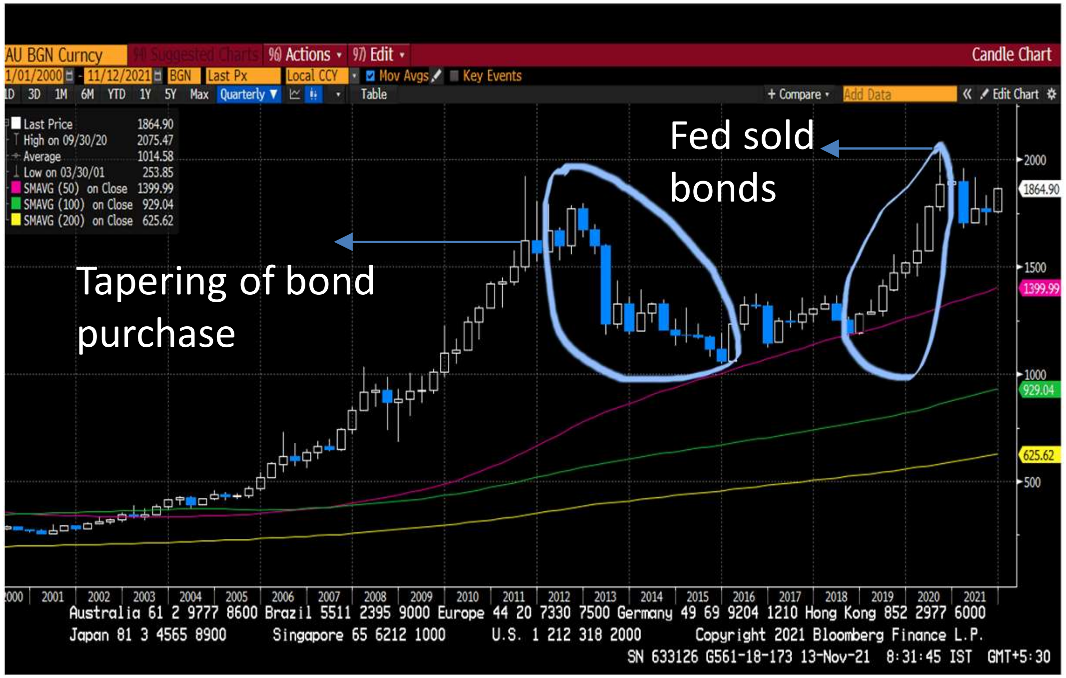

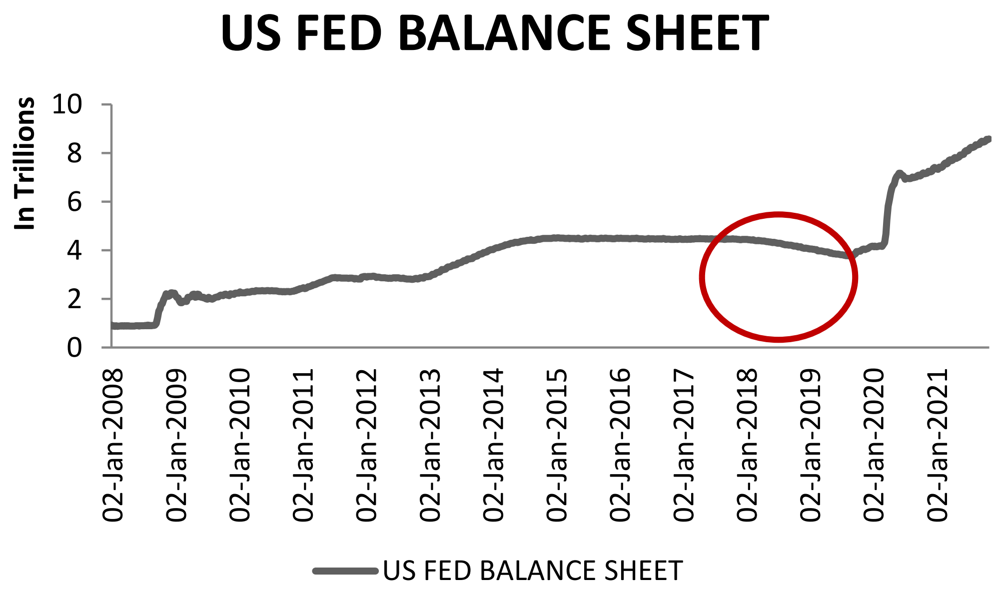

The federal reserve did tapering in the year 2013 that time average inflation was 1.5% this time, in the year 2021 average inflation is 4.3% and in first half of 2022 its expected to remain 5.5% .In 2018 when fed started to normalize their monetary policy started get rid of bonds from balance sheet, gold shot up …….

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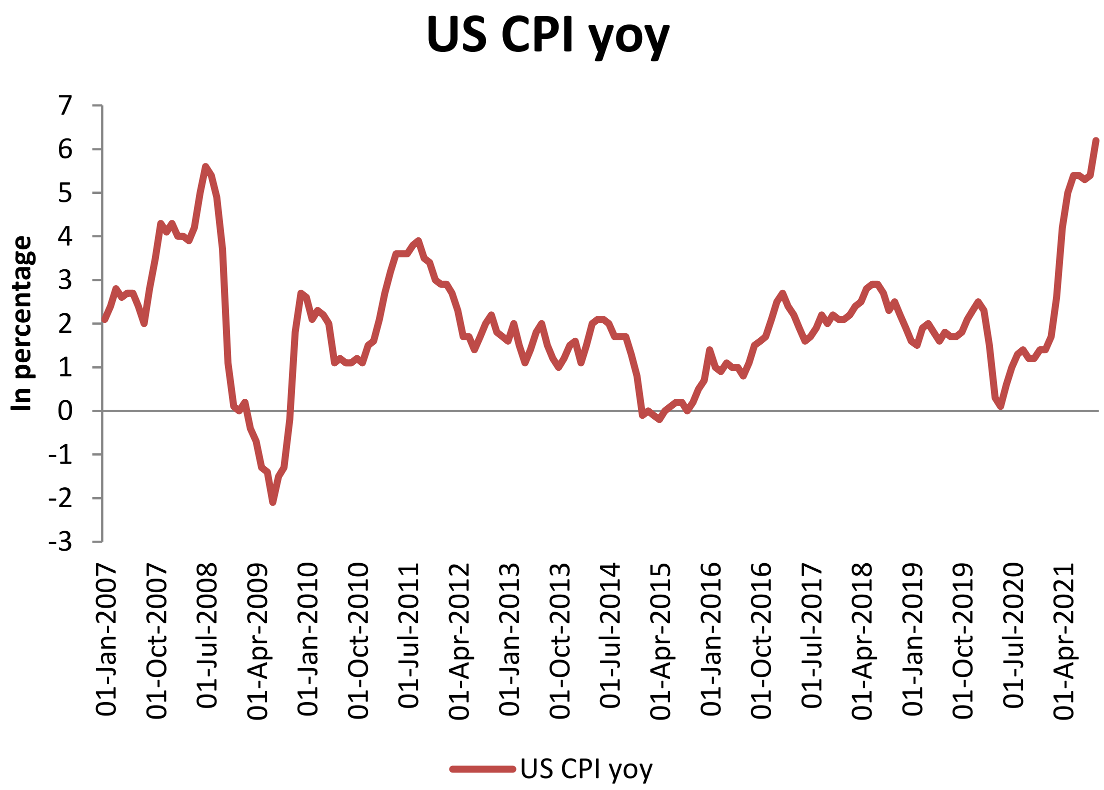
Inflation is transitory or not, gold will move up



Inflation is shooting up, globally at the fastest pace, last time this happened when it was during the great depression era where central bankers which printed so much caused massive inflation which was followed by world war.

The U.S. is $22 trillion economy and interest rate zero, GDP growth is 2-3% and inflation is 6%, we believe already we have seen peak growth in the U.S. so negative real rates in the U.S. are likely to stay much longer than anyone can imagine.

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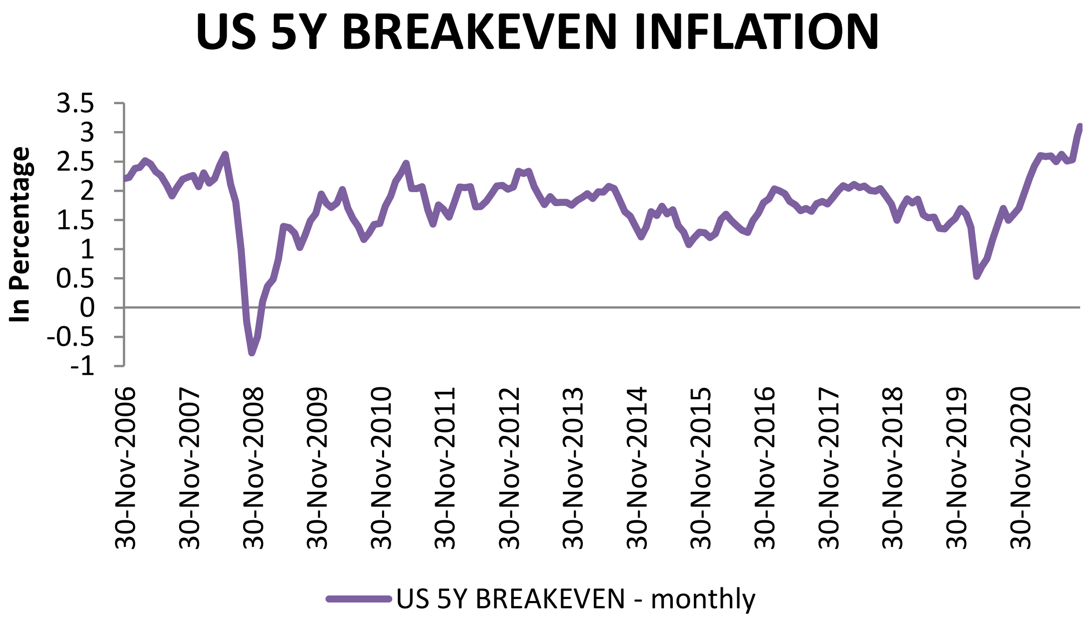
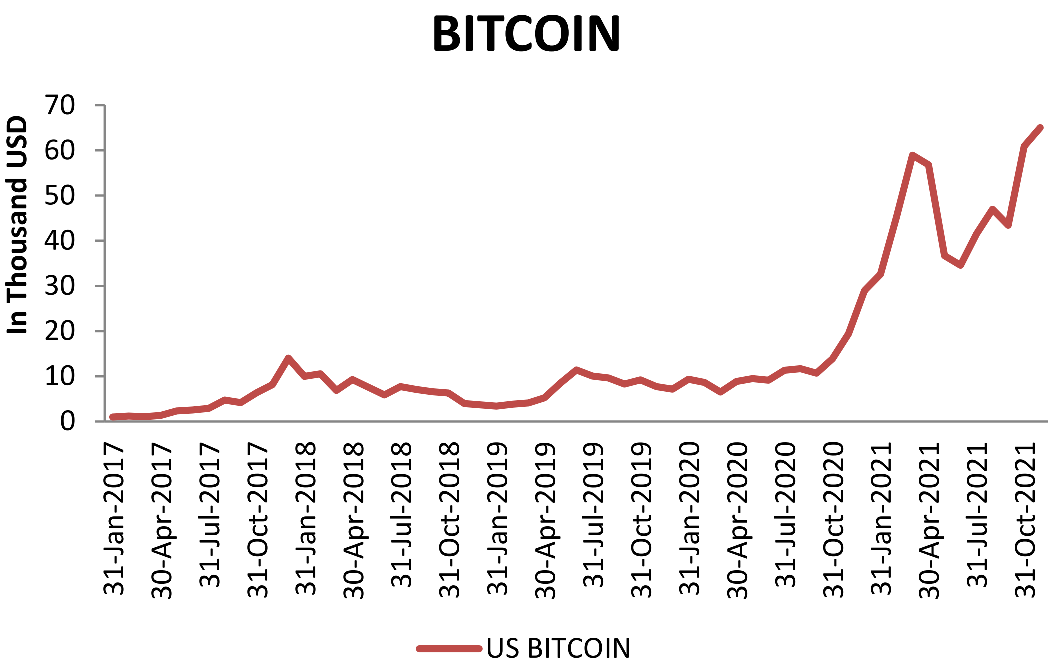


The five-year break-even rate, measuring the pace of inflation in five years, rose to 3.18 per cent, the highest level in data going back to 2002, The 10-year break-even inflation rate a market measure of expected US inflation a decade from rose to 2.76 per cent.

Inflationary expectation are still high as even if the Federal Reserve tapers still they continue to print so in the November meeting they said they would taper total $15 billion monthly from $120 billion but they continue to print more while they tapering and if they taper aggressively economy will slow down sharply and that too will cause gold to move up eventually.

What if Bitcoin crashes



Bitcoin frenzy has taken over and new era investors and traders are betting big on it and at the same time many central banks are planning to launch their own digital currency or trying to discourage bitcoin investment.

If bitcoin will crash it will be boost for gold investment demand

Outlook on Bullions: Strategic Investment for next 5 years

Global Gold Demand and Supply					
In Tonnes	2016	2017	2018	2019	2020
SUPPLY					
Mine Production	3512.4	3576.3	3650.5	3596.8	3486.5
Net Hedging Supply	37.6	-25.5	-12.5	6.2	-51.9
Scrap	1232.7	1111.4	1132	1272.2	1277.7
Total Supply	4782.7	4662.1	4770.1	4875.2	4712.4
DEMAND					
Jewellery	2018.8	2257.5	2284.6	2137.7	1327
Industrial Fabrication	323	332.6	334.8	326	302.2
Net Official Sector	394.9	378.6	656.2	605.4	255
Retail Investment	1073.1	1043.9	1090.3	866.6	899.5
ETFs	555.2	265.7	82.7	407.9	873.8
Physical Demand	4364.9	4278.1	4448.7	4343.7	3657.4
Surplus/Deficit	417.8	384	321.4	531.5	1054.9
	2016	2017	2018	2019	2020
Total Supply	4782.7	4662.1	4770.1	4875.2	4712.4
Physical Demand	4364.9	4278.1	4448.7	4343.7	3657.4
Source: World Gold Council, NB Research					

• 2021 is the year where we have seen meaningful recovery in jewellery demand which is not meaningful for reason for gold to shoot up.

• The best performing sector in 2020 was the investment sector, even in the global lockdown investment sector saw the rise in bullions. The physical investment demand saw the massive rise. Global ETF holdings were at record highs but in the year 2021 we have seen outflow of more than 250 tonnes from gold ETF'S which we expect to change in the year 2022, we expect investment demand to remain strong going forward.

• The net official sector added only 255 tonnes of gold in its reserve. Central banks in the third quarter became the net seller for the first time in a decade but were again the net buyers of gold in the fourth quarter. We expect in the year 2022 central bank buying to remain very strong as there are very limited options for diversification of foreign exchange reserves.

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