Getting Ready for Gold’s Golden Era

written by Matthew Piepenburg | March 15, 2021

Worried about gold sentiment? Don’t be.

The mainstream view of gold right now is an open yawn, and sentiment indicators for this precious metal are now at 3-year lows despite the gold highs of last August.

Is this cause for genuine concern?

Not at all.

In fact, quite the opposite.

Most investors are totally wrong about gold, and below we show rather than argue why they are missing the forest for the trees.

Unlike trend chasers, speculating gamblers and gold bears, sophisticated precious metal professionals and historically (as well as mathematically) conscious investors are not only calm right now, they are biding their time for what is about to become gold’s perfect backdrop and, pardon the pun, golden era.

Understanding the Current Gold Price

As for the current doldrums in the gold scene, explaining the same is neither difficult nor a surprise for those who understand history, debt, rates, inflation and Fed-speak, all highly correlated themes we have addressed separately and carefully in **prior reports**.

“Rising Rates”

For now, the simplest explanation (beyond just the common price manipulation and short-covering) for the current gold yawn comes down to this: *Rates are rising and gold typically underperforms in environments where interest rates outpace inflation rates*.

Looking, for example, at rates measured by the yield on the U.S. 10-Year Treasury, they have climbed dramatically from the .4% range to well above the 1.5% range in just under a year.

Again, hardly a tailwind for gold.

But here’s the good (yet painfully ignored) news: Rates won’t be rising much higher and inflation is on its way—big time.

Of course, many will say this is just the wishful (and biased) thinking of two Swiss-based precious metal executives.

That’s fair.

But neither Egon nor I have ever been one to use hope or wishful thinking to guide our views (or advice) on money or our convictions on wealth enhancement and, most importantly, *wealth preservation*.

Instead, our thinking, which is always blunt, long-term and respectful of unemotional math and the cycles of history (and historically bad policy making) is oh-so confident these days.

Why Rates Will Be Suppressed

So, let’s start with rates and why they can’t get much higher (near-term) and hence pose a long-term threat to gold’s much higher price rise down the road.

Using the U.S. Fed as the perfect proxy for delusional as well as desperate central bankers around the world, we can do some quick math to see a very clear path ahead for gold.

As **the Biden administration** adds another $1.9T of “stimulus” debt to an already historically toxic debt pile, the U.S. will be sitting upon over $30T in government debt before Q1 of this year.

With its economy on its knees and tax revenues dwindling, this debt, and hence U.S. deficits, will only get higher, much higher by year end.

Now, let’s compare this current reality to the pre-pandemic math of 2019 when the over-stimulated (i.e. artificial) economy was running hot.

It’s Simple Math

During that time, the U.S. was spending $4T per year and taking in $3T in taxpayer revenue. The net result was around $1T in annual deficits.

Again: This deficit was in a “strong” environment wherein interest expense on U.S. debt for 2019 was around $400B—roughly 10% of total spending.

But if we fast forward (calculator in hand) to 2021, the picture (and the math) turns very dark, very quick

At $30T of total debt and counting, if rates were allowed to rise much higher to anywhere near the historically normal range of 5%, that would mean $1.5T in annual interest expense for Uncle Sam, which would equate to 50% of national revenues rather than 10%.

Such a scenario of rising rates would mathematically make the U.S. insolvent.

By the way, such a rising rate scenario would be equally true in Asia, the EU, the UK, Canada, Australia etc.

In simple terms then, *rates will not go much higher for the blunt reason that countries (and hence central bankers) can’t afford them to go much higher*.

As a result, central banks have *no choice* but to cap and repress rates for as long as they can until the whole system implodes and rates, yields and inflation skyrocket.

For now, however, repressed rates are inevitable: It's a simple matter of natural math and artificial survival.

Inflation Expectations

As for inflation, that too is as plain to see coming as a cavity is to a dentist.

Right now, rates are going up because investors and markets anticipate that inflation is going up, which is true, but the *Realpolitik* most gold-bears are forgetting is that rates won't go too high for the simple reason, again, that the Fed can't afford or allow them to.

Let me repeat: In order to pay the bills, the Fed MUST suppress rates going forward (especially on the 10Y Treasury, and possibly the 30Y) while simultaneously pursuing a deliberate policy of inflation and currency debasement to "inflate away" some of Uncle Sam's debt obligations.

This setup, as explained elsewhere, is in fact a perfect scenario for gold, namely 1) inflation running hot (despite **the CPI lie**) and 2) artificially repressed yields and rates kept low.

The net result, of course, is a **world of negative real rates**, which is the most bullish backdrop for gold, one which is completely ignored by the markets and 99% of most investors right now.

The Fed's Linguistic Struggle with Transparency

Last week, Powell announced that he expects inflation to pick up, though he did not expect it "to be a persistent long-term force."

That's rich…Much like Bernanke promising the post-08 money printing would end by 2010…

Folks, the Fed will and can *never* admit that their text book plan is to create as much inflation as possible to solve Uncle Sam's debt problem.

But that's the reality. Every sophisticated policy watcher knows this.

Nor will you *ever* see or hear the Fed go the extra step and publicly announce that they will do their best to create more inflation while simultaneously seek to dishonestly mis-report inflation levels on that openly bogus scale known as the CPI.

Like every desperate central bank in the world today, the Fed's text book debt solution is to allow inflation to run much higher than nominal rates so that they can pay back their fixed debt holders with dollars that are worth ever-less in the future.

But again: That will never be admitted publicly by central bankers, for do so would be to confess that their currency is on death row.

Such bi-polar dysfunction of double-speak from the Fed is nothing new.

The Fed’s public messaging and its real agenda are entirely opposed, and entirely the norm for central bankers caught in a debt trap of their own design.

Powell, by the way, also said that money supply has no economic impact on inflation, despite the fact that rising money supply is the very definition of inflation.

But as we’ve warned so many times: **Don’t trust the experts…**

Other Temporary Gold Headwinds

In addition to the temporary but real headwind-fear of rising rates, there are other forces at play taking flows out of gold and into other dangerous yet real directions.

Wild Speculation in Risk Assets

Toward this end, one key culprit is the delusional, yet for now quite profitable, degree of rising and wild speculation in risk assets like tech stocks and cryptos.

Such speculative euphoria, which, by the way, *always* ends in disaster and *always* peaks before it tanks, is *always* equally bad for gold, which is a safe-haven rather than speculative asset. That’s why I and other informed contrarians favor it.

Needless to say, when uninformed retail investors can make 200% on GameStop or dream about Tesla and other balance-sheet-challenged stocks with their fingers on the trigger of an openly discredited Robinhood app, gold will look and perform quite “boring” during such times of unstoppable fantasy.

In short, speculative fever, along with the perception of rising rates and a rising dollar, takes money out of gold.

But rising rates and a rising dollar are just flash headlines not long-term realities, for all the reasons discussed above.

But the farsighted smart money doesn’t invest, or preserve wealth, based upon headlines or fantasy; instead, they look to hard math.

Keep the Bubble Alive—Repress Rates

Furthermore, the Fed also knows that in addition to making sovereign debt unpayable, rising rates crush its precious stock bubble, just about the only thing working in the U.S.

When the discount rate is 0%, the bubble stays alive, but if the Fed were to allow that rate to rise to 4%, then every company on the U.S. stock exchanges would have to run that 4% rate through their discounted cash flow and valuation models.

The moment they did so, companies now trading at 40 to 50 times sales would tank in valuation.

Markets would implode.

Do you see now why the Fed will have to cap rates? And remember: *Repressed rates and rising inflation will be music to gold’s ears.*

More Currency Debasement

And as all sophisticated gold investors understood long ago, the continued central bank intervention (i.e. money printing) necessary to keep rates low means one thing: More currency creation and hence more currency destruction.

Gold, of course, is the ultimate dollar and inflation hedge, but unlike most other commodities and metals (like copper etc.), it has the added attribute of not being economic sensitive.

That is, gold doesn’t require a booming economy to rise in price.

Instead, gold serves as a safe haven hedge against tanking currencies and rising inflation, which is precisely where this broke and broken world is now clearly (rather than theoretically) heading.

Vaccine Miracle Ahead?

Of course, we can also expect some new headline “miracle” and speculative tailwind once vaccines allow pent-up demand to send the pundits and markets promising a new post-Covid Nirvana, which could send gold lower for a brief window.

But such “euphoria” will be short-lived for the simple reason (and fact) that the forever-growing debt time bomb ticking beneath such euphoria will blow such illusions to shreds.

The debt facts and numbers facing the central bankers and broken economies are now incontrovertible.

Again: The easiest and most simple way out of this debt morass is inflation—namely, policy makers deliberating inflating their way out of debt.

Such policies point in only one direction: The purchasing power of global currencies will tank as gold’s power and role skyrockets in the years ahead.

Measuring True Rather than Speculative Wealth

Despite the current confluence of factors ("rising" rates, dollars, wild speculation and post-Covid "normalcy") pulling money out of gold, the long game toward which history is marching boils down to this: *More inflation, more money printing and more currency devaluation is ahead of us.*

This means those who measure their wealth in dollars, Euro's, Sterling, Yen etc. will be measuring shadows rather than substance.

As for the sane measuring and preserving of wealth, gold is the number-one asset to which informed and prepared investors can turn.

For now, this key asset is undervalued and provides a massive opportunity not only as a catch-up trade poised for inevitably much higher valuations, but far, far more importantly, gold will triumph in its critical role of preserving capital in a debt-sick world marked by dangerous speculation and openly dying currencies.