GLOBAL GOLD
The Swiss Solution for Precious Metals

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THE DIGGER QUARTERLY

A quarterly review of precious metals markets, big picture trends and wealth preservation topics worth your while.

The Golden Arrow

Citizenship by Investment

Hedging against government-induced risks and geopolitical uncertainty

By Scott Schamber

In recent years, we have seen a large number of reports, "exposés" and opinion pieces targeting so-called "golden" passports and "citizenships for sale". Even though the demand for Citizenship by Investment (CBI) programs is steadily on the rise, critics have been pushing for stricter regulations or even for a total ban of the practice in some cases.

The ability to acquire a second passport has been blamed for a vast array of social and economic maladies, including falling tax revenues, promotion of inequality and even terrorism. In fact, according to EU justice commissioner, Věra Jourová, "Europe's security is being put at risk" by this practice. Although the evidence provided to substantiate these claims is thin to say the least, they have still managed to fuel widespread misconceptions about CBI programs.

At Global Gold, we feel it is important to develop a clear understanding of the issue, especially from an investor's perspective. As we never tire of highlighting the necessity of proper risk management and sound investment planning, we would be amiss not to include the concept of multiple citizenships as a valuable tool for strategic diversification and a hedge against geopolitical risks. >>

Editorial

Scott Schamber,
Managing Director

Another year gone by... They each seem to move faster and faster. With 2018 behind us, it's a good time to reflect on the past year while looking forward to the next.

In 2018, we had the Winter Olympics, a Royal Wedding, and the World Cup. We also had more from Brexit, the #MeToo Movement, wild mid-term elections in the US, and a Thai cave rescue. As for the economy, it's on increasingly shaky ground. A year ago, you might have been considered crazy talking about an economic slow-down, but now no one laughs when you say we could see the next recession by 2020. In the meantime, the next gold bull market cycle is heating up. Before Christmas, we were getting excited over USD 1255/ozt, and now look what's happened!

2018 has been a productive year for us at Global Gold. We started our Blog and introduced you to the "Digger", we've run some exciting specials on gold and silver, and our Group celebrated its 25th anniversary, amongst other highlights.

For 2019, we are looking forward to offering a way for existing clients to fix their metals prices ahead of sending funds, more communications benefits over our Login Portal, and we may have found a partner for our American clients wanting to store gold in an IRA.

It certainly wasn't a boring year, but 2019 is poised to provide even more adventure and surprises. We look forward to sharing with you more intriguing, useful and enlightening content.

All of us from the Global Gold team, and the entire BFI Capital Group, want to wish you a Happy, Healthy and Prosperous New Year. Here's to 2019 being a "golden" year!

Therefore, to dispel some of the common myths and separate fact from fiction, we turned to Nicholas R.G. Stevens, TEP, an expert with 25 years of experience in investment immigration. Mr. Stevens, Managing Director of NTL Trust, kindly agreed to help us get some clarity on the issue and to understand what CBI programs are and what they are not, what the benefits are and how the landscape has evolved over the last decades.

GG: Could you sum up for us your professional background in the field and your experience in helping clients with investment immigration solutions?

NS: My company, NTL Trust, was established in 1994 in the Caribbean by a Canadian trustee, making us the oldest trust company on the island of Nevis. As trust and company managers, we also work with companies like BFI Consulting to provide trust and corporate services for investors who seek asset protection and inheritance solutions. We started helping applicants with the St. Kitts and Nevis Citizenship by Investment program in the nineties, but the business really took off for us after 2010. Since then, we have opened offices around the world and have been licensed by four other governments as investment immigration consultants.

GG: What are the main benefits of a secondary citizenship and what are the practical advantages for private individuals and for investors?

NS: Citizenship by investment is all about opening doors and keeping them open! The most tangible benefit for many people is the additional visa-free travel opportunities, the ability to get on a plane at a moment's notice, whether it is to sign an important business deal or just to take a trip on a whim. This is particularly important to wealthy individuals who, by accident of birth, find themselves with passports that need visas to go almost anywhere. But even holders of passports from major western countries, such as >>

the US or EU member states, still need visas to go to significant countries like China and Russia, a requirement that can be bypassed with the right Caribbean passports.

I always tell people to look at the big picture. Visa rules can and do change, as do governments. But citizenship is for life and can be easily passed down to future generations. It's about not being beholden to just one government. The world is a very unstable place these days and holding multiple citizenships is crucial in diversifying geopolitical risk. Many people fail to grasp the importance of taking such proactive steps and hedging against these risks. If one doesn't see the necessity or value of a second passport, then they probably don't need it. But for today's internationally-savvy investor, diversifying risk and planting "flags" around the world is essential.

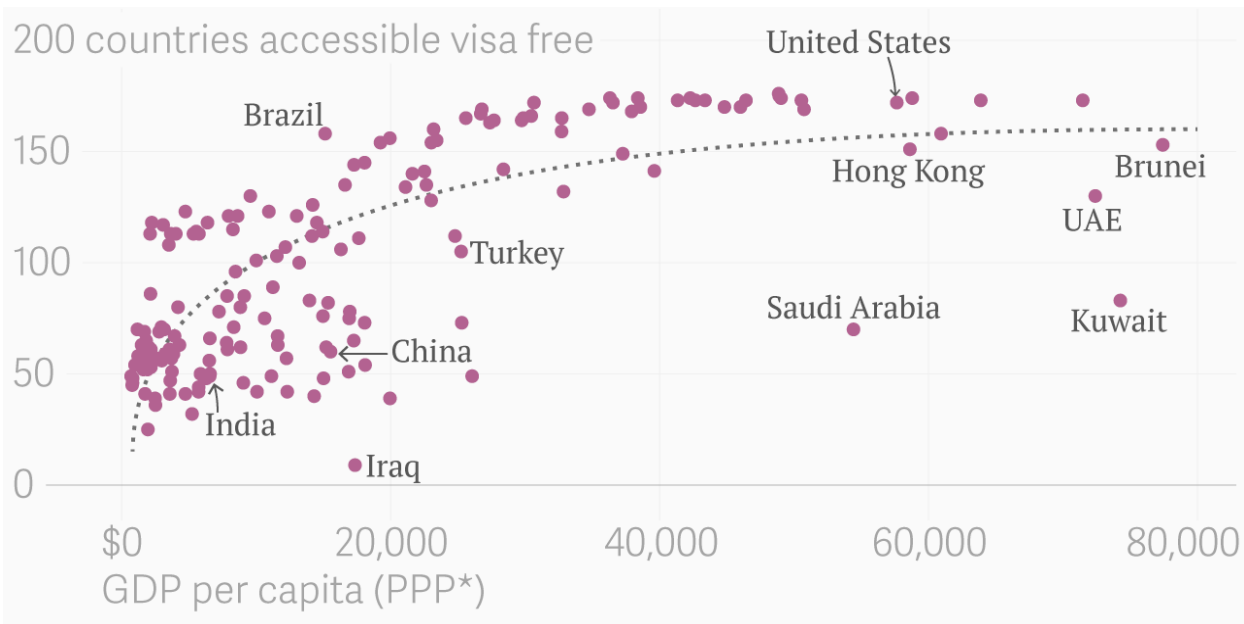
Another point to think about is that in recent generations, with the increase in globalization and international travel, today's children and millennials having two, three or even four citizenships at birth has become common. Thus, people who only have one citizenship are at a definite disadvantage in the modern world, as fewer doors are open to them. This can present serious impediments that would be drastically multiplied in an emergency and during a time of crisis.

GG: What makes a good passport? Is it just about the extent of visa-free access to other countries or is there more to it?

NS: There is a lot more to second citizenships than visa-free access and travel. A lot depends on your individual situation. Whether your passport allows you to travel to 100 or 150 countries may not be really important, especially if those extra 50 countries are obscure places you are never likely to visit anyway.

On the other hand, second passports can provide access to a lot more opportunities in fields like business, education and lifestyle. That's why it's a good idea to sit down and analyze your goals with an expert who is familiar with all the citizenship programs. There is no perfect program and sometimes it makes sense to mix and match, for example by applying for citizenship in one country and residence in another simultaneously. >>

Wealthy countries don't always provide the strongest passports



Source: Atlas,Kochenov Quality of Nationality Index, Henley & Partners

GG: In the past, the Caribbean was considered by many as the go-to area for CBI schemes. What changes have you observed and which countries would you say offer the most competitive schemes today?

NS: The whole Investment Immigration business is becoming more competitive as it becomes more mainstream. The entry of the EU countries, Malta and Cyprus, was a game changer, but nonetheless the much higher costs of these programs are not within everyone's budget. Some of the new non-EU European programs like Moldova and Montenegro are worth a look. Vanuatu has always been a bit of an outsider but compares very favorably to Caribbean programs in terms of cost and visa-free access, while offering faster processing and access to another part of the world. It's ideal for those clients who want something more exotic and private. The Caribbean, though, still competes strongly with its undeniable advantages of lifestyle attractions and proximity for North Americans and Europeans, at an unbeatable cost.

GG: Since CBI has entered the public consciousness over the past several years, various CBI schemes have been presented unfavorably with news coverage of "golden passports" facilitating tax avoidance or other nefarious activities for the super-rich. How accurate are such reports and do you feel it's hurt CBI?

NS: There are certain people who seem fundamentally opposed to the concept of residence or citizenship by investment and will do their best to present information that is blatantly biased to support their case. I put elements within the OECD, the European Parliament and Transparency International into this category.

In all countries of the world except the USA, people are not taxed based on their citizenship. Therefore, acquiring a new citizenship has absolutely no tax implications, positive or negative. Neither is tax normally a motivation for those seeking a new citizenship, with the possible exception of US citizens who are seriously thinking of renouncing their US >>

Most accessible CBI/RBI programs in Europe that grant the most rights.

Source: European Parliamentary Research Service

citizenship, which in practice is very rare. American clients often wish to have a Plan B in place but are not going all the way towards renunciation immediately. In theory, yes, somebody could try to mislead their bank about their country of residence to avoid automatic reporting, but they would not have to spend hundreds of thousands of dollars on a new citizenship to do this!

"The unintended consequence of all this publicity is that more and more people are becoming aware of CBI programs and the various benefits they've been missing out on."

Then there are the fear mongering campaigns and the scare stories of terrorists entering Europe. However, the detractors of RCBI (Residence and Citizenship by Investment) that promote this narrative conveniently forget to mention that many of the terrorist attacks on European soil have been carried out by holders of European citizenships acquired through traditional channels, such as birth. According to official EU statistics, nearly a million people received EU citizenship through normal, non-investment channels in 2016. Citizenship by investment, on the other hand, only accounted for a thousand or two.

Getting back to your question, though, I don't think these reports are accurate at all. The vast majority of CBI applicants are just peace-loving people looking for freedom and security for their families. The unintended consequence of all this publicity is that more and more people are becoming aware of Citizenship by Investment programs and the various benefits they've been missing out on.

So, no, I don't feel it hurts these programs at all. For everyone who objects to it, there is probably another who thinks, "Hey, that sounds like something I should look into!"

GG: What are the key differences between Citizenship by Investment (CBI) and Residency by Investment (RBI)?

NS: Well, both are "by investment", but residency and citizenship are two very different things. Residency is simply the right to live in a country, which is generally granted for a certain period of time. Citizenship is a deeper connection, that entitles the holder to a passport and can generally be passed down through the generations. Citizenship does not generally require residence in the country, or even a visit. It is a right acquired in other ways.

I think Portugal originally coined the phrase "Golden Visa", while Thailand branded a new program "Elite Residency", even throwing in airport transfers in chauffeur-driven limos for its holders. Basically, these terms are now used interchangeably for Residence by Investment for High Net Worth individuals (HNWIs).

GG: What are the main risks or traps one has to look out for and consider in going through a CBI process?

NS: It is best to work with a reputable, licensed and regulated consultant. If you do that, you can't go too far wrong. There is one point that should be obvious: never get involved in anything illegal! If someone offers you a deal that does not correspond with an official program, run a mile! There have been recent examples of unscrupulous agents in the Caribbean promoting, mainly in China, so-called real estate investments with a huge kickback, where the client doesn't really get a title to any real estate in the end. Agents selling these schemes have been caught and persons involved risk having their citizenships revoked. It's important to note here that it is legal to borrow money to fund a real estate investment for citizenship and there are companies that help clients arrange this, that are not to be confused with the scams.

GG: You've been in this business for 25 years. Have you seen the profile of a typical "applicant" for CBI change over time?

NS: I don't believe there has been too much change in the profile of applicants. Our firm traditionally had a more North American and European client base. Over some years we have branched out more into emerging markets, starting with an office in Hong Kong covering China, one in Latvia covering Russia and more recently in Dubai and Istanbul. Of course, we are seeing more clients from those markets, but I think it is more a result of our marketing than a change in the profile of applicants. >>

What I have noted, though, is much more awareness of CBI. Clients often come to us with a much clearer idea of what they want. We don't have to explain the concept from the beginning, like we sometimes had to in the past.

GG: Any predictions about the future of CBI? Is there anything coming down the pipeline that might make CBI even more attractive?

NS: There are many rumors of new CBI programs, but nothing is for sure until it happens! Nonetheless, I certainly expect to see more new programs in the future. Entrepreneurial HNWIs are ultimately desired by all countries as they enrich the economy.

Looking into the more distant future, I see citizenship becoming less important in business and travel. Traditionally, individuals have been grouped together by nationality, but now with big data it is easier to treat people as individuals when it comes to travel privileges. This is exemplified by the US ESTA program, Canada's equivalent, and the one to be launched soon in the EU, whereby travelers can enter without an old-fashioned visa, but instead apply online for permission to travel. These programs are likely to be expanded to more countries.

We also see other countries that restrict or extend visa-free travel depending on factors such as country of birth or religion, with less regard to the country of citizenship.

This is definitely a double-edged sword and has huge ramifications for personal freedoms. Imagine that your travel plans could be dictated by your religion, or because of your social media profile or lack thereof... Well, it is already happening!

If citizenship becomes less important, residence certainly will not. There will be fierce competition to live and do business in pleasant, safe and prosperous environments. And before we reach this stage, we will see a lot more instability.

Bearing this in mind, I strongly believe that anyone who has a chance to plant a flag in a new country, whether by citizenship or residence, should do so. It is something that can only create upside!

Big Picture Sentinel

2019 Outlook: What to expect in the year ahead

By Frank Suess

I wish I could tell you that the picture below reflects my sunny expectations for the new year. Unfortunately, as I write this, I can see the snow rapidly pile up outside my window. Now, don't get me wrong, I love the sight of snow, and lots of it. And, so far, this winter has been magical. During Christmas and the first few days of the New Year, I was able to do several ski tours; nice and steady on the way up, a little more action and speed on the way down. It's always an exhilarating experience, good for the mind and the body.

However, the conditions are now becoming increasingly precarious, especially with regard to avalanches. I'd still love to go out again this coming weekend. At the same time, as those of you that spend time in the mountains know, one must consider a variety of factors and plan ahead before heading out for a ski tour. The method I use, as does pretty much everyone I know, is based on Werner Munter's 3x3 factor method.

I won't bore you with the details of that method. Suffice it to say that my evaluation of the current conditions shows that it's wiser to err on the side of caution and only ski on marked slopes. Sometimes, the best decision is to play it safe, or even to decline to play altogether and simply stay home. After all, you only need to make a bad mistake once. The same can be said for investing.

Be cautious or just STAY HOME!

As a general rule, I don't place too much faith in forecasting. In my view, markets and the factors that drive them are far too complex, while reliable and accurate predictions are few and far between. Overall, trying to predict the future, or even worse, to "time the markets", is an extremely risky business. That being said, I do strongly believe in risk management and wealth protection. One doesn't need to know the day and time of the next market crash to prepare for it, not when there are plenty of warnings around and they already point to a downward direction.

This is precisely the case today, as the current mix of big picture trends and risk factors paints a picture that is far from optimistic. The considerable and multifaceted pressures that have been building up in financial markets and the global >>

economy have led me to adopt a very conservative position in my investment strategy and have highlighted the importance of proactive planning.

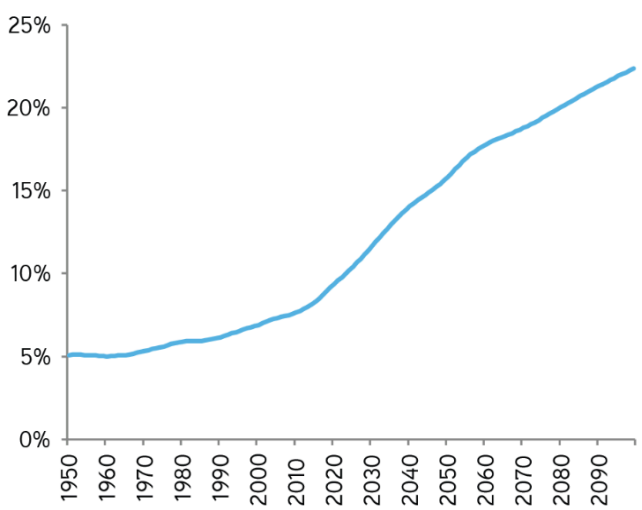
The global economy is slowing down fast

The biggest problem, in brief, is that the global economy is slowing down. This is due primarily to demographic realities in OECD countries, China's economic slowdown and the global liquidity drain resulting from the tapering policies of the US Federal Reserve.

Equity markets have entered bear territory, reflective of the global economic slowdown. While the US had been outperforming its peers in recent years, during the last quarter of 2018, it has decelerated to match the pace of other weakening markets. During the first days of the new year, the S&P 500 did bounce back to above 2,580, however, it failed to assuage the widespread concerns over the sustainability and longevity of such an upward rebound.

The big picture can hardly be ignored anymore. The demographic reality is that for the first time in over 60 years, OECD countries are shrinking, particularly in the growth-relevant age groups up to 64, while the older, retired segment of the population is growing. This creates severe economic pressures in social security systems, in labor dynamics and in state budgets, most of which are already plagued with heavy debt and increasingly expensive repayment costs. The demographic problem might have been long-disregarded and shrugged off, but that didn't change the fact that it plays a key role in the economic slowdown.

Percentage of the global population aged 65 or over



Source: United Nations, Harver Analytics

US monetary policy is another important factor. After flooding the markets with liquidity for the past 10 years, American monetary policy is now draining them, by withdrawing some USD 50 billion a month. Without the artificial crutches that kept markets afloat and eventually rallying in the past, the future seems uncertain amid serious doubts that the Fed's ambitious "unwinding" process will be smooth and uneventful.

At the same time, China is facing severe economic pressures of its own. The superpower that has been a key contributor to global economic growth is beginning to show signs of steaming out. Fears of a global slowdown are on the rise, as the Chinese try to row back some of the excesses that have built up during the restructuring of their economy. The efforts to reduce debt have weakened investment and consumption. Car sales in the world's largest car market declined last year for the first time since 1990. Moreover, the trade war with the US has also clearly taken its toll. According to the most recent figures, exports fell by 4.4% in December, the sharpest drop in two years.

Meanwhile in the markets, volatility metrics have been creeping up, with the VIX rising from an average of 13 in Q3, 2018, to an average of 21 in Q4. And yet, despite the recent market correction, most stock valuations still remain high, especially in the US. After nearly a decade of continuous price appreciation, the US market appears to be particularly bloated and dangerously vulnerable to an economic slowdown at this point. All in all, if you cannot resist the urge to "go out and ski" and will not just "stay home", it is advisable to at least consider diversifying away from the US and into other markets.

Geopolitics: Entering a new era

Several geo-political trends that have unfolded in recent years are also bound to prove problematic for economic growth, especially as they continue to escalate. Should they persist, they are likely to leave us with a very different kind of world and international dynamics to what we've been used to over the past decades. >>

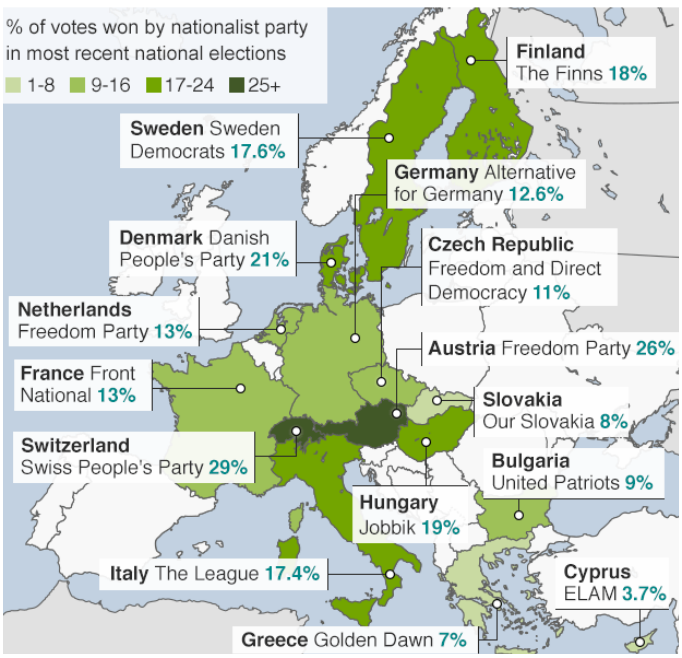
For one thing, the US appears to be withdrawing from its "global policing" role. After a relatively peaceful and stable period facilitated by the "Pax Americana" and accompanied by intense globalization, the tide appears to be turning. Tensions are once again building up between major global players. Relations between the US, Russia and China are becoming increasingly frail, while the many contested grounds and unceasing conflicts in the Middle East seem likely to come once more under the spotlight in coming months and years.

On the other side of the ocean, the European Union is becoming increasingly assertive in pushing its political agenda towards more centralization. Its stance toward members and allies has become aggressive and disdainful, while the leadership in Brussels is paying no heed at all to the warnings and signs of discontent of the public.

The EU's reaction to Brexit has been scornful and provocative, scorching all hopes for an "amicable divorce". EU bureaucrats delivered such a humiliating package of terms and provisions to the UK for the exit agreement that the British government was not able or willing to sign the accord. Instead of negotiating in good faith, with a view to the future and a focus on preserving its best interests in the long term, the EU chose instead to make a frightful example out of the UK, no matter the cost to its own members' economies. The UK is a key trading partner for the EU. In 2016, the EU accounted for 48% of total exports from the UK, while for the UK, imports from the EU were worth more than all of those from the rest of the world combined.

However, it's not only in the context of Brexit that the EU's behavior has been controversial and inflammatory. The previous year has been gripped by the frictions over trade with the US, the bloc's largest trading partner. More recently, a wide political rift has emerged with Switzerland too, which happens to be Europe's fourth largest export market. The EU is aggressively pushing a new agreement that would force Switzerland to automatically adopt EU law and accept EU courts as superior to its own, an idea that does not chime well with the Swiss people's sovereignty and their long tradition of direct democracy. The overarching trend here seems to be that the EU cannot stop picking fights with its best customers, a strategy that is far from sound. It is even further from consistent, as key figures speaking on behalf of the bloc have spent many a press conference last year accusing the US of bullying, of dangerous isolationism and of erecting barriers to global trade.

Widespread support for nationalist and eurosceptic parties in Europe



Source: national electoral results, BBC

The centralist bureaucrats in Brussels have forgotten the original purpose of the Union, as well as the vision of peace that the EU was founded on. They have learned nothing from the continent's history and taken no notice of the increasingly loud dissenting voices. Brexit, the continuing rise of Eurosceptic parties throughout the bloc, and massive waves of demonstrations and protests have all been ignored. A dogmatic persistence on forced centralization and on the corrosion of the member-states' sovereignty seems more and more likely to backfire, spreading uncertainty in financial markets around the world and driving the EU's "peace project" off the cliff.

Gold back on track as global investors risk-hedge

Spiking uncertainties, heightened investor anxiety and more protectionist economic policies might be weighing heavy on financial markets but bode well for the price of gold. All the risk factors we've examined here make a solid case for the end of the extended bear cycle in gold. While the precious >>

Gold price over the last year

Source: apmex

metal may still face headwinds from higher interest rates and possible periods of US dollar strength, their impact will likely be limited in the big scheme of things.

The gold price was on quite the rollercoaster ride in 2018, as investor interest appeared to ebb and flow. After hitting an extreme low in investor sentiment only a few months ago, gold is now back in demand and sentiment has risen dramatically. The price movement bears testimony to gold's regained attraction, as it has sailed through several important resistance points over the past two months.

As equities lose their appeal and as uncertainties grow and spread, gold offers a great alternative, both in terms of capital appreciation as well as in terms of a solid insurance. According to several experts, heavier resistance is to be expected at USD 1,300/troy ounce and then again at USD 1,375/troy ounce. At the end of January, the precious metal reached a seven-month peak and managed to break through the first key barrier, where it still hovers. Once it clears those resistance points, the expectations amongst several technical analysts is that gold will be clearly and officially back in bull territory.

This expectation is reinforced by the fact that last year gold outperformed other assets despite significant headwinds. The dollar strengthened, the Fed continued its steady tapering strategy and the US economy was buoyed by the Trump administration's tax cuts. This supported stock prices until the start of last October, at which point, the tide began to turn.

Growing geopolitical and macro-economic risks led to a pull-back in emerging markets, followed more recently by the pull-back in US stocks as well. Among the reactions to this shift was short-covering in gold. Also, more generally, gold has become a risk-off option for many investors, including several central banks around the world. At the same time, gold-backed ETFs globally experienced a net positive inflow. European gold-backed ETFs had net inflows, while a trend of heavy US outflows reversed in Q4 2018.

Conclusions

The year ahead and those that follow seem to justify a conservative investment outlook, with a defensive focus on wealth preservation. We may or may not witness a severe crisis and go through another 2008 scenario. The global economy, albeit overloaded with debt and in the wake of heavy-handed monetary intervention, might not collapse as it did 10 years ago. Even so, we can still expect to experience very choppy financial markets accompanied by on-off monetary policies, as governments and central bankers try to "manage" the world economy once again.

As for gold and precious metals in general, we believe that in 2019 their appeal will continue to climb. Global investors will very likely continue to see them as an effective diversification vehicle and an important hedging tool against systemic risks, as well as recognize their potential for capital appreciation.

In the end, as we all know but frequently don't do, one should always buy low, when upside potential is ample, and sell high, when downside risk is peaking.

Golden Nuggets

Gold Refinery's Bankruptcy reverberates across U.S. Precious Metals Industry

By Frank Suess

This past November saw Republic Metals Corporation, one of the world's largest gold and silver refineries, file for bankruptcy, raising concerns about the industry at large in the US.

The filing came after "inventory discrepancies" were uncovered in the company's books this past summer, when some $90 million could not be accounted for. This revelation, coupled with a heavy debt load Republic was saddled with for some time, led its management to seek an acquisition deal with Valcambi, a leading Swiss refiner. Even though talks collapsed, and Republic filed for Chapter 11 bankruptcy days thereafter, Valcambi still made a $16 million offer to buy its assets in early January. The court documents show that the bankrupt refiner's assets hover around $175 million, yet its liabilities are over $265 million, and its creditors are estimated to be between 1,000 and 5,000.

These developments come at the heels of a series of federal investigations that have targeted the US precious metals industry in recent years. Federal prosecutors have been focused on domestic refiners and their connections to "blood gold", i.e. illegally mined or smuggled metals mostly from Latin America. Such illegal operations have known links to organized crime and drug-trafficking gangs, as well as money laundering. Republic Metals itself has been implicated in investigations into such activities in the past, having made large gold purchases from a Peruvian metals dealer in 2012, who was later convicted of money laundering.

Republic's case is far from unique, as prosecutors are zeroing in on a number of key players in the US precious metals industry. In March of last year, Elemetal, a precious metals company based in Texas, was convicted of failing to maintain an adequate anti-money laundering program and was forced to pay a fine of $15 million. Three of its gold dealers were found guilty of running an extensive money-laundering scheme, with links to South American drug-trafficking operations.

This highlights a much wider issue that has put the industry in the US under severe pressure and scrutiny from the authorities. For over 20 years, the American "war on drugs" has caused its targets to evolve and to diversify their operations. Drug-traffickers and criminal gangs that had their cash flow disrupted, diverted their ill-gotten gains into the gold business. Illegal mining operations, financed by the drug trade, produce large amounts of gold that is then sold on to US refineries, thereby facilitating extensive money laundering schemes. Following a series of investigations and prosecutions in recent years, the entire precious metals industry in the US appears to be increasingly coming under the spotlight, raising serious concerns by investors and stakeholders.

For a more in-depth analysis, we recommend the series of investigative reports by the Miami Herald, a very interesting read with surprising insights.

Golden Nuggets

The rise and rise of Palladium

By Frank Suess

Starting in early 2018, palladium has been increasingly in the news, as its historically unprecedented rally has caught the eye of analysts, investors and hedge funds globally. The price of the metal, has exploded to all-time highs, increasing by more than 62% from its lows in mid-August last year. It even managed to overtake gold for the first time in 16 years in early December. Reaching US$1,367 in mid-January, the price of the metal has risen more than 140% since the beginning of 2016.

A short introduction to Palladium

Palladium belongs to the Platinum family and is one of six platinum group metals (PGM), the rest being platinum, rhodium, ruthenium, iridium and osmium. Each of them has unique properties widely used for industrial purposes and palladium's ability to act as a catalyst has made it essential in the auto sector. For decades, it was its closest rival, platinum, that dominated the sector as the primary metal used in engine production, even though it had been historically more expensive. However, technological advances made it possible to achieve competitive results with palladium, at a much lower cost, and thus triggered a tectonic shift in demand.

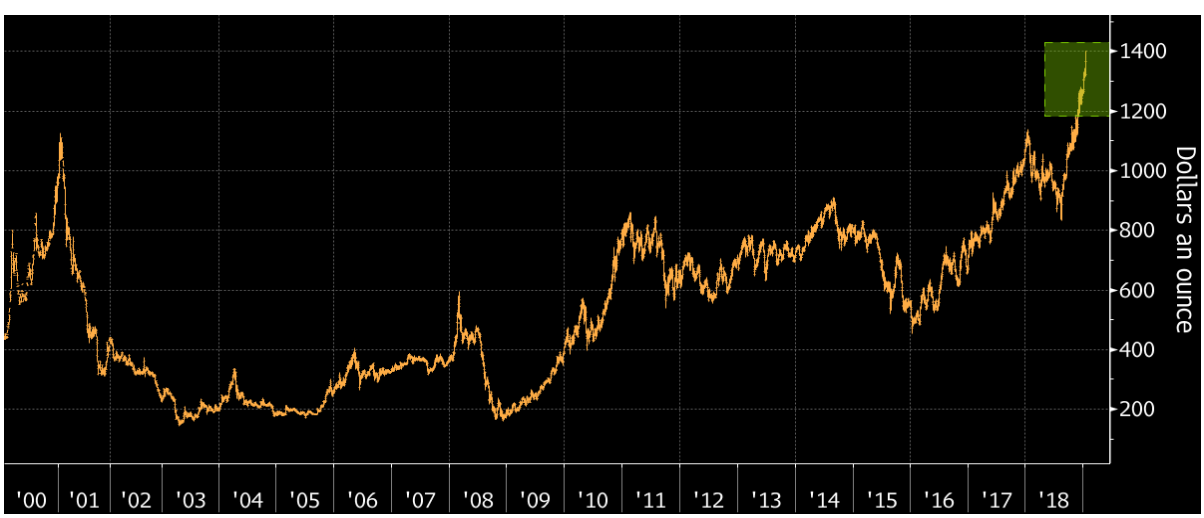
Today, platinum is mostly used in diesel engines, while palladium is primarily used in the production of catalytic converters for gasoline engines, as its properties help convert harmful emissions into less or non-harmful gases.

Both palladium and platinum are far rarer than gold and are traded in much smaller markets. Recent world production of palladium has averaged about 200 tons annually, whereas gold production on average stands at approximately 3,000 tons per year.

Robust Fundamentals

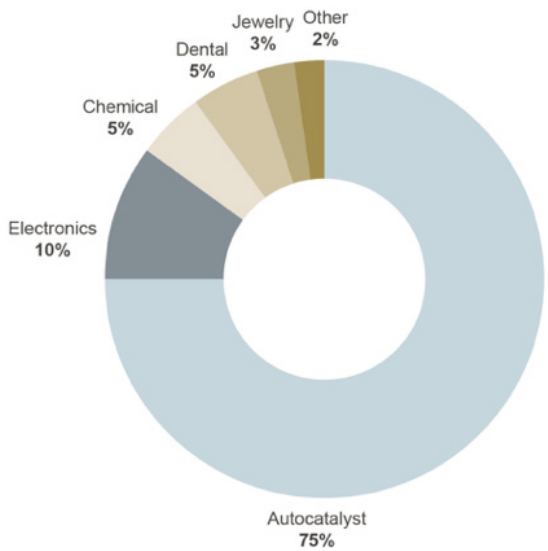
This remarkable price rally is largely attributed to a multi-year, uninterrupted period of consecutive record highs in demand for >>

Palladium price at all-time highs



Source: Bloomberg

Palladium consumption



Source: Johnson Matthey

palladium from the auto sector, which accounts for around 75% of its total demand. Supply has failed to keep up with the industry's needs, as existing stockpiles dwindled and production levels remained far below what was necessary to cover the spiking demand. Even as palladium overtook platinum and became the most expensive of the "big four" precious metals in terms of trading volumes, carmakers' needs consistently supported the heightened demand and price levels.

A closer look at the supply side of the market helps explain the extreme shortages. First of all, much like platinum, palladium is particularly scarce, and its production concentrated. Russia and South Africa together produce around three quarters of the metal's global mined supplies. Furthermore, supply is largely inelastic, as palladium is mostly the result of mining operations that target other metals. Since the platinum group metals tend to coexist in the same deposits, dedicated operations focused solely on palladium are extremely rare. Political frictions have also contributed to the limited supply levels. The sanctions that were introduced in recent years against Russia and further escalated in April 2018 have played a part in the supply gap, as did the wave of strikes that started last year and is still plaguing South African mines.

On the demand side, there are many indications that also support the expectations that prices will continue to climb. Palladium has become increasingly sought after as consumers and car makers turned away from diesel vehicles, and thus from platinum too, following the much-publicized emissions scandal. As palladium is used to cut pollution from gasoline engines, its demand was also supported by the wave of new environmental protection regulations introduced by governments all over the world. China has had a particularly strong impact in this regard, due to the country's mission to reduce pollution levels, along with its recently announced plans to stimulate its domestic spending on automobiles.

What the future holds

Most of the demand for the metal is still organic and the price rally has been supported by the widening gap between supply and demand. However, speculators have also placed bets, especially as the metal skyrocketed and attracted wider attention. Overall, the palladium market is small and the metal is thinly traded. Volatility and wild price swings are nothing out of the ordinary for precious metals mostly used in small quantities and by specific industries, especially when they go through demand spikes. Palladium prices might have soared over 700% in the past decade, but that appears less striking when put in this context. Starting in 1998, platinum rallied over 500% in the decade that followed, while rhodium went through a similar period, that saw the price soar over 4,000%. Thus, at this point, a brief correction would not be too big a surprise, even though the longer-term outlook for palladium appears to be solid.

Supply shortages are set to continue, while robust demand is projected to persist. The regulatory trends in most developed markets are also clear and point to a drastic shift towards cutting emissions and "cleaner" engines, making palladium indispensable to the auto sector. There is a long-term concern, however, that should the price continue to climb, palladium "risks becoming a victim of its own success", as a report by Commerzbank put it. Car manufacturers could be tempted to return to platinum, which now that the tables have turned, seems like a much more affordable alternative. Nevertheless, stricter emissions standards could present obstacles to such a transition. Furthermore, even if those could be overcome, a shift back to platinum is estimated to take more than two years and incur costs that could prove prohibitive for many operations.

Golden Nuggets

Fix your purchase price immediately? Well, now you can!

By Scott Schamber

Global Gold has always taken pride in offering a solid "harsh crisis scenario" metals solution for investors looking to purchase and store gold, safe-guarding their metals in arguably the safest place in the world to do so: Switzerland!

In that spirit, contrary to other precious metals companies in the market, we have always done everything possible to avoid or at least mitigate to the absolute possible minimum any kind of risk for our clients and for our company. For instance, while other companies are proudly propagating their instant online trading capabilities, we have stayed away from any such practice until now. Frankly, we are working on an online trading solution, but will not implement it until we are certain that it does not expose you and us to risks and that it indeed offers value added that is important for our mission.

So far, we are not convinced. Perhaps we are a bit old-fashioned. But we don't mind being old-fashioned when it comes to wealth protection. We've been around for a while, and we intend to be here for the long-term, after all!

Instant pricing and settlement

One of the slight drawbacks of doing business "our way" has been that pricing and settling our clients' buy orders has only been possible after receiving the funds in our accounts. We are now changing that policy for clients with existing precious metals holdings with us.

In other words, clients with existing gold, silver, platinum or palladium stored with Global Gold will be able to contact us, fix a price which we'll lock in immediately, and then they will wire the funds on to us. "Buy now, pay later", so to speak!

We aren't inventing anything new here, but we are trying to help our clients that want to immediately lock-in at a price they prefer. Are there stipulations to being able to fix your purchase price? Yes, but surprisingly simple. The biggest challenge: you must be our client. We are only offering this service to Global Gold clients that have metals in storage with us...for now.

Since Global Gold does not and cannot hedge, loan, or otherwise utilize our clients' metals for our benefit, your metals are always in storage, available for immediate sale, delivery, or pick-up. Because of this, our clients will be allowed to fix a price based on the fact we will place a lien on your metal holdings before funds arrive. Global Gold will not carry a risk should a purchase be cancelled, or should we not receive the funds within a reasonable period of time. In other words, don't snooze or you'll lose...on the price risk, should you have to cancel the order.

While we won't bear the risk of not receiving your funds, we will give our clients an opportunity to lock-in at a spot price they want... and immediately.

We'll be writing about this to our dear clients shortly. So, more details will follow. Stay tuned!

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