

AGE's Gold Commentary

AGE Gold Commentary is our regular report analyzing trends in precious metals and rare coins. We monitor domestic and international markets and extrapolate from our 30 years in metals to place current events into a hard asset perspective. [View archives.](#)

6/25/2020: **Gold poised for record run**

Source:

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Greetings!

A quick update to alert you that gold is poised for a breakout. Over the past week, the metal has risen around 3% to the highest level since October 2012, punching through major resistance at \$1,775 and setting its sights on \$1,800. While it may experience some brief corrections, gold is gathering momentum to begin its assault on the previous record high of \$1,911 and then push above \$2,000.

As everyone knows, the unprecedented shock of the COVID-19 pandemic and resulting societal closures have plunged the economy into its deepest decline since the Great Depression. Thankfully, green shoots of recovery have been spotted in recent weeks—a fall in the unemployment rate, a rise in retail sales, rebounds in manufacturing and services—but the overall economic data remain extremely weak.

And now, coronavirus cases and hospitalizations are rising sharply in more than half the country, raising the specter of another wave of lockdowns and a longer recovery.

As we covered in detail in [our last Gold Commentary](#), the government has responded with extraordinary measures including some \$3 trillion in relief. As a result, the annual US budget deficit will quadruple to almost \$4 trillion in 2020, pushing our national debt from \$23 trillion to \$27 trillion. This enormous debt will be an albatross around the necks of the dollar and GDP for years to come.

Meanwhile, the Fed has promised to keep interest rates near zero until 2023 while providing unlimited quantitative easing. These policies flood the economy with cheap dollars to promote spending and lending, effectively diluting the dollar's purchasing power and increasing the risk of long-term inflation. They also ensure that real interest rates—that is, rates adjusted for inflation—will remain negative for years to come.

Policies like these—but smaller in scope—propelled gold from \$900 to a record of \$1,911 in 2011 after the financial crisis. As we said last time, it's déjà vu all over again. But this time, the all-time high is likely to be quite a bit higher than before.

Let's look at the charts.

Gold rising

As you can see in the 18-month chart below, gold has already broken through the red resistance level that we indicated at \$1,768.90 in our last Commentary. Following the surge in March and April to \$1,675, and then the brief correction down to \$1,477, gold stepped firmly into a higher trading range between \$1,690 and \$1,770.



Now, after less than two months in this new range, gold is climbing again. These ranges are still stepping up in \$100 trading increments, but now the time between steps is diminishing as this bull market gathers steam.

24-Jun-2020

Open 1784.40 High 1796.10 Low 1770.60 Close 1775.10 Volume 22.6M Chg -6.90 (-0.39%)

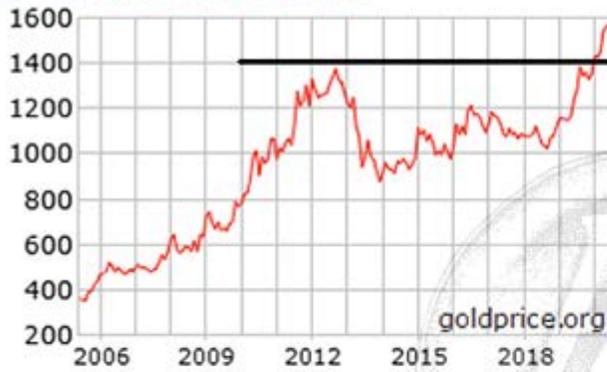


Gold Chart
Jan. 1, 2006 to June 24, 2020

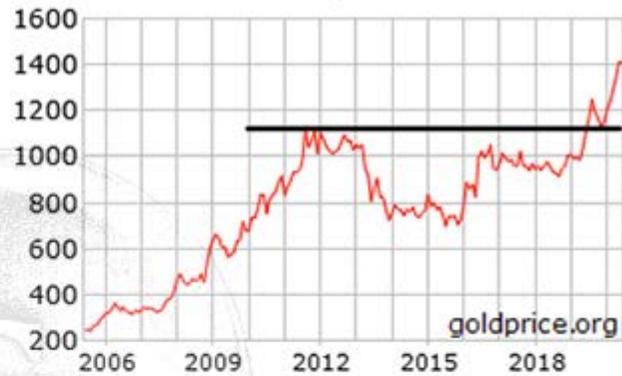
Stepping back and looking at the gold chart since 2006, you can see how the current gold price movement fits into the bigger picture, with gold challenging the last upside resistance point on this long-term chart.

While gold has yet to set a new high in US dollars, it has already done so by 15% to 20% in most other currencies. You can see in the chart below how gold has performed since 2006 in Japanese yen, Indian rupees, euros, and British pounds.

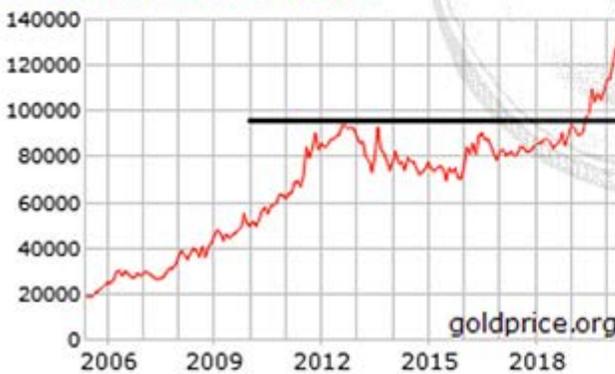
15 Year Gold Price in EUR/oz



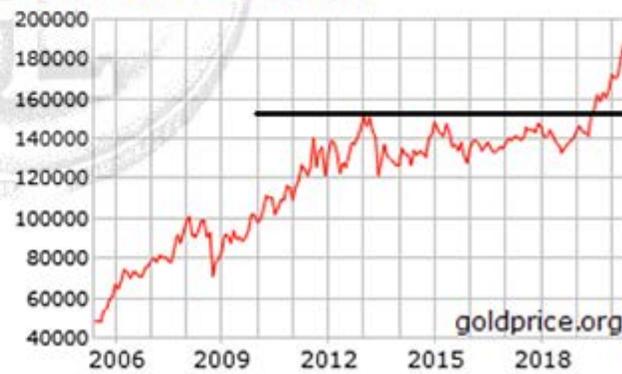
15 Year Gold Price in GBP/oz



15 Year Gold Price in INR/oz



15 Year Gold Price in JPY/oz



The global economic expansion in 2017 and 2018 turned into a downturn in 2019 as trade conflicts took their toll. The US economy resisted this downturn while Europe and Asia weakened. Their currencies lost ground to the dollar on safe-haven inflows, which pushed gold higher overseas while stifling the gold price here at home.

However, the strength of the dollar is starting to wane as enormous monetary easing works its way through the financial markets. The buck has dropped down around 3% in the past month against major rivals, and that's likely just the start.

Stephen Roach, Yale economist and former chairman of Morgan Stanley Asia, warned again this week that the dollar is headed for a precipitous decline of 35% in the near future, probably ending its privileged status as the global reserve currency. He cited unprecedented monetary easing by the Fed and exploding federal debt and deficits as primary reasons.

It bears repeating that the same drivers that propelled gold to its all-time high of \$1,911 in 2011 are at work again. This week, Goldman Sachs raised its 12-month gold price forecast to \$2,000 because the currency debasement caused by monetary stimulus.

Bank of America said in March that gold could hit \$3,000 within 18 months, citing negative real rates and quantitative easing as the main reasons. After all, BOA said, "you can't print more gold." Governments can print more money, though, and they surely will.

Dollar retreating

The chart below shows the US dollar index since 2006. From a big-picture perspective, the dollar and gold have traded inversely for most of the last 14 years. When the dollar has been weak, gold has been strong and visa versa. The dollar's three lows of 71.33 in 2008, 74.27 in late 2009, and 72.93 in mid-2011 coincided perfectly with gold's successive highs of \$1,000, \$1,218, and \$1,900, respectively.

U.S. Dollar Index Chart Jan. 1, 2006 to Jun. 24, 2020



While gold corrected lower in 2013, the dollar lagged until 2014, when the US led the worldwide economic expansion following the 2008 financial crisis. Since then the dollar has remained primarily in the higher 93 to 100 range.



As you can see on the 18-month chart, the dollar has retreated from its surge in March, when it popped above the upside resistance level at 98.50. This strength, which was caused by international flights to cash as the pandemic swept the globe, is now waning. Technically, the dollar is strong above the 98.50 resistance level, range bound between 98.50 and 95.00 and weak below 95.00.

What is unusual is that the dollar has remained relatively stable for the past 12 months while gold has surged 30%. This decoupling of the inverse relationship between the dollar and gold is testament to how strong the gold price has been over the last year. As the dollar weakens, however, gold will run further and faster than it has already. If the dollar does, indeed, correct sharply lower, we expect to see returns like those from 2010 to 2011, when gold gained almost 40%.

Silver catching up

With the gold-to-silver ratio currently hovering in the 95 to 100 range, silver continues to remain undervalued to gold by 20% or more, in our opinion. Gold is leading the bull charge, so it is not unusual for the ratio to be skewed in gold's favor at this point in the cycle. Gold led in 2009 and 2010 before silver caught up with a vengeance in 2011. What is unusual is the extreme valuations in the recent market favoring gold to silver's detriment. Silver will certainly play catch up at some point in time.



Silver has been pushing into the higher end of its recent trading range of \$16.50 to \$18.50, but it has failed to hold above resistance at \$18.50. As gold continues to rise, value buyers will increasingly turn to silver, driving it decidedly higher. Above \$18.50, silver will encounter one more major resistance point at \$20.70. Above \$20.70, it is technical blue sky until \$27. We urge you to add silver to your positions while you can under \$18.50.

Bullion premiums normalizing

Premiums (price over melt) for most [modern gold bullion items](#) like US Gold Eagles, US Gold Buffalos, Canadian Maple Leafs, Austrian Philharmonics, and Pamp Suisse gold bars have fallen back to near-normal levels after the sharp increases in March and April.

Premiums for many 1-ounce silver bullion coins have also fallen considerably. The US Mint continues to lag in production of Silver Eagles, however, and premiums for these popular bullion coins remain higher than normal. We recommend [Canadian Silver Maple Leafs](#) and [South African Silver Krugerrands](#) as lower-premium alternatives.

Big opportunities in US gold coins

The demand surge in March and April has changed the dynamics in the market for [Pre-1933 US gold coins](#). Dealer inventories were wiped out, and prices and premiums have risen since. Unlike with modern bullion coins, the Mint cannot simply make more classic US gold coins. As a result, the double play opportunity of rising prices through an increasing intrinsic value and an expanding collector premium are coming back into play in earnest.

Bull markets in pre-1933 US gold coins are typically driven from the bottom up. In other words, bullion coins and common pre-1933 US gold coins with low premiums lead the way because they are

tied more directly to the gold price.

Prices on scarce, higher-grade coins often lag bullion and common coins during a rising gold market, artificially compressing premiums and creating a temporary window of opportunity for savvy buyers.

As a result, pockets of outstanding value have emerged, especially in [\\$20 Liberty MS64](#), [\\$20 Saint-Gaudens MS65](#), [\\$10 Liberty MS64](#), and [\\$10 Indian MS64](#) gold coins.

In each case, lower-grade examples of these popular investment coins have seen their premiums rise sharply, returning to their 10-year average premiums. But this reversion to the mean has yet to occur in the higher grades—for now.

\$20 Liberty MS64 and \$20 Saint MS65 double eagles are trading today at around two-thirds of their 10-year average premiums. \$10 Liberty MS64 and \$10 Indian MS64 eagles are trading around at one-third!

This is where leverage through scarcity creates outstanding opportunity. All four coins are ripe for future gains as their premiums follow their lower-grade siblings back toward their 10-year averages in this new bull market.

Supplies are very limited in the current market, however, so get 'em while they're cheap!

That's it for now. As always, thanks for your time.

Please stay safe.

Respectfully,

Dana Samuelson
President