



Record stimulus may be good news!

With record levels of global stimulus how will governments fund this and what could be the effects? The powers that be will certainly be facing a monumental task given that the western world has just endured a decade of austerity.

It is probably not a surprise when I say that people will be getting fed up with sacrifice and we could see a period of very little tolerance for the higher taxes and reduced spending that the massive current deficits will bring. Sadly, this is the inevitable outcome for our near-term future.

The only way that governments can solve this problem, and it's not much of a solution, is through inflation and/or default. However, both are good for gold and those prepared to take advantage of this unique opportunity.

The coronavirus has brought back talk on Modern Monetary Theory. This is based on the notion that the central bank can simply issue currency for the government to spend, without the government having to issue bonds first. It must be a tempting prospect for governments who have been trying for years to get inflation and failed dismally. Inflation being, as always, the method to inflate their way out of debt.

Modern Monetary Theory and its negative effects might be difficult to detect at first if governments embrace this new 'nothing matters' attitude. What is really interesting though is the continual reference to the concept as being 'modern'- it is anything but!

Monetary financing has been around for some time, the last time it was popular was in the early 1970s when I was but a teenager. The willingness of central banks at that time to flood the supply of the currency governments required was one of the primary reasons for the decade's double-digit inflation. Funny how people forget; back to the future.

I am not the first to stipulate that squandering money you don't have, to buy elections, is a practice as old as democracy itself. It almost always works, which is why politicians keep doing it. It is very hard for voters to turn down free money. More recently we all witnessed the promises of Donald Trump which helped him get elected in 2017.

The important thing to bear in mind is that this kind of activity does not initially cause inflation, especially today as the economy is at a near standstill due to the effects of the pandemic, which has forced a global slowdown. Any money printed is simply being spent with no hope of repayment in most cases. Members should note that when the economic engines come back on line, it is almost certain that the potential for massive liquidity will lead to higher wage demands and higher consumer prices.

Looking back, a fact to keep in mind is that the world's governments have long been in search of an excuse to vote for radical spending plans to finally reignite inflation. Coronavirus is perhaps the clearest catalyst for all to promote inward investment to physical gold because it bolsters the negative real interest rate argument. Interest rates today are almost at zero, and governments are coming up with more ways to expand spending on an almost daily basis. The clear rationale is all this

money printing is devaluing fiat currencies in real time. That is the only way these debts, which are already monumental, are ever going to be paid.

This brings me to the projection in the precious metals market today and why physical silver is likely to rally. The gold/silver ratio hit a new all-time high in March, and is still trading near this. Silver has already recouped much of the losses incurred in February and March. It is worth noting that silver has been stuck in a range below \$20 since 2014. By summer this year we could easily see a rally back in to previous range moving above \$16.50. As we move into 2021 we could see the arrival of a bull market where I would expect silver to trade above \$40.

Today is a very rare buying opportunity. Gold surged coming out of the financial crisis and is the barometer against which all fiat currencies are measured. It is rising now since all currencies are being devalued against it; it is a limited supply asset that is still reasonable, but silver is dirt cheap in comparison.

William Gray
The RIO Club