THE RIO CLUB

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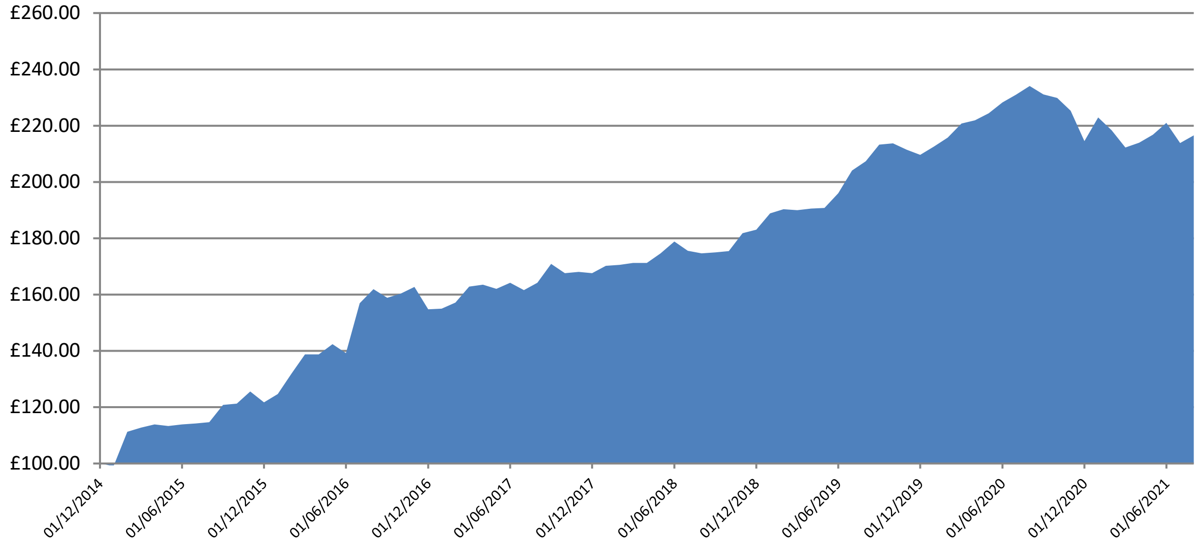
RIO ARC BULLION ACCOUNT GBP



The ARC Bullion Account GBP posted a gain of 1.28% during July, as the markets around the world chose to ignore inflation despite the fact that building inflationary signals are becoming more and more frequent. As I mentioned in the recent Platinum report - the next major market moving event would be US nonfarm payrolls. My forecast has since proven to be correct, the report highlighted that there were 943,000 jobs created in July, this was well above the market consensus estimate of 870,000.

As an events trader renowned for correctly predicting market moving events, I had forecast that the market prediction of 870,000 would likely fall short of the actual jobs created during July. In preparation for this I reduced the amount of physical gold held prior to the release of data. I sold 15% of the gold held at 1,305 on the 2nd of August and calling it right had limited the downside. The employment data for July had surprised the market, which in turn had pushed Gold down as envisaged. In turn I was able to buy back the gold sold prior to the release of data but at a lower price of 1,248.

Looking back, the recorded statistics reveal that the ARC has never recorded a calendar year loss since launch in 2014. This is also true for the sister investment, ARC USD. If you had cash in the bank deposited in USD, Euros or Sterling over the same time, it would have earned almost zero in interest, and seen its purchasing power eroded. Almost everything now is more expensive; why would you hold fiat money when gold is cash? It remains a tier one asset (as is cash) so the best cash to hold over the past five years has been gold. In contrast to cash, which has lost value, the ARC has gained over 100% since launch.

For now, the Bank of England (BoE) views the jump in inflation rates as being transitory, and there has been no action taken by the BoE. Watch this space, the transitory inflation argument is soon to lose traction.

Remember the facts, inflation has been surging and with interest rates locked at extremely low levels, everything looks like the perfect situation for gold. Gold’s rally has been delayed; the reason why is the big story. The explanation for the market action is complex, however, I would emphasise that this dip in gold's value is a buying opportunity, there are many powerful driving forces set to take centre stage. Moreover, should these drivers all converge at once, it would most likely create a perfect storm and in turn provide significant gains.

Should my predictions be proven correct then we would see bullion rally in the coming months. This as investors continue to come to terms with the rising levels of inflation, which may not be as short term as some believe.

In my February 2021 Forbes article, I highlighted that inflation will be the big driver for gold this year; since my comments were aired Warren Buffett has joined the growing list of professionals warning on the arrival of inflation. He did so on the 1st of May when the “Oracle of Omaha” issued a warning on the possibility of very substantial inflation. Since then, many other experts have joined him in predicting that inflation is here, and here to stay.

<u>Inflation is still rising; some say don't worry?</u>

The BoE monetary policy committee again voted to keep its interest rates at a historic low of 0.1% last week. Leaving its bond-purchase program unchanged, against a backdrop where inflation looks set to rise higher in the near term, likely reaching 4% in Q4-2021. That said, the Bank also said that there could soon be a modest reduction in the stimulus provided to the UK economy.

A survey by the Recruitment and Employment Confederation shows starting salaries in the UK recorded their biggest rise ever as employers struggled with labour shortages due to the pandemic. This will be compounded in the coming months by the current statistics which show that job vacancies in the UK had hit their highest levels since the survey began 24 years ago.

My prediction is that we will soon see inflation become the big story. I have recently seen reports underlining the fact that corporate executives are expressing their concern about inflation. It's not surprising with more and more reports indicating the inflation warning. My forecast on inflation could soon be proven right, and not all of it is going to be just transitory. After all, prices have risen across the economy at the fastest pace since 2008. Labour, materials and shipping are all more expensive, these facts are now a serious issue and are challenging business across the world.

With pandemic related distortions showing up in all kinds of economic data, looking back not only at the last year, but the last two, is a way for executives to fathom out which sectors could linger on, and which may be transitory. The debate about the transitory nature of rising prices is at the heart of gauging the economy's present health, and future challenges.

In particular, consumer discretionary and industrial stocks face the toughest margin challenges in a world with structurally higher wages. There could be trouble ahead!

<u>Central banks remain net buyers</u>

In the first half of 2021 central banks globally were net buyers, adding 333 tonnes to their reserves. This, 39% above the five-year average, and 29% above the ten-year. If fact, statistics show that there was strong buying from March onwards. Quite interesting, as this was just when inflation began to rear its ugly head. Hungary has tripled its gold reserves from 31.5t to 94.5t; stating that the pandemic, growing debt levels and inflation were key reasons for their massive increase. The Russian Minister of Finance recently announced that 20% of the assets of the Russian public pension fund will be invested in gold, not US Dollars. This a massive change as Russia has changed the whole structure of the pension’s portfolio, and has entirely removed exposure to the US dollar in favour gold. Looking forward, our research indicates that central banks are likely to continue buying gold on a net basis throughout the remainder of 2021. Many countries continue to diversify out of fiat money as a means of risk management.

Demand now favours physical gold, over paper gold

The demand for physical gold in bars and coins during the second quarter of Q2-2021 was 243t, 56% higher than Q2-2020. As for paper gold (ETF's), their demand fell significantly, down 52% in the second quarter, this market has seen year on year declining inflows.

Gold jewellery demand was 390.7t, but still remains well below pre-pandemic levels, this partly due to weaker Indian demand. Indeed, demand in the first half of 2021 was 873.7t, 17% below the 2015-2019 average. Looking ahead, it's likely that we will see continued growth in jewellery as well as bar and coin demand in the third quarter due to both the lifting of lockdowns and in the case of bars and coins, it will be driven by both inflation fears and the growing trend away from paper gold to physical gold.

Further down the road are the longer-lasting effects and unintended consequences of expansionary monetary and fiscal policies created to support the global economy. These may include inflation, currency debasement, and higher exposure to risk-on assets in portfolios. Combined with the current attractive entry price of gold, these factors could prompt strategic investors to add gold to their portfolios with central banks buying in the second half of the year.

In closing, golds value as a safety asset can be demonstrated by looking at the most recent financial crisis, it all started with a bear market in 2007 and continued for two years, wiping 56% off the value of the S&P 500. This while the housing market crashed on both sides of the Atlantic putting the whole financial system at risk. During the same period the price of gold climbed by a quarter. It continued to rise for three more years as recession, uncertainty, and the fallout of the global financial crisis favoured a move to the safe-haven asset.

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