THE RIO CLUB

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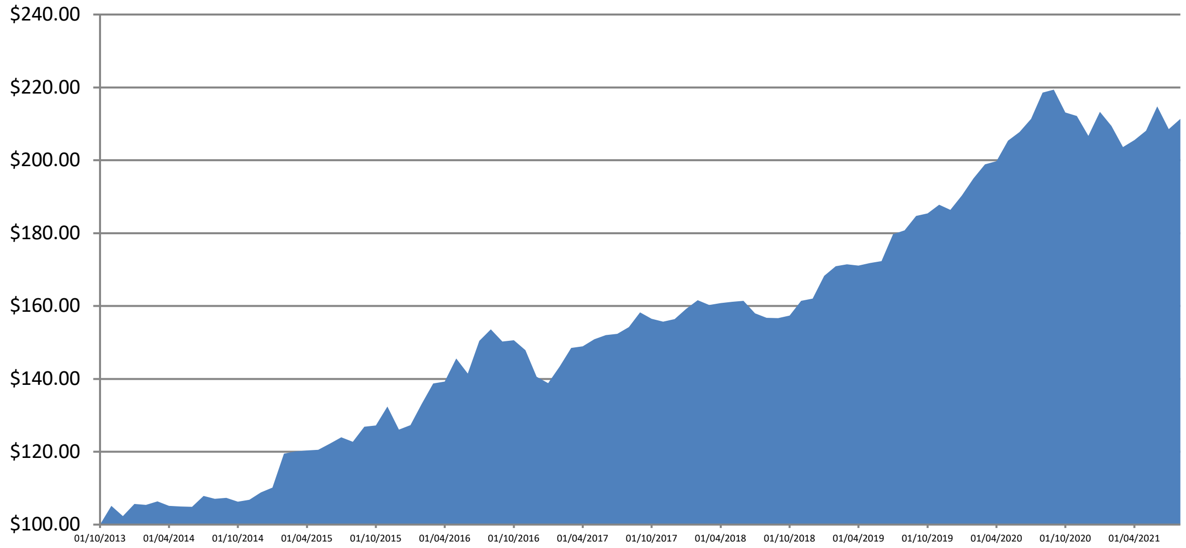
RIO ARC BULLION ACCOUNT USD

Gold offers portfolio protection, and is renowned as a hedge against inflation, a safe haven asset used to offset the negative effects of the ongoing currency devaluation.



The account posted a gain of 1.36% this month brining the gains since launch to 111.36%. Looking forward, with the US debt ceiling coming to the fore in the weeks ahead markets could see a move to risk off, favouring safety assets such as gold.

I reiterate, today's market is, and should be, the ideal world for gold, however the gold price recently seems to be range bound. My take on this is that it is very possible that the only clear explanation for recent moves is that financial markets are already pricing in a future stock market crisis triggered by interest rate increases; possibly as soon as the end of this year, despite recent Fed statements on this topic. Should a risk off situation start to build, then in turn, it would cause a run to safety assets, such as gold, this would almost certainly cause a rally!

The big news is that there's renewed gold demand from China who took advantage to buy as India, another big buyer, struggles with the COVID-19 pandemic which reduced the demand for gold from the beleaguered country. Interestingly the demand from China has strengthened in the first half of this year; recent trade data from the Chinese government indicated that nearly 31 tonnes of gold on a net basis was transported from Hong Kong in the last month alone. A closer look shows that more than 130 tonnes of gold were moved to China from Hong Kong in the first half of 2021; this fact is even more poignant.

Gold is valued by Governments and investors as a hedge against inflation, it's also a safe haven in times of economic turmoil. For instance, “safe haven” assets such as gold and bonds tend to rise in value when riskier assets like stocks decline. This last comment may soon become very relevant since the issue of the US debt ceiling once more becomes a major feature on financial news feeds and given the fact that US stocks are at an all-time high. Should US Government statements on debt ceiling fail to calm the market then it will likely cause a sell off, and a swift stock market correction.

The above is just one of the numerous reasons why today, more than ever, it makes perfect sense to hold both types of assets in your portfolio, their complementary movements can help keep your portfolio on a more even keel when volatility strikes. Which it will!

For example, anything from the flash crash of March 2020, to interest rate announcements, can dramatically move today's markets overnight. A single headline or tweet can change the state of play in global markets or jolt an entire sector.

As always, the ideal investment goal should be to create a balanced portfolio that can weather whatever the markets do. Holding the right balance of assets to suit the market condition in your portfolio can deliver both less risk, and also more opportunities, thus putting you on track to achieve balanced returns. RIO's current selection of investment products offers the ideal mix to build a members personal investment portfolio.

Looking back, gold bullion started the year with a sharp spike reaching a high of $1957.20 on the 6th of January. However, the metal failed to secure the gains, and fell back to $1677, the rally weighed down by a series of economic developments which at the time urged investors to abandon the safe haven in favour of stocks and risk assets. As a result, gold fell 11%. However, since the beginning of April the price of a gold per ounce has rallied to reach positive territory again for the year, currently trading at around $1780.

Today, most would agree that everything has changed. So, what has happened in recent months, and what is inevitably coming next?

There is a famous quote about history that's very relevant today, there are "decades where nothing happens and weeks where decades happen." Recently the USA has had multiple radical changes, this in turn will transform the US for decades.

Below I explain the reasons behind fluctuations in gold prices during 2020/21, and underline where prices could be heading next:

COVID-19 disrupted economic activity and knocked stock markets in the first quarter of 2020, in fact the March 2020 stock market meltdown happened at a point when many mainstream investment houses were over exposed to stocks, and as a result were facing margin calls, to avoid what would have been massive losses most were forced to sell their safety assets - gold, to cover the losses in stocks. In the turmoil that followed Central banks and governments jumped in with all their weaponry to support their failing economies, pumping an enormous amount of money into the markets. Now common sense, or economics 101, makes it very clear that as the supply of an item increases with the demand remaining constant, the value or price will go down. In turn this means that having significant cash in the bank could be among the worst things to do! To protect purchasing power, investors have for decades held physical gold, which is most often a good choice in times of high market risk and uncertainty.

Due to the massive stimulus plans, whether fiscal or monetary, equity markets had an impressive rally, where most of the world's top economies stock indices recovered all losses and continued moving to new record highs. This improvement in risk sentiment had driven funds out of low-risk investments, negatively affecting safe havens such as gold which, as a result, fell in price; it's that simple.

As Pfizer, Moderna, and the likes introduced their vaccines, investors started focusing on the light at the end of the tunnel. At some point central banks and governments, which were very aggressive with their economic aids, will have to start unwinding these measures and get closer to normalization to avoid overheating. There has been talk about the Federal Reserve unwinding its stimulus measures. Before this year ends I expect the Fed to start tapering its asset purchases program of $120 billion a month, and in the future, return the Fed Funds Rate to higher levels. The bond market had started pricing this action, and US Treasury yields moved higher. A bond price and its yield move in the opposite direction. So as the price of a bond goes higher, the yield goes lower and vice-versa.

Inflation

The COVID-19 pandemic disrupted supply chains, leading to less supply mainly of commodities. Meanwhile, the excess amounts of money that were pumped into the economy especially in the United States, and the high saving rate of families, triggered strong demand for goods and services.

Due to lockdowns people were stuck at home for long periods, receiving financial aid, and couldn't spend much, and saving a decent amount of money. When they perceived that conditions had started to go back to normal, they spent most, if not all, of the saved money. Thus, creating demand pressure with tight supply due to disrupted supply chains, and prices as a result went higher. The CRB Commodity Index gained more than 58% in the past 52 weeks to top 221, the highest since July 2015. In short, inflation expectations and the Commodity Index are approximately similar in their movements. Higher prices of commodities push inflation expectations higher, and fears of higher inflation would force investors to hedge with commodities. **Gold is well known as a hedge against inflation.**

Why are we looking at inflation expectations? They are soon set to become the hottest topic, and if you are an investor, you would be looking for the real interest rates or real yields when assessing your returns from a particular investment. So, the equation of real yield is as follows:

Real Interest Rates = Nominal Interest Rate - Inflation Rate

Basically, if inflation moves higher with nominal interest rates remaining steady, the real interest rate will decrease further. Therefore, investors would go after investments where their returns minus inflation would be positive.

For now, the Federal Reserve is not willing to taper asset purchases, if this happened it would drive the US Yields higher, leading to higher real interest rates. Fed officials are assuming that the current rise in inflation is transitory because of numerous factors that erupted from the stimulus used to recover from COVID-19. The Board believes as fiscal stimulus impact fades away, and supply chains somehow go back to normal activity, the current price pressures will ease significantly, with the help of technology and other demographic factors that are deflationary in the long run. However, as we see significant improvement in the Labour market (similar to the March report), better growth figures, the Federal Open Market Committee could start discussing normalization plans. But, with the labour market still far away from pre-pandemic levels, the Fed will not risk damaging the economic recovery, to tackle inflation, unless inflation materializes. My comment on inflation is simple - much of it is not going to be transitory!

Gold - Central Banks added further to their gold reserves

During the first quarter, the purchases of central banks rose as they looked into diversifying their reserves and favouring holding gold to fiat currencies. Russia now holds more gold than USD. Even Hungary, not the wealthiest of countries, saw fit to be among the top buyers, adding an astounding 63 tons to their official reserves.

The US Debt ceiling suspension which Donald Trump had put in place while he was in office has just ended, as such in the coming months the Government will have to address this mater. Any failure to resolve the debt ceiling issue could cause stock markets to sell off!

The current level of national debt in the US cannot sustain a rise in the Fed Funds rate. While today the Federal Reserve remain reluctant to raise rates, it is still ultimately, and inevitability coming, and when that happens, there will be a "crisis."

The main risk is that when interest rates rise at the short-end of the curve, interest expenses will rise proportionally and become unaffordable.

The US government may soon consider the issue of 100-year bonds. They may even consider 500-year bonds, which Britain used to have, but the US have not yet gone down this path. They are refinancing at the short end. Is that wise? Even just servicing the debt is about 16% of the federal budget. If rates went back to even halfway of their 25-year average, it would mean that 25% to 30% of the total budget is spent on debt service, this would most likely be unsustainable. The end result; a crisis.

Before raising rates, the Fed will likely signal tapering through various actions.

As I mentioned in my Platinum report of last week - the next major market-moving event would be US Non-farm Payrolls Report. My forecast has now been proven correct, the report highlighted that there were 943,000 jobs created in July, this was well above the market consensus estimate of 870,000.

Being an events trader renowned for correctly predicting market moving events, I had positioned the ARC for better-than-expected employment data. This is reflected in the recent factsheet dated 1st of August which confirms the reduction in the gold weighting from 53% in July to 39% - prior to the release of the US labour market data and calling it right has limited the downside. The better employment data for July had surprised the market, which in turn had pushed Gold down to $1,780 an ounce. The market often calls it wrong; calling it correctly gives me the opportunity to add to the ARC's current gold holdings with a target price $1,750 or below.

In closing, the better-than-expected July employment data will push the Federal reserve to talk about tapering. One thing we might see, as a suggestion that they're going to taper in the future, is to reduce purchases of mortgage-backed securities. The US housing market is buoyant so why are the Fed pumping money into this sector? It doesn't need this adding to its issues, quite the opposite.

I would predict that the Fed may wait to announce the start of tapering, electing to do so at November's meeting of the Federal Open Market Committee. The number of unemployed has dropped to 8.7 million but its significantly above the 5.7 million number reported in February 2020. Even if the Fed waits and starts the reductions in early 2022 stock markets will react negatively, and we could see investors run to safety assets.

The US Non-farm Payrolls Report also confirmed that the year-on-year average hourly earnings, which rose to 4% in July following June's upwardly revised increase to 3.7%, will add to the inflation concerns.

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