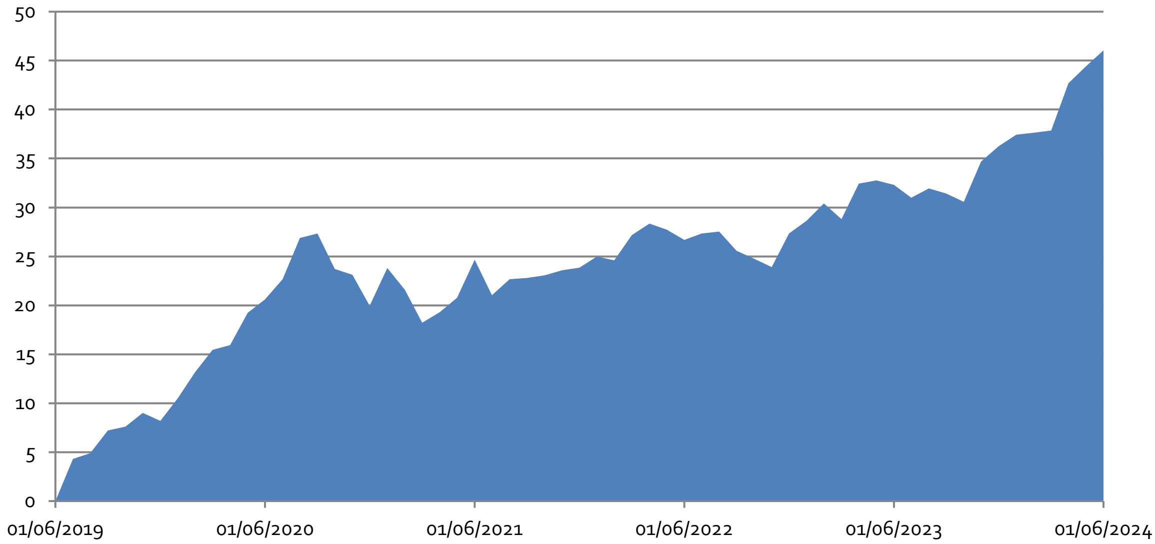
RIO ARC BULLION ACCOUNT USD

The ARC Bullion Account USD gained 1.13% during May, and also looks set to record a profit in June, the direct result of continued precision trading.



Last month the dollar had been pushed down to a one-month low, which in turn helped push Gold and Silver higher. However, higher rates continue to fuel unsustainable debt levels, and cracks are appearing in the US economy, with mass layoffs being announced each week. Geopolitics remains fragile, with events in Ukraine and the Middle East continuing to threaten each region.

Looking ahead in the near term, it is easy to see why so many investors will continue to buy Gold and Silver to protect their wealth. Given Gold's rapid rise to $2,450.84 on the 20th of May, when the metal recorded yet another all-time high, I would point out that it was this stellar rally which was the very reason why you would also expect the metal to see some selling pressure, and as a result a move lower, which it did as we entered June.

Some corrections are to be expected, even though both Gold and Silver are seeing continued strong demand, gold climbed back above $2,388 on the 7th of June.

Gold

Recently gold continues to be stuck in its range pivoting between $2,300 and $2,350. For me the consolidation in this market was to be expected as during the past three months gold has seen an impressive rally, reaching a new all-time high above $2,450 an ounce. Although momentum has stalled, it is important to stress that the influencing factors which drove this rally have not altered.

The geopolitical uncertainty has the world on edge, and the most contensious election in history takes place in the USA during November. Add to that that the world's number one reserve currency is in trouble, the US dollar’s very status as the world’s reserve currency is now openly being contested. This against a backdrop of global inflation.

This is one reason why Central Bank are buying gold in large amounts. A detailed survey of 70 central banks revealed that 29% expect to increase their exposure to gold in the next 12 months. At the same time, 81% of central banks expect global central bank gold reserves to increase in 2025, that's a telling statistic which will almost certainly help underpin gold's value.

The clarity of these statistics paint a picture, but what is even more clear is that central banks view the long-term outlook favours their gold reserves over the US dollar, a trend that has now spread to developed economies. According to the survey, 57% of advanced-economy central banks view gold use as a global reserve rising in the next five years.

Meanwhile, 23% of developing market central banks see the US dollar's role as the world's reserve currency diminishing over the next five years.

And with more and more emerging markets turning away from the US dollar as they diversify their reserve assets, this can only damage the green back in the longer term.

Given the trajectory of US government debt this should not come as a surprise, new projections indicated that federal government debt is $1.9 trillion, or 6.7% of GDP, for the 2024 fiscal year, $400 billion higher than its February estimate. Anyone can see that the US debt is on an unsustainable path higher, and the threat is only exacerbated by the Federal Reserve's aggressive monetary policy. This is exactly why Central Banks are buying more gold.

Many people are unaware of the considerable change to the financial system which is approaching, for example, nearly 80 percent of global oil sales are priced in dollars. However, Russia, Iran, Saudi Arabia, China, and others are increasingly shifting to local currencies in energy trade. In 2023, 20 percent of global oil was bought in other currencies (as per the Wall Street Journal).

The established financial trading system world has been stable of the past 50 years, but this system is under threat and is now transitioning to a new and unknown paradigm, clear evidence of this change can be seen by that fact that the petrodollar agreement between the US and Saudi Arabia was allowed to expire at the end of last week.

The term 'petrodollar' described the US dollar's role as the currency used for crude oil transactions on the world market. It's been in place since the early 1970s, a period when the United States and Saudi Arabia signed a deal following the US retracting from the gold standard, this important and historic agreement has had significant effects on the global economy.

The petrodollar agreement came about following the 1973 oil crisis. It stipulated that Saudi Arabia would price its oil exports exclusively in US dollars and invest its surplus oil revenues in US Treasury bonds. This in exchange for full military support and protection from the US.

This led in turn to the US dollar attaining its current position as the world's reserve currency, it also brought with it a period of prosperity for the United States as they enjoyed the benefits of being the preferred market for global corporations to sell their wares. Additionally, the inflow of foreign capital into US Treasury bonds has supported low interest rates and a robust bond market.

With Saudi Arabia now clearly seeking to sift away from what was an exclusive relationship with the US things will change, for those in doubt the Kingdom has recently signed up as a BRICS block member.

Many analysts have stated that the threat to the US dollar's status as the reserve currency may be exaggerated, however almost all acknowledge the fact that the expiration of the petrodollar agreement has the long-term potential to weaken the US dollar and US financial markets.

For now Saudi Arabia are accepting US dollars in exchange for oil, but there are several of the world's largest economies attempting to alter this. For example, China for years have been actively courting Saudi Arabia to accept the yuan for oil purchases, and while the Kingdom has thus far refrained from making the switch, recently they have expressed openness to this. A change is coming, a big change! At present the Saudi Riyal is pegged to the US dollar, which means that Saudi Arabia would, for now, use the US dollar to support its currency.

But the recent moves which have seen the end of the petrodollar agreement could be bad for the US dollar insofar as Saudi Arabia may decide to convert these non-US dollar currency proceeds into other assets, such as gold. Saudi's recent acceptance into the BRICS bloc could potentially influence their decision. Importantly if swayed and Saudi Arabia moves to expand beyond the US dollar, such a move would materially weaken the US dollars dominance in the oil market, and this in turn would negatively effect its place on the world stage. A decline in global demand for the greenback could result in higher inflation, higher interest rates, and certainly a far weaker bond market in the United States. Buying gold is a given then!

William Gray
The RIO Club