The only reliable gold and silver futures are shares in mining companies

Interest rates are blowing out and the question is who goes first

January was the worst month for European government bonds in history with all the bonds blowing out. TCW, the US asset manager that runs world's largest actively managed bond fund, has eliminated its exposure to Eurozone bank debt over fears these lenders are "excessively risky". Soon the interest rates will reach crucial levels led by the US. What I mean by that is that the US Treasury 10y rates will reverse the 35-year trend and exceed the 3% level which will cause huge bond losses. The way the US interest rates go the rest of the world goes especially in the intertwined world we are living today.

10-year U.S. Treasuries are resting at 2.45% because the ECB and BOJ are buying $150 billion a month of their own bonds and much of that money then flows from 10 basis points JGB's and 45 basis point Bunds into 2.45% U.S. Treasuries. A $12 trillion global central bank balance sheet looks permanent and is growing at over $1 trillion a year, thanks to the ECB and the BOJ. Without that financial methadone, both bond and stock markets worldwide would sink and produce a tantrum of significant proportions. Gross believes that without QE from the ECB and BOJ that 10-year U.S. Treasuries would rather quickly rise to 3.5% and the U.S. economy would sink into recession. And with scarcity of supply of long-term government bonds the illiquidity is severely constraining the efficiency of the bond-buying program of the central banks in keeping interest rates down.

We see situations of upward pressure on interest rates in Europe with Italian interest rates rising from 1% in the beginning of September to 2.35% (+135%) on January 30, 2017. In Germany the pace of inflation more than doubled in December, driven by a surge in oil (low base effect). Consumer prices rose 1.7% from a year ago, recording the biggest jump on record according to the Federal Statistics Office in Wiesbaden. German interest rates rose from a negative 0.20% at the end of September to a positive 0.50% on January 30. And then we of course have the Japanese situation. Japan's 10-year yield surged as traders judged the central bank's recent expanded bond purchases of 450 billion yen ($4 billion) to be insufficient to cap borrowing costs as global rates continued rising and steepening around the globe. As a result the 10Y yield on the JGBs rose as much as 4 bps to 0.14% on February 2, 2017, the highest since January of 2016, the market was clearly hoping for even more. Furthermore there may be a scarcity in long-dated supply, arguably the stuff of Kuroda's nightmares. We see the same situation of scarcity of supply everywhere and thus the failing of the central banks policies.

Italy world's third largest bond market (€2.2trn) could cause the dominos to fall

Italy is the third or fourth largest bond market in the world amounting to €2.2trn with bank NPLs (Non-Performing Loans) of €360bn and youth unemployment of 40%. Do you think that Italy raising €20bn and "rescuing" Monte Paschi with €8.8bn solves the Italian banking crisis? Think again what do you think what interest rates rising from 0.99% September 1, 2016 to 2.35% on January 30, 2017 are telling us. If it is risk or inflation doesn't really matter rates have more than doubled since September and I think we will see 4% in Italy before the end of 2017 worsening the Italian debt situation further. Next

to that without any stable Government, from 1945 to 1994 (49 years) Italy had 61 Governments, how much accountability do you think there really is and time to seriously tackle structural problems. On January 25, 2017 Italy's Constitutional Court approved a new voting system based on proportional representation that raises the chance of an early election this summer whilst for the time being an interim cabinet has been appointed. On top of the Italian conundrum we have the elections in The Netherlands, March 13, France, April 23 and Germany, September 2017 that are clearly signifying a pull to the right, with people fed up with politicians and an islamitization of Europe, representing multiple potential exits from the EU which each can cause the break up of the EU with all its consequences.

The tools in the toolbox are getting exhausted and there is no plan B!

It should be clear by now that it looks like all the tools in the toolbox are getting exhausted and it feels like all these events are converging with the weakest chain (3% US Treasury rates, China's Yuan, Italy's banks/bond market) snapping first subsequently followed by the lesser weak chains. This world is more interconnected than it has ever been (all banks hold billions of national and foreign government paper and international trade) in history and therefore the danger of a global ripple effect is more serious than ever. France for example holds in excess of €250bn of Italian bonds. And Germany stands out as the biggest creditor with net claims of €754.1bn. They can kiss goodbye to that money! Less than 4 years ago, and shortly after his infamous "whatever it takes" threat to speculators, Mario Draghi responded to a question, saying, "there is no Plan B" when it comes to contingency plans for a Eurozone nation leaving the monetary union. So much for that, he is basically saying "bad luck" if it doesn't work.

Draghi was also quoted saying "that member states can exit the EU but first have to repay their debt". Though when like Italy you have €2.2trn in Government debt and a Debt/GDP ratio of 132%, youth unemployment of 40% and NPL €360bn+ explain to me how you are going to repay debt being Italy or any country for that sake? And when Italy reinstates the Lire how is this currency inheriting a huge debt load going to be well positioned to repay the huge Euro debt? Well in one quite simple answer it will not, it will further undermine the credibility of debt and the currencies. Conclusion ergo an exit of Italy out of the EU will cause huge debt defaults. And I don't believe investors will massively flee into the US dollar because an Italian exit will finally make investors aware that debt is debt and the situation isn't better in Japan, China or the US for that sake.

All paper contracts represent counter party risk

Inflation and risk and thus interest rates are rising and will reverse the 35-year US 10y interest rate trend and will trigger substantial losses in real estate, car loans, equity markets and bond markets and therefore the US dollar. And investors' main concern will be to preserve their capital avoiding counter party risk investing in an asset class that is inversely correlated to paper assets: gold and silver and the gold and silver mining companies.

Paper obligations like futures, ETFs, bonds, shares, derivatives and their value are all dependent on the counter-party being able and willing to meet its obligation. If counter parties can't meet their obligations your piece of paper representing the obligation of the

party that has to perform doesn't have any value but the value of the piece of paper and thus zilch, nada. And when there is overall loss of credibility in the financial system this is exactly what happens. That is why one wants to hold tangible assets in order not to encounter this problem. It should be emphasized that real estate although it is a tangible asset can in fact be regarded as a derived intangible or paper asset because all or most real estate is financed with credit. And when people can't pay their mortgage payments anymore forced sales will have an add-on effect on the value of real estate as we have seen in 2008/9. And even conservatively financed mortgage holders will get into problems because their underlying real estate/equity value declines too much following fire sales of surrounding real estate.

In general physical gold and silver (money) are not financed with debt and therefore don't encounter this problem. Next to that the value of gold and silver is in the asset itself not depending on the obligation or performance of another party (that is if you don't keep your precious metals in the bank!). So no counter party risk unless confiscated of course.

Margin (fraction) fuels speculation whilst physical installs discipline

Now I turn to the gold and silver futures and gold and silver mining shares. As we know gold futures are standardized, exchange-traded contracts in which the contract buyer agrees to take delivery, from the seller, a specific quantity of gold (e.g. 100 troy ounces for gold and 5,000 troy ounces for silver) at a predetermined price on a future delivery date. And what facilitates leveraging gold and silver price movements through the futures markets is their small margin. When trading stocks, the equity market allows participants to trade on up to 50% margin. Therefore, one can buy or sell up to $100,000 worth of stock for $50,000. In the world of futures contracts, the margin rate is much lower. In a typical futures contract, the margin rate varies between 5% and 15% of the total contract value allowing for a 20x to 6x leverage.

Margin is a deposit that a market participant has to post with the exchange-clearing house. Think of margin as a down payment on the full value of the contract that you are trading. Margin has two benefits for market participants; it guarantees anonymity (the exchange is always your counterparty), and it "eliminates" counterparty credit risk from the transaction. Exchanges are regulated by the CFTC and have plenty of funds on hand to meet all obligations. Those funds come from the margin collected by market participants. Since margin is only a small percentage of total contract value it enables a tremendous amount of leverage and liquidity in futures markets. Hence why we see that the amount of registered gold inventories on the Comex is only a "fraction" of the number of paper gold futures contracts. Though the main reason is that as long as the US dollar doesn't devalue in a way that investors lose their belief in the credibility of the US dollar all gold futures contracts can be settled nominally or in US dollars. After all gold, considered both a commodity and a currency, is used as insurance against currencies and market fluctuations. Gold is the best collateral you can have hence why the interest rate on gold is the lowest of all asset classes that is under normal circumstances. Gold Forward Offer Rate, or GOFO, which is not published any longer!!!! Is the interest rate at which gold owners are prepared to lend gold on a swap against US dollars. For example, if investors own gold and need to borrow dollars, they can use gold as collateral and potentially pay a much smaller rate of interest to borrow the cash than otherwise.

Unequivocally the Comex doesn't have enough collateral, same situation applies to banks

Though the moment investors start losing the confidence in the US dollar f.e. because Trump pushes it down with his remarks in order to improve the US export position gold futures investors might have change of heart and will ask for physical delivery and don't want settlement in a declining paper dollar. Remember because its inverse correlation gold is the mirror image of the US dollar, the reserve currency. In that case the Comex won't be able to meet its delivery obligation because there just won't be enough physical gold available for settlement from the registered inventories. The ratio gold paper futures contracts versus the number of physical ounces in registered inventories amounts to 100-500:1. And hence the Comex will have to call in the force majeure clause, or nominal settlement, if most investors demand physical delivery. The paper gold price will go through the roof though what will ultimately determine the gold price is the physical gold price because who doesn't have the physical has nothing remember paper is paper. And what we see is that the price for the physical gold will be the only price and will be priced at a huge premium to the paper price if that is still quoted at all. We will get a two-tiered pricing system kind of similar what we saw in the period 1968-1971.

The difference in price between the paper or futures and the physical will be the price for counter party risk. Anyway my point is that if investors demand physical delivery instead of nominal settlement in US dollars that those gold paper futures won't have any value any longer because the Comex simply doesn't have the inventories to deliver the gold from. Before the collapse of the futures prices the Comex will first increase the margin in order to suppress the gold and silver prices to frustrate demand though this will be just a matter of time especially when investors finally understand that physical gold and silver are the only spiel in town. And just reflect who is going to sell his or her gold or silver for worthless paper, money, even if it is priced at $2,000, $3,000, and $4,000 per ounce. Gold and silver will go bid only, when there are many buyers and virtually no sellers!! Nobody will sell his or her physical gold and silver that has inherent or real value for paper that relies on the credibility of the monetary institutions and the economy and won't have any value but the value of the paper. And therefore price estimates for gold of $10,000 or $50,000 are not realistic because when money doesn't have any value anymore one can attach any price in worthless paper to gold though no gold holder will sell.

Futures won't have any "future" any more when physical delivery is demanded

In other words gold and silver futures will have no future anymore when investors only want physical gold and silver! That brings me to shares in the mining companies that mine for "future" gold and silver. The shares in the mining companies and especially the ones that are in operation and mining for gold and silver are in my point of view the real futures. These mining companies are mining the future gold that is in situ in the ground that has not been moved yet from its original or natural place of deposition. A future is a standardized exchange-traded contract whereby the buyer agrees to take delivery, from the seller, a specific quantity of gold (e.g. 100 troy ounces) at a predetermined price on a future delivery date. And one could see the analogy with mining companies producing gold and silver ounces in the future, whereby the seller is the company, managed by the management, selling the future production at the spot price on the future date it becomes available for sale. The shareholders are basically the holders of that contract, executed by

the management, participating in the profits of future gold or silver production. If a company has lets say 3moz in gold resources and the company has 100m shares outstanding then every shareholder is owner of 3moz/100m= 0.03oz of ore in the ground which has a gross value of 0.03 x $1,235= $37.05. And of course the mining and processing and G&A costs will have to be deducted and the NPV should be calculated but you get the gist. The difference is that when in possession of a 43-101 comparable report and a feasibility study the ore is in the ground and available for mining that is different from the Comex operated Ponzi scheme with basically no real assets in registered inventories to account for to cover the number (100x-500x) of gold and silver paper futures contracts outstanding.

In other words if you want the real future and invest on the future price rises for gold and silver buy shares in gold and silver companies that in general enjoy a beta of 2 and higher (silver companies). And buy the shares when money still has any value because when the value of the paper or fiat currency gets obliterated shareholders in mining companies will not sell their shares any longer. Anyway my point is don't buy the Comex futures that are based on the fractional system (same system as used by the banks) with low margins and NO physical back up to speak of and no accountability for failing to deliver. As mentioned before "COMEX GOLD AND SILVER FUTURES DON'T HAVE ANY FUTURE"! As a last remark I want to emphasize that some countries might confiscate gold (as happened in the USA in 1933) and silver and the mining companies or ordain that the gold and silver produced by the mines can't be exported (like in China). When we get at that stage things are really bad and it is everybody for themselves!

The dollar will go down; too many people are bullish on the dollar

As mentioned the US dollar, which is inversely correlated to gold, is ultimately the spill in the performance of gold and silver. Is history set to rhyme a cycle of 360 months from 1987 based on Gann calling a weekly top in the US dollar and Peter Navarro, head of Trumps' Trade Council not yet calling China a currency manipulator indicted Germany for the same economic crime leading to the theft of American jobs.

You can detect a W formation in the US dollar chart with peaks at March 2015, November 2015 and December 2016. And when the US dollar index falls below the 99 level the fall in the dollar can accelerate. Especially also because of Trump's announcements that the US dollar is too strong and that other countries like China and Germany are taking advantage of the strong dollar. It basically is the classic trade war rhetoric, as used in 1987, using threats of currency devaluations to stimulate exports and causing a major drop in the US dollar. This could have all kinds of consequences such as higher interest rates and a much higher gold and silver price.

Conclusion: Physical gold and silver and the shares in the gold and silver mining companies as the only assets as last men standing with no counter party risk. "Futures don't have any future"

As a result of the undermining of the fiat currencies and especially the reserve currency the futures market must ultimately go to a 100% margin thereby exposing the inability of the exchange contracts to function because the Comex doesn't have enough physical to back up the paper contracts. More importantly it will void the fractional gold and silver futures system, which will also void the fractional banking system because in the end the monetary system is derived from gold as the ultimate anchor. When people demand delivery of the physical gold and silver instead of nominal settlement with US dollars it means the trust in the dollar, as a store of value is gone why otherwise choose physical delivery.

Believe it or not but without gold there is no security. Why do you think the largest economies have such large gold reserves? Because it is a barbaric relic? Think again!

1. United States	8,133t	Percent of foreign reserves: 74.9%
2. Germany	3,381t	Percent of foreign reserves: 68.9%
3. Italy	2,452t	Percent of foreign reserves: 68%
4. France	2,436t	Percent of foreign reserves: 62.9%
5. China	1,798t	Percent of foreign reserves: 2.2%*

* We all know that the Chinese "official" gold reserves are more likely to be between 10,000-20,000 tonnes if not more.

Why do you think gold silver futures with their low margin requirements mirror the fractional banking system where 10% or less is available to meet cash requirements? It is based on the same principle that banks and the Comex don't believe that deposit holders or gold futures investors will all ask for their deposits and physical gold at the same time. They have a sort of blind trust and are oblivious to the fact that the system will break when you abuse it enough. The CDS debacle with AIG in 2008 has shown us how wrong these people can be they can think only one way. Hence why the Fed was forced to pump $3.5trn to $4trn in the market thereby also avoiding the potential failing of the Comex whereby investors would have stood for physical delivery of their futures contracts. The injection of the trillions of dollars took the focus off the real benchmark of stress in the system: gold and silver. And as such created the illusion that things are ok whilst we know that all the stats published by the Government are purely to color the rosy picture that is not backed up by the real economics. We have to wonder what will happen next

time the system gets close to default. An injection of $15-20trn? And what will that do to the US dollar in terms of purchasing power. And what will happen to the paper and physical gold and silver markets?

Price determination of the precious metals will become a physical metals affair where in price determination it is up to the physical market only. What is a paper contract that cannot perform, that can't meet its obligations of physical delivery worth? How does the Federal Reserve take that derivative contract on to its balance sheet as was plan A for all derivatives in 2007. It does not because if it does it basically signifies the failure of the futures. This leaves physical gold and silver and the shares in the gold and silver mining companies as the only assets as last men standing with no counter party risk. "Futures don't have any future"

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8 February 2017