INVESTMENT FOR WEALTH

General report

Comments for December 2014

Will 2015 be the mirror image of 2014 in the gold market?

Remember 2014 started with a nice surprise. Gold had an intermediary rally and our gold mine fund gained progressively more than 65%, just to see it all lost in the final quarter of 2014.

We think 2015 could bring the inverse, a bad start and a pleasant yearend.

Why? Let's take a look at the different market forces that influence the price of gold to make an educated guess on 2015 gold price movements.

First we look at the physical demand for jewelry, the so called Love Trade

We assume that Chindian demand will grow and especially in the second half of 2015. For India we expect lower central bank rates from April onwards, which should boost Indian GDP growth and in India real growth means also growing demand for gold. Further on we expect positive changes on the gold import tax rules, also helping to make Diwali-demand grow decently from the start of September towards the end of November 2015 (above 2000 tons for these months)! For China we also see gradually more help from the central bank to sustain GDP growth above 6%. So here as well, we see the fear for a recession in China gradually fading in 2015.

Second the Fear Trade demand

Here our scenario also favors a stronger gold price towards the end of 2015. The coming ECB QE action will help the market to believe that such a policy will strengthen Eurozone growth, overcome deflation and overcome PIGS starting to default. We believe that after some months of implementing Euro QE, the hope for growth will not be fulfilled and the euro crisis will restart with a vengeance. With Bunds already at 0.50% before QE, gold will become a euro safe haven just like the dollar already is. As Western central bankers become powerless to create inflation, fear will also infect Japanese assets and stimulate the Fear Trade.

Third the US dollar and gold demand

The US dollar is in a secular bull run. This move is against all currencies with the exception of the Yuan and the Rupee to some extent. If those two currencies would also fall heavily, world economic chaos would become inevitable. To prove the dollar status just look at how the euro is losing market share in the worldwide financial reserves of central banks. The dollar was the only one to see its share grow in 2014; it went from 60.7% to 62.3% and still has room; it was at 72.7% in 2001. The euro share fell from 24.1% to 22.6% in 2014, the lowest since 2002. The euro is on the first trading day of 2015 flirting with the 1.20 level. Fair value for the euro against the dollar is around this 1.20 -1.18 level as stated by big financial houses like Pictet and others. As currencies never correct just to their fair value, an overshoot to 1.10 - 1.08 is likely in the first half of 2015. So we see the US dollar and not gold be the most preferred safe haven in the coming months. Further dollar strength beyond this 1.10 - 1.08 level would in our opinion no longer act as a brake for gold to rise. Indeed once the dollar overshoots this level it would derail so much world trade and press commodities down so hard that deflation fears would engulf the whole world. Gold fear demand would reverse gradually, surpassing the levels seen in 2009-2010. We see such dollar levels occur once the market begins discounting failure of Eurozone QE. September October 2015?

Central banks and gold demand

Will some emerging central banks like Russia, Venezuela , Argentina etc. sell gold in order to defend their currencies? We think that China will offer them swaps secured by gold and other commodity assets. So we think that this gold will not impact the market. But until this is officially recognized, the possibility of such distressed sales is a negative for the gold price. Once the euro crisis has fully restarted, there will also be fears of gold sales by Italy and France. Over-indebted euro countries will be tempted to use some of their gold reserves to finance big infrastructure projects; you can already hear the argument : "this is better for growth" and "gold bears no income for the country". If such a sale occurs after September we think the PBOC will be the buyer. The PBOC has repeatedly said that it won't augment its dollar reserves further, so once the dollar strengthens towards 1.08, the PBOC will be all too happy

INVESTMENT FOR WEALTH

to buy central bank gold in order to diversify new reserves away from the dollar.

Chindian interest rates will be lowered in 2015, so from this side no pressure on gold. The Fed interest rate hikes in 2015 will be a positive for gold. The earlier they come the better. As most participants see Fed rate hikes to start in June, here as well, this positive force for gold will be more something of the second halve of 2015.

Indeed Greenspan has it right : rising US rates will be positive for gold … and this the market will discover in 2015. I quote : "The Fed's balance sheet is a pile of tinder, but it hasn't been lit … inflation will eventually have to rise."

The liquidity-surplus, banks store at the Fed will only begin to turn around in the real economy when the Fed normalizes rates. Only thereafter will money velocity in dollars start to rise. Gold in monetary terms needs this to ignite its bull run again and to push it to new all-time highs!

We can't resist to mention Alan Greenspan also on Central Banks, Stagnation, and Gold : http://www.cfr.org/financial-crises/alan-greenspan-central-banks-stagnation-gold/p33699
dated 29 October 2014. Read it, it foretells financial turmoil and euro crisis

Gold as a commodity, supply demand

Supply from mines will be limited if not falling from 2015 onwards, at least for several years. ETF Gold sales will be meaningless in 2015. On the contrary, somewhere in the second half of 2015 we see ETF physical gold holdings growing again. Scrap gold is also not suspected to rise in the Western world after 3 years of falling gold prices. Exits from commodity funds could still be seen in the futures market, reinforced by the crashing oil price but we anticipate that this selling will also be exhausted somewhere by the fall of 2015. Central banks will also not augment supply. Demand will steadily rise from Chindia; the destocking from the abnormal high demand after the abrupt April 2013 price fall seems to be completed.

Conclusion

We think that all the forces will have turned gold positive towards the last trimester, even the dollar. And central bankers fighting deflation will be more on the hand for gold revaluation too! In a normal world, mines should anticipate with some 3 to 6 months. Falling energy prices help reduce production costs for mines in the meantime.

We will stay the course and adapt our scenario based on how the cited market forces evolve during 2015.

Happy New YEAR and a Fruitful 2015

Performances and trading

iW Alternativ SIF – Low Risk

The fund has decreased by 0,9% in December, NAV 8.930,27 EUR.

iW Alternativ SIF – Commodities

The fund has increased by 1,0% in December, NAV 281,90 EUR.

iW Alternativ SIF – Real Value Growth

The fund has increased by 1,2% in December, NAV 57,46 EUR (I), NAV 56,19 EUR (P)

Best regards,
The fund manager