THE NORTHERN MINER

GLOBAL MINING NEWS · SINCE 1915

OCTOBER 15-28, 2018 / VOL. 104 ISSUE 21 / WWW.NORTHERNMINER.COM

Portfolio managers weigh-in on future for gold

PRECIOUS METALS SUMMIT | Positive outlooks for gold in 2019, 2020

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Precious Metals Summit Conferences wrapped up its annual three-day event in fine form this year in Beaver Creek, Colorado.

The eighth consecutive Summit ran from Sept. 20–22. Temperatures rose to a high of 17°C, as is typical in the region that time of year, and the sun shone across a cloudless sky.

"This is a good time to come visit because it's our most colourful season," the cab driver says during the half-hour drive from Eagle County Airport to Beaver Creek. She gestures to Colorado's surrounding Rocky Mountains, streaked with red, orange and green.

More than 150 precious metals companies attended this year's Precious Metals Summit, with a generally positive sentiment about the future of gold and silver, despite low spot prices of US$1,200.90 per oz. gold and US$14.50 per oz. silver at the time of writing.

"Our expectation is that in 2019 we're going to see a much more constructive gold market," Tocqueville Asset Management portfolio manager Doug Groh tells *The Northern Miner* from a conference room at the Summit. We sit in an outdoor tent. A chairlift dangles over the green hills behind us.

Tocqueville manages US$1.5 billion dedicated to the gold-mining sector. The company is invested in gold mining mostly for exposure to gold equities and gold bullion. It thinks monetary policies around the world become dysfunctional over time, to which gold provides an excellent hedge.

"We found that gold is a good, non-correlated asset to an overall portfolio," Groh says. "When other investments may be doing well, gold may not be doing well, but when investments other than gold are doing poorly, gold often

Attendees at the 2018 Precious Metals Summit in Colorado. SONIA SLEE PHOTOGRAPHY does quite well to offset that poor performance from other sectors."

He says that trend is especially true of the gold price in relation to the U.S. dollar. When the U.S. dollar performs strong, as is the case right now, the gold price suffers. When the U.S. dollar weakens, investors turn to gold as a safe haven.

Van Eck Associates portfolio manager Joe Foster shares that sentiment, but admits there are exceptions to the rule.

"There are times where they do correlate, and the last time we saw a strong correlation was during the financial crisis, when both the dollar and gold were being used as a safe haven," Foster says. "But generally the first safe haven of choice is the U.S. dollar, and when we have systemic risks that threaten the financial system — threaten the U.S. economy — then gold becomes the ultimate safe haven."

He points to the Italian financial collapse and the U.S. mid-term elections as sources of volatility that could create new levels of geopolitical risk. He says those are the types of catalysts that could drive up the gold price, but also that as we move through 2019, this economic cycle will likely come to an end.

"That brings out all kinds of problems in the financial system that drives gold much higher."

For Dynamic Funds' vice-president and portfolio manager Robert Cohen, those catalysts are emerging right now in the form of U.S. President Donald Trump's trade wars.

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"What we can expect in the next couple of years is for Donald Trump's trade wars to morph into currency wars, and that's when gold will really start to be rocket fuelled," Cohen says.

"So in this — call it 'first inning' — don't expect much, but in the next inning, we'll see a lot of action in the gold price."

He expects to see a bit of a global currency war coming in the next couple of years, and along with it, headline inflation increases.

Cohen adds that if the trade wars manifest in higher U.S. consumer prices, "people will start realizing that a dollar's not a dollar anymore, and they'll wake up to that and start looking for alternatives like gold to protect their purchasing power."

Groh agrees that geopolitical events play a factor in the gold price, but adds that the price also responds to higher interest rates.

"Gold responds to a lot of things," Groh says. "That's why gold is a rather unique hedge in a portfolio."

Groh says that higher interest rates could force the U.S. economy into a recession, which could raise the gold price as investors seek a safe haven.

However, Cohen says it's a balance between a market that is too healthy for gold and one that isn't healthy enough.

"Gold is one of those things that doesn't work when things are really good, because there's no need for a flight to gold," he says. "It works when things are bad, but it actually doesn't work when things are really, really bad, because it becomes a liquiditive last resort."

He points to the ongoing Turkey financial crisis as an example.

"Their central bank owns a lot of gold, and they're selling the gold to keep the country afloat," he says.

Like Groh and Foster, Cohen expects upward movement in the gold price in 2019 or 2020. Foster adds that the worst has already happened for gold investors.

"We're forming a massive base in the gold market," Foster says. "The bottom was December of 2015. I regard that as the bottom. That was the end of the bear market in gold, and since then we're just forming a massive base trading at a range between US$1,100 and US$1,300 an ounce, essentially." TNM