BORDER GOLD CORP.
DEALER IN PRECIOUS METALS

Macro Market Insights

November 30th, 2014

Robert Levy
MA (Economics)
Director
rlevy@bordergold.com
(604) 535-3287
www.bordergold.com

Swiss Votes…No

In the wake of the Swiss referendum on whether the central bank should increase their allocation to gold, investors are tasked with the question, is the no vote yet another reason to be bearish on gold at present time. Voters clearly rejected the question of whether the Swiss National Bank (SNB) should hold at least 20 per cent of their balance sheet in physical gold, which would have lead them to the purchase of 1500 metric tons over the next five years.

Even though some gold bugs were clamoring on this vote as a reinforcement for responsible management of a country's currency, especially in the wake of quantitative easing and rapid expansion of the monetary base in countries like the US, Japan, and potentially Europe, this vote was more about anti-EU sentiment and the euro's influence on the Swiss Franc. In the near term, its certainly possible some noise or gyrations leads the market to react to the "No" vote and we may see prices trade lower, but it too remains consistent with a strong US dollar trend that is yet to see gold return as that safe haven asset.

Citibank's Willem Buiter made headlines this week leading up to the vote as he strongly advocated for the "No" position. It shouldn't really come as a surprise that like-minded academic economists believe in leaving the autonomy of central bank operations with the people who manage that institution and not subject to populist regulations. Especially because a central bank is in place to instil longer term views than perhaps myopic policy decisions witnessed in different levels of politics.

Buiter, however, did stress one key point that it's important for even those in favour of the floor on gold reserves, and that is requiring a central bank to hold a minimum amount of gold ultimately decreases the values of those gold holdings to zero. As we know, gold standards ultimately fail. As the Citi Global Economist said, gold has been in a 6,000 year bubble, arguably making it the longest-lasting bubble in history, but that's not really a surprise. A bubble is anything that is priced above its intrinsic value.

The intrinsic value of gold is something that economists have been trying to put a mark on for years. The typical arguments when comparing it to another financial asset are it doesn't produce cash flow, and not providing any right to future earnings or repayment minimize any fundamental value it might have. What we do know about gold is that history has proved it to be a commodity that is tied to the global monetary system, and its limited supply and negative correlation to the world's reserve currency make it a popular hedge when diversifying a portfolio.

Inevitably, the price of gold might be the longest bubble in human history, but if that is indeed the case, what will change that? The famous words of former US Federal Reserve Chairman, Ben Bernanke during a senate testimony were, "no one really understands gold prices." That's because how we value or price assets in today's financial world doesn't apply to gold. Gold is and always has been a hedge. Setting a predetermined or fixed allocation of a balance sheet to gold will ultimately devalue it because it takes that metal out of the market permanently, and the price adjusts. But gold's flexibility and role in a dynamic investment environment, as we are in today has been proven over the life of its 6,000 year bubble.

BORDER GOLD
CORP.