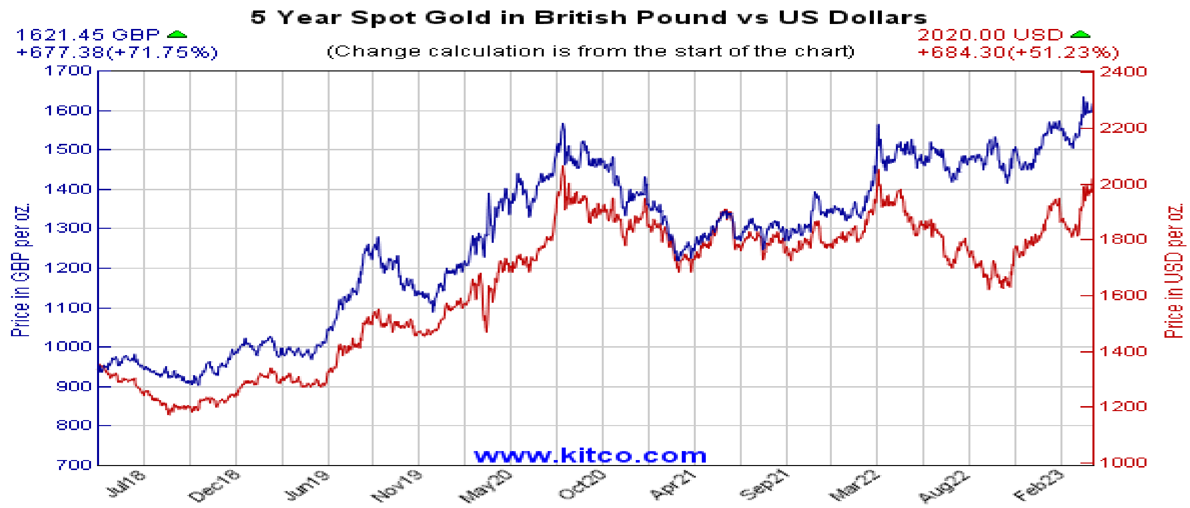
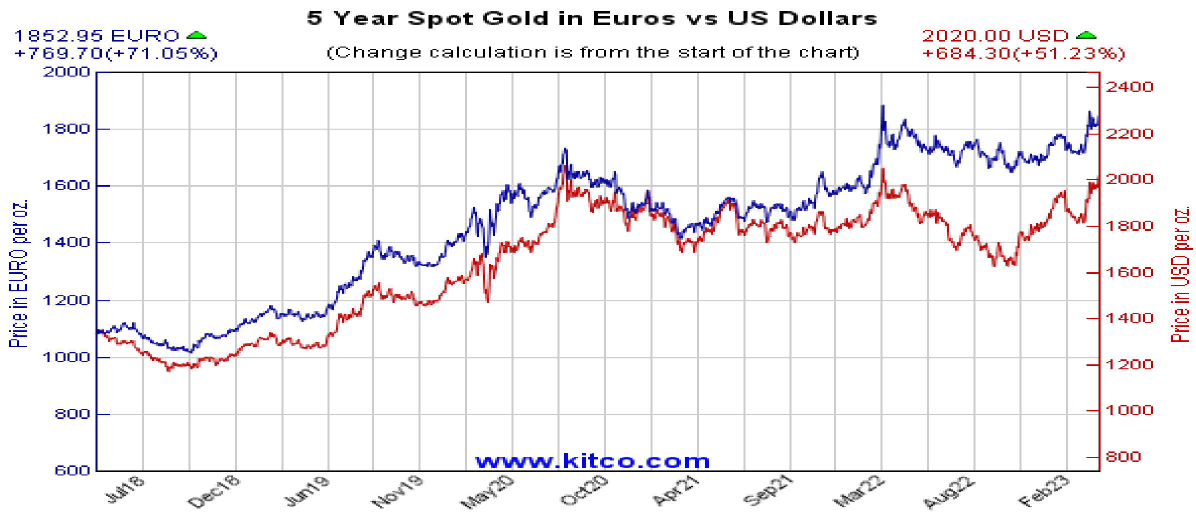
TIM UNDERWOOD

Monthly Report – March 2023

Whenever the price of gold is quoted in the newspaper or on television it is in US dollar terms but for many people the US dollar is not a relevant currency. For those of us living in Europe the price in terms of British pounds or Euros is more meaningful. The currencies we spend, our base currency. If the price of gold in US$ rises 5% but the US$ falls 10% compared to the pound and the Euro then it is not a positive investment. Below are charts of gold in pounds and Euros over the last five years as at 4 April 2023.





Priced in pounds gold has recently touched a new all time high and grown 71% in the last five years. In Euros gold has also been strong but in US dollar terms it is still lower than mid 2020.

Gold can be thought of as a separate currency and its price varies in different currencies. Like a currency it is sought after if it is considered stable and likely to rise compared to the base currency. It is also considered an inflation hedge. If governments print lots of paper money and inflation is the result gold becomes more attractive than holding the inflationary currency. But it also becomes attractive in times of financial concerns.

Recently we have seen banks in the USA collapse and in Switzerland the 166 year old Credit Suisse was suddenly taken over by UBS on a Sunday. If we see more such concerns it is likely investors will want to hold some gold.

While gold has been a good investment over the long term, over shorter periods it can fall relative to the main currencies. Rising interest rates make holding gold less attractive. The USA has been raising rates for nine months and the European central banks have followed however it can be argued that this cycle is coming to an end. That is the big question at the moment. Have central banks stopped raising rates and when will they start to cut them. One camp thinks rates will rise further and cuts are far in the future. The other camp sees recession soon and central banks will then quickly cut rates in an attempt to avoid recession and rising unemployment.

The inverted yield curve (see newsletter November 2022) implies recession is coming but the central bankers and politicians dismiss this signal. Another signal is the impact higher rates are having on the property market, especially commercial. Refinancing loans is now much more expensive than two or three years ago when rates were near zero. In the USA the largest private equity group, Blackstone has blocked redemptions in its huge real estate trust. Illiquidity meets redemption requests. Something to avoid.

One thing is clear. If recessionary threats do materalise central banks will swifty drop interest rates.

The January 2023 newsletter showed what then happens to the gold price. A dramatic rise and that is likely to happen in whatever currency is used as a measure.

Best wishes

Tim 6 April 2023

Disclaimer - This is not financial advice.
See www.timunderwood.com for details and newsletters
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