

THE BEAR CASE FOR GOLD



Russell Clark's  
Market Views

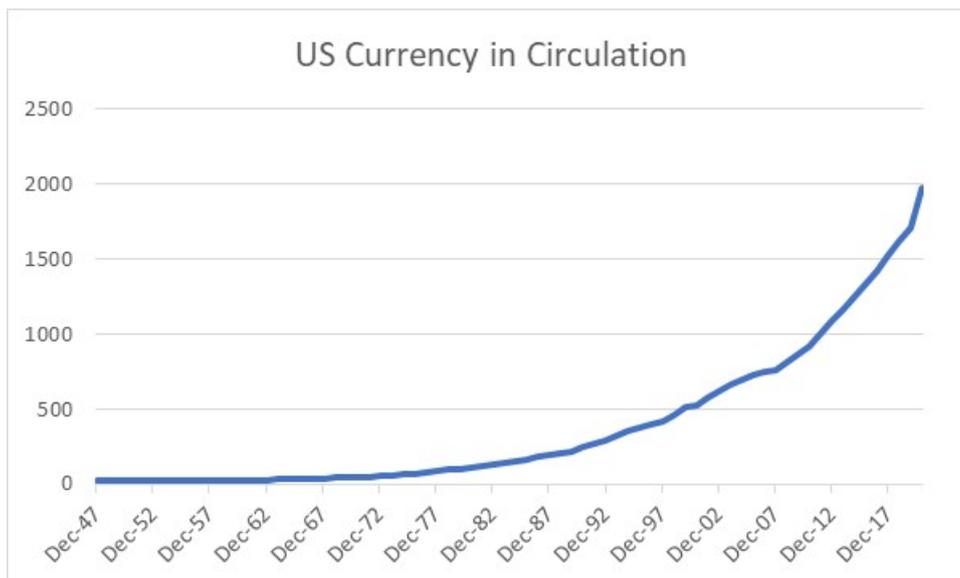
“The price of a Big Mac should match up with not only the cost of food, but prevailing wages and rent. In 2000 one ounce of gold bought 100 Big Macs. This increased to 400 by 2010. Currently it buys 350.”



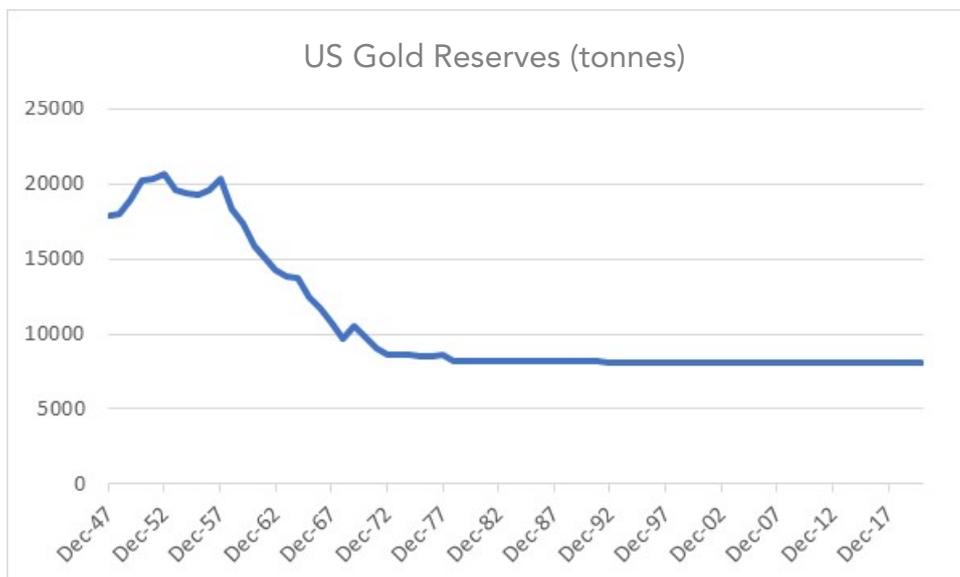
The supply of gold is finite. Gold has the benefit of an extremely long history of being recognised as both a store of money and medium for transactions. A long-term chart of gold in USD terms shows that it has held its value over the long term.



What is the correct value for gold? There are a number of different ways to approach the question. One view is that as more and more US dollars are printed, it will fall in value versus gold. If we look at the simplest measure of the US dollar, that is the amount in circulation, then we can see that it has had exponential growth since the financial crisis.

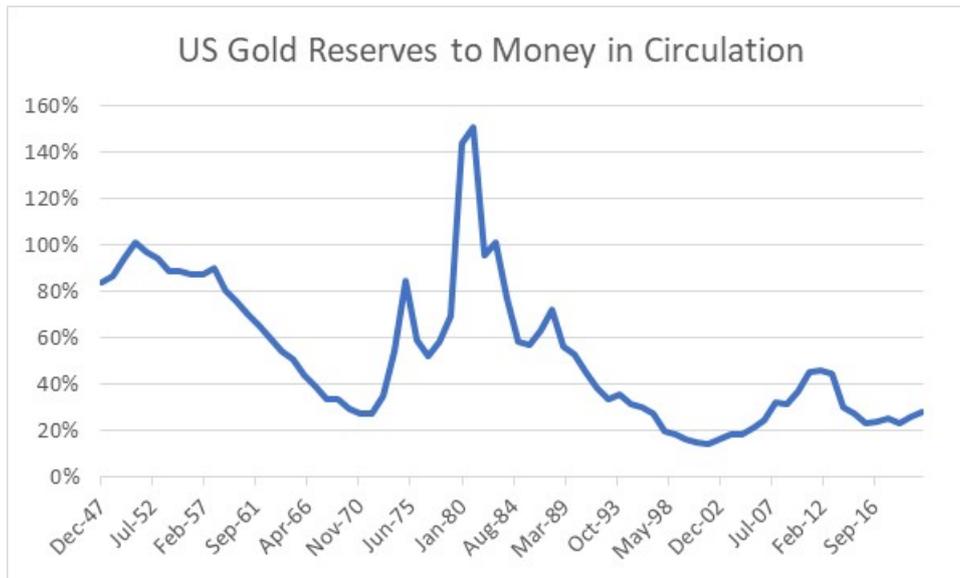


Gold and the US dollar were fixed in value until Nixon left the gold standard. US Gold Reserves were falling all through the 1960s and 1970s and were a good warning sign that the US dollar was in trouble, and gold was likely to move higher.

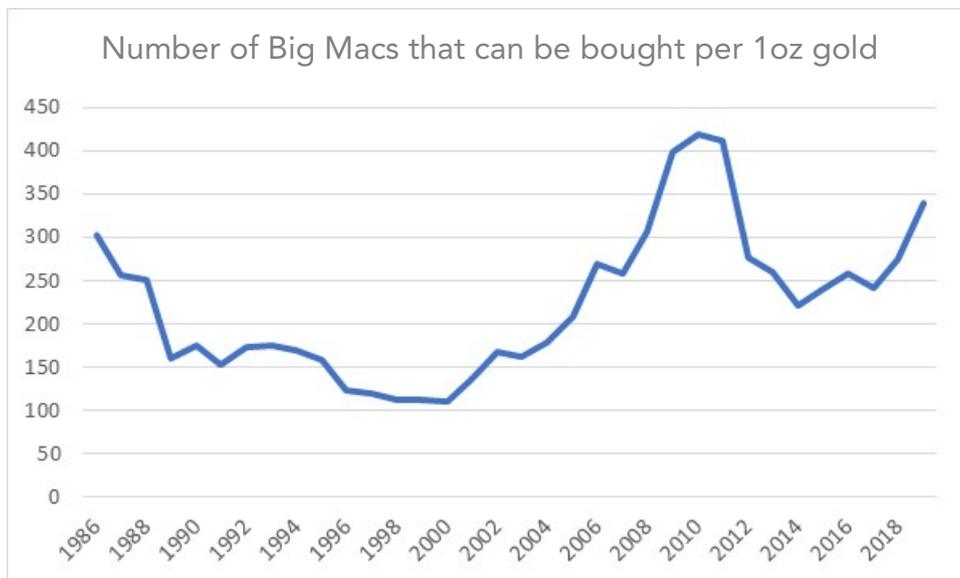


Source: World Gold Council ('WGC')

If we compare US gold reserves value (reserves times gold price) and compare to US currency in circulation, we see that gold reserves covered all currency in circulation in 1952, and again in the late 1970s and 1980s. This leads many gold bulls to target a price of gold that would again make gold reserves equal money in circulation. This gives a current price target of roughly USD 7000 per ounce.

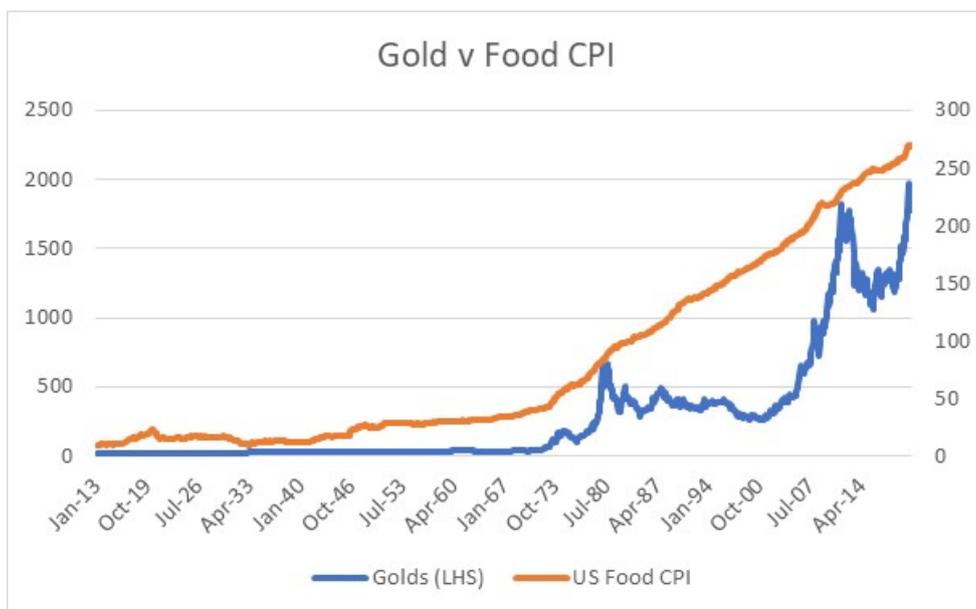


The obvious problem with this would be that the relationship between money supply and inflation has broken down. To show this we can look at the price of a Big Mac, which should match up with not only the cost of food, but prevailing wages and rent. We have good data from 1986 via the Economist Big Mac Index. One ounce of gold bought 400 Big Macs in 2010, up from a low of 100 in 2000. We have other data points, where in 1979, one ounce of gold bought 660 Big Macs, up from a low in 1970, when it only bought 66 Big Macs. The current ratio of 350, makes gold look expensive.

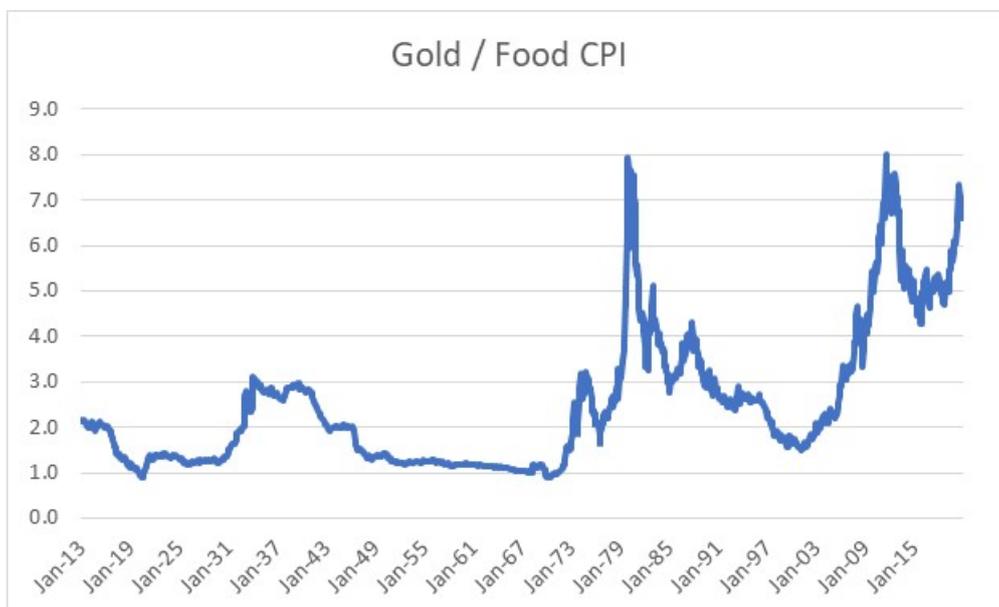


Source: The Economist

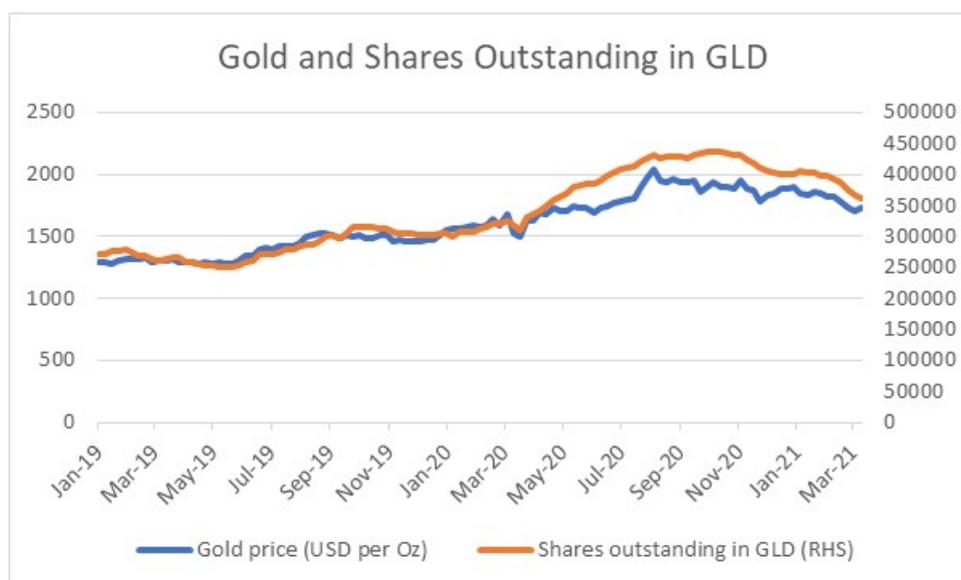
Gold in Big Mac terms is a nice contemporary feel to it, but using CPI data we can also look at the relationship of gold to food over a longer period of time. Prior to World War 2 food prices moved up and down, but post World War 2, took an upward bias.



If we divided gold by Food CPI, we can see that gold was cheap in 1970 and 2000, and expensive in 1980, 2012, and again in 2020.



In 2021, despite a generally inflationary view, gold has disappointed. Gold looks to be driven far more by fund flows, as its prices had matched inflows into the main gold ETF, GLD US, very closely.



Gold looks expensive versus food and fund positioning looks very long. Investors should be cautious on the outlook for gold.

## INFORMATION

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