BUSINESS MINDS: VISION FOR THE NEXT DECADE

Forbes Indonesia

OCTOBER 2020

10 YEARS
ANNIVERSARY ISSUE

Chairul Tanjung

"Entrepreneurs must be willing to embark on the next phase of development, which is to digitally transform their businesses by leveraging Indonesia's local talent and resources."

WWW.FORBESINDONESIA.COM

RP 60,000
ISSN 2087-1996
97 72087 99601

By William Gray

Gold Remains the Asset of Choice!

Seen as the ultimate hedge in times of financial turbulence, ten years ago gold's price was rising in a bull market following the financial crises. Towards the end of this run in March 2012, as gold was falling back and many were predicting the market was finished, I wrote my first article for Forbes Indonesia, "As Good as Gold?" where I went on record successfully predicting the price of gold would peak at later in 2012. Since then, I have written many articles on the reasons to hold gold as a means to protect one's wealth in times of uncertainty. Whilst one cannot predict the global financial position in 10 years' time, today we are already seven years into a massive bull market, where gold has broken through its previous all-time high and to say times are uncertain would be a vast understatement. With the financial system overloaded with debt, we are likely to enter yet another financial crisis just as ten years ago, this time a debt-related collapse as such. Gold is the ideal safe haven, so below are my thoughts on the current situation.

Due to recent events, the upcoming US election is by no means going to be business as usual, as such, there's increased risk, this will keep investors from selling their gold. A Biden win would spell big changes and, with it, a gold rally. A Trump victory shouldn't unsettle gold's current value, as fears of a second wave remain. That said, any good news on a vaccine could send gold's price lower, an announcement or conformation of a vaccine would likely send gold down to $1895, if seen it would be a buy.

Looking across the pond, on Friday the 18th of September, London's gold market rallied back to £1,515, this a previous record high, reached on the 28th of July. However, it is well below the current all-time high of £1578 set on the 6th of August. Gold's rally had been bolstered by Sterling's fall against both the Euro and USD, the pound had been negatively affected by news that the UK Government and pro-Brexit campaigner Boris Johnson will scrap the Withdrawal Agreement.

This withdrawal deal had already been approved last October, but today unless the European Union gives ground on a new trade deal ahead of the UK's transition period for leaving the EU ending in December, the agreement will be scrapped. Ditching the deal will almost certainly add further upside in gold as Boris has laid down the gauntlet, stating that if no agreement is reached by the 15th of October, he has doubts that a free trade agreement will be reached, and it's basically time to call it a day.

The above is all good news for those holding gold, but there's further upside potential from the world's second-largest gold consumer, India, it has seen imports significantly rise during August. The rise in inflows climbed to 35.5 tonnes in August, from 14.8 tonnes a year earlier. Importantly, India is now entering the wedding and festival season, this historically has caused the gold demand to rise, this looks to again be the case, as such gold's value will be supported.

A final point of concern would be that I'd warn that the main attraction to gold could soon be the arrival of negative interest rates. Today, investment managers are beginning to cut their charges levied on their money market accounts. The reason they are cutting fees is because if they don't, their money market accounts would show negative yields.

→ **Protecting your wealth against the unpleasant effect of negative interest rates is now a necessity, buying hard assets, gold and silver are a good start, given that they are both very liquid.**

This is the first evidence that negative rates have arrived, this will cause money to move out of banks and money market accounts and into safety assets, driving gold higher. So, in short, the most basic form of holding cash in the US has effectively turned negative. In a practical sense, US rates have now entered negative territory, this could be just the beginning, as the Bank of England is now rumored to be getting ready to follow suit.

This is the tip of the iceberg, as most retail investors have no idea this is happening. Most people still believe that keeping a large amount of their savings in cash is prudent. I will go on record with this fact "that fees can only be cut so far." Keeping in mind the current trend in bank deposit rates, actual losses for bank depositors are just around the corner, as is a run to gold.

With negative interest rates, your bank does not compensate you for your deposited money. It's the depositor who compensates the bank for holding money. Protecting your wealth against the unpleasant effect of negative interest rates is now a necessity, buying hard assets, gold and silver are a good start, given that they are both very liquid. F