Gold – the strategic investment metal

A funny thing happened after Great Britain voted to leave the European Union on June 23. According to Reuters, the British people quickly rediscovered their need for some gold reassurance.

From Reuters “*After Brexit, ordinary Britons warm to gold as a safe haven*”

> *“Dealers are seeing an unprecedented amount of interest in gold, much of it from first-time buyers, to take advantage of its role as a safe haven in times of stress or unexpected “black swan” events like Brexit.*
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> *“The speed at which people are purchasing gold is unprecedented,” said Joshua Saul, CEO of The Pure Gold Company.“*

After decades of being told by bankers, politicians and the media to ignore gold as an investment, British investors and savers suddenly found they liked having the peace of mind that came with owning some physical gold again. Part of that was probably due to the “Remain” campaign peddling scare, doom and disaster if Britons voted to leave. In reality, Sterling and the stock market fell at first, with the stock market quickly stabilising. Then normality returned as very little of the scare campaign turned out to be true – or, at least, not on the scale and immediacy predicted.

But apparently that hasn’t stopped Great Britain’s renewed interest in owning some physical gold. According to the government-owned Royal Mint, it saw a seven-fold increase in sales of 100-gram bars (around half the size of a credit card and costing around $4,400) in the two weeks following the June 23 vote.

Since then:

> *"Around 4 million pounds ($5.5 million) of gold and silver were traded online on the platform of London-based Bullionvault.com on the June 25-26 weekend, seven times the average weekend of the previous 12 months.*
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> *The number of first-time UK buyers on the site rose by around 170 per cent in June and the first week of July, compared to the previous 12-month daily average, it said."*

But gold as a strategic asset isn't just needed in Great Britain. In the Eurozone, Italy's insolvent banks are still waiting for a rescue, and still sitting on 360 billion euro of non-performing loans (close to 20% of all Italian bank loans and about 20% of Italy's sluggish GDP). On Tuesday July 19, the European Union's highest court issued a judgement requiring bank bail-ins before any state taxpayer bank bailouts. Italian bank bondholders and large depositors must take deposit write-downs and bond haircuts before Italy, or any Eurozone state, can inject state funding. Italy's banking crisis is in reality a Eurozone crisis, since Italy cannot handle it alone.

Thursday's court decision just moved the Italian banking crisis into third place in the EU behind the EU terrorism crisis and Brexit. But the risk of EU contagion is very high: French banks alone hold over 250 billion euros of Italy's debt. Since the start of July, Italy's press has been full of reports of bank runs as depositors empty the ATMs of all cash and are winding down their bank deposits.

But that wasn't the only recent court decision with strategic implications for gold investors. On Tuesday July 12, China suffered a crushing loss to the Philippines in the Permanent Court of Arbitration in the Hague over China's claim to a massive exclusive economic zone in the South China Sea. China said that it will ignore the court and that it has no jurisdiction.

The problem for China with that, is that the Permanent Court of Arbitration is the world's oldest institution for settling international disputes, established at the first Hague Peace Conference in 1899. Even worse, the Philippines brought an arbitration case in 2013 against China under the U.N. Convention on the Law of the Sea, the governing part of international law ratified by both countries. Unfortunately for China, the convention specifically allows for a tribunal to make legally binding decisions even if one party is absent.

China claims almost all of the South China Sea, a sea that stretches about 1,200 miles from the Chinese mainland. The sea covers a massive 1.4 million square miles and reaches eight countries with a combined population of about two billion. The sea itself handles about half of the world's daily merchant shipping, a third of global oil shipping, two-thirds of all liquid natural gas shipments and more than a tenth of the Earth's fish catch.

In other words, a troubling standoff with China looms even as the global economy is slowing, elections looming in the U.S, France and Germany, and a constitutional reform referendum is coming in Italy in the autumn.

Given all the uncertainty, there has probably never been a more apt time for investors and bank depositors to own some fully paid up, long term, strategic physical gold. For those that invest in stocks and shares, this summer gold and silver mining are more than worth a look. And I haven't even started on what's happening in Turkey!

The Italians Need Some Gold!

> *"If we went back on the gold standard and we adhered to the actual structure of the gold standard as it existed prior to 1913, we'd be fine. Remember that the period 1870 to 1913 was one of the most aggressive periods economically that we've had in the United States, and that was a golden period of the gold standard. I'm known as a gold bug and everyone laughs at me, but why do central banks own gold now?"* Alan Greenspan. June 28, 2016

Why do I think that the Italians need to own some gold you might ask? Well it has a lot to do with the poor state of Italy's banks, the poor state of Italy's economy, and Italy's government about to make the mistake Ireland made when it guaranteed its banks, and then found Ireland was too weak to support the guarantee, and then needed a bailout from the EU. According to a report on Reuters "Italy is preparing to protect its banks from a destabilising share sell-off following last week's Brexit vote."

According to Reuters, Italy is proposing a state guarantee for bank bonds, by means of the Italian Treasury and Italy's state lender Cassa Depositi e Prestiti. Reuters posited that Prime Minister Renzi raised the subject with Chancellor Merkel in Berlin on Monday. Asked if the subject came up at the news conference afterwards, all Mr. Renzi said in reply was that Europe and the national institutions would cooperate to bring about "calm and confidence."

> According to Italy's media quoted this week by Reuters*: "Daily newspaper Il Fatto Quotidiano said the government's contingency plan involved taking stakes in ailing banks, to be financed by around 40 billion euros in new public debt, but the second, government source said there was no such plan."*

The paper said Renzi's administration was already in talks with the European Commission about possible support measures.

Two other papers, Corrieredella Sera and La Repubblica, said Italy would seek to take advantage of possible exemptions to European state aid rules in case of "exceptional events" in order to bolster its banks if stocks continued to fall sharply.

That tells me that Italy's banks are in deep trouble, and that following the UK's Brexit vote, that trouble just turned into a massive crisis. So what, you might be tempted to say. Well what Italy is asking for is against the European rules in place since 2013. State aid is only supposed to kick-in as a last resort after the bank bondholders and large depositors have been bailed-in, i.e. suffered a haircut, as in losing some money.

> This week the Financial Times commented*: "The strict EU rules against state-backed rescues took years to negotiate and are so new they have barely been tested in a crisis with a major bank. But they were an essential precondition to eurozone integration; without these guarantees Germany would not have accepted the risk-sharing involved in creating a banking union."*

Senior European officials fear Mr Renzi's effort is, as one said, an "*opera buffa*", putting off the deep-rooted reforms its lenders badly require, or a needs-must intervention that would shatter Europe's commitment to the new bail-in regime.

To mount any rescue, Mr Renzi needs a waiver from European Commission state-aid rules, and a legal route through the bail-in rules of the EU's Bank Resolution and Recovery Directive — something Italy has tried and failed to secure in the past.

Rome has seized on the market turmoil triggered by the Brexit vote to restate its case on the grounds that "financial stability" is now threatened. In Brussels, many regard that claim as overblown. "What Renzi asks for and what he gets may be very different," said one senior eurozone official.

For Italy, the question is whether a capital injection will ultimately address the deep malaise of 600 banks that operate on a business model that may no longer be viable.

Italy's 600 banks are riddled with 360 billion euro of bad loans, with some 200 billion euro alone already believed to have gone terminal. But even if the European Commission relents and gives Italy the waiver it's seeking, how likely is an extra 40 billion bailout to work in a business model gone wrong, no matter if a nearly bankrupt Italy guarantees its banks. Any large depositor with any sense will merely use the opportunity to get down to the minimum state guarantee level, and place their euros abroad.

But that' not so easy as before. The ECB and Swiss National bank have imposed a negative interest rate regime over much of Europe. Which brings me back to gold. Why place money on deposit and get a negative return for the privilege, when a bullion alternative is around, with in the circumstances, every prospect of the gold price rallying for months and years ahead.

But any large depositors or nervous bondholders might need to be quick. Goldcore informs us that a physical bullion crisis seems to have developed:

Bullion banks "have been panicking" and advising that soon, they may no longer be able to quote prices on large gold bar orders. This response is previously unheard of and indicates the increasing illiquidity in the large gold bar market due to a recent surge in HNW, UHNW and institutional (wealth managers, hedge funds, banks etc) demand across the world coupled with already robust central bank demand.

The increasingly illiquid physical gold market where supply cannot keep up with demand underlines the importance of owning physical bullion coins and bars – either in your possession or having direct legal title to your individual coins and bars. Bullion should be owned in your name or your company's name and be stored directly in the safest vaults in the safest jurisdictions in the world – outside the financial, banking system.

It's the early bird that gets the worm, albeit it's the second mouse that gets the cheese. I suspect that we haven't heard the last of Brexit, Italian banks, and the new gold rush. Even fallen former guru "Bubbles" Alan Greenspan, who ran the Fed, seems to have found his gold side again.

> *"In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value."* Alan Greenspan 1966.

Ukrainian economic woes and Eurozone fears could lead to negotiated solution with Russia

The economy in Ukraine is collapsing and inflation has reached 17%. Its currency, the Hryvnia, has suffered the worst performance of the year, losing 48% against the US Dollar, in the world and, unless foreign aid arrives promptly, a default is expected. Ukraine's civil has had tragic effects on the economy and expectations of GDP having fallen 7.5% in 2014 are optimistic, while the central Bank expects even worse performance in 2015. In order to avoid a sovereign default, the European Union estimates that Kiev would need a USD$ 15 billion injection and Prime Minister Arseniy Yatsenyuk has already found it very difficult to obtain even a fraction of that as he considers the holding of a donors' conference. In this scenario, the International Monetary Fund has already allocated a USD$ 17 billion rescue package. What is especially troubling is that, despite the desperate financial condition, the government has forecast an increase in military spending of 5.2% and a cut in social spending to ease the burden on the state budget, while the imports "non-essential" duties will be doubled to 10%. Ukraine's dire economic situation plays into a complex geopolitical scenario that contains the seeds of a thaw in relations between itself and Russia and Russia with the West.

In recent weeks it has also learned that Ukraine has almost completely dried up its gold reserves from March to today, demonstrating the seriousness of the financial and currency crisis. Gold reserves in Ukraine are at the lowest levels since August of 2005, a decrease of 45% in 8 months. In contrast, while Ukraine has almost wiped out its gold reserves, Russia has continued to buy back, coming to 1,187.5 tons in November. Since 2005, Moscow has tripled its gold reserves, bringing them to the highest levels since 1993, suggesting that central banks, beyond Western Europe and North America, still have appetite for the shiny metal. Therefore, as hard as the situation may be for Russia, facing international sanctions and de-facto isolation from the West, Ukraine's financial situation is far worse. Indeed, the new government, which replaced the one led by former President Yanukovich a year ago in a US and European Union supported coup, Ukraine has proven unable to control and stabilize the internal political and economic situation, while becoming a virtual tool of foreign geopolitical interests and machinations. The good news is that, given its precarious financial condition, Ukraine will be forced to reach some kind of negotiated settlement with Russia in 2015 rather than risking default and the spreading of the conflict. Russia shares this interest because, the pursuit of a more intense military option is out of the question – apart from the cost, it would risk inviting additional encroachment from NATO powers. Surely, Russia will be in recession, but it should be able to avoid a default despite a predicted 4% drop in GDP for 2015.

President Putin said that Russia’s economy will adjust gradually to the new level of oil prices. Therefore, while Russians can continue to expect bad economic conditions in 2015, a recovery should start in 2016; neither Ukraine or Russia stand to gain militarily or politically from a perpetuation of the war while the European Union will be overly preoccupied with ‘Euro’ exits to continue sustaining Ukraine. European investors – and voters – are weary of the volatility and increased risk resulting from a very possible Greek exit from the Eurozone: a ‘Grexit’ as some have called it. Doubtless, Greece represents a very small part of the Eurozone economy but even the departure of a small economy from the Euro would generate several problems from the ‘mathematical’ standpoint in the short term. The prospect of a Greek exit is a kind of ‘black hole’ of risk, because no one has ever come out from the Euro, and no one has ever suggested the release of the Eurozone economy. This uncertainty creates market volatility, a self-feeding mechanism that will inevitably force the European Central Bank to intervene to calm the markets. This possibility will reduce the appetite for foreign adventurism in the EU, leaving Ukraine more isolated. Russia, in turn, will fare better later in 2015 because the low oil prices that have so fiercely targeted its resource economy are unsustainable in the long term, despite recent Saudi rhetoric.

The price of oil is too low for OPEC, which will surely cut production in order to cause prices to rebound to at least USD$ 70-80 per barrel – it seems to be a fairly realistic number in the medium term. Therefore, Russia will be in a stronger position than Ukraine, which will be left with the ultimate responsibility to find a solution, even if it means leaving a part of itself to Russia. The conditions point to such a solution to emerge before the end of 2015 but, in geopolitics, there are many uncertainties and it could take longer. The more optimistic timeline for a solution is backed by the fact that France has already stated that it would stop sanctions against Russia in view of a continued diplomatic effort aimed at easing dialogue between Kiev and Moscow. Last December 6, France’s President Hollande held a surprise meeting with Putin in Moscow upon returning to Paris from a trip to Kazakhstan. Many other EU powers are eager to lift sanctions as well and it will not be difficult to convince the EU as a whole to suspend or ease sanctions in order not to cripple Russia in return for the intensification of negotiations with Kiev. On January 15, there will be a big test in this direction as the French, Russian and Ukrainian will shake hands to create a compromise to restore peace. That solution, which should be satisfactory to the White House (if not a Republican interventionist Congress), will likely see a deal whereby Russia will stop supporting pro-Russian Ukrainian separatists in exchange for full recognition of Russia’s ownership of the Crimean peninsula plus any eventual reparations (in the form of gas supplies?). And then the ice between Russia and the West will break.

Silver prices will bounce back

Silver’s gains over the summer proved to be a flash in the pan. In July, silver was trading at above USD$ 21/oz. and close to the yearly high of USD$ 22.73/oz. In October the price of silver has dropped below USD$ 17/oz., hitting a bottom of USD$ 16.86/oz on October 3. The weakness in price of silver should come as no surprise, given the current strength of the US Dollar even if silver's rally during the first months of 2014 (the longest such rally in decades and matched by an equally sustained gold rally) had raised investors' optimism. The summer months are usually uneventful, one might even suggest 'quiet', for the entire commodities sector and investors wait for September when market prices generally recover. Unfortunately, this yea, the price of silver has moved in the very opposite direction in a rollercoaster ride that saw it rise in February, drop in May, rising again during the summer and then hitting the record lows of the past two weeks. The increase in the price of silver in February or the summer should is not surprising. February saw the first major escalation of the crisis between Ukraine and Russia, while the summer months witnessed a significant escalation of tensions – after the downing of Malaysian Airlines 017 in eastern Ukraine by a Bok missile fired accidentally by pro-Russian rebels – along with the rise of the Islamic State (ISIS) in Iraq and Syria. Such a geopolitical scenario, therefore, prompted investors to shift their interest toward safe haven assets like silver and gold rather than the equity markets. The big question, of course, is what will happen now? The international crises, if anything, have intensified on all fronts and a new international war is brewing in the Middle East as several NATO allies have started to deploy aircraft to try and stop the ISIS advance in Syria and Iraq. Moreover, the silver price trend in the short term will also depend of what direction gold takes. Nevertheless, there is reason for optimism and even for a 'silver lining'. Silver prices have hovered around the USD$ 17/oz. mark for the past week.

The Fed and several other economic regulators have expressed concerns over the strength of the US Dollar, which has gained some 4% against ten rivals from the Euro to the Japanese Yen and Chinese Yuan since the start of the year. The problem is that a high US Dollar hurts US exports and recent economic data suggests that domestic economic growth rates are still not at the levels warranting the raising of US interest rates while promoting imports. Moreover, the high US Dollar also boosts energy costs in the European Union, where even Germany has started to experience lower growth. All this suggests some form of intervention to promote growth and to stop the Dollar's rise, which should help stabilize or even boost the price of precious metals to the levels seen earlier in the year. This is very important for silver, even more than gold, because at USD$ 17/oz or below, the price falls below the average cost of production, becoming unsustainable for many producers, which may be forced to close down their mines. Neither the finest silver grades nor the presence of copper as a by-product can help the smaller mines to hedge against such high costs. The priority for silver producers is to reduce production costs. Paradoxically, as many silver mine close or – even more so – reduce production rates or suspending operations, as in the case of US Silver, the price of silver will naturally increase due to the fact that demand conditions remain in place even as supply drops.

The mines at greatest risk of suspending operations, meanwhile, are usually the smallest in size and most specialized in silver because most silver is extracted as a by-product from the mining of gold, copper, zinc and lead. The latter four metals would continue to be produced, even if their prices were to have dropped to absolute misery. Therefore, while there are never certainties, and far less in the volatility of the markets, it is more likely that the price of silver in the medium term will increase than continue to drop. In other words, silver may have already reached the bottom and started to re-surface. There has been a drop in supply with no corresponding drop of demand and the room for solid gains n the event of a rise are rather appealing. It is also unthinkable that silver will continue to be produced and sold by the companies, I know, to $ 12 an ounce. On the contrary, it is not unthinkable that the price of silver, in the future, may regain all the ground lost after the highs of the recent past.

Signs of US recovery while Ukrainian crisis puts pressure on Europe’s economy

The financial crisis of 2008 led to a ‘Great Recession’ and a sovereign debt crisis in Europe, the consequences of which continue to be felt thanks, also, to the geopolitical fallout from Ukraine, Gaza and the Middle East – not to mention the tensions in East Asia between China and most of its neighbors. The West and NATO are pondering the adoption of tougher sanctions against Russia amid plans to run intensive military exercises that have clearly been announced with President Putin in mind. Most EU countries would rather avoid enforcing sanctions against Russia, which supplies much of the Union’s energy along with several billion dollars of capital to its banks while serving as a key market for western luxury, agriculture and technology goods. As the summer of 2014 comes to a close, the European economy has yet to find respite while the United States, China and Japan have shown signs of health. Tensions abound and they come from all directions, generating a fog that makes it difficult to understand exactly what role the various individual factors, whether structural, political, economic, financial or military are having on the much awaited and often prematurely announced recovery.

The American economy improved in the second quarter, with GDP rising up 4.2% according to the Department of Commerce. The growth contrasts with the slowdown in the first quarter when the economy had contracted by 2.1%. The growth rate in the second quarter may temporarily lift fears of a slowdown or a recession in the American economy after the slowdown of the first quarter, which was such that the average growth rate for the first half of the year is actually lackluster at 1.05%. The confidence of European, and other, observers cannot be very high, considering look that the United States is still the biggest economy in the world and – despite the fact that China is catching up quickly – still the beacon that sets the direction of the international cycle. The USA is still the largest market in the world, absorbing exports from all over the world. There is also a psychological factor such that the world looks to 'America' for hope or perhaps at least some comfort that 'things will improve'. Indeed, this faith in America is not all misplaced.

The United States was surely hit by a hard recession sparked by debt and unscrupulous banking practices. The solution was to cut debt by promoting more savings, leading to lower consumption, which had the effect of slowing down the economy, given that the 'austerity' measures were practiced on a wide scale. Now, economists have suggested that American household budgets have improved and that their debt levels are more manageable even as housing values are recovering. In other words all the elements exist to warrant a healthy growth rate fueled by increased consumption and confidence. If the growth rate average for 2014 fails to inspire, despite some bursts of enthusiasm such as has occurred for the second quarter, it is because the improvements so far have mainly been registered at the individual family level. The extent of the 2008 crisis was such that it forced the State to intervene more directly in the American economy; public sector spending for the past six years has been unprecedented to compensate for the vastly reduced private sector spending. The public sector's coffers were stretched to the limit, hampering its continued ability to compensate for the absentee private sector.

Now, there is actual room for optimism. Household accounts, including public accounts in the United States have improved and even the federal deficit stands at 2.9% of gross domestic product while it had been as high as 10.8 percent at the peak of the crisis in 2009. So, the United States continue to be alive, and all the more so because technical progress never left; innovation at all levels of industry continued and even capital at the corporate level flowed much more freely than in many parts of Europe. This is the kind of optimism reflected by the record highs of the NY stock exchange, which have kept commodities low, even managing to absorb the heavy geopolitical risk that was supposed to have driven gold prices to new records. Indeed, China, whose slowdown from an average GDP growth rate of around 10% to one closer to 7% was supposed to have had dire consequences, has failed to materialize into a crisis. China certainly has some risks, but these are far more related to the population's rising demand for civil liberties, of which the right to a cleaner environment is essential. Then, there is Japan, whose economic situation is similar to that in much of the European Union, the much acclaimed 'abenomics' (a package of fiscal reforms and stimulus measures) reforms launched by Prime Minister Shinzo Abe to promote growth have started to choke after an initial sense of success in 2013.

The Tokyo stock exchange has been growing as has GDP but the improvements have come largely as the result of monetary policies favoring inflation (printing more money) and cash stimulus. Structural reform remains an elusive target. Only structural reform can achieve the desired effect of long term growth. Europe continues to loiter in recessionary territory, albeit there is great discrepancy among individual members. The explanation is more geopolitical than economic as any indicators of confidence are waning even in the economic powerhouse of Germany, which stands to lose or gain the most from its proximity to Ukraine. If Germany sneezes, the rest of Europe catches a cold and its economy is suffering the repercussions of tensions even though the actual growth factors remain intact. The policy of military encirclement against Russia, backed by Washington and blindly accepted – if not convincingly absorbed – by European governments, have led to a crisis of trade relations with Moscow, for which Europe's productive apparatus has paid a great price, especially Germany, which is in turn the EU's economic locomotive. NATO is planning to increase the effectiveness and visibility of its forces in Eastern Europe in a Cold War like scenario to scare Moscow into reducing its involvement in the Ukrainian civil war.

This does not mean that The United States, Germany and other allies, have plans to increase the number of its troops in the region, which would vastly increase tensions with Moscow. They merely intend to show "unity and readiness" to respond to events in Ukraine. For now, NATO merely wants to make it clear to Moscow that it is ready to send more troops in its bases in Eastern Europe if necessary through a "rapid deployment force", through the enhancement of existing bases, logistics, supplies and infrastructure. It is doubtful that President Putin will feel any urge to reverse his strategy in Ukraine. However, Britain and six other states have announced they intention to create a multilateral force with at least 10,000 troops to respond to Russia in Ukraine according to the Financial Times. The official announcement is expected to be issued later this week at the NATO summit. The countries currently involved in the force, which will include naval units and ground troops, are Denmark, Latvia, Estonia, Lithuania, Norway and the Netherlands. Meanwhile, the Kremlin continues to deny any involvement, even though rumors abound that Russian speaking separatists in Ukraine are preparing to attack two key areas of Maryupol and Volnovakha in order to open a corridor between Donetsk until the Crimea. Should this be the case, NATO has stacked the deck too high in order to back down from taking more significant punitive actions with Moscow. This will only raise tensions in Europe, putting pressure on growth.

The global consequences of China's higher than expected debt

China has recorded 250% debt according to Standard Chartered estimates. This figure, which essentially means that debt is 2.5 times greater than the size of its economy, suggests that China has also found it difficult to reconcile growth with 'bubbles'. The 250% debt figure is not distressing in itself; what has raised economists' concerns is the speed with which China's debt level has risen: the ratio of debt to GDP in the second largest economy in the world was 251% in June 2014, while it stood at 147% at the end of 2008. Such an increase in the ratio between debt and growth in such a short period is worrisome because in other countries, increases of this magnitude in a short period of time have typically been followed by financial turmoil. China's debt is not good for the world economy, and it is especially troubling for Europe's economic recovery.

Europe's recovery, according to recent statistics and to EU officials, is struggling to emerge. Even in Germany the IFO index, which reflects the level of business confidence, at the end of June fell to its lowest level since last fall. This summer, Germany's recovery has been weaker than expected, despite the fact that it is the strongest economy in Europe. In fact, Germany's first quarter of solid growth was driven more by domestic demand than exports; now it is starting to suffer from the slowdown of international markets. In particular, China is one of the main culprits accounting for the difficulties now faced by German exporters. The leadership of the People's Republic seems to have chosen not to artificially inflate the rate of growth – at least not at the extreme levels of the past. In the second quarter, China grew at a respectable 7.5% (annualized), which was better than expected, but there was a reduction in purchases of capital goods – often made in Germany – that will likely not resume in the short term.

Germany now faces weaker import markets in both the emerging markets and the Eurozone, which will no doubt lead to a contraction of the German economy, and with it, demand for goods made in other industrial powers such as Italy, France or the UK. Oh, and as for the United States, it is experiencing a weak economic cycle and the International Monetary Fund has reduced the United States' growth estimate to less than 2%. The IMF blames the increasing economic polarization whereby only to the richest 1% have seen their income increase, translating to a modest or insignificant increase in consumption. A collapse of the economy such as that seen since 2008 should have, in theory, produced an equally strong rebound, which has been slow in coming.

The tensions of war in Ukraine and in the Middle East may become more severe and further reduce chances for growth. The strong dollar does not help the European recovery and the stabilization of the spread between the weaker EU economies with Germany does not guarantee the low cost of debt. In 2015, the Fed may begin to raise interest rates even Europe and Italy will have to deal with a more expensive Dollar. Of course, in this scenario, commodities such as oil, gold and silver will experience higher valuations. Meanwhile, the recent BRICS (Brazil, Russia, India, China, and South Africa) countries summit in Fortaleza, Brazil, marked a further step towards the construction of a new international monetary architecture intended to break the unipolar dominance of the US Dollar and the old and the Bretton Woods system.

It is not all bad news. Resources and commodities should benefit from the new BRICS initiative designed to promote growth in regions that need it most. The heads of state of Brazil, China, India, Russia and South Africa have officially announced the creation of the new development bank and the Contingent Reserve Arrangement (CRA), namely the creation of a specific money supply fund. This allows the BRICS “to be less dependent on the dollar and more equipped to fend off any turbulence in the currency markets.” The new development bank has an initial capital of $ 100 billion. Its mission is to finance investment not only in the BRICS countries, but above all promote projects and infrastructure in developing countries, particularly in Africa. The BRICS have taken an important political step in the ever more multi-polar global chessboard. However, in this scheme the BRICS intend to become the leading supplier of machinery and other goods, thus giving a boost to their industrial and technological sectors.

In this sense, BRICS countries will try to develop more self sufficient resource bases and some, like China, may become more reluctant to export key raw materials that will be needed for internal use. Of course, these would include rare earths. In this sector, China will continue its policy of getting more foreign companies investing in downstream rare earth activity in China. And it goes without saying that the BRICS are self sufficient in energy resources, also having strong alliances with oil producers beyond the BRICS circle (Iran for instance). In Fortaleza, the BRICS accused the IMF of intervening in the richer industrialized countries (OECD), particularly those in the euro because of their persistent sovereign debt crisis. Thus the BRICS have launched alternative institutions.