Is $3000 gold possible? A look at the 'for and against', and Australian gold miner Alkane Resources

2020 has seen unprecedented levels of global economic disruption due to the COVID-19 (coronavirus) pandemic. This has seen share markets collapse and the gold price rise 15% in just a few months. Some say this is just the beginning of the gold bull run, with Bank of America now forecasting gold prices could reach US$3,000/oz, which is almost double the current price of US$1,721/oz.

Today we look at the arguments for and against US$3,000/oz gold.

Gold 1 year price chart – Gold = US$1,721

Source

The case for US$3,000/oz gold

- COVID-19 has so far caused **2,994,958 confirmed cases** and **206,997 deaths**, and is severely disrupting the global economy. Some countries are now re-opening their economies; however the risk remains high of a second wave of infections. We may still be a long way away from herd immunity, successful treatments, and a successful vaccine.
- Goldman Sachs recently stated: The downturn will be 4 times worse than the Global Financial Crisis (GFC). In the U.S., second-quarter activity likely dropped 35% while unemployment could hit 15%.
- The IMF forecasts global GDP to be minus 3% in 2020, then recover to +5.2% in 2021, assuming pandemic fades in the second half of 2020.
- The coronavirus health crisis may be followed by a coronavirus debt crisis. Global governments have responded to the COVID-19 with massive stimulus, and hence trillions of dollars in new money printing.
- Bank of America (BoA) forecasts gold to hit US$3,000/oz by October 2021, in a report titled: “The Fed can’t print gold.” BoA states that with an official recession looming, monetary authorities are poised to buy record amounts of financial assets and double the sizes of their balance sheets.
- Global gold supply is struggling to increase each year as it becomes harder and more costly to find and mine gold.
- Gold performs best when rates are low, and right now we have historic low interest rates.
- Historically gold has proved to be the best storage of wealth.

The case against US$3,000/oz gold

- Lower jewelry demand in India and China may put downward pressure on the gold price. Gold jewelry represents the largest source of annual demand for gold. Though it has declined over recent decades, but it still accounts for around 50% of total demand.
- A stronger US dollar may mean a lower USD gold price.
- We may recover quickly from COVID-19, and stock market sentiment could improve, thereby lowering sentiment towards gold investment.

Viewpoint

I think BoA hit the nail on the head with their report title: “The Fed can’t print gold.” Gold’s scarcity and centuries long history as a preserver of wealth means investors will always seek gold as a safe haven. The global supply of new gold struggles to increase YoY, yet the supply of new fiat currencies such as the USD continues to flood the market, as printing presses work 24/7 to print new dollars.

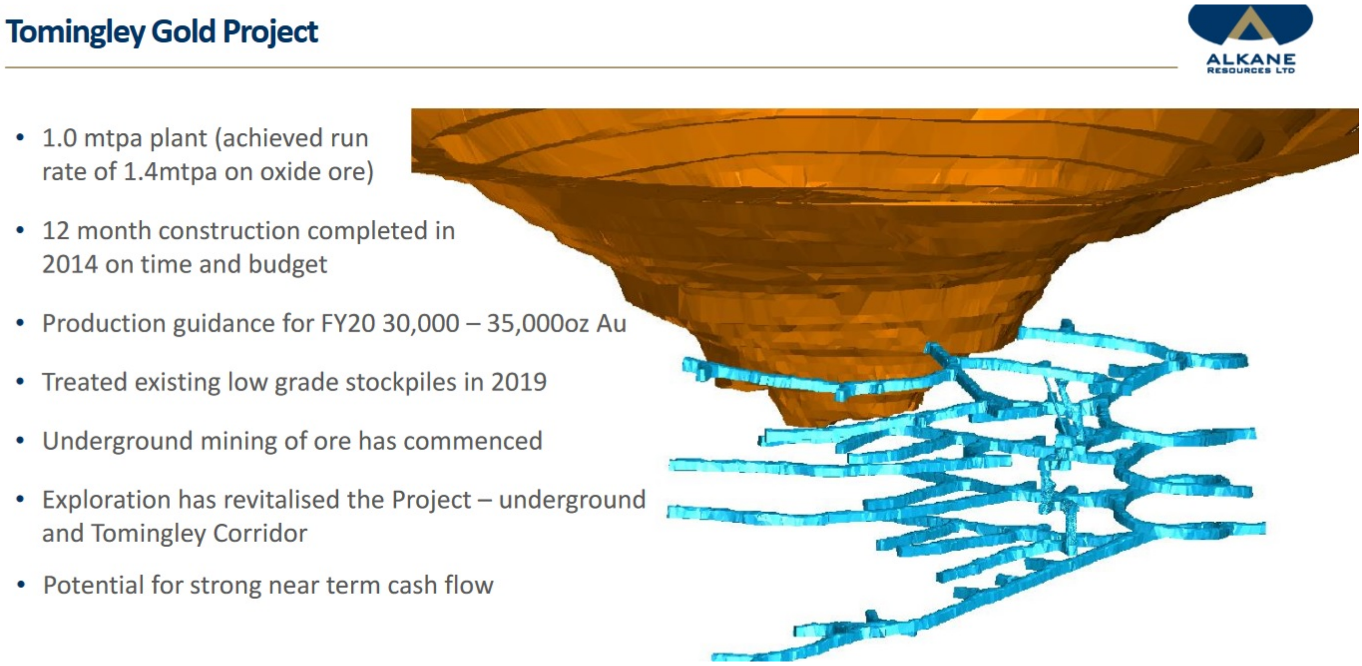
Investor’s takeaway

Investors would be wise to have some gold in their portfolio, as a hedge against a collapse in paper money and the global economy. Physical gold is always the safest and purest way to play. Next can be the gold backed ETFs, followed by gold miner ETFs, and finally gold miners.

Smaller gold producers with exploration upside

For investors wanting to leverage their gold exposure, investing into gold producers and successful explorers can achieve this. One example that comes to mind would be Alkane Resources Ltd. (ASX: ALK). Alkane Resources has gold production at their Tomingley Gold Mine, successful gold exploration, and a 100% ownership of the Dubbo Rare Earth Project. They are very well funded to achieve success with cash, bullion and investments of A$91.7 million.

Alkane Resources Tomingley Gold Mine forecast to produce 30-35,000 oz Au at AISC A$1,250-$1,400 in FY 2020



Source

Alkane Resources has very significant exploration upside at their Kaiser-Boda target zone (part of the Northern Molong Porphyry Project)

Apart from a producing gold mine (Tomingley Gold Project) and their Tomingley corridor exploration projects; Alkane Resources has very significant exploration upside at the Kaiser-Boda target zone (within the Northern Molong Porphyry Project), which has been mapped over a north-south strike length of a massive 6km long and 1km wide.

Alkane Resources recently announced: "Further extensive porphyry Gold-Copper mineralisation at Boda". What's striking about this announcement was the long length of mineralisation, and it started near surface. For example, **965.7m grading 0.21g/t gold, 0.11% copper** from 7.3m, and **153.0m grading 0.40g/t gold, 0.13% copper** from 480m. In March 2020, Alkane Resources announced another very long drill result also at the Kaiser-Boda target zone. Drill hole KSDD007 resulted in **1,167m @ 0.55g/t Au, 0.25% Cu** from 75m. Another was KSDD003, **507m @**

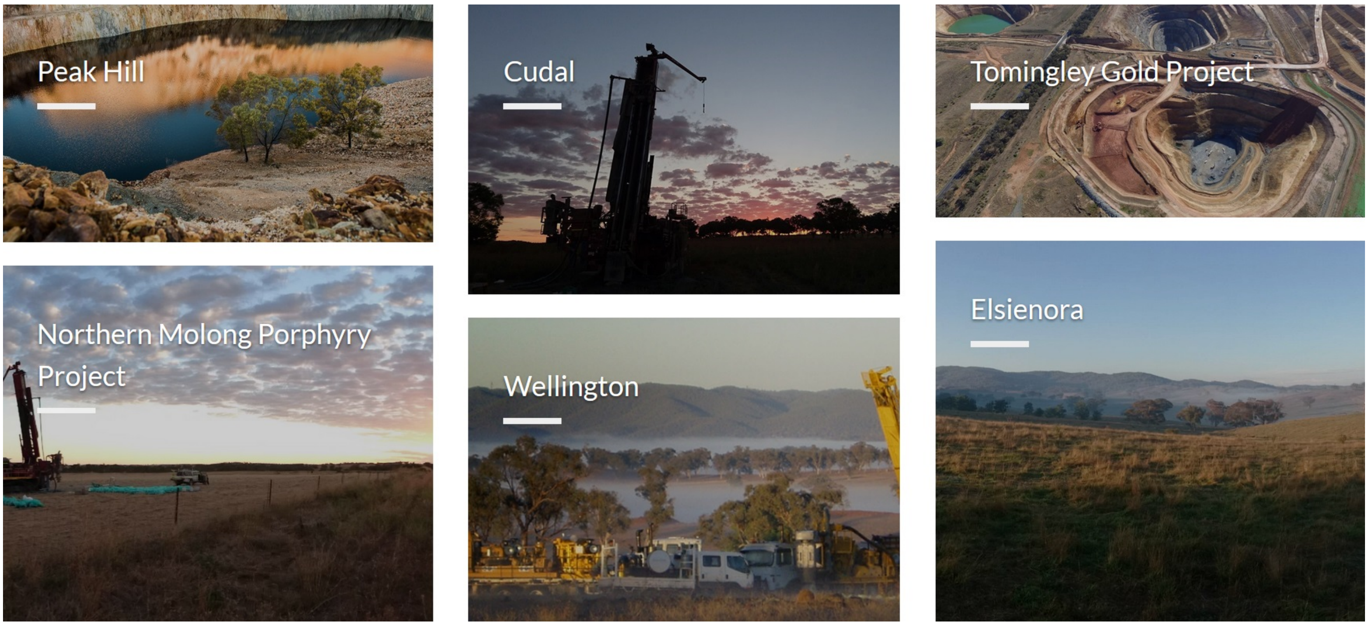
0.48g/t Au, 0.20% Cu from 211m.

Gold copper porphyry style deposits can be very large making them economic despite lower gold grades, due to efficiencies of scale and copper by-products credits.

Alkane Resources’ Managing Director, Nic Earner, stated:

“We’re delighted to confirm further extensive mineralisation at the Boda Prospect. Our drilling to date demonstrates broad, ore-grade mineralisation over **at least a 300m north-south by 400m wide zone with over 800m depth**, with the mineralisation open along strike and at depth, and a significant higher grade core with exceptional characteristics.”

A summary image of Alkane Resources extensive exploration projects and mine in Australia



Source

Closing remarks

There has probably never been a better time to buy gold or a quality gold miner. For investors wanting higher risk and reward the small gold producers, with growing production and exploration upside offer an exciting opportunity.

As financial and debt markets melt down, very few sectors will show positive returns, let alone a chance to double or triple. And remember gold is very rare, and as BoA says: "The Fed can't print gold."

And 'yes', US$3,000/oz gold by October 2021 is very possible.

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.*
>
> *"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.*
>
> *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!