SUMMER 2019

MONEY METALS INSIDER

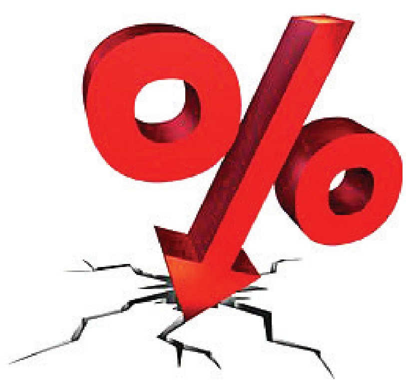
An Insider Report for Clients of Money Metals Exchange

Race to the Bottom: What to Expect as the Fed Eases

By Stefan Gleason
President, Money Metals

How low will they go? With the Federal Reserve all but certain to cut interest rates multiple times in the months ahead, central bankers are engaged in a race to the bottom.

As negative interest rates expand in Japan and across Europe, as long-term bond yields in the U.S. plummet, and as President Donald Trump continues to talk tough on trade, the Fed has little choice but to cut.



President Trump has effectively declared a currency war – and enlisted a reluctant Fed to help him fight it. He is convinced that lower interest rates will boost the economy and that a lower dollar will boost U.S. producers in international trade.

Over the past year, Trump has inserted himself into monetary policy matters almost to the point of obsession.

Inside This Issue:

He has berated Fed chairman Jerome Powell, his own appointee, on a regular basis and conferred with White House counsel about removing or demoting him from the Board of Governors. In June, one of his Twitter rants likened the Fed to "a stubborn child" for refusing to undo its 2018 rate hikes.

Trump even went after European central banker Mario Draghi, calling his pro-stimulus (weak euro) policies "unfair" to the United States.

Central bankers insist they aren't moved by political pressure. Regardless of how true that may or may not be, they ultimately are moved by pressures in the economy and financial markets – which, in turn, are moved by politics.

Fed's "Symmetric" Inflation Targeting Is Code for Accelerating the Dollar's Debasement

The question for investors is: Which asset classes will come out on top as the U.S. shifts toward monetary easing?

Heading into the summer, we saw an "everything" rally. Stocks, bonds, precious metals, and even cryptocurrencies all rallied simultaneously.

In late June, gold prices broke out to a 6-year high above $1,400/oz. The S&P 500 traded back up to a new all-time high.

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Race to the Bottom

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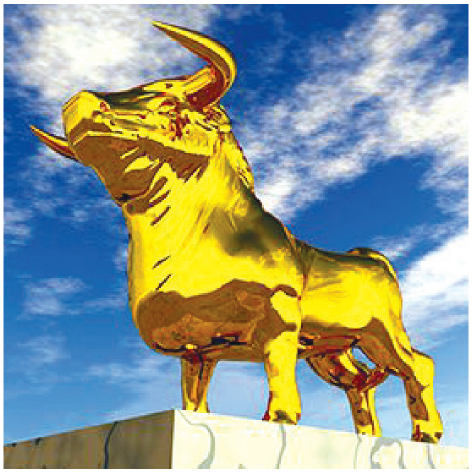


It's unusual for the Federal Reserve to begin a stimulus campaign with the stock market already juiced. The Fed's historical habit is to wait until markets break down and recession indicators flash before coming to the rescue.

This time is different.

What appears to be driving central bankers' preemptive dovishness is their belief that inflation is not only tame, but too low. They want to push inflation rates higher, above even their stated 2% target for a prolonged period.

Jerome Powell and his fellow Fed Governors have a term to describe their push for above-2% inflation: "symmetric" inflation targeting. By "symmetric" they mean that periods of low inflation should be countered with periods of higher inflation (accelerated currency debasement).

According the Fed's preferred "core" inflation indicator (which understates some aspects of real-world cost increases), we've spent a lot of time running below target in recent years.

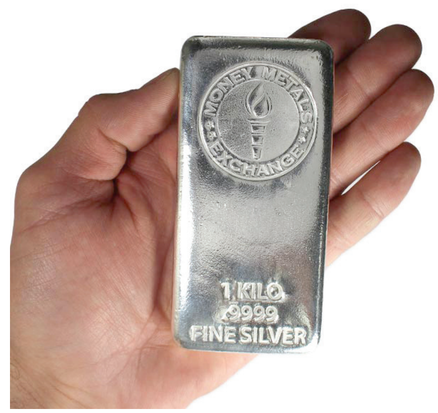
Investors are buying long-term bonds with yields that imply inflation will be contained by the Fed at or below target for years to come.

But if inflation starts rising above 2% and the Fed fails to keep it within its symmetrical objective, real losses on bonds and other interest-rate-sensitive assets could be asymmetrical in nature.

On the flip side, inflation risk has been so heavily underpriced by markets that even a slight return of inflation fears has the potential to drive hard assets dramatically higher.

The Spark That Could Ignite the Silver Market

Silver, for example, is perhaps the single most deeply depressed investment asset on the planet.



The white metal's lagging price performance has resulted in it trading at its biggest discount to gold in three decades. Hardy silver bugs are excited at this rare opportunity to buy more ounces on the cheap.

The recent breakout in gold suggests the precious metals bull market is back. Most of the public just doesn't know it (or believe it) yet.

We are still in the stealth phase of a precious metals bull run. When we enter the public participation phase – and demand for physical bullion increases – we have no doubt that silver will shine.

It only takes a tiny spark of investor interest in silver to light a fire under prices. That spark could be provided by the Fed's upcoming round of inflationary stimulus.

Money Metals Insider
published by **Money Metals Exchange**

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7:00 a.m. - 5:30 p.m. Mountain Time, Monday through Friday

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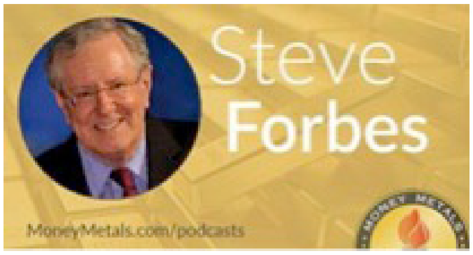

Key Insights on Gold from Steve Forbes

Excerpted from a recent Money Metals podcast appearance

Mike Gleason, Money Metals Exchange: It is my great privilege to speak with Steve Forbes, Editor-in-Chief of Forbes Magazine. He's a prolific author and also a two-time presidential candidate, having run in the Republican primaries in both 1996 and in the year 2000.

Mr. Forbes, I really want to thank you for your time and for agreeing to share your insights directly with our Money Metals Exchange customers.

Steve Forbes, Forbes Magazine CEO: Good to be with you. Thank you.

Mike Gleason: A lot of gold has been flowing from West to East in recent years. That trend seems to have accelerated lately. What do you make of the growing central bank gold reserves, particularly in the East?

Steve Forbes: Well, the dollar is the currency of the world, just out of convenience and the size and importance of the U.S. economy. Our capital markets, for example, are much broader, deeper, sophisticated than those of any other country.

In Europe, for example, most of their capital still comes from large banks, one reason why they don't

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Answering Your Questions

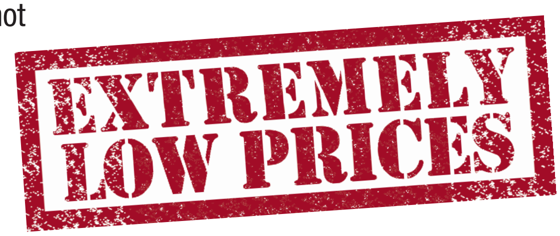
Client communications are a priority for us. When you call, we have live precious-metals specialists in the United States answering the phone and ready to provide service. If you need support by email or by live chat, we respond promptly. This is, of course, good business. It makes for happy customers!

A big part of what Money Metals does is provide timely and useful articles and podcasts you can use to stay current on developments that impact the metals markets and your investments. It helps us immensely to know what our clients are thinking about and what questions they have…

QUESTION: How much lower do you think premiums will go?

ANSWER: Except for a short-term rise in premiums late last year, premiums have been moving gradually lower since 2016.

To answer whether or not premiums can go even lower from here, it is possible selling pressure could increase and push premiums further down. Our belief, however, is that it is not likely.



Although retail precious metals investors are still net buyers, we are still seeing a fair amount of selling metal back to dealers.

Notwithstanding gold's recent rally through $1,400, precious metals have been trading range-bound for most of the past 5 years, and some people are simply worn out.

Other investors are less concerned about holding safe-haven assets now that Barack Obama is out of office, Donald Trump has moved into the White House, and confidence in the economy is higher in general.

There are some very good reasons to own gold and silver. And these factors are likely to return to prominence in the months and years ahead.

Federal budget deficits are on the way back to a trillion dollars or more starting this year. Price inflation, which has largely been absent for years, is starting to rise. The Fed is planning to lower interest rates again.

QUESTION: What do you know about the City of Los Angeles' lawsuit against Lear Capital?

ANSWER: Los Angeles City Attorney Mike Feuer has sued Lear for promising transparency and no hidden fees, but, he says, "despite these promises, Lear Capital preys upon trusting and inexperienced customers across the country, in particular the elderly."

Feuer offered these additional details:

"The myriad of unfair and deceptive practices our lawsuit alleges – preying upon elderly and inexperienced investors, misleading consumers about often astronomical transaction fees, threatening that its legal department will 'eat [consumers] alive' if they go public, sometimes wiping out huge chunks of life savings in the process – must stop," said Feuer. "Customers need restitution and Lear Capital must be held accountable for its alleged wrongdoing. And if the company doesn't like it, 'tough luck' – the very response it allegedly gave at least one customer who complained."

We won't comment on the merits of this particular lawsuit or which party is likely to prevail in court.

Regardless of what happens in the lawsuit against this aggressive sales outfit, our advice is always the same: choose carefully when selecting a precious metals dealer and stay away from numismatic (collectible) coins unless you *really* know what you're doing.

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Answering Your Questions *(continued)*

Very few people have that knowledge, and opportunistic dealers exploit this fact.

It is nearly impossible to know what an illiquid and sparsely traded "rare" or proof coin is worth when you go to sell. (Often times, you'll receive little more than its bullion melt value when selling.)

On the other hand, when it comes to bullion (non-collectible) products, there tends to be full transparency and low transaction costs, at least if you work with honest dealers. For example, you can find both the sell price and the buy price published live for each of our products at MoneyMetals.com. None of our clients have to worry about paying more than a coin is actually worth.

> *"There is one kind of confiscation you can be 100% sure to avoid – the kind done daily by dealers selling so-called 'rare' coins."*

QUESTION: How can I tell when a coin dealer is trying to rip me off?

ANSWER: We have often made general comments on the unethical tactics of high-pressure "rare" coin salespeople and their boiler-room phone banks, particularly those working for prominent dealers who advertise heavily on TV. We get plenty of horror stories from clients who have been ripped off by these operators.

We've heard all about the relentless follow-up phone calls from slick-talking hucksters eager for another huge commission. Clients also share many of the lies they've been told.

These include whoppers like "collectible coins aren't taxable." Or that clients should buy super expensive "rare" coins because the purchase of bullion coins, bars, and rounds will be reported to the government.

They even claim that rare coins are immune from confiscation by the government.

The most common bit of blarney is that the client should move fast to buy some coin (which is, in fact, not particularly rare or desirable) at a huge premium to its melt value because swarms of collectors will pay even more to get their hands on it.

Over the years we have also had to give plenty of bad news to people who got taken for a ride. The "rare" coins they purchased don't command much premium and are often actually worth far less than they paid.

Keep it simple. Stick with bullion coins, bars, and rounds that are bought and sold at prices near their actual melt value.

New U.S. Sanctions Spark Blowback

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Last week, the Malaysian Prime Minister, Mahathir Mohamad, proposed a new common trading currency for use in East Asia that is backed by gold. Backing with gold is a way of inspiring confidence.

Russia and China began some trading in yuan and rubles a few years back.

Both nations have been building gold reserves to counteract U.S. dollar hegemony in international commerce. Many other nations now publicly share the same sentiment.

The U.S. is increasingly alone when it comes to foreign and trade policy. Assuming disobedient nations can be brought to heel with threats is dangerous.

The dollar's status as world reserve currency is a privilege, not a right. If there aren't already some alternatives that can supplant the dollar in trade, there soon will be.

What happens when threats of financial sanctions don't work? Will Washington be arrogant enough to start threatening military action to enforce our fiat dollar's hegemony in global trade?

We may get an answer to those questions soon. Nations seem less and less intimidated by threats from leaders here who may be overplaying their hand.

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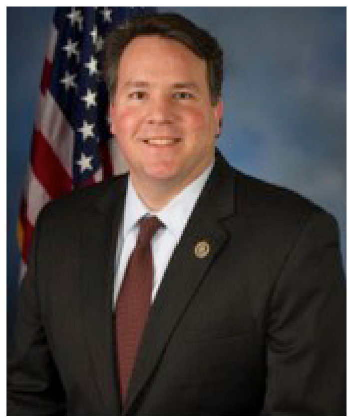
have the vibrant smaller company sector that we traditionally have had in the U.S. But the flow of gold to Asia, part of that is hedging, and I wouldn't be surprised if one of those countries doesn't move towards more of a gold-based standard, monetary system.

Just the other day, the prime minister of Malaysia proposed a gold standard as a way of replacing the dollar, having a gold-backed currency. If China did it, that would be an enormous change.

And so I think, one, they want the gold just as a hedge, but two, I think one of them may have the idea of going to a new gold-based monetary system, which would be good. The dollar needs the competition.

Mike Gleason: Do you look at that the rapid flow of gold to Russia and China as an issue of national security in the long run?



Rep. Alex Mooney (R-WV) has legislation to end income taxes on gold and silver.

Steve Forbes: It doesn't really matter who holds the gold. It's a broad international market. Every ounce of gold that's been mined is still with us on Earth somewhere.

And the national security comes from not somebody holding some gold, but from the fact that we haven't learned yet – even though we once knew how to do it – of a strong, stable dollar, which would be tying it to gold as we did under a gold standard right up until the 1970s.

We did it for 180 years, and it worked pretty well. So the threat is an unstable currency, not who owns particular pieces of gold.

Gold is like a measuring rod, a ruler. It just measures value. It's not using gold coins to buy stuff at Walmart. It's like 12 inches in a foot or 60 minutes in an hour. And it's worked for 4,000 years when people have done it and done it right.

Again, in terms of the currency, we once knew how to do it. I think we can learn quickly how to do it again. If not, I'll be glad to show them in my books. That's the threat. We have an unstable dollar, because it hurts us and the world.

Mike Gleason: U.S. Congressman Alex Mooney of West Virginia recently introduced a bill in Congress to eliminate capital gains related to sales of gold and silver. Give us your thoughts on that bill and the IRS rule that taxes nominal capital gains on precious metals, which the Constitution says is money.

Steve Forbes: Well, if you "buy," say, 10 $1 bills for a $10 bill, you would be very surprised if the government said, "Oh, you should pay sales tax on that purchase," or something like that. So, what should be done is the capital gains levy should be eliminated anyway on all things, and it should be eliminated certainly on gold and perhaps silver as well, because it hurts having an alternative currency.

Governments like to have monopolies, but the best way to have governments behave themselves is by people having an alternative.

I'm surprised the cryptocurrency world hasn't come up with a stable cryptocurrency, but in the meantime, gold should not be subjected to capital gains tax. It should not be subjected to sales taxes, any more than buying 20 $1 bills should be subjected to a sales tax.

Mike Gleason: I'm curious, how do you view gold as an investment? Some also consider it more like an insurance product, financial insurance in a way. How do you view it in terms of an asset class or an investment?

Steve Forbes: Gold is an insurance policy. And you should have it, because you never know what our political leaders are going to do. Whether you're comfortable with 5%, 10%, pick a number, but it should be there, even though people say well, other assets have done better over time. Well, that's just a reflection of currency fluctuations.

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Gold keeps its intrinsic value better than anything else. When you see the nominal price change, that's not the value of gold changing, that's the value of the dollar or whatever currency you're talking about, changing in value.

Gold is the constant, like the North Star. Yes, you should have it, a piece of it, just for peace of mind.

Mike Gleason: In terms of precious metals, if we have an inflationary environment, if the Fed does get the inflation that they're looking for, what is your outlook for precious metals over, say, the medium to long term?

Steve Forbes: Well, it's very basic. Here you can really plot a curve. When a central bank undermines the integrity of its currency, hard asset prices go up. Precious metals have been doing that for long before any of us were born, or even our ancestors.

We know it's going to happen. That's why you have a little bit as an insurance policy. These people don't know better.

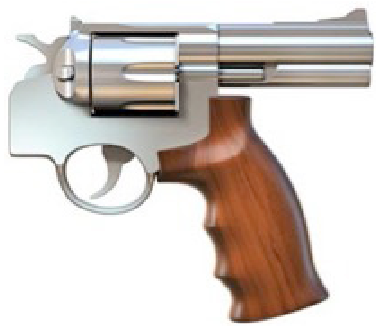
Mike Gleason: Well, we'll leave it there, Mr. Forbes. It was a real pleasure, and we wish continued success to you and Forbes Magazine and Forbes Media. Thank you for everything you do to promote freedom, capitalism, and liberty.

Steve Forbes: Thank you. Have a good one.

New U.S. Sanctions Spark Blowback against the Federal Reserve Note Dollar System

By Clint Siegner
Director, Money Metals

U.S. leaders are demanding the rest of the world recognize economic sanctions and stop buying Iranian oil. The U.K., Germany, France, Russia, China, and India are among the nations who don't fully support the sanctions and would rather not pay higher prices for oil elsewhere.



American officials often resort to delivering ultimatums, both to adversaries and allies alike. Nations that do not follow orders stand to lose access to the U.S. financial system and could face trade sanctions of their own. That is a serious threat.

The huge majority of international trading is underpinned by U.S. banks and the Fed's fiat dollar. Other currencies and banking systems cannot offer the same level of liquidity and convenience.

Nevertheless, sovereign nations don't like having trade policy dictated to them. The U.S. is wielding the Federal Reserve Note like a weapon and, predictably, countries around the world are busy developing alternatives.

U.S. Alarmed by European Non-Dollar Payment System

The Europeans are launching a system call Instex. It works by coordinating local importers with local exporters on each side of the border.

For example, a German company can export cars to Iran. The Iranian car importer sells the cars locally for rials, then makes payment in rials to an Iranian exporter of oil headed for Germany. The German oil importer receives the oil and makes payment in euros to the local car exporter – closing the loop.

The system was designed specifically to end-run U.S. sanctions. Since rials never leave Iran and euros never leave Germany, U.S. banks and dollars are never involved. American officials cannot claim restrictions have been violated.

But that hasn't stopped U.S. financial powers from trying to impose their will.

Sigal Mendelker, Undersecretary for Terrorism and Financial Intelligence at the U.S. Treasury Department, sent a sternly worded letter to the EU on May 7th.

Anyone, from business owners to government officials and their staff, who participate in Instex could be subject to U.S. sanctions.

The Treasury Department issued this statement: "Entities that transact in trade with the Iranian regime through any means may expose themselves to considerable sanctions risk, and Treasury intends to aggressively enforce our authorities."

The U.S. posture is that Europeans aren't allowed to use dollars for trade with Iran. And the U.S. is now prepared to punish countries for trading without dollars.

It remains to be seen whether or not Europeans will comply, but we rather doubt it. Rising trade tensions with Europe are back in the headlines in recent months. President Trump's decision to withdraw from the nuclear treaty with Iran and reimpose sanctions did not get European support.

The EU may be ready to call America's bluff.

Malaysia Proposes Gold-Backed Currency

Nations will be increasingly leery of conducting business using America's Federal Reserve Note dollar system.

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