Jeffrey Christian: Gold on course for new all-time highs by 2020

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Erik: Joining me next on the program is CPM Group founder Jeffrey Christian.

Jeff, obviously you're a precious metals guy. We're going to get to gold and silver in just a minute. But I want to start with the US dollar, because obviously everything else is priced in the dollar. We had seen what a lot of people thought was going to be a long-standing secular bull run in the dollar index. In the last several months we've seen a big sell-off and all of a sudden the bears are out. We've gone from record long speculative interest to record short speculative interest.

So is the dollar rally over? Was this just a pullback that's set to continue? What's your outlook for the US dollar?

Jeff: When we look at the dollar, because we don't get involved necessarily in shorter-term trading of the dollar, we look at it more as a macroeconomic fundamental. And we look at it on a longer-term basis. And our view was that the dollar did go through this very large upward ratcheting from 2015 through into 2016, and our view was that the dollar would basically move sideways with a slight upward bias in a relatively volatile fashion from, say, 2017 onward.

So we're not expecting to see the dollar come off. We don't expect to see the dollar continue to decline. We think it's pretty much – if you look at it on a trade-weighted basis on the broad trade-weighted basis index – we think that you're pretty much close to the bottom of it. We don't necessarily see it continuing to rise at the rapid pace that we saw in 2015-2016, but we don't necessarily look for it to go back to the lower levels that it had from, say, 2008 to 2014.

So we're looking for it to move sort of sideways in a volatile fashion with an upward bias.

Erik: A trend that we've heard a lot about lately – although I don't know how much reality versus hype it is – is de-dollarization. And I think there's certainly some truth to this, that a lot of people would like to move away from the dollar. We see China and Japan with less US Treasury holdings than they used to have.

Do you think that this trend of de-dollarization is something that we should take seriously? Do you think that the US dollar's hegemony as the world's reserve currency is in question at all?

Jeff: I think that's a long-term transition. Most central bankers and most economists would like to see the world move to a multipolar currency regime where you don't have a dominant currency. No one necessarily wants their currency to be the dominant currency, except maybe the US government, the dollar. The Chinese clearly don't want the yuan to be the dominant currency in the future. But I think a lot of people would like to see a multipolar currency regime.

They see it as a long-term transition.

And they see it as a long-term transition for a couple of reasons. One reason is that there are so many dollars out there. You have 62% of central bank assets in US dollars. And you have about probably over 70% of private assets in US dollar-denominated assets. So the dollar has such an enormous pool that it's like the old joke, if you owe a bank you own it – there's no ready, quick substitute away from the dollar to anything else. Even to a pool of all the other currencies combined, you can't do it.

So you have to have an extended period of time where the liquidity of other currencies increases relative to the liquidity of the dollar.

And the other thing is you need to have radical changes in the money regulations within countries around the world. You have to have not only the regulations change to allow people to hold their assets in currencies other than their own domestic currency, but they also have to have a market infrastructure that allows them to do that. And that also is something that's going to take many decades to occur, if it's to occur at all.

So you've got these two long-term prerequisites to moving away from the dollar. The dollar's hegemony is probably peaked and it probably will decline from here, but it will probably decline very slowly.

Now there's a third proviso that has to be kicked in, which is one of the reasons for the dollar's hegemony over the last 80 years – that has been the relative strength and productivity of the US economy relative to the rest of the world. And that is still very much in play. The rest of the world is growing economically, relative to the United States.

The United States in the '70s was close to 45%-50% of world GDP. Today it's down to about 22% of world GDP as the rest of the world grows up around it and a variety of long-term economic trends change the way the world works. But the US still has all sorts of competitive advantages in terms of productivity, natural resources, rule of law.

And that gives it an undue advantage against other economies. That's reflected in the fact that the dollar has been the currency of choice. And that's been reflected in the fact that there are any number of investors around the world who want to invest in the US economy. Or they'll invest in financial markets through the US financial markets, but not other markets.

And so the third proviso that has to change for the dollar to really lose more status is that other countries have to become more competitive economically and more stable legally and regulatorily, so that people feel comfortable holding their assets and their currencies.

Erik: Okay. With that framework in place, let's go ahead and move on to gold, a topic which you specialize in. And I'm sure everybody's dying to hear. What a rollercoaster we've seen this week. Down testing $1,262 was the low print and then all the way back up to $1,296. And as we're speaking on Wednesday afternoon, after the Fed minutes came out, we have a balance back up to $1,291 or so.

Where do you see – short, medium, and long term – where is gold headed from here?

Jeff: We think that over the next few months the price is probably going to move back up toward $1,340 to $1,360 – probably into late November and December before we get to those levels. But we're sort of looking at the gold price moving in a range between $1,260 and $1,360 over the next three months. And then getting into 2018, depending on what happens in the global financial markets, we think that the gold price will probably continue to rise at perhaps a slightly faster rate than it has risen in the last couple of years.

Erik: So that $1,260 was definitely an opportunity to buy (for anybody who missed it). For those listeners who got it, congratulations.

How about silver? Obviously there is this ongoing debate about whether silver is an economic or an industrial metal. Where do you see silver going, and particularly with its relationship to gold?

Jeff: I think silver's got a firm base around $16–$16.20, but I think it also has a firm ceiling around $18.50 or $19 over the next several months. So we're looking for silver to move sideways. Silver is a financial asset, to some extent, like gold. But it's much more of an industrial metal and an industrial commodity. In some ways it trades more like gold than it does industrial commodities. But in other ways it trades more like an industrial commodity like copper or oil or platinum than it does like gold.

And I think that will weigh on silver going forward. You know, one of the things that you see is that investment demand really drives prices higher or lower, and investors are much more focused on gold right now, it seems, than they are on silver.

Erik: I think the last time we had you on the program you described by 2020 or so a target upwards of $2,000 for gold. Is that still your view?

Jeff: What I was saying last time I was on, to be a little bit more accurate, was that we thought that by 2020–2022 we would see record high gold prices in terms of nominal annual average prices. And the nominal annual average gold price peaked around $16-something in 2012. So we're looking for prices to be well over $1,600 by 2020-2022, but we're not looking for necessarily prices over $2,000. Now, for the annual average price to be $1,650 or $1,700, that means that you're going to have to have gold prices knocking on the door of $2,000.

Erik: Let's go ahead and move on to base metals and perhaps broaden that to commodities generally. As I look at a copper chart, I see that it was about a year and a half ago that maybe it bottomed and started to base. And of course it was right with Donald Trump's election that the huge upside happened. I thought that there was kind of a blow-off there, that the upside was gone. But now we're seeing, just in the last few days, it looks like we're going to go retest that high.

So, I guess what I'm having trouble reconciling, Jeff, is it seems to me like this recovery in copper was mostly about infrastructure spending that Donald Trump intended. It seems clear to me that Donald Trump is not making a whole lot of new friends in the Congress, so I'm not sure all that infrastructure spending is really going to happen. But copper is still acting like it's completely on steroids.

So is there something other than the infrastructure spending perspective? And I guess you could probably broaden that to other commodities if you want as well.

Jeff: I would say that what you're seeing in copper you're also seeing in zinc and lead and other commodities too. And our view had been that these markets probably would see higher prices despite or regardless of Donald Trump or anybody else winning the presidency.

I think that the Trump election did cause some very strange speculative behavior across financial assets, where there was always bullishness about the infrastructure spending and the tax cuts. And those aren't going to happen. But we were saying from November 9th onward that we didn't expect the Trump policies to go into effect. That they were just campaign rhetoric and that he would have his hands tied. And that we wouldn't see any infrastructure spending. And we might see a tax cut, but later rather than sooner. So we're not surprised by what we've seen there.

I think what you're seeing in copper, lead, zinc, and other industrial commodities is that the global economy is moving forward despite dysfunctional global and US politics. And there is infrastructure spending, but it's not in the United States. It's in China, it's in India, it's in a host of other countries. And I think what you're seeing in base metals such as copper is the fact that the markets have realized that, even though you have political problems in the United States and elsewhere, the economies of the United States, China, Europe, and a number of other countries are doing better than the financial markets had thought.

So when I look at the current increase in copper, lead, zinc, and other prices, I don't necessarily see it based on the idea of a US tax cut. I see it based on two things. One is the fact that the economies of the world are in better shape than the financial markets had thought they would be.

And the other thing that I think is going on is that you have a lot of money moving into commodities from institutional investors who are concerned about the fact that they're seven years into a bull market in the stock market. And they're eight years into an economic recovery in the United States. And there are – while things are humming along economically now – there are increased probabilities of some economic downturn in the next two or three years and some decline in the stock market.

So I think that what you're seeing is a lot of speculative interest as well as longer-term investor interest based on fundamentals coming into these markets and pushing the prices high. That said, I look at copper, lead, zinc prices, and I say these things look too high. I think that there is speculative heat that has taken the prices higher than the fundamentals and the longer-term investment demand would justify. So we're kind of warning our clients that this might be a good time to take some profits off of the table.

Erik: I really appreciate that answer. It makes perfect sense to me. But help me reconcile what you just said with what grain prices are doing. Because I think you and I agree that the industrial metals, particularly copper, maybe have a little bit too much zeal in them, a little too much excitement. But if this is a story that's about the global economy, why is it that the grains rolled back over when copper has continued to be strong?

Jeff: I haven't looked at grains as much as I'd like to, simply because people don't pay me to look at grains (as much as I'd like them to). But I suspect that what you're seeing in the grain market is several things. One is a particularly good harvest in some of these things. You also have some seasonality, because this is when the northern hemisphere harvests come in.

And so you go from the bottom of the barrel because you're nine months away from the previous harvest to the bounty of the harvest. So there's probably some seasonality in there. There's probably some pretty good harvests in there. And there may also be some demographic changes on the way people eat. But I really haven't had the time to look into grains as much as I'd like to.

Erik: Let's move on to a subject that I know you've done a lot of looking at, because you've written about it recently. The Shanghai Futures Exchange proposes to introduce a new crude oil contract which will be denominated in yuan but will be convertible for the benefit of the sellers of that oil to gold. Although, somehow, this gold won't be Chinese gold that gets converted.

I've heard so many different views about this from it's just a sideshow, it's just propaganda, it means nothing – to this is the complete game changer that's going to change the course of history forever because the world is de-dollarizing and moving away from the dollar for payment for oil.

So let's start with your high-level view. Is this the change of the future of the world? Or is this crazy propaganda that doesn't mean anything?

Jeff: I think it's not the change of the future of the world. And I don't necessarily think it's propaganda either. I think it's more like a sideshow and an aside. I'll throw out a couple of data points.

The first one is, a few years ago the US started imposing embargos and sanctions on Iran. And you got into this business where the Iranians would sell their oil to companies in Turkey and those companies would pay the Iranians in dollars. And then the Iranian oil company – the state-owned oil company – would take those dollars to Dubai and buy gold and bring the gold back into Iran, because dollars were kind of worthless to them with sanctions and the animosity toward Iran of the US government.

So the idea that you can take your petrodollars – and that actually goes back to 1979 when the oil price went from $10 to $40, you had what they called petrodollar sterilization. People who sold oil were being paid in the dollar. The higher oil prices were hurting the US stock market, the US economy. It helped throw us into a recession. And so the last thing you wanted were dollars. So, as you sold your oil, you got paid for it in dollars and you bought gold. And you see that all the time: petrodollar sterilization either into gold or into other currencies. It happened again in 2009-2010. It's not an unusual trend.

Both of those things point to something very important. If I sell you oil, or I sell you anything – I can sell you licorice – and you pay me, first off, chances are you're going to pay me in dollars because that is the currency *franca* of the world. I am now free to take whatever currency you've paid me in and buy gold. So I can always buy gold with my currencies once I've sold my product.

And for the Chinese, the Shanghai Futures Exchange, to say, you can sell oil and be paid for it in yuan, and then you can take those yuan and buy gold, that's a meaningless statement. Because they have no control over what you do with that money. What's really important is the fact that the government says, okay, you can buy gold with those yuan, but you're not going to buy gold in China.

You're not going to buy gold from the Chinese government. We're not backing this deal. We're not saying that oil should be bought with gold-backed yuan. We're not saying anything like that. The central bank is not going to supply the gold that you might buy with those yuan. And, in fact, we're not going to let anybody else in China sell gold that's in China to you for those yuan.

So, you're free to take our currency, and if you want to buy gold that's great. Because, quite frankly, we'd rather you own gold than yuan, because we really don't want a bunch of overseas people holding enormous stashes of yuan. So it's kind of a meaningless idea that has been blown out of proportion by people who, I guess, never studied economics in college.

Erik: So do I understand correctly? What you're saying is this so-called gold convertibility of this contract, it's really like if I said I'm going to hire you, your salary is going to be $1,000 a week, but it's $1,000 that's convertible to Jack Daniels. Well, that's just because anybody who has $1,000 can buy Jack Daniels with it if they want to. You're saying there's really nothing more to it than that.

Jeff: That's exactly it. You know, Erik, I think you're single. I'm going to tell you that, as a single man loose in the world, you're free to go off and find single women to date. I'm not going to help you find them. I'm not going to supply them to you. But I'm telling you that I have no problem if you go off and date some woman. Because, hey, I actually have no control over it anyway.

Erik: So if I subscribe for a fee to CPM Group research, that research is actually convertible to Victoria's Secret models. I just have to find a Victoria's Secret model who wants CPM Group research and cut a deal with her. That's what it comes down to? Okay, I'm glad we cleared that one up.

Because I was going to ask you – the mechanics of this whole thing – where does the gold come from? And what you're saying is essentially that the convertibility to gold does not assure that the seller of oil is going to receive a certain amount of bullion. It's basically going to be the market value of bullion for the amount of yuan that they're being paid on that day, whatever that happens to be. There's nothing else to this contract that provides any surety or assurance in terms of a certain amount of gold being guaranteed.

Let's move on now to another subject that you've written something about recently, which is the Fed chair. We've got this nomination coming up. Of course Janet Yellen could be re-nominated, but Kevin Warsh sounds like maybe a more likely candidate.

What do you think in terms of the outlook for who the next Fed chairperson could be? And what does it mean for markets, particularly precious metals because Fed policy is so important to the price of gold, but also to the economy generally as well as other financial markets?

Jeff: Obviously Janet Yellen and other people might be seen as doves, Warsh might be seen as less dovish in terms of monetary policy. I'm kind of of mixed minds because – one of the things that I've talked about, I don't think I've written about it lately – the Fed, at the end of the day, is a human institution. And the Fed's reputation is built and torn down based on the humans that run it.

So, if you go back to the period, say 1950 to 1971 when William McChesney Martin was the Fed chairman – and he was probably the greatest Fed chairman that ever lived – the Fed was seen as an incredibly austere, august, well-managed, and effective monetary manager. And during that period of time the world suffered enormous currency crises, because we were on the $6 gold exchange system, which led to periodical very sharp devaluations of fixed currency exchange rates. And the Fed did a masterful job ushering the country through the financial and monetary problems of the '50s and '60s under Martin.

He retired in '71, and we had a couple of people who I won't name, but they were terrible Fed chairmen. And, as a result, during the '70s the Fed didn't handle the inflation and other problems that we faced during the '70s. But it also lost a tremendous amount of stature, so that by 1979 the Fed was often the butt of jokes.

Paul Volcker came in and crushed inflation and put the Fed onto a very solid footing. And he also developed the way that we got out of the double-dip recession from 1980 to 1982, which was to flood the world with liquidity, get us out of the recession, and then sell bonds and suck up that liquidity before it could have an inflationary effect. And that was the Volcker practice.

And Greenspan learned it and he used it in 1987 with the stock market crash, in 1997 with the currency crisis in Asia, in 2001 with the recession. And so under Volcker and Greenspan we had an extremely well-managed Fed, and it came to be seen – people were talking about the masters of the universe and the most powerful people in Washington.

And then after Greenspan we had Bernanke and then Yellen. And they've been very inadequate Fed chairmen. And the Fed has lost a tremendous amount of stature and reputation in financial markets as a result.

Unless somebody that I don't see on the horizon is picked as the chairman of the Fed, I think that whoever replaces Janet Yellen will just be another mediocre Fed chairman who's not really going to help re-establish the reputation of the Fed as being the august and all-powerful body that it was under Martin and Volcker and Greenspan.

So I think that concerns over who comes in at the Fed will ruffle the markets, and you'll see the usual little volatilities as people jockey – oh, it's going to be this person or it's going to be that person, he's going to be a hawk, she's going to be a dove – but I think that's largely meaningless to the bigger issue, which is that the Fed probably will continue to suffer from a diminution of respect on a global basis.

Erik: And what does that mean for gold and silver in the long run? Because it seems to me that the less credible the Fed is, it ought to weaken the dollar and therefore strengthen gold. Is that true? Does that play into your secular view on precious metals heading higher in the next few years?

Jeff: It plays into it when you plug into something that we were talking about earlier, which is the continued dominance of the dollar in international currency markets. I think that the fact that the Fed and the Treasury will not be seen as being particularly astutely managed is going to help undermine confidence in the long run financial management view of the US government, and therefore the US economy and inflation and the dollar. And all of that will help gold. The way it doesn't help gold is if there emerges a different country and a different central bank that can assert a greater degree of confidence.

You had a period of time 1994-1996 where the Bundesbank under Karl Otto Pöhl was seen as extremely well-managed. And deutsche mark rose and the dollar fell and gold did nothing. But

I'm not sure that you're going to see anybody step up in ECB or anywhere else who's going to command that kind of authority. So part of our view of gold prices rising over the next five years is predicated on the view that there's going to be concerns about the future of monetary management in the United States and on a global basis.

Erik: If Kevin Warsh becomes the next Fed chair – presumably he is more hawkish, more inclined towards more rate hikes. Is that bearish for gold?

Jeff: Yeah, presumably he is. We'll see what happens when he actually gets in there and what he does when he faces the reality of his first day on the job. But, yeah, I think a Warsh nomination would probably knock gold down $20-$30 on a short-term basis. But I think that it would be a short-term aberration, and it would wind up being the kind of buying opportunity that you saw earlier this week.

Erik: Okay. So buy the dip on the Warsh nomination, if that should happen.

Let's move to our friends in the other favorite central bank, the ECB. It seems like maybe they're getting to the point where they may start to at least hint at or move toward their own quantitative tightening program at some time in the future. What is the impact for that, both generally and on precious metals (which of course are priced in dollars)?

Jeff: Yeah, I think generally it will be taken as a sign that the ECB views the European economy as being much more stable than it has been, and that it's now able to absorb some of this normalization process. So that should help the euro, it should hurt the dollar, and it should help gold if the dollar comes off against the euro.

But I don't think that you're going to see a major move along that line. And I think that they also are facing certain headwinds. Right now everybody's focusing on the missteps that the British have made moving toward Brexit, and the economic and financial problems that the British have probably bought themselves by committing themselves to Brexit.

But I think that as time progresses people will realize that, while Brexit will be worse for England than it will be for continental Europe, it will have some negative consequences on continental Europe, which could limit the upward strength of the euro and it could limit the optimism toward the European economy.

The offset is that housing prices in the Netherlands and Paris and Frankfurt are going up very strongly, because those three cities and those three economies will benefit mightily from people exiting financial institutions exiting England and moving to those three places. And also Dublin, I should say. Dublin is also benefiting greatly from this.

Erik: Let's continue on the subject of Europe generally. You know, ever since the Brexit vote we've heard some guests tell us that it was just a flash in the pan, doesn't mean anything. Others have said, okay, it's the beginning of the end. It starts with Brexit and exit contagion is the thing to watch for in Europe as the EU is doomed.

How do you see that? When something like the Catalan independence vote looks like they've declared independence, although it's a little bit vague right now as to whether that's something that's pending or actually happening.

Where do you see Europe in general in five years? How do you see this turning out?

Jeff: Decentralization of political power is a very interesting thaw. And it ties in – if we go back to my comments earlier, a lot of people in the world would like to see a multipolar currency regime. A lot of people in the world would like to see a multipolar political economic world as well. And, if you think about the broad band of historic trends, from the Great Depression through World War II into the '50s, '60s, and '70s, and early '80s even, the overarching theme of many political developments was greater centralization of political power.

So the rise of the Soviet Union, consolidation of Soviet power, China – the United States definitely consolidated power. And in Europe you had the Rome agreement, and you had the steady march toward ever-greater centralized political and economic power.

By the mid-80s that mean was shifting. And the overarching political movement really started to be more a matter of decentralization. You had the collapse of the Eastern European communist bloc, the collapse of the Soviet Union, you had greater decentralization in Belgium, you had the move within the United Kingdom to devolve power to Scotland, Wales, and Northern Ireland.

And the human condition started moving toward decentralizing power. But in Europe and in some other places the political system and the political elites continued on that now archaic march toward greater centralization.

Coincidental with this was deregulation, internationalization, improved telecommunications, increased global trade: globalization, for want of a better word. And people started realizing that they didn't necessarily need political power consolidated ever-more tightly in a few places.

I remember very distinctly in the 1990s when the ECB released – or, it was the EMI, the European Monetary Institute, which was the precursor of the European Central Bank before 1999 – the EMI issued its blueprint for how they were going to introduce a single currency. And we got the enormous document. And we started reading it. And I realized they didn't have debit cards on there. Because with a debit card you don't need a single currency. You can have instantaneous currency conversion.

Computerization, globalization, deregulation, and internationalization of financial markets precluded the need for a single currency by 1999, but they went ahead anyway.

So I look at Brexit as a very important move toward the political establishment facing up to the fact that the global overarching political trend is decentralization. And Catalonia – you had three states in southern Brazil vote for independence from Brazil over the weekend. And other places.

All of a sudden you're starting to see people saying, you know what, we really don't need this heavily-centralized political power. We'd like to have greater political control over our lives. We'd like to have the political control that we've given to a government – given to a government where I know the guy because his son plays on the same baseball team as my son.

And so I look at Brexit as a very important sign that the political system is slowly changing to reflect the political wills of the greater proportion of the people. But I think it's a very slow process. I'm just flabbergasted at the way Iraq dealt with the Kurdistan vote and the way Spain is dealing with the Catalonian vote. Those governments just don't get it yet. But I think they will.

Erik: You mentioned Russia briefly in the beginning there. Let's touch on Russia. Obviously there's been a decay of foreign relations with the United States. At the same time the Russian economy, there's partnership with China.

Where do you see Russia going economically from here?

Jeff: That's a really tough one to call. Because, you know, Russia had a chance in the early days of the Putin presidency to really clean up its economic act and move forward positively. But things have changed now. And it's now a thugocracy. And that severely limits the ability of people within the country to manage their own economics in a positive way. And it also severely limits the ability to attract foreign capital and foreign investors and foreign thinkers to come in and help develop those assets.

And you're seeing that with Russian companies now. There are companies that really could be very interesting investments for Russians and for foreign investors, but they're not getting the capital because of the political constraints that the thugocracy or oligarchy that has arisen in the last 15 years. The constraints that that oligarchy has created. And so I think Russia is for now consigned to being ever more of a backwater until it can turn that around. And I don't know what it will take to turn it around.

Erik: And let's move over to China. Of course, Kyle Bass has reiterated his prediction that the massive, massive credit expansion that China has experienced since 2008 is all going to blow up and cause horrific problems that would force a devaluation of the yuan and potentially send a wave of deflation around the world. Kyle's been saying that for a few years now and hasn't been proven right yet. Which doesn't mean he's wrong, but he's certainly been early.

What's your outlook for China?

Jeff: China has a lot of capacity to manage its problems. It does have problems, and there are risks. And the Chinese government and Chinese leadership probably are more aware of the nature of the risks and the real nature of the risks than outside observers. But they also have a managed economy, and they have greater control over the economy than most other countries have.

So you're able to see economic development and positive changes and responses to crises occurring more quickly in China than you are in other countries that have more democratic processes that require consensus building that is ever harder to find.

So, do they have a credit issue? Yes. Do they have a credit problem? Not yet. Will they have a credit problem? It could emerge. But I'm not convinced that it will. And it could take a long, long, long time for it to be truly problematic to the Chinese economy, given the strengths that the Chinese economy and the Chinese government and the central People's Bank of China have built up.

They have quite a nice war chest. And they have some very smart people who have the capacity to respond quickly to financial and economic problems. And they have everything to lose if they fail. So they're really heavily focused on making sure that they don't upset that apple cart if they can help it.

So I would not have a short-term investment predicated on the idea that the yuan's going to collapse.

Erik: You mentioned debit cards a few minutes ago. I want to come back to gold now, because, when I think back to the '80s when Merrill Lynch introduced their cash management account it kind of changed things. All of a sudden you could have a brokerage account, a checking account that has a debit card attached to it.

And it seems like maybe there's a new trend in the gold market – I'm not sure if it's a trend yet or not – but I think about Goldmoney and their idea of, essentially, a deposit account where your savings is denominated in gold. So your balance is in gold, your statements are in gold. And then any money that you spend ends up being instantly converted electronically, so you use your debit card to buy something in France, they're going to charge you in euros. In the United States they're going to charge you in dollars. But all of your accounting for your savings is in gold.

I guess I have two questions. First, is this a trend? Do you think there are more companies beyond Goldmoney that are going to be offering this kind of service?

But also, is it a good idea? I think everybody should have gold in their portfolio, but the idea of replacing a national currency like dollars with, everything being denominated in gold. I wonder about the merits of that idea. What are your thoughts?

Jeff: Gosh. There's a lot there. First off, on the issue of what do you denominate your wealth and your savings in? And I'm not that familiar with Goldmoney in particular, but we're working with another company in that area, and there are a lot of other companies that are looking at various permutations of that. And we'll get back to gold.

But, first, just on the idea of having some of your wealth denominated. That goes back to what I was saying earlier about currencies and the movement away from an international currency regime – where the United States dollar is 62% of central bank holdings and 70+% of private wealth – to something that's more evenly distributed across currencies and gold. For that to happen, countries have to change their rules more. And they've been hesitant to do that. But you are seeing stuff. India allows banks to hold deposits in gold.

Turkey, as of 2011, started saying to their banks, you have gold dollars and euros in your deposits as well as Turkish lira, and you can now use gold dollars and euros to meet your reserve requirements for the Turkish central bank. And it was a very important thing. They did it in September and October of 2011, which was when the Greek crisis was at its worst, and you had all these gold dollars and euros pouring into Turkey out of Europe because Europe was really looking nasty and ugly.

And what the Turks did by making this change is they allowed the banks to free up Turkish lira to be lent into the Turkish market to help protect the Turkish economy from suffering unduly because of the problems next door in Greece and in Europe.

And so I think it's a good idea. I wouldn't suggest to anybody that they have all of their assets in gold, because it is an illiquid and volatile currency, if you will call it a currency. But I do think that having some of your assets in gold, as well as in your domestic currency and maybe a couple other currencies, is a very smart thing to do. And it's hopefully the wave of the future.

But, as I said, you have to have a lot of legal and regulatory changes in a lot of countries before that becomes the norm. Plus you have to have the market infrastructure to handle it. Plus you have to have education of not only the providers of financial services but consumers of financial services to say, oh, I do want some of my money in gold. Not all of it, but some of it. So I think it's a good way.

As I said, I'm not that familiar with Goldmoney. We're working with a company called Goldex which has a gold-denominated debit card. And, frankly, those people are very astute. They are not expecting anybody to take all of their money and convert it into gold on their debit account. But they think that they'll take some, some small portion. And they have a variety of things to do to try to help do that.

And then there are other companies – a recent survey said that there were more than 200 companies offering gold and silver investment products online now. Some of them you may not want to do business with. And I think there's a whole issue of how do you do your due diligence. And how do you feel comfortable and get to a certain comfort level with the idea that somebody anonymous on the internet is holding your wealth in gold some place in the world for you. And be sure you can get it when you need it.

So I think there's a lot of infrastructure construction and marketing that needs to be done, but I do think it's a wave of things to come.

If you look at the gold and silver markets right now – if you just take a look at the silver market in the United States, you've seen a very sharp drop in gold and silver coins in the United States this year. At the same time that's happening, you've seen a big increase in ETF holdings. And you've seen a really big increase in futures and options trading volumes and open interest.

So what you're seeing is people moving away from physical coins. And maybe those people who wanted to have a physical coin in their own personal physical possession are saying, I'm not interested in gold and silver so much anymore. They're moving away from that collectively as an investment group, but they're moving toward increasing the gold and silver that they're holding in ETFs and futures and options.

That tells you that they're much more comfortable having their assets held in a clearing house or a bank depository. And it also tells you that they're probably more interested in buying and selling than increasing their weight of holdings and decreasing their weight of holdings given market conditions at any given time. So they're looking for a more tradable, flexible way to own gold and silver.

And debit cards, like Goldex is working on, that's a much more flexible way to hold it. And you're also moving away from the people who say I buy gold and silver to stack it up in a corner against a rainy day, to people who say I'm buying gold and silver, partly to stack it up in a corner and hold it against a rainy day, but also while I'm holding it I'd like to use it. And this is a way I can actually use it that's a little bit less cumbersome than trying to take a silver eagle down to the store to buy some milk.

Erik: Finally, Jeff, as we close, our normal policy is to ask our guests whether they have any research that we can share with our listeners. And at this particular junction your research department at CPM Group doesn't really have anything fresh to share with our listeners.

But you did recently write a custom report for Strategic Wealth Preservation which is a precious metals outfit that operates in the Cayman Islands, and they were kind enough to allow that content to be shared with our listeners. Folks, you can find the download link in your Research Roundup email. This report is convertible to Victoria's Secret models but at an exchange rate that you determine yourself.

Jeff, tell them what they can expect and what their Victoria's Secret model can expect to find in that particular report.

Jeff: Well, I think that report covers several things. First off we talk about our short- and intermediate-term outlook for gold and silver. We also talk a little bit about the platinum-palladium ratio, with palladium having moved to a premium to platinum for the first time since 2001.

We talk about the economic outlook as it affects gold and silver investment demand and prices, so there's a discussion about the upcoming changeover – possible changeover – in the Fed chairman and what it means to the broader economy and to gold and silver.

There's a discussion that we have – which is an elaboration of some work we did earlier – what happens if you add gold, silver, platinum, and palladium in various amounts to a diversified portfolio of stocks and bonds? And, typically, what you see is the risk will fall and the returns will rise somewhat. And so we had done work on what happens if you add gold in various increments to a portfolio earlier this year. And now we've looked at it with a whole range of permutations of all four precious metals, which is a pretty interesting thing to do.

And then we talk a little bit about the petro-yuan and why we don't think that the petro-yuan is really as big a deal as the guys who like to hammer on the dollar and say that the dollar is toast make it out to be.

Erik: Well, Jeff, I cannot thank you enough for a fantastic interview. Listeners, you can find the download link for that report for Strategic Wealth Preservation in your Research Roundup email. Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.