Jeffrey Christian: Investment Demand for Precious Metals is Bottoming

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Erik: Joining me next the program is CPM Group founder Jeffrey Christian, very well known as a precious metals expert.

Jeff, I want to start with this story in gold. I've been watching this market for months and months. It seemed to me like there wasn't a whole lot of a story to tell. It was inverse of the dollar, as you would expect.

But then, on October 11, we saw gold and the dollar move up on the same day and they moved up big in both the dollar and gold. I think that's perplexed a lot of people. A whole bunch of conspiracy theorists said, okay, that means that the secret Chinese manipulation is over and we're about to go to $2,000.

But a couple of weeks went by and things have settled down. We're starting to trade lower again. So do you have any explanation of what changed around the 11th of October? And how that's played into markets?

Jeff: As you know, I sort of ignore the conspiracy theories and the conspiracy theorists. And what we thought we were watching in the middle of October was that you had a stock market that was very nervous. You were two weeks before the election. And there were all kinds of jockeying about what was going to happen in the election in terms of control of the Congress, and also its implications for the economy.

Then you had the Jamal Khashoggi murder, and everybody except Donald Trump in the world pretty much immediately knew that the Saudi government had killed this guy in its embassy and scuttled the body out somehow. There was a lot of call about what are we going to do about sanctions against Saudi Arabia, etc.

And the Saudi response was, if you're going to make a big deal out of the fact that we killed this guy, we will cut back supply of oil. We will jack up the oil price and we'll throw the world into a major recession or depression.

And you saw the stock market come off sharply. You saw gold and the dollar both rise.

Now, I know you pay a lot of attention to the relationship between gold and the dollar, and we pay some attention to it, but the correlation is not as strong as a lot of people think. There are times when you see a financial or political crisis and people rush to the dollar. There are times when they race to gold. And there are times when they race to the dollar and gold.

I think what you saw October 11 and for a week or so after that was people were racing to both the dollar and to gold because there was a serious concern – there is an ongoing concern that we might go into a recession 2019–2020. Some people are talking about a very big potential recession at that time.

I think that you saw a lot of people very much concerned that the Saudis would follow through on that threat. And that you could see what has been a very top-heavy stock market prone to 400- or 500-, 600-point down days in fact, fall much, much more significantly and economic conditions turn much more severe. Our take was that that's what you were seeing.

After a week or two, everything kind of quieted down on the Jamal Khashoggi murder and the concerns that the world would do something that would cause the Saudis to trigger a recession. The stock market dusted itself off for a few weeks and gold came back off. Now the stock market is down again and gold is back up.

Erik: So we're starting to see a pattern here of gold doing what it used to do, which is being a safety trade asset when other things are wrong. How does this fit in to your overall big picture view of where other markets are headed? And, particularly, the outlook for gold in the coming months and years?

Jeff: Our view for most of 2018 was that 2018 would be a relatively quiet year. Gold has been weaker than we thought it would be. We didn't necessarily see it rising or rising significantly in 2018.

Our expectation has been that it would rise more strongly in 2019 and going forward and that you'd see a relatively strong market this year. Partly due to tax cuts, partly due to stock buybacks, and partly due to a relatively healthy economy, which actually has been healthier in the United States, China, Europe, and other parts of the world than a lot of people thought it would be at the beginning of 2018.

So the gold price has been kind of bumping along. Our expectation is that the rest of this year you'll continue to see gold kind of bump along. You know, $1,200–$1,210 on the downside and maybe $1,240–$1,250 on the upside.

But that when you get into the first quarter of 2019, a lot of the economic, financial, and political issues that stimulate investment, interest (or lack of interest) in gold will become more positive for gold and more hostile for stocks and bonds. And that you could see the gold price start to move back higher over the course of 2019 and 2020.

Erik: And what about silver? What's your outlook there?

Jeff: Our outlook on silver is similar. We're a little bit less optimistic about silver and we have some concerns about it. The way we interpret what's going on in the market is that investors around the world see gold as quasi-money, a financial asset, a safe haven. And a lot of investors around the world see silver that way, but fewer than see gold that way.

I think that one of the things you've seen over the last couple of years is that investors who have focused their residual interest in precious metals have been focused on gold at the expense of silver.

You've seen investment demand come down for both of them, and you have seen weaker investment demand patterns in silver than gold. So silver has suffered at the hands of those investors. We think it will turn around, but it's probably going to be a little bit more muted of a response than what you would expect to see in gold.

Erik: Now, I'm very curious about that in particular. When you say you're less optimistic about silver, something a lot of people have been talking about lately, and which you've written about recently – we do have your writing on the gold-silver ratio linked for our listeners in the Research Roundup email – a lot of people are saying, hey, we're past 80:1 now on the gold-silver ratio.

Historically that's got to mean that silver is undervalued relative to gold. But you're saying you think that silver might get even more undervalued, if I hear you correctly. Why are you not concerned with this historical level of 80:1 that so many people seem to be convinced is an indication that it is time for silver to appreciate relative to gold?

Jeff: Well, we are concerned – we are paying attention to it. But I think that there are some misstatements being made about the importance of 80:1. It is true that several times in recent decades you've seen the gold-silver ratio get to 80:1 and then it falls back down.

But there is a very important period of 1990 through 1993 where the ratio got to 80:1 and then it went to 100:1. And it was above 80:1 for almost four years there. And if you look at what was going on in the gold and silver markets in that period – you really go back to 1988 to 1994 – there are cautionary tales for the current period in what was going on in the silver market in that period.

That was a period where a lot of investors were abandoning silver. They were selling their silver. They weren't buying as much silver as they had in the first half of the 1980s. And you saw the silver price come down and trade down as low as $3.51, $3.52 for about four years there before it started to rise.

I think the fact that silver is undervalued relative to gold is important. But just because it's at 80:1 doesn't mean that it's going to go to 50:1 or 60:1 on short order because, in a similar time and similar silver market conditions to what we're seeing now, silver went from 80:1 to 100:1 and it took four years before it got south of 80:1.

So we're just very cautious about being overly optimistic on silver prices solely because the ratio is at 80:1. Because I don't think there is really any magic other than self-fulfilling prophecies with that 80:1 number.

Erik: It's very interesting to me because I've seen so many pieces in the last couple of weeks about this 80:1 ratio and every single one of them has said clearly this can only mean one thing, which is that silver is undervalued and about to go up.

I kind of think, wait a minute, why wouldn't it mean that gold is overvalued and about to go down? And I guess it's because the people who are metals dealers are the ones that are writing most of these articles. But it really does beg an important question in my mind. As you say, it's very possible that we could go from 80:1 to 100:1.

But let's suppose that we do see that 80:1 historical norm rule play out to where that ratio starts to come down. Do you think there is a scenario where maybe silver is actually presaging or forecasting an outlook for gold to move down substantially from here before it eventually moves higher? Because, certainly we've seen an uptrend in the US dollar.

Jeff: You make a very good point. First off, you're talking about a ratio. And there are people who imbue mystic qualities to this ratio that don't really exist. You make a very good point that it's a ratio – dividing the price of one asset versus the other. And that ratio can change because they're both falling or one's falling and one's rising, or they're both rising at different paces.

You have to go back in history and you have to say, well, when the ratio has risen in the past what was going on? In the case of what you're saying, when the ratio has come off, what was going on? And in the case of early 1988, you saw the gold ratio get close to 80:1 and then it fell back to about 58:1 or 57:1, and that was because the gold price was falling.

It was falling more rapidly than was the silver price because you had been in a period in 1986, 1987, into January of 1988 where the gold prices had risen very sharply on the expectations of a recession. You had Black Monday where the stock market fell very sharply in October of 1987.

A lot of people were concerned that the world was going into a recession, and gold went from $400 to $500 an ounce. And then it came back off. So that ratio occurred, not because of silver prices rising, but because the gold price was falling faster than the silver price was.

And whether or not the silver market is signaling that with gold really depends on what you think about the fundamentals and the investment demand trends in gold and silver. Our view is that, at this point, gold and silver investment demand probably are bottoming out and that what you will see going forward in 2019–2020 will be stronger investment demand for silver and stronger investment demand for gold, predicated on the economic environment that we see coming out and going forward from here.

If the economic environment and stock market and the dollar are stronger than we expect in 2019–2020, then you could see a further ratcheting down in investment demand for both gold and silver. And you could see that ratio move upward toward 100:1 before you saw the ratio reverse and fall.

But, you know, we don't predicate our price views on our views of the ratio. We predicate our views of the ratio on our price views. And the price views are built on a macroeconomic base and a microeconomic analysis of the individual gold and silver markets.

Erik: Let's talk about those outlooks and those markets a little bit more, because you said that, from an investment demand standpoint, you thought that maybe we were starting to bottom in terms of investment demand.

What's been pushing that investment demand down in the first place? Why is it going down? And what's going to cause it to turn around and start going back up again?

Jeff: First, let's quantify. Investment demand was about 40 million ounces in 2011, for gold, net physical demand for gold, in 2011. It was about 37.5 million ounces in 2012, but you started seeing large gross sales and large gross purchases at that time. And then, over the last couple of years, it's been 19 million ounces estimated investment demand in 2017, and 20 million ounces this year.

It's interesting, because we've seen big changes in the nature of investment demand for gold and for silver. In both markets, what you've seen is large reductions in the amount of gold and silver being bought by people who expect economic chaos – people who buy gold and silver because the world is going to collapse, the world financial system is going to collapse, the dollar is going to collapse, Europe is going to collapse, whatever it is. A lot of those people have been crying in their beer because the world hasn't collapsed and gold prices haven't risen sharply and neither have silver prices.

What we've seen over the last two to three years now is that those long-term buy-and-hold investors who bought based on economic chaos fears have been buying less metal and, in fact, some of them have been selling. And others have been dying and their estates have been selling.

But, at the same time, that's been partially offset by a new wave of investors, many of whom were never in gold and silver before. And they're more in gold than silver. These are more value investors and trend followers. These are people who are saying the stock market is very high, interest rates are starting to rise, the economy has been much better than a lot of people expected, it's probably peaking in 2018.

The gold price and the silver price, meanwhile, have been hammered down. So, as a value investor and a relative value investor, I'm looking at a stock market that's very top-heavy. I've made a lot of money in it over the last several of years. It's probably time to lighten up some of my stock and bond holdings and put some of that money into gold and silver because things look like longer-term they're probably more likely to rise than to decline.

Now, in the last few months you've seen these trend followers and value investors joined by some people buying gold and silver out of concern about economic and political trends, not only in the United States but in England and other parts of the world. That all comes together into what I was talking about earlier – we think that we're probably pretty much at the bottom for gold and silver investment demand and consequently prices.

If you see a much rosier world, then you can see some of that investment demand disappear again and the prices have downside exposure. Our expectation is that the world is not going to be rosier in 2019. It's going to be less rosy. Our expectation is that the $1.2 trillion in stock buybacks that you saw this year, mostly fueled by tax cuts, are a one-time event that won't be repeated in 2019.

As a consequence, the stock market will look more vulnerable, economic growth will be a little bit weaker or much weaker than it was this year, and the tide could turn on the stock market, the economy, and, in fact, also the US dollar. And all of that could provide a base for gold and silver around $1,200–$1,180 for gold and around $14 for silver, at which point investors would maybe step up to the plate and start buying more again.

Erik: Let's touch on cryptocurrencies in the perspective of how they have affected the precious metals market. For a while, when this speculative mania in digital currency or cryptocurrency tokens was really in its heyday at the end of 2017, you saw all kinds of people saying gold is dead, crypto is the new gold, that's it. And it seemed like that was hurting gold prices.

Now that we see crypto crashing in many respects, or certainly selling off, and we're seeing a reversal of that, maybe the downside of that speculative mania, I would have thought that that would have brought more investment back to gold. But it seems like we're not really seeing that strength there.

So how do you perceive the effect that cryptocurrency is having on precious metals markets?

Jeff: As you may recall, we probably talked a year ago, and I was saying cryptocurrencies are not distracting investors from gold. What was distracting investors from gold was the stock market. And we were pooh-poohing the importance of cryptocurrencies as a negative factor on gold.

If you look at it, you've got a $70 trillion global stock market, 42% to 45% of which is US stocks. You have quadrillions of dollars in stock derivatives. You have this enormous amount of money that is focusing on stocks and stocks. You have a multi-trillion dollar gold market. And then you have a cryptocurrency market which in total was less than a trillion dollars.

So our view was that gold was weak, not because people were buying cryptocurrencies instead of gold, but that gold was weak because they were buying stocks instead of gold. So the gyrations and the collapse of the cryptocurrencies and the realization that they were really pet rocks – they were the antithesis of gold – has had a very limited positive effect on gold because it's the backwash of what we saw as a very limited negative effect on gold.

If you want to see a positive effect on gold, wait for the stock market to fall significantly. Then you'll see money moving into gold. Cryptocurrencies were always sort of like a bad joke to some of us. If you wanted to be nice to them, you could say it's a very small marginal market that has a marginal effect on much larger markets.

So we didn't think that cryptos were syphoning off a lot of money from gold. And with the realization that cryptos are the antithesis of gold, the ultimate Ponzi scheme, you haven't necessarily seen the positive effect on gold.

Erik: It seems like a lot of your message, Jeff, is really that what we can expect from gold has a lot to do with the things it does depend on which, I guess, are the dollar and the stock market. So why don't you share with us your outlook for the dollar and the stock market, as well as politics for that matter? And how that is going to play in to where you think the gold market – you think it's headed higher eventually but it sounds like not right away.

Jeff: Well, let's start with the stock market because there have been various economic analyses who have indicated that a lot of the strength in the US dollar has in fact reflected the strength in the stock market.

And that what you're really seeing is a lot of investors around the world saying, okay, the US economy is better off than other economies. The interest rates are rising and the differential between US Treasuries and other sovereign bonds is expanding. And the stock market in the United States is doing much better than the rest of the world. So they've been buying dollars in order to buy in to the US stock market and US assets. So a lot of it comes down to the stock market.

And then you go back to the stock point and you say, well, why has the stock market been rising? Well, it's been rising primarily because of the big fill-up of tax cuts this year. And because of the stock buybacks.

It's very interesting. I made this point some place last week and somebody said, yeah, well, you know earnings per share are up. And I said, right, because the number of shares are down. Where you have to really look is what are corporate earnings doing, not earnings per share. And corporate earnings are lagging earnings per share because of the stock buybacks.

You have a US industrial corporate base that have been decapitalizing for many, many years now. If you look at the tax cuts, US corporations got something like $1.5 trillion in additional revenue this year from tax cuts and tax rebates and tax paybacks and stuff. And, of that, something like $1.1 or $1.2 trillion went into stock buybacks. And about $300 or $400 billion went into actual capital investment in the companies.

These are companies that are decapitalizing. That's not good for the US economy in the long run. It's good for stock market investors in the short run because they're getting their cash out. And it makes the stock market stronger. It makes stock prices rise because there are dollars chasing fewer number of shares. And it makes the stock market look that much healthier.

One of the things that you'll hear sober economists say over and over again is the stock market is not a presage of economic conditions. As my old boss at Goldman Sachs, Leon Cooperman, used to say, the stock market has predicted 15 of the last 4 recessions. It's not necessarily a good measure.

So, just because the stock market is rising, doesn't mean that the US economy and US industry and US corporations are doing well. There is lot of stuff that is going on that is goosing the stock market that's not necessarily good for the gander of the US economy (if I can mix my metaphors and play on words there).

So our expectation is the stock market is probably peaking, if it hasn't already peaked. There are a lot of people talking about a 30%–40%–50% decline in the stock market at some point. And we think that will happen. It may not happen in 2019–2020. It may not happen until 2023 or 2024.

But we do think that the US economy and the US stock market are both headed for harder times. 2019 and 2020 may be a soft landing. But it's probably – you're not going to see further increases in the stock market.

And you do have a lot of political things that are going to happening starting in the first quarter of 2019 that could have negative implications for foreign investors' attitudes toward investing in the United States. So you could see the dollar peak and maybe come off a little bit. It's not going to come off a lot, because the US economy still has head and shoulders above other economies.

But you probably will see a weaker stock market, a weaker dollar, and a weaker economy. All of which presage better gold prices because investors will be looking to protect some of their assets from those negative consequences.

Erik: Let's talk a little bit more about what could happen in the stock market. I agree with you that the tops are probably in or coming if they're not already in.

Let's suppose, though, that we do get another really big downside event in the stock market, which some people are predicting. I'm not necessarily predicting that. But let's cover that case. What a lot of people have pointed out is they've said, hey, everybody wants to think "Stock market crash; gold is your safety trade."

But, if you look at what happened in 2008, at first gold was the safety trade. Gold was up at the beginning of the Great Financial Crisis. But once things really got rolling, all correlations went to 1. Everybody was selling their gold along with everything else. Gold sold off not as heavily as stocks, but it sold off dramatically.

It was not the right move at the beginning of the financial crisis to be getting into gold. If anything, you wanted to wait for it to bottom considerably after the stock market started selling off.

Is that a one-time event? Or is there a possibility again that if the stock market were to start selling off that you might see a temporary move up in gold but then gold might turn and follow stocks down, if we see a really big selloff?

Jeff: I think it plays the other way around. I mean, one of the things about gold is it has multiple functions for investors. One of the functions it serves is to protect the value of wealth and portfolios from economic problems.

But another attribute of gold is that it's a great liquidity source in times of crisis. What you saw in late 2008, early 2009 was massive liquidation of gold by people who needed money fast. The gold price then turned itself around and went to new highs – significantly newer highs, significantly faster than the stock market.

So the gold market and the stock market both fell in the final four months of 2008 and into 2009 but, where gold prices got down to about $900 they went to $1,900 by 2011. And the stock market, to make that kind of increase, took 10 years.

So I think that what you could expect – and there are several things to pay attention – I think what you could expect is if you saw a major route in the stock market, gold prices could weaken initially because of that turning to gold holdings for liquidity to meet margin calls and credit requirements, which is a traditional thing.

We saw it in 2008, but we saw it in other years too. We've seen it in other recessions and other downturns including 2000–2001. So that's not all that surprising to see. But then, I think, that gold dusts itself off.

Now, you're right in saying buying gold when the house is on fire doesn't make sense. You buy the gold as an insurance policy before the house gets on fire. If you see that your son is a pyromaniac and he's playing with matches late at night, you buy the gold before he burns the house down. Once the house is on fire, buying gold is not going to help you.

And I think you're seeing that with these guys I was talking about earlier, the trend followers and the value investors who are saying, look, this is a good time to be loading up with gold.

We haven't talked about central banks, but that's exactly what central banks are doing this year. They're taking the opportunity of lower prices to buy more gold than they had been in the recent past. So that's a trend there.

Now, there's another thing to pay attention to with the stock market. The stock market has repeatedly dropped 30%–40%–50%. It did that in 2000–2001. It did it in 2008–2009. I think it did it probably in 1990 and maybe in 1987 – I'm not sure what the percent decline was.

But what you've seen in the stock market, which is very important for long-term investors – 1987, major stock market decline. And within six months the stock market was back at new highs.

2000, major stock market decline, 40-some-odd percent in the NYSE and like 80% in the Nasdaq. And it took about four years to get back to where they had been before the selloff.

2008–2009, major decline in the stock market. And it really took them about eight or nine years to get back to their previous highs.

So what you're seeing is that, yes, the stock market does recover. But over the last several decades those recoveries have taken longer and longer to materialize and get back to those previous highs. I think that's a very scary issue for long-term investors.

What it tells you is that when your stock broker says, oh, yeah, the stock market falls but it always springs back, it's taking longer and longer to spring back. And that reflects structural changes in the economy as well as in the financial markets.

So I think that that's a very cautionary issue for stock market investors and stock investors, and it's probably more positive for gold because there are any number of people who see it.

Erik: Jeff, I'd like to come back to something that you said earlier in this interview, because so many people in the gold market, particularly, are obsessed with one intermarket relationship or another. There's been a lot of people that have written about the relationship between gold and the Japanese yen. Recently, we've seen a stronger correlation with the Chinese yuan. And I'm sure there's lots of others.

Everybody's got some explanation as to what the secret sauce is for figuring out through some intermarket relationship what gold is going to do next.

But I think you said earlier you almost ignore intermarket correlations at CPM Group. What's going on there? It sounds like you don't believe that they have the value that a lot of other people do, so please elaborate.

Jeff: I think markets are interrelated, but the relationships are much more complex than a lot of people want to admit. So our view is that real interest rates are the key to the valuation of gold and everything else in the world. But if you look at the correlation between real gold price changes and real interest rate changes, it's zero over time. It really is zero over time.

When we look at, for example, the relationship between interest rates and gold, we don't say, okay, interest rates are rising now. Why are they rising? Because why they are rising is probably more important in determining what's going to happen to gold than the fact that they're rising.

And, also, what levels are they at? Because that's clearly very important. Rising interest rates from negative 2% real rates to positive 4% real interest rates (i.e. positive 6% to 7% nominal rates), generally speaking, don't have a negative effect on gold prices. It's only when you see real interest rates at 5% or 6% or 7% that you start seeing a really high negative correlation between gold price changes and interest rate changes.

Now, note that I'm talking about apples to apples: changes in the gold price versus changes in the interest rate price. People will look at the T-bill rate versus the gold price and that's apples to oranges. And then they come up with a higher ratio. But that's bad statistics.

So it's not that we don't think these things are interrelated. We just think that they change.

If you look at the relationship between, say, gold and the dollar – and, again, you've got to look at percent changes in the real gold prices and percent changes in the real dollar, inflation-adjusted dollar. If you go back to 1970, really the start of the free gold market, through last year, the negative correlation between gold and the dollar is 34%.

Interestingly, if you look at 1978 to 1982, the relationship was a positive 6%. And that goes back to something I was saying earlier. You can have times – remember 1978 to 1980: 14% inflation, 21% interest rates, US hostages in Iran, Soviet troops invading Afghanistan, a quadrupling of oil prices, we moved into what was then the biggest recession in the post-war period. You can have a period of time where people want the dollar and they want gold and you're going to have a positive correlation.

So we always break it down and we say these markets are interrelated, but what you really want to know is why is the dollar rising or falling. What does that have to do with the gold price outlook? Why is the stock market rising or falling? Why are interest rates rising or falling? Because that's really more important.

You can look at T-bills and you can say, okay, 1970 to 2017 the relationship is zero. It's a perfect hedge for interest rates because they have no correlation. But you can pick out times like 1978 to 1982 – again, that very critical period of time where the correlation was negative 13%. And you can pick out times like 2008 to 2017 where the correlation was positive 2%.

So what's important to us is not necessarily any ratio or relationship, but what's driving the changes in these alternate assets and alternate investments. Because that's really what's going to determine whether or not investors are interested in gold.

Erik: Another phrase that I've heard you use before is "when marketing replaced research." What are you talking about there with respect to accuracy of market data?

Jeff: There's a discussion that's really gone on for decades, but it's gotten to be more intense now in the last year or two in the gold, platinum, and silver markets. People are looking at the integrity of statistics. I've been doing precious metal statistics as an outside observer and an independent advisor since the late 1970s. And we are violently independent.

But over the last couple of decades, what you saw was the rise of people who provide gold, silver, platinum supply-demand statistic because they're marketing gold, silver, platinum metals. And they have not necessarily done as good a job as independent research people have done.

In some cases, it's just sloppiness, or they don't' have the contacts, or they don't have the will to do as good a job. But, in some cases, I think you have to say – and I know that you can say this because I've heard the conversations, I've been party to the conversations – people want to have numbers that are bullish because they are in the business of marketing these metals.

For example, if you look at any of these metals, one of the things that happened starting around the early 1990s was marketeers started including investment demand with fabrication demand in their supply demand balances.

Now, Commodities Research 101 is that you take total supply, and you subtract fabrication or consumption demand (depending on the commodity), and that gives you a surplus or a deficit.

You don't include investment demand with fabrication demand because investment demand is a completely different beast. It has different price drivers, different economic drivers. And when an investor buys a commodity – which is typically a precious metal because the other commodities don't do so well as physical investments – when an investor buys that physical commodity, he or she does not change its form.

If a jeweler buys gold, he makes it into jewelry. If an electronics company buys gold, he makes it into electronics. If an investor buys gold, he keeps it in bar or coin form and it can be resold at a moment's notice.

So for those and other reasons, traditional economic research in commodities does not include investment demand with fabrication demand in calculating whether or not a market is in surplus or deficit.

But, starting in the 1990s, you started seeing people – who were paid to provide statistics that were used to market gold, silver, and platinum to investors and others – including investment demand in with fabrication demand. They were told that was wrong and there were discussions in the early 1990s that this was wrong. But they continued to do it and they continue to do it today.

So we've had platinum producers, for example, who have retained us to talk about why is the platinum market so weak? Because I look at all these numbers and I see these massive deficits. Well, if you look at our platinum statistics, we've had massive surpluses because we're not fudging the data by including surrogates for investment demand in there.

If you take all these other guys' numbers, and you say, okay, let's take out the investment demand figures, and let's look at their supply/demand balances – just total supply less fabrication demand – voilà, their deficits turn into surpluses. And that's why you've got weak platinum prices.

You have a platinum market that has been in a surplus for years. The marketeers keep going around talking about how it's been in deficit. The producers get into this really weird conversation where they say, the market is in a deficit and we don't understand why the price is so low.

But at some point investors will realize the market is in a deficit and then they will buy up the surplus and the price will rise. And you say, wait, you just said that the market is in a deficit. But now you're saying that investors have to buy up the surplus for the price to rise. Which is exactly right.

So you're sort of implying that you know that the market is not in a deficit. You only go, yeah, yeah, yeah, whatever.

So we're seeing right now, because the producers are suffering – and they are suffering for a variety of reasons – we're seeing producers sort of say, what's wrong here? Why don't investors believe us when we tell them that our markets are in deficits? And the answer is because investors are smarter than you.

Erik: Jeff, we've been talking mostly about gold and silver. I want to touch on the other two popular precious metals before we leave – which, of course, are platinum and palladium – and just get your general outlook there. Particularly palladium.

I saw something in the news the last week or so, supposedly palladium in backwardation. And of course there is always a conspiracy theory when there is backwardation, that the world is coming to an end and there is going to be no more palladium forever or something.

Is there anything real going on there? And what is your outlook more generally for platinum and palladium?

Jeff: Palladium is in a relatively tight market. You had large surpluses over the last several years, but they have largely disappeared. And, really, the last five years or so, the palladium market has been pretty tight.

You have rising fabrication demand, the use of palladium in auto catalysts. But also in electronics and other applications too. There is a lot of palladium in aboveground inventory. But the inventory holders see a tight market in terms of the current annual supply/demand balance and so they're waiting to see how high the price will go. That's primarily what you've got.

So you've got a tight market, you've got strong fabrication demand. Most palladium is produced as a byproduct either of platinum or nickel, so you're not necessarily seeing producers race out to increase their palladium production. You are seeing slower shifts there.

And investors who are saying, okay, I like palladium so I'll buy it, or I like palladium so I'm not going to sell any inventories until I see how high the price can get. I think that that's really what's going on.

Now, on top of that, you've had spot issues. So the backwardation in palladium first emerged in May and June of 2017. That was at a time when you had strong supply/demand fundamentals for the NYMEX Palladium Futures Contract going into the June delivery.

But at the same time you had a disruption in supply. You had about three tons of palladium that was delivered to an auto catalyst manufacturer that had too much oxygen or moisture in it and so that had to be re-refined. That meant that the auto company had to go back into the spot market and find 100,000 ounces of palladium. And that's when we kicked over into a backwardation.

Once you get into that backwardation, then, there are any number of participants. It's not a conspiracy. Anybody who is looking at their screen can say, wait a second here, you've got very high open interest on the NYMEX relative to reported and registered inventories.

So I think that every time we get into the stream on cycle of delivery – the active months are March, June, September, and December – you could expect the palladium price to rise as the people who are short those active months have to buy them back and roll their positions forward.

That's been going on now for a year and a half. And it's probably going to continue a little while longer because it's a profitable trade. You don't have to conspire. You just have to understand how futures markets work and take a look at the data and you can say okay, this is probably a pretty good trade at this point.

And so, long-term, we like palladium. It's got a great future in fabrication demand. We think supply will be constrained by constraints on platinum and nickel going forward. And you'll probably have a relatively tight market. You do have a lot of inventories out there, but if inventory holders think the price is going to rise further, they're not going to sell their inventories. And that's what you're seeing right now.

Erik: Jeff, as we close, we do have a couple of sample research notes from CPM Group linked on our Research Roundup email for our listeners' perusal. Tell them in general what products and services you offer at CPM Group.

Jeff: CPM Group actually has a new product line that we're rolling out now, initially. And we hope to roll out more completely in the first quarter. We produce research, reports, and consulting services. You can buy our annual gold, silver, and platinum review books. You can go to our website, which is https://newsite.cpmgroup.com/ and buy those. We have monthly reports, precious metals advisory, base metals advisory.

Most of our work is actually consulting where companies will come to us or investors will come to us and they'll ask us questions either about the nature of these markets or potential investments – either in the metals themselves or futures and options strategies. So we have a variety of consulting services across research, asset management, commodities management, investing-type of things.

The new product is that we're taking our short-term buy and sell recommendations and we're building out with various internet platforms that we will sell these short-term trade recommendations – spot, futures, options, gold, silver, platinum, palladium. And we'll sell them either as individual trade recommendations or you can subscribe to them and get everything that we produce over the course of a month.

We're starting to make the gold spot recommendations available in August. But then we're talking to a variety of other groups about rolling out the futures, options, and also spot recommendations for silver, platinum, and palladium. We hope to be in a position where maybe that stuff starts to show up and be available to investors in January.

Erik: Well, Jeff, I want to thank you for a fantastic interview. Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.