AM FX

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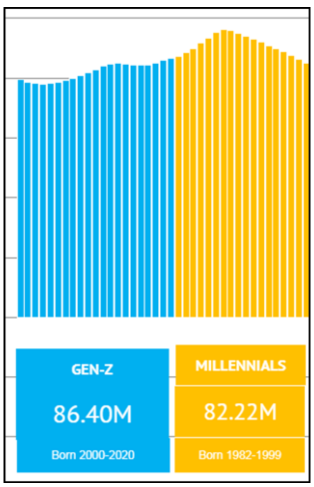


Gez-Z + Millenials = 50% of the US population

Current Views

↓CADJPY @ 77.25
Stop loss 78.61
Take profit 74.11
Opened 27MAR 8:10AM

Bearish S&P futures 2150 before 2780
Opened 27MAR spot ref. 2558

Monday, April 06, 2020

Silver 2023

3-year time horizon (!)
Usually my time horizon is 3 hours to 5 days but today I'm going to talk about a 3-year view just to keep you on your toes.

In the next three years, I expect the world will face the largest wave of asset price inflation / fiat currency debasement in recorded history. Once the economy returns to pre-pandemic all systems go, the incomprehensibly-large global stimulus will find its way into every liquid asset imaginable. As we saw in 2008/2009, though, the path from government intervention to asset price inflation is initially dangerous and rocky. A lot of wobbles before liftoff. Silver is a good example of this.

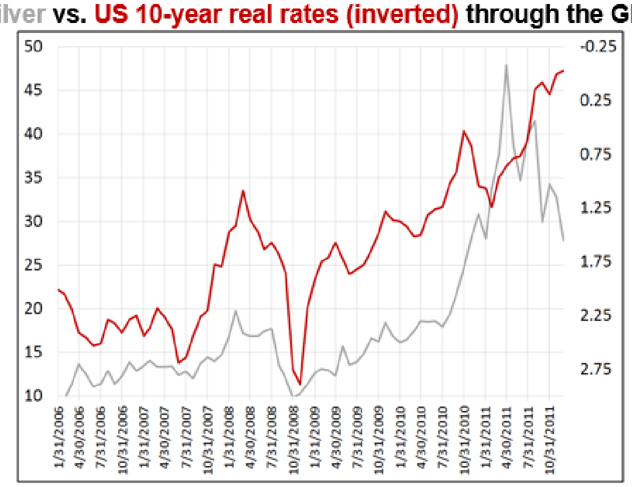
Silver
Once the asset liquidation phase of the crisis burnt itself out in late 2008, silver was one of the top-performing liquid assets on the subsequent rebound. It rallied from $9 to $50 for a return of more than 500% in less than three years.

While I am still bearish stocks in the short run, bigger picture I expect unprecedented asset price inflation down the road as a result of the WWII-sized stimulus already injected into the economy. And more gargantuan stimulus is announced every day.

The first chart shows silver through the GFC, along with US 10-year real rates inverted (in red, HT JZ):

You can see that when real rates went nuts in late 2008 (higher real rates, i.e., red line down on chart) and the market went through a severe liquidation event, silver dropped from $20 to $9.

Silver vs. US 10-year real rates (inverted) through the GFC

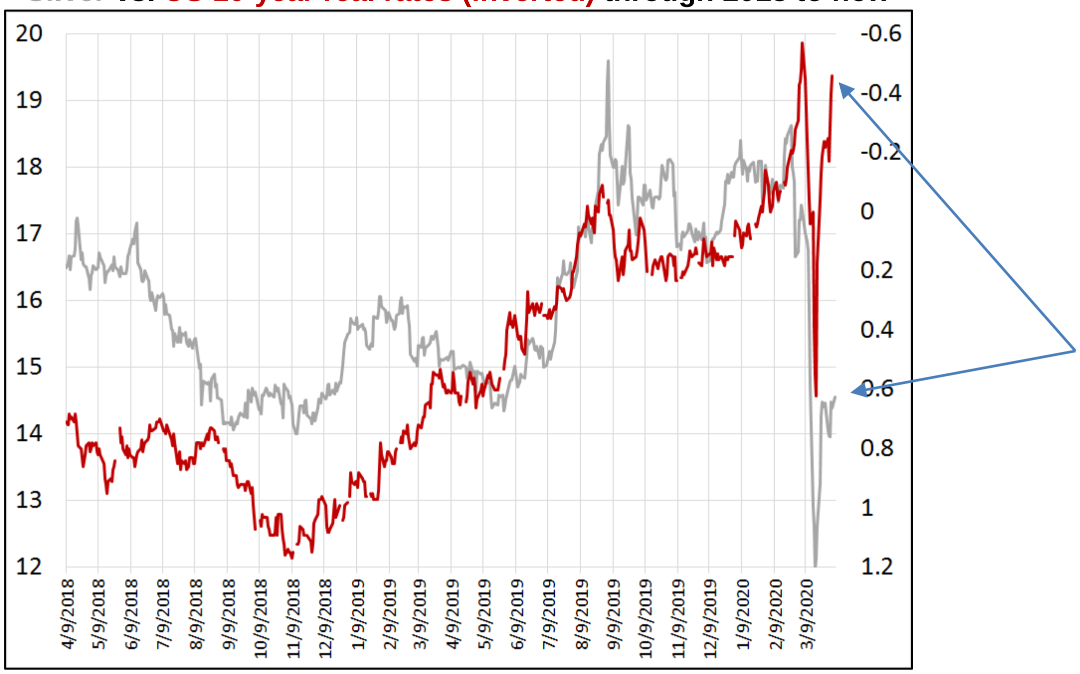


Monthly data. Left y-axis is silver, right y-axis is US real rates (inverted)

Then, when QE and China stimulus took over (and US mark-to-market rules were suspended), silver rallied steadily from $10 to $50 over the course of the next 2.5 years. Most of the move happened in 12 months from mid-2010 to mid-2011. The metal eventually peaked at the exact same level as it did when the Hunts tried to corner the market in early 1980, creating the mother of all double tops at $50.

On the next page you can see the current look of the silver vs. real rates chart …

Silver vs. US 10-year real rates (inverted) through 2018 to now



Daily data. Left y-axis is silver, right y-axis is US real rates (inverted)

So already there is a plenty of room for silver to snap back. Silver is also massively underperforming gold at the moment[1] which, again, means to me there is plenty of upside if and when it participates in the asset price inflation boom down the road. When things finally calm down, silver could again head to $50 or higher as out of control asset price inflation feels somewhat inevitable to me once the dust settles post-pandemic.

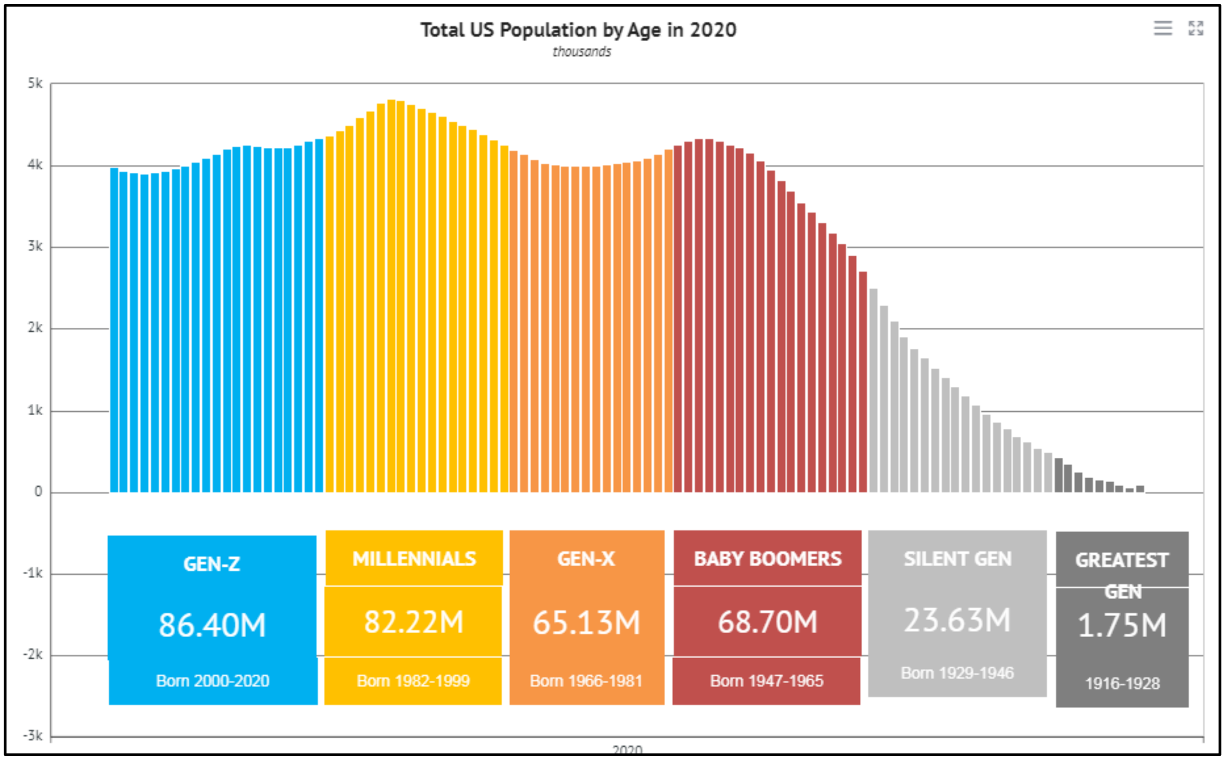
Like I said at the top of the show, this is a 3-year time horizon idea and so the ideal strategy is to use a dollar-cost averaging or scaling strategy. Either buy 1/12th of your full size once per month every month for the next year, or buy 1/3 here and leave bids at $12 and $10. If I was 25 and had serious cash to put to work (neither or which is particularly true, btw), I would probably have my entire net worth in silver. This is not investment advice! That would be a poorly-diversified portfolio.

Very few times in my life have I had a stronger view than this. **I expect silver to break $50 before April 2023**.

Have a shiny day.

Good Luck ↕ Be Nimble

[1] Partial explanation: The gold/silver ratio tends to go up when stocks are weak, and when the dollar is strong. Presumably both of these will reverse once liquidation gives way to the reflation phase.



Source: United Nations

HSBC

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