The New Gold Order

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Introduction

In value investing, the discounted amount of future dividends, or a similar metric, is calculated to find the price of a security. The main goal of this report is to find the price of Gold in the long run with value investing tools.

Because the world is out of the Gold standard, some economic agents look at it as an exotic commodity instead of money. In the first chapter, I went back on time to find some examples of the use of Gold and other precious metals as currency.

In the second and third chapters, I explain the current economic system and why I think it's doomed to collapse.

In the next chapter, I look at some events that may trigger a return to the Gold standard.

Finally, I develop a framework to find what should be the current price of Gold.

Because the economy is constantly changing, please make sure you have the latest updated PDF of this report. You can find it for free on my GitHub. Feel free to contact me on Linkedin if you find any error or inaccuracy.

Chapters

I – History of Gold and Money

"Gold was not selected arbitrarily by Governments to be the monetary standard. Gold had developed for many centuries on the free market as the best money."

Murray N. Rothbard

Commerce emerges when people are free to work, safe to keep, and unrestricted in their ability to exchange the fruits of their labor.

Early commerce functions with bartering, but over time, primitive currencies are developed—like wheat, salt, or even camels. What those commodities have in common is that they are wanted by an important part of the market, so if a merchant gets paid a camel for three pieces of silk, even if he doesn't need the camel, he will easily find someone who will.

But there are some limitations to these currencies, including that they can't be divided or transported cheaply, nor can they be accepted in far-away markets. Some of them also have an expiration date, and their prices compared to other goods are unstable. However, some things do not have those constraints, such as precious metals, also known as money.

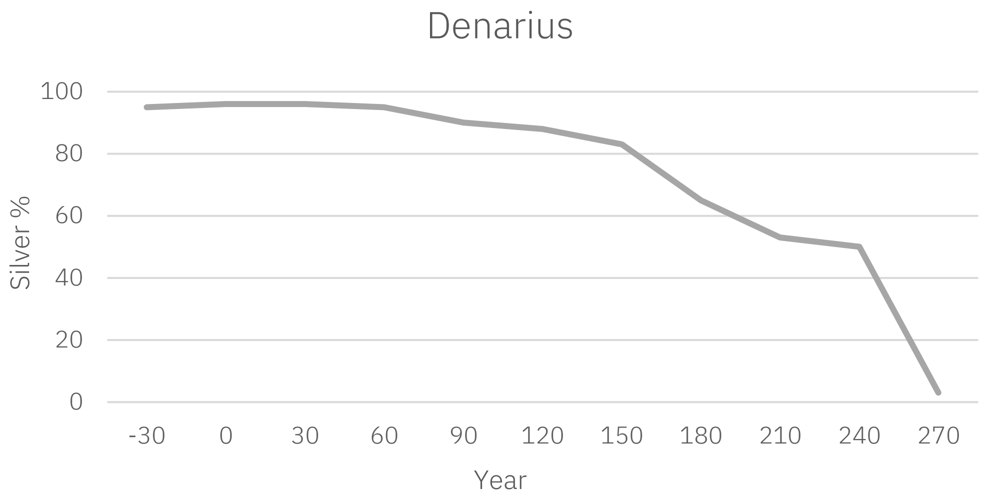
Gold and Silver have always been valued for their beauty. The earliest recorded use of Gold in barter was in Sumer, today Iraq, in the fourth millennium BC. It was also used in Egypt during the same era.

During the VII Century BC in ancient Greece and Lydia (modern-day Turkey), there was the first coinage of electrum, a natural alloy of Gold and Silver. China and Persia followed suit during the sixth century BC. Carthage (Tunisia) did so during the fifth century BC. Rome adopted Gold as a currency in 300 BC.

Ephesus, Electrum coin 650-625 BC. [Wikimedia]

Gold and Silver coinage are a sign of prosperity, but the opposite is also true; monarchs and politicians debase their own currency, keeping the same denomination but with less precious metals.

The denarius was a widely used Roman Silver coin first minted in 211 BC, which lost all its Silver by the third century.

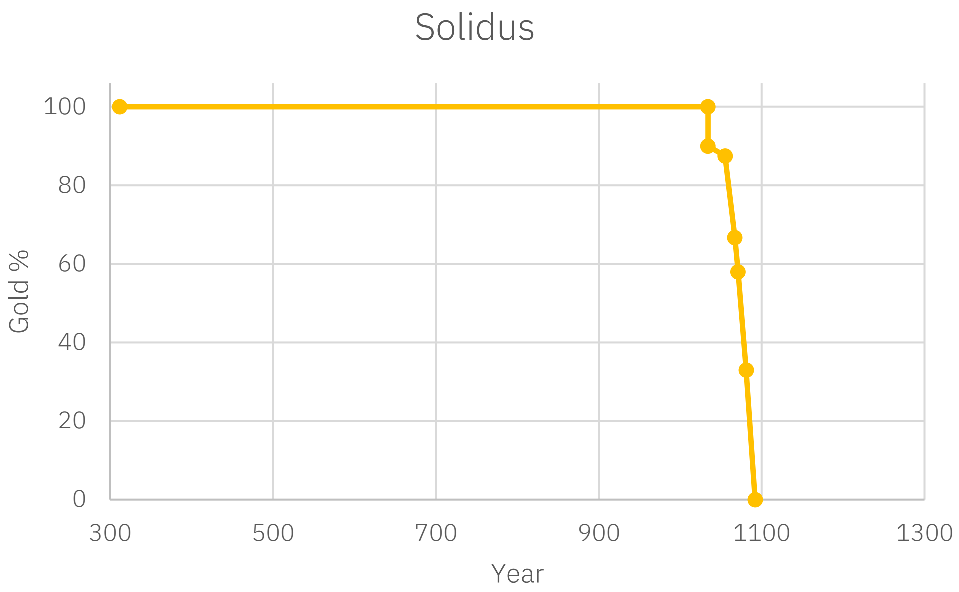


In 312, Constantine the Great introduced the Solidus as the Byzantine Empire's currency. It was a 4.5g Gold coin.

Solidus of Constantine I 324 AN. [Wikimedia]

The solidus remained unchanged until Michael IV came into power in 1034 after killing Emperor Constantine VIII. He debased the currency by a 10%, from then the coin suffered a rapid decline, until there was no more Gold in the currency during the reign of Alexios I Komnenos in 1092.

Alexios then created a Gold coin with 85% Gold content, the Hyperpyron. This currency also lost all its Gold content during the XIV century.



Metal content and prices

While mainstream economists describe inflation as an increase in prices, the Austrian school of economics defines it as an increase in the currency supply. Price increases are caused by either more currency entering circulation or fewer goods available for purchase.

If a Vietnamese wet market were to auction off an original Norman Rockwell painting, it would not get much coin for the piece because there is little currency available to purchase goods. On the other hand, if an untalented artist sold a painting of a soup can or a duotone portrait of Miss Monroe at an auction in New York City, the “art” could fetch a fortune.

When a Government debases its currency, it creates more coin with the same metal, but the main problem with inflation is that it’s not neutral; those who get their currency by creating value lose spending power while bad actors, mainly governments and banks, get it for free by counterfeiting.

China was the first region to use paper money. In the eighth century, regional Governments started issuing notes convertible into Gold. Later, though, they abused this system by issuing more paper than metal was in their vaults.

In the province of Szechuan, the expansion started in 1072, in the year 1200 the currency was worthless. Southern Sung from 1176 to the XIII Century. In Chin, the currency was stable from 1153 to 1190, it also became worthless in the XIII Century.

When the Mongol Empire invaded China, the Yuan dynasty (1271 to 1368) replaced regional currencies with convertible notes of Silver. These notes became virtually worthless when the dynasty collapsed.

The Ming Dynasty began with hard money too, but by 1500 the currency had collapsed.

The British Sterling Pound is the oldest currency still in use, although it has lost most of its value since its inception in 800.

In the beginning, Silver coins weighed 350g and kept this weight for 3.5 centuries. In 1158, King Henry II minted a 92.5% alloy with copper, making it stronger and more durable—this alloy is known as sterling Silver. However, he “forgot” to make the coin bigger, so less metal was used in its manufacture. From then on, there was a gradual debasement of the Silver content until it reached 32% in 1717.

In 1663, a Gold coin was introduced in Britain, the Guinea, trading at free market prices versus the Silver Pound. Isaac Newton, Master of the Mint, in 1717, declared a bimetallic system (Gold and Silver) at a fixed rate of 15.5. This ratio was slightly off the market ratio, so paying debts in Gold coins was cheaper than paying them in Silver coins.

Gold became the de facto standard while Silver was used to settle foreign debts.

In 1817, Britain adopted the Gold Standard at 7.32g per Pound; however, during World War I, the Bank of England suspended convertibility. In 1925, convertibility returned to prewar parity; this remained unchanged until 1931 when convertibility was suspended again. Since then, Sterling Pound has been a fiat currency.

Britannia Gold Bullion, Its value comes from its Gold weight, not the fiat denomination.
(£100, 1toz - 2022). [The Royal mint]

The US colonies before their independence used Gold coins from France, Portugal, Spain, and Brazil and Silver coins from France and the British Pound and Shilling (£1/20). The leading coin was the Spanish Dollar, the coin that inspired the US Dollar.

In the XVII and XVIII centuries the colonies started inflationary practices like an unnatural exchange rate for Spanish Dollars to Shillings, to incentivize exports or the issue of fiat money by Massachusetts.

At the start of the independence war in 1775, the emission of fiat currency, the Continental Dollar, was rampant. Price controls followed to curtail the inflation, creating shortages. During the war, private Banks with monopoly power given by Governments started to issue unbacked currency too.

When the US won its independence, Congress established the US Dollar as the nation's money.

A Dollar was a bimetallic currency, any citizen that brought 371.25g of Silver or 24.75g of Gold would get a minted US dollar. The implicit ratio was 1:15.

Silver to Gold ratio became too wide at market prices, so in practice, like with the British Pound, the bimetallic system failed. In this case, was Gold the metal being hoarded while Silver became the de facto money.

When President Andrew Jackson rose to power in 1824, he started important monetary reforms like stopping private Bank inflation and readjusting the Gold to Silver ratio in the US Dollar.
But in the half of the XIX Century the market’s Gold to Silver ratio tightened, and people started to hoard Silver and settle debts with Gold.

During the American Civil War (1861-1865) to meet the war expenditure, the US issued the “Greenback”, a debt note that later was made legal tender.

Gresham’s Law

“Bad money drives out good money”. Sir Thomas Gresham (1519-1579) used this law to explain what happens when two different currencies circulate at a fixed exchange rate due to a government mandate. After observing that British people would hoard those shillings with more Silver while spending the debased ones.

Henry VIII and Elizabeth I coins (1526 to 1572) [Wikimedia]

The Resumption Act of 1875 restored the Gold standard through the redemption of the Greenbacks by Gold. A prosperous deflationary period started with real wage growth and an increase in production.

In 1900, the United States abandoned the bimetallic system, and the US was under the Gold standards. In 1913, the Federal Reserve was funded, the central bank of the USA, a criminal organization that sought to inflate the money supply while bailing out bankrupt banks.

During the Great Depression, Franklin D. Roosevelt, a fascistic leader of the Democratic Party, was elected US President. In 1933, during his first month in power, he made it illegal for private citizens to own Gold. People had to surrender their Gold for US dollars, then after, he debased the Dollar (from $20.67 per troy ounce of Gold to $35 per toz).

After WW2, the Bretton Woods agreement was signed. A US Dollar would be convertible to Gold ($35 per toz), while other currencies would use the US Dollar as its backing. Foreigners were allowed to exchange their US Dollars for Gold although from 1962, only foreign countries.

During the Bretton Woods system, the US kept increasing the dollars in circulation but not the Gold in the vaults. Foreign countries, noticing the American trickery, like France under Charles de Gaulle, started to redeem their US Dollars for Gold.

The US Dollar was about to collapse, so in 1971, Richard Nixon announced a temporary freeze in the convertibility of Gold. The temporary became permanent, and the US has been off the Gold standard ever since.

Switzerland abandoned it in the year 2000. Since then, the whole world operates under the fiat scam, but the US Dollar keeps its global reserve status.

Muammar Gaddafi, former leader of Libya, sought to use Gold, instead of USD, for oil settlements, and attempted to create a pan-African Gold standard.

In 2011, Al-Qaida, NATO, and other terrorist organizations joined forces to overthrow him. His cruel, humiliating, and inhumane execution by the MOB was publicly broadcast. [Wikimedia]

II – Today's monetary system

Since "Nixon's shock" in 1971, the world has worked with fiat currency, and the US Dollar has remained the preferred currency for international settlements.

Currency is created by central banksters via accounting fraud. For example, the central bank buys Gold or government debt for base currency.

1 – The central bank has nothing:

Assets	Liabilities

2 – The central bank buys $100 of government debt with printed currency:

Assets	Liabilities
$100 US Bonds	$100

Then more currency is created, also by accounting fraud, by private banksters.

1 – Francisco deposits $1000 into the bank, the Bank's book:

Assets	Liabilities
$1000	$1000 Deposits

2 – Dagny and John want to buy Francisco's home; the Bank gives them a $900 mortgage:

Assets	Liabilities
$100	$1000 Deposits
$900 mortgages	

3 – John deposits $1000 into the bank after selling his house:

Assets	Liabilities
$1100	$2000 Deposits
$900 mortgages	

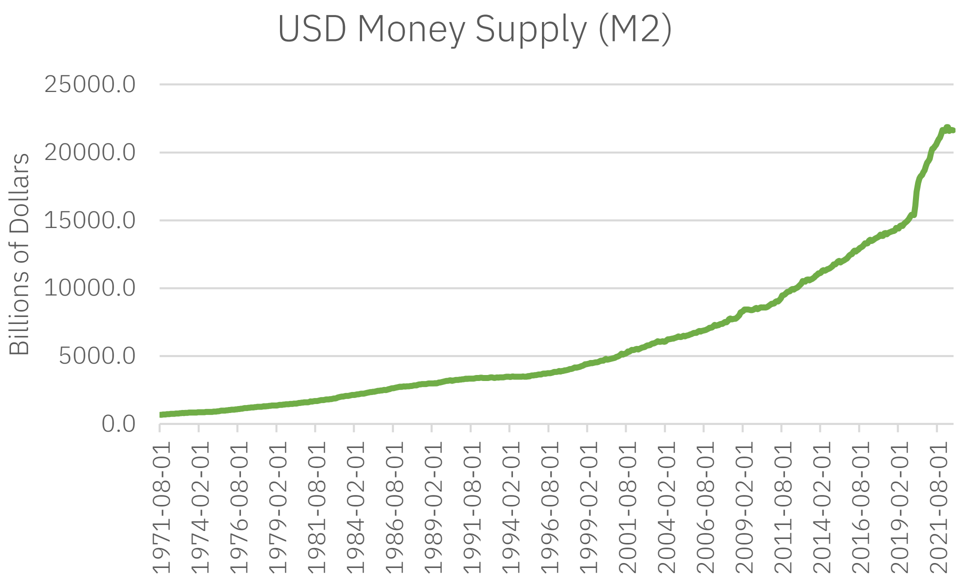
John now has $2000. Total currency in circulation, or at least implied purchasing power, has almost doubled, so prices have increased.

No one is aware of the deception, unless John wanted all his currency back. Because the bank is $900 short, either the central bank or the government rescues the private bank by buying its liabilities for base currency or the bank clients will lose part of their deposits.

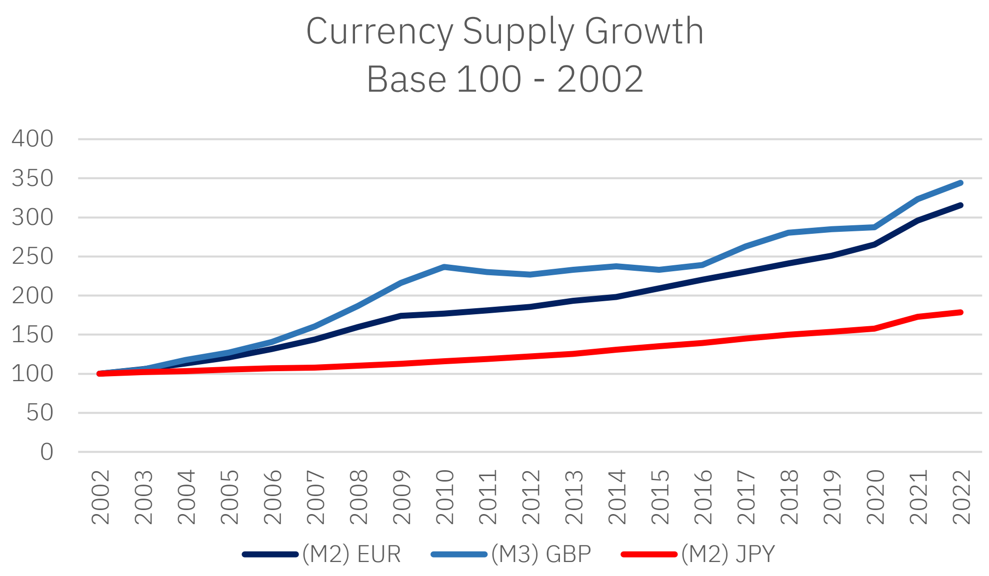
A bankster cannot just lend all the currency in his client's deposits, the central bankster will decide the minimum rate that has to keep, this system is called fractional reserve.

The central bank has the power to control the supply of money (M2) expanding or decreasing its assets versus base currency in its liabilities (M1) or fixing the minimum reserve private banks should keep.

Since 1971, when the US abandoned the Gold standard, the supply of currency has increased 31 folds and the reported consumer index, an extremely manipulated statistic, 6.60 folds.



Obviously, not just the US is suffering from inflation. When the currency is not backed by a commodity, there is no limit on how much the central bank (government) can print.



Modern economies use the central bank interest rate, along with other monetary tools, as a proxy to monetize public debt and finance private investment. The lower is the rate, more demand for loans, hence more currency gets dumped into the economy.

The increase in the money supply is not neutral, new money gets into the hands of banks, which use it to buy government bonds and increase private loans.

Government waste resources to buy votes, for example, giving food, healthcare, education, and housing to individuals who produce nothing and deserve neither. Western governments also finance with debt the bombings of remote desserts and faraway mountains.

Private citizens malinvest the loans, blinded by an artificially low interest rate.
In a market economy, the interest rate is an indicator of savings. If it’s high, it means that individuals don’t generate enough resources to save, credit is scarce, and it must be used for short-term investments.

An investment decision is based on a simple equation, how much it will cost a project and how much return it will give. However, currency is not time neutral; the interest rate (which is heavily influenced by the central bank interest rate) tells us the value of a currency over time.

If a bank loans someone $100 at a 10% rate in year 0, it means that those $100 will have a value of $90.9 in year 1 (100/[1+0.10]).

Knowing that, let's say we are looking to buy a house to rent. The house will cost us $1000 (year 0), and our net return will be a yearly $100 for 20 years (from year 1 to 20). The interest rate will tell us if it's a good investment because the Bank will loan to us the initial $1000.

In the next table, the second column is the nominal cashflows, the third one is the real value of the cashflow at a 1% discount, the fourth at 5%, and the fifth at 10%. In the second row, we have the profit.

	i	*1%*	*5%*	*10%*
Year / Profit		$ 804.56	$ 246.22	$ (148.64)
0	$(1,000.00)	$(1,000.00)	$(1,000.00)	$(1,000.00)
1	$ 100.00	$ 99.01	$ 95.24	$ 90.91
2	$ 100.00	$ 98.03	$ 90.70	$ 82.64
3	$ 100.00	$ 97.06	$ 86.38	$ 75.13
4	$ 100.00	$ 96.10	$ 82.27	$ 68.30
5	$ 100.00	$ 95.15	$ 78.35	$ 62.09
6	$ 100.00	$ 94.20	$ 74.62	$ 56.45
7	$ 100.00	$ 93.27	$ 71.07	$ 51.32
8	$ 100.00	$ 92.35	$ 67.68	$ 46.65
9	$ 100.00	$ 91.43	$ 64.46	$ 42.41
10	$ 100.00	$ 90.53	$ 61.39	$ 38.55
11	$ 100.00	$ 89.63	$ 58.47	$ 35.05
12	$ 100.00	$ 88.74	$ 55.68	$ 31.86
13	$ 100.00	$ 87.87	$ 53.03	$ 28.97
14	$ 100.00	$ 87.00	$ 50.51	$ 26.33
15	$ 100.00	$ 86.13	$ 48.10	$ 23.94
16	$ 100.00	$ 85.28	$ 45.81	$ 21.76
17	$ 100.00	$ 84.44	$ 43.63	$ 19.78
18	$ 100.00	$ 83.60	$ 41.55	$ 17.99
19	$ 100.00	$ 82.77	$ 39.57	$ 16.35
20	$ 100.00	$ 81.95	$ 37.69	$ 14.86

The investment will, in theory, be profitable if we discount / get a loan at a 7.75% or lower.

The Austrian Business Cycle Theory tells us that over-investing will create a recession. When the long term comes, there will be over supply but the same expected demand. This will cause the returns to be lower than expected, so the malinvestment will need to be liquidated. That means unprofitable companies will close and unemployment will rise till the economy fixes itself by reallocating resources to more sensible endeavors with a different time preference.

But the central bank can stop the recession expanding even more the credit and kicking the can down the road. That's the reason that modern macroeconomists and betta (sectorial) investors are always tuned to the announcements of the central banksters and try to decipher the real meaning of their words, it goes like this:

- "Powell mentioned recession three times in his speech, indicating that he is extremely dovish (expansionist)."
- "Nabiullina wears a black dress; she must be feeling hawkish (contractionist)".
- "Lagarde has tweeted about how difficult it is to be a female bankster. That's a dovish remark."

The ECB main building, an impressive crystal tower. One can only wonder if the inside has glass ceilings too. [Wikimedia]

Central banksters aren’t just happy with controlling the time preferences of investments via interest rate manipulation, nor are governments satisfied with a blank check for their wasteful shopping sprees. True fascism, also known as social democracy, requires the fusion of the private and public sectors with absolute power centralized in a few hands. But it also requires the illusion of freedom, the rule of law, and private property, because those are the best tools to control and motivate the general population.

Total economic control will be achieved with central bank digital currencies (CBDCs), and central banks are working tirelessly to rollout this new technofascist instrument. When implemented, central bankers will not only have the tools to manipulate interest rates, but they will also be able to decide where this investment should be directed. CBDCs will be the ultimate weapon to destroy the free market, the decentralized organization that bureaucrats despise the most.

Some examples of the sectorial control of interest rates could be:

- Higher rates for “polluting” copper mines, lower rates for “green” electric vehicle manufacturers.
- Credit for solar panels, but no credit for higher yielding energy investments, like nuclear power.
- Cheap student loans for bachelor's degrees in feminist poetry and social work; higher rates for trade school.
- Expensive mortgage rates for traditional families.

The bureaucrat loves control, CBCDs are being designed to have information on all the transactions. The Government will have detailed profiles of every citizen and will be able to easily ration goods:

- Cap on how much meat a person can consume.
- Block the wallets of those who donate to Anti-Government associations.
- No access or purchases in social gathering places for the unvaccinated.

III The inevitable collapse

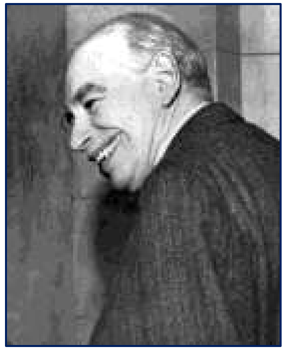
Fiat currencies always collapse after their value becomes inflated into worthlessness. The question is not if there will be a collapse, but when and which will be the drivers of this collapse.
History teaches us that currency collapse is a symptom, and it's caused by government craving for purchasing power, usually because of war, debt, and productivity decline. If we look at the state of the world, those causes have already been triggered.

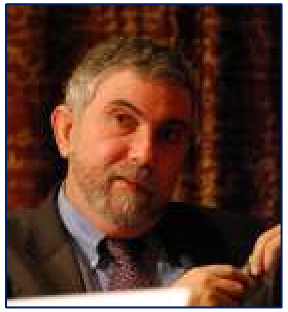
War: America, controlled by warmongers, likes to join every conflict on earth, and war is extremely expensive. Another tool of western neo-imperialism is coup d'états to put American puppets into power. Ukraine 2014 was one of those successful coups. As a result, the people of Crimea voted to secede and be a part of Russia. In 2022, after Russian intervention, four more regions did the same.

The conflict has a high chance of degenerating into a nuclear world war. Whichever the outcome is, western sanctions have worsened the energy crisis in Europe, caused by ESG (corporate wokeness), and have increased hunger in Africa, because of a reduction in Ukraine grain exports.

Something else happened during those first days of the special military operation. To sanction Russia, the US froze their global reserves and expelled them from SWIFT, an international standard for bank settlements. Basically, they blocked them from using the USD. While this was designed as an attack against the Russian people, it was in fact a self-attack against the USD as the global reserve currency. If foreign economies are wary about using the Dollar, the US won't be able to export inflation (getting foreign goods and labor for free).

Debt: In 2007/2008, the worldwide real estate bubble burst. Cheap money caused the overleveraged acquisition of real estate. Governments, instead of letting the market recover from the hungover, decided to apply the Keynesian policy of "stimulate the aggregate demand". That means paying the private sector for doing stuff*, so that the private sector has currency to spend, and the economy can recover on its own.





**While John Maynard Keynes (top), in his book The General Theory suggested that the government should hide currency in old mines so the private sector must dig it up, Paul Krugman (bottom), Keynes' disciple and Nobel in Economics, prefers to simulate an alien invasion to prop up military spending. [Wikimedia], [Wikimedia]*

All the wasteful spending generated huge government deficits and greatly increased the public debt of most economies. The yield on treasury notes started to rise, so it became more expensive to issue more debt. Central banks then reduced interest rates, so the private sector had more liquidity to purchase them. That wasn't enough, so they used a new monetary tool, Quantitative Easing (QE), to buy them directly.

Instead of just wasting Dollars, the American government used some of this new purchasing power for scientific research to improve the lives and health of the world population. A great example of this investment was the "Gain of Function" in corona viruses. This kind of research had too much red tape on US soil, so they used labs in corrupt allied countries like Ukraine and financed it in the CCP-occupied Chinese city of Wuhan.

In 2019 there was a lab leak, and the Wuhan Virus (SARS-CoV-2) became a pandemic. In the beginning, it had a high death toll, mostly because of medical negligence. It rapidly evolved and lost virulence, but most governments wouldn't let a good crisis go to waste, hence the pandemic became a plandemic.

Apart from taking away personal freedoms, a lot of governments made it illegal to go out and work, effectively closing the economies and reducing production. Individuals and companies needed to be paid to not go broke. More economic stimulus started, increasing sovereign debt. One of the best ratios to measure debt is debt/GDP.

Jair Messias Bolsonaro, President of Brazil, was one of the few leaders who didn't use the plandemic to become a tyrant. He rightly demystified the Wuhan virus, explaining that it caused no more than "a little flu, a little cold". [Wikimedia]

Debt does not include the total future obligations of a government, mostly to its own citizens. Comparing debt to GDP ratios between economies with different demographics or different implementations of the welfare state could be misleading. What's important in the next table is to notice the increase in the debt burden.

Debt to GDP ratio

Country	2007	2021
EU	59%	88.10%
USA	62%	124%
UK	41.50%	95%
Canada	90.00%	138%
Australia	9.70%	59.80%
Japan	132%	263%
China	27.20%	73.25%
Russia	7.16%	17%
South Africa	36.64%	69.13%

After a worldwide period of high inflation, central banks started restrictive policies in 2022. Because of the end of easy credit, markets tanked, and bond yields grew.

In September, the new UK "Conservative" Government announced a new budget with tax cuts gambling on future growth driven by the private sector. And while this worked in the 80s, Mrs. Thatcher reduced public spending, while this new budget increased the public deficit. UK bonds tanked.

The Bank of England became the first to change directions and announced a new round of QE to purchase government debt to rescue the British economy.

Spoils of war

The Roman Empire got around 500 tonnes of Gold from their conquest.

Starting in the VIII century, Vikings began raiding for treasure, stealing gold and other valuables from coastal villages across Europe.

During the Spanish Civil War in 1936, the Nationals freed the country from communism, but the Gold was stolen by the Republicans and sent to the Soviet Union, never to return.

During WWII, National Socialists looted tonnes of gold from sovereign countries and private citizens. When the allies won the war, most of the Gold had disappeared. Its location has been the source of legends and conspiracies.

US soldier poses with pillaged Iraq's Gold reserves, after the 2003 invasion. [Unknown origin]

Unproductivity: Paternalism from the state has made the western man weaker, stupider and lazier. The few scientific advances in recent years have either been caused by inertia or are just propaganda. In the states, symptoms of social decay are evident, from the corruption of the young in government-controlled schools to unhealthy individuals using food stamps for highly processed and sugar-ridden food substitutes. Crime and riots because of race, social class, or political affiliation are skyrocketing. Today's America culture is worse than the late Roman Empire or the Weimar Republic.

While purchasing power for families began to fall, western leaders decided to start a social engineering campaign to convince women to become professionals instead of mothers. While this worked for the short term, fewer births meant no future and the bankruptcy of pensions. The solution was to subsidize immigration, young working-age individuals would fill the gap.

This strategy misfired. In a few generations native populations have been replaced by individuals with a much different culture and abilities, more dependent on the welfare state.

While society and the economy are collapsing, people still demand from their politicians the same standard of living. New social programs like a guaranteed income have been implemented. Governments have become leviathans and the more productive individuals of society are being harshly punished by taxes. Like a snake that eats its own tail, western civilization is falling into a dark vortex.

IV The return to the Gold Standard

Because the future is uncertain, a good financial analysis contemplates different outcomes. While there are infinite possibilities, a good framework should be as simple as possible. Complexity should only be added if it really alters the outcome, that's the valuation of Gold. Because of that, a limited number of "triggers" for a return to the Gold Standard will be considered.

OPEC countries price oil in Gold
Oil powers civilization and won't be substituted by windmills any time soon. OPEC countries (Saudi Arabia, Iraq, Iran, UAE, Kuwait, Venezuela, Nigeria, Angola, Algeria, Libya, Congo, Gabon and Guinea Equatorial) produce more than 40% of global oil and own more than 80% of oil reserves. Because oil prices are volatile, their revenue greatly varies year over year.

While 2021 was short of $400B, it's expected to be more than double in 2022. That's XAU 490M (troy ounces/31.10 g) or 15240 tonnes of gold.

BRICS countries create a new Gold currency
This commercial block had an internal trade gross value of $560B (rough estimate) in 2021, or XAU 326M. Around 40% of the world population lives in either Brazil, Russia, India, China, or South Africa.

BRICS have been suggesting the use of an alternative currency for international trade instead of the USD for some time, but their incentives have multiplied after Russia was expelled from the US Dollar. It has been suggested for the alternative currency to be either an impractical basket of member currencies or a basket of goods, where gold will surely have a high ponderation.

US, and/or EU back their currency with Gold
After a currency collapse, those countries, that are experiencing high inflation, may have no other option left but to return to a Gold standard.

At 2021-year closing, Euro area countries' central banks plus the ECB had €559B in gold. That's only 5% of the base currency (M1).

The US has 8133 tonnes of Gold ($378B), although there is plenty of speculation if Fort Knox vaults are empty. That amount only covers 2% of the base currency.

Market return to the Gold Standard
Gold didn't become a currency by government decree, it stopped being because of it. While anecdotical, there have been some instances of purchasing groceries in Venezuela with small Gold nuggets.

After a currency collapse or because of a lack of official currency, the markets usually choose a neighboring currency or the US Dollar. This trend may change because of a mistrust in the weak USD. Also, advances in technology are making the payment of Gold much simpler. There are already serious initiatives of electronic money backed by it.

22% of above ground Gold reserves are held by private citizens in the form of coins, bars and in ETFs. 46% is held in jewelry, and while in the west it is considered a luxury with high premiums, in countries like India is a form of investment.

Indian housewife with Gold jewelry [Wikimedia]

Individual countries
There is also a big change that a government unilaterally decides to back their currency with precious metals.
Switzerland, the last country to abandon the gold standard, is the country with more central bank reserves per capita (XAU 3.9). Lebanon follows (XAU 1.35). Some countries, like South Africa, could choose Platinum instead, Peru could use Silver. The illegitimate Venezuelan communist government is developing “Petro”, an electronic currency backed by oil (50%), iron (20%), Gold (20%) and diamonds (10%).


Open pit mine in Sverdlovsk, Russia [Polymetal]

V Pricing model for Gold

It would be a great hypocrisy to value Gold in USD or EUR. Valuing it in land would be too confusing and in oil or Silver, too unstable. So why not Gold?, XAU it’s a currency and a true form of money.

This Framework will try to find the real value of a troy ounce of Gold in Gold terms (XAU). If its XAU value is below 1, it means it’s too expensive; if it’s over 1, it means it’s too cheap.

The framework is simple; it discounts the price of Gold when a significant part of the world returns to the Gold standard. When this will happen is unknown, but it can be given a probability, and the probability will increase when one of the events discussed in the previous chapter is triggered.

It will be based on a 20-years period, distributed evenly, and till an important part of the world GDP is under the Gold standard, it will be extended indefinitely till a 14% adoption is reached.

14% was not chosen at random; it is slightly lower than the EU's size as a percentage of global GDP, and the model produces the best return on investment with it.

For simplicity and because >20 years discount doesn't make a lot of difference, year 21 onwards will use the same data as year 21.

The framework will be executed in a computer script. Next, the variables used will be explained.

Discount rate
The longer one must wait for an investment to pay off, the less value it has.

- + 5.3%: International stock market returns discounted by inflation (1900 to 2020)
- - 2%: Approximation of the inflation risk premium in stocks. Gold has no counterparty risk, it's the safest asset.
- +S%: Mine supply (Gold inflation), varies with Gold value.
- -1/2D%: Population growth means more demand without an increase in supply. Only 50% of the world population growth will be discounted.

Yearly population growth (UN projection)

Year	Population (B)	Growth	Year	Population (B)	Growth
2022	7.98		2033	8.75	0.81%
2023	8.05	0.88%	2034	8.81	0.69%
2024	8.12	0.87%	2035	8.88	0.79%
2025	8.19	0.86%	2036	8.94	0.68%
2026	8.26	0.85%	2037	9.01	0.78%
2027	8.34	0.97%	2038	9.07	0.67%
2028	8.41	0.84%	2039	9.13	0.66%
2029	8.48	0.83%	2040	9.19	0.66%
2030	8.55	0.83%	2041	9.25	0.65%
2031	8.61	0.70%	2042	9.3	0.54%
2032	8.68	0.81%	2043	9.36	0.65%

Gold price
Gold value will come from the substitution of part of the money supply. The model will account for:

- All of the M1 in affected regions
- Part of M2, Bank created money may not become totally backed by Gold, and debt defaults will reduce the currency supply.
- Eurodollar, USD created by foreign Banks.

Yearly gold production

Mine production greatly affects mineral prices, but Gold, being so expensive, isn't lost or used like iron or Silver and it's stored instead. That makes its value more stable. Gold mined in 2021 was 1.7% of above-ground reserves.

Nonetheless, Gold is a slightly inflationary form of money, and if its value goes up, an increase in mine output will follow.

Gold inflation (per trigger estimation)

Event	t
Base production	3583
OPEC	358
OPEC+	36
BRICS	179
US government or market	1433
EU government or market	537
5% of the world GDP (no US nor EU)	179
10% of the world GDP (no US nor EU)	179
15% of the world GDP (no US nor EU)	179
20% of the world GDP (no US nor EU)	179
25% of the world GDP (no US nor EU)	179
30% of the world GDP (no US nor EU)	179
35% of the world GDP (no US nor EU)	179

Trigger events

An estimation of the chance in the next 20 years for each of the events discussed in chapter IV will be spread evenly.
If an event happens the chance of other events will increase too. For example, if the EU returns to the Gold standard more countries will follow, either backing their own currency with Gold or EUR.

Chance of triggers (estimation)

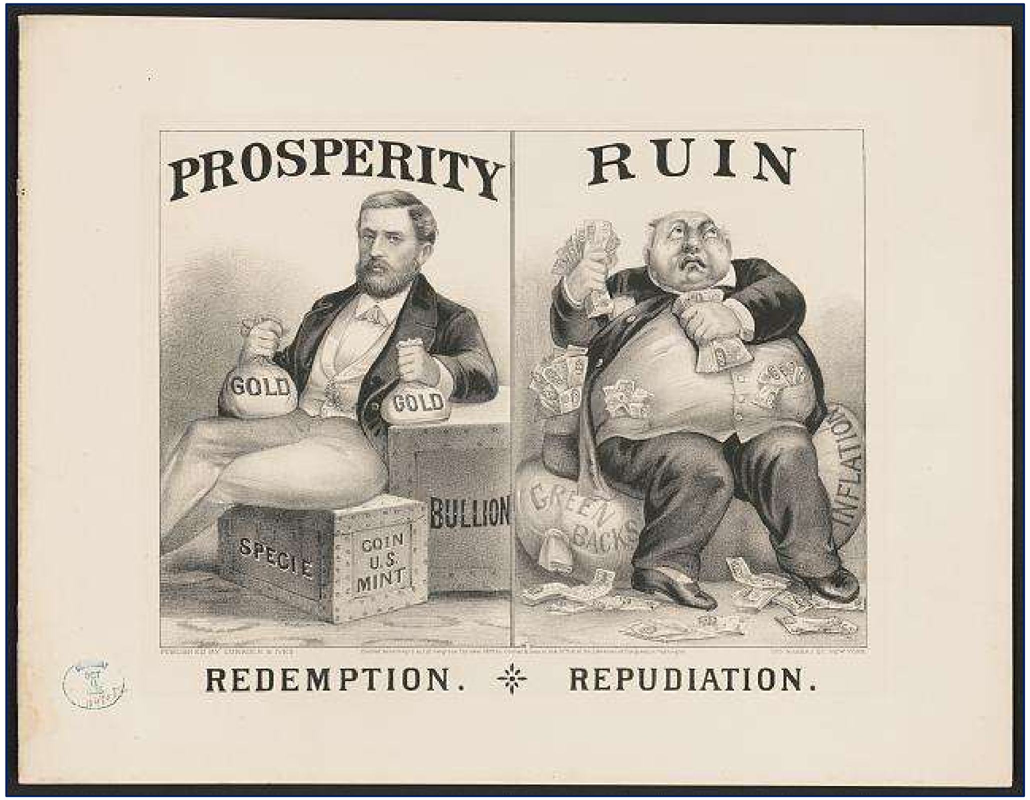
Event	20 years chance	Increase in other events
OPEC	20%	25%
OPEC+ (if OPEC)	50%	5%
BRICS	20%	20%
US government or market	15%	50%
EU government or market	5%	35%
Every 5% of global GDP (no US and EU)	10%	15%

Currency substitution

While some events will increase the price of Gold, because this model is based in Gold adoption by at least 14% of the world economy, price fluctuations will be ignored till we reach this threshold. Although it won't be ignored for its effect on supply.

Money supply and substitution rate(estimation)

Aggregate	Substitution	Total (M)	Currency
US M1	100%	$19,377,758	USD
US M2-M1	50%	$2,236,142	USD
US Eurodollar aprox	15%	$12,000,000	USD
EU M1	100%	€7,389,683	EUR
EU M2-M1	50%	€3,486,458	EUR
Rest of the World M2 aprox	50%	XAU 38,120	XAU Eq.



C1875, American lithography pro Gold standard. [Library of Congress]

Results
After running the framework 1 million times, the calculated real value of a troy ounce of Gold is XAU 0.381, which is a 62% downside to the current market value. On average it took 68 years for a significant part of the economy to return to the Gold standard.

Gold is overvalued. While a gradual return to the Gold standard will reprice gold higher, holding the metal has an opportunity cost that is too high. Gold price doesn't come from its monetary value but from the narrative and central bank purchases, which can easily become net sellers in the future, like Canada's central bank.

Holding Gold or Gold miners is a bad investment strategy, unless there are clear signs of an imminent readoption of Gold as a currency and the market hasn't priced it in yet. Selling gold and strongly selling Gold miners is a sensible idea.

[Bank of England]

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As of October 2022, I do not hold physical Gold directly, but I hold shares in Gold miners; Polymetal and Starcore. I also hold shares in a Silver miners ETF with an important part of its revenue coming from Gold. Finally, I hold a position in a physical Platinum ETF.

Before investing or disinvesting, contact a financial advisor. The content of this report should be taken as research and not as investing advice. Do not try to sue me; I have no money.

This report uses rhetorical hyperbole as a writing style. I'm a moderate person and do not seek harm to our government, elected or unelected leaders, NATO or any western government agency. I do not work for or have been paid off by any foreign government. Although I've collaborated in the past with the Free Republic of Liberland. If an authority wants to speak to me, please schedule a meeting. I cannot confirm nor deny if my house is booby trapped.