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MELLON ON THE MARKETS

By Jim Mellon

Tightening policies will move the USD upwards

Two trips to Australia in two weeks is not a recipe for a *Juvenescent* life. Bottom line, if you have to do it, go Emirates. It's way better than BA, sadly, which has dropped all pretence of service in favour of short term profits.

I went the second time to speak at a conference known as SOHN Hearts and Minds. SOHN is a charity which channels money into such worthwhile causes as Juvenile Diabetes, MS and Cardiac Research. The Australian version of this international organisation was extremely well organised, and this one event raised over A$5 million.

The format is that fund managers pitch single stock ideas to demonstrate their analytical and predictive abilities. Every pension fund, investment banker and financial type of note Down Under attended the jamboree at the Sydney Opera House, and paid A$3,000 each for the privilege.

Paul Keating, probably the greatest Australian PM and Treasurer post-war, spoke of China's ambitions and tactics. He is also fixated on the impact of the ageing population, as am I, and I enjoyed speaking with him privately afterwards. He was responsible for turning around the Aussie economy in the 1980s, with the result that Australia has now been growing for over 26 years, an uninterrupted run only surpassed by the Netherlands.

Is the party over Down Under?

But the good times may be coming to an end for Australia. Housing, a mainstay of the economy, and where enormous leverage is concentrated is beginning to tip over, partly as a result of government policy. The Australian banks are highly geared to residential property and it's not looking good. Anecdotally, retail prices, even with a discounted Aussie dollar, are extremely high by international standards, for just about everything. A pint of beer for £8 anyone? Wages, while high, are stagnant and personal debt is stratospheric.

Although the terms of trade have supported export volume growth and consumption growth is robust, my general sense is that the Aussie dollar remains overvalued and could fall another 5% or so against the US dollar, and more in a banking crisis. Certainly, Australia is the only major country where I see interest rates being *cut*, rather than raised over the next year or so.

Furthermore, the two top exports – iron ore and coal – are in their own way being threatened. Coal is being hit by the growth in green energy, and iron ore by China's efforts to stem overcapacity in steel production, which in the past year alone has resulted in a staggering 1.6 million job losses!

What Australia does have going for it is a very large pension (superannuation) industry, as a result of forward-thinking policies over many decades. But even Australia is going to find it hard to sustain pensions in an age of ultra-longevity, and people expecting to retire at 65 on gold plated pensions must think again.

Andrew Scott, who wrote the brilliant *100 Year Life* book on the social implications of longevity extension, is joining me and a number of others in establishing an Institute to get the message across that policy makers better take note of the coming acceleration in life expectancy, as detailed in the book "Juvenescence". Watch this space, and please get your copy of the book for Christmas, as it is nearly sold out now.

Australia is really a great country and I loved my visit. I am a Scot, so I don't feel the pain of the majority of the Brits regarding the cricket results, but it is clear to me a good trade deal can be done with our cousin-country as soon as Brexit happens.
As I have been saying for some time, a deal is going to be done before Christmas, and it now appears that that is likely. Not much will change superficially, but I do expect the gloom-laden prognostications about the British economy, so beloved of Remainers, to start perking up a bit in the New Year. Oh, and the pound will probably continue to rise against the dollar and the euro in the next year or so.

Currencies, bitcoin, precious metals and inflation

In my last letter, I said that the yen was undervalued. It's moved a bit in our favour, and I would now be neutral there. My sense is that tightening in the US (Goldman is forecasting four rate rises by the Fed in the next year, and I concur), as well as necessary tightening by the ECB and the BOJ, will result in a shortage of dollars in the next few months, reversing the recent downtrend of the dollar (except against the pound).

The euro is a short against the dollar at the current level of 1.19, and I see it falling 5% or so. That doesn't sound like a lot, but it's a big fall in FX terms.

Bitcoin, beloved of my friend JY Sireau, who has brilliantly called this 10x plus rise in 2017 on behalf of shareholders in Binary.com, has probably taken the shine off gold and silver so far in the year. Speculators (there are now 14 million of them, as an example, at Coinbase) have shifted their attentions to cryptocurrencies in droves.

But when everyone and their Jack Russell are piling into crypto wallets, that's the top, or close to it. Buy gold and silver, because, as I keep banging on, inflation is back and it's going to surprise on the upside.

I saw an interesting article (confirmation bias!) that the Philips curve was on its way back – and that's exactly what I have been saying, although not quite so eloquently.

Gold is going to $1,500 over the next year. I really like **Condor Gold (LON:CNR)**, where I am a director.

I met with **Zenith Minerals (ASX:ZNC)** when I was in Sydney, and this company, through its affiliate Bradda Head, has exciting lithium prospects in North America. Lithium has had quite a move, but I don't think the game is over yet. Zenith is traded on the ASX.

I recently had an interesting conversation with someone on bonds. The height of folly was when Italy borrowed billions last week at a negative rate. Italy is in a right old mess, and any modest recovery it is experiencing is the bounce of the dead cat. Those bonds are a huge short, and if you can't do that you can sell any and all bonds you can get your hands on.

Anyone who thinks bond yields can remain low in the face of near universal tightening and of rising inflation is certifiable – just as some might say about my toing and froing to the Antipodes in a fortnight. If it does me in, at least I will have a lot of airmiles to bequeath.

Happy Hunting!

Jim Mellon

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