

# THE DIGGER QUARTERLY

A quarterly review of precious metals markets, big picture trends and wealth preservation topics worth your while.



## The Golden Arrow

### Forewarned is forearmed

#### The rise of fraud amid the corona-crisis

By Scott Chamber

**During every crisis, rational thinking tends to be widely suspended as fear and emotional decisions take over on a massive scale. We've repeatedly seen these reactions during financial meltdowns, public health crises and sociopolitical shocks. Only this time around, all these triggers are rolled into one global, perfect storm.**

The level of uncertainty and fear among the population has skyrocketed and not without good reason. Within a few weeks, we've all come under siege by an invisible enemy and the government measures - justified or not - that came with it, millions have lost their jobs, while others saw their investments decimated or their businesses closed. Unfortunately, it is precisely this kind of charged environment that provides the most fertile ground not just for very costly mistakes, but also for fraudsters and scammers who can make an already dire situation a whole lot worse.

#### A swelling tide of scams

Over the years, we have highlighted multiple times the importance of security, of due diligence, and of "reading the fine print" to both our clients and our readers. Bad actors have always been out there, and they've always presented a risk that the responsible investor has had to factor in and to mitigate. >>

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## Editorial



Scott Schamber,  
Managing Director

It didn't take long for 2020 to crash the hopes of those who bet on the "eternal expansion" that was promised by central bankers and believed by so many mainstream analysts and commentators. While the idea of a never-ending bull market was in itself absurd and most conservative investors were prepared for a long-overdue correction, nobody could have predicted the global mayhem that the coronavirus triggered.

The economic shock we face today is completely unprecedented. The global economic freeze, the restrictions that governments imposed all over the world, and the levels of fear and uncertainty among investors and in the general public have already taken an enormous toll that can be seen in the skyrocketing unemployment figures, in the stock market, and in supply chain disruptions. Virtually overnight, this crisis reintroduced risk, wild volatility and uncertainty to the markets, but it also gave gold a chance to shine. Once again, the precious metal proved its reliability as a hedge and reached multi-year highs, as investors fled to safety.

In this climate of widespread confusion and fear, it is more important than ever to remain rational and composed. It is essential that dispassionate analysis and critical thinking prevail over emotional reactions and panic-driven decisions. In this spirit, in this issue of the Digger, we'll examine the present risks and the impact of the corona-crisis, focusing on the facts and the data that are available so far. We'll also look into another important threat, namely the wave of scammers and fraudsters that always tend to thrive in times like these.

We hope you'll enjoy this issue of the Digger and do not hesitate to contact me directly with any questions.



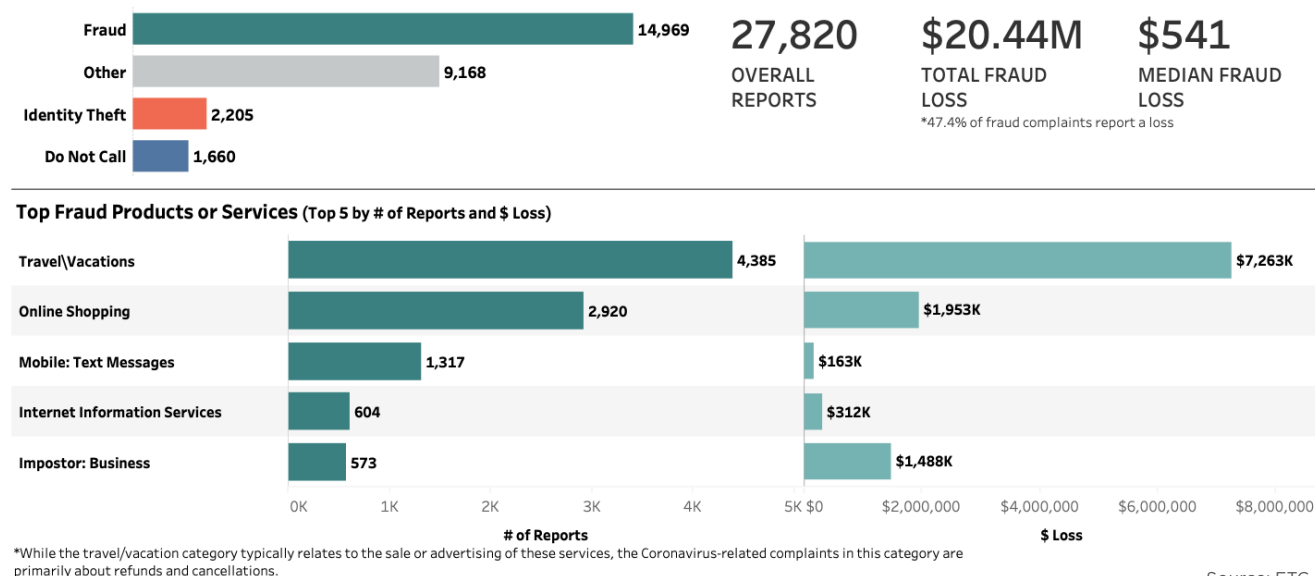
However, this risk is now seriously amplified, as the fear of the virus and the financial uncertainty are set to act as a homing beacon for all kinds of scammers. In fact, sensing a spike in vulnerability, many of them have already started to come out of the woodwork.

This developing trend has already been documented in most Western countries. Some of the schemes are really quite obviously fraudulent, rather unoriginal and unsophisticated. Ads for testing kits, fake vaccines and miracle but "patent-pending" cures are a dime a dozen and largely transparently bogus. Masks and antibacterial gels have also been heavily used as bait, as increased demand and hoarding behaviors led to widespread shortages.

The slightly more insidious variant of such schemes is when they are disguised as crowdfunding campaigns or solicitations for donations. In some versions, it may appear as though it is a hospital or a charitable organization, or even the CDC directly, asking for support in their fight against the disease, so they can afford extra beds or supplies to help those in need. Other times it is a doctor or a team of young researchers, asking for funding to complete their life-saving vaccine. This kind of scam is very common and has been on the radar of law enforcement agencies ever since the emergence of the disease. In the US, the FBI has made multiple arrests and issued warnings to the public, while over in Europe, both Europol and national authorities have taken similar steps.

It does, however, get a little more complicated when the bad actors are also tech savvy. According to a recent report by cybersecurity firm Kaspersky, the internet is already rife with COVID-19-themed cyber-scams, involving dangerous malware that can access anything from emails to banking login information. In other cases, through so-called "phishing" attacks, criminals can elicit personal and sensitive information from their targets and deploy this knowledge in their scams. Then, even >>

## FTC COVID-19 complaints, January 1 - April 27 2020



those very crude aforementioned “impostor” scams can get a lot more convincing. An official-looking letter from the IRS with your name, address, or business details on it, or a message that appears to be from your bank or from your insurance doesn’t automatically end up in the trash. Combine this with the widespread confusion over the emergency government checks and the various tax relief measures, and it is obvious why many people could be fooled. In their latest iterations, these types of scams have been reportedly disguised as official requests by the relevant authorities, asking for personal and credit card information or for “prepayments”, in order to release government relief checks, to authorize tax exemptions or even to provide testing for the virus.

The schemes directly targeting investors are very similar to the ones that emerged during the Great Recession, they’re just adapted to the corona theme. Many fraudsters offer high-return investment products, while the smarter ones promise lower but “guaranteed” returns, banking on the fear of the current market volatility. Others present private placement opportunities in companies that produce essential medical equipment and supposedly have government contracts. Even good old boiler-room, “pump and dump” schemes are making a comeback. According to a recent Investor Alert issued by the SEC, these involve “research reports” claiming that the products of publicly traded companies, mostly

microcaps, can prevent or cure COVID-19 and that their stock will dramatically rise as a result.

This trend is still in its early days, but the numbers are already worrisome. According to the UK’s National Fraud Intelligence Bureau, there were 105 reports of COVID-19 related scams in March, a 400% increase since February, with total losses near £1million. These figures are projected to rise exponentially in April and beyond. In the US, the Federal Trade Commission (FTC) also reported a spike in COVID-19 scams, with losses over \$20 million.

### All that glitters is not gold

Gold has historically been a particular favorite in the fraudster community. It’s been the bait of choice for millennia for all sorts of swindlers, with gold-themed scams dating as far back as Ancient Greece and the Roman Empire. Just over the last few years, we can recall a number of high-profile cases, some of which [we’ve written about](#) in the Digger and in our [Blog](#). Last summer we saw counterfeit bars and coins fraudulently stamped with the logos of Swiss refineries and illegal, “dirty” gold from Peru being inserted into the markets. There have also been numerous cases of investors being approached with “once-in-a-lifetime deals”, to buy gold directly from African mines or local brokers, usually at a steep discount >>

to the spot price. There have been hundreds of documented victims in recent years and just last December, a couple from Georgia was reported as having lost over half a million dollars to such a “gold broker” from Ghana. Gold mine schemes are also a popular theme. After all, who can forget “Bre-X”, the epic gold mine fraud case from the 1990s? The Canadian miner bought a property in the middle of the jungle in Indonesia and reported it was sitting on incredible reserves, almost double the world’s largest proven gold deposit. Its penny stock skyrocketed to over \$200. Eventually, it was revealed that they were actually mixing gold shavings in the samples manually and it all came crashing down, in what became known as the “\$4 billion swindle”.

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Today, the stampede in equity markets, the economic uncertainty and the mass flight to safe havens make gold uniquely attractive as a vehicle for scams. The price spike and the general belief that the rally in precious metals is only just beginning, mean that many investors are extremely keen on stocking up on the metal. In certain cases, this urge to buy begins to outweigh the importance of due diligence and some investors throw caution to the wind. This leaves them wide open to exploitation by a fast-growing number of bad actors in the physical gold niche.

There are different types of schemes that they employ. For example, to the undiscerning newcomer to gold, they'll simply misrepresent the actual value of certain coin, usually a numismatic, falsely claiming it is particularly rare and thus comes with a steep premium. In other cases, they might offer off-market products, in non-standard formats or just plainly counterfeit or adulterated ones. Then there's the rather blatant, but common scam, where the “bro-

ker” also provides storage, for the imaginary gold the victim just bought, in an imaginary vault that they also paid fees for. Alternatively, both the gold and the vault might be real, but the same bar the victim owns was also sold to another dozen people. Additionally, it is important to note that the recent disruptions in the physical trade have only fueled demand further for bars and coins. The problems caused by the coronavirus measures have led refineries to slow or halt production, throttling supply. Many reputable brokers have been facing difficulties filling orders. Some have delays in delivery, while others have dramatically raised their minimum orders or charge significantly higher premiums. This is leading some investors to turn to less-than-reputable operators, or even to try and buy directly from a seller, drastically increasing their exposure to possible scams.

Finally, we're also starting to see another phenomenon, one we've witnessed many times before, but especially during the last gold rush a decade ago. Given the general uncertainty and the impressive upside of gold prices, some investors can be tempted to go a step further than just increasing their own physical position. Fraudsters will present them with opportunities to act as an intermediary or “deal maker” themselves. They entice them by spinning tales of gargantuan purchase orders, often originating from a mysterious buyer. This might be some reclusive zillionaire looking to buy tonnes and tonnes of gold or an institutional player that wishes to keep the transaction “under the radar” for political reasons. Naturally, the commission on such a deal would be huge and certainly enough to motivate the investor to try and mediate it. The “catch” can vary. The purchase order can be entirely fictional, in which case the scammer asks for some kind of payment in advance, for “legal fees” or “processing” and then vanishes. Alternatively, the wish to buy could be real, but the buyer might have difficulties passing the KYC and AML processes of most reputable companies. This is arguably even more dangerous for the target, as they may end up getting implicated in illegal activities.

In fact, we recently encountered such a case directly at Global Gold. A trusted and very reputable friend of the company was approached by someone who claimed to represent a big buyer, looking to purchase 5 tonnes of gold initially, and then continue with regular orders of 10 tonnes. Just to put this in dollar terms, only that initial “test” order of 5 >>



tonnes would be worth almost \$53,274,000! Who wouldn't want to facilitate this deal? Of course, we warned our contact straight away that we had heard of cases like this before, but since he was someone we knew and trusted, we agreed to a call with the intermediary. Right from the start, there were numerous red flags. Although the representative claimed to know the buyer very well, they wouldn't give us any details as to who the actual owner of the funds behind this suspect purchase was. We kept it short and simply requested all the information and paperwork that is legally required for us to comply with our strict anti-money laundering rules and regulations in Switzerland. What we received was a one-page "Letter of Intent" by the intermediary and on behalf of the buyer that formally listed these massive quantities and their specifications and outlined the "Swiss Procedure" or how the deal would supposedly take place. The best part, however, was the price: the letter made it clear that the buyer was expecting a discount to the spot price of gold. By the time we finished reading it, we knew this was a waste of time. Just for the fun of it, we quickly looked up the company that was listed in the letter: the address they gave was in a dead-end dirt road of a rural, sparsely populated residential area and the company's status was "inactive" since 2012. None of the other names or contacts that were mentioned to us had any sort of presence or record we could trace or even ever existed, as far we can tell.

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*"If you're getting a discount,  
it's probably not nearly  
good enough for what  
you're actually buying"*

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### Lessons and red flags

At their core, most of these schemes are based on the same age-old premise: If you're looking to get something for nothing, you shall receive nothing for something. Unlike outright theft, most scams, frauds and cons involve a promise, an agreement and a willing exchange. Of course, sometimes it can be the kindness and the generosity of their victims that the bad actors are banking on, as we see in the charity and donation scams. However, most of the time

they're counting on fear, panic or blind greed. Unfortunately, these are universal human traits and under the right conditions, such as a global crisis like the current one, we're all susceptible to them. Thus, keeping these impulses in check is the first step towards protecting our money from those who would see us part with it.

There are also some more practical measures we can take and a "checklist" of red flags we must always keep in mind. The most basic "litmus test" upon being presented with a great deal is to ask ourselves "is this too good to be true?". A good rule of thumb for gold investors is that a legal, documented, "clean" bar or coin simply doesn't trade below spot prices. If you're getting a discount, it's probably not nearly good enough for what you're actually buying. "Guaranteed returns" is another sales pitch that should sound more alarming than enticing, because there's no such thing in investing. Additionally, there are some more nuanced filters we can also apply. For instance, it's wise to be cautious if the person who wants to sell you something found and contacted you directly, and not the other way around. Their online footprint can provide useful hints too: is the business registered with a relevant authority, or do they have a track record you can verify? Finally, it's not really quantifiable nor strictly scientific, but still, never underestimate your own gut feeling. If the person's demeanor seems too pushy, if the idea of trusting them with your money makes you uncomfortable, or if you sense dishonesty even though you can't concretely catch them in a lie, it's probably best to take a step back and go through the checklist once again.

At the end of day, the best way to minimize your risk and to spare yourself all future headaches is to choose a reputable precious metals trading and storage company, with transparent processes and business practices. At Global Gold, we believe that trust must be earned and not freely given. This is why we follow the strictest quality assurance protocols and the highest compliance standards and why we are so careful about our due diligence and about choosing our partners.

## Big Picture Sentinel

# A historic turning point

By Global Gold

**Only a couple of months ago, if anyone were to describe to you the current state of the global economy and how we got here, you'd never have believed them.**

Governments all over the world shutting their own economies down, on purpose and by decree? International corporations forced to stop production and close their factories, citizens being ordered to remain in their houses, tens of millions of people losing their jobs? All of that was simply unthinkable until recently, but somehow, virtually overnight, it became the new normal.

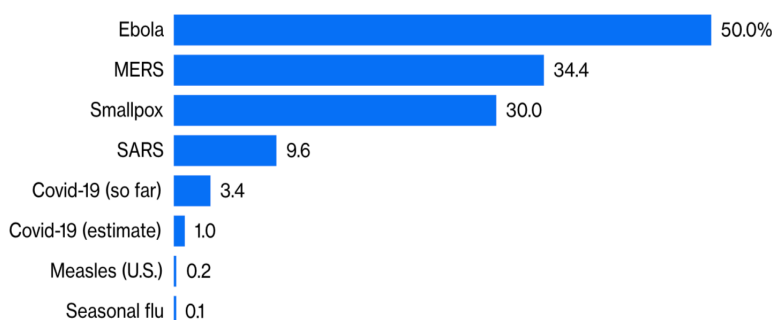
### A sanguine risk assessment

Given the level of fear and confusion among the general public and the sensational, and often graphic, stories and images that are abundant in the media coverage of the pandemic, it is essential for responsible investors and citizens to maintain a clear and rational perspective. At this point, there aren't many things that can make this situation any worse, but panic is definitely one of them. Therefore, let's take a look at the facts that are available so far and assess the risks in a calm and dispassionate manner.

As of the time of writing, there have been around 213,000 deaths connected to COVID-19 and 3,100,000 confirmed cases. Italy, Spain, the US and Iran have ranked among the hardest-hit nations. In regions where the virus had spread earlier, like Asia and Europe, those that seem to have handled the outbreak better and face much lower casualties are South Korea, Taiwan and Singapore, while in Europe, Latvia, Malta and Greece seem to be doing rather well so far compared to their EU peers. The latest estimates put the fatality rate of SARS-CoV-2 between 0.5-1%, which makes it deadlier than the flu, but infinitely less dangerous than smallpox, MERS and Ebola. As is the case with most diseases, the risk is much higher for vulnerable groups, like the elderly, the immunocompromised and those with underlying health conditions. This is why the vast majority of the casualties thus far were people that died "with" the coronavirus and not directly "from" it. In fact, according to the CDC, "78% of ICU patients and 71% of hospitalized COVID-19 patients had one or more reported underlying health conditions".

Now, as far as reports of new cases and projections go, the picture there is a lot more complicated. There is no uniform approach to testing, neither in methodology and sampling, nor in the technology used itself. This creates an obvious statistical problem and we see it in the extreme divergence in reported fatality rates between different countries, with Italy reporting wild numbers like 11% and Germany releasing figures close to 1%. Of course, if one country decides to prioritize testing people that belong to high-risk groups, or recent arrivals from China or Italy, or only those that are already ill enough to go to the hospital, it is clear that it's going to find many more COVID-19 cases than another country that is using >>

### Case-fatality rate comparison



Source: Bloomberg

a much wider, and thus more representative and statistically meaningful, sample of the population.

On top of that, most countries do not provide official reports on the actual number of tests performed. Complicating matters even further, there have also been multiple confirmed instances of faulty testing kits and of thousands of false negatives and false positives. In other words, not only are the figures likely to be already skewed in many countries due to their testing approach, but the data could also be tainted by inaccurate test results. Finally, to add one final layer of confusion, due to the urgent need to identify and help those infected, testing has so far been largely limited to just identifying the presence of SARS-CoV-2, or lack thereof. Testing for antibodies, which would reveal the number of those who successfully overcame the disease, is only now starting to take place. This would not only give us the missing part of the equation needed for any kind of serious projection, i.e. the actual recovery rate, but it would also provide data that could be immensely helpful in fighting the virus, and potentially opening up the economy more quickly.

Of course, none of this is meant to be dismissive of the risks. By no means do we think that the thousands of deaths are an insignificant statistic, nor are we suggesting that young and healthy people should go out, catch the disease and give it to their grandparents. What we are saying is that it is important to assess the threat in its proper context, in order to fend off panic and poor decisions. We need this information to separate fact from irresponsible fiction, like the comparisons to the 1918 Spanish flu that we keep hearing in the news, which infected almost one-third of the world's population and caused 50 million deaths, according to the CDC.

### Unprecedented destruction

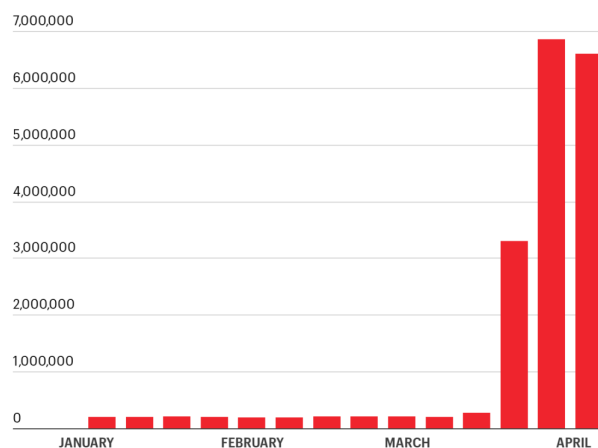
**The governmental response to the coronavirus has triggered a wave of extreme new measures, rules and restrictions, as well as monetary policy reactions, the likes of which we've never seen before in a time of peace.** The global productivity halt, travel bans, supply-chain disruptions, and the masses of newly unemployed people have sunk the world into what is almost certain to be long and ugly recession. At this point, any kind of forecast or modeling attempt to predict the magnitude of the economic damage is near-impossible. For one thing, this type of simultaneous global economic shutdown in this

context has never happened before. At the same time, the countermeasures to these measures are also unprecedented. The sheer scale of the "emergency" stimulus, the incredible monetary interventions and new policies, like helicopter money, render any prediction unreliable to say the least.

What we know for sure is what we've seen so far. The historic plunge of the stock markets paints a very sinister picture of what's to come. And although markets have not been a great leading economic indicator since the massive monetary interventions of the past decade distorted their basic mechanisms, the scale of the carnage this time cannot be ignored, and the panic-selling did have some reasonable grounds. For instance, the most recent jobless claims out of the US are simply staggering: At the time of writing, 22 million people have already lost their jobs since the beginning of the shutdown. According to St. Louis Fed estimates, that figure could reach 47 million and send the unemployment rate past 32%.

Corporate debt defaults are also on the rise, while entire industries have been decimated, like transportation, hospitality and entertainment. The effects of the shutdown will likely linger for a long time, even after the containment phase is over. The demand shock has caused permanent losses, especially in those industries that were hit the hardest. Even if people do spend a little more on restaurants and have some extra nights out to make up for their time in isolation, these businesses, assuming they'll still be open by then, will never recover the losses they suffered during the shutdown. >>

### Weekly initial unemployment claims in 2020



Source: Fortune, US Employment and Training Administration

It all gets even more worrying when we look at the global supply chain disruptions, especially in food production and distribution. As Reuters reported, “across the globe, millions of laborers cannot get to the fields for harvesting and planting. There are too few truckers to keep goods moving. Air freight capacity for fresh produce has plummeted as planes are grounded. And there is a shortage of food containers for shipping because of a drop in voyages from China.” Few people realize that most of the fresh produce that reaches our tables is manually harvested and only a few exceptions are mechanized, like wheat or corn. So now, farmers in the US and in Europe are critically threatened and could see most of their crops rot away, with no one there to harvest them.

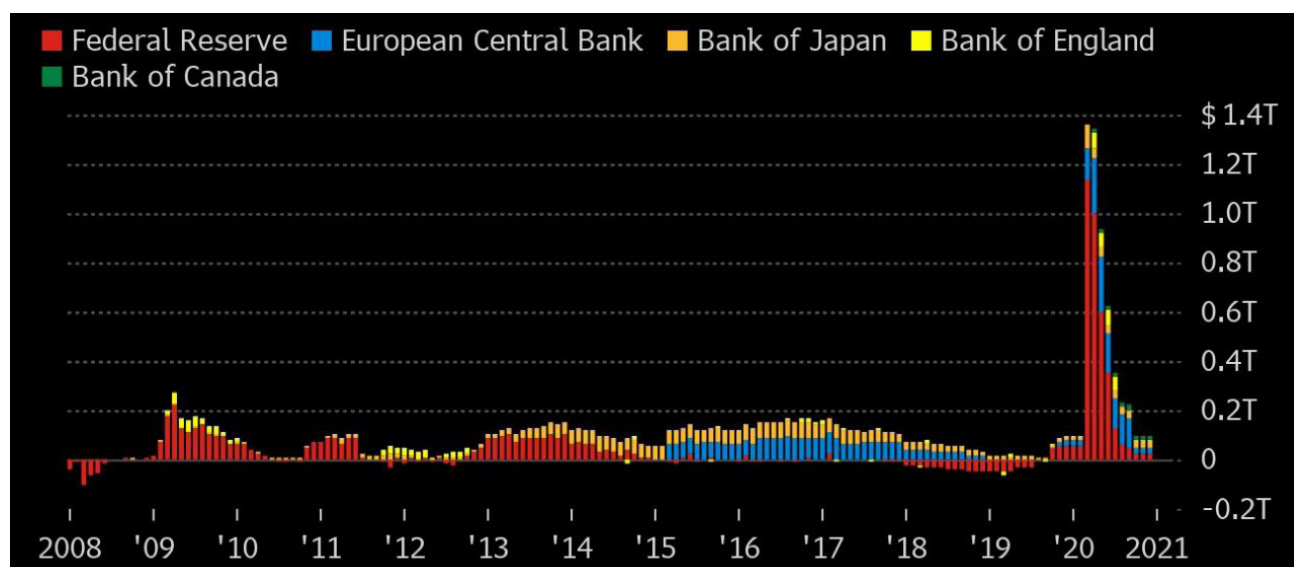
### “Bazooka” relief policies

On the monetary front, on top of across-the-board interest rate cuts, all major central banks have gone to extremes attempting to mitigate the fallout from the economic freeze and the panic in the markets. At the end of March, the Federal Reserve announced a barrage of new policies, including “unlimited” QE and the unprecedented step of expanding its purchases to corporate bonds. The ECB is increasing its own asset purchases by a staggering €750 billion over the next nine months. As Christine Lagarde put it, “there are no limits to our commitment to the euro.” The Bank of England and the Bank of Japan

also announced vast increases in their QE programs, with the latter raising serious concerns over the aggressive ramp up of its equity purchases. And yet, despite all of this firepower that central bankers brought to the fight, investors remained unconvinced. In fact, when the new easing measures were announced, stock markets in most cases largely ignored them and continued their plunge.

Even though the monetary response was colossal, it was nothing next to the fiscal measures. The amount of new spending is just shocking. The \$2 trillion coronavirus package in the US dwarfs any previous records, wreaking havoc with a budget deficit that was already on track to exceed \$1 trillion this year. The US government is now sending \$1,200 to all Americans earning up to \$75,000 and it looks like the spending spree has only just begun. Additional relief packages and stimulus programs have already been approved, the most recent one allocating \$484 billion for small businesses, hospitals and coronavirus testing. Over in Europe, the fiscal relief responses of the various national governments were also bombastic. Italy, France, Spain, and most EU members have promised loans and credit guarantees for companies, tax breaks and debt repayment suspensions, as well as income subsidies for affected employees. Even Germany, once the main conservative voice in the Union, tore up its own rule book, taking on more than €150 billion of new debt and promising a €500 billion bailout fund. >>

### Record QE: G-7 central bank purchases approached \$1.4 trillion in March



Source: Bloomberg



## The bigger picture

Most, if not all, of the aggressive monetary measures and the enormous stimulus programs appear to be panic driven rather than rationally planned responses. Most governments keep adjusting them as they go along, and they seem to be overly confident that the quantity rather than the quality of their stimulus spending will suffice to keep the economy afloat. It's still too early to tell if they're right, but early indicators aren't too encouraging. As for the long-term implications of all the new fiscal and monetary policies, the outlook is downright terrifying.

What *is* clearer is what this whole crisis is telling us about the state of the global economy and about governments and institutions. In our globalized world, wealth and opportunity might be getting more widely and rapidly distributed, but so are threats like this one. No country is an island. Knock-on effects and contagion, both biological and economic, are real risks that investors must take into account. What the pandemic has also made clear, to anyone that might have needed a reminder, is that governments cannot be relied upon to protect neither your wealth nor you and your family. We've seen countless examples of botched responses right from the start, from misleading official statements to ineffective containment measures. In the US, on the 24th of February, even as deaths had started piling up and quarantines were already in effect in many countries, Speaker Nancy Pelosi was out touring San Francisco's Chinatown attempting to downplay the risks and inviting people to "Come to Chinatown, come join us". We've also seen polar-opposite reactions along with an abundance of irresponsible hyperbole. Methodologically unsound models of the expected spread and death toll of the virus and doomsday scenarios have been propagated by official figures and politicians, the very people one would expect to realize the importance of keeping the public calm and composed during a crisis.

The out-of-control volatility in the markets and the rush to safe havens also sends a very clear message. Governments and central banks have lost their credibility and investors don't trust them to right the ship. The panic-selling, the incredible losses and the sheer terror of stock investors offer a sneak peek into what lies ahead. No sector has been spared: not the tradi-

tionally "defensive" picks, not even those momentum tech stocks that have been driving the decade-long rally.

This is the kind of scenario we've been warning our clients and readers about for a long time. The rally in gold has once again confirmed the metal's role as a dependable hedge in times of crisis. Physical precious metals are now the last defense against the economic, financial and political mayhem that's bound to last for a long time and they can be relied upon to provide a solid protection against the severe risks that lie ahead, as they have done so many times in the past. This consistency is especially reassuring – and needed – in a world that seems to be changing so dramatically and so quickly.

Overall, it is clear that we haven't even begun to scratch the surface of all the potential political, social, economic and legal implications of this massive shift. As I already outlined in a recent [letter](#) to our clients, this crisis will likely mark the beginning of a new era and there are countless aspects to be examined, from a macro-perspective down to subtle changes to things as simple as our general etiquette rules than could see a lasting change as a result of the virus. Therefore, as time goes on, and the dust continues to settle, we'll certainly share with you our analysis and insights on the impact that the corona-crisis will have on us as investors and as citizens.

## Golden Nuggets

# Disruptions in the physical gold market

By Frank Suess

**The global production freeze and the border closures, combined with the market stampede and mass flight to safe havens, created unique pressures in physical precious metals. A supply shock and a demand spike hit the market at the same time and created unprecedented challenges that even some of the largest players in the industry struggled to overcome.**

Starting in late February and escalating in March, a global shortage of gold bars left a growing number of traders and brokers unable to fill orders. As demand surged, especially from retail investors, and as the metal saw its sharpest rise in a decade, the supply disruptions led to long delays and unusually wide spreads between Comex futures and London cash spot market prices.

The economic shutdown had a deeply paralyzing impact on the gold market. Swiss refineries Valcambi, PAMP and Argor-Heraeus had to suspend production for two weeks, in order to comply with local authorities' orders demanding the closure of all "non-essential" industry. Between them, they process around 1,500 tonnes of gold a year, a third of global annual supply, while they're also a key hub and transit point in the global gold industry. They only recently received permission to resume production, and only at a limited rate. Valcambi and PAMP confirmed that this meant they would operate at less than 50% capacity. On top of the production freeze, there were also serious problems created by the various lockdown measures and travel bans, causing numerous disruptions in the logistics chains and transport of the metal.

As a result, large gold retailers like Degussa struggled to meet demand and fill orders. Some of the most popular formats and coins like the Krugerrand appeared as sold out and out of stock on their online platform. Other brokers and retailers had very long delays in delivery, while others even ceased operations altogether, even as orders remained unfilled in the pipeline.

It was a trying time for us too at Global Gold, as we also experienced a spike in new orders. However, our systems and internal processes proved to be robust and reliable, even under these extraordinary pressures. It was a fast-paced race, but our team did go the extra mile and we managed to meet the needs of all clients.

We expect demand to remain strong, and even spike higher as the crisis deepens, but we are already prepared for that and we remain confident in our continued ability to serve our clients.

Overall, this industry-wide shock did cause numerous problems for many in the industry, but we believe that it also served as a valuable reminder, to both retailers and gold investors. If you see physical gold as we do at Global Gold, namely as the ultimate hedge and as your last line of defense against a serious crisis, this mentality must also guide the assessment of your partners. In other words, what good is your harsh-crisis investment if you can't access it in a harsh crisis scenario? And what good would be our advice, to be prepared and to plan ahead, if we ourselves were to buckle and throw in the towel at the first sign of trouble?

## Golden Nuggets

# Silver: a historic buying opportunity

By Scott Schamber

**Long overlooked and often pushed aside in favor of its shinier “big brother”, silver is currently trading at levels that are simply too attractive to ignore. With the gold-to-silver ratio at all-time highs, investors really need to pay attention to this entry opportunity.**

We’ve written about the importance of the gold-to-silver ratio before, namely the amount of silver that can be bought with one ounce of gold. It has averaged around 58 since the gold window was closed in 1971 and it has been known to spike before a significant upwards move in silver prices. It was already hovering around historically very high levels since the start of 2020, at around 85. By mid-March, it had climbed to 95, before reaching an all-time high of 125.

There are also solid, fundamental reasons to support the case for silver, some of which are also underlying the case for gold. For one thing, the global interest rate cuts are bound to increase its appeal, as they make alternative interest-bearing options much less attractive.

An even stronger boost is likely to come from the massive wave of new money-printing and spending programs. The Fed’s balance sheet is exploding to levels we’ve never seen before, while the gigantic stimulus packages are pumping trillions into the economy. Thus, inflation, until recently thought to be dead, is now reemerging as a serious risk factor. In fact, according to Bloomberg, US inflation expectations have already jumped from their record-low levels of 1.2% just a few weeks back, to around 2%.

However, there are some additional drivers that are unique to silver. Unlike gold, that is almost entirely seen as an investment, silver has a dual nature, due to its extensive industrial uses. It tends to be impacted more by traditional supply and demand forces which, given that production has been severely affected by the coronavirus crisis, could work in its favor in a very significant way.

The economic activity freeze in Mexico, the world’s largest silver producer by a very wide margin, has caused serious disruptions on the supply side. Mining giants like Newmont, Pan American Silver, Alamos and Sierra Metals all announced operations suspensions at their Mexican mines. According to figures from the U.S. Geological Survey, last year Mexico >>

**Gold to Silver ratio, 1915-2020**



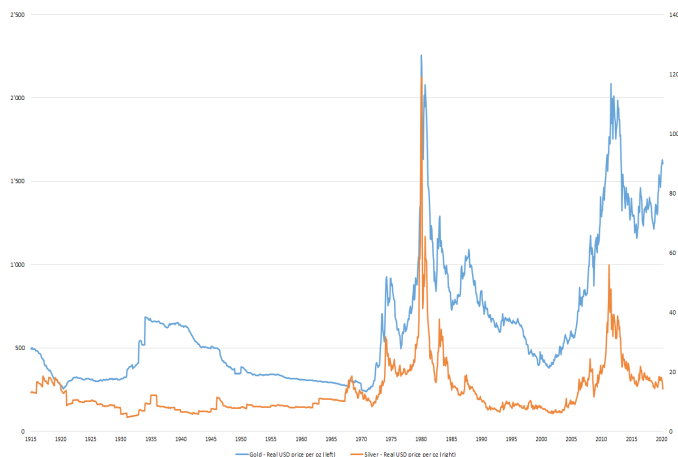
Source: Seeking Alpha, MacroTrends

produced 6.3 thousand metric tons of silver, or 23% of global mine supply. Therefore, the recent production freeze is likely to leave a very big hole in the markets.

Finally, history itself also provides some very good reasons to consider expanding one's silver holdings. The metal has always had a very interesting relationship with gold. It tends to lag behind in terms of performance, but it does catch up. More interestingly, it is also known to exhibit much steeper downtrends and uptrends. For instance, in the aftermath of the 2008 crash, gold rallied by 166%, but silver exploded by almost 550%.

Given silver's recent violent pullback all the way down to \$11, the recovery back to \$15 that we've witnessed over the last couple of weeks is arguably just the beginning. Another historic rally is likely in the making and this might just be one of the last opportunities to stock up on silver at these levels.

### Gold and silver prices in USD, 1915-2020



Source: Seeking Alpha, MacroTrends

## Golden Nuggets

# "In other news..."

By Global Gold

**The coronavirus and the global response to it have monopolized news reports and dominated the headlines for many weeks already. Even though it really is an important and absolutely newsworthy issue, the fact that the media is fixated on it doesn't mean that other news just stopped happening. In fact, while we've all been focused on the latest terrifying virus story, a lot of important developments around the world have gone underreported and largely unnoticed, some of them with serious geopolitical and investment ramifications.**

For one thing, OPEC+ collapsed. Of course, this development did receive some coverage, but mainly because of its impact on the historic plunge of the oil price. However, that's the oversimplified and superficial version of the story. Since Russia parted ways with Saudi Arabia and its cartel and both decided to kick off a price war,

flooding the market with oil nobody wants or knows what to do with, the US oil and gas industry has suffered a severe blow. Producers were downgraded en masse by rating agencies, while most Texas companies were forced into extensive capital expenditure and production cuts. Some were pushed over the brink, like shale producer Whiting Petroleum which already filed for bankruptcy. Others are about to, like Chesapeake Energy.

After weeks of speculation and grandstanding, Russia and Saudi Arabia returned to the table and agreed on cuts. However, it was too little, too late. The market was already severely oversupplied and demand is basically dead. This was clearly manifested in a very dramatic way on April 20: the May contract for West Texas Intermediate crude on the New York Mercantile Exchange turned negative for the first time in history. The contract closed at -\$37.63 a barrel, a one-day drop of 306%, as futures traders panicked at the idea of having to take physical delivery and scrambled to unload their positions, literally paying buyers just to take the oil off their hands.

That panic was justified, as there are increasingly loud warnings that storage capacity is running out. Onshore storage options were already tight, so tankers were chartered not for transport, but for floating storage. But now even these more expensive offshore alternatives are also close to full capacity. In fact, as Reuters recently reported, "oil producers, refiners and traders are turning to more unusual tactics, such as storing crude and fuel in railcars in the northeastern United States or in unused pipelines." Even salt caverns in some Scandinavian nations are fully booked. >>

### US crude futures historic collapse



Source: Bloomberg, Straits Times



Beyond these obvious consequences, the oil collapse has far-reaching implications, creating a domino effect on all kinds of connected sectors and threatening to destabilize geopolitical balances and frail alliances.

In other US news, most people don't seem to remember (or care) anymore, but there's still an election on. There have been serious issues discussed and highly consequential policies outlined during the Democratic debates and primaries that failed to attract media attention. There have also been all kinds of scandals and controversies and intrigues, the sort that used to fuel headlines for weeks, but they also failed to gain any traction. The original 29 Democratic candidates experienced a radical thinning of the herd quite early in the process, but the remaining half-dozen spent all their air time and debates focused on extreme policy ideas, ranging from nationalizing healthcare to introducing a "Wealth Tax". To be fair to the candidates, there were also other ideas that don't seem as outlandish and comical as they did just two months ago, like MMT, forgiving all student debt or introducing Universal Basic Income. On social issues, the consistent and oft-repeated message of all candidates was that the Democratic Party's priority is equality, diversity and the representation of women, minorities and the working class. Today, the presumptive Democratic nominee is multimillionaire 77-year old Joe Biden, after his closest challenger and fellow multimillionaire, 78-year-old Bernie Sanders, dropped out.

Over in Europe, the human tragedy in Italy has justifiably attracted most of the media attention. However, overshadowed by the corona-crisis, there has been a decisive renewal of the migration crisis. The stand-off between Greece and Turkey, after a temporary de-escalation, is now flaring up again. In March, as Turkey announced that it would no longer stem the tide of immigrants attempting to cross over, there was a surge in the number of people that tried to enter the EU through Greece, most of them trying to get to Germany. According to German intelligence (BND) findings, as reported by Deutsche Welle, Turkey purposefully "brought displaced people en masse to the border and attempted to incite conflicts between refugees and officials". Thousands of migrants gathered at the border and clashed with military forces trying to push them back, while war-zone-like footage emerged on a daily basis. Apart

from the border crisis, the virus also opened up new fronts within the country. There is no realistic way of imposing self-isolation or even rudimentary hygiene measures on the 60,000 migrants residing in the country's camps that are already many times over capacity, like the infamous Moria camp that houses 20,000 people in a space designed for 3,000. Hundreds of COVID-19 cases have already been reported, while incidents of riots and violence are on the rise. This ongoing crisis has once again exposed the shortcomings of the EU and reignited Euroscepticism across the Union, as little to no support has been provided to prevent a humanitarian disaster or to protect the "common" borders.

As for the Middle East, in early March we saw Lebanon default on its debt for the first time in its history, after months of protests and a deep financial crisis that we covered in detail in our latest [Special Report](#). Now, with the added pressure of the coronavirus and a crumbling healthcare system, there are concerns over a wider and more dangerous destabilization. Meanwhile, Iran has been trading blows and proxy strikes with the US since the beginning of the year. All this escalated recently, to the point that President Trump's top advisers, including Secretary of State Mike Pompeo, advocated for direct hits on Iranian forces, according to the New York Times.

Finally, there was another noteworthy story out of Latin America that also got buried under the virus news. In late March, frictions between Venezuela and the US saw a rapid and rather bizarre escalation. The US has been trying for years to effect a leadership change in the long-suffering and inflation-ravaged country, that's been stuck in stand-off for 15-months between two Presidents: Maduro, who has the support of Russia, China and his country's military, and the US-backed opposition leader and "interim President" Juan Guaidó. Now, in a highly unusual turn of events, the US took more direct action: the Justice Department indicted Maduro on narcoterrorism, drug trafficking and money laundering charges. There's even a bounty on his head, with a \$15 million reward for information leading to his capture and prosecution.

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## **Impressum**

### **THE DIGGER QUARTERLY**

#### **Publisher**

Global Gold AG | Head Office  
Am Dürrbach 5 | 6391 Engelberg  
Switzerland

#### **Editors**

Scott Schamber | Frank R. Suess

#### **Published**

Four times a year.  
Exclusively for clients, partners and  
friends of Global Gold.

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