World new order, problems of Hegemon and Gold forecast for 2020.

Following the relatively calm presidency of Barack Obama, the world is currently undergoing a new paradigm shift in which everything is to be made over and made “greater,” at least for the US. However, what we see on the surface is a façade that conceals what is happening behind the scenes. The global shake-up is here, having arrived with the US renegotiating NAFTA, imposing trade tariffs on its allies, exiting the Paris Climate Accord, withdrawing unilaterally from the 2015 Iran Nuclear Deal and its nuclear arms treaty with Russia, fencing itself off from Mexico, initiating a trade war with China and organizing a coup in Venezuela, all at the same time.

So, the question is why is this sudden shift in US foreign and domestic policy happening now, and can we trace a logical connection between all these events?

The explanation is quite trivial; the US budget deficit and surging debt are rapidly approaching the point of no return. As of year-end 2016, the US Federal budget registered a $585 billion deficit while the national debt amounted $19.5 trillion. Over the last three years, tax reforms and military spending increases in the US helped pushing the annual budget deficit to $1.09 trillion and the national debt to over $23 trillion. As such, from 2016 to 2019, the US budget deficit grew by 72%, national debt by 23% and GDP by a modest 16%. The bulk of the US budget deficit consisted of interest expenses for servicing the national debt, which, at 2 - 2.25% average cost of funding, made up roughly $500 billion in 2019 alone.

Although tax cuts and military spending increases did exacerbate the US fiscal situation, today’s problems that the US economy is facing have much deeper roots. Growth of the national debt accelerated following 2008 global financial crisis, as a result, the US debt-to-GDP ratio rose from 80% in 2018 to an alarming 106% in 2019. The US economy, booming on the outside due to fuel provided by debt, kept deteriorating underneath, registering record budget and trade deficits year after year. Washington realizes that running the US economy on the back of irresponsible debt monetization will eventually call the status of the US dollar’s reserve currency into question. Over the last 20 years alone, the US dollar share as a global reserve currency has shrunk from 71% to 61%, and this trend continues to accelerate.

In recent years, a trend to bypass the US dollar and SWIFT payment system has begun. For example, in January 2019 the European Union introduced its own transaction channel: INSTEX, or “Instrument in Support of Trade Exchanges,” which allows trading outside of the global SWIFT payment system. In 2018, China was the first state to introduce a gold-backed petro-yuan, which trades on the Shanghai International Energy Exchange, challenging the Wall Street dominated petrodollar. Alternative payment platforms will allow sanctioned countries to trade freely with each other, avoiding US dollars in their payments. New payment platforms facilitate avoidance of the US dollar, further reducing the share of the US dollar in global trade.

It is no secret that the key pillars of US hegemony in the modern world are military dominance and the US dollar's reserve currency status. Through these pillars, the US can institute its foreign policy and its order on any nation, company or individual. Nevertheless, Washington recognizes that if radical and immediate measures are not taken to remedy the rapidly deteriorating economic condition that is overburdened by constant and costly military campaigns, the US will eventually find itself in global isolation and an extremely difficult financial situation. Recent examples clearly demonstrate that the US is losing control when it comes to matters of instituting its foreign policy in the world.

For example, the US is failing to make a regime change in Venezuela, North Korea continues missile tests despite constant US threats, Russia deploys unparalleled hypersonic missiles and has committed to complete two major gas pipelines (Nord Stream 2 and Turk Stream) to Europe in 2020 despite US sanctions and pressures, China confidently retaliates to US trade tariffs, Turkey (being a NATO member) purchases and tests the Russian Air Defense Missile System S-400 and initiates military campaigns in Syria and Iraq despite numerous US warnings, a number of leading states and global corporations move to Chinese 5G Huawei technologies, Iran does not give in despite ever-increasing US sanctions, and numerous countries are getting rid of US debt and systematically accumulating physical gold. This list could continue on and on; however, the point is clear – global geopolitical alignment is changing, and there is little the US can do to prevent it.

However, the US is not alone in facing economic challenges; the entire world is suffering from mounting debt. Major global central banks supported markets with quantitative easing and near to zero or negative interest rates during the entire global expansion following 2008 crisis. Over the last 10 years world debt grew from $109 to 225 trillion, while world GDP grew from $60 to 80 trillion; thus, to grow the global economy by 30%, world debt had to increase by 106%. Apparently $80 trillion in GDP is not capable of producing enough value to repay $225 trillion of debt in the same way 300 grams of lemons could not produce 1 liter of juice. The surging world debt is getting out of control, and it appears many are not concerned.

In response to rapidly growing debt, a group of developing countries have been accumulating physical gold reserves since the 2008 global financial crisis while the US debt piles up. The table below lists the 10 countries that hold the largest gold reserves.

Table 2

Top 10 countries with gold reserves in metric tonnes				
Ranking	**Country**	**YE 2008**	**YE 2019**	**% change**
1	United States	8,134	8,134	-
2	Germany	3,410	3,370	-1.2%

3	Italy	2,452	2,452	-
4	France	2,450	2,436	-0.6%
5	Russia	500	2,241	322.6%
6	China	600	1,948	208.8%
7	Switzerland	1,040	1,040	-
8	Japan	765	765	-
9	India	350	618	-
10	Netherlands	613	613	76.0%

Since 2008, Russia and China together have nearly quadrupled their gold reserves, while India's has increased by 76%. During the same period, Turkey, a key regional player and a gatekeeper between Europe and Asia, almost tripled its gold reserves and currently holds 385 metric tonnes of gold despite not ranking in the top 10. The gold reserves of the US and those of European countries have remained practically unchanged. So, this group of Asian countries, Russia, China, India and Turkey, has been steadily increasing its gold reserves over the last 10 years.

In essence, all fiat money, be it US dollar, Japanese Yen or European EURO, is a currency that is not backed by a commodity or any other tangible asset. Over the last 5000 years, the world has changed beyond recognition, but one thing surely has not changed, and that is the role of gold as a store of value. It appears that none of the modern forms of fiat money or crypto currency, which could be printed or produced infinitely, can compete with gold in the long run. Empires rise and fall, but gold remains unopposed. In the modern era, countries fund their budget deficit through debt monetization or money "printing," thereby devaluing their currencies, but in ancient times, deficit was financed by mixing copper into gold coins. The result has been exactly the same throughout history, gold coins were gradually turned into copper coins; as a result empires lost trust, status, economic and military power and ultimately fell.

The key pillars of central banks are price stability, a stable banking system, and a safe and reliable payments system; however, what we have observed in recent years runs contrary to our common understanding of sound central bank practices. During 2019, the US Federal Reserve cut short-term interest rates from 2.25–2.5% to 1.5–1.75% while inflation was rising from 1.9% to 2.1%. Given the "booming economy," the US central bank did not have obvious reasons to cut interest rates; however, in the attempt to normalize interest rates and bring them to 3% by the second half of 2018, US stock indices fell 15–25% in a matter of days. The US stock market has no tolerance of normalized interest rates since higher rates put severe pressure on the US budget thanks to ballooning national debt. Rapidly deteriorating the US fiscal situation requires immediate attention; instead, the US is on the track of further exacerbating the situation by "printing" even more money.

Considering above-mentioned trends and developments what should one expect in 2020–2021? It is apparent that the US Federal Reserve will be forced to tolerate rising inflation and continue cutting interest rates on the rapidly growing national debt. Any attempt to normalize interest rates in order to curb the inflation will put unacceptable pressure on the US budget deficit. As such, the Federal Reserve will be caught between inflation and budget deficit. Cutting rates will give a breather to the US budget deficit and reduce the burden of servicing the US national debt; however, these would be temporary measures equivalent to kicking the can down the road. The result of these measures would be higher inflation. Up to today, history knows one effective hedge against inflation – gold, silver and other precious metals.

Inflation has been creeping up in 2019 and that is just the beginning; it is no wonder why the gold price increased in 2019 by nearly 16% in response to central bank policies, and this trend is expected to continue in 2020. At present, the price of gold is trading in the range of $1555–1575 per troy ounce. We forecast a further 15–20% rise in the value of gold $1750–1850 towards by the end of 2020 into early 2021. Furthermore, we expect silver to rise to $25–27 per troy ounce, which would represent a 50% increase.

The contours of the new financial system are already visible as the build-up of stress in the faulted global economic and political architecture has been accumulating for a very long time, approaching a tipping point. As the release of stress during an earthquake comes swiftly and unexpectedly, the inevitable political and economic shifts will occur in the blink of an eye, affecting most of us. These dramatic changes will bring great challenges as well as great opportunities.

This forecast is not intended as financial investment advice; every individual should perform his/her own analysis or consult with a professional before investing in financial markets.

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