INTAC Global Investments

INTAC Global Investments
Road Town, Tortola
British Virgin Islands

International Mailing:
C/o Rush It Inc. EIS, P.O. Box 11156
St. Thomas, USVI, 00801

Domestic Mailing:
P.O. Box 993, Road Town
Tortola, BVI, VG1110

Tel 284-494-1750
ceo.intac@surfbvi.com

Dear Global Investor, October 29th, 2018

RE: INTAC Investment Commentary 2018-Q3

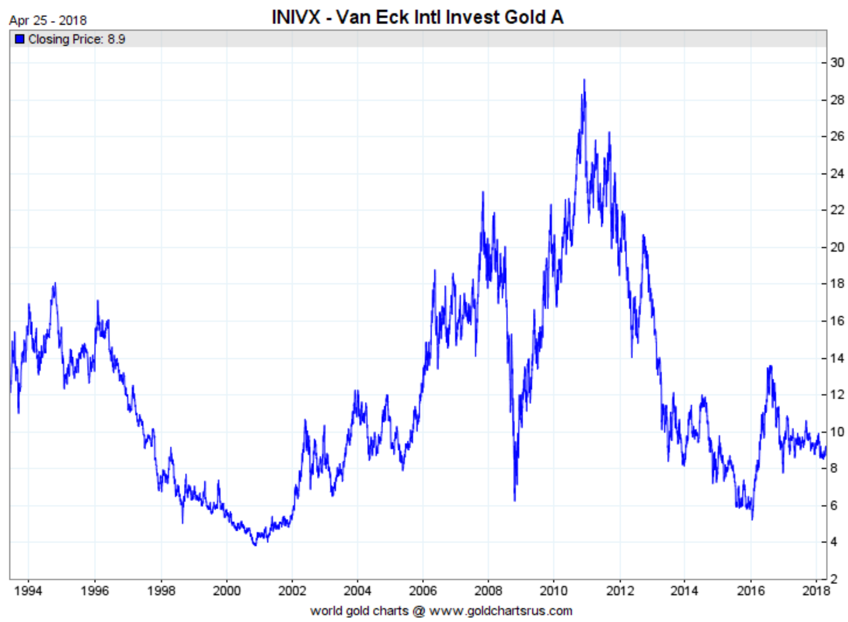
HIGHLIGHTS:

- As forecasted in our INTAC Investment Commentary ("**IIC**") over the past few quarters *Gold / Silver & Precious Metals Mining Shares & Related Investments* ("**G&PM**") have sold off in 2018-YTD:

Specifically, in our 2018-Q1 IIC we presented and wrote the following forecast:

"When we research the profile of the commencement of prior "legs up" in gold mining shares and related investments (e.g. Precious Metals Mining Funds) over the long term we observe that just prior to an explosive move up there is most often, but not always, a spike down in valuation.

Van Eck International Investors Gold Fund is the oldest fund in the sector and during the first half of the secular gold bull market from 2001 to the end of 2010 and especially from 2001 to 2008 each of the legs up were proceeded by a spike down just prior to the commencement of the explosive move up."



"As hard as it will be for some wary long-term gold and precious metals investors to get through (e.g. over the next quarter or two) we would like to see this spike down occur such that Van Eck International Investors Gold Fund (shown above) drops below $8 per unit for a brief period. We will be tracking this and several other indicators very closely over the coming months and expect that if such an event were to occur it should be the prelude to an explosive move up that would develop into the second major leg up which in turn would cause wider recognition of the resumption of the second half of the secular G&PM bull market."

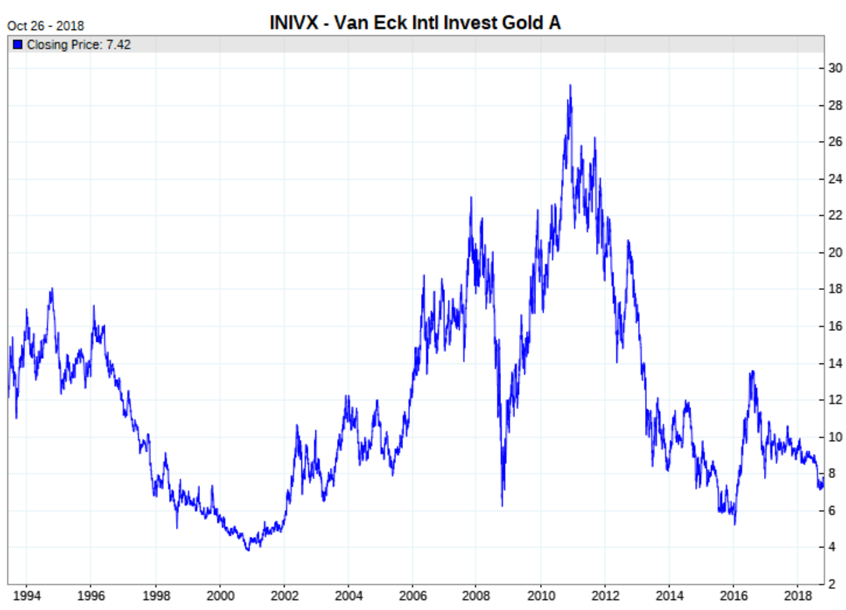
Specifically, in our 2018-Q2 IIC we presented and wrote the following forecast:

"INTAC's Ideal Target Buy Zone for G&PM: Buy all the best G&PM mining shares / funds / ETFs when the XAU is anywhere in the blue circle and/or if it gets down to the red support line (i.e. in the buy zone)."

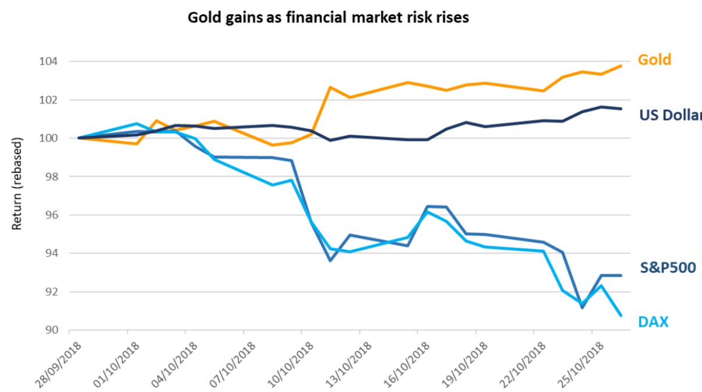
We correctly forecasted the G&PM capitulation sell off / spike down well in advance of it occurring. However, the selloff ended up being more in line with our initial 2018-Q1 forecast (i.e. to about 60 on the XAU see updated chart below). As you can see from the 2018-Q1 and 2018-Q2 XAU charts above, after a very lengthy sideways consolidation, INTAC raised our target buy zone for taking our hedges completely off from about 60 to about 70 on the XAU. However, because of correctly forecasting this sell off, INTAC out performed even the unleveraged gold mining ETF's during the initial selloff, then our hedges came off as planned, then the G&PM market continued to sell off more than our revised 2018-Q2 forecast and by the date of our statement valuation (i.e. October 16th, 2018) our leveraged long G&PM positions underperformed the unleveraged gold mining ETF's over the quarter.

In hind sight we should have stuck with our original 2018-Q1 target for taking our hedges off as this forecast was extremely accurate. Good news is, once again, we have significantly outperformed the leveraged gold mining ETF's and as such we have built significant outperformance to these ETF's prior to the second leg up in the G&PM sector. Further, following a sustained up-turn in G&PM we should again significantly outperform the unleveraged gold mining ETF's as we did in 2016 and 2017.


$XAU Gold & Silver Index - Philadelphia INDX
29-Oct-2018 3:10pm
Open 65.21 High 66.30 Low 64.13 Last 65.11 Chg -0.05 (-0.08%)
@StockCharts.com
RSI(14) 40.79
RSI(10) 36.77
RSI(5) 24.16
$XAU (Daily) 65.11
Fast STO %K(14) %D(3) 17.17, 15.76
PPO(1,200) -13.513


Oct 26 - 2018
INIVX - Van Eck Intl Invest Gold A
Closing Price: 7.42
world gold charts @ www.goldchartsrus.com

October 2018 potentially foreshadowing a phase transition in 2019 and until the ***Global Debt Supercycle Rest*** ("**GDSR**") is complete. Specifically, gold's reaction to the most recent downturn in general equities suggests that something has changed. Investors' outlook for the US and global economy has shifted from optimism, bordering on complacency, to fear that the nine-year bull market, the longest in history, may be coming to an end. Growth in the US (and globally) is forecast to slow in 2019 (IMF) and the US Fed's apparent insistence on raising rates into next year is proving a further drag on optimism. Meanwhile growing uncertainty over the impact of the "trade war" threatens to spook investors further.



Source: Bloomberg. Data at 26 October 2018.

However, in the short term there may still be a little more whipsaw in the G&PM sector prior to the next major leg up in the G&PM bull market;

- As previously discussed, it is very difficult to predict exact bottom entry prices, in value investments over the short term. However, INTAC has been able to maintain our significant outperformance to the unleveraged and leveraged ETF's of GDX / GDXJ and NUGT / JNUG respectively that we have achieved since the recovery has begun in 2016. As can be seen in the above chart of the XAU undervalued G&PM investments can turn on a dime and become revalued dramatically higher very quickly (e.g. see the first six months of 2016). So, as difficult as it can be awaiting the second leg up in the G&PM recovery (i.e. it seems to be taking forever...) we still believe our patience will ultimately be rewarded;

- We predicted in 2018-Q1 that the second major leg up in the G&PM bull market may begin later in 2018-Q4 and we remain hopeful this will be the case. All 25 INTAC G&PM Indicators to Predict the Start of the Next Rally, that we discussed at length in our 2018-Q2 IIC, were screaming buy during the August and September 2018 G&PM sell off / spike down. However, a retest of these lows or a positively divergent lower low (i.e. a low in G&PM modestly below the recent August/September lows with higher RSI, MACD, Stochastics, and other key technical readings) similar to what occurred in G&PM in 2015-Q4 may develop in 2018-Q4;

- *Our forecast as previously stated remains*: "It may become clear to Mr. Market that as the Fed raises rates more aggressively than the market originally thought and the Fed increases the rate of its balance sheet reduction in October (i.e. which equates to approximately an additional 0.75% to 1.0% increase in the Fed Funds rate over time) that this in turn will result in stock markets, bond markets, and real estate markets selling off globally and reduced global growth rates. All together this will bring about the end of this nine/ten-year business expansion with a recession being inevitable, as early as 2019 / 2020, and by this time inflation will have already been very well stoked even further by fiscal stimulus measures very late in the business expansion (e.g. tax cuts and infrastructure spending). Combine this with the massive levels of sovereign debt, the inevitable unorthodox response from central bankers and policy makers with very limited orthodox tools left in their tool box, and we have the makings of a prolonged period of stagflation at best or a complete collapse of the financial system and a depression at worst." Both outcomes should be extremely bullish for G&PM;

- *Our forecast as previously stated remains*: "Mr. Market is forward looking, it is likely, the stock market will sniff out the impending recession in 2020 (e.g. sometime in late 2018... and 2019...). By this time the general equity indices will have completed their all-time highs and the retail investor will be all in on general equities just in time for a major stock market sell off (e.g. potentially a historic crash in general equities)";

- *Our forecast as previously stated remains*: "When general equities begin to sell off investors normally flock to highly rated sovereign bonds for protection, however, as Bill Gross rightly points out, this will be one of the first times in history where during a major stock market collapse bonds may offer very little sustainable protection". The optimistic 'buy the dip' attitude of investors during recent minor corrections in equity markets may yet prove correct in the short-term (e.g. it is possible we get a nice Christmas rally to complete the massive distribution tops and crowns already formed). However, gold's reaction to the recent downturn in US risk assets marks a significant shift in investor sentiment. Gold has been heavily oversold in recent months, having come under pressure from the strong US dollar and "risk-on" investor sentiment towards general equities, however the metal's convincing rebound in the face of falling stock markets and rising systemic risks in the US, demonstrates that gold remains a safe-haven and an effective portfolio diversifier in volatile market conditions;

- Importantly, gold outperformed US treasuries during this most recent volatile period, an encouraging signal for the gold sector. Treasuries have proven a popular safe-haven during the emerging market volatility and currency crises of recent months, yet ultimately do not provide the same level of portfolio protection and effective diversification as a holding in gold. Gold is a unique financial asset in that it is truly scarce and is nobody else's liability. As a store of value, it has outperformed all fiat currencies over the long-term. During September 2018 it was reported that central bank gold buying had reached the highest level in six years (Bloomberg), a notable development highlighting the relevance of gold in an uncertain and volatile economic environment;

- *Our forecast as previously stated remains*: "We believe an equity market sell off will be the next catalyst for the gold price to sustainably breakout above its $1200 to $1400 trading range to potentially significantly higher prices levels (i.e. depending on the degree of the equity market sell off and the response from policy makers)";

- *Our plan as previously stated remains*: "We are also considering hedging our G&PM holdings, in the event of these holdings initially getting dragged down in a major general stock market sell off later in 2018 and/or early 2019, which may be related to the U.S.-China Trade / Currency War, by potentially shorting select equity indices/ETF's later in 2018 and/or early 2019";

- *Our forecast as previously stated remains*: "Due to the insane levels of sovereign debt on a global basis and the likelihood of stagflation, we believe the primary beneficiary of the next stock market sell off, will ultimately be the precious metals market, not the bond market and/or the USD, and gold and silver mining shares will ultimately be the stellar performers";

- Bottom Line - INTAC has been able to maintain our significant outperformance to both the unleveraged and leveraged ETF's of GDX / GDXJ and NUGT / JNUG respectively that we have achieved since 2016; and

- *Our forecast as previously stated remains*: "This G&PM secular bull market should really get going, in a sustainable way, in late 2018 / early 2019, accelerate upwards during 2019, and may well become the greatest bull market ever by the year end 2026;

CONTAINED IN THIS INVESTMENT COMMENTARY:

INTAC Performance Review:

INTAC accounts declined between -6.37% to -18.09% depending on the clients' selected investment philosophy, compared with Direxion Daily Gold Miners Index Bull 3X (NUGT) that declined -30.72%, Direxion Daily Junior Gold Miners Index Bull 3X (JNUG) that declined -28.68, VanEck Vectors Gold Miners ETF (GDX) that declined -8.60%, and VanEck Vectors Junior Gold Miners ETF (GDXJ) that declined -7.87% over the period.

Nevertheless, despite the recent non-fundamental draw down and volatility in the gold sector (i.e. as discussed in detail in the next section below), INTAC's performance remains significantly ahead of the leveraged gold mining ETF's on a quarterly and year-to-date basis and since the start of the recovery base building process in 2016. Further, INTAC's performance also remains ahead of the non-leveraged gold mining ETF's since the start of the recovery base building process in 2016.

Selling by a sizable mutual fund (see below for details), which exited the G&PM sector, resulted in the excessive draw down and price fluctuations in the G&PM sector in 2018-Q3, which was driven by non-fundamental factors.

While periods of price volatility such as this can offer a longer-term opportunity for active managers to build positions in attractively valued companies, short-term underperformance occurred as some of our holdings were negatively impacted. However, with its active investment strategy and focus on the smaller to mid-tier gold and silver producers, INTAC is well-placed to take advantage of a potential wave of consolidation in the G&PM sector.

The portfolio remains focused on those companies with the highest quality assets, effective management teams and a demonstrable commitment to returns to shareholders. We continue to operate a value-based investment approach and believe that INTAC is well-positioned to generate outperformance during a potential recovery in the gold sector.

INTAC Performance Review:

Investment	*2018-Q3 % Chng (Jul 16, 2018 – Oct 16, 2018)*	*2018-YTD % Chng (Dec 29, 2017 - Oct 16, 2018)*	*% Chng (Dec 31, 2015 - Oct 16, 2018)*	*2017 % Chng (Dec 30, 2016 – Dec 29, 2017)*	*2016 % Chng (Dec 31, 2015 – Dec 30, 2016)*
INTAC Investment Philosophy Aggressive	-18.09%	-24.14%	***88.32%***	***32.07%***	***111.17%***
INTAC Investment Philosophy Balanced to Aggressive	-13.95%	-19.28%	***55.38%***	**18.01%**	**79.97%**
INTAC Investment Philosophy Balanced	-10.15%	-14.81%	***39.65%***	**11.08%**	**60.11%**
INTAC Investment Philosophy Cautious to Balanced	-6.37%	-10.31%	***18.35%***	**6.11%**	**32.71%**
S&P 500 Index	0.41%	5.10%	37.48%	19.42%	9.54%
Gold Bullion Spot Price	-1.31%	-5.99%	15.41%	13.17%	8.47%
Global X Silver Miners ETF (SIL)	-10.50%	-22.15%	37.28%	1.65%	73.47%
VanEck Vectors Gold Miners ETF (GDX)	-8.60%	-13.98%	45.70%	11.09%	52.48%
VanEck Vectors Junior Gold Miners ETF (GDXJ)	-7.87%	-12.86%	54.82%	8.18%	64.24%
Gold Bugs Index (HUI)	-10.25%	-19.23%	39.70%	5.48%	63.98%
Direxion Daily Gold Miners Index Bull 3X (NUGT)	-30.72%	-49.50%	-17.58%	3.73%	57.33%
Direxion Daily Junior Gold Miners Index Bull 3X (JNUG)	-28.68%	-47.35%	-24.72%	-20.43%	79.71%

The above INTAC returns are for all client accounts including all fees and all expenses for all clients whom did not change their investment philosophy and/or client margin and/or contribute / redeem capital from their investment account during the period. Investment returns may vary (i.e. higher or lower) from those listed above for clients whom made such changes / alterations over the period. Returns are calculated by Mark Andrew Robinson (CFA and CEO & Compliance for INTAC) and verified annually by Deloitte & Touch.

We are frustrated with the continued manipulations in the G&PM sector, having witnessed extremely large sell orders in the options and futures paper gold markets during very thin trading hours and at key technical levels, that are aimed at breaking G&PM rallies where possible, to prevent the fundamentals from effectively asserting themselves. That said we still believe that ultimately the fundamentals will prevail and in the interim we are somewhat consoled with INTAC's outperformance since 2016 relative to the leveraged mining ETF's (i.e. NUGT and JNUG), unleveraged mining ETF's (i.e. GDX and GDXJ), and our G&PM peer group. We continue to remind investors that it will not be an easy road (i.e. investing against policy makers can be a very difficult strategy at times and this will likely remain the case until such time as policy makers let the GDSR occur or it is ultimately forced upon them by the global market players and policy makers ultimately loss control of the currently rigged system and related markets). There will continue to be volatility and a whipsawing market in the G&PM sector (i.e. as there has been in 2017, 2016, and all years prior with both trending upside volatility and trending down side volatility).

Our remaining intended investment time horizon, for our overweight – concentrated – often leveraged exposure to G&PM held in the INTAC Growth Portfolios, remains until the year-end 2020 to 2024 year-end. We believe the second half of the secular G&PM bull market has most likely started and will begin to advance on a sustainable basis in late 2018 or early 2019. Further, we believe the G&PM sector will produce the greatest bull market ever by 2020-YE to 2026-YE, driven by the fundaments presented at length in our prior correspondence and again below.

Vanguard Factor on G&PM Performance in 2018-Q3:

While we know of no fundamental company news that explains the additional weakness of gold stocks, over and above what we forecast, we do know of selling pressure that could account for it. The Vanguard Group announced that its $2.3 billion Precious Metals and Mining Fund will change focus in late September to a more diversified mandate that features telecommunications, utilities, materials, and natural resources. The last time Vanguard changed the fund's mandate was also at a low in the gold market. In 2001, "gold" was dropped from the fund's name, enabling a broader portfolio that included other metals. The fund subsequently endured the secular gold bull market with as much as 50% of its portfolio in non-gold stocks. As of June 30, the Vanguard fund was approximately 77% invested in gold, silver, and other precious metals stocks. We are afraid that Vanguard is missing the gold boat once again. The Wall Street Journal reports that Vanguard forecasters have increased the odds of a recession, while warning of poor prospects for the U.S. stock market. Vanguard puts the chances of a recession in the next two years at 30-40%, its highest-ever estimate for that time frame. Vanguard has a noteworthy track record in this respect, having placed a greater than 40% probability of recession six months before the December 2007 recession. If these forecasts are right, perhaps Vanguard's shareholders will wish they had kept their precious metals fund.

Further update on Vanguard Precious Metals Holdings:

Sector weightings as of 08/31/2018 Export data

Sector	VGPMX	Benchmark	+/- Weight
Gold	65.2%	—	—
Diversified Metals & Mining	17.0%	—	—
Silver	7.0%	—	—
Copper	5.4%	—	—

Vanguard's PM holdings were at 87% at the end of August.

Sector weightings as of 09/30/2018 Export data

Sector	VGPMX	Benchmark	+/- Weight
Materials	35.9%	—	—
Financials	14.1%	—	—
Industrials	12.7%	—	—
Energy	10.2%	—	—
Utilities	6.9%	—	—
Health Care	6.2%	—	—
Telecommunication Services	5.8%	—	—

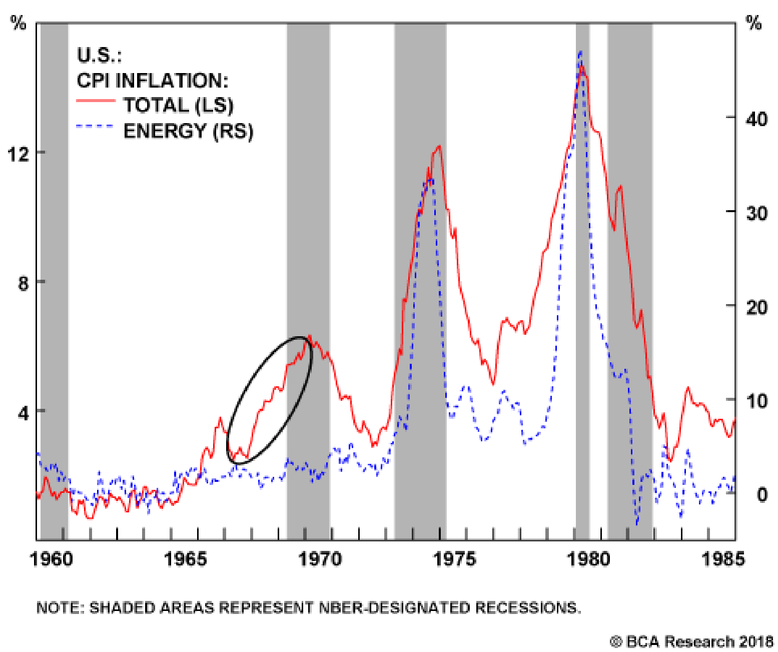
They were at 36% at the end of September. Their target allocation is at least 25% so they are most likely done selling (or very close to it) in October 2018

In fact, on Thursday October 11 the spot market price of gold was up $34, and gold stocks took off. Notably, at the same time the stock market corrected by 7.5% in the span of six days. This behavior of stocks down, gold and gold stocks up is what we have been waiting for. If it continues, over the medium term, this trend reversal is enormously important.

U.S. Inflation Outlook:

Lessons from The Past (i.e. 1960s):

A survey of the economic and policy conditions that prevailed in the 1960s and 1970s is needed to understand why we and our BCA economic advisors think the likelihood of a significant increase in inflation over the coming years is greater than the market believes.



As diminished slack and above-trend growth push prices higher, investors will be forced to gauge the extent to which inflation will rise through the remainder of this cycle. The BCA Global Investment Strategy team thinks that looking back at the 1960s and 1970s can provide important insights (i.e. as we have been writing for some time).

To understand why we think a repeat of the inflationary environment that prevailed in the 1970s is a greater risk than is generally accepted, it is useful to ask what caused inflation to spiral out of control during that decade. Was it "bad luck" or "bad ideas"?

The "bad luck" view blames rising inflation on a series of unforeseen (and unforeseeable) shocks: OPEC oil embargoes, the collapse of the Bretton Woods fixed-exchange-rate regime, and the deceleration in productivity during the 1970s. However, one major problem with this argument is timing. The chart above illustrates that inflation began to spiral out of control starting in 1966, well before these shocks appeared.

In fact, "bad ideas" most likely triggered at least two of these adverse events. Inflationary policies in the U.S. and many other countries in the late 1960s made gold cheap relative to regular goods and services. As the largest holder of gold, and with the price of the yellow metal pegged at $35 per ounce, the U.S. found itself in a position where other countries were swapping their currencies into dollars and then redeeming those dollars for gold.

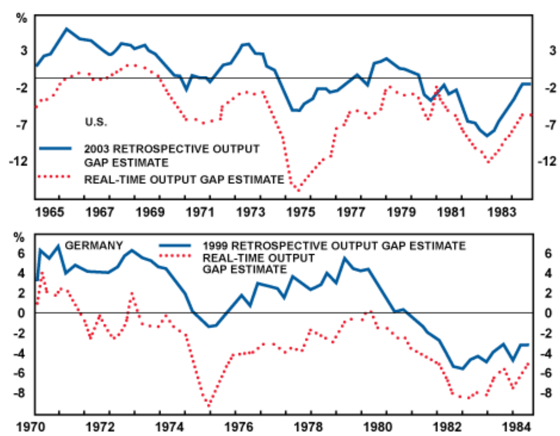
In a desperate bid to stem gold outflows, the U.S. devalued the dollar and eventually ordered the closure of the gold window in August 1971 and imposed a temporary 10% surcharge on imports. The delinking of the price of gold from the dollar ignited a bull market in bullion that pushed the price of other metals higher, including food. Farmland entered a speculative bubble.

Although OPEC was initially slow to react to the seismic changes sweeping the globe, the Yom Kippur war shook the cartel out of its slumber. Within four months, the price of oil more than doubled, marking the first of a series of oil shocks. It is hard to know if OPEC would have reacted differently if the Bretton Woods system remained intact and the dollar did not tumble. However, it is certainly plausible that excessively easy monetary conditions in the years leading up to the 1973 oil shock pushed crude higher than would have otherwise been the case.

A series of policy mistakes were likely responsible for the inflationary environment of the 1970s.

Lessons from The Past (i.e. 1970s):

Just as in the 1960s, policymakers are coming around to the idea that there may be an exploitable trade-off between higher inflation and lower unemployment.



SOURCES: ECB MONTHLY BULLETIN MAY 2010, ORPHANIDES, A., "HISTORICAL MONETARY POLICY ANALYSIS AND THE TAYLOR RULE," OP. CIT. AND GERBERDING, C., SEITZ, F. AND WORMS, A., "HOW THE BUNDESBANK REALLY CONDUCTED MONETARY POLICY," NORTH AMERICAN JOURNAL OF ECONOMICS AND FINANCE, 16(3), 2005, PP. 277-292.

© BCA Research 2018

Three bad ideas enabled inflation to get out of hand in the 1970s: First, policymakers mistakenly believed that high unemployment reflected inadequate demand rather than festering labor market rigidities. Second, they incorrectly assumed that there was a permanent trade-off between lower unemployment and higher inflation. Finally, and perhaps most damaging, they increasingly came to see monetary tightening as an ineffective tool in the fight against inflation.

The chart above shows that through the late 1960s and 1970s, policymakers in the U.S. and elsewhere systematically overestimated the magnitude of slack in their economy. This occurred mainly because they failed to recognize the upward shift in the natural rate of unemployment during this period.

Demographics were likely part of this change, as the mass entry of baby-boomers into the labor market probably pushed up frictional unemployment (young people tend to switch jobs more often). President Johnson's Great Society program also led to a massive increase in government entitlement spending, arguably reducing the incentive to work.

As policymakers were slow to recognize that structural unemployment had risen, they mistakenly pushed down on the economic accelerator when they should have been stepping on the brake.

Once it became clear that rising demand was pushing up prices by more than it was boosting production, the Federal Reserve should have moved quickly to tighten monetary policy. While the Fed did begrudgingly hike rates in 1968-69, it backed off as the economy began to slow. By February 1970, inflation had reached 6.4%.

One key reason why the Fed adopted such a lackadaisical attitude towards inflation is that it saw higher inflation as a small price to pay for keeping unemployment low. This conviction stemmed from the false belief that there was a permanent trade-off between inflation and unemployment.

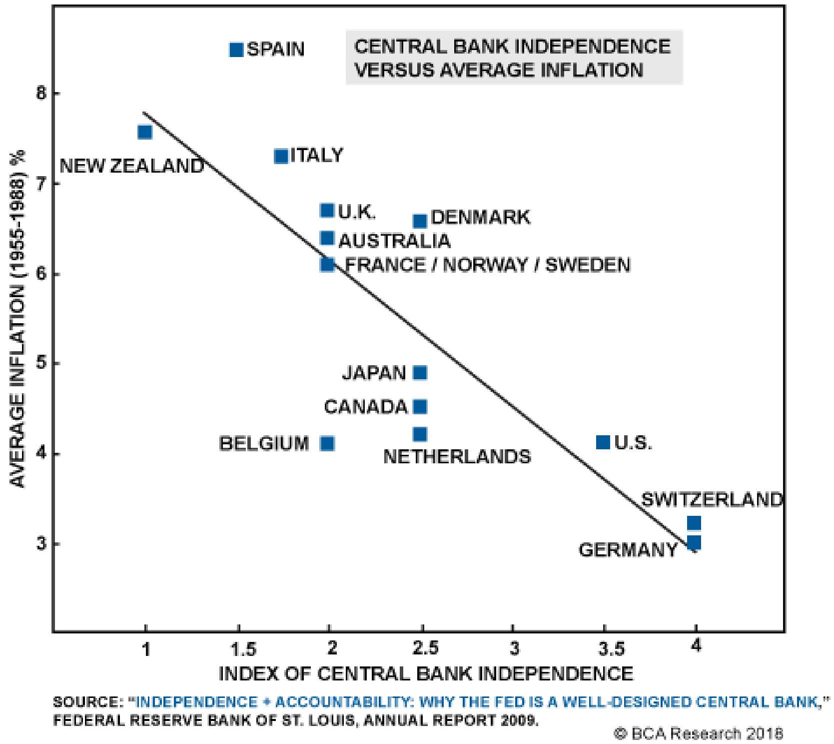
However, of all the mistakes that central banks made during that period, perhaps the most egregious was their contention that rising inflation had little to do with the way they conducted monetary policy.

If central banks could not do much to reduce inflation, it stood to reason that the onus had to fall on politicians and their underlings. By shunning their obligation to maintain price stability, central banks opened the door to all sorts of political meddling. And meddle they did. In his exhaustive study of the Nixon tapes, Burton Abrams documented how Richard Nixon sought, and Burns obligingly delivered, an expansionary monetary policy and faster growth in the lead-up to the 1972 election.

Are these observations relevant to the present day?

Back to The Future?

Despite abundant evidence that inflation is a highly lagging indicator, the pressure to keep monetary policy accommodative until the "whites of inflation's eyes" are visible will remain strong.



President Trump's complaints over Twitter about Chair Powell's inclination to keep raising rates is hardly on par with the politicization of monetary policy that occurred during Nixon's presidency. Nevertheless, we may be slowly moving down that slippery slope. And it's not just the Fed. Suggestions that the Bank of Japan explicitly monetize government debt, Jeremy Corbyn's call for a "People's QE," and the ongoing pressure that the ECB will face to keep rates low in order to forestall a sovereign debt crisis in Italy all foreshadow growing political influence over the conduct of monetary policy. The chart above clearly shows that inflation tends to be higher in countries which lack independent central banks.

Aside from potential political pressure to keep the economy running hot, most economists also recognize that central banks lack effective tools in bringing up inflation when confronted with the zero lower-bound. This has prompted many observers to argue that central banks should raise their inflation targets above the current standard of two percent.

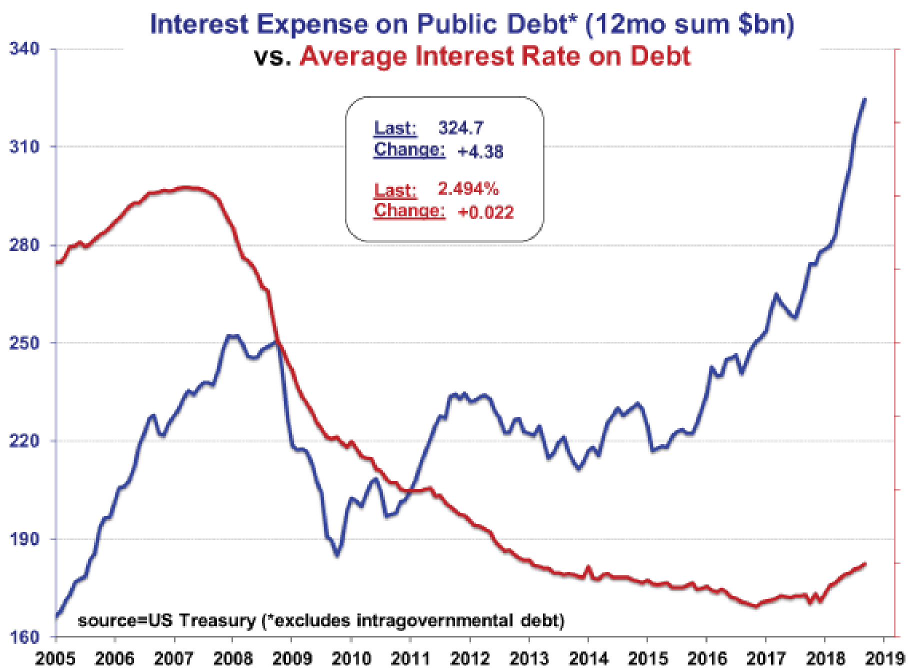
Moreover, many influential economists once again see evidence for an exploitable trade-off between inflation and unemployment. Paul Krugman is a prominent advocate for this view, arguing that "the risks of being too loose versus too tight are hugely asymmetric: letting the economy slump again will impose big costs that are never made up, while running it hot won't store up any meaningful trouble for the future."

Although we have some sympathy for the view that policymakers should not raise rates until they see "the whites of inflation's eyes," one cannot help but notice that these arguments bear some resemblance to the views that pervaded economic circles in the 1960s and 1970s.

As we discussed, fiscal stimulus, faster credit growth, higher asset prices, and a rising labor share of total income have probably pushed up the neutral rate quite a bit over the past few years. This lifts the odds that the Fed will find itself behind the curve, causing inflation to rise more than the market is anticipating.

U.S. Debt - U.S. also a Basket Case:

U.S. gross national debt rose by $1.27 trillion during the 2018 fiscal year to $21.52 trillion (105.4% of GDP). This increase was 33% higher than $954 billion average-annual-growth between 2011 and 2017. Including fixed-rate, intra-governmental obligations, total 2018 interest on the U.S. federal debt measured $523 billion, or roughly $1.5 billion every calendar day. As shown in the Figure below, the floating interest burden on the public portion is beginning to surge geometrically on the heels of relatively modest interest rate increases.



Average Interest Rate on U.S. Public Debt vs. Trailing Twelve-Month Sum of Total Interest on U.S. Public Debt. Source: Meridian Macro. Date: January 31, 1984-September 30, 2018.

Despite recent upticks in GDP, the U.S. Treasury reported on October 15, 2018, that the 2018 federal budget deficit surged 17% during fiscal 2018 to $779 billion. Even more troubling, current Treasury estimates peg the 2019 deficit at $1.085 trillion! In a mid-September report, Bank of America Merrill Lynch ranked 45 global economies by the quality of their domestic finances, measuring twin deficits (current account deficit plus federal budget deficit) as a percentage of forecast 2019 GDP. Among the 45 ranked countries, the U.S. ranked fifth from worst, with domestic finances in better shape than only Argentina, Turkey, Brazil and Pakistan. Treasuries anyone?

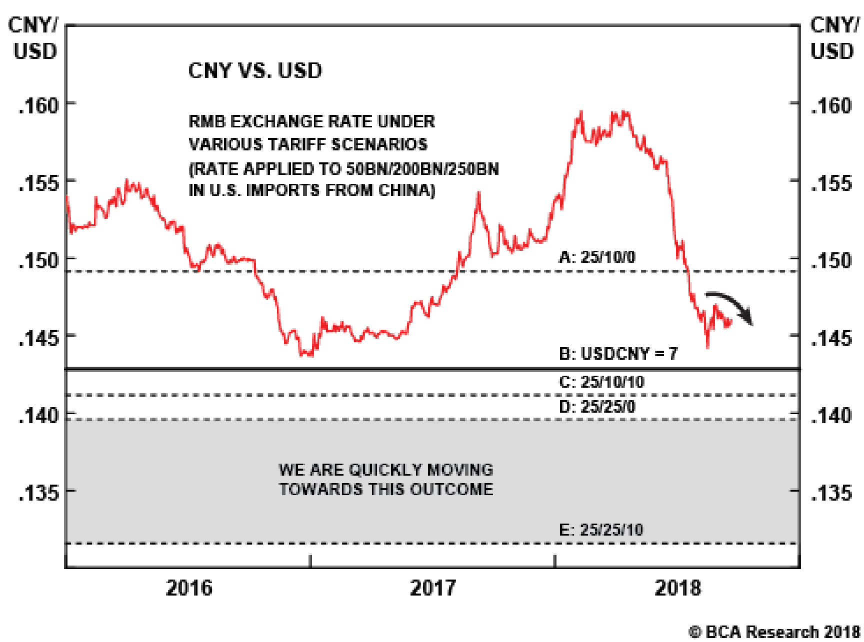
Over the next couple of quarters our BCA strategists lean toward the Fed's view of emphasizing the strong U.S. economic outlook amid limited slack, which should exert upward pressure on prices and keep the Fed in hiking mode. Further pressuring interest payments on public debt.

Perhaps the Fed and the market are looking at if Fed policy is accommodative or restrictive for different economies. Global growth is slowing and global risks rising. Yet Vice-Chair Clarida's recent speech did not include a single mention of "China," "trade," "global," or "risk", beyond saying the risk outlook has improved.

When will the Fed begin to show concern about macro conditions abroad? Clarida's speech confirms the BCA view that the Fed is not near this point of acknowledgement and therefore more dollar strength and higher U.S. Treasury yields are both likely over the short term which may continue to cause a head wind for a meaningful advance of the gold price over the short term. However, gold has risen together with a rising dollar and nominal interest rate differentials during a late cycle economy with building inflation pressures and more volatile general equity markets, which together often result in lower real yields, on several occasions.

U.S.-China Trade War: Downside Risk for The Chinese Yuan (RMB/CNY) & Potential Effects on G&PM:

The latest round of U.S. tariffs on China could be followed by additional protectionist measures in the coming months. This would weigh on the RMB/CNY.



Over the quarter, the Trump administration announced its decision on the second round of tariffs on $200 billion of Chinese imports; it decided that the tariff rate on the imports will initially start at 10% but would rise to 25% by the end of the year. The administration also threatened to immediately seek public consultation on tariffs for all remaining imports from China if the country retaliates against the second round.

With news reports having suggested that China would reject new trade talks if the already-passed second round moves forward, the prospect of a breakthrough in negotiations seems dim, at best.

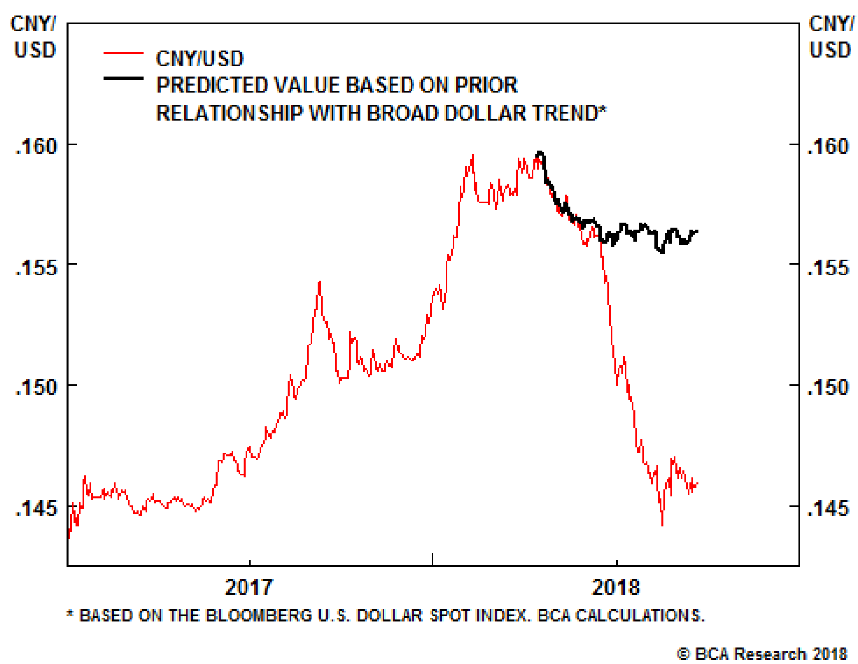
In recent months, as trade tensions gradually escalated, the percent depreciation in the USD/RMB exchange rate seems to have closely followed the magnitude of the proposed tariffs as a percent of Chinese exports to the U.S.

Extending the recent moves in the RMB based on its relationship with previous rounds of tariffs, the chart above shows that the RMB could come under considerable downward pressure in the coming months. A material depreciation would be possible even if investors only assume a 10% rate on the third round of tariffs, which could be applied to the remainder of Chinese imports to the U.S.

A break above the psychologically-important level of 7 for USD/RMB appears likely barring a major intervention from the PBoC, suggesting that a meaningful uptick in Chinese financial market volatility is forthcoming. However, Trump will not want to see the RMB depreciate to a level above 6.9 RMB to 1 USD as this was the level when he took office and he will not want to be seen as allowing the Chinese to devalue their currency on his watch.

Would Chinese policymakers intervene to support a falling RMB?

If U.S. - China trade tensions expand, and the yuan falls, Chinese policymakers are unlikely to actively support the RMB. This could be bad news for global markets.



At a World Economic Forum, Premier Li Keqiang (the second most powerful Chinese official after President Xi Jingping) argued that China would not manipulate its currency and highlighted that China would stick to "market-oriented foreign exchange reform". This could be code for: China will allow RMB depreciation to unfold if they deem it to be appropriate given growth and policy risks facing the country.

In a scenario of RMB weakness, policymakers in Beijing will have the ability to claim that any currency depreciation stems from market pressures. This would be accurate; however, it also means that the PBoC would not intervene to support the currency (buy buying Treasuries, for instance).

Given the potential for more U.S. tariffs on Chinese imports in the coming months, the RMB will likely face downward pressure (i.e. USD/RMB higher). But what does this mean for the global macro outlook?

Our BCA Global Investment Strategy team recently argued that RMB depreciation could paradoxically be bad for global markets, despite perceptions that it might produce a tailwind for the Chinese economy.

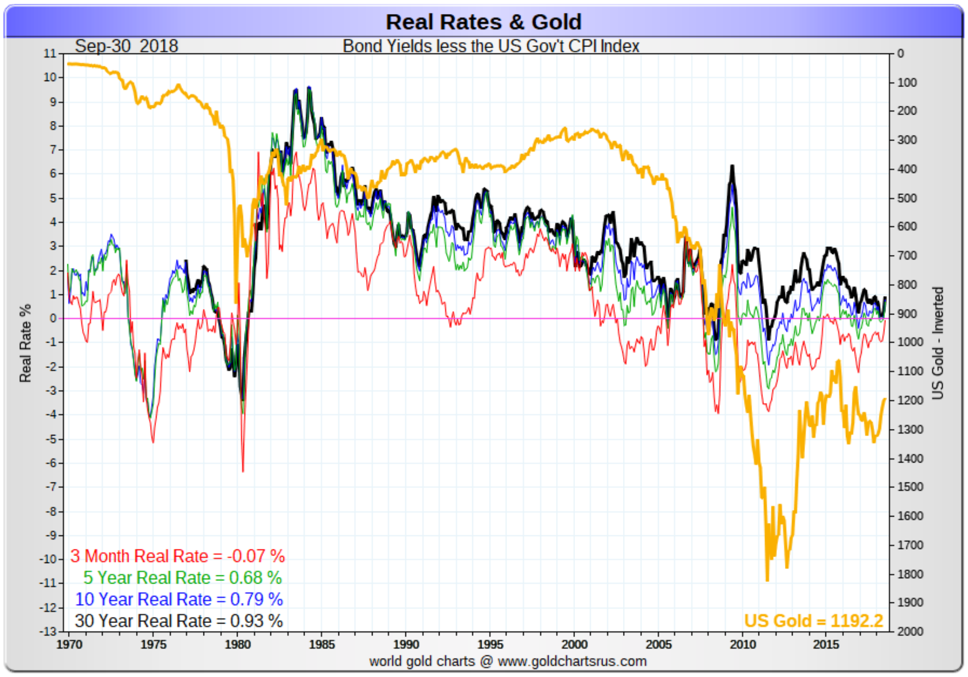
Using August 2015 as a roadmap, when China tried to devalue the RMB it sent global markets into a tizzy, and devaluation triggered significant capital outflows. Yes, the capital account is much more closed today than in 2015, but pressures could build to a point where holes emerge. This would force the PBoC to respond, and it would also make the outlook for the RMB and China much more complicated, and likely ominous, for investors.

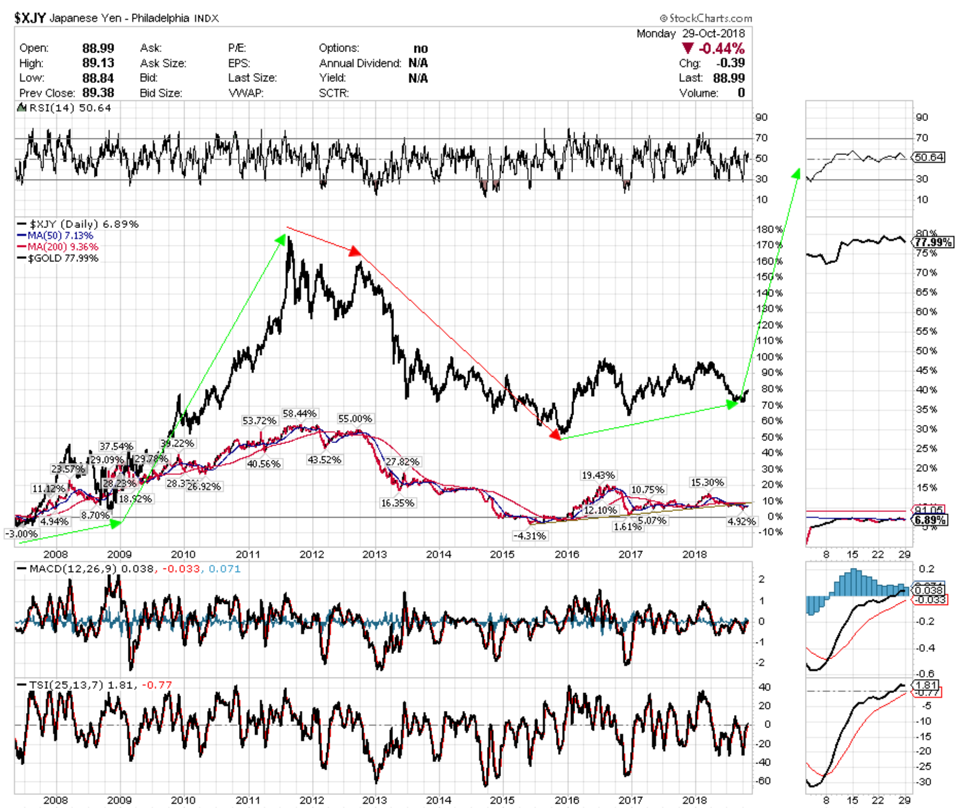
RMB depreciation would also invite more pressure from the U.S.

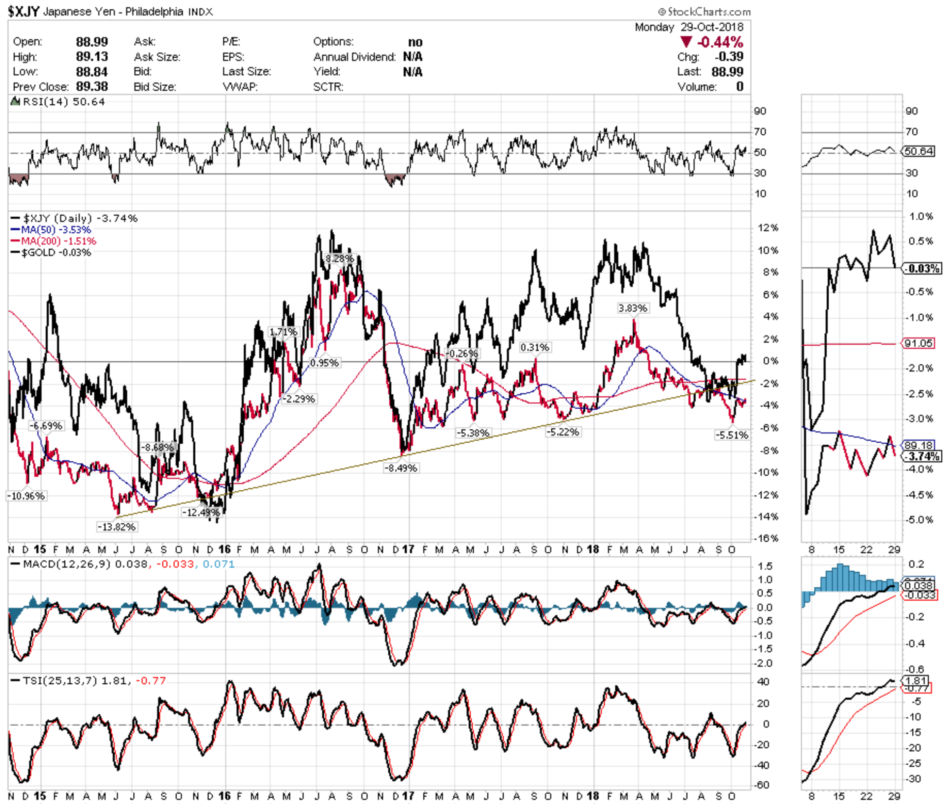
Unlike traditional stimulus in the form of infrastructure spending and faster credit growth, a currency devaluation would roil other financial markets, causing risk asset prices to plunge. Base metal prices would take it on the chin, since a weaker RMB would make it more expensive for Chinese businesses to import commodities. China now consumes close to half of the world's supply of copper, zinc, nickel, aluminum, and iron ore.

It is not really known how the gold price will react to a rapidly depreciating RMB/CNY as financial turmoil in risk markets might prove to be a boon for the gold price not just in CNY terms but also in USD terms. However, some respected analysts believe the USD gold price will go down with a depreciating CNY which make sense if China the dominate gold buyer keeps its buying of gold at a fixed CNY value and no other buyers of gold increase their buying due to a significant CNY devaluation. So, if the Chinese buy gold using fixed CNY amounts (i.e. as appose to fixed USD amounts) and the CNY depreciates than China will be buying fewer gold ounces (i.e. all else being equal) reducing demand and thus the USD gold price (i.e. again, all else being equal). As an example, from July 11th, 2018 to October 25th, 2018 the gold price in CNY increase by + 3.05% (i.e. 8299 to 8552.10) while the Yuan depreciated by - 4.14% (i.e. 6.6720 to 6.9482) and the USD gold price declined by - 1.06% (i.e. $1,244 to $1,230.84).

However, we are not certain all else will be equal in such a scenario, the Yuan is not the only factor driving the gold price there are many other factors (e.g. when inflation goes up and nominal interest rates are somewhat capped due to massive debt imbalances then real interest rates go down and gold goes up (see charte below and the relationship between Real Rates & Gold -inverted), when the Yen gets stronger gold often goes up (see charts below), when global risk goes off often gold goes up, when geopolitics flar up often gold goes up, etc.). For instance, the Yuan depreciated relative to the USD and the USD gold price went up from August 29th, 2018 to October 25th, 2018 (i.e. the gold price gained + 2.16% from $1204 to $1230 and the Yuan depreciated – 1.87% from 6.8213 to 6.9490).


Real Rates & Gold
Sep-30 2018
Bond Yields less the US Gov't CPI Index
Real Rate %
US Gold - Inverted
3 Month Real Rate = -0.07 %
5 Year Real Rate = 0.68 %
10 Year Real Rate = 0.79 %
30 Year Real Rate = 0.93 %
US Gold = 1192.2
world gold charts @ www.goldchartsrus.com


$XJY Japanese Yen - Philadelphia INDX
© StockCharts.com
Monday 29-Oct-2018
Open: 88.99
High: 89.13
Low: 88.84
Prev Close: 89.38
▼ -0.44%
Chg: -0.39
Last: 88.99
Volume: 0
RSI(14) 50.64
$XJY (Daily) 6.89%
MA(50) 7.13%
MA(200) 9.36%
$GOLD 77.99%
MACD(12,26,9) 0.038, -0.033, 0.071
TSI(25,13,7) 1.81, -0.77



Bottom line: The potential for more U.S. tariffs on Chinese imports in the coming months will produce downside risk for the RMB/CNY. Depreciation of the Yuan could then spell trouble for global markets, particularly EM assets and commodity-exporting countries. We suspect that the China-U.S. trade war / currency war will continue to escalate and will be around for a long time - as after all - it is all about world supremacy. China had it for a thousand years, then lost it for the past 100 years, and wants it back, badly. Now the U.S. is starting to engage in this war, that has been going on for some time without the U.S. fighting back. However, the U.S. is realizing that it can no longer assume that an ever-growing China is in the best interest of the U.S. The U.S. no longer wants to leave the flood gates open for the Chinese to potentially "take over" one day... Please refer to the following two attached transcripts of excellent interviews with experts on China and the developing trade and currency wars with the U.S.:

1) Real Vision – Graham Allison - Dance of Superpowers Escaping 'Thucydides's Trap' - Transcript 18-10-05; and
2) Real Vision - Kyle Bass - on China's Moment of Truth - Transcript 18-10-19.

It is our view that if you get the call on the China-U.S. trade war / currency war right then you get the markets right.

G&PM in 2018/2019 vs 2008:

WHAT ABOUT GOLD AND G&PM INVESTMENTS INITIALLY SELLING OFF IN A FULL-FLEDGED CREDIT PANIC AND STOCK MARKET CRASH AS IT DID IN 2008?

INTAC is unsure whether the first move for gold in a full-fledged credit panic will be up or down. We believe those whom would be squeezed in a full-fledged credit panic most likely no longer own any G&PM investments and thus they would not be able to sell what they don't own to raise liquidity. In fact, we have been saying since 2009 that the next Global Financial Crises ("**GFC**") (e.g. maybe in 2018 or 2019) might play out very differently than the GFC of 2008 in that US Treasuries may not be the primary beneficiary during the crash but rather G&PM might be.

A common institutional apprehension over gold's portfolio merits is fear that gold and gold equities will prove vulnerable to any sharp downdraft in U.S. asset markets, so why bother with gold in the first place? This logic no doubt stems from "what happened last" reasoning tied to the 2008 market experience. In the fall of 2008, gold succumbed to broad financial asset deflation. We would suggest market conditions for gold in 2018 bear little resemblance to those in play back in 2008. Commodities were perhaps the hottest hedge fund theme on the planet during 2008, exceeded only by ubiquitous shorts in U.S. financials. Complicating matters, the hedge fund community was wildly leveraged on London-based (non-Reg-T) "total return swap" platforms, routinely extending 4-to-1 credit for standard portfolios. Most forget that on September 19, 2008, the SEC stunned the world in enacting a "temporary emergency action to prohibit short selling in [U.S.] financial companies to protect the integrity and quality of the securities market and strengthen investor confidence." Translation being, hedge funds which were correctly, and massively short U.S. financials were forced to cover these shorts and, by way of risk management, liquidate offsetting long positions across the commodity spectrum.

Given the brutal and sustained collapse of broad commodities since 2014, we would suggest commodity positioning in 2018 is virtually opposite that of 2008. Further, when proverbial "detritus" next hits the monetary "fan," the U.S. dollar is unlikely to enjoy anywhere near the safe harbor bid it commanded in 2008, when the Fed's balance sheet measured a svelte $928 billion, or just 22% of its currently bloated profile.

Interestingly, during the 1377-point, 5.2% decline of the Dow Jones Industrial Average on October 10 and 11, spot gold rose 2.9%. Even more impressively, the venerable Philadelphia Stock Exchange Gold & Silver Index (**XAU**) soared +7.84% over the two-day span. Suffice it to say, these divergent performances may herald far different market conditions for precious metals in a deeper sell off / crash than those existing in 2008.

However, no one knows for sure exactly how things will play out during a much deeper sell off / crash. Exactly who will be squeezed, and do they own any G&PM investments. One thing is for certain... as the old saying goes... when the bank clerks call... the investor sells not only what he wants to sell... but what he can sell... including his grandmother's neckless.

So, if G&PM investments sell off initially in a full-fledged credit panic, it will likely be sharp, swift, and followed by an acceleration to the upside. Therefore, INTAC has been evaluating hedging strategies and relative value strategies that if we are given the opportunity to enter, as planned, then these should provide good protection to our G&PM investments in the event of a stock market crash that causes the baby to be thrown out with the bath water (i.e. where G&PM are the baby and general equities are the bath water...).

Hedging the Potential Short-Term Risks to G&PM from a Market Crash in General Equities:

We discussed this in our 2018-Q1 investment commentary, on April 28th, 2018. Specifically, that we were considering hedging our G&PM holdings, in the event of these holdings initially getting dragged down in a stock market crash later in 2018, by potentially shorting select equities indices/ETF's later in 2018 (or possibly into 2019).

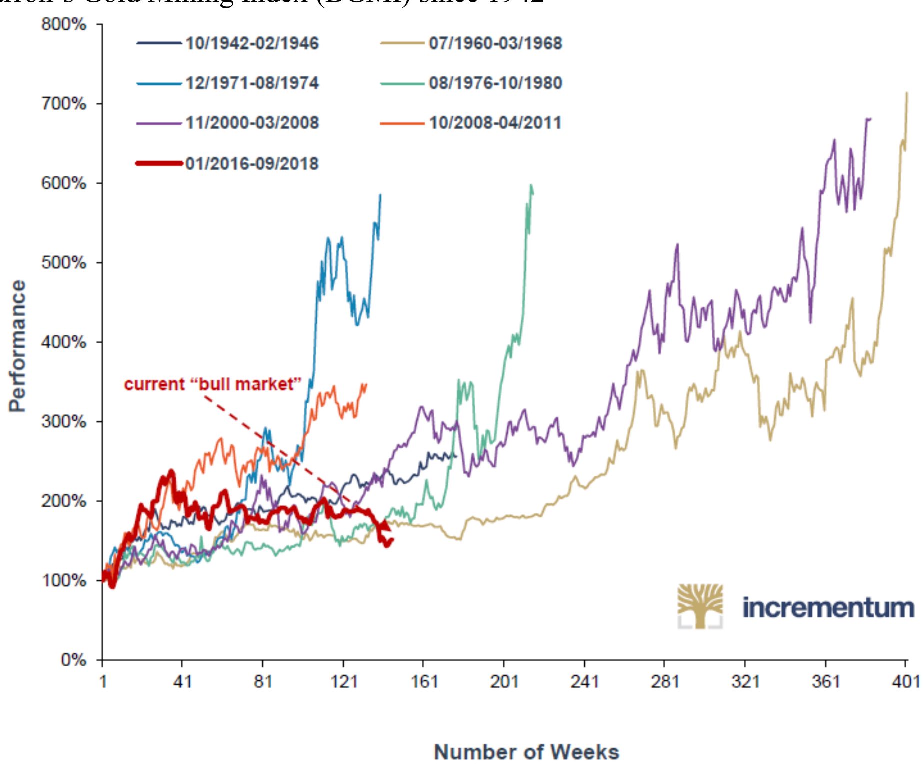
The levels for putting these shorts on were not quite reached prior to the recent sell off. We are still looking to short select overvalued and fundamentally exposed sectors of the general equities markets to hedge a temporary drawdown in G&PM holdings, if the baby is initially thrown out with the bath water, in the event of a crashing stock market. The overvalued and fundamentally exposed sectors of the general equities markets have been selected and our selling short entry levels determined. We also have several key dates for consideration of an averaging / timing strategy for entering these shorts. Levels and/or timing for implementing these short strategies will be key.

Based on Historical Precedent the Bulk of G&PM Rally is Still to Come & What's Next for Gold:

BULL MARKETS MINING SHARES: DURATION AND PERFORMANCE ARE WAY BELOW AVERAGE.

The chart below shows all bull markets in the Barron's Gold Mining Index (**BGMI**) since 1942. One can see that the current uptrend is still relatively short and weak compared to its predecessors. Should we be at the beginning of a pronounced uptrend in precious metals stocks – which we assume to be the case – there remains plenty of upside potential. Moreover, the chart shows that every bull market in the sector ended in a parabolic upward spike, which lasted nine months on average and resulted in prices doubling at a minimum.

Barron's Gold Mining Index (BGMI) since 1942



Sources: Nowandfutures, TheDailyGold.com, Barrons, Incrementum AG

WHAT'S NEXT FOR GOLD?

Alongside the case for gold as a hedge against rising financial sector risk and the increasingly uncertain economic and geopolitical landscape, the gold sector appears poised to benefit from a number of increasingly supportive macroeconomic and policy factors. Having fallen to the lower-end of its recent trading range over the summer, gold appears positioned for a period of outperformance, albeit there may be a little more short-term whipsaw first, while gold equities have reached extreme undervaluation relative to broader equity markets. A range of potential catalysts exists for a re-rating of the gold sector.

Firstly, the outlook for monetary policy is supportive of higher gold prices, with real interests expected to remain low in the medium-term. Gold has performed well despite the rising interest rate environment in the US, as the gradual pace of hikes coupled with rising inflation have ensured real rates remain low. Yet fears over the negative impact of tighter monetary policy on growth have been a driving force behind "Red October's" market sell-off. Higher rates present one more threat to economic growth, which already appears likely to flag next year as the effects of Trump's tax cuts wane and the US-China "trade war" impacts businesses. While the Fed remains committed to its rate hike program, it is likely that pressure to maintain an "accommodative" stance will increase. A slower pace of rate hikes, or a pause, would ensure real rates remain low and eventually turn back down (i.e. as inflation continues to rise while growth and nominal interest rates plateau and turn back down) becoming a highly supportive environment for gold.

A second significant factor for gold is that slower economic growth in the US is expected at a time when inflationary pressures are feeding through into consumer prices. The labor market is tight, energy prices are rising, and the impact of escalating trade tensions is likely highly inflationary. The potential fallout from the trade war is varied and uncertain, however higher consumer prices will likely be a result of tariffs on imported consumer goods and components used for domestic industry. Gold has historically performed well during periods of rising inflation expectations, something which has been lacking over the past decade but appears to now be building (i.e. as discussed above in detail).

A further supportive macroeconomic factor for gold is rapid debt growth, public and private, and deficit expansion, which has become an increasingly worrying economic theme for investors and policymakers globally. In Europe, the Italian government's ongoing refusal to back down over its breach of EU deficit limits highlights these economic and political risks. Rising Italian bond yields threaten to worsen the country's economic situation, while failure to adhere to ECB restrictions undermines confidence in the central bank's ability to maintain stability among the Eurozone's member states. The rise of populist political parties in Europe suggests that quarrels over deficit control will remain a potentially destabilizing factor, as governments attempt to stoke growth. Meanwhile in the US, the budget deficit widened to a six-year high of USD 779 billion in September and appears likely to continue to expand under the Trump Administration's fiscal plans. The recent strength of the US dollar threatens to compound the impact of high debt levels, both for businesses and consumers in the US itself and for international borrowers with exposure to US dollar denominated debt. For policymakers, high levels of indebtedness heighten the risks of tightening monetary policy. In the US, the Fed's rate hike program has limited scope to increase the pace of hikes, while stoking inflation offers a chance to reduce the burden of debt somewhat.

Of course, should growth remain strong in the US and financial markets stable, we identify a different but still largely favorable outlook for the gold sector. Gold tends to thrive during periods of growth due to the wealth effect on demand for physical bars, coins and jewelry, while the inflationary pressures generated by growth are supportive of a rising gold price.

Is the next downturn near?

A decade after the Global Financial Crisis ("**GFC**") began, investors have enjoyed a long spell of strong equity market returns and stable economic recovery in developed markets, propped up by pro-growth government policies and the promotion of easy money. Today, as investors consider the outlook for the end of the year and the start of 2019, the economic landscape appears to be shifting and the risks rising. We believe the frequency of market corrections such has been seen in recent weeks will likely increase, as fears grow over slowing growth, tighter monetary conditions, rising equity market volatility and geopolitical tension.

Policymakers are likely to find themselves with less ammunition to deal with the next major downturn. Selected governments have room for lower interest rates, pushing real rates back to historic lows and potentially to negative levels, however any policy response to a new crisis will likely have a heavy focus on fiscal stimulus and increased government spending, at the expense of deficit and debt control.

The timing and scale of the next major downturn are unknown; however, the events of recent weeks have reinforced our view that gold is a proven hedge against systemic risk as well as an effective portfolio diversifier. An allocation to gold and gold equities offers an opportunity to protect against downside risks to equity markets, while participating in the recovery of an undervalued sector with an increasingly supportive economic backdrop.

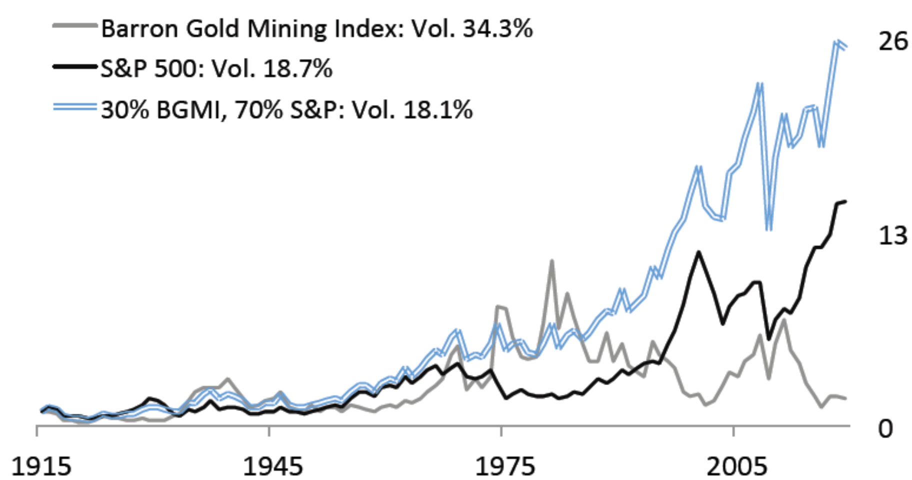
The Big Question is can G&PM Investors Hang in for the Inevitable Massive Move Up:

In the movie The Big Short, one of the brave fund managers who bet on the demise of housing, in 2005, Mike Burry began buying the insurance AIG was selling, i.e., taking anti-martingale risk: Burry was likely to lose money each month as he paid the premium but had a small chance of massive gains. Because his analysis of the subprime market was correct, the likelihood of massive gains was in fact quite high. But, until housing crashed, his investors were furious because he was producing negative alpha, the opposite of what a fund manager is supposed to do. Luckily for them, they couldn’t withdraw their money because of contractually agreed lockup periods, though some did threaten to sue.

Gold mining investors are currently playing the part of Burry. Gold mining companies and the gold price have been beaten down, over - and over - and over again, by the FED and/or other central banks and/or their member banks and/or the Chinees... since 2010-YE and following the GFC in 2008 and the implementation of managed markets (i.e. rigged markets), that is almost 8 & 7 years ago for gold mining shares and gold respectively.

The past eight years of beatings on G&PM sector has been so bad that since 1915, the Barrons Gold Mining Index has underperformed the S&P 500 by 88%.

Yet the assets gold miners hold become suddenly, incredibly valuable at the nadirs of credit cycles, making an annually rebalanced portfolio comprised of 30% BGMI and 70% S&P 500 outperform the S&P 500 alone by 68% since 1915 and with reduced volatility.



The BGMI is comprised of the large-capitalized gold miners. The junior gold mining companies have been beaten down even more than the majors, which make them much more sensitive to the price of gold and, therefore, behave as even better insurance.

Also, the behavior of the juniors reveals a flaw in the Capital Asset Pricing Model ("**CAPM**"). Theoretically, it would be possible to mimic the expected performance of the junior sector by levering up an ETF of senior gold mining stocks, like the GDX. But, the GDX's peak-to-trough loss was 81% and anyone levered on that trade would have received a margin call ejecting them from the position. The high-beta junior gold stocks, by contrast, were able to go into hibernation mode and recovered as soon as the gold price did, and much more so than did the GDX in the first half of 2016.

[The Big Short (2015) - Major Investor confronts Dr. Michael Burry [HD ...]
Hold Ctrl & Clink Image or Link to Watch...

The Big Short (2015) - Dr. Michael Burry Restricts Withdrawals from ...
Hold Ctrl & Clink Image or Link to Watch...

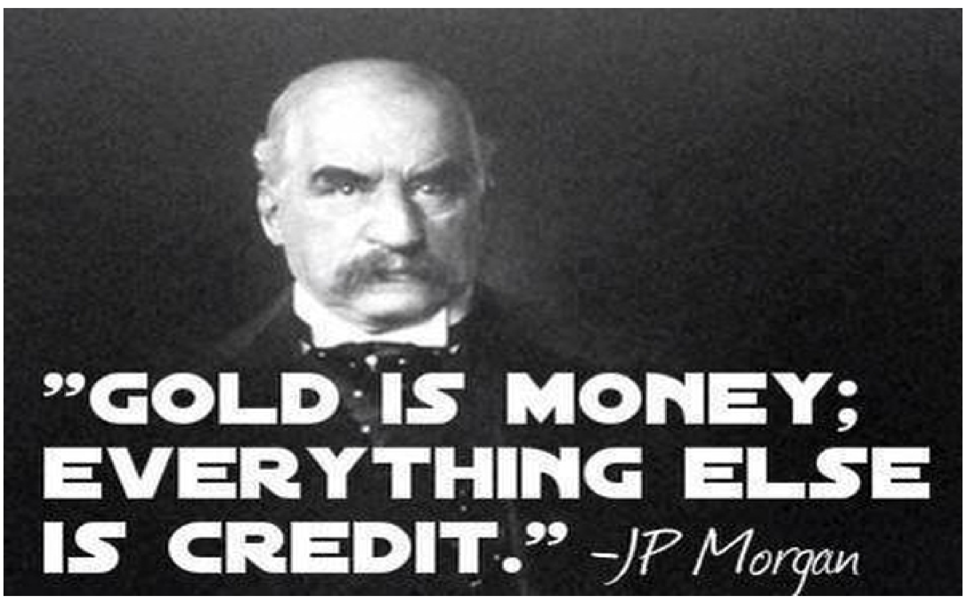
Michael Burry on who saw the housing bubble
Hold Ctrl & Clink Image or Link to Watch...

Michael Burry the 8.4 Billion Bet
Hold Ctrl & Clink Image or Link to Watch...

Long- and Short-Term G&PM Investment Considerations:

If this is a rigged market, and it is, in many respects, and across virtually all assets, then one must figure out what the "powers-that-be" are trying to do and follow them. Easier said than done but once you put the pieces together, the picture becomes clearer. One potential scenario for the GDSR (i.e. the end of the Global Debt Supercycle) is as follows:

- The ultimate-goal is a New World Order.
- This requires the end of the dollar as the Global Reserve Currency ("**GRC**") and the end of U.S. hegemony in the world.
- This means that the U.S. and global markets collapse, and the US is blamed triggering a global monetary reset, end of $ as GRC, but probably not until 2020/21.
- We are about to get a crash in stocks in the U.S. due to several factors including contagion.
- Fed will do a 180 in response to prop up stocks again, keep bond yields down, and sacrifice the dollar in the process.
- Stagflation will become rampant in the U.S.
- Trump and Fed will make it worse through fiscal spending, QE, ZIRP/NIRP, and even helicopter money to get people spending again.
- Then inflation takes off. It gets to such a point where more QE does not do anything for the economy and only makes inflation go higher, dollar lower – cure becomes the poison rendering the Fed and central banks powerless.
- Game over – complete collapse. Enter the IMF and the BIS with the SDR, significantly backed by gold, to come to the rescue. Presto, you've got your New World Order...



Obviously, the timing on this is the hardest part... and policy makers may be able to put off the GDSR in the next GFC for one more cycle (though probably not...) or the GDSR may turn out differently than described above as this is only one potential scenario for the end of the Global Debt Supercycle. However, in the next GFC, even if global policy makers are able to put off the GDSR through further unorthodox policy responses (e.g. by capping interest rates, supporting the stock market, buying all bad debt and other mal-investments, instituting a basic income payment for all low-income persons (i.e. working or not), and/or dropping money from helicopters if need be (i.e. as "Helicopter Ben" famously suggested)) and/or if the GDSR turns out differently, any and all such outcomes that we can envisage and analyze result in significant fiat currency devaluations relative to gold.

During discussions with Janet Yellen (i.e. former Chairperson of the United States Federal Reserve) she let it slip, to be fair it was when she was a little flustered in regards to attacks on the Fed and its massive unorthodox policy responses (i.e. since Alan Greenspan was first appointed FEDERAL RESERVE CHAIRMAN) and she went a little pink in the face at the time, when she said that she could not believe that the debt super cycle has managed to go on this long without a serious revolt by US Treasury holders (e.g. China, Japan, Sadia Arabia, Russia (however Russia is now out), etc.). Janet agreed with me that the United States Debt path is unsustainable and that the U.S. has been and is still taking on too much debt, and that this is a serious problem that will only worsen as more baby boomers retire and spending on retirement and health care programs grow.

Janet Yellen also indicated that the increased balance sheet run down starting in October will amount to a 0.75% to 1% effective increase in the Fed Funds rate over time. This combined with the next 0.25% hike in the Fed Funds rate on December 19th and a potential oil price shock over the next 3 to 6 months (i.e. which has a high probability of the Brent Crude Oil price rising towards $100 - according to BCA) provides the necessary catalysts to trigger a major correct in the overvalued U.S. stock markets and likely everything else (i.e. except USD cash, JPY cash, & gold). The initial signs of this have already begun to appear and it may not be long before a full blown GFC erupts.

Incidentally, I surmised that the Fed may initially support such a stock market sell off... and blame it on the Trump Administrations protectionist policies... as a correction in the stock market will contain the wealth effect before it gets too far advanced and eventually causes bigger problems for the FED further up the road. Janet responded indicating that she was concerned both about the role of the U.S. economy and the China-U.S. Trade War.

Trump, the Fed, and global policy makers will make it worse through fiscal stimulus and increased government spending, at the expense of deficit and debt control, together with monetary stimulus QE, ZIRP/NIRP, and even helicopter money to get people spending again. All to prop up stocks again, keep bond yields down, and sacrifice the dollar to avert a depression. Policy makers ***may*** be able to kick the can down the road one more time and put off the enviable GDSR but in any event such measures would be extremely bullish for gold. It is very likely following the next GFC policy maker unorthodox responses (i.e. both fiscal and monetary) will result in inflation taking off and getting to such a point where more QE does not do anything for the economy and only makes inflation go higher, dollar lower and the cure becomes the poison rendering the Fed, other central banks, and fiscal policy makers globally powerless.

However, the short to medium term can play out differently than the long term as the powers-that-be (e.g. China) continue positioning long and in size into the real part of the G&PM sector (e.g. buying and taking possession of physical gold and silver bullion, buying real gold and silver mines, buying real gold and silver mining companies and taking them over, and buying gold and silver mining shares of companies based in indebted countries while encouraging their governments to hold back permits etc. while negotiating debt financing options with such governments while also taking over key strategic assets (i.e. in these countries) including large gold and silver mines) while shorting the paper side of the G&PM sector. There is also the possibility that gold may have another sell off over the coming month(s). For example, say the Chinese President Xi Jingping does a one-time currency devaluation. Assume the Chinese Yuan (CNY) drifts up to just under the important level of 7 CNY to 1 USD, which it's currently doing (i.e. before the 2nd truncation of the Chinese tariffs is due to rise from 10% to 25%), and assume the trade negotiations go nowhere... and the tariffs rise from 10% to 25% as planned (i.e. on the second truncation of select Chinese imports into the U.S.). Then Trump proceeds to put 10% tariffs on all remaining Chinese imports into the U.S. Then it is likely the market (i.e. the Chinese "allowing the market") will devalue the

Yuan to 7.7 or 8 or even 8.2777 CNY to 1 USD (i.e. 8.2777 is where the CNY was fixed for 10 years from May 1995 to May 2015) and thus from just below 7 this would equate to a 10% to 20% further devaluation of the Chinese Yuan and if evaluated from the longer-term starting base of around 6.15 CNY to 1 USD to the possible new fix of 8.2777 (i.e. especially if all tariffs go to 25%) than this would imply a total devaluation of the Chinese Yuan to the U.S. Dollar of about 35% (i.e. exactly what the smart Russians and Kyle Bass have been and are positioned for)!

The best way for the Chinese to do this would be a quick (i.e. all at once over-night) devaluation as this one and done approach would effectively prevent capital flight and even encourage capital repatriation (i.e. from USD and/or CAD and/or AUD and/or NZD holdings back into CNY for a nice FX gain potentially as high as 35%).

Mark Faber and I discussed this possibility at length as a real risk consideration for all markets.

Chinese Sovereign Wealth funds, Ultra HNW Chinese Investors, etc. may front run this move by selling their overvalued equities, bonds, and real estate in these markets (e.g. US, CND, AUD, and NZD) and buy gold and then repatriate the capital to China as gold, then following the CNY devaluation convert the proceeds into the devalued CNY for a nice FX gain and then buy heavily into beaten down Chinese equities and/or invest in other Chinese assets, or remain in gold, all within their own country where Chinese investors will be safer in terms of investor rights and protections as the U.S.–China trade war and currency war escalates further over time.

What was initially an uncertain rise in U.S.-China trade tension has now become much more significant in both the depth and breadth of the economic battle between these two nations.

Since President Trump went forward with his second round of tariffs - 10% on $200 billion worth of imports, to become 25% on January 1, 2019 - a series of negative events have taken place in U.S.-China relations. The culmination of recent strains in the relationship came during the USS Decatur incident on September 30 – when a U.S. Navy Destroyer came 45-yards away from colliding with a Chinese military vessel.

It is not surprising that this year's trade tensions came close to exploding in the South China Sea. It is the premier location of U.S.-China strategic friction. It is also a hub for international trade, a vital supply route for all major Asian economies, and the primary focus of China's attempt to rewrite global rules.

The takeaway is that, far from capitulating to the Trump administration's trade demands, China is taking a more aggressive stance - and it is doing so outside of the realm of economics.

Bottom Line:

INTAC, the BCA geopolitical strategists, and several other smart money investors think all investors should take note of recent U.S.-China activity. U.S.-China trade tensions are spilling outside of economic relations into the political and military domains. The South China Sea remains a hot zone that could be the setting of a geopolitical incident as tensions mount. In the meantime, the U.S. military is about to flex its muscles through a show of force.

The outlook for global financial markets has shifted markedly in recent weeks, as fears grow over the negative impact of rising U.S. interest rates, the withdrawal of monetary stimulus in the U.S. and Europe and the "trade war" between the U.S. and China, on economic growth, trade and earnings. Gold has rebounded in recent weeks following a difficult six months, outperforming U.S. treasuries and reinforcing its status as an effective hedge against the growing systemic risks in the financial sectors and geopolitics.

INTAC Chart Review:

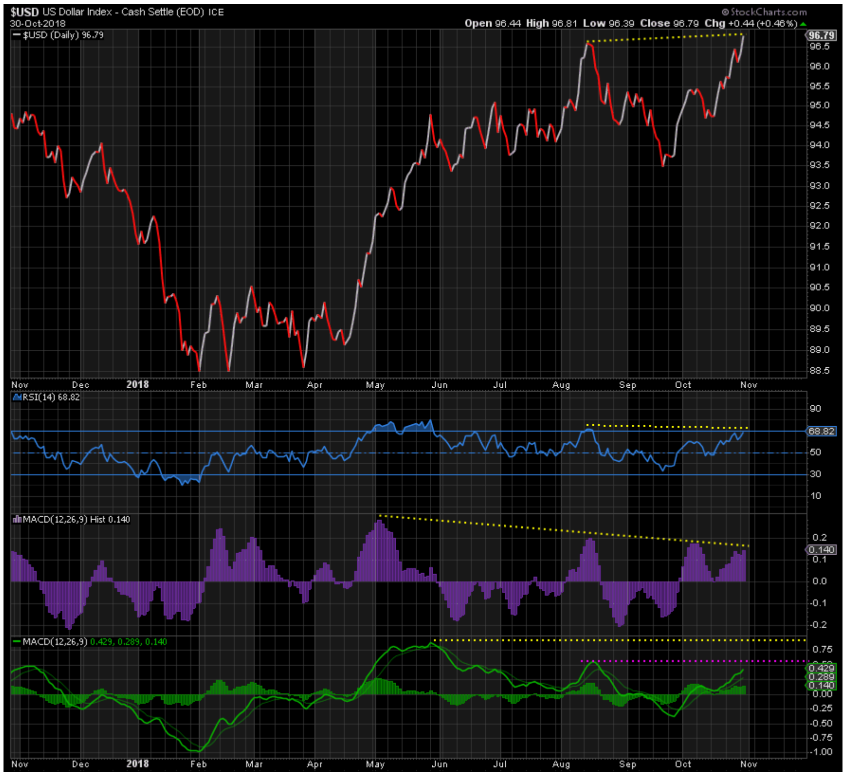
Long Term Forecast for the USD/DXY:

As we forecast in early 2017, the US Dollar stated a bear market / multiyear decline (e.g. 7 to 8 years) at the beginning of 2017 and the recent strength in the USD in 2018 is a counter trend rally to alleviate oversold conditions that will likely complete a crown topping process as the China-U.S. currency war plays out.

Short Term Forecast for the USD/DXY:

We do not believe the USD / DXY has peaked yet and we may see one or more pullbacks before it does. The USD may peak when some form of initial resolution to the current China-U.S. trade and currency war is agreed. Target for the peak is 97.64 - 98. Risk to 101.60.

INTAC Global Investments



Technicals

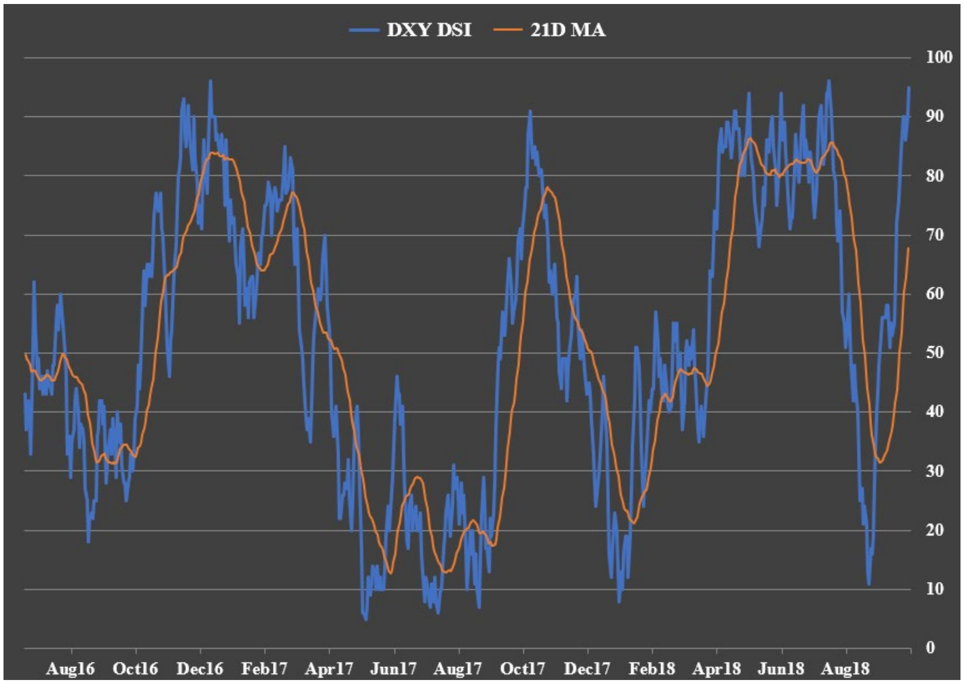
The new higher highs in the DXY are negatively divergent on both the RSI but most obviously on the MACD Histogram, which suggests an imminent pullback. However, the MACD Line could still have room to go higher, therefore so does the DXY price.

DXY is overbought. RSI at 70. It is also extreme overbullish at 95. The setup is there for a final negatively divergent higher high which means we are due a pullback shortly and likely have not seen the peak just yet but it's not far away.

Potential peaks are (all on closing basis):

- 97.64 = 61.8% of 103.29-88.50.
- 97.64 also = 150% of A where A = 93.49-95.44 and C begins at 94.71, the closing low on Oct 11.
- Further extensions are at 97.87, 98.15, or just split the difference at 98.
- 101.60 where A (88.50-96.61) = C (93.49-101.60)

Best guess is somewhere between 97.64 - 98.



Sentiment

- DXY hit 95, just 1 shy of its Aug 14th high of 96 from which it fell 11 points to 85 in just 27 days. Higher highs in price at current level of 95 DSI means DXY is negatively divergent from a sentiment perspective also. This may not last long if it continues higher tomorrow.
- The 21D MA 67.8 still has some room to climb to come close to the prior high at 85.7. We'll be looking for a level around 80 for the peak in the dollar. So, room higher yet, pullbacks aside.

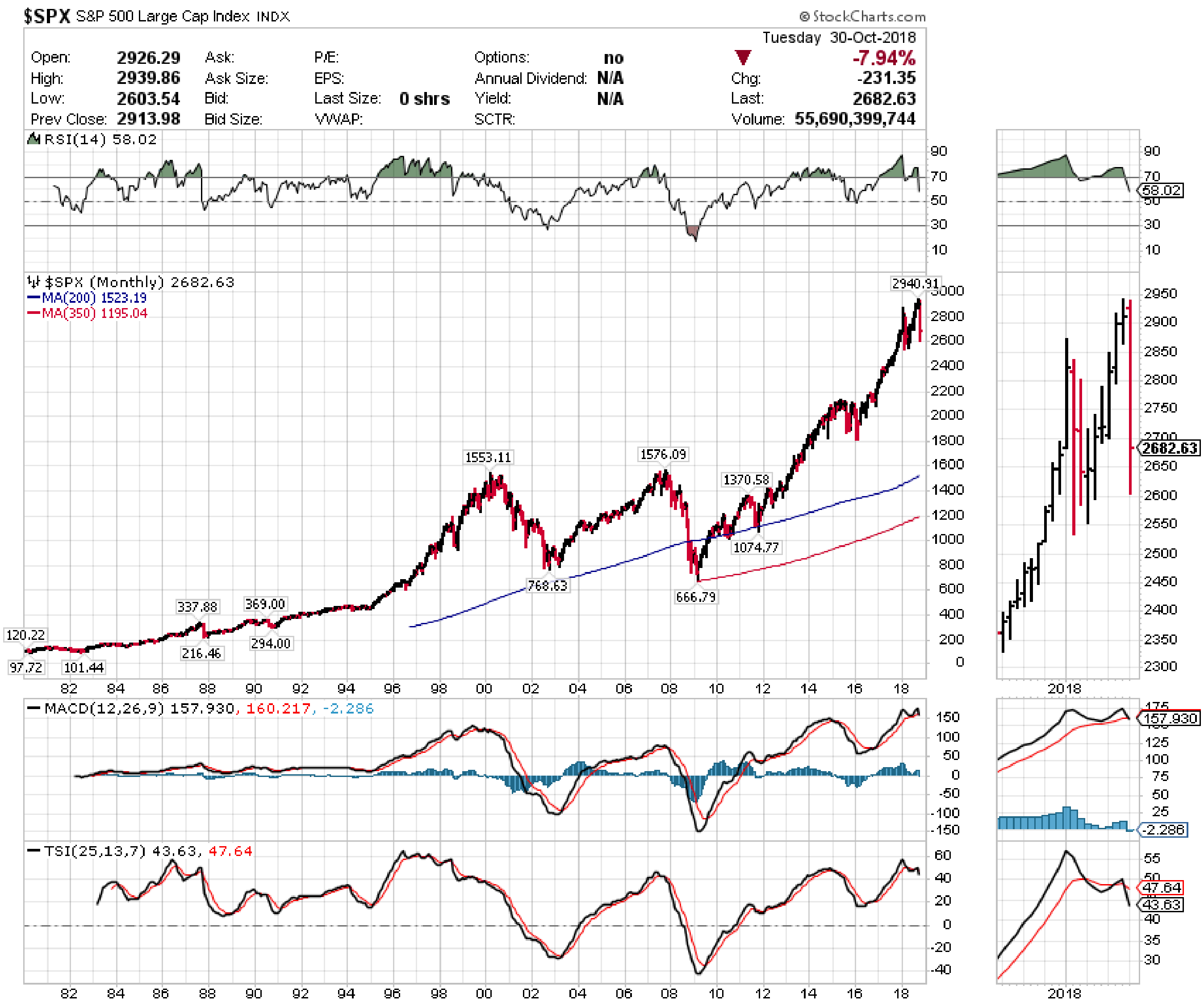
Long Term Forecast for General Equities:

As we have been predicting general equity markets have likely seen their highs for this bull market which is one of longest and strongest on record. The U.S. general equity markets were the last to break and in October 2018 the Dow was the last of the U.S. equity markets to break and all U.S. equity markets will eventually play catch "down" to the other world equity markets especially Emerging Markets which are already well into bear market territory.

The major averages are down sharply for the month. Here is where the major indexes stand for "Red October":

- The Dow is down 4.5 percent and is on pace to post its biggest monthly fall since January 2016, when it dropped 5.5 percent.
- The S&P 500 has lost 6.3 percent in October, tracking for its worst one-month performance since September 2011, when it plunged 7.2 percent.
- The Nasdaq is down 8.6 percent, heading for its largest monthly pullback since November 2008.

Equities have been under pressure this month amid renewed concern over rising interest rates and U.S.-China trade relations, as well as worries about slowing corporate earnings growth. Tech shares have also taken a big hit, adding pressure to the broader indexes.



There is a lot of downside potential in the S&P 500 to revert down to the long-term moving averages...

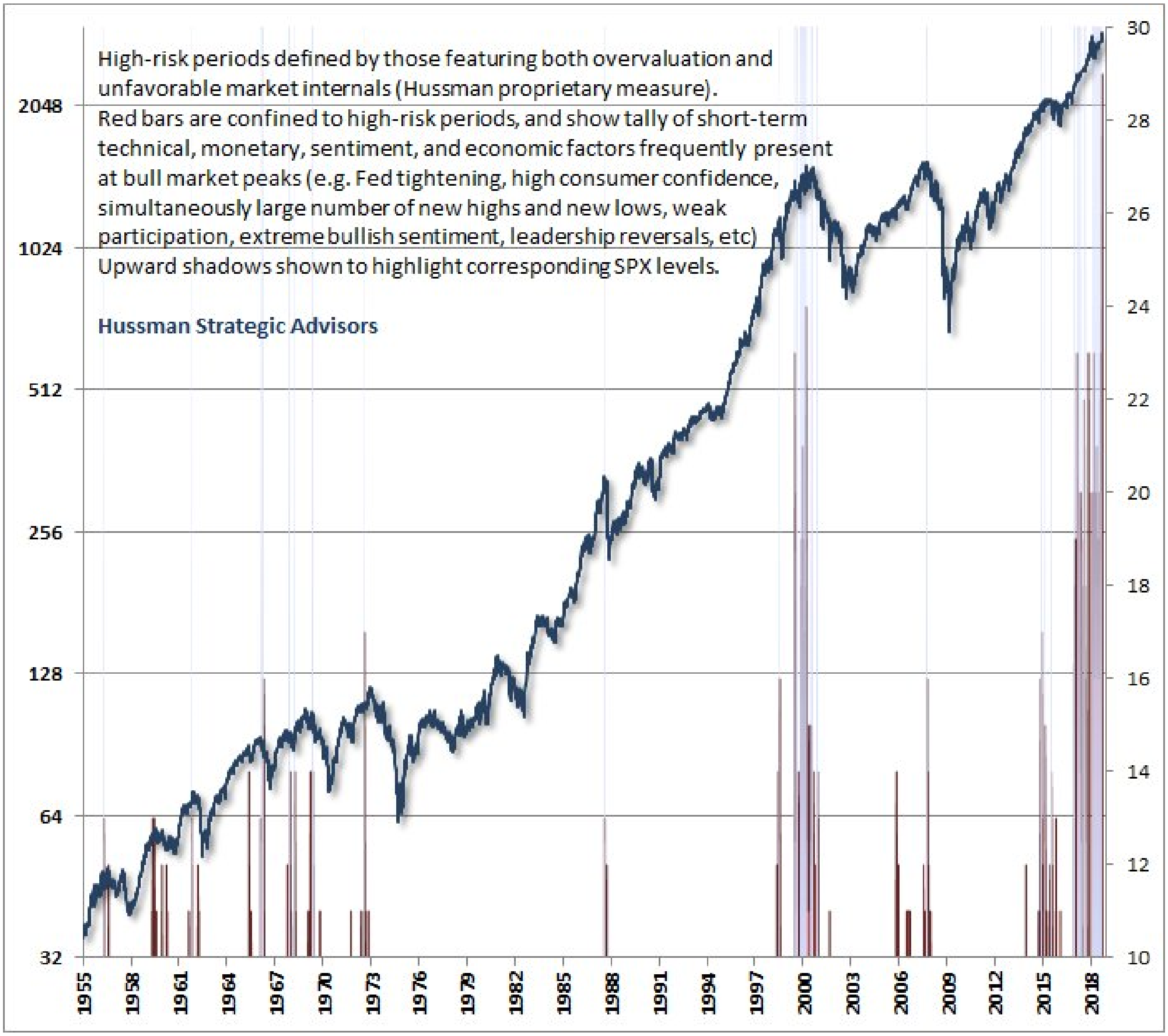
There is a lot of downside potential in the S&P 500 to complete a 50% Fibonacci ("Fib") retracement of the entire bull market since 2009. There is also the potential for this to develop into a massive bear market as in Elliot Wave terms general equities may have just completed a SUPERCYCLE top (i.e. a (5) of a {5} of a V of a (V)) and may decline much further than a normal 50% Fib retracement (e.g. general equities may retrace 61.8% or even 100% of the bull market since 2009 or possibly more if the megaphone pattern since the year 2000 plays out).

John P. Hussman

The good news - corporations have $350 billion in stock buybacks still planned this year. The bad news - that's less than 1% of the total market capitalization of U.S. stocks, which is about $40 trillion, roughly 2.7 times its historical norm as a ratio to corporate revenues.

8:16 AM - 29 Oct 2018

In the context of obscene valuations and unfavorable market internals, which we must watch with flexibility, the only time we've seen anywhere near the number of classic top features as Sep 20, 2018 was the week of March 24, 2000.



11:48 AM - 17 Oct 2018

INTAC
Global Investments

July 30, 2007

Market Internals Go Negative

John P. Hussman, Ph.D.

One of the best indications of the speculative willingness of investors is the "uniformity" of positive market action across a broad range of internals. Probably the most important aspect of last week's decline was the decisive negative shift in these measures. Since early October of last year, I have at least generally been able to say in these weekly comments that "market action is favorable on the basis of price trends and other market internals." Now, it also happens that once the market reaches overvalued, overbought and overbullish conditions, stocks have historically lagged Treasury bills, *on average*, even when those internals have been positive (a fact which kept us hedged). Still, the favorable market internals *did* tell us that investors were still willing to speculate, however abruptly that willingness might end.

Leadership has also reversed decisively. I've noted over the years that substantial market declines are often preceded by a combination of *internal dispersion*, where the market simultaneously registers a relatively large number of new highs *and* new lows among individual stocks, and a *leadership reversal*, where the statistics shift from a majority of new highs to a majority of new lows within a small number of trading sessions.

This is much like what happens when a substance goes through a "phase transition," for example, from a gas to a liquid or vice versa. Portions of the material begin to act distinctly, as if the particles are choosing between the two phases, and as the transition approaches its "critical point," you start to observe larger clusters as one phase takes precedence and the particles that have "made a choice" affect their neighbors. You also observe fast oscillations between order and disorder in the remaining particles. So a phase transition features internal dispersion followed by leadership reversal. My impression is that this analogy also extends to the market's tendency to experience increasing volatility at 5-10 minute intervals prior to major declines.

David Rosenberg

Yellen and Powell are on the same page. This bubble in leveraged loans ($1.3 trillion!) is destined to end badly..."there are a lot of firms that will go bankrupt" in the coming down-cycle.

US financial regulation + Add to myFT

Janet Yellen sounds alarm over plunging loan standards

Ex-Fed chair sees systemic risk in leveraged lending and warns against deregulation

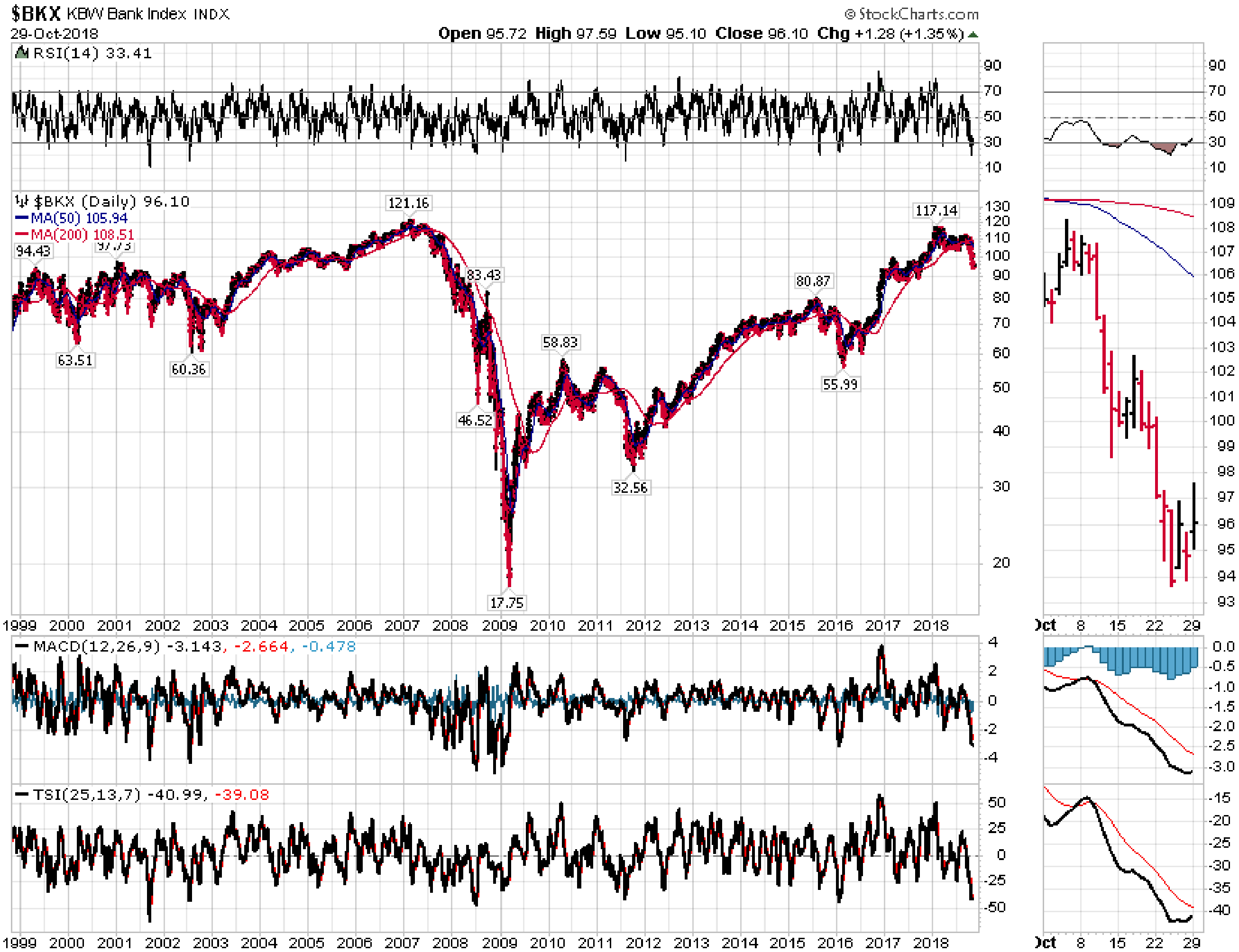
Janet Yellen: 'There are a lot of weaknesses in the system, and instead of looking to remedy those weaknesses I feel things have turned in a very deregulatory direction' © Bloomberg

Sam Fleming in Washington YESTERDAY 120

The US needs to deal with a "huge deterioration" in the standards of corporate lending instead of focusing on deregulation, Janet Yellen has warned.

5:18 AM - 26 Oct 2018

When bank stocks roll over and the 50 dma crosses below the 200 dma it is a bearish signal for the banks and the overall market which conversely is often a very bullish signal for G&PM (i.e. medium to long term).



Short Term Forecast for General Equities:

It is likely U.S. equities will rally soon to retest their declining moving averages and complete their crown and top distribution patterns. However, it is likely the All Time Highs ("**ATH**") for the broad-based U.S. equity indices have been seen and these indices will eventually catch down to the global indices as their bear markets develop. It is possible some select narrowly based indices may retest their highs or marginally go onto new ATH, however, this would likely form part of the crown and top distribution patterns in place.

S&P 500 – Keeping things simple, this is what we see going forward… positive divergences piling up while MACD Line is still at its lowest since Jan 2016. Currently oversold and over-bearish too. Thus, the S&P 500 has the potential to rally towards 2800 to 2900 which might be a good place to do some further selling and/or shorting. Nice bounce this morning (i.e. October 30th, 2018) on the S&P 500, however, the new bear trend likely doesn't get a meaningful counter trend relief rally until it rises above 2684.

From Sentiment Trader on October 30th, 2018:

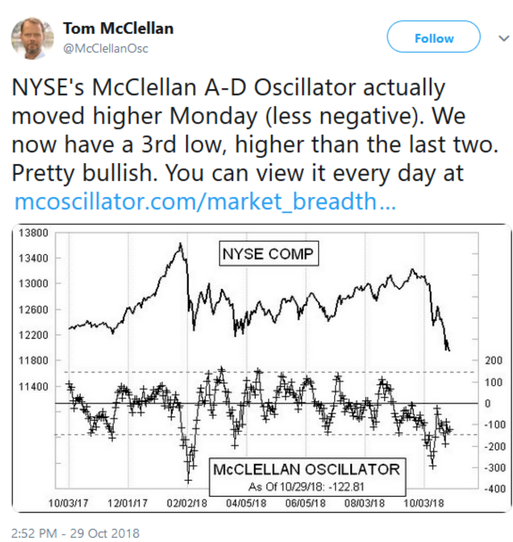
• Unshakable. Consumer Confidence rose in October despite a bad month for stocks. The S&P dropped more than 5%, and not only did Confidence hit more than a 1-year high, it's well over 100.

• Last hour collapse. Over the past 30 days, selling in the last hour of the trading day has been among the most severe in 35 years.

• Wide spread. Since 1999, there have been 31 days, besides today, when Smart Money Confidence was above 70% and Dumb Money Confidence below 20%. All 31 closed higher a month later, averaging 6.5%.

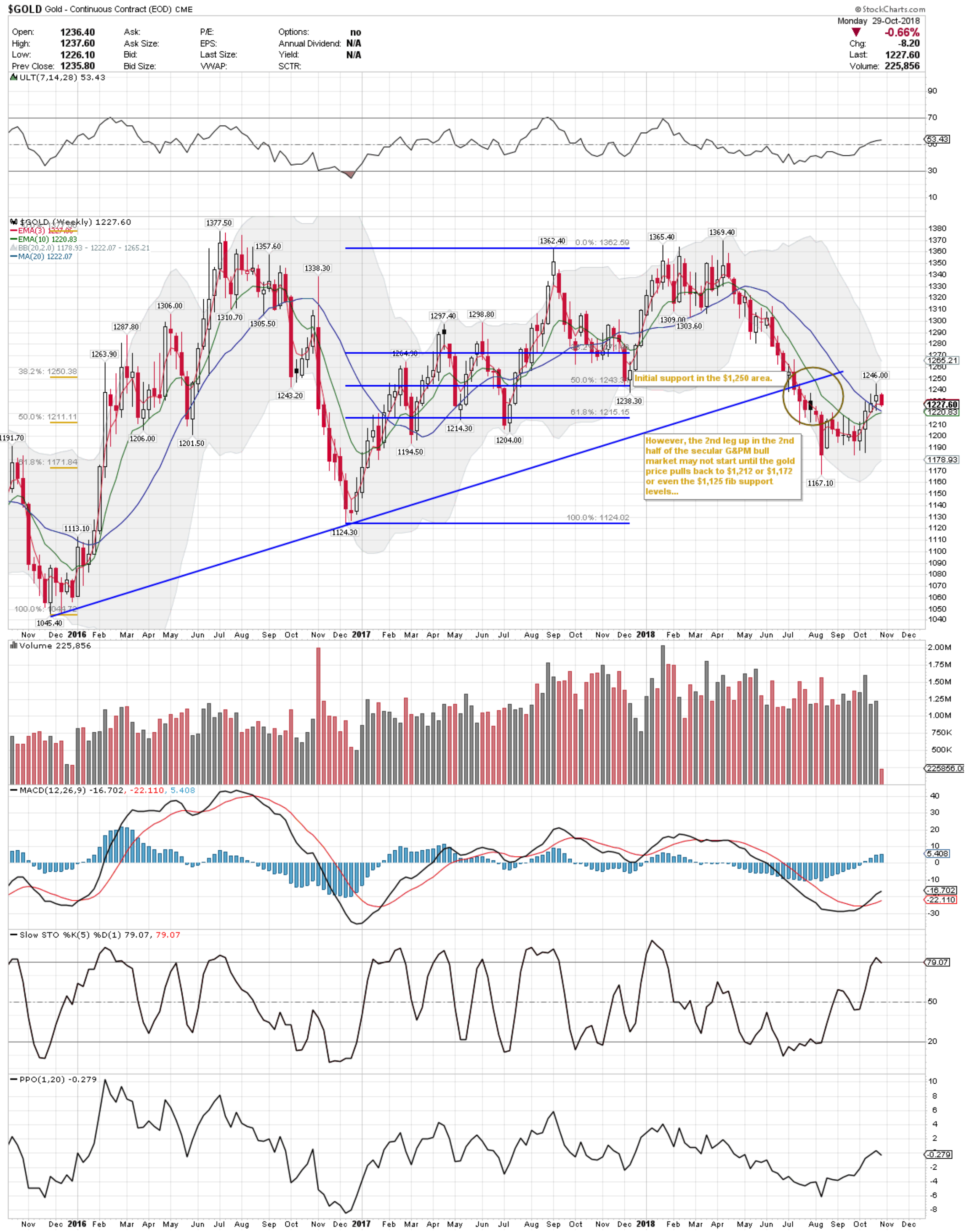
• Lotsa puts. The 10-day average of the Total Put/Call Ratio is above 1.15. The Backtest Engine shows there have been 154 days when it was this high, leading to a positive return in the S&P over the next two months after 138 of them, a 90%-win rate.

Another sign of a pending rally (i.e. see Tom McClellan Tweet to right) from one of the best in the industry, not least due to his lack of any bias whatsoever. A mentor in terms of focusing on the data. Adding my 2 cents, sentiment is SO extremely bearish, we also believe a rally is soon. Nov 6 latest, likely sooner.

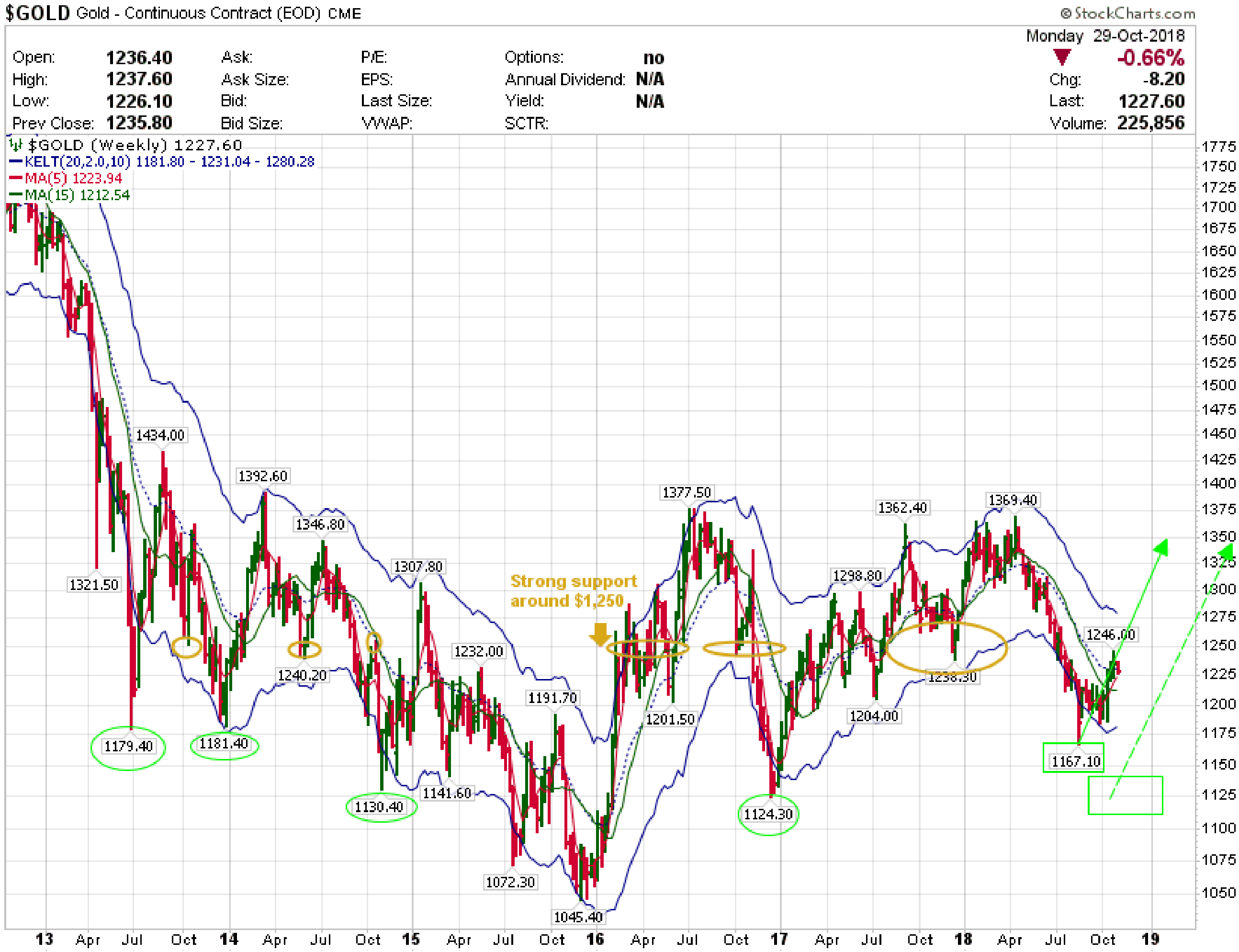


Gold and G&PM Related Charts:

The Kiss Goodbye we forecasted has transpired (i.e. the initial reverse) now we need to see if gold can get back above the 140 month Moving Average (**MMA**) and above the support line since 2008 (i.e. the classic double reverse - notoriously used by my engineering buddies... and likely the cats controlling the gold market...). The RSI and Full Stochastics appear to be turning back up from attractive buy levels.



The pullback in gold we forecasted transpired, the MACD has crosses up from an attractive level, and the ULT is at 53.43 and a long way from overbought at 70 or above. Gold may consolidate the recent gains and complete a retest of the 1212 breakout area or the recent lows 1160 or form a positively divergent lower-low before eventually testing the upper Bollinger band area of 1265 and rallying back to the neck line resistance around 1365/1378.



We have highlighted, in green, two possible rally scenarios for gold, that will build out the massive inverse head & shoulder formation, which once completed is extremely bullish for gold longer-term.

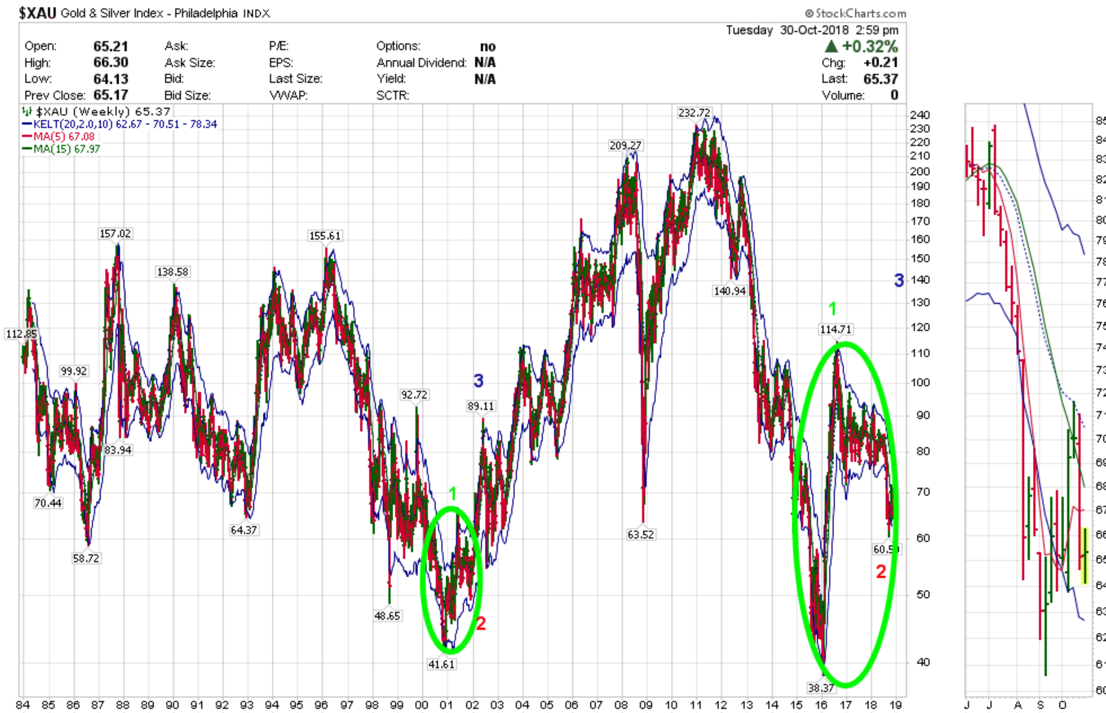
If gold can complete the right shouldering on the massive inverse head & shoulder formation over the coming months / quarters than this should also coincide with a back test of the broken trendline at around 1350 to 1400. If gold gets back up to the 1350 to 1400 range and it breaks above the neck line at 1365/1378 of the massive inverse head & shoulder formation this may also coincide with gold regaining the long-term trend line. The next six months will be critical for gold's technical stance.

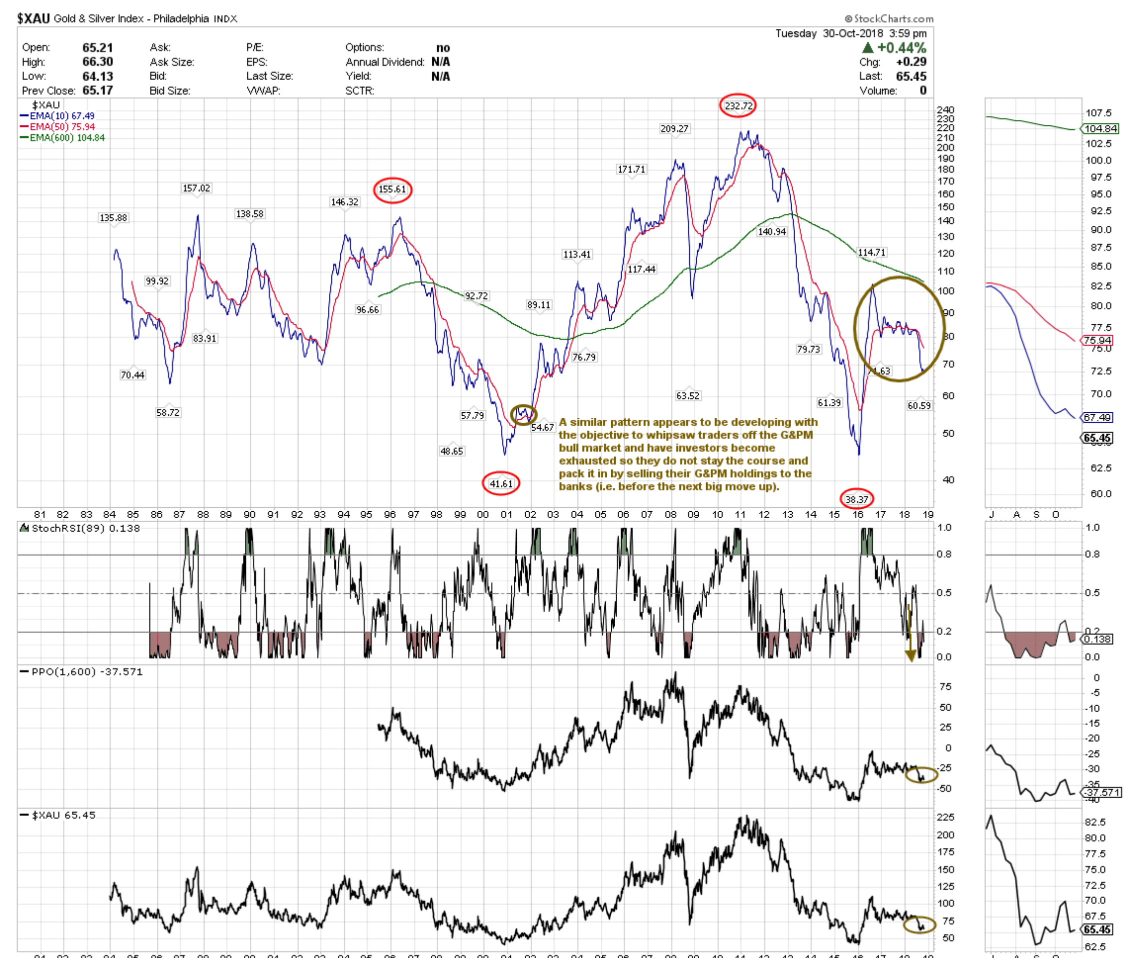
The next few charts show how absurdly cheap gold mining shares are relative to the gold price and to general equities:

The above chart is a daily chart so the indicators, turn fast, move quick, and whip around a lot. However, the long-term chart, below, of G&PM relative to general equities (i.e. XAU / S&P 500) is a monthly chart and so the indicators are more relevant for the longer term and they turn slower, move slower, and whip around a lot less.

The above monthly chart of gold and precious metal mining shares relative to general U.S. equities (i.e. XAU / S&P 500) shows a classic doji candlestick bottom that is a successful retest of the 2016 bottom followed by an explosive monthly swing. It would be normal for some back and fill to develop over the next month or two (e.g. a Christmas rally in U.S. equities and a pullback in G&PM say until December 19th, 2018) which fill the gap just above 0.023. The Percentage Price Oscillator (PPO) shows that the current value of gold mining shares relative to the S&P 500 is -74.4% below the 200-month moving average which confirms significant relative value for gold and precious metal mining shares and the potential for a massive rerating should reversion to the mean occur (i.e. not to mention the massive gains once the pendulum swings fully in the other direction). The full stochastics have completed several positive cross overs while below 20 in 2017 and 2018 and may soon be getting ready to breakout over 20 and the RSI has just broken out above 20. This relative price action appears to be a phase transition. Following on from the initial phase transition pulses experienced in early 2016 this potential phase transition pulse may result in a sustainable phase shift in 2019 going forward and especially once the next GFC arrives and even more so once the GDSR plays out.

The initial leg up / draw down / & consolidation in the XAU in 2016-2018 are very similar to those in 2001 except they are much larger both in terms of magnitude and duration and may portend a much bigger G&PM bull market to come (i.e. following a much bigger bear market) than that of the seven-year bull run from 2001 to 2007-YE.

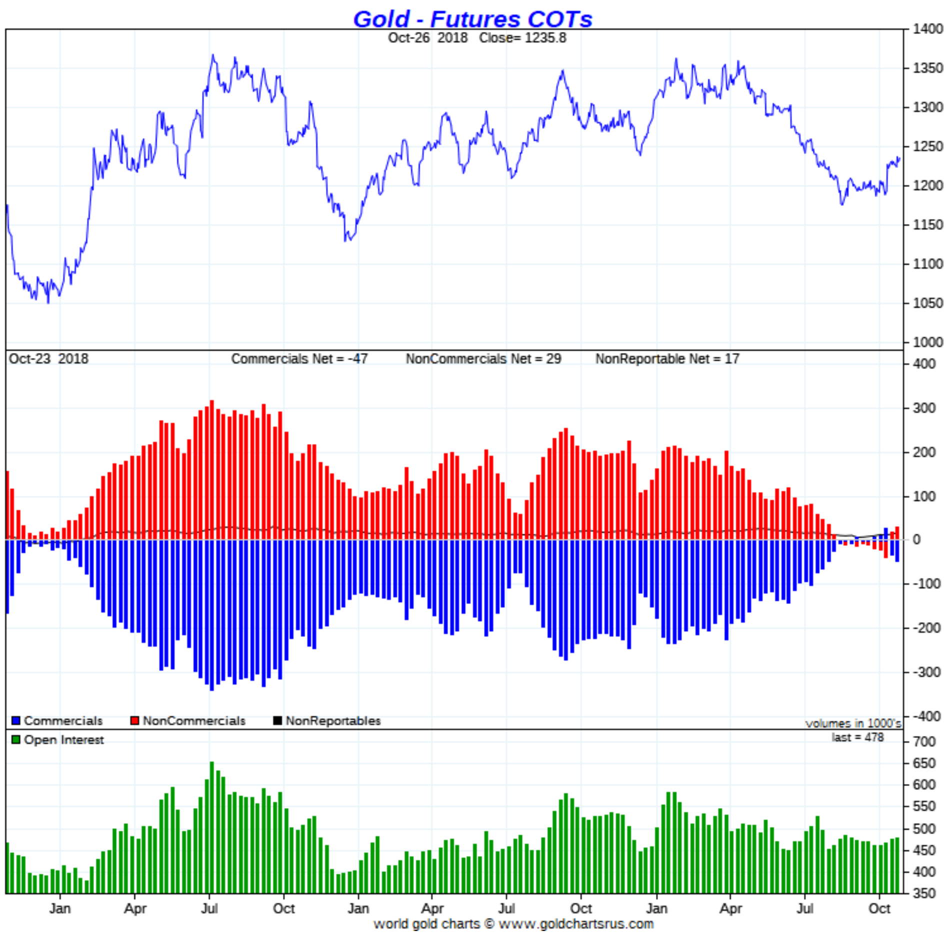

$XAU Gold & Silver Index - Philadelphia INDX
© StockCharts.com
Tuesday 30-Oct-2018 2:59 pm
Open: 65.21
High: 66.30
Low: 64.13
Prev Close: 65.17
▲ +0.32%
Chg: +0.21
Last: 65.37
$XAU (Weekly) 65.37
KELT(20,2.0,10) 62.67 - 70.51 - 78.34
MA(5) 67.08
MA(15) 67.97
232.72
209.27
157.02
155.61
138.58
140.94
114.71
112.85
99.92
92.72
89.11
83.94
70.44
64.37
63.52
60.59
58.72
48.65
41.61
38.37
1
2
3


$XAU Gold & Silver Index - Philadelphia INDX
© StockCharts.com
Tuesday 30-Oct-2018 3:59 pm
Open: 65.21
High: 66.30
Low: 64.13
Prev Close: 65.17
▲ +0.44%
Chg: +0.29
Last: 65.45
$XAU
EMA(10) 67.49
EMA(50) 75.94
EMA(600) 104.84
A similar pattern appears to be developing with the objective to whipsaw traders off the G&PM bull market and have investors become exhausted so they do not stay the course and pack it in by selling their G&PM holdings to the banks (i.e. before the next big move up).
StochRSI(89) 0.138
PPO(1,600) -37.571
$XAU 65.45

Concluding Remarks:

Gold is a unique asset class due to its uncorrelated nature and its ability historically to perform well amidst global financial and geopolitical turmoil. We think of it as financial insurance. Like health or auto insurance, a small allocation can go a long way when hardship occurs.

While it was disappointing to see gold fall below $1,200 per ounce, even though we expected it too and forecasted this in our prior commentaries, current extreme positioning (also characteristic of the lows in 2001) suggests the price will not remain at these levels for too long.



Gold has established a long-term base in the $1,100 to $1,365 range. We now expect some consolidation around the $1,200 level, maybe a retest of the recent $1,160 low or a positively divergent lower-low, followed by short covering and seasonal strength that potentially moves the price higher over the remainder of the year and/or into early 2019. With the caveat that a sharp and significant devaluation of the Yuan relative to the USD and/or a stock market crash ***may*** temporarily draw precious metals prices down.

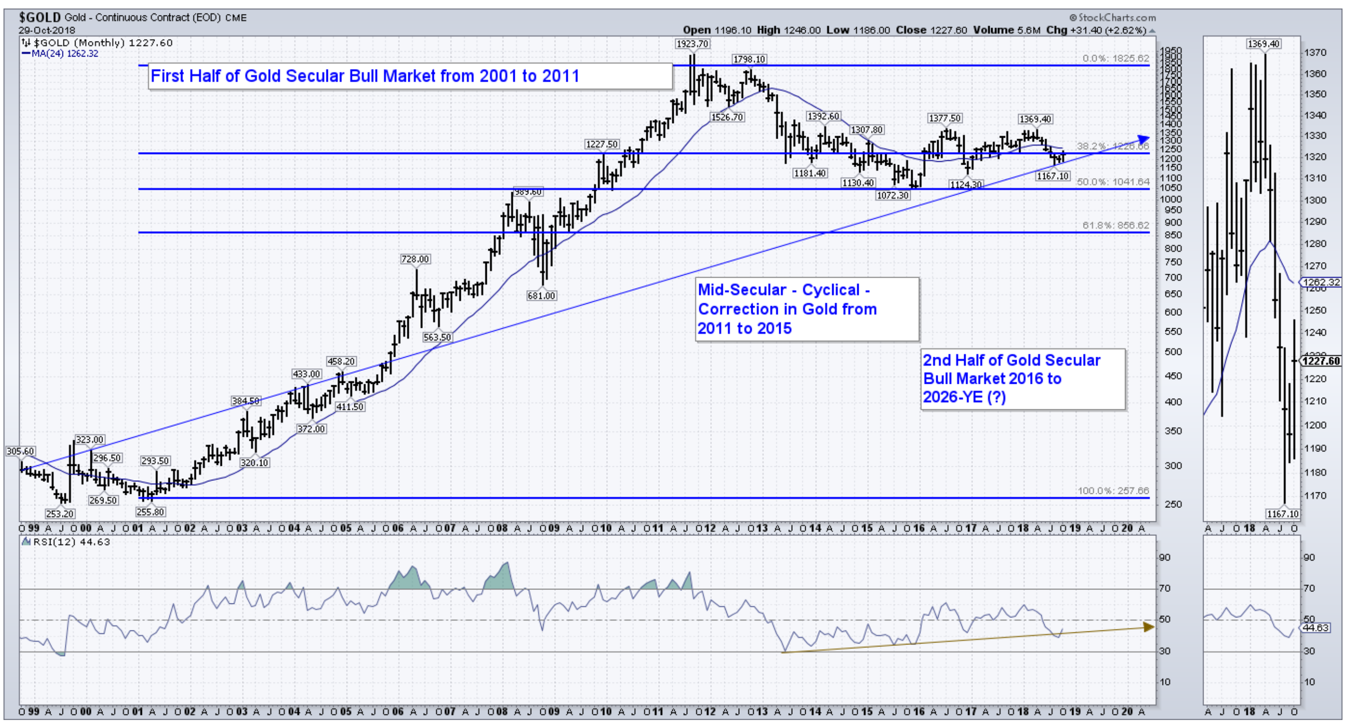
We believe the Turkish crisis is symptomatic of a larger trend that eventually benefits gold. According to a report by Gluskin Sheff + Associate, since 2009, the world's central banks have injected a mind-numbing $13 trillion of stimulus into the financial systems. They are now beginning to withdraw that stimulus. The U.S. Federal Reserve has so far raised interest rates seven times and will likely increase its securities selling from $30 billion to $50 billion per month in October. The Bank of England has stopped easing. The European Central Bank plans to stop adding to its balance sheet next year and may begin to raise rates. As the liquidity that fueled the expansion is slowly drained away, those areas of the financial system that are most vulnerable will be the first to fail.

We believe Turkey was the first domino to fall, with its years of monetary mismanagement and over-borrowing made possible by low rates and ample liquidity. Bank for International Settlements (BIS) data shows $3.7 trillion of U.S. dollar-based loans have gone into EM countries. As central banks continue to tighten, we expect more Turkeys to come out of the woods. The U.S. may find it hard to remain an island of prosperity.

With yields rising, Argentina and Turkey collapsing, China debt markets under pressure, Italian banks teetering, U.S. tech stocks finally faltering, the events against which INTAC insures may finally be close at hand.

SO, WHAT TO DO NOW?

To the gold shorts and dollar longs: get ready to run for the hills! As painful as it has been for long-term investors in precious metals, hang in there! In our opinion, the extreme condition of market structure and investor sentiment suggests that, at the very least, a trading low is at hand (see 2nd chart below), while broad macro- and gold-specific microeconomic fundamentals suggest a resumption of the uptrend in metal prices from the December 2015 low (see 1st chart below) is not far off.



The current bout of extreme gold weakness coincides with resurgence in complacency despite the deepening crises in Turkey and Venezuela, continuing rise in populism across the Eurozone, acceleration of the deficit spending against the background of rising rates, increasing geopolitical risks, and historically generous financial asset valuations. In the past, any of these developments would have provided a catalyst for reduced risk appetite but no more – years of bailouts and market supports have in our opinion inured investors to the implications of systemic risks and reduced demand for systemic insurance solutions such as physical gold and mining assets. Throughout history, periods of complacency rarely ended well. The time to buy insurance is when risk perceptions are the lowest making insurance cheap relative to the risk. We believe that now is such a time and we are in good company.

Please see attached interview transcript with Stanley Druckenmiller, one of the best investment managers of all time, (Real Vision - Stanley Druckenmiller Interview - Transcript 18-09-28).

The below chart shows risk being expensive relative to insurance. Further, a classic double top formation may be in the making.

As detailed in our performance review at the outset of this commentary, we are very pleased that, the INTAC accounts have significantly outperformed gold, all G&PM mining share indices and ETF's, our G&PM peer group, and the S&P 500 Index (i.e. not a relevant benchmark) since 2016. We will continue to work tirelessly, in an effort, to maintain this outperformance and maximize the potential of the next major advance in the G&PM bull market.

We urge you to consider the investment strategies being employed in the context of prevailing market conditions in all your investment and savings accounts to ensure your overall allocation is diversified and prudent for your individual circumstances.

We remain convinced that our INTAC Global Investments – Private Wealth Management – Global Portfolios are well positioned for the medium to long-term and that our concentrated, overweight, and often leveraged investment in precious metals mining shares and related investments with an active allocation in and out of allocated gold & silver bullion and/or cash / cash equivalents or margin, will pro-offer stellar gains on an absolute, relative, and risk adjusted basis by the year-end 2020 to 2024 year-end.

Best Regards,

James Mark Plaxton

James Mark Plaxton *B.Sc. Eng. / B.Comm. Minor*
Founder, Executive Chairman, & CIO
Research Office: 1-284-494-9343
BVI Cell: 1-284-542-4228 & USVI Cell: 1-340-690-4228
Skype: mplaxton
mplaxton.intac@surfbvi.com
mplaxton@intacglobal.com

and/or by principals, employees and associates of INTAC, and such references should not be deemed as an understanding of any future position, buying or selling, that may be taken by INTAC. We extensively include research, analysis, charts and/or quotes from reports, articles, and commentaries published by other sources we deem to be reputable (e.g. the world's best performing Gold & Precious Metals Fund Managers, leading Independent Macro Economic Research Firms, award winning buyside and sell side research, etc.). The research, analysis, charts and/or quotes and materials that we reproduce are selected because, in our view, they provide an interesting, provocative and/or enlightening perspective on current events that complement our extensive research and analysis (i.e. on Fundamentals, Interest Rates & Inflation, Inter Markets, Fund Flows, COT Positioning, Elliot Wave Principles, Sentiment, Cycles, and Technical Analysis). Their reproduction in no way implies that we endorse any part of the material or investment recommendations published on those reports and sites.

Source: INTAC
Author: James Mark Plaxton