2018 ANNUAL GOLD GLOBAL FORECAST

U.S. MONEY RESERVE

U.S. GOLD REPORT

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2018 ANNUAL

GOLD

GLOBAL FORECAST

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I. Gold Market Summary and 2017 Financial Highlights

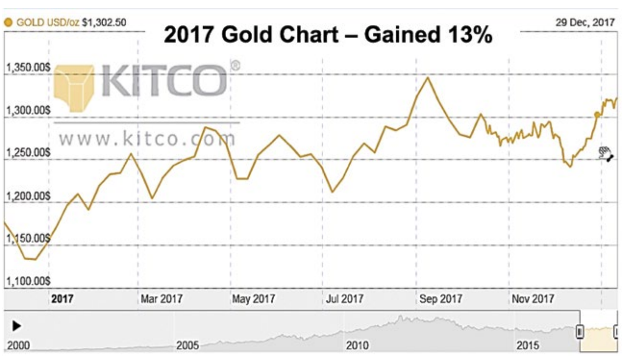
2017 was quite a busy year. Donald Trump officially took over as the 45th U.S. President at the end of January. British Prime Minister Theresa May officially triggered Article 50 of Brexit at the end of March. Emmanuel Macron won the French elections in May. North Korea fired over 20 missiles and then tested a hydrogen bomb in September.

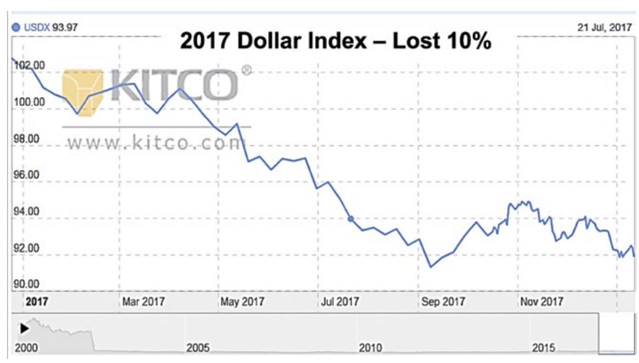
Janet Yellen proved to be a stable and cautious Fed chair. Under her direction, unemployment fell to a 16-year low, and the stock market soared to all-time highs, with more than 70 record closes last year alone. But by Yellen's own admission, persistently low inflation has continued to mystify the Fed. For much of 2017, the U.S. central bank's 2% inflation target was hard to hit. The year started with inflation at 2.5%, and inflation dropped as low as 1.6% in June and ended 2017 under where it began. Still, the Fed raised interest rates three times. Yellen was not nominated for a second term as Fed chair as President Trump picked Jerome Powell, a fairly moderate member of the Fed board, to succeed her.

The U.S. economic expansion started in June 2009 continued in 2017 and logged its 100th month of growth. The global expansion also accelerated in more than half of the world's economies. Bitcoin, considered by many to be a viable global currency alternative, gained more than 1,400% on the year but also had staggering losses, at times plunging by almost 40%.

The Dow started 2017 at 19,963 and ended at almost 25,000. The U.S. dollar lost about 10%, while gold gained over 13%.

The yellow metal proved to be quite bullish throughout 2017, and its prices continued to rise despite a healthy stock market, soaring crypto-currencies, and the onset of monetary tightening. Fear of a melt-up or meltdown was never far from investors' minds, however, as several Wall Street analysts continued to warn of bubbles, corrections, and irrational exuberance.





II. 2018 Gold Market Price Influencers

FEDERAL AND GLOBAL DEBT

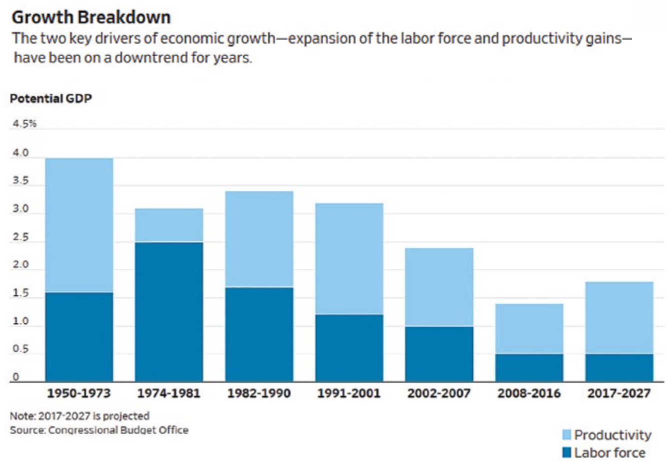
In 2018, we hold the dubious distinction of having the largest debt in the world for a single country. U.S. federal government debt has quietly ticked its way past $20.6 trillion. In addition, our debt-to-GDP ratio of 105.6% means that what we currently owe is greater than what we make or produce. With global debt now hitting $233 trillion, the rest of the world isn't in much better shape. Global debt-to-GDP is at an astonishing 318%, which means that each person on the planet owes more than $30,000. Since the Great Recession, debt levels have exploded and pushed the entire fiat currency system to its limits, weighing down the world's economies and undermining global growth. Gold has always been a sweet spot in a debt-fueled environment of declining national savings, less investment, greater risk, and wavering confidence.

FED/MONETARY POLICY

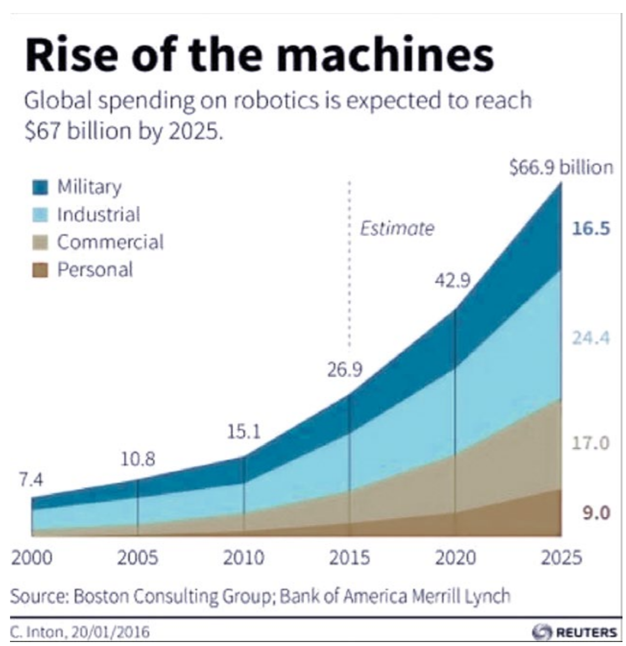
When we think about the role of the Fed in the economy, all those Fed Open Market Committee meetings come to mind with the "forward guidance" and pronouncements on monetary policy and interest rates. Since the financial crisis, the Fed's influence has grown immensely. The central bank's ability to increase the money supply, ease credit restrictions, and stabilize prices has a direct impact on jobs, wages, credit card rates, home equity lines, CD yields, and sentiment on Wall Street. The Fed had a dovish temperament in 2017, and it was slow to embark on monetary tightening and raised rates at a fairly conservative pace. Janet Yellen's Fed was particularly sensitive to disruptions in the financial markets. With weak inflation persisting, Jerome Powell may be equally sensitive and keep rates low, which will weigh on the dollar. Everyone knows that gold historically thrives on a weak buck.

KEY ECONOMIC DATA

Growth: In 2017, U.S. GDP grew at an annual rate of about 2.2%. In 2018, it's expected to improve to 2.7% or 2.8% if tax cuts boost consumer spending and business activity as anticipated. Many economists, however, see it slipping as low as 2.2% this year and to a flat 2% in 2019 and 2020 based upon labor force and productivity trends.



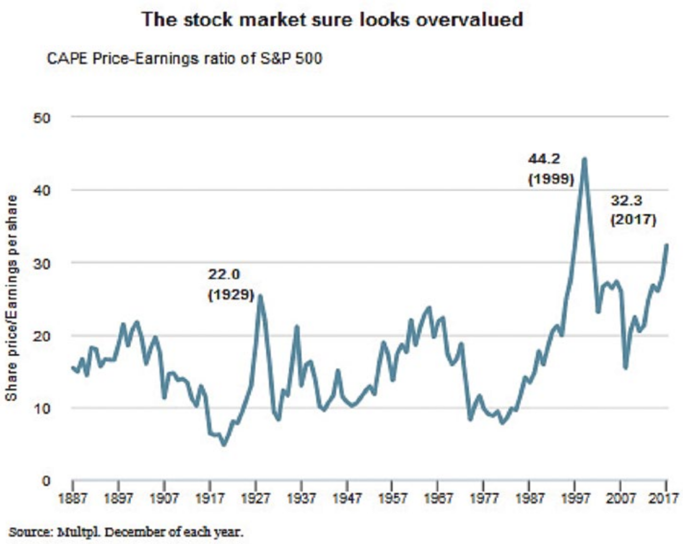
Manufacturing: U.S. manufacturing recorded a strong expansion at the end of 2017. An uptick in orders and increased production gave American factories their strongest year since 2004. Manufacturing in America is not what it used to be, however. In 1953, about 32% of U.S. workers held manufacturing jobs; by 2015, that number had dropped to just 8.7%. Consequently, manufacturing's share of GDP has also declined from 28.1% in 1953 to just 12% in 2015. In the past 20 years, only U.S. aerospace, electronics, and pharmaceuticals have logged growth as competition from overseas has impacted durable goods, wood products, computer makers, textiles, furniture, machinery, and food. Automation continues to take a large bite out of American manufacturing as millions of employees are expected to be replaced by robots in the coming years. A recent study from the McKinsey Global Institute maintains that 375 million jobs may be automated by 2030.



Employment: December was a bit of a mess in terms of employment data, with 148,000 new jobs added, which was fewer than expected. Unemployment did hold at 4.1%, the lowest in 17 years, but a shrinking labor force has been making it increasingly difficult for employers to fill key positions. The year 2018 will likely see monthly job growth slow (on average) as well as a further drop in unemployment, to perhaps 3.9% or 3.8%. Gold typically gains on disappointing jobs data.

STOCKS/EQUITIES

The year 2017 was a bull stampede for stocks as the Dow surged 25%, the S&P 500 gained 19%, and NASDAQ advanced an astonishing 28%. We're now in the midst of the second-oldest bull market in history, undoubtedly fueled by healthy economic growth and the across-the-board tax cuts passed by President Trump. But 2017 was highly unusual in the sense that there were few pullbacks in the market. The Dow ended the year with six weeks of solid gains, while the S&P 500 recorded a gain in every month of the calendar year for the first time in history.



Looking ahead to 2018, markets cannot go up forever, and the longer the Wall Street bull market runs unchecked, the greater the size and potential scope of the correction. There are two specific stock/equity warning signs worth watching. First, in terms of the price-to-earnings ratio, the only time the markets looked more expensive was just before the dot.com bubble. Secondly, the flattening of the Treasury yield curve, when long-term interest rates come close to short-term rates, should not be overlooked. It may be an indicator that the economic expansion is decelerating. Both of these indicators present the potential for rapidly falling markets and central bank panic. Such conditions have historically meant a windfall for holders of gold.

COMMODITIES

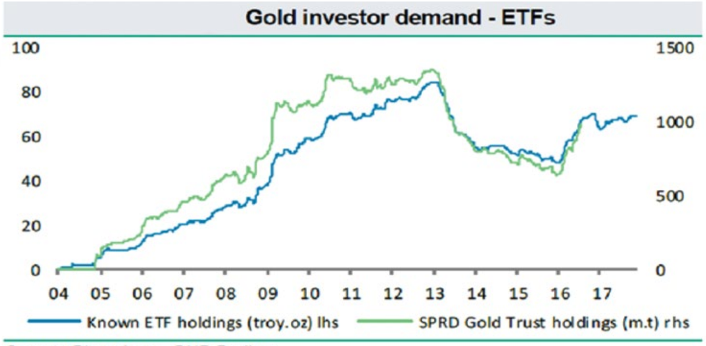
Oil: Oil prices landed at over $60/barrel at the end of 2017, logging a 12.5% gain on the year. The increase in crude prices was the largest in over two years and is generally attributed to rising global demand, along with the OPEC and Russia production cuts. Oil bulls continue to be optimistic for 2018 based on steady demand and declining inventories. Gold and oil prices are positively correlated and tend to move higher together.

Copper: In 2017, copper saw its best price performance in almost three decades. The red metal ended the year at 3.28, up almost 30%, and recorded its most commanding performance since 1989. Buoyed by supply disruptions in China, strong demand, and a weak dollar, the copper rally caught many by surprise. A critical infrastructure metal (building, construction, electronics), copper often has a price that is a reflection of industrial demand and economic growth. Copper also has a strong correlation with inflation. With prices expected to march even higher in 2018, inflation could follow, along with rising demand for precious metals and an uptick in gold prices.

Gold: Gold ended 2017 with a bang, logging its second annual gain and its largest annual rise since 2010. Up 13% last year, the yellow metal defied many of the accepted "rules" regarding its price performance by advancing despite a rising stock market, monetary tightening, improving national employment data, and competition from bitcoin and other crypto-currencies. The outlook for 2018 is particularly promising based upon accelerating demand from China and India, as well as rising sovereign debt, the stirring of inflation, ongoing geopolitical volatility, a divided Washington, and a possible market correction.

GOLD ETFS

Gold-backed ETFs represent a significant portion of the gold market, and holdings rose more than 8% in 2017. At 2,363 tonnes worth over $98 billion, the amount of gold held in ETFs last year reached its highest level since 2013. According to the World Gold Council, European demand accounted for 75% of gold ETF inflows in 2017, with a large portion coming from Germany-listed entities. In 2018, the anticipation of rising inflation, a weakening dollar, lower interest rates, and a continuing trend toward passive investing bode well for gold prices and gold-backed products in all formats.

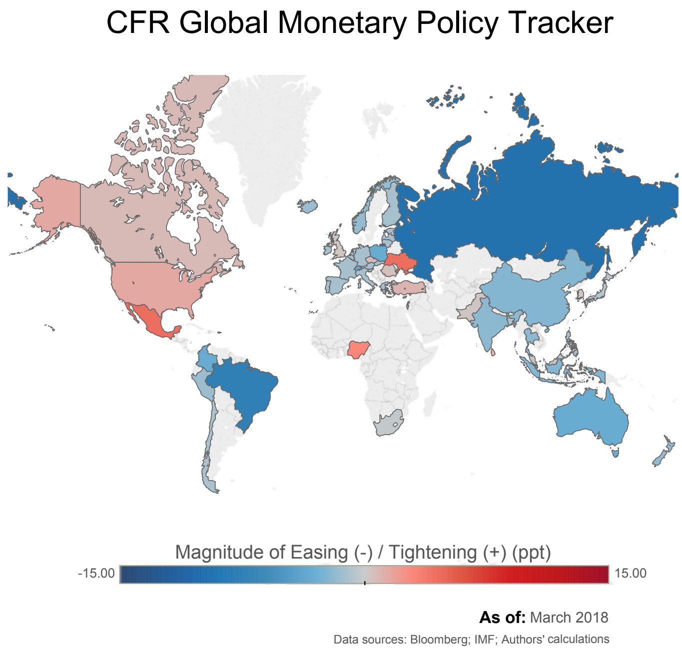


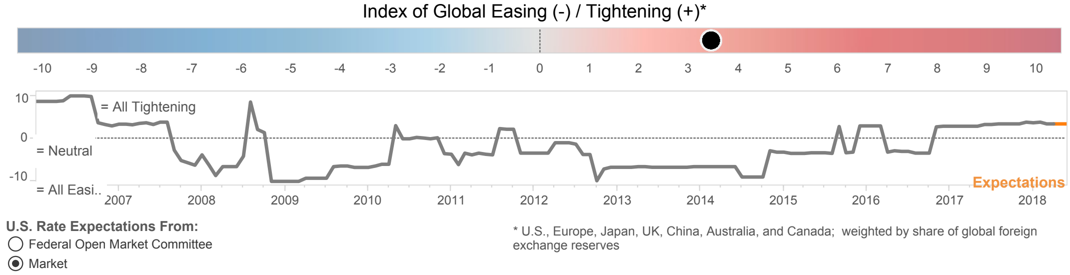
Source: Bloomberg , BNP Paribas

CENTRAL BANK ACTIVITY

The financial crisis of 2007 and 2008 triggered central banks across the globe to loosen monetary policy and unleash unprecedented fiscal stimulus measures. Improving global growth forecasts in 2017 prompted most of the world's banks to slowly move toward tightening. Both the Federal Reserve and the People's Bank of China increased interest rates, while banks of the G10 made preparations to begin normalization. The Bank of Japan, however, remained the exception, holding its policy steady in light of low inflation.

Despite the pace of the extreme monetary loosening of a decade ago, current bank actions have been restrained and the degree of tightening subtle. In a concerted effort not to unnerve financial markets, the reversal of QE has been downright plodding. The subsequent tempo of normalization, the pace of unwinding balance sheets, and the reaction of world markets will likely be the story of 2018. This is uncharted territory, and no one really knows what to expect. If stocks get spooked or turn volatile, look for a rush to gold to offset market losses.





CONGRESSIONAL LEGISLATION & POLITICS

President Trump came into office with an ambitious agenda that included healthcare reform, tax reform, and immigration reform. After a year packed with standoffs, partisan rancor, and multiple U.S. Ninth Circuit court interventions, new legislative battles are shaping up for 2018.

Healthcare: After Republicans failed to repeal or replace Obamacare, the debate over the Affordable Care Act remains contentious and unresolved. Legislative changes, like the dropping of the individual mandate, will start to hit premiums and likely compromise the solvency of the program. There may also be a renewed push for a single-payer system from the left.

Tax Reform: The new Republican tax bill became the law of the land on January 1, 2018, and is triggering confusion for taxpayers and homeowners. The sweeping overhaul is also packed with expiration dates and provisions that will lapse under future administrations. In addition, several states like California and New York are looking for ways to challenge it.

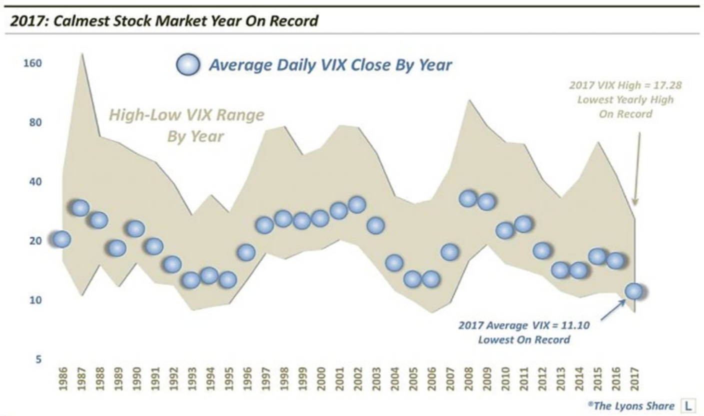
Net Neutrality: On December 14, the FCC voted to remove net neutrality rules in place since 2015, which proponents believe prevent internet service providers (ISPs) from blocking certain websites or prioritizing online traffic. The repeal is being disputed in federal appellate court. In addition, more than 20 attorneys general filed a formal petition challenging the move. Several major tech companies and Senate Democrats have also lined up to fight the bill.

Immigration: In 2017, President Trump faced significant push-back on his travel bans, plans for a border wall, stronger border security, a crack-down on sanctuary cities, and the ending of DACA (Deferred Action for Childhood Arrivals). Those battles will continue in 2018. The President has entertained a “DACA deal” in return for funding of the wall, an end to chain migration, and an end to the U.S. Green Card lottery system, but a compromise has been hard to come by. In addition, the mayors of New York, Chicago, San Francisco, and Los Angeles have openly defied federal immigration laws and vowed to continue to provide safe harbor and services to undocumented immigrants. And Congressional Democrats have consistently derided any notion of providing funding for a border wall.

Clearly, the markets and the economy are running on sentiment, and much of the optimism is riding on the success of the Trump agenda. If that agenda gets derailed or undermined as suggested by these legislative impasses, it very well could trigger a stock correction or crash. A sudden market sell-off would fuel gold demand and likely send prices to new heights.

MARKET VOLATILITY

Low interest rates, low inflation, and low volatility have propelled equities since the financial crisis. Suffice to say, Wall Street was eerily quiet last year and has now gone almost 14 months without a 3% correction or decline. Goldman Sachs recently warned that the markets will see a pickup in volatility in 2018. Other advisory and investment firms warn of a “melt-up” this year or a stampede effect that is typically followed by a dramatic retreat. It’s widely believed that the “fear of missing out” is now fueling market sentiment and propelling equities in lieu of sound fundamentals. With wages rising, inflation stirring, and monetary easing ending, there is a growing consensus that volatility could make a very fast and very dramatic comeback.



MARKET OVERCONFIDENCE

If complacency had an index, the 2018 figure would very likely be off the charts. With markets soaring, wages rising, consumers buying, and companies bonusing, overconfidence is clearly setting in. Positive market sentiment has reached extreme levels, causing individuals to chase extreme returns. “Greed is good,” stated Gordon Gekko, the corporate raider from the 1987 film *Wall Street*. Thirty years later, CNNMoney’s Fear & Greed Index is approaching the “Extreme Greed” mark as an insatiable desire for high returns seems to be creeping into the American psyche. So what’s worse than a bubble? An “overshoot,” which is a market overreach or overreaction that typically moves back to a mean (returns to average levels). Experts suggest that the markets were likely in an “overshoot” during the dot.com boom (1995–2001), which ended in a bust in 2002 and a loss of $5 trillion in market value. As the overshoot adjusted back to previous market levels (2000–2002), gold prices rose over 22%.

CRYPTO-CURRENCIES

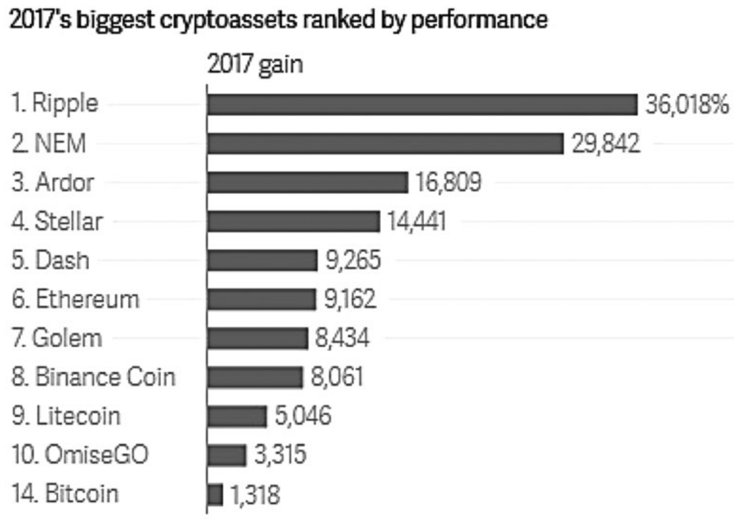
2017 was a year to remember in the world of crypto-currencies. With bitcoin’s wild and volatile 1,000% surge, everyone knew someone who either had bitcoin or wanted bitcoin. But it was also the year that regulators, particularly in Asia, jumped into the crypto fray in an attempt to control risks, subdue speculation, discourage tax evasion, and remove the lure of the dark web. Crypto-currencies, after all, are private but also secretive, anonymous but also mysterious, virtual but also hack-prone, and explosive but also extremely unpredictable.

The crypto-currency movement, of course, is far more extensive than just bitcoin. As a matter of fact, the industry’s first digital currency didn’t even come in as one of the top 10 performers last year—that distinction went to Ripple, which soared an astonishing 36,000%, followed by NEW and Ardor at almost 30,000% and 16,800% respectively.

Out of the nine biggest digital ICOs (Initial Coin Offerings), eight of them took place in 2017: Filecoin, Tezos, EOS, Paragon, The DAO, Bancor, Polkadot, QASH, and Status. And in December of last year, the combined market capitalization of all digital currencies exceeded $370 billion.

In 2018, things may get a bit more complicated as governments increasingly see digital monies as a threat to state currencies, monetary policy, and economic stability. Government intervention may very well be the fatal flaw of the entire virtual currency concept. Six countries—Bolivia, Ecuador, Kyrgyzstan, Bangladesh, Nepal, and Morocco—have already imposed an outright bitcoin ban. China has outlawed ICOs, closed exchanges, and is reportedly shutting down bitcoin miners, while South Korea is mulling an all-out trade ban.

There is also concern about the length of blockchain confirmation time, energy use, and skyrocketing transaction fees. These challenges, coupled with billions in losses in the first month of the new year, prompted scores of bitcoin miners to abandon digital money and turn back to gold.



Data: CoinMarketcap

WORLD GOLD JEWELRY MARKET

Back in 2016, jewelry accounted for almost half of total gold demand, according to the World Gold Council, but demand slipped in 2017, particularly in the third quarter, where data recorded a drop of 9% compared to the same period in 2016. This is primarily because of government intervention in India, the world's largest gold jewelry market, where new taxes and unprecedented anti-laundering measures unsettled Indian buyers. China, the second largest market, recorded a 13% boost in gold jewelry purchases during the same period, and economic growth in the U.S. helped deliver America's best third-quarter buying spree since 2012.

The outlook for the World Gold Jewelry market in 2018 is really a tale of opportunity, economic recovery, and growth. In October of last year, Indian officials removed the jewelry industry from the grips of the PMLA (Prevention of Money Laundering Act), significantly improving consumer sentiment. In addition, the Indian economy is now well on its way to healing from the effects of the disruptive and somewhat drastic demonetization decree of 2016. China's economy grew faster than expected in the fourth quarter of last year, with GDP advancing a hefty 6.8%. Pent-up demand and the festive Chinese New Year celebrations should help catapult gold jewelry purchases early in the new year.

The U.S. market is also expected to surge, particularly in the wake of tax cuts, rising wages, and a growing economy. As a matter of fact, positive economic growth and rising consumer confidence throughout the rest of the world could help increase demand for gold jewelry around the globe.

III. Global Market Forces

GLOBAL POLITICS

Global politics became fragmented in 2017 as the protectionist policies of President Trump caused the U.S. to disengage from trade, immigration, migration, and climate change. Many believe this gave the EU and China, in particular, greater power and presence on the global stage.

China: Chinese President Xi Jinping is now being called the most influential Chinese leader since Mao Tse-tung. Xi and his loyalists have consolidated power within the Communist Party and at every level of government. Indeed, China flexed its muscles last year with military drills, trade and export supremacy, and double-digit growth. Xi's "Belt and Road" initiative is a blueprint for Chinese dominance of global commerce and finance, connecting China and the world via a series of ports, roads, and railways to make Chinese goods readily accessible across Asia and Western Europe.

China's One Belt, One Road initiative

Source: BLOOMBERG STRAITS TIMES GRAPHICS

The EU: Despite the defeat of populist candidates Marine Le Pen and Geert Wilders and the success of Emmanuel Macron and Angela Merkel, political extremes in the EU will remain a force to contend with in 2018. Center-Left parties are struggling in France, Austria, and the Netherlands. Pro-independence parties gained a political foothold in Catalonia. Poland remains a thorn in the side of Brussels in terms of changes to the judiciary, public media reforms, and migration. The EU has cited Poland, Hungary, and the Czech Republic for failing to harbor asylum seekers. And in Germany, Angela Merkel has struggled to keep control of her government as Free Democrats have formally challenged her on taxes, climate change, and Germany's growing refugee problem.

Aside from the continuing saga of the United Kingdom's historic split from the European Union, 2017 was a year of terror, tragedy, and tumult in England. The U.K.'s snap election in June resulted in a hung Parliament and left Prime Minister Theresa May battling to maintain power. There was a terror attack on the Westminster Bridge, an explosion at an Ariana Grande concert in Manchester, and attacks on the London Bridge and at Buckingham Palace. The Prime Minister also continued to grapple with Brexit.

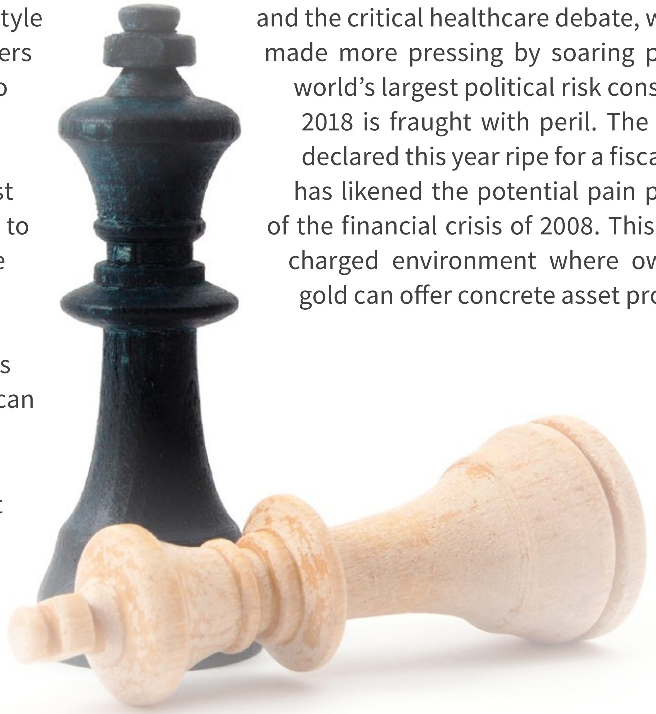
2018 will be a pivotal year for the controversial referendum, and it will likely consume a lot of political capital and administrative energy. The year ahead is peppered with uncertainty. Will the U.K.'s economy hold out? Will the transition continue to take shape? How will British businesses be impacted? Has public opinion changed? Will there be another vote? The official transition period runs from January to March, and there has been little consensus or agreement on the proposals or process. There are two EU summits this year, along with a grace period, as the U.K. gears up for a March 2019 divorce, which May promises will be orderly, but this remains to be seen.

The U.S.: At the start of 2017, Donald J. Trump was inaugurated as the 45th President of the United States with an "America First" agenda focused on jobs, growth, safety, rule of law, and border security. Trump's own brand of nationalistic populism supports rebuilding the military, constructing a border wall, and withdrawing from trade deals that are not favorable to the United States. Specifically, the Trump agenda includes reforming America's trade relationships, reducing business regulations, cutting taxes, and fixing healthcare.

In terms of global politics, analysts argue President Trump has improved relations with some allies like Israel and Saudi Arabia, but has weakened relations with others like the United Kingdom and the EU. According to a recent Gallup poll, the number of countries disapproving of U.S. leadership has tripled. His unconventional style has irked many in Europe where he called out leaders for not meeting their financial commitments to NATO's defense alliance and wasted no time pulling out of the Trans-Pacific Partnership (TPP) and the Paris Climate Accord; he also thrust NAFTA into a web of uncertainty, leaving many to assert that the United States has abandoned the reins of global leadership. The President has also ruffled feathers with America's neighbors to the north by hitting Canada with steep lumber tariffs and to the south by floating a tax on all Mexican imports to pay for the wall.

Trump's first year saw a host of problems at home as well, including the Russian collusion probe, obstruction of justice claims (based on the firing of FBI Director James Comey), questionable comments about white supremacist protestors in Charlottesville, accusations of racism with regard to immigration reform, and persistently low approval ratings. He is seen by many as a politically divisive force that has fueled the growing legislative rift between Republicans and Democrats. In terms of economic accomplishments, however, few can argue with record high financial markets, historically low unemployment, rising GDP, soaring consumer sentiment, and broad corporate tax relief that have been orchestrated under his watch.

The year 2018 holds a variety of new political challenges for the President, including the midterm elections (and the threat of losing majorities in both chambers), the resolution of the Mueller investigation, more spending impasses, a contentious immigration showdown, and the critical healthcare debate, which has been made more pressing by soaring premiums. The world's largest political risk consultancy thinks 2018 is fraught with peril. The Eurasia Group declared this year ripe for a fiscal calamity and has likened the potential pain points to those of the financial crisis of 2008. This is a politically charged environment where owning physical gold can offer concrete asset protection.



	2014	2015	2016	2017	2018	2019	2016	2017	2018	2019
			Estimates	Projections			Percentage point differences from January 2017 projections			
World	**2.8**	**2.7**	**2.4**	**2.7**	**2.9**	**2.9**	**0.1**	**0.0**	**0.0**	**0.0**
Advanced economies	**1.9**	**2.1**	**1.7**	**1.9**	**1.8**	**1.7**	**0.1**	**0.1**	**0.0**	**0.0**
United States	2.4	2.6	1.6	2.1	2.2	1.9	0.0	-0.1	0.1	0.0
Euro Area	1.2	2.0	1.8	1.7	1.5	1.5	0.2	0.2	0.1	0.1
Japan	0.3	1.1	1.0	1.5	1.0	0.6	0.0	0.6	0.2	0.2
Emerging and developing economies (EMDEs)	**4.3**	**3.6**	**3.5**	**4.1**	**4.5**	**4.7**	**0.1**	**-0.1**	**-0.1**	**0.0**
Commodity-exporting EMDEs	2.2	0.3	0.4	1.8	2.7	3.0	0.1	-0.5	-0.3	-0.1
Other EMDEs	6.0	6.0	5.7	5.7	5.7	5.8	0.1	0.1	0.0	0.0
Other EMDEs excluding China	4.5	5.0	4.5	4.6	4.9	5.1	0.2	0.0	-0.1	0.0
East Asia and Pacific	6.8	6.5	6.3	6.2	6.1	6.1	0.0	0.0	0.0	0.0
China	7.3	6.9	6.7	6.5	6.3	6.3	0.0	0.0	0.0	0.0
Indonesia	5.0	4.9	5.0	5.2	5.3	5.4	-0.1	-0.1	-0.2	-0.1
Thailand	0.9	2.9	3.2	3.2	3.3	3.4	0.1	0.0	0.0	0.0
Europe and Central Asia	2.3	1.0	1.5	2.5	2.7	2.8	0.3	0.1	-0.1	-0.1
Russia	0.7	-2.8	-0.2	1.3	1.4	1.4	0.4	-0.2	-0.3	-0.4
Turkey	5.2	6.1	2.9	3.5	3.9	4.1	0.4	0.5	0.4	0.4
Poland	3.3	3.9	2.8	3.3	3.2	3.2	0.3	0.2	-0.1	-0.2
Latin America and the Caribbean	0.9	-0.8	-1.4	0.8	2.1	2.5	0.0	-0.4	-0.2	-0.1
Brazil	0.5	-3.8	-3.6	0.3	1.8	2.1	-0.2	-0.2	0.0	-0.1
Mexico	2.3	2.6	2.3	1.8	2.2	2.5	0.3	0.0	-0.3	-0.3
Argentina	-2.5	2.6	-2.3	2.7	3.2	3.2	0.0	0.0	0.0	0.0
Middle East and North Africa	3.4	2.8	3.2	2.1	2.9	3.1	0.5	-1.0	-0.4	-0.3
Saudi Arabia	3.7	4.1	1.4	0.6	2.0	2.1	0.4	-1.0	-0.5	-0.5
Iran, Islamic Rep.	4.3	-1.8	6.4	4.0	4.1	4.2	1.8	-1.2	-0.7	-0.3
Egypt, Arab Rep.[2]	2.9	4.4	4.3	3.9	4.6	5.3	0.0	-0.1	-0.1	-0.1
South Asia	6.7	6.9	6.7	6.8	7.1	7.3	-0.1	-0.3	-0.2	-0.1
India[3]	7.2	7.9	6.8	7.2	7.5	7.7	-0.2	-0.4	-0.3	-0.1
Pakistan[2]	4.0	4.0	4.7	5.2	5.5	5.8	0.0	0.0	0.0	0.0
Bangladesh[2]	6.1	6.6	7.1	6.8	6.4	6.7	0.0	0.0	-0.1	0.0
Sub-Saharan Africa	4.6	3.1	1.3	2.6	3.2	3.5	-0.2	-0.3	-0.4	-0.2
South Africa	1.6	1.3	0.3	0.6	1.1	2.0	-0.1	-0.5	-0.7	0.2
Nigeria	6.3	2.7	-1.6	1.2	2.4	2.5	0.1	0.2	-0.1	0.0
Angola	4.8	3.0	0.0	1.2	0.9	1.5	-0.4	0.0	0.0	0.6
Memorandum items:										
Real GDP[1]										
High-income countries	1.9	2.2	1.7	1.9	1.9	1.7	0.1	0.1	0.1	0.0
Developing countries	4.4	3.6	3.6	4.3	4.7	4.9	0.1	-0.1	-0.1	0.0
Low-income countries	6.3	4.7	4.4	5.4	5.8	5.8	-0.3	-0.2	-0.2	-0.3
BRICS	5.1	3.9	4.2	5.0	5.2	5.4	-0.1	-0.1	-0.2	-0.1
World (2010 PPP weights)	3.5	3.3	3.1	3.4	3.6	3.7	0.1	-0.1	-0.1	0.0
World trade volume[4]	4.1	2.7	2.5	4.0	3.8	3.8	0.0	0.4	-0.2	-0.1
Commodity prices										
Oil price[5]	-7.5	-47.3	-15.6	23.8	5.7	5.4	-0.5	-4.4	-2.7	0.8
Non-energy commodity price index	-4.6	-15.0	-2.6	4.0	0.7	1.0	0.0	2.6	-1.5	-1.1

Source: World Bank.

Notes: PPP = purchasing power parity. World Bank forecasts are frequently updated based on new information. Consequently, projections presented here may differ from those contained in other World Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. Country classifications and lists of emerging market and developing economies (EMDEs) are presented in Table 1.2. BRICS include: Brazil, Russia, India, China, and South Africa.

1. Aggregate growth rates calculated using constant 2010 U.S. dollars GDP weights.
2. GDP growth values are on a fiscal year basis. Aggregates that include these countries are calculated using data compiled on a calendar year basis. Pakistan's growth rates are based on GDP at factor cost. The column labeled 2017 refers to FY2016/17.
3. The column labeled 2016 refers to FY2016/17.
4. World trade volume of goods and non-factor services.
5. Simple average of Dubai, Brent, and West Texas Intermediate.

For additional information, please see www.worldbank.org/gep.

WORLD ECONOMIES

The world's economies generally improved in 2017 as most countries continued to recover from the financial crisis of 2008 and 2009. According to UN data, global economic growth hit 3% last year, the highest since 2011. There are still challenges, however, with joblessness, low growth, and poverty persisting in parts of Africa, Western Asia, and Latin America.

For 2018, the World Bank is forecasting global growth to exceed last year's levels at least in the short term but warns of long-term slowing as economies reach full employment, max capital, and operational capacity. With respect to advanced economies, there are specific concerns about monetary tightening, budget deficits, an aging workforce, weakening productivity, and new trade restrictions. Any of these could undermine the current economic expansion. Geopolitical tensions also loom large in 2018 from growing uncertainty about EU reforms, North Korea, the rising tide of populism, the regional agendas of China and Russia, and the ever-present threat of terror.

Notable world economies to watch this year include:

- *China*, which is battling a massive domestic debt bubble and a potential trade war with the United States;
- *Italy*, the eurozone's third largest economy, which is grappling with a fragile banking system and rising anti-EU sentiment;
- *Japan*, one of the most heavily indebted advanced economies in the world, which continues to maintain loose monetary policy and faces new government elections and potential leadership changes at the Bank of Japan;
- *The United Kingdom*, which, despite the global upswing, will likely have subdued growth (of about 1.5%) as Brexit negotiations drag on;
- *Venezuela*, where the government of Nicolas Maduro has become increasingly isolated after violently cracking down on protesters in the wake of a crashing bolivar and mass food shortages; and
- *Brazil*, which crawled out of one of the worst recessions in the country's history last year but faces a critical election in 2018 that could undermine vital reforms.

For many of these countries, economic and political problems run deep. Their fiscal and administrative challenges leave them vulnerable to a downturn or sudden spiral that could reverberate through the global economy and send investors to the security of gold.

GLOBAL RISKS

While the global economy seems to be strengthening, a few economic risks are stirring that could darken the global outlook in 2018 and derail the fragile world recovery.

The risk of a nuclear confrontation is considered one of the top threats to world peace and global stability. Geopolitical experts expect North Korea to test new missiles in the coming months and for Kim Jong-un to continue his pursuit of more powerful weapons and a larger nuclear arsenal. President's Trump's promise to respond to any threat with force and his boast that his nuclear button is bigger clearly have the world on edge.

Cars, vans, rental trucks, knives, bridges, bike paths—2017 saw a rash of low-tech terror attacks in places like Fort Lauderdale, London, Paris, Hamburg, Stockholm, Barcelona, Brussels, Toulouse, Marseille, and New York. The threats of vehicle assault, spontaneous stabbing, and homemade bombs are hard to defend against. Such attacks will remain a persistent problem in 2018. While unsophisticated, they are also unpredictable and disruptive and create a culture of fear and apprehension. They will likely pose major challenges for governments around the world.

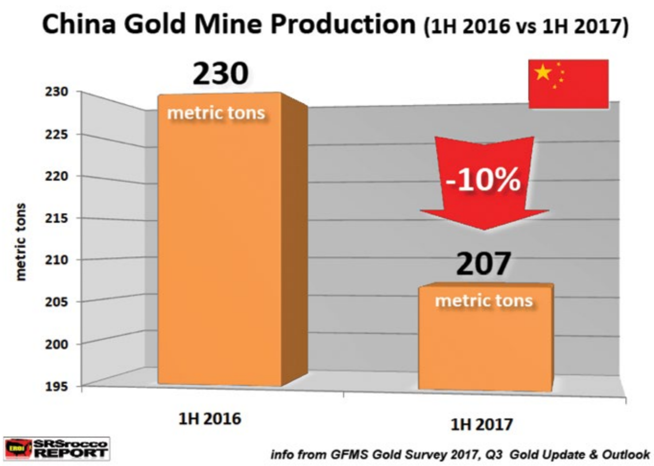
During his election campaign, President Trump accused China of "raping us with unfair trade policies," but after his first year in office, little has changed. China's trade surplus with the United States rose 8.6% in 2017, to a staggering $275.8 billion. The Trump administration is preparing to strike back, however, and is considering tariffs on certain goods and possible penalties for intellectual property theft. A trade war with China would negatively impact large U.S. multinational corporations like Apple, Nike, and Walmart. It would also rile financial markets and cause retaliatory pain for American exporters.

A recent U.S. government report from the Senate Committee on Foreign Relations has concluded that Vladimir Putin engaged in decades of meddling in world democracies. Russia not only poses an ongoing threat to global elections but has engaged in hostile behavior throughout Europe, including military interventions, underworld corruption, and cyber-crime in all forms. U.K. authorities have also warned that Moscow has displayed a pattern of bribery, propagandizing, intimidation, and assassination. As Washington sets out to take a tougher stance on Russia's bad behavior, tensions will rise, and 2018 could prove to be a very dangerous year.

Finally, 2018 will be a pivotal year for relations between the U.S. and Iran, which are currently strained on multiple fronts. The Iran nuclear deal is riddled with weaknesses, and Tehran has already been caught cheating. While President Trump waived sanctions in January, he issued a stern warning to European allies to fix the deal or the United States will pull out. Withdrawing from the deal and reinstating sanctions has drawn a threat of "retaliatory" action from the Iranians. Meanwhile, they continue to test ballistic missiles and refuse to allow inspections of their military sites. Long considered a state sponsor of terror, Iran has sparked new concerns that the nuclear deal is providing cover for Iran to steadily increase its nuclear arsenal. The country also recently engaged in a violent crackdown of anti-government protestors, killing dozens and arresting hundreds more—a move that was roundly condemned by world governments.

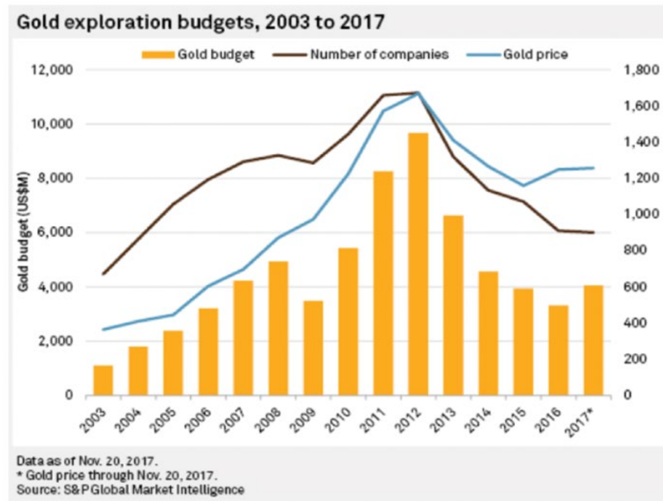
IV. Global Supply and Demand

The World Gold Council's third-quarter report for 2017 indicates that total gold supply dropped by 2% last year. And while mine production hit record levels, China—the world's number one producer of gold—saw its mine supply plummet 10% in the first half of last year, the most in over a decade. Make no mistake. China is a behemoth in terms of global production, accounting for 15% of the world's gold.



The drop in Chinese output was reportedly because of environmental concerns, which are expected to persist. To complicate matters, recycling, which is used to make up for annual supply shortfalls, was down by 6% last year.

According to the World Gold Council (WGC), mine production accounts for about 75% of gold supply each year, and demand regularly exceeds output. Finding new gold, mining it, and putting it into production can take as long as 20 years because of costs, licenses, and regulations. And many experts believe the mining industry has been remiss in investing in new exploration, research, and development. This has raised concerns about ongoing supply and demand disparities.



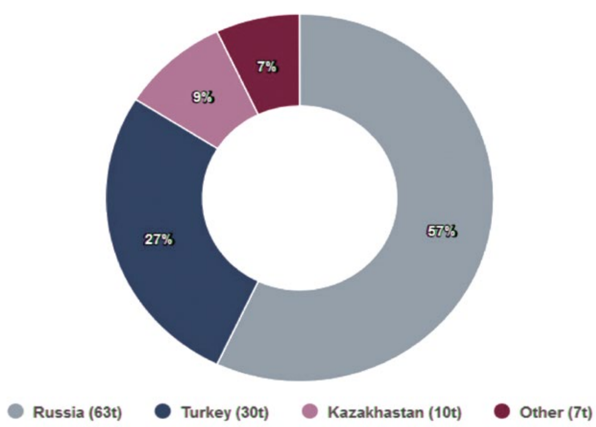
The World Gold Survey is forecasting mine production to contract in the coming years—raising questions about whether peak gold production is behind us in the face of vigorous and renewed gold demand.

Gold's appeal as a financial asset is catching on. In the last 17 years, demand for gold as an appreciable asset and/or monetary safe haven has grown 18% per year on average. Gold's increasing financial appeal is due, in part, to the expansion of the middle class both in China and India, as well as the rise of gold ETFs, which some see as a convenient and easy way to trade precious metals. In addition, the lingering effects of the financial crisis and monetary easing have given gold new relevance that cannot be overstated, particularly when managing portfolio risk.

Central banks are also continuing to stockpile gold. According to the WGC, gold purchases by national banks were up 25% in Q3 2017, adding 111 tonnes to their respective reserves with Russia, Turkey, and Kazakhstan leading the way. The bump in gold purchases coincides with soaring financial markets, sky-high sovereign debt, and heavy balance sheets around the globe. But securing an inflation and volatility hedge isn't the primary reason that certain countries are loading up on gold. Some states like China and Russia are backing their currencies with gold in an effort to reduce dependence on the U.S. dollar.

Supply, production, and peak gold concerns weighed against a backdrop of rising investment and central bank buying could trigger significant headwinds for gold prices.

Russia and Turkey dominate Q3 central bank buying



Source: Metals Focus; IMF IFS; Central Bank of Turkey; World Gold Council

V. What are Global Experts Saying?

THINGS ARE NOT NORMAL

"You slowly become anchored to believe the current situation is normal as it's persisted for so long now. However, it's anything but normal. Since the financial crisis, $10 trillion plus has been added to the balance sheets of the four largest central banks with over $14 trillion of assets now owned."

Deutsche Bank Strategists—September 20, 2017

PREPARE FOR A CRASH

"Those who aren't prepared for a market crash—or at least a 10% to 20% correction—may be caught flat-footed and suffer serious portfolio declines as a result."

Jeff Reeves, Market Watch Financial Journalist—October 24, 2017

INFLATION RISK

"They puzzle about inflation, but they refuse to look at quantities and deal with the fact that the balance sheet poses huge risks for inflation."

Charles Plosser, Former Fed Reserve Bank of Philadelphia President—November 11, 2017

RENEWED INTEREST IN GOLD

"Renewed interest in gold will be triggered by financial-market losses. Valuation excesses signify systemic risk.... Between the tax cuts and an assumed 2% rise in interest rates on outstanding debt, it seems to us that a $300–$400 billion rise in the fiscal deficit, or $1 trillion+ for 2018 and 2019, is in the cards."

John Hathaway, Senior Portfolio Manager Tocqueville Asset Management—January 7, 2018

GOLD SHOULD SHINE

"Since the December hike, gold is beating stocks, the dollar, and bitcoin. Unless greenback weakness reverses, gold should shine."

Mike McGlone, Bloomberg Analyst—January 9, 2018

THE COMMODITIES REVIVAL

"In a world of upbeat economic growth, USD weakness, falling bond prices, and elevated equity valuations, the commodities revival should come into full bloom."

Xiao Fu, Bank of China International—January 10, 2018

GOLD IS IN A STEALTH BULL

"Gold has been in a stealth bull-market phase for the past few years with little notice from most investors. Gold at $2,000 is a long shot, but not an improbable target by any means."

Peter Spina, Chief Executive of GoldSeek.com—January 20, 2018

GOLD MORE RELEVANT THAN EVER

"Today, gold is more relevant than ever for institutional investors. While central banks in developed markets are starting to normalise monetary policies—leading to higher interest rates—we believe the effect of quantitative easing and the prolonged period of low interest rates can have a long-term effect."

World Gold Council, "The Relevance of Gold as a Strategic Asset"—January 23, 2018

TRADE WARS SUPPORT GOLD

"Global investors are also concerned about potential trade wars...which is stirring up some risk-aversion trade. That, in turn, is supporting gold."

Richard Xu, Fund Manager HuaAn Gold—January 24, 2018

WEAKNESS IN THE DOLLAR DRIVES GOLD

"We see a host of ongoing financial market drivers keeping the gold market tight. Further weakness in the dollar and rising risks of a correction in equity markets, in particular, should be supportive."

Daniel Hynes, Australia & New Zealand Banking Group Ltd.—January 25, 2018

PRECIOUS METALS ARE FIRING ON ALL CYLINDERS

"The dollar's demise has reinvigorated speculative flows into precious metals. The weak U.S. dollar has got metals prices firing on all cylinders."

Analysts, ING Group—January 25, 2018

GOLD'S BREAKOUT YEAR

"This is gold's breakout year.... We are in the third bull market [in gold] of my lifetime, and we have a very long way to run."

Jim Rickards, Economist and Investment Banker—January 28, 2018

FACTORS ARE STACKED IN GOLD'S FAVOR

"Gold continued its week-long rally, and despite the need to consolidate, it managed to climb to the key area of resistance between $1,357 and $1,380 an ounce. The various factors normally determining the direction of gold and precious metals in general are currently stacked in favour of the metal at this stage."

Ole Hanson, Saxo Bank—January 29, 2018

VI. The 2018 Takeaway

A variety of conditions propelled gold prices in 2017, including a weak dollar, frothy markets, credit bubbles, "Russia-gate," North Korean nuclear arms, inflation concerns, rising crude prices, mounting debt, balance sheet uncertainty, a widening pension crisis, and the enduring perils of the swamp.

When the clock struck midnight on December 31, 2017—nothing changed. In 2018, the dollar remains under siege. We confront the same goldilocks sentiment that has haunted Wall Street. All of the financial imbalances and elevated asset valuations are intact. Historically low volatility continues to raise the specter of an extreme correction. The geopolitical minefield has gotten more hazardous. Inflation continues to be a double-edged sword. Debt is higher. Pensions have taken on more retirees and fewer dollars, and partisanship has deteriorated into a Beltway bar fight.

Despite the Trump tax cuts, the extra cash in pockets, and record-high financial markets, income inequality continues to plague the U.S. recovery. Healthcare remains the cancer of the American economy. Social Security is a little closer to insolvency. We're at the doorstep of a trade war, a nuclear showdown, and a constitutional crisis. And as we embark on the massive unwinding of Quantitative Easing, it is perhaps the greatest fiscal journey into the unknown in our nation's history.

Now this is not merely an "eggs in one basket" warning. The expansion of global wealth is also a critical driver of demand for precious metals, particularly gold. Booming economies increase the demand for jewelry, technology, and bullion in both the long term and the short term. Gold is a liquid asset and a relatively scarce metal, so concerns about global supply and demand also come into play.

Finally, in its Annual Outlook, the World Gold Council outlines four reasons why holding gold in 2018 is a smart move: *"It has been a source of return for investors' portfolios; its correlation to major asset classes has been low in both expansionary and recessionary periods; it is a mainstream asset that is as liquid as other financial securities; and it has historically improved portfolio risk-adjusted returns."*

Gold's role as a portfolio diversifier is near legendary. Its ability to counterbalance losses in the financial markets is equally well established. Its critical function as a hedging instrument against inflation, dollar weakness, and geopolitical turmoil is its sweet spot.

What makes 2018 a critical year to own gold are all these attributes, as well as the extraordinary risk and stability factors that systematically sent prices higher by double digits in 2017. These things are all still present; they are all still in play and could very well all come home to roost in 2018—making gold the ideal vehicle for both profitability and wealth protection.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